



## **Housing York Inc.**

### **Investment Policy**

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**Policy No.:** 2017-01

**Original Approval Date:** November 9, 2005

**Policy Last Updated:** November 2, 2017

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#### **Policy Statement:**

A policy governing the investment of working capital and reserves.

#### **Application:**

This policy applies to all staff and the Investment Manager responsible for the control, administration and reporting of investments for Housing York.

The policy pertains to all working capital and reserves, except for the capital reserve attributable to the Provincial Reform properties which is regulated by the *Housing Services Act, 2011, c. 6, Sched. 1, s. 124*.

#### **Purpose:**

This policy established the objectives, principles and guidelines for the prudent investment of working capital and reserves.

#### **Description:**

##### **1. Objectives of Housing York's investment program**

The primary objectives of the investment program, in a priority order, shall be:

- a) Preservation of capital
- b) Maintaining liquidity
- c) Earning a competitive rate of return

**a) Preservation of Capital**

Safety of capital is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio. Staff will endeavor to seek preservation of capital with reasonable investment risk in the overall portfolio.

**b) Maintaining Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements. This shall be done where possible by structuring the portfolio such that the terms of securities held in the portfolio reflect anticipated cash demands. Since not all possible cash demands can be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.

**c) Competitive Rate of Return**

Without compromising other objectives, Housing York shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions.

Diversification, and ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment portfolio returns by means of prudent and timely adjustments to asset mix.

**2. Standard of Care**

**a) Prudence**

Staff and/or the Investment Manager shall act with impartiality, loyalty and prudence; shall maintain overall portfolio risk at an appropriate level in consideration of the corporation's needs; and ensure the portfolio is reasonably diversified.

Staff and/or the Investment Manager exercising due diligence and acting in accordance with written procedures and this Policy shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the Policy.

**b) Ethics and Conflicts of Interest**

Staff and investment officials of the Investment Manager 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 decisions. These personnel 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. They shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Housing York.

#### **c) Delegation of Authority**

The President of Housing York will have overall responsibility for prudent investment of the portfolio. All investment decisions will be made under the authority of the President or delegate. The President and the Chief Financial Officer are responsible for the implementation of the investment program and the establishment of investment procedures consistent with the Policy. No person may engage in an investment transaction except as provided under the terms of this Policy.

### **3. Investment Manager Eligibility Criteria**

Housing York may use the service of an Investment Manager approved by the President. To be eligible for managing the portfolio, the Investment Manager must meet the following criteria:

- a) The Investment Manager has a team of professionals with applicable investment credentials
- b) The Investment Manager provides a report setting out its performance for the past 5 years, demonstrating investment performance that meets that of the benchmarks of the managed portfolios

A service agreement will be developed to set out terms of investment service between Housing York and the Investment Manager, and approved by the Board, **“except when the Region acts as the Investment Manager”**.

### **4. Investment Philosophy**

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on preservation of capital and then liquidity as the most important objectives, with yield as the least important one of the three objectives.

A passive management approach shall be considered where there is a belief that indexing is an efficient and cost effective means to manage investments. An active management approach may be considered where a belief is held that this approach will add value above the indicative benchmark on an after fees basis and/or create less risk than the benchmark indices. The cost to invest and administer the portfolio shall be kept at a reasonable level. Given this strategy, comparable indices will be used to determine whether market yields are being achieved.

Investments should be sufficiently diversified to minimize the risk of loss resulting from over concentration of assets in a specified maturity, issuer, or class of securities.

## 5. Permitted Investments

Subject to this Policy, the portfolio may be invested in any of the following instruments or assets. The assets may be obligations or securities of Canadian entities.

- a) Fixed income. Publicly traded debt securities of Canadian issuers, including issues denominated in non-Canadian currencies.
- b) Cash and short-term investments. To maintain liquidity for operating needs, excess cash not allocated specifically in investment mandate may be invested in the demand deposits of the custodian, Treasury bills issued by Federal and Provincial governments and their agencies, bankers' acceptances, commercial paper and other short-term financial instruments.
- c) Investment in Pooled Funds. Investment in pooled funds is permissible. It is expected that investments in pooled funds will be consistent with this Policy. It is recognized, however, that there may be instances where there is a conflict between this Policy and the pooled fund policy. In this case, the pooled fund policy will dominate. Treasury Office is required to disclose the pooled fund policy and to provide notification in writing of any material changes to the pooled fund policy.

