

**Title:** Investment Policy

**Number:** FNCL-97-01

**Approved By:** City Council

**Administered By:** Finance Services

**Effective Date:** May 15, 1997

**Revision Date(s):** April 2025, March 2016, November 2013, July 2005, October 2001

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## **1.0 Purpose/Background**

The purpose of this investment policy (“Policy”) is to ensure integrity in the management of The Corporation of the City of Oshawa’s (“City”) investment Portfolio when investing public funds.

## **2.0 Policy Statement**

This Policy will govern the investment of funds not immediately required, in accordance with Section 418 of the Municipal Act, 2001 (the “Act”) (O.Reg.438/97 – Eligible Investments and Related Financial Agreements) or as authorized by provincial legislation and/or regulations.

## **3.0 Scope/Application**

This Policy applies to:

- All investments made by the City on its own behalf and on behalf of its boards and commissions, unless specifically directed otherwise by City Council.
- All investment activities of operating and capital cash flows, reserves, reserve funds, Sinking Funds and any new fund(s) created by the City, unless specifically directed otherwise by City Council.

The City's operating bank accounts, irrespective of currency, are not classified as investments and are therefore excluded from the parameters of this Policy.

## **4.0 Definitions**

**City** means the Corporation of the City of Oshawa.

**Council** means the Council of the Corporation of the City of Oshawa.

**Credit Ratings** means assessments of an issuer's ability to pay back debt and forecast the likelihood of default.

**Credit Union** is a member-owned, not-for-profit financial cooperative.

**Diversify** means an investment strategy of investing in a variety of assets to minimize risk and improve performance.

**Divestment Plan** means a plan for the sale of a security held by the municipality no longer permitted by either the policy or the Municipal Act, 2001.

**Environmental, Social and Governance Investing (ESG)** means an investment approach that aims to generate sustainable long-term returns while promoting positive social impacts.

**Institutional Limit** means the maximum share of the total Portfolio that can be invested in any one financial institution or government entity.

**Legal List** means the prescribed list of investments that municipalities are legally allowed to invest in, as defined by the Municipal Act, 2001 (O.Reg. 438/97).

**Liquidity** means the ease with which an asset or security can be converted into cash.

**Loan or Trust Corporations** means financial institutions that deal with managing trusts and estates, providing loans, and offering investment services.

**Maturity** means the date on which a debt instrument (bonds, notes, and Guaranteed Investment Certificate, or GIC) becomes due, and the Principal must be repaid to investors.

**Municipal Act, 2001 (O.Reg. 438/97)** means a regulation under Ontario's Municipal Act that governs the financial and administrative operations of municipalities in Ontario, including investment and borrowing practices.

**Portfolio** means a collection of financial securities such as stocks, bonds, and notes owned by one person or entity.

**Principal** means the original sum of money invested or loaned, on which basis interest and returns are calculated.

**Principal Protected Notes** means investment products that guarantee the return of Principal at maturity, potentially with additional returns based on the performance of underlying assets.

**Schedule I Banks** means domestic banks authorized under the Bank Act to accept deposits and provide various financial services.

**Schedule II Banks** means foreign-owned banks operating in Canada that can accept deposits and provide financial services but are regulated differently than Schedule I Banks.

**Secondary Market** means the market where existing securities, such as bonds and notes, are bought and sold among investors.

**Sinking Fund** means a fund established by a municipality to set aside money over time for the repayment of debt or for future capital expenditures, ensuring that funds are available when needed.

**ONE Investment Canadian Equity Portfolio** means a managed investment fund designed for Ontario municipalities, providing exposure to Canadian equities while maintaining compliance with the Municipal Act, 2001.

**Treasurer** means the City's Commissioner, Corporate and Finance Services

**Treasurer Delegate** means the Deputy Treasurer, Director, Finance Services or Manager, Financial Services

## 5.0 Responsibilities

1. Council is responsible for:
  - a. Approving the investment policy for the City.
2. The Treasurer is responsible for:
  - a. Establishing internal controls around the investment and banking process.
  - b. Determining an investment plan in compliance with the Policy.
  - c. Ensuring the City's investment plan is in compliance with legislation.
  - d. Reporting to Council investment information in compliance with the Policy and the legislation.
3. Treasurer Delegate is responsible for:
  - a. Making investment decisions in compliance with the Investment Policy.
  - b. Requesting an investment in accordance with the competitive bid process.
  - c. Purchasing investments in compliance with the investment policy.
  - d. Selling investments before maturity date on the Secondary Market.
4. Treasury staff are responsible for:

- a. Review and balancing of investments to the General Ledger.
- b. Monitoring Portfolio performances and informing the Treasurer/Treasurer Delegate if any investments do not meet requirements listed in either the investment policy or the Act.
- c. Communicating with financial institutions during the competitive bid process.
- d. Accruing investment revenue to the general ledger.
- e. Assisting in the creation of the investment report for Council.

