CITY OF ST. ALBERT

CITY COUNCIL POLICY

NUMBER	TITLE
C-FS-02	**Investments**

ORIGINAL APPROVAL DATE	DATE LAST REVISED
September 2, 2003	September 14, 2015

Purpose

To establish the goals and parameters under which financial investments can be made for the City of St. Albert.

Policy Statement

The City of St. Albert shall invest its funds in a prudent manner, provide optimum investment returns within the prescribed limits, meet the City's cash-flow requirements and conform to all other appropriate City policies, Provincial statutes and regulations.

Definitions

"Bank of Canada Rate (Bank Rate)" means the interest rate that the Bank of Canada charges for advances made to the Canadian chartered banks. The bank rate is set at the upper limit of the Bank of Canada's operating band for the overnight financing rate. This is the rate at which major participants in the money market borrow and lend one-day funds.

"Basis Point" means 1/100 of a percentage point.

"Bearer Form Securities" means a negotiable security that can be redeemed by whoever has actual physical custody of the security. These securities are not in the name of the owner and usually have a clause on the actual security that states something such as "Pay to the Bearer".

"Commercial Paper" means short-term unsecured promissory notes that are issued by major Canadian Corporations. These notes are backed by the general credit of the issuing corporation and are usually unsecured. These instruments are traded actively in the money markets and usually have a maturity of less than one year. The notes may be interest bearing or issued at a discount and are issued in either bearer or fully registered form.

"Corporate Bonds" means instruments that have interest bearing debt which are secured by the assets of the issuing Corporation. These securities generally have a maturity that is greater than one year and form 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.

"DBRS" means Dominion Bond Rating Service. This is a company that investigates and reports on the credit worthiness of governments and corporations issuing securities in the Canadian financial markets. A short term debt rated R-1 (middle) is of superior quality as entities with this rating are considered strong credits which typically exemplify above average strength in key areas of consideration for debt protection. Bonds rated "AA" are also of superior credit quality and protection of interest and principal is considered high.

"Diversification" means a fundamental investment principle that reduces risk by diversifying the maturity terms and the types of investments held within the portfolio.

"Federal and Provincial Crown Corporation Notes" means investments that are guaranteed by the Government of Canada or the issuing Province and are secured by the assets of the issuing Crown. These securities can range in term and can be either discounted or interest bearing. These investments are very liquid and yield approximately the same as other Federal or Provincial obligations.

"Government of Canada, Provincial & Municipal Bonds" means instruments that are essentially interest bearing debt that is secured by the assets of the Government of Canada, the issuing Province or Municipality. These securities have a maturity that is greater than one year and form part of the money market only when the long-term debt approaches maturity. As with the other government securities these instruments are activity traded and generally considered high quality investments.

"Government of Canada Treasury Bills" means the Bank of Canada, as agent for the Government of Canada, calls for tenders at noon each Tuesday for a specified amount of Treasury bill. These are short-term promissory notes issued by the Government of Canada that are used to finance ongoing expenditures. Treasury bills are issued in bearer form only and are sold at a discount to mature at a stated par value. There is no risk of default and they are extremely liquid and considered a prime investment choice.

"Liquidity" means the ability of an organization 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.

"Market Value" means the price at which a security is currently trading and therefore presumably purchased or sold for.

"Portfolio" means a collection of securities owned by the investor which, for the purpose of this policy, will be considered as two parts, (1) Cash & Short-Term Investments (2) Investment Fund Portfolio.

"Prime Rate" means the rate of interest that chartered banks charge for advancements made to select organizations and individuals that are considered by the bank to be a "prime" customer.

"Provincial Treasury Bills & Notes" means securities that are issued periodically by the major provinces in Canada and are actively traded in the money markets. These instruments are very liquid and are usually issued in bearer form. These instruments can be interest bearing or sold at a discount and are considered to be prime investment vehicles due to the minimal risk associated with default.

"Rate of Return" means the yield obtained on a security based on its purchase price or its current market value.

"Term Receipts" means instruments that have various labels including Certificate of Deposits (CD's), Term Deposits, Fixed Term Deposits, Guaranteed Investment Certificates (GIC's), Term Deposit Certificates, Deposit Receipts, etc. These instruments are generally fully registered, nontransferable, interest bearing notes. Terms range from one day to six years. While some of these instruments do have call features which allow them to be liquidated on demand most tend to be non-liquid investments. These instruments are direct obligations of the issuing bank.

