



Policy Title:	Investment Policy
Policy Number:	Issued Policy Number
Department:	Corporate Services
Division:	Corporate Services
Approval Date:	Date of Council Approval
Approval:	
Review Date:	November 17, 2025

1. Purpose

- 1.1. To ensure accountability, transparency, and integrity in the investment management of public funds for the Town of Essex.

2. Scope

- 2.1. This policy applies to all departments and employees of the Town of Essex.
- 2.2. This policy applies to all investment activities undertaken by the Town of Essex, including general funds, reserve funds, restricted cash funds, and any new funds created unless otherwise directed by Council.
- 2.3. This policy shall be reviewed every five (5) years from the date it becomes effective, and/or sooner at the discretion of the CAO or designate.

3. Definitions

- 3.1. Asset Backed Securities – fixed income securities (other than a government security) issued by a Special Purpose Entity. This is substantially all of the assets of which consist of Qualifying Assets.
- 3.2. Credit Risk – the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
- 3.3. DBRS – a credit rating agency founded in 1976 (originally known as Dominion Bond Rating Service).
- 3.4. Designated Signing Authorities – the people authorized to execute legally binding contracts on behalf of the Town of Essex, being the Mayor and the Clerk. This authority may be delegated to other individuals as contained in applicable Municipal By-laws.

- 3.5. Diversification – a process of investing assets among a range of security types by class, sector, maturity, and quality rating.
- 3.6. Duration – a measure of the timing of cash flows, such as interest payments and principal payments, to be received from a given fixed-income security. This is calculated 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.
- 3.7. Forward Rate Agreement – a contract with a qualified financial institution that allows an investor to fix a rate of interest to be received on an investment for a specified term beginning at a specified future date.
- 3.8. Interest Rate Risk – the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to decrease or increase in value.
- 3.9. Investment Grade Obligations – an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment grade is restricted to those rated BBB or higher by a credit rating agency.
- 3.10. Liquidity – a measure of an asset's convertibility to cash. This implies a high degree of marketability and a high level of price stability.
- 3.11. Market Risk – the risk that the value of a security will rise or decline as a result of changes in market conditions.
- 3.12. Market Value – the current market price of a security.
- 3.13. Moody's Investors Service (Moody's) – the bond credit rating business of Moody's Corporation, representing the company's traditional line of business and its historical name. Moody's Investors Service provides international financial research on bonds issued by commercial and government entities.
- 3.14. ONE – the Public Sector Group of Funds (One Fund) – a professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act, 2001.
- 3.15. Prudent Person Rule – an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.
- 3.16. Qualifying Assets – financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period. This includes any rights or other assets designed to assure the servicing, timely distribution, or proceeds to security holders.



- 3.17. Safekeeping – the holding of securities by a qualified financial institution on behalf of the investor.
- 3.18. Schedule I Banks – domestic banks that are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.
- 3.19. Schedule II Banks – 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.
- 3.20. Schedule III Banks – 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.
- 3.21. 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 asset. This does not include a registered investment company.
- 3.22. Standard and Poor’s – a financial services company. It is a division of McGraw Hill Financial that publishes financial research and analysis on stocks and bonds.
- 3.23. Supranational – an agency sponsored by either a single or group of highly rated foreign banks or governments that will issue debt to fund loans in developing countries or large infrastructure projects. Supranational institutions may be owned or guaranteed by a consortium of national governments, and their debt is typically rated AA or higher.
- 3.24. Weighted Average Maturity (WAM) – the average maturity of all the securities that comprise a portfolio.

4. Interpretation

Any reference in this policy to any statute or by-law, or any section of a statute or by-law shall, unless expressly stated, be deemed to be reference to the statute or by-law as amended, replaced, re-enacted, or restated from time to time. Any references to a Town policy shall be deemed to be a reference to the most recent passed policy and any replacements thereto.

5. General Policy Conditions

5.1. Legality of Investments

In order to adhere to statutory requirements, all investment activities 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 or as authorized by subsequent provincial regulations.

5.2. **Preservation of Capital**

5.2.1. Preservation of capital minimizes the risk of incurring a capital loss and preserves the value of the invested principal.

5.2.2. Preservation of capital shall be accomplished by investing in properly rated financial instruments as per legislation, by limiting the types of investments to a maximum percentage of the total portfolio, and by limiting the amount invested within individual institutions to a maximum percentage of the total portfolio.

