

# TOWN OF KENTVILLE POLICY STATEMENT G26

## **SPECIAL PERPETUAL RESERVE FUND INVESTMENT POLICY**



### **1.0 PURPOSE**

- 1.1 To guide the investment and management of the Town of Kentville Special Perpetual Reserve Fund and the capital-reserve section of its special reserve fund by:
- 1.1.1 establishing a clear understanding of the investment goals and objectives of the Town of Kentville;
  - 1.1.2 offering guidance and limitations for the investment of the fund; and
  - 1.1.3 ensuring the integrity of the investment management process.

### **2.0 DEFINITIONS**

- 2.1 Act: Bill No. 20 - The Town of Kentville and Kentville Electric Commission Sale of Assets Act, dated June 29,1998.
- 2.2 Capital gains (losses): Gains or losses on the sale of investment instruments.
- 2.3 Cash & equivalents: Cash, money market, Treasury bill and any fixed income investment maturing within one year, including managed products (i.e. mutual funds and exchange-traded-funds).
- 2.4 Cost: Cash, cash equivalents and fixed income securities are recorded at purchase price. Equity instruments are recorded at average cost- purchase price plus brokerage fee. PSAB 3041
- 2.5 Council: Governing body of the Town of Kentville, consisting of an elected mayor and six councillors (elected at large).
- 2.6 International Equity: Common stocks from non-Canadian corporations, including managed products (i.e. mutual funds and exchange-traded-funds).
- 2.7 Canadian Equity: Common stocks of Canadian corporations, including managed products (i.e. mutual funds and exchange-traded-funds).
- 2.8 Fixed Income Securities: Fixed income obligation of any Canadian government or corporation with a maturity of more than one year, including managed products (i.e. mutual funds and exchange-traded-funds).
- 2.9 Fixed Income Alternatives: Managed fixed income alternative products may hold securities other than fixed income to enhance yield and/or reduce different risk exposures.

- 2.10 Illiquid investments are securities or assets that cannot be easily sold or exchanged for cash without a risk of loss of value. Illiquid investments cannot be sold quickly, because of a lack of ready and willing investors to purchase the assets or securities, i.e. real estate.
- 2.11 Fund: Special Perpetual Reserve Fund.
- 2.12 Investment Committee: Appointed body that monitors investment portfolio and investment activities pursuant to this policy. The Investment committee consists of a Council member and two (2) citizen appointees, as voting members. A Council alternate, with the Director of Finance and Chief Administrative Officer will sit ex officio.
- 2.13 Investment Income: Interest earned and dividends declared and paid.
- 2.14 Policy: Special Perpetual Reserve Fund Investment Policy
- 2.15 Prudent Investment Policy: Nova Scotia Trustee Act provisions requiring prudent investment policy as follows:
- 2.15.1 A trustee may invest trust property in any form of property or security in which a prudent investor might invest, including a security issued by a mutual fund as defined in the Securities Act.
  - 2.15.2 Subsection (2.16.1) does not authorize a trustee to invest in a manner that is inconsistent with the trust.
  - 2.15.3 A trustee may have regard to the following criteria in planning the investment of trust property, in addition to any others that are relevant to the circumstances:
    - 2.15.3.1 general economic conditions;
    - 2.15.3.2 the possible effect of inflation or deflation;
    - 2.15.3.3 the expected tax consequences of investment decisions or strategies;
    - 2.15.3.4 the role that each investment or course of action plays within the overall trust portfolio;
    - 2.15.3.5 the expected total return from income and the appreciation of capital;
    - 2.15.3.6 other resources of the beneficiaries;
    - 2.15.3.7 needs for liquidity, regularity of income and preservation or appreciation of capital;
    - 2.15.3.8 an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries. 2002, c. 10, s. 45.
- 2.16 Prudent Investor: In investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. 2002, c. 10, s. 45.

