



THE CORPORATION OF THE TOWNSHIP OF WILMOT

INVESTMENT POLICY



The Corporation of the Township of Wilmot

Investment Policy

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Section I –Policy Statement, Scope and Objective

Policy Statement

It is the policy of the Township of Wilmot to invest municipal funds in a manner which will provide the highest return with maximum security while meeting the daily cash flow demands of the Township and conforming to all applicable legislation.

Scope

This policy applies to investment activities of the Operating, Capital, Trust, Reserves and Reserve Funds.

Objective

Investment Guidelines are provided in this policy to ensure compliance with provisions of the Municipal Act, 2001 as such may be amended from time to time and any prescribed regulations there under and the significant goals of the investment policy are as follows in order of importance:

- Security of deposit is the prime consideration when in investing any funds under the care, custody and control of the Township;
- The obtaining of a diversified portfolio of investments is required to ensure cash availability to meet daily cash needs, and
- The maximization of returns from term investments must be in accordance with guidelines on safety, liquidity, risk and authority, in order to provide general revenues to the Township and reduce amounts otherwise required from taxation by the Township.



Section II – Authority

Authority

The Municipal Act, 2001 (S.O. 2001 c.25) provides in Section 418, the legislative authority for the Township to invest surplus funds in accordance with certain prescribed rules. Section 419 permits the Township to invest money through an agent.

The prescribed rules governing investment are contained in Ontario Regulations 77/97 and 399/02.

When investing is feasible, it shall be done only with the prior approval of the Director of Finance. A signed copy of the Investment Purchase Authorization form, attached as Schedule I to this policy, is required to be completed, prior to placing an investment, and the form is to be signed by the authorized signing authorities for the Township.



Section III – Standard of Care

Prudence

The Director of Finance acting in accordance with written procedure and the statement of investment policy and goals and 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 of the sale of securities are carried out in accordance with the term of this Policy.

Ethics and Conflict of Interest

The Director of Finance shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair his/her ability to make important investment decisions.

Delegation and Authority

The Director of Finance is responsible for the prudent investment of the Township's portfolio. In the absence of the Director of Finance, authority to manage and implement the investment program is granted to the Manager of Accounting. The Manager of Accounting shall act in accordance with established procedures and internal controls consistent with this investment policy. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of control to regulate the activities of subordinate officials. Those investments governed by the provisions of the "ONE –The Public Sector Group of Funds" agreement shall be deemed delegated to that agent.

Internal Control

The Director of Finance or delegate shall develop and maintain all necessary operating procedures for effective control and management of investment function and reasonable assurance that the Township's investments are properly managed and adequately protected.



Section IV – Authorized Investments and Parameters

Authorized Investments

The Director of Finance will maintain a list of financial institutions authorized to provide investment services. No deposit shall be made except as established by Provincial laws. All financial institutions for investment transactions shall acknowledge to the Director of Finance indicating that they have read the Township's investment policy. An annual review of the financial condition and registration of qualified financial institutions will be conducted by the Director of Finance.

Investment Parameters

The Township shall diversify its investments to the best of its ability based on the type of funds invested and cash flow needs of those funds. Diversification may be established from time to time by the Director of Finance.



Section V – Reporting

The Director of Finance shall provide annual investment reports that detail the status of the current investment portfolio. The investment report shall contain:

- A statement about the performance of the portfolio of investments of the Township;
- 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 Township; and
- Such other information that the Council may require or that, in the opinion of the Director of Finance, should be included



Section VI – Custody & Safekeeping

All security transactions entered into by the Township shall be conducted on a delivery-versus payment basis. Securities may be held by a third party custodian designated by the Director of Finance and evidenced by safekeeping receipts.



Section VII – Responsibility

The Director of Finance

- Enters into arrangements with banks, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.
- Executes and signs documents on behalf of the Township and performs all other related acts in the day-to –day operation of the investment and cash management program.
- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Township’s investments are properly managed and adequately protected.
- Ensures adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other acts of fraud with respect to the Township’s financial assets.



The Corporation of the Township of Wilmot



Schedule I

Investment Purchase Authorization Form

| Name of Financial Institution | Type of Investment | Principal Amount | Interest Rate / yield | Maturity date | Maturity Amount |
|-------------------------------|--------------------|------------------|-----------------------|---------------|-----------------|
| | | | | | |
| | | | | | |
| | | | | | |

Prepared by: _____

Date: _____

Authorized by: _____

Date: _____



Appendix A

Glossary of Terms

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Capital Markets –The markets for medium to long-term investments, as distinct from the money market, which is for shorter-term investments.

CHUMS – (Colleges, Hospitals, Universities and Municipalities). The entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest. CHUMS Financing Corporation is a subsidiary of the Municipal Finance Officers' Association of Ontario recognized in the Ontario Regulations.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.



Appendix A (cont'd)

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

Credit Risk - The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount - The amount by which the par value of a security exceeds the price paid for the security.

Diversification - A process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration - A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Government Securities - An obligation of the federal government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the securities market. See "Treasury Bills, Notes, and Bonds."



Appendix A (cont'd)

Interest Rate - See "Coupon Rate."

Interest Rate Risk - The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

There should be separation of transaction authority from accounting and record keeping. The person who authorizes or performs the transaction should separate from the people who record or otherwise account for the transaction.

Custodial safekeeping - Securities purchased from any bank or dealer shall be placed with an independent third party for custodial safekeeping.

Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.



Appendix A (cont'd)

Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Local Authority Services Limited (LAS) – Entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest. LAS is a subsidiary of the Association of Municipalities of Ontario recognized in the Ontario Regulations.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Risk - The risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value - Current market price of a security.

Maturity - The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity."

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, and federal funds).

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.



Appendix A (cont'd)

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

ONE Bond Funds – is an investment pool in which local governments can invest and is administered by LAS and CHUMS Financing Corporation (ONE Fund). The ONE Bond of Fund may invest in government and government-backed securities, Schedule I and Schedule II banks, municipal debentures, asset-backed securities and commercial paper.

ONE Money Market Funds - is an investment pool in which local governments can invest and is administered by LAS and CHUMS Financing Corporation (ONE Fund). The ONE Money Market Fund is a pool of funds that can include government and government-backed securities, Schedule I and Schedule II banks, short-term municipal securities, asset-backed securities and commercial paper. The weighted average duration of the portfolio may not exceed 365 days and all securities must have a credit rating of "R1" or better. Lower rated and unrated securities are not permitted.

Par - Face value or principal value of a bond, typically \$1,000 per bond.

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.



Appendix A (cont'd)

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. $(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$

Treasury Bills - Short-term government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Volatility - A degree of fluctuation in the price and valuation of securities.



Appendix A (cont'd)

"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

Weighted Average Maturity (WAM) - The average maturity of all the securities that comprise a portfolio.

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-to-maturity (YTM) - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity