

INVESTMENT POLICY STATEMENT

FOR

THE CITY OF KENORA (the “Municipality”)

FEBRUARY 18, 2020

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The City of Kenora

Investment Policy Statement

OVERVIEW

Municipalities that are subject to the *Municipal Act, 2001* (the “Act”) have no general power to invest money. Such powers must be found either in express provisions of the Act or by necessary implication.

Historically, municipalities that are subject to the Act had very limited express investment powers under section 418 of the Act. Section 418 continues to apply to all municipalities that are subject to the Act unless they elect to pass a by-law pursuant to the new section 418.1. Section 418 of the Act provides that “money that is not required immediately” can only be invested in securities prescribed by the Province in O. Reg. 438/97 (the “Regulation”). These prescribed securities are generally referred to as the “Legal List Securities” and are included in Part I of the Regulation.

Effective January 1, 2019, the new section 418.1 of the Act came into force. Section 418.1 provides that “money that is not required immediately” can be invested under that section in any security, provided that in making the investment the municipality exercises the care, skill, diligence and judgment that a prudent investor would exercise in making the investment. If a municipality elects to pass a by-law under section 418.1, the effect will be that its “money that is not required immediately” must be invested in accordance with the prudent investor regime. The rules, conditions and procedures that apply to investments under section 418.1 are set out in Part II of the Regulation.

Investing “money that is not required immediately” (MNRI) in Legal List Securities or in accordance with the prudent investor regime are mutually exclusive alternatives. That is to say, section 418 does not apply to a municipality that has adopted the prudent investor regime under section 418.1.

Every municipality, regardless of whether section 418 or 418.1 applies to it, has MNRI and also money that is required immediately (MRI). Municipalities retain the management and control of their MRI. The Act does not include any express provisions that deal with the investment of MRI. However, it is consistent with prudent practice to invest such money until it is actually spent, in order to preserve the capital value of that money. Accordingly, it is necessarily implied that a municipality has the power to invest such money on a short term basis. Because the Act is silent as to how municipalities are to deal with MRI and because of the historical investment powers under the Act, a conservative approach is to invest MRI in appropriate Legal List Securities.

Municipalities that elect to pass a by-law pursuant to the new section 418.1 include in their investment policy (i) the basis upon which they distinguish between MNRI and MRI, and (ii) principles governing the investment of each category of money. This Investment Policy Statement (IPS) is intended to respond to the foregoing requirements.

1. GLOSSARY AND DEFINITIONS

The following capitalized terms are defined terms which have the meanings set out below:

Act: means the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended from time to time.

Agent: means any administrator, Custodian, payment servicer, portfolio manager, investment counsel, consultant, banker, broker, dealer or other service provider engaged or appointed by ONE JIB and authorized by ONE JIB to exercise any of the functions of ONE JIB pursuant to a written agreement, in the manner and to the extent provided in the Regulation and without limiting the generality of the foregoing, Agent includes ONE Investment.

Asset Mix (or Asset Allocation): means the proportion of each asset class in a portfolio. Asset classes include bank deposits, money market securities, bonds and equities, among other things.

Authorizing By-law: means a by-law of a Founding Municipality which authorizes: (i) the entering into of the Initial Formation Agreement; (ii) the establishment of ONE JIB; (iii) the approval of the Client Questionnaire and the adoption of the IPS; and (iv) the entering into of the ONE JIB Agreement.

Benchmark: means an index that is representative of a specific securities market (e.g. the S&P/TSX Composite Index, the FTSE/TMX 91 Day T-bill Index, etc.) against which investment performance can be compared. Performance benchmarks refer to total return indices in Canadian dollar terms.

CFA Institute: refers to the global, not-for-profit professional association that administers the Chartered Financial Analyst (CFA) and the Certificate in Investment Performance Measurement (CIPM) curricula and examination programs worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance reporting standards for the investment industry.

Custodian: means a specialized financial institution that is responsible for safeguarding a municipality's investments and is not engaged in "traditional" commercial or consumer/retail banking. Global custodians hold investments for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks ("sub-custodians" or "agent banks").

Environmental, Social and Governance (ESG) Investing: means investing that takes into account the three central factors in measuring the sustainability and ethical impact of an investment. These criteria contribute to determining the future financial performance of companies (return and risk).

External Portfolio Managers: means considering and integrating ESG factors into the investment process, rather than eliminating investments based on ESG factors alone. Integrating ESG information can lead to more comprehensive analysis of a company.

Internal Controls: means a system of controls that may include authorities, policies, procedures, separation and segregation of duties, compliance checks, performance measurement and attribution, reporting protocols, measures for safekeeping of property and data, and the audit process.

Investment Plan: means the investment plan applicable to the Long-Term Funds investments and adopted by ONE JIB under the Regulation, as it may be amended from time to time.

Investment Policy Statement (IPS): means the investment policy applicable to the Municipality's investments adopted and maintained by the Council of the Municipality for Long-Term Funds under the Regulation, and for Short-Term Funds, as the same may be amended from time to time. The IPS may also apply to the money and investments held by the Municipality for the benefit of persons other than the Municipality itself and may make reference to source(s) of money in which the Municipality may have an indirect interest but which the Municipality has no authority to invest.

