



CAPITAL REGION SOUTHWEST WATER SERVICES COMMISSION


Replaces: Investment Policy approved September 17, 2020

Policy Name: 2 – Investment

Related Bylaws and Policies: Bylaw 01/2021

Date Approved: Feb 8/24

Chairman: 

Commission Manager: 

Next Review Date: January 1, 2025

Policy Objective:

To provide general investment principles, rules and delegated authority for managing and monitoring the investments of the Capital Region Southwest Water Services Commission ("CRSWSC"). Adherence to the Investment Policy will ensure compliant and effective investment management and assist in achieving the strategic goals and growth objectives of CRSWSC.

Policy:

It is the policy of CRSWSC to invest reserve funds in a prudent manner that will provide optimum investment returns with the maximum security, while meeting any cash flow requirements of CRSWSC. Our investments must conform to the policies and guidelines set forth below, as well as operate within the language and spirit of legislative requirements under the Municipal Government Act (Section 250, Investments).

Definitions:

Cash flow – Cash and cash equivalents transferred in and out of an organization.

Credit Quality – Please see Schedule A for credit quality definitions.

Derivatives – Financial contracts between two or more parties, that derive their value from an underlying asset, group of assets, or benchmark. (ex: Forward Contracts, Futures Contracts, Swaps, Options Contracts)

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Diversification - A risk-management technique that mixes a wide variety of investments within a portfolio. This strives to offset unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. The benefits of diversification will only hold if the securities in the portfolio are not perfectly correlated.

Exchange – A marketplace where securities, commodities, derivatives, and other financial instruments are traded.

Fiduciary responsibility – Duty that prevents a party from acting in their own interest rather than the interest of the organization.

Forward Contract – A non-standard contract between two parties to buy or sell an asset at a specified price on a future date. These contracts are traded over the counter.

Futures Contract – A legal agreement to buy or sell a particular commodity asset, or security at a predetermined price at a specified time in the future. These contracts have standardized terms and are traded on an exchange.

Liquidity - The ability to convert an investment into cash with minimal risk associated with loss of principal or accrued interest, taking into consideration any costs associated with converting investments into cash.

Over-the-counter – A financial contract that does not trade on an exchange.

Unsystematic Risk – A company or industry-specific risk that is inherent in each investment, rather than the risk of the broader market.

Responsibilities and Authorities:

The Capital Region Southwest Water Services Commission Board of Directors is responsible for the review and approval of this policy at the review date specified and every 4 years thereafter.

The Commission Manager is responsible for the development, implementation, monitoring, and adherence to this policy.

All those involved with the management of CRSWSC investments are required to comply with the contents of this policy with the following overarching objectives:

1) Capital Preservation

- a) CRSWSC recognizes its fiduciary responsibility for the stewardship of funds it has been entrusted. Therefore, the prime objective of this policy is to ensure that the principal amount of each investment is insulated from losses due to market

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Capital Region Southwest
Water Services Commission

conditions and issuer default. To accomplish this objective, we will maintain minimum quality standards for all individual investments held, and mandate sufficient diversification within the portfolio itself.

2) Liquidity

- a) The investment portfolio will be sufficiently liquid in order to enable CRSWSC to meet any projected or sudden cash flow requirement which might reasonably be expected to occur.

3) Permissible Investments / Safety

- a) Security selection is restricted to the authorized investments as defined below.
- b) The portfolio shall not hold shares of a corporation (equities) or corporate bonds (excluding Schedule 1 Chartered Banks in Canada).
- c) The portfolio shall not hold derivative securities, real estate, residential mortgages, asset-backed securities or ownership interests in any unincorporated body.

4) Credit Quality

- a) Investments in the portfolio will ensure preservation of capital and adhere to the following credit quality restrictions:

Debt Rating Category	Minimum	Maximum
"BBB" or lower	0%	0%
"A"	0%	75 %
"AA" or higher	25 %	100 %

- b) Investments rated below "A-" or equivalent at time of purchase are not permitted. If a security's credit rating falls below "A-" after time of purchase, it shall be removed from the portfolio as soon as practical.
- c) Permitted Issuers: Our investments will be limited to the following issuer guarantees:
- i. The Federal Government of Canada (including crown corporations)
 - ii. Any Provincial Government body or entities guaranteed by such province (i.e. Alberta Treasury Branch)
 - iii. Any obligations fully guaranteed by one of the Schedule 1 Chartered Banks in Canada.
- d) All ratings refer to the ratings of the Dominion Bond Rating Service Ltd. (DBRS).



