

To: Athana Mentzelopoulos  
Deputy Minister of Finance  
and Secretary to Treasury Board

November 15, 2016

355119

Re: Province of BC Prosperity Fund

Provincial Treasury has collaborated with the Assistant Deputy Minister, Strategic Initiatives DMO, the Office of the Comptroller General, the ministry Chief Financial Officer and Treasury Board Staff to produce the attached Statement of Administration and Investment Policies and Procedures (Statement) for the BC Prosperity Fund (the Fund).

This Statement will guide administration, management and reporting of the Fund along with its underlying investments.

At this juncture, we require approval of the Statement by the Minister, or his designate, so that we can finalize reporting for the Fund necessary for the Second Quarterly Report. However, approval at this time doesn't prevent further changes in the future should the Minister or Treasury Board decide that such changes are appropriate.

As Deputy Minister and Secretary of Treasury Board, we would appreciate it if you could approve and sign below on behalf of the Minister and Chair of Treasury Board so that we can meet the Quarterly Report deadlines.

We will be pleased to discuss any questions.



Jim Hopkins  
Assistant Deputy Minister, Provincial Treasury

Attachment

Approved/Not Approved



Athana Mentzelopoulos  
Deputy Minister of Finance/ Secretary of Treasury Board  
On behalf of the Minister of Finance and  
Chair of Treasury Board

NOV 17 2016

Date



# BC Prosperity Fund Statement of Administration and Investment Policies and Procedures



Ministry of  
Finance

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Provincial Treasury

Trusted financial and economic  
leadership for a prosperous province

Creation Date: November 15, 2016  
Final Version

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## 1. Overview/Purpose

- 1.1. The purposes of this Statement of Administration and Investment Policies and Procedures (the "Statement") are:
  - 1.1.1 To establish administrative responsibilities for the BC Prosperity Fund (the "Fund");
  - 1.1.2 To outline investment guidelines, policies and directions for the investment and administration of the Fund; and
  - 1.1.3 To set performance objectives and other criteria to be used to review and evaluate the investment results of the Fund.

## 2. Fund Description

- 2.1. The BC Prosperity Fund was established under Section 47.1 (2) of the *Financial Administration Act* (the "Act") as a special fund within the Consolidated Revenue Fund (see addendum attached). The Fund is under general responsibility and accountability of the Minister of Finance.
- 2.2. The Fund was founded with a \$100 million transfer from the General Fund on the date the legislative provisions came into force (March 10, 2016). As set out in Section 47.1(3) of the Act, the Fund consists of:
  - 2.2.1 The initial \$100 million transferred from the General Fund;
  - 2.2.2 Amounts transferred to the Fund under Section 47.1(4) of the Act; and
  - 2.2.3 Investment earnings of the Fund.
- 2.3. Limitations on contributions to the Fund apply, as prescribed in Section 47.1 (4) of the Act (i.e., all or portions of the previous year's bottom line summary financial statement surplus).
- 2.4. The Fund will be held as fully-funded investments that are segregated from the government's General Fund portion of the Consolidated Revenue Fund.
- 2.5. Disbursements from the Fund are limited to purposes as prescribed in Sections 47.1(5) – (7) of the Act (e.g., reducing taxpayer-supported debt; and supporting capital and operating improvements in health care, education, transportation, job training and providing family supports).

### 3. Fund Governance

#### 3.1. Fund administration and management is outlined as follows:

##### 3.1.1 Contributions

- Treasury Board is responsible for directing the amount of all additional contributions to the Fund.

##### 3.1.2 Disbursements

- Subject to Sections 47.1(6) and 47(7) of the Act, the Minister of Finance is responsible for executing the approved disbursement directions of Treasury Board.

##### 3.1.3 Performance Reporting

- The Office of the Comptroller General (OCG) is ultimately responsible for the accounting and reporting of Fund balances and activity in accordance with the government's accounting policies.
- The Chief Financial Officer of the Ministry of Finance (Ministry), in cooperation with the OCG and the Provincial Treasury, is responsible for reporting interim financial results of the Fund to the Minister of Finance as appropriate.
- The Chief Financial Officer of the Ministry, in cooperation with the OCG, Provincial Treasury, Treasury Board Staff and ministries (where appropriate), is responsible for preparing estimates and revised forecasts of Fund activity for the purpose of inclusion in annual provincial budgets, quarterly reports, Ministry service plans and other publications.

