

Policy Title: Investment Policy		Policy Number: P99
Policy Category: Finance		
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Approved by: Board		File Reference: 0340-50

PURPOSE

It is a fiduciary responsibility to protect public funds and to sensibly manage investments. The purpose of this investment policy is to provide the framework for the prudent investment of the Comox Valley Regional District's (CVRD) cash.

The CVRD will invest funds in a manner that provides an optimal blend of investment security and return. The CVRD will do so while meeting short and long-term cash flow demands, maintaining compliance with statutory requirements, and proactively supporting Environmental, Social and Governance (ESG) factors or considerations.

PRINCIPLES/OBJECTIVES

The CVRD's investment portfolio shall be managed in a manner which supports the following objectives, in order of importance: (1) adherence to statutory requirements, (2) preservation of capital, (3) liquidity and (4) return on investment. With due consideration of the aforementioned objectives, the portfolio will implement Socially Responsible Investing practices such as factoring ESG considerations into investment decision-making.

Adherence to Statutory Requirements

Investment guidelines for regional district funds are provided in Section 183 of the *Community Charter*. This section states that funds not immediately required may be invested in one or more of the following:

- a. Securities of the Municipal Finance Authority (MFA)
- 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.

Preservation of Capital

Meeting this objective requires preserving the value of the invested principal. Investment activities shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Preservation of capital supported by the investment of funds in securities of creditworthy institutions and through portfolio diversification.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated cash flow requirements.

Return on Investment

Within the boundaries of the previous two objectives, the investment portfolio shall be managed with the objective of maximizing the rate of return. The CVRD will consider current and future economic conditions, the role that each investment or course of action plays within the overall portfolio, the expected total return, regularity of income, and overall need for liquidity.

Socially Responsible Investing

Socially Responsible Investing (SRI) intends to mean any strategy which considers factors, typically ESG-related, alongside the fundamental characteristics of an investment. While implementation of an SRI strategy will vary according to investment type or by investment manager, CVRD aims to procure from or invest in organizations which are proactively and positively supporting ESG factors or considerations. MFA, a key source of investments for local governments, is actively engaged in the SRI landscape, it only partners with Signatories to the United Nations' Principles for Responsible Investment (UN PRI) for the management of its Pooled Investment Funds and offers several Fossil Fuel Free investment options. By carefully considering the investment process of an investment manager or the characteristics of a specific investment, the Board's strategic driver for climate crisis and environmental stewardship and protection will be advanced.

SCOPE

The investment policy applies to all cash operating funds, capital funds, and reserve funds. It does not apply to funds held in trust or which have specific legal or statutory requirement for cash management, disbursement or investment.

Due consideration to forecast cash and liquidity requirements over a 3-5-year horizon will be conducted to support investment decisions. A longer-term horizon will be considered once enhanced cash management systems are in place.

DEFINITIONS

Portfolio	Collection of securities held by an investor.
Liquidity	A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.
Diversification	Dividing investment portfolio among a variety of securities offering independent returns.
United Nations Principles for Responsible Investment (UN PRI)	An international network of investors working together to put six principles into practice. Its goal is to understand the implications of sustainability for investors and support signatories incorporating these issues into their investment decision-making and ownership practices.
Environmental, Social and Governance (ESG)	ESG investing focuses on using three non-financial factors as a part of a framework in the evaluation of companies for investment decision-making. Environmental criteria focus on stewardship of the natural environment and its resources. Social criteria look at the company's treatment of people and impact on societal issues.

	Governance criteria focuses on how an organization is presided over and its corporate policies.
Credit Rating	A credit rating is an assessment of the creditworthiness of an individual, company, or financial instrument, such as a bond or loan. It is typically provided by a credit rating agency and represents an opinion on the ability of the entity or instrument to fulfill its financial obligations. Credit ratings are expressed using a letter-based grading system, with higher ratings indicating a lower risk of default and a higher likelihood of timely repayment. These ratings are widely used by investors, lenders, and other financial institutions to evaluate the risk associated with a borrower or investment opportunity.
Socially Responsible Investing	Also known as sustainable, responsible, 'green' or ethical investing, is any investment strategy which seeks to consider both financial return and social/environmental good to bring about social change.
MFA Fossil Fuel Free Bond Fund	Designed for investors with a 2 to 5-year investment horizon. Includes a broad asset mix of high-quality government and corporate securities and screens out companies directly involved in the extraction, processing and transportation of coal, oil and natural gas.
MFA Mortgage Fund	A fund suited for cash not required for three plus years. This fund invests in high-quality first mortgages on Canadian income producing commercial properties.
MFA DMAC Fund	Designed to invest and grow capital over the long-term, while minimizing risk through asset class selection and diversification. The fund is broadly invested in fixed income, equities and alternative investments. Intended for investment greater than 10 years.

