- ADDENDUM -

- Corporate Administration, Finance & Emergency Services Committee - Council Chambers

- December 5, 2011 -
4:00 p.m.

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Delegations:

CAFES 53 **CANADA-EU COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT**

Delegations:
- James Gordon

Correspondence:
- Terry O'Connor, Guelph & District Labour Council
- Stephen Rodd
- Robin Bennett and Liz Dennis
- Dave Sills, President, Guelph Civic League

<u>CONSENT AGENDA</u>

CAFES 40 INVESTMENT POLICY REVIEW

Copy of report with all attachments.

Trade Agreement – European Union Resolution

WHEREAS the Canadian government is close to concluding negotiations with the European Union (EU) on a Comprehensive Economic and Trade Agreement (CETA), with participation from provinces and territories; and

WHEREAS the Municipality of Guelph recognizes the importance of trade to local, provincial and national economies but also the impact that trade agreements can have on the powers of local governments; and

WHEREAS in the CETA, Canada has exchanged an initial procurement offer with the EU (listing sub-federal entities that will be bound by the rules of procurement chapter) that may include the Municipality of Guelph and that would explicitly ties the Municipality of Guelph to the terms and conditions of an international trade agreement; and

WHEREAS the EU is insisting on full access to procurement by municipalities, school boards, universities, hospitals, utilities and other provincial agencies, which could significantly reduce the freedom of these bodies to hire or source locally on public contracts, or to use public spending as a tool for economic development, environmental protection and support for local farmers and small businesses; and

WHEREAS procurement rules in the CETA combined with investment protections related to transit, water, electricity and other public services delivered locally may lock in privatization and make it prohibitively expensive to apply new regulations, to re-municipalize services, or create new municipal programs; and

WHEREAS the Municipality of Guelph already has an open and fair procurement policy, and that it is not the international norm for municipal governments to be covered by procurement agreements such as the one proposed in the CETA; and

WHEREAS disputes by private firms against local policy decisions could be taken before private trade tribunals that lack transparency and have the authority to impose fines;

THEREFORE be it resolved that Council requests:

- That the province exclude the Municipality of Guelph from the Canada-EU CETA, and that it otherwise protect the powers of municipalities, hospitals, school boards, utilities, universities and other sub-federal agencies to use public procurement, services and investment as tools to create local jobs, protect the environment, and support local development; and that
- The province disclose its initial procurement, services and investment offers to the EU, explain the impacts CETA would have on municipal governance, and give M.U.S.H. sector entities the freedom to decide whether or not they will be bound by the procurement, investment and regulatory rules in the agreement; and that
- This resolution be sent to the Provincial Municipal Association and the Federation of Canadian Municipalities, the Ontario Hospital Association, the Ontario University Association and the Ontario School Board Association for consideration and circulation.

Submitted by

Guelph and District Labour Council

Janice Folk-Dawson, President

Terry O'Connor, Treasurer

From: Stephen and Jenny Rodd
Sent: December 5, 2011 3:24 AM
To: Mayors Office
Subject: Letter from Councillor Piper

The CETA PLAN AND PUBLIC POLICIES AND WELL-BEING

The letter, concerning the possible loss of a vast array of Canadian public policies, over urban land use, health, environment, services, etc. is terrifying to me, as an economist educated at the London School of Economics, and MIT with a particular interest in public policies.

I am convinced, from my studies in the western economies, that people care about these arenas of policy controls and are wiling to pay for them. This is related to actions at every level of government. However, this is not only about money, and not only goods and services in the private sectors.

The theory of income has for many decades included both money or cash income but also "real" income of all sorts of public actions. This is all about our lives and our choices in goods and services affecting out lives. It is a matter of expenditures of our good school systems, health systems, parks, street systems, waste management, resource use and all manner of goods and services production. It touches on the possibilities of public policy for everything from child care to life for senior citizens. It raises the spectre of loss of our way of life and society.

Production for public or private purposes is always driven by the pursuit of "profit", however defined. This nest of treaties would appear to be caught up in the plan of CETA. I am frightened not only by theoretical concepts that are contained in the plan, but by the practical implementation which might well follow in train. Please do not engage in furthering CETA without full revelation and discussion of the possible implications of this ideology. CEYA would appear, realistically, to open a door to full loss of control to a beast motivated by the business goal of "profit". Profit on a set of business accounts cannot possibly contain all that is important to Canadian lives and resources.

Concepts of Utopia have always been a Pandora's box, the contents of which are invisible until fully opened. Let us be part of the inspection.