## **6.0 Practice/Procedures**

### **6.1 Investment Requirements**

In order of priority, the investment requirements of the City are:

- 1) Legality of Investments
- 2) Risk tolerance and preservation of Principal
- 3) Maintenance of Liquidity
- 4) Maximization of return on Investment

#### **1) Legality of Investments**

All City investment activity must be in accordance with s. 418 (1) of the Act.

The prescribed securities that municipalities may invest in as well as the rules for making investments, entering into related financial agreements, and reporting on activities is set out under Ontario regulation 438/97– Eligible Investments and Related Financial Agreements, as amended. Any Provincial Statutes or Regulations will supersede and take precedence over this policy.

#### **2) Risk tolerance and Preservation of Principal**

The City maintains a low risk tolerance for all its investment activities. Investments shall be managed to minimize risk and preserve the capital of the overall Portfolio. All investments shall be made with prudence and care, prioritizing investment over speculation, and considering both the preservation of Principal and expected income.

To minimize risk, The City will seek to Diversify its Portfolio between varying institutions, maturities, and securities. Risk will be mitigated through the following:

- Structuring the investment Portfolio so that securities mature to meet ongoing cash flow requirements, minimizing the need to sell securities before maturity.
- Diversifying investments across different financial institutions, maturity dates, and securities to reduce exposure to market fluctuations and ensure financial obligations are met.

### 3) Maintenance of Liquidity

The investment Portfolio shall remain sufficiently liquid to meet all operating requirements that may reasonably be anticipated. Investment maturities shall be structured to be concurrent to anticipated cash requirements. For unforeseen cash needs, the investment Portfolio shall be structured with a reasonable share of securities that can be redeemed on the Secondary Market.

### 4) Maximization of the return on investment

The investment Portfolio will be structured to optimize a sustained rate of return across various budgetary and economic cycles, considering the investment risk constraints and Liquidity needs. The City will primarily invest in fixed-income securities, but may maintain a small exposure to equities, through the ONE investment Fund or Principal Protected Notes, to maximize Portfolio return, as long as these equity exposures meet the restrictions of the Act and its Regulations.

Economic trends and market conditions such as inflation and changes in interest rates will be monitored. Hence, securities may be sold prior to maturity to enhance returns by taking advantage of changing market conditions.

## 6.2 Ethics and Conflicts of Interest

All employees involved in the investment process shall:

- Act in the best interest of the City as it relates to investments.
- Adhere to this Policy as it pertains to their roles to the best of their ability.
- Refrain from engaging in personal business or investment activities that could conflict with the proper execution and management of the investment Portfolio or Policy, impair their ability to make impartial decisions, or involve transacting with the same individual with whom business is conducted on behalf of the City.
- Disclose in writing any current, perceived, or potential conflict of interest immediately becoming aware of it as it relates to investments. If an Employee or any elected or appointed member of the City is party to or has direct or indirect pecuniary interest in an investment transaction of the City, must provide full disclosure of that interest to the Director of Finance / Treasurer (or designate).

### 6.3 Prudence

Employees are expected to adhere to the principles of prudence ensuring all decisions are exercised with the care, skill, judgement, and diligence a prudent investor would exercise in accordance with applicable legislation, policies, and procedures.

Investments shall be made in accordance with procedures and the Policy exercising due diligence with a focus on the protection of principle and Portfolio performance.

Employees having exercised prudence, due diligence, discharging their duties in good faith and acting in compliance with procedures and this Policy shall be indemnified by the City in accordance with Indemnification By-law 62-2024.

### 6.4 Authority

The Treasurer has overall responsibility for prudent investment of the City's Portfolio and the establishment of procedures consistent with both this Policy and the Act. Such procedures shall include the explicit delegation of authority to staff to initiate and maintain investments.

The Treasurer and/or delegated staff shall:

- Enter into agreements with financial institutions authorized by this Policy for the purchase, sale, issuance, transfer, and safekeeping of securities.
- Create and maintain procedures to ensure effective management and oversight of the City's Investments.
- Ensure all investments meet the requirements listed in this Policy and in the Act.
- Develop investment strategies that align with the City's financial obligations and goals.
- Ensure reporting requirements identified within this Policy are met.
- Allocate 65% of the accumulated interest revenue to reserves.
- Transfer budget surplus revenues generated from investment income to infrastructure needs either through a capital project or a reserve contribution.
- The authority to enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities shall be done in a manner that conforms to the Act and the City's policies.

