City of Lloydminster

Policy

Policy Title:	Investment Policy	**Policy Number:**	134-05
Date of Adoption:	October 28, 2019	**Motion Number:**	282-2019
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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:

Administration	An employee or contract employee of the City of Lloydminster.
Bonds	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.
City	The corporation of the City of Lloydminster.
Conflict of Interest	A situation in which Administration has the potential for real or perceived personal or financial gain.
Council	The municipal Council of the City of Lloydminster.
DBRS	Dominion Bond Rating Services Ltd. detailed in Appendix A.
Financial Institution	A Schedule "1" Chartered Bank, agency of a bank, credit union, or any other financial institution carrying on business in Alberta or Saskatchewan

Liquidity	The ability to convert an investment into cash without loss of principal and/or earning a reasonable rate of return.
Long-Term Investments	Securities with maturities greater than one year.
Member of Council	An individual elected pursuant to *The Local Government Election Act, 2015* (Saskatchewan) as a Member of Council.
Schedule "1" Chartered Banks	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.
Security or securities	Bonds, debentures, trust certificates, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, bills, and notes.
S&P	The Standard & Poor's Rating detailed in Appendix A.
Short-Term Investments	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. Principal must be 100% guaranteed or backed by the financial institution submitting the investment tool.
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 on 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.

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. This Policy applies to:

4.1.1. All Members of Administration and Council; and
4.1.2. To all funds under management by the City. Funds will be invested in accordance with any restriction or contractual obligations the City enters into.

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 Executive Manager, Corporate Services to establish and administer compliance with this Policy. Furthermore, the Executive Manager, Corporate Services shall:

a. establish appropriate guidelines, procedures, and internal controls to achieve the objectives identified within this Policy;
b. oversee overall implementation strategy process and ensures annual reviews of the Policy;
c. ensure that non-negotiable cash and short-term investment certificates and records are maintained in the appropriate location at the City of Lloydminster; and
d. report to Council on the investment activities undertaken by the City on a quarterly basis.

5.2. Authorized Investments

5.2.1. Appendix B: Schedule of Approved Investments identifies the Securities that the Executive Manager, Corporate Services can purchase on behalf of and in the name of the City.

5.2.2. The City will request a call for investment rates for each investment opportunity from all Financial Institutions outlined in the *Financial Administration Bylaw*.

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 rating falls below A- or R-1 (low) after time of purchase, it shall be removed from the portfolio as soon as practical.

5.3.3. Securities must have a minimum rating of A- or R-1 (low) from the date of issue.

5.4. Ratings

5.4.1. All ratings in this Policy refer to the ratings of the DBRS or S&P.

5.5. Safekeeping and Custody

5.5.1. The Executive Manager, Corporate Services shall ensure that:

a. all securities shall be held in the name of City;
b. all securities shall be held for safekeeping by the financial institution where the investment accounts are maintained; and
c. 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 Executive Manager, Corporate Services and all members of Administration involved in the investment process shall:

a. avoid a Conflict of Interest, whether real or perceived; Administration shall report any conflict of interest to their direct supervisor;
b. 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 verbal 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 *"Council Code of Ethics Bylaw"* or provisions of *"The Lloydminster Charter."*

7. Responsibility:

7.1. City Council shall review and approve all policies.

7.2. Administration may administer this Policy through the use of a supporting procedure, as required.

Appendix A
Debt Rating Comparison Chart

DEBT RATING COMPARISON CHART			
	Credit Quality	**Credit Rating S&P**	**Credit Rating DBRS**
Acceptable	Extremely Strong	AAA	R-1 (High)
	Very Strong	AA-, AA, AA+	R-1 (Mid)
	Strong	A-, A, A+	R-1 (Low)
Unacceptable	Adequate*	BBB-, BBB, BBB+	R-2 (High) R-2 (Mid & Low)
	Speculative	BB, BB+	
	Highly Speculative	B CCC CC	

DBRS RATING DEFINITION

The DBRS rating scale rates the creditworthiness of borrowers and issuers by rating their debt and other securities. The scale runs from R-1 to D. 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 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 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 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 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 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 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.

S&P RATING DEFINITION

The S&P rating scale rates the creditworthiness of borrowers and issuers by rating their debt and other securities. The scale runs from AAA to D and intermediate ratings of (+) or (-) are offered at each level between AA and CCC (for example, BBB-, BBB and BBB+). S&P may also offer guidance (referred to as a credit watch) on whether it is likely to be upgraded (positive), downgraded (negative) or uncertain (neutral).

- Investment Grade:
    - AAA (extremely strong capacity to meet financial commitments);
    - AA-, AA, AA+ (very strong capacity to meet financial commitments);
    - A-. A, A+ (strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances);
    - BBB-. BBB, BBB+ (adequate capacity to meet financial commitments but more subject to adverse economic conditions).
- Non-Investment Grade:
    - BB, BB+ (less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions);
    - B (more vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments);
    - CCC (currently vulnerable and dependent of favorable business, financial and economic conditions to meet financial commitments);
    - CC (highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty);
    - C (currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations).

Appendix B
Schedule of Approved Investments

Investment Description	DBRS Minimum Rating	Maximum Term of Maturity
Government:		
Security issued or guaranteed by:		
Federal or Provincial Government	R-1 (low)	5 years
Chartered Banks:		
Securities issued or guaranteed by: Schedule "1" Chartered Banks	R-1 (low)	5 years
Other Financial Institutions:		
Securities issued or guaranteed by:		
ATB Financial *	R-1 (low)	5 years
Servus Credit Union*	R-1 (low)	5 years
Synergy Credit Union*	R-1 (low)	5 years

* Approved institutional limit is reflected in 3.5 of this Policy.
* ATB deposits are 100% guaranteed by the Government of Alberta.
* Servus and Synergy Credit Union deposits are 100% guaranteed by Credit Union Deposit Guarantee Corporation.