Stephen Rodd

Dear Committee Members,

In support of the Guelph Civic League, we urge the City of Guelph follow the lead of 16 other Canadian municipalities and demand that the province exempt Guelph from the Canada-EU CETA in order to protect local democracy and local businesses.

Best regards,

Robin Bennett
Liz Dennis
Guelph

Hello Mayor and Councillors,

As you likely know, the Canadian government is close to concluding negotiations with the European Union (EU) on a Comprehensive Economic and Trade Agreement (CETA). Canada has exchanged an initial procurement offer with the EU (listing sub-federal entities that will be bound by the rules of the procurement chapter) that will almost certainly include Guelph and explicitly tie Guelph to the terms and conditions of this international trade agreement.

The EU is insisting on full access to procurement by municipalities, school boards, universities, hospitals, utilities and other provincial agencies, which could significantly reduce the freedom of these bodies to hire or source locally on public contracts, or to use public spending as a tool for economic development, environmental protection and support for local farmers and small businesses. Procurement rules in the CETA combined with investment protections related to transit, water, electricity and other public services delivered locally may lock in privatization and make it prohibitively expensive to apply new regulations, to re-municipalize services, or create new municipal programs.

A clear example of the impact of CETA is that, under CETA, Ontario's Green Energy Act manufacturing requirement that 60% (for solar) and 50% (for wind) must be done in-province would *not be permitted*. This mean the loss of local industry and local jobs. See the Shrybman report for more details:
http://www.civicgovernance.ca/files/uploads/FINAL-Shrybman_CETA_report.pdf

The Guelph Civic League urges the City of Guelph follow the lead of 16 other Canadian municipalities and demand that the province exempt Guelph from the Canada-EU CETA in order to protect local democracy and local businesses (Toronto is among the municipalities now considering exemption). We hope councillors on the CAFES committee will vote in support of the CETA motion on Monday as a first step towards this goal.

On another front, GCL has conducted an informal poll regarding downtown building heights over the past month on the GCL blog (guelphcivicleague.blogspot.com). We asked the question, "What should the maximum number of stories be for buildings downtown?". Responses were received from 70 blog visitors (only one vote per person is permitted). Of this 70, 52% voted for 6 stories, 21% voted for 12 stories, 7% voted for 15 stories, and 18% voted for 18 stories.

All told, the majority of responses indicated a desire for a low-rise approach to increasing downtown density, and 80% of responses indicated that downtown buildings should be limited to 15 stories or less.

Sincerely,

Dave Sills, President
Guelph Civic League

COMMITTEE REPORT

TO	**Corporate Administration, Finance & Emergency Services Committee**
SERVICE AREA	Finance
DATE	December 5, 2011
SUBJECT	**Investment Policy Review**
REPORT NUMBER	FIN-11-58

SUMMARY

Purpose of Report: To present amendments to the current City investment policy for approval. The current City investment policy is restrictive due to the complexity of the policy. The following key issues have been identified:

- In the current market of low interest rates, certain limitations in credit ratings and terms have limited the City's flexibility to invest in Provincial bonds, Municipal debentures and bank guaranteed investments. Changes have been proposed to permit a wider range of investment options to improve returns without incurring significant additional risk.

- Management of the short and long term portfolios separately can be complex when maximum limitations and terms conflict. In order to simplify management of the portfolio, changes have been recommended.

- Changes to wording throughout the policy which is currently inconsistent from the Bank of Canada Act and Ontario Regulation 438/97 wording. The amended policy also provides additional clarification relating to approval requirements and Asset Backed Securities..

Committee Action: Recommend approval of the amended Investment Policy by Council.

RECOMMENDATION

THAT the City investment policy, Appendix 1, be approved as amended.

BACKGROUND

The City's investment policy has undergone a comprehensive review in consultation with our Investment dealers. Proposed changes to the existing policy, regarding term and credit risk have been recommended to permit a wider range of investment options and to improve returns while maintaining policy goals. All of the recommended changes comply with requirements and limitations set out in Ontario Regulation 438/97 of the *Municipal Act* which defines permitted investments.

Cash management activities and the income resulting from the investment of idle funds play an integral part in the revenue sources available to the City. Maximum use of available funds is important for prudent fiscal management and to assist in funding capital reserves and reducing the taxpayer's burden.

REPORT

Investment Policy Review

Ontario Regulation 438/97 requires a Council approved investment policy and goals. The City of Guelph's investment policy has undergone a comprehensive review.

