

## Proposed Amendments – Council Policy No. C12-009, Portfolio Management

# CITY OF SASKATOON COUNCIL POLICY

NUMBER

*C12-009*

<b>POLICY TITLE</b> <i>Portfolio Management</i>	<b>ADOPTED BY:</b> <i>City Council</i>	<b>EFFECTIVE DATE</b> <i>October 22, 2001</i>
		<b>UPDATED TO</b> <i>March 7, 2011</i>
<b>ORIGIN/AUTHORITY</b> <i>Administration and Finance Report No. 14-2001; City Council Order of Business - Matters Requiring Public Notice - Item 8a) - May 10, 2010 and Item 4a) – March 7, 2011</i>	<b>CITY FILE NO.</b> <i>CK. 1790-0</i>	<b>PAGE NUMBER</b> <i>1 of 10</i>

## 1. PURPOSE

The purpose of this policy is to provide specific guidelines regarding the portfolio management of the City of Saskatoon's (City) investment assets. This policy ensures that City portfolios are invested to primarily achieve the preservation of capital, the maintenance of liquidity sufficient to meet on-going financial requirements, and to maximize return on investment. A secondary purpose of this policy is to ensure the orderly retirement of outstanding City of Saskatoon sinking fund debentures at their maturity dates through portfolio management activities specific to the Sinking Fund.

## 2. DEFINITIONS

- 2.1 Bonds - evidence of indebtedness carrying a fixed term to maturity of one year or longer, but not including mortgages.
- 2.2 Money Market Securities - evidence of indebtedness carrying a fixed term to maturity of 364 days or less.
- 2.3 City Portfolios - refers to the investment portfolios managed by the City Treasurer, and include:
- a) General Account
  - b) Sinking Fund
  - c) Cemetery Perpetual Care Fund
  - d) Transit Vehicles Replacement Reserve
  - e) Public Library Capital Expansion Reserve
  - f) Public Library Equipment Replacement Reserve
  - g) Group Insurance Trust Fund

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- 2.4 Bond Portfolio - represents all bonds held within City portfolios other than the pension funds, boards and commissions.
- 2.5 Money Market Portfolio - represents all money market securities held within City portfolios other than the pension funds, boards and commissions.
- 2.6 **Total Portfolio** – represents the total of both the bond portfolio and the money market portfolio other than pension funds, boards and commissions.
- 2.76 “Prudent Person Principle” - a “prudent person” must act in all matters regarding investments with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- 2.87 Bond Rating Service - a corporation whose primary business mandate is to analyze the credit-worthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt. Debt ratings refer to the ratings issued by Dominion Bond Rating Service (DBRS) (~~Standard & Poor's~~ **S&P Global**, Moody's Investor Services).
- 2.98 Rating Definitions - (rating categories as per DBRS):
- a) Money Market Ratings
    - i) R-1 High - highest credit quality, unquestioned ability to repay current liabilities as they fall due.
    - ii) R-1 Middle - superior credit quality, above average strength in key areas of consideration for debt protection.
    - iii) R-1 Low - satisfactory credit quality, considerations for debt repayment still respectable.
  - b) Bond Ratings
    - i) AAA - bonds rated AAA are of the highest credit quality, exceptionally strong protection for the timely payment of principal and interest; establishment of a creditable track record of superior performance.

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- ii) AA - bonds rated AA are of superior credit quality and protection of interest and principal is considered high; they differ from bonds rated AAA only to a small degree.
- iii) A - bonds rated A are of satisfactory credit quality as protection of interest and principal is still substantial; the degree of strength is less than with AA rated entities.

### 3. POLICY

3.1 Investment of all City investment assets, with the exception of pension funds, boards, and commissions, are subject to the legislative and regulatory restraints under municipal and trustee legislation by the Province of Saskatchewan.

3.2 Approved Investments - the following securities are approved for purchase:

a) Money Market Securities

- i) Obligations of the Government of Canada or of a crown corporation guaranteed as to payment of principal and interest by the Government of Canada.
- ii) Obligations of any of the following issuers provided such issuer is assigned a credit rating by DBRS of not lower than R-1 Low, or equivalent rating assigned by a recognized bond rating service:
  - (a) A Province of Canada or of a provincial crown corporation guaranteed as to payment of principal and interest by a province;
  - (b) A municipality or city in Canada;
  - (c) A chartered bank, credit union, or trust company;
  - (d) A Canadian corporation.

