



Title: Statement of Investment Policy and Goals		
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Approved by: Regional Council		
Responsibility: Commissioner of Finance		Section: Investment Services

1. Policy Statement

The Statement of Investment Policy and Goals (Policy) governs the use and management of surplus funds as it relates to investment activities for the Regional Municipality of Durham's (Region) Investment Portfolio in accordance with the Municipal Act, 2001 (Act) and Ontario Regulation 438/97, Part I (Regulation), as amended.

2. Purpose

The purpose of this Policy is to define the objectives for optimizing returns on investments and funds not immediately required, subject to the standard of care, eligible investments, portfolio limitations, reporting requirements and responsibilities established herein and required for the prudent financial management of the Region's investment portfolio.

3. Scope

3.1 This Policy applies to:

- i) The investment activities of operating and capital cash flows, reserves, reserve funds, sinking funds and any new fund(s) created by the Region unless specifically exempted.
- ii) All Regional employees who are responsible for, or involved with, the control, administration and reporting of investments managed by the Regional Municipality of Durham.

4. Investment Objectives

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

- i) Legality of investments

All investment activities shall be governed by the Ontario Municipal Act, 2001, as amended. Investments, unless further limited by Council, shall be those eligible under Ontario Regulation 438/97, Part I or as authorized by subsequent provincial regulations.

ii) Preservation of Capital

As the custodian of public funds, safeguarding invested principal is paramount. The Region will employ an investment strategy that seeks to minimize the risk of capital losses by mitigating the impact of credit and interest rate risk where possible. The Region's risk tolerance is low.

The Region will minimize risk by diversifying investments amongst high credit quality securities issued by different institutions, across different sectors and varying maturities. Eligible securities will have maximum limits to mitigate concentration risk in any individual institution and/or security.

iii) Maintenance of Liquidity

The investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements, utilize securities with a reliable secondary market and structured to hold investments with staggered maturities to meet financial obligations and/or unanticipated cash needs.

iv) Competitive Rate of Return

The Region's overall investment approach will emphasize the security of principal and maintenance of ample liquidity. Once these objectives have been satisfied, the Region will then seek the highest available rate of return on eligible investments in accordance with the prescribed legislation. Diversification of the portfolio with respect to institutions, maturities and securities is an important contributing factor to overall returns. With the inclusion of higher yielding, longer-term investments and higher yielding, but marginally riskier securities, returns can be enhanced within the constraints of this Policy.

5. Definitions

Asset Backed Securities: a financial security collateralized by a pool of assets such as loans, leases, credit card debt, royalties or receivables.

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.

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

Credit Union: A financial institution that is organized and carries on business on a cooperative basis and is a corporation incorporated or continued as a credit union or caisse populaire under the Credit Unions and Caisses Populaires Act, 1994.

Custodian: a specialized financial institution that is responsible for safeguarding a municipality's investments and is not engaged in "traditional" commercial or consumer/retail banking.

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

Environmental, Social and Governance (ESG) Investing: considering and integrating ESG factors into the investment process, rather than eliminating investments based on ESG

factors alone. Integrating ESG information can lead to more comprehensive analysis of a company.

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

Investment-grade Securities: issuer credit ratings that are rated BBB or above.

Investment Officer: Manager, Investment Portfolio or other staff as designated by the Commissioner of Finance and Treasurer or Director of Financial Solutions, Utility Finance & Portfolio Management to implement the investment mandate.

Legal List: eligible securities and other investments and financial instruments that are included from time to time in Part I of Ontario Regulation 438/97.

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

Local Authorities Service Limited: entity which operates One Fund, the Public Sector Group of funds, an investment pool in which local governments can invest.

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

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

Market Value: current market price of a security.

Maturity: the date on which payment of a financial obligation is due. The maturity date can trigger the repayment of bond principal, cash payments for deposit securities or other agreed upon settlement terms.

Prudent Investor Standard: means the standard that applies when a Municipality invests money that it does not require immediately under section 418.1 of the Municipal Act. It requires the Municipality to exercise the care, skill, diligence and judgment that a prudent investor would exercise in making such an investment and the standard does not restrict the securities in which the Municipality can invest. The Prudent Investor Standard makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio in respect of the Municipality's long-term funds rather than to individual securities.

