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City of Fort Saskatchewan
Investment Policy Update

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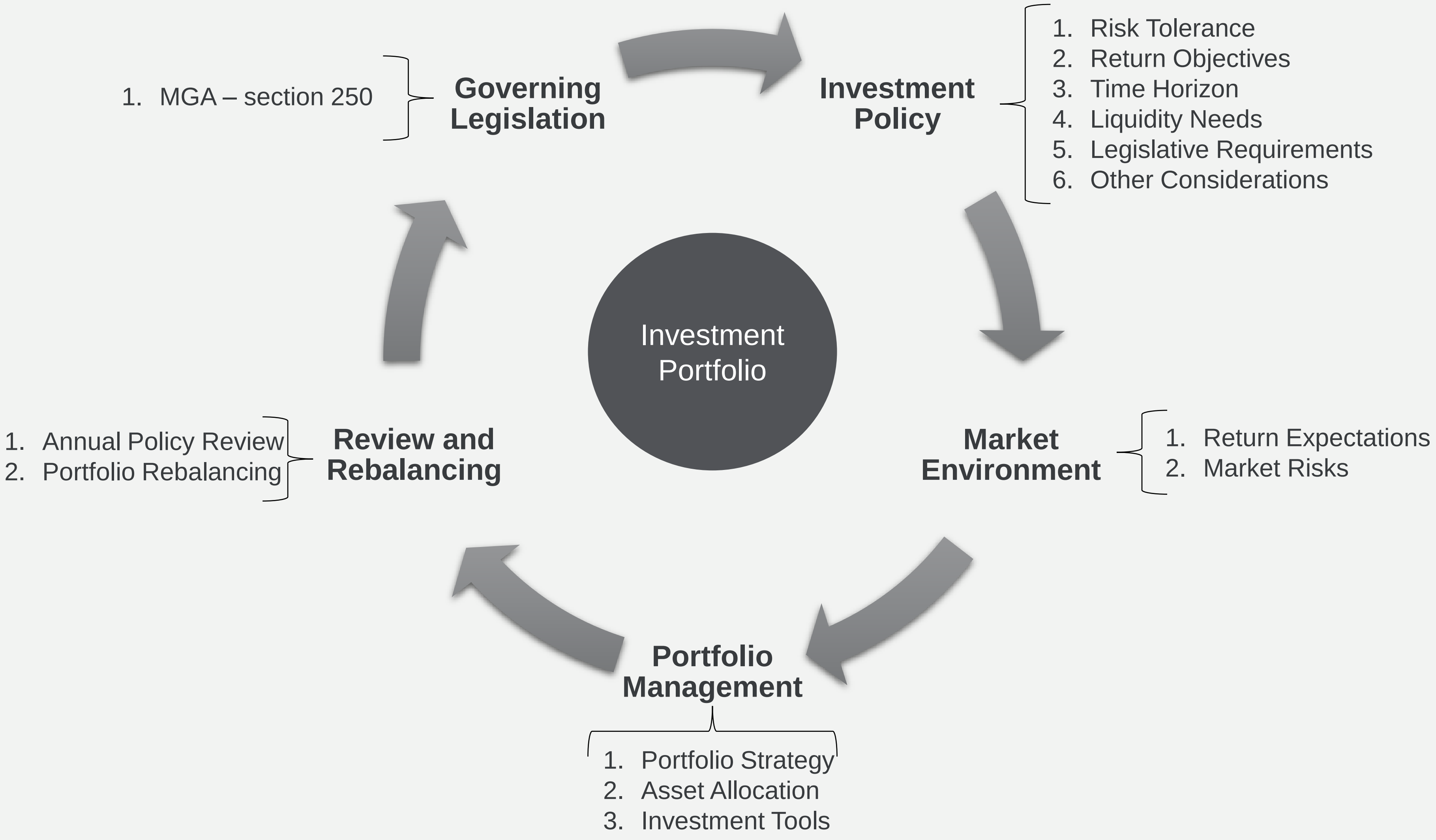
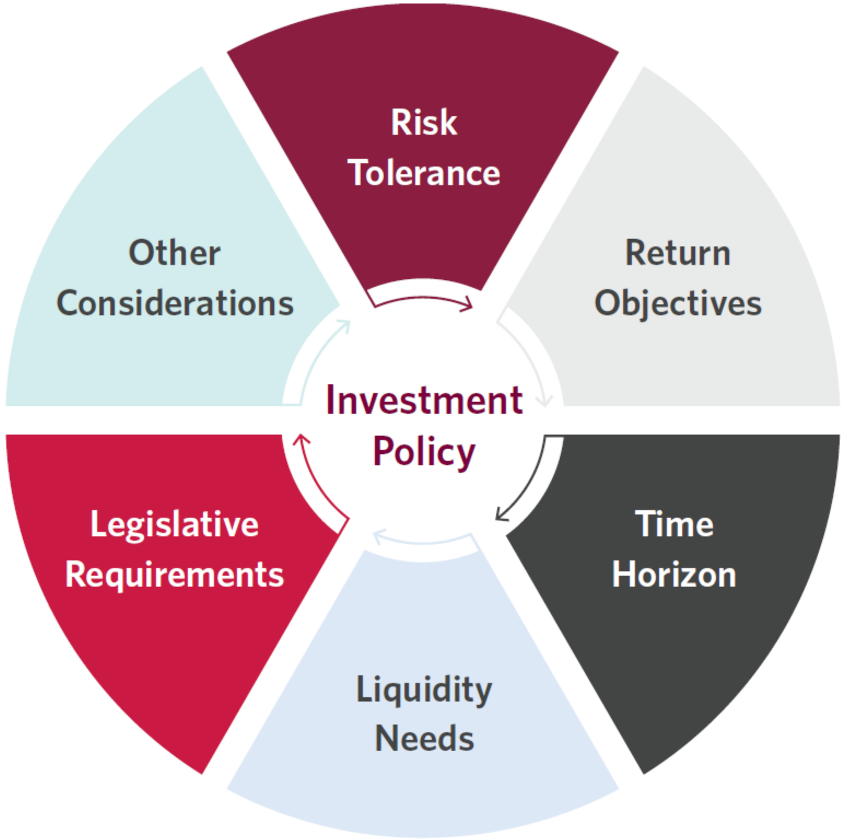
Our Investment Process



