



Investments Policy

C006-05

Policy statement

- 1 To define the parameters within which City of Abbotsford funds are managed, in order to maximize return while providing for liquidity and safeguarding of assets.

Purpose of this policy

- 2 (1) The framework outlines the criteria reflective of the level of risk that optimally balances return, liquidity and security requirements.
(2) This policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and judicious investment management.

Application

- 3 This policy applies to all cash assets of the City, including all cash assets within all funds.

Interpretation

- 4 The *Interpretation Bylaw* applies to this policy.

Definitions

- 5 In this policy

“**bond**” means an IOU from the borrower to the lender. It refers to any interest-bearing government or corporate security that obligates the issuer to pay a particular sum of money at specified intervals, and to repay the principal amount of the loan upon maturity. A secured bond is backed by collateral that may be sold by the bondholder if the bond issuer fails to pay interest and principal as due. A debenture or unsecured bond is not backed by any specific collateral;

“**Clearing and Depository Services Inc. (CDS)**” is a subsidiary of the Canadian Depository for Securities Limited, a for-profit corporation owned by the TMX Group. CDS owns and operates CDSX, implemented in 2003, which clears and settles eligible exchange-traded and over-the-counter equity, debt and money market transactions. At the federal level, CDSX has been designated under the *Payment Clearing and Settlement Act* and is therefore subject to oversight by the Bank of Canada. At the provincial level, CDS is regulated by provincial securities commissions, including the British Columbia Securities Commission (BCSC);

“**Council**” means the Council of Abbotsford;

“**credit rating**” means evaluation of the likelihood of default by a security issuer. Canada Bond Rating Service and Dominion Bond Rating Service are the primary bond and money market security rating agencies in Canada. Standard and Poors, and Moody's Investor Service are American bond rating firms that also rate Canadian issuers;

“**DBRS**” means the Dominion Bond Rating Service;

- “**debenture**” means an unsecured bond not backed by any specific collateral. See the definition for “bond” for more information;
- “**delivery versus payment**” means a securities settlement process that requires that payment is made either before or at the same time as the delivery of the securities. The process is meant to reduce the risk that securities could be delivered without payment or that payments could be made without the delivery of securities;
- “**demand deposit**” means funds held in an account from which deposited funds can be withdrawn at any time without any advance notice;
- “**finance officer**” means the specific statutory financial officer role as defined in section 149 [*financial officer*] of the *Community Charter*. Specific responsibilities laid out in the *Officer Designation and Delegation of Authority Bylaw*;
- “**investment employee**” means any person employed by the City who has been authorized to make decisions or assist in administering the investment of City funds;
- “**liquidity**” means the degree to which an asset can be converted easily and rapidly into cash without a substantial loss of value;
- “**long-term**” means investments with remaining terms to maturity of greater than 2 years;
- “**maturity**” means the date upon which the principal or stated value of an investment becomes due and payable;
- “**money market**” means the market in which short-term (one year or less) debt instruments (treasury bills, commercial paper, banker’s acceptances, etc.) are issued and traded;
- “**municipal finance authority (MFA)**” means the Municipal Finance Authority of BC;
- “**officer**” means a person established as a Statutory Officer in the *Officer Designation and Delegation of Authority Bylaw*;
- “**open bond credit unions**” means a credit union where membership and the ability to open an account is available to anyone;
- “**pooled investment fund**” means a collection of stocks, bonds or other securities managed by professional portfolio managers with a stated investment goal such as growth, income, or some combination of the two. All investors in a particular fund share in both the expenses and the potential profits of the pooled fund;
- “**portfolio**” means a collection of securities held by an investor;
- “**primary market**” means the market in which a security is sold when originally issued. See secondary market for more information;
- “**prudent person rule**” means an investment standard commonly used to establish fiduciary responsibility. It gives authority to the investment manager to invest in a security if it is one which would be bought by a Prudent Person of discretion and intelligence who is seeking a reasonable income and the preservation of capital;
- “**safekeeping**” means a service to customers rendered by financial institutions for a fee, whereby securities and valuables are held in the financial institution’s vault for protection;
- “**schedule I banks**” means domestic banks operating in Canada;
- “**schedule II banks**” means foreign bank subsidiaries operating in Canada and controlled by foreign institutions;
- “**secondary market**” means a market where investors purchase securities or assets from other investors, typically through a broker or dealer, rather than from issuing companies themselves;
- “**short-term**” means investments with remaining terms to maturity of 2 years or less;

“signing officer” means a person employed by the City who has been authorized with a financial institution to authorize funds transactions and movements via a signature;

“structured income product” means a security, with guaranteed return of principal at maturity, that may return additional income with reference to a pre-defined underlying measure, including, but not limited to, range accrual deposit notes, floating rate notes, equity-linked notes, and step-up notes.

