



Title: Investment Policy Statement		
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Approved by: Regional Council		
Responsibility: Commissioner of Finance/Treasurer		Section: Investment Portfolio

1. Policy Statement

The Investment Policy Statement (“IPS”) governs the investment of surplus funds of The Regional Municipality of Durham (“Region”) that are described as its investment portfolio (“Region’s Investment Portfolio”) in accordance with the Municipal Act, 2001 (“Act”) and Ontario Regulation 438/97, Parts I and II (“Regulation”), as amended.

2. Purpose

This IPS governs the investment of the Region’s Investment Portfolio, which includes its Long-Term Funds or Money that is Not Required Immediately (“MNRI”) and Short-Term Funds or Money that is Required Immediately (“MRI”). This IPS is intended, among other things, to direct the Treasurer in the investment of MRI and to direct ONE Joint Investment Board (“ONE JIB”) in the investment of MNRI by implementing the Authorizing By-law pursuant to which the Region authorized the establishment of guidelines for the prudent financial management of its MNRI pursuant to Section 418.1 of the Act.

The goals of this IPS are to:

- Define and assign responsibilities for investment of MRI and MNRI;
- Describe the Region’s responsibilities with respect to any third-party trust funds
- Facilitate full compliance with the applicable legislation;
- Provide direction to ONE JIB as to the Region’s investment goals and risk tolerance for its MNRI;
- Provide guidance and limitations regarding the investments and their underlying risks;
- Establish a basis of evaluating investment performance and the underlying risks; and
- Establish procedures and standards related to reporting on the Region’s Investment Portfolio to Council.

3. Scope

3.1 This IPS applies to:

- i. The operating and capital cash flows, reserves, reserve funds, sinking funds and all other monies forming part of the Region's Investment Portfolio and includes any new fund(s) created by the Region unless specifically exempted.

and is intended to apply to the decisions and actions of

- ii. All Regional employees.
- iii. ONE JIB and the employees of ONE Investment and any agent or advisor providing services to ONE JIB in connection with the investment of the Region's Investment Portfolio, it being understood that any such agent or advisor shall accept and adhere strictly to this IPS.

4. Definitions

Act: means the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended from time to time.

Agent: means any administrator, Custodian, payment servicer, portfolio manager, investment counsel, consultant, banker, broker, dealer or other service provider engaged or appointed by ONE JIB and authorized by ONE JIB to exercise any of the functions of ONE JIB pursuant to a written agreement, in the manner and to the extent provided in the Regulation and without limiting the generality of the foregoing, Agent includes ONE Investment.

Alternative Assets: means investments outside traditional investments such as equities, fixed income and cash which may include, hedge funds, private equity, natural resources, real estate and infrastructure.

Asset Backed Securities: means financial instruments whose returns are secured or collateralized by a pool of assets such as loans, leases, credit card debt, royalties or receivables.

Asset Class: means a specific category of assets or investments, such as cash, fixed income, equities, alternative investments, real estate and such other categories or classes of investments as are in common and accepted use in the investment management industry at the relevant time.

Asset Mix (or Asset Allocation): means the proportion of each asset class in an investment portfolio. For example, the Asset Mix of a portfolio may include allocations to cash, money market securities, bonds and equities.

Authorizing By-law: means a by-law of a municipality, including the Region, which authorizes: the approval of the Client Questionnaire, the adoption of the IPS, and the entering into of the ONE JIB Agreement.

Benchmark: means an index that is representative of a specific securities market (e.g., the S&P/TSX Composite Index, the FTSE/TMX 91 Day T-bill Index, etc.) against which investment performance of a portfolio can be compared. Performance benchmarks refer to total return indices in Canadian dollar terms.

CHUMS Financing Corporation (CHUMS): means a subsidiary of Municipal Finance Officers' Association of Ontario (MFOA) which, in conjunction with LAS, established ONE Investment.

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

Credit Union: means 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: means a specialized financial institution that is responsible for safekeeping and safeguarding a municipality's financial and other assets and the proceeds from same. Global custodians hold investments for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks ("sub-custodians" or "agent banks").

Diversification: means a process of allocating and placing investment assets among a range of Asset Classes and security types selected on the basis of industry sector, geography, remaining term to maturity, expected yield, credit quality and such other factors as may be considered relevant by ONE JIB or any Agent of ONE JIB with responsibility for investing any part of the Region's Investment Portfolio.

Derivative: means a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or commodity or selection of assets (like an index). Common underlying assets for derivative contracts include bonds, commodities, currencies, interest rates, market indices and sub-indices, and individual stocks.

Environmental, Social and Governance (ESG) Integration Investing: means investing while considering and integrating ESG factors into the investment process, and is intended to be contrasted to an investment approach that eliminates from eligibility certain investments or Asset Classes based on ESG factors alone. Integrating ESG information can lead to more comprehensive analysis of a company.

External Portfolio Managers: means external third-party investment management firms whose investment and advisory services and product offerings can be accessed by ONE JIB directly (including via the OCIO Offering) or through services provided to a Pooled Fund. External Portfolio Managers are agents who may be authorized by ONE JIB in accordance with Part II of the Regulation.

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

Investment-Grade Securities: means securities issued by an issuer whose credit ratings are rated BBB or above by Dominion Bond Rating Service (DBRS), or equivalent from other bond rating agencies.

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

Investment Plan: means the investment plan applicable to the Long-Term Funds and adopted and maintained by ONE JIB under the Regulation, as it may be amended from time to time.

Investment Policy Statement (IPS): means the investment policy applicable to the Region's Investment Portfolio and other investments as adopted and maintained by the Council of the Region for Long-Term Funds under the Regulation, and for Short-Term Funds, as the same may be amended from time to time.

JIB: means the Joint Investment Board referred to in the Regulation and a joint municipal service board that is established under section 202 of the Act by two or more municipalities for the purposes of Part