



**SUBJECT: Investment Policy Update**

**TO: Committee of the Whole**

**FROM: Finance Department**

Report Number: F-23-19

Wards Affected: not applicable

File Numbers: 401-13

Date to Committee: June 10, 2019

Date to Council: June 17, 2019

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**Recommendation:**

Approve the updated Investment Policy as outlined in Appendix A of finance department report F-23-19.

**Purpose:**

- An Engaging City
- Good Governance

**Background and Discussion:**

The City engages in investment activity as governed by the Municipal Act and the City's Investment Policy. While the Municipal Act sets out the type of investments the City can invest in, the policy sets out guiding principles for the investment strategy. An investment policy serves as a strategic guide to the planning and implementation of an investment program.

The City primarily invests in Federal, Provincial and Municipal bonds as long-term investments and money market instruments with Schedule I and II banks as well as Credit Unions for short term investments.

The City does actively trade in the bond market to realize both interest income and capital gains. Trades in 2018 including purchases and sales totaled \$383 million.

The City's Investment Policy is reviewed annually to determine if changes are needed. The last update was approved by Council in report F-50-17 on December 11, 2017. No updates were required in 2018. The update was to provide more earnings potential for

short-term investments by increasing the amount and duration of investments with Credit Unions.

An annual review of the investment policy is considered essential to adjust the policy to reflect the current economic environment. The nature of the investment market is associated with world events such as liquidity crisis, war, terrorism, trade policies and world tragedies, which make the market very volatile. As a result of these continuing economic conditions the Bank of Canada has been keeping interest rates low in order to stimulate the economy. With this trend anticipated to continue for another 2-3 years, additional refinement to the investment policy is considered necessary in order to maximize the City's return on investment potential.

The current investment policy limits the length of time short term investments invested with credit unions to 180 days. Credit unions typically pay a slightly higher rate than banks on short term investments. Therefore, it is recommended that the duration of investments with credit unions be extended up to 365 days. This provides the potential to earn a slightly higher rate of interest while providing the flexibility to maintain liquidity to meet the City's obligations.

Given the anticipated ongoing conditions in the market, an additional change is recommended to the City's Investment Policy in keeping with the following objectives:

- Adherence to legislative and statutory requirements
- Preservation of principal
- Maintenance of liquidity
- Rating the risk of securities and institutions
- Competitive return on investments
- Safeguarding of investment certificates and detail record keeping
- Regular review of the effectiveness of the policy in meeting the above objectives

The change being recommended not only addresses the market place today but also provides for future market opportunities.

### **Recommendation**

To increase the duration of investments with Credit Unions to up to 365 days. Regulation 438/97 section 2 (1) (iv) permits municipalities to invest with credit unions.

The recommendation complies with legislative and statutory requirements and supports all objectives as set out in the current Investment Policy.

**Financial Matters:**

The interest income generated by the City's investments is an important component of the City's operating revenues. Over the last three years the City's interest earned on investments including capital gains has been \$10 million.

**Conclusion:**

Staff believe the recommended change to the investment policy will provide opportunities for increased investment income on the short-term portfolio while maintaining a sufficient level of liquidity.

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Respectfully submitted,

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Controller and Manager of Financial Services  
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**Appendices:**

- A. Corporate Investment Policy

**Report Approval:**

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.