Responsibilities

1. Council shall:
    a. Be responsible for all purchase and sale decisions for investments in land.

2. The City Manager :
    a. Shall be responsible for the control, administration and management of the City's investments in accordance with this investment policy approved by Council.
    b. May delegate the administration of the City Managed Funds and Custodian Managed Funds to the Chief Financial Officer but will still ensure an adequate level of control through periodic review of the program's status.
    c. Shall be responsible for the ongoing management of the City Managed Funds and Custodian Managed Funds

3. The Chief Financial Officer shall:
    a. Ensure that all investment certificates issued to the City of St. Albert are held in the name of the City of St. Albert.
    b. Ensure that Negotiable Securities are held in the name of the City of St. Albert and evidenced by safekeeping receipts and monthly statements.
    c. Ensure that Non-negotiable cash and short-term investment certificates are maintained in the appropriate investment file at St. Albert Place.
    d. Report to Council on the investment activities undertaken by the City of St. Albert on a quarterly basis. Information provided to Council will include, but not be limited to:
        1. Total assets within the investment portfolio.
        2. Specific holdings within the investment portfolio.
        3. Effective rate of return for the investment portfolio.
        4. Evaluation of portfolio performance.

Service Standards/ Expectations

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

2. Investment officials exercising due diligence and acting in accordance with procedures consistent with this investment policy shall be relieved of personal responsibility for market price changes or the credit risk of a certain investment, provided that appropriate action is taken to control adverse developments and that such developments are reported on a timely basis.

3. Investment officials shall refrain from personal business activity that could conflict with the proper execution of their responsibilities, or could impair their ability to make impartial investment decisions. Officials shall disclose to the Chief Financial Officer any material interests in financial institutions with whom the City of St. Albert invests. In addition, they shall subordinate their personal investment transactions to those of the City of St. Albert, particularly with regard to the timing of purchases and sales.

4. The investment portfolio will be managed as two separate components: City Managed Funds and Custodian Managed Funds.

5. Capital Preservation (Priority 1) - The City of St. Albert recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. The prime investment objective is therefore to ensure the safety of principal. To assist in achieving this objective the City will ensure that sufficient diversification exists within its investment portfolio.

6. Maintenance of Liquidity (Priority 2) - The City of St. Albert will maintain an investment portfolio that will be sufficiently liquid in order to meet its operating cash flow requirements that might be reasonably anticipated in the short and longer term. For the purposes of this policy the City defines liquidity as the ability to convert an investment into cash with minimum risk associated with loss of principal or accrued interest. City managed funds require that the Chief Financial Officer approve any investment with a maturity date one to three years from the date the investment was purchased and any investments longer than three years must be approved by the City Manager.

7. Rate of Return (Priority 3) - The City of St. Albert'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. The City recognizes however that even in a diversified portfolio occasional losses may occur and must be considered in light of the overall rate of return of the portfolio.

8. Authorized Investments

No investment in instruments other than those indicated as acceptable in this policy shall be executed unless specifically approved by City Council providing that any investment approved by Council complies with legislation as outlined in the Municipal Government Act.

a. Part 1: City Managed Funds

This will consist of cash and investments to be administered by City treasury staff as part of the cash operating requirements of the City. The primary goal is liquidity and capital preservation by investing in secure investments of three years or less. The Dominion Bond Rating Service will be used to determine the credit worthiness of these investments. Schedule I identifies the approved investments and applicable limits. City Managed Funds are restricted from investments in Corporate Commercial Paper and Asset Backed Commercial Paper created by Schedule 1 Chartered Banks.

City Managed Funds may be invested for terms up to 3 years with the approval of the Chief Financial Officer, terms greater than 3 years require the approval of the City Manager. Funds managed by the Custodian must comply with both the City's investment policy and the *Municipal Government Act* and Regulations.

Schedule I identifies the approved investments and applicable limits for the City Managed Funds.

Investments must meet these parameters at the time of purchase.

b. Part 2: Custodian Managed Funds

The purpose of Custodian Managed Funds is to maintain capital preservation while maximizing investment returns by accessing investment funds managed by professional fund managers.

The custody and administration of the funds will be the responsibility of a Custodian such as a broker or intermediary as approved by the City Manager. The custodian is required to fulfill the regular duties of a Custodian as required by law. The City may choose more than one custodian at its sole discretion.

