TOWNSHIP OF WOOLWICH

STATEMENT OF INVESTMENT POLICY AND GOALS

1.0 Policy Statement

It is the policy of The Corporation of the Township of Woolwich (“the Township”) to invest public funds in a manner which will provide the maximum security with best investment return, while meeting the daily cash flow demands of the entity and conforming to all provincial statutes governing the investment of public funds.

2.0 Scope

This statement of investment policy and goals applies to all financial assets of the Township. These funds are accounted for in the audited annual financial statements and include:

2.1 Funds

2.1.1 General Funds

2.1.2 Capital Funds

2.1.3 Reserves

2.1.4 Discretionary Reserve Funds

2.1.5 Obligatory Reserve Funds

2.1.6 Trust Funds

2.2 Pooling of Funds

Except for cash in certain restricted and special funds, the Township will consolidate cash balances from all funds to maximize investment earnings. In general, investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

3.0 Prudence

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the statement of investment policy and goals and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 Objectives

The primary objectives, in priority order, of the Township's investment activities shall be:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments of the Township shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the Township will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

4.2 Liquidity

The Township's investment portfolio will remain sufficiently liquid to enable the Township to meet all operating requirements that might be reasonably anticipated.

4.3 Return on Investment

The Township's investment program shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the Township's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Delegation of Authority

Authority to manage the investment program is granted to the Treasurer of the Township, derived from section 418.5 of the Municipal Act, 2001, c. 25. Responsibility for the operation of the investment program is hereby delegated to the Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this statement of investment policy and goals. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Treasurer shall develop and maintain investment procedures for the operation of the investment program, consistent with this statement of investment policy and goals.

6.0 Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment 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 refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Township.

7.0 Authorized Financial Brokers and Institutions

The Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security brokers, selected by credit worthiness, who are authorized to provide investment services in the Province of Ontario. No deposit shall be made except as established by Provincial laws. All financial institutions and brokers for investment transactions provide a certificate to the Treasurer indicating that they have read the Township's statement of investment policy and goals. An annual review of the financial condition and registrations of qualified financial institutions and brokers will be conducted by the Treasurer. A current audited financial statement is required to be on file for each financial institution and broker with which the Township invests.

8.0 Suitable and Authorized Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle.

The Township is empowered by statute to invest in securities as defined in Ontario Regulation 438/97 amended to Ontario Regulation 399/02 to the Municipal Act, 2001, attached as an appendix to the statement of investment policy and goals.

9.0 Investment Pools/Mutual Funds

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis, to ensure compliance with the statement of investment policy and goals.

10.0 Safekeeping and Custody

All security transactions entered into by the Township shall be conducted on a delivery-versus-payment basis. Securities will be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts.

11.0 Diversification

The Township will diversify its investments by security type, institution, and maturity.

12.0 Maximum Maturities

To the extent possible, the Township will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Township will not directly invest in securities maturing more than five (5) years from the settlement date.

Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

13.0 Internal Control

The Treasurer shall establish a periodic process of independent review to assure compliance with policies and procedures.

14.0 Performance Standards

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs.

14.1 Market Yield (Benchmark)

The Township's investment strategy is passive. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a benchmark that is comparable to the portfolio's investment duration (e.g., a one-year constant maturity Treasury Bill).

15.0 Reporting

The Treasurer shall provide to the Council, annual investment reports that provide a clear picture of the status of the current investment portfolio. The management report should include comments on the fixed income markets and economic conditions, discussions regarding possible changes in the portfolio going forward, and thoughts on investment strategies. The investment report shall contain:

- A statement about the performance of the portfolio of investments of the Township during the period covered by the report;
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the municipality; and
- Such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

16.0 Adoption

The Township's statement of investment policy and goals shall be adopted by resolution of the Township Council. Council shall review the policy from time to time and any modifications thereto must be approved by the Council.

17.0 Attachments

Appendix "A" – Municipal Act, Ontario Regulation 438/97 - Eligible Investments
Appendix "B" – Glossary

APPENDIX “B”

GLOSSARY

Accrued Interest - The accumulated interest due on a bond as of the last interest payment made by the issuer.

