

Purpose:

- 1 To provide the City with a high level of safety and security while achieving the best investment return, meeting cash flow requirements and conforming to applicable legislation for securities with a maturity date that exceeds one year.

Policy Statement(s):**2 Investment Principles:**

- (1) **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of all funds invested. The objective will be to mitigate credit risk and interest rate risk by investing only in creditworthy institutions and instruments, and by maintaining portfolio diversification. Diversification is required to maximize the yield from a blend of financial products and terms.
- (2) **Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.
- (3) **Yield:** The investment portfolio shall be designed with the objective of attaining at a minimum a market rate of return, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.
- (4) **Duration:** The investment portfolio shall be designed with the objective of keeping a duration within set parameters of a bond index. This is done to limit the exposure of the portfolio to interest rate risk (rate fluctuations). Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

3 Standards/Requirements:

- (1) Investments shall be expressed or paid in Canadian currency only, to avoid exposure to currency exchange fluctuations.
- (2) Security selection is restricted to the authorized investments as defined in the Alberta Municipal Government Act and Alberta Regulation(s).
- (3) The portfolio shall not hold asset-backed investments unless they are guaranteed by a bank.
- (4) Exceptions approved to this policy shall be reviewed by the Chief Financial Officer, at minimum annually. Exception reporting shall occur at each meeting of the Audit Committee.
- (5) Funds shall not be held by a third party to invest on behalf of the City unless they are a Portfolio Investment Fund Manager and approved by the Chief Financial Officer. The Portfolio Investment Fund Manager will be regulated by the Investment Industry Regulatory Organization of Canada.

(6) Liquidity

- (a) Long term investments shall be managed to meet the operating needs of the organization.
- (b) Credit Quality: The following credit quality restrictions apply to the securities in the portfolio:

Debt Rating Category	Minimum	Maximum
“BBB” or lower or equivalent	0 %	0 %
“A(low)” or equivalent	0 %	50 %
“AA” or higher or equivalent	50 %	100 %

(7) Portfolio Diversification and Restraints – The following constraints shall apply to the portfolio:

- (a) At the time of purchase, current holdings of the security plus the proposed investment:
 - (i) Can represent 100% if the total securities are fully guaranteed by the Government of Canada or a province of Canada, or;
 - (ii) Shall not represent more than 8% of the total securities if they are a Canadian Schedule I bank, or;
 - (iii) Shall not represent more than 5% of the total securities if they are not covered in i or ii above.

(8) Subject to the restrictions in this section, asset-backed (if guaranteed by a bank) and mortgage backed securities may be held in the portfolio provided they are rated “AAA”.

(9) Units of pooled funds may be held, subject to the requirements of this policy.

(10) Duration (Interest Rate Fluctuation):

- (a) The duration of the portfolio will at all times be maintained in a range of +/- 30% to the duration of the DLUX (Domestic Liquid Universe) Index.

(11) Portfolio- Return/Performance Standards:

- (a) Funds managed by the broker(s) and investment manager(s) will be measured against 90% of DLUX on a 4 year annualized basis. This benchmark will determine whether acceptable returns are being achieved.

4 Safekeeping and Custody:

- (1) All investment certificates issued to The City shall be in the name of The City of Red Deer.
- (2) Investment certificates may be held for safekeeping by the financial institution.
- (3) Responsibility for the safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions is delegated to a trust company custodian duly registered in Canada.

5 Conflict of Interest/Ethics:

- (1) Nobody involved with the management of The City’s investments may act on the knowledge of The City’s investments to the detriment of The City’s investments.
- (2) No one may personally act upon knowledge derived from investments for personal gain.
- (3) Investments are to be made with judgement and care, under prevailing circumstances, which persons of discretion and intelligence exercise in the management of their own affairs, not for

speculation, but for investment, considering the probable safety of capital and income to be derived.

- (4) Deviations are to be reported in a timely fashion and appropriate action is taken to control adverse developments.

6 Delegation:

- (1) The City Manager delegates authority to investing surplus funds as the Investment Officer to Chief Financial Officer (Financial Services Manager).

Definitions:

- 7 Surplus Funds: The funds forecasted not to be spent within the immediate future. Surplus funds are cash assets held in various funds of the City.
- 8 Long Term: Securities with a maturity date more than one year.
- 9 Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.
- 10 Portfolio Investment Fund Manager: A third party authorized by the Chief Financial Officer to invest on behalf of the City.
- 11 Investment Officer: The following individuals are authorized to make investments on behalf of the City:
 - (1) Chief Financial Officer (Financial Services Manager)
 - (2) Corporate Controller – Budget & Investments
 - (3) Corporate Controller – Risk & Procurement

References/Links:

- 1 Alberta Investment Regulation 66/2000
- 2 Canada Business Corporations Act (Canada)
- 3 Credit Union Act
- 4 Municipal Government Act, Sec 250
- 5 Regional Health Authorities Regulation (15/1995)

Scope/Application:

- 1 All Investment Officers responsible for the management of The City's investments are required to comply with the contents of this and any associated policy, procedure(s), statutes and regulations.

Inquiries/Contact Person:

- 1 Chief Financial Officer
- 2 Corporate Controller – Budget & Investments
- 3 Corporate Controller – Risk & Procurement

Policy Monitoring and Evaluation:

- 1 The Long Term Investment policy shall be reviewed one year from the date of approval, a review may occur prior to this date.

Document History:

Date:	Approved/Reviewed By:	Title:
Approved: August 12, 2005		
Revised: December 13, 2006	"Norbert Van Wyk"	City Manager
Revised: September 20, 2010	"Craig Curtis"	City Manager
Revised: October 30, 2012	"Craig Curtis"	City Manager
Revised: July 13, 2020	"Allan Seabrooke"	City Manager

Appendix A: Credit Rating

Investment Grade	Moody's	Standard & Poors	DBRS Short-Term and Commercial Paper	DBRS Long Term	Fitch Short Term and Commercial Paper	Fitch Long Term
Highest Quality (extremely strong)	Aaa	AAA	R-1 (high)	AAA	R-1 (high)	AAA
High Quality (very strong)	Aa1 to Aa3	AA+ to AA-	R-1 (middle)	AA	R-1 (middle)	AA+ to AA-
Upper Medium Grade (strong)	A-1, A	A+ to A-	R-1 (low)	A	R-1 (low)	A+ to A-
Medium Grade (good)	Baa-1, Baa	BBB+ to BBB-	R-2 (high)	BBB	R-2 (high)	BBB
Lower Medium Grade (somewhat speculative)	Ba	BB+ to BB-	R-2 (middle)	BB	R-2 (middle)	BB
Low Grade (speculative/weak)	B	B+ to B-	R-2 (low)	B	R-2 (low)	B
Poor Quality (may default/very weak)	Caa	CCC to CCC-	R-3 (high)	CCC	R-3 (high)	CCC
Most Speculative	Ca	CC	R-3 (middle)	CC	R-3 (middle)	DDD
No interest Being Paid or Bankruptcy Petition Filed	C	R	R-3 (low)	C	R-3 (low)	DD
In Default	C	D	D	D	D	D