



# Investment Policy

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<b>TITLE:</b>	Investment	<b>REVISION DATE:</b>	September 16, 2020
<b>SECTION:</b>	Finance	<b>AUTHORITY:</b>	Board of Directors
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## PURPOSE

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This policy is established to ensure that funds which Aquatera Utilities Inc. may receive by way of cash flows, surpluses, trust funds, reserves, or any other source, are invested to provide security, diversification, yield, and term as well as providing optimal returns.

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## POLICY STATEMENT

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It is the policy of Aquatera Utilities Inc. to invest funds in a manner which will provide the highest investment return within the specified risk tolerance for each fund while meeting our daily cash-flow requirements.

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## TERMS OF THE POLICY

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### SCOPE

1. This investment policy applies to all funds of Aquatera Utilities Inc. on deposit or invested in investment securities.
2. The funds are accounted for in Aquatera Utilities Inc.'s Annual Audited Financial Report and include:
  - a. Operating Funds
  - b. Reserve Funds
  - c. Any new fund created by the Board of Directors, unless specifically exempted

### PRUDENCE

1. Investments are to be made with the same good judgement and care - under circumstances then prevailing - that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, considering the probable safety of their capital as well as the probable income to be derived.

2. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

## **INVESTMENT OBJECTIVES**

The objectives will be set by investment pool and include the following objectives;

1. **Safety**

Investments for Aquatera Utilities Inc. shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. **Liquidity**

Aquatera will require withdrawals from the portfolio from time to time to meet cash flow requirements. Aquatera may withdraw from the portfolio such portion of the income, capital gains and original capital contributed, or property substituted for it (whether realized or unrealized) as amended from time to time to meet Aquatera's objectives.

3. **Return on Investment**

Aquatera Utilities Inc.'s investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account Aquatera Utilities Inc.'s investment risk constraints and the cash flow characteristics of the portfolio.

## **AUTHORITY**

1. Authority to manage Aquatera Utilities Inc.'s investment program is derived from the Board of Directors resolutions.
2. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer, who shall establish procedures for the operation of the investment program consistent with this investment policy.
3. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer. The Investment Manager selected by the Chief Financial Officer is required to act in the best interest of Aquatera Utilities Inc. at all times.
4. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

## **ETHICS AND CONFLICTS OF INTEREST**

1. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.
2. Employees and investment officials shall disclose to the Aquatera Utilities Inc. Chief Financial Officer any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Aquatera Utilities Inc.'s portfolio.
3. Employees and officers shall subordinate their personal investment transactions to those of Aquatera Utilities Inc. particularly with regard to the time of purchases and sales.

