

## BYLAW NO. 5591

### CITY ADMINISTRATION BYLAW AMENDMENT, 2019 (3)

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**THE MUNICIPAL CORPORATION OF THE CITY OF MOOSE JAW ENACTS AS FOLLOWS:**

**Amendments**

1. Bylaw No. 5175, City Administration Bylaw is amended in the manner set forth in the attached Schedule "D" Investment Policy for The City of Moose Jaw of this Bylaw.

**Coming into Force**

2. This Bylaw comes into force on the day of passage.

\_\_\_\_\_  
MAYOR

\_\_\_\_\_  
CITY CLERK

READ A FIRST TIME the 24<sup>th</sup> day of June, 2019.

READ A SECOND TIME the 24<sup>th</sup> day of June, 2019.

READ A THIRD TIME the    day of                      , 2019.

# **Investment Policy Statement**

City of Moose Jaw

## **SECTION 1: OVERVIEW**

### **Purpose of Statement**

The purpose of the policy is to provide specific guidelines regarding the portfolio management for the City of Moose Jaw's (City) investment assets. This policy ensures that city portfolios are invested primarily to achieve the real (inflation protected) preservation of capital, the maintenance of liquidity sufficient to meet ongoing financial requirements and to maximize return on investment.

### **Definitions**

- I. The City means the Municipal Corporation of the City of Moose Jaw;
- II. City Council means the elected officials of the City of Moose Jaw;
- III. The City's Investment Portfolio refers to monies of the City that are in excess of daily operational requirements and are available to be invested on a long-term basis.
- IV. The Investment Committee means the City of Moose Jaw Investment Committee.
- V. The Investment Manager means the duly authorized financial management company and its representatives as appointed from time-to-time by the Investment Committee.
- VI. Prudent Person Principle means to act in all matters regarding investments with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would act. This includes undue risk of loss, obtaining a reasonable rate of return and does not restrict the assets which a prudent person can invest.
- VII. A custodian provides safekeeping of assets, income collection, settlement of transactions and administrative services for the city's securities.
- VIII. Bond Rating Service is a corporation whose primary business mandate is to analyze the audit worthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt. Debt ratings refer to the ratings issued by Dominion Bond Rating Service (DBRS) or other recognized bond rating services (Standard & Poor's, Moody's Investor Services).
- IX. Relevant Money Market and Bond Ratings Definitions
  - a. R-1 (High): is the highest quality, unquestioned ability to repay assessed liabilities as they fall due
  - b. R-1 (Mid): superior credit quality, above average strength in key areas of consideration for debt reduction
  - c. R-1 (Low): satisfactory credit quality, considerations for debt repayment
  - d. AAA: bonds rated AAA are of the highest credit quality with exceptionally strong protection for the timely repayment of principal
  - e. AA: Bonds rated AA are of superior credit quality and protection of interest and principal is considered high, they differ from bonds rated AAA only to a small degree.
  - f. A: bonds rated A are of satisfactory credit quality as the protection of principal and interest is still substantial; the degree of strength is less than AA rated entities.

- g. BBB: bonds rated BBB are of adequate credit quality. Protection of interest and principal is considered adequate, but the entity is more susceptible to adverse changes in financial and economic conditions.
- X. Asset Allocation is the proportion in which assets are divided among various types of investments, such as equities and bonds.
- XI. "Real" rate of return or the preservation of the "real" value of capital is the annual percentage return realized on an investment or growth of investment principal, which is adjusted for changes in prices due to inflation or other external factors and maintain the purchasing power of the city's investments over time.
- XII. An American Depositary Receipt (ADR) is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange. Holders of ADRs realize any dividends and capital gains in U.S. dollars, but dividend payments in euros are converted to U.S. dollars, net of conversion expenses and foreign taxes.
- XIII. An Index is a public investment benchmark which is considered to be representative of a specific securities market (eg. The S&P/TSX Composite Index representing Canadian equities).
- XIV. A derivative is a financial instrument whose characteristics and value depend upon (derived from) the characteristics and value of an underlying asset such as a commodity, bond, equity or currency. Examples of derivatives include futures and options. Derivatives are used to manage the risk associated with the underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline.
- XV. An alternative investment is a financial asset that does not fall into one of the conventional investment categories, such as stocks, bonds, and cash. Most alternative investment assets are held by institutional investors or accredited, high-net-worth individuals because of the complex nature and potential lack of liquidity. Examples include real estate, private equity/venture capital, hedge funds, managed futures, art, antiques, commodities, and derivatives contracts.
- XVI. Passive Management is an investment strategy where a portfolio of securities is designed to replicate the performance of an index, such as an exchange traded funds.
- XVII. Active Management is an investment strategy where a portfolio of securities is designed to produce returns in excess of a relative index.
- XVIII. Volatility is a statistical measure of the dispersion of returns for a given security or market index.
- XIX. Risk is the uncertainty of future investment returns.
- XX. Risk Tolerance is the financial ability to withstand a short to medium term value decline.

