



POLICY FI-001

Investments

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Title of Policy: Investments	Council Res. Number: 335-09
Prepared By: Corporate Services/Finance	Effective Date: September 22, 2009
References: MGA Section 250, Investment Regulation, Previous Revision Date: June 26, 2007 66/2000, Procedures FI-001-P	

PURPOSE

The purpose of this policy is to provide a framework for the investment of Parkland County's funds at the highest possible return while meeting cash flow requirements within the requirements established by the Municipal Government Act and applicable regulations providing the highest possible security and liquidity of public funds.

POLICY STATEMENT

Parkland County's policy is to invest public funds in a manner that will provide security of principal while satisfying cash flow requirements, providing optimum returns and conforming to Section 250 of the Municipal Government Act. (MGA) and Investment Regulation #66/2000.

The policy's objectives are listed as follows:

1. **Compliance with the MGA** – This means that each investment purchased complies with Section 250 of the MGA Revised Statutes of Alberta 2000, Chapter M-26 and Investment Regulation #66/2000. The objective is achieved by providing brokers with a copy of the County's investment policy and by investing only in the institutions listed in Schedule A and only in the investments listed in Schedule B and by having two people review and authorize the purchase.
2. **Safety of principal** - This means that the principal amount of each investment is safe from losses arising from changes in interest rates or issuer default. The objective is achieved by employing a buy and hold to maturity strategy and by investing in securities of various issuers (diversification).
3. **Cash flow requirements** – This means that investments mature when cash is needed to meet operating and capital obligations which might reasonably be foreseen in the short and longer term. The objective is achieved through the use of cash flow forecasts and matching of such to maturity dates to avoid interim borrowing costs.
4. **Investment earnings** – This means that the portfolio will be managed such that an optimum rate of return is achieved while adhering to the Policy's guidelines. The objective is achieved through frequent discussion with investment advisors as to the direction of interest rates and by utilizing external (contract) resources to manage the longer-term component of the portfolio.
5. **Diversification** – Investments will be diversified by:
 - Limiting investments in any specific kind of security and/or securities from a specified issuer or business sector (excluding government of Canada Securities);
 - Investing in securities with varying maturities, and;
 - Investing in mainly liquid, marketable securities in order to meet ongoing obligations.

DEFINITIONS

1. **County:** The Municipality of the County of Parkland.
2. **Credit Quality:** The measurement of the financial strength of a bond issuer. This helps an investor understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Higher credit quality results in lower interest rates as the risk of default is lower. Credit quality ratings are provided by nationally recognized agencies such as Dominion Bond Rating Service (DBRS).
3. **Credit Risk:** The risk to an investor that a security issuer will default in the payment of interest and/or principal.
4. **DBRS:** Dominion Bond Rating Service is a company that investigates and reports on the credit worthiness of governments and corporations issuing securities in the Canadian financial markets.
5. **Diversification:** A process of investing assets among a variety of security types by sector, maturity and quality.
6. **Liquidity:** An investment that can be converted easily and quickly into cash.
7. **Market Risk:** The risk that the value of a security will rise or fall as a result of changes in market conditions.
8. **Schedule 1 Bank:** A chartered bank operating under the Bank Act. The voting shares must be widely held with no investor holding more than 10% and foreign ownership limited to 25%.
9. **Schedule 2 Bank:** A chartered bank operating under the Bank Act that may be wholly owned by non-residents.

SCOPE

1. Applicability

This policy applies to all funds invested by Parkland County including those in the General, Capital, and Reserve Funds.

2. Authority

Any two of the following may carry out all investment activity: Chief Administrative Officer, General Manager of Corporate Services, Manager of Financial Services, Financial Analyst, or Controller.

3. Internal Borrowing

The funds of Parkland County will be combined for investment purposes. Interest on interfund advances will be calculated at prime, and inter-fund investments will be calculated at the rate designated in the County's current banking agreement.

4. Liquidity

Funds will be invested to meet cash requirements as determined by projected cash flow statements. The maximum term for any single investment will be five years except for those under administration by a broker in which case the term may not exceed ten years.

MANAGEMENT RESPONSIBILITIES

1. Prudence
Investments shall be made with good judgment and care, considering the protection of capital and the probable income to be derived. Management acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual investment security risk or market price changes.
2. Ethics and Conflict of Interest
Employees involved in the investment process shall refrain from business activity that could conflict with the proper management of the investment program and impair their ability to make impartial decisions.
3. Performance measures
The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return considering the investment risk constraints placed on investments and in accordance with the current economic conditions. Market yields should be higher than the rate given by the County's bank for various cash balances.