## **INVESTMENT MANAGER**

1. The Chief Financial Officer may designate an Investment Manager to provide investment advice on the portfolio.
2. The financial institutions eligible to act as Investment Manager on the portfolio must:
  - a. Be able to tender investments that meet the requirements of this policy,
  - b. Be a member of the Canadian Investor Protection Fund,
  - c. Provide Aquatera with reporting according to Schedule VIII
  - d. Provide Aquatera with information, advice and, as required, recommendations on:
    - i. Asset mix arrangements;
    - ii. Portfolio manager structures;
  - e. Provide Aquatera with recommended Investment Policy and/or specialized Portfolio Manager instructions and mandates, as necessary;
  - f. On an annual basis, or as appropriate, provide Aquatera with advice on the advisability of re-approving or amending this Policy as well as any specialized instructions and mandates provided to the Portfolio Managers;
  - g. Monitor the portfolio's asset allocation and provide recommendations to Aquatera with respect to rebalancing assets among Portfolio Managers (if more than one) and/or asset classes;
  - h. Provide administrative assistance with respect to moving assets between Portfolio Managers as well as the receipt or disbursement of monies to/from the Portfolio and act as a liaison between Aquatera and the Portfolio managers and/or Custodian in this connection;
  - i. Provide regular reports to and meet with Aquatera as provided for in schedule VIII of this Policy;
  - j. Provide information and advice with respect to developments that might affect the Portfolio manager(s)' performance, risk characteristics and service capabilities;
  - k. Negotiate management and/or custodian fees on behalf of Aquatera; and,
  - l. Meet with Aquatera on a regular basis, as determined by Aquatera's requirements; and exercise the care, skill and diligence that can reasonably be expected of a prudent person and adhere to the industry Code of Ethics and Standards of Professional Conducts similar to IIROC (Investment Industry Regulatory Organization of Canada)
  - m. Have either the IIROC Portfolio Manager designation for full discretion in day-to-day investment management of the Portfolio, or access to certified third-party Portfolio Managers for that portion of the portfolio for which they have been given responsibility, subject to this Policy and any amendments thereto as well as any specialized instructions and mandates issued by Aquatera;
  - n. Ensure that all transactions are completed on a 'best execution' basis;
  - o. Have the authority to vote all proxies and, in exercising this authority, act prudently and solely in the interest of Aquatera. Aquatera retains the right to instruct the Portfolio manager(s) on how to exercise voting rights but recognizes that this may not be enforceable if the subject investments are held within a pooled fund;
  - p. Recommend to Aquatera changes to this Policy or to specialized instructions and mandates issued by Aquatera, that the Portfolio manager(s) deem(s) appropriate;
  - q. Provide advice and counsel with respect to the Portfolio when called upon to do so by Aquatera.
  - r. Be able to invest Aquatera Utilities Inc. funds in securities from at least five (5) different securities issuers.
  - s. Have a team member who has a CFA designation.

## **INVESTMENTS AND LIMITATIONS**

The Portfolio should be structured and managed so as to provide for the generation of the maximum rate of investment return while assuming an appropriate level of risk as determined by Aquatera.

The level of risk to which the Portfolio is exposed will be managed by diversifying the portfolio's holdings, not only in terms of asset class, but also in terms of holdings within each asset class, geographically and (to the extent feasible) by investment management style and Portfolio Manager.

The market capitalization of any company held in the portfolio must have a minimum market capitalization of \$1 Billion and the maximum number of shares of any company held in the portfolio cannot exceed 50% of the Average Daily Trade Volume of that company for the last 30 days.

The portfolio is generally focused to meet a long term investment strategy. A portfolio's investment time horizon is an important factor in determining its investment strategy. The period over which a particular investment strategy can or will be maintained has a direct bearing on the likelihood that it will generate its targeted rate of return within that period and within acceptable risk parameters.

For planning and portfolio structuring purposes, it will be assumed that the investment time horizon of the portfolio is long term. It should be noted, however, that this Policy will be reviewed on an annual basis.

Aquatera reserves the right to instruct the Portfolio Manager(s) or Investment Manager to exclude any asset, security or category of investment and will notify the Portfolio Manager(s) or Investment Manager by written notice in the event that such restrictions are to be imposed.

Investments in the following are prohibited unless approved by the Board:

- Private placements, limited partnerships or other non-marketable equity or debt instruments;
- Lettered, legend, unregistered or other restricted stock;
- Short positions;
- Leveraged positions;
- Direct real estate investments;
- Commodities;
- Derivatives other than for hedging purposes.

No investment shall be made in a non-arm's-length transaction with any member of the Committee or the Board, or any employee of, or consultant to, the Committee or the Board.

The Board may place further constraints, limitations or requirements on the Portfolio in order to achieve specific short-term objectives. Investments shall be made in adherence to the preceding policy and shall be restricted to those outlined in Schedules I-VI. No investment in instruments other than those indicated as acceptable in this policy shall be executed unless specifically approved by Board of Directors.

## **CUSTODY AND SEGREGATION**

Investments shall be held by the financial institution in segregated accounts in the name of Aquatera Utilities Inc.

