

COUNCIL POLICY



REGIONAL MUNICIPALITY
OF WOOD BUFFALO

Policy Name: Investment
Department Name: Financial Services
Policy Number: FIN-140
Effective Date: October 18, 2016

Next Revision Date: October 18, 2019

STRATEGIC PLANNING LINKAGE

This Policy safeguards the appropriate use and accounting of Municipal funds, in line with the Municipality's vision of "building a responsible government" by demonstrating principles of accountability, integrity, and transparency.

POLICY STATEMENT

The Municipality will invest public funds in a prudent manner that will provide optimum investment returns with the maximum security while meeting cash flow requirements of the Municipality. All investments must conform to the policies and guidelines set forth below, as well as operate within the language and spirit of legislative requirements under the Municipal Government Act (Section 250) and applicable regulations.

PURPOSE AND OBJECTIVE

The purpose of this Policy is to provide general investment principles, rules, and delegated authority for managing and monitoring the Municipality's surplus cash position, trust and reserve funds. Adherence to the Investment Policy will ensure compliant and effective investment management and assist in achieving the strategic goals and growth objectives of the Municipality.

GENERAL PRINCIPLES

1. Definitions:

- 1.1. "Bond Rating Service" means a corporation whose primary business mandate is to analyze the creditworthiness of debt securities issued by all levels of government and corporations and make recommendations as to the risk level of such debt.
- 1.2. "Investment Advisory Committee or IAC" means a committee comprised of the CAO and or the Deputy Chief Administrative Officer, the Chief Financial Officer, the Director of Financial Services.
- 1.3. "Investment Manager" means an external person or organization who is not an employee that makes investments in portfolios of securities on behalf of the Municipality, in accordance with the investment objectives and parameters of the Municipality.
- 1.4. "Rate of Return" means the time-weighted, total return on an investment over a specified period. Total return includes the income received during the measurement period plus realized and unrealized capital gains, expressed as a percentage of beginning market value.

1.5. "Rating Definitions" means ratings in this Policy are based on Dominion Bond Rating Service definitions rating scale (DBRS). However, comparable Standard & Poor's (S&P) and Moody's rating scales may apply.

1.5.1. Money Market Ratings:

1.5.1.1. High - highest credit quality, unquestioned ability to repay current liabilities as they fall due.

1.5.1.2. Middle - superior credit quality, above average strength in key areas of consideration for debt protection.

1.5.1.3. R-1 Low - satisfactory credit quality, considerations for debt repayment still respectable.

1.5.2. Bond Ratings:

1.5.2.1. AAA - highest credit quality, exceptionally strong protection for the timely payment of principal and interest; establishment of a creditable track record of superior performance.

1.5.2.2. AA - superior credit quality and protection of interest and principal is considered high; they differ from bonds rated AAA only to a small degree.

1.5.2.3. A - satisfactory credit quality as protection of interest and principal is still substantial; the degree of strength is less than with AA rated entities.

2. Responsibilities:

2.1. Council to:

2.1.1. Approve this Policy and all amendments as required.

2.2. Chief Administrative Officer (CAO) or designate to:

2.2.1. Support the implementation of this Policy.

2.2.2. Monitor investment activities to ensure compliance with investment parameters.

2.3. Chief Financial Officer or designate to:

2.3.1. Establish and maintain a system of internal controls designed to prevent loss of funds.

2.4. Investment Advisory Committee (IAC) to:

2.4.1. Oversee and implement the management process.

2.4.2. Ensure funds are managed in accordance with this Policy.

2.4.3. Report annually as part of Fiscal Management Strategy documentations and part of the annual financial statement report for Council and the public.

2.5. Investment Managers to:

2.5.1. Manage funds in accordance with this Policy.

- 2.5.2. Manage all activities associated with client portfolios, including but not limited to, buying and selling securities on a daily basis, portfolio monitoring, settlement of transactions, performance measurement and regulatory and client reporting.
- 2.5.3. Abide by the Code of Ethics and Standards of Professional Conduct and the Asset Manager Code of Professional Conduct as established by the Chartered Financial Analyst Institute or the equivalent.

3. Investment Objectives:

- 3.1. The primary objectives, in priority order, of investment activities shall be:
 - 3.1.1. Safety - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.
 - 3.1.2. Liquidity - Investment portfolio shall remain sufficiently liquid to meet all operating and capital cash requirements that may be reasonably anticipated.
 - 3.1.3. Return - Investments of funds shall be structured with the objective of attaining a total return commensurate with the respective portfolio benchmarks as defined in this Policy.

4. Governing Legislation:

- 4.1. The investments of funds are regulated by the following legislation:
 - 4.1.1. Municipal Government Act, RSA 2000, c. M-26, s.250, as amended, and
 - 4.1.2. Investment Regulation, AR 66/2000, as amended, and
 - 4.1.3. Trustee Act, RSA 2000, c. T-8, ss. 2 and 3, as amended.

5. Standard of Care:

- 5.1. Exercise the degree of care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.
- 5.2. Without limiting the generality of section 3.1, persons who possess or ought to possess, a particular level of knowledge or skill relevant to their responsibilities of the funds, shall apply that particular knowledge or skill set to the investment activities and administration of the funds.

6. Ethics and Conflicts of Interest:

- 6.1. Investment Managers involved in investment activities of funds shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Material interests in financial institutions with which they conduct business and any personal financial/investment positions that could be related to the performance of the investment portfolio shall be disclosed to both the Chief Financial Officer and the Chief Administrative

Officer. Adherence to relevant Municipal Policies and Directives such as Conflict of Interest Discipline (HRM 610) and Code of Conduct (HRM-600).

- 6.2. Investment Managers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the Municipality.

