

# CITY OF PRINCE ALBERT BYLAW NO. 26 OF 2015

*A Bylaw of The City of Prince Albert to establish an  
Investment Policy*

WHEREAS, Section 132 of "The Cities Act" requires the establishment of a policy setting out the types of investments in which the City is authorized to invest its available funds.

NOW THEREFORE THE COUNCIL OF THE CITY OF PRINCE ALBERT IN OPEN MEETING ASSEMBLED ENACTS AS FOLLOWS:

1. That the City will invest all its available funds in accordance with the City of Prince Albert Investment Policy, as attached;
2. That Bylaw No. 36 of 2003 is hereby rescinded, and
3. This Bylaw shall come into force and take effect on, from and after the final passing thereof.

INTRODUCED AND READ A FIRST TIME THIS 25<sup>th</sup> DAY OF January ,AD 2015<sup>6</sup> P  
READ A SECOND TIME THIS 25<sup>th</sup> DAY OF January ,AD 2015<sup>6</sup> P  
READ A THIRD TIME AND PASSED THIS 25<sup>th</sup> DAY OF January ,AD 2016.

  
MAYOR

  
CITY CLERK

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	1 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

## 1. POLICY

This policy governs the investment of surplus cash, reserves and reserves fund, and trust funds of the City of Prince Albert, hereinafter called "City", in accordance with Section 132 of "The Cities Act" which authorizes City to invest its available funds.

## 2. PURPOSE

The purpose of the policy is to set out guiding principles for the management of the City surplus funds and investment portfolio. This policy ensures that City portfolios are invested to primarily achieve the preservation of capital, the maintenance of solvency and liquidity sufficient to meet ongoing financial requirements and to maximize return on investment.

## 3. SCOPE

This policy applies to all investments made on behalf of the City including, but not limited to, operating funds, reserves and reserves funds, trust funds and any new funds created by the City unless otherwise specifically exempted by the City Council.

## 4. RESPONSIBILITY

### 4.1. Investment Advisory Group

The Investment Advisory Group has the responsibility and authority of supervising and coordinating the City's investment activities.

Following shall be the members of Investment Advisory Group:

1. Director Financial Services (Chair)
2. City Manager (ex-officio)
3. The City Clerk
4. Assistant Director of Financial Services
5. Finance Manager/Analyst

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
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Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	2 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
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#### **4.1.1 Meeting Procedures**

- Advisory Group meetings shall be held on an “as required” basis, as indicated by the Group Chair.
- A quorum for meetings shall consist of three members present in person.
- In the Chair’s absence, a replacement shall be appointed, for that meeting, from the Group members present.
- The Finance Manager/Analyst shall serve as Secretary to the Group.

#### **4.1.2 Duties and Responsibilities**

- Review and update this policy as may be required subject to City Council’s concurrence;
- Approve and monitor investment strategies developed for all City portfolios;
- Ensure compliance with the provisions of this policy.
- Review and approve investment transactions greater than \$0.5 million conducted by Treasurer; and
- Establish and review the criteria used for the selection of securities approved for purchase.

#### **4.1.3 Delegation of authority**

To ensure timely investment decisions, the City Treasurer may approve investment transactions, subject to this Investment Policy.

**4.2. Director of Financial Services**, hereinafter called “Treasurer”, is responsible for:

- Developing and maintaining investment strategies and procedures that provide City personnel with the guidelines and, where appropriate, the specific action sequences to ensure uniformity, compliance and control of investment activities;

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	3 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

- b) Preparing annual report for City Council summarizing the City's investment activity;
- c) Reporting non-compliance of the approved investment policy to Council with reasons; and
- d) Providing compliance reports as directed by the Investment Advisory Group.

**4.3. Assistant Director of Finance** shall provide a back up to Director of Finance/Treasurer for the activities listed above.

**4.4. Finance Manager/Analyst** is responsible to:

- a) Prepare and update cash flow model;
- b) Day to day management of the investment of surplus funds as identified in Investment Policy;
- c) Research investment products and make recommendations to Treasurer or designate;
- d) Execute investment transactions approved by the Treasurer;
- e) Perform accounting duties related to investment transactions;
- f) Responsible, along with the City Comptroller, or designate, for the custody, control and safekeeping of all investment securities owned by the City
- g) Provide information and supporting documentation related to investment transactions to auditors.