JIB: is short for Joint Investment Board and means a joint municipal service board that is established under section 202 of the Act by two or more municipalities for the purposes of Part II of the Regulation.

Legal List Securities: means the securities and other investments and financial instruments that are included from time to time in Part I of the Regulation.

Local Distribution Corporation or LDC: means a corporation incorporated under section 142 of the *Electricity Act, 1998*.

Long-Term Funds: means the Municipality's money that is to be used to meet financial obligations that become due more than 24 months following the date of receipt of such money and is characterized as money that is not required immediately by the Municipality as described in section 5.2. Monies that are Long Term Funds will be invested in accordance with the Prudent Investor Standard.

Modern Portfolio Theory: means a theory of portfolio management that looks towards the portfolio as a whole, rather than towards the prudence of each investment in the portfolio. This is found in the CFA Institute Standards of Practice Handbook.

Municipality: means the City of Kenora.

ONE JIB: means ONE Joint Investment Board, established by certain founding municipalities under section 202 of the Act as a JIB for purposes of Part II of the Regulation, which is the duly appointed JIB for the Municipality, as constituted from time to time and which acts in accordance with the Act, the Regulation, the ONE JIB Agreement, including the Terms of Reference, this IPS and the Investment Plan.

ONE JIB Agreement: means the agreement effective as of June 1, 2020, entered into in accordance with the requirements of the Regulation, pursuant to which ONE JIB has control and management of the Municipality's Long-Term Funds.

Participating Municipality: means from time to time each of the municipalities for whom ONE JIB acts as the JIB under the terms of the ONE JIB Agreement.

Pooled Fund: means a unit trust established under a trust instrument, generally not available to the public, in which institutional, sophisticated or high net worth investors contribute funds that are invested and managed by an External Portfolio Manager. Funds are pooled or combined with funds of other investors.

Portfolio: means any collection of funds that are grouped together and required for specific purposes.

Proxy Voting: means a legal transfer to another party of a shareholder's right to vote thereby allowing shareholders who cannot attend meetings to participate. External Portfolio Managers usually vote proxies on behalf of their clients.

Prudent Effective Date: means June 1, 2020, the date on which the prudent investor regime applies to the Municipality.

Prudent Investor Standard: means the standard that applies when the Municipality invests money that it does not require immediately under section 418.1 of the Act. It requires the Municipality to exercise the care, skill, diligence and judgment that a prudent investor would exercise in making such an investment and the standard does not restrict the securities in which the Municipality can invest. The Prudent Investor Standard makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio in respect of the Municipality's Long-Term Funds rather than to individual securities. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the CFA Institute Standards of Practice Handbook.

Regulation: means Ontario Regulation 438/97.

Risk: means the uncertainty of future investment returns.

Risk Tolerance: means the financial ability to absorb a loss. Risk tolerance increases with the build-up of capital funding.

Securities Lending: means loaning a security to another market participant. The borrower is required to deliver to the lender, as security for the loan, acceptable collateral with value greater than the value of the securities loaned. The Securities Lending program is managed by the Custodian on behalf of investors. A Securities Lending program is widely used by institutional investors to generate additional marginal returns on the total portfolio.

Short-Term Funds: means money that is required immediately by the Municipality as described in section 5.1 and which remains under the control and management of the Municipality. The funds can be invested in appropriate Legal List Securities.

Sinking Fund: means a fund established to fulfil the requirements to make annual contributions in respect of various debenture issues wherein money is to be regularly set aside for the payment of the principal of the debentures at maturity.

Sinking Fund Required Contributions (Annual Sinking Fund Requirement): means the amount of money to be set aside each year for deposit into a sinking fund or a retirement fund, as applicable, for each sinking fund and term debenture issue in accordance with the Municipality's debenture by-laws when such debentures are issued.

Sinking Fund Required Earnings: means the investment earnings needed for the Sinking Fund Contributions to continue to grow to a value sufficient to repay the principal at maturity for each issue of sinking fund and term debentures.

Sinking Fund Excess Earnings: means the investment earnings in excess of the required earnings.

2. PURPOSE AND LEGISLATIVE FRAMEWORK

2.1 Purpose of Policy

This IPS governs the investment of the Municipality's MNRI and MRI. It is intended, among other things, to direct the Manager of Finance/Treasurer in the investment of MRI and to direct ONE Joint Investment Board (ONE JIB) in the investment of MNRI by implementing the Authorizing By-law pursuant to which the Municipality authorized the establishment of guidelines for the prudent management of the Municipality's MNRI pursuant to section 418.1 of the Act.

In addition to the Municipality's MRI and MNRI, the Municipality is from time to time entrusted with the management of money and investments for a third party beneficiary ("third party trust funds").

There are also source(s) of money in which the Municipality may have an indirect interest but which the Municipality currently has no authority to invest. Such source(s) of money, referred to in this IPS as "designated funds", are listed in Schedule A attached hereto. The designated funds are identified in this IPS for the sole purpose of enabling the Municipality to better see, on an aggregated basis, the various financial assets in which the Municipality has an interest. The Municipality is not responsible for the investment activities or performance of designated funds.