## **CREDIT RATINGS**

Minimum credit quality limits are established to reduce the Portfolio's credit risk exposure. The purchase of any individual securities carrying a credit rating below 'BBB' for bonds or 'A1'/'R1' for commercial paper, or "Pfd-3" for Preferred Shares is strictly prohibited. The purchase of any Exchange Traded Funds carrying an average credit rating below "A" for Bonds or "Pfd-2" for Preferred Shares is strictly prohibited. Credit ratings used will be from one or more of the following ratings agencies: Canadian Bond Ratings Service, Dominion Bond Rating Service, Standard and Poor's Credit Rating Service, and Moody's Investor Services.

If the credit rating of a security is subsequently downgraded below the minimum credit rating limit, the Investment Manager, in consultation with the Chief Financial Officer, will determine whether the security should be liquidated expeditiously or held for strategic reasons and brought to the attention of the Audit & Risk Committee.

## **SPECULATIVE TRADING**

Aquatera is restricted from engaging in any investment activity that would be considered speculative in nature.

## **DIVERSIFICATION**

Aquatera Utilities Inc. must diversify its investments by security type and institution.

With respect to fixed income instruments, not more than five percent (5%) of the market value of the investment portfolio may be invested in a single security, with the exception of securities issued by a federal or provincial government or Canadian chartered bank securities with a credit rating of 'A' or higher at the time of purchase.

The total investment amount in Preferred Shares or Preferred Share Exchange Traded Funds may not exceed 10% of the Portfolio.

Equity allocations into the United States and Foreign markets shall not exceed 70% of the total equity holdings. No more than 5% of the portfolio may be invested in any individual equity security.

Foreign currency limits are established to reduce the Portfolio's exposure to foreign exchange rate fluctuations related to the portion of the investment portfolio that is invested in foreign securities. Aggregate holdings in investments denominated in a currency other than the Canadian dollar will be limited to 70% of the market value of the equity instruments in the portfolio.

### **MAXIMUM INVESTMENT TERMS**

1. To the extent possible, Aquatera Utilities Inc. will attempt to match its investments with anticipated cash flow requirements.
2. Reserve funds with no anticipated cash flow requirement may be invested in securities with maturity dates up to ten (10) years from the investment date.

### **PERFORMANCE EVALUATION**

1. The investment portfolio will be compared to a group of indices weighted according to asset allocation of the portfolio, not designed to achieve an industry benchmark.
2. Aquatera Utilities Inc.'s investment strategy will be active. The performance benchmarks to ensure productivity of the accounts shall be the three-month Government of Canada T-Bill Index, S&P/TSX Index for Equities, S&P500 Index for US Equities and MSCI EAFE Index for International Equities as well as an appropriate Bond Index for Fixed Income.

### **REBALANCING**

The Portfolio's allocation among asset classes will be reviewed on a regular basis. Rebalancing will be considered when allocations fall outside of the ranges established in Schedules I to VI or outside of established parameters related to the allocation of assets between or among Portfolio Managers. The Investment Manager will take appropriate steps to ensure that a strategy is in place to rebalance the portfolio within thirty days, as necessary, per Schedules I to VI of this Policy.

To the extent that is reasonable and possible, inflows and outflows of cash or assets in kind will be directed in such a way as to maintain the long-term strategic asset allocation of the portfolio.

In the event that such flows of cash and/or assets in kind are absent or insufficient, the Investment Manager will make recommendations to rebalance the portfolio by way of the transfer of cash and/or assets between asset class.

### **TERMINATION OF AN INVESTMENT MANAGER**

Aquatera Management will consider recommending that the Board terminate an Investment Manager or Portfolio Manager for any reason that it deems appropriate. If it is due to the non-performance reasonable effort must be made to inform the Portfolio Manager of Aquatera's concerns.

### **REPORTING**

The Chief Financial Officer will report on investment activity and returns to the Board on an annual basis. Reports will include performance and interest earnings.

