

# Municipal District of Opportunity No. 17

## Investment Policy

### POLICY STATEMENT

This policy is established to ensure that any funds which the Municipal District of Opportunity No. 17 (hereinafter "The MD") may identify by way of temporary cash surpluses during the current operating fiscal year, annual cash surpluses at the end of the operating fiscal year, and trust funds or reserves are invested to provide the best possible return after due consideration of yield rates, term, security, and diversification as to type of security and investment institution. It provides guidance to the MD's Manager of Finance and the Chief Administrative Officer (CAO).

This policy further states that the Manager of Finance or the CAO who acts with due diligence to effect the policy shall be relieved of personal responsibility for market price changes or the credit risk of any investment, provided that appropriate action is taken to control adverse developments and that such developments are reported on a timely basis.

### GOALS & OBJECTIVES

The goal of the investment policy shall be to set out the guiding principles of investing public funds while meeting the related statutory requirements of the Alberta Municipal Government Act and other regulations governing investments.

The objectives of this policy are:

- To maximize investment returns at an acceptable level of risk;
- To effectively utilize the assets that have accumulated; and
- To meet the expectation that the original capital value of the portfolio is safeguarded.

Appropriate focus shall be made of a long term view with respect to the investment of a portion of the portfolio in order to maximize the long term sufficiency of the assets. Shorter term volatility of return is a concern and an implementation of this policy should focus on an acceptable balance between short term volatility and long term growth. Risk and volatility must be minimized with a careful consideration of the MD's cash flow, liabilities, investments and assets in a manner that does not imprudently expose the MD to a significant level of risks.

### GUIDING PROCEDURES AND PRINCIPLES

The Legislative Authority governing municipal investments is contained in Section 250 of the Province of Alberta's Municipal Government Act (Chapter M-26 of Revised Statutes of Alberta 2000). The investment instruments such as bonds or guaranteed investment certificates purchased must be authorized as per provisions of the Municipal Government Act (Alberta). The Manager of Finance will have the responsibility to ensure that

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investment of Funds is made in accordance with this policy and to redeem investments as required.

The municipality shall adhere to the following guiding principles in the consideration, purchase, disposal and administration of any investments held by the MD:

- a) Adherence to statutory requirements
- b) Preservation of capital
- c) Liquidity
- d) Diversification
- e) Duration
- f) Yield

(a) Adherence to Statutory Requirements

All investment activities shall be in compliance with the relevant sections of the Municipal Government Act and the related regulations.

(b) Preservation of Capital

Safety of principal is a primary objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

(c) Liquidity

The investment portfolio shall remain sufficiently liquid to meet emergency cash flow requirements and limit significant borrowing requirements. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may also be placed in the government investment instruments that offer liquidity for short-term funds.

(d) Diversification

The portfolio shall be diversified by asset class, issuer type, credit rating and by term to the extent possible, given legal and regulatory constraints.

(e) Duration

The duration of authorized investments purchased by the MD shall not exceed five years.

(f) Yield

The municipality shall maximize the net rate of return earned on the investment portfolio, without compromising the other objectives listed previously. Investments are generally limited to relatively low risk investment instruments in anticipation of earning a fair return relative to the assumed risk.

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### ELIGIBLE INVESTMENTS

Investments consist of both short-term and long-term in nature. A short-term investment will be for the duration of less than a year, while the duration for a long-term investment will be in excess of a year.

#### Short-Term Investments:

Typically, short-term investments will be for a term of a few days or weeks or months to less than a year, and will likely include funds in certificates of deposits, Government of Canada T-bills and bankers' acceptances issued by the Canadian chartered banks. The following approved list of counterparties and their maximum fund allocation limits shall be the initial list that should be periodically updated to meet the MD's short-term investment needs with a minimum requirement of the R-1 (Middle) rating of the Dominion Bond Rating Service (DBRS) or Moody's AA1 or Standard & Poor's AA+. The investments will be placed through the selected banks or investment dealer(s) or underwriter(s), as is deemed appropriate. Investments shall be made in adherence to the following limits:

Nature of Investment by Institutions	Maximum Limit of Investment Fund	Minimum DBRS Rating
The Government of Canada	75%	R-1 (Middle)/AA
The Province of Alberta Treasury Branches	75%	R-1 (Middle)/AA
Bank of Montreal	20%	R-1 (Middle)/AA
Bank of Nova Scotia	20%	R-1 (Middle)/AA
Canadian Imperial Bank of Commerce	20%	R-1 (Middle)/AA
Royal Bank of Canada	20%	R-1 (Middle)/AA
Toronto Dominion Bank	20%	R-1 (Middle)/AA

#### Long-Term Investments:

Investments for the duration of more than one year will be considered long-term in nature, and they shall be made in adherence to this policy and the following limits:

