

## Investments

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**References:** *Municipal Government Act, RSA 2000, c M-26 (MGA), s. 250*

Strathcona County Bylaw 2-95: Chief Commissioner's Bylaw

**Cross-references:** FIN-001-010 Financial Reporting

CFA Institute Code of Ethics and Standards - [code-of-ethics-standards-professional-conduct.pdf](https://www.cfainstitute.org/code-of-ethics-standards-professional-conduct.pdf) ([cfainstitute.org](https://www.cfainstitute.org))

CFA Institute Asset Manager Code - [asset-manager-code.pdf](https://www.cfainstitute.org/asset-manager-code.pdf) ([cfainstitute.org](https://www.cfainstitute.org))

## Policy Statement

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It is the policy of Strathcona County to invest public funds in a prudent manner that will provide optimum investment returns with the maximum security while meeting the County's cash flow requirements and conforming to the Municipal Government Act and all other provincial statutes and regulations governing the investment of municipal funds.

## Purpose

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This investment policy has the following objectives:

### 1. Capital Preservation

Strathcona County recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. Therefore, the prime objective of this policy is to ensure that the principal amount of each investment is safe from losses due to market conditions and issuer default. To accomplish this objective the County's minimum standards are set to ensure the credit quality of all investments meets or exceeds those standards as defined in the attached Schedule I – Schedule of Approved Investments.

### 2. Maintenance of Liquidity

Strathcona 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.

### 3. Rate of Return

Strathcona County's investment portfolio will be effectively managed to ensure that an optimum Rate of Return is realized on all investments within the parameters of the objectives established within this policy.

#### 4. Risk Mitigation

Ensuring that there is sufficient diversification with respect to issuer and term among assets of the fixed income portfolio.

#### 5. Compliance with the Municipal Government Act

Strathcona County will ensure that all investments purchased and owned by Strathcona County are in accordance with the *Municipal Government Act*, RSA 2000, c M-26 (MGA), s. 250.

### Definitions

**Benchmark** - A standard against which the performance of an investment portfolio can be measured which often includes a market index.

**Bond Rating Services** - A bond rating is a grade given to a bond that indicates its credit quality. Private, independent rating services such as Standard & Poor's (S&P) and Dominion Bond Rating Services (DBRS) provide evaluations of a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion.

Credit Rating Reference Table from Accepted Rating Agencies							
Credit Quality	DBRS		Moody's		S & P		
	Long Term	Short Term	Long Term	Short Term	Long Term	Global CP Scale	Canadian CP Scale
Superior	AAA	R-1 high	Aaa	P-1	AAA	A-1+	A-1 (high)
	AA high	R-1 high	Aa1	P-1	AA+	A-1+	A-1 (high)
	AA	R-1 mid	Aa2	P-1	AA	A-1+	A-1 (high)
	AA low	R-1 mid	Aa3	P-1	AA-	A-1+	A-1 (high)
Good	A high	R-1 low	A1	P-1	A+	A-1	A-1 (mid)
	A	R-1 low	A2	P-1	A	A-1	A-1 (mid)
	A low	R-1 low	A3	P-2	A-	A-2	A-1 (low)
Adequate	BBB high	R-2 high	Baa1	P-2	BBB+	A-2	A-1 (low)
	BBB	R-2 mid	Baa2	P-2	BBB	A-2	A-2
	BBB low	R-2 low	Baa3	P-3	BBB-	A-3	A-3
Speculative	BB high	R-3 high	Ba1	Not Prime	BB+	B	B
	BB	R-3 high	Ba2	Not Prime	BB	B	B
	BB low	R-3 high	Ba3	Not Prime	BB-	B	B
Highly Speculative	B High	R-3 mid	B1	Not Prime	B+	C	C
	B	R-3 mid	B2	Not Prime	B	C	C
	B low	R-3 low	B3	Not Prime	B-	C	C
	CCC	R-3 low	Caa	Not Prime	CCC	C	C

**Corporate Bonds** - These instruments are interest bearing debt that is secured by the assets of the issuing corporation. These Securities generally have a maturity which is greater than one year and form a part of the money markets only when the long-term debt approaches maturity. These instruments are actively traded within the markets and do have some degree of Liquidity.

**County** - the municipal corporation of Strathcona County, a specialized municipality established under the authority of the *Municipal Government Act*, RSA 2000, c M-26 and Order in Council 761/95.

**Effective Rate of Return** - The actual rate of return based on the purchase price of the investments and the interest accrued to a specific date. Market values, gains, and losses are excluded from the calculation.