The goals of this IPS are to:

- Define and assign responsibilities for investment of MRI and MNRI;
- Describe the Municipality's responsibilities with respect to third party trust funds and designated funds
- Ensure compliance with the applicable legislation;
- Direct ONE JIB as to the Municipality's investment goals and risk tolerance;
- Provide guidance and limitations regarding the investments and their underlying risks;
- Establish a basis of evaluating investment performance and the underlying risks; and,
- Establish a reporting standard to Council.

This IPS applies to employees of the Municipality, to ONE JIB and to the employees of ONE Investment. ONE JIB, the Manager of Finance/Treasurer, and any agent or advisor providing services to ONE JIB in connection with the investment of the portfolio shall accept and strictly adhere to this IPS.

2.2 Governing Legislation

Investments of MRI will, in accordance with this IPS, only be made in Legal List Securities.

Investments of MNRI are governed by the Prudent Investor Standard in accordance with Section 418.1 of the Act. This standard is similar to that which governs trustees and

pension fund administrators and creates a fiduciary responsibility. Prudent investment in compliance with the Act and the Regulation enhances the potential for the Municipality to earn improved risk-adjusted rates of return.

Money and investments that the Municipality holds as third party trust funds or has an interest in as designated funds will be subject to applicable legislation and any related agreements or instruments.

The Act provides that the Municipality must consider the following criteria in planning investments of MNRI, in addition to other criteria relevant to the circumstances:

- General economic conditions;
- The possible effect of inflation or deflation;
- The role that each investment plays within the Municipality's total portfolio of investments;
- The expected total return from income and the appreciation of capital; and
- Needs for liquidity, regularity of income and preservation or appreciation of capital.

2.3 Prudent Investor Standard

For MNRI, the standard to be used by the Municipality and ONE JIB shall be the "prudent investor" standard as required by section 418.1 of the Act and Part II of the Regulation in the context of managing the Municipality's MNRI and investments thereof. Investments shall be made with the care, skill, diligence, and judgment, taking into account the prevailing circumstances, that persons of prudence, discretion and integrity would exercise in the management of investments, considering the necessity of preserving capital as well as the need for income and appreciation of capital. The Act includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

As well, the Prudent Investor Standard makes use of Modern Portfolio Theory, which looks towards the portfolio as a whole, rather than towards the prudence of each investment in the portfolio.

Officers, employees and investment agents acting in accordance with written procedures and the IPS and exercising due diligence shall take all necessary actions to optimize performance of investments on a portfolio basis, taking into account the prescribed risk and other parameters set out in this IPS and market factors. The Municipality's staff acting in accordance with written procedures and this IPS, shall be relieved of personal responsibility for an investment's performance, provided underperformance relative to expectations is reported to Council and the liquidation or sale of investments is carried out in accordance with this IPS.

3. MONEY REQUIRED IMMEDIATELY AND MONEY NOT REQUIRED IMMEDIATELY

3.1 Determination of MNRI and MRI

Determination of the Municipality's MNRI is the responsibility of Council. In making the determination, Council may consider:

- the time horizon within which the monies are needed to meet financial obligations
- the purpose for which the monies have been collected or set aside and are to be used
- the source of the money
- any combination of the foregoing

The Municipality's MNRI will be comprised of money that is to be used to meet financial obligations that become due more than 24 months from the date of receipt of such money by the Municipality.

For certainty, all money of the Municipality that has not been identified as MNRI (other than third party trust funds and any designated funds referenced in Section 2.1) shall be deemed for purposes of this IPS to be MRI.

Determination of the Municipality's MNRI and MRI may be modified at any time and from time to time by action of Council and with respect to specific funds by the Manager of Finance/Treasurer in accordance with the provisions of Section 6.2.

Any changes in this IPS regarding the Municipality's MNRI and MRI must be communicated immediately in writing to ONE JIB.

3.2 Overview of Portfolios

The Municipality's portfolios represent funds required for specific purposes. A high level description of each of these portfolios and their objectives is provided in Section 5 below. This IPS applies to the following money of the Municipality, its agencies, boards and commissions including:

- MRI which is invested in Legal List Securities; and/or
- MNRI which is invested under the prudent investor regime.

4. ROLES AND RESPONSIBILITIES

4.1 Role of ONE JIB

ONE JIB has been appointed by the Municipality in accordance with the requirements of the Act and the Regulation and on the terms and conditions set out in the ONE JIB Agreement.

ONE JIB exercises control and management of the Municipality's MNRI and the investments made by it with such MNRI.

Among the responsibilities of ONE JIB are the following:

- Reviewing this IPS;
- Adopting and maintaining an Investment Plan that complies with this IPS;
- Engaging External Portfolio Managers, Custodians, administrators and other investment professionals (Agents);
- Allocating the money and investments under its control and management among External Portfolio Managers;
- Monitoring the performance of the Agents; and,
- Reporting to the Municipality.

The foregoing is subject to the more detailed terms and conditions contained in the ONE JIB Agreement.