**4.5. Council** shall:

- a) Approve the Investment Policy and Procedures and subsequent amendments;
- b) Approve delegations to Director of Finance/Treasurer in relation to the investment activities.

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	4 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

## 5. DEFINITIONS

### 5.1. Securities

A security is an exchangeable, negotiable instrument representing financial value. Securities are broadly categorized into debt securities (bonds, banknotes, debentures) and equity securities (common stocks, and derivative contracts such as futures, options, forwards, and swaps).

### 5.2. Bonds

Bonds are financial instruments issued by federal, provincial and municipal governments, and banks with terms over a year, with fixed interest rates and specified end dates. Bonds are guaranteed by the institutions that issued them.

### 5.3. Money Market Securities

Money Market Instruments are short-term debt securities, such as bankers' acceptances, bearer deposit notes, discount deposit notes and term deposit notes, with maturity of 365 days or less. The issuing institutions guarantee their money market instruments. Yields are usually lower than bonds in return for the liquidity that these instruments provide.

Schedule I banks are widely held "eligible Canadian financial institutions" authorized by the Ministry of Finance to conduct banking in Canada as it is defined in the federal Bank Act.

Schedule II banks are closely held "eligible financial institutions," either Canadian or foreign, authorized to conduct banking in Canada under the federal Bank Act. Most of these banks are subsidiaries of non-Canadian financial institutions.

Credit unions are financial institutions formed by an organized group with a common bond. Members pool their assets to provide loans and other financial services to each other and others.

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	5 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
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#### **5.4. Yield**

Annual income earned from an investment, expressed usually as a percentage of the money invested.

#### **5.5. Diversification**

A process of investing assets among a range of securities types by sector, industry, maturity, and quality of rating. A well-diversified portfolio, on average, yields higher returns and pose a lower risk than any individual investment found within the portfolio.

#### **5.6. Investment**

The purchase of a financial product such as bonds, stocks, mutual funds etc., or other item of value with an expectation of favourable future returns.

#### **5.7. Investment Parameters**

The factors that define the investment decision making process and determine the investment performance.

#### **5.8. Liquidity**

It measures the ability to convert an asset to cash quickly.

#### **5.9. Rating Definitions**

##### **a) Money Market Ratings (Commercial Paper and Short-term Debt)**

##### **i.R-1 (High)**

Highest credit quality: The capacity for the payment of short-term financial obligations as they fall due is exceptionally high and it is unlikely to be adversely affected by future events.

##### **ii.R-1 (Middle)**

Superior credit quality: The capacity for the payment of short-term financial obligations as they fall due is very high. It differs from R-1 (high) by a

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
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Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	6 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

relatively modest degree. It is unlikely to be significantly vulnerable to future events.

### **iii.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. It may be vulnerable to future events, but qualifying negative factors are considered manageable.

### **iv.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. It may be vulnerable to future events.

### **v.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.

### **vi.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, and may be vulnerable to future events. A number of challenges are present that could affect the issuer's ability to meet such obligations.

### **vii.R-3**

Lowest end of adequate credit quality: There is a capacity for the payment of short-term financial obligations as they fall due. It may be vulnerable to future events and the certainty of meeting such obligations could be impacted by a variety of developments.

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	7 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

#### **viii.R-4**

Speculative credit quality: The capacity for the payment of short-term financial obligations as they fall due is uncertain.

#### **ix.R-5**

Highly speculative credit quality: There is a high level of uncertainty as to the capacity to meet short-term financial obligations as they fall due.

#### **x.D**

When the issuer has filed under any applicable bankruptcy, insolvency or winding up statute or there is a failure to satisfy an obligation after the exhaustion of grace periods, a downgrade to D may occur. DBRS may also use SD (Selective Default) in cases where only some securities are impacted, such as the case of a “distressed exchange”.

### **b) Bond Ratings (Long-term Obligations)**

#### **i. AAA**

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

#### **ii.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. It is unlikely to be significantly vulnerable to future events.

#### **iii.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.



<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	8 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

#### **iv.BBB**

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

#### **v.BB**

Speculative, non-investment grade credit quality: The capacity for the payment of financial obligations is uncertain. It is vulnerable to future events.

#### **vi.B**

Highly speculative credit quality: There is a high level of uncertainty as to the capacity to meet financial obligations.