5.2.3. Staff shall endeavor to mitigate credit and interest rate risk as follows:

5.2.3.1. **Credit Risk**

5.2.3.1.1. Limiting investments to safer types of securities based on credit ratings.

5.2.3.1.2. Pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Town does business.

5.2.3.1.3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

5.2.3.1.4. Setting dollar limits on the size of portfolio investment in asset sectors and in individual credit names in accordance and as restricted by the Municipal Act, 2001.

5.2.3.2. **Interest Rate Risk**

5.2.3.2.1. Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity.

5.2.3.2.2. Investing operating funds primarily in shorter-term securities or approved liquid investment pools.

5.2.3.2.3. Diversifying longer-term holdings to mitigate effects of interest rate volatility.

- 5.2.3.2.4. Investing in shares or equities of Canadian corporations through a legislatively approved government investment pool, in accordance and restricted by the Municipal Act, 2001

5.3. **Maintenance of Liquidity**

- 5.3.1. The portfolio shall be structured to maintain a proportionate ratio of short, medium, and long-term maturities to meet the funding requirements of the Town.
- 5.3.2. The investment portfolio shall maintain sufficient liquidity to meet all operating or 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.
 - 5.3.2.1. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets.
- 5.3.3. A portion of the portfolio may be placed in local government investment pools which offer liquidity for short-term funds.
- 5.3.4. Liquidity considerations include:
 - 5.3.4.1. A reliable cash flow forecast outlining timing requirements of funds.
 - 5.3.4.2. A contingency to cover the possibility of unplanned requirement of funds.
 - 5.3.4.3. An expectation of reliable secondary marketability of investments prior to maturity.
- 5.3.5. If cash flows are unpredictable, liquidity should be kept high in order to cope with unplanned events.
- 5.3.6. The investment portfolio is comprised of:
 - 5.3.6.1. Excess Operating cash flow balances
 - 5.3.6.2. Excess Capital cash flow balances
 - 5.3.6.3. Reserve funds
 - 5.3.6.4. Restricted cash funds.

5.4. **Competitive Rate of Return**

5.4.1. Investment yields can only be sought through:

5.4.1.1. Legality of investments.

5.4.1.2. Preservation of capital.

5.4.1.3. Maintenance of liquidity.

5.4.1.4. Competitive rate of return.

5.4.2. Whenever possible, higher yields will be sought by taking advantage of the interest rate curve of the capital market, which typically yields higher rates of return for long-term investments.

5.4.3. Yields will fluctuate based on the institution as a result of individual credit ratings and the type of capital investment, and as such will be monitored.

5.5. **Other Investments**

5.5.1. Should other investments as allowed by the Municipal Act, 2001, other than those listed in this policy be considered, Council must provide direction and approval of said investments.

5.6. **Eligible Investments, Grades and Limitations**

5.6.1. The following is a summary of the eligible investment instruments that the Town may partake in:

5.6.1.1. Bonds, debentures, promissory notes, or other evidences of indebtedness of issued or guaranteed by Canada or a province or territory of Canada, an agency of Canada or a province or territory of Canada, a country other than Canada.

5.6.1.2. Bonds, debentures, promissory notes or other evidences of indebtedness of issued or guaranteed by a Town in Canada including the Town making the investment, a school board in Canada, a board of a public hospital, a local board as defined in the Municipal Affairs Act, a designated Ontario University or College, a non-profit housing corporation or local housing corporation.

5.6.1.3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments, bonds, debentures or evidence of long-term indebtedness issued or guaranteed, by a bank (as listed in Schedule I or II to the Bank Act), a loan corporation or trust corporation (that is registered

under the Loan and Trust Corporations Act), a credit union to which the Credit Union and Caisses Populaires Act, 1994 applies.