Records Classification: 01135-01

Schedule – A
Approved Investment Allocations

<u>Category</u>	<u>* Maximum Percentage per institution</u>	<u>**DBRS Rating (Money Market)</u>	<u>**DBRS Minimum Rating (Bond Market)</u>
<u>Government:</u>			
Securities issued or guaranteed by:			
The Government of Canada	<u>100%</u>		
Provincial Governments within Canada	<u>50%</u>	<u>R1L</u>	<u>A</u>
Municipal Governments within Canada	<u>50%</u>	<u>R1L</u>	<u>A</u>
<u>Schedule I Chartered Banks:</u>			
Obligations of, or guarantees of:	<u>50%</u>	<u>R1L</u>	<u>A</u>
Per any Financial Institution			
<u>Provincially Guaranteed Financial Institutions:</u>			
Province of Alberta Treasury Branches	<u>50%</u>	<u>R1L</u>	<u>A</u>
<u>Other Financial Institutions:</u>			
Obligations of, or guarantees of:			
Rated Schedule II Banks, Trust Companies And Credit Unions	<u>25%</u>	<u>R1M</u>	<u>AA</u>
Non-rated Schedule II Banks, Trust Companies and Credit Unions	<u>50%</u>	<u>1</u>	
<u>Corporations:</u>			
Securities issued by Canadian Corporations			
Commercial Paper (terms up to 6 months)	<u>25%</u>	<u>R1L</u>	<u>A</u>
Corporate Bonds (terms of more than 1 year)	<u>25%</u>	<u>R1L</u>	<u>A</u>
<u>Pooled Funds:</u>			
Units issued by any of the above Financial Institutions that invest the funds in accordance with the Municipal Government Act	<u>25%</u>	<u>R1L</u>	<u>A</u>

***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 guaranteed and the Government of Alberta will ensure this guarantee is carried out.

Dominion Bond Rating Service Description of Ratings:

****Commercial Paper and Short Term Debt:**

The DBRS® short-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity.

****Bond and Long Term Debt:**

The DBRS® long-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. Every DBRS rating is based on quantitative and qualitative considerations relevant to the borrowing entity. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. The AAA and D categories do not utilize "high", "middle", and "low" as differential grades.

DBRS Rating System:

Commercial Paper and Short Term Debt		Bond and Long Term Debt	
<u>Symbol</u>	<u>Credit Quality</u>	<u>Symbol</u>	<u>Credit Quality</u>
R1H (High)	Highest	AAA	Highest
R1M (Medium)	Superior	AA	Superior
R1L (Low)	Satisfactory	A	Satisfactory
R2H (High)	Adequate	BBB	Adequate
R2M (Medium)	Adequate	BB	Speculative
R2L (Low)	Adequate	B	Highly Speculative
R3H (High)	Speculative	CCC	Very Highly Speculative
R3M (Medium)	Speculative	CC	Highly Speculative
R3L (Low)	Speculative	C	Very Highly Speculative
D	In Arrears	D	In Arrears
NR	Not Rated		

Schedule B

Investment Instruments

1. **Bankers Acceptance**
This instrument is essentially a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by the borrower's bank. The bank's acceptance is signified by a counter signature on the draft. Once a draft of this nature has been co-signed, it becomes a "Banker's Acceptance" and is backed by the credit of the accepting bank. These instruments are actively and openly traded in the money markets and as a result are extremely liquid.
2. **Bearer Deposit Notes**
These securities are short-term promissory notes that are issued by a bank. They are direct obligations of the specific issuing bank and generally have a term that ranges from one week to one year. They are very liquid in nature and yield approximately the same as a banker's acceptance.
3. **Corporate Bonds**
These instruments are interest-bearing debt secured by the assets of the issuing Corporation. 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.
4. **Debenture**
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 a 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.
5. **Federal & Provincial Crown Corporation Notes**
These investments 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 yield as other Federal or Provincial obligations.
6. **Government of Canada & Provincial Bonds**
This instrument is essentially an interest bearing debt which is secured by the assets of the Government of Canada or the issuing Province. These securities have a maturity that is greater than one year and form a part of the money market only when the long-term debt approaches maturity. As with the other government securities these instruments are actively traded and generally considered high quality investments.
7. **Government of Canada Treasury Bills**
The Bank of Canada, as agent for the Government of Canada periodically calls for tenders for a specified amount of treasury bills. These are short-term promissory notes issued by the Government of Canada which 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 vehicle.
8. **Provincial Treasury Bills and Notes**
These securities are issued periodically by the majority of 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.
9. **Term Receipts**
These instruments have various labels including Certificates of Deposits (CDs), Term Deposits, Fixed Term Deposits, Guaranteed Investment Certificates (GICs), Term Deposit Certificates, Deposit Receipts, etc. These instruments are generally fully registered non-transferable, 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.

10. Units of Pooled Funds

Also known as Mutual Funds. Pooled funds exist to combine or pool the funds of several investors to purchase securities. The types of securities the fund will purchase and the investment objectives are set out in the fund's prospectus. Pooled funds can range from very conservative to speculative based on the investment objectives. Units of the fund are purchased and sold at prices based on the net assets of the fund.