## **DEFINITIONS**

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### **INVESTMENT INSTRUMENTS**

1. Cash and Equivalents
  - Cash on hand.
  - Highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less at the date of reporting or are subject to an insignificant risk of change in value.
2. Fixed Income
  - Government obligations (i.e. treasury bills, strip coupons, debentures and/or bonds) issued directly or indirectly by the federal government, agency (Canadian or US), or any of the provinces.
  - Canadian chartered bank securities (guaranteed investment certificates, discount notes, deposit receipts, term notes, certificates of deposit, bankers' acceptances, bonds, and strip coupons).
  - Securities of foreign banks or Canadian affiliates of foreign banks provided that the obligations are guaranteed.
  - Preferred shares in Canadian Corporations.
  - Commercial paper, bonds, debentures and strip coupons issued by Canadian companies.
  - Exchange Traded Funds in either Bonds or Preferred Shares.
  - Third party managed funds for which the fund objectives are consistent with the objectives of this policy.
3. Equities
  - Common shares listed on a recognized exchange.
  - American Depository Receipts listed on a recognized exchange.
  - Third party managed funds for which the fund objectives are consistent with the objectives of this policy.
  - Income trusts and investment trusts.
  - Exchange Traded Funds in common shares or American Depository Receipts.

### **OTHER DEFINITIONS**

1. Bank of Canada Rate (Bank Rate)

The bank rate is the interest rate that the Bank of Canada charges for advances made to the Canadian chartered banks. The bank rate is set at the upper limit of the Bank of Canada's operating band for the overnight financing rate. This is the rate at which major participants in the money market borrow and lend one-day funds.

2. Basis Point

A basis point is 1/100 of a percentage point.

3. DBRS

Dominion Bond Rating Service is a company that investigates and reports on the credit worthiness of governments and corporations issuing securities in the Canadian financial markets. A short-term debt rated R-1 is of superior quality as entities with this rating are considered strong credits which typically exemplify above average strength in key areas of consideration for debt protection. Bonds rated 'BBB' are also of satisfactory credit quality and protection of interest and principal is considered substantial.

4. Liquidity

In the context of a firm, liquidity is the ability to meet its financial obligations as they become due. In the context of investments, liquidity refers to the ability to convert the security on short notice into cash without a substantial loss of principal or accrued interest.

5. Market Value

The Price at which a security is currently trading and therefore, presumably, purchased or sold for.

6. Portfolio

A collection of securities owned by the investor.

7. Diversification

A fundamental investment principle that reduces risk by diversifying the maturity terms and the types of investments held within the portfolio as well as including different asset allocations and geographic diversification.

8. Prime Rate

The rate of interest that chartered banks charges for advancements made to select organizations and individuals that are considered by the bank to be a “prime” customer.

9. Rate of Return

The yield obtained on a security based on its purchase price or its current market value.

SCHEDULE I

CUSTOMER DEPOSITS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	100%	100%
Cash & Equivalents	100%	75 - 100%
Fixed Income	0%	0 - 25%
Total Equities	0%	0%
Canada	0%	0%
US	0%	0%
International	0%	0%



## SCHEDULE II

Aquatera Investment Policy

## INFRASTRUCTURE FUNDS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	100%	100%
Cash & Equivalents	5%	0 - 50%
Fixed Income	95%	50 - 100%
Total Equities	0%	0%
Canada	0%	0%
US	0%	0%
International	0%	0%

## SCHEDULE III

Aquatera Investment Policy

## GROWTH FUNDS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	25%	15 - 40%
Cash & Equivalents	5%	0 - 50%
Fixed Income	20%	50 - 100%
Total Equities	75%	60 - 85%
Canada	40%	30 - 50%
US	30%	20 - 40%
International	5%	0 - 10%

## SCHEDULE IV

Aquatera Investment Policy

## CAPITAL REPLACEMENT FUNDS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	100%	100%
Cash & Equivalents	5%	0 - 50%
Fixed Income	95%	50 - 100%
Total Equities	0%	0%
Canada	0%	0%
US	0%	0%
International	0%	0%

## SCHEDULE V

Aquatera Investment Policy

## WORKING CAPITAL FUNDS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	100%	100%
Cash & Equivalents	100%	75 - 100%
Fixed Income	0%	0 - 25%
Total Equities	0%	0%
Canada	0%	0%
US	0%	0%
International	0%	0%