##### 3.1.4 Fund Management

- The Fund investments are managed on a day-to-day basis by Provincial Treasury, Banking and Cash Management Branch (BCM). As investment managers, BCM will comply with the policies and direction outlined in this document.

#### 3.2. The Minister of Finance is responsible for establishing the investment policies for the Fund and for ensuring and/or directing that the investments are managed prudently and in accordance with this document, and according to the Act, as further described in section 5 of this document.

#### 4. Investment Objectives and Principles

- 4.1. The primary investment objectives and principles of the Fund are:
- 4.1.1. Capital preservation – to protect against decreases in the value (excepting authorized disbursements) of the Fund’s assets into perpetuity; and
  - 4.1.2. Income generation – to produce investment income that will compound, accumulate and add to the principal balance of the Fund.

#### 5. Asset Allocation Framework and Eligible Investments

- 5.1. Asset allocation is the process whereby the client decides on the relative weights to give different asset classes. There is no one ideal or optimal asset mix which is appropriate for all clients. The preferred portfolio for the Fund depends on a variety of different factors and, in particular, should be consistent with the risk tolerance, time horizon, and investment objectives of the Fund.
- 5.2. Based on the advice of Provincial Treasury, the asset allocation framework for the Fund is established as follows:

Asset Class	Minimum	Maximum	Policy
CAD Short Term Fixed Income	75%	100%	75%
CAD 1- to 5-Year Term Fixed Income	0%	25%	25%

- 5.3. No later than May 15<sup>th</sup> of each fiscal year, the Assistant Deputy Minister, Provincial Treasury and the Ministry Chief Financial Officer will jointly:
- 5.3.1. Review the performance of the Fund’s investments in the prior fiscal year;
  - 5.3.2. Review the asset allocation framework of the Fund; and
  - 5.3.3. Review the asset class policies of the Fund.
- 5.4. The Assistant Deputy Minister, Provincial Treasury and the Ministry Chief Financial Officer may develop and submit a recommendation to amend this Statement to the Deputy Minister and Minister of Finance. If approved, administration of the Fund under sections 4, 5 and 6 will be subject to the amended Statement.

## 6. Asset Class Policies

### 6.1. CAD Short Term Fixed Income

This asset class includes:

- Overnight investment bank accounts;
- Bank term deposits ranging in duration from 30 days to one year; and
- Canadian government T-Bills and promissory notes ranging in durations from overnight to one year.

### 6.2. CAD 1- to 5- Year Fixed Income

Investments of duration in excess of one year are reserved for the 25% of the Fund balance that is permanent in nature.

This asset class includes:

- Bank term deposits ranging in duration from 1 year to 5 years; and
- Canadian government bonds ranging in duration from 1 to 5 years.

6.3. Eligible Canadian Banks include Schedule I, II, or III Chartered Banks with a stable credit rating of no less than A minus with any of Dominion Bond Rating Service, Moody's Investor Service, or Standard and Poor's.

6.4. The portfolio will be managed with the intention of holding the respective investments until maturity or the occurrence of a credit event which results in Provincial Treasury deciding to sell the investment prior to maturity. To mitigate re-investment risk, as a principle, the structure of the portfolio will reflect maturities across the rolling, one-year investment horizon.

## 7. Investment Performance Objectives and Reporting

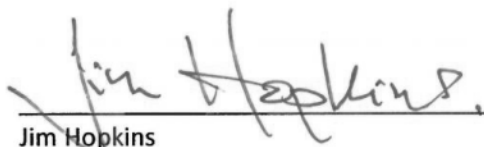
7.1. The Fund's performance objective is to meet or exceed the returns of the Province's average yield on its working capital portfolio, net of all investment expenses incurred.

