Enclosure 4

STRATHCONA COUNTY

Investment Policy Update

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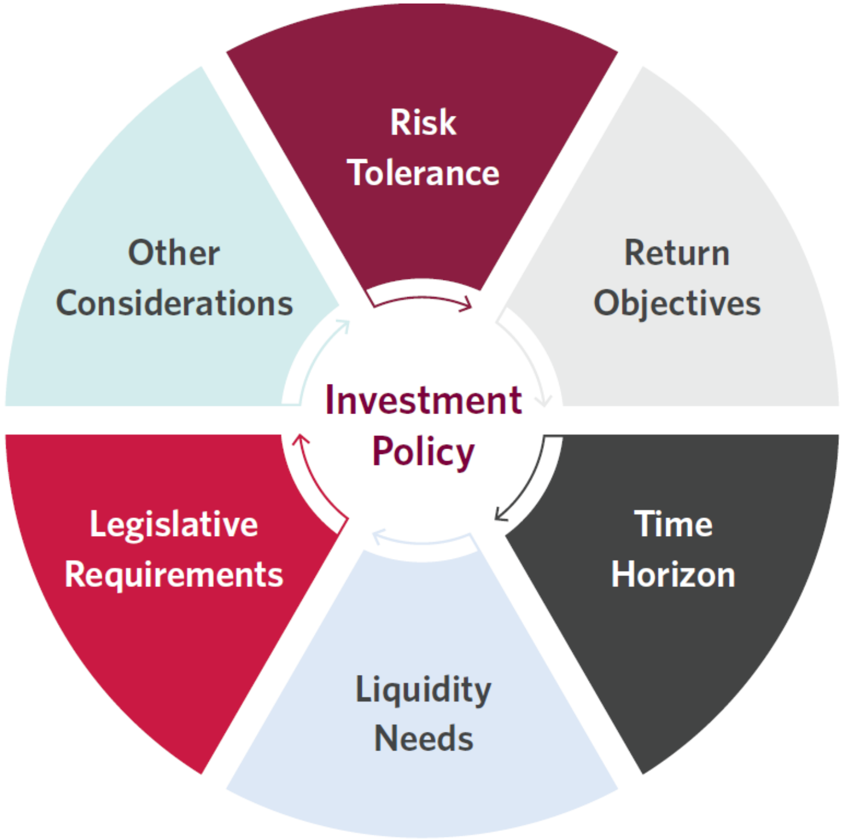
Investment Policy: Best Practices

A well-written investment policy should address the following in detail:

1. Risk Tolerance
2. Return Objectives
3. Times Horizon
4. Liquidity Needs
5. Legislative Requirements
6. Other Considerations



General Objectives

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

1. Preservation of Capital
2. Maintenance of Liquidity
3. Rate of Return
4. Risk Mitigation
5. Compliance with the Municipal Government Act

Change: Remove "listed in the order of their priority"

Rationale: Compliance with the MGA is as important as all other objectives

Guidelines

6. Ethics and Conflict of Interest

- "In addition, strict adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct along with the CFA Institute Asset Manager Code (for managed funds) shall apply to all investment related matters."

Change: Remove "(for managed funds)"

Rationale: CFA Institute Asset Manager Code should apply to all investments and not just managed funds

Guidelines

8. Reporting - The Executive Team will review the following information on a quarterly basis:

Change:

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

To:

a) Total amount in investment portfolio
b) Total return in investment portfolio
c) Statement on policy compliance

Rationale:

- Simplify quarterly reporting to align with current management report and ensure high quality information. Detailed reporting left to administration to allow them to optimize returns to meet Strathcona County objectives.

Definitions

5. Non-viable contingent capital debt (NVCC)

Change: Remove this section all together

Rationale:

- Bank bonds issued as NVCC, a class of subordinated debt, are fully compliant with the MGA and are used extensively by municipal clients across the country
- Credit risk is mitigated through the use of minimum credit rating restrictions outlined in the policy

Municipal Government Act – Section 250

A municipality may only invest its money in the following:

- Securities issued or guaranteed by:
  a) the Crown in right of Canada or an agent of the Crown, or

  b) the Crown in right of a province or territory or an agent of a province or territory;

  c) securities of a municipality, school division, school district, hospital district, health region under the Regional Health Authorities Act or regional services commission in Alberta;

  d) securities that are issued or guaranteed by a bank, treasury branch, credit union or trust corporation; units in pooled funds of all or any of the investments described in clauses (a) to (c);

Not applicable (exception required)

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  e) shares of a corporation incorporated or continued under the Canada Business Corporations Act (Canada) or incorporated, continued or registered under the Business Corporations Act if the investment is approved by the Minister.

Understanding Credit Ratings

Investment Grade:

Credit rating	Description
AAA	Highest credit quality; exceptionally high capacity for payment
AA	Superior credit quality; high capacity for payment
A	Good credit quality; substantial capacity for payment
BBB+	Adequate credit quality; acceptable capacity for payment

Portfolio limit

Non-Investment Grade:

Credit rating	Description
BBB	Speculative, non-investment grade credit; uncertain payment capacity
B	Highly speculative credit quality; high level of uncertainty
CCC	Very highly speculative; in danger of defaulting
CC	Subordinated obligations in the CCC category
C	Highly likely to default
D	Default

Example Investment Grade Issuers

AAA | Highest credit quality; exceptionally high capacity for payment

AA | Superior credit quality; high capacity for payment

A | Good credit quality; substantial capacity for payment

BBB | Adequate credit quality; acceptable capacity for payment

Definitions

8. Benchmark

Current:

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flows needs. The FSE Cdn T-bill index, FSE Canada Universe Bond Index, and the FSE Canada Long-Term Bond index will be used at the performance measure to determine whether market yields are being achieved for the Short and Mid/Long term portfolios respectively.

Specific benchmarks are as follows for different term maturity:

Maturity	Benchmark
Short-term money market investments less than 1 year	FTSE Cdn T-bill Index
Short-term investments less than 5 years	FTSE Canada Short-Term Bond Index
Medium-term investments less than 10 years	FTSE Canada Universe Bond Index
Long-term investments less than 30 years	FTSE Canada Long-Term Bond Index

Definitions

8. Benchmark

Proposed:

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

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

Rationale:

- Remove the benchmark section as it is currently worded and replace with the above
- While there is no benchmark that accurately represents MGA compliant investments, these are the industry standards and most closely align with the allowable holdings

Further Mitigating Risk

- Operating Portfolio – Schedule of Approved Investments
  - Change chartered bank approved institution limit from 40% to unlimited.
  - Rationale: recommend increasing the limit on deposits for Schedule I Banks to unlimited as the credit rating quality restriction ensures deposit capital preservation. This mirrors the current limits in place for credit unions. The current restrictions limit the opportunity set and may result in lower returns over time.

- Mid/Long-Term Portfolio – Schedule of Approved Investments
  - Remove section on Managed Funds
  - Rationale: all managed funds should be subject to the restrictions set out in this policy to ensure alignment with Strathcona County objectives. Listing managed funds here is unnecessary.

Further Mitigating Risk

- Term limits
  - Change all term limits from 20 years to 15 years on Mid/Long-Term portfolios
  - Rationale: 20 years is too long of a maturity in our opinion at this can affect the objective of liquidity due to significant interest rate risk and price volatility

- Diversification
  - Change the maximum invested in any single security from 15% to 10%
  - Rationale: given the size of the total portfolio, 15% is too high and needs to be further restricted to ensure sufficient diversification

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