


| | | |
|---|--------------------------------------|---|
|  | City of Lacombe Investment Policy | |
| | Policy Number: | 13.810.01 (15) |
| | Approval Date: | 29 June 2015 |
| | Effective By: | 1 st July 2015 |
| | Supercedes: | N/A |
| | Revision Date: | |
| | Review Date: | 1 st July 2016 |
| | Department: | Financial Services |
| | Reference: | MGA Section 250; MGA Alberta Regulation 66/2000, Investment Regulations |

Purpose of Policy

Strong financial leadership and planning ensures the long-term viability of the corporation. The purpose of this policy is to establish objectives and limits for investment of funds held by the City of Lacombe. This includes General funds, Utility funds, Capital Project funds, Provincial / Federal funds and all other funds entrusted to the City of Lacombe excluding Mary C. Moore public library, North Red Deer River Water Service Commission and North Red Deer Regional Wastewater Services Commission.

Policy Statement

It is the policy of the City of Lacombe to conform to all provincial statues and regulations governing the investment of municipal funds.

It is also the City of Lacombe policy that CAO or designate who exercises due diligence and acts in accordance with this policy and Act 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.

Municipal funds shall be invested in a manner that will meet the following objectives, listed in order of importance:

1. Maintain the safety of investment principal
2. Meet daily cash flow requirements. A designate will determine the optimal cash balance and decide the duration of the short term investments to meet the daily cash flow needs.
3. Provide competitive investment returns

Definitions

- **Asset Back Securities:** A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. Asset-backed securities are an alternative to investing in corporate debt.
- **Bonds:** These instruments are interest-bearing debt, which are secured by the assets of the issuer. 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.
- **CAO Designate:** For the purposes of this policy, designates of the Corporate Services Director include the Financial Services Manager or any other employee specified by the Director
- **Credit risk:** The risk of loss due to the failure of the security issuer or backer.
- **Credit rating:** An index of investment ratings by various firms (See Appendix A)
- **Debentures:** Debentures are similar to bonds and represent interest bearing debt. However, debentures are secured only by the general credit of the issuing organization. Typically these instruments are offered by organizations that have exhausted their ability to issue bonds or by organizations that have high enough credit standing that they are not required to pledge any specific assets. These instruments have a reasonable degree of liquidity and usually have a yield that is higher than similar bonds.
- **Delivery-Versus-Payment:** There are two methods of delivery of securities: Delivery-Versus-Payment and Delivery-Versus-Receipt. In Delivery-Versus-Payment transactions a security is presented in exchange of cash and that completes the transaction. In Delivery-versus-receipt transactions a letter of intent is substituted for the actual security. The letter of intent is a promise to deliver the security as soon as possible.
- **DEX 91 Day Treasury Bill:** measures the average yield on 91-day treasury bills which are issued and secured by the Government of Canada. Also considered the risk free amount.
- **Domestic Liquid Universe (DLUX):** The amount of cash and cash equivalent circulating in the nation's economy
- **Interest Rate Risk:** The risk that the market value of securities in the portfolio will decline due to changes in market interest rates.
- **Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be sold at those quotes.
- **Mutual Funds:** An investment security type that enables investors to pool their money together into one professionally managed investment.

- **Secondary Market**: A market made for the purchase and sale of outstanding issues following the initial distribution.
- **Securities**; as defined by the Municipal Government Act include
 1. Bonds,
 2. Debentures;
 3. Trust certificates;
 4. Guaranteed investment certificates or receipts;
 5. Certificates of deposit;
 6. Deposit receipts;
 7. Bills;
 8. Notes and mortgages of real estate or leaseholds;
 9. Rights or interests in respect of a security.
 10. Additional investments (as per S. 2(1) of AR 66/2000):
 - Securities issued by a Provincial or Canadian Crown Corporation
 - Securities of the municipality

Applicability

All funds held by the City excluding Mary C. Moore public library, North Red Deer River Water Service Commission and North Red Deer Regional Wastewater Services Commission.

Responsibilities

The Responsibilities with respect to this Policy are as follows:

City Council to:

- a) Approve, by Resolution, the City of Lacombe investment policy as may be amended from time to time
- b) Delegate responsibility to the CAO or designate to establish and/or modify practices and internal controls for its investment operations consistent with this policy.