All of the recommended changes comply with requirements and limitations contained in the *Municipal Act*.

The following changes to the existing policy have been recommended to address the above identified issues:

Issue I

In the current market of low interest rates, certain limitations in credit ratings and terms have limited the City's flexibility to invest in Provincial bonds, Municipal debentures and bank guaranteed investments. The following changes have been proposed to align with other municipal investment policies and permit a wider range of investment options to improve returns without incurring significant additional risk.

Clarification of permitted investments

- Identified all the permitted investments in O.R. 438/97 and defined investment limitations and term maximums for each permitted asset. These investments have been added to Schedule 1 of the Investment Policy to allow for greater clarity.

Term modifications

- A number of institutions will have the maximum term limits extended. The increased term for these institutions will increase flexibility with minimal additional risk. All applicable investments have a secondary market should liquidity be required earlier. The following modifications to long-term investments (LT) have been made:
    - o Increase the maximum term for AA rated Provincial and Provincial Guarantees to 20 years from 15 years.
    - o Increase the maximum term for municipal products rated AA low or higher to 10 years from 5 years
    - o Add the term limitation for A low rated to 5 years.
    - o Increase the maximum terms for Schedule I Banks to 10 years from 5 years.
    - o Increase the overall weighted average of Long term investments to 10 years from 7 years.

- Modify the term requirements of short-term (ST) investments. Modify the requirement of a maximum weighted average term to 365 days or one year from 91 days. This is being proposed for the following reasons:
    - o Investments may be purchased with cashable and callable dates resulting in liquid ST investments. For example, a cashable 1 year GIC may be cashed as early as 30 days.
    - o By increasing the maximum term, investments can be made for longer periods which will increase the rate of return available.
    - o To ensure liquidity will meet cash flow requirements, combine bank balances and ST investments to determine the measurement of compliance.

- Remove the requirement for a portion of the Long Term (LT) portfolio to be AAA rated. The current investment policy requires 50% of the LT portfolio to be AAA rated. This is very difficult to achieve as the majority of AAA offered investments are Federal which have very low rates. There are very few provincial and municipal products with AAA rating and financial institutions are all below AAA..

Credit Rating and Limit Modifications

- The following modifications to the credit rating limits have been identified to increase the flexibility of the overall investment portfolio while maintaining diversification and flexibility with minimal additional risk. Additional maximum limits have been identified based on credit ratings within each section to ensure diversification within the sections as well. The section limitations can be viewed on Schedule 1. The following aggregate limitations have been modified:

- Increase the maximum percentage of aggregate investments allowed in provincial and provincial guarantees to 75% of the aggregate portfolio from 50% in AAA for LT and 90% for R1 High ST. Currently only AAA rated provinces are permitted to the 50% maximum. Most of the Provinces, including Ontario are currently rated AA, and provide a higher return than long term government of Canada investments. Therefore the rating limits have been modified to allow 75% of the aggregate portfolio to include R1 mid or AA low rated investments. The only Provincial investments currently rated AAA are the Province of Alberta and the Province of British Columbia and these investments are not always available.
- Modify the credit rating limitations and maximum percentage of investments for municipal securities with a minimum A rating and 25% term limit for long term investments to A low rating and 50% of the total short term and long term portfolio.
- The maximum percentage of aggregate investments for Financial Institutions Schedule 1 Banks to 75% from 50% for LT and 90% for ST.

Issue II

- Management of the two portfolios can be complex when maximum limitations and terms conflict. In order to simplify management of the portfolio, changes have been recommended that will increase the flexibility of the portfolio to improve returns without incurring significant additional risk.
  - The current investment policy requires 50% of the portfolio to be held in ST investments and LT investments respectively. This restriction has resulted in the inability to invest in LT opportunities that would carry a higher rate of return as the LT percentage is currently at its maximum. As the total value of the investment portfolio increases the requirement to maintain a split portfolio reduces.
  - To ensure the investment portfolio remains sufficiently liquid to meet operating and cash flow requirements, the standard measurement of combining the total of ST investments and bank balances will be used in conjunction with the City developed Cash flow model which is reviewed prior to each investment.

