Saskatoon Health Region	POLICIES & PROCEDURES Number: 7311-40-003 Title: INVESTMENT POLICY
Authorization [X] SRHA	Source: Vice President, Finance and Administration Cross Index: 7311-30-005, 7311-40-002 Date Approved: June 24, 2009 Date Revised: November 10, 2010 Date Effective: November 17, 2010 Date Reaffirmed: Scope: SHR

OVERVIEW

The Saskatoon Health Region's (SHRs) investment portfolio is the result of the difference in timing in receipt of Provincial and other revenues and the outflow of funds to meet operating expenditures as well as internally funded capital expenditures. This policy establishes eligible investments and guides decision making regarding SHR investments.

DEFINITIONS

Authorized Agent means staff authorized to make decisions with respect to investment activity within the realm of SHR accounts.

Cash and cash equivalents mean a liquid, short-term security which are of terms of one year or less, eligible securities are limited to the following: domestic and foreign cash, money market mutual funds, bankers acceptances, bearer deposit notes, Government of Canada T-bills, Province of Canada T-Bills, Provincial Promissory Notes, Term Deposits and GIC's.

Derivatives mean financial instruments whose values are derived from the value of the underlying security; includes embedded options such as conversion, retraction or extendible features (ie. rights, warrants, convertible features of bonds).

Fixed Income means a form of investment that yields a regular (or fixed) return; a type of security that entitles the owner to a payment of principle and interest. Fixed Income securities are issued for a fixed term and redeemable by the issuer at the end of that term; the income stream is known, as is the maturity date and value; eligible securities are limited to the following: GIC's, Government of Canada Bonds, Provincial Bonds (any province of Canada), Government of Canada Crown Corporation Bonds, Provincial Crown Corporation Bonds (any province of Canada) and Schedule I issued debt securities. For more information on Fixed Income Securities, see Appendix B.

Investment means the purchase of securities with the view of receiving income and or achieving capital gain.

Security (ies) means an instrument representing financial value. Securities are broadly categorized into debt securities and equity securities.

More definitions may be found in the Glossary – see Appendix A.

1. PURPOSE

1.1 The purpose of this policy is to provide a framework for managing SHR investment assets.

1.2 To establish decision making parameters for those authorized to invest SHR funds.

1.3 To minimize exposure to financial loss while ensuring liquidity.

2. PRINCIPLES

2.1 Investment risk cannot be eliminated but should be managed.

2.2 SHR investment decisions will be made based on the Prudent Investor Standard of Care: "to exercise the care, skill, diligence, and judgement that a reasonable, prudent investor would exercise in making investments."[1]

2.3 A key element in maintaining financial stability is minimizing the impact of investment volatility.

3. POLICY

3.1 Saskatoon Health Region (SHR) invests surplus funds, which are not required for payment of expenditures, where the rate of return is better than what can be earned in the SHR consolidated interest account.

3.2 Investments on behalf of SHR shall be made in accordance with legislative requirements as imposed by the *Regional Health Services Act* and the *Trustee Act.* SHR will maintain a more conservative approach to investments than is permitted under legislation.

3.3 SHR policy *Signing Authority – Financial Commitments* and SHR *Conflict of Interest* Policy will govern SHR investment activities and must be adhered to with the purchase of any investment.

3.4 The Finance Division is responsible for SHR's investment portfolio and is authorized to designate individuals to make investment decisions on behalf of SHR (see SHR Policy *Signing Authority – Financial Commitments*).

3.5 Investment funds shall be prudently managed at all times within the acceptable ranges, based on market values of the investments.

3.6 Consideration shall be given to compelling moral and social factors; investments will not be made directly in entities in the alcohol and tobacco industries.

3.7 SHR's investment objectives are preservation of capital and maximizing income.

3.8 SHR does not employ financial institutions, or their representatives, to make investment decisions on behalf of SHR.

3.9 SHR purchases approved investments from the following:

Royal Bank of Canada
The Toronto-Dominion Bank

[1] Trustee Act, R.S.S. 1978, c.T-23, s.2.

Canadian Imperial Bank of Commerce
Bank of Montreal
Bank of Nova Scotia
Directly from Federal Government, Provincial Government a Federal and Provincial Crown Corporations.

3.9.1 Approved institutions include the custodians authorized, to hold investments on behalf of SHR.
3.9.2 There are no limits as to the dollar amounts or percentage of the total portfolio that may be invested with any one institution.

