

<b>Policy Title:</b>	Investment Policy	<b>Policy Number:</b>	134-05
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<b>Date of Amendment:</b>		<b>Motion Number:</b>	
<b>Sponsoring Department:</b>	Finance		

**1. Purpose:**

- 1.1. To establish investment principles and guidelines.
- 1.2. To ensure proper practices and procedures to prudently invest public funds.
- 1.3. Outline eligible investments, strategies, constraints and compliance requirements to guide investment management and achieve the City's investment objectives.
- 1.4. Ensure responsible investment provides necessary financial resources and generates sustainable investment income in support of City operations.

**2. Definitions:**

<b>Administration</b>	An employee or contract employee of the City of Lloydminster.
<b>Bonds</b>	A fixed income investment in which an investor loans money to corporation, financial institution or government which borrows the funds for a defined period at a variable or fixed interest rate.
<b>City</b>	The corporation of the City of Lloydminster.
<b>Conflict of Interest</b>	A situation in which Administration has the potential for real or perceived personal or financial gain.
<b>DBRS</b>	Means the Dominion Bond Rating Services Ltd. Detailed in Appendix A.
<b>Financial Institution</b>	Means a Schedule "1" Chartered Bank, agency of a bank, credit union, or any other financial institution carrying on business in Alberta.
<b>Liquidity</b>	Refers to the ability to convert an investment into cash with minimal risk associated with loss of principal or accrued interest.
<b>Long-Term Investments</b>	Means securities with maturities greater than one year.

<b>Member of Council</b>	An individual elected pursuant to <i>The Local Government Election Act</i> (Saskatchewan) as a Member of Council.
<b>Schedule "1" Chartered Banks</b>	Financial Institutions that are allowed to accept deposits and which are not subsidiaries of a foreign bank. Chartered banks receive their characters from the federal government under the Bank Act. Schedule "1" Chartered Banks are widely held.
<b>Security or securities</b>	Includes bonds, debentures, trust certificates, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, bills, and notes.
<b>Short-Term Investments</b>	Means securities with maturities of one year or less or cash held for investment purposes.

**3. Objectives:**

**3.1. Capital Preservation**

The City recognizes its fiduciary responsibility for the safekeeping of public funds with which it has been entrusted. Safeguarding of principal is a primary objective of this policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To assist in achieving this objective the City will ensure that sufficient diversification exists within its investment portfolio.

- 3.1.1. 100% Guaranteed or backed by the financial institution submitting the investment tool versus a third party.
- 3.1.2. Maximum term for investments will be five (5) years.

**3.2. Liquidity**

The City's investment portfolio will be sufficiently liquid to enable the City to meet its operating cash flow requirements which might be reasonably anticipated in the short and long term. For the purposes of this Policy, the City defines Liquidity as the ability to convert an investment into cash without loss of principal and/or earning a reasonable rate of return.

**3.3. Return of Investment**

The City'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 will request a call for investment rates from Financial Institutions that are located in the City for each investment. Effectively, this measure will create a competition for our local financial institutions to support their presence in our community. In the event, that they have a centralized bidder or affiliate for that institution we will work with that person as long as it is only one associate per institution.

3.4. **Compliance with the *Lloydminster Charter***

The City will ensure that all investments purchased and owned by City of Lloydminster are in accordance with the *Lloydminster Charter*.

3.5. **Risk**

At any given time, the total investments at any one financial institution cannot accumulate to over sixty percent (60%) of the reserve balance stated in the prior year's audited financial statements.

**4. Scope:**

4.1. The Investment Policy pertains to funds under management by the City and encompasses:

4.1.1. **The City of Lloydminster General Fund:**

Those monies received by the City of Lloydminster from various sources and not immediately required for the payment of operating and/or capital expenditures.

4.1.2. **The City of Lloydminster Reserve Funds:**

Various monies held for future operating and capital expenditures.

4.1.3. **Capital Deposits:**

Monies received for various capital projects from land developers (pursuant to development agreements or the *Lloydminster Charter*), and from other governments through grants and/or revenue sharing agreements.

4.1.4. **Trust Funds:**

Those monies held under legal agreement, joint use with a third party and The City of Lloydminster, and/or managed by specific request of a third party connected to the City.

**5. Guiding Principles:**

5.1. **Authority / Responsibility to Implement**

5.1.1. The City Manager is responsible for administrative compliance and monitoring of this Policy.

5.1.2. The City Manager may delegate responsibility to the Chief Financial Officer to establish and administer compliance with this policy. Furthermore, the Chief Financial Officer shall:

- i. Establish appropriate guidelines, procedures, and internal controls to achieve the objectives identified within this policy;
- ii. Oversee overall implementation strategy process and ensures annual reviews of the Investment Policy;

- iii. Ensure that non-negotiable cash and short-term investment certificates and records are maintained in the appropriate location at the City of Lloydminster; and
- iv. Report to Council on the investment activities undertaken by the City on a quarterly basis.

## 5.2. **Authorized Investments**

- 5.2.1. The schedule of approved investments identifies the Securities that the Chief Financial Officer can purchase on behalf of and in the name of the City.

