




City of Leduc Policy

Policy Title: Investment Policy

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Authority : Council	
Section: Finance	Approval Date: October 26, 2020
Responsible Department:	Effective Date: October 26, 2020
Relevant Legislation: Municipal Government Act	
Relevant Council Resolution(s) and Date(s): October 26, 2020	
Relevant Bylaw and Date(s): N/A	
Authority's Signature: 	

Policy Objective:

The City of Leduc shall invest its funds in a prudent manner through preservation of capital, risk mitigation and maximize investment returns while adhering to all other appropriate City of Leduc policies, provincial statutes and regulations.

General Objectives

1. Preservation of Capital

Security of principal is a primary objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

2. Risk Mitigation

Ensuring that there is sufficient diversification with respect to issuer and term among assets of the fixed income portfolio.

3. Return on Investment

City of Leduc seeks to maximize the rate of return while aligning with its risk tolerance without comprising the other objectives.

4. Maintenance of Liquidity

City of Leduc investment portfolio will be suitably liquid to ensure the city can comfortably meet all of its anticipated cash flow requirements.

5. Compliance with the Municipal Government Act

The Investment Agent/Broker acting on behalf of City of Leduc will ensure that all investments purchased and owned by City of Leduc are in accordance with the Municipal Government Act, ("MGA) RSA 2000, c. M-26 (Section 250).

Definitions:

Refer Schedule A & B.

Policy:

Prudence

The Prudent Investor Rule shall prevail over the City of Leduc's investment portfolio. The Prudent Investor Rule requires that all investment agents acting on behalf of the City of Leduc & the City Manager.

- i. Act in all matters with loyalty, impartiality and prudence.
- ii. Mitigate portfolio risk through a balance approach that considers a risk/return trade off.
- iii. Provides a reasonable diversification strategy. An investment manager can invest in any allowable asset as long as it meets the requirements of prudent investing and considers portfolio in its entirety.

Ethics and Conflict of Interest

The Chartered Financial Analyst (CFA) Institute Code of Ethics and Standards of Professional Conduct (or equivalent) shall be expected to apply to all internal and external investment managers.

City employees managing the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or impair their ability to make impartial investment decisions. Material interests in financial institutions with which they conduct business and any personal financial/investment portfolio shall be disclosed to the City Manager.

Permitted Investments

Permitted investments include all categories allowed in the Municipal Government Act (MGA) R.S.A. 2000 (Section 25)

Credit Quality

1. The table below outlines credit quality restrictions that apply to any portfolio the City of Leduc may hold and these meet and exceed those in the Municipal Government Act.

Refer to Schedule B for debt rating definitions.

Debt Rating Category (S&P/DBRS)	Maximum in portfolio
AAA/R-1 High	100%
AA/R-1 Middle	75%
A/R-1 Low	60%
BBB or lower	0%

** If a security’s credit rating falls below A- after time of purchase, it shall be removed from the portfolio as soon as practical. In the event if the ratings differ from the others, the most conservative rating will prevail.*

*** All ratings refer to the ratings of the Dominion Bond Rating Service Ltd. (DBRS).*

2. The table below outlines the max amount of issuer within any given portfolio.

Fixed-Income Securities Holdings	Maximum in portfolio
Schedule 1 Chartered Canadian Banks	100%
Canadian Federal & Provincial Governments	100%
Canadian Corporations	0%

Portfolio Diversification and Restraints

The following constraints shall apply to the Long Term Investments in the portfolio (maturities greater than one year). All percentages are based on market value.

- a. Not more than 25% of the portfolio shall be invested in any single security.
- b. Not more than 35% of the portfolio shall be invested in any single issuer.