Objectives

- 6 A conservative management philosophy based upon 3 fundamental objectives will be employed:
- (a) **Safety and preservation of capital** – the preservation of capital is the primary objective of the investment program; this will be supported by mitigating credit and interest rate risk, and ensuring sufficient asset diversification.
 - (b) **Liquidity** – a portion of the investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which may be reasonably anticipated.
 - (c) **Return on investments** – the investment portfolio will be managed with the objective of maximizing return, subject to the City requirements for safety and preservation of capital and liquidity.

Prudence

- 7
- (1) Investments will be made with judgment and care, under circumstances then prevailing, as would be used by the “Prudent Person” who would use discretion and intelligence befitting their own affairs.
 - (2) Investments will not be made for speculation, but for investment, considering the probable safety of the capital, as well as the probable income to be derived.
 - (3) The standard of prudence to be used by investment employees will be the prudent person rule, and will be applied in the context of managing an overall portfolio.
 - (4) Investment employees acting in accordance with written procedures and this policy, and exercising due diligence, will be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Delegation of authority

- 8
- (1) Authority to manage the City’s investment program is derived from section 149 [*financial officer*] of the *Community Charter*.
 - (2) In accordance with the *Officer Designation and Delegation of Authority Bylaw*, the general manager, finance and procurement services, as the designated finance officer or their delegate will
 - (a) establish and maintain written procedures for the operation of the investment program consistent with this Policy,
 - (b) establish a system of controls to regulate persons responsible for investment transactions,
 - (c) delegate investment employees where relevant and prudent, to assist in administering the overall investment program, and

- (d) monitor changes in the credit rating of financial institutions, and regularly review and consider current international, national and provincial economic and political developments in making investment decisions.
- (3) Pursuant to subsection (2) (a) and (b), controls and procedures should include reference to buying and selling investments, safekeeping, communication of instructions to custodial institutions, cash management techniques, accounting treatment and reporting procedures.

Ethics and conflict of interest

- 9 (1) Council, officers and investment employees must disclose to the City Clerk any material financial interests in financial institutions and/or investment dealers that conduct business with the City by the way of the annual Statement of Disclosure, in accordance with the *Financial Disclosure Act*.
- (2) Investment employees must
 - (a) refrain from personal business activity that could conflict with proper execution of the investment program, or impair their ability to make impartial investment decisions,
 - (b) refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City, and
 - (c) conduct themselves in accordance with staff policy S05-02 Code of Ethics.

Authorized investment dealers and institutions

- 10 (1) The finance officer or delegated investment employee will maintain a list of financial institutions and investment dealers authorized to provide investment services.
- (2) Investment dealers selected to provide services to the City must
 - (a) certify that they have read, understood and agreed to comply with this policy,
 - (b) provide audited financial statements, and
 - (c) demonstrate that both the dealer and the dealer's firm are in good standing with the Canadian Investment Regulatory Organization.

Authorized and suitable investments

- 11 The *Community Charter* empowers the City to invest in the following types of securities:
 - (a) securities of Canada or a province;
 - (b) securities guaranteed for principal and interest by Canada or by a province;
 - (c) securities of a municipality, regional district, or greater board;
 - (d) securities of the Municipal Finance Authority;
 - (e) investments guaranteed by a chartered bank;
 - (f) deposits in a savings institution, or non-equity or membership shares of a credit union;
 - (g) pooled investment funds under the *Municipal Finance Authority Act*.

Commingling of funds

- 12 (1) Except for the cemetery care trust fund, the City commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration.
- (2) Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Portfolio Investment Parameters

