

PROPOSED INVESTMENT POLICY AMENDMENTS - Summary Table		
Current Policy Wording	Proposed Change	Rationale
<p><u>Section VI - Permitted Investments</u></p> <p>Investment Limits and Constraints</p> <p>Fixed Income Portfolio Constraints:</p> <p>i. There is currently no reference to fixed income pooled funds that hold a non material amount of high yield, non-investment grade fixed income securities in current policy.</p> <p>Page 6</p>	<p>Diversified fixed income pooled funds and/or portfolios that hold high yield, non-investment grade fixed income securities, are eligible investments provided the weighted average credit rating of the fund or portfolio is investment grade.</p>	<ul style="list-style-type: none"> Most bond pooled funds, that provide optimal risk adjusted returns, hold some high yield bonds for return enhancement and diversification purposes. This will provide lower overall risk exposure of the City's portfolio as well as enhanced returns.
<p><u>Section VI - Permitted Investments :</u></p> <p>Investment Limits and Constraints</p> <p>Equity Portfolio Constraints</p> <p>ii. Currently no specific allocation to global Infrastructure investments in current investment policy.</p> <p>Page 7</p>	<p>Market value of total investments under management allocated to Canadian and/or Global infrastructure funds of up to 5% of portfolio market value.</p> <p>Infrastructure investments include both public and private funds including open and closed-ended funds.</p>	<ul style="list-style-type: none"> The recommendation provides for a 5% portfolio allocation to infrastructure investments. These businesses are generally in quasi-monopoly industries with predicable cash flow growth. They provide investors with high cash returns, inflation protection, and increased portfolio diversification for city investments. Financial modeling and analysis indicates that infrastructure investments exhibit equity- like returns with lower downside exposure (volatility) than public equity markets.
<p><u>Section VI - Permitted Investments:</u></p> <p>Investment Limits and Constraints</p> <p>Currency hedging constraints:</p> <p>iii. Foreign exchange exposure contained in equity and bond portfolios will be hedged to at least 90% of market value.</p> <p>Page 7</p>	<p>An active foreign currency management strategy will be utilized with the primary objective of managing currency risk and reducing return volatility from currency fluctuations in foreign denominated equity and bond portfolios.</p>	<ul style="list-style-type: none"> Currently the City hedges 90% of currency exposure in its portfolio which is not optimal. Active or dynamic currency management is a superior approach that is expected to mitigate FX risk, reduce volatility from foreign currency movements and help sustain positive returns on the City's foreign denominated investments.

<p><u>Section VI - Permitted Investments:</u></p> <p>Investment Limits and Constraints</p> <p>Pooled Funds:</p> <p>iv. Investment in pooled funds is permitted. Guidelines for each pooled fund shall be reviewed to determine that they are appropriate. The investment manager will provide written notice to The City of any material changes to the pooled fund investment guidelines.</p> <p>Page 7</p>	<p>Investment in pooled funds is permitted. The guidelines for each pooled fund shall be reviewed to determine appropriateness and consistency with City Investment Policy, upon which the City accepts the pool's guidelines. The investment manager will provide written notice to The City of any material changes to the pooled fund investment guidelines.</p>	<ul style="list-style-type: none"> ▪ The proposed amendment recognizes that a pooled fund's investment guidelines will not be worded exactly the same as the City's Investment Policy. In assessing the investment merits of a particular pooled fund, Administration will examine the pool's guidelines and determine the appropriateness and consistency of the pool fund with City Investment Policy. Upon investing, the City accepts the pool's investment guidelines.
<p><u>Section VI - Permitted Investments:</u></p> <p>Investment Limits and Constraints</p> <p>Derivatives:</p> <p>v. With respect to externally managed investment portfolios, the net notional principal amounts outstanding of all derivative investments, (excluding derivatives for foreign currency hedging purposes) shall not exceed 10% of the market value of the portfolio.</p> <p>Page 7</p>	<p>Portfolio managers are authorized to prudently utilize financial derivatives to manage / hedge interest rate, market, credit, and foreign currency risk exposures as well as for security replication, portfolio adjustment, and implementation purposes. Derivative use must be in accordance with the Prudent Investor Rule and can only be used on a non-speculative and non-leveraged basis.</p>	<ul style="list-style-type: none"> ▪ The use of financial derivatives is an important risk tool for portfolio managers to efficiently manage risk and investment portfolio exposure. The derivative wording, currently in the Investment Limits and Constraints section, is confusing and does not provide clarity to control the use of derivatives in portfolio management. The proposed amendment enhances clarity and risk management options to the City's portfolio managers, and will ensure consistency with investment industry standards and best practices.
<p><u>Section VII- Quality of Fixed Income Investments</u></p> <p>vi. No reference to allocation of Private Debt Investments in current policy.</p> <p>Page 8</p>	<p>Unrated private debt investments (not rated by a credit rating agency) are eligible for investment provided they are rated as investment grade by the portfolio manager using a rating methodology of an approved credit rating agency.</p>	<ul style="list-style-type: none"> ▪ Private Debt Investments are expected to enhance risk/return profile within the City's total bond portfolio. Volatility is expected to be reduced, credit protection enhanced, diversification magnified and higher rate of return generated. ▪ Not all private debt securities are rated by an external credit rating agency although private

