

INVESTMENTS

Date Issued: March 21, 1979

Mandated by: City Council

Current Revision: April 26, 2022 R117-22

Cross Reference:

- Bank Administration Bylaw C24-18
- Delegation of Authority Policy GOV-010-A
- Management and Financial Reporting Policy FIN-025-C

Next Review: December 31, 2027

Responsibility: City Manager

1. PURPOSE

To provide general principles, rules and delegated authority for managing and monitoring the investments of the City. Adherence to this Policy will mitigate credit, liquidity, and market risks and ensure the City has compliant and effective investment practices to assist in achieving the strategic goals and growth objectives of the City.

2. POLICY

The City of Fort Saskatchewan will invest excess funds in a prudent manner that will provide maximum capital preservation while maintaining sufficient liquidity to meet the cash flow requirements of the City and obtaining reasonable returns on its investments. Investments must conform to the guiding principles set forth below, as well as comply with the legislative requirements under the *Municipal Government Act* (s.250, Investments) and *Public Sector Accounting Standards*.

3. DEFINITIONS

- 3.1 *Bonds* – means a fixed income investment in which an investor loans money to a corporation, Financial Institution or Government which borrows the funds for a defined period of time at a variable or fixed interest rate, and may also include strip bonds which are sold at a discount but do not pay interest.
- 3.2 *Cash or Money* – means the legal tender of Canada or of any foreign country, but does not include stamps or Securities. Cash comprises of cash on hand and demand deposits.
- 3.3 *Chief Financial Officer* – means the Chief Financial Officer designated by the City Manager.
- 3.4 *City* – means the municipal corporation of the City of Fort Saskatchewan.

- 3.5 *City Manager* – means the Chief Administrative Officer or designate pursuant to the Municipal Government Act.
- 3.6 *Council* – means the Mayor and Councillors of the City individually or as a whole.
- 3.7 *Credit Ratings Agency* – means the Dominion Bond Rating Service Ltd. (“DBRS”), Moody’s Investors Service (“Moody’s”), Standard & Poor’s Corporation (“S&P”), or other credit ratings agency authorized under the Municipal Government Act (see also, Appendix 3: CREDIT RATINGS).
- 3.8 *Financial Institution* – means a “Schedule 1” Chartered bank, agency of a bank, credit union, or any other financial institution carrying on business in Alberta.
- 3.9 *Government* - means local, provincial or federal government.
- 3.10 *Institutional Limit* - means the maximum portfolio investment limit in each institution (i.e. corporation, financial institution, or government).
- 3.11 *Investment Officer* – means an employee of the City or an external investment management firm duly delegated the responsibility to manage all or a portion of the City’s investment portfolio.
- 3.12 *Liquidity* – means the ability to convert an investment into Cash with minimal risk associated with loss of principal or accrued interest, taking into consideration any costs associated with converting investments into Cash.
- 3.13 *Long Term Investments* – means Securities with maturities greater than one year.
- 3.14 *Pooled Fund* – means a professionally managed investment portfolio comprised of securities authorized by the Municipal Government Act.
- 3.15 *Portfolio Limit* - means the maximum portfolio investment limit in each type of portfolio (i.e. short term or long term).
- 3.16 *Security or Securities* – means bonds, debentures, trust certificates, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, bills, notes, and mortgages of real estate or leaseholds and rights or interests in respect of a security.
- 3.17 *Short Term Investments* – means securities with maturities of one year or less or cash held for investment purposes.

4. GUIDING PRINCIPLES

OBJECTIVE

4.1 Capital Preservation

The City recognizes its fiduciary responsibility for the stewardship of funds it has been entrusted. Therefore, the prime objective of this Policy is to ensure that the principal amount of each investment is insulated from losses due to market conditions and issuer default. To accomplish this objective, minimum quality standards for all individual investments will be maintained, and sufficient diversification within the portfolio itself will be required.

