

# TOWN OF ANNAPOLIS ROYAL

## Policy

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<b>Title:</b>	<b>Investment Policy</b>	<b>Supersedes:</b>	None
<b>Policy No.:</b>	2017-2	<b>Last Revised:</b>	N/A
<b>Effective Date:</b>	19 of April, 2017	<b>Approved by Council:</b>	#C2016-10-17-04 October 17 <sup>th</sup> , 2016

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### 1. DEFINITIONS

“CAO”: The person employed by the Town of Annapolis Royal as its Chief Administration Officer.

“Capital gains (losses)”: Gains or losses on the sale of investment instruments.

“Government of Canada” includes entities guaranteed by the Government of Canada, to the extent the guarantee applies to the security in question;

“Capital Reserve Fund”: Monies set aside to be used in future years as a funding source for the acquisition of capital assets, including but not necessarily restricted existing funds that are identified as the General Capital Reserve and the Water Utility Capital Reserve Fund.

“Cash & equivalents”: Cash, money market, Treasury Bill, Banker’s Acceptances and any investment maturing in one year or less.

“Cost”: The initial cost of an investment. Cash, cash equivalents and fixed income securities are recorded at purchase price. Equity instruments are recorded at average cost- purchase price plus brokerage fee.

“Council”: Governing body of the Town of Annapolis Royal, consisting of elected Mayor and Councillors.

“DoF” The person employed by the Town of Annapolis Royal as its Director of Finance.

“Equities”: Common stocks of Canadian corporations

“Fixed Income Securities”: Fixed income obligation of or fully guaranteed by any Canadian government or corporation with a maturity of more than one year.

“Investment Committee”: A body appointed by Council to monitor the Town’s investment portfolio and investment activities.

“Investment Income”: Interest earned and dividends declared and paid.

“Medium or Long-Term Surplus Funds” means surplus funds that are

- (a) in a capital reserve fund, utility depreciation fund, special reserve fund or a surplus special purpose tax fund; **and**
- (b) in the reasonable opinion of the Town’s Chief Administrative Officer OR Director of Finance after consultation with the Investment Committee at or shortly after a fiscal year-end, not likely to be exhausted within 12 months in order to meet any operating or capital expenditures or liabilities for which the particular funds have been reserved;

“MGA”: Municipal Government Act of Nova Scotia

“Operating Reserve”: Monies set aside to be used in future years as a funding source for expected or potential operating expenditures. The primary funding source for the Operating Reserve shall be the transfer of annual operating fund surpluses, or portion thereof that will not result in the accumulated surplus in the operating fund being reduced to less than 10% of the current annual operating budget.

“Policy”: Investment Policy

“Reserve Fund”: Monies set aside pursuant to a decision of Council or regulatory requirement and recorded in a separate account(s) to be used in a future year as a funding source for expected or potential expenditures/projects. Currently established Reserve Funds of the Town of Annapolis Royal are: a) General Operating Reserve Fund, b) General Capital Reserve Fund, c) Gas Tax Reserve Fund, and d) Water Capital Reserve Fund.

“Short-Term surplus Funds” means surplus funds other than medium or long-term surplus funds.

“Surplus Funds” means funds beneficially owned and controlled by the Town of Annapolis Royal in excess of a cash/chequing account float used for day to day operations and in an amount deemed by the CAO and/or DoF in consultation with the Investment Committee will fulfill that purpose with no or only minimal reliance on external borrowings.

“Town”: The Town of Annapolis Royal

## **2. PURPOSE**

The purpose of this Policy is to establish standards for the investment of Surplus Funds of the Town of Annapolis Royal, except for:

- Funds held in trust or escrow to complete a transaction or settlement; or
- Funds under the lawful management and control of the Province of Nova Scotia or its designate.
- Funds held within Town Employee Pension/Retirement Plan accounts

## **3. ENABLING LEGISLATION**

The Town of Annapolis Royal is subject to the Municipal Government Act (MGA). This policy has been adopted pursuant to subsection 100 (1) (b) of that Act.

## **4. INVESTMENT COMMITTEE**

An Investment Committee shall be established by Council to monitor the Town’s investment portfolio and investment activities pursuant to this policy. The Committee shall consist of a minimum of at least three and not more than five members appointed by Council for terms of one to three years, and shall be comprised of the following:

- At least one and up to three members of Council
- Either or both of the CAO and DoF
- Up to two citizen representatives, deemed by Council to have qualifications in relation to finance and investment matters.

