

STATEMENT OF POLICY AND PROCEDURE			
Chapter:	Corporate Services	SPP No.	<b>CS-3.10</b>
Section:	3. Finance	Approved:	
Subject:	<b>INVESTMENTS</b>	Effective:	Click or tap to enter a
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Issued by:	Board of Directors	Dated:	6/24/2016

## 1. PURPOSE

- 1.01. The purpose of this Statement of Policy and Procedure is to provide guidance over the management of TRCA's cash, short-term and long-term funds while taking into consideration:
- General economic conditions;
  - Possible effects of inflation and deflation;
  - The role that each investment or course of action plays within TRCA's investment portfolio.
  - Expected total return from income and appreciation of capital;
  - Liquidity needs, regularity of income and preservation or appreciation of capital; and
  - Positive economic, social and environmental impact.
- 1.02. It is TRCA's investment objective to ensure that its financial assets are invested in a prudent manner and increase the likelihood that such assets will meet obligations as they come due. The primary investment objectives, in order of priority, are:
- Safety of principal – Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios.
  - Adequate liquidity – Investments shall be undertaken in a manner that takes into account the needs of periodic cash flows and reasonably anticipated budgetary requirements.
  - Diversification – Investments should be sufficiently diversified as to avoid concentration in (a) specific issuers or credits; and (b) specific asset classes, markets, sectors and term to maturity in order to reduce overall investment risk.
  - Capital appreciation – Investments shall be made to earn realized or unrealized investment income, but not at the investment risk of significantly eroding the principal, with the objectives in priority order of:
    - Meeting annual budgetary requirements for earnings;
    - Maintaining portfolio term structure to support the Authority's long-term financial plan; and
    - Providing a return consistent with established benchmarks.

Based on the investment objectives above, assets shall be invested in a mix of cash and cash equivalents, fixed income and equity investments in order to balance volatility and returns. The target asset mix is developed while taking into consideration the possible effect of inflation, the expected return and investment risk of each proposed asset class and TRCA's need for liquidity, capital preservation and income.

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## 2. SCOPE

- 2.01. This Statement of Policy and Procedure applies to the Chief Financial Operating Officer (CFOO) and Finance business unit.

## 3. POLICY

- 3.01. Funds required for current operations shall be maintained as deposits in an interest-bearing bank account.
- 3.02. Funds required in the short-term shall be invested in liquid investments with low levels of investment risk as set out in section 6, below.
- 3.03. Funds required in the long-term shall be invested appropriately, giving due regard to investment risk, returns, liquidity and any other relevant factors as set out in section 6 below.

## 4. RESPONSIBILITY

- 4.01. The **Chief Financial and Operating Officer (CFOO)** or designate is responsible for investing funds.
- 4.02. The **CFOO** is responsible for recommending an Investment Manager and custodian for Executive Committee review and approval.
- 4.03. The **CFOO** or designate and the **Finance** business unit are responsible for ensuring that systems are in place to enable compliance.
- 4.04. The **Executive Committee** is responsible for approval and oversight of the investments of TRCA.
- 4.05. The **Investment Manager** is responsible for complying with the parameters within this policy and providing frequent reporting to the CFOO or designate.
- 4.06. On motion from TRCA's Board of Directors, TRCA may accept, revise or rescind this policy.

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## 5. REFERENCES and RELATED STATEMENTS of POLICY and PROCEDURE

- 5.01. CS-3.02 Signing Officers
- 5.02. CS-3.07 Loans and Borrowing
- 5.03. CS-3.08 Foreign Currency Translation
- 5.04. CS-5.01 Risk Management

## 6. PROCEDURES

### Identifying Funds for Short-Term or Long-Term Investing

- 6.01. Every quarter, the Finance business unit will review its cash position, current assets and current liabilities to identify funds available for short-term or long-term investment.
- 6.02. The Finance business unit shall identify the funds available for short- and long-term investment by:
  - (a) Reviewing historical cash levels;
  - (b) Considering other appropriate factors.

### Investing Short- and Long-Term Funds

- 6.03. All investments are to be made in the Canadian market.
- 6.04. For purposes of investing, short-term is considered to be 24 to 36 months, where there is a high degree of confidence that funds will be required for business operations in 24 to 36 months.
- 6.05. For purposes of investing, long-term is considered to be 3 to 7 years, where there is a high degree of confidence that funds will be required for business operations in 3 to 7 years.
- 6.06. TRCA shall maintain an investment account managed by a professional investment manager (the "Investment Manager") at an investment dealer or bank for short-term and all long-term investments.
- 6.07. The account must be authorized by the Chair of the Board of Directors and Chief Executive Officer.

