



## PROCEDURES

# INVESTMENT PLAN

## 1. GOVERNANCE

### 1.1. Purpose

The purpose of this document is to guide the execution of the mandate given by Council to the Investment Board. The Investment Board is responsible for control and management of the City's investments in accordance with the Prudent Investment Standard, and the Investment Policy adopted by City Council. The Board will adopt and follow an Investment Plan that implements the City's Investment Policy.

At least annually, following City Council's review of the Investment Policy, the Board will review its Investment Plan and update it as required. The Board will submit an annual report to the Finance and Corporate Services Committee about the performance of the City's investment portfolio.

The investment Plan shall deal with how the Investment Board will invest money and set out the Board's projections of the proportions of the portfolio to be invested at the end of the year in each type of security selected by the Board (Asset Allocation) and may include other requirements. O. Reg. 43/18 s. 10.

### 1.2. Portfolio Overview

#### 1.2.1. Capital Fund

The purpose of this portfolio is to match the City's cash requirements for capital projects under way or slated to be completed within the ensuing five years. Funds are essentially invested to future dates where cash is required while managing the associated interest rate risk. The timing and quantum of the liquidity requirements of this fund are fairly evident.

#### 1.2.2. Growth Fund

The purpose of this portfolio is to meet longer term liabilities and growth requirements of the City with the objectives for long term capital appreciation and inflation protection. The portfolio will manage risk by maintaining appropriate asset mix, geographic, sector and corporate diversification.

#### 1.2.3. Operating Fund

The purpose of this portfolio is to meet the liquidity requirements of the City. Funds will be invested in money market securities including High Interest Savings Accounts (HISA) with the objective of improving short-term returns.

## 2. INVESTMENT OBJECTIVES

### 2.1. Plan Objective

The City's overall investment objectives as being the following, in order of importance:

1. Capital preservation
2. Adequate liquidity
3. Competitive total return



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## 2.2. Performance Measurement

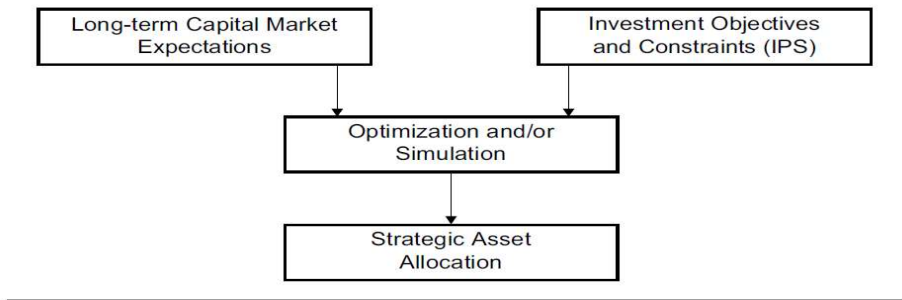
Each of the portfolios is expected to achieve a gross return at least equal to the defined asset mix and respective composite benchmark measured over a moving four-year period.

## 3. RISK MANAGEMENT

1. Capital preservation: Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios.
2. Adequate liquidity: Investments shall be undertaken in a manner that takes into account the needs of periodic cash flows and reasonably anticipated budgetary requirements as well as the need to have funds available for unplanned contingencies.
3. Diversification: Investments should be sufficiently diversified as to:
  - i. avoid concentration in a specific issuer or credit and;
  - ii. avoid concentration in specific asset classes, markets, sectors and term to maturity in order reduce overall risk.
4. Capital appreciation: Investments shall be made to earn realized or unrealized investment income, but not at the risk of significantly eroding the principal, with the objectives in priority order of:
  - i. maintaining portfolio term structure to support the City's long-term financial plan, and
  - ii. Provide a return consistent with established benchmarks.

## 4. STRATEGIC ASSET ALLOCATION

The Strategic Asset Allocation is the first step in portfolio construction. The following chart shows the framework used in determining an appropriate asset allocation based on the investment objectives and constraints.



The strategic asset allocation is stated in terms of percent allocations to asset classes. The risk–return profile of the strategic asset allocation depends on the expected returns and risks of the individual asset classes, as well as the correlation between those asset classes. The following steps will guide the Board’s asset allocation decision:

1. **Long-term Capital Market Expectations:** Quantified in terms of asset class expected returns, standard deviation of returns, and correlations among pairs of asset classes. Expected returns can be developed in a variety of ways, including the use of historical estimates, economic analysis, and various kinds of valuation models. Standard deviations and correlation estimates are frequently based on historical data and risk models.
2. **Cash-Flow Forecast:** The forecast of cash flow requirements will determine the proper proportion of investments that have terms to maturity which match the cash flow requirements of the City and the type of asset suitable to meet the investment objectives.



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### 4.1. Policy Portfolio

Based on the investment objectives and long-term capital market expectations, assets will be invested in a mix of fixed income, equity, and other investments in order to balance volatility and returns. The target Asset Mix (policy portfolio) below was developed by considering the possible effect of inflation, the expected return and risk of each proposed asset class and the City's need for liquidity, capital preservation and income.