## 6.5 Competitive Bid Process

Investments shall be purchased through a competitive bid process with only financial institutions approved by the Treasurer or Treasurer Delegate. The highest yielding bid, which meets the City's investment strategies, will be accepted.

Written records of each transaction will be retained, including the name of the financial institutions, rates quoted, description of the security, investment selected, and any special considerations that had an impact on the decision.

The Treasurer or Treasurer Delegate may select an investment offered without a competitive bid process if all investment objectives are met and the rate of return on the bid significantly outperforms current market conditions.

## 6.6 Council Reporting

Annually the Treasurer shall prepare and provide an investment report to Council which includes, at a minimum, the requirements set forth in the Act.

The investment report shall contain:

- A statement about the performance of the investments during the period covered by the report.
- A description of the estimated proportion of the total investments that are invested in its own long-term and short-term securities to the total investment of the City and a description of the change, if any, in that estimated proportion since the previous year's report.
- A statement by the Treasurer as to whether or not, in their opinion, all investments are consistent with the investment policies and goals adopted by the City.
- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security.
- A statement by the Treasurer as to whether any of the investments fall below the standard required by the Act for that investment during the period covered by the report.

## 6.7 Environmental, Social and Governance Investing

The City is endeavoring to incorporate Environmental, Social, and Governance ("ESG") principles in its investment strategies. Companies that demonstrated ESG principles maintain high ethical standards, prioritize environmental responsibility, respect their employees, uphold human rights, and actively contribute to their communities. The City believes these companies are not only ethically responsible but are also better positioned for long-term success.

The City will monitor ESG factors during its competitive bid process and consider how best to approach ESG investing within the Portfolio.

**6.8 Authorized Investments**

The City may invest in the Legal List of eligible securities as permitted by the Act, as amended, within the limitations set out in the Authorized Investment Table.

Portfolio rebalancing may be required for material deviations from investment limits established in accordance with prevailing legislation and in the Authorized Investment Table listed below.

Portfolio limitations may deviate from targets in the short term at the discretion of the Treasurer or Treasurer Delegate when deemed appropriate.

All investments must meet the criteria outlined in the Authorized Investment Table regarding both investment quality and concentration limits.

All Investments must be denominated in Canadian funds.

**Authorized Investments Table**

<b>Category</b>	<b>Minimum Required Credit Rating (DBRS)<sup>1</sup></b>	<b>Maximum Portfolio Share<sup>2</sup></b>	<b>Institutional Limit per Issuer<sup>3</sup></b>
Government of Canada <sup>4</sup>	N/A	100%	100%
Provincial Governments <sup>5</sup>	<b>R-1 low, A (low)</b>	50%	25%
Municipalities and local boards	<b>R-1 low, A (low)</b>	25%	10%
Schedule I Banks	<b>R-1 low, AA (low)</b>	100%	50%
Schedule II Banks	<b>R-1 middle, AA (low)</b>	20%	5%
Loan or Trust Corporations	<b>R-1 middle, AA (low)</b>	30%	5%
Credit Unions	<b>R-1 middle, AA (low)</b>	20%	10%
Canadian Equity Portfolio <sup>6</sup>	N/A	30%	100%

1. The minimum credit rating an investment issuer must have, as assigned by DBRS Morningstar. "N/A" means a rating is not applicable.
2. The maximum proportion of the total investment Portfolio Principal that can be allocated to a single investment category.
3. The maximum proportion of the total investment Portfolio Principal that can be invested in a single issuer within a specific category.

4. Includes Federal agencies.
5. Includes Provincial agencies.
6. Restricted to investments made through the ONE Investment Canadian Equity Portfolio.

## 6.9 Credit Ratings

The Act specifies that certain eligible securities must have a minimum credit rating provided by: Dominion Bond Rating Service (DBRS), Moody's, Standard & Poor's (S&P) or Fitch Ratings. The City further limits Credit Ratings as outlined in the Authorized Investment Table.

The Credit Ratings of securities within the Portfolio will be regularly monitored and if any securities have a credit downgrade, the following action will be taken:

- If the security has been downgraded but is still above the minimum credit rating outlined in the Authorized Investment Table, staff will inform the Treasurer or Treasurer Delegate and closely monitor the security.
- For securities downgraded to a level below the minimum credit rating outlined in the Authorized Investment Table, staff will inform the Treasurer or Treasurer Delegate and create a plan to dispose of the security as soon as reasonably possible.

## 7.0 Monitoring/Review

This Policy shall be reviewed annually and updated as necessary.

## 8.0 References

Municipal Act, 2001, S.O. 2001, c.25

Eligible Investments, Related Financial Agreements and Prudent Investment, O. Reg. 438/97

City of Oshawa Indemnification By-law 62-2024

## 9.0 Approval

Authority	Date	Signature
Council	April 28, 2025	