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- 6.08. The CFOO or designate is authorized to transfer funds to or from the investment account.
- 6.09. Investments shall be held by a Custodian and any of the Custodian's sub custodians or nominees in Canada.
- 6.10. The Custodian must be one of the following:
- (a) A bank listed in Schedule I, II or III of the Bank Act (Canada);
  - (b) A trust company that is incorporated under the laws of Canada that has equity, as reporting in its most recent audited financial statements of not less than \$10,000,000; or
  - (c) A company that is incorporated under the laws of Canada and that is an affiliate of a bank or trust company, if either of the following applies:
    - The company that has equity, as reported in its most recent audited financial statements, of not less than \$10,000,000;
    - The bank or trust company has assumed responsibility for all the custodial obligations of the company for that portfolio.
- 6.11. Investments shall only be made in securities with moderate investment risk. Investments may be made in the securities listed in (e) below, provided that they carry low levels of credit risk, interest rate risk and liquidity risk.
- 6.12. TRCA accepts that investments with higher potential for appreciation and returns are usually more volatile. For instance, fixed income securities or investments are generally less volatile than investments in common stock.
- 6.13. Additionally, TRCA recognizes that components of its investment portfolio which have a longer-term horizon, that is, will not be used in the short term, can better withstand volatility or investment risk in pursuit of higher returns.
- 6.14. The term of the investment shall be selected based on:
- (a) The date when the excess funds will be required to be disbursed; and
  - (b) The interest rates available for shorter periods versus longer periods
- 6.15. The company shall not enter into any investments of financial instruments, including derivatives, other than those set out in this policy without the prior express approval by the Board of Directors.
- 6.16. TRCA shall maintain the following overall asset classes and mixes:

The overall asset classes and asset mix for short-term investments are as follows:

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Asset Class – Short Term	Minimum %	Maximum %	Benchmark Allocation %
<b>Cash and Cash Equivalents</b>			
Cash, demand deposits, treasury bills, bankers acceptances	30	100	30
<b>Fixed income*</b>			
Federal, Provincial, Municipal bonds	0	70	20
Obligations of Banks and Trust Companies (including bonds, deposit notes, GICs, term deposits, or equivalent)	0	70	30
Commercial Paper and Corporate Bonds	0	50	20
<b>Total</b>			<b>100</b>

\*Term to maturity for fixed income investments not to exceed 36 months.

The overall asset classes and asset mix for long-term investments are as follows:

Asset Class – Long-Term	Minimum %	Maximum %	Benchmark Allocation %
<b>Fixed income</b>			
Federal, Provincial, Municipal bonds	30	100	55
Commercial Paper and Corporate Bonds	0	70	30
<b>Equity</b>			
Canadian equities (including preferred shares and real estate income trusts)	0	20`	15
<b>Total</b>			<b>100</b>

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- 6.17. The following applies to the asset class mix and ranges above:
- (a) Asset class allocations and mix shall be determined by reference to the market value of investments;
  - (b) Asset class allocations correspond to the market indices used in this policy below;
  - (c) Asset class allocations may deviate from the maximum cash levels and the minimum fixed income and equity levels if the Investment Manager believes it prudent, for instance, during times of extreme market volatility. If so, the Investment Manager shall immediately notify the CFOO or designate without delay; and
  - (d) The Investment Manager may deviate from the minimum and maximum above for brief periods for other reasons, for instance while re-balancing the portfolio or if capital market fluctuations are expected to automatically correct deviations within a short period. In these instances, the Investment Manager shall advise the CFOO or designate only if the deviations are expected to persist beyond a calendar quarter.

### **Restrictions, Exclusions and Other Constraints**

- 6.18. Holdings within each asset class should be reasonably diversified.
- 6.19. The following activities are not permitted:
- (a) Margin investing—purchase of securities on a margin is not permitted; and
  - (b) Short-selling—short-selling of securities is not permitted.
- 6.20. The CFOO or designate may provide the Investment Manager with a Board of Directors approved written list of sectors, subsectors or kinds of securities which should not be purchased or held in the investment portfolio (for example no holdings in companies with known unethical supply chain practices). The Investment Manager shall refrain from purchasing the same and divest of any existing holdings as soon as is practicable. The Investment Manager shall acknowledge receipt of this list.

