

### Proposed Amendments – Corporate Investment Policy

#### ISSUE

The Corporate Investment Policy (Policy) is comprised of Council Policy No. C12-002, Investment Committee; C12-003, Securities Handling; and C12-009, Portfolio Management. Amendments are required to align member titles with corporate structure changes, to help improve the overall diversification of the City of Saskatoon's (City) holdings in each fund, and to align the Portfolio Management Policy with current portfolio requirements.

#### RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council:

1. That the proposed amendments to Council Policy Nos. C12-002, C12-003 and C12-0019 as outlined in the report of the Chief Financial Officer dated October 12, 2021 be approved; and
2. That the City Clerk be requested to update Council Policy Nos. C12-002, C12-003 and C12-009 as outlined in this report.

#### BACKGROUND

The purpose of the Policy is to provide specific guidelines regarding the portfolio management of the City's investment assets. The Policy ensures that City portfolios are invested to primarily achieve the preservation of capital, the maintenance of liquidity sufficient to meet ongoing financial requirements, and to maximize return on investment. The Policy also ensures the orderly retirement of outstanding City Sinking Fund debentures at their maturity dates through portfolio management activities specific to the Sinking Fund.

#### DISCUSSION/ANALYSIS

##### Proposed Policy Amendments

The Investment Committee is recommending amendments to align the Policy with current corporate structure to provide the City with better diversification across bond issuers and thereby reducing risk to the City. Also, changes are required to the Sinking Fund term structure to allow for longer term bonds to be purchased to ensure a sufficient interest rate is achieved.

The proposed amendments to Council Policy Nos. C12-002 and C12-003 update member titles to align with corporate structure and are outlined in Appendices 1 and 2 respectively.

The proposed amendments to Council Policy No. C12-009 are summarized as follows and outlined in Appendix 3:

- Member titles have been updated to align with current corporate structure.

- Section 2 subsection 2.6: The definition of Total Portfolio has been added to the definitions and represents the total of both the bond portfolio and money market portfolio other than pension funds, boards, and commissions. This will enable the City to better track exposure limits to issuing entities and help minimize risk of being over invested in a single issuer. Any reference to the bond portfolio has been replaced with total portfolio throughout the policy.
- Section 3.3 subsection (a)(i): The investment limits have been updated to remove the 50% limit of investments in the Province of Saskatchewan and to further update the limits on ratings. This revision recommends the following limits be adopted for each of the following ratings:
  - R-1 High: 100% of the money market portfolio; and
  - R-1 Middle: 25% of the money market portfolio.

Investments rated R-1 High are of the highest credit quality for short term or money market investments. The Investment Committee recommends allowing for 100% exposure of securities with this rating in the money market portfolio as these investments are considered unlikely to be affected by future events according to Dominion Bond Rating Services.

- Section 3.3 subsection (a)(iii): The Investment Committee recommends adding this section to combine the money market securities and bonds issued by a single entity to represent the City's overall exposure to that entity as a percentage of the total portfolio. This will help to reduce the likelihood of the City being over exposed to a single issuer and help promote diversification across the money market and bond portfolios combined.
- Section 3.3 subsection (b)(i): The Province of Saskatchewan (Province) and the City were removed to place restrictions on the purchase of securities issued from these entities. The Investment Committee recommends treating the Province and the City as other provincial and municipal entities in terms of overall restriction limits. Since the City is already impacted by the economies of Saskatoon and Saskatchewan, it would not be prudent to also have the investment portfolio 100% invested in either of these issuers. This will promote diversification in both the City's investment portfolio and revenues overall.
- Section 3.3 subsection (b)(ii): The requirement to hold a minimum of 30% of the portfolio in securities offered by or unconditionally guaranteed by the Government of Canada and/or the Province and/or the City of Saskatoon was removed, which will improve diversification within the City's investment portfolio by allowing the City to invest more in other issuing entities.

- Section 3.3 subsection (b)(ii): Removed the exclusion of the Province of Saskatchewan and gave investments in this issuer a maximum of 20% of the total portfolio. Since the City is impacted by Saskatchewan's economy, it would not be prudent to allow for 100% investment in Province of Saskatchewan securities. This change will help to promote diversification in both the City's investment portfolio and revenues.
- Section 3.3 subsection (b)(iii): Removed the exclusion of the City and gave investments in this issuer a maximum of 10% of the total portfolio. Since the City is impacted by Saskatoon's economy, it would not be prudent to allow for 100% investment in the City's external debt. This change will help to promote diversification in both the City's investment portfolio and revenues. The exception will be internal loans held by the City. Only external debt issued by the City will have a 10% maximum of the total portfolio value, similar to other municipalities.
- Section 3.3 subsection (b)(vi): Included money market securities in the aggregate of securities held by or unconditionally guaranteed by an individual corporation in the total portfolio, as this will reduce the exposure to the City of over investing in a single issuer and promote diversification.
- Section 3.4 subsection (b)(i): The limit on the term structure of the Sinking Fund was increased from 10 years to 30 years. With the Sinking Fund maturing in 2043, it is necessary to invest beyond 10 years, especially if the City is to meet the 3.5% targeted yield on investments. This target for return on investments is not possible with a 10-year term limit and currently, the Sinking Fund is not in compliance as a result.
- Section 3.5: The liquidity requirement for the General Account short-term portfolio was updated to be no less than 5% and shall not exceed 50% of the total portfolio. Since the City's total portfolio value has increased over the years, 75% of the total value is no longer a reasonable target. Therefore, the Investment Committee recommends the range be changed to 5%-50%, which will give the City approximately a \$20 million - \$225 million range based on current portfolio value for liquidity purposes which will be sufficient.

### **FINANCIAL IMPLICATIONS**

The recommended policy revisions are expected to reduce the City's risk of over investing in a single issuing entity and to help maximize the growth of the Sinking Fund for maturity in 2043.

### **OTHER IMPLICATIONS**

There are no privacy, legal, social, or environmental implications.

### **NEXT STEPS**

Pending City Council approval, Policy Nos. C12-002, C12-003 and C12-009 will be amended.

**APPENDICES**

1. Proposed Amendments – Council Policy No. C12-002, Investment Committee
2. Proposed Amendments – Council Policy No. C12-003, Securities Handling
3. Proposed Amendments – Council Policy No. C12-009, Portfolio Management

**REPORT APPROVAL**

Written by: Spencer Janzen, Investment Manager  
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Approved by: Jeff Jorgenson, City Manager

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