
Subject: Investment Policy

Issued: July 8, 1997

Revised: April 14, 2026

SECTION 1 - PURPOSE

- 1.1 The Corporation of the County of Middlesex (the “County”) funds are subject to the requirements of the *Municipal Act, 2001* (the “Act”). *Ontario Regulation 438/97* Eligible Investments, as amended states that before a municipality invests in a security prescribed under the regulation, the Council of the municipality shall adopt a statement of the municipality’s investment policies and goals. The regulation also governs eligible investments and prescribes conditions under which the municipality may make investments.
- 1.2 The Act specifies a municipality must exercise the care, skill, diligence, and judgment that a prudent investor would exercise when making investments, regardless of which category of eligible investments a municipality chooses to follow.
- 1.3 The purpose of this policy is to guide the investment decisions of the County when funds are not immediately required or are in surplus position to the day-to-day operating requirements.

SECTION 2 - SCOPE

- 2.1 This investment policy applies to all financial assets of the County held within the following three portfolios
 - Operating Funds Portfolio;
 - Reserve Funds Portfolio; and
 - Trust Funds Portfolio

SECTION 3 – PRINCIPLES AND INVESTMENT OBJECTIVES

- 3.1 The following principles govern the investment management process for the Corporation of the County of Middlesex.
 - 3.1.1 **Financial Stewardship:** The County will exercise care, conservancy, planning, attention, upkeep, and management of its financial resources.

- 3.1.2 **Preservation of Capital:** The County will invest in a manner that protects and preserves the value of the invested principal.
- 3.1.3 **Maintenance of Liquidity:** The County's investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing.
- 3.1.4 **Risk Management:** The County will manage risk by ensuring there is sufficient diversification among the assets in the portfolio.
- 3.1.5 **Investment Returns:** The County will design the investment portfolio in a way to maximize investment return in accordance with the *Municipal Act, 2001* and in accordance with this policy.

SECTION 4 – POLICY STATEMENT

4.1 General

- 4.1.1 All investment activity shall be governed by the *Municipal Act, 2001* as amended. Investments, unless limited further by Council, will be those deemed eligible under *Ontario Regulation 438/97*, as amended.
- 4.1.2 Canadian and US dollar investments are authorized for the purpose of this policy.
- 4.1.3 Investments of the County shall be undertaken in a manner that protects and preserves the capital of the portfolio.

4.2 Preservation of Capital

- 4.1.1 The County shall endeavor to mitigate credit risk by:
 - a. Limiting investments to safer types of securities; and
 - b. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- 4.1.2 The County shall endeavor to mitigate interest rate risk, a risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:
 - a. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity;

- b. Investing operating funds primarily in shorter-term securities or investment pools; and
- c. Diversifying long-term holdings to mitigate the effects of interest rate volatility.

4.1.3 All investments should have a minimum rating with the limitations set out in Schedule A for the Operating Funds Investment Portfolio and Schedule B for the Reserve/Trust Funds Investment Portfolio.

4.1.4 Publications of 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 Director of Financial Services with the appropriate action taken to ensure the County's portfolio remains within the limitations and terms outlined in this policy. See Schedule C for the DBRS Morningstar Credit Rating and Ranking Scales.

6.2 Maintenance of Liquidity

4.3.1 The County will invest in primarily liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained to meet ongoing obligations. The County may also utilize temporary borrowing for short-term liquidity needs provided it helps maximize the overall return for the portfolio.

6.3 Risk Management

4.4.1 The County will manage risk by maintaining appropriate diversification across the investment portfolios. Diversification will be achieved by limiting exposure to individual securities, issuers, and asset classes.

4.4.2 Maximum allowable exposures, expressed as a percentage of the total portfolio, are established to support prudent diversification. These limits are outlined in Schedule A for the Operating Funds Investment Portfolio and Schedule B for the Reserve/Trust Funds Investment Portfolio.

6.4 Investment Returns

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

4.4.2 For the purposes of evaluating the performance of the County's investment portfolios, all rates of return will be compared to performance expectations.

