



# TOWN POLICY

**POLICY NUMBER:** 1803

**REFERENCE:**  
Council 440.10.06

**ADOPTED BY:**  
Town Council

**PREPARED BY:** Administration

**DATE:** 3 January 2007

**TITLE:** Cash and Investment Managemnet Policy

Page 1 of 12

## **Policy Statement**

The purpose of this investment policy for the Town of Strathmore is to establish and maintain practices and procedures to invest public funds to protect real purchasing power, provide liquidity sufficient to meet cash flow demands, maximize return within the limitations of acceptable risk and conform to the statutory requirements set forth in the Municipal Government Act and its regulations.

### **1. Definitions**

1.1 Bond Duration means a measure of the price sensitivity of a bond to an interest rate change. Duration is measured in years and is a weighted average of the present value of all the cash flows expected from a bond.

1.2 Capital Markets are composed of individual markets, each with their own characteristics, such as markets for short or long term debt securities, commercial paper and publicly traded stock markets.

1.3 Custody means legal responsibility for a customer's securities which includes administrative services as well as safekeeping.

1.4 Chief Administrative Officer - the Town of Strathmore identifies this position as the Town Manager.

1.5 Council means the Council of the Town of Strathmore in the Province of Alberta.

1.6 Dealer means a firm licensed to buy or sell marketable securities to corporations and individuals.

1.7 Derivative Products - the term derivatives refers to a wide array of financial products that are dependent for their value on (or derived from) an underlying financial instrument (e.g. stocks, bonds, ore foreign currencies), a commodity or an index representing values of groups of such instruments or assets. Some of the most commonly used derivatives are swaps, options, futures and forward agreements.

1.8 Director of Finance - the Town of Strathmore identifies this position as the Director of Corporate Services.

1.9 Diversification means a risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated.

1.10 Fund results from a temporary excess of cash from operating and/or capital sources that must be managed according to guidelines set forth in the investment policy statement.

1.11 Investment Managers means those firms or individuals appointed by the Director of Finance for the investment of Fund's assets.

1.12 Investment Policy means a formal statement approved by Town Council which provides the basis upon which a fund or pool of funds is to be invested.

1.13 Leverage means the use of various financial instruments or borrowed capital, such as margin, to increase the potential returns of an investment.

1.14 Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.

**1.15** Margin means the down payment required when borrowing from a broker to finance the purchase of stock. The margin is expressed as a percentage of the purchase price. Greater exposure to risk as the underlying security is not owned by the client.

1.16 Market Cycle means the recurring and fluctuating levels of economic activity that an economy experiences over a long period of time. Most (but not all) market cycles last between 3 and 5 years.

1.17 Market Value means the price at which a security is trading in the open market.

1.18 Money Market means a wholesale financial market specializing in low risk, highly liquid instruments with term to maturity less than one year.

1.19 Portfolio means a collection of assets held by an investor.

1.20 Rate of Return means the gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the security, plus realized capital gains.

1.21 Risk means the uncertainty of future investment returns.

1.22 Securities means Bonds, Debentures, Treasury bills, Commercial Paper, Coupons and Residuals, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, notes and mortgages of real estate or leaseholds and rights or interests in respect of a security.

## **2. Constraints**

2.1 The primary objectives of investment activities shall be adherence to statutory requirements, preservation of capital, liquidity, and yield:

### *2.1.1 Adherence to Statutory Requirements*

Legislative authority for the investment guidelines of municipal funds is provided in Section 250 of the Alberta Municipal Government Act. Two components define eligible investments: Section 250 of the Municipal Government Act (see below) and parameters outlined by the Town of Strathmore. Permitted investments include all securities allowed in the Municipal Government Act (“MGA”) R.S.A. 2000 (as amended) Section 250 and its regulations i.e. Investment Regulation (“IR”) A.R. 66/2000 (as amended).

2.1.1.1 Alberta Municipal Government Act indicates authorized investments as:

(a) In this section, “securities” includes bonds, debentures, trust certificates, guaranteed investment certificates or receipts, certificates of deposit, deposit receipts, bills, notes and mortgages of real estate or leaseholds and rights or interests in respect of a security.

