

**KENORA DISTRICT SERVICES BOARD
POLICY AND PROCEDURE**

TITLE: BANKING PROTOCOL - Investments	SECTION: FINANCIAL SERVICES
DATE: November 17, 2010	POLICY NO.: KDSB-FNS-I-06
APPROVED BY: Resolution No. 2010-130	REVISED:

POLICY STATEMENT

It is the policy of the Kenora District Services Board to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Board and conforming to all applicable law.

Surplus cash, reserve and reserve funds of the Board will be invested in a manner similar to those established for municipalities. The Municipal Act and related regulations shall provide guidance in determining investment protocols.

SCOPE

The policy as outlined applies to all future investments of all operating and reserve funds of the Kenora District Services Board.

OBJECTIVES

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

Credit Risk

The Board will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- limiting investments to the safest types of securities
- pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Board will do business
- diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest Rate Risk

The Board will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

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Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a security with declining credit rating may be sold early to minimize loss of principal
- a security swap would improve the quality, yield, or target duration in the portfolio
- liquidity needs of the portfolio require that the security be sold.

AUTHORITY

The legislative authority for the investment of public funds by the Kenora District Services Board is in accordance with the provision of the Municipal Act and related regulations.

Under S. 418 of the Municipal Act, 2001, the Board may combine and invest money held in the general fund and a reserve fund. Earnings from the combined investment shall be credited to the separate funds in proportion to the amount invested from those funds.

The Kenora District Services Board is not permitted to invest in any security that is expressed or payable in any currency other than Canadian dollars.

Investments made by the Kenora District Services Board are further restricted by the limitations and terms outlined in this policy.

STANDARDS OF CARE

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, 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.

Investment officers acting in accordance with written procedure and this investment policy are exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this policy.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Board.

Delegation of Authority

The Director of Finance has overall responsibility for the prudent investment of the Board's portfolio. Authority to manage and implement the investment program may be granted for all or a portion of the Board's overall investment portfolio, to an external investment Agent, to act as an Investment Manager on behalf of the Board, as determined through an independent and competitive bidding process. That Agent shall act in accordance with the established procedures and internal controls consistent with this investment policy. Those investments governed by the provisions of the "ONE – The Public Sector Group of Funds" agreement shall be deemed delegated to that Agent.

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Competitive Selection of Investment Instruments

The purchase and sale of securities shall be transacted through a competitive process with financial institutions approved by the Director of Finance. The Board will accept the offer that optimizes the investment objectives of the portfolio. A minimum of three quotations shall be obtained for each short-term transaction prior to placement and a reasonable number of quotations for each long-term transaction, considering the existing market conditions at the time of placement. Written records shall be retained of each transaction including the name of the institution solicited, rate quoted, description of the security, investment selected, as well as any other considerations that impacted the decision. If the highest yield security was not selected, an explanation describing the rationale shall be included in this record.

SAFEKEEPING & CUSTODY

All securities shall be held for safekeeping by a financial institution approved by the Board. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Kenora District Services Board.

The depository shall issue a safekeeping receipt to the Board listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Board, the book value of holdings and the market value as of month-end.

INTERNAL CONTROLS

The Director of Finance shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

SUITABLE AND AUTHORIZED INVESTMENTS

Investments issued or guaranteed by the following institutions will be permitted by this policy, as deemed eligible by Ontario Regulation 438/97 or as authorized by subsequent provincial regulations:

1. The Government of Canada.
2. Provincial Governments of Canada.
3. A municipality, school board or local board as defined in the *Municipal Affairs Act* or a conservation authority established under the *Conservation Authorities Act*.
4. Schedule I banks subject to a minimum DBRS rating of R-1 middle or AA. Schedule I banks are set out by Section 14 of the *Bank Act*.
5. Schedule II banks subject to a minimum DBRS rating of R-1 high or AAA. Schedule II banks are set out by Section 14 of the *Bank Act*.
6. Loan or trust corporations, registered under the *Loan and Trust Corporation Act* and subject to a minimum DBRS rating of R-1 middle or AA.
7. Credit unions or leagues to which the *Credit Unions and Caisses Populaires Act* applies, subject to a minimum DBRS rating of R-1 middle or AA.
8. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.
9. Joint Municipal Investment pools permitted under the *Municipal Act*.

INVESTMENT PARAMETERS

Term

No investment shall be made in a security with a term to maturity exceeding two years. A minimum of 30% of the portfolio must be invested in securities having a term under 90 days.

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Limit

Investments will be limited to issuers maintaining a minimum credit rating of 'R1 Low' by Dominion Bond Rating Service, or equivalent and the mix of investments will be limited to holdings in the portfolio as follows;

- A minimum of 20% "AAA" (R1 HIGH)
- A maximum of 70% "AA" (R1 MIDDLE)
- A maximum of 10% "A" (R1 LOW)

Type of Investment

The Board will place investments in those instruments permitted under the Municipal Act of Ontario, and more specifically only those issued or guaranteed by the following institutions or their agencies;

1. The Government of Canada
2. The Provinces of Canada
3. Ontario Municipal Governments
4. Schedule "1" and "2" Banks

The Board will be permitted to take advantage of investments offered by qualified investment brokerage houses, such as RBC Dominion Securities, Wood Gundy Inc., or Local Authority Services Limited and the CHUMS Financing Corporation acting together as the municipality's agent for investing in "ONE - The Public Sector Group of Funds", as circumstances dictate.

INTERNAL BORROWING RATE

The operating fund may borrow from the reserve funds to provide cash for operations and to finance capital work on a short term basis. For the most part the interest charged is going 'from one Board pocket to another', but given that some reserve funds are non-rated funded, there is a requirement to pay a fair rate to the reserve funds for 'investing' in the operating fund. A fair rate will be applied based on the interest paid on funds in the Board's services bank account.

REPORTING

The Director of Finance shall provide an annual investment report to the Board of Directors, together with the annual audited financial statements. The investment report shall include:

- a listing of individual securities held at the end of the reporting period by maturity date;
- a statement about the performance of the portfolio of investments of the Board during the period covered by the report;
- a description of the estimated proportion of the total investments of the Board that are invested in its own long-term and short-term securities to the total investment of the Board and a description of the change, if any, in that estimated proportion since the previous year's report;
- a statement by the Director of Finance as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Board;
- a record of the date of each security transaction, including a statement of the purchase and sale price of each security;
- such other information that the Board may require or that, in the opinion of the Director of Finance, should be included.

PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objectives of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.