4.2 Liquidity

The investment portfolio will be sufficiently liquid to enable the City to meet any projected or sudden Cash flow requirement that might reasonably be expected to occur. The City will consider long term capital plans, the long term financial sustainability model, the reserve policy, and other relevant information to ensure that the City maintains sufficient liquidity.

4.3 Return on Investment

Without compromising on objectives of capital preservation and maintaining liquidity, the City will seek to maximize its return on investments to mitigate the impacts of inflation or other market risks on the City in the long term. The performance of investments shall be measured against appropriate market comparators and approved budgets, and reported to Council in accordance with the Management and Financial Reporting Policy.

INVESTMENT REQUIREMENTS

4.4 Authorized Investments

The City is authorized to purchase only Securities that comply with the Schedule of Approved Investments in Appendix 1. No person shall purchase any securities or engage in any Short Term Investment or Long Term Investment transaction except in accordance with this Policy.

4.5 Credit Risk Tolerance

- a. Securities held in the investment portfolios must be rated by at least one Credit Ratings Agency. To the extent with which a Security is guaranteed by a Provincial or Federal Government of Canada, the rating of that Government shall apply to the Security. If a Security is rated by more than one Credit Ratings Agency listed, the lower ratings shall apply.
- b. The total investment portfolio will be limited to the following credit rating thresholds on a weighted average basis:

Standardized Risk Weight Category¹	DBRS	Moody's	S&P	Maximum Portfolio %
Short Term				
1	R-1 (high) to R-1 (low)	P-1	A-1+ A-1	100%
2 or lower	R-2 (high) or below	P-2 or below	A-2 or below	0%
Long Term				
1	AAA to AA (low)	Aaa to Aa3	AAA to AA-	100%
2	A (high) to A (low)	A1 to A3	A+ to A-	70%
3 or lower	BBB (high) or below	Baa1 or below	BBB+ or below	0%

- c. Long Term Investments and Short Term Investments in the portfolio will adhere to the institutional and portfolio limits set out in the Schedule of Approved Investments in Appendix 1.

¹ Office of the Superintendent of Financial Institutions https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gld/Pages/CAR18_chpt1.aspx

- d. If a Securities credit rating falls below authorized credit ratings after time of purchase, it shall be removed from the portfolio as soon as practical while minimizing losses.

4.6 Return and Performance Standards

- a. At least annually, City will benchmark the return on investments against comparable municipalities to assess if the risk tolerance levels have realized the expected benefits with respect to return on investment.
- b. 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.

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GUIDELINES

4.7 Safekeeping and Custody

- a. Securities may be held in the form of physical investment certificates or electronically as book entries in a direct registration system.
- b. All Securities must be issued in the name of **CITY OF FORT SASKATCHEWAN**.
- c. Investment certificates shall be held for safekeeping by a financial institution designated for investment purposes in accordance with Bank Administration Bylaw.
- d. Responsibility for the safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions may be delegated to a trust company custodian duly registered in Canada.

4.8 Prudence

- a. Investments are to be made with the care, skill, prudence, and diligence that a reasonably prudent person would exercise in the management of similar portfolios of investments to maximize the protection of capital, while maintaining sufficient Liquidity for the City to meet its cash flow needs, and obtain a reasonable return on its investments.
- b. Any person acting in accordance with this Policy and exercising reasonable prudence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.9 Conflict of Interest / Ethics

- a. The City Manager, the Chief Financial Officer and all other employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of their responsibilities, or which could impair their ability to make impartial investment decisions for the City. Employees shall provide written disclosure to their direct supervisor regarding any material interests in financial institutions with which the City invests, and they shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.
- b. This guideline also extends to any external investment management firms utilized by the City to manage its portfolio, provided that they comply with all guiding principles of this policy.

4.10 Signing / Authorizing Investments

- a. All investments purchased or sold must be authorized by any two Investment Officers.

A list of current Investment Officers is attached hereto as Appendix 2, but may be updated from time to time without further notification to Council.

- b. All authorizations must be evidenced by signatures or by electronic means
- c. Signatures may be printed, lithographed, or otherwise reproduced.