## **5. OBJECTIVES**

Decisions related to the Town’s investments shall be governed by the following objectives in order of importance:

- Conformance with federal, provincial and other legal requirements;
- Preservation of capital;
- Compliance with the goals of the Capital Reserve Fund or Operating Reserve Fund, assets, invested according to this policy;
- Meeting liquidity requirements with respect to the Reserve Funds being invested. Which shall be accomplished where possible by structuring investment maturities with anticipated cash demand, and has the ability to be readily converted to cash with minimal price impact if necessary to meet unanticipated requirements.
- Diversification to avoid incurring unreasonable risks regarding specific investment types or individual financial institutions; and

- Return on Investment, net of fees and expenses, that keeps ahead of inflation.

## **6. MANAGEMENT**

Council shall be responsible for:

- The approval of the Investment Policy;
- The creation of the Investment Committee and the appointment of its members; and
- The overall management of the Investment Portfolio.

The Investment Committee shall be responsible for:

- Implementation of the Investment Policy;
- Monitoring of the investments;
- Regular reporting to Council on investment performance;
- The achievement of the objectives stated above; and
- Developing recommendations to Council on matters concerning fund investments and changes to the Investment Policy.

As provided for at Section 11 below, the Investment Committee, with the approval of Council may seek proposals from professional investment advisors to manage some or all of the Investment fund assets. The successful advisor would be engaged to monitor investment markets and provide advice to the Investment Committee, in addition to assisting with provision of periodic portfolio reports, transaction processing, and other account maintenance functions.

The CAO or DoF with assistance from an investment advisor if applicable, shall be responsible for following direction of the Committee for investing funds in accordance with the Policy.

## **7. RISK PROFILE**

The Investment Committee shall recommend to Council an investment approach that takes account of the risk profile of the organization. Factors to consider in developing an acceptable risk level and investment approach shall include:

- The fiduciary responsibilities inherent in investing public funds;
- Current risk/reward characteristics of investment markets;
- The investment objectives and constraints for the reserve funds under investment including expected return on investment; and
- Liquidity requirements and purpose of the reserve fund.

The Investment Committee shall review the risk profile and investment approach annually and more frequently as needed based on changing market conditions. The Committee shall recommend to Council any changes required in either the risk profile or the investment

approach. The Committee shall follow Council's direction on the risk profile and investment approach until it has been changed by a subsequent resolution of Council.

## **8. PRUDENCE**

Investments shall be made with judgment and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. Neither the CAO, DoF or any member of the Investment Committee shall engage in personal or business activities, which would profit from or be affected by the carrying out of their responsibilities as investors of the Authority's funds.

## **9. INTERNAL CONTROLS**

A documented system of internal control shall be maintained for the purpose of ensuring compliance with the Policy and protecting the financial assets of the fund. The Town's auditors shall review this system on an annual basis and report on the same at the time of the presentation of the results of the audit to the Board.

## **10. INVESTMENT DIVERSIFICATION**

The Town's investment portfolio shall be managed in accordance with this policy and in a manner that minimizes risk and earns a market rate of return. The minimum standards, guidelines and criteria for various types of investment instruments are outlined in Appendices A, and B to this Policy, which can only be changed by resolution of Council

## **11. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS**

The Investment Committee, through the CAO or DoF, shall seek appropriate investment instruments in one of two ways:

1. By competitive quotations solicited from banking or other appropriate financial institutions for all investment instruments, or
2. Subject to Council's approval, the Investment Committee may seek proposals from professional investment advisors to manage some or all of the Investment fund funds. The successful advisor would be engaged to monitor investment markets and provide advice to the Investment Committee, in addition to assisting with provision of periodic portfolio reports, transaction processing, and other account maintenance functions.

A copy of this Policy shall be sent to all proponents seeking to invest or manage the Town's investment funds. When soliciting proposals for investments the Investment Committee shall follow the requirements of the Town's Procurement Policy.