**Liquidity** - In the context of investments and this policy, Liquidity refers to the ability to convert the Security on short notice into cash without a substantial loss of principal or accrued interest.

**Managed Funds** - A professionally managed investment portfolio which includes a diverse range of investments. In reference to this policy, Managed Funds will only include a narrow range of investments as defined within the Municipal Government Act. The objective of a managed portfolio is to minimize interest rate and credit risk and generate above average growth through active portfolio management.

**Safekeeping** - Occurs when a bank or broker holds Securities that are registered in the client's name for the client. This allows for physical protection and makes them readily available to sell at the client's instruction.

**Securities** - Investments issued by a government agency or corporation offered for purchase to investors. Securities as defined by the Municipal Government Act include: bonds, debentures, trust certificates, guaranteed investment certificates, certificates of deposits, deposit receipts, bills, notes and mortgages, rights or interest in respect of a security.

**Schedule "1" Chartered Banks** - Banks that are allowed to accept deposits and which are not subsidiaries of a foreign bank. Chartered banks receive their charters from the federal government under the Bank Act. Schedule "1" Chartered Banks are widely held (no single person or corporation may hold more than 10% of the voting stock and foreign ownership is limited to 25%).

## **Guidelines**

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### **1. Authority**

The Chief Commissioner is ultimately responsible and accountable for the control, management, and administration of Strathcona County's investments in accordance with the investment policy approved by Council. The Chief Commissioner may delegate this responsibility.

### **2. Responsibilities of the Chief Commissioner or Appointed Delegate**

The Chief Commissioner or Appointed Delegate shall establish appropriate guidelines, procedures, and internal controls:

- a) To achieve the objectives identified within this policy;
- b) For authorizing officers, employees and persons to engage in investment activities;  
and
- c) For the accounting, Safekeeping, and reporting of investment activities.

### **3. Authorized Investments**

The Schedule of Approved Investments identifies the Securities that the Chief Commissioner or Appointed Delegate can purchase on behalf of and in the name of Strathcona County.

#### **4. Safekeeping and Custody**

The Chief Commissioner or Appointed Delegate shall ensure that:

- a) All Securities shall be held in the name of Strathcona County;
- b) All Securities shall be held for Safekeeping by the financial institution where the investment accounts are maintained; and
- c) The financial institution shall issue a Safekeeping receipt to Strathcona County listing the specific investment, interest rate, maturity, and other pertinent information. On a monthly basis or at a minimum quarterly, the financial institution will provide reports which list all Securities held for the County, the book value of the holdings and the market value as at month end.

#### **5. Prudence**

Investments shall be made with judgment and care under circumstances then prevailing. All reasonable steps shall be taken to ensure that the management of Strathcona County's investment portfolio is in accordance with this policy. 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 established within this policy.

Investment agents acting on behalf of Strathcona County shall:

- a) Act in all matters with loyalty, impartiality and prudence;
- b) Mitigate portfolio risk through a balance approach that considers a risk/return trade off; and
- c) Provide a reasonable diversification strategy. An investment manager can invest in any allowable asset as long as it meets the requirements of prudent investing and considers portfolio in its entirety.

#### **6. Ethics & Conflict of Interest**

Officers, employees, and persons involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of their responsibilities, or which could impair their ability to make impartial investment decisions. Officers and employees shall disclose to the Chief Commissioner any material interests in financial institutions with which they conduct business. They shall further disclose any personal/financial investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the County.

In addition, strict adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct along with the CFA Institute Asset Manager Code shall apply to all officers, employees, and persons involved in the investment process, including investment agents in all investment related matters.

#### **7. Permitted Investments**

Permitted investments include all categories allowed in the *Municipal Government Act*, RSA 2000, c M-26 (MGA), s. 250.

Neither the internal or external investment persons / managers may pledge or otherwise encumber in any way the assets of any fund.

## 8. Reporting

Financial and Strategic Services will report to Council quarterly as per policy FIN-001-010 Financial Reporting.

