



Peterborough Public Library

To: Library Board
From: Jennifer Jones, Library CEO
Meeting Date: May 11, 2021
Subject: Report PPL21-012
Financial Investment Policy

Purpose

A report to seek direction from the Library Board on a financial investment policy.

Recommendations

That the Library Board approve the recommendations outlined in Report PPL21-012, dated May 11, 2020, of the Library CEO, as follows:

- a) That the Board finalize an updated financial investment policy, and
- b) That the Board establish a process for the use and management of these invested funds.

Budget and Financial Implications

There are financial implications associated with the recommendations of this report. The Board will need to establish a plan and procedures for the use and management of the invested funds.

Background

Catherine Johnston, Associate Advisor at RBD Dominion Securities, attended the Library Board meeting on March 9, 2021 to provide the board members an overview of the current investment policy as well as the status of the invested funds transferred from the Library Foundation to the Library Board.

In the attached draft investment policy (see Appendix A), the Board has been provided with two profile statements – balanced and conservative – resulting from the discussion at the March meeting. A *balanced* portfolio would provide the potential for a 3.86% return vs. 1.8% in the conservative profile.

The Board should also give some consideration to the process they would like to establish for the use of these funds. The Canada Revenue Agency (CRA) has established a disbursement quota of 3.5% annually that is required to be spent by the Library from these funds.

When determining a procedure, it would be prudent to ensure that there is a mechanism in place for the appropriate funds to be made available annually to meet this requirement.

Submitted by,

Jennifer Jones
Library CEO

Contact Name:

Jennifer Jones
Library CEO

Phone: 705- 745-5382 Ext.2370

Fax: 705-745-8958

E-Mail: jjones@peterborough.ca

Attachments:

Appendix A – Investment Policy Statement

Appendix A – Investment Policy Statement

Draft revised INVESTMENT POLICY STATEMENT

FOR

Peterborough Library Board

Policy Creation: March 2021

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Introduction

The purpose of your Investment Policy Statement is to establish a prudent framework for the management of your investment portfolio. It specifies your specific investment objectives and sets standards for reporting and review.

A key element of your Investment Policy Statement is found in the Asset Allocation Guidelines section. Over time, your asset allocation among the primary asset classes (cash reserves, fixed income, equities and alternative investments) and across geographic regions (domestic and global) will have the greatest impact on the likelihood of achieving your objectives at a level of risk that is acceptable to you.

Through our discussions with you, we have gathered a considerable amount of personal information, which is reflected in your Investment Policy Statement. This information is largely responsible for the asset allocation framework, investment strategy and other parameters set out in your policy. We believe this written policy will help both you and us remain focused on achieving your long-term objectives regardless of changing market conditions.

If a change occurs in any of the key factors upon which this policy was created, then the policy should be reviewed to ensure that your needs continue to be met. We therefore, ask that you contact us should any of the information that you have provided change.

Current State

As of March 2021, the assets of the Peterborough total approximately \$850,292. The current asset allocation is 2% cash equivalent, 0% equity and 98% fixed income. The geographic allocation is 100% Canadian.

Return Objectives/Expectations

The portfolio is to be managed with a view of generating income. Short term fluctuations in capital will be tolerated during a market cycle. The portfolio will seek over the long term to earn total returns 1-2% above the returns of a 5-year GIC.

Investor Profile/Risk Tolerance

The portfolio is geared to produce income with some growth potential. The primary objective is income generation with a secondary focus on growth. The equity portion of the portfolio should enhance returns yet maintain purchasing power.

CONSERVATIVE:

The five-year annual average return through December 31 2019 for the benchmark indices for a portfolio with a target asset allocation of 5% cash and 60% fixed income & **35% equities**, has been 5.60%. Since 1994, the historical performance of the recommended asset allocation had a best-case one-year return of 25.70% and a worst-case one-year return of –11.60%. During this same time period, the longest period that this asset allocation had positive annual returns was 9 consecutive years and this asset allocation has not had more than one year in a row of negative annual returns. **The RBC Investment Strategy Committee forecasts a one-year return of 1.8% for this asset mix**

OR

BALANCED

The five-year annual average return through December 31 2019 for the benchmark indices for a portfolio with a target asset allocation of 5% cash and 40% fixed income & **55% equities**, has been 6.70% . Since 1994, the historical performance of the recommended asset allocation had a best-case one-year return of 30.20% and a worst-case one-year return of –20.00%. During this same time period, the longest period that this asset allocation had positive annual returns was 9 consecutive years and the longest period that this asset allocation has had negative annual returns was 2 consecutive years. **The RBC Investment Strategy Committee forecasts a one-year return of 3.86% for this asset mix.**

These historical performance numbers do not take into account the effect of fees and taxes. Historical performance should not be viewed as a prediction of future investment returns but as an indicator of the type of volatility you may experience over a long-term investment horizon. While your investment solution may follow this asset allocation, your actual investment experience will depend on the investment solution created to meet your needs and the time horizon for your investments.

Time Horizon

The investment portfolio will be managed with a three-to-five-year average term. Maximum term for investment will be 10 years. Investments will be laddered so a percentage of the portfolio comes due each year.

Liquidity/Income Needs

A target of 1%-5% of the portfolio will be maintained in RBC savings for annual disbursements. The portfolio should provide sufficient liquidity to deal with any unanticipated demands upon the capital. However, your return objective may be compromised if withdrawals from the portfolio exceed the income generated by the fixed-income investments.

Legal and Regulatory Considerations

CRA stipulates charitable organizations must follow a disbursement quota of 3.5% of total assets. The quota is a prescribed amount that registered charities must disburse each year in order to maintain their charitable registration. The purpose of this quota is to ensure that an appropriate percentage of the funds donated to charity are used in charitable activities/purposes and to restrict the excessive accumulation or expenditure of such funds on administrative and fundraising expenses.

Tax Considerations

There are no tax issues that affect this portfolio.

Investment Solution

ASSET ALLOCATION	LOWER	TARGET	UPPER
CASH AND EQUIVALENTS (Including T-bills, savings funds)	1%	5%	20%
FIXED INCOME	30%	57%	75%
EQUITY (common stock, mutual funds and ETFs)	20%	35%	45%
FOREIGN SECURITIES As a % of the TOTAL Portfolio	0%	25%	35%

Investment Management Guidelines

1. The portfolio will be diversified across multiple sectors.
2. The majority of the holdings will be mid-to-large companies as measured by market capitalization
3. GICs and investment grade bonds (individual, ETF and bond fund) will make up no less than 75% of the fixed income allocation.
4. Up to 25% of the fixed income allocation can be allocated to high yield or non-Canadian fixed income.
5. No more than the greater of 10% of portfolio will be held in any one individual security.
6. Under certain circumstances, an investment allocation may be slightly above the totals outlined above. The board may permit the deviation in policy subject to the following conditions:
 - Full disclosure of the details of the investment is made to the Board of Directors.
 - The deviation will not exceed 2.5% of the total value.

Reporting and Reviewing

On a monthly basis you will receive a statement itemizing all transactions occurring over the course of the previous month. On a semi-annual basis, you will receive a snapshot of portfolio performance and a merged portfolio valuation. Annually, I will meet with the Library Board to conduct a comprehensive portfolio review including a review of this Investment Policy to ensure it continues to meet the requirements of the Foundation.

Decision Making

All investment decisions will be made by CEO or Board Chair within the context of the Objectives, Asset Allocation Guidelines, and Investment Management Guidelines set out above.

Client Acknowledgement

Date _____

Board Chair Signature _____

Advisor Signature _____