#### **vii.CCC/CC/C**

Very highly speculative credit quality. In danger of defaulting on financial obligations. There is little difference between these three categories, although CC and C ratings are normally applied to obligations that are seen as highly likely to default, or subordinated to obligations rated in the CCC to B range. Obligations in respect of which default has not technically taken place but is considered inevitable may be rated in the C category.

#### **viii.D**

When the issuer has filed under any applicable bankruptcy, insolvency or winding up statute or there is a failure to satisfy an obligation after the exhaustion of grace periods, a downgrade to D may occur. DBRS may also use SD (Selective Default) in cases where only some securities are impacted, such as the case of a “distressed exchange”.

## **6. REFERENCES & RELATED STATEMENTS OF POLICY & PROCEDURE**

1. Bylaw No. 36 of 2003
2. The Cities Act - Section 132
3. Policy No. 9.1 - Conflict of Interest

City of Prince Albert Statement of POLICY and PROCEDURE			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	9 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

4. Policy No. 11 - Gifts, Favours and Entertainment
5. Dominion & Bond Rating Service (DBRS). Short-term debt rating scales. <http://www.dbrs.com/research/236749/commercial-paper-and-short-term-debt.pdf>, accessed on December 02, 2014
6. Long-term obligations rating scales <http://www.dbrs.com/research/236754/long-term-obligations-rating-scale.pdf>, accessed on December 02, 2014
7. International Issuer and Credit Rating Scales, [https://www.fitchratings.com/jsp/general/RatingsDefinitions.faces?context=5&detail=507&context\\_In=5&detail\\_In=500](https://www.fitchratings.com/jsp/general/RatingsDefinitions.faces?context=5&detail=507&context_In=5&detail_In=500), accessed on December 02, 2014

## 7. PROCEDURES

### 7.1. Purpose

The purpose of the Investment Procedures is to guide Finance staff with investment operations. These procedures shall be reviewed and updated at least annually.

### 7.2. Legal Authority to Invest

The Council may authorize Director of Financial Services by bylaw to invest the City's surplus funds in compliance with the City's Investment Policy. The Treasurer may delegate the authority to select investment instruments in which the City's funds may be placed to Assistant Director of Finance.

The Treasurer approves the investments and retains ultimate responsibility as the fiduciary of the assets of the City of Prince Albert. The Treasurer and his/her designate shall perform their investment duties in good faith and in compliance with the Investment Policy. By so doing, they have no personal liability for their actions.

### 7.3. Standards of Care

#### a) Prudence

Investments shall be made with judgment and care. Under circumstances then prevailing, prudent persons will exercise their discretion and intelligence in the

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	10 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

management of their own affairs, not for speculation, but for investment purposes, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by authorized employees dealing with investment activities shall be the prudent person standard and shall be applied in the context of managing an overall portfolio. Authorized employees acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes.

#### **b) Ethics and Conflict of Interest**

Investment officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

#### **c) Delegation of Authority**

The Treasurer has overall responsibility for the prudent investment of the City's portfolio. Authority to manage and implement the investment program may be granted for all or a portion of the City's overall investment portfolio, to an external investment Agent, to act as an Investment Manager on behalf of the City, as determined through an independent and competitive bidding process. That Agent shall act in accordance with the established procedures and internal controls

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	11 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

consistent with this investment policy.

No person shall engage in an investment transaction except as provided under the terms of this policy and the procedures and policies established by the Treasurer.

#### **d) Competitive Selection**

The City shall acquire investments through a competitive fax tendering process for selecting financial institutions and brokers/dealers. A due diligence review of prospective firms will be conducted. The competitive quotes from at least three firms will be obtained. However, the investment transactions will be limited to financial institutions and brokers/dealers having minimum credit rating of "AA".

#### **7.4. Cash Review**

An overall City cash flow model shall be prepared prior to making any investments. This model shall include: actual cash flow for the past quarter, short term (one year) forecast for operating purposes by month, and long term (5 years and beyond) cash flow forecast for reserves, reserve funds, and trust funds.

Cash available for short-term and long-term investments will be determined from the model analysis. The model should be reviewed and revised periodically to incorporate the actual results and any new factors to be incurred. The Treasurer or his/her designate shall review the cash balances daily and the investment portfolio monthly or as needed.

#### **7.5. Safekeeping and Custody**

All securities shall be held for safekeeping by a financial institution approved by the City. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the City.