4.4.3 The expectation may be changed from time to time, as determined by the Director of Financial Services, to be comparable to the portfolio in terms of maturity, liquidity, and credit quality.

SECTION 5 – ROLES AND RESPONSIBILITIES

6.1 Council

5.1.1 Approve the investment policy which guides the investment decisions of the County.

6.2 Director of Financial Services

5.2.1 Oversee the financial stewardship of the County including:

5.2.1.1 Ensure performance of the investment portfolio including monitoring and taking corrective action;

5.2.1.2 Establish procedures consistent with the policy and including explicit delegations of authority to persons responsible for investing activity;

5.2.1.3 Execute investment management related contracts and agreements; and

5.2.1.4 Ensuring the reporting requirements under *Ontario Regulation 438/97*, as amended and this policy are met.

6.3 Finance Department

5.3.1 Review this policy and related standard operating procedures every year or earlier as required;

5.3.2 Manage funds under specific investment mandate, complying with all guidelines, policies, and procedures; and

5.3.3 Provide as much notice as possible regarding cash requirements or additional funds available for investment. But as these may not always be known in advance, consideration of this factor will be considered in assessing investment performance.

6.4 Investment Manager

5.4.1 The investment manager is responsible for assisting the County in formulating an appropriate investment policy.

5.4.2 Specifically, the Investment Manager shall be responsible for:

- 5.4.2.1 Investing in accordance with the County's policy statement;
- 5.4.2.2 Meeting with the Finance Department on a regular basis, as determined by the Finance Department's requirements;
- 5.4.2.3 Inform the Finance Department on a timely basis of any material changes that may impact the management of the portfolio;
- 5.4.2.4 Participate in annual reviews of the County's policy statement;
- 5.4.2.5 Provide monthly statements, which shall contain, at a minimum:
 - Type of Investment
 - Purchase Date
 - Maturity Date
 - Interest Rate
 - Principal Amount
 - Maturity Value
 - Cash Balance
- 5.4.2.6 Provide quarterly performance reports;
- 5.4.2.7 Present each year to the Finance Department and/or Council a review and outlook for the economy and the capital markets, investment performance data in relation to the objectives and prescribed benchmarks, a demonstration of adherence to the various parameters and limits included in this policy statement.

6.5 Delegation of Authority

5.5.1 Council delegates the authority for the day-to-day management of the County's investment program to the Director of Financial Services, in accordance with the County's *Delegation of Duties By-law*. The Director of Financial Services may further delegate authority in writing to designated staff and, where appropriate, to external investment managers or agents, in accordance with established procedures and approved agreements, while retaining overall responsibility for the investment program.

6.1 All investment transactions must be approved by two of the following;

- Director of Financial Services;
- CAO

Signing authority for transactions from the County's bank account to an investment account follows the signing authorities outlined in the *Delegation of Duties By-law*.

SECTION 7 – MONITORING AND COMPLIANCE

7.1 Periodic Review

7.1.1 The County's Director of Financial Services will review and reassess the policy and investment guidelines outlined in the schedules, at least once a year and more frequently as required.

7.1.2 If, at any time, the guidelines cannot be met or may restrict performance, the guidelines may then be changed provided that the changes are reported to Council.

7.2 Consequences of Non-Compliance

7.2.1 Should the Director of Financial Services find that investments were not made in compliance with this policy, they shall report the inconsistency to Council within 30 days after becoming aware of it.

7.2.2 If at any time a security and/or allocation with the portfolio(s), in the Director of Financial Services' opinion, is not in adherence with the County's investment policy and/or the *Municipal Act, 2001 Eligible Investments, Regulations 438/97*, then the County will create a workout plan, including expected disposal timelines, for selling the investment and shall sell the investment in accordance with the plan

SECTION 8 – CONFLICT OF INTEREST AND ETHICS

10.1 Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair ability to make impartial decisions.

10.2 Employees involved in investment procedures shall disclose all material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

- 10.3 Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the County.
- 10.4 If a staff member of the Finance Department or any elected or appointed member of the County is party to or has a direct or indirect beneficial interest in an investment transaction of the County, he or she must provide full disclosure of that interest to the Director of Financial Services. The Director of Financial Services will determine whether the County's investment is to continue to be retained or sold forthwith.
- 10.5 All investment activities must be conducted in accordance with the Chartered Financial Analyst code of ethics (<https://www.cfainstitute.org/en/ethics-standards/ethics/code-of-ethics-standards-of-conduct-guidance>).

