

Council Policy



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Number:	CP-003
Title:	Investment Policy (Legal List)
Type:	Financial Management
Sub-type:	Investments
Owner:	Financial Services
	Financial Planning
Approved By:	Council
Approval Date:	July 3, 2018
Effective Date:	July 3, 2018
Revised Date:	May 29, 2023
Applicable to:	All Staff

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1. Legislative or Administrative Authority:

1.1. Effective November 27, 2024, the Municipality of Clarington officially met the requirements under Section 418.1 of the Municipal Act to follow the Prudent Investor Standard. The Municipality has entered into an agreement with the ONE Joint Investment Board (ONE JIB) to meet the requirement of having an investment board under Section 418.1.

4-4-1.2. This policy was developed in accordance with Section 418 of the Municipal Act, 2001, which authorizes a municipality to invest in prescribed securities, in accordance with prescribed rules, money that it does not require immediately. The policy follows [Ontario Regulation 438/97](#), Eligible Investments, Related Financial Agreements and Prudent Investment

2. Purpose:

2.1. To provide guidance for the investment of funds deemed "Money Required Immediately".

2-4-2.2. The Municipality of Clarington strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet ongoing financial requirements.



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3. Scope:

- 3.1. This policy includes all funds that are managed by the Municipality of Clarington ~~except for the Municipality's investment in Elexicon Group.~~

4. Definitions:

- 4.1. **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.
- 4.2. **Basis Point** – A unit that is equal to 1/100th of 1% and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.
- 4.3. **CHUMS Financing Corporation (CHUMS)** – A subsidiary of the Municipal Finance Officers Association of Ontario (MFOA) which in conjunction with the Local Authority Services Limited (LAS) operates the ONE Investment Program.
- 4.4. **Credit Risk** - The risk to an investor that an issuer will default in the payment of interest and/or principal of a security.
- 4.5. **Discount** – The amount by which the par value of a security exceeds the price paid for the security.
- 4.6. **Diversification** – A process of investing assets among a range of security types by class, sector, maturity and quality rating.
- 4.7. **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.
- 4.8. **Environmental, Social and Governance (ESG) Investing** – considering and integrating ESG factors into the investment process, rather than eliminating investments based on ESG factors alone.



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

- 4.9. **Holding Period Classification** – Classification of investments based on the intended period the Municipality would hold the asset, as follows:
- 4.9.1. Cash Equivalent: short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.
- ~~4.9.2.~~ Short-term: securities with a holding period of one year or less.
- ~~4.9.2-4.9.3.~~ Medium-term: securities with a holding period of one to three
- ~~4.9.3-4.9.4.~~ Long-term: securities with a holding period of greater than ~~one-three~~ years.
- 4.10. **Liquidity** – A measure of an assets' convertibility to cash
- 4.11. **Local Authority Service Limited (LAS)** – A subsidiary of the Association of Municipalities of Ontario (AMO) which in conjunction with CHUMS are members of the ONE Investment Inc.
- 4.12. **ONE Investment Inc.** – An incorporated not-for-profit organization which includes investment portfolios available for Ontario municipalities. Formerly was the ONE Investment Program which is a professionally managed group of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act. Also includes the High Interest Savings Account (HISA).
- 4.13. **Market Risk** – The risk that the value of a security will rise or decline as a result of changes in market conditions.
- 4.14. **Market Value** – The current market price of a security.
- 4.15. **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.



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- 4.16. **Par** – The face value or principal value of a bond.
 - 4.17. **Premium** – The amount by which the price paid for a security exceeds the security's par value.
 - 4.18. **Principal** – The face or par value of a debt instrument or the amount of capital investment in a given security.
 - 4.19. **Rate of Return** – The yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.
 - 4.20. **Schedule I Bank** – 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.
 - 4.21. **Schedule II Banks** – Schedule II banks are foreign bank subsidiaries authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.
 - 4.22. **Sinking Fund** – Money accumulated on a regular basis, through regular contributions and interest earnings, in a separate custodial account that is used to redeem debt securities by a specified date.
 - 4.23. **Weighted Average Maturity (WAM)** – The average maturity of all the securities that comprise a portfolio.
 - 4.24. **Yield to Maturity (YTM)** – The annual return on a bond held to maturity when interest payments and price appreciation (if priced below par) or depreciation (if priced above par) are considered

5. Policy Requirements:

General

- 5.1. For money-required immediately, the Municipality follows the Eligible Investment rules outlined in O.Reg.438/97.