- 2.17 Trustee Diversification: A trustee must diversify the investment of trust property to an extent that is appropriate having regard to:
- 2.17.1 the requirements of the trust; and
  - 2.17.2 general economic and investment market conditions. 2002, c. 10, s. 45.
- 2.18 Trustee Liability: A trustee is not liable for a loss to the trust arising from the investment of trust property if the conduct of the trustee that led to the loss conformed to a plan or strategy for the investment of the trust property, comprising reasonable assessments of risk and return, that a prudent investor could adopt under comparable circumstances. 2002, c. 10, s. 45.
- 2.19 Trustee Advice: (1) A trustee may obtain advice in relation to the investment of trust property. (2)  
It is not a breach of trust for a trustee to rely upon advice obtained under subsection (1) if a prudent investor would rely upon the advice under comparable circumstances. 2002, c. 10, s. 45.
- 2.20 Trustee Delegation:
- 2.20.1 In this Section, "agent" includes a stockbroker, investment dealer, investment counsel and any other person to whom investment responsibility is delegated by a trustee.
  - 2.20.2 A trustee may delegate to an agent the degree of authority with respect to the investment of trust property that a prudent investor might delegate in accordance with ordinary business practice.
  - 2.20.3 A trustee who delegates authority under subsection (2.21.2) must exercise prudence in
    - 2.20.3.1 selecting the agent;
    - 2.20.3.2 establishing the terms of the authority delegated; and
    - 2.20.3.3 monitoring the performance of the agent to ensure compliance with the terms of the delegation.
    - 2.20.3.4 In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.
    - 2.20.3.5 A trustee who complies with the requirements of subsection (2.21.3.3) is not liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.
    - 2.20.3.6 This Section does not authorize a trustee to delegate authority under circumstances in which the trust requires the trustee to act personally.
    - 2.20.3.7 Investment in a security issued by a mutual fund as defined in the Securities Act or in a similar investment is not a
-

delegation of authority with respect to the investment of trust property. 2002, c. 10, s. 45.

- 2.21 Prohibited investments: Nothing above permits a trustee to invest in investments that are expressly forbidden by the instrument, if any, creating the trust. 1994-95, c. 19, s. 1.

### **3.0 SCOPE**

- 3.1 This policy applies to the financial assets of the fund under the jurisdiction and control of the Town of Kentville and as detailed in Bill No. 20 Town of Kentville and Kentville Electric Commission Sale of Assets Act, assented to June 29, 1998: The Special Perpetual Reserve Fund and the capital-reserve section of its special reserve fund and are subject to the Municipal Government Act and the NS Trustee Act.

### **4.0 PROCEDURES**

#### 4.1 Objectives

##### 4.1.1 Legality

4.1.1.1 The Municipal Government Act, 1998, c.18, s.100, NS Trustee Act and the Investment Policy shall govern all of the Town of Kentville investments.

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

##### 4.1.2 Preservation of Capital

4.1.2.1 The investment of funds on behalf of the Town of Kentville 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.

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

4.1.2.3 The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate or significant impact on the total portfolio.

##### 4.1.3 Liquidity

4.1.3.1 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 have the ability to readily be converted to cash with minimal price impact to meet unanticipated cash requirements.

4.1.3.2 Illiquid investments without a daily mark-to-market, such as private debt and private equity, may be purchased to a maximum of 10% of the overall portfolio, based on the original investment price.

4.1.4 Competitive Return on Investments

4.1.4.1 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.

4.2 Standards of Care

4.2.1 Prudence

4.2.1.1 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.

4.2.1.2 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.

4.2.2 Ethics and Conflict of Interest

4.2.2.1 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 Kentville.

4.2.2.2 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.

4.2.2.3 Conflicts of interest shall be disclosed immediately to the employee’s superiors who in turn shall notify the Director

of Finance. Any conflicts of interest noted by the Director of Finance 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.

4.2.2.4 Academic research supports the practice of incorporating environmental, social, and governance ("ESG") factors with other conventional financial analytical tools when evaluating investment opportunities. Responsible investing focuses on improving long-term, risk-adjusted returns of the portfolio. ESG factors may help identify potential opportunities and risks which conventional tools miss. The Town of Kentville Special Perpetual Reserve Fund encourages its managers to include ESG factors in their analytical processes. ESG considerations are a factor in the analysis and should not be used as exclusionary screens to eliminate specific companies or sectors from consideration. Relevant ESG factors will vary by industry and should be applied appropriately to help assess risk and return.

