

Department: Finance	Section: FP – Finance Planning
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FP-02 Investments

Policy Statement

To provide for the investment of Leduc County funds in accordance with the Municipal Government Act and all other provincial statutes and regulations; to optimize investment returns while providing maximum security of the principal investment and to ensure County cash flow requirements are met.

Policy Intent

To provide guidance and/or authorization to invest Leduc County funds in a prudent manner while meeting all related statutory requirements. The Investment Policy defines the parameters within which funds are to be invested and formalizes the framework for investment activities by establishing consistent principles, standards and guidelines for the investment of public funds.

Service Level Objectives/Standards

The service level objectives/standards established in the Investment Policy are as follows:

- **Preservation of Investment Capital:** To ensure that the principal amount of each investment is safe from loss due to market conditions and issuer default.
- **Risk Mitigation:** To ensure that all investments purchased and owned by Leduc County are in accordance with the Municipal Government Act, RSA 2000, c. M-26 (Section 250) and that there is sufficient diversification among the assets in the portfolio.
- **Liquidity:** To ensure that Leduc County's investment portfolio will be sufficiently liquid in order to enable the County to meet its operating cash flow requirements which might be reasonably anticipated in the short and long term.
- **Investment Return:** To ensure the maximum rate of return is earned on each investment without compromising the other objectives. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the assumed risk.

Scope

Investment Funds

The Investment Policy pertains to funds under the management of Leduc County as follows:

- **Leduc County General Fund:** Those monies received by the County from various sources and not immediately required for the payment of operating and/or capital expenditures.
- **Leduc County Reserve Fund:** Those monies held for future expenditures.
- **Capital Deposits:** Those monies received for various capital projects from land developers (pursuant to development agreements and/or the Municipal Government Act), and from other governments through grants and/or revenue sharing agreements.
- **Trust Funds:** Those monies held under legal agreement, joint use with a third party and the County and managed by specific request of a third party.

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	1 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

Compliance

All investments purchased and owned by Leduc County shall be in accordance with Section 250(1) (2), Revised Statutes of Alberta 2000, Chapter M-26 of the Municipal Government Act.

Permitted Investments

Permitted investments shall be those noted in Section 250(2) (a) to (d) of the Municipal Government Act as follows:

- 2 (a) Securities issued or guaranteed by
 - (i) The Crown in right of Canada or an agent of the Crown, or
 - (ii) The Crown in right of a province or territory or an agent of a province or territory;
- (b) Securities of a municipality, school division, school district, hospital district, health region under the Regional Health Authorities Act or regional services commission in Alberta;
- (c) Securities that are issued or guaranteed by a bank, treasury branch, credit union or trust corporation;
- (d) Units in pooled funds of all or any of the investments described in clauses (a) to (c).

Excluded investments include, but not limited to, investments in pooled funds, commodities, precious metals, collectibles, hedge funds and real estate in the form of direct property ownership.

Credit Quality

Investments in the portfolio will adhere to the following credit quality restrictions as rated by the Dominion Bond Rating Service Ltd. (DBRS) for short and long term investments. Should a security's DBRS rating fall below the approved initial investment rating (as detailed below), it shall be removed from the portfolio as soon as practical.

Less than One (1) Year to Maturity Date

(See Appendix 1: DBRS Commercial Paper and Short-Term Debt Rating Scale)

DBRS Debt Rating	Minimum % Of Total <u>(Less than 1 Year)</u> Portfolio	Maximum % Of Total <u>(Less than 1 Year)</u> Portfolio
"R-1" (high)	0%	100%

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	2 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

More than One (1) Year to Maturity Date*(See Appendix 2: DBRS Financial Strength Rating Scale)*

DBRS Debt Rating	Minimum % Of Total (<u>More</u> than 1 Year) Portfolio	Maximum % Of Total (<u>More</u> than 1 Year) Portfolio
“BBB” or lower	0%	0%
“A”	0%	50%
“AA” or higher	50%	100%

Investment Portfolios**Temporary & Short Term Portfolio (Less than 1 Year)**

The investment objective is to generate current interest income at a competitive rate of return while preserving capital and providing liquidity for County cash flow requirements.

Issuer Category	Maximum % of Investment Dollars Held By Any One Institution <u>Within</u> Each “Issuer” Category	Maximum % of Total Portfolio Held In Any One “Issuer” Category	Maximum Term at Maturity
Government: Securities issued or Guaranteed by: Federal or Provincial Government	Unlimited	Unlimited	1 Year
Chartered Banks: Securities issued or guaranteed by: Schedule “1” Chartered Banks	50%	50%	1 Year

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	3 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

Other Financial Institutions: Securities issued or guaranteed by: ATB Financial** Service Credit Union**	Unlimited Unlimited	Unlimited Unlimited	1 Year 1 Year
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***ATB Financial and Service Credit Union deposits are 100% guaranteed by the Government of Alberta; should the guarantee change, the holdings will be immediately reassessed to determine their DBRS credit rating and allowable percentages within the portfolio.*

Mid-Term Portfolio (Between 1 - 10 years)

The investment objective is to meet or exceed the standard rate of return while preserving capital and maintaining low volatility and proper diversification.

Issuer Category	Maximum % of Investment Dollars Held By Any One Institution <u>Within</u> Each "Issuer" Category	Maximum % of Total Portfolio Held In Any One "Issuer" Category	Maximum Term at Maturity
Government: Securities issued or Guaranteed by: Federal or Provincial Government	Unlimited	Unlimited	10 Years
Other Financial Institutions: Securities issued or guaranteed by: ATB Financial** Service Credit Union**	Unlimited Unlimited	Unlimited Unlimited	5 Years 5 Years

***ATB Financial and Service Credit Union deposits are 100% guaranteed by the Government of Alberta; should the guarantee change, the holdings will be immediately reassessed to determine their DBRS credit rating and allowable percentages within the portfolio.*

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	4 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

Long Term Portfolio (10+ Years)

The investment objective is to meet or exceed the standard rate of return from a longer term portfolio while preserving capital and maintaining low volatility and proper diversification.

Issuer Category	Maximum % of Investment Dollars Held By Any One Institution <u>Within</u> Each “Issuer” Category	Maximum % of Total Portfolio Held In Any One “Issuer” Category	Maximum Term at Maturity
Government: Securities issued or Guaranteed by: Federal or Provincial Government	Unlimited	Unlimited	30 Years

Standard of Care**Prudence**

All investments shall be transacted with judgment and care; not for speculation but for investment, considering the probable safety of capital as well as the probable income to be derived. Officers, employees and persons involved in investment activities shall exercise the degree of care, diligence, skill and prudence that a reasonable person would exercise in the administration of their own affairs and in doing so shall attempt to maximize the investment earnings of the portfolio within the parameters of the objectives as established within this policy. Authorized employees acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes.

Safekeeping & Custody

All investment certificates must be issued to Leduc County or be held in the name of Leduc County; all investments will be held by a third party custodian as evidenced by safekeeping receipts and monthly reporting.

Ethics & Conflict of Interest

All participants in investment activities shall seek to act responsibly as custodians of the public trust. No officer or designate may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	5 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

Signing Authorities

Transactions related to investment activities shall be authorized by the County Manager or the General Manager of Community Services (*signatory group “A”*) and one member of Council (*signatory group “B”*).

Reporting

The County Manager or designate shall submit a quarterly investment report to Council and an annual investment report together with the audited financial statements. The investment report shall include the following:

- All transactions, including funds received and disbursed;
- A listing of total investments held at the end of the reporting period;
- A statement about the performance of the investments during the period covered by the report.

Monitoring & Updating

The Investment Policy shall be reviewed annually by the County Manager and the Director of Finance to ensure that it is consistent with the overall objectives of Leduc County and prudent investment practices.

Roles & Responsibilities

Party	Key Responsibilities
Council	<ul style="list-style-type: none"> • Approve, by resolution, the Investment Policy (and amendments thereto); • Approve, by resolution, the establishment of accounts with investment brokers and qualifying financial institutions; • Receive for information the quarterly and annual investment reports.
County Manager	<ul style="list-style-type: none"> • Recommend the Investment Policy (and amendments thereto) to Council; • Provide oversight, be responsible and accountable for the control, management and administration of all investment activities undertaken by the designate; • Ensure adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the municipality's financial assets.
Director of Finance (<i>designate</i>)	<ul style="list-style-type: none"> • Guide the development of the Investment Policy (and amendments thereto) and provide these to the County Manager; • Transact investments on behalf of Leduc County in accordance with this policy; • Establish procedures and internal controls for investment operations consistent with this policy; • Establish an annual process of independent review by an

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	6 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