Issue III

- Replace Financial Institution bank reference from “Tier” to “Schedule” to match *Bank of Canada Act* and Ontario Regulation 438/97 wording.
- Replace reference to Director of Finance with Treasurer or designate.
- Amend approval requirements for investment transaction authorization from two approvals (Treasurer and Deputy Treasurer) to one approval (Treasurer or Deputy Treasurer). It has been difficult to obtain both signatures within a suitable amount of time
- Requirement to use the ONE Fund performance for benchmarking purposes has been removed

- Asset-backed securities (ABS) be restricted to those that are administered by a Canadian Bank. No rated ABS debt in Canada has suffered any losses to date as they:
    - Have multiple ratings by credit rating agencies. (e.g. RBC 4 ratings, National Bank 2 ratings); and
    - Contain traditional assets (Canadian only). Examples of traditional assets are auto loans/leases, residential & commercial mortgages, credit cards, trade receivables, and equipment loans/leases of which each series is backed by a distinct asset pool.

  Inclusion of all permitted investments in Schedule 1 has been completed to provide a summary document of the investment policy.

CORPORATE STRATEGIC PLAN

Goal 5 - A community-focused responsive and accountable government.

5.5 - A high credit rating and strong financial position.

FINANCIAL IMPLICATIONS

Investment income reduces financing required from taxation for City activities and also assists with increasing the City's reserve funds to fund future capital needs.

The modifications recommended to the investment policy will allow existing investments in municipal debentures, which are currently providing strong returns to be in compliance with the City's investment policy, and allow more flexibility to invest in provincial and municipal bonds and longer term bank paper to increase returns, within prudent risk levels.

DEPARTMENTAL CONSULTATION

Not applicable

COMMUNICATIONS

The Finance department continues to work with Corporate Communications to provide greater access to more user-friendly information about City financial information. This work is part of a broader program to provide the public with better information about the City's overall financial position.

ATTACHMENTS

Appendix 1: Recommended Investment Policy
Schedule 1: Authorized Investment and Limitations
Schedule 2: Ontario Regulation 438/97, Eligible Investments and Related Financial Agreements

“original signed by Vicki McLaughlin”

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CORPORATE POLICY AND PROCEDURE

POLICY	**INVESTMENT POLICY**
CATEGORY	**CORPORATE**
AUTHORITY	**FINANCE**
RELATED POLICES	
APPROVED BY	**COUNCIL**
EFFECTIVE DATE	
REVISION DATE	**As needed**

POLICY STATEMENT

The City of Guelph strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements.

SCOPE

The investment policy applies to all financial assets of the City of Guelph held within the following:

- General Funds;
- Reserve Funds and
- Funds held in Trust with the City of Guelph.

OBJECTIVES

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

A. Adherence to statutory requirements;
B. Preservation of capital;
C. Maintaining liquidity and
D. Earning a competitive rate of return.

A) Adherence to Statutory Requirements:

All investment activities shall be governed by the *Municipal Act* as amended. Investments, unless limited further by Council, will be those deemed eligible under

Ontario Regulation 438/97 or as authorized by subsequent provincial regulations. Relevant excerpts of the regulation are attached to this policy as Schedule 2.

B) Preservation of Capital:

Safety of principal is an important objective of the investment program. Investments of the City shall be undertaken in a manner that protects and preserves the capital of the portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavour to mitigate credit risk and interest rate risk as follows:

Credit Risk:

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

In determining the composition of the portfolio, it will be recognised that the combination of several different investments ("diversification") is likely to provide a more acceptable level of risk exposure than having a single investment. As a result, some reasonable diversification of the portfolio will be undertaken. To attain this goal, the City will undertake to establish limitations with respect to credit and investment size.

Investment Quality

All investments shall have a minimum rating within the limitations as set out in Schedule 2. In addition investments are further restricted by credit rating limitations as outlined in this policy.

1) The City shall not invest in a security offered by any Borrower (except City/Municipal Notes) with a bond rating lower than 'A' as established by Dominion Bond Rating Services (DBRS) or their equivalent ratings provided by Moody's Investor Services (Moody's), Fitch Ratings (Fitch), or Standard & Poors (S&P).

2) The City shall not invest in securities with a Commercial Paper/ST debt rating lower than 'R-1' Mid (except Financial Institutions in Schedule I with ratings no lower than R1 Low) as established by Dominion Bond Rating Services (DBRS) or their equivalent ratings provided by Moody's Investor Services (Moody's), or Standard & Poors (S&P)

Publications of the relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed by the Treasurer with the appropriate action taken to ensure the City's portfolio remains within the limitations and terms outlined in this policy.

Investment Diversification

Institutional exposure limitations have been established to reflect the relative safety of various issuers and the maximum desired exposure to various levels of government and financial institutions.