The Committee shall provide the participating financial institutions and/or investment advisors with the following information:

- Funds available to invest;
- Investment term;
- Liquidity requirements;
- Time and date at which rates and investment proposals must be received;
- Any other criteria, consistent with this Policy and the Procurement Policy, which may govern the choice of investment proposal;

In addition to assessing the risk of individual investments, the Investment Committee shall make all reasonable efforts to assess the financial soundness of the firms providing quotations for specific investments, or for advisors proposing to manage the Authority's investment portfolio.

The Committee shall evaluate proposals from participating financial institutions and/or financial advisors and select the successful proponent(s) based on comparison of rates, a review of references, and the extent to which a proposal best meets the objectives and terms of this Policy and any other criteria the Committee provides to proponents in advance. Following the evaluation, the Committee shall recommend a preferred course of action to Town Council for consideration and resolution by Council. This evaluation process will be undertaken whenever recommended by the Investment Committee and/or approved by Council based on the needs of the Town.

## **12. SAFEKEEPING**

Except for those investments only available in bearer form, all investments shall be in the name of the Town of Annapolis Royal. For registered securities, the Town shall require receipt of documentation in the form of a certificate or a confirmation by a broker, investment dealer or banker that the documentation is in safekeeping. All investments not held in safekeeping by financial institutions shall be kept in the Town's safe or in a safety deposit box at the bank branch that serves the Town.

## **13. ACCOUNTING METHOD**

All investment instruments shall be recorded in the account for the Fund from which the monies were invested and accounted for and reported in accordance with the standards as outlined in the CPA Canada Public Sector Accounting (PSA) Handbook.

In accordance with requirements set out in Section 16 below, supplemental Management reports shall also be prepared on a quarterly basis.

## **14. INVESTMENT INCOME**

Investment income shall include interest earned and dividends declared paid. In accordance with Section 100(2) of the MGA, income arising from the investment of a fund is part of that fund unless otherwise provided by Council

**15. BORROWING FROM A RESERVE**

The Town, pursuant to Section 99 (5) of the MGA may borrow internally from a capital reserve fund by resolution of Council, if the resolution prescribes the terms of repayment, including interest, at a rate not less than the interest rate that the Town would pay to borrow the funds for a similar term from another source, such as the Municipal Finance Corporation.

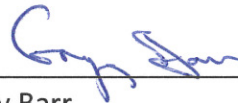
**16. REPORTING**

At least quarterly, the CAO or DoF shall forward fund statements to all members of the Investment Committee. At least semi-annually, the CAO or DoF, if applicable, with assistance from an Investment Advisor, shall prepare a report on investment return, investment activities, summary for the portfolio holdings at Book and current market values and any other pertinent information for review by the Investment Committee and subsequent submission to Council.

I certify that this is a true copy of the policy adopted by the Council of the Town of Annapolis Royal at a meeting duly called and held on the 17<sup>th</sup> day of October, 2016.



\_\_\_\_\_  
William MacDonald  
Mayor



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Gregory Barr  
Chief Administration Officer



## Appendix A Town of Annapolis Royal Portfolio Diversification Standards

The Town of Annapolis Royal's investment portfolio shall be diversified in accordance with the following limits. The Minimum Credit ratings set out below are based on the DBRS ratingscale. See Appendix C for summary explanations and correlations between the different scales used by DBRS, Moody's and Standard & Poor's which are the three main debt rating agencies.

Issuer	Portfolio Limits (1)				Individual Issuer Limit	Minimum Rating	
	Cash & Equivalents	Fixed Inc.	Equities	Overall		Short Term	Long Term
Government of Canada	100%	75%	N/A	100%	100%	N/A	N/A
Province of Nova Scotia	100%	75%	N/A	100%	100%	R-1 (mid)	A
Other Canadian Provinces	50%	25%	N/A	75%	25%	R-1 (mid)	A
Schedule I Banks	75%	25%	Note 3	100%	100%	R-1 (mid)	AA (Low)
Schedule II Banks insured by CDIC	25%	15%	Note 3	40%	10%	R-1 (low)	A
Town of Annapolis Royal Capital Loans per Sec. 15 above	0%	50%	N/A	50%	50%	N/A	N/A
Other Canadian Municipal Governments	0%	25%	N/A	25%	10%	N/A	A
Canadian Corporations (Bonds/Fixed Inc Instrument)	0%	25%	Note 3	25%	5%	N/A)	AA (Low)
Equities (subject to Note 3 below)	0%	0%	15%	15%	5%	R-1 (mid)	AA (Low)