The City will provide funds to the custodian through a comprehensive analysis of the City's long-term cash flow forecasting requirements. The investment of these funds is to be approved by the Chief Financial Officer. The Custodian must provide the City with monthly and quarterly reporting no later than two weeks after the end of the reporting period. These reports will include the following at minimum, transactions during the reporting period, including fees, purchases, redemptions, transfers and market values at the end of the reporting period.

The investment funds to be managed by the Custodian will be comprised of the following components.

Short-Term, investment horizon of three to five years.
This component should achieve potentially higher returns than what money market instruments provide while maintaining a reasonable degree of liquidity.

Mid-Term, investment horizon of five to ten years.
This component should potentially achieve higher returns than Short-Term, while this type of investment will be less liquid capital preservation is still high priority.

Long-Term, investment horizon greater than 10 years.
This component should achieve potentially higher returns than mid-term funds, investments in Long-Term Funds must maintain capital preservation as a priority. The Custodian of the funds will not place long-term investments without the approval of the City Manager.

Schedule II identifies the approved investments and applicable limits for the Custodian Managed Funds.

Investments must meet these parameters at the time of purchase.

9. Portfolio Performance

   The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs. The three-month Federal Treasury Bill rate and the three-year and seven-year Government of Canada Bond rate will be used as the performance measure to determine whether market yields are being achieved.

Legal References

Municipal Government Act (section 250)

Cross References

Attachments

Schedule I – Approved Investments City Managed Funds
Schedule II – Approved Investments Custodian Managed Funds

REVIEW	REVISION
August 2018 - Finance	**May 2, 2005 – C187-2005** **March 17, 2008 – C159-2008** **September 21, 2009 – C522-2009** **September 27, 2010 – C560-2010** **September 19, 2011 – C584-2011** **May 27, 2013 – C230-2013** **July 15, 2013 – C335-2013** **September 14, 2015 – C426-2015**
REVIEW DATES	

Schedule I
Approved Investments – City Managed Funds

	*Maximum Percentage per institution	DBRS Minimum Rating (Money Market)	DBRS Minimum Rating (Bond Market)
Government:			
Securities issued or guaranteed by:			
The Government of Canada	75%	R1(L)	A
Provincial Governments within Canada	75%	R1(L)	A
Municipal Governments within Canada	50%	R1(M)	AA
Schedule I Chartered Banks:			
Obligations of, or guarantees of:			
Per any Financial Institution	75%	R1(M)	A
Provincially Guaranteed Financial Institutions:			
Province of Alberta Treasury Branches	75%	R1(L)	A
Other Financial Institutions:			
Obligations of, or guarantees of:			
Rated Schedule II Banks, Trust Companies, and Credit Unions	75%	R1(M)	AA
100% Provincially Guaranteed			
Non-rated Schedule II Banks, Trust Companies and Credit Unions	75%	**1**	

* Based on the entire portfolio and the original settlement amounts at the time of booking the investment

1 Includes only those investments offered by any financial institution, not rated by DBRS, but where the investments are 100% guaranteed by the appropriate provincial government.

Schedule II
Approved Investments – Custodian Managed Funds

	Maximum Percentage per component	Minimum Percentage per component	DBRS Minimum Rating (Money Market)	DBRS Minimum Rating (Bond Market)
Government:	*100%	*30%		
Securities issued or guaranteed by:				
The Government of Canada	100%		R1(L)	A
Provincial Governments within Canada	100%		R1(L)	A
Municipal Governments within Canada	50%		R1(M)	AA
Schedule I Chartered Banks:				
Obligations of, or guarantees of:				
Per any Financial Institution	75%		R1(M)	A
Provincially Guaranteed Financial Institutions:				
Province of Alberta Treasury Branches	75%		R1(L)	A
Other Financial Institutions:				
Obligations of, or guarantees of:				
Rated Schedule II Banks, Trust Companies, and Credit Unions	75%		R1(M)	AA
100% Provincially Guaranteed				
Non-rated Schedule II Banks, Trust Companies and Credit Unions	75%		**1**	

1 Includes only those investments offered by any financial institution, not rated by DBRS, but where the investments are 100% guaranteed by the appropriate provincial government.

* A minimum of 30% of each component must be invested in provincial and Federal Government Securities.