The depository shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	12 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

depository will also provide statements to the Treasurer for reference purposes or decision making to change investments etc., which lists all securities held by the City, the book value of holdings and the market value as of month-end.

#### **7.6. Internal Controls**

The Treasurer or delegate shall establish an annual process of independent review by the City's auditor. This review will provide assurance of compliance with governing legislation, the investment policy and procedures established by the Treasurer.

#### **7.7. Eligible Investments**

7.7.1. The legal authority to invest comes from Section 132 of "The Cities Act". Investments made are further restricted by the limitations and terms contained in this policy.

- a) Government of Canada and guaranteed agencies;
- b) Provinces and territories of Canada, and guaranteed agencies;
- c) Municipalities and School Boards;
- d) Schedule I & II Banks, Credit Unions or Trust Companies;
- e) Equity investment in Canadian corporations; and

7.7.2. The City shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.

7.7.3. For the purpose of the investments mentioned in subsection (5.4.1), the money to the credit of any two or more funds may be consolidated into one account, and securities may be purchased from that account, in which case a record is to be maintained of the equity of each fund in the consolidated account and of the securities so purchased.

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	13 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

#### 7.7.4. Exemption

- a) Any investment currently held by the City that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.
- b) Under certain circumstances the organization may conclude that though an investment may not meet the criteria outlined in the investment policy statement, the investment may be within keeping of the spirit of the policy. In such an event, the City may deviate from stated policy subject to the Treasurer receiving approval of Council prior to the investment.

### 7.8. Investment Parameters

#### a) **Suitable and Authorized Investments**

The City may invest in certain securities as set out by Bylaw No. 26. However, in keeping with the primary objective of the City's investment policy, namely the preservation of capital, permissible investments will be restricted to those of high credit quality and reasonable liquidity. Consequently, emphasis should be placed on securities offered by or unconditionally guaranteed by the Government of Canada, a Province of Canada or the Schedule I & II banks.

#### b) **Diversification**

The City shall diversify its investments to the best of its ability based on the type of funds invested and the cash flow needs of those funds. Diversification can be by type of investment, number of institutions invested in, and the length of maturity.

- i. *Government of Canada and guaranteed agencies:* Bonds, debentures, treasury bills – no restrictions as to limit.
- ii. *Provinces, territories, and guaranteed agencies:* Bonds, debentures, treasury bills – no restrictions as to limit.
- iii. *Municipalities and School Board with a minimum credit rating of "A".*

City of Prince Albert Statement of POLICY and PROCEDURE			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	14 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

- Debentures, promissory notes – maximum of 20% of bond portfolio.
- iv. *Schedule I & II Banks, Credit Unions or Trust:* Bonds, term deposits, GICs, deposit receipts, deposit notes, deposit certificates, banker's acceptance and other similar instruments issued or endorsed by Schedule I & II Banks, any Canadian Credit Union or Trust Companies whose deposits are guaranteed by the Government of Canada or a Province of Canada – no restrictions as to limit.
  - v. *Equity investment in Canadian corporations with a minimum credit rating of "A": shall not exceed 5% of the bond portfolio.*

Further details are below:

<b>SHORT-TERM INVESTMENTS</b>	<b>MAXIMUM AMOUNT (\$)</b>
<i>(Investments that have a term to maturity of <u>less than</u> 12 months)</i>	
Federal Government of Canada and Federal Crown Corporations	Unlimited
Provincial Government and Provincial Crown Corporations rated "A" or higher by DBRS.	Unlimited
Canadian Banks - Schedule I & II, Canadian Credit Unions or Canadian Trust Companies whose deposits are guaranteed by the Government of Canada or a Province of Canada.	Unlimited
Municipalities and School Board with a minimum credit rating of "A"- Debentures, promissory notes	Maximum 20% of bond portfolio
Corporate Bonds Rated "A" or higher by DBRS	\$1.0 million per issue
Commercial Paper Rated R1 (MID) or higher by DBRS	\$1.0 million per issue

City of Prince Albert Statement of POLICY and PROCEDURE			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	15 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