## **SECTION 2: ROLES & RESPONSIBILITIES**

The ultimate responsibility for approval of the cities investment policy lies with City Council. The most effective management and oversight of the investment portfolio is best achieved through the delegation of its responsibilities to the Investment Committee, Department of Financial Services and Investment Manager.

**City Council**

Approve the investment policy for the City of Moose Jaw and approve any amounts to be withdrawn from invested funds during the annual budget process.

**Investment Committee**

As per City of Moose Jaw bylaw #5558, the purpose of the Investment Committee is to provide management and oversight of the City's investment portfolio following the prudent person principle in all of the committee's actions. The Investment Committee will delegate the day-to-day management of the Investment Portfolio to the Department of Financial Services in consultation with the Investment Manager.

**Department of Financial Services**

The Department of Financial Services will work closely with the Investment Manager to monitor compliance with the investment policy, performance and the achievement of the City's stated objectives. The department will ensure adequate liquidity for approved expenditures, regardless of economic or market conditions and work with the Investment Managers when transferring between various investment pools outlined in this policy.

**Investment Manager**

The Investment Manager is responsible to manage the City's investments in accordance with the Investment Policy and provide advice, research, guidance and technical expertise to assist the City in achieving its investment objectives. The investment manager shall provide a high level of service, reporting, as well as the due diligence, selection and continuous monitoring of the portfolio managers, investments and overall asset allocation. The Investment Manager will provide custodial services for all city owned marketable securities. Based on the statement of Investor Rights developed by the CFA institute, the City of Moose Jaw can expect from their Investment Manager:

1. Honest, competent and ethical conduct that complies with applicable law;
2. Independent and objective advice and assistance based on informed analysis, prudent judgment and diligent effort;
3. The city's financial interests taking precedence over those of the professional and the organization;
4. Fair treatment with respect to all clients;
5. Disclosure of any existing or potential conflicts of interest in providing products or services;
6. Understanding circumstances, so that any advice provided is suitable and based on the city's financial objectives and constraints;
7. Clear, accurate, complete and timely communications that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all fees and costs charged and information showing these expenses to be fair and reasonable;
9. Confidentiality;
10. Appropriate and complete records to support the work done on the City's behalf.

## **SECTION 3: INVESTMENT OBJECTIVES & INVESTMENT BELIEFS**

### **Investment Objective**

The City of Moose Jaw has a fiduciary responsibility to the taxpayers to maximize the financial benefit of the investment portfolio and enhance the long term sustainability of the city. Investment reserves should be prudently managed to assist in avoiding excessive volatility in achieving targeted rates of return. Therefore, the overall portfolio objectives are:

- To preserve the real (inflation adjusted) value of the investments over the long term.
- To maintain sufficient planned liquidity to enable the City to fulfill all operating and capital requirements, regardless of economic and market conditions.
- To mitigate risk with professional investment management and prudent diversification requirements.
- To maximize investment returns without compromising the other investment objectives, over the long term.

### **Investment Beliefs**

The City's investment policy was developed with the following considerations and generally accepted investment beliefs:

- As a corporation providing services for residents and businesses in perpetuity, The City of Moose Jaw has a long term (indefinite) time horizon.
- Protecting the real (inflation adjusted) value of the investment reserves is critical with a long term (indefinite) time horizon.
- Equity investments have historically provided greater returns than fixed income investments over the long-term, although with greater short-term volatility.
- Liquidity must be planned and prioritized in the event that the City requires funds for specified purposes.
- The long-term asset mix is the most important component of a portfolio's risk and return.
- The investment return is a function of capital market returns, asset allocation, specialized individual portfolio managers and investment products.
- Active management can add value to portfolio returns with the opportunity to outperform common market indices over the long-term and manage volatility or downside risk, but with added costs and effort. Passive management minimizes the risk of underperformance relative to a benchmark index and is generally less expensive. Both management styles can be utilized within the portfolio.
- Asset mix rebalancing generally adds value relative to buy and hold strategies.
- Alternative strategies/asset classes may be appropriate and will be evaluated based on their liquidity and transparency because of their low correlation to bonds and equities.
- Diversification of asset classes, implementation strategies, and security selection can improve the risk and return characteristics of the portfolio.
- Market timing at the policy level is an inefficient strategy for consistently increasing returns.
- Effective manager structure can improve the net returns and lower the risk of the investment portfolio.