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b) Bonds

- i) Obligations of the Government of Canada, or of an agency of the Government of Canada which carries the guarantee of the government;
- ii) Obligations of a Province of Canada or of a provincial crown corporation carrying the guarantee of its province, provided that the obligations to be purchased are assigned a credit rating of “A” or higher from a recognized bond rating service;
- iii) Obligations of a municipal government (excluding the Cities of Saskatoon and Regina), school unit or school district in Saskatchewan, or in debentures issued under *The Union Hospital Act*;
- iv) Obligations of other Canadian municipalities (including the Cities of Regina and Saskatoon) or their associated school boards, provided that the obligations to be purchased are assigned a credit rating of “A “ or higher from a recognized bond rating service;
- v) Obligations of a Canadian corporation, provided that the obligations to be purchased are assigned a credit rating of “A” or higher from a recognized bond rating service; and
- vi) In cases where recognized bond rating services do not agree on a credit rating, eligibility for investment purposes will be determined by the following:
  - (a) if two recognized bond rating services rate a security, use the lower credit rating to determine eligibility;
  - (b) if three recognized bond rating services rate security, use the most common credit rating to determine eligibility;
  - (c) if all three recognized bond rating services disagree on a credit rating, use the middle rating to determine eligibility.

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c) Other Investments

i) Investment in the Equity Building Program (EBP) which specifically refers to a housing assistance program formed through the partnership between the City of Saskatoon and Affinity Credit Union. The terms and conditions of the EPB investment are as follows:

- a) the maximum amount of investment in the EPB shall not exceed \$3,000,000.00;
- b) the investment shall remain in effect for the full duration of the program;
- c) the investment shall earn a five-year rate of return based on the qualifying five-year mortgage rate less 1.75%; the investment rate shall be reviewed and reset on an annual basis for new applicants to the EBP; and
- d) the Affordable Housing Reserve, an existing reserve approved by City Council, shall guarantee any default of monthly principal and interest payments accruing to the EBP investment.

3.3 Investment Limitations - all securities approved in this policy are subject to City policy, statutory regulations, and the “prudent person” principle.

a) Money Market Securities

i) Obligations of issuers qualified under Section 3, Subsection 3.2 a ii) are subject to the following restrictions, on a per individual issuer basis:

<u>Rating</u>	<u>Investment Limit</u>
Government of Canada or agency of the Government of Canada	100% of the money market portfolio
<del>Province of Saskatchewan</del>	<del>50% of the money market portfolio</del>

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R-1 High **20100%** of the money market portfolio

R-1 Middle **125%** of the money market portfolio

R-1 Low 10% of the money market portfolio.

ii) Short term notes issued by Canadian corporations (excluding bankers' acceptances) shall not exceed 60% of the money market portfolio.

iii) **The aggregate of money market securities and bonds issued by a single entity shall not exceed 5% for Corporate Issuers, 10% for municipalities, and 20% for provincial issuers of the total portfolio value.**

iiiv) In the event the rating of a money market security is downgraded below the minimum acceptable credit rating [Section 3, Subsection 3.2 a) ii)] or exceeds the percentage limits [Section 3, Subsection 3.3 a) i)] as outlined in this policy, the City Treasurer shall sell the investment, during a reasonable period of time, to mitigate the negative impact of the money market investment.

b) Bonds

i) There shall be no restrictions on the purchase of securities offered by or unconditionally guaranteed by the Government of Canada, ~~Province of Saskatchewan, and the City of Saskatoon.~~

~~ii) A minimum of 30% of the bond portfolio must be invested or shall be comprised of securities offered by or unconditionally guaranteed by the Government of Canada and/or the Province of Saskatchewan and/or the City of Saskatoon.~~

iii) The aggregate of securities offered by or unconditionally guaranteed by an individual province (~~excluding the Province of Saskatchewan~~) shall not exceed 20% of the **bond total** portfolio.