## 5.3. **Credit Quality**

- 5.3.1. Long-Term Investments and Short-Term Investments in the portfolio will ensure preservation of capital and adhere to the credit quality restrictions in the Schedule of Approved Investments in Appendix B.
- 5.3.2. If a Long-Term Investment's credit rating falls below "A low" after time of purchase, it shall be removed from the portfolio as soon as practical.
- 5.3.3. Short-Term Securities must have a minimum rating of R-1 (medium) from the date of issue.

## 5.4. **Ratings**

- 5.4.1. All ratings in this policy refer to the ratings of the DBRS.

## 5.5. **Safekeeping and Custody**

- 5.5.1. The Chief Financial Officer shall ensure that:
  - i. All securities shall be held in the name of City;
  - ii. All securities shall be held for safekeeping by the financial institution where the investment accounts are maintained; and
  - iii. The financial institution shall issue a receipt to City listing the specific investment, interest rate, maturity, and other pertinent information. Quarterly or at minimum annual basis, the financial institutions will provide reports which list all securities held for the City.

## 5.6. **Conflict of Interest / Ethics**

- 5.6.1. The Chief Financial Officer and all members of Administration involved in the investment process shall:

- i. Avoid a Conflict of Interest, whether real or perceived; Administration shall report any conflict of interest to their direct supervisor.
- ii. Refrain from personal business activity that could conflict with the proper execution of their responsibilities, or which could impair the ability to make impartial 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 as a result of this relationship, they cannot use information gained in the bidding for the City for actual or perceived personal gain.

## **6. Penalty:**

- 6.1. Any staff member found to be in violation of this policy may be subjected to a disciplinary action. Such action may be dependent upon the nature of the breach of this policy; discipline may range from a written warning to dismissal with cause.
- 6.2. Any Member of Council found to be in violation of this policy may be dealt with utilizing the "*Code of Conduct Bylaw*" or provisions of "*The Lloydminster Charter*."

## **7. Responsibility:**

- 7.1. City Council shall review and approve all policies.
- 7.2. Sponsoring Department is responsible for creating and amending a supporting procedure.
- 7.3. City Administration may administer the policy through the use of a supporting procedure.

**Appendix A: Debt Rating Comparison Chart**

<b>DEBT RATING COMPARISON CHART</b>			
	<b>Credit Quality</b>	<b>Long-Term (2-5yrs) Credit Rating S&amp;P</b>	<b>Short-Term (1 yr) Credit Rating DBRS</b>
<b>Acceptable</b>	Superior	AAA	R-1 (High)
		AA	R-1 (Mid)
	Good	A	R-1 (Low)
		BBB	R-2 (High)
<b>Unacceptable</b>	Adequate*	BBB	R-2 (Mid & Low)
	Speculative	BB	
	Highly Speculative	B CCC CC	

## **DBRS RATING DEFINITION**

### **SHORT-TERM DEBT RATING SCALE** ***(Used for Short Term Investments)***

The DBRS® short-term debt rating scale provides an opinion on the risk that an issuer will not meet its short-term financial obligations in a timely manner. Ratings are based on quantitative and qualitative considerations relevant to the issuer and the relative ranking of claims. The R-1 and R-2 rating categories are further denoted by the subcategories "(high)", "(middle)", and "(low)".

**R-1 (high)** Highest credit quality. The capacity for the payment of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.

**R-1 (middle)** Superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.

**R-1 (low)** Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

**R-2 (high)** Upper end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events.

**R-2 (middle)** Adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events or may be exposed to other factors that could reduce credit quality.

**R-2 (low)** Lower end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events. A number of challenges are present that could affect the issuer's ability to meet such obligations.

### **LONG TERM OBLIGATIONS SCALE** ***(Used for Long Term Investments)***

The DBRS® long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories other than AAA and D also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)" designation indicates the rating is in the middle of the category.

#### **AAA**

Highest credit quality. The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.

#### **AA**

Superior credit quality. The capacity for the payment of financial obligations is considered high. Credit quality differs from AAA only to a small degree. Unlikely to be significantly vulnerable to future events.

#### **A**

Good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.

#### **BBB**

Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

## Appendix B: Schedule of Approved Investments

Investment Description	DBRS Minimum Rating	Maximum Term of Maturity
<b>Government:</b> Security issued or guarantee by: Federal or Provincial Government	R-1 (Middle)	1 year
<b>Chartered Banks:</b> Securities issued or guaranteed by: Schedule "1" Chartered Banks	R-1 (Middle)	1 year
<b>Other Financial Institutions</b> Securities issued or guaranteed by: ATB Financial* Servus Credit Union* Synergy Credit Union*	R-1 (Middle) R-1 (Middle) R-1 (Middle)	1 year 1 year 1 year

\* Approved institutional limit is reflected in 3.5.1. of this policy.

\* ATB and Servus Credit Union deposits are 100% guaranteed by the Government of Alberta

\* Synergy Credit Union deposits are 100% guaranteed by Credit Union Deposit Guarantee Corporation.