Rebalancing: the process of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling securities in a portfolio to maintain an original or desired level of asset allocation or risk.

Regulation: means Ontario Regulation 438/97.

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

Schedule I Banks: domestic banks authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.

Schedule II Banks: foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.

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.

Securities Lending: loaning a security to another market participant. The borrower is required to deliver to the lender, as security for the loan, acceptable collateral with value greater than the value of the securities loaned. The Securities Lending program is managed by the Custodian on behalf of investors. A Securities Lending program is widely used by institutional investors to generate additional marginal returns on the total portfolio.

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

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. e.g. International Monetary Fund (IMF)

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

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 as a result of donations, gifts or security downgrades.

6. Standard of Care

6.1 Prudence

Investment officers must apply the “prudent person rule” and exercise the care, skill, diligence, and judgment a prudent investor would exercise in making investments in accordance with applicable legislation, policies and procedures.

Investment staff acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters and investment objectives dictated by this Policy.

Investment officers and employees exercising due diligence, discharging their duties in good faith and acting in compliance with internal investment procedures, this Policy and the prudent person rule defined herein, shall be indemnified by the Region for any claims arising from an individual security’s credit risks or market price changes, provided deviations from expectations are reported in a timely fashion. If an employee is deemed indemnified for such a claim, the Region shall pay or reimburse all reasonable legal expenses and costs incurred in connection with the defense of a claim, plus any fines and/or damages arising from such a claim.

6.2 Ethics and Conflicts of Interest

Investment officers, staff involved in the investment process and external professional services retained by the Region will:

- i) adhere to this Policy as it pertains to their roles to the best of their ability;

- ii) act in the best interest of the Region as it relates to investments, given the prevailing circumstances at that time; and
- iii) disclose in writing any current, perceived, or potential conflict of interest immediately upon becoming aware of it to the Commissioner of Finance and Treasurer as it relates to investments.

Investment officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program or impair their ability to make important investment decisions.

6.3 **Delegation of Authority**

The Commissioner of Finance and Treasurer (Treasurer) has overall responsibility for the investment of the Region's portfolio. The Director of Financial Solutions, Utility Finance & Portfolio Management (Director) will be responsible and have the authority for the implementation of the investment program and the establishment of investment procedures consistent with this Policy. Such procedures shall include the explicit delegation of authority needed by staff to initiate and execute 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 and shall establish a system of controls to regulate investment activities undertaken by investment officers.

6.4 **Competitive Selection of Investments**

All securities' purchases/sales will be transacted through a competitive process only with financial institutions approved by the Treasurer. Transactions will be executed in accordance with the stated portfolio objectives and must use a competitive process of obtaining multiple quotes given the required investment terms and conditions where practical and appropriate. Investment officers and any other employees involved will maintain appropriate documentation and rationale for investment decisions.

7. **Safekeeping and Custody**

Securities shall be held for safekeeping by a financial institution approved by the Region of Durham and all securities shall be held in the name of the municipality. Where applicable, a Custodian is required to maintain an official record and provide monthly reports listing all securities held on behalf of the Region.

The Treasurer may enter into a securities lending arrangement with a Custodian to increase its return on its custodial portfolio by lending certain assets to recognized borrowers for a fee, provided the loaned investments are secured by cash or readily marketable investments having a market value that is consistent with industry best practices, and that the value of security is maintained at least daily (marked to market).

8. **Internal Controls**

- 8.1 The Treasurer shall develop and maintain all necessary operating procedures for effective control and management of the investment function and provide reasonable assurance that the Region's investments are properly managed and adequately protected.
- 8.2 An external or internal audit to provide assurance of compliance with governing legislation, this investment policy and established procedures will be undertaken as required.

- 8.3 Regional staff will monitor the credit ratings of the securities owned in the portfolio.
- i) If a security owned by the Region has its credit downgraded by one of the rating agencies, the security will be closely monitored and the Treasurer will be informed.
 - ii) For securities downgraded to a level not permitted for municipal investments, the Region will create a workout plan, including expected disposal timelines, for selling the investment and shall sell the investment in accordance with the plan.

The Investment Policy will be reviewed at least annually and updated, as necessary.

