



REPORT TO: Co-Chairs and Members of the Investment Committee

SUBJECT: Investment Policy

RECOMMENDATION

That this investment policy attached as Appendix A **BE APPROVED**.

PURPOSE

Establish new or revised policy, by-law or service standard.

BUSINESS IMPLICATIONS

The proposed investment policy changes are made with the intent to simplify the policy, increasing portfolio options and diversification opportunities, and potentially enhancing the portfolio yield.

There are no direct financial implications to this report; however, the investment policy sets guidance for Niagara Region's investment activity. Portfolio returns contribute to reserves and assist in reducing the reliance on the property taxpayer.

REPORT

The following revisions to the investment policy are as follows (proposed new investment policy incorporating changes is attached as Appendix A):

1. CSD 186-2011 established a change to the investment advisors/brokers used by the Niagara Region. This revision captures those changes in the policy.
2. CSD 187-2011 established an investment stabilization reserve. This revision includes how funds flow to and from the investment stabilization reserve and establish reporting requirements.
3. Aligns allowable investment options with the Municipal Act subject to maximum ownership limits (minimum ownership limits were removed, all other ownership limits remained constant except ownership of Niagara Region debentures was increased to 100% of the portfolio to allow greater flexibility of possible internal self

financing and the corporate investment category consolidated Tier 1 banks with all other corporate investments and set at the category limit of 50% of the total portfolio). This adjustment also removed all term to maturity limitations. This will allow the Niagara Region to better align investment terms to maturity with reserve life.

4. Removed the multiple quote provision recognizing its duplication to the daily pricing information provided to the Niagara Region by its investment advisors/brokers, and the complexity of quoting bonds held by one investment advisor/broker with another.
5. Reflect legislative changes with respect to trust funds. Trust funds are now required to be 100% insured by the Canadian Depository Insurance Corporation and as such are held in a Niagara Region chequing account. Interest is no longer attributed to trust funds as legislated.
6. As we do not invest other municipalities money this provision has been removed.
7. Language restricting the sale of investments was removed (previously restricted for liquidity needs, yield enhancement, credit quality, and portfolio term). This language was removed as it is already inherent throughout the investment policy and depending on interpretation has the potential to limit Niagara Region's ability to optimize investing along the yield curve.

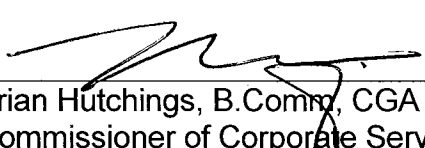
In accordance with the investment policy and Section 7 (2) (c) of the Ontario Regulation 438/97, legal advice from Niagara Region's legal council was obtained in developing these investment policy revisions.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

CSD 115-2011 Revisions to Investment Policy
CSD 186-2011 Investment Manager RFP and Review of Existing Relationships
CSD 187-2011 Investment Returns – Capital Gain Rationalization

Submitted by:

Approved by:



Brian Hutchings, B.Comm, CGA
Commissioner of Corporate Services/Treasurer



Mike Trojan
Chief Administrative Officer

This report was prepared by Bryan Boles, Director, Financial Management & Planning/Deputy Treasurer.

Attachment

SECTION General Administration	NAME OF POLICY INVESTMENT POLICY
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DEVELOPED BY: Financial Planning Services

APPROVED BY: Regional Council

DATE: July 28, 2011

EFFECTIVE DATE: March 22, 2012

REVISED DATE: February 17, 2012

POLICY STATEMENT

The purpose of this policy is to establish procedures and practices for an Investment Policy designed to maximize the use of funds held in Niagara Region accounts through a program of term investments.

SCOPE

This policy applies to the investment activities of Niagara Region funds and Trust funds.

Trust funds refer to funds entrusted with Niagara Region by residents of Niagara Region's Senior Citizens Homes where Niagara Region acts as trustee or as a joint trustee for funds.

AUTHORITY

The Municipal Act, 2001 (S.O. 2001, c. 25) provides in Section 418, the legislative authority for the Region to invest funds in accordance with certain prescribed rules. Section 420 permits the Region to enter into agreements to invest money jointly with other municipalities and prescribed bodies. The prescribed rules governing investment are contained in Ontario Regulations 77/97 and 438/97.

Trust Fund investments shall be made in accordance with the assigned responsibilities given to Niagara Region under the Trustees Act.

LEGAL ADVICE

In accordance with the requirements of section 7 (2) (c) of Ontario Regulation 438/97, it is confirmed that Niagara Region has obtained legal and financial advice in developing this Investment Policy and Niagara Region staff making investment decisions have the authority, where appropriate to consult legal and/or financial advisors with respect to particular investment decisions.

