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**Report To:** General Government Committee

**Date of Meeting:** May 5, 2025      **Report Number:** FSD-015-25

**Authored By:** Trevor Pinn

**Submitted By:** Trevor Pinn, Deputy CAO/Treasurer, Finance and Technology

**Reviewed By:** Mary-Anne Dempster, CAO

**By-law Number:**      **Resolution Number:**

**File Number:**

**Report Subject:** 2024 Annual Investment Report and Policy Review

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### Recommendations:

1. That Report FSD-015-25, and any related delegations or communication items, be received;
2. That the revised Policy CP-003 Investment Policy (Legal List), as Attachment 1, be approved;
3. That the revised Policy CP-011 Investment Policy, as Attachment 2, be approved; and
4. That all interested parties listed in Report FSD-015-25, and any delegations be advised of Council's decision.

## Report Overview

Annually, the Treasurer is required to report to Council on the investment portfolio and results. Further, it is required that the investment policies be reviewed annually. This report fulfills this requirement.

The Municipality had an investment return of approximately 8.8%, an amount which is roughly double the prime rate, providing revenues to the Municipality from a non-tax source that can be used for future capital and operating pressures. It should be noted that approximately 1/3 of the investment income relates to DC reserve funds and are therefore restricted in use; however this mitigates cost pressures on DC projects and future DC fee increases.

This is the first policy review since Council approved the move to Prudent Investor, changes to the policies are predominantly related to this change. No substantive change in investment practices or risk tolerance are recommended.

## 1. Background

- 1.1 In June 2018, through report [FND-011-18](#), the Municipality of Clarington reviewed and revised its Investment Policy. This policy requires the Treasurer of the Municipality to report the state of the Municipality's investments to Council on an annual basis.
- 1.2 The policy was further reviewed in June 2021 and revised through Report [FSD-035-21](#) to adjust the limits on certain investments to provide additional flexibility to the Treasurer. These adjustments included a higher limit for financial institutions from 60 to 80 percent, a higher per-institution limit from 20 to 25 percent, an exception in municipal debt limits for the Region of Durham, and a change to an annual review of the investment policy rather than once per term.
- 1.3 In 2023, the [Report FSD-025-23](#) provided the annual update at which time the Policy was migrated to the new policy format and updated to include reference to Environment, Social and Governance (ESG) investment considerations.
- 1.4 In April 2024, [Report FSD-015-24](#) provided the required By-law, Draft Investment Policy, and the Membership Agreement with ONE JIB required to adopt the Prudent Investor Standard. At its [November 27, 2024 Board Meeting](#), the ONE JIB approved the Municipality's entry into the JIB and the Municipality officially came under the Prudent Investor Standard. The investment plans for the Municipality were also approved.
- 1.5 Section 8 of the Municipality's Investment Policy requires the Treasurer to report on an annual basis to Council on the performance of the investments, the balance of the

investment portfolio, and the Municipality's compliance with the investment policy and goals.

1.6 A snapshot summary of key information pertaining to the portfolio follows:

Fund	Opening Balance, January 2024	Closing Balance, December 2024	Investment Income	Return on Average Balance
General Fund	\$39,324,462	\$38,152,500	\$4,303,907	11.1%
Development Charges Reserve Fund	57,582,467	49,593,067	5,623,697	10.5%
Non-DC Reserve Fund	94,953,787	116,100,518	7,895,269	7.5%
Strategic Capital Reserve Fund	9,641,508	9,928,765	457,160	4.7%
	<b>\$201,502,224</b>	<b>\$213,774,850</b>	<b>\$18,280,033</b>	<b>8.8%</b>

1.7 The nature of the legal list investments does not compare reasonably with most indices that personal investors may compare. This is due to the restricted nature of the investments. However, given that the Bank of Canada bank rate averaged 4.73 percent in 2024, the return is significantly above that rate. Similarly, the average 1-year Treasury Bill rate of return was 4.08% which is the low risk rate of return.