4.2 Role of Municipal Staff

This IPS is approved and adopted by Council with input from the Manager of Finance/Treasurer, and from ONE JIB with respect to MNRI. MRI of the Municipality, and any third party trust funds referenced in Section 2.1, remain under the control and management of the Manager of Finance/Treasurer.

Consistent with this IPS, the Manager of Finance/Treasurer is responsible for the implementation of the investment program and the establishment of investment procedures which shall include:

- Investment management of MRI and any third party trust funds referenced in Section 2.1 by, or under the direction of, the Manager of Finance/Treasurer;
- Explicit delegation of authority regarding MNRI, and the investment thereof, to ONE JIB, which is responsible for the control and management of such funds and investments; and,
- A system of controls exercised by the Manager of Finance/Treasurer to regulate the activities of staff involved in the investment process.

Individuals 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.

Investment officers acting in accordance with this IPS and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes.

No person including, without limitation, ONE JIB, may engage in an investment transaction except as provided under the terms of this IPS.

In the management of MRI of the Municipality, and any third party trust funds referenced in Section 2.1, the Manager of Finance/Treasurer may engage one or more agents and service providers. ONE Investment can assist with the investment of the Municipality's MRI, in Legal List Securities, and with the investment of third party trust funds, in

accordance with the terms of the applicable trust, if permitted, at the request of the Municipality.

5. INVESTMENT

5.1 MRI: Short-Term Funds

The Municipality's MRI is described in this IPS as Short-Term Funds. Short-Term Funds consist of money needed to meet the financial obligations of the Municipality coming due within 24 months from the date of receipt of such money and are controlled and managed by the Manager of Finance/Treasurer.

5.1.1 Short-Term Funds: Investment Objectives

The main focus of the investment of Short Term Funds is cash management, and the interest income generated by the investment is a contributor to budgetary revenues. To the extent possible, the Municipality shall attempt to match its investments with anticipated obligations.

Capital preservation is paramount and this portfolio needs to be highly liquid. Consequently, only high quality, short-term investments that are also Legal List Securities will be held in this portfolio. The Municipality may invest in fully liquid money market securities and deposit accounts. The Municipality aims to maximize returns subject to the constraints set out in Part I of the Regulation, as amended from time to time, with a view to preserving capital and to further manage risk through diversification by issuer and credit quality.

5.1.2 Short-Term Funds: Eligible Investments

Short Term Funds may be invested in high quality, short-term investments that are also Legal List Securities available from banks, dealers and other financial institutions. Eligible investments include the following offerings by ONE Investment:

- ONE Investment High Interest Savings Account;
- ONE Investment Money Market Portfolio; and,
- ONE Investment Bond Portfolio

Investment in the foregoing is subject to the Municipality entering into the prescribed Agency Agreement with LAS and CHUMS.

The Municipality monitors and determines the amount of its MRI. It will, from time to time, be comprised of:

Reserve / Account	Objective	Risk Tolerance, Liquidity	Investment Horizon
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Per attached spreadsheet

5.2 MNRI: Long-Term Funds

The Municipality’s MNRI is described in this IPS as Long-Term Funds. In accordance with the ONE JIB Agreement and this IPS, ONE JIB has exclusive control and management of the Long-Term Funds and the investments made therewith.

From time to time, the Municipality may require money immediately to meet financial obligations and may require ONE JIB to liquidate one or more investments in order to generate money to pay those obligations. ONE JIB will select the investment(s) to be liquidated. The timing of such liquidation will be determined by ONE JIB in consultation with the Manager of Finance/Treasurer.

5.2.1 Long-Term Funds: Investment Objectives

In setting the objectives noted below, the Municipality has taken into account the following considerations:

- Preservation of capital;
- Adequate liquidity that takes into account the needs of financial obligations and reasonably anticipated budgetary requirements;
- Diversification by asset class, market, sector, issuer, credit quality and term to maturity;
- Income and capital appreciation; and,
- Macro risks, such as inflation, economic growth and interest rates.

The Municipality has identified the following investment objectives for its Long-Term Funds.

Reserve / Reserve Fund/ Account	Objective	Risk Tolerance, Liquidity	Investment Horizon
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Per attached spreadsheet

Reserve / Reserve Fund/ Account	Objective	Risk Tolerance, Liquidity	Investment Horizon
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Investment of Long-Term Funds is managed by ONE JIB, which balances expected investment risks and returns to generate asset mixes that create outcomes to meet the needs and risk tolerances defined below. Returns have an impact on municipal revenues, as well as a longer term impact on future years’ budgets and should, at a minimum, keep pace with inflation. To the extent possible, the Long-Term Funds’ investment horizons are aligned with the Municipality’s obligations and may consist of liquid and illiquid securities.

5.2.2 Long-Term Funds: Eligible Investments

Eligible investments for Long-Term Funds include the following offerings by ONE Investment:

- ONE High Interest Savings Account;
- ONE Canadian Bond Fund;
- ONE Canadian Corporate Bond Fund;
- ONE Canadian Equity Fund;
- ONE Global Fixed Income Fund; and,
- ONE Global Equity Fund.