## SECTION 4: ASSET MIX GUIDELINES & DIVERSIFICATION REQUIREMENTS

The asset mix provides the investment parameters, which enable, over the long-term, to achieve the investment objectives of the city. In order to achieve the objectives, the city will maintain asset guidelines on three pools of investment capital to maximize the best of use funds on behalf of the taxpayers.

### Fixed Income Pool:

The fixed income pool has a short term mid-term investment horizon and will only invest in high quality Canadian money market and fixed income securities. The primary objectives of the pool is capital preservation, liquidity and the enhancement of yield. Investments in the fixed income pool are intended to match the duration for approved city expenditures with a time horizon of 5 years or less.

Fixed Income Pool Permitted Investments & Diversification Requirements:

The minimum quality standard for individual money market instruments is R-1 (Low) and BBB- (investment grade) for individual bonds or the equivalent as rated by a recognized rating agency at the time of purchase.

Bond Rating	Maximum Aggregate Weighting
R1 - High & Government of Canada	100.00%
R1 - Mid	30.00%
R1 - Low	15.00%
BBB- (Investment Grade)	15.00%

Bond Issuer	Maximum Aggregate Weighting	Maximum Individual Holdings
Government of Canada	100.00%	100.00%
Provincial Government	100.00%	30.00%
Municipalities	40.00%	10.00%
TD Bank, CIBC, RBC, ScotiaBank & BMO	50.00%	50.00%
Other Corporate Bonds	20.00%	5.00%

### Moderate & Long Term Investment Pools:

The primary objective of the moderate and long term pools is to maximize returns, provide a sustainable source of revenue and protect the real (inflation adjusted) value of the investment principal. In order to achieve long-term investment objectives, the portfolio must utilize assets that provide uncertain returns such as Canadian equities, foreign equities and non-government bonds. To assist with the prudent management which includes minimizing volatility and managing risk, the city will utilize multiple professional portfolio managers, styles and asset classes. In this way added diversification is obtained for the portion of the cities investments that are expected to be more volatile and mitigate exposure to any single risk.

### Moderate Term Pool:

The moderate term pool is designed for investments with a time horizon greater than five years, but not an indefinite time horizon. The primary objectives of the pool is the preservation of the real value of capital, minimized volatility, liquidity for approved annual sustainable withdrawals and a secondary objective of maximized returns.

Asset Class	Minimum	Target	Maximum
Cash	0.00%	5.00%	35.00%
Fixed Income	45.00%	60.00%	75.00%
Equity	20.00%	35.00%	50.00%

### Long Term Pool:

The long term pool is designed for investment reserves the city has determined to have an indefinite time horizon. The primary objectives of the pool is maximized returns, minimizing volatility, preserving the real value of capital and liquidity for sustainable withdrawals.

Asset Class	Minimum	Target	Maximum
Cash	0.00%	5.00%	35.00%
Fixed Income	10.00%	25.00%	40.00%
Equity	55.00%	70.00%	90.00%
Alternative	0.00%	0.00%	10.00%

### Moderate & Long Term Pool Permitted Investments & Diversification Requirements:

**Cash and Cash Equivalents:** All Cash investments shall have a minimum rating of R-1- Low by the DBRS or equivalent. All fixed income securities with less than 12 months to maturity are considered a cash equivalent. Investment in the money market instruments of a single issuer may not exceed 10% of the market value of Cash portion Fund, except for the securities of the Federal and Provincial governments of Canada.

**Fixed Income:** The Bond portfolio must have a minimum weighted average rating of A or an equivalent rating by another recognized rating agency. Bonds rated BBB may not represent more than 15% of the bond portfolio. Investments in the fixed income securities of a single issuer may not exceed 10% of the market value of the Fixed Income portion of the Fund, except for securities of the Federal and Provincial governments of Canada. Diversified fixed income pooled funds that hold high yield, non-investment grade fixed income securities are eligible investment provided the weighted average credit rating of the fund or portfolio is investment grade. Diversified fixed income pooled funds that are not considered investment grade must comply with the appropriate fixed income constraints.