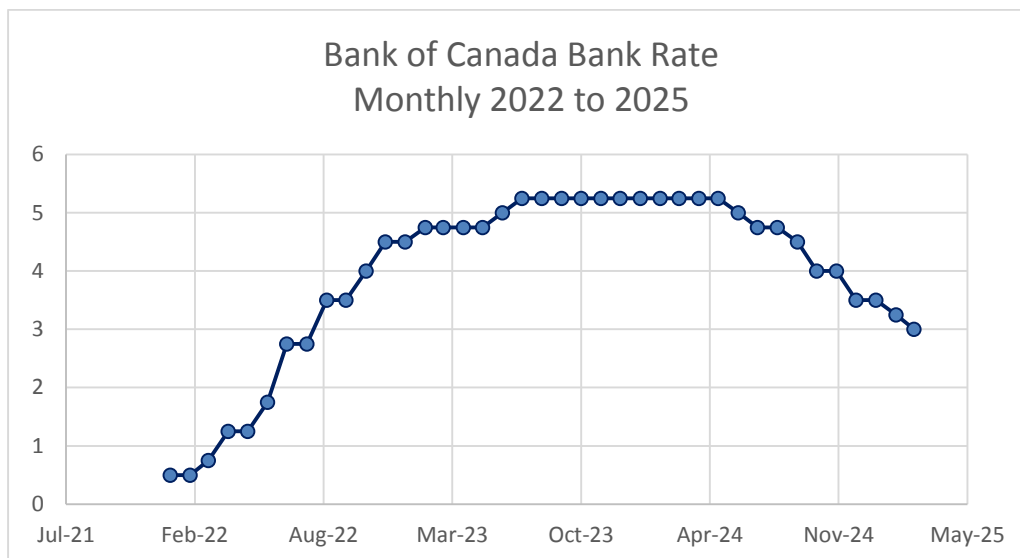
1.8 It should also be noted that investment income earned on Development Charges must stay within the DC reserve funds. This income is used to fund mitigate inflationary pressures and provide additional funding resources.

### Investment Environment in 2023 and 2024

1.9 The last three years have seen significant fluctuations in the interest rate market in Canada. In January 2022, the interest rate was 0.50, this increased to a high of 5.25 from July 2023 to June 2024. Since July 2024, there have been eight rate changes bringing the current rate to 3.0 in March 2025.

1.10 Fixed income investments are impacted by the Bank Rate. Many investments entered into in 2021 and 2022 would be at low interest rates. As these matured, they were invested in higher returning investments. With decreasing rates, future returns may not be as high as 2024 as a result of decreasing interest rates.

1.11 The following chart shows the past three years of the Bank of Canada overnight rate:



## 2. Performance of the Investment Portfolio

- 2.1 The Municipality's portfolio consists of several funds, including general funds, trust funds, reserve funds, and other investments.

### General Fund

- 2.2 The General Fund is the primary operating fund for the Municipality. This fund has the least number of active investments. The majority of the investments in this fund are in the HISA accounts provided by the investment advisors to the Municipality (ONE Investment, CIBC Woodgundy, BMO Nesbitt Burns and Scotiabank). The HISA accounts offer favourable interest rates for a highly liquid investment.
- 2.3 The ONE Investment Inc. HISA was established in September 2016 and held low balances throughout 2017. In 2018, the Municipality began being more active with its investments and moved funds from the lower interest-earning bank accounts to the higher HISA account. At December 31, 2024, the ONE Investment HISA had approximately \$0.0 million (2023 - \$0.2 million). Funds were withdrawn from the ONE HISA in anticipation of the move to Prudent Investor in January 2025.
- 2.4 Similarly, the investment accounts at CIBC Woodgundy, BMO Nesbitt Burns and RBC Dominion Securities include a HISA portion. These funds are typically available within 3 business days. The balance in these accounts typically result from maturing investments being pooled until a purchase can be made. At December 31, 2024 the balance in the HISA products with our investment advisors was approximately \$16.0 million (2023- \$23.0 million) across all funds.