Additionally, nothing in this IPS prevents Long-Term Funds from being held in cash, short term money market instruments, or overnight deposits.

5.2.3 Long-Term Funds: Sinking Funds

N/A

5.2.4 Long-Term Funds: Local Distribution Corporation (LDC) Securities

1.1.1. The direct investment in LDC assets, prior to the Prudent Effective Date, shall be included as part of the Long-Term Funds. Specific details of this investment shall be approved by Council and ONE JIB shall adhere to all terms and conditions as directed. More specifically, ONE JIB will be prohibited from selling the LDC assets without the consent of the Municipality. They should be viewed as separate standalone investments. These investments should not be included in calculations regarding asset mix/allocations or other constraints that apply to the Long-Term Funds. Any proxy voting for LDC shares will be directed by the Municipality.

5.2.5 Long-Term Funds: City of Kenora debt

Debt required by the City for capital projects has been issued internally to the Citizens’ Prosperity Trust Fund. These investments will be included as part of the Long-Term

Funds. ONE JIB will be prohibited from selling the debentures without the consent of the Municipality.

5.3 Third Party Trust Funds and Designated Funds

In addition to the Municipality's own money, the Municipality is from time to time entrusted with third party trust funds, and the Municipality's responsibilities and obligations with respect thereto may be subject to other legislation and governed by other agreements and instruments. To the extent that there is any conflict or inconsistency between the provisions of this IPS and the terms and conditions contained in such other legislation, agreements or instruments applicable to third party trust funds, the latter shall prevail.

The Municipality's third party trust funds and the designated funds are listed in Schedule A. As noted above, the Municipality currently has no authority or responsibility with respect to the investment of the designated funds.

For certainty, the third party trust funds and the designated funds are not MNRI of the Municipality, and such funds are not under the control or management of ONE JIB.

5.4 Investment Management

5.4.1 Investment Management of Short-Term Funds

The investment of Short-Term Funds shall be controlled and managed by the Manager of Finance/Treasurer.

5.4.2 Investment Management of Long-Term Funds

The investment of Long-Term Funds shall be controlled and managed by ONE JIB. An investment advisor shall be retained by ONE JIB to define and manage the asset allocation using External Portfolio Managers.

Competent External Portfolio Managers shall be appointed by ONE JIB and they shall enter into an agreement with ONE Investment that complies with this IPS and Part II of the Regulation and provide compliance and performance reports. In accordance with the applicable regulatory requirements, ONE JIB shall make any External Portfolio Manager changes deemed in the best interest of the Municipality. For each External Portfolio Manager, ONE Investment shall agree on a set of operational guidelines including constraints, discretion limits, diversification and quality standards, and performance expectations, which are documented in each External Portfolio Manager's guidelines.

5.5 Transition to Prudent Investor Regime

Until the Prudent Effective Date, the Municipality will continue to control and manage its MRI, MNRI and investments in Legal List Securities. Some of such investments were made with MRI and some with MNRI.

Upon and after the Prudent Effective Date, the control and management of money and investments that are determined to be not required immediately shall be given to ONE JIB. Nothing in this IPS requires that such investments need be liquidated or disposed of. It is not contrary to this IPS for investments that the Municipality does not require immediately to be held, and to continue to be held by ONE JIB, in instruments such as term deposits, guaranteed investment certificates or principal protected notes issued by a bank to be held to maturity and invested upon receipt of cash proceeds.

Management of third party trust funds and any designated funds is not directly affected by the Prudent Effective Date.

5.6 Investment Constraints

5.6.1 *Environmental, Social and Governance (ESG) Investing*

The Municipality supports ESG investing for Short-Term and Long-Term Funds.

For the investment of Short-Term Funds, the Manager of Finance/Treasurer is required to invest in instruments that support responsible ESG principles, where appropriate.

For the investment of Long-Term Funds, ONE JIB is required to explore how External Portfolio Managers are implementing responsible investing principles at the time of hiring and during periodic reviews. It may report on results periodically, if requested. Accommodating specific ESG considerations may not be possible either due to availability or to costs.

5.6.2 *Securities Lending*

For the investment of Short-Term Funds, securities lending is permitted through ONE Investment Program investments only. For the investment of Long-Term Funds, the Municipality may invest in pooled funds, and other investment funds that are controlled by an External Portfolio Manager who may engage in Securities Lending if the policies of the External Portfolio Manager that apply to such pools permit such an action.

5.6.3 *Derivatives*

Derivatives may not be used for speculative purposes. They may be used for the investment of Long-Term Funds where they are fully covered by a backing asset, e.g., as for currency or other hedging, to change portfolio duration or in covered call strategies.

5.6.4 *Use of Leverage*

Leverage is inherent in the use of certain types of investment strategies and instruments. Where leverage is employed, ONE JIB (for MNRI) and the Manager of Finance/Treasurer

(for MRI) shall have in place monitoring procedures to manage overall exposure to any counterparty and in the aggregate.

5.6.5 Pooled Funds

All investment strategies may be pursued directly through holdings of corporate and government issuers and indirectly via pooled funds and investment funds or any combination thereof.