SECTION 9 – DEFINITIONS

- 9.1 **Basis Point:** A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.
- 9.2 **Capital:** The portion of financial resources that are available for trading.
- 9.3 **Credit Risk:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
- 9.4 **Discount:** The amount by which the par value of a security exceeds the price paid for the security.
- 9.5 **Diversification:** A process of investing assets among a range of security types by sector, maturity, and quality rating.
- 9.6 **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.
- 9.7 **Holding Period Classification:** Classification of investments based on the intended period the County would hold the asset, as follows:

- a) **Cash Equivalent:** Short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
 - b) **Short-Term:** Securities with a holding period of two years or less.
 - c) **Long-Term:** Securities with a holding period of greater than two years.
- 9.8 **Interest Rate Risk:** The risk associated with declines or increases in interest rates which cause an investment in a fixed-income security to increase or decrease in value.
- 9.9 **Liquidity:** A measure of an asset's convertibility to cash.
- 9.10 **Local Authority Service Limited (LAS):** A subsidiary of the Association of Municipalities of Ontario (AMO) which in conjunction with CHUMS are members of the ONE Investment Inc.
- 9.11 **Market Risk:** The risk that the value of a security will rise or decline because of changes in market conditions.
- 9.12 **Market Value:** Current market price of a security.
- 9.13 **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.
- 9.14 **ONE Investment Inc.:** An incorporated not-for-profit organization which includes investment portfolios available for Ontario municipalities. Formerly was the ONE Investment Program which is a professionally managed group of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act.
- 9.15 **Par:** The face value or principal value of a bond.
- 9.16 **Portfolio:** A collection of securities held by an investor.
- 9.17 **Premium:** The amount by which the price paid for a security exceeds the security's par value.
- 9.18 **Principal:** The original sum committed to the purchase of an asset, independent of any earnings or interest.
- 9.19 **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.

- 9.20 **Schedule I Banks:** Schedule I banks are domestic banks and are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.
- 9.21 **Schedule II Banks:** Schedule II banks are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.
- 9.22 **Schedule III Banks:** Schedule III banks are foreign bank branches of foreign institutions that have been authorized under the *Bank Act* to do banking business in Canada. These branches have certain restrictions.
- 9.23 **Yield to Maturity (YTM):** The annual return on a bond held to maturity when interest payments and price appreciation (if priced below par) or depreciation (if priced above par) are considered.
- 9.24 **Workout Plan:** A formal strategy, including expected timelines, for the sale of securities held by municipalities which are not permitted as eligible investments under the Regulation and require divestment. Ineligible securities can be acquired because of donations, gifts, or security downgrades.

SECTION 10 – REFERENCES AND RESOURCES

- 10.1 This Policy should be read and applied in conjunction with the following references and resources as updated from time to time.
- 10.2 External References:
- Bank Act, 1991
 - Municipal Act, 2001, as amended
 - Ontario Regulation 438/97 (Eligible Investments and Related Financial Agreements)
 - CFA Institute Code of Ethics and Standards of Professional Conduct
 - CFA Institute Asset Manager Code of Professional Conduct

Schedule A: Operating Funds Investment Portfolio

Security or Institution	Minimum Credit Rating	Maximum % of Portfolio	Issuer % Limit	Maximum Term of Maturity
Government of Canada Debt ¹	n/a	100%	n/a	2 Years
Provincial Government Debt ²	A (low)	75%	25%	2 Years
Canadian Municipal Debt ³	A (low)	30%	10%	2 Years
Other Country Debt	AAA	10%	5%	2 Years
Supranational Debt	AAA	10%	5%	2 Years
Canadian Corporate Debt ⁴	A (low)	25%	10%	2 Years
Schedule I Banks ^{5,6}	AA (low) or R-1 (low)	100%	35%	2 Years
Schedule II Banks ^{5,6}	AA (low) or R-1 (mid)	10%	5%	2 Years
Schedule III Banks ^{5,6}	AA (low) or R-1 (mid)	5%	2%	2 Years
Loan or Trust Corporations ^{5,6}	AA (low) or R-1 (mid)	10%	5%	2 Years
Credit Unions ^{5,7}	n/a	10%	5%	2 Years
ONE Investment High Interest Savings Account	n/a	10%	10%	n/a
ONE Investment "Other" ⁸	n/a	10%	5%	n/a

Notes:

1 – Includes Federal agencies.

