
DEPARTMENT: CORPORATE SERVICES

TITLE: **Investment Policy**

Minutes reference date: 29 March 2016

1. POLICY STATEMENT

The Policy of the Town of Amherst is to invest excess and reserve funds in a way that preserves capital, ensures liquidity, and provides for investment income. All investment activity will conform to legislative requirements of the Province of Nova Scotia and this Investment Policy will account for the cash flow requirements of the Town of Amherst.

This Investment Policy applies to activities of the Town of Amherst with regard to investing cash as it becomes available.

2. PURPOSE

The purpose of this policy is to guide the investment of the Town of Amherst assets by:

- establishing a clear understanding of the investment goals and objectives of the Town of Amherst;
- offering guidance and limitations for the investment of municipal assets; and
- ensuring the integrity of the investment management process when investing public funds.

This policy governs the investment of surplus funds of the Town of Amherst, while funds held in trust or escrow to complete a transaction or settlement are subject to the *Municipal Government Act*.

3. AUTHORITY

Section 100(1) of the *Municipal Government Act* provides the Town of Amherst with the authority to invest funds in a sinking fund, capital reserve fund, utility depreciation fund, or other fund of the municipality. The Investment Policy has been adopted by the Town of Amherst pursuant to Section 100(1)(b) of the *Municipal Government Act*.

4. OBJECTIVES

The four objectives of the Investment Policy, stated in order of importance, are as follows:

a) Legality

The *Municipal Government Act*, 1998, c.18, s.100, and the Investment Policy shall govern all of the Town of Amherst investments.

Investment activity will be conducted in accordance with all Provincial legislation and regulations and in accordance with the Investment Policy.

b) Preservation of Capital

The investment of funds on behalf of the Town of Amherst shall be conducted in a manner that preserves capital in the portfolio. This policy prohibits the purchase of investments which are determined to be inconsistent with the objective of preserving and protecting capital.

When assessing the suitability of an investment, greater emphasis shall be placed on the preservation of capital than on liquidity or investment returns.

c) Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and eliminate the need for temporary borrowing. This shall be accomplished where possible by structuring investment maturities with anticipated cash demands, and has the ability to readily converted to cash with minimal price impact to meet unanticipated cash requirements.

d) Competitive Return on Investments

The investment portfolio shall be designed with the objective of attaining a competitive and reasonable market rate of return in the context of financial market conditions prevailing in Canada. Maintaining a return on investment is secondary in importance to legality, preservation of capital, and liquidity requirements.

5. STANDARDS OF CARE

a) Prudence

Investments shall be made with judgement and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence exercises in the management of their personal investments, considering the necessity of capital safety and liquidity.

The standard to be used by investment officials shall be the “prudent person” as outlined in the *Trustee Act, PNS R.S., C497*, and shall be applied in the context of managing the portfolio.

b) Ethics and Conflict of Interest

A conflict of interest occurs when an individual has a private or personal interest sufficient to appear to influence the objective exercise of their official duties as an investment officer or employee of the Town of Amherst.

Investment officers and employees shall refrain from personal business activity that may conflict, or have the appearance of conflict, with the proper execution of the investment program, or which could impair their ability to make investment decisions.

Conflicts of interest shall be disclosed immediately to the employee’s superiors who in turn shall notify the Treasurer. Any conflicts of interest noted by the Treasurer shall be disclosed to the Chief Administrative Officer. A party with a conflict of interest shall abstain from decision making with respect to the area of conflict. The Treasurer shall maintain a written record of the conflict.

c) Delegation and Authority

The Council of the Town of Amherst shall be responsible for the approval of the Investment Policy. Overall management of the portfolio shall be delegated to the Audit Committee. The Audit Committee may delegate investment decisions to a professional investment manager/advisor, with such appointment to be approved by Council. The Audit Committee is responsible for:

- i) the creation of and recommending amendments to the Investment Policy on an annual basis;
- ii) monitoring the investment portfolio;
- iii) review on an annual basis the compliance of investment practices and procedures with this policy; and
- iv) consult and give advice to the Council on matters concerning the Town of Amherst’s investments.

d) Internal Control

The Treasurer shall develop and maintain all operating procedures for the control and management of investment functions. Such internal controls shall provide reasonable assurance that the Town of Amherst investments are properly managed and adequately protected from theft and fraud.

The Treasurer shall generate quarterly reports on the status of the investment portfolio to be submitted to Council on a quarterly basis.

e) Safekeeping and Custody

Investment transactions shall be in the name of the Town of Amherst and registered securities shall bear the name of the Town of Amherst. Transactions entered into by the Town of Amherst shall be conducted on a delivery against payment basis.

The Treasurer is responsible for the safekeeping of securities. The Treasurer will ensure that accurate systems and accounts are maintained for investments. If appropriate, the department will also ensure that an approved custodian accurately maintains physical securities.

6. SUITABLE AND AUTHORIZED INVESTMENTS**a) Securities**

The Town of Amherst may invest in securities authorized by this policy. In accordance with the primary objectives of the Town of Amherst Investment Policy, permissible investments are limited to high credit quality bonds, bills, Guaranteed Investment Certificates, deposit accounts, fixed income, or debt instruments issued by approved agencies listed in Appendix B. The Treasurer will maintain the list of approved agencies outlined in Appendix B. For greater clarity, the investment of Town of Amherst funds in equity investments is not authorized by this Policy.

b) Internal Borrowing

Section 451 of the Municipal Government Act authorizes the Nova Scotia Financial Reporting and Accounting Manual (FRAM) Sections 3.14(g) and 3.16(d) to state that the Town of Amherst Council may borrow internally from its funds to fund capital acquisitions. A resolution of Council prescribing the terms of repayment including interest, at a rate not less than the interest rate that the Town would pay to borrow the funds for a similar term from another source is required.