3.10 The forecast of cash flow requirements determine the proper proportion of investments that have terms to maturity, which match the cash flow requirements of SHR.

3.11 SHR invests in cash, cash equivalents and fixed income securities (see definitions) and within the following constraints:

3.11.1 Foreign cash may only be purchased for the purposes of settling United States (US) disbursements.
3.11.2 All securities shall have a term to maturity of five years or less.
3.11.3 Investments shall have a minimum rating of R1 or AA as determined by either the Dominion Bond Rating Service or Standard and Poor's.
3.11.4 Eligible fixed income securities may carry derivative features. The use of derivatives is acceptable only when SHR holds an eligible fixed income security. For more information on Bond components, features and types, see Appendix C.

3.12 SHR shall not invest in equities of any kind. It is possible that SHR could come into possession of equity investments as a result of an inheritance or restructuring. If and when this happens, SHR shall convert, where possible, those investments to those that qualify as soon as prudently possible.

3.13 Staff authorized to make investments on behalf of SHR shall document the details of their investment decisions.

3.14 SHR conducts a monthly reconciliation of investment statements to SHR's general ledger.

3.15 A report of all SHR investments, at fair market value shall be provided to the Audit and Finance Committee on a quarterly basis. The report must also contain all approved exceptions for the quarter.

3.16 A report of all SHR investments at fair market value shall be provided to the Authority on an annual basis, through updated financial statements.

4. ROLES AND RESPONSIBILITIES

4.1 Vice-President, Finance and Administration

4.1.1 Approves investment strategy
4.1.2 Approves policy exceptions
4.1.3 Reports to the Authority on an annual basis, through updated financial statements, investments at their fair market value.

4.2 Director, Finance

4.2.1 Develops investment strategy
4.2.2 Oversees investment activities
4.2.3 Recommends authorized agents (for approval under Signing Authority Policy).

4.3 (SHR) Authorized Agents

4.3.1 Determine investment decisions and may execute transactions on behalf of SHR.
4.3.2 Remain current on developments in the market
4.3.3 Inform the Director, Finance of developments in the market as related to the SHR investment portfolio.

4.4 Treasury Accountant

4.4.1 Executes approved transactions
4.4.2 Reconciles monthly statements of investments to the general ledger accounts.
4.4.3 Prepares quarterly reports for the Audit and Finance Committee

4.5 Regional Manager Financial Services

4.5.1 Reviews monthly reconciliation of investment statements to the general ledger.

5. POLICY MANAGEMENT

The management of this policy including policy management, implementation, and amendment is the responsibility of the Vice President, Finance and Administration.

6. NON-COMPLIANCE

Non-compliance with this policy will result in a review of the incident. If the incident is found to be deliberate, the incident will be considered a breach and may result in disciplinary action, up to and including termination of employment with SHR.

7. REFERENCES

Government of Saskatchewan, *Regional Health Services Act*, Chapter R- 8.2
Government of Saskatchewan, *Trustee Act*, Chapter T-23
Canadian Institute of Chartered Accountants Handbook
Association for Financial Professionals, *AFP Manual of Treasury Policies:Guidelines for Developing Effective Control*, 2001.
The Ottawa Hospital, *Investment Policy*, October 2003
Capital Health (Halifax), *Short Term/Fixed Income Investment Policy*, April 2005
Calgary Health Region, *Investments Policy*, April 2007
Northern Health, *Investment Policy*, July 2005

GLOSSARY

Bankers Acceptances: short-term promissory notes issued by corporations and accepted by a financial institution; they have the same credit rating as the guaranteeing bank; offer a higher yield than Provincial Treasury Bills and Promissory Notes; sold in bearer form at a discount to their face value; they are fully negotiable at market price (may be sold prior to maturity).

Bearer Deposit Notes: short-term promissory notes issued by a financial institution, these have the same credit rating as the guaranteeing bank; offer a higher yield than Provincial Treasury Bills and Promissory Notes; sold in bearer form at a discount to their face value; they are fully negotiable at market price (may be sold prior to maturity).

Custodian: an organization responsible for safeguarding a firm's (or individual's) financial assets.

Domestic Cash: Canadian money (bills or coin) in the form of bank balances.

GIC's: an investment that offers a guaranteed rate of return over a fixed period of time, most commonly issued by trust companies or banks; low risk profile.