POLICY

Reporting Requirements:

The Program shall abide by the following reporting requirements:

- The Chief Financial Officer will report to the CVRD board annually.
- The report will identify investment holdings, returns and deviations from policy and investment performance.

Investment Parameters

- **Liquidity**
Various strategies will be utilized to ensure cash flow requirements are met. These strategies will include laddering investment maturity dates, maintaining an adequate balance of short term and/or highly liquid investments, and if necessary, utilizing revenue anticipation and short-term borrowing facilities.
- **Security Rating**

The minimum credit rating of any investment shall be BBB or higher as defined by the following ratings agencies: Moody's, S&P (Standard and Poor's), Fitch, DBRS (Dominion Bond Rating Service) or Fitch. Appendix A provides a credit rating equivalency chart. To meet the objectives of this policy and ensure stability of offerings, credit risk monitoring may be conducted by staff independent of vendor representations. 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 policy.

- **Diversification and Investment Limits**

The CVRD shall diversify its investment portfolio by security type, maturity, issuer and geography. The following limitations shall apply:

- With the exception of securities used and/or guaranteed by the Government of Canada and the Province of British Columbia and Municipal Finance Authority, not more than 25% of the total investment portfolio will be invested with a single financial institution.
- No single issuer shall account for more than 15% of the total investment portfolio.
- Limited to schedule I banks

- **No Forced Sales**

Total securities, of all types, of a single entity shall not normally exceed the policy limits. However, as market and operational fluctuations may cause aggregate holdings of a single entity to exceed applicable thresholds, the CVRD is not obligated 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.

Standard of Care

- **Prudence** The standard of care to be used in managing the investment portfolio shall be that of a prudent investor. Investments shall be made with judgement and care, under prevailing market conditions, which persons of prudence, discretion and intelligence exercise in the management of their own affairs. Investments will not be made for speculation. Care is to be exercised to reasonably foresee risks, trends and fluctuations in the market, to recognize unreasonable risks and to appropriately manage those risks.
- **Ethics and Conflict of Interest** Staff responsible for investing activities shall refrain from personal business activity that could conflict with proper management of the investment portfolio or could impair the ability to make impartial investment decisions.

Safekeeping and Custody

- All securities shall be registered in the name of the Comox Valley Regional District. Securities purchased directly from a financial institution shall be held by the Regional District directly or in a separate account in the Regional District's name maintained within the issuing financial institution, or transferred to Comox Valley Regional District Custodian.
- Securities purchased through an investment dealer shall be held in a separate account in the Regional District's name maintained by the investment dealer with whom the transaction was undertaken.

Application of Interest Earned

Interest earned on the investment portfolio will be distributed annually to each reserve fund based on the average monthly balance.

ROLES AND RESPONSIBILITIES

1. The Chief Financial Officer (CFO) shall have overall responsibility for the prudent investment of the CVRD investment portfolio. The CFO shall have the authority to implement the investment program and establish procedures consistent with the policy. The CFO shall be authorized to enter into arrangement with banks, MFA and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities in a manner that conforms with the Municipal Act and CVRD policy.

REVISION HISTORY

Approval Date	Approved By	Description of Change
July 15, 2023	CVRD Board	Including objectives of responsible investing, new section supporting ESG factors

APPENDIX

Appendix A - Credit Rating Equivalency Chart

Appendix B – Portfolio Diversification Constraints

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

APPENDIX B – Portfolio Diversification Constraints

Table 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 [short-term rating R-2 (high) or lower]	25%

Table 2 – Portfolio Limits by Asset Type

Asset Type	Maximum % Share	Maximum Single Entity	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.

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