7. DIVERSIFICATION

The Town of Amherst shall diversify its portfolio holding to minimize investment risks, meet cash flow needs, and achieve the optimal balance between risk and return. Diversification may be achieved through investment type and eligible institutions.

Diversification will also be achieved by spreading investments between different time horizons. The Treasurer will maintain the diversification requirements outlined in Appendix A of this document.

8. INVESTMENT INCOME

Investment income shall include interest earned and dividends declared paid. In accordance with Section 100(2) of the *Municipal Government Act*, income arising from the investment of a fund is part of that fund unless otherwise provided by the Town of Amherst Council.

9. REPORTING

The Treasurer shall record all investment transactions. Each month the Treasurer shall assess the Town of Amherst's portfolio and generate a written report for internal purposes that contains:

- all investment activity by class or type;
- maturity of investments;
- book value, interest rate, and income earned;
- portfolio compliance with the parameters outlined in the Investment Policy; and
- any other pertinent information deemed necessary.

Each year the Treasurer shall provide the Council of the Town of Amherst and the Investment Committee with a report on investment activity, returns, and compliance with the Investment Policy.

Appendix A: Portfolio Diversification

This portfolio diversification requirement was developed through a review of various municipal portfolios throughout Nova Scotia, Ontario, Alberta and British Columbia.

The Town of Amherst's portfolio shall be diversified in accordance with the following requirements: see Appendix C for clarification of credit rating limits.

Issuer	Portfolio Limit *	Individual Issuer Limit	Minimum Credit Rating Limit
Cash and Cash Equivalents (<1 year)	100%		
Government of Canada	100%	100%	N/A
Province of Nova Scotia	100%	100%	N/A
Other Province of Canada	40%	10%	R-1 (Mid)
Schedule I Banks	75%	25%	R-1 (Mid)
Schedule II Banks	10%	5%	R-1 (Mid)
Fixed Income (>1 year)	75%		
Government of Canada	100%	100%	N/A
Province of Nova Scotia	100%	100%	N/A
Other Provinces	25%	50%	A (High)
Municipal Government	25%	5%	A (High)
Schedule I Banks	30%	15%	AA (Low)
Schedule II Banks	10%	5%	AA (Low)

*Note: Portfolio limits are calculated at the time of investment. In the event of a change in the total portfolio, investments need not be sold to comply with the percentage maximums.

Appendix B: Approved Investment Institutions

The Treasurer is authorized to purchase investments from the following institutions subject to the provisions of the Investment Policy:

- the Government of Canada;
- the Province of Nova Scotia;
- the governments of other Provinces;
- Canadian municipalities or collective Canadian municipalities with a minimum credit rating of A (High);
- Chartered banks and trust companies with a credit rating of AA (Low) or better;
- Credit unions insured by the Nova Scotia Credit Union Deposit Insurance Corporation, up to insured amount;
- Deposits covered by the Canadian Deposit Insurance Corporation, up to insured amount;
- Any other investments approved by the Minister of Municipal Affairs

Appendix C: Credit Rating System

Investments with a credit rating of BBB – or higher are considered to be investment grade whereas investments with credit ratings below BBB- are considered speculative (junk).

Long Term Debt Credit Rating Systems

Investment Quality	Moody's	Standard and Poor's	DBRS	Fitch
Highest Quality	Aaa	AAA	AAA	AAA
Substantial Payment Capacity	Aa1	AA+	AA(High)	AA+
	Aa2	AA	AA(Middle)	AA
	Aa3	AA-	AA(Low)	AA-
High Payment Capacity	A1	A+	A(High)	A+
	A2	A	A(Middle)	A
	A3	A-	A(Low)	A-
Adequate Payment Capacity	Baa1	BBB+	BBB(High)	BBB+
	Baa2	BBB	BBB(Middle)	BBB
	Baa3	BBB-	BBB(Low)	BBB-
Payment Capacity Vulnerable to Adverse Changes	Ba1	BB+	B(High)	B+
	Ba2	BB	BB(Middle)	B
	Ba3	BB-	BB(Low)	B-
Payment Capacity Not Protected Against Adverse Changes	B1	B+	B(High)	B+
	B2	B	B(Middle)	B
	B3	B-	B(Low)	B-
Substantial Default Risk	Caa1	CCC+	CCC(High)	CCC
	Caa2	CCC	CCC(Middle) CCC(Low)	
Very High Default Risk	Caa3	CCC-	CC(High)	CCC
	Ca	CC	CC(Middle) CCC(Low)	
		C	C	
In Default	C	D	D	DD
				D
				D

Short Term Debt Credit Rating System

Investment Quality	Moody's	Standard and Poor's	DBRS	Fitch
Highest Quality	P-1	A-1	R-1(High)	F1
Good Quality	P-2	A-2	R-1(Mid) R-1(Low)	F2
Adequate Credit Quality	P-3	A-3	R-2(High) R-2(Mid) R-2(Low)	F3
Payment Capacity Vulnerable to Adverse Changes	Not Prime	B-1 B-2 B-3	R-3	B
High Default Risk	Not Prime	C	R-4 R-5	C
Under Regulatory Supervision	Not Prime	R	-	-
In Default	Not Prime	D	D	D