



## BIG LAKES COUNTY POLICY

**TITLE: Banking and Investments**

**POLICY NUMBER: ADMIN 51**

**LEGAL AUTHORITY: Municipal Government Act**

**APPROVED BY COUNCIL: October 28, 2015**

**EFFECTIVE DATE: January 12, 2022**

**REVISED DATE: January 12, 2022**

### Policy Statement

Acting in its role as a steward of public funds, Big Lakes County will exercise prudence in the custody and management of funds within its care. Big Lakes County will conduct banking and investment transactions in compliance with all applicable legislation and other regulatory or statutory requirements.

### Policy

#### **1.0 Banking**

- 1.1 Operating funds shall be retained in a bank account held with a Canadian chartered bank or treasury branch. Funds excess to daily operating requirements should be invested in order to generate a financial return.
- 1.2 Under no circumstances is a payment to be issued when there are insufficient funds to cover it, or that would result in an overdraft situation unless prior arrangements have been made for borrowing purposes.

#### **2.0 Investments**

- 2.1 This investment policy applies to all funds of Big Lakes County (herein after referred to as the County) on deposit or invested in investment securities.
- 2.2 The funds include:
  - 2.2.1 Operating Funds
  - 2.2.2 Reserve Funds
- 2.3 Prudence
  - 2.3.1 Investments are to be made with the same good judgment and care – under circumstances then prevailing - that persons of prudence, discretion and intelligence would exercise in the



## BIG LAKES COUNTY POLICY

management of their own affairs, considering the probable safety of their capital as well as the probable income to be derived.

- 2.3.2 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

### 2.4 Investment Objectives

The primary objectives, in order of priority, of the County investment activities shall be:

#### Operating Funds:

##### 2.4.1 Preservation of Capital

Investments for the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

##### 2.4.2 Liquidity

The County's investment portfolio will remain sufficiently liquid to enable the County to meet all operating and capital requirements, which might be reasonably anticipated.

##### 2.4.3 Return on Investment

The County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

#### Reserve Funds:

##### 2.4.4 Preservation of Capital

Investments for the County shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

##### 2.4.5 Return on Investment

The County's investment portfolio shall be designed with the





## BIG LAKES COUNTY POLICY

objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

### 2.5 Authority

2.5.1 Authority to manage Big Lakes County investment program is derived from the following:

2.5.1.1 Section 250 of the *Alberta Municipal Government Act*.

2.5.1.2 If applicable, Big Lakes County Council resolutions.

2.5.2 Management responsibility for the investment program is hereby delegated to the County's Director of Corporate Services and/or the CAO, who shall establish procedures for the operation of the investment program consistent with this investment policy.

2.5.3 The County's Director of Corporate Services shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

### 2.6 Ethics and Conflict of Interest:

Officers and employees of the County who are involved with investment decisions, and the Chief Administrative Officer:

2.6.1 Shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions;

2.6.2 Shall disclose to Big Lakes Council, through the CAO, any material financial interests in financial institutions that conduct business within Big Lakes, and they shall further disclose any material personal/business financial/investment positions that could be related to the performance of the County's portfolio;

### 2.7 Custody and Segregation

2.7.1 Investments shall be held either directly in the name of Big Lakes County or held in bulk segregation in accounts in the name of Big Lakes County.

### 2.8 Investment Manager



## BIG LAKES COUNTY POLICY

- 2.8.1 Big Lakes County Council shall retain the services of an External Investment Manager to provide advice and/or investment management services with respect to the County's investment portfolio.
  - 2.8.2 The External Investment Manager shall be governed by an Investment Policy Statement that is reviewed and approved by:
    - 2.8.2.1 Director of Corporate Services
    - 2.8.2.2 CAO
    - 2.8.2.3 Council
  - 2.8.3 The Investment Manager must be a Portfolio Manager accredited by the Investment Industry Regulatory Organization of Canada
  - 2.8.4 Financial Institutions eligible to act as External Investment Manager on the portfolio must:
    - 2.8.4.1 Be able to tender investments that meet the requirements of this policy
    - 2.8.4.2 Be a member of the Canadian Investor Protection Fund (CIPF);
    - 2.8.4.3 Prepare portfolio summaries for the Director of Corporate Services quarterly, and if requested, directly to Council on an annual basis detailing:
      - 2.8.4.3.1 Rate of return summaries
      - 2.8.4.3.2 A summary of the investment portfolio held by the investment manager, including investment amounts, interest rates, maturity dates, and maturity amounts;
    - 2.8.4.4 Be able to invest the County funds in securities from at least five (5) different security issuers within the guidelines of the Municipal Government Act.
    - 2.8.4.5 Provide online access to the Director of Corporate Services or designate on all account balances and investment details updated daily.
  - 2.8.5 The CAO shall provide a recommendation to Council and obtain Council's approval before engaging an external Investment Manager.
- 2.9 Investments
- 2.9.1 The types of investments are further limited to those authorized under Section 250 of the Municipal Government Act.
  - 2.9.2 Investments shall be made in adherence to the investment program procedures and shall be restricted to those outlined in