Asset Classes	Minimum %	Target Mix %	Maximum %	Benchmark Index (1)
<b>Equity</b>				
Canadian Equity	0	10	20	S&P/TSX Composite Index TR
Foreign Equities	0	10	20	S&P 500 Index (CAD) TR
<b>Total Equity</b>	<b>0</b>	<b>20</b>	<b>30</b>	<b>Composite Weighted Return</b>
<b>Fixed Income</b>				
Federal, Federal Guaranteed and Supranational Bonds	0	20	70	
Provincial, Provincial Guaranteed and Municipal Bonds	25	25	70	
Corporate Bonds (2)	0	20	70	
<b>Total Fixed Income</b>	<b>30</b>	<b>65</b>	<b>90</b>	<b>Canada Aggregate 1-10 Year Index TR</b>
<b>Cash and Cash equivalent</b>	<b>10</b>	<b>15</b>	<b>30</b>	<b>Canada 3-month Treasury Bill Index TR</b>
		<b>100</b>		<b>Composite Weighted Return (15/65/20)</b>

(1) Bloomberg equivalent Benchmarks might be used

(2) Must be rated at a minimum of investment grade (BBB or equivalent) by at major credit rating agency

### 5. PORTFOLIO REBALANCING

The asset mix will be monitored on a quarterly basis. Portfolios will be rebalanced to correct the asset mix when any one asset class exceeds the minimum or maximum defined ranges. All attempts will be made to manage the asset mix of the portfolio using cash flows. Otherwise, rebalancing will be done through open market activity. The Board acknowledges varying market liquidity and expects transactions to be completed as soon as reasonably viable given the plan objective outlined above. Should any of the fixed income securities fall below the minimum credit rating threshold prior to maturity, the manager should have 90 days or as soon as feasible to take the necessary action to bring the portfolio back to compliance with the Policy.

### 6. ELLIGIBLE INVESTMENTS

An asset class is a category of assets that have similar characteristics, attributes, and risk/return relationships. Subject to the Investment Policy, the portfolios may be invested in any of the following instruments or assets. The assets may be obligations or securities of Canadian or non-Canadian entities.

#### 6.1. Asset Classes

##### 6.1.1. Equities

- a) Publicly traded common or preferred equities,
- b) Convertible debentures,
- c) Rights and warrants for common or convertible preferred equities, and



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- d) Exchange traded index participation units, and
- e) Units in real estate trusts.

### 6.1.2.Fixed Income

- a) Bonds, debentures, notes or other debt instruments of federal, provincial, (including guarantees) and municipal governments and their agencies or government corporations,
- b) Bonds, debentures, notes or other debt instruments of corporations,
- c) Mortgages secured against Canadian real estate subject to the restriction of being guaranteed by CMHC (Canada Mortgage and Housing Corporation)
- d) Guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments.
- e) Term deposits or similar instruments of trust companies and banks.
- f) Exchange traded index participation units.
- g) Asset-backed securities, and Mortgage-backed securities.
- h) All fixed income securities shall have a minimum investment grade (BBB or equivalent) credit rating. Where multiple ratings exist the determination will be either the consensus rating or the median rating.
- i) Overall, the fixed income portfolio shall be managed to maintain an average credit rating of "A" and a maximum exposure of 20% to the BBB (or equivalent) segment.

### 6.1.3.Cash and Short-Term Deposits

- a) Cash and demand deposits,
- b) Treasury bills issued by federal and provincial governments and their agencies,
- c) Obligations of banks and trust companies, including bankers' acceptances and Guaranteed Investment Certificates,
- d) Commercial paper, and
- e) Non-Canadian equity mandates may invest in short term securities of non-Canadian issuers.
- f) Minimum credit quality of A-1 or P-1

### 6.1.4.Derivatives

- a) Derivatives may not be used to create a net leveraged position for the portfolios, introduce uncovered positions, or to create exposures to investments that would otherwise be prohibited by the Investment Policy.
- b) The portfolios may directly or indirectly (e.g., through pooled funds) utilize derivatives only to:
  - i. Create an Asset Mix position within the ranges and among the asset classes set out in the Investment Plan,
  - ii. Adjust the duration of the fixed income portfolio,
  - iii. Replicate the investment performance of a recognized capital market index,
  - iv. Increase the portfolio current revenue by selling covered calls,



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- v. Manage the currency exposure of a portfolio, or reduce risk as part of a hedging strategy.

### 7. IMPLEMENTATION PLAN

#### 7.1. Portfolio Design

##### 7.1.1. Capital Fund

1. Investment Objectives: To achieve a competitive rate of return while seeking to preserve capital, maintain low volatility and proper diversification.
2. Return Objective: To meet or exceed the Benchmark return over a Market Cycle.
3. Investment strategy: Asset Liability Management: Combination of Cash Flow Matching and Portfolio Immunization. Surplus funds are essentially invested to future dates where cash is required while managing the associated interest rate risk.

##### 7.1.2. Growth Fund

1. Investment Objectives: Long term capital appreciation and inflation protection. The portfolio will manage risk by maintaining appropriate asset mix, geographic, sector and credit diversification.
2. Return Objective: To meet or exceed the Benchmark return over a Market Cycle.
3. Investment Strategy: Investment in a diversified portfolio of equities.

##### 7.1.3. Operating Fund

1. Investment Objectives: The purpose of this portfolio to meet the liquidity requirements of the City.
2. Funds will be invested in money market securities including High Interest Saving Accounts (HISA) with the objective of improving short-term returns.

#### 7.2. Transition Plan

##### 7.2.1. Fixed Income Allocation

Funds currently in held in money market instruments will be reallocated to the Capital Fund to meet the target allocation as specified in the policy portfolio above. A cash flow match portfolio will be constructed based on the current IPS and reflecting the Investment strategy as specified in section 7.1.1.3 of this document.

##### 7.2.2. Equity Allocation

Funds currently in held in money market instruments will be gradually reallocated to the Growth Fund to meet the target allocation as specified in the policy portfolio above. A passive investment strategy will be employed by investing a well-diversified basket of securities to meet the benchmark return. Sectors ETFs or index funds will be the primary means of investing in equities allowing for the potential achieve above benchmark return.

##### 7.2.3. Cash and Cash Equivalents (Operating Fund)

The remainder of funds after the Fixed income and equity allocation will be held in money market instruments, including High Interest Saving Accounts (HISA), and actively managed to improve the overnight return. Funds from and to the City will flow through this account.