



## **TOWN OF KENTVILLE POLICY STATEMENT G26 SPECIAL PERPETUAL RESERVE FUND INVESTMENT POLICY**

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### **1.0 PURPOSE**

The purpose of this policy is 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:

- a. establishing a clear understanding of the investment goals and objectives of the Town of Kentville;
- b. offering guidance and limitations for the investment of the Fund; and 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.
- 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 Covered Call Writing: A covered call is an options strategy used to generate increased income from the asset. Selling a call on a stock that is already owned.
- 2.7 US Equity: Common stocks from American corporations used to provide portfolio diversification to generate increased income.
- 2.8 Canadian Equity: Common stocks of Canadian corporations.
- 2.9 Fixed Income Securities: Fixed income obligation of any Canadian government or corporation with a maturity of more than one year, including deposit notes. Fixed income may also include Maple Bonds. A Maple Bond is a Canadian-dollar denominated bond issued by a foreign borrower in the domestic Canadian fixed-income market, paying CDN denominated coupon payments.
- 2.10 Fund: Special Perpetual Reserve Fund.

- 2.11 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. The investment Committee meets monthly with the Investment Manager/Advisor to review the past month's progress and the position of the Fund.
- 2.12 Investment Income: Interest earned and dividends declared and paid.
- 2.13 Policy: Special Perpetual Reserve Fund Investment Policy
- 2.14 Prudent Investment Policy: Nova Scotia Trustee Act provisions requiring prudent investment policy as follows:
- 3 (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) *Subsection (1) does not authorize a trustee to invest in a manner that is inconsistent with the trust.*
- (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:*
- (a) *general economic conditions;*
- (b) *the possible effect of inflation or deflation;*
- (c) *the expected tax consequences of investment decisions or strategies;*
- (d) *the role that each investment or course of action plays within the overall trust portfolio;*
- (e) *the expected total return from income and the appreciation of capital;*
- (f) *other resources of the beneficiaries;*
- (g) *needs for liquidity, regularity of income and preservation or appreciation of capital;*
- (h) *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.*
- 2.15 Prudent Investor: *(NS Trustee Act section 3 (a))* 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.
- 2.16 Trustee Diversification: *(NS Trustee Act section 3 (b))* A trustee must diversify the investment of trust property to an extent that is appropriate having regard to:

2.16.1 the requirements of the trust; and

2.16.2 general economic and investment market conditions. 2002, c. 10, s. 45.

2.17 Trustee Liability: *(NS Trustee Act section 3 (c))* 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.

2.18 Trustee Advice: *(NS Trustee Act section 3 (e))* 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.*

2.19 Trustee Delegation: *(NS Trustee Act section 3 (f))* 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) 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.

(3) A trustee who delegates authority under subsection (2) must exercise prudence in

(a) selecting the agent;

(b) establishing the terms of the authority delegated; and

(c) monitoring the performance of the agent to ensure compliance with the terms of the delegation.

(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.

(5) A trustee who complies with the requirements of subsection (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.

(6) This Section does not authorize a trustee to delegate authority under circumstances in which the trust requires the trustee to act personally.

(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.

2.20 Prohibited investments: *(NS Trustee Act section 5)* 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 The objectives of this Fund are as follows and specified in order of significance:

- 4.1.1 Legality as detailed in Bill No. 20 Town of Kentville and Kentville Electric Commission Sale of Assets Act, assented to June 29, 1998;
- 4.1.2 Preservation of Capital; and
- 4.1.3 Liquidity and Competitive Return on Investments.

#### 4.2 Legality

- 4.2.1 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.
- 4.2.2 Investment activity will be conducted in accordance with all Provincial legislation and regulations and in accordance with the Investment Policy.

#### 4.3 Preservation of Capital

- 4.3.1 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.
- 4.3.2 The income from the Fund shall be paid to the Town for its general purpose. (pursuant to clause 5(4) of the Act)
- 4.3.3 The capital gains (losses) shall be credited to the Fund. (pursuant to clause 5(2) of the Act)

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

#### 4.4 Liquidity

- 4.4.1 The investment portfolio shall remain sufficiently liquid to meet the annual budgeted operating contribution. This shall be accomplished where possible by structuring investment maturities with anticipated cash demands, and has the ability to readily converted to cash with minimal price impact to meet unanticipated cash requirements.

#### 4.5 Competitive Return on Investments

- 4.5.1 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.
- 4.5.2 To attain competitive and reasonable market rate of return there may be a requirement to diversify into the US market. US Equities shall not exceed a maximum of 1/3 of the 30 per cent of the total portfolio allocated to equities, or 10 per cent of the total portfolio, and no single equity position shall exceed 4 per cent, at cost, of the total portfolio value.
- 4.5.3 To attain competitive and reasonable market rate of return there may be an opportunity to use the option of the covered call. It allows the manager to collect income via option premiums by selling calls against a stock that is already owned.