4.2.3 Delegation and Authority

4.2.3.1 The Council of the Town of Kentville shall be responsible for the approval of the Investment Policy.

4.2.3.2 The Finance Director shall be responsible for compliance with the investment policy, internal controls and maintenance of all related documentation and auditing requirements.

4.2.3.3 Overall management of the portfolio shall be delegated to the Investment Committee. The Investment Committee may delegate investment decisions to a professional investment manager/advisor, with such appointment to be approved by Council.

4.2.4 The Finance Director is responsible:

4.2.4.1 to 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 Kentville investments are properly managed and adequately protected from theft and fraud.

4.2.4.2 to prepare an agenda and minutes for each meeting.

4.2.4.3 to present, at a minimum, a quarterly report to the Council Advisory Committee meeting.

- 4.2.4.4 to reconcile investment reports with town records and presents internal reports to the committee.
  - 4.2.5 The Investment Committee is responsible to Council for:
    - 4.2.5.1 the creation of and recommending amendments to the Investment Policy on an annual basis;
    - 4.2.5.2 monitoring the investment portfolio;
    - 4.2.5.3 review on an annual basis the compliance of investment practices and procedures with this policy; and
    - 4.2.5.4 consult and give advice to the Council on matters concerning the Town of Kentville's investments.
  - 4.2.6 The Investment Committee is responsible for:
    - 4.2.6.1 monitoring the performance of the fund on a monthly basis.
    - 4.2.6.2 reviewing the monthly investment statements prepared by the investment manager/advisor.
    - 4.2.6.3 approving all purchases and sales of investments based on the advice of the Investment Manager/Advisor. The majority of the voting members will rule. Any committee member having knowledge or concern of investment advice may present information to members of committee without prejudice.
    - 4.2.6.4 monitoring the advisory fees to ensure they are reasonable and within the established parameters of the contract.
    - 4.2.6.5 reviewing the investment account annual rate of return in consultation with the investment manager/advisor.
    - 4.2.6.6 evaluating the performance of the investment manager/advisor, annually and recommend to council annual approval of the four year contract.
    - 4.2.6.7 reviewing the goals of the fund annually.
  - 4.3 Safekeeping and Custody
    - 4.3.1 Investment transactions shall be in the name of the Town of Kentville and registered securities shall bear the name of the Town of Kentville.
    - 4.3.2 The Director of Finance will ensure that accurate systems and accounts are maintained for investments.
  - 4.4 Investment Manager/Advisor
    - 4.4.1 The Investment Committee will review the performance of the investment manager/advisor annually.
-

- 4.4.2 At least every four years, and earlier if the Investment Committee deems it appropriate to change investment managers/advisors, will call for a Request for Proposal (RFP) for investment services.
- 4.4.3 The tender will be limited to Canadian bank-owned investment firms with physical offices located within the Valley area.
- 4.4.4 The Investment Committee will make a recommendation for approval by the Council for the appointment of the investment manager/advisor.
- 4.4.5 Accounting Methods
- 4.4.6 All investment instruments shall be recorded at cost in the Fund from which the monies were invested and reported at average cost in the case of equities, as per generally accepted accounting principles (PSAB 3041). Investment income shall be recorded as received and accrued yearly.

**4.5 Investment Income**

- 4.5.1 Investment income shall include interest earned and dividends declared and paid.
- 4.5.2 Capital gains (losses) shall not be deemed investment income, as defined in the Act and the Policy. Capital gains (losses) shall be held within the Fund itself, subject to complete or partial withdrawal at the Committee's recommendation to Council or Council's recommendation to the Committee. The goal shall be to build against inflation and shall be reviewed annually.