Amortization - The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

Average Life - The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Basis Point - A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

Bid - The indicated price at which a buyer is willing to purchase a security or commodity.

Book Value - The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

Callable Bond - A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price - The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk - The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase - A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Convexity - A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Coupon Rate - The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Credit Quality - The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

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

Current Yield (Current Return) - A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

Delivery Versus Payment (DVP) - A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

Discount - The amount by which the par value of a security exceeds the price paid for the 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.

Fair Value - The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Government Securities - An obligation of the federal government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the securities market. See "Treasury Bills, Notes, and Bonds."

Interest Rate - See "Coupon Rate."

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.

Internal Controls - An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

1. Control of collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping - By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping - Securities purchased from any bank or dealer shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of physical delivery securities - Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers - Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian - The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

Inverted Yield Curve - A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

Investment Policy - A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity - An asset that can be converted easily and quickly into cash.

Local Government Investment Pool (LGIP) - An investment by local governments in which their money is pooled as a method for managing local funds.

Mark-to-market - The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

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.

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."

Money Market Mutual Fund - Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, bankers' acceptances, and federal funds).

Mutual Fund - An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

No Load Fund - A mutual fund which does not levy a sales charge on the purchase of its shares.

Nominal Yield - The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

Offer - An indicated price at which market participants are willing to sell a security or commodity. Also referred to as the "Ask price."

Par - Face value or principal value of a bond, typically $1,000 per bond.

Positive Yield Curve - A chart formation that illustrates short-term securities having lower yields than long-term securities.

Premium - The amount by which the price paid for a security exceeds the security's par value.

Prime Rate - A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

Principal - The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Prospectus - A legal document that must be provided to any prospective purchaser of a new securities offering. This can include information on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

Prudent Person Rule - An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

Regular Way Delivery - Securities settlement that calls for delivery and payment on the third business day following the trade date (T+3); payment on a T+1 basis is currently under consideration. Mutual funds are settled on a same day basis; government securities are settled on the next business day.

Reinvestment Risk - The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

Safekeeping - Holding of assets (e.g., securities) by a financial institution.

Serial Bond - A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

Sinking Fund - Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities.

Swap - Trading one asset for another.

Term Bond - Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

Total Return - The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period. (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

Treasury Bills - Short-term government non-interest bearing debt securities with maturities of no longer than one year. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Volatility - A degree of fluctuation in the price and valuation of securities.

"Volatility Risk" Rating - A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns ("aaa" by S&P; "V-1" by Fitch) to those that are highly sensitive with currently identifiable market volatility risk ("ccc-" by S&P, "V-10" by Fitch).

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

When Issued (WI) - A conditional transaction in which an authorized new security has not been issued. All "when issued" transactions are settled when the actual security is issued.

Yield - The current rate of return on an investment security generally expressed as a percentage of the security's current price.

Yield Curve - A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

Yield-to-call (YTC) - The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-to-maturity (YTM) - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities - Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

INVESTMENT PROCEDURES MANUAL

Purpose

The purpose of these guidelines is to assist Finance staff with day-to-day investment operations.

Numerical references and subjects at the beginning of each section refer to elements in the statement of investment policy and goals.

Cash Review

1.0 Policy Statement
2.0 Scope
5.0 Delegation of Authority

The Treasurer or his/her delegate (hereafter referred to as Treasurer) must review the cash balances and investment portfolio daily, or as need. Items to be reviewed should include:

a) Balances by fund if so deposited, at primary bank;
b) Balances, by fund if so deposited, at other banks;
c) Maturing investments;
d) Bond sales and other large, periodic receipts; and
e) Bond and coupon payments (debt service) and other large periodic cash disbursements.