Diversification will include sector limitations outlined in Schedule 1 to this policy. All eligible investments (excluding cash held in the bank accounts of the City of Guelph) must adhere to the institutional sector limits as established under Schedule 1.

C) 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. A portion of the portfolio may be placed in eligible investment pools which offer liquidity for short-term funds.

D) Earning a Competitive Rate of Return:

The Rate of Return on the investment portfolio will be optimized to the extent possible given the investment objectives of legality, safety of principal and the need to maintain adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Normally longer term investments offer higher yields than shorter term investments. Investments will be made to obtain the most advantageous yields while at the same time ensuring that funds can be made available to meet expected cash requirements. The composition of the portfolio, including its term and class of investments will be adjusted within the guidelines of this policy to take advantage of market opportunities which arise to enhance the rate of return on the portfolio.

Performance Standards/Benchmarking

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout the budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City. The market yields should be higher than the rate given by the City's general bank account.

ELIGIBLE INVESTMENTS

The City will invest only in securities permitted under the *Municipal Act* and Ontario Regulation 438/97, as amended from time to time.

Only Canadian Dollar investments are authorized for the purposes of this Policy within the limitations set out in Schedule 2 and as further limited by Schedule 1.

AUTHORIZED INVESTMENT DEALERS

The City may invest funds through the investment arm of various Schedule I banks. The following Schedule I banks are authorized to be the City's primary investment dealers:

1. RBC Royal Bank
2. BMO Bank of Montreal
3. CIBC
4. TD Bank Financial Group
5. Scotiabank (The Bank of Nova Scotia)
6. National Bank of Canada

STANDARD OF CARE

A) Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, following the prudent person principle of investment management and considering the probable safety of their principal as well as the probable income to be derived. Consideration will be given to obtaining independent legal and/or financial advice in circumstances in which the municipality believes additional expertise is warranted.

Investment staff acting in accordance with written procedure, this investment policy 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 or the sale of securities are carried out in accordance with the terms of this policy.

B) Ethics and Conflicts of Interest

Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment policy, 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 City.

C) Delegation of Authority
The investment policy and any amendments thereto must be adopted by City Council. This policy will delegate to the Treasurer the authority to make investments which comply with this policy, pursuant to section 418(5) of the Act. The Treasurer has overall responsibility for the prudent investment of the City's portfolio.

Investment Procedures and Internal Control

The Treasurer will be responsible for the development and maintenance of suitable procedures to provide for the effective control and management of investments. The procedures include the following requirements:

- The Treasurer or designate is authorized to obtain a reasonable number of quotations with the approved institutions on any individual investment transaction prior to the decision to invest in a transaction on behalf of the City of Guelph;

- All investments are confirmed by signature of the individual making the investment and ratified by signatures of either the Treasurer or the Deputy Treasurer;

- All cash management transactions are recorded and interest earnings distributed to the various funds, as the case may be, in accordance with City policies and generally accepted accounting principles for Ontario municipalities;

- Periodic audits are carried out to determine whether or not the investment guidelines provided by this policy are being followed. An external audit is carried out to evaluate the adequacy of internal controls and

- Provision is made to obtain insurance coverage at all times to guard against any losses that may occur due to misappropriation, theft or other acts of fraud by employees.

Reporting to Council

In accordance with legislation, submit to Council at least twice per year, a report on the financial position, investment performance, market value and compliance status of the portfolio. The investment report will include reporting requirements as outlined in Schedule 2 and should include:

- A summary, by amount and percentage, of the composition of the investment portfolio;
- Monthly investment balances;
- Year end balance; and
- Such other information that City Council may require or that, in the opinion of the Treasurer, should be included.

D) Safekeeping and Custody
All investments shall be held for safekeeping in the name of the City of Guelph by financial institutions approved by the City. The depository shall issue a safekeeping receipt to the City for each investment transaction, listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will provide reports which list all investment activity, the book value of holdings, the market value as of month-end and income earned by the investments.

COLLATERALIZATION

In order to mitigate the City's exposure to credit risk, the City will only invest in Bank Sponsored asset-backed securities and repurchase agreements having satisfactory collateralization in place. The level of collateralization for these investments must be at least 100% of their market value.

DEFINITIONS

Asset Backed Securities: fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

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

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.

Liquidity: a measure of an asset's convertibility to cash.

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.

Master Repurchase Agreement: an agreement between a dealer and a client which substantiates that the securities the client receives under a repurchase agreement are the property of the client in the event of a dealer failure.

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".

