



CITY OF NORTH BATTLEFORD
SASKATCHEWAN
BYLAW NO. 2056

**A BYLAW OF THE CITY OF NORTH BATTLEFORD
TO ESTABLISH AN INVESTMENT POLICY**

WHEREAS Section 132 of *The Cities Act* requires that Council shall establish an investment policy setting out the types of investments in which the City is authorized to invest its available funds;

NOW THEREFORE the Council of the City of North Battleford in open meeting assembled enacts as follows:

1. That this bylaw be cited as The Investment Policy Bylaw.
2. That the City will invest all its available funds in accordance with the City of North Battleford Institutional Investment Policy, attached as Schedule "A" and forming part of this bylaw.
3. That Bylaw No. 1696 is hereby repealed.
4. That this Bylaw shall come into force and take effect on the date of the final passing thereof.

INTRODUCED AND READ A FIRST TIME THIS 14th DAY OF MAY, A.D. 2018.

READ A SECOND TIME THIS 14th DAY OF MAY, A.D. 2018.

READ A THIRD TIME AND PASSED THIS 14th DAY OF MAY, A.D. 2018.

"Ryan Bater"
MAYOR

"Debbie Wohlberg"
CITY CLERK

**INSTITUTIONAL INVESTMENT POLICY
CITY OF NORTH BATTLEFORD**

**SCHEDULE "A"
BYLAW NO. 2056**

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SECTION 1 – OVERVIEW

PURPOSE OF STATEMENT

The purpose of this policy is to provide the prudent governance guidelines for the investments of the City of North Battleford. The primary objective is to protect the principal of the reserve investments, while accounting for liquidity requirements and maximizing the returns to financially benefit the taxpayers of the city in perpetuity.

INVESTMENT & RISK PHILOSOPHY

An investment allocation has established the guidelines for the total portfolio, which over the long-term should achieve the investment objectives of the City. These guidelines were developed with the following considerations:

- As a corporation providing services for residents and businesses in perpetuity, The City of North Battleford has a long term (indefinite) time horizon.
- Protecting the real (inflation adjusted) value of the investment reserves is critical with a long term (indefinite) time horizon.
- Sustainable withdrawals (considering inflation and portfolio growth) are an important consideration for the long term portfolio to protect the real value of the investments.
- Equity investments have historically provided greater returns than fixed income investments over the long-term, although with greater short-term volatility (risk);
- Liquidity must be planned and prioritized in the event that the city requires funds for specified purposes;
- Limits will be set regarding withdrawals from the portfolio to ensure the continued growth of the portfolio;
- The investment return on the Funds is a function of capital market returns, asset allocation, investment manager structure and individual managers;
- The long-term asset mix is the most important component of a portfolio's risk and return;
- Diversification of asset classes, implementation strategies, and security selection can improve the risk and return characteristics of the portfolio;
- Market timing at the policy level is an inefficient strategy for consistently increasing returns;
- Effective manager structure can improve the net returns and lower the risk of the Funds.

In order to achieve long-term investment objectives, the portfolio must utilize assets that provide uncertain returns such as Canadian equities, foreign equities and non-government bonds. Institutional asset allocation, diversification and professional management will be the key tools utilized to manage the overall level of risk.

PRUDENT INVESTOR RULE

The Prudent Investor Rule requires a trustee to act prudently and with caution, discretion, loyalty and care but does not restrict the assets in which a trustee can invest. The Prudent Investor Rule makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio rather than to individual investments. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the CFA Institute Standards of Practice Handbook.

SECTION 2 – ROLES & RESPONSIBILITIES

The ultimate responsibility for approval of the Cities investment policy lies with City Council. The most effective management and oversight of the investment portfolio is best achieved through the delegation of its responsibilities to the city administration and investment professionals.

CITY COUNCIL

It is the responsibility of City Council to approve the investment policy statement.

CITY ADMINISTRATION

It will be the responsibility of the City Manager and Director of Finance, or their delegate(s) to ensure the investment policy is carried out to meet the needs of the city. This includes communication, and scheduled meetings with the investment advisor and monitoring of the investment mix to ensure compliance with the policy in achieving the stated objectives.