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



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Further Mitigating Risk - Appendix 1: Schedule of Approved Investments

Long-term Portfolio

- Per security restriction
  - Add: diversification restriction limiting individual securities to 15% of total portfolio
  - Rationale: no per security restriction increases the potential of concentration risk. By introducing a 15% per security restriction, we ensure increased diversification
- Institutional Limit
  - Increase institutional limit on Schedule I Banks from 20% to 35% and group for the entire section
  - Rationale: recommend increasing the institutional limit for Schedule I Banks as the current restrictions limit the opportunity set and may result in lower returns over time

Further Mitigating Risk - Appendix 1: Schedule of Approved Investments

Long-term Portfolio

- Portfolio Limit
    - Increase portfolio limit on Schedule I Banks from 40% to 75%
    - Rationale: recommend increasing the portfolio limit for Schedule I Banks to 75% as the credit rating quality restriction ensures deposit capital preservation. The current restrictions limit the opportunity set and may result in lower returns over time
- Term limits
    - Reduce maximum term on all issuers to 15 years
    - Rationale: term limits greater than 15 years are too long of a maturity in our opinion as this conflicts with the objective of liquidity due to significant interest rate risk and price volatility

Further Mitigating Risk - Appendix 1: Schedule of Approved Investments

- Corporate Bonds
    - Remove section completely
    - Rationale: The MGA section 250 fully defines which securities or issuers are allowable. Remove this section as it increases risk to misinterpretation of investments allowed as per the MGA

Further Mitigating Risk - Appendix 1: Schedule of Approved Investments

Long Term Portfolio – Terms of More Than 1 Year				
	Institutional Limit	**Portfolio Limit**	**Minimum DBRS Rating**	**Maximum Remaining Term**
Government – Securities issued or guaranteed by:				
Federal Government of Canada, a Provincial or Territorial Government of Canada, or an agent thereof	Unlimited	Unlimited	A (low)	15 years
Municipality, school division, or regional services commission incorporated in Alberta	20%	40%	A (low)	15 years
Schedule I Banks:	35%			
Bonds	~~20%~~	75%	A (low)	15 years
Principal Protected Notes	~~20%~~	40%	A (low)	10 years
Guaranteed Investment Certificates	~~20%~~	40%	A (low)	5 years
Other Financial Institutions[4]				
Bonds	10%	30%	A (low)	15 years
Guaranteed Investment Certificates[5]	20%	40%	A (low)	5 years
~~**Corporation incorporated or continued under the laws of Canada or a Province:**~~				
~~Bonds~~	~~10%~~	~~30%~~	~~A (low)~~	~~20 years~~
Pooled Funds				
In accordance with the Alberta Municipal Government Act		25%		15 years

Other Considerations

- Remove note 5, “in excess of Provincial or Federal Government guarantees”
    - Related to GIC’s of other financial institutions
- Explicitly limit Tier II, credit unions, and trust corporations to a portfolio maximum of 40%

Guiding Principles

4.6 Return and Performance Standards

- "At least annually, the City will benchmark the return on investments against the Alberta Consumer Price Index to assess if the City's investments are exceeding inflation on average over the preceding five-year period."

Change: "Alberta Consumer Price Index" for "average Canadian Consumer Price Index"

Rationale: Provincial CPI data can sometimes lead to increased volatility due to microeconomic data which does not accurately reflect the average CPI index. Additionally, benchmarking portfolio yields comprised of macroeconomic factors against localized data can lead to tracking error

Guiding Principles

4.9 Conflict of Interest/Ethics

Add subsection:

- "c. Strict adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct along with the CFA Institute Asset Manager Code shall apply to all investment related matters."

Rationale: The CFA Institute Code of Ethics and Standards of Professional Conduct and the CFA Institute Asset Manager Code are the gold standard for the investment industry. By referencing their adherence in the policy, the City ensures the most up to date ethics policies are utilized in the management of their portfolio

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