13 (1) General

- (a) Investment quality, diversification, and term limits are outlined in Schedule “A”.
- (b) Investments may be made only in securities of issuers with the following DBRS (or equivalent, Schedule B) minimum credit rating, subject to the constraints listed in Schedule A:
 - (i) for demand deposits, and term deposits and GICs with remaining terms to maturity of one year or less, a minimum short-term rating of R-2 (mid), and
 - (ii) for securities with remaining terms to maturity of more than one year, a minimum long-term rating of BBB (mid).
- (c) Where an investment is found to have been downgraded below the levels as set out in paragraph (b), investment employees will alert the finance officer and a remediation plan will be developed.
- (d) Paragraph (c) applies to individual investments only and not to securities forming part of a pooled fund.
- (e) Where the downgrade in an investment causes the overall portfolio mix to vary from Schedule “A”, the specific investment need not be disposed. Instead, the mix will be corrected as new investments are made.
- (f) Fixed-term investments will be purchased with the intention of holding them to maturity.
- (g) Investments may be sold prior to maturity if market conditions warrant.
- (h) The maximum remaining term to maturity of any investment will be 15 years.
- (i) Due to fluctuations in the investment portfolio balance, maximum percentages for a particular asset type, entity, or investment quality category may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. In this situation, securities need not be liquidated to realign the portfolio.
- (j) Pursuant to paragraph (i), consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
- (k) In accordance with paragraph (i), such may be the case if a decision is made to substantially expand or contract the overall portfolio size, where it may take a period of time to complete all transactions.
- (l) The portfolio should be laddered with staggered maturities to assure that
 - (i) adequate resources are available to meet cash flow requirements without forced liquidation of investments, and
 - (ii) price volatility and reinvestment risks are minimized.
- (m) Only credit unions with a 100% guarantee on deposits, whether by a provincial deposit insurance corporation or a direct guarantee by the province itself, are authorized for deposits.
- (n) Investments made in credit union term deposits may be made only with open bond credit unions.
- (o) Minimum level of liquid funds – the City will at all times maintain a minimum of 3 months of forecasted net cash outflows in demand deposits, in order to provide sufficient liquidity for expected and unexpected disbursements.

(p) Structured income products are not a permissible form of investment.

(2) 10 years+ Portfolio

- (a) After first ensuring adequate short and mid-term liquidity, if the finance officer identifies monies not needed for 10 years or longer they may request Council acknowledge those monies as “10 years+” and suitable for investments with long investment horizons.
- (b) If funds have been designated as “10 years+” the finance officer may invest those monies in:
 - (i) Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
 - (ii) Community Charter Section 183 investments with a minimum long-term credit rating of A (low).
- (c) MFA constructs its *long-term* Pooled Investment Funds as stand-alone funds with appropriate diversification, risk and return characteristics for long-term investing requirements. As such, these funds do not apply to diversification, credit or other investment policy criteria described elsewhere in this Policy.
- (d) It is typical for multi-asset class funds to exhibit volatile performance in the short-to-mid term, but with overall positive results over the long-run. Risks which cause performance fluctuation for multi-asset class funds include but are not limited to equity, interest rate, and credit risks.
- (e) It is the City of Abbotsford’s intent to hold long-term fixed income investments to maturity. It is the City of Abbotsford’s intent to hold perpetual long-term MFA Funds for 10 years or longer – in alignment with, but redeemed prior to, future obligations.
- (f) For the purposes of assessing performance of the 10 years+ portfolio, returns will be evaluated on a rolling three, four, and five-year basis versus a suitable benchmark.
- (g) Pursuant to section 13(2)(a), the monies designated as “10 years+” and suitable for long-term investment from the general investment portfolio, are a maximum of \$100 million.
- (h) Pursuant to section 13(2)(a), the monies designated as “10 years+” and suitable for long-term investment from the Cemetery Care Trust Fund, are a maximum of \$3 million.

Competitive bids

- 14** (1) The City will solicit a minimum of 3 competitive verbal quotations for the purchase and sale of securities when it is prudent to do so.
- (2) Notwithstanding Subsection (1):
- (a) this Policy recognizes that, from time to time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought provided that value can be substantiated by market data; and

- (b) purchases of securities in the primary market do not require competitive bids, but their value must be competitive with comparable securities available in the secondary market.

Safekeeping and custody of debt securities

- 15** (1) All debt security transactions entered into by the City will be conducted on a delivery versus payment basis.
- (2) Verbal settlement instructions will be given to dealers and financial institutions, followed by written confirmations authorized by 2 of the City's signing officers.
- (3) Settlement may take place at the City's custodial financial institution in any Canadian city.
- (4) The custodial financial institution may not accept delivery or payment without prior authorization and instructions from the City.
- (5) Securities will be held by the City's custodial financial institution or, alternatively, be registered with Clearing and Depository Services Inc. (CDS).
- (6) All securities that are in registerable form will be registered in the name of the City of Abbotsford, or the nominee of the City's custodial financial institution.

Performance standards

- 16** (1) The investment portfolio will be designed to maximize return, taking into account the City's investment risk constraints, cash flow requirements, and management strategy.
- (2) The performance of the portfolio will be measured against an appropriate benchmark as determined by the finance officer or delegate.
- (3) Appropriate benchmarks will be used that best match the current risk profile of the portfolio (for example, Municipal Finance Authority pooled funds or market rate Guaranteed Investment Certificates (GIC's)).