2 – Includes Provincial agencies (i.e. Infrastructure Ontario).

3 – Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation Authorities.

4 – Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.

5 – Applies to Debt or Deposit securities, subject to the requirements of the Regulation.

6 – Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).

7 – Where total Deposit securities exceed \$250,000, additional Deposit securities maturing beyond 2 years must satisfy the financial indicators prescribed in O. Reg 438/97. All Debt securities must satisfy the final indicators prescribed in O. Reg. 438/97.

8 – ONE Investment "Other" includes the Canadian Government Bond, Canadian Corporate Bond & Money Market portfolios or any other new investment products developed and offered by ONE Investment.

Schedule B: Reserve/Trust Funds Investment Portfolio

Security or Institution	Minimum Credit Rating	Maximum % of Portfolio	Issuer % Limit	Maximum Term of Maturity
Government of Canada Debt ¹	n/a	100%	n/a	20 Years
Provincial Government Debt ²	A (low)	75%	25%	20 Years
Canadian Municipal Debt ³	A (low)	30%	10%	20 Years
Other Country Debt	AAA	10%	5%	20 Years
Supranational Debt	AAA	10%	5%	20 Years
Canadian Corporate Debt ⁴	A (low)	25%	10%	5 Years
Schedule I Banks ^{5,6}	A (low)	80%	35%	10 Years
Schedule II Banks ^{5,6}	A (low)	10%	5%	10 Years
Schedule III Banks ^{5,6}	A (low)	5%	2%	10 Years
Loan or Trust Corporations ^{5,6}	A (low)	10%	5%	10 Years
Credit Unions ^{5,7}	n/a	10%	5%	10 Years
ONE Investment High Interest Savings Account	n/a	10%	10%	n/a
ONE Investment Canadian Equity Portfolio	n/a	10%	10%	n/a
ONE Investment "Other" ⁸	n/a	10%	5%	n/a

Notes:

1 – Includes Federal agencies.

2 – Includes Provincial agencies (i.e. Infrastructure Ontario).

3 – Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation Authorities.

4 – Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.

5 – Applies to Debt or Deposit securities, subject to the requirements of the Regulation.

6 – Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).

7 – Where total Deposit securities exceed \$250,000, additional Deposit securities maturing beyond 2 years must satisfy the financial indicators prescribed in O. Reg 438/97. All Debt securities must satisfy the final indicators prescribed in O. Reg. 438/97.

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Schedule C: DBRS Morningstar Credit Rating and Ranking Scales

Long-Term Obligations Scale	
Rating	Credit Quality
AAA	Highest
AA	Superior
A	Good
BBB	Adequate
BB	Speculative
B	Highly Speculative
CCC/CC/C	Very Highly Speculative
D	Default

Short-Term Obligations Scale	
Rating	Credit Quality
R-1 (high)	Highest
R-1 (middle)	Superior
R-1 (low)	Good
R-2 (high)	Upper End of Adequate
R-2 (middle)	Adequate
R-2 (low)	Lower End of Adequate
R-3	Lowest End of Adequate
R-4	Speculative
R-5	Highly Speculative
D	Default

Schedule D: Portfolio Term Limitations

Term Limitation	Range of Investment
Less than 90 days	20% to 100%
Less than 1 year	30% to 100%
From 1 year up to, but not including 5 years	0% to 85%
From 5 years up to, but not including 10 years	0% to 50%
From 10 years up to 20 years	0% to 30%

Other Restrictions:

Term is limited to an individual maximum of 20 years and a weighted average term of 5 years for the whole portfolio.