Executive Team will review the following information on a quarterly basis:

- a) Total amount in investment portfolio(s);
- b) Total return in investment portfolio(s); and
- c) Statement on Policy compliance

## 9. Benchmarks

The following generally accepted market benchmarks for various asset classes will be used to assess performance:

- Operating Portfolio: FTSE TMX 91 Day T-bill Index
- Non-Operating Portfolio: FTSE Canada Universe Bond Index

## 10. Credit Quality

Investments in the portfolio will ensure preservation of capital and adhere to the following credit quality restrictions:

Temporary and Short Term (up to two years)

<b>Debt Rating Category (DBRS / Moody / S&amp;P)</b>	<b>Minimum Portfolio Allocation</b>	<b>Maximum Portfolio Allocation</b>
"R-2 high", "P-2", "A-2", "A-1 low", or lower	0 %	0 %
"R-1 low", "P-1", "A-1", "A-1 mid", or higher	100%	100%

Mid/Long term (more than two years and up to 15 years)

<b>Debt Rating Category (DBRS / Moody / S&amp;P)</b>	<b>Minimum Portfolio Allocation</b>	<b>Maximum Portfolio Allocation</b>
"BBB high", "Baa1", "BBB+" or lower	0 %	0 %
"A Low to high", "A3 to A1", and "A- to A+"	0 %	70 %
"AA low", "Aa3", "AA-", or higher	30 %	100 %

Investments rated below the permitted credit rating allocation at time of purchase are not permitted. If a Security's credit rating falls below "A-" after time of purchase, it shall be removed from the portfolio as soon as practical.

All percentages are to be based on book value at the time of purchase.

<b>SCHEDULE I – Schedule of Approved Investments</b>				
<b>Schedule of Approved Investments – Operating Portfolio Temporary &amp; Short-Term (up to 2 years)</b>				
<b>Investment Description</b>	<b>Approved Institution Limit</b>	<b>Total Portfolio Limit</b>	<b>Short Term Minimum Rating</b>	<b>Maximum Term of Maturity</b>
<b>Government:</b> Securities issued or guaranteed by Federal or Provincial Government	Unlimited	Unlimited	"R-1 low", "P-1", "A-1", "A-1 mid", or higher	2 years
<b>Chartered Banks:</b> Securities issued or guaranteed by Schedule "1" Chartered Banks	Unlimited %	Unlimited	"R-1 low", "P-1", "A-1", "A-1 mid", or higher	2 years
<b>Other Financial Institutions:</b> Securities Issued or guaranteed by: ATB Financial	Unlimited	Unlimited	"R-1 low", "P-1", "A-1", "A-1 mid", or higher	2 years
Servus Credit Union	Unlimited	Unlimited	"R-1 low", "P-1", "A-1", "A-1 mid", or higher	2 years
<ul style="list-style-type: none"> <li>• The above two financial institutions' deposits are 100 % guaranteed by the Government of Alberta.</li> <li>• Should the guarantee change, the holdings will be immediately reassessed to determine their short term credit rating and allowable percentages within the portfolio.</li> <li>• If the minimum credit rating does not meet "R-1 low", "P-1", "A-1", "A-1 mid", or higher status, the investments will be liquidated as soon as practical.</li> </ul>				
All percentages are to be based on book value at the time of purchase.				

<b>Schedule of Approved Investments Mid/Long Term Portfolio (more than 2 years and up to 15 years)</b>				
Investment Description	Approved Institution Limit	Total Portfolio Limit	Short Term Minimum Rating	Maximum Term of Maturity
<b>Government:</b> Securities issued or guaranteed by Federal or Provincial Government	Unlimited	Unlimited	"A Low to high", "A3 to A1", and "A- to A+"	15 years
<b>Other Financial Institutions:</b> Securities Issued or guaranteed by: ATB Financial	Unlimited	Unlimited	"A Low to high", "A3 to A1", and "A- to A+"	5 years
Servus Credit Union	Unlimited	Unlimited	"A Low to high", "A3 to A1", and "A- to A+"	5 years
<ul style="list-style-type: none"> <li>• The above two financial institutions' deposits are 100 % guaranteed by the Government of Alberta.</li> <li>• Should the guarantee change, the holdings will be immediately reassessed to determine their DBRS credit rating and allowable percentages within the portfolio.</li> <li>• If the minimum credit rating does not meet R1 (M-mid) status, the investments will be liquidated as necessary</li> </ul>				
<b>Corporate Bonds:</b> Bonds issued or guaranteed by Schedule "1" Chartered Banks	35 %	75 %	"A Low to high", "A3 to A1", and "A- to A+"	15 years
<b>Diversification:</b> A maximum per Security limit of 10% shall apply.				
All percentages are to be based on book value at the time of purchase.				

## **Policy Record**

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**Date of Approval by Council:** TBD;  
04/07/2012; 12/09/2008; 08/21/2007;  
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