- 5.6.1.4. Asset-backed securities are considered an allowable investment; however, use of this investment instrument is limited to prescribed institutions below.
- 5.6.1.5. Forward rate agreements are considered an allowable investment with consideration made to restrictions which are provided under Ontario Regulation 438/97.
- 5.6.2. A summary of the maximum allowable exposure for each classification of security as a percentage of the total portfolio, as well as the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio, is set out in Appendix A.
- 5.6.3. Eligible investment institutions are limited to the following, in order to provide minimum exposure to risk:
 - 5.6.3.1. Investments issued or guaranteed by the Government of Canada, province or territory of Canada, including an agency of Canada or a province or territory of Canada.
 - 5.6.3.2. Investments issued or guaranteed by a Town in Canada, including the Town making the investment, subject to a minimum DBRS rating of "AA low", Moody's Investor Services of "Aa3" or Standard and Poor's of "AA-".
 - 5.6.3.3. Investments issued or guaranteed by a school board in Canada, a board of a public hospital, a local board as defined in the Municipal Affairs Act, a designated Ontario University or College, a non-profit housing corporation or local housing corporation subject to a minimum DBRS rating of "AA low", Moody's Investor Services of "Aa3" or Standard and Poor's of "AA-".
 - 5.6.3.4. Investments issued or guaranteed by a bank (as listed in Schedule I or II of the Bank Act), by a loan or trust corporation (which is registered under the Loan and Trust Corporations Act), a credit union to which the Credit Union and Caisses Populaires Act, 1994 applies, subject to a minimum DBRS rating of "AA low", Moody's Investor Services of "Aa3" or Standard and Poor's of "AA-".
 - 5.6.3.5. A review of the credit rating for all bonds, debentures, promissory notes, and other evidence of indebtedness of a corporation incorporated

shall take place within thirty days of each calendar quarter. This review is to ensure that all investments held by the Town meet the standards outlined and established with the Municipal Act, 2001.

5.6.3.6. Any investments that are offside in terms of long-term and/or short-term credit rating with this policy at the time of adoption will be cancelled within ninety days from the date of the default.

5.6.4. All investments must be stated and held in Canadian currency.

5.7. **Investment Portfolio Diversification**

5.7.1. In order to properly balance the investment risk/liquidity profile of the portfolio, investments will be spread over a time horizon of short-term (less than one year), and long-term (greater than one year).

5.7.2. In addition to being spread over a time horizon, the investments are spread over a number of eligible institutions subject to the following maximum percentages.

5.7.3. Portfolio percentages limitations:

5.7.3.1. Government of Canada – 100%

5.7.3.2. Province or Territory of Canada – 80% (no more than 25% in any single Province or Territory)

5.7.3.3. Town of Essex internally financed capital projects -100% (at the discretion of the Treasurer, with Council approval)

5.7.3.4. Other Canadian municipalities – 25% (no more than 10% in any single Town)

5.7.3.5. Applied Arts, Housing Corporations, Education, and Hospitals – 25% (no more than 5% in any single entity)

5.7.3.6. Schedule I bank debt – 75% (no more than 25% in any single bank)

5.7.3.7. Schedule II bank debt – 10% (no more than 5% in any single bank)

5.7.3.8. Money Market Fund – 50%

5.7.3.9. Bond Fund – 25%

5.7.3.10. Equity Fund – 5%

- 5.7.3.11. Loan or Trust Corporation, Credit Union – 10% (no more than 5% in any single entity)
- 5.7.4. Portfolio term limitations:
 - 5.7.4.1. Less than ninety days – 10% to 100%
 - 5.7.4.2. Less than one year – 25% to 100%
 - 5.7.4.3. From one year up to two years – maximum of 75%
 - 5.7.4.4. From two years up to five years – maximum of 25%
 - 5.7.4.5. From five years up to thirty years – maximum of 20%
- 5.7.5. The portfolio percentage restrictions apply at the time that the investment is made. At specific times thereafter, the portfolio limitations may be exceeded for a short time as a result of the timing of maturities, where due to cash flow fluctuations longer-term discrepancies may be noted.
- 5.7.6. Prior to the disposal of investments, the Treasurer will make a determination giving consideration to the stated investment objectives and any penalties that may be incurred as a result of deposition.
- 5.7.7. Based upon the performance, the Treasurer may retain, at their discretion, the investment(s) that exceed the prescribed portfolio limitations provided that such action is not contrary to the Municipal Act, 2001.
- 5.7.8. Any investments that are offside with regards to portfolio limitations stated in this policy at the time of adoption will be re-invested at the time of maturity to comply.
- 5.8. **Investment Strategy**
 - 5.8.1. Cash flow will be managed on an ongoing basis and will include all investment, borrowing, operations, and capital activity affecting the cash balance of the Town.
 - 5.8.2. Whenever possible, the Town will attempt to match its investments with anticipated cash flow requirements to maximize the advantage of longer investment terms, while preserving sufficient cash flow.
 - 5.8.3. Key requirements and limitations of this strategy are:
 - 5.8.3.1. Development and maintenance of a cash flow forecast.