**5.0 ASSOCIATED DOCUMENTS**

- 5.1 Bill No. 20 Town of Kentville and Kentville Electric Commission Sale of Assets Act, assented to June 29, 1998
- 5.2 Municipal Government Act, November 10, 2016, Part IV, Paragraph 100 Investment of Funds
- 5.3 Nova Scotia Trustee Act, 2002

**6.0 POLICY REVISION HISTORY:**

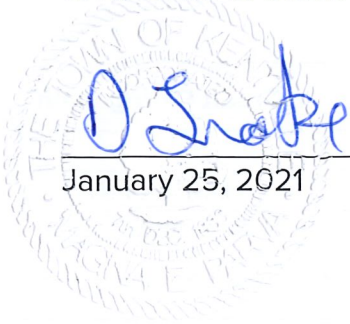
Date Created: March 29, 1999

Revision: April 26, 1999  
June 12, 2002  
February 11, 2004  
March 25, 2005  
January 24, 2011



Date of Last Revision: January 25, 2021

I, Dan Troke, Municipal Clerk of the Town of Kentville, Province of Nova Scotia, do hereby certify that this is a true copy of the Policy as adopted by the Council of the Town of Kentville at a meeting duly called and held on the 25<sup>th</sup> day of January, 2021.



\_\_\_\_\_  
January 25, 2021

### 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 Kentville's portfolio shall be diversified in accordance with the following requirements: see Appendix B for clarification of credit rating limits.

Issuer	Portfolio Limit	Individual Issuer Limit	Credit Rating Limit
<b>Cash &amp; Equivalents</b>			
Money Market			DBRS of R1
Existing Bonds Maturing >1 Year			N/A
<b>Fixed Income</b>	<b>Minimum of 50%</b>		
Gov't of Canada Bonds	Maximum of 100%		
Provincial Bonds	Maximum of 50%		
Bonds	Minimum of 25%	5%	AA
Bonds	Minimum of 80%	5%	A (Low)
Bonds	Maximum of 20%	5%	BBB (Low)
BB Bonds and Below	0%		
Mutual Funds & ETFs	Maximum of 75%	15%	Low
Alternative Debt	Maximum of 10%	5%	Medium
<b>Equities</b>	<b>Maximum of 50%</b>	<b>4%</b>	<b>Med/High</b>
Canadian Investments	Maximum of 100%	4%	Med/High
Non-Canadian Investments	Maximum of 50%	4%	Med/High
Mutual funds & ETFs	Maximum of 50%	10%	Med/High
Alternative Equities	Maximum of 10%	5%	Med/High

Notes:

- Cash & Equivalents, on average, represent a small portion of the overall portfolio (typically 10%); however, a maximum of 100% could be held under extraordinary circumstances.
- Equity investments of any industry not to exceed 10%.
- Equity investments must have had a consistent dividend payout over the last three years.
- Equity investments must have a share price exceeding \$5.00 per share and a market capitalization of at least \$100,000,000.00.
- Equity investments must have a maximum risk rating of Med/High, consisting of a maximum Beta of 1.2 (5-year, from Thompson One) and 30-day average daily value of trading (Average volume x closing share price).

- Equity investments in managed money may have a maximum risk rating of Med/High.
- Portfolio limits and individual issuer limits are in place to limit concentration risk and promote diversification. They are set as original purchase price so not to impede successful investments. If appropriate during market declines, additional purchases may be made up to the limits, regardless of original purchase price.

- **Appendix B:**

- **Credit Rating System for Individual Fixed income Securities**

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).

<b>Long Term Debt Credit Rating Systems Investment Quality</b>	<b>Moody's</b>	<b>Standard and Poor's</b>	<b>DBRS</b>	<b>Fitch</b>
Highest Quality	Aaa	AAA	AAA	AAA
Substantial Payment Capacity	Aa1 Aa2 Aa3	AA+ AA AA-	AA(High) AA(Middle) AA(Low)	AA+ AA AA-
High Payment Capacity	A1 A2 A3	A+ A A-	A(High) A(Middle) A(Low)	A+ A A-
Adequate Payment Capacity	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB(High) BBB(Middle) BBB(Low)	BBB+ BBB BBB-

- **Risk Rating for Managed Fixed Income & Fixed Income Alternatives**

Managed products for fixed income and fixed income alternatives may include individual securities with risk ratings lower than itemized above in Appendix C, but must have an overall risk rating of LOW.

Alternative Debt, i.e. private debt, may have a maximum risk rating of medium (MED), but must adhere to the portfolio limits and individual issuer limits in appendix A.