- e) In the event that DBRS does not rate a security, ratings from any of the other agencies allowed by the Municipal Government Act.
- f) Securities with a maturity date of less than one year (i.e. money market) must have a minimum rating of R-1 (high) from the date of issue.

5) Portfolio Diversification and Restraints

The following constraints shall apply to the portfolio. All percentages used below are based on market value.

- a) Not more than 20% of the portfolio shall be invested in any single security.
- b) Not more than 40% of Long-Term Investments (maturities greater than one year) shall be invested in any single issuer, except for securities of or fully guaranteed by the government of Canada or a province of Canada.
- c) Not more than 40% of Short-Term Investments (maturities one year or less) shall be invested in any single issuer, except for securities of or fully guaranteed by the government of Canada or a province of Canada.
- d) If the investment portfolio becomes non-compliant as investments mature over time, the percentage at the time when the investments were purchased shall be used for the purpose of evaluating compliance to policy.

6) Term Limits

- a) The maximum term limit of any individual investment must not exceed 10 years. The average duration of the portfolio must be under 5 years.

7) Safekeeping and Custody

- a) All investment certificates shall be issued in the name of the CRSWSC.
- b) Investment certificates may be held for safekeeping by the financial institution.
- c) 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.
- d) Adherence to reporting requirements in accordance with International Financial Reporting Standards (IFRS).



8) Policy Review

- a) This policy may be modified at any time based on issues related to the administration of this policy, or fundamental changes in the overall investment objectives, (etc. social, economic or political change).

9) Prudence

- a) Investments are to be made with judgment 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.
- b) Investment officers acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations are reported in a timely fashion and appropriate action is taken to control adverse developments.

10) Conflict of Interest / Ethics

- a) Officers, employees and persons involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of their responsibilities, or which could impair their ability to make impartial investment decisions. Officers and employees shall disclose to their manager any material interests in financial institutions that conduct business with CRSWSC, and they shall subordinate their personal investment transactions to those of CRSWSC, particularly with regard to the timing of purchases and sales.
- b) This guideline also extends to any external investment management firms utilized by CRSWSC to manage its portfolio.
- c) Strict adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct and the CFA Institute Asset Manager Code of Professional Conduct is required.

Attachments

- i. Policy 02 – Investment
- ii. Schedule A Investments

Handwritten signatures and initials in black ink. The first signature is a cursive name, possibly "John". Below it are the initials "SE" written in blue ink. To the right is another cursive signature.

Schedule A

Standard & Poors Ratings Meanings

AAA

Extremely strong capacity to meet financial commitments. Highest Rating.

AA

Very strong capacity to meet financial commitments.

A

Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances.

BBB

Adequate capacity to meet financial commitments, but more subject to adverse economic conditions.

BBB-

Considered lowest investment grade by market participants.

BB+

Considered highest speculative grade by market participants.

BB

Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions.

B

More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments.

CCC

Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.

cc

Currently highly vulnerable.

C

Currently highly vulnerable obligations and other defined circumstances.

D

Payment default on financial commitments.

DBRS Ratings Meanings

R-1 (high)

Highest credit quality. The capacity for the payment of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.

R-1 (middle)

Superior credit quality. The capacity for the payment of short-term financial obligations as they fall due is very high. Differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.

R-1 (low)

Good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

R-2 (high)

Upper end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events.

R-2 (middle)

Adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events or may be exposed to other factors that could reduce credit quality.

R-2 (low)

Lower end of adequate credit quality. The capacity for the payment of short-term financial obligations as they fall due is acceptable. May be vulnerable to future events. A number of challenges are present that could affect the issuer's ability to meet such obligations.