**Equities:** Equities include common stocks, American Depository Receipts' (ADR's) and limited liability income trusts. Foreign equity is included to provide diversification to reduce the overall risk profile of the equity portfolio and to enhance returns. Investments in the equity securities of a single issuer may not exceed 10% of the market value of the Equity portion of the Fund.

**Alternative Investments:** This asset class includes non-traditional investments whose returns have low correlation to equity and bond markets. These include professionally managed pools in non-traditional asset classes with a limit of 5% per individual issuer and 10% of the entire portfolio.



**Derivatives:** The use of derivatives is permitted to replicate a security or to hedge foreign currency exposure utilized in professionally managed pooled funds (mutual funds, exchange traded funds, & alternative investments).

### **Conflicts between the investment policy and pooled fund investment policies**

While this investment policy is intended to guide the management of the portfolio, it is recognized that, there may be instances where there is a conflict between the city's investment policy and the investments of a professionally managed pooled fund (mutual funds or exchange traded fund). An investment can be made in such a pooled fund to improve the diversification, risk management and/or return potential of the overall portfolio if the investment manager communicates the conflict to the investment committee.

### **Environmental, social and governance (ESG)**

ESG factors will be considered when selecting investments and fund managers.

## **SECTION 5: PERFORMANCE MONITORING**

### **Fixed Income Pool:**

The financial objective of the Fixed Income Pool is capital protection, liquidity and yield enhancement. Investments in the city's Fixed Income Pool will generally be matched to the duration of an expenditure, unlike any passive benchmark. However, the Fixed Income portfolio will be pegged against an appropriate blend of the FTSE TMX Canada Short Term Bond Index and FTSE TMX Canada Medium Term Bond Universe Index to assist in the monitoring of overall investment effectiveness.

### **Moderate & Long Term Pool Absolute Return Objectives:**

- The financial objective of Moderate Term Portfolio is to earn a rate of return of 2.25% over the Bank of Canada target rate for inflation (2.0%) on a rolling five year basis net of all investment management costs.
- The financial objective of the Long Term Portfolio is to earn a rate of return of 4.0% over the Bank of Canada target rate for inflation (2.0%) on a rolling five year basis net of all investment management costs.

### **Relative return monitoring:**

The primary focus is on the absolute long-term performance objectives. However, the short-term performance will be evaluated on an ongoing annual basis. This short-term evaluation will be completed by the investment manager and made by comparing the actual performance of the portfolio with the returns from an index portfolio constructed with reference to the benchmark asset allocation. This will be a key tool for the investment managers to evaluate the performance of the portfolio managers and guidance in achieving the absolute return objectives. The passive index will be the evaluated at the current weightings of the portfolio represented by FTSE TMX Bond Universe (Fixed Income), S&P/TSX Composite (Canadian Equities), S&P 500 (US Equities), MSCI EAFE (International Equities) and MSCI World Index (Global Equities) in Canadian dollars.

**Period of Performance Measurement:**

For purposes of evaluating the performance of the portfolios and the Investment Managers, the primary time period for evaluation will be five years. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources. Recognizing that the returns achieved over shorter periods may vary significantly from the relevant goals, the general trend of results relative to the goals and the likelihood that satisfactory returns can reasonably be expected over five year moving periods should form the basis for the evaluation of the long term portfolios performance.

**Voting Rights:**

The Committee delegates the investment manager the responsibility of exercising all voting rights acquired through the fund's investments. The investment manager shall exercise such voting rights with the intent of fulfilling the investment objectives and policies of the Investment Policy Statement and for the long-term benefit of the city's investments.

**SECTION 6: ADMINISTRATION**

A major goal of this policy is to establish ongoing communication between the Investment Committee and the investment manager. Effective communication will contribute to the management of the portfolio in a manner that is consistent with meeting the objectives of the city.

**Reporting:**

On a monthly basis, the investment manager will provide custodial statements and reporting to include all transactions and market values.

On a quarterly basis, the investment manager will provide a report for the city including asset allocation, performance, and market value history and confirm compliance with the policy.

**Variances from Policy:**

The Investment Manager will provide a quarterly letter of compliance with the investment policy. Where it is determined that a variance needs to be corrected, the Investment Manager is to correct the variance in a timely manner while mitigating any adverse effects to the market value of the investment portfolio, affected by the timing of the required correction.

