

The Regional Municipality of York

Investment Policy

Policy No.: 7040110

Original Approval Date: October 19, 2006

Policy Last Updated: December 15, 2016

Policy Statement:

A policy governing the use and management of surplus funds and investments including those being managed on behalf of external clients.

Application:

All Regional employees who are responsible for the control, administration and reporting of investments managed by the Corporation.

Purpose:

This policy establishes the objectives, standards of care, eligible investments, reporting requirements and responsibilities for the prudent management of surplus funds and investments including those managed, where applicable, on behalf of external clients.

Definitions:

Approved Entity: Move Ontario Trust and any municipality incorporated in the Province of Ontario.

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.

CHUMS Financing Corporation (CHUMS): A subsidiary of the Municipal Finance Officers Association of Ontario (MFOA) which in conjunction with the Local Authority Services Limited operates the ONE Investment Program,

Corporation: The Regional Municipality of York, its Boards and Subsidiaries.

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 class, 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.

External Client: Any approved entity outside the Corporation.

Forward Rate Agreement (FRA): A contract with a qualified financial institution (eg. bank) 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.

FTSE Indices: Indices tabulated by FTSE TMX Global Capital Markets (formally PC Bond/DEX Analytics) a business unit of the Financial Times Stock Exchange and a subsidiary of the London Stock Exchange Group a leading provider of fixed income performance benchmarks and data bases in Canada and globally.

Investment Policy

Approved by Council December 15, 2016

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.

Investment-grade Obligations: An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated “BBB” or higher by a rating agency.

Liquidity: A measure of an asset’s convertibility to cash.

Local Authorities Service Limited (LAS): A subsidiary of the Association of Municipalities of Ontario (‘AMO’) which in conjunction with CHUMS operates the ONE Investment Program.

ONE -Investment Program: A professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act.

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.

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”.

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

Safekeeping: Holding of securities by a qualified financial institution (e.g. bank) on behalf of the investor.

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 (see Appendix 3).

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

Investment Policy

Approved by Council December 15, 2016

by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions (see Appendix 3).

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 (see Appendix 3).

Sinking Fund: Securities and/or deposits accumulated on a regular basis in a separate safekeeping and/or bank account that will be used to redeem debt securities at maturity.

Summary of Investment Procedures: A document developed and maintained by the Treasury Office that summarizes specific duties and procedures relating to the operation of the investment program.

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.

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

Description:

1. Objectives of the Corporation’s Investment Program

The primary objectives of the investment program, in priority order, shall be:

- a) Adherence to statutory requirements
- b) Preservation of capital
- c) Maintaining liquidity
- 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, including O.Reg 399/02 and O.Reg 655/05.

b) Preservation of Capital

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio. Staff shall endeavor to mitigate credit and interest rate risk as follows:

Credit Risk:

- Limiting investments to safer types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Corporation does business
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized
- Setting dollar limits on the size of portfolio investments in asset sectors (fixed income and equities) and in individual credit names

Interest Rate Risk:

- 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
- Investing operating funds primarily in shorter-term securities or approved liquid investment pools
- Diversifying longer-term holdings to mitigate effects of interest rate volatility
- Use of Forward Rate Agreements when appropriate
- Investing in shares or equities of Canadian corporations through the ONE Investment Program

c) Maintaining Liquidity

The investment portfolio shall remain sufficiently liquid 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.

Investment Policy

Approved by Council December 15, 2016

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 local government investment pools (eg. ONE Investment Program) which offer liquidity for short-term funds.

d) Competitive Rate of Return

Without compromising other objectives, the Corporation shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions.

Diversification, and ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the Corporation's portfolio by means of prudent and timely adjustments to asset mix.

2. Standard of Care

a) Prudence

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.

Investment officers and employees exercising due diligence and acting in accordance with written procedures and this Policy 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 the Policy.

b) Ethics and Conflicts of Interest

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. Employees and investment officials shall disclose any

Investment Policy

Approved by Council December 15, 2016

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. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Corporation.

c) Delegation of Authority

The Commissioner of Finance and Treasurer will have overall responsibility for the prudent investment of the Corporation's portfolio. The Director of the Treasury Office (the "Director") will be responsible and have the authority for the implementation of the investment program and the establishment of investment procedures consistent with the Policy. Such procedures shall include the explicit delegation of the authority needed by staff in order to complete investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy.

The Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officers and employees and shall exercise control over them. The Director may delegate responsibility for the day-to-day management of the portfolio to subordinate investment officers within established guidelines.

d) Competitive Selection of Investment Instruments

All securities' purchases/sales will be transacted through a competitive process only with financial institutions approved by the Commissioner of Finance and Treasurer or the Director of the Treasury Office. The Corporation will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the Corporation will select the bid that generates the highest sale price or the transaction which will yield the best return for the portfolio. If there is a tie bid between one or more dealers, the Corporation will award the winning bid to the dealers on a rotating basis.

It will be the responsibility of authorized investment officers and employees involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited (at least 2 dealers), quoted or interpolated rate, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale shall be included in this record.

3. External Investment Clients

Where the Region has undertaken to manage investment portfolios on behalf of an external client account as allowed under Section 420(1) of the Municipal Act and in conformity with Section 25(3) of the Securities Act, it will do so on the following basis:

- a) The investment objectives, authorized investments, reporting requirements, and term and sector limits will be in accordance with the external client's investment policy.
- b) Each and all portfolios managed will be held separate from the Region's own investment portfolios. The rate of return of the portfolio will reflect the earnings of the investments held only in that portfolio.
- c) Each engagement will be subject to a mutually agreed and signed agreement.
- d) Prior to the engagement, the following process will be undertaken:
 - i) Review client needs, expectations and risk tolerances
 - ii) Establish term limits and approved credit exposures
 - iii) Agree on a list of eligible investments
 - iv) Establish appropriate goals and benchmarks
 - v) Prepare and finalize the agreement
- e) The agreement will set out the following:
 - i) Duties and roles of both parties
 - ii) Management expense fee
 - iii) Reporting and portfolio review requirements

4. Suitable and Authorized Investments

The following Canadian Dollar investments are authorized for the purposes of this Policy within the limitations set out in Investment Parameters section and Appendix 1.

- a) Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:

Investment Policy

Approved by Council December 15, 2016

- 1) Canada or a province or territory of Canada
 - 2) An agency of Canada or a province or territory of Canada
 - 3) A country other than Canada
 - 4) A municipality in Canada including the Regional Municipality of York
 - 5) The Infrastructure Ontario and Lands Corporation
 - 6) A school board or similar entity in Canada (money must be used for school purposes)
 - 7) A post-secondary educational institution
 - 8) The board of governors of a college of applied arts and technology of Ontario
 - 9) A local board as defined in the *Municipal Affairs Act* or a conservation authority
 - 10) A board of a public hospital
 - 11) A non-profit housing corporation
 - 12) A local housing corporation
 - 13) The Municipal Finance Authority of British Columbia
 - 14) The International Bank for Reconstruction and Development
 - 15) A supranational financial institution or a supranational governmental organization
 - 16) Asset-backed securities, with a minimum credit rating of “AAA”
 - 17) A corporation that is incorporated under the laws of Canada or a province of Canada with a maturity of not more than 5 years provided it has a minimum credit rating of “AA-”
- b) Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:
- i) a bank listed in Schedule I, II or III to the Bank Act (Canada)
 - ii) a loan corporation or trust
 - iii) a credit union or league, or
 - iv) the Province of Ontario Savings Office

Investment Policy

Approved by Council December 15, 2016

- c) Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- d) Bonds, debentures, promissory notes, other evidence of indebtedness or securities of a corporation if the Corporation first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose (can only be held for 90 days).
- e) Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province in Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date the Corporation makes the investment provided that the investment is done through the ONE Investment Program.
- f) Shares of a corporation if:
 - i) The corporation has a debt payable to the Regional Municipality of York
 - ii) Under a court order, the corporation has received protection from its creditors
 - iii) The acquisition of the shares in lieu of the debt is authorized by the court order, and
 - iv) The Commissioner of Finance and Treasurer is of the opinion that the debt will be uncollectible by the Region unless the debt is converted to shares under the court order
- g) Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada, provided that the investment is done through the ONE Investment Program.

5. Investment Parameters

Fixed income investments shall be diversified by:

- a) Diversifying investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities)
- b) Limiting investment in securities to those that have higher credit ratings

Investment Policy

Approved by Council December 15, 2016

- c) Investing in securities with varying maturities, and
- d) Investing in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations

In order to promote diversification of the Corporation's investment portfolio, percentage weightings for class and type of securities shall be established and maintained.