### Cash and Cash Equivalents

- 6.21. Cash and cash equivalents shall have an average credit rating of R-1 as per Dominion Bond Rating Service (DBRS), Standard & Poor's Rating Agency (S&P) and/or Moody's Investor Services (Moody's)

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- 6.22. Cash and cash equivalents shall consist of:
- (a) Cash and demand deposits in high interest savings accounts;
  - (b) Treasury bills issued by federal and provincial governments and their agencies; and
  - (c) Obligations of bank and trust companies including bankers acceptances

#### Fixed income Securities

- 6.23. Fixed Income securities shall:
- (a) Have a minimum credit rating of BBB or higher as per DBRS, S&P and/or Moody's at the time of purchase;
  - (b) Maintain an overall average credit of at least A with DBRS, S&P and/or Moody's; and
  - (c) Have a reasonable expectation of liquidity relatively close to fair value within 90 days notice.
- 6.24. Fixed income securities shall consist of:
- (a) Bonds, debentures, notes or other debt instruments of federal, provincial and municipal governments and their agencies or government corporations, or corporations;
  - (b) Guaranteed investment contracts (GIC's) or equivalent of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments
  - (c) Term deposits or similar instruments of trust companies and banks; and
  - (d) Exchange traded index participation units.
- 6.25. Individual limits: No single security share shall exceed 10 percent of the market value of the fixed-income security asset class. Bonds issued or guaranteed by provincial or federal governments or one of their agencies are exempt from this requirement.
- 6.26. Investments in security issued or guaranteed by a school board or similar entity in Canada are not permitted, unless the money raised by issuing the security is for school purposes.

#### Equities

- 6.27. Individual equities or equities held within equity funds shall be:
- (a) Of "investment grade", that is high-quality equities based on DBRS, S&P and/or Moody's; and

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(b) listed on a major stock exchange and must be otherwise liquid.

6.28. Equities shall consist of Canadian:

- (a) Publicly traded common or preferred equities;
- (b) Convertible debentures;
- (c) Pooled funds;
- (d) Exchange traded index participation units; and
- (e) Units in real estate trusts.

6.29. No individual equity holding should exceed 10 percent of the market value of the equities' asset class.

### Performance Objectives

6.30. The performance of the investment portfolio shall be determined by comparing the time-weighted, annualized rate of return of the asset classes of the portfolio to the annualized return of a market index, as set out below. The portfolio should meet or exceed the market index over moving four-year periods.

6.31. The benchmarks are as follows:

Asset Class	Benchmark / Market Index
Cash and Cash Equivalents	FTSE TMX 30-day Treasury Bill Index
Fixed Income	Bloomberg Barclays Short Aggregate Enhanced Yield Index
Equities (Canadian)	S&P/TSX Composite Index

6.32. Performance return objectives includes realized gains or losses and changes in unrealized capital gains or losses plus income from all sources.

6.33. The following applies to the performance benchmarks above:

- (a) Notwithstanding the four-year performance targets described in
- (b) 6.4 above, the Investment Manager may underperform the composite return index over shorter time intervals;
- (c) The Investment Manager shall recognize that significant or multiple short-term underperformances may make it more difficult to achieve the four-year performance targets; and
- (d) Notwithstanding the four-year performance targets described in
- (e) 6.4 above, the CFOO or designate shall evaluate short-term underperformances to ensure that the Investment Manager remains

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diligent and prudent in order to determine whether investing activities are compliant with this policy, and to assess whether corrective actions are required.

## Reporting

- 6.34. The Investment Manager shall provide the CFOO or designate with written reports at least quarterly. The reports shall present:
- (a) Summaries and detailed listings of assets broken down by investment classes;
  - (b) Details and summaries of transactions occurring within the portfolio (including deposits, withdrawals, capital gains/losses, interest, dividends, management fees); and
  - (c) Details and summaries of the performance and of the benchmark portfolio.
- 6.35. The Investment Manager shall provide an annual compliance statement to the CFOO or designate confirming that the portfolio is being managed in compliance with this policy. The CFOO or designate, at the request of the Board of Directors, may request—and the Investment Manager shall provide—additional compliance statements during the year.
- 6.36. At least once per year, the Investment Manager shall meet with the Board of Directors or its delegate to provide information on:
- (a) Compliance with this policy;
  - (b) Investment portfolio performance;
  - (c) Investment strategies used;
  - (d) Existing and forecasted market conditions;
  - (e) Planned investment strategies; and
  - (f) Any other information the Investment Manager considers necessary, or the board requests.
- 6.37. The CFOO or designate shall review the quarterly investment reports and sign and date it as evidence of the review.
- 6.38. The CFOO or designate shall include a copy of the annual investment report in the annual investment reporting package to the Board of Directors with a summary and commentary on the investment report.
- 6.39. TRCA shall not enter into any investments or purchase any financial instruments other than those set out in this policy without prior approval by the Board of Directors.

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### Transactions and controls

- 6.40. Segregation of duties must be preserved in the case of all transactions involving investments. Different individuals must be involved in initiating the transaction, confirming the transaction and recording processes.
- 6.41. Transactions will be entered into by the CFOO or designate, who will promptly send an email to the individuals identified in sub-paragraphs (c) and (d) below to explain the transaction.
- 6.42. The Controller will receive the confirmation from the financial institution, compare it to the email received from the individual identified in sub-paragraph (b) and follow up on any differences.
- 6.43. The Controller will post the required entries into the general ledger via journal entries.

