Government of Nunavut

INVESTMENT POLICY

DEPARTMENT OF FINANCE

POLICY STATEMENT

Financial investments are an important revenue vehicle for the Government of Nunavut (GN). Within appropriate parameters, the GN may invest surplus funds from the Consolidated Revenue Fund (CRF) in a manner that ensures operational needs are not compromised while maximizing the GN's investment revenues and maintaining a prudent approach to protecting public resources.

PURPOSE

This policy provides a framework for managing the GN's investment portfolio and to guide the management of the GN's funds and investment portfolios.

The policy's purpose is to establish and formulate investment principles and guidelines that are appropriate to the needs and objectives of the GN and to specify permitted investments in line with those needs, objectives and legislative regulations. Investment practices must comply with the limitations and requirements of all applicable legislation, regulations and Financial Administration Manual directives.

PRINCIPLES

The policy is based on the following principles:

1) **Pijitsirniq: Serving and providing for family and/or community**

   Investment income is used to enhance the wellbeing of Nunavummiut.

2) **Piliriqatigiinniq/Ikajuqtigiinniq: Working together for a common cause**

   All investment decisions are based on cash flow forecasts prepared in close cooperation with government departments and public agencies to reflect future cash requirements.

3) **Qanuqtuurniq: Being innovative and resourceful**

All investment decisions must be professionally researched and substantiated to find innovative ways to optimize the investment income and the timing of cash flows, and to carefully manage possible investment risks.

APPLICATION

This policy applies to all investments made by, or on behalf of, the GN and its agencies, boards and commissions.

The Financial Management Board may endorse an investment strategy to further develop the GN's approach to investing.

DEFINITIONS

Cash Flow
The movement of cash through an organization that reflects the impact of all cash inflows and outflows on the net cash position. Cash flow items include currency, cheques and electronic fund transfer transactions.

Financial Instruments
Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity.

Liquidity
Liquidity is a quality possessed by a security which enables it to be sold quickly and without substantial price concession.

Public-Private Partnership (P3)
A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.

Surplus Funds
Surplus funds represent the net positive daily bank balance in the accounts of the Government.

Sustainable Finance
Structuring financial transactions and investments in ways that consider environmental and social factors while also supporting economic growth.

ROLES AND RESPONSIBILITIES

<u>Minister</u>

The Minister of Finance is accountable to the Executive Council for the implementation of this policy and to the Financial Management Board for the development and implementation of the associated Investment Strategy document.

Deputy Minister

The Deputy Minister of Finance is accountable to the Minister of Finance for the administration of this policy.

PROVISIONS

1) All investment decisions must be based on short- and long-term cash flow forecasts which are an essential component of fiscal management within the GN. The cash flow forecast supports strong liquidity management by identifying potential future cash surpluses and shortfalls, and by assisting in effective and prudent cash flow management. It is used to identify and assess suitable spending, borrowing, lending, and investing opportunities.

2) The Department of Finance prepares a cash flow forecast for the GN on a regular and systematic basis, and consults with public agencies as required to achieve optimal use of GN funds and maintain ongoing liquidity and solvency.

3) All approved investment decisions must be reflected in cash flow forecasts prepared by the Department of Finance in a timely manner. Further, all investment-related cash flows and their changes must be reflected in the fiscal update and other related budget documents prepared by the Department of Finance.

4) The sum of investment income received and interest paid by the GN, and its public agencies, should be optimized by integrated treasury management to reduce unnecessary interest expense.

5) The term to maturity or the date of redemption of an investment must be chosen in a way to make funds available when required for the GN to meet its payment obligations to maintain liquidity.

6) Investment decisions should result in investment yield higher over the investment period than the deposit interest earned by money deposited in the CRF. The difference is called risk premium and it increases with increasing maturity (the longer the maturity, the bigger the risk premium).

7) Before making an investment decision, it is necessary to consider the general economic and political conditions, and the resulting inflationary or deflationary pressures.

8) Additionally, investment decisions must not:

- reduce the amount of cash necessary for current operations and capital projects;

- impede the financial capacity of the GN to provide loans to its public agencies or to enter into public-private partnerships (P3) in accordance with sound fiscal management; and

- generate cash shortfalls leading to unnecessary borrowings guaranteed by the GN thereby increasing the sum of total liabilities under the debt cap and related interest expense.

9) Investments may only be made in the classes of securities, investments and loans outlined in *s.57* and *s.58* of the *Financial Administration Act*, *s.27(2)* and *s.27(3)* of the *Qulliq Energy Corporation Act*, and the Investment Regulations, and only from issuers approved by the Deputy Minister of Finance.

10) All investments are made in Canadian dollars. Purchase of investments denominated in US dollars must be authorized by the Comptroller General. Investments denominated in other currencies than Canadian dollar and US dollar are not authorized.

11) When investing, the Department of Finance must adhere to the highest standards of professional care and ethics and follow investment industry best practices and principles of sustainable finance.

12) All investments must be recorded and documented for audit purposes.

13) The investment portfolio should be diversified when it comes to issuers, products and maturities to reduce the risk. However, the GN is not obligated to hold any investments in its portfolio.

14) Potential long-term investments and the related investment periods must be consulted with the Comptroller General.

15) Most interest-bearing investments will be held to maturity. Nevertheless, certain investments (e.g., bonds) may be sold or redeemed before maturity pending the approval of the Deputy Minister of Finance.

16) The purpose of investing is to invest public money to generate additional investment revenue for the GN to be used to fulfill its mandate. Therefore, investment losses must be prevented in accordance with sound risk

management practices. When incurred, any loss must be explained and documented for audit purposes.

PREROGATIVE OF CABINET

Nothing in this policy shall in any way be construed to limit the prerogative of the Executive Council to make decisions or take actions respecting the investment decisions outside the provisions of this policy.

SUNSET CLAUSE

This Policy will be effective from the date of signature until March 31, 2028.