### Non-Development Charges Reserve Funds

- 2.5 The Municipality operates a Non-Development Charges Reserve Fund investment portfolio for all reserve funds not established under the *Development Charges Act, 1997*. There is one exception: the Strategic Capital Reserve Fund, a separate fund.
- 2.6 The total book value of investments is approximately \$116.1 million (2023 - \$95.0 million), including approximately \$37.9 million (2023 - \$37.5 million) in bank balances. At December 31, 2024, the portfolio was comprised of \$8.7 million (2023 - \$7.9 million) in GICs with maturities in each of 2025 through 2028 and \$24.8 million (2023 - \$27.5 million) in bonds with maturities from 2025 to 2033. The equity pool with ONE Investment was liquidated in 2024 in anticipation of the transfer to the ONE JIB. The portfolio includes \$39.4 million (2023 - \$16.1) in principle-protected notes; these are banknotes which are linked to an index but are issued by a chartered bank. For

purposes of this report, the TD Bank Reserve Fund bank account is included in this portfolio.

### **Development Charges Reserve Funds**

- 2.7 The Development Charges Reserve Fund portfolio meets the obligations of the Municipality under the relevant legislation for Development Charges.
- 2.8 The Municipality closed the two accounts with the ONE Investment Program related to this fund: a Bond account and an Equity account in December 2024. These funds were used to provide funds to the ONE JIB in January 2025
- 2.9 At December 31, 2024, the DC Reserve Fund included \$8.9 million in HISA, \$3.0 million in various government bonds, \$30.1 million in financial institutions and \$1.6 million in corporate debt. Of the investments, \$24.0 million were in bonds and \$8.1 million in Principal Protected Notes.

### **Strategic Capital Reserve Funds**

- 2.10 The Municipality established the Strategic Capital Reserve Fund portfolio to hold investments for the Strategic Capital Reserve Fund specifically. This reserve fund was created to provide a funding source for economic development activities. The intent was to keep the \$10.0 million capital as a source of internal borrowing for economic development capital investments. Interest earned on the investments is transferred to the general fund to offset the tax levy.
- 2.11 This fund invests \$3.9 million (2023 - \$2.8 million) in GICs with maturities in 2027.to 2029. Interest rates vary from 2.97 percent to 5.0 percent. Bonds worth \$3.6 million (2023 - \$4.8 million) with maturities from June 2024 to January 2032 are also held with an interest rate of 1.4 to 3.1 percent. There is also \$2.0 million in HISA balances as a result of timing at year end and pending investments.

## Overall Performance

2.12 The total income for the past five years, excluding trust funds and Elexicon, by fund are summarized below:

Fund	2024 Income	2023 Income	2022 Income	2021 Income	2020 Income
General Fund	\$4,303,907	\$4,812,802	\$3,808,056	\$1,060,573	\$1,046,664
Development Charges Reserve Fund	5,623,697	1,695,019	1,694,340	624,705	923,855
Non-DC Reserve Funds	7,895,269	1,582,907	1,600,751	1,123,800	1,343,802
Strategic Capital Fund	457,160	(402,115)	372,817	612,865	45,342
Total Investment	\$18,280,033	\$7,688,614	\$7,475,964	\$3,421,943	\$3,359,663

## 3. Compliance with Investment Policy

3.1 The Municipality of invests based on the legal list of investments outlined in [O.Reg. 438/97](#) as amended. The legal list is very prescribed and limits the ability of the Municipality to diversify its investments fully; however, it is relatively secure.

### Investment Accounts

3.2 The Municipality of Clarington holds its investments through investment accounts with several financial organizations. In determining whether the Municipality is meeting its investment policies, the underlying asset is considered, not the custodian of the investment.

