

SECTION: GENERAL ADMINISTRATION

SUBJECT: INVESTMENT POLICY

Original Resolution No.: 97-03-44

Investment Policy Policy Statement

It is the policy of the County of Warner to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the County and conforming to all provincial statutes and regulations governing the investment of public funds.

SCOPE

This investment policy applies to all investment transactions involving the financial assets of the County of Warner No. 5.

OBJECTIVES

This investment policy has the following objectives which are discussed in order of their importance:

1. Safety

The County of Warner No. 5 recognizes its fiduciary responsibility for the stewardship of public funds with which it has been entrusted. Therefore its foremost investment objective is to ensure safety of principal. Investments of the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The County recognizes that risk is inherent in the business world but that it can be controlled. Therefore the following shall be adhered to:

- a) Investment officials shall invest prudently to prevent an individual investment transaction from jeopardizing the capital position and the overall portfolio.
- b) Investment staff will monitor the credit risk of investments held by reference to independent credit ratings. Any investment which falls below the minimum credit rating indicated in this policy or shows significant negative trends will be sold during a reasonable period of time, giving full consideration to market conditions and the liquidity/price level of the security.
- c) No investment instruments other than those indicated as acceptable in this policy shall be used unless specifically approved by County Council
- d) The overall portfolio shall be diversified as indicated in this policy.

2. **Liquidity**

The County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating requirements which might be reasonably anticipated. The portfolio will be structured so that securities mature concurrent with anticipated cash needs. Furthermore, since all possible cash needs cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

3. **Return on Investment**

Investment income represents a significant portion of the revenue of the County of Warner No. 5. It is important that the County maximize the returns obtained from its investment portfolio while following prudent investment principles. As such, the investment portfolio is designed to attain a market rate of return taking into account the County's risk limitations and liquidity requirements.

To attain this rate of return, the County will pursue a passive management style of its portfolio. However, County officials may trade securities in order to strengthen the portfolio against market movements using their best judgement and information available to them.

4. **Maintaining the Public's Trust**

Since the investment portfolio of the County is subject to public review and evaluation, all County officials involved in the investment process shall act in a responsible and professional manner that is worthy of public trust. The County recognizes however that even in a diversified portfolio occasional losses are inevitable and must be considered in light of the overall rate of return of the portfolio.

STANDARDS OF CARE

1. **Prudence**

This policy shall apply the "prudent person" concept. Investment officials exercising due diligence and acting in accordance with procedures consistent with this investment policy shall 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.

2. **Conflicts of Interest**

Investment officials shall refrain from personal business transactions which may hinder the proper execution of the County's investment procedures or which may prevent them from making impartial investment decisions. Investment officials shall disclose to the County any material personal interests in financial institutions which conduct business with the County of Warner No. 5, and they shall subordinate their personal investment transactions to those of the County of Warner No. 5.

3. **Authority and Internal Control**

The County delegates responsibility for the investment program to the County Administrator or designate to establish and or modify procedures and internal controls for its operations consistent with this investment policy.

QUALIFYING INSTITUTIONS

The County will consider the following institutions as qualifying and therefore a prospective competitor for its investment funds:

1. **Government of Canada.**
2. **Provinces of Canada** which, for purposes of this policy, are deemed to include the **Province of Alberta Treasury Branch.**
3. **Other Institutions.**

To qualify, Provinces of Canada and Other Institutions must have minimum ratings of R-I low by the Dominion Bond Rating Service or BBB by the Canadian Bond Rating Service or be fully guaranteed by an institution which meets these minimum ratings. If an Institution does not meet these minimum ratings it will not qualify for the County investment funds. Institutions which are rated by both rating services must maintain the minimum rating in both services to qualify for the County investment funds.

Institutions not meeting the minimum required rating may be invested in to the extent that principal and interest are fully covered by the Canadian Deposit Insurance Corporation or the Canadian Investor Protection Fund or equivalent.

QUALIFYING INSTRUMENTS

The funds of the County may be invested in the following instruments (listed alphabetically):

1. Bankers' Acceptances
2. Bearer Deposit Notes
3. Commercial Paper
4. Corporate Bonds
5. Debentures
6. Federal and Provincial Crown Corporation Notes
7. Government of Canada and Provincial Bonds
8. Government of Canada Treasury Bills
9. Municipal Government Notes
10. Provincial Treasury Bills and Notes
11. Term Receipts
12. Units of Pooled Funds of any or all of the above instruments where the assets of the fund are invested in institutions that the County would otherwise be permitted to invest in under this policy including investment in high quality equities.

DIVERSIFICATION

1. Purpose

The investment portfolio will be diversified to reduce overall portfolio risk while attaining market average rates of return.

2. Maturity

A detailed one year cash flow projection will be maintained to determine cash flow requirements of the County. To the extent possible, maturity dates of investments will be matched to anticipate cash flow requirements. Any funds not required to satisfy cash requirements within the one year projection period may be invested to longer terms taking into account the County's long term financial projections.

The maturity dates of long term (>1 year) investments will be diversified to minimize effects of fluctuations in any given part of the yield curve and to maintain liquidity for projects anticipated in the County's long term financial plans.

The maximum term for any single investment will be 30 years. The average term for the portfolio will not exceed 15 years.