*Appendix 1* sets out the minimum credit rating and the maximum allowable exposure for each specific security classification / issuer.

At the time of purchase, all permitted investments shall conform in all aspects with this Policy.

In the event of a downgrade in the credit rating of a security held in the portfolio so that the security falls below the standard as set out in *Appendix 1*, the Investment Manager shall sell the investment within 90 to 120 days after the day of the downgrade.

## 6. Target Asset Mix

One of the investment objectives for the portfolio is earning a competitive rate of return. The investment return of a portfolio is largely determined by the portfolio asset mix. In light of the investment objectives and the characteristics of the portfolio assets, the following asset mix guidelines have been established by the Policy.

Term	Minimum	Maximum	Target Asset Mix
Less than 183 days	20%	100%	40% - 50%
184 to 365 days	10%	80%	15% - 25%
1 year to 3 years	0%	70%	15% - 25%
3 years to 5 years	0%	50%	10% - 20%
Over 5 years	0%	30%	0% - 10%

## **7. Roles and Responsibilities**

The President has the overall responsibility for portfolio investment, and has delegated investment responsibilities to the Chief Financial Officer. All investment decisions will be made under the authority of Housing York's President or Chief Financial Officer or delegate.

### ***a) Board of Directors***

- i) Approves the Investment Policy and Procedures
- ii) Receives Annual Investment Reports from the President and Chief Financial Officer
- iii) Approves service agreement between Housing York and Investment Manager

### ***b) President and Chief Financial Officer***

- i) Develop the Investment Policy and Procedures including the setting of minimum and maximum limits and a target asset mix
- ii) Prepare the Annual Investment Reports and present to the Board
- iii) Appoint / discharge the Investment Manager
- iv) Provide cash flow forecasts that outline amounts and timing of cash transfers (deposits / withdraws) on at least an annual basis to the Investment Manager
- v) Evaluate and meet with Investment Manager on at least an annual basis

### ***c) Investment Manager / Delegated Staff***

- i) Develops investment strategies that meet Housing York's investment objectives, risk tolerance and cash flow needs, including recommendations for the target asset mix
- ii) Establishes trader authority limits, roles and responsibilities of the Investment Management Team
- iii) Manages investment activities of the portfolio with discretion and in accordance with this Policy
- iv) Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities
- v) Accounts for the bookkeeping of all investment transactions and the safekeeping of securities
- vi) Reports to the President and the Chief Financial Officer no less than semi-annually
- vii) Assists the President and the Chief Financial Officer in the preparation of annual investment reports to the Board

## **8. Performance Monitoring and Management**

### **a) Reporting Requirements**

The Investment Manager shall prepare a semi-annually report for the Chief Financial Officer. The report shall contain but not limited to the following information:

- i) Monthly average rate of turn on the portfolio
- ii) Average days to maturity
- iii) Monthly portfolio composition
- iv) Mark to market valuation

At a minimum, a consolidated investment report shall be presented annually by the President and Chief Financial Officer to the Board to update administration on securities held, maturities, investment returns, unrealized gains (or losses), comparison to established benchmarks, market conditions, prevailing investment strategy, and adherence to the investment policy. Securities will be reported on a marked to market basis as defined by the Public Sector Accounting Board (PSAB).

### **b) Performance appraisal**

The President and the Chief Financial Officer will review the performance of the Investment Manager on an annual basis. A consolidated annual performance review report will be prepared for the Board. The review shall include:

- i. The measurement of market returns and a comparison to the returns of an appropriate index
- ii. The measurement of risk diversification compared to the diversification of a comparable index
- iii. An evaluation of the Investment Manager' adherence to this policy and any other policies and guidelines set out for specific portfolio.
- iv. Any other pertinent information that may explain the Investment performance or current capital market conditions.