	<p>external auditor to review internal controls and to ensure compliance with this policy;</p> <ul style="list-style-type: none"> • Execute documents relating to the establishment and maintenance of investment accounts with investment brokers and qualifying financial institutions; • Report quarterly and annually to Council on investment activities.
External Manager <i>(if applicable)</i>	<ul style="list-style-type: none"> • Manage funds under a specific investment mandate for which they are engaged, complying with all guidelines and policies as identified in their contracts and code of ethics; • Provide a regular monthly (at a minimum) and annual report to the municipality; • Provide information and guidance on topics as requested; • May also act as custodian.
Custodian and Bankers	<ul style="list-style-type: none"> • Account for safekeeping of marketable securities and cash belonging to the County; • Process transactions as directed by the County; • Collect interest, dividends and the proceeds of cash equivalent and fixed income instrument maturities; • Deposit funds and pay expenses as directed by the County; • Maintain a record of all transactions; • Provide a regular monthly (at a minimum) and annual report to the municipality; • Provide the County Manager and/or the Director of Finance with information required to fulfill their duties.

Definitions

Investment Products

“Bonds” are interest bearing debt that is secured by the assets of the government or issuing corporation. Bonds generally have a maturity which is greater than one year and form part of the money markets only when the long term debt approaches maturity. Bonds are actively traded within money markets and do have some degree of liquidity.

“Debentures” are similar to bonds in that they also represent interest bearing debt; however, they are secured only by the general credit of the issuing organization. Typically, debentures are offered by those organizations that have exhausted their ability to issue bonds or that have a high enough credit standing that they are not required to pledge any specific assets.

“Guaranteed Investment Certificates” are financial instruments that guarantee the principle and a fixed rate of interest for a specific term. Guaranteed Investment Certificates can be either “redeemable” prior to the end of the specified term or “non-redeemable” until the end of the specified term.

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	7 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

“Pooled Funds” are funds from many individual investors that are aggregated for the purposes of investment, as in the case of a mutual or pension fund.

Other Definitions

“Chartered Banks” are financial institutions that are regulated under the Bank Act. Chartered banks are designated as Schedule I, II or III (see definition below) depending on their ownership.

“Custodian” is an independent third party carrying legal responsibility for an investor’s securities which includes administrative services and safekeeping.

“Designate” for the purpose of this policy, designate refers to the Director of Finance or any other employee specifically assigned by the County Manager and/or the Director of Finance.

“Diversification” is a risk management technique that mixes a variety of investments. Diversification of an investment portfolio strives to smooth unsystematic risk events so that the positive performance of some investments will neutralize the negative performance of others.

“Dominion Bond Rating Service Ltd” (DBRS) is one of the three most frequently used rating agencies in Canada, the others being Moody’s Investor Services and Standard & Poor’s.

“Liquidity” refers to the ability to convert the security on short notice into cash without a substantial loss of principal or accrued interest.

“Market Cycle” is the recurring and fluctuating levels of economic activity that an economy experiences over a long period of time. Most, but not all, market cycles last between 3 and 5 years.

“Portfolio” is a collection of assets held by an investor.

“Rate of Return” is the gain or loss of an investment over a specified period expressed as a percentage increase over the initial investment; gains on investments are considered to be any income received from the security.

“Safekeeping” occurs when a banker or broker hold securities that are registered in the investors name; provides for the physical protection and makes them readily available to sell upon the investors instruction.

“Schedule I Chartered Bank” is a designation in the Bank Act that refers to Canadian-owned banks where no single owner holds more than 10% of shares. (ie. RBC, TD, CIBC, BNS, BMO)

“Schedule II Chartered Bank” is a designation in the Bank Act that refers to eligible foreign-owned and closely held Canadian banks where a single owner may hold more than 10% of outstanding shares. (ie. Citibank Canada, HSBC)

“Schedule III Chartered Bank” is a designation in the Bank Act that refers to eligible foreign-owned banks that are authorized to carry on banking business in Canada. (ie. Bank of America, Bank of China, Deutsche Bank)

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	8 of 9

Department: Finance	Section: FP – Finance Planning
--------------------------------------	---

“Securities” generally refers to financial instruments issued by a government agency or corporation offered for purchase to investors. Securities, for the purpose of this policy, are outlined in Section 250 (1) of the Municipal Government Act.

Approved Date:	Motion No:	Page No.
July 11, 2017	324-17	9 of 9