- 5.8.3.2. Working capital to be invested in bank account balances, Money Market Funds and/or short-term investments of thirty to ninety days.
 - 5.8.3.3. Periodic review of the Town's investment strategy on analysis of prior period returns, conducted once per year at a minimum.
- 5.9. Investment Income**
- 5.9.1. For investment purposes, funds are to include money that is held in a general fund, a capital fund, a reserve fund, and restricted cash balances. The allocation of earnings from combined investments shall be credited to each separate fund on proportion to the amount invested from it.
- 5.10. Investment Reporting**
- 5.10.1. Each year, a report of the "Portfolio Yield" and the "Portfolio Compliance with the Investment Policy" is completed for the Treasurer's review.
 - 5.10.2. The Treasurer shall provide Council with an annual investment report that shall contain:
 - 5.10.2.1. A statement about the performance of the portfolio of investments of the Town during the period covered by the report.
 - 5.10.2.2. A description of the estimated proportion of the total investments of the Town that are invested in its own long-term and short-term securities to the total investment of the Town, and a description of the change, if any, in that estimated proportion since the previous year's report.
 - 5.10.2.3. Annual statement regarding securities, or disposal of securities, including a statement of the purchase and sale price of each security.
- 5.11. Performance Standards**
- 5.11.1. The investment portfolio will be managed in accordance with the criteria set out within this policy.
 - 5.11.2. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the Town.
 - 5.11.3. The performances of investments are measured using multiple benchmarks and performance indicators:

- 5.11.3.1. Short-term funds will be compared to the three-month return rate on the Government of Canada Treasury Bills and the One Fund's Money Market Fund.
- 5.11.3.2. Long-term funds will be compared to the Bank of Canada one year Treasury Bill rate.
- 5.11.3.3. Prime interest rates and other applicable market rates can and may be utilized to provide a useful benchmark for investment performance with consideration made to the limitations laid out in the Municipal Act, 2001.
- 5.11.4. Baseline expectations are determined at the beginning of each fiscal year and could be reviewed and adjusted quarterly with consideration made to current market conditions.

5.12. **Investment Transaction, Accounts and Safekeeping**

- 5.12.1. The Treasurer, together with the Deputy Treasurer, shall be authorized to enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities, and to perform other related acts in the day-to-day operation of the investment program for all investment transactions on behalf of the Town.
- 5.12.2. The Designated Signing Authorities shall be authorized to sign the necessary documentation associated with maintaining approved investment accounts, subject to approval in financial content by the Treasurer.
- 5.12.3. Investment records are issued for each investment held in Municipal specific accounts through various investment dealers. Each investment transaction generates a ticket, which is received and recorded by staff within the Financial Services department. Quarterly statements are generated for each Municipal specific account, indicating all investment activity, including income earned by the investments.

5.13. **Selection Process of Investment Instruments**

- 5.13.1. The purchase and sale of securities shall be conducted through a competitive process with financial institutions approved by the Treasurer.
- 5.13.2. The Town will accept an offer, which:

- 5.13.2.1. Optimizes the investment objectives of the overall portfolio; and
- 5.13.2.2. Has the highest rate of return within the maturity required.
- 5.13.3. Before selling a security, the Town will select the bid that generates the highest sale price or the transaction that will yield the best return for the portfolio.
 - 5.13.3.1. In a situation where there is a tie between one or more brokers, the Town will award the winning bid to the brokers on a rotating basis.
- 5.13.4. The Treasurer and Deputy Treasurer will be responsible, for each purchase/sale. The Treasurer and Deputy Treasurer will also be responsible for producing and retaining written records of each transaction, including the name of the financial institutions solicited (at least three brokers), rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision.
 - 5.13.4.1. In the case that the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale shall be included in this record.

5.14. **Stewardship**

- 5.14.1. Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

5.15. **Ethics and Conflicts of Interest**

- 5.15.1. Officers and 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 their ability to make impartial decisions.
- 5.15.2. Employees and investment officials shall disclose any 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.

- 5.15.3. Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Town.
- 5.15.4. Conflicts shall be disclosed immediately to the employee's direct supervisor who in turn shall notify the Treasurer. Any conflicts noted by the Treasurer as to his/her personal business activity shall be disclosed to the Chief Administrative Officer.