Risk Mitigation

Risks that may not be eliminated, but mitigated:

Risk	Risk Mitigation Measure
Credit Risk- risk of principal loss due to borrower/issuer failure to repay obligation	<i>Implement very conservative credit rating requirements</i>
Interest Rate Risk – risk of bond’s market value will fluctuate over duration due to inverse relationship with interest rates	<i>Utilize a bond and money market ladder strategy to coincide with time horizons of City of Leduc funds</i>
Inflation Risk- an investment’s future real value will be uncertain.	<i>Choose investments with real rate of returns</i>
Portfolio Management Risk- investments may underperform due to portfolio’s manager style and/or ineffectiveness.	<i>Ensure portfolio manager selection process is strong and if possible, choose several managers with different management styles</i>
Market Risk- The possibility to experience losses due to factors that affect the overall performance of the financial markets.	<i>By implementing this investment policy, market risk is reduced and addressed through a diversification strategy</i>

Failure to comply with the above policy will result in the following consequences:

- i. Loss on Investment
- ii. Extreme credit risk exposure
- iii. Mild to severe legal liabilities
- iv. Severe capital erosion
- v. Complete loss of principal investment
- vi. Interest rate may drop

Process:

Authority

As per Bylaw No. 872-2014, authorization to manage the investment program is granted to the City Manager; which has been further delegated to the Director of Finance through the City’s delegation of authority process.

Responsibilities of the City Manager

The City Manager or appointed delegate shall establish appropriate guidelines, procedures, and internal controls;

1. To ensure policy objectives identified in this policy are achieved.
2. To ensure the Investment Agent/Broker acting on behalf of City of Leduc to does the following:
 - i. engages in investment activities
 - ii. purchases and sell investments
 - iii. has custody and safekeeping of investments
 - iv. reports on investment activities
3. Report on investment portfolio performance to Council annually.

Expectation of the Investment Agent / Broker

1. Engage in investment activities
2. Regularly monitor investment portfolio
3. Purchase* and sell investments
4. Custody and safekeeping of investments
5. Monthly reporting of investment activities
6. Forecast and budget reporting as required

* All investment purchases are required to be submitted in writing through email identifying a minimum of three (when possible) investment options and the investment agent/brokers proposed recommendation.

Expectations of the Auditor

The City of Leduc auditor shall audit and ensure the investment portfolio is meeting all the requirements set forth in this investment policy during the yearend audit process.

Policy Review

This policy is to be reviewed the sooner of three years or at the time a new third party Investment Agent/Broker is chosen to manage the investment portfolio.

Safekeeping and Custody

All investments will be held by a third party Investment Agent/Broker. They shall provide monthly reporting for each account indicating all investment activity, book value of the holdings, month end market values, and income earned by the investments.

Schedule A

Diversification

A risk-management technique that mixes a wide variety of investments within a portfolio. This strives to offset unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. The benefits of diversification will only hold if the securities in the portfolio are not perfectly correlated.

Fixed-Income Security

An investment vehicle that delivers certain cash flows at future points in time. This cash flow could be a single amount or a series of cash flows. Fixed income securities include treasury bills, Guaranteed Investment Certificates (GICs), term deposits, commercial papers, Index-linked GIC's, bonds and debentures.

Investment Agent/Broker

Independent third party carrying legal responsibility for a customer's securities which includes administrative services as well as safekeeping

Liquidity

The ability of an asset to be converted to cash quickly without affecting the asset's price.

Portfolio

Collection of assets held by an investor.

Prudence

Careful good judgment that allows someone to avoid danger or risks.

Prudent Investor Rule

The Prudent Investor Rule has evolved from the standard Prudent Man Rule in that it encompasses modern portfolio theory (MPT). MPT dictates that trustees consider a portfolio in its entirety and not by individual investment alone in order to mitigate the portfolio's overall risk.

Rate of Return

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 and unrealized capital gains.

Real Rate of Return

Rate of return that takes the rate of inflation into account therefore it is rate of return minus percentage change in the rate of inflation.

Reasonable

The characteristics that a reasonable investor can be expected to have will be the investor's ability to realise an investment within a reasonable period and to do so on the basis of the net value of its assets. The characteristics of a reasonable investor include:

- Sound judgment based on good sense;
- Knowledge of the field of investment of which a municipality is required to invest (MGA requirements); and
- Knowledge of the characteristic features of collective investments.

Schedule B

Standard & Poors Ratings Meanings

AAA

Extremely strong capacity to meet financial commitments. Highest Rating.

AA

Very strong capacity to meet financial commitments.

A

Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.

BBB

Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.

BBB-

Considered lowest investment grade by market participants.

BB+

Considered highest speculative grade by market participants.

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 on favorable business, financial and economic conditions to meet financial commitments.

CC

Currently highly vulnerable.

C

Currently highly vulnerable obligations and other defined circumstances.

D

Payment default on financial commitments.

DBRS Ratings Meanings

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.