**Investment Review Meetings:**

The Investment Manager shall meet with the Investment Committee quarterly, or less frequently as agreed to by both parties, to provide a review of portfolio transactions, portfolio performance, capital markets outlook and other relevant matters and material changes.

**Investment Policy Review:**

On an annual basis (as of March 31), the Investment Advisor and Investment Committee may determine changes are required to the Investment Policy. Any changes to the Investment Policy must be recommended to and approved by City Council. These changes may be a result of:

- Governance changes;
- Changes in general economic conditions;
- Needs for liquidity, regularity of income and preservation of capital;
- Changes in expectations of long-term returns and risks associated with the different asset classes of investments;
- Changes to risk tolerance;
- Expectations of the city's future cash flow requirements;
- New investment products; and
- Any practical issues that arise from the application of the Investment Policy.

**Conflict of Interest:**

Any person involved in the investment or the administration of the investment may not permit personal interests to conflict with the exercise of duties and powers with respect to the city's investments. Such conflicts, actual or perceived, must be disclosed to the investment committee immediately. These guidelines shall not be read to contravene or otherwise limit the scope of any prior or subsequent conflict of interest guidelines that the City may have established or may establish for the conduct of Council, officers, employees, and agents.

**SECTION 7: IMPLEMENTATION STRATEGY**

The City's investment policy was last updated in January 2003 and restricted investments to high quality Canadian fixed income investments. In the development of an updated investment policy and in order to maximize the financial benefit for the City, both risk and return objectives have been included in the new policy. In order to achieve the City's long-term investment objectives and return requirements, the portfolio must utilize assets that provide uncertain returns such as Canadian equities, foreign equities and non-government bonds.

To assist with the prudent management the city will utilize diversification strategies to mitigate risk and volatility including multiple professional portfolio managers, multiple portfolio management styles (example: value, growth, dividend, active and passive) and multiple asset classes.

Upon approval of the investment policy, the City will implement a strategy to mitigate investment costs and moderate the transition into asset classes with a higher degree of volatility. Therefore, an orderly and strategic transition in meeting the new asset allocation guidelines includes:

1. "Existing city investments" are fixed income investments (bonds, guaranteed investment certificates and cash) currently owned by the City of Moose Jaw at the adoption of this policy.
2. Existing city investments, excluding operating capital, will be held in the custody of the investment manager for the City and excluded from any professional investment management costs or fees.
3. Existing city investments will be held until maturity, unless disposition is deemed to be in the best interests of the City, and incorporated into the appropriate investment pools. The Investment Manager will conduct a review of City owned bonds to determine if there is any suitable redemption prior to maturity, in the best interests of the City.
4. Existing city investments will be included in the appropriate investment pools (fixed, moderate, long term) and transitioned into the target asset allocations upon maturity.
5. The approximate balances for the respective city reserve pools are \$70,000,000 for the Long Term Pool and \$30,000,000 for the Moderate Term Pool.
  - i. The city current owns approximately \$60,500,000 of high quality fixed income investments and approximately \$39,500,000 in cash that is allocated to these reserve pools.
  - ii. Long Term Pool: Minimum equity weightings are 55% or approximately \$39,500,000. As the Long Term Pool has an indefinite time horizon and can tolerate the greatest amount of volatility, the entire cash deposit will be targeted towards the Long Term Pool to be invested within the calendar year in strategic and conservative manner. Approximately \$30,500,000 will be retained in existing city investments and at maturity, or redemption in the best interest of the City of Moose Jaw, the Long Term Pool will be aligned with the target asset allocation.
  - iii. Moderate Term Pool: Minimum equity weightings are 20%. In managing the strategic transition, existing city investments will make up the entire allocation of this portfolio until maturity. As existing city investments mature the portfolio will be transitioned towards the target asset allocation. While the policy will be temporarily out of compliance, this is preferable to the City of Moose Jaw ensuring a conservative strategic transition.
  - iv. In consideration of this transition strategy, variances in absolute return objectives will be tolerated until the portfolios are aligned with their target asset allocation.

Existing City Investments	Cash Reserves	Reserve Pool	Equity Weighting	Cash & FI Weighting
\$30,000,000.00	\$0.00	Moderate Term	0.00%	100.00%
\$30,500,000.00	\$39,500,000.00	Long Term	56.43%	43.57%
<b>\$60,500,000.00</b>	<b>\$39,500,000.00</b>			