3.3 No new investment accounts were opened in 2023.

3.4 The Municipality held the following accounts throughout 2024:

Institution	Accounts Held
<b>TD Bank</b>	<ul style="list-style-type: none"> <li>• General Fund bank</li> <li>• Several small bank accounts</li> <li>• Reserve Fund bank account</li> <li>• Guaranteed Investment Certificates (GICs)</li> </ul>
<b>RBC Dominion Securities</b>	<ul style="list-style-type: none"> <li>• Reserve Fund investment account</li> <li>• DC Reserve Fund investment account</li> <li>• Strategic Capital Fund investment account</li> </ul>
<b>ONE Investment Inc.</b>	<ul style="list-style-type: none"> <li>• High Interest Savings Account (HISA)</li> <li>• Equity portfolio investment account</li> <li>• Bonds portfolio investment account</li> </ul>
<b>BMO Nesbitt Burns</b>	<ul style="list-style-type: none"> <li>• General fund investment</li> <li>• Reserve Fund investment account</li> </ul>
<b>CIBC Woodgundy</b>	<ul style="list-style-type: none"> <li>• DC Reserve Fund investment account</li> <li>• General Fund investments</li> </ul>
<b>ScotiaBank</b>	<ul style="list-style-type: none"> <li>• High Interest Savings Account (HISA)</li> </ul>



- 3.5 The investment accounts with RBC Dominion Securities, BMO Nesbitt Burns, and CIBC Woodgundy hold a variety of investment instruments which could include GICs, government bonds, and bank deposit notes.
- 3.6 As a result of the changes to Prudent Investor, it was determined by staff that the Municipality did not require all of the investment accounts and consolidation occurred in December 2024 and was completed in January 2025.
- 3.7 Over the year end, the accounts with RBC Dominion Securities were transferred in kind to the custody of CIBC Woodgundy and the accounts with RBC Dominion Securities were closed. The ONE Investment portfolios were also closed and those funds were transferred to the ONE JIB. Finally, the HISA with Scotiabank was closed and funds were reinvested.

### **Diversification Risk**

- 3.8 The Municipality holds investments of several different types. It is essential to diversify the types of investments with an extensive portfolio to reduce the risk to the overall portfolio from variations in any one market. The following table shows the December 31, 2024, investments by type as well as the minimum and maximum percentage allowed per the Investment Policy:

<b>Investment Type</b>	<b>Book Value at December 31, 2024</b>	<b>Percentage of Holdings</b>	<b>Minimum Range</b>	<b>Maximum Range</b>
<b>High Interest Savings Account</b>	\$51,976,906	24.3%	0%	100%
<b>Federal Debt</b>	9,040,318	4.2%	0%	100%
<b>Provincial Debt</b>	19,837,121	9.3%	0%	80%
<b>Municipal Debt</b>	3,384,184	1.8%	0%	35%
<b>Financial Institutions</b>	124,976,725	58.5%	0%	80%

Investment Type	Book Value at December 31, 2024	Percentage of Holdings	Minimum Range	Maximum Range
Corporate Debt (non-financial)	4,099,594	1.9%	0%	10%
<b>Total</b>	<b>\$213,774,850</b>			

- 3.9 The policy guideline for financial institutions is zero percent to 80 percent of the investment portfolio. At December 31, 2024, the Municipality was within this limit. While within the policy limits, the above indicates that the Municipality is concentrated in Canadian financial institutions.