Government of Canada (T-Bills): fully guaranteed by the Government of Canada; fully liquid, offered weekly have a term to maturity of 91-, 182 & 364 day, do not pay interest, they are sold at a discount (below par) and mature at 100 can be sold at market value at any time available for terms of one month to one year and are essentially risk-free if held to maturity; considered the safest Canadian investment available.

Foreign Currency/Foreign Exchange: the value of one currency stated in terms of another currency.

Liquidity (liquid): the ability of an asset to be converted into cash quickly and without any price discount.

Money Market Mutual Funds: an open-end mutual fund that invests in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The main goal is the preservation of principal, money market funds are very liquid investments.

Province (of Canada) T-Bills and Promissory Notes: fully guaranteed by the issuing province; offer higher yields than Government of Canada Treasury Bills; fully liquid, can be sold at market value at any time.

Municipal Bonds: bonds issued by municipal organizations supported by their property taxes.

Schedule I Banks: domestic banks authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Institutions authorized by the Office of the Superintendent of Financial Institutions (OSFI) to operate in Canada.

Schedule II Banks: foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions. Institutions authorized by the Office of the Superintendent of Financial Institutions (OSFI) to operate in Canada.

Credit Unions: provincial financial institutions authorized under provincial legislation.

Term Deposits (of chartered Canadian Banking institutions): an interest-bearing savings deposit or certificate of deposit at a financial institution; although the deposits formerly included only deposits with specific maturities they now are considered to include virtually all savings-type deposits; may include investment certificates of trust companies registered under the laws of the province of Saskatchewan.

Trust Company: a financial institution that operates under either provincial or federal legislation and conducts activities similar to those of a bank. However, because of its fiduciary role, a trust company can administer estates, trusts, pension plans and agency contracts, which banks are not permitted to administer. Trust Companies are regulated under the federal Trust and Loan Companies Act and are authorized to accept deposits.

FIXED INCOME SECURITES [2]
COMPONENTS, FEATURES AND TYPES

BOND TERMINOLOGY

- The issuer is the entity (company or govt.) who borrows an amount of money (issuing the bond) and pays the interest.
- The principal (of a bond) is the amount that the issuer borrows.
- The coupon (of a bond) is the interest that the issuer must pay. (other features = interest, foreign pay and/or floating rate).
- The maturity is the end of the bond, the date that the issuer must return the principal.
- The issue is another term for the bond itself.
- The indenture is the contract that states all of the terms of the bond.

BOND COMPONENTS (parts of a bond)

Face Value/Par Value

The face value (also known as the par value or principal) is the amount of money a holder will get back once a bond matures. A newly issued bond usually sells at the par value.

The par value is not the price of the bond. A bond's price fluctuates throughout its life in response to a number of variables. When a bond trades at a price above the face value, it is said to be selling at a premium. When a bond sells below face value, it is said to be selling at a discount.

Coupon (interest rate)

The coupon is the amount the bondholder will receive as interest payments. It's called a "coupon" because it can be redeemed for interest.

Most bonds pay interest every six months, but it's possible for them to pay monthly, quarterly or annually. The coupon is expressed as a percentage of the par value. If a bond pays a coupon of 10% and its par value is $1,000, then it'll pay $100 of interest a year. A rate that stays as a fixed percentage of the par value like this is a fixed-rate bond. Another possibility is an adjustable interest payment, known as a floating-rate bond. In this case the interest rate is tied to market rates through an index, such as the rate on Treasury bills.

Investors may think they will pay more for a high coupon than for a low coupon. All things being equal, a lower coupon means that the price of the bond will fluctuate more.

[2] Canadian Securities Course. Canadian Securities Institute 1997

Maturity
The maturity date is the date in the future on which the investor's principal will be repaid. Maturities can range from as little as one day to as long as 30 years (though terms of 100 years have been issued).

A bond that matures in one year is much more predictable and thus less risky than a bond that matures in 20 years. Therefore, in general, the longer the time to maturity, the higher the interest rate. Also, all things being equal, a longer term bond will fluctuate more than a shorter term bond.

Issuer
The issuer of a bond is a crucial factor to consider, as the issuer's stability is your main assurance of getting paid back. For example, the Government of Canada is far more secure than any corporation. The default risk (the chance of the debt not being paid back) is extremely small - so small that government securities are known as risk-free assets. The reason behind this is that a government will always be able to bring in future revenue through taxation. A company, on the other hand, must continue to make profits, which is far from guaranteed. This added risk means corporate bonds must offer a higher yield in order to entice investors - this is the risk/return tradeoff in action.