### **c) Benchmarks**

It is expected that the investment portfolio will earn an average rate of return that is at least commensurate with the investment risk constraints and cash flow needs set out for the portfolio. On a quarterly basis, the market rate of return of the portfolio, including realized and unrealized gains or losses, will be evaluated over at least three-year periods and be compared to appropriate benchmarks. Market returns will be calculated on a time-weighted basis before investment fees.

Investment performance will be measured against the following benchmarks.

<b>Asset Class</b>	<b>Benchmark</b>
Short-term (under 1 year)	FTSE TMX 30-day T-bill Index
Fixed Income (over 1 year)	70% of FTSE Short-Term Government Bond Index + 30% of FTSE Short-Term Corporate AA Bond Index

To evaluate the performance of the investment portfolio, the weighting of each index in the benchmarks will be determined by the Investment Manager. The weightings shall reflect the target asset mix of the portfolio. The performance benchmarks and the weightings of the indices shall be reviewed at least semi-annually, and may be adjusted if there are material changes in the duration of the indices and the portfolio.

**d) Monitoring of Asset Mix**

It is expected the portfolio asset mix is maintained within the target asset mix range. The Investment Manager will monitor the asset mix of the portfolio at least quarterly to ensure that the mix is within the guidelines established in this Policy. If the portfolio asset mix falls beyond the maximum mix, the portfolio should be rebalanced to the target mix.

**e) Dismissal of Investment Manager**

When an Investment Manager is used, it is the President and the Chief Financial Officer's responsibility to evaluate the Investment Manager's performance and decide if their services will be terminated. The following factors will be considered when making such a decision.

- i. Performance results below the stated performance objectives over a reasonable time period.
- ii. Changes in personnel, firm structure, fees, ownership and/or investment style or approach which might adversely affect the potential return and/or risk level of the portfolio.
- iii. Failure to adhere to the stated investment guidelines.
- iv. Any material reputational or solvency event, as determined by the Region.

**9. Safekeeping and Custody**

All securities shall be held for safekeeping by a financial institution approved by Housing York. All securities shall be held in the name of the Investment Manager on behalf of Housing York.

The depository shall issue a safekeeping receipt to the Investment Manager listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for Housing York, the book value of the holdings and the market value at month-end.

#### **10. Investment Policy Review**

This Policy shall be reviewed at a minimum of every three years by the President and the Chief Financial Officer prior to being presented to the Board for approval.

**eDocs #7855711**



## Appendix 1

### Housing York Inc.

#### Approved List of Eligible Investments

Sector	Minimum Credit Rating	Sector/Credit Exposure Limitation (Maximum)		Sector Term Limitation (Maximum)
		Portfolio Limitation	Individual Limit	
<b><u>Government of Canada</u></b>				
Government of Canada	N/A	100%	N/A	10 Years
Federal Guarantees	N/A	50%	10%	10 Years
<b>Federal Total</b>		<b>80%</b>		
<b><u>Provincial</u></b>				
Provincial <sup>1</sup>	AA	75%	35%	10 Years
	A	25%	15%	10 Years
	BBB	10%	5%	5 Years
<b>Provincial Total</b>		<b>80%</b>		
<b><u>Municipal</u></b>				
Region of York <sup>2</sup>	N/A	25%	25%	10 Years
Other Municipalities	AAA	35%	5%	10 Years
	AA	25%	5%	10 Years
	A	10%	2%	5 Years
<b>Municipal Total</b>		<b>35%</b>		
<b><u>Banks</u></b>				
Schedule I Banks	AA(L)	60%	25%	10 Years
	A	40%	25%	2 Years
Schedule II Banks	A	25%	10%	2 Years
<b>Banks Total</b>		<b>60%</b>		

<sup>1</sup> Includes provincial guarantees

<sup>2</sup> Includes debt of its constituent municipalities

#### Other Restrictions

1. Term is limited to an individual maximum term of 10 years for certain securities and the weighted average term shall not exceed 4 years for the portfolio.
2. Non Canadian currency securities cannot total more than 10% of the portfolio.