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5.1.5.2. The primary objectives of the ~~investment~~ short-term investment program, in order of priority, shall be:

5.2.5.3. Adherence to Statutory Requirements

5.2.1.5.3.1. All investment activities must be made in accordance with Section 418 (1) of the Municipal Act, 2001, ~~as amended which states that a municipality may invest money it does not need immediately in securities, in accordance with prescribed rules and regulations.~~

5.2.2. ~~The prescribed securities that municipalities may invest in as well as the rules for making investments, entering into related financial agreements and reporting on activities is set out under Ontario Regulation 438/97, as amended. Any Provincial Statutes or Regulations will supersede and take precedence over this policy.~~

5.2.3.5.3.2. Investments, unless limited further by Council, will be those deemed eligible under O.Reg 438/97 as amended.

5.3.5.4. Preservation of Capital

5.3.1.5.4.1. Safety of principal is an important objective of the short-term investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

5.3.2.5.4.2. Staff shall mitigate credit risk through the following:

- Limiting investments to safer types of securities;
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

5.3.3.5.4.3. Staff shall mitigate interest risk through the following:



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- 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 investment pools; and
 - ◆ ~~Diversifying longer term holdings to match term exposures to requirements of underlying reserve funds and to mitigate effects of interest rate volatility.~~

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5.4.5.5. Maintaining Liquidity

5.4.1-5.5.1. 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.

5.4.2-5.5.2. The portfolio shall consist largely of securities with active secondary or resale markets to ensure liquidity. A portion of the portfolio may be placed in local government investment pools which offer liquidity for short-term funds.

5.5.5.6. Competitive Rate of Return

5.5.1-5.6.1. Notwithstanding the other objectives of this policy, the Municipality shall maximize the rate of return earned on its investment portfolio by implementing a dynamic strategy as part of the investment program.

5.5.2-5.6.2. Diversification, as well as ensuring safety of principal by limiting exposure to credit, sector or term risk, provides opportunities to enhance the investment return on the Municipality's portfolio.

Standards of Care

5.6.5.7. Prudence

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~~5.6.1~~~~5.7.1~~ Investments shall be made in accordance with the policy, under the prevailing circumstances. Consideration of the probable safety of the principal as well as income to be derived should be of primary concern.

~~5.6.2~~~~5.7.2~~ Staff acting in accordance with procedure and this investment policy and having exercised due diligence, shall be relieved of personal responsibility for any individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or sale of securities are carried out in accordance with the terms of this policy.

~~5.7.5.8~~ Ethics and Conflict of Interest

~~5.7.1~~~~5.8.1~~ Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair ability to make impartial decisions.

~~5.7.2~~~~5.8.2~~ Employees involved in investment procedures shall disclose all material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

~~5.7.3~~~~5.8.3~~ Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Municipality.

~~5.7.4~~~~5.8.4~~ If a staff member of the Finance ~~and Technology~~ Department or any elected or appointed member of the Municipality is party to, or has a direct or indirect beneficial interest in an investment transaction of the Municipality, he or she must provide full disclosure of that interest to the ~~Director of Finance~~ ~~Deputy CAO/Treasurer~~ (or designate). The ~~Director of Finance~~ ~~Deputy CAO/Treasurer~~ (or designate) will determine

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whether the Municipality's investment is to continue to be retained or sold forthwith.

5.8.5.9. Safekeeping and Custody

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

5.8.2.5.9.2. The depository shall issue a safekeeping receipt to the Municipality listing the specific instrument, rate, maturity and other pertinent information. On a periodic basis (preferably monthly), the depository will also provide reports, which lists all securities held by the Municipality, the book value of holdings and the market value as of month-end.

