

Investments

Policy Statement

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

Objectives

This investment policy has the following objectives listed in the order of their priority:

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. For the purposes of this policy the County defines Liquidity as the ability to convert an investment into cash without a substantial loss of principal or interest.

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. 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 (Section 250).

Guidelines

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.
- 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.
- 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.

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.

7. Reporting

The Chief Commissioner or Appointed Delegate will report to Council quarterly as per policy FIN-001-010 Financial Reporting.

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

- a) Total assets within the investment portfolio.
- b) A summary of holdings within the investment portfolio.
- c) Evaluation of portfolio performance to applicable Benchmarks.

Definitions

1. 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.

2. 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.

3. 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.

4. 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%).

5. Non-viable Contingent Capital Sub-debt (NVCC)

This type of debt is specifically issued by Schedule "1" Chartered Banks around the potential for a financial event where the debt issued by the bank can be converted to corporate shares. Corporate shares are not a qualified investment under the Municipal Government Act.

6. 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.

7. 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.

8. 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.

9. Benchmark

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

10. 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.

DEBT RATING COMPARISON CHART		
Credit Quality	Long-Term Credit Rating S&P	Short-Term Credit Rating DBRS
Superior	AAA	R-1 (High)
	AA	R-1 (Mid)
Good	A	R-1 (Low)
Adequate*	BBB	R-2 (High)
		R-2 (Mid & Low)
Speculative	BB	
Highly Speculative	B	
	CCC	
	CC	

*Adequate - ratings in this category are considered "Investment Grade"

**Schedule of Approved Investments – Operating Portfolio
Temporary & Short-Term (Less than 1 year)**

Investment Description	Approved Institution Limit	Total Portfolio Limit	DBRS Minimum Rating	Maximum Term of Maturity
Government:				
Securities issued or guaranteed by: Federal or Provincial Government	Unlimited	Unlimited	R-1 (M)	1 year
Chartered Banks:				
Securities issued or guaranteed by: Schedule "1" Chartered Banks	40 %	75 %	R-1 (M)	1 year
Other Financial Institutions:				
Securities issued or guaranteed by: ATB Financial	Unlimited	Unlimited	R-1 (M)	1 year
Servus Credit Union	Unlimited	Unlimited	R-1 (M)	1 year
<ul style="list-style-type: none"> • The above two financial institutions' 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. • If the minimum credit rating does not meet R1 (M-mid) status, the investments will be liquidated as necessary. 				

Schedule of Approved Investments – Mid-Term Portfolio (1 – 10 years)

<u>Investment Description</u>	Approved Institution Limit	Total Portfolio Limit	S&P Minimum Rating	Maximum Term of Maturity
Government:				
Securities issued or guaranteed by: Federal or Provincial Government	Unlimited	Unlimited	A-	10 years
Other Financial Institutions:				
Securities issued or guaranteed by: ATB Financial	Unlimited	Unlimited	A-	5 years
Servus Credit Union	Unlimited	Unlimited	A-	5 years
<ul style="list-style-type: none"> • The above two financial institutions' 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. • If the minimum credit rating does not meet R1 (M-mid) status, the investments will be liquidated as necessary. 				
Corporate Bonds:				
Bonds issued or guaranteed by: Schedule "1" Chartered Banks excluding Non-viable Contingent Capital Sub-debt (NVCC)	20 %	40 %	A-	10 years

Schedule of Approved Investments – Long-Term Portfolio (10 plus years)

<u>Investment Description</u>	Approved Institution Limit	Total Portfolio Limit	S&P Minimum Rating	Maximum Term of Maturity
Government:				
Bonds issued or guaranteed by: Federal/Provincial Governments including Crown Corporations	Unlimited	Unlimited	A-	30 years
Corporate Bonds:				
Bonds issued or guaranteed by: Schedule "1" Chartered Banks excluding Non-viable Contingent Capital Sub-debt (NVCC)	20 %	40 %	A-	20 years
Managed Funds:				
In accordance with the Alberta Municipal Government Act		25 %		30 years

Policy Record

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