BOND FEATURES

Extendable bonds give its holder the right to "extend" its initial maturity from the short to a longer term at a specific date or dates. The investor initially purchases a shorter term bond combined with the right to extend its term to a longer maturity date. An investor purchases an extendible bond to have the ability to take advantage of potentially falling interest rates without assuming the risk of a long term bond. As interest rates fall, the price of a shorter term bond rises less than the price of a longer term bond. This means the extendible bond begins to behave or "trade" as a longer term bond. On the other hand, if interest rates rose, the extendible bond would behave as a shorter term bond.

Retractable means the investor owns a longer term bond with the right to "retract" it at a specific date. If an investor believes that interest rates will rise and bond prices will fall, but is not willing or able to sell out of bonds completely, the investor can buy a longer term retractable bond which behaves initially as a similar term long term bond. As interest rates rise the bond falls in price. Once its price is low enough, it will begin to behave as a short term bond and its price fall will be much less than a normal long term bond. At worst, the investor can retract it at the retraction date and receive the par amount back to reinvest.

You get what you pay for with extendible/retractable bonds. If an investor constantly invested in these bonds, the net result would be a lower return due to the lower yield of these bonds compared to normal bonds of the same term. An investor unable to accept the price risk of longer term bonds would be better off in extendible/retractable bonds than with exclusively shorter term bonds, as this would generate a higher yield and reduce their income risk of the portfolio.

Callable (redeemable) means the issuer has the option of calling them for redemption prior to maturity; issuer reserves the right to pay of the bond before maturity; investors do not know how long they can expect to keep the funds invested; most callable bonds have a time period prior to the first call date during which they cannot be called. This period is called call protection.

Non-Callable (non-redeemable) means the issuer does not have the option of calling them for redemption prior to maturity, investor know how long they can expect to keep the funds invested.

Purchase fund (on a bond) means a fund is set up to retire, through purchases in the market a specified amount of the outstanding bonds or debentures, if purchases can be made at or below a stipulated price;

Sinking funds (on a bond) are sums of money which are set aside out of earnings each year to provide for the repayment of all or part of a debt issue by maturity. It is a convenience to the issuer in that some of the issue is paid off earlier than the maturity date.

Types of Bonds

1. Government Bonds

The Government of Canada has the power to print money to pay their debts, as they control the money supply and currency. Most investors consider the national governments of most modern industrial countries to be almost "risk-free" from a default point of view.

Government of Canada Bonds offer attractive returns and are fully guaranteed by the federal government. They are available for terms of one to 30 years and like T-Bills, are essentially risk-free if held to maturity. They are considered the safest Canadian investment available with a term over one year. They pay a guaranteed, fixed level of interest income until maturity, at which time the full face value is repaid. Again, every penny of principal and interest is guaranteed by the Government of Canada, no matter how much you invest. Even if you normally hold your investments to maturity, it is nice to know that Government of Canada Bonds are fully marketable and can be sold at market value at any time.

Real Rate Return Bonds is an inflation-linked bond is a bond that provides protection against inflation. Most inflation-linked bonds, the Canadian "Real Return Bond "(RRB)is principal indexed. This means their principal is increased by the change in inflation over a period. In most countries, the Consumer Price Index (CPI) or its equivalent is used as an inflation proxy. As the principal amount increases with inflation, the interest rate is applied to this increased amount. This causes the interest payment to increase over time. At maturity, the principal is repaid at the inflated amount. In this fashion, an investor has complete inflation protection, as long as the investor's inflation rate equals the CPI.

Step-up bonds are bonds with a coupon that increases (“steps up”), or decreases (“steps down”), usually at regular intervals, while the bond/note is outstanding. Step-up bonds are often issued by government agencies. The initial coupon rate on a step-up bond is usually above market. Many step - up bonds are callable, which gives issuers some protection against falling interest rates. Step up bonds are designed to give the issuer incentive to call the bond early, while offering investor compensation if the issuer does.

2. Crown Corporation Bonds

Crown Corporations are special purpose corporations created by an act of the Canadian Parliament. Several of these corporations have been prominent borrowers in the international markets for many years. Their presence in the Canadian domestic bond market has grown significantly. Investors should be aware of these issuers and the benefits they offer.

Government related institutions issue bonds, some supported by the revenues of the specific institution and some guaranteed by a government sponsor.. For example, The Federal Business Development Bank (FBDB) and the Canadian Mortgage and Housing Corporation (CMHC) bonds are directly guaranteed by the Federal government/provincial government.