Reporting

- 17** (1) The finance officer or a delegated investment employee will report to the Council on investment holdings and investment performance on a semi-annual basis.
- (2) The Council will be notified in circumstances where the investment portfolio is not in compliance with this investment policy.

Exclusions

- 18** None

Prohibitions

- 19** None

Related procedures, guidelines and publications

- 20** None

APPROVED on July 12, 2004

REVISED on July 27, 2015, September 27, 2021, March 12, 2024 and July 30, 2024

SCHEDULE "A"

INVESTMENT DIVERSIFICATION AND QUALITY PARAMETERS

Investment diversification and term limits

Asset Type	Maximum % Share of Portfolio	Maximum Single Entity % of Portfolio	Maximum Term
Schedule I and II banks and Credit Unions [1] - Non-cashable term deposits and GICs - Debt securities	50% or 100% [2]	A (low) and higher: 15% Below A (low): 10%	5 years (terms/GICs) 15 years (debt)
Debt securities of the Municipal Finance Authority	20%	20%	15 years
Debt securities guaranteed by Canada or a province for principal and interest	20%	10%	15 years
Debt securities of municipalities, regional districts or greater boards	20%	10%	15 years
Debt securities of Provincial Governments	100%	25%	15 years
Debt securities of the Federal Government	100%	100%	15 years
MFA Pooled Funds, money market and short-term bonds	100%	N/A	N/A
MFA Mortgage Fund	15%	N/A	N/A
MFA (10 years+) pooled funds	25%	N/A	N/A

[1] Total investments in securities of a chartered bank, savings institution, or credit union may not exceed 1.00% of the financial institution's last year-end reported total deposits.

[2] Short-Term Portfolio funds (cash needed within 2 years) may be 100% held within Financial Institutions, but subject to single entity limits. Further, from time-to-time single entity limits may be exceeded per 13.1(j).

[3] Weighted holdings of securities within a pooled fund do not count toward the limits applied to holding those securities separately.

Investment quality limits

Investment quality (DBRS ratings)	Maximum % Share of Total Portfolio
AA (low) or higher [short-term rating R-1 (mid) or higher]	100%
A (high)/A/A (low) [short-term rating R-1 (low)]	50%
BBB (high)/BBB (mid) or Unrated [short-term rating R-2 (high) or R-2 (mid)]	20%

Unrated Securities

If an authorized investment per section 183 of the *Community Charter* is unrated, it shall be rated as BBB (mid) for the purposes of determining adherence to this Policy.

SCHEDULE "B"

CREDIT QUALITY RATING SCALE EQUIVALENCIES

Credit Quality	DBRS		Moody's		S&P		Fitch	
	Long-term	Short-term	Long-term	Short-term	Long-term	Canadian CP Scale (Short-term)	Long-term	Short-term
Superior	AAA	R-1 (high)	Aaa	P-1	AAA	A-1 (high)	AAA	F1+
	AA (high)	R-1 (high)	Aa1	P-1	AA+	A-1 (high)	AA+	F1+
	AA	R-1 (mid)	Aa2	P-1	AA	A-1 (high)	AA	F1+
	AA (low)	R-1 (mid)	Aa3	P-1	AA-	A-1 (high)	AA-	F1+
Good	A (high)	R-1 (low)	A1	P-1	A+	A-1 (mid)	A+	F1
	A	R-1 (low)	A2	P-1	A	A-1 (mid)	A	F1
	A (low)	R-1 (low)	A3	P-2	A-	A-1 (low)	A-	F2
Adequate	BBB (high)	R-2 (high)	Baa1	P-2	BBB+	A-1 (low)	BBB+	F2
	BBB	R-2 (mid)	Baa2	P-2	BBB	A-2	BBB	F3
	BBB (low)	R-2 (low), R-3	Baa3	P-3	BBB-	A-3	BBB-	F3
Speculative	BB (high)	R-4	Ba1	Not Prime	BB+	B	BB+	B
	BB	R-4	Ba2	Not Prime	BB	B	BB	B
	BB (low)	R-4	Ba3	Not Prime	BB-	B	BB-	B
Highly Speculative	B (high)	R-4	B1	Not Prime	B+	C	B+	B
	B	R-5	B2	Not Prime	B	C	B	B
	B (low)	R-5	B3	Not Prime	B-	C	B-	B
	CCC	R-5	Caa	Not Prime	CCC	C	CCC	C