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- iii) The aggregate of securities offered by or unconditionally guaranteed by an individual municipality (excluding **internal loans held by** the City of Saskatoon) shall not exceed 10% of the **bond total** portfolio.
- iv) Obligations of a municipal government (excluding the Cities of Saskatoon and Regina), school unit or school district in Saskatchewan, or in debentures issued under *The Union Hospital Act* may be purchased to a maximum of \$500,000 for each issuing municipality, school unit or school district; provided that the total of such holdings does not exceed 10% of the **bond total** portfolio.
- vi) The aggregate of municipal securities held (excluding **internal loans held by** the City of Saskatoon) shall not exceed 40% of the **bond total** portfolio.
- vii) The aggregate of **money market securities and bonds** offered by or unconditionally guaranteed by an individual corporation shall not exceed 5% of the **bond total** portfolio.
- viii) The aggregate of corporate securities held shall not exceed 25% of the **bond total** portfolio.
- ixviii) Obligations of a Canadian corporation, which are assigned a credit rating of "A", shall not exceed 12.5% of the **bond total** portfolio.
- ix) In the process of bond trading, it may be advantageous to accept book losses on the sale of existing bond holdings. It is permissible to accept book losses in the bond portfolio subject to the following restrictions:
  - (a) Capital losses, net of offsetting capital gains, shall not exceed 0.5% of the book value of the bond portfolio in any one year; and
  - (b) Where the capital loss is realized as part of a trade to increase yield, the loss must be recoverable through increased yield in not more than half the term to maturity of the bond to be purchased.

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- xi) In the event the rating of a bond is downgraded below the minimum acceptable credit rating [Section 3, Subsection 3.2 b)] or exceeds the percentage limits [Section 3, Subsection 3.3 b)] as outlined in this policy, the City Treasurer shall sell the investment, during a reasonable period of time, to mitigate the negative impact of the bond.

## 3.4 Term Structure

The investment portfolios will be structured with the objective of attaining a rate of return throughout budget and economic cycles commensurate with the City's investment risk constraints and the cash flow parameters specific to each portfolio.

- a) General Account Bond Portfolio - The term structure of bonds held in the General Account shall be subject to the following criteria:
  - i) The term structure of each security held in the portfolio shall not exceed ten (10) years;
  - ii) The weighted average term to maturity of the portfolio shall not exceed six (6) years; and
  - iii) A maximum of 20% of the authorized portfolio limit shall be placed in securities maturing in the same calendar year.
- b) Sinking Fund Bond Portfolio - The term structure of bonds held in the Sinking Fund shall be subject to the following criteria:
  - i) The term structure of each security held in the portfolio shall not exceed ~~ten (10)~~ thirty (30) years; and
  - ii) The maturity term of Sinking Fund investments will recognize the cash flow requirements specific to the Sinking Fund debentures outstanding.



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- c) Cemetery Perpetual Care Fund Bond Portfolio - The term structure of bonds held in the Cemetery Perpetual Care Fund shall be subject to the following criteria:
  - i) The term structure of each security held in the portfolio shall not exceed thirty (30) years; and
  - ii) The weighted average term to maturity of the portfolio shall not exceed fifteen (15) years.
- d) Other Bond Portfolios - The term structure of bonds held in other civic reserves or funds shall be subject to the following criteria:
  - i) The term structure of each security held in the portfolio shall not exceed five (5) years;
  - ii) The weighted average term to maturity of the portfolio shall not exceed three (3) years; and
  - iii) Investments shall consider the cash flow parameters specific to each civic reserve or fund.

### 3.5 Liquidity

To ensure that there are sufficient funds available to offset the corporation's daily cash flow requirements, the General Account short-term portfolio shall not be less than **15%** nor shall it exceed **750%** of the short-term and long-term General Account portfolios combined.

### 4. RESPONSIBILITIES

4.1 General Manager, Corporate Services~~Chief Financial Officer~~ - is responsible for recommending policy revisions as may be periodically appropriate.

4.2 Investment Committee - is responsible for the following:

- a) Reviewing and updating this policy as may be required subject to City Council's concurrence;
- b) Approving and monitoring investment strategies developed for all civic portfolios; and

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- c) Ensuring compliance with the provisions of this policy.

4.3 City Treasurer - is responsible for the following:

- a) Developing and implementing investment strategies for each specific portfolio;
- b) Providing compliance reports as directed by the Investment Committee; and
- c) Preparing and distributing the ~~City Treasurer's~~ **Annual** Report on Investments.