9. Suitable & Authorized Investments

- 9.1 The Region may invest in the Legal List of eligible securities as permitted by Ontario Regulation 438/97 to the Municipal Act, as amended, within the limitations set out in Table 1: Authorized Investments & Sector Guidelines. For the complete list of eligible municipal investments, please refer to Ontario Regulation 438/97, Part I.
- 9.2 Portfolio rebalancing may be required for material deviations from investment limits established in accordance with prevailing legislation and listed below. Portfolio limitations may deviate from targets at the discretion of the Treasurer when deemed appropriate.
- 9.3 All investments must meet the criteria outlined below regarding investment quality, concentration limits and term of investments.

Table 1 - Authorized Investments & Sector Guidelines:

Security or Institution	Minimum Credit Rating	Money Market Rating	Maximum % of Portfolio ¹	Issuer % Limit ¹
Government of Canada Debt ²	n/a	n/a	100%	n/a
Provincial Government Debt ³	A (low)	n/a	75%	25%
Region of Durham Debt	n/a	n/a	25%	25%
Other Canadian Municipal Debt ⁴	A (low)	n/a	30%	10%
Applied Arts, Housing Corporations, Education & Hospitals	AAA	n/a	15%	5%
Other Country Debt	AAA	n/a	10%	5%
Supranational Debt	AAA	n/a	10%	5%
Canadian Corporate Debt ⁵	A (low)	n/a	25%	10%
Schedule I Banks ^{6,7}	A (low)	R-1 (low)	50%	50%
Schedule II Banks ^{6,7}	A (low)	R-1 (mid)	10%	5%
Schedule III Banks ^{6,7}	A (low)	R-1 (mid)	5%	2%
Loan or Trust Corporations ^{6,7}	A (low)	R-1 (mid)	10%	5%
Credit Unions ^{6,8}	n/a	n/a	10%	5%
Asset Backed Securities (< 1 year) ⁹	n/a	R-1 (high)	10%	10%
Asset Backed Securities (> 1 year) ⁹	AAA	n/a	10%	10%
Commercial Paper (< 1 year) ⁹	n/a	R-1 (mid)	10%	10%
ONE Investment High Interest Savings Account	n/a	n/a	10%	10%
ONE Investment Canadian Equity Portfolio	n/a	n/a	10%	10%
ONE Investment 'Other' ¹⁰	n/a	n/a	10%	5%

Notes:

- 1 - e.g. Other Canadian Municipal Debt maximum share of the total par value of the portfolio is 30%, and no individual municipality can exceed 10% of the Portfolio.
- 2 - Includes Federal agencies.
- 3 - Includes Provincial agencies. e.g. Infrastructure Ontario.
- 4 - Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation authorities.
- 5 - Corporate Bonds with maturities over 5 years can only be accessed through ONE Investment pooled funds.
- 6 - Applies to Debt or Deposit securities, subject to the requirements of the Regulation
- 7 - Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).
- 8 - 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 financial indicators prescribed in O. Reg. 438/97.
- 9 - Investment in these securities is contingent upon the Region maintaining a credit rating at or above AA (low).
- 10 - 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.

- 9.4 The purchase of eligible securities under the Part I of the Regulation not listed in Table 1 above and/or denominated in a foreign currency requires prior approval from the Treasurer.

10. Credit Ratings

- 10.1 Ontario Regulation 438/97, Part I specifies that certain eligible securities must have a minimum credit rating provided by: Dominion Bond Rating Service (DBRS), Moody's, Standard & Poor's (S&P) or Fitch Ratings. A summary is provided in Table 2 below.
- 10.2 Credit ratings for securities held in the portfolio will be monitored and, for instruments falling below approved credit qualities (listed in Table 1), disposed of, in accordance with the internal control procedures established in this Policy and the requirements of the Regulation.
- 10.3 **Table 2 - Credit Rating Guide***