### Liquidity Risk

- 3.10 The Municipality attempts to balance cash flows through the timing of the maturity of investments. Staggered maturity dates ensure that cash is readily available to meet the needs of the Municipality and reduces interest rate risk. At December 31, 2024, the maturity dates, and allowable ranges, of investments held by the Municipality were as follows:

Timeframe	Book Value at December 31, 2024	Percentage of Portfolio	Minimum Range	Maximum Range
Up to 90 Days	\$56,111,458	26.2%	20.0%	100.0%
Up to 1 Year	8,416,634	30.2%	30.0%	100.0%
1 to 5 Years	50,174,399	23.5%	0.0%	85.0%
5 to 10 Years	99,072,359	46.3%	0.0%	50.0%
	<b>\$213,774,850</b>			

- 3.11 The Municipality's Investment Policy indicates the target range for less than 90 days is 20% to 100%, and less than one year is 30% to 100%. The amount shown above that is 90 days to 1 year should be added to the amount held less than 90 days to determine compliance with the requirement. Total amounts maturing less than one year is \$64.5 million, which is 30.2% of the investment portfolio.
- 3.12 The Municipality's HISA and TD Reserve Fund bank accounts are considered to have a maturity of less than 90 days, as they are available to the Municipality within 24 hours.

### **Concentration Risk**

- 3.13 The Municipality attempts to diversify its investment portfolio by restricting the percentage of investments any single institution may have. Diversification mitigates the risk to the Municipality if an investment becomes insolvent. Note that the Canadian Deposit Insurance Corporation (CDIC) only guarantees investments up to \$100,000 per institution, therefore, most of the Municipality's investments are not insured through CDIC.
- 3.14 At December 31, 2024 the Municipality's investments by institution were as follows:

<b>Institution</b>	<b>Book Value at December 31, 2024</b>	<b>Percentage of Portfolio</b>	<b>Maximum Allowed</b>
<b>TD Bank - Savings</b>	37,973,104	17.8%	100.0%
<b>Royal Bank of Canada</b>	14,883,269	7.0%	25.0%
<b>Royal Bank of Canada HISA</b>	11,803,640	5.5%	100.0%
<b>CIBC - HISA</b>	4,194,714	2.0%	100.0%
<b>National Bank</b>	4,023,420	1.9%	25.0%
<b>Bank of Nova Scotia</b>	31,819,508	14.9%	25.0%

Institution	Book Value at December 31, 2024	Percentage of Portfolio	Maximum Allowed
Bank of Montreal	33,147,333	15.5%	25.0%
CIBC	32,329,700	15.1%	25.0%
TD Bank	6,778,944	3.2%	25.0%
Province of Ontario	13,038,602	6.1%	20.0%
Province of British Columbia	968,290	0.5%	20.0%
Province of Manitoba	962,429	0.5%	20.0%
Regional Municipality of Durham	1,001,760	0.5%	10.0%
Quebec Hydro	1,600,000	0.7%	5.0%
City of Toronto	1,512,039	0.7%	10.0%
Canada Housing Trust	2,059,140	1.0%	100.0%
Canada Housing Trust No 1	3,058,623	1.4%	100.0%
Government of Canada	3,922,555	1.8%	100.0%
Municipal Finance Authority of BC	831,861	0.4%	25.0%

Institution	Book Value at December 31, 2024	Percentage of Portfolio	Maximum Allowed
Province of Alberta	1,939,216	0.9%	20.0%
Province of Quebec	2,928,585	1.4%	20.0%
Ontario Hydro	2,499,594	1.2%	5.0%
Regional Municipality of York	498,525	0.2%	10.0%
	<b>\$213,774,850</b>		

- 3.15 At December 31, 2024, the Municipality was in compliance with restrictions on per institution investments. Throughout 2024, Staff worked to increase diversification for a better overall investment portfolio and risk mitigation.

#### Overall Compliance and Work-out Program

- 3.16 One of the investments held by the Municipality was a structured note with a Canadian Schedule I Bank; however, it was considered a “Principal-At-Risk” note. This structured note had the potential to mature at an amount below the principal amount. While these notes are similar to Principal-Protected-Notes in that they are tied to an index, the PPN will not drop below the principal amount.
- 3.17 Once staff became aware that the note was not a PPN, a work-out plan was created. The note was sold from the Municipality’s investment holdings along with investments that were in a positive position to realize overall a net gain. This transaction occurred within the month of January 2025.
- 3.18 As at December 31, 2024, a work-out plan for this investment was in place; therefore, the Municipality was in compliance with O.Reg. 438/97 as amended.
- 3.19 The Municipality was in compliance with CP-003 Investment Policy (Legal List), which governs money not required immediately, as it requires a work-out plan to be put in place for any investments determined to be ineligible in accordance with the legal list.