CAO to:

- a) Execute documents relating to the establishment and maintenance of accounts with investment brokers and qualifying financial institutes.

CAO or Designate to:

- a) Review the policy annually and make recommendations regarding any changes that may be appropriate.
- b) Transact investments on behalf of the City of Lacombe in accordance with this policy
- c) Establish and/or modify procedures and internal controls for investment operations consistent with this policy.
- d) Refrain from personal business transactions which may hinder the proper execution of the City's investment procedures or which may prevent them from making impartial investment decisions.

- e) Conduct all security transactions on a delivery-versus-payment basis. Securities will be held by a third party custodian as evidence by safekeeping receipts.
- f) Report quarterly to City Council on investment activities which the report will include the following:
 - Details of investments held
 - Effective rate of return on the investments held
 - Evaluation of the performance of investments
 - Cost of Investment broker

Procedure – Short Term Investments

1. Maintain the safety of the investment principal

Safety of principal is the primary objective of the investment program. Investments of the City are undertaken in a manner that seeks to maintain the safety of the investment principal by mitigating credit risk and interest rate risk.

In order to mitigate risk, the City of Lacombe invests only in the securities which are Authorized investments as defined and described by Section 250 of the Municipal Government Act, RSA 2000 Chapter M-26 and Investment Regulation 66/2000.

Each **institution** invested in to be rated by at least two of the major rating agencies, and must comply with the rating specifications of Alberta Regulation 66/2000.

- a) Short Term Investments shall only represent a maximum % at the time of purchase as stated below;
 - i. Can represent 100% of short term investment if the financial institution is fully guaranteed by the Government of Canada or a province of Canada
 - ii. Shall not represent more than 50% if the financial institution is a Canadian Schedule I bank (see appendix B), or;
 - iii. Shall not represent more than 25% if the financial institution is not covered in i or ii
- b) Sells any investments which no longer qualified under this Policy with any sale to take place over a reasonable period of time giving due consideration to financial market conditions and the liquidity of the investment
- c) Investments shall be reported or paid in Canadian currency only, to avoid exposure to currency exchange fluctuations

Diversification and Restraints

- a) The allowable investments shall not include Asset Backed Securities and Mutual Funds
- b) Securities must have a minimum credit rating of R-1(low) or equivalent (See appendix A) or be guaranteed by the Government of Canada or a province of Canada
- c) At the time of purchase, current holdings of the **security** plus the proposed investment:
 - i. Can represent 100% of short term investment if the financial institution is fully guaranteed by the Government of Canada or a province of Canada
 - ii. Shall not represent more than 50% if the financial institution is a Canadian Schedule I bank, or;
 - iii. Shall not represent more than 25% if the financial institution is not covered in i or ii above

2. Meet daily cash flow requirements (Liquidity)

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. In order to meet daily cash flow requirements, the City of Lacombe:

- a) Structures the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- b) Invests primarily in securities with active secondary markets which allows the security to be sold to meet any unanticipated cash flow requirements.

3. Provide competitive investment returns (Yield)

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. In order to provide competitive investment returns, the City of Lacombe:

- a) Purchases investments that provide the highest return available given risk and cash flow restrictions of this policy.
- b) Shall not sell securities prior to maturity with the following exceptions:
 - A security may be sold to meet cash flow requirements
 - A security with declining credit may be sold early to minimize loss of principal
- c) Reasonable return shall be benchmarked with the DEX 91 Day Treasury Bill

4. Duration of Investments

Investments defined as Short Term will have a limit on duration of a maximum of 1 year

Procedure – Long Term Investments

1. Maintain the safety of the investment principal

Safety of principal is the primary objective of the long term investment program. Investments of the City are undertaken in a manner that seeks to maintain the safety of the investment principal by mitigating credit risk and interest rate risk.

In order to mitigate risk, the City of Lacombe invests only in the securities which are Authorized investments as defined and described by Section 250 and/or Investment Regulation 66/2000 of the Municipal Government Act, RSA 2000 Chapter M-26.

A limit of 1 (one) long term investments broker that must be rated by at least two of the major rating agencies, and must comply with the rating specifications of Alberta Regulation 66/2000.