Nature of Investment by Institution	Maximum Limit of Investment Fund	Maximum Limit for One Institution
The Government of Canada	30%	N/A
The Province of Alberta Treasury Branches	30%	N/A
Canadian Chartered Banks (Big 5)	30%	20%
Other Provinces of Canada	20%	25%
Trust Company/Credit Union (with Assets of \$100MM)	10%	20%
Municipal Government of Edmonton / Calgary	10%	20%

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The percentages shown in the preceding table are applicable at the time any investments are made. These percentages may be exceeded only in the following cases:

- (a) rollover of investment funds that are redeemed from one or more of the other institutions;
- (b) the total investment fund drops below \$5,000,000; and
- (c) investments in certificate of deposits offered the Province of Alberta Treasury Branches or guaranteed investment certificates or T-bills offered by the Government of Canada maximize the returns on the temporary cash surplus as determined during the operating fiscal year.

The Manager of Finance and the CAO shall receive regular reports of the cash and investment balances. The report shall contain information as to the cash balances and investments held, and will contain the type of investment instrument, investment house, term of investment, rate of return and commission paid, if any.

### **Rating Quality of Investment Securities:**

- 1. All short term securities with a maturity date not exceeding one (1) year must, at the minimum, carry a DBRS credit rating of "R-1" (Middle) or Moody's AA1 or Standard & Poor's AA+. In the event a short term security is not rated it will only be eligible for investment if the security is unconditionally guaranteed by the parent organization which has a minimum credit rating.
- 2. All long term debt securities shall carry a minimum a DBRS credit rating of "R-1" (Middle) or Moody's AA1 or Standard & Poor's AA+.
- 3. In the event the rating of a security is downgraded below the minimums set out in this policy, the Investment Manager will sell the position during a reasonable period of time, giving full consideration for market conditions and the liquidity and price level of the security.

### **Categories of Investment:**

The Investment Manager may invest in any or all of the following asset categories and subcategories of Investment provided they comply with this policy:

- a) Securities issued or guaranteed by the Crown in right of Canada or a recognized agent of the Crown;
- b) Securities in right of a Province or a recognized agent of a Province;
- c) Securities of a designated Alberta municipality;
- d) Bonds, Debentures, or other debt investment of government including those denominated in non-Canadian currencies;
- e) Guaranteed investment or equivalent financial instruments of treasury branches; and

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- f) Securities that are issued or unconditionally guaranteed by a bank, treasury branches, or trust company.

### **Diversification and Asset Allocation:**

The investment of funds shall be guided with the following considerations:

- A. Risk of price fluctuation within asset classes and the uncertainty of future economic and investment scenarios dictate prudent diversification through investment in asset classes whose expected return provides overall longer term risk reduction of the funds.
- B. The Investment Manager will ensure there is a prudent level of diversification within each class subject to the following debt instrument limits which are based on market value:
  - 1. not more than 20% of the portfolio shall be invested in the debt of a single issuer other than in debt issues fully guaranteed by the Government of Canada or any provincial government whose long term debt credit rating is "AA" (and equivalent) or higher; and
  - 2. not more than 20% of the portfolio shall be denominated of payment in non-Canadian currency.

### **Loans and Borrowing:**

- 1. No part of the portfolio shall be invested in any person, partnership, association corporation or government except as identified as eligible investments described in Section 264 of the Municipal Government Act, Revised Statutes of Alberta, 2000 Chapter M-26 and amendments and Regulations thereto.
- 2. Neither the Investment Manager nor the MD may pledge, hypothecate or otherwise encumber, in any way, the assets of the portfolio.

## **PRUDENCE**

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, direction and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

## **DELEGATION OF AUTHORITY**

The Manager of Finance and the CAO shall have the overall responsibility for the prudent investment of the municipality's portfolio. Authority to manage and implement the investment program may be granted for all or a portion of the municipality's overall investment portfolio, to an external investment Agent, to act as an Investment Manager

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on behalf of the municipality, as determined through an independent and competitive bidding process. That Agent shall act in accordance with the established procedures and internal controls consistent with this investment policy.

### **REPORTING**

The Manager of Finance or designate shall submit a quarterly investment report to the Council, together with the annual audited municipality financial statements. The investment report shall include the following:

- a) A listing of investment portfolio(s) held at the end of the reporting period;
- b) A statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- c) A statement by the Manager of Finance or designate as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the municipality;
- d) A record of the date of each portfolio transaction;
- e) Such other information that the Council may require or that, in the opinion of the Manager of Finance or designate, should be included.

### **PERFORMANCE BENCHMARK**

The investment portfolio shall be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary cycle that is commensurate with the investment risk constraints and cash flow needs of the municipality.

### **MARKET VALUE**

The market value of the portfolio shall be calculated at least quarterly with the following conditions.

1. Investments in publicly traded securities shall be valued monthly.
2. If a market valuation of the investment is not readily available, then a fair value shall be determined by the Investment Manager. For such non-traded investment, an estimate of fair value shall be provided to the Manager of Finance no less frequently than quarterly. In all such cases, the methodology must be applied consistently over time.