Credit Quality	DBRS		Moody's		Standard & Poor's		Fitch	
	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
Superior	AAA	R-1 (high)	Aaa	P-1	AAA	A-1+	AAA	F1+
	AA (high)	R-1 (high)	Aa1	P-1	AA+	A-1+	AA+	F1+
	AA	R-1 (mid)	Aa2	P-1	AA	A-1+	AA	F1+
	AA (low)	R-1 (mid)	Aa3	P-1	AA-	A-1+	AA-	F1+
Good	A (high)	R-1 (low)	A1	P-1	A+	A-1	A+	F1
	A	R-1 (low)	A2	P-1	A	A-1	A	F1
	A (low)	R-1 (low)	A3	P-2	A-	A-2	A-	F2
Adequate	BBB (high)	R-2 (high)	Baa1	P-2	BBB+	A-2	BBB+	F2
	BBB	R-2 (mid)	Baa2	P-2	BBB	A-3	BBB	F3
	BBB (low)	R-2 (low)	Baa3	P-3	BBB-	A-3	BBB-	F3
Speculative	BB (high)	R-3 (high)	Ba1	Not Prime	BB+	B	BB+	B
	BB	R-3 (high)	Ba2	Not Prime	BB	B	BB	B
	BB (low)	R-3 (high)	Ba3	Not Prime	BB-	B	BB-	B
Highly Speculative	B (high)	R-3 (mid)	B1	Not Prime	B+	B	B+	B
	B	R-3 (mid)	B2	Not Prime	B	B	B	B
	B (low)	R-3 (low)	B3	Not Prime	B-	B	B-	B
	CCC	R-3 (low)	Caa	Not Prime	CCC	C	CCC	C

* Credit rating scales for bond rating agencies may change over time.

11. Term Composition

- 11.1 The Region will apply portfolio term guidelines and hold sufficient funds in short-term instruments to maintain adequate liquidity and meet investment objectives. To the extent possible, the municipality shall balance investment terms with anticipated cash flow requirements to match maturities as closely as practicable with the expected use of funds. Table 3 provides the term composition guidelines for the Region's investment portfolio.

Table 3 - Term Composition Guidelines

Term Composition of Portfolio	Minimum	Maximum
Less than 6 months*	10%	n/a
6 months to 18 months	15%	n/a
Over 18 months to 5 years	n/a	70%
Over 5 years to 10 years	n/a	25%

Over 10 years to 30 years

n/a

20%

* includes fully liquid bank deposits, High Interest Savings Accounts (HISA's) and High Interest Notice Accounts (HINA's).

11.2 The weighted average term of the portfolio is not to exceed 5 years.

11.3 Portfolio targets may be exceeded at the discretion of the Treasurer when deemed appropriate. For example, in response to operational needs and prevailing market conditions.

12. Diversification

12.1 Investments will be diversified by issuer and by the sector of the economy to which they belong based on the nature of funds invested and the cash flow needs of those funds.

12.2 Investments shall be diversified by:

- i) Limiting investments in securities that have higher credit risks;
- ii) Investing in securities of varying maturities while providing for stability of income;
- iii) Continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained to meet ongoing obligations; and
- iv) Limiting investments to avoid over-concentration in securities from a specific issuer or sector.

13. Environmental, Social and Governance (ESG) Investing

13.1 The Region of Durham supports incorporating ESG investing in its Portfolio. The Region believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business and that these actions contribute to long-term financial performance.

13.2 As the Region implements and refines its active investment strategy, staff will monitor the developments of ESG factors and consider how best to approach ESG investing for the portfolio as and when appropriate to do so.

14. Performance Standards

14.1 The investment portfolio shall be designed with the objective of maximizing the rate of return throughout budgetary and economic cycles, commensurate with investment risk constraints and cash flow needs. Benchmark(s) may vary from time to time with holdings in order to be comparable to the current composition and average term of the investment portfolio.

15. Reporting

15.1 The Treasurer shall provide an annual investment report to Council which includes, at a minimum, the requirements set forth in the Regulation. The investment report shall contain the following:

- i) a statement about the performance or the portfolio of investments of the municipality during the period covered by the report;
- ii) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investments of the

- municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- iii) a statement by the Treasurer as to whether or not, in their opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
 - iv) 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;
 - v) a statement by the Treasurer as to whether any of the investments fall below the standard required for that investment during the period covered by the report;
 - vi) the details of the proposed use of funds realized in the disposition of an investment sold as a result of a decline in rating below the standard required by the Regulation;
 - vii) a statement by the Treasurer as to whether any issuing financial institution does not satisfy, or provide proof of, the required financial indicators for investment; and
 - viii) such other information that the council may require or that in the opinion of the Treasurer, should be included.

16. Inquiries

16.1 For additional information regarding this policy please contact:

investmentportfolio@durham.ca