### **OTHER CRITERIA**

**(1) Short/Long Term Allocation:**

- a) At least 25% of the overall portfolio shall be made up of Cash and Equivalents
- b) Not more than 75% of the overall portfolio shall consist of Fixed Income and Equity Investments

**(2) Currency:**

- a) All investments shall be denominated in Canadian dollars

**(3) Equities restriction:**

- a) In addition to being subject to an overall portfolio limit of 15% and the issuer limit of 5%, equity investments are restricted to shares of large cap diversified Canadian Corporations, and Chartered Banks that have Debt Ratings assigned by DBRS or an equivalent rating agency and that represent a minority allocation within investment pools approved by the Minister of Municipal Affairs



**Appendix B**  
**Town of Annapolis Royal**  
**Approved Financial Institutions**

Investments by or on behalf of the Town may be made in the following entities/instruments, subject always to the provisions of the within Investment Policy:

- the Government of Canada;
- the Province of Nova Scotia;
- the governments of other Provinces;
- Canadian municipalities or collective Canadian municipalities with a minimum credit rating of A (High);
- Chartered banks and trust companies with a credit rating of AA (Low) or better;
- Credit unions insured by the Nova Scotia Credit Union Deposit Insurance Corporation, up to insured amount;
- Deposits with chartered banks and Trust Companies with a long term credit rating of "A" or better, and a short term credit rating of "R1" or better and which covered by the Canadian Deposit Insurance Corporation, up to insured amount;
- Fixed Income Instruments issued by Canadian Corporations with a long term credit rating of AA (low) or better
- Regulated investment pools comprised of that meet the diversification requirements set out at Appendix A.
- Any other investments approved by the Minister of Municipal Affairs

## Appendix C Credit Rating System

Investments with a credit rating of BBB – or higher are considered to be investment grade whereas investments with credit ratings below BBB- are considered speculative (junk).

### Credit Rating Systems for Long Term Debt

Investment Quality	Moody's	Standard and Poor's	DBRS
Highest Quality	Aaa	AAA	AAA
Substantial Payment Capacity	Aa1	AA+	AA(High)
	Aa2	AA	AA(Middle)
	Aa3	AA-	AA(Low)
High Payment Capacity	A1	A+	A(High)
	A2	A	A(Middle)
	A3	A-	A(Low)
Adequate Payment Capacity	Baa1	BBB+	BBB(High)
	Baa2	BBB	BBB(Middle)
	Baa3	BBB-	BBB(Low)
Payment Capacity Vulnerable to Adverse Changes	Ba1	BB+	BB(High)
	Ba2	BB	BB(Middle)
	Ba3	BB-	BB(Low)
Payment Capacity Not Protected Against Adverse Changes	B1	B+	B(High)
	B2	B	B(Middle)
	B3	B-	) B(Low)
Substantial Default Risk	Caa1	CCC+	CCC(High)
	Caa2	CCC	CCC(Middle)
Very High Default Risk	Caa3	CCC-	CC(High)
	Ca	CC	CC(Middle)
		C	CCC(Low)
In Default	C	D	D

**Appendix C**  
**Credit Rating System (continued)**

Credit Rating Systems for Short Term Debt

Investment Quality	Moody's	Standard and Poor's	DBRS
Highest Quality	P-1	A-1	R-1(High)
Good Quality	P-2	A-2	R-1(Mid) R-1(Low)
Adequate Credit Quality	P-3	A-3	R-2(High) R-2(Mid) R-2(Low)
Payment Capacity Vulnerable to Adverse Changes	Not Prime	B-1 B-2 B-3	R-3
High Default Risk	Not Prime	C	R-4 R-5
Under Regulatory Supervision	Not Prime	R	-
In Default	Not Prime	D	D

**Certificate of Approval**

**“Investment Policy”,  
Town of Annapolis Royal**

This is to certify that, pursuant to section 100(1)(b) of the *Municipal Government Act*, the Investment Policy passed at a duly convened meeting of the Council of the Town of Annapolis Royal on the 17<sup>th</sup> day of October, 2016 is hereby approved.

DATED this 19<sup>th</sup> day of April, 2017.

  
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Honourable Zach Churchill  
Minister of Municipal Affairs