## **4. Review of Investment Policy**

### **Background**

- 4.1 The Municipality of Clarington is required, under the *Municipal Act, 2001* to have an investment policy adopted and approved by Council.
- 4.2 In 2024, the Municipality proceeded to adopt the Prudent Investor Standard. Staff recommended at the time, and continue to recommend, that Council approves two distinct investment policies. There is an overall policy, which governs the Prudent Investor Policy (CP-011) and a Legal List policy which governs the short-term (money required immediately) investment portfolio. The short-term portfolio is not anticipated to require significant changes going forward.

### **Proposed Revised CP-003- Investment Policy (Legal List) (Attachment 1)**

- 4.3 Minor changes are proposed and reflect the change to the Prudent Investor standard.
- 4.4 Changes to the purpose and legislative authority reflect the change to Prudent Investor and provide clarity as to the purpose and scope of the short-term investment policy. Further, housekeeping changes to titles and department names. Approval requirements for all trades has been changed as a result of updated signing authority policies and to better align with those policies.
- 4.5 References to investment term limits for five to ten years, and over ten years are removed as a result of the fact that these funds would be considered Money Not Required Immediately.

### **Proposed Revised CP-011 – Investment Policy (Attachment 2)**

- 4.6 The proposed changes to Policy CP-011 Investment Policy are substantially housekeeping in nature and reflect changes by ONE Investment and ONE JIB in their operations.
- 4.7 References to “portfolio manager” has been changed to “Sub-Investment Manager” to reflect the change to the OCIO. Language throughout the policy has been changed to reflect that change.
- 4.8 The terms “Long-Term Money” and “Short-Term Money” have been changed to “MNRI” and “MRI” respectively. This change better aligns with the legislation and reflects that there is not a time requirement for the definition of money required immediately or money not required immediately.
- 4.9 Definitions were added as required and deleted if no longer used in the document.

- 4.10 Restricted Special Assets are listed in Schedule A. This is a new definition to provide clarity on several types of investments that are not intended to be included in MNRI, and therefore under the control of the ONE JIB. The Municipality's investments in Elexicon are listed in Schedule A.
- 4.11 Third-Party Trust Funds and Designated Funds are now listed in Schedule B. The ONE JIB is not responsible for the investment of these funds. The Municipality's trust funds are listed in Schedule B.
- 4.12 A new section on Alternative Asset Classes has been added. This includes investments such as real estate. The Policy allows this type of investment; however it would still be up to the ONE JIB to determine if these types of investments make sense in the Municipality's Investment Plan. At this time, it is being recommended to permit Alternative Asset Classes to provide the greatest number of options to the Board; however if Council wishes to restrict its use the section may be amended.
- 4.13 The above changes are recommended by ONE JIB and are an effort to provide consistent wording across the member municipalities. Staff have reviewed the changes proposed and do not have concerns with these changes.
- 4.14 Staff have reviewed the section on Prohibited Investments. At this time staff are not recommending any changes to this section, that is to say that staff are not recommending prohibiting investments. Given the current trade relationship with the US, there are increased desires to diversify from this relationship; however, given the sheer size of the US market a prohibition on US investments would not be prudent and would be counter to Council's decision to move to Prudent Investor to open up investment opportunities.