INVESTMENT ADVISOR

The Investment Advisor is responsible to provide advice, research, guidance and technical expertise to city administration to monitor the compliance of the investment policy, monitor performance and provide a high level of service and reporting to the City North Battleford, including any circumstances that could prevent the attainment of the cities objectives. The advisor shall monitor the overall asset allocation of the portfolio as well as the due diligence, selection and continuous monitoring of the investment managers.

INVESTMENT MANAGER(S)

Professional portfolio managers will have full discretion in the day-to-day investment management of the portion of the Fund for which they have been given responsibility, subject to this policy and any amendments thereto. Investment managers will exercise the care, skill and diligence that can reasonably be expected of a prudent expert. Investment managers must be vetted and portfolio assets retained in the custody of a major Canadian investment firm. These managers will utilize professionally managed segregated portfolios, pooled funds, and exchange-traded funds to manage their portion of the portfolio.

CUSTODIAN

The Custodian is responsible to fulfill the regular duties of a Custodian as required by law and in accordance with any agreements between the city and custodian including recording income and expenses of the portfolio, provide periodic portfolio statements of all assets and transactions during the period and in conjunction with the Investment Manager(s), periodically reconcile the list of assets, and provide the City with a copy of such reconciliation. Finally, provide monthly, quarterly and annual performance measurement data to assist in the monitoring process.

CONFLICT OF INTEREST

Any person involved in the investment or the administration of the investment may not permit personal interests to conflict with the exercise of duties and powers with respect to the city's investments. Such conflicts, actual or perceived, must be disclosed to the City Manager and Director of Finance. These guidelines shall not be read to contravene or otherwise limit the scope of any prior or subsequent conflict of interest guidelines that the City may have established or may establish for the conduct of Council, officers, employees, and agents.

SECTION 3 – INVESTMENT OBJECTIVES, ASSET MIX & SPENDING POLICY

INVESTMENT OBJECTIVES

The objective of the Cities investments is to provide long-term growth to support municipal operations and/or capital expenditures to the benefit of the taxpayers. Therefore the overall portfolio objectives are:

- To increase the market value of the investment portfolio and preserve of the real (inflation adjusted) value of the reserves as set aside for future capital projects;
- Sufficient planned liquidity to enable the City to fulfill annual withdrawal requirements, regardless of economic and market conditions.
- To mitigate risk with professional investment management and prudent diversification requirements.

ASSET MIX

The asset mix provides the investment parameters and benchmark portfolio, which should, over the long-term, achieve the investment objectives of the City. In order to achieve these objectives, the City will operate three pools of investments including a Short Term Pool, Moderate Term Pool and Long Term Pool.

SHORT TERM POOL TARGET ALLOCATION LIMIT

The short term pool includes assets specifically targeted for expenditure within a two year time period. The short term pool will have an asset allocation of 100% cash equivalents and/or fixed income investments to match a spending requirements.

This includes interest savings, guaranteed investment certificates (GICs), and bonds with two years or less to maturity rated AA or higher or subject to Canadian Deposit Insurance Corporation (CDIC) considerations.

Deposits and withdrawals from the Short Term Pool will be in consultation with the City Manager, Director of Finance or delegate, to meet the cash flow requirements of the City.

MODERATE TERM POOL TARGET ALLOCATION

The moderate term pool is designed for investments with a time horizon of three to five years. The primary objective of the pool is the preservation of the real value of capital, minimized volatility, liquidity for approved withdrawals and a secondary objective of maximized returns.

Asset Class	Minimum	Target	Maximum
Cash, Cash Equivalents & Fixed Income	50.00%	60.00%	100.00%
Equity	0.00%	40.00%	50.00%

LONG TERM POOL TARGET ALLOCATION LIMITS

The long term portfolio is intended to provide greater long term returns in protecting the cities investment reserves against the long term effects of inflation. To achieve this long term investment goal, the long term pool will utilize an asset mix with a bias towards equity investments. Risk is controlled by investing in a well-diversified portfolio of asset classes, through multiple investment managers and multiple geographic locations.