5.9.5.10. Authority

5.9.1.5.10.1. The Deputy CAO/Treasurer, or designate, has overall responsibility of the investment portfolio. The Deputy CAO/Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. The Deputy CAO/Treasurer or designate have the authority to make investment decisions for the Municipality.

5.9.2.5.10.2. The authority 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 shall be done in a manner that conforms to the *Municipal Act, 2001* and the Municipality's policies, including the Delegation of Authority By-law.

5.10.5.11. Approval Requirements

~~5.10.1. All investment transactions must be approved by two of the following:~~



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• ~~CAO~~

• ~~Director of Financial Services/Treasurer~~

• ~~Manager of Accounting Service/Deputy Treasurer~~

~~5.10.2.5.11.1.~~ Signing authority for transactions from the Municipality's bank account to an investment account would follow the signing authorities outlined in the Banking Signing Authorities Policy.

~~5.11.5.12.~~ Council Reporting

~~5.11.1.5.12.1.~~ The Deputy CAO/Treasurer shall provide an annual investment report to Council which shall contain at a minimum:

- A statement about the performance of the portfolio of investments during the period covered by the Report;
- The balance of the current outstanding investment portfolio;
- A statement as to whether or not all investments were in accordance with the investment policies and goals of the Municipality;
- If applicable, a description of the estimated proportion of investments that are invested in the Municipality's own long-term and short-term securities and a description of the change, if any, in the estimated proportion since the previous report;
- If applicable, 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; and



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- Contains such other information that the Council may require or that, in the opinion of the Treasurer or designate, should be included.

~~5.11.2.5.12.2.~~ If an investment made by the Municipality is, in the Treasurer or designate's opinion, not consistent with the investment policies and goals adopted by the Municipality, the Treasurer shall ~~report the inconsistency to Council~~ create a work-out plan in accordance with O.Reg 438/97 within 30 days after becoming aware of it.

~~5.12.5.13.~~ Eligible Investments and Statutory Requirements

~~5.12.1.5.13.1.~~ The Municipality maintains the following funds:

Fund Name	Purpose	Investment Horizon
General Fund	To provide a source of funding for operating and non-DC supported capital expenditures.	The investment horizon for this fund is typically within 24 months. However longer-term investments may be made to recognize increased returns.
Non-Development Charges Reserve Fund	To provide a source of funding for reserve funds which are not funded by Development Charges. Typically requirements relate to the Municipality's capital plan.	The investment horizon for these funds is typically 5 years. There will be deposits annually from budgeted contributions as well as withdrawals to support the annual budget requirements.
Development Charges Reserve Fund	To provide a source of funding for growth-related	The DC study has a horizon of 5 years, within this fund there will be



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Fund Name	Purpose	Investment Horizon
	activities funded through development charges.	<p>withdrawals and deposits annually.</p> <p>The key investment driver is to ensure liquidity in the portfolio that can be used to finance approved growth-related expenditures.</p>
Strategic Capital Fund	Long-term asset management strategic financing tool; Investment in debt financing opportunities through internal debenture issuance; investment in servicing of non-residential areas as a front-ending tool	<p>This fund has an investment horizon of over 5 years.</p> <p>The key investment driver is to earn a return which can be used to fund other activities while preserving capital.</p> <p>This fund does not see significant levels of transactions annually and is more focused on specific projects which qualify under the establishing by-law.</p>
Trust Funds	<p>May include funds held for the perpetual care of cemeteries under the control of the Municipality.</p> <p>Trusts may also include bequests made to the Municipality. These</p>	<p>This fund has an investment horizon of 5 years.</p> <p>As these funds are held in trust for other parties, the key investment driver is maintain the capital while</p>



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Fund Name	Purpose	Investment Horizon
	bequests may be restricted in use, which varies based on the individual.	earning a reasonable return.

~~5.12.2~~5.13.2 The above categories are funds which manage similar accounts. For example the Development Charge Reserve Fund invests for all individual DC Reserve Funds, individual accounts are not required to be established. An individual investment security may be made utilizing funds from different sources (i.e. a GIC in the DC Reserve Fund may relate to general government, parks and road DC reserve funds).

~~5.13.5.14.~~ 5.13.5.14. Eligible Securities

~~5.13.1~~5.14.1 Eligible securities are prescribed under O.Reg 438/97, as amended.