### **SIGNING AUTHORITY**

Transactions related to investments made by the municipality shall require approval by the Manager of Finance or designate and the CAO or designate. Decision making

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authority for investment transactions may be delegated by the municipality directly to an Investment Manager, following an independent and competitive process, to invest and manage funds on behalf of the municipality.

### **RESPONSIBILITIES OF ENTRUSTED PARTIES**

The responsibilities of various parties with respect to this policy are as follows:

#### **The Council:**

- Approve, by resolution, the MD investment policy as may be amended from time to time; and
- Delegate responsibility to the Manager of Finance or designate to establish and/or modify practices and internal controls for its investment operations consistent with this policy.

#### **Chief Administrative Officer:**

- Execute resolutions relating to the establishment and maintenance of accounts with the qualifying financial institutions and/or investment brokerage firms; and
- Obtain 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.

#### **Manager of Finance or designate:**

- Enter into arrangements with an external Investment Manager(s), if needed;
- Execute and sign documents on behalf of the municipality and perform all day-to-day processes related to the investment and cash management functions;
- Develop and maintain all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the municipality's investments are properly managed and adequately protected;
- Transact investment on behalf of the MD in accordance with the policy;
- Establish and modify procedures and internal controls for investment operations consistent with this policy;
- Establish an annual process of independent review by an external auditor to ensure compliance with policies and procedures;
- Conduct all investment transactions on a delivery versus payment basis; and
- Report quarterly to the Council on investment activities which will include the following:
  - Details of investments held
  - Effective rate of return of the investments held
  - Comparison of the effective rate of return to the Government of Canada three-year benchmark bond yield
  - Evaluation of the investment performance

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### **Investment Manager(s):**

- Allocate assets and select securities or investments within such classes, in accordance with established investment policy;
- Provide regular reports (quarterly, at a minimum) to the Administration, which include the performance and risk characteristics of the municipality's Investment Portfolio and meets with the Administration and / or the Council as required;
- Recommend changes to the established investment policy that is deemed appropriate;
- Provide advice and counsel with respect to the Investment Portfolio; and
- May also act as Custodian.

### **Investment Custodian:**

- Provide safekeeping of the Investment Assets;
- Process transactions as directed by the Investment Manager(s) and / or the Administration;
- Collect interest, dividends and the proceeds of cash equivalent and fixed income instrument maturities;
- Deposit funds and pay expenses as directed by the Administration;
- Maintains a record of all transactions;
- Provide regular (monthly at a minimum) reports to the municipality; and
- Provide the Investment Manager(s) and the Administration with information required to fulfill their duties.

## **DEFINITIONS OF KEY TERMS**

- (a) Administration in this policy document means the municipality's officials directly involved in the investment process, i.e., the CAO and the Manager of Finance.
- (b) Credit Rating means a rating of a government or corporate entity issued by Dominion Bond Rating Services, Canadian Bond Rating Services, Standard and Poor's or Moody's.
- (c) Diversification means the division of investment monies among a variety of securities offering independent rates of return. Investments may be diversified by asset, term, corporation, country or currency.
- (d) Investment Instruments include the following:
  - 1) Banker's Acceptance
  - 2) Bonds
  - 3) Certificate of Deposit
  - 4) Commercial Paper
  - 5) Deposit Receipts
  - 6) Debentures



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- 7) Guaranteed Investment Certificates or Receipts
  - 8) Treasury Bills
  - 9) Trust Certificates
- (e) Investment Manager means an investment professional who will administer the MD's investment portfolio.
- (f) Liquidity means a liquid asset that can be converted easily and quickly into cash.
- (g) Market Value means the price at which a security is trading and could presumably be purchased or sold.
- (h) Portfolio means consolidation of investments by an Investment Manager.
- (i) Preservation of Principal means the avoidance of potential losses on the principal sum invested in a security. This will be accomplished by adhering to the policy and diversifying the investment portfolio.
- (j) Prudent Person means the standard of prudence to be applied by the Investment Manager in the context of managing the overall portfolio. The "Prudent Person" must act in all matters regarding investments with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The "Prudent Person" must diversify the investment of the portfolio so as to minimize the risk of losses, unless under the circumstances it is clearly not prudent to do so.
- (k) Rate of Return means the yield obtained on a security based on purchase price and term only
- (l) Securities means Bonds, Notes, Debentures, Commercial Paper, Promissory Notes, Coupon and Residuals, Units in Pooled Funds and other debt securities of Federal and Provincial Governments or Corporations, including their agencies and debt securities guaranteed by same. Cash and demand deposits, Term Deposits and Guaranteed Investments Certificates of federally insured Canadian financial institutions.
- (m) Annual Cash Surplus means any cash funds that are not required for disbursement within 120 days following the end of the operating fiscal year for the MD's operating or capital expenditures.

*Handwritten signature*