6. Responsibilities

- 6.1. **Council** has the authority and responsibility to:
 - 6.1.1. Adopt all new and amended municipal policies in accordance with legislative changes, best practices, and good corporate governance
 - 6.1.2. Approve exceptions to the policy, where such exceptions result in favourable returns and remain in compliance with the Municipal Act and related legislation.
 - 6.1.3. Appoint an agent, broker or firm on the recommendation from Administration following a transparent selection process.
 - 6.1.4. Appoint multiple agents, brokers or firms to a pre-qualified list with whom the Town will engage.
- 6.2. **Designated Signing Authorities** have the authority and responsibility to:
 - 6.2.1. Execute and sign all agreements in relation to this policy upon opening new investment accounts or portfolios, all on behalf of the Town.
- 6.3. The **Treasurer** has the authority and responsibility to:
 - 6.3.1. Provide Council with an annual investment report, or more frequently as directed by Council.
 - 6.3.2. Enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities, all in the name of the Town.
 - 6.3.3. Ensure that any investment that is not consistent with this policy will be disposed of within prescribed timelines.



- 6.3.4. Ensure that credit ratings of securities held in the investment portfolio are being monitored regularly and that any negative changes are addressed in a timely manner, as deemed appropriate.
- 6.3.5. Ensure that all reporting requirements identified within this policy are met.
- 6.4. The **Deputy Treasurer** has the authority and responsibility to:
 - 6.4.1. Prepare and provide annual reports to the Treasurer including an investment report prepared in accordance with the Municipal Act, 2001.
 - 6.4.2. Develop and maintain all necessary operating procedures for the effective control and management of the investment function, and reasonable assurance that the Town's investments are properly managed and adequately protected.
 - 6.4.3. In the absence of the Treasurer, the Deputy Treasurer shall assume the roles and responsibilities of the Treasurer.

7. References and Related Documents

- 7.1. Appendix A: Eligible Investments and Sector Thresholds
- 7.2. Municipal Act, 2001
- 7.3. Policy Template

Appendix A – Eligible Investments and Sector Thresholds

The purpose of this Appendix is to establish the classes of eligible investments, thresholds by sector, and outline investment categories and associated limits in accordance with the Town’s Investment Policy and applicable statutory requirements. This Appendix forms an integral part of the Policy and is intended to provide clear parameters for the prudent and lawful investment of municipal funds. The provisions below are designed to ensure compliance, promote diversification and risk management, and support the objectives of safety, liquidity and return.

Investment Categories and Limits

Federal

Subcategory	Portfolio Limit	Individual Limit	Term Limit
Federal (≤ 1 year)	100%	100%	1 year
Federal (> 1 year)	75%	75%	30 years

Overall Category Limit: 100%

Provincial (Ontario)

Credit Rating	Portfolio Limit	Individual Limit	Term Limit
R1 Mid	80%	25%	1 year
R1 Low	10%	5%	1 year
AA	75%	25%	30 years
A	25%	15%	15 years
BBB	10%	5%	5 years

Overall Category Limit: 80%



Municipal

Subcategory	Minimum Credit Rating	Portfolio Limit	Individual Limit	Term Limit
Internally financed capital projects	N/A	100%	100%	None
Other Municipalities – AAA	AAA	25%	10%	20 years
Other Municipalities – AA (low)	AA (low)	25%	5%	10 years
Applied Arts, Housing Corp., Education, Hospitals, and Other	AA (low)	25%	5%	10 years

Overall Category Limit: 25%



Banks - Schedule I

Credit Rating	Portfolio Limit	Individual Limit	Term Limit
R1 Mid	75%	25%	1 year
R1 Low	20%	5%	6 months
AA (low)	30%	15%	10 years

Banks - Schedule II

Credit Rating	Portfolio Limit	Individual Limit	Term Limit
R1 Mid	10%	5%	1 year
AA (low)	10%	5%	10 years

Overall Category Limit: 75%

One Fund

Fund Type	Minimum Credit Rating	Portfolio Limit	Individual Limit	Term Limit
Money Market Fund	N/A	50%	N/A	None (pooled funds)
Bond Fund	N/A	25%	N/A	None (pooled funds)
Equity Fund	N/A	5%	N/A	None (pooled funds)

Overall Category Limit: 50%



Other

Investment Type	Minimum Credit Rating	Portfolio Limit	Individual Limit	Term Limit
Loan or trust corporation, credit union	AA (low)	10%	5%	10 years
Deposit: Loan or trust corporation, credit union	N/A	10%	5%	1 year

Overall Category Limit: 10%