Column "d" of Appendix 1 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column "e" of Appendix 1 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio. Column "f" of Appendix 1 sets out the maximum term limit for each investment class and issuer.

The Corporation shall adopt weighted average maturity limitations consistent with investment objectives. The Corporation shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity. Appendix 2 sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained. In line with the provincial regulation, the Corporation shall sell an investment within 30 to 90 days (depending on the specific investment) after the day the investment rating falls below the standard as set out in Appendix 1.

6. Reporting Requirements

a) Allocation of Investment Income

Allocation of investment earnings from General Fund Portfolios will be allocated monthly to the appropriate reserve, deferred revenue or other account of the Corporation as set out in Appendix 3. The rate of return credited will take into consideration the length of time that investments will be held for the purposes of that account.

b) Reports to Council

The Commissioner of Finance and Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner

Investment Policy

Approved by Council December 15, 2016

which will allow Council to ascertain whether investment activities during the reporting period have conformed to the Policy. The investment report will include the following:

- Listing of individual securities held at the end of the reporting period
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements)
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
- Listing of investment by maturity date
- Percentage of the total portfolio which each type of investment represents
- A statement about the performance of the investment portfolio during the period covered by the report
- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report
- A statement by the Commissioner of Finance and Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Corporation
- If an investment made by the Corporation is in the opinion of the Commissioner of Finance and Treasurer not consistent with the Policy, the inconsistency shall be reported to Council within 30 days (or the next earliest opportunity) after becoming aware of it
- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; If the Corporation has any existing forward rate agreements in a fiscal year, the Commissioner of Finance and Treasurer shall prepare and present to Council once in that fiscal year, or more frequently if Council so desires, a detailed report on all of those agreements, which will contain:

Investment Policy

Approved by Council December 15, 2016

- A statement about the status of the forward rate agreements during the period of the report, including a comparison of the expected and actual results of using the agreements
- A statement by the Commissioner of Finance and Treasurer indicating whether, in his or her opinion, all of the forward rate agreements entered during the period of the report are consistent with the Corporation's statement of policies and goals relating to the use of forward rate agreements
- Such other information that the Council may require or that, in the opinion of the Commissioner of Finance and Treasurer, should be included

c) Performance Benchmarks

It is anticipated that the investment portfolio will earn an average rate of return that is at least commensurate with the investment risk constraints and cash flow needs of the Corporation. Therefore, the actual rate of return earned on the portfolio will be regularly compared to performance benchmarks that have been previously established.

The benchmark(s) may vary from time to time as determined by the Director of the Treasury Office in order to be comparable to the composition and average term of the current holdings of the investment portfolio. The performance of the General Portfolio will be compared using two sets of performance benchmarks – an index-based benchmark and a managed portfolio benchmark.

The index benchmark will be based on a proportional blend of applicable components of the following indices:

- FTSE Canadian Money Market Index
- FTSE Canadian Short-Term Bond Index
- FTSE Canadian Medium-Term Bond Index, and
- FTSE Canadian All Government Long-Term Bond Indexes

The managed portfolio benchmark will be based on a proportional blend of rate of returns earned by the following funds:

- ONE Investment Program Money Market Fund, and
- ONE Investment Program Bond Market

d) Marking to Market

The market value of the investment portfolio shall be calculated monthly or more frequently if determined necessary by the Director of the Treasury Office.

7. Safekeeping and Custody

All securities shall be held for safekeeping by a financial institution approved by the Corporation. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Corporation.

The depository shall issue a safekeeping receipt to the Corporation listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Corporation, the book value of holdings and the market value as of month-end.

8. Securities Lending

The Corporation may engage in the practice of securities lending as provided in Section 418 of the *Municipal Act* to enable the corporation to increase its return on its custodial portfolio by lending certain assets to recognized borrowers for a fee.

9. Forward Rate Agreements

The Corporation may enter into Forward Rate Agreements (FRAs). FRAs may only be used to reduce the risk of future interest rate changes associated with known cash inflows and will be subject to the conditions set out in Appendix 2.

The FRA agreement must specify:

- The forward amount, which is the principal on which the interest rate is based upon
- A settlement date
- The forward interest rate
- The reference rate of interest
- A schedule of approximate payments/cost to or by the Corporation should the reference rate and the forward rate differ

Investment Policy

Approved by Council December 15, 2016

A report analyzing the risks and return profile of the transaction, the risk exposure to the Corporation without the FRA and specific risk control measures must be approved by the Commissioner of Finance or Treasurer prior to entering into a FRA agreement.