5.6.6 Currency Hedging

The Municipality's funding requirements are in Canadian dollars, however some exposure to foreign currencies may be desirable to provide diversification and potentially enhance returns. Therefore, it shall not be a violation of this IPS for investments in global mandates to be unhedged, in whole or in part, where the diversification benefits embedded in the currency exposure are considered to be beneficial or desirable by ONE JIB.

5.6.7 Prohibited Investments

Investments in no event may be made in foreign direct investment in countries subject to Canadian or UN economic sanctions.

5.7 Performance Monitoring, Rebalancing and Management

5.7.1 Short-Term Funds

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. Authorized employees exercising due diligence shall be relieved of personal responsibility for an individual investment's credit risk or market price changes.

The Manager of Finance/Treasurer is responsible for establishing controls for performance monitoring, rebalancing and management of Short-Term Funds, in accordance with this IPS. If an investment is, in the Manager of Finance/Treasurer's opinion, not consistent with the investment objectives set out in this IPS, the Manager of Finance/Treasurer will report the inconsistency to Council within 30 days after becoming aware of the inconsistency, and corrective action will be taken.

5.7.2 Long-Term Funds

For the investment of Long-Term Funds, each account's asset mix will be monitored on a frequent basis by ONE JIB. Should the asset mixes deviate outside the ranges set out in the Investment Plan, the account will be rebalanced as soon as practicable taking into consideration variations in market liquidity and the investment objectives. Cash inflows /outflows will be used to rebalance as much as possible. If they are insufficient, investments will be sold in a commercially reasonable manner and reallocated as required.

Investments are expected to achieve returns at least equal to their benchmarks measured over a rolling five-year period. ONE JIB shall provide at least annual reporting described in Section 6.7 that demonstrates the Municipality's holdings, declares compliance with this IPS and shows External Portfolio Manager performance.

6. ADMINISTRATIVE POLICIES

6.1 Flow of Funds and Annual Municipal Budget

6.1.1 Transfer to Municipality as Part of Budget Process

On an annual basis, as part of the Municipality's budget process, ONE JIB shall be notified by the Manager of Finance/Treasurer as to the amount, if any, required by the Municipality from the Long-Term Funds then under the control and management of ONE JIB for the Municipality's operational purposes. Such amount, subject to Section 6.2, shall be deemed to be Short-Term Funds and shall be returned to the Municipality in a lump sum or by way of periodic payments, as directed by the Manager of Finance/Treasurer.

6.1.2 Surplus Funds to ONE JIB

The Short-Term Funds capture revenues received by the Municipality during each year after the approval of the Municipality's budget for the year. Any amounts deemed to be surplus by the Manager of Finance/Treasurer at any such time during the year shall be transferred to ONE JIB to be under its management and control as Long-Term Funds. Amounts so transferred will be recorded annually in the Investment Plan and allocated by ONE JIB in accordance with the Investment Plan.

6.2 Exercising the Manger of Finance/Treasurer's Discretion

6.2.1 Transfer of Funds from MNRI to MRI

The Manager of Finance/Treasurer shall be authorized to specify funds under the control of management of ONE JIB as MRI due to, but not limited to, the passage of time or changes in circumstances and to request the return of such funds on a periodic basis or as a lump sum. The determination of MNRI and MRI will be made on a basis consistent with this IPS and is subject to Council authorization.

6.2.2 Contingencies

The Manager of Finance/Treasurer is authorized, from time to time after the approval of the Municipality's budget, to direct ONE JIB to return any amounts determined by the Manager of Finance/Treasurer to be required to meet expenditures for unexpected contingencies not anticipated by the Municipality's budget in force for that year. Unexpected contingencies may include, but are not limited to, a severe weather event, an unanticipated opportunity to make an acquisition or to engage in a project to take advantage of a government funding opportunity. If an unexpected contingency was to occur the Manager of Finance/Treasurer shall be authorized to reclassify to MRI funds previously determined to be MNRI and to request the return of such funds in order to satisfy the contingency. Provided however that the aggregate of the amounts to be

returned to the Municipality under this Section 6.2.2 during the year shall not exceed [25%] of the Long-Term Funds under the control and management of ONE JIB at that time.

6.3 Valuation of Investments

Investments shall be valued according to the values provided by the Custodian(s). For the investment of Long-Term Funds, values of unitized vehicles shall be valued according to the unit values published daily by the Custodian. Other investments shall be valued at their market value when that is available from regular public trading. If a market valuation of an investment is not available, then a fair value shall be supplied by the External Portfolio Manager to the Custodian no less frequently than quarterly.

6.4 Voting Rights

Subject to the provisions of Section 5.2.4 with respect to LDC securities, where External Portfolio Managers have been appointed, such External Portfolio Managers shall assume the responsibility of exercising voting rights and will report their voting policies to ONE JIB annually. The Municipality may access these policies at any time.

6.5 Internal Controls

The Manager of Finance/Treasurer shall establish an annual process of review of all investments made under this IPS. This review will provide internal control by assuring compliance with governing legislation and with policies and procedures established by the Manager of Finance/Treasurer. To the extent ONE JIB's input is needed, these requirements will be communicated in advance to ONE JIB.