Money Market/Treasury Bill Mutual Funds, rated AA or better	Unlimited
<b>LONG-TERM INVESTMENTS</b>	
<i>(Investments that have a term to maturity of <u>greater than</u> 12 months)</i>	
Federal Government of Canada and Federal Crown Corporations	Unlimited
Provincial Government and Provincial Crown Corporations rated "A" or higher by DBRS.	Unlimited
Canadian Banks – Schedule I – "A" or better	Unlimited
Canadian Banks – Schedule II – or Canadian Trust Companies rated "A" or better	\$1.0 million in any one
Corporate Bonds Rated "A" or higher by DBRS	\$0.5 million in any one
Commercial Paper Rated R1 (MID) or higher by DBRS	\$1.0 million in any one
Canadian Corporations stocks: AAA AA A	20% of portfolio 15% of portfolio 5% of portfolio

The Finance Manager/Analyst shall research the investment products and provide recommendations to the Treasurer and his/her designate. The Treasurer, or Investment Advisory Group in case if the investment transaction is more than \$0.5 million, will make the final decision on the purchase and sale of investment products.



<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	16 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

### **c) Maximum Holding Period**

The City's investment strategy is to buy and hold investments to maturity unless:

- i. The quality or rating of investment is reduced such that holding the investment is in contravention of this policy; and
- ii. Cash requirements require the necessity of selling an investment.
- iii. To take the advantage of higher interests rates offered for long-term investments, the City maximum cap on the term of long-term investments shall be ten (10) years.

Deviation from this course of action is subject to the discretion of the Treasurer.

### **d) Ladder Approach**

The City's investment portfolio should be well spaced out, with terms of 1-10 years. To minimize the risk of fluctuations in interest rates and bond prices, changes in financial markets, and to better manage cash flows, the City will adopt a ladder approach with the assistance of the City's bank advisors.

The ladder approach is to have investments that mature at various times. The amounts of the investment would be the projected capital requirement for that year. Investments should be undertaken over time to build up the portfolio based on market conditions and opportunities.

### **e) Market Value**

The market value of the portfolio shall be calculated at least annually as at December 31<sup>st</sup>.

## **7.9. Investment Strategy and Performance Standards**

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. Portfolio performance should

<b>City of Prince Albert</b> <b>Statement of POLICY and PROCEDURE</b>			
Department:	Financial Services	Policy No.	<b>82</b>
Section:	Financial Services Policies	Issued:	October 6, 2003
Subject:	<b>Investment Policy and Procedures</b>	Policy Effective:	January 25, 2016
Council Resolution # and Date:	Council Resolution No. 0042 dated January 25, 2016	Page:	17 of 18
		Replaces:	Resolution No. 093
Issued by:	Saleem Sandhu, Finance Analyst	Dated:	October 6, 2003
Approved by:	Joe Day, Director of Financial Services	Procedure Amendment:	

be compared to benchmarks with similar maturity, liquidity and credit quality as the portfolio.

The City will implement a passive buy and hold strategy as opposed to an active strategy of buy and sell. The structure of the portfolio will always take into consideration the cash flow needs of the City. Given the passive nature of the City's investment strategy, the portfolio performance benchmark will be as follows:

- Short-term investments (within one year): prime -1.75%;
- Mid and long-term investments: Government of Canada Marketable Bond Average Yield (5-10 years).

#### **7.10. Investment Transactions**

Investment transactions are evidenced and substantiated by properly authorized supporting documentation. All the transactions shall be reviewed and approved by the Treasurer, or Investment Advisory Group as per Investment Policy. All the documentation shall be kept in a separate filing system for at least seven (7) years. Dual signatures are required for all cheques or electronic transfers for purchasing investment products. One of the signatures shall be from the Treasurer or Assistant Director of Finance, and the second signatures shall be from the City Manager or City Clerk.

#### **7.11. Accounting, Reporting & Auditing**

The Finance Manager/Analyst is responsible for the accounting of the investment transactions which includes but is not limited to: journal entries, account reconciliation, and any required analysis.

The Finance Manager/Analyst shall provide information and supporting documentation for all investment transactions as required by the auditors during the annual auditing process.

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The Treasurer shall submit an annual report to Council on investment activities and returns, including but not limited to the following:

- Securities held at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities that are not intended to be held until maturity;
- Average weighted yield to maturity on investments as compared to applicable benchmarks;
- Percentage of total portfolio which each type of investment represents;
- A statement by the Treasurer as to whether or not, in his or her opinion, all investments made were in line with the investment policies and procedures adopted by the City; and
- Such other information that the Council may require or that, in the opinion of the Treasurer, shall be included.