Responsibilities and Authorities:

Commissioner of Finance and Treasurer and/or the Director, Treasury Office:

- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments, including those managed on behalf of external clients, if applicable, are properly managed and adequately protected.
- Ensures that the summary of Investment Procedures remains up to date and accessible to all investment officers and employees.
- Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.
- Determines rate of return to be allocated to accounts based on Appendix 3 and the portion of any deferred revenue, reserve or reserve fund deemed to be investable for the long-term.
- Will delegate the responsibilities and functions of the Treasury Office to investment officers and employees in a manner that would delineate between front, back office and a potential risk management committee. The duties performed by the trading desk and back office will be clearly segregated to maintain the integrity of the financial records. The function of executing and confirming trades will be separated from investment officers or employees directly responsible for the trade.
- May delegate all or part of the day-to-day management of investments to a qualified investment officer (e.g., Manager, Investment and Cash Management).
- Ensures that a review of the investment portfolio is performed daily to verify its compliance with the sector and credit exposure limitations set out in Appendix 1 by the appropriate investment officers or employees within the Investment and Cash Management Division.

Investment Policy

Approved by Council December 15, 2016

- Ensures that any investment that becomes inconsistent with this Policy will be disposed of within 180 days.
- Ensures that credit rating of securities held in the investment portfolio are being monitored regularly by appropriate investment officers or employees within the Investment and Cash Management Division and any material negative changes are communicated in a timely manner to the Director, Treasury Office and the Director, Controllershship Office, or their designates.
- Executes and signs documents on behalf of the Corporation and performs all other related acts in the day-to-day operation of the investment and cash management program.
- Ensures all Reporting Requirements identified within this Policy are met.
- May temporarily authorize an amendment to the Term Limits shown in Appendix 2 should an operational need arise.
- Obtains adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets.

Reference:

Section 418 of *Municipal Act*

Section 420 of the *Municipal Act*

Section 25 of the *Securities Act*

Ontario Regulation 438/97

Ontario Regulation 265/02

Ontario Regulation 299/02

Ontario Regulation 655/05

Contact:

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Approval Information:

| | |
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Accessible formats or communication supports are available upon request.

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Appendix 1 – Authorized Investments and Sector Limitations

| Sectors | Minimum Credit Rating | Money Market Rating | Sector/Credit Exposure Limitation ¹ (maximum) | | Sector Term Limitation (Maximum) |
|---|-----------------------|---------------------|--|------------------|----------------------------------|
| | | | Portfolio Limit | Individual Limit | |
| (a) | (b) | (c) | (d) | (e) | (f) |
| Federal² | | | | | |
| Canada | N/A | | 100% | . | 50 years |
| Federal Guarantees | N/A | | 50% | 10% | 50 years |
| Other Countries² | | | | | |
| Government | AAA | | 20% | 10% | 20 years |
| Government | AA (L) | | 10% | 5% | 10 years |
| Other Countries Total | | | 20% | | |
| | | | | | |
| Provincial² | | | | | |
| | AA | R1 mid | 75% | 35% | 40 years |
| | A | | 25% | 15% | 30 years |
| | BBB | | 10% | 5% | 10 years |
| Provincial Total | | | 80% | | |
| | | | | | |
| Municipal | | | | | |
| Region of York ³ | N/A | | 25% | 25% | None |
| Other Municipalities ⁴ | AAA | | 35% | 5% | 40 years |
| | AA | | 25% | 5% | 40 years |
| | A | | 10% | 2% | 40 years |
| | Not rated | | 5% | 2% | 10 years |
| Applied Arts, Housing Corp, Education & Hospitals | AA(L) | | 25% | 5% | 10 years |

¹ exposure % limitations to be applied to the par value of the total portfolio

² includes guarantees

³ includes advances to area municipalities

⁴ Infrastructure Ontario & BCMFA, School Boards, Local Boards & Conservation.