OBJECTIVES

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The primary objectives of the Investment Program, in priority order, shall be:

1. Adherence to Statutory Requirements

All investment activities shall be governed by applicable legislation, including primarily the Municipal Act and Trustee Act and their associated regulations as amended. Investments and rating agencies, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

2. Preservation of Principal

Safety of principal is of paramount importance. Investment shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavor to mitigate credit risk and interest rate risk as follows:

Credit Risk:

- Limiting investment to safer types of securities;
- Diversifying the investment portfolio so that potential losses on individual investments will be minimized; and
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which Niagara Region does business.

Interest Rate Risk:

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;
- Investing operating funds primarily in shorter-term securities or approved investment pools; and
- Diversifying longer-term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.

3. Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

4. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return, 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.

STANDARDS OF CARE

Prudence

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

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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 principal as well as the probable income to be derived.

Investment staff acting in accordance with this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market change.

Ethics and Conflict of Interest

Staff involved in the investment process shall refrain from personal business activity that could, or may reasonably be perceived to, conflict with the proper execution and management of the Investment Policy, or that could impair their ability to make impartial decisions. Such staff shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of Niagara Region.

Safekeeping and Custody

All investments shall be held for safekeeping in the name of the Regional Municipality of Niagara by financial institutions approved by Niagara Region. The depository shall issue a safekeeping receipt to the Region for each investment transaction that lists all pertinent information. The depository shall also provide monthly reports for each account, indicating all investment activity, book value of holdings, market value as of month-end and income earned by the investments.

GUIDELINES

The primary financial goals of the cash management program will be to ensure cash availability to meet daily cash needs and to maximize returns from investments in accordance with guidelines on risk, liquidity, safety and authority.

A) Authority to Invest

Investments made by Niagara Region may be settled electronically by wire. Specific Investments require approval by one of the following approved staff in ascending order :

- Commissioner of Corporate Services / Treasurer;
- Director Financial Management and Planning / Deputy Treasurer/
- Director Legal Services;
- Director Information Services; and
- A delegate of the above mention staff.

B) Permitted Investments & Term to Maturity

Permitted investments and their term to maturity, if any, are as outlined in Ontario Regulation 438/97, to the Municipal Act, as amended from time to time.

In order to ensure maximum security and proper diversification in Niagara Region's portfolio the maximum exposure for each category of investment and each individual investment within the category as a percentage of the total portfolio is as follows:

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Category Type	Category Limit (Max)	Individual Organization Limit (Max)
Federal and federal guaranteed	100%	100%
Provincial and provincial guaranteed	75%	25%
Niagara Region	100%	100%
Municipal and municipal guaranteed	25%	5%
Other government types not identified in this table (i.e. School Boards, Universities)	5%	1%
Corporate	50%	15%

Should the rating of any investment be downgraded below the minimum rating, it shall be sold **within 180 days** after the day the investment rating was downgraded.

C) Capital Gains

If an investment is sold resulting in a capital gain, the present value amount of capital gains less the present value of any benefit earned from reinvesting the proceeds at a higher yield shall be transferred to an investment income stabilization reserve, unless the calculation produces a value of zero or negative in which case no investment income stabilization transaction is to occur.

The income stabilization reserve will be allocated to future periods on a straight-line basis over the otherwise remaining investment term to maturity of the investment that was sold to produce the capital gain.

D) Reporting

On a quarterly basis, staff shall provide a report to the Investment Committee which shall include the following:

- Listing of individual investments held at the end of the reporting period;
- Percentage of the total portfolio by investment category and individual organization;
- Information on the transactions made in Niagara Region debentures;
- Description of the proportion, and the change in proportion, of the total investments of Niagara Region that are invested in its own debentures to total investments contained in the portfolio;
- A statement about the performance of the investment portfolio during the period covered by the report;
- A statement about the fund flow to and from the investment income stabilization reserve; and
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by Niagara Region.

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E) Performance Standards

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

F) Investment Advisors/Brokers

Authorized staff may utilize the services of the following preferred investment advisors/brokers to manage investment in accordance with this investment policy:

- BMO Nesbitt Burns
- CIBC Wood Gundy
- CIBC World Markets
- National Bank Financial
- ONE - the Public Sector Group of Funds
- Royal Bank
- RBC Capital Markets
- RBC Dominion Securities
- Scotia Capital
- Dundee Wealth Management Securities Inc.
- Toronto Dominion Bank

G) Trust Funds – Residents and Funds of the Region’s Long-Term Care Facilities

All trust funds are to be grouped and maintained in a Niagara Region chequing account of the financial institution that provides Niagara Region banking services. All trust funds are to be insured through the Canada Deposit Insurance Corporation as legislated. No interest earned will be allocated to trust funds as legislated.