6.6 Custodians

All investments and assets of the investment portfolios shall be held by a Custodian and any of the Custodian's sub-custodians or nominees. For Long-Term Funds, the Custodian shall be acceptable to ONE Investment. For Short-Term Funds the Custodian shall be acceptable to ONE Investment if ONE Investment is administering the investment of the Municipality's Short-Term Funds, otherwise the Custodian shall be acceptable to the Manager of Finance/Treasurer.

6.7 Reporting

6.7.1 Short-Term Funds

For the investment of Short-Term Funds, the Manager of Finance/Treasurer shall report annually to Council, such report to be in such form and contain such content as Council may request. The report to Council shall include investment performance during the period covered and such other information as the Manager of Finance/Treasurer may consider to be pertinent.

6.7.2 Long-Term Funds

The Regulation provides that ONE JIB shall submit an investment report to Council in respect of the investment of Long-Term Funds at least annually. Such report shall include the following.

- Investment performance during the period covered by the report;
- Asset mix of the total portfolio;
- A listing of individual investments held at the end of the reporting period showing, where appropriate, their average term to maturity and yield relative to the benchmark, book value, market value, realized/unrealized gains/losses and actual income received;
- Dates of all transactions including the purchase and sale prices;
- A statement by the Manager of Finance/Treasurer as to whether all investments were made in accordance with the IPS and as to whether all investments were made in accordance with the Investment Plan; and
- Any other pertinent information in the opinion of the Manager of Finance/Treasurer.

All securities invested on behalf of the Municipality by ONE JIB or with the assistance of ONE Investment shall be held for safekeeping in the name of the Municipality by a Custodian, which shall provide monthly reporting showing all securities held, their book values, market values and all income received.

7. APPROVAL, SUBSEQUENT MODIFICATIONS AND EFFECTIVE DATE

7.1 Revocation / Amendment of Previous Investment Policy

As of the effective date of this IPS the previously approved Investment Policy #14-2014 of the City of Kenora is superseded and repealed.

7.2 Modifications to the IPS

At least annually Council shall review the IPS and update it, if required. In the course of reviewing the IPS, Council may request comments from the Manager of Finance/Treasurer with respect to the investment of Short-Term Funds and from ONE JIB with respect to the investment of Long-Term Funds.

Following the Council's review of the IPS, ONE JIB shall review the Investment Plan and update it, if required.

At a minimum, the annual review will take into account:

- the adequacy of funding for capital works;
- the Municipality's ability to reduce other spending;
- flexibility of the timeframe to payout; and
- sensitivity to loss.

7.3 Effective Date

This IPS is adopted by Council of the Municipality effective June 1, 2020. The Manager of Finance/Treasurer is directed to sign a copy of this IPS to evidence approval and to deliver a copy of this IPS to ONE JIB.

Signed by:

Manager of Finance/Treasurer

Date

Schedule A

Third Party Trust Funds and Designated Funds

Third Party Trust Funds

Cemetery land fund	\$7,169
Cemetery perpetual care fund	638,679
Inscription fee fund	143,960
Library	22,069
Museum	379,881

Designated Funds

[Listed here for information and tracking purposes only. The Municipality has no authority or responsibility with respect to investment of designated funds. For example, social housing capital reserves of a local housing corporation which are to be invested in the Housing Services Corporation's pooled capital reserve funds managed by Encasa.]

Money Required Immediately

Reserve Category	Objective	Risk tolerance, Liquidity	Investment Horizon
Contingency Reserve	To allow access to funds for unanticipated or emergency expenditures	Low risk, next day liquidity	Less than 24 months
Working Capital Reserve	To assist with cash management for capital projects prior to the receipt of funding.	Low risk, next day liquidity	Less than 24 months
Roads reserve	Required on a specific date to pay for specific capital projects	Low risk, next day liquidity	Less than 24 months
GIC Airport Guarantee	Required on an unknown date which may be within 24 months	Low risk, next day liquidity	Less than 24 months
Federal Gas Tax	Required on a specific date to pay for specific capital projects	Low risk, next day liquidity	Less than 24 months
Museum Annex Reserve	Required on a specific date to pay for specific capital projects for amounts over \$200,000	Low risk, next day liquidity	Less than 24 months
Debt issued within 24 months	Required on a specific date to pay for specific capital projects	Low risk, next day liquidity	Less than 24 months

