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| Policy Title: | Investment Policy |
| Category: | Council |
| Policy Number & Version: | 2025-03-V2 |
| Policy Owner: | Finance |
| Posting Location: | External |

1. Purpose:

The purpose of the City of Vernon's Investment Policy is to provide a framework for its investment portfolio management. It is the policy of the City of Vernon to invest its funds in a manner that will provide for the optimal blend of security, risk-adjusted returns, while meeting short and long term cashflow demands in compliance with the statutory requirements of the *Community Charter* and the *Local Government Act* as applicable.

2. Scope:

This Investment Policy applies to all cash and investment assets of the City of Vernon which are suitable for investment with due consideration of cashflow demands.

3. Objectives

The objectives of the investment program, in order of importance are: principal protection, liquidity, and return on investment.

3.1 Principal Protection

Investments shall be made to ensure preservation of capital within the portfolio. Preservation of capital is accomplished through the placement of funds with creditworthy institutions and through portfolio diversification. Diversification is required to minimize potential losses on individual securities and to limit concentration and other associated risks.

3.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and reasonably anticipated cash flow requirements. This will be accomplished by selecting maturity dates that correspond to short- and long-term cash flow requirements, and securities with active or secondary resale markets where appropriate.

3.3 Return on Investment

Return on investment (ROI) shall be maximized in the context of the requirements to preserve capital and manage liquidity, while adhering to the investment constraints of the *Community Charter* and this Policy.

4. Standard of Care

4.1 Prudence

Investments shall be made with professional judgement and care with a significant level of due diligence. The objectives of principal protection, liquidity management, and risk-adjusted returns are integral to the successful stewardship of the City's investment portfolio. Speculative activities are prohibited. Staff must be aware of foreseeable risks, trends and fluctuations in the market that may affect the investment portfolio.

4.2 Ethics and Conflict of Interest

Staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or may impair their ability to make impartial decisions. Any potential conflict of interest must be disclosed to management and will be considered on a case-by-case basis.

4.3 Delegation of Authority

Authority to manage the City of Vernon's investment program is granted to the City's Chief Financial Officer and is derived from section 149 of the *Community Charter* as follows:

Section 149: One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions: (c) investing municipal funds, until required, in authorized investments.

5. Authorized Investments

Section 183 of the *Community Charter* indicates:

Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- (a) securities of the Municipal Finance Authority;*
- (b) pooled investment funds under section 16 of the Municipal Finance Authority Act;*
- (c) securities of Canada or of a province;*
- (d) securities guaranteed for principal and interest by Canada or by a province;*
- (e) securities of a municipality, regional district or greater board;*
- (f) investments guaranteed by a chartered bank;*
- (g) deposits in a savings institution, or non-equity or membership shares of a credit union;*
- (h) other investments specifically authorized under this or another Act.*

Eligible cash may be invested in accordance with section 183 of the *Community Charter*, subject to the following conditions:

5.1 Investment Denomination

Investments shall only be denominated in Canadian dollars.

5.2 Portfolio Limitations

The following two tables outline the limitations imposed by this Policy on the universe of investments available to the City of Vernon. The portfolio constraints, targeting credit ratings and exposure to assets classes, rank equal and are to be managed synchronously.

5.2.1. Portfolio Limits by Credit Rating

| Credit Rating [1] | Maximum % Share of Total Reserves |
|---|-----------------------------------|
| AA- or higher [short-term rating R-1 (mid) or higher] | 100% |
| A+/A/A- [short-term rating R-1 (low)] | 75% |
| BBB+/BBB/BBB- or Unrated [short-term rating R-2 (high) or lower] | 25% |

[1] Subject to 5.3.