4.11 Reporting

- a. Investment balances and performance will be reported in each interim and annual report in accordance with the Management and Financial Reporting Policy FIN-025-C.

5. AUTHORITY / RESPONSIBILITY TO IMPLEMENT

- a. The City Manager is responsible for administrative compliance and monitoring of this Policy.
- b. The City Manager may delegate responsibility to the Chief Financial Officer to establish and administer compliance with this Policy, and for compliance with City Bylaws, the Municipal Government Act, and other applicable legislation. The Chief Financial Officer shall appoint to one or more investment officers who shall have such authority, responsibility, and restrictions as may be required to administer this policy.

APPENDIX 1: SCHEDULE OF APPROVED INVESTMENTS

SHORT-TERM PORTFOLIO – TERMS OF 1 YEAR OR LESS				
	Institutional Limit	Portfolio Limit	Minimum DBRS Rating	Maximum Term
Government – Securities issued or guaranteed by:				
Federal Government of Canada, a Provincial or Territorial Government of Canada, or an agent thereof	Unlimited	Unlimited	R-1 (low)	1 year
Municipality, school division, or regional services commission incorporated in Alberta	20%	40%	R-1 (low)	1 year
Financial Institutions:				
Securities issued or guaranteed by:				
Schedule I Banks	40%	75%	R-1 (low)	1 year
Schedule II Banks, Treasury Branches, Credit Unions, and Trust Corporations	20%	40%	R-1 (low)	1 year
Cash held in Demand Deposit Accounts for Investment Purposes:				
ATB Financial ²	Unlimited	Unlimited	N/A ³	N/A

² ATB Financial is a provincial corporation and is for all purposes an agent of the Crown in the right of Alberta. The repayment of money deposited with ATB Financial and interest payable on that money is guaranteed by the Alberta government. Should this guarantee change, the holdings will be immediately reassessed to determine their credit rating and allowable percentages within the portfolio.

³ Demand Deposit accounts are not rated by any Credit Ratings Agency.

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)	30 years
Municipality, school division, or regional services commission incorporated in Alberta	20%	40%	A (low)	20 years
Schedule I Banks:				
Bonds	20%	40%	A (low)	20 years
Principal Protected Notes	20%	40%	A (low)	10 years
Guaranteed Investment Certificates	20%	40%	A (low)	5 years
Other Financial Institutions⁴				
Bonds	10%	30%	A (low)	20 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%		30 years

⁴ Schedule II Banks, Treasury Branches, Credit Unions, and Trust Corporations

⁵ In excess of Provincial or Federal Government guarantees

APPENDIX 2: CURRENT INVESTMENT OFFICERS AND DELEGATIONS

Investment Officers	<ul style="list-style-type: none">• City Manager• Chief Financial Officer• Manager, Accounting & Reporting• Senior Accountant responsible for investment management
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APPENDIX 3: CREDIT RATINGS

Standardized Risk Weight Category ⁶	DBRS	Moody's	S&P	Characterization of Debt
Short Term				
1	R-1 (high) to R-1 (low)	P-1	A-1+ A-1	High to highest quality
2	R-2 (high) to R2 (low)	P2	A-2	Adequate to good payment capacity
3	R-3	P-3	A-3	Adequate payment capacity
4	Below R3	NP	All short-term ratings below A-3	High to very high credit risk, or in default
Long Term				
1	AAA to AA (low)	Aaa to Aa3	AAA to AA-	High to highest quality
2	A (high) to A (low)	A1 to A3	A+ to A-	Strong payment capacity
3	BBB (high) to BBB (low)	Baa1 Baa3	BBB+ to BBB-	Adequate payment capacity
4	BB (high) to BB (low)	Ba1 to Ba3	BB+ to BB-	Likely to fulfil obligations, ongoing uncertainty
5	B (high) to B (low)	B1 to B3	B+ to B-	High credit risk
6	CCC or lower	Below B3	Below B-	Very high credit risk, near default, or in default

⁶ Office of the Superintendent of Financial Institutions https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/CAR18_chpt1.aspx