7.2. BCM will provide performance reports as requested by the Ministry Chief Financial Officer. The report will include returns and identify risks and any breaches of the investment policy. The first report will be due May 15, 2017 and annually thereafter.

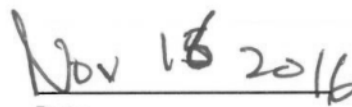
## 8. Acknowledgement

This Statement of Administration and Investment Policies and Procedures for the BC Prosperity Fund is acknowledged by the following parties within the Ministry of Finance:

### Provincial Treasury




Jim Hopkins  
Assistant Deputy Minister, Provincial Treasury

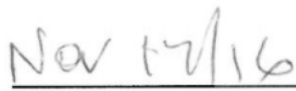


Date

### Office of the Chief Financial Officer



Steve Klak  
Chief Financial Officer

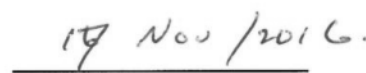


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### Office of the Deputy Minister of Finance

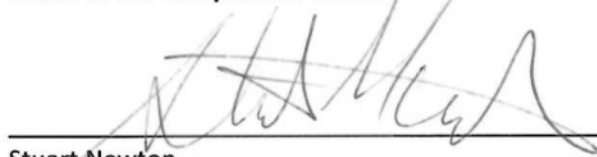


Doug Foster  
Assistant Deputy Minister, Strategic Initiatives

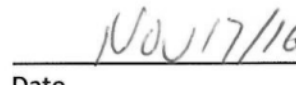


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### Office of the Comptroller General




Stuart Newton  
Comptroller General

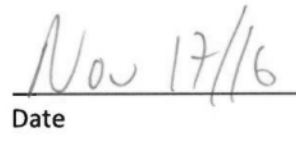


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### Treasury Board Staff



David Galbraith  
Assistant Deputy Minister and Deputy Secretary to Treasury Board



Date



**ADDENDUM**  
**Statement of Administration and Investment Policies and Procedures**  
**BC Prosperity Fund**

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**Financial Administration Act - BC Prosperity Fund**

**47.1** (1) In this section:

"**fund**" means the BC Prosperity Fund established under subsection (2);

"**government reporting entity**" has the same meaning as in the *Budget Transparency and Accountability Act*;

"**surplus**" has the same meaning as in the *Budget Transparency and Accountability Act*;

"**taxpayer-supported government reporting entity**" has the same meaning as in the *Budget Transparency and Accountability Act*.

(2) A fund known as the BC Prosperity Fund is established as a special fund.

(3) The fund consists of the following:

- (a) \$100 million transferred from the general fund on the date this section comes into force;
- (b) amounts transferred to the fund under subsection (4);
- (c) investment earnings of the fund.

(4) If there is a surplus reported by the Comptroller General in the public accounts for the government reporting entity for a fiscal year, Treasury Board may, on or before September 15 following the end of the fiscal year, direct that an amount not exceeding that surplus be transferred from the general fund to the fund.

(5) Subject to subsections (6) and (7) and the approval of Treasury Board, the Minister of Finance may pay money out of the fund for the following purposes:

- (a) reducing the debt of the taxpayer-supported government reporting entity;
- (b) supporting capital and operating improvements in health care, education, transportation and job training and providing family supports;
- (c) any other purpose authorized under an appropriation in a Supply Act that applies for the fiscal year in which the payment is made.

- (6) The Minister of Finance may not pay out of the fund more than  $\frac{3}{4}$  of the total of all amounts that have been transferred to or earned by the fund.
- (7) Until the debt of the taxpayer-supported government reporting entity is eliminated, at least  $\frac{2}{3}$  of the money paid out of the fund in a fiscal year must be paid for the purpose of reducing the debt of the taxpayer-supported government reporting entity.
- (8) Section 12 (3) does not apply in respect of the fund.
- (9) Section 21 (3) does not apply to money paid out under this section.
- (10) Section 13 (2) of the *Budget Transparency and Accountability Act* first applies for the purposes of the 2017-2018 fiscal year in respect of the BC Prosperity Fund and the appropriations under this section.