ONE – The Public Sector Group of Funds ("ONE Fund"): A local government investment pool in which Ontario municipalities may invest. ONE is operated by Local Authorities Service Limited (a wholly owned subsidiary of the Association of Municipalities of Ontario), together with CHUMS Financing Corporation (a wholly owned subsidiary of the Municipal Finance Officers' Association of Ontario).

Portfolio: collection of securities held by an investor.

Prudent Person Rule: an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

a) The standard of prudence to be used by investment managers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

b) The "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.

c) The "prudent person" must diversify the investments of the Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly not prudent to do so.

Qualifying Assets: financial assets, either fixed or revolving, that, by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

Rate of Return: the yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.

Repurchase Agreement: an agreement between a dealer and client to sell a security and to repurchase that security, with interest, at a later date.

Safekeeping: holding of assets (e.g., securities) by a financial institution.

Securities: include bonds debentures, treasury bills, commercial paper, repurchase agreements, promissory notes and asset-backed securities.

Sinking Fund: money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Special Purpose Entity: a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

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

AUTHORIZED INVESTMENTS AND LIMITATIONS

Sector [1]		Minimum DBRS[2] Credit Rating – Short Term	Minimum DBRS[2] Credit Rating – Long Term	Maximum Term (years)	Maximum Credit Exposure – Individual Limit by Credit Rating	Maximum Credit Exposure – Portfolio Limit (max)
Federal	Government of Canada[3]	n/a	n/a	20	100%	100%
	Federal Guarantees	n/a	n/a	20	100%	50%
Provincial	Provincial Governments & Provincial Guarantees[4]	R1 high	AAA	20	75%	75%
		R1 mid	AA low	20	75%	
		R1 low	A low	7	50%	
Country other than Canada			AA low	1	5%	5%
Municipal	City of Guelph					50%
	Other Municipalities & OSIFA		AAA	10	50%	50%
			AA low		40%	
			A low	5	10%	10%
School Boards			AA low	2	10%	20%
University in Ontario, Board of Governors of a College						
Local Board or Conservation Authority						
Board of a Public Hospital						
Non-profit Housing Corporation, Local Housing Corp.						
Financial Institutions	Schedule I Banks	R-1 low	AA low	10	75%	75%
	Schedule II & III Banks	R-1 mid	AA low	5	25%	25%
	Loan/Trust Corporations, Credit Unions	R-1 high	AA low	1	5%	5%
Supranational Financial Institution or Supranational Government Organization			AAA	5	25%	25%
Asset Backed Securities[5]		R-1 high	AAA	5	25%	25%
Corporate Debt			AAA	5	25%	25%
			AA low	> 5	15%	
Commercial Paper		R-1 mid		1	15%	15%
Joint Municipal Investment Pools					15%	15%
Portfolio Term To Maturity				ST – 1 LT - 10		

Note (1) Per definitions and restrictions contained in O.R. 438/97

Note (2) Equivalent ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are acceptable as well.

Note (3) Minimum 5% of the portfolio must be in Government of Canada or Federal Government Guarantees.

Note (4) Minimum 10% of the portfolio must be in Provincial Governments or Provincial Guarantees, rated AA (low) or higher.

Note (5) Canadian Bank administered with a minimum of 2 credit ratings.

NOTE: Complete and up to date version is available on www.e-laws.gov.on.ca

Municipal Act, 2001

ONTARIO REGULATION 438/97

ELIGIBLE INVESTMENTS AND RELATED FINANCIAL AGREEMENTS

Last amendment: O. Reg. 52/11.

1. A municipality does not have the power to invest under section 418 of the Act in a security other than a security prescribed under this Regulation.

2. The following are prescribed, for the purposes of subsection 418 (1) of the Act, as securities that a municipality may invest in:

1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
   - i. Canada or a province or territory of Canada,
   - ii. an agency of Canada or a province or territory of Canada,
   - iii. a country other than Canada,
   - iv. a municipality in Canada including the municipality making the investment,
   - iv.1 the Ontario Strategic Infrastructure Financing Authority,
   - v. a school board or similar entity in Canada,
   - v.1 a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,
   - v.2 the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*,
   - vi. a local board as defined in the *Municipal Affairs Act* (but not including a school board or a municipality) or a conservation authority established under the *Conservation Authorities Act*,
   - vi.1 a board of a public hospital within the meaning of the *Public Hospitals Act*,
   - vi.2 a non-profit housing corporation incorporated under section 13 of the *Housing Development Act*,
   - vi.3 a local housing corporation as defined in section 2 of the *Social Housing Reform Act, 2000*, or
   - vii. the Municipal Finance Authority of British Columbia.
2. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if,
   - i. the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, as defined in the *Trustee Act*, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under a federal, provincial or territorial statute, and
   - ii. the payments referred to in subparagraph i are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.
3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
   - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
   - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*, or
   - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.