~~5.13.2~~5.14.2 Investments shall be diversified by:

- Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
- Limiting investment in securities to those that have higher credit ratings;
- Investing in securities with varying maturity dates;
- Investing primarily in liquid, marketable securities which have an active secondary market, to ensure appropriate liquidity.



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5.14.5.15. Investment Limitations

5.14.1.5.15.1. To promote diversification, the following percentage weightings for each type of investment within the portfolio shall be established and maintained:

Investment Type	Portfolio Limit	Individual Limit
Federal Debt	100%	
Provincial Debt	80%	20% per province
Municipal Debt	35%	10% per municipality (except the Region of Durham)
Municipal Corporation Equity	50%	50% per municipal corporation
Financial Institutions	80%	25% per financial institution
Corporate Debt (non-financial)	10%	5% per corporation
ONE Investment Pools	25%	15% per portfolio

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5.14.2.5.15.2. To promote diversification and ensure liquidity, the following percentage weightings for the investment portfolio shall be established and maintained:

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

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~~5.14.3.5.15.3. Unless matched to a specific cash flow, the Municipality will not directly invest in securities maturing more than 10 years from the date of purchase. Reserve funds and other funds with longer term investment horizons may be invested in securities exceeding ten (10) years, provided they match as practicably as possible to the expected use of funds.~~

~~5.14.4.5.15.4.~~ Portfolio size limitations listed above will be applicable based on the allowable percentage of the portfolio on the day the investment is made. Limitations relate to the total investment portfolio and are to be applied to the Municipalities' separate funds that it manages.

~~5.14.5.5.15.5.~~ When determining the portfolio limitation:

- The total portfolio (denominator) shall include all cash, cash equivalents, short-term investments and long-term investments (excluding investment in Elexicon Group Inc.)



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- Funds held within general or high interest savings accounts shall not be used to determine the maximum category or sector limitations (numerator). For further clarification, funds held in a bank account do not count towards the 25 per cent limit for the institution.

~~5.14.6.5.15.6.~~ The Municipality may invest in US denominated funds, as allowed by regulation, provided that the purpose of the investment relates to a pending or anticipated purchase which is to be denominated in US funds and it is prudent to mitigate from foreign exchange risk.

~~5.15.5.16.~~ Environmental, Social and Governance (ESG) Investing

~~5.15.1.5.16.1.~~ The Municipality supports incorporating ESG investing into the Portfolio. The Municipality 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.

~~5.16.5.17.~~ Policy Review

~~5.16.1.5.17.1.~~ This policy shall be reviewed annually and updated as necessary.

6. Roles and Responsibilities:

6.1. Council is responsible for:

- 6.1.1. Setting the investment policy for the Municipality.
- 6.1.2. Determining the risk tolerance of the Municipality.



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6.2. Deputy CAO/Treasurer is responsible for:

- 6.2.1. Establishing internal controls around the investment and banking process.
- 6.2.2. Determining an investment plan in compliance with the Investment Policy.
- 6.2.3. Ensuring the Municipality's investment plan is in compliance with legislation.
- 6.2.4. Reporting to Council investment information in compliance with the Policy and the legislation.

6.3. Directors / Managers are responsible for the following within their scope of authority:

- 6.3.1. Making investment decisions in compliance with the Investment Policy.

6.4. All Staff are responsible for:

- 6.4.1. Following the Investment Policy.

7. Related Documents:

- 7.1. [O.Reg.438/97: Eligible Investments, Related Financial Agreements and Prudent Investment](#)
- 7.2. Delegation of Authority By-law

8. Inquiries:

- 8.1. Manager, Financial Planning/Deputy Treasurer



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9. Revision History:

Date	Description of Changes	Approved By
June 12, 2023	Update format to new policy template Add definition and section on Environment, Social and Governance (ESG) Investing	Council
April 22, 2024	Policy name changed with additional Investment Policy added (CP-011)	Council
<u>May XX, 2025</u>	<u>Removed references which are no longer required as a result of moving to Prudent, including term limits beyond 5 years (removed).</u>	<u>Council</u>