



## GENERAL POLICY MANUAL

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### INVESTMENT POLICY

#### Policy Statement

The County of Oxford strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.

#### Purpose

To outline the investment goals and objectives of the County of Oxford and define the parameters within which staff may invest funds not required immediately.

#### Definitions

**Asset Backed Securities:** fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

**Credit Risk:** the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**Diversification:** a process of investing assets among a range of security types by sector, maturity, and quality rating.

**Duration:** a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security.

This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity.

The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**Interest Rate Risk:** the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

**Liquidity:** a measure of an asset's convertibility to cash.

**Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.

**Market Value:** current market price of a security or portfolio of securities.

**Master Repurchase Agreement:** an agreement between a dealer and a client which substantiates that the securities the client receives under a repurchase agreement are the

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property of the client in the event of a dealer failure.

**Maturity:** the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See “Weighted Average Maturity”.

**ONE Fund – The One Investment Program (“ONE Fund”):** A local government investment pool in which Ontario municipalities may invest. ONE Fund is operated by Local Authorities Service Limited (a wholly owned subsidiary of the Association of Municipalities of Ontario), together with CHUMS Financing Corporation (a wholly owned subsidiary of the Municipal Finance Officers’ Association of Ontario).

**Portfolio:** collection of securities held by an investor.

**Prudent Person Rule:** an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

- a) The standard of prudence to be used by investment managers shall be the prudent person standard and shall be applied in the context of managing an overall portfolio.
- b) The prudent person must act in all matters regarding investments with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- c) The prudent person must diversify the investments of the Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly not prudent to do so.

**Qualifying Assets:** financial assets, either fixed or revolving, that, by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

**Rate of Return:** the yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.

**Real Return Bonds:** a debt security with coupon payments and principal indexed to inflation.

**Repurchase Agreement:** an agreement between a dealer and client to sell a security and to repurchase that security, with interest, at a later date.

**Safekeeping:** holding of assets (e.g., securities) by a financial institution.

**Securities:** include bonds, debentures, treasury bills, commercial paper, repurchase agreements, promissory notes and asset-backed securities.

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**Sinking Fund:** money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**Special Purpose Entity:** a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

**Weighted Average Maturity (WAM):** the average maturity of all the securities that comprise a portfolio.

### Scope

The Investment Policy applies to all financial assets of the County of Oxford held within the following:

- General Funds;
- Reserve Funds; and
- Trust Funds, pursuant to investment provisions within the Trustee Act of Ontario.

### Objectives

The primary objectives of the Investment Policy, in priority order, shall be:

- A. Adherence to statutory requirements;
- B. Preservation of capital;
- C. Maintaining liquidity; and
- D. Earning a competitive rate of return.

#### A. Adherence to Statutory Requirements:

All investment activities shall be governed by the Municipal Act as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

#### B. Preservation of Capital:

Safety of principal is an important objective of the Investment Program. Investments of the County shall be undertaken in a manner that protects and preserves the capital of the portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavour to mitigate credit risk and interest rate risk as follows:

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**Credit Risk:**

- Limiting investments to safer types of securities;
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County does business.

In determining the composition of the portfolio, it will be recognized that the combination of several different investments (diversification) is likely to provide a more acceptable level of risk exposure than having a single investment. As a result, some reasonable diversification of the portfolio will be undertaken. To attain this goal, the County will undertake to establish limitations with respect to credit and investment size.

**Investment Quality**

All investments shall have a minimum rating within the limitations as set out in Schedule 1. In addition, investments are further restricted by credit rating limitations as outlined in this policy.

1. The County shall not invest in a security offered by any Borrower (except County/Municipal Notes) with a bond rating lower than 'A' as established by any of the following credit rating services: Standard & Poor's (S&P) or their equivalent ratings provided by Moody's Investor Services (Moody's), Fitch Ratings (Fitch), or Dominion Bond Rating Services (DBRS).
2. The County shall not invest in securities with a Commercial Paper/ST debt rating lower than R-1 Mid (except Financial Institutions in Schedule I with ratings no lower than R-1 Low) as established by S&P or their equivalent ratings provided by Moody's, Fitch, or DBRS.