5.2.2 Portfolio Limits by Asset Type

| Asset Type | Maximum % Share of Total Reserves | Maximum Single Entity % of Total Reserves | Maximum Term |
|-------------------------------|-----------------------------------|---|--------------------------|
| MFA Pooled Investment Funds | 15 - 100% [2] | N/A | 366 days to 11 years [2] |
| Federal Government [1] | Up to 100% | Up to 100% | 50 years |
| Provincial Governments [1] | Up to 100% | 25% to 75% [3] | 20 to 30 years [3] |
| Securities of the MFA [1] [6] | Up to 25% | 20% to 25% [3] | 20 to 30 years [3] |
| Local Governments [1] | Up to 50% | 10% to 25% [3] | 5 to 25 years [3] |
| Financial Institutions [1] | Up to 50% [5] | 10% to 15% [3][4] | 5 to 10 years [3] |

[1] Weighted holdings of this type of security within a Pooled Fund does not count towards limit.

[2] Range based on Pooled Fund type. These ranges are in reference to the limits imposed on each Fund by MFA for assets each hold. MFA's DMAC Fund can hold assets of any maturity. MFA Funds may be held in perpetuity by the unitholder.

[3] Ranged based on Credit Rating.

[4] Total investments in securities of a chartered bank, savings institution, or credit union may not exceed 1.00% of the financial institution's last year-end reported total deposits.

[5] Short-term portfolio funds (cash needed within 1 year) may be 100% held within Financial Institutions, but subject to Single Entity limits. **Where financial institution investments with a rating of AA- or higher yield the highest return, the limit may be exceeded.** Further, from time-to-time Single Entity limits may be exceeded per 5.4.

[6] Refers to debt issued by the Municipal Finance Authority of BC.

5.3 Credit Ratings

Credit ratings shall be obtained from “Recognized Ratings Agencies” defined as: Moody’s Investors Service (Moody’s), Standard & Poor’s (S&P), Fitch Ratings (Fitch), and DBRS Morningstar (DBRS).

5.3.1 Credit Ratings Equivalency

Credit Ratings within this Policy are quoted using S&P’s long-term scale and DBRS’s short-term scale. Equivalent credit ratings from other Recognized Ratings Agencies apply to 5.2.1, 5.2.2, and 5.5. A Ratings Equivalency Chart is provided in Appendix A.

5.4 Adherence to Limits

Total securities, of all types, of a single entity shall not normally exceed the limits outlined in 5.2.2. However, as market and operational (e.g. tax collection) fluctuations may cause aggregate holdings of a single entity to exceed applicable thresholds, the City of Vernon is not obliged to sell securities with immediacy to remain in compliance with this Policy. Rather, the portfolio must be rebalanced when it is most prudent to do so in any manner deemed appropriate.

5.5 Split Ratings

If an issuer or security is rated by more than one Recognized Ratings Agency, the following methodology shall apply:

- If two Agencies rate a security, use the lower of the two ratings;
- If three Agencies rate a security, use the most common;
- If all three Agencies disagree, use the middle rating; and
- If four Agencies disagree, use the average of all four ratings.

5.6 Unrated Securities

If an authorized investment per section 183 of the *Community Charter* is unrated and an internal credit rating has not been determined, it shall be rated as BBB for the purposes of determining adherence to this Policy.

5.78 Long-term Portfolio (10 years+)

After first ensuring adequate short & mid-term liquidity, if the Chief Financial Officer identifies monies not needed for 10 years or longer they may request Council acknowledge those monies as “long-term: 10 years+” and suitable for investments with

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long investment horizons. If funds have been designated as “long-term: 10 years+” the Chief Financial Officer may invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

5.89 Unlisted Investments

Investment opportunities not expressly outlined in this Policy, but compliant with applicable legislation may be brought forward by the Chief Financial Officer with an accompanying report to the Finance Committee to discuss its merits. If deemed appropriate by the Finance Committee, the Chief Financial Officer may proceed with the investment.

6. Investment Parameters

6.1 Diversification

It is the Policy of the City of Vernon to diversify its investment portfolio. To reduce the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalents in all funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Chief Financial Officer.