3.1 Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid more than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
   - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
   - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*,
   - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.

4.Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an institution listed in paragraph 3.

5. Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by,

   i. a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000,*

   ii. the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002,* or

   iii. a board of a public hospital within the meaning of the *Public Hospitals Act*.

6. Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.

6.1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.

7. Asset-backed securities, as defined in subsection 50 (1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the *Loan and Trust Corporations Act*.

7.1 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.

7.2 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.

8. Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

8.1 Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

9. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.

10. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.

11. Securities of a corporation, other than those described in paragraph 10, if the municipality first acquires the securities as a gift in a will and the gift is not made for a charitable purpose.

12. Shares of a corporation if,

   i. the corporation has a debt payable to the municipality,

   ii. under a court order, the corporation has received protection from its creditors,

   iii. the acquisition of the shares in lieu of the debt is authorized by the court order, and

   iv. the treasurer of the municipality is of the opinion that the debt will be uncollectable by the municipality unless the debt is converted to shares under the court order.

2.1 A security is prescribed for the purposes of subsection 418 (1) of the Act as a security that a municipality may invest in if,

(a) the municipality invested in the security before January 12, 2009; and

(b) the terms of the municipality's continued investment in the security have been changed pursuant to the Plan Implementation Order of the Ontario Superior Court of Justice dated January 12, 2009 (Court file number 08-CL-7440) and titled "In the matter of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended and in the matter of a plan of compromise and arrangement involving Metcalfe & Mansfield Alternative Investments II Corp. et al".

3. (1) A municipality shall not invest in a security under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 or paragraph 3.1 or 4 of section 2 unless the bond, debenture, promissory note or evidence of indebtedness is rated,

(b) by Dominion Bond Rating Service Limited as "AA(low)" or higher;

(b.1) by Fitch Ratings as "AA-" or higher;

(c) by Moody's Investors Services Inc. as "Aa3" or higher; or

(d) by Standard and Poor's as "AA-" or higher.

(2.1) A municipality shall not invest in a security under paragraph 6.1 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as “AAA”;

(b) by Fitch Ratings as “AAA”;

(c) by Moody’s Investors Services Inc. as “Aaa”; or

(d) by Standard and Poor’s as “AAA”.

(3) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures more than one year from the date of issue unless the security is rated,

(a) by Dominion Bond Rating Service Limited as “AAA”;

(a.1) by Fitch Ratings as “AAA”;

(b) by Moody’s Investors Services Inc. as “Aaa”; or

(c) by Standard and Poor’s as “AAA”.

(4) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures one year or less from the date of issue unless the security is rated,

(a) by Dominion Bond Rating Service Limited as “R-1(high)”;

(a.1) by Fitch Ratings as “F1+”;

(b) by Moody’s Investors Services Inc. as “Prime-1”; or

(c) by Standard and Poor’s as “A-1+”.

(4.1) A municipality shall not invest in a security under paragraph 7.1 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as “AA(low)” or higher;

(b) by Fitch Ratings as “AA-” or higher;

(c) by Moody’s Investors Services Inc. as “Aa3” or higher; or

(d) by Standard and Poor’s as “AA-” or higher.

(4.2) A municipality shall not invest in a security under paragraph 7.2 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as “A” or higher;

(b) by Fitch Ratings as “A” or higher;

(c) by Moody’s Investors Services Inc. as “A2”; or

(d) by Standard and Poor’s as “A”.

(5) A municipality shall not invest in a security under paragraph 8 of section 2 unless the promissory note or commercial paper is rated,

(a) by Dominion Bond Rating Service Limited as “R-1(mid)” or higher;

(a.1) by Fitch Ratings as “F1+”;

(b) by Moody’s Investors Services Inc. as “Prime-1”; or

(c) by Standard and Poor’s as “A-1+”.

(6) If an investment made under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2 or paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2 falls below the standard required by this section, the municipality shall sell the investment within 180 days after the day the investment falls below the standard.

(6.1) Subsection (6) does not apply with respect to an investment made by a municipality under paragraph 7 of section 2 on a day before the day this subsection comes into force.

(7) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made and as long as it continues, the investment ranks, at a minimum, concurrently and equally in respect of payment of principal and interest with all unsecured debt of the corporation.