Diversification and Restraints

- a) The following credit quality restrictions apply to the securities in the portfolio

| Debt Rating Category | Minimum | Maximum |
|------------------------------|----------------|----------------|
| "BBB" or lower or equivalent | 0% | 0% |
| "A(low)" or equivalent | 0% | 50% |
| "AA" or higher or equivalent | 50% | 100% |

- b) The portfolio shall be diversified by the following constraints

At the time of purchase, current holdings of the **security** plus proposed investment

- i. Can represent 100% if the total securities are fully guaranteed by the Government of Canada or a province of Canada, or;

- ii. Shall not represent more than 8% of the total securities if they are a Canadian Schedule I bank, or;
- iii. Shall not represent more than 5% of the total securities if they are not covered in i or ii above.
- iv. Shall not include any Mutual Funds

2. Meet cash flow requirements (Liquidity)

Long term investments shall be managed to meet the operating needs of the City:

- a) Limits the term of the portfolio to comply with +/- 30% of the DLUX (Domestic Liquid Universe)

3. Provide competitive investment returns (Yield)

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. In order to meet daily cash flow requirements, the City of Lacombe:

- a) Structures the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- b) Invests primarily in securities with active secondary markets which allows the security to be sold to meet any unanticipated cash flow requirements
- c) Funds managed by the long term broker and investments managers will be measured against 90% of the DLUX on a 4 year annualized basis to determine if a competitive yield is achieved

4. Duration of Investments

Investments of a long term nature will have a maturity date of over 1 year

Safety and Custody

1. All investment certificates must be issued to the City of Lacombe or held in the name of the City of Lacombe.
2. Investment certificates may be held for safekeeping by the financial institution.
3. Responsibility for the safekeeping of assets, income collection, settlement of investment transaction, and accounting for investment transactions is delegated to a trust company custodian duly registered in Canada.

_____ Original Signed _____
Mayor

_____ Original Signed _____
Chief Administrative Office

Appendix A – Credit Ratings

| Investment Grade | Moody's | Standard & Poors | DBRS Short-Term and Commercial Paper | DBRS Long Term | Fitch Short Term and Commercial Paper | Fitch Long Term |
|---|------------|------------------|--------------------------------------|----------------|---------------------------------------|-----------------|
| Highest Quality (extremely strong) | Aaa | AAA | R-1 (high) | AAA | R-1 (high) | AAA |
| High Quality (very strong) | Aa1 to Aa3 | AA+ to AA- | R-1 (middle) | AA | R-1 (middle) | AA+ to AA- |
| Upper Medium Grade (strong) | A-1, A | A+ to A- | R-1 (low) | A | R-1 (low) | A+ to A- |
| Medium Grade (good) | Baa-1, Baa | BBB+ to BBB- | R-2 (high) | BBB | R-2 (high) | BBB |
| Lower Medium Grade (somewhat speculative) | Ba | BB+ to BB- | R-2 (middle) | BB | R-2 (middle) | BB |
| Low Grade (speculative/weak) | B | B+ to B- | R-2 (low) | B | R-2 (low) | B |
| Poor Quality (may default/very weak) | Caa | CCC to CCC- | R-3 (high) | CCC | R-3 (high) | CCC |
| Most Speculative | Ca | CC | R-3 (middle) | CC | R-3 (middle) | DDD |
| No interest Being Paid or Bankruptcy Petition Filed | C | R | R-3 (low) | C | R-3 (low) | DD |
| In Default | C | D | D | D | D | D |

Appendix B – Schedule I Banks

- B2B Bank
- Bank of Montreal
- The Bank of Nova Scotia Bank
- Bridgewater Bank
- Canadian Imperial Bank of Commerce
- Canadian Tire Bank
- Canadian Western Bank
- CFF Bank
- Citizens Bank of Canada
- CS Alterna Bank
- DirectCash Bank
- Dundee Bank of Canada
- Equitable Bank
- First Nations Bank of Canada
- General Bank of Canada
- Hollis Canadian Bank
- HomeEquity Bank
- Jameson Bank
- Laurentian Bank of Canada
- Manulife Bank of Canada
- National Bank of Canada
- Pacific & Western Bank of Canada
- President's Choice Bank
- Rogers Bank
- Royal Bank of Canada
- Tangerine
- The Toronto-Dominion Bank
- Zag Bank