The Federal Crown Corporations that are active in the Canadian domestic bond market and some primary offerings are:

- Export Development Corporation (EDC) - Devoted to providing trade finance services in support of Canadian exporters and investors. Founded in 1944, EDC operates as a commercial financial institution.
- Canada Mortgage and Housing Corporation (CMHC) - Has a mandate to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions.
- Farm Credit Corporation (FCC) - Reports to Parliament through the Minister of Agriculture and Agri-Food. Established in 1959, FCC is Canada's largest agricultural term lender.

- Business Development Bank of Canada - A financial institution wholly-owned by the Government of Canada with a mandate to support Canadian entrepreneurship through the provision of financial and management services to small business.

Credit Quality
These corporations are either direct obligations of the Government of Canada or fully guaranteed by the Government of Canada. Either way, they carry the same credit quality as Government of Canada bonds and strips.

3. Provincial Government Bonds

Provinces issue debt depending on their constitutional ability to do this. Canadian provinces, notably Ontario, borrow more than many smaller countries. Most investors consider provincial issuers to be very strong credits because they have the power to levy income and sales taxes to support their debt payments. Since they can not control monetary policy like national governments, they are considered lesser credits than national governments.

Provincial Bonds issued by Canada's Provincial Governments offer high quality and better rates than similar Government of Canada bonds. While the level of quality varies by issuing province, the highest grade provincial bonds are the most secure. They pay a guaranteed, fixed level of interest income and are available for terms from one to 30 years. Every penny of principal and interest is guaranteed by the issuing province, no matter how much you invest. Even if you normally hold your investments to maturity, it is nice to know that provincial bonds are fully marketable and can be sold at market value at any time.

4. Municipal Bonds

Municipal bonds are fixed-income investments issued by cities or other local government. The two main types of municipal bonds are general obligation bonds and revenue bonds.

General obligation bonds are backed by the taxing power of the issuer. For example, a bond that is being issued to build a new high school may be a general obligation of the town where the school is located. The property taxes paid by residents will pay interest and principal to bondholders.

An issue sold to improve a water system is an example of a revenue bond. The individuals using the water system pay user charges, which are used to operate and maintain the water system. Revenues from the water system pay interest and principal to bondholders.

It is important to note: risk exposure of all bonds may include inflation, credit risk, market risk, event risk, call risk

BOND TYPE SUMMARY

Bond Type	Liquidity	Income	Risk-Return	Key Benefits
Government of Canada Bonds	May be sold at any time, with settlement within three business days.	A fixed level of interest (coupon) is paid semi-annually, and face value is returned at maturity.	Fully guaranteed by the Government of Canada. There is essentially no risk with any investment held to maturity--every aspect of the investment is guaranteed, regardless of the size of the investment. Competitive yields.	Safest Canadian investments available in Canada, regardless of the size of the investment. Fully guaranteed principal and interest if held to maturity. Provides guaranteed regular payments of income. Competitive yields. High degree of liquidity. Low minimum investment required
Crown Corporations	Highly liquid; may be sold prior to maturity at market value.	Unless otherwise stated, interest payments are made semi-annually and the principal is repaid at maturity. Individual issuers may offer monthly pay bonds and zero coupon bonds.	Fully guaranteed or a direct obligation of the Government of Canada. Competitive returns.	Over the past several years each of these borrowers has been active in the Canadian domestic bond market with new primary offerings and/or medium term notes. Generally higher yields than similar Government of Canada bonds
Provincial Government Bonds	May be sold at any time, with settlement within three business days.	A fixed level of interest (coupon) is paid semi-annually and face value is returned at maturity.	Fully guaranteed by the issuing province. Every aspect of the investment is guaranteed, regardless of the size of the investment. Higher yields than Government of Canada investments of similar term.	Fully guaranteed principal and interest, regardless of the size of the investment. Guaranteed return when held to maturity. Provides guaranteed regular payments of income. Competitive yields. High degree of liquidity. Low minimum investment required.
Municipal Bonds	May be sold on any business day at their current market value. This may be equal to, more, or less than the amount originally invested.	Municipal bonds offer a fixed rate of return that is payable every six months.	Some Municipal bonds are insured. This insurance provides for the timely payment of principal and interest. However, insurance does not eliminate market risk.	Provides guaranteed regular payments of income. Competitive yields. High degree of liquidity. Low minimum investment required.