2.1.1.2 A municipality may only invest its money in the following:

(a) Securities issued or guaranteed by:

- (i) The Crown in right of Canada or an agent of the Crown, or
- (ii) The Crown in right of a province or territory or an agent of a province or territory;
- (b) Securities of a municipality, school division, school district, hospital district, health region under the *Regional Health Authorities Act* or regional services commission in Alberta;
- (c) Securities that are issued or guaranteed by a bank, treasury branch, credit union or trust corporation;
- (d) Units in pooled funds of all or any of the investments described in clauses (a) to (c);
- (e) Shares of a corporation incorporated or continued under the *Canada Business Corporations Act* (Canada) or incorporated, continued or registered under the *Business Corporations Act* if the investment is approved by the Minister.

2.1.1.3 The approval of the Minister under subsection (2.1.1.2)(e) may contain conditions and a municipality may not acquire shares of a corporation under subsection (2.1.1.2)(e) if the acquisition would allow the municipality to control the corporation.

2.1.1.4 In addition to the investments referred to in subsection (2.1.1.2), the Minister may by regulation allow one or more municipalities to invest their money in other investments described in the regulation.

2.1.1.5 Nothing in this section prevents a municipality from acquiring a share or membership in a non-profit organization.

## 2.1.2 *Investment Regulation ("IR") A.R. 66/2000 (as amended)*

2.1.2.1 All short-term investments with a maturity date not exceeding one (1) year must carry a minimum credit rating of "R-1" or "A<sub>1</sub>" or equivalent. Credit rating refers to the ratings issued by Dominion Bond Rating Service Limited ('DBRS'), Standard and Poor's Corporation ('S&P') or Moody's Investors Service Inc. ('MY').

2.1.2.2 All long term debt securities shall carry a minimum credit rating of "A-" or equivalent. Credit rating refers to the ratings issued by Dominion Bond Rating Services ('DBRS'), Standard and Poor's ('S&P') or Moody's ('MY').

2.1.2.3 In the event of one or more ratings differing from the others, the majority rating will prevail. In the event that there are only two ratings available, the most conservative rating will prevail.

## 2.2 *Town of Strathmore Imposed Constraints*

### 2.2.1 *Preservation of Principal*

2.2.1.1 Safeguarding of principal is a primary objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Credit risk and interest rate risk will be mitigated as follows:

(a) Credit Risk - The Town will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

(i) Diversifying the investment portfolio so that potential losses on individual securities will be minimized – individual debt positions should not exceed 5% of the total market value of the portfolio.

(b) Interest Rate Risk - The Town will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

(i) Structuring the investment portfolio so fixed income securities mature to meet anticipated cash requirements of the Town. This strategy will help to mitigate the situation of disposing of investments at inopportune times.

(c) Additional Risk Mitigation – Risk control is managed by the Director of Finance in ensuring:

(i) Only investments that are consistent with this policy are initiated;

(ii) Controls relating to the safeguarding of investments are implemented and monitored;

(iii) Authorization to initiate investment portfolio transactions.

## 2.2.2. *Liquidity*

2.2.2.1 The investment portfolio shall remain sufficiently liquid to meet cash flow requirements as budgeted by the Town. The portfolio should be structured so anticipated cash flow required is fulfilled by concurrently maturing securities. To ensure that cash may be available for unexpected cash flow needs all securities must trade actively in secondary markets.

## 2.2.3 *Yield*

2.2.3.1 The Town shall maximize the rate of return earned on the investment portfolio without compromising the other objectives listed above. Investments are generally limited to relatively low risk securities in anticipation of earning a fair return relative to the assumed risk.

# 3. **Standard of Care**

## 3.1 *Prudence*

3.1.1 Investments shall 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 preservation of capital as well as the probable income to be derived. The Director of Finance and Investment manager acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

## 3.2 *Ethics and Conflicts of Interest*

3.2.1 Officers 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. Material interests in financial institutions with which they conduct business shall be disclosed. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Strathmore. The CFA Institute Code of Ethics and Standards of Professional Conduct shall be expected to apply to all investment managers.