## BIG LAKES COUNTY POLICY

Schedule A. No investment instruments other than those indicated as acceptable in this policy and described on Schedule B shall be executed unless specifically approved by County Council.

### 2.10 Diversification

Safety of principal is obtained by diversification among institutions and credit worthiness. Schedules A and B outline the maximum amount of each portfolio which may be invested within each institution.

### 2.11 Maximum Investment Terms

To the extent possible the County will attempt to match its investments with anticipated cash flow requirements. Maximum 15 year term.

### 2.12 Performance Evaluation

The investment portfolio will be evaluated annually in terms of performance as stated in the investment program procedures.

### 2.13 Internal Control

2.13.1 A review of compliance with the investment policies shall be done annually, and the results will be reported to Council via the CAO.

### 2.14 Reporting

2.14.1 The Director of Corporate Services will provide regular reports to the CAO. The CAO will report annually to Council, noting investments on hand, activity during period, and income or losses on investment

### 2.15 Investment Policy Adoption

2.15.1 Big Lakes County investment policy shall become effective when adopted by Council.

2.15.2 The investment policy will be reviewed annually by the Director of Corporate Services and any proposed modifications shall be presented to the CAO, for submission to Council. Each annual review must take place no later than the 30th of June in each year



## BIG LAKES COUNTY POLICY

### EXHIBIT(S):

Schedule "A" – Investment Restrictions

Schedule "B" – Approved Investment Instruments

Schedule "C" – Investment Terminology

*Rahm+ Nygaard*  
Reeve

*[Signature]*  
Chief Administrative Officer

*January 20, 2022*  
Date of Final Signature





## BIG LAKES COUNTY POLICY

### SCHEDULE "A" – INVESTMENT RESTRICTIONS

|                         | Approved Investments<br><br>(see Schedule B for a listing of approved investment instruments)  | Maximum Amount * | DBRS Minimum Rating<br>(Short term) | DBRS Minimum Rating<br>(Long term) |
|-------------------------|--|------------------|-------------------------------------|------------------------------------|
| Government - Federal    | Securities issued or guaranteed by, including crown corporations:<br>The Government of Canada  | Unlimited        | R1 (M)                              | AA                                 |
| Government - Provincial | Securities issued or guaranteed by, including crown corporations:<br>Provincial Government within Canada   | 50%              | R1 (M)                              | A(low)                             |
| Banking Institutions    | Obligations of or guarantees of:<br>Schedule I Chartered Banks:<br>-Bank of Montreal<br>-Bank of Nova Scotia<br>-Toronto Dominion Bank<br>-Royal Bank of Canada<br>-Canadian Imperial Bank of Commerce<br>-National Bank | 50%              | R1 (M)                              | A(low)                             |

\*Per Issuer. Based on entire portfolio amount at the time of booking the investment.



## BIG LAKES COUNTY POLICY

### SCHEDULE "B" – APPROVED INVESTMENT INSTRUMENTS

#### 1. Bankers Acceptances

This instrument is a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed by the 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 Notes

These securities are short term promissory notes that are issued by the bank and are similar to banker acceptance. They are direct obligations of the specific issuing bank in nature and yield approximately the same yield as a banker's acceptance.

#### 3. Federal and 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 the other Federal or Provincial obligations.

#### 4. Government of Canada and Provincial Bonds

These instruments are 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 part of the money market only when the long term debt approaches maturity. As with other government securities these instruments are actively traded and generally considered high quality investments. Organizations such as municipalities usually acquire these instruments for the purposes of retaining them until maturity.

#### 5. Government of Canada Treasury Bills

The Bank of Canada, as agent for the Government of Canada, calls for tenders at noon each Tuesday for a specified amount of treasury bills. These are short term promissory notes issued by the Government of Canada and 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.





## BIG LAKES COUNTY POLICY

### 6. Provincial Treasury Bills and 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 minimal risk associated with default.

### 7. 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 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.

### 8. Schedule 1 Chartered Bank Bonds

These instruments are interest-bearing debt which are secured by the assets of the issuing Schedule 1 Chartered Bank. These securities generally have a maturity which is greater than one year at the time of investment. These instruments are actively traded within the markets and do have some degree of liquidity. Investments in Schedule 1 Chartered Bank issued bonds will be limited to bonds, stripped-coupon bonds, accrual notes, and step up notes unless otherwise approved by Council.



## BIG LAKES COUNTY POLICY

### SCHEDULE "C" - INVESTMENT TERMINOLOGY

#### 1. Bank of Canada Rate (Bank Rate)

The bank rate is the interest rate that the Bank of Canada charges for advances made to the Canadian chartered banks. The bank rate is set every Tuesday and is set at 25 basis points above the average yield received from the auction or tendered sale of Government of Canada three month treasury bills.

#### 2. Basis Point

A basis point is 1/100 of a percentage point.

#### 3. Bearer Form Securities

A negotiable security that can be redeemed by whoever has actual physical custody of the security. These securities are not in the name of the owner and usually have a clause on the actual security that states something such as "Pay to the Bearer".

#### 4. Chartered Banks

Banks which are chartered receive their charter from the Canada Bank Act and are named under two different schedules in the Act. Schedule I banks are widely held (no single person or corporation may control more than 10% of the voting stock and foreign ownership is limited to 25%). Schedule II banks are closely held (ownership is more concentrated). Many Schedule II banks are foreign-owned and their size is controlled by the federal government, excluding United States of America owned Schedule II banks whose size is not controlled in accordance with the Free Trade Agreement.

#### 5. DBRS

Dominion Bond Rating Service. A company that investigates and reports on the credit worthiness of Government and Corporations issuing securities in Canadian Financial Markets. There are two different scales for rating short term (less than one year) and long term (one year or more) obligations or debt.

#### 6. Delivery vs. Payment

There are two methods of delivery of securities; delivery verses payment and delivery versus receipt. Delivery verses payment is the delivery of money for securities. Delivery verses receipt is the delivery of securities with an exchange of a signed receipt for the security.





## BIG LAKES COUNTY POLICY

### 7. Financial Markets

Financial Markets encompass the institutions and procedures that are involved in the process of buying or selling various securities and assets. They are usually classified by the type of securities traded and the maturities. Examples include; Money Markets (short term debt), Bond or Capital Markets (long term debt), Equity Markets (preferred shares, common shares), Euro Market (foreign debt, currencies).

### 8. Liquidity

In the context of a firm, liquidity is the ability to meet its financial obligations as they become due. In the context of investments, liquidity refers to the ability to convert the security on short notice into cash without a substantial loss of principal or accrued interest.

### 9. Market Value

The price at which a security is currently trading and therefore presumably purchased or sold for.

### 10. Portfolio

Is the collection of securities owned by an investor.

### 11. Portfolio Diversification

A fundamental investment principle that reduces risk by diversifying the maturity terms and types of investments held within the portfolio.

### 12. Prime Rate

Prime rate is the rate of interest that chartered banks charge for advancements made to select organizations and individuals that are considered by the bank to be a "prime customer".

### 13. Rate of Return

The yield obtained on a security based on its purchase price or its current market price.



## BIG LAKES COUNTY POLICY

### 14. Ratings – Short term debt (Money Market) - DBRS

- **R-1 (H)**

Money market R-1 (H) (high) rating by DBRS for short-term rated debt is of the highest credit quality, and indicates an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average.

- **R-1 (M)**

Short-term debt rated R-1 (M) (middle) is of superior credit quality and ratings in this category differ from R-1 (H) credits by only a small degree.

- **R-1 (L)**

Short-term debt rated R-1 (L) (low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favorable as with higher rating categories, but these considerations are still respectable.

### 15. Ratings – Bond and Long Term Debt - DBRS

- **AAA** – prime maximum security, best quality and smallest degree of investment risk. □
- **AA+, AA, AA-** : high grade, high quality
- **A+, A, A-** : upper medium grade, factors giving security to principal and interest are considered adequate