Asset Class	Minimum	Target	Maximum
Cash, Cash Equivalents & Fixed Income	20.00%	30.00%	45.00%
Equity	55.00%	70.00%	80.00%
Alternative	0.00%	0.00%	10.00%

Investment returns shall be reinvested within the Moderate and Long Term Portfolios to grow the original investment principal. Withdrawals from the Moderate and Long Term pools will be determined in the annual budget to provide adequate liquidity planning.

SECTION 4 – RETURN EXPECTATIONS

ABSOLUTE RETURN EXPECTATIONS

In order to attain these returns while managing and controlling risk, the city will utilize multiple investment managers within the portfolio. In this way added diversification is obtained for the portion of the cities' assets that are invested in a portfolio that is expected to be more volatile. Diversification is a tool to improve risk investment returns, to mitigate exposure to any single risk and to enhance the return per unit of risk to the total return.

- The short term pool will not be recognized in the evaluation of manager performance as its objective will be focused towards capital preservation and liquidity, rather than long term returns.
- The financial objective of Moderate Term Portfolio is to earn a rate of return of 1.5% over the Bank of Canada target rate for inflation (2.0%) on a rolling five year basis net of all investment management costs.
- The financial objective of the Long Term Portfolio is to earn a rate of return of 4.0% over the Bank of Canada target rate for inflation (2.0%) on a rolling five year basis net of all investment management costs.

PERIOD OF PERFORMANCE MEASUREMENT

For purposes of evaluating the performance of the pool and the Investment Managers the primary time period for evaluation will be five years. Return objectives are net of fees and include realized and unrealized capital gains or losses plus income from all sources.

Recognizing that the returns achieved over such shorter periods may vary significantly from the relevant goals, the general trend of results relative to the goals and the likelihood that satisfactory returns can reasonably be expected over five year moving periods should form the basis for the evaluation of the moderate and long term pools performance.

RELATIVE RETURN OBJECTIVES

The relative return objectives for the portfolio are to achieve an annualized return, after investment management fees that exceed the return that would result from the passive management of the Benchmark Portfolio on a five year moving average basis, assuming annual rebalancing. This is an important guide in evaluating the performance of the cities investments in comparison to overall capital markets.

INVESTMENT MANAGER MONITORING AND CONTROL

The primary focus is on the absolute long-term performance of the investment portfolio. However, the short-term performance will be evaluated on an ongoing annual basis. This short-term evaluation will be completed by the investment advisor and made by comparing the actual performance of the portfolio (net of fees) with the returns from an index portfolio constructed with reference to the benchmark asset allocation. The passive index will be the evaluated at the current weightings of the portfolio represented by FTSE TMX Bond Universe (Fixed Income), S&P/TSX Composite (Canadian Equities) and MSCI World Index (Global Equities).

SECTION 5 – INVESTMENT MANAGER MONITORING & CONTROL

COMPLIANCE REPORTING

On a quarterly basis, the investment advisor(s) will provide a report for City Administration and Council to identify the current asset allocation to ensure compliance with the investment policy. The report will outline overall allocation, security holdings, dollar investment return and performance of the portfolio.

On a monthly basis, the investment advisor(s) will provide a report for corporate accounting and audit purposes to outline security holdings, transactions, valuations, income and performance of the portfolio.

PERMITTED INVESTMENTS & MODERATE/LONG TERM POOLS CONSTRAINTS

Investments shall not be made in investment categories other than those mentioned without an amendment of the Investment Policy Statement. The following investments may be made either via segregated holdings of a professional manager or through pooled or mutual funds. Investments in any single corporate issuer may not exceed 10% of the total portfolio value, with the exception of passive or actively managed pooled products (exchange traded funds and mutual funds) which are internally more diversified than the single line item represents.