### 3.3 *Delegation of Authority and Responsibilities*

3.3.1 The Director of Finance is responsible for overseeing and authorizing transactions under the investment mandate. In the absence of the Director of Finance, the Chief Administrative Officer shall act in accordance with established procedures and internal controls consistent within the framework of this policy. The Director of Finance shall be responsible for the approval, oversight, and review of all transactions undertaken and shall establish a system of controls to regulate the activities of the portfolio.

### 3.4 *Competitive Selection*

3.4.1 The purchase and sale of securities shall be transacted through a competitive process with financial institutions. The Director of Finance will accept the offer that optimizes the investment objectives of the portfolio. A minimum of three quotations shall be obtained through a tender process (request for proposal). If the lowest price proposal is not selected, an explanation describing the rationale shall be included in this record.

### 3.5 *Frequency of Tender*

3.5.1 The Director of Finance must tender the management of the investment portfolio at least every five (5) years or **sooner** if the portfolio fails to achieve ~~the~~ at least the passive rate of return as indicated by the respective benchmark in four (4) of six (6) consecutive quarters.

## 4. **Safekeeping and Custody**



4.1 All investments shall be held for safekeeping in the name of the Town by approved institutions. The depository shall issue a safekeeping receipt to the Town for each investment transaction that lists all pertinent information. The depository shall also provide monthly reports for each account, indicating all investment activity, book value of the holdings, market value as of month-end, and income earned by the investments.

## **5. Investment Parameters**

### *5.1 Diversification*

5.1.1 The investments shall be diversified by:

5.1.1.1 Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding Government of Canada securities);

5.1.1.2 Limiting investment in securities that have higher credit risks;

5.1.1.3 Investing in securities with varying maturities, and

5.1.1.4 Investing in mainly liquid, marketable securities that have an active secondary market to ensure that appropriate liquidity is maintained in order to meet ongoing cash flow obligations.

### *5.2 Maximum Maturities*

5.2.1 To the extent possible, the Town shall attempt to match investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town will not directly invest in securities maturing more than ten (10) years from the date of purchase.

## **6. Reporting**

## 6.1 *Method*

6.1.1 The investment manager(s) shall provide quarterly and annual performance reports to the Director of Finance. The investment report should include the following:

6.1.1.2 A listing of individual securities held at the end of the reporting period by maturity date; Investment term in days and interest rate;

6.1.1.3 Percentage of the total portfolio which each type of investment represents; A statement about the performance of the investment portfolio during the period;

6.1.1.4 An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous periods report;

6.1.1.5 Respective performance for the period;

6.1.1.6 Report the applicable benchmarks as indicated below.

## 6.2 *Performance Measures*

6.2.1 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 throughout budgetary and economic cycles that is commensurate with the investment risk constraints and cash flow needs of the Town. As there is an expectation that the actively managed portfolio will outperform a passively managed portfolio the benchmark performance levels provide independence for evaluation.

<b>Category</b>	<b>Performance Benchmarks</b>
Cash	Scotia Capital 91-Day T-Bill Index
Bonds – Short Term	Scotia Capital Short Term Bond Index

Bonds – Long Term	Scotia Capital Universe Bond Index
Global Bonds	Citigroup World Government Bond Index (or comparable current index)

### 6.3 *Market Value*

6.3.1 The market value of the portfolio shall be calculated at least quarterly.

### 6.4 *Compliance*

6.4.1 The investment manager and the Director of Finance are required to complete and sign a compliance report annually. The compliance report should state whether or not the portfolio was in compliance with this policy during the quarter.

## 7. **Policy Considerations**

### 7.1 *Exemption*

7.1.1 Any investment held as at January 1, 2007 that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, based on the recommendations of Town Council, such monies shall be reinvested only as provided by this policy.

7.2 *Amendments*

7.2.1 This policy shall be reviewed on a regular basis. Amendments may be made at any time at the recommendation of the Director of Finance or the Chief Administration Officer. The Town Council must approve any policy change