(8) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made, the total amount of the municipality’s investment in debt of any corporation incorporated under section 142 of the *Electricity Act, 1998* that would result after the proposed investment is made does not exceed the total amount of investment in debt, including any interest accrued on such debt, of the municipality in such a corporation that existed on the day before the day the proposed investment is to be made.

Schedule 2 cont.

(9) Any investment made under paragraph 9 of section 2, including any refinancing, renewal or replacement thereof, may not be held for longer than a total of 10 years from the date such investment is made.

(10) Subsections (7), (8) and (9) do not prevent a municipality from holding or disposing of a security described in paragraph 9 of section 2 issued by a corporation incorporated under section 142 of the *Electricity Act, 1998*, if the municipality acquired the security through a transfer by-law or otherwise under that Act.

(11) A municipality shall sell an investment described in paragraph 10 or 11 of section 2 within 90 days after ownership of the investment vests in the municipality.

4. (1) A municipality shall not invest more then 25 per cent of the total amount in all sinking and retirement funds in respect of debentures of the municipality, as estimated by its treasurer on the date of the investment, in short-term debt issued or guaranteed by the municipality.

(2) In this section,

"short-term debt" means any debt, the terms of which provide that the principal and interest of the debt shall be fully repaid no later than 364 days after the debt is incurred.

4.1 (1) A municipality shall not invest in a security under paragraph 7 of section 2 or in a promissory note or commercial paper under paragraph 8 of section 2 unless, on the date that the investment is made,

(a) the municipality itself is rated, or all of the municipality's long-term debt obligations are rated,

(i) by Dominion Bond Rating Service Limited as "AA(low)" or higher,

(i.1) by Fitch Ratings as "AA-" or higher,

(ii) by Moody's Investors Services Inc. as "Aa3" or higher, or

(iii) by Standard and Poor's as "AA–" or higher; or

(b) the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the municipality's agent for the investment in that security, promissory note or commercial paper.

(1.1) A municipality shall not invest in a security under paragraph 7.1 or 8.1 of section 2 unless, on the date the investment is made, the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing corporation to act together as the municipality's agent for the investment in the security.

(2) The investment made under clause (1) (b) or described in subsection (1.1), as the case may be, must be made in the public sector group of funds of the Local Authority Services Limited and the CHUMS Financing Corporation with,

(a) another municipality;

(b) a public hospital;

(c) a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*;

(d) the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*;

(d.1) a foundation established by a college mentioned in clause (d) whose purposes include receiving and maintaining a fund or funds for the benefit of the college;

(e) a school board; or

(f) any agent of an institution listed in clauses (a) to (d.1).

5. A municipality shall not invest in a security issued or guaranteed by a school board or similar entity unless,

(a) the money raised by issuing the security is to be used for school purposes; and

6. (1) A municipality shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.

7. (1) Before a municipality invests in a security prescribed under this Regulation, the council of the municipality shall, if it has not already done so, adopt a statement of the municipality's investment policies and goals.

(2) In preparing the statement of the municipality's investment policies and goals under subsection (1), the council of the municipality shall consider,

(a) the municipality's risk tolerance and the preservation of its capital;

(b) the municipality's need for a diversified portfolio of investments; and

(c) obtaining legal advice and financial advice with respect to the proposed investments.

(4) In preparing the statement of the municipality's investment policies and goals under subsection (1) for investments made under paragraph 9 of section 2, the council of the municipality shall consider its plans for the investment and how the proposed investment would affect the interest of municipal taxpayers.

Schedule 2 cont.

8. (1) If a municipality has an investment in a security prescribed under this Regulation, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council, each year or more frequently as specified by the council, an investment report.

(2) The investment report referred to in subsection (1) shall contain,

(a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;

(b) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;

(c) a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;

(d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and

(e) such other information that the council may require or that, in the opinion of the treasurer, should be included.

(2.1) The investment report referred to in subsection (1) shall contain a statement by the treasurer as to whether any of the following investments fall below the standard required for that investment during the period covered by the report:

1. An investment described in subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2.
2. An investment described in paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2.
3. An investment described in subsection 9 (1).

(3) Upon disposition of any investment made under paragraph 9 of section 2, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council a report detailing the proposed use of funds realized in the disposition.

8.1 If an investment made by the municipality is, in the treasurer's opinion, not consistent with the investment policies and goals adopted by the municipality, the treasurer shall report the inconsistency to the council of the municipality within 30 days after becoming aware of it.