Money Not Required Immediately

<u>Account/Reserve/Reserve Fund</u>	<u>Objective</u>	<u>Risk Tolerance, Liquidity</u>	<u>Investment Horizon</u>	<u>MNRI</u>
Citizens Prosperity Trust Fund - RBC Dexia/MFC Global	To safeguard the principal while using the related investment income to eliminate the negative impacts resulting from the loss of the annual dividends from the telephone operations. The City requires \$1.1M in investment income from the CPTF assets.	The investment is long term however it is important that the principal amount is not eroded. A rate of return of at least 3% will satisfy our \$1.1M cash transfer to the City annually. The risk tolerance would be low to moderate to accomplish the objectives.	The investment horizon is long term into perpetuity. The intent is to leave the principal intact while subsidizing the City's operations by \$1.1M each year. The only exception would be the use of these investments to fund City capital projects.	9,921,222
Citizens Prosperity Trust Fund - ONE Bond Fund	To safeguard the principal while using the related investment income to eliminate the negative impacts resulting from the loss of the annual dividends from the telephone operations. The City requires \$1.1M in investment income from the CPTF assets.	The investment is long term however it is important that the principal amount is not eroded. A rate of return of at least 3% will satisfy our \$1.1M cash transfer to the City annually. The risk tolerance would be low to moderate to accomplish the objectives.	The investment horizon is long term into perpetuity. The intent is to leave the principal intact while subsidizing the City's operations by \$1.1M each year. The only exception would be the use of these investments to fund City capital projects.	16,503,358
Citizens Prosperity Trust Fund - ONE Universe Corporate Bond	To safeguard the principal while using the related investment income to eliminate the negative impacts resulting from the loss of the annual dividends from the telephone operations. The City requires \$1.1M in investment income from the CPTF assets.	The investment is long term however it is important that the principal amount is not eroded. A rate of return of at least 3% will satisfy our \$1.1M cash transfer to the City annually. The risk tolerance would be low to moderate to accomplish the objectives.	The investment horizon is long term into perpetuity. The intent is to leave the principal intact while subsidizing the City's operations by \$1.1M each year. The only exception would be the use of these investments to fund City capital projects.	as above
Citizens Prosperity Trust Fund - ONE Equity Fund	To safeguard the principal while using the related investment income to eliminate the negative impacts resulting from the loss of the annual dividends from the telephone operations. The City requires \$1.1M in investment income from the CPTF assets.	The investment is long term however it is important that the principal amount is not eroded. A rate of return of at least 3% will satisfy our \$1.1M cash transfer to the City annually. The risk tolerance would be low to moderate to accomplish the objectives.	The investment horizon is long term into perpetuity. The intent is to leave the principal intact while subsidizing the City's operations by \$1.1M each year. The only exception would be the use of these investments to fund City capital projects.	as above
Citizens Prosperity Trust Fund - HISA Unrestricted ONE HISA				914,682 4,972,070

Money Not Required Immediately			
<u>Account/Reserve/Reserve Fund</u>	<u>Objective</u>	<u>Risk Tolerance, Liquidity</u>	<u>Investment Horizon</u>
Parking Area Reserve Fund	To pay for specific parking projects.	Liquid, moderate risk tolerance.	For now 5 - 10 years, don't anticipate accessing in the short term.
Roads Reserve Funds	To pay for specific roads projects.	Liquid, low risk tolerance, emphasis on stable returns	Time horizon may be 2 - 5 years as we may consider using these funds for funding shortfalls. This was considered in 2019.
Destination Tourist Attraction Reserve Fund	To build a special purpose reserve fund for tourist related projects	Liquid, moderate risk tolerance.	For now 5 - 10 years, don't anticipate accessing in the short term.
Parklands Reserve Fund	Legislative requirement for municipalities to request an amount not exceeding 5% for residential and 2% for commercial/industrial developments to be used for park or other recreational purposes.	Liquid, moderate risk tolerance.	For now 5 - 10 years, don't anticipate accessing in the short term.
Future Land Development Reserve Fund	Help fund development projects when the opportunity arises	Liquid, moderate risk tolerance.	Time horizon may be 2 - 5 years as we may consider using these funds for funding shortfalls or opportunities that aren't easily predicted.
Transit Capital Reserve Fund	To pay for specific transit projects.	Liquid, moderate risk tolerance.	For now 5 - 10 years, don't anticipate accessing in the short term.
Museum Annex Reserve Fund	To pay for specific Museum projects. The balance is not to go below \$200K.	Liquid, moderate risk tolerance.	More than 20 years for \$200K as this minimum balance must be retained. The remainder would be 2-5 years.
Dedicated Gas Tax	To fund transit purchases.	Liquid, low risk tolerance, emphasis on stable returns.	May need to access just beyond the 24 month threshold depending on bus requirements.
Federal Gas Tax	To fund various capital projects.	Liquid, low risk tolerance, emphasis on stable returns.	May need to access just beyond the 24 month threshold depending on bus requirements.
ONE Bond fund unrestricted investments	Investment of excess funds for future uses not yet designated	Liquid, moderate risk tolerance.	Time horizon may be 2 - 5 years as we may consider using these funds for funding shortfalls.
			36,711
			262,006
			4,390
			102,412
			642,386
			48,207
			200,000
			301,742
			-
			15,351,612

ONE Bond fund water treatment plant	To build funds for major work/replacement of the water treatment plant.	Moderate risk tolerance, not necessarily liquid	For now 5 - 10 years, don't anticipate accessing in the short term.	1,300,157
Rec Centre expansion fund				4,271
Net cash inflows from operations less MRI				
Contingency and working capital reserves retained				(7,300,000)
			Money not required immediately for the next 24 months.	43,265,227