		debt funds consist of high quality investment grade bonds and fixed income securities. Investment managers, specialized in Private Debt, often have a dedicated department that assigns a credit rating (based on DBRS, S&P or Moody's rating methodology) to the assets they invest in.
<p><u>Section VII- Quality of Fixed Income Investments</u></p> <p>Counterparties' Credit Rating:</p> <p>vii. All counterparties for derivative products and repurchase agreements shall be rated no less than R-1 Mid and/or AA. The counterparty's exposure for its derivative transactions will be included in the maximum exposure limit allowed for that issuer.</p> <p>Page 8</p>	<p>All counterparties for derivative products and repurchase agreements shall be rated no less than R-1 low and/or A. The counterparty's exposure for its derivative transactions will be included in the maximum market value exposure limit allowed for that issuer.</p>	<ul style="list-style-type: none"> ▪ Due to recent rating downgrades of Canadian Banks, counterparty ratings are required to be changed to R-1 low and/or A in order for the City to transact hedging activities internally or via external managers. ▪ Also, the term "market value" better defines the amount of credit exposure compared to the current policy wording.
<p><u>Section IX- Performance and Reporting</u></p> <p>Benchmarks</p> <p>viii. DEX 91- Day T-bill Index, DEX 365 Day T-bill Index and/or DEX Short Term Bond Index*, DEX Short Term Bond Index, DEX Universe Bond Index</p> <p>Page 9</p>	<p>FTSE TMX 91- Day T-bill Index, FTSE TMX 365 Day T-bill Index and/or FTSE TMX Canada Short Term Bond Index*, FTSE TMX Canada Short Term Bond Index, FTSE TMX Canada Universe Bond Index.</p>	<ul style="list-style-type: none"> ▪ This is a housekeeping change. FTSE Group and TMX Group combined their respective fixed income Indices and resulted changing the names of DEX indices to FTSE TMX indices. The proposed amendment aims to update the name of the indices used for the City's benchmarks.
<p><u>Section IX- Performance and Reporting</u></p> <p>Valuation of Securities:</p>	<p>Investments in pooled funds shall be valued according to</p>	<ul style="list-style-type: none"> ▪ The proposed amendment provides clarity on how to value investment assets using

<p>ix. No reference to pooled fund valuation and fair value in current policy.</p> <p>Page 9</p>	<p>the unit values published by the pooled fund manager.</p> <p>If a public market price is not available for an asset then the investment manager(s) shall determine a fair value. A suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate.</p>	<p>industry standards and best practices.</p>
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