#### 4.6 Standards of Care

##### 4.6.1 Prudence

- 4.6.1.1 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.
- 4.6.1.2 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.

##### 4.6.2 Ethics and Conflict of Interest

- 4.6.2.1 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.

4.6.2.2 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.

4.6.2.3 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 Director of Finance shall maintain a written record of the conflict.

4.6.3 Delegation and Authority

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

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

4.6.3.3 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.

4.6.4 The Finance Director is responsible:

4.6.4.1 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.

4.6.4.2 to prepare an agenda and minutes for each meeting.

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

- 4.6.4.4 to reconcile investment reports with town records and presents internal reports to the committee.
- 4.6.5 The Investment Committee is responsible to Council for:
  - 4.6.5.1 the creation of and recommending amendments to the Investment Policy on an annual basis;
  - 4.6.5.2 monitoring the investment portfolio;
  - 4.6.5.3 review on an annual basis the compliance of investment practices and procedures with this policy; and
  - 4.6.5.4 consult and give advice to the Council on matters concerning the Town of Kentville's investments.
- 4.6.6 The Investment Committee is responsible for:
  - 4.6.6.1 monitoring the performance of the Fund on a monthly basis.
  - 4.6.6.2 reviewing the monthly investment statements prepared by the investment manager/advisor.
  - 4.6.6.3 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.
  - 4.6.6.4 monitoring the advisory fees to ensure they are reasonable and within the established parameters of the contract.
  - 4.6.6.5 reviewing the investment account annual rate of return in consultation with the investment manager/advisor.
  - 4.6.6.6 evaluating the performance of the investment manager/advisor, annually and recommend to council annual approval of the four year contract.
  - 4.6.6.7 reviewing the goals of the Fund annually.
- 4.6.7 Safekeeping and Custody
  - 4.6.7.1 Investment transactions shall be in the name of the Town of Kentville and registered securities shall bear the name of the Town of Kentville.
  - 4.6.7.2 The Director of Finance will ensure that accurate systems and accounts are maintained for investments.

#### 4.7 Investment Manager/Advisor

- 4.7.1 The Investment Committee will review the performance of the investment manager/advisor annually.
- 4.7.2 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.
- 4.7.3 The tender will be limited to Canadian bank-owned investment firms with physical offices located within the Valley area.
- 4.7.4 The Investment Committee will make a recommendation for approval by the Council for the appointment of the investment manager/advisor.

#### 4.8 Accounting Methods

- 4.8.1 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.

#### 4.9 Investment income shall include interest earned and dividends declared and paid, as defined in the Act, pursuant to clause 5(4) and the Policy.

- 4.9.1 The investment income from the Fund shall be paid to the Town for its general purpose.

#### 4.10 Capital gains (losses) shall not be deemed investment income, as defined in the Act, pursuant to clause 5(2) and the Policy.

- 4.10.1 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.

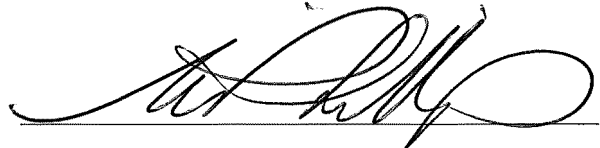
### **5.0 ASSOCIATED DOCUMENTS**

- 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, 2017
- 5.4 Appendix A: Portfolio Diversification
- 5.5 Appendix B: Credit Rating System



**6.0 POLICY REVISION HISTORY**

Date Created: March 29, 1999  
Revisions: April 26, 1999  
June 12, 2002  
February 11, 2004  
March 25, 2005  
January 24, 2011  
January 2017. Reformatted  
May 30, 2018



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Chief Administrative Officer, Mark Phillips

**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 70%</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%		
<b>Equities</b>	<b>Maximum of 30%</b>	<b>4%</b>	<b>Med/High</b>
Canadian Investments	Maximum of 30%	4%	Med/High
US Investments*	Maximum of 10%	4%	Med/High
<b>Options</b>	<b>Covered Calls</b>	<b>4%</b>	

**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).
- \* The ability to invest in US investments provides a broader mix of opportunities. The monetary exchange risk is assumed to be very low risk. Through a combination of policy limits, monthly Investment Committee meetings, and our well established practise of same day email/phone responses to buy/sell decisions by the Committee, we can avoid significant risk of currency value fluctuations within the selected investments.

**Appendix B: Credit Rating System**

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	AA+	AA(High)	AA+
	Aa2	AA	AA(Middle)	AA
	Aa3	AA-	AA(Low)	AA-
High Payment Capacity	A1	A+	A(High)	A+
	A2	A	A(Middle)	A
	A3	A-	A(Low)	A-
Adequate Payment Capacity	Baa1	BBB+	BBB(High)	BBB+
	Baa2	BBB	BBB(Middle)	BBB
	Baa3	BBB-	BBB(Low)	BBB-