7. Investment Managers Qualification and Selection:

- 7.1. Investment Managers handling the Municipality's investments must be registered with the Alberta Securities Commission and have a good standing membership with the Investment Industry Regulatory Organization of Canada.
- 7.2. The selection of Investment Managers authorized to provide investment services to the Municipality shall be conducted at least every five years.

8. Safekeeping and Custody:

- 8.1. Fund investments will be held by a third-party custodian selected and approved by IAC.
- 8.2. Third-party custodians are responsible for managing investments based on priorities outlined in Section 3.1.

9. Permitted Investments:

- 9.1. The Municipality's funds shall be invested in two general types of investments:
 - 9.1.1. Short-term investments which are used to fund general operating requirements of the Municipality and have a maturity date of one year or less.
 - 9.1.2. Medium and long-term investments which are surplus funds that are not expected to be used within one year and have a maturity date that exceeds one year
- 9.2. Permissible investments of funds will be restricted to fixed income securities that meet the investment parameters defined in this Policy.
- 9.3. Categories of investment that are not permissible include, but are not limited to, investments in equities, commodities, precious metals, derivatives, repurchase agreements, asset backed securities, hedge funds, real estate in the form of direct property ownership and collectibles.

10. Investment Parameters:

- 10.1. Investments must meet the following credit rating limits, issuer limits, term limits and exposure limits:
- 10.2. Short-term Portfolio:
 - 10.2.1. The minimum rating for short-term securities is R1 (low).
 - 10.2.2. Maximum holdings of the short-term investment portfolio by credit rating are 100% for AAA, AA and A ratings; and
 - 10.2.3. Maximum holdings of the short-term investment portfolio by issuer:
 - 10.2.3.1. 100% for federal issues and guarantees;

- 10.2.3.2. 100% for provincial issues and guarantees;
 - 10.2.3.3. 40% for municipal issues; and
 - 10.2.3.4. 40% for corporate issues.
 - 10.2.4. Maximum term limits for the short-term investment portfolio are one year weighted average.
 - 10.2.5. No more than 2% of the cost value of the entire investment portfolio may be invested in a single security with the exception of securities issued by the Government of Canada and guarantees, or a provincial government and guarantees with an A-rating or higher at time of purchase. The Municipality will advise the dollar limits associated with the 2% ceiling annually.
- 10.3. Medium and Long-term Portfolio:
- 10.3.1. The minimum rating for the medium and long-term securities is single A.
 - 10.3.2. Maximum holdings of the medium and long-term investment portfolio by credit rating are 100% for AAA, AA and A ratings; and
 - 10.3.3. Maximum holdings of the medium and long-term portfolio by issuer:
 - 10.3.3.1. 100% federal issues and guarantees;
 - 10.3.3.2. 100% for provincial issues and guarantees;
 - 10.3.3.3. 50% for municipal issues; and
 - 10.3.3.4. 40% for corporate issues.
 - 10.4. Maximum term limits for the medium and long term investment portfolio are ten years weighted average.
 - 10.5. No more than 2% of the cost value of the entire investment portfolio may be invested in a single security with the exception of securities issued by the Government of Canada and guarantees, or a provincial government and guarantees with an A-rating or higher at time of purchase. The Municipality will advise the dollar limits associated with the 2% ceiling annually.

11. Performance Standards:

- 11.1. The following market benchmarks are generally accepted measures for relative performance assessment purposes. However, specialty mandates may require a customized equivalent benchmark to be established by Investment Managers and the Municipality.

<u>Category</u>	<u>Performance Benchmarks</u>
Short-term Investments (< 1 year)	FTSE TMX 91 Day Treasury Bill Index
Medium-term Investments (< 5 years)	FTSE TMX Government Short-Term Bond Index
Long-term Investments (> 5 years)	FTSE TMX Government Mid-Term Bond Index

12. Reporting:

12.1. The Director of Financial Services or designate shall prepare a quarterly report for the IAC who shall visit quarterly for performance review. The report shall include, at a minimum, the following:

- 12.1.1. Financial market and economic update;
- 12.1.2. Rates of Return for the total fund and individual categories and benchmarks for the prior one month, three months, one year and annualized periods and fiscal year to date; and
- 12.1.3. Investment exceptions report detailing investment activities that breached an investment parameter, reasons for the breach and action plan.

13. Investment Governance:

13.1. The governance structure established is designed to ensure that the Municipality's investment is managed prudently, appropriately and in compliance with applicable legislation and this Policy. Three principal levels of responsibility are described as the following:

- 13.1.1. Council shall approve all investment policies;
- 13.1.2. Council shall review and accept investment reports update(s) annually as part of Fiscal Management Strategy documentation; and

13.2. IAC shall provide oversight to the governance and management of the Municipality's investments.

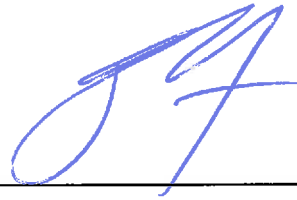
13.3. IAC shall meet at least four times annually.

SUPPORTING REFERENCES AND POSITION RESPONSIBLE

Legal References:	Municipal Government Act, RSA 2000, c. M-26, as amended; Investment Regulation, AR 66/2000, as amended; and Trustee Act, RSA 2000, c. T-8, ss. 2 and 3, as amended.
Cross References:	Code of Conduct Procedure HRM 600; and Conflict of Interest Disclosure Procedure HRM 610.
Position Responsible for Policy:	Director, Financial Services

APPROVAL

This Policy was approved by Council. It will be reviewed on its next Revision Date to determine its effectiveness and appropriateness. It may be assessed before that time as necessary to reflect organizational change.



David Leflar, Chief Legislative Officer

October 18, 2016

Council Approval Date