## SCHEDULE VI

Aquatera Investment Policy

## LANDFILL LIABILITY FUNDS

	Target	Permissible Range
Total Cash & Equivalents and Fixed Income	25%	15 - 40%
Cash & Equivalents	5%	0 - 50%
Fixed Income	20%	50 - 100%
Total Equities	75%	60 - 85%
Canada	40%	30 - 50%
US	30%	20 - 40%
International	5%	0 - 10%

SCHEDULE VII

Aquatera Investment Policy

Approved Investments	*Maximum Percentage per Institution/ Investment Type	DBRS Minimum Rating (Money Market)	DBRS Minimum Rating (Bond Market)
Government (Maximum 100% of Portfolio):			
Securities issued or guaranteed by:			
The Government of Canada	100%	R1 (L)	AA
Provincial Governments within Canada	100%	R1 (L)	A (low)
Municipal Governments within Canada	50%	R1 (M)	A
Schedule I Chartered Banks (Maximum 100% of Portfolio):			
Obligations of, or guarantees of:			
Per any Financial Institution	75%	R1 (M)	BBB
Other Financial Institutions (Maximum 25% of Portfolio):			
Obligations of, or guarantees of:			
Rated Schedule II Banks, Trust Companies, and Credit Unions	25%	R1 (M)	BBB
Corporations (Maximum 50% of the Portfolio):			
Preferred Shares	10%	PFD-3	
Securities issued by Canadian corporations			
Commercial Paper (terms up to 1 year only)	10%	R1 (M)	
Corporate Bonds (terms more than 1 year)	10%		BBB
Equities (Maximum 50% of the Portfolio):			
Securities issued by Canadian corporations	5%		
Securities issued by Non-Canadian corporations	5%		
Pooled Funds (Maximum 50% of the Portfolio):			
Units issued by Fund Managers that invest in Accordance with Investment Policy Guidelines			
	50%		

Based on the entire portfolio and the original settlement amounts at the time of booking the investment.

## REPORTING

On an annual basis and within 30 days of the end of the calendar year, the Investment Manager(s) will provide Aquatera with:

- A valuation of the Portfolio as at the end of the year, including the market value of each security;
- Performance data as indicated above for each of Cash and Cash Equivalents, Fixed Income, Canadian, US and International Equities.
- Subjective attribution analysis on the entire portfolio,
- Duration for the Fixed Income Portfolio.
- A commentary on the investment strategy and activity/tactics employed over the past year as well as a brief review and outlook for the economy and capital markets;
- Information pertaining to changes of investment or senior management personnel and/or ownership structure, if any; and
- Information pertaining to changes to the Portfolio Manager's investment style, process or discipline or any other philosophical, operational or organizational matter that might reasonably be expected to have a bearing on the performance or risk profile of the assets managed by the Portfolio manager(s).
- A signed Certificate of Compliance indicating that the assets for which the Investment Manager(s) has/have responsibility have been managed within the parameters established by this Policy.
- Data and commentary on the Portfolio Manager(s)' portfolio investment performance (for the last quarter, 1, 3, 5 and 10-year(s), both annualized and annual) relative to appropriate benchmarks established in this Policy.

The Investment Manager(s) will be available for meetings with Aquatera Management on a semi-annual basis or more frequently if required, and will be available for personal discussion and consultation on an ad hoc basis.

The Investment Manager's custodian(s) will provide Aquatera with statements on a quarterly basis. These statements will include, at a minimum, a summary and a detailed listing of assets held in the Portfolio as well as a listing of transactions (including deposits, withdrawals, receipt of interest and dividends, purchases, sales, corporate actions and fees paid) that occurred in the Portfolio during the reporting period.

The Investment Manager's custodian reports will provide the book value and current market value of each asset held in the Portfolio and categorize securities by issuer type, market sector and/or industry, as appropriate.