

	<b>COUNCIL POLICY</b>	<b>Policy No: CP-1054-24</b>
		<b>Approved By: Council</b>
		<b>Effective Date:</b> March 25, 2024 <b>Resolution No.:</b> <b>Last Reviewed Date:</b> March 25, 2024
		<b>Division: Corporate Services</b> – Finance

## INVESTMENT POLICY

### POLICY STATEMENT

The City must invest its funds in a prudent manner, provide optimum investment returns within the prescribed limits, meet the City’s cash-flow requirements, and conform to all other appropriate City policies, Provincial statutes, and regulations.

### 1. PURPOSE

- 1.1 To establish the goals and parameters under which financial investments can be made for the City.

### 2. DEFINITIONS

- 2.1 “Act” means the *Municipal Government Act*, R.S.A. 2000, c M-26, as amended.
- 2.2 “Benchmark” means a standard against which the performance of an investment Portfolio can be measured which includes a market index.
- 2.3 “Bonds” means instruments that have interest bearing debt which are secured by the assets of the issuing entity. These Securities generally have a maturity that is greater than one year and form 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.
- 2.4 “City” means the municipal corporation of City of Spruce Grove in Province of Alberta.
- 2.5 “Credit Quality” means the measurement of the financial strength of an issuer of investment instruments.

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- 2.6 “Custodian” means a third-party fund custodian or investment official, who is a Financial Institution, Depositories, or Brokers/Dealers who holds custody of the funds and Securities on behalf of the City.
- 2.7 “DBRS” means Dominion Bond Rating Service (DBRS). DBRS is a company that investigates and reports, through a bond rating, on the Credit Quality of governments and corporations issuing Securities in the Canadian financial markets. For example, a short-term debt rated R-1 (middle) is of superior quality as entities with this rating are considered strong credits which typically exemplify above average strength in key areas of consideration for debt protection. Bonds rated “AA” are also of superior Credit Quality and protection of interest and Principal is considered high.
- 2.8 “Diversification” means a fundamental investment principle that reduces risk by diversifying the maturity terms and the types of investments held within the Portfolio.
- 2.9 “Liquidity” means the ability of an organization to meet its financial obligations as they become due. In the context of investments, Liquidity refers to the ability to convert the security on short notice into cash without a substantial loss of Principal or accrued interest.
- 2.10 “Market Value” means the price at which a security is currently trading and therefore presumably the current price for which it could be purchased or sold.
- 2.11 “Portfolio” means a collection of Securities owned by the investor.
- 2.12 “Principal” means the original amount invested.
- 2.13 “Rate of Return” means the yield obtained on a security based on its purchase price or its current Market Value.

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- 2.14 “Safekeeping” means when a bank or broker holds Securities that are registered in the client’s name for the client. This allows for physical protection and makes them readily available to sell at the client’s instruction.
- 2.15 “Securities” mean investments issued by a government agency or corporation offered for purchase to investors. Securities as defined by the Act include Bonds, debentures, trust certificates, guaranteed investment certificates, certificates of deposits, deposit receipts, bills, notes and mortgages, rights, or interest in respect of a security.
- 2.16 “Schedule 1 Chartered Banks” means banks that are allowed to accept deposits, and which are not subsidiaries of a foreign bank. Chartered banks receive their charters from the federal government under the *Bank Act*, S.C. 1991, c 46, as amended. Schedule 1 Chartered Banks are widely held meaning no single person or corporation may hold more than 10% of the voting stock and foreign ownership is limited to 25%.

### 3. RESPONSIBILITIES

- 3.1 Council must make all purchase and sale decisions for investments in land.
- 3.2 The City Manager:
  - (a) Must provide control, administration, and management of the City’s investments in accordance with this policy as approved by Council; and
  - (b) may delegate the administration of the City’s investments to the Chief Financial Officer.
- 3.3 The Chief Financial Officer:
  - (a) must establish appropriate guidelines, procedures, and internal controls:
    - (i) to achieve the objectives identified within this policy;

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- (ii) for authorizing officers, employees, and persons to engage in investment activities; and
- (iii) for the accounting, Safekeeping, and reporting of investment activities.

(b) May delegate administration of the City’s investments further to the Director of Finance.

3.4 The Director of Finance may further delegate authority to manage the City’s investments to a designate within the Finance Department.

3.5 The Director of Finance and Finance Delegate must:

- (a) act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy;
- (b) ensure Safekeeping of all Securities, specifically:
  - (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 Custodian, as appropriate, must issue a Safekeeping receipt to City listing the specific investment, interest rate, maturity, and other pertinent information. Monthly, the financial institution or CFA investment agent must provide statements and reports which list all Securities held for the City, the book value of the holdings and the Market Value as at month end.
- (c) provide periodic reporting. Reports to Council on the investment activities undertaken by the City must be provided at minimum on a quarterly basis. Information provided to Council will include, but not be limited to:

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- (i) total assets within the investment Portfolio;
  - (ii) specific holdings within the investment Portfolio;
  - (iii) effective Rate of Return for the investment Portfolio;
  - (iv) evaluation of Portfolio performance; and
  - (v) statement on Policy compliance.
- (d) oversee all transactions undertaken and establish a system of control to regulate the activities of all investment officials; and
- (e) review and make recommendations on this policy on a periodic basis, as required.

#### 4. SERVICE STANDARDS / OBJECTIVES / EXPECTATIONS

##### 4.1 Prudence

- (a) Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- (b) Investment officials exercising due diligence and acting in accordance with procedures consistent with this policy will be relieved of personal responsibility for market price changes or the credit risk of a certain investment, provided that appropriate action is taken to control adverse developments and that such developments are reported on a timely basis.