⁵ Investment in these securities is contingent upon the Region maintaining a credit rating at or above AA (L)

⁶ Maximum 25% beyond 5 years

⁷ Including High Interest Savings Account

Investment Policy

Approved by Council December 15, 2016

| | | | | | |
|--|-------|---------|------------|-----|-----------------------|
| Municipal Total | | | 35% | | |
| Asset Backed⁵ | AAA | R1 high | 20% | 5% | 10 years |
| Banks | | | | | |
| Schedule I Banks | AA(L) | R1 mid | 50% | 25% | 10 years ⁶ |
| | | | | | |
| Schedule II Banks | AA(L) | R1 mid | 20% | 10% | 5 years |
| | | | | | |
| Schedule III Banks | AA(L) | R1 mid | 10% | 3% | 5 years |
| | | | | | |
| Banks Total | | | 50% | | |
| | | | | | |
| Corporate | | | | | |
| Corporate debt ⁵ | AA(L) | R1 mid | 25% | 5% | 5 years |
| | A | | 15% | 3% | 5 years |
| Corporate Total | | | 30% | | |
| | | | | | |
| Supranational | | | | | |
| International Bank for Reconstruction and Development ⁱ | AAA | | 10% | 10% | 30years |
| Other governmental or financial institutions | AAA | | 15% | 10% | 30 years |
| Supranational Total | | | 20% | | |
| | | | | | |
| ONE Investment | | | | | |
| Money Market ⁷ | n/a | | 10% | n/a | |
| Bond Fund | n/a | | 10% | n/a | |
| Equity/Shares | n/a | | 10% | n/a | |
| Corporate Debt | A | | 10% | n/a | > 5 year |
| ONE Total | | | 25% | | |
| | | | | | |
| Other | | | | | |
| Loan or trust corporation, credit union, Province of Ontario Saving Bank | AA(L) | | 20% | 5% | 10 years |

Appendix 2 – Portfolio Term Limitations¹

| Term Limitation | Percentage | |
|--|----------------|----------------|
| | <u>Minimum</u> | <u>Maximum</u> |
| Less than 90 days | 5%* | 100% |
| Less than 1 year | 10% | 100% |
| From 1 year up to, but not including 5 years | 0% | 85% |
| From 5 years up to, but not including 10 years | 0% | 60% |
| From 10 years up to 50 years | 0% | 30% |

Note: to include known cash receipts due within 90 days

Other Restrictions:

- 1) Term is limited to an individual maximum term of 50 years for certain securities and the weighted average term shall not exceed 10 years for the general portfolio.
- 2) Investments for terms in excess of 1 year are restricted subject to investments specified and the credit rating limitation set out on Appendix 1.
- 3) Forward Rate Agreements (FRAs) may only be executed with Schedule I, II or III Banks whose credit rating is 'A' or better. The term of any FRA must be less than 1 year and not more than 25% of previous year's cash receipts.

¹ Term % limitations to be applied to the total amortized book value of the General Fund Portfolio.

Appendix 3 – Allocation of Investment Income

The method for allocating interest to accounts with surplus balances will reflect the term characteristics of that account.

The rate structure will be based on a three-tier system as follows:

1. Short-term rate – rate of return realized from the short-term money market portion of the General Fund portfolio including cash held on deposit with the Region’s bank service provider.
2. Mid-term rate – a rate of return less than the long-term rate, as determined by the Commissioner of Finance and/or Director, Treasury Office
3. Long-term rate – rate of return realized from all long-term and any residual income not accounted for in the short and mid-term rate calculation above.

The short-term rate will be applied to the following accounts:

1. All deferred revenue accounts
2. The following corporate reserves:
 - Dental
 - Payroll Transfer
 - Extended Health
 - Vacation Pay
3. The following specific reserves:
 - Fuel Cost Stabilization
 - Hospital Financing
 - Transit
 - Federal Gas Tax
 - Provincial Gas Tax
 - Road Capital
4. Funds held on behalf of other organizations

Investment Policy

Approved by Council December 15, 2016

The long-term rate will be applied to the following accounts:

1. Water - Capital Replacement
2. Sewer - Capital Replacement
3. Facilities Rehabilitation and Replacement
4. Roads Rehabilitation and Replacement
5. Region Owned Housing
6. Transit Vehicle Replacement
7. Any portion of a deferred revenue account, a reserve or reserve fund that maintains a consistent average outstanding balance that, at the discretion of the Commissioner of Finance and/or Director, Treasury Office, is deemed to be investable for the long term.

The mid-term rate will be applied to all other reserve and reserve funds.