### Accounting and reporting

- 6.44. TRCA prepares its financial statements in accordance with Public Sector Accounting Standards (PSAS) and for purposes of investments is subject to Section PS 3040 – Portfolio Investments.
- 6.45. Under PSAS Section PS 3041 – Portfolio Investments, TRCA follows the accounting policy below:
- The statement of financial position separately presents portfolio investments as financial assets;
  - Investments are recorded at cost;
  - Any permanent loss in value is written down to record the loss. The write down shall be reported in the statement of operations and shall not be reversed if there is a subsequent increase in value;
  - Income from investments, including interest and dividend income, is recorded when earned in the statement of operations;
  - Any discount or premium arising on purchase is amortized over the period to maturity; and
  - Gains or losses from the sale of portfolio investments shall be included in the statement of operations in the period of the sale.

### Ethics and Conflicts of Interest

- 6.46. The Investment Manager (and any other fiduciary) shall not derive any personal gain because of their fiduciary responsibility of managing the investments. This excludes normal fees incurred from fulfilling responsibilities,
- Toronto and Region Conservation Authority

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as pre-approved by the Board of Directors.

- 6.47. The investment and oversight functions must be carried out in compliance with TRCA's Code of Conduct.
- 6.48. Investments in or with related parties are prohibited. Related parties include staff, members of the Board of Directors and any advisory boards or committees, which are entities that, directly or indirectly through one or more intermediaries, is controlled by, any of these individuals.
- 6.49. The Investment Manager shall manage the portfolio in compliance with the CFA Institute's Code of Ethics and the Standards of Professional Conduct of the CFA Institute.

## 7. DEFINITIONS

- 7.01. **"Cash equivalents"** means securities which are highly liquid—that is, they can be easily converted to cash because, among other reasons, they have maturity terms equal to or less than 12 months and are readily traded in investment markets. Cash equivalents include term deposits, money-market funds (that is, funds which invest in short-term securities).
- 7.02. **"Credit risk"** means the risk that a debtor will not repay an obligation when due.
- 7.03. **"Custodian"** means a financial institution that holds securities for safekeeping in order to minimize the risk of their theft or loss.
- 7.04. **"Dominion Bond Rating Service (DBRS)"** means an independent, globally recognized credit rating service founded in Canada.
- 7.05. **"Equities"** means investments which represent ownership interests in a corporation and include common stocks, preferred shares, trust units, rights, warrants and other instruments which are convertible into common stock.
- 7.06. **"Excess funds"** mean funds which are not immediately required for expenditures but will be required in the short-term; that is, within the next 12 months.
- 7.07. **"Fixed income securities"** mean debt or other securities which provide investors with a fixed periodic return and provide for repayment at maturity. These include bonds and debentures.

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- 7.08. **“Indexed fund”** mean a mutual fund which is constructed to match a market index and is usually bought to provide diversification.
- 7.09. **“Interest rate risk”** means the risk that a fixed rate investment will change in value due to a change in interest rates.
- 7.10. **“Investment risk”** means a measure of the possibility of gain or loss. It consists of credit risk, foreign exchange risk, interest rate risk and liquidity risk.
- 7.11. **“Liquid”** means the measure of an investment’s convertibility to cash.
- 7.12. **“Liquidity risk”** means the risk of being unable to buy or sell an investment quickly or at a price close to its market value.
- 7.13. **“Margin investing”** means an investment technique where the investor pays a portion of the purchase price of a security and borrows the remainder of the purchase price from the broker. The margin refers to the portion which the investor pays.
- 7.14. **“Market index”** means a composite of securities used to represent the market for the securities and to compare returns on investments.
- 7.15. **“Market value”** means the current price in the market of an investment.
- 7.16. **“Moderate risk”** in terms of financial risk is defined in line with the terms in 5.01 Risk Management policy, Section 3.24 Risk Assessment.
- 7.17. **“Moody’s Investor Services”** means the bond credit rating business of Moody Corporation.
- 7.18. **“Pooled funds”** are like mutual funds in that investors pool their investment funds to reduce fund costs and access higher returns. Differences include the fact that the pooled funds are more exclusive—they may be more focused; have higher minimum investment requirements; and are usually offered to select clients.
- 7.19. **“Portfolio investments”** mean long term investments that include bonds, deposits and shares.
- 7.20. **“Short-selling”** means an investment technique involving the sale of “borrowed” security based on the belief that the value of the security in the investment market will fall, permitting the seller to buy additional securities to replace the borrowed security, and therefore make a gain on the sale of the borrowed security.

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7.21. **“Standard & Poors (S&P)”** means an independent, globally recognized credit rating service founded in the United States.