Publications of the relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed by the Treasurer with the appropriate action taken to ensure the County's portfolio remains within the limitations and terms outlined in this policy.

**Investment Diversification**

Institutional exposure limitations have been established to reflect the relative safety of various issuers and the maximum desired exposure to various levels of government and financial institutions.

Diversification will include sector limitations outlined in Schedule I to this policy. All eligible

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investments (excluding cash held in the bank accounts of the County of Oxford) must adhere to the institutional sector limits as established under Schedule I.

**C. Maintaining Liquidity:**

The investment portfolio shall remain sufficiently liquid to meet all operating and cash flow requirements and limit temporary borrowing requirements. This shall be done, where possible, by structuring the portfolio such that securities mature concurrent with anticipated cash demands.

Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in eligible investment pools which offer liquidity for short-term funds.

**D. Earning a Competitive Rate of Return:**

The rate of return on the investment portfolio will be optimized to the extent possible given the investment objectives of legality, safety of principal and the need to maintain adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Normally longer term investments offer higher yields than shorter term investments. Investments will be made to obtain the most advantageous yields while at the same time ensuring that funds can be made available to meet expected cash requirements. The composition of the portfolio, including its term and class of investments will be adjusted within the guidelines of this policy to take advantage of market opportunities which arise to enhance the rate of return on the portfolio.

**Performance Standards/Benchmarking**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout the budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the County. The market yields should be higher than the rate given by the County's general bank account.

**Eligible Investments**

The County will only invest in securities permitted under the Municipal Act and Ontario Regulation 438/97, as amended from time to time.

Only Canadian dollar investments are authorized for the purposes of this policy within the limitations set out in Schedule I.

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### **Authorized Investment Dealers**

The County may invest funds through the investment arm of various Schedule I banks. The following Schedule I banks are authorized to be the County's primary investment dealers:

1. RBC Royal Bank
2. BMO Bank of Montreal
3. CIBC
4. TD Bank Financial Group
5. Scotiabank (The Bank of Nova Scotia)
6. National Bank of Canada

The County may invest funds directly through the administrators of the identified sectors in Schedule I at the approval of the Treasurer and/or Deputy Treasurer subject to the Schedule I limits for those sectors. If the County, at any given point in time, is not in accordance to the Schedule I limits it will have one year to correct the sector balances and become compliant.

### **Standard of Care**

#### **A. Prudence**

Investments shall be made with judgment and care, under circumstances then prevailing, following the prudent person principle of investment management and considering the probable safety of their principal as well as the probable income to be derived. Consideration will be given to obtaining independent legal and/or financial advice in circumstances in which the municipality believes additional expertise is warranted.

Investment staff acting in accordance with written procedure, this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this policy.

#### **B. Ethics and Conflicts of Interest**

Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment policy, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further

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disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the County.

### **C. Delegation of Authority**

The Investment Policy and any amendments thereto must be adopted by County Council. This policy will delegate to the Treasurer the authority to make investments which comply with this policy, pursuant to section 418(5) of the Act. The Treasurer has overall responsibility for the prudent investment of the County's portfolio.

#### **Investment Procedures and Internal Control**

The Treasurer will be responsible for the development and maintenance of suitable procedures to provide for the effective control and management of investments.

The procedures include the following requirements:

- The Treasurer or designate is authorized to obtain a reasonable number of quotations with the approved institutions on any individual investment transaction prior to the decision to invest in a transaction on behalf of the County of Oxford;
- All investments are confirmed by signature of either the Treasurer or the Deputy Treasurer;
- All cash management transactions are recorded and interest earnings distributed to the various funds, as the case may be, in accordance with County policies and generally accepted accounting principles for Ontario municipalities;
- Periodic audits are carried out to determine whether or not the investment guidelines provided by this policy are being followed. An external audit is carried out to evaluate the adequacy of internal controls; and
- Provision is made to obtain insurance coverage at all times to guard against any losses that may occur due to misappropriation, theft or other acts of fraud by employees.