## **5. Other Information Relevant to Council**

### **Board Appointments**

- 5.1 At its meeting of March 28, 2025, the Board of CHUMs (a subsidiary of the Municipal Finance Officers Association of Ontario) appointed Trevor Pinn as the Vice-Chair of ONE Investment Inc for 2025-2026 and Chair for the years 2027-2028.
- 5.2 Additionally, at its April meeting, the Audit Committee of ONE Investment appointed Trevor Pinn as the Vice-Chair of the Audit Committee.
- 5.3 Internally, processes are in place to ensure that there is a vetting process in place for investment decisions related to ONE Investment. The annual determination of Money Not Required Immediately, is performed by the Financial Planning team and reviewed by the Treasurer. This is the amount that is provided to ONE JIB, which is independent of ONE Investment.

### Prudent Investor Update

- 5.4 At its meeting of November 21, 2024, the ONE JIB accepted the Municipality as a member municipality. The Municipality's investment plan was presented to the Board by PH&N for acceptance.
- 5.5 The Municipality transferred funds of \$20 million to the ONE JIB on January 13, 2025 for investment. These funds represent the estimated Money Not Required Immediately, which is required to be given to the ONE JIB for investment. These funds are estimated to have a long-term time frame, as funds are not expected to be pulled from this amount until approximately 10 years (this is reviewed annually).
- 5.6 The investment plan approved by the ONE JIB utilizes nine different funds all operated by RBC Global Asset Management. The model is considered a long-term 70% equity model and includes: 30% Canadian fixed income, 35% Canadian equities and 35% global equities.
- 5.7 At March 31, 2025 the ONE JIB fund breakdown was as follows:

Fund Description	Book Cost	Market Value
PH&N Short Term Bond & Mortgage Fund	\$5,766,577	\$5,843,804
RBC Commercial Mortgage Fund	300,000	300,000
PH&N Canadian Equity Value Fund	2,333,333	2,394,833
PH&N Canadian Equity Fund	2,333,333	2,381,510
RBC QUBE Canadian Equity Fund	2,333,334	2,376,265
RBC QUBE Low Volatility US Equity Fund	1,400,000	1,511,606
PH&N US Equity Fund	700,000	672,141
RBC QUBE US Equity Fund	700,000	665,908



Fund Description	Book Cost	Market Value
RBC International Equity Fund	2,100,000	2,208,393
PH&N Overseas Equity Fund	2,100,000	2,171,871
	<b>\$20,066,577</b>	<b>\$20,526,331</b>

- 5.8 The initial \$20.0 million investment has resulted in a current market value of \$20.5 million which represents a return of 2.6% in 2.5 months.

## 6. Financial Considerations

- 6.1 The 2024 Annual report provides historical results, historical results are not indicative of future results due to many external economic factors outside of the control of the Municipality.
- 6.2 The allowance of “Alternative Asset Classes” provides potential diversification opportunities in real estate or other investments that are not typically traded or held by municipalities within the legal list investments. This opportunity is optional and ONE JIB will review the appropriateness of its use in the investment plan process it undertakes annually. Restriction investments in Alternative Asset Classes would result in less ability to diversify.
- 6.3 While Canada and the US are currently in a trade dispute, given the fact that the US is the largest investment market in the world, it is not financially prudent to prohibit investments in the US. The ONE JIB investment plan currently has investments in other global markets which mitigates the reliance on the US markets..

## 7. Strategic Plan

Not Applicable

## 8. Climate Change

Not Applicable.

## **9. Concurrence**

Not Applicable.

## **10. Conclusion**

It is respectfully recommended that Council approve the revised policies CP-003 Investment Policy (Legal List) and CP-011 Investment Policy (Prudent).

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Staff Contact: Trevor Pinn, CPA, CA, Deputy CAO/Treasurer, 905-623-3379 x2602 or tpinn@clarington.net.

Attachments:

Attachment 1 – Draft Revised CP-003 – Investment Policy (Legal List) red-line version

Attachment 2 – Draft Revised CP-011 – Investment Policy (Prudent) red-line version

Interested Parties:

The following interested parties will be notified of Council's decision:

- ONE JIB
- CIBC Woodgundy
- BMO Nesbitt Burns