Investment Selection

3.0 Prudence
4.0 Objectives
8.0 Suitable and Authorized Investments
11.0 Diversification
12.0 Maximum Maturities

The Treasurer determines how much of the cash balance is available for investments and selects the area of the yield curve that most closely matches the required maturity date. In determining the maturity date, the Investment Officer should consider liquidity, cash flow, and expected expenditures. A review of some of the following sources should be made to determine whether the investments should be placed to match projected expenditures or shorter, or to take advantage of current and expected interest rate environments:

a) Daily business publications;
b) Input from approved brokers;
c) Input from depository banks;
d) Publications on general trends of economic statistics; and
e) Input from data services.

Purchasing an Investment

7.0 Authorized Financial Brokers and Institutions
8.0 Suitable and Authorized Investments
9.0 Investment Pools/Mutual Funds
10.0 Safekeeping and Custody
11.0 Diversification
12.0 Maximum Maturities

Establish with whom the Township is going to transact business. This should be accomplished through the use of a questionnaire, which helps to provide the following evaluation:

a) Financial condition, strength and capability to fulfill commitments;
b) Overall reputation with other brokers and investors;
c) Regulatory status of the broker; and
d) Background and expertise of the individual representative.

Financial institutions should be selected through the use of a “Request for Proposal (RFP)”.

Contact an appropriate number of financial institutions, as specified by policy. The Treasurer should be as specific as possible in requesting the offering. If a particular type of investment or a particular issuing agency is to be excluded due to policy limitations, that should be stated to the providers.

The following must be determined prior to contacting the providers:

a) Settlement – cash, regular (next day), corporate (3 business days) or when-issued if a new issue;
b) Amount – either par value or total dollars to be invested;
c) Type of security to be purchased, or type to be excluded;
d) Targeted maturity, or maturity range; and
e) Time limit to show offering – 5 minutes, 15 minutes, etc.

If choosing an external pool or fund as the preferred investment vehicle, the following should be available for inspection prior to purchase and at any reasonable time thereafter:

a) A written investment policy, if a government-run investment pool;
b) A prospectus for money-market funds, mutual funds, or bank-managed funds;
c) A schedule of the types of reports and frequency of distribution;
d) A clear description of how interest rates are calculated (30/360, actual/365, etc.);
e) A schedule of when and how income is distributed;
f) Are the pool or fund types of investments restricted to your own legal and policy limits?; and
g) Are the pool or fund investments restricted to your own maturity limits?

Before concluding the transaction, the Treasurer should validate the following:

a) The security selected for purchase meets all criteria, including portfolio diversification and maturity;
b) Yield calculations should be verified;
c) Total purchase cost (including accrued interest) does not exceed funds available for investment;
d) Advise the successful provider that their offering has been selected for purchase;
e) After confirmation of the purchase, as a courtesy, notify the other dealers that you have placed the investment. Best price may be disclosed, if you choose.

After consummation of the transaction, and prior to settlement date, the Treasurer and the provider should exchange and review safekeeping and settlement information to ensure prompt, and uninterrupted, settlement.

<u>Settlement and Follow-through</u>

5.0 Delegation of Authority

The Treasurer should forward to the safekeeping agent a report of the investment transaction. This report may be verbal, but a written form should be sent and acknowledged.

<u>Accounting, Reporting, and Auditing</u>

6.0 Ethics and Conflict of Interest
13.0 Internal Control
14.0 Performance Standards
15.0 Reporting
16.0 Adoption

The Treasurer, in conjunction with the appropriate supervisor and peers, should establish the following:

a) Format for annual reports, which will be provided to Council;
b) Benchmark(s) to measure the performance of the investment program. Such benchmarks should be representative of the makeup of the investment portfolio, and as such should be subject to change as the structure of the portfolio changes;
c) A method of pro-ration, if appropriate, of investment income from pooled investments to participating funds.

d) A program to ensure:

- Compliance with generally accepted accounting principles of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants;
- Establishment of a system of written internal controls designed to detect fraud, error, misrepresentation or imprudent actions;
- Documented (initialed) review of investment activities by the appropriate supervisors as provided of in the statement of investment policy and goals; and
- Review of investment operations by the external auditor.

e) The Treasurer should make available to those in the Township concerned with ethics any information about the investment program which may be of interest to them.