Cash and Cash Equivalents: Cash equivalents will consist of interest savings accounts or guaranteed investment certificates (GICs). All fixed income securities with less than 12 months to maturity are considered a cash equivalent. Investment in the money market instruments of a single issuer may not exceed 10% of the market value of the total reserve portfolio, except for the securities of the Federal and Provincial governments of Canada and US Federal government and GICs or investment savings of the six largest Canadian Banks (RBC, CIBC, TD, ScotiaBank, BMO & National Bank)

Fixed Income: The Bond portfolio must have a minimum weighted average rating of A by DBRS or an equivalent rating by another recognized rating agency and includes preferred shares. Foreign bonds and bonds rated below investment grade may be held in investment pools only, not as segregated holdings. Any pooled bond product rated below investment grade can represent a maximum of 15% of the overall portfolio. Investments in fixed income securities of a single issuer may not exceed 10% of the market value of the Fixed Income portion of the Fund, except for securities of the Federal and Provincial governments of Canada, GICs of the 6 largest Canadian Banks or diversified professionally managed pooled products.

Equities: Equities include common stocks and limited liability income trusts. Foreign equity is included to provide diversification to reduce the overall risk profile of the equity portfolio and to enhance returns. Investments in the equity securities of a single issuer may not exceed 10% of the market value of the Equity portion.

Derivatives: The use of derivatives is permitted to replicate a security or to hedge foreign currency exposure utilized in professionally managed pooled funds (mutual funds).

Alternative Investments: This asset class includes non-traditional investments whose returns have low correlation to equity and bond markets. These include professionally managed pools in non-traditional asset classes with a limit of 5% per individual issuer and 10% of the entire portfolio of the long term investment pool only.

CONFLICTS BETWEEN THE INVESTMENT POLICY AND POOLED FUND INVESTMENT POLICIES

While this investment policy are intended to guide the management of the Fund, it is recognized that, there may be instances where there is a conflict between the cities investment policy and the investments of a professionally managed pooled (mutual) fund. After a review of the pooled (mutual) funds investment policy and agreement with the City Manager, Director of Finance and Financial Manager, an investment can be made in such a pooled fund to improve the diversification, risk management and/or return potential of the overall portfolio. A maximum weighting of 15% of the total portfolio can be held in these investments. Any amount beyond 15% would require approval from council or an amendment to the investment policy.

MONITORING, SELECTING & REPLACING INVESTMENT MANAGERS

From time to time, the Investment Advisor may recommend adding investment managers or replacing an investment manager from the portfolio. Manager selection and replacement must occur with a significant amount of due diligence including:

- Investment managers firm overview, staff longevity and assets under management;
- Investment managers overall investment style;
- Diversification, risk and return improvements to the overall portfolio;
- Investment performance compared to respective benchmarks.

Investment managers may be replaced due to consecutive performance lagging the benchmark, personnel changes within the firm or superior performance of a similar asset class of another firm/investment manager. Manager replacement occurs without the approval of council, unless there is a change to the overall investment policy.

SECTION 6 – ADMINISTRATION

INVESTMENT POLICY REVIEW

On an annual basis, the Investment Advisor and City Administration may determine changes are required to the Investment Policy. If no changes are required, no further action is required. Any changes to the Investment Policy must be approved by Council due to:

- Changes in general economic conditions;
- Changes to interest rates;
- Needs for liquidity, regularity of income and preservation of capital;
- Changes in expectations of long-term returns and risks associated with the different asset classes of investments;
- Changes to risk tolerance;

- Expectations of the cities' future cash flows;
- New investment products; and
- Any practical issues that arise from the application of the Investment Policy.

INVESTMENT REVIEW MEETINGS

The Investment Advisor(s) shall meet with the City Manager, Director of Finance, Financial Manager, and other delegates at least semi-annually to provide a review of portfolio transactions, portfolio performance, capital markets outlook and other relevant matters. From time to time, North Battleford City Council may request meetings with the investment advisors as well.

SELECTION OF AN INVESTMENT ADVISOR

The Investment Advisor must have a demonstrated reputation for expertise in institutional portfolio management, provide proactive advice, high quality client service and competitive investment management/custodial services. The investment consultant must be associated with a reputable Canadian firm.