3. Institutions

Each institution within the following categories shall comprise no more than the identified percentage of the portfolio at time of purchase:

<u>Category</u>	<u>Rating*</u>	<u>Limit</u>
Government of Canada	n/a	100%
Provinces of Canada	R1H	100%
	R1M	100%
	R1L**	30%
Other Institutions	R1H	100%
	R1M	75%
	R1L**	30%

*DBRS Short term ratings are used for this table. The limits apply to all equivalent ratings.

SAFEKEEPING AND CUSTODY

All security transactions shall be conducted on a delivery-against-payment basis. This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

Signatures from any two of the County Administrator, Reeve and Deputy Reeve are required to authorize "Resolutions Respecting Securities for Safe-Keeping" received from financial institutions in which the County has funds invested, as well as other forms regarding the safekeeping of the County's securities which may be received.

REPORTING

The County Administrator or appointed delegate will report on the investment activities of the County of Warner No. 5. The following information will be provided to County Council on a regular basis:

1. Details of investments held

INVESTMENT POLICY ADOPTION

The County of Warner No. 5 investment policy shall be adopted by resolution of County Council. The policy will be reviewed periodically by investment officials and any modifications made thereto must also be approved by County Council.

DEFINITIONS

GENERAL

1. **Delivery Against Payment**

There are two methods of delivery of securities: delivery against payment and delivery against receipt. In delivery against payment transactions a security is presented in exchange for cash and that completes the transaction. In delivery against receipt transactions a letter of intent is substituted for the actual security. The letter of intent is a promise to deliver the security as soon as possible.

2. **Liquidity**

A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be sold at those quotes.

3. **Prudent Person Concept**

Investments are made with judgement 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.

4. **Secondary Market**

A market made for the purchase and sale of outstanding issues following the initial distribution.

INVESTMENT INSTRUMENTS**1. Banker's Acceptance**

This instrument is essentially a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by the borrower's bank. The bank's acceptance is signified by a counter signature on the draft. Once a draft of this nature has been co-signed, it becomes a "Banker's Acceptance" and is backed by the credit of the accepting bank. These instruments are actively and openly traded in the money markets and as a result are extremely liquid.

2. Bearer Deposit Notes

These securities are short term promissory notes that are issued by a bank. They are direct obligations of the specific issuing bank and generally have a term that ranges from one week to one year. They are very liquid in nature and yield approximately the same as a banker's acceptance.

3. Commercial Paper

These instruments are short term unsecured promissory notes that are issued by major Canadian Corporations. The notes are backed by the general credit of the issuing corporation and are usually unsecured. These instruments are traded actively in the money markets and usually have a maturity of less than one year. The notes may be interest bearing or issued at a discount and are issued in either bearer or fully registered form.

4. Corporate Bonds

These instruments are interest bearing debt which are secured by the assets of the issuing Corporation. These securities generally have a maturity which is greater than one year and form a 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

5. Debentures

Debentures are similar to bonds and represent interest bearing debt, however, debentures are secured only by the general credit of the issuing organization. Typically these instruments are offered by organizations that have exhausted their ability to issue bonds or by organizations that have a high enough credit standing that they are not required to pledge any specific assets. These instruments have a reasonable degree of liquidity and usually have a yield that is higher than similar bonds.

6. Federal & Provincial Crown Corporation Notes

These investments are guaranteed by the Government of Canada or the issuing Province and are secured by the assets of the issuing Crown. These securities can range in term and can be either discounted or interest bearing. These investments are very liquid and yield approximately the same yield as other Federal or Provincial obligations.

7. Government of Canada & Provincial Bonds

This instrument is essentially an interest bearing debt which is secured by the assets of the Government of Canada or the issuing Province. These securities have a maturity that is greater than one year and form a part of the money market only when the long term debt approaches maturity. As with the other government securities these instruments are actively traded and generally considered high quality investments.

8. Government of Canada Treasury Bills

The Bank of Canada, as agent for the Government of Canada, calls for the tenders at noon each Tuesday for a specified amount of treasury bills. These are short term promissory notes issued by the Government of Canada which are used to finance ongoing expenditures. Treasury bills are issued in bearer form only and are sold at a discount to mature at a stated par value. There is no risk of default and they are extremely liquid and considered a prime investment vehicle.

9. Municipal Government Notes

This instrument is issued by municipalities and secured by the assets of the municipality. These securities can range in term and can be either discounted or interest bearing. Generally only large municipalities will issue their own notes.

10. Provincial Treasury Bills & Notes

These securities are issued periodically by the majority of provinces in Canada and are actively traded in the money markets. These instruments are very liquid and are usually issued in bearer form. These instruments can be interest bearing or sold at a discount and are considered to be prime investment vehicles due to the minimal risk associated with default.

11. Term Receipts

These instruments have various labels including Certificates of Deposits (CD's), Term Deposits, Fixed Term Deposits, Guaranteed Investment Certificates (GIC's), Term Deposit Certificates, Deposit Receipts, etc. These instruments are generally fully registered, nontransferable, interest bearing notes. Terms range from one day to six years. While some of these instruments do have call features which allow them to be liquidated on demand most tend to be non liquid investments. These instruments are direct obligations of the issuing bank.

12. Units of Pooled Funds

Also known as Mutual Funds. Pooled funds exist to combine or pool the funds of several investors to purchase securities. The types of securities the fund will purchase and the investment objectives are set out in the fund prospectus. Pooled funds can range from very conservative to speculative based on the investment objectives. Units of the fund are purchased and sold at prices based on the net assets of the fund.