6.2 Maturity

To the extent possible, the City of Vernon shall attempt to match the maturity of its investments with anticipated cashflow requirements. Due to the imprecise nature of forecasting cashflow needs, a portion of the investment portfolio shall be continuously invested in short-dated securities. Investments in longer-dated securities that may be less-liquid requires certainty from the Chief Financial Officer that those funds will not be needed until after those long-dated securities mature.

7. Competitive Bids

When possible, the City of Vernon will obtain quotes for the purchase of selected investments to ensure the most cost-effective alternative is selected. However, due to the time-sensitive nature of the marketplace, immediate action may be taken. Under such circumstances, market data may be used to substantiate the action taken.

8. Safekeeping and Custody

8.1 Delivery vs. Payment, Safekeeping

All securities purchased by the City of Vernon shall be held in the name of the City of Vernon. All security transactions shall be conducted on a delivery versus payment basis. The Chief Financial Officer must be satisfied that the security is rightfully in possession of the City of Vernon or by a custodial service.

8.2 Internal Controls

The Chief Financial Officer shall establish a system of internal controls, to be documented in writing. As part of the annual audit, a review by the external auditor will be done to assure compliance with internal controls and policy

The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Vernon.

9. Policy Review

This Policy shall be reviewed periodically by the Chief Financial Officer to ensure it meets current regulatory requirements and industry best practices.

10. Reporting

The Chief Financial Officer will provide Council with a report on the current state and performance of the investment portfolio on an ~~annual~~ periodic basis.

11. Policy History (Created / Amended / Rescinded):

| Version | Approved by: | Date |
|---------------|--------------|------------|
| V1 (Original) | Council | 2023-11-27 |
| V2 | | |

Appendix A: Credit Rating Equivalency Chart

| Credit Quality | S&P | | Moody's | | DBRS | | Fitch | |
|--------------------|-----------|--------------------------------|-----------|------------|------------|----------------|-----------|------------|
| | Long-term | Canadian CP Scale (Short-term) | Long-term | Short-term | Long-term | Short-Term | Long-term | Short-Term |
| Superior | AAA | A-1 (high) | Aaa | p-1 | AAA | R-1 (high) | AAA | F1+ |
| | AA+ | A-1 (high) | Aa1 | p-1 | AA (high) | R-1 (high) | AA+ | F1+ |
| | AA | A-1 (high) | Aa2 | p-1 | AA | R-1 (mid) | AA | F1+ |
| | AA- | A-1 (high) | Aa3 | p-1 | AA (low) | R-1 (mid) | AA- | F1+ |
| Good | A+ | A-1 (mid) | A1 | p-1 | A (high) | R-1 (low) | A+ | F1 |
| | A | A-1 (mid) | A2 | p-1 | A | R-1 (low) | A | F1 |
| | A- | A-1 (low) | A3 | p-2 | A (low) | R-1 (low) | A- | F2 |
| Adequate | BBB+ | A-1 (low) | Baa1 | p-2 | BBB (high) | R-2 (high) | BBB+ | F2 |
| | BBB | A-2 | Baa2 | p-2 | BBB | R-2 (mid) | BBB | F3 |
| | BBB- | A-3 | Baa3 | p-3 | BBB (low) | R-2 (low), R-3 | BBB- | F3 |
| Speculative | BB+ | B | Ba1 | Not Prime | BB (high) | R-4 | BB+ | B |
| | BB | B | Ba2 | Not Prime | BB | R-4 | BB | B |
| | BB- | B | Ba3 | Not Prime | BB (low) | R-4 | BB- | B |
| Highly Speculative | B+ | C | B1 | Not Prime | B (high) | R-4 | B+ | B |
| | B | C | B2 | Not Prime | B | R-5 | B | B |
| | B- | C | B3 | Not Prime | B (low) | R-5 | B- | B |
| | CCC | C | Caa | Not Prime | CCC | R-5 | CCC | C |