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- (c) Investment officials must refrain from personal business activity that could conflict with the proper execution of their responsibilities or could impair their ability to make impartial investment decisions.
  - (i) Officials must disclose to the Chief Financial Officer any material interests in financial institutions with whom the City invests.
  - (ii) In addition, officials must subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.
  - (iii) Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.
- (d) In addition, strict adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct along with the CFA Institute Asset Manager Code will apply to all CFA investment agent officers, employees, and persons involved in all investment-related matters.

#### 4.2 Objectives

- (a) Capital Preservation (Priority 1)

The City recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. The prime investment objective is therefore to ensure the safety of Principal. To accomplish this objective the City’s minimum standards are set to ensure the Credit Quality of all investments meets or exceeds those standards as defined in Schedule “A” – Approved Investments. Additionally, to assist in achieving this objective the City will ensure that sufficient Diversification exists within its investment Portfolio.

- (b) Maintenance of Liquidity (Priority 2)

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The City will maintain an investment Portfolio that will be sufficiently liquid to meet its operating cash flow requirements that might be reasonably anticipated in the short and longer term.

- (i) For the purposes of this policy the City defines Liquidity as the ability to convert an investment into cash with minimum risk associated without substantial loss of Principal or accrued interest. A highly liquid asset could be converted to cash quickly without affecting the asset's price. A low Liquidity asset would be difficult to liquidate on demand without substantial loss of Principal and interest.

(c) Rate of Return (Priority 3)

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 recognizes however that even in a diversified Portfolio occasional loss may occur and must be considered in light of the overall Rate of Return of the Portfolio.

4.3 Portfolio Diversification and Limits

- (a) Not more than 10% of the Portfolio will be invested in any single security.
- (b) Not more than 35% of Long-Term Investments (maturities greater than one year) will be invested in any single issuer, except for Securities of or fully guaranteed by the government of Canada or a province of Canada

4.4 Authorized Investments

- (a) No investment in instruments other than those indicated as acceptable in this policy shall be executed unless specifically approved by Council providing that any investment approved by Council complies with legislation as outlined in the Act.

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- (b) All investment decisions will be required to have internal approval prior to proceeding to ensure that the investments align with the City’s investment goals and objectives.
  - (i) Internal approval will require the approval of the Finance Delegate and Director of Finance or their alternates.
- (c) Investment maturities that are matured early and where all or a portion of the earnings will be forfeited must be pre-approved by the Chief Financial Officer and Director of Finance.
- (d) The maximum term for any single investment with medium to low Liquidity is five years unless approved by the Chief Financial Officer and Director of Finance.
- (e) Investments must be managed where possible such that the Principal amounts invested, and maturity dates coincide with the City’s current projected cash flow requirements.
- (f) Credit Quality - investments in the Portfolio will adhere to the following Credit Quality restrictions:

Debt Rating Category	Minimum	Maximum
“BBB” or lower	0 %	0 %
“A”/R-1 Low	0 %	75 %
“AA”/R-1 Middle or higher	25 %	100 %

- (g) Investments rated below “A-” or equivalent at time of purchase are not permitted. If a security’s credit rating falls below “A-” after time of purchase, it shall be removed from the Portfolio as soon as practical.



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#### 4.5 Portfolio Performance


- (a) The investment Portfolio will be designed to obtain a market average Rate of Return during budgetary and economic cycles, taking into account the City’s investment risk constraints and cash flow needs.
- (b) The three-month Federal Treasury Bill rate and the three-year and seven-year Government of Canada Bond rate will be used as the performance measure Benchmark against which the Portfolio will be evaluated.

#### RELATED DOCUMENTS

*Municipal Government Act*, R.S.A. 2000, c M-26, as amended (s. 250)  
Municipal Investment Regulation, Alta Reg 149/2022, as amended  
CFA Institute Code of Ethics and Standards  
CFA Institute Asset Manager Code

#### APPROVAL

Mayor: Original signed by Mayor Acker Date: March 26, 2024

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### Schedule “A” – Approved Investments

Investment Description	*Total Portfolio Limit	**Minimum DBRS Rating (Short-Term)	**Minimum DBRS Rating (Long-Term)
<b>Government:</b> Instruments issued or guaranteed by: Government of Canada Provincial Governments within Canada Municipal Governments within Canada	75% 75% 50%	R1L R1L R1M	A A AA
<b>Schedule 1 Chartered Banks:</b> Obligations of, or guarantees of: Per any Financial Institution	75%	R1M	A
<b>Provincially Guaranteed Financial Institutions (1)</b> Province of Alberta Treasury Branches Servus Credit Union	75%	R1L	A

\*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 100% guaranteed by the Government of Alberta.

Not more than 10% of the Portfolio shall be invested in any single security.

Not more than 35% of Long-Term Investments (maturities greater than one year) shall be invested in any single issuer, except for Securities of or fully guaranteed by the Government of Canada or a province of Canada.

\*\*Dominion Bond Rating Service (DBRS) Description of Ratings:

Commercial Paper and Short-Term Debt		Bond and Long-Term Debt	
R1H	Highest Credit Quality	AAA	Highest Credit Quality
R1M	Superior Credit Quality	AA	Superior Credit Quality
R1L	Good Credit Quality	A	Good Credit Quality
R2H	Upper end of adequate Credit Quality	BBB	Adequate Credit Quality
R2M	Adequate Credit Quality	BB	Speculative, non-investment grade quality
R2L	Lower end of adequate Credit Quality	B	Highly speculative Credit Quality
R3	Lowest end of adequate Credit Quality	CCC	Very highly speculative Credit Quality
R4	Speculative Credit Quality	CC	Very highly speculative Credit Quality
R5	Highly speculative Credit Quality	C	Very highly speculative Credit Quality