#### **Reporting to Council**

In accordance with legislation, submit to Council at least annually, a report on the financial position, investment performance, market value and compliance status of the portfolio. The investment report will include reporting requirements and should include:

- A statement about the performance of the portfolio of investments during the period covered by the report;

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- A summary, by amount and percentage, of the composition of the investment portfolio;
- Year-end balance;
- Such other information that County Council may require or that, in the opinion of the Treasurer, should be included;
- A statement by the Treasurer as to whether or not, in their opinion, all investments were made in accordance with this Investment Policy.

#### **D. Safekeeping and Custody**

All investments shall be held for safekeeping in the name of the County of Oxford by financial institutions approved by the County. The depository shall issue a safekeeping receipt to the County for each investment transaction, listing the specific instrument, rate, maturity and other pertinent information. On a regular basis (at least quarterly), the depository will provide reports which list all investment activity, the book value of holdings, the market value as of month-end and income earned by the investments.

#### **Collateralization**

In order to mitigate the County's exposure to credit risk, the County will only invest in Bank Sponsored asset-backed securities and repurchase agreements having satisfactory collateralization in place. The level of collateralization for these investments must be at least 100% of their market value.

#### **Environmental, Social and Governance Considerations**

As a Canadian municipality, the County has a duty to act responsibly and in the best interests of the County's constituents by ensuring the sustainability of the investment portfolio. As such, proactively considering Environmental, Social and Governance (ESG) risks and opportunities should be part of the County's investment strategy.

#### **Review**

This Policy shall be reviewed at least once every calendar year.



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## Schedule 1 – Authorized Investments and Limitations at Time of Purchase

Sector <sup>1</sup>	Minimum S&P Credit Rating <sup>2</sup>	Maximum Term (years) <sup>4</sup>	Maximum Credit Exposure Individual Limit	Maximum Credit Exposure Portfolio Limit
Federal Government of Canada and Crown Corporations	N/A	10	100%	100%
Provincial Government	AA -	10	75%	75%
Municipal - County of Oxford	N/A	N/A	N/A	50%
Municipal – Other Municipalities and Infrastructure Ontario	AA-	10	10%	10%
Universities, Colleges and School Boards	AA-	2	10%	10%
Financial Institutions – Schedule I Banks	A -	10	75%	75%
Financial Institutions – Schedule II & III Banks	A-	10	25%	25%
Financial Institutions – Credit Unions	N/A	2	10%	10%
Financial Institutions – Loan/Trust Corporations	A	5	5%	5%

<sup>1</sup> Per definitions and restrictions contained in Ontario Regulation 438/97.

<sup>2</sup> Equivalent ratings from Moody's Investor Services, Fitch Ratings or DBRS are acceptable as well.

<sup>3</sup> Canadian Bank administered with a minimum of 2 credit ratings.

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Sector <sup>1</sup>	Minimum S&P Credit Rating <sup>2</sup> Long- term	Maximum Term (years)	Maximum Credit Exposure Individual Limit by Credit Rating	Maximum Credit Exposure Portfolio Limit (max)
Asset Backed Securities <sup>3</sup>	AAA	5	10%	10%
Canadian Corporations	A	10	15%	15%
The One Investment Program	N/A	N/A	10%	10%

<sup>1</sup> Per definitions and restrictions contained in Ontario Regulation 438/97.

<sup>2</sup> Equivalent ratings from Moody's Investor Services, Fitch Ratings or DBRS are acceptable as well.

<sup>3</sup> Canadian Bank administered with a minimum of 2 credit ratings.