



Section	Policy No.	Page
Financial	16-7	1 of 7
Policy Title	Date:	Motion No.
Investment Policy	January 12, 2021	14/21

Purpose:

The purpose of this Policy is to document a governance framework for the prudent management of the Kneehill County's investment portfolio "Fund" within an acceptable investment risk tolerance level.

Policy Considerations and Requirements:

SECTION I: POLICY CONSIDERATIONS

It is the policy of the Kneehill County to invest public funds in a manner which will provide the optimal blend of investment returns and principal protection while meeting the daily cash flow and liquidity demands of the Kneehill County and complying with statutory requirements of the *Municipal Government Act*.

1. SCOPE

This Policy applies to the investment of all cash, short-term and long-term assets of the Kneehill County.

2. OBJECTIVES

Capital Preservation

Preservation of capital is the foremost objective of the Fund. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall Fund whilst managing credit risk and interest rate risk.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The portfolio structure should be such that maturities coincide with cash requirements, as much as reasonably possible. Since all possible cash requirements cannot reasonably be anticipated, the Fund should consist largely of securities with active secondary markets or immediate liquidity features for non-market traded securities.

Return on Investment

The Fund shall be constructed with the objective of attaining, at minimum, a benchmark rate of return throughout varying budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the preservation of capital and liquidity objectives.

3. STANDARD OF CARE

Prudence

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



Section Financial	Policy No. 16-7	Page 2 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

Internal Controls

Administration shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties.

4. ETHICS & CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity with the same individual(s) with whom business is conducted on behalf of the Kneehill County. Individuals involved with the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program or impair their ability to make impartial decisions.

SECTION II: INDIVIDUAL RESPONSIBILITIES

1. DELEGATION OF AUTHORITY

Authority to manage the Kneehill County's investment program is derived from *Section 250* of the *Municipal Government Act* (Appendix B). Kneehill County delegates the management of the Fund to the Chief Administrative Officer or delegate. Fund Management responsibilities have been allocated as follows:

Council

- Receive quarterly reports from Administration on the performance of the portfolio during the reporting period.

Administration Responsibilities

- Calculate the rates of return on the entire Fund, based on book and market value.
- Review the Policy periodically and if appropriate make recommendations to Council for changes.
- Select investment dealers and institutions (the "Brokers") to assist in meeting performance objectives for the Fund.
- Review the Fund's performance on a regular basis and report to Council on the performance.
- To be responsible for the delegation of any responsibility not specifically mentioned in this Policy.
- Select specific investments for the Fund, recognizing the quality and diversification requirements established in this Policy, and subject to approved signing authority.
- Ensure that the sum of all cash, the current account, money market securities, and coupon income expected from the fixed income instruments (i.e. bonds, GICs etc.) in a year are sufficient to cover the disbursements expected to be paid from the Fund in that year.
- Seek to maximize and preserve the investment return on the Fund, after ensuring that the foregoing liquidity, quality and diversification requirements have been satisfied.
- Manage the securities held by the Fund in accordance with this Policy and applicable legislation.

The Administration Kneehill County may from time to time engage consultants or other advisors to assist them in fulfilling their responsibilities.



Section Financial	Policy No. 16-7	Page 3 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

2. AUTHORIZED INVESTMENT DEALERS AND FINANCIAL INSTITUTIONS

A list will be maintained by Administration of approved investment dealers and financial institutions authorized to provide investment services. Preference will be given to investment dealers and financial institutions who are members of the [Responsible Investment Association](#) (“RIA”). Investment dealers and financial institutions that provide the Kneehill County with the broadest range of investment instruments will be viewed as front runners in the qualifying bidder’s process.

SECTION III: INVESTMENT OPPORTUNITIES

The following are the investments permitted.

All investments must be made in accordance with sections 250(1) and (2)(a)-(d) of the Municipal Government Act (MGA) RSA 2000 Chapter M-26 (as amended). The allowable investments are as follows:

- a) Securities issued or guaranteed by either
 - 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 (Section 250(2)(a) MGA)
- b) Securities of a Canadian municipality, school division, school district, hospital district, health region under the Regional Health Authorities Act or regional services commission in Alberta (Section 250(2)(b) MGA)
- c) Securities that are issued or guaranteed by a Canadian bank, treasury branch, credit union or trust corporation (Section 250(2)(c) MGA)
- d) Units in pooled funds of all or any of the investments described in (a-c) above (Section 250(2)(d) MGA)

All investments must be denominated in Canadian dollars or U.S. dollars. U.S. dollar investments are not to exceed 5% of the total portfolio.

Investments in shares, warrants, or other equities, convertible debt securities, derivatives, swaps, options or futures are prohibited, and all investment categories that are not explicitly permitted are prohibited.

SECTION IV: RATINGS AND CONSTRAINTS

1. RISK TOLERANCE

All securities must be readily marketable.

Investment held in the Fund must be rated by at least one rating agency, namely Moody’s, Standard & Poor’s (S&P) or Dominion Bond Rating Service (DBRS). All investments must be Investment Grade (at least BBB by S&P, or equivalent by DBRS or Moody’s.), as classified in Appendix A. In the case where a security is rated by more than one agency listed, the higher ratings will apply.



Section Financial	Policy No. 16-7	Page 4 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

Cash: The deemed rating for cash, including the current account and any High Interest Savings Accounts, will be equal to the rating of the institution it is being held in.

Credit Unions: The rating for securities issued by a Credit Union that is not rated shall be deemed equal to the rating of the province within which the credit union resides.

Bank Deposits: The deemed rating for securities issued by a bank will be equal to the credit rating of that bank.

Securities issued by a Government entity: The deemed rating for securities issued by a Government entity will be equal to the credit rating of that government entity, province, country or equivalent.

2. PORTFOLIO CONSTRAINTS

These primary constraints relate to safety of invested capital and maintaining the liquidity of the portfolio. All placements of investments must be in compliance with the *MGA*.

- **Overall Credit Rating:** The total Fund will target only investment grade securities allowable under the *MGA*. The ratings related to these investment grade securities are detailed in Appendix A.

Note: Due to market fluctuations, maximum percentages may be exceeded at a point in time. Securities need not be liquidated to rebalance the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

3. OTHER CONSTRAINTS

- The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading.
- All investments will be made in accordance with the Code of Ethics and the Chartered Financial Analyst standards (<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2014.n4.1>).

SECTION V: REPORTING

1. REPORTING

In addition to the quarterly reporting Administration will provide an annual report to Council on the performance of the portfolio during the first quarter of the following year.

2. POLICY ADOPTION AND UPDATING

The policy shall be reviewed periodically as required due to changes in the economy or the Kneehill County's requirements and any modifications made thereto must be approved by Council.



POLICY

Section Financial	Policy No. 16-7	Page 5 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

SECTION VI: APPENDICES

APPENDIX A – CREDIT RATINGS

Grade	Moody's		Standard & Poor's		DBRS Morningstar	
	Long-Term	Short-Term	Long-Term	Short-Term	Long-Term	Short-Term
Investment Grade	Aaa	P-1	AAA	A-1+	AAA	R-1 (high)
	Aa1	P-1	AA+	A-1	AA (high)	R-1 (high)
	Aa2	P-1	AA	A-1	AA	R-1 (middle)
	Aa3	P-1	AA-	A-1	AA (low)	R-1 (middle)
	A1	P-1	A+	A-2	A (high)	R-1 (low)
	A2	P-1	A	A-2	A	R-1 (low)
	A3	P-1	A-	A-2	A (low)	R-1 (low)
	Baa1	P-2	BBB+	A-3	BBB (high)	R-2 (high)
	Baa2	P-2	BBB	A-3	BBB	R-2 (middle)
	Baa3	P-3	BBB-	A-3	BBB (low)	R-2 (low)
Speculative Grade	Ba1	NP	BB+	B	BB (high)	R-3
	Ba2	NP	BB	B	BB	R-4
	Ba3	NP	BB-	B	BB (low)	R-4
	B1	NP	B+	B	B (high)	R-4
	B2	NP	B	B	B	R-5
	B3	NP	B-	B	B (low)	R-5
	Caa1	NP	CCC	C	CCC	R-5
	Caa2	NP	CCC	C	CCC	R-5
	Caa3	NP	CCC	C	CCC	R-5
	Ca	NP	CC	C	CC	R-5
	C	NP	R	R	C	R-5
		D	D	D	D	



Section Financial	Policy No. 16-7	Page 6 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

APPENDIX B – MUNICIPAL GOVERNMENT ACT (SECTION 250)

(1) 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) A Kneehill County 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 Kneehill County, 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 RSA 2000 Section 251 Chapter M-26 MUNICIPAL GOVERNMENT ACT 135 incorporated, continued or registered under the Business Corporations Act if the investment is approved by the Minister.

(3) The approval of the Minister under subsection (2)(e) may contain conditions and a Kneehill County may not acquire shares of a corporation under subsection (2)(e) if the acquisition would allow the Kneehill County to control the corporation.

(4) In addition to the investments referred to in subsection (2), the Minister may by regulation allow one or more municipalities to invest their money in other investments described in the regulation.

(5) Nothing in this section prevents a Kneehill County from acquiring a share or membership in a non-profit organization.

Amended: August 26, 2008 397/08

Amended: November 29, 2011 570/11

Amended: June 27, 2017 371/17

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POLICY

Section Financial	Policy No. 16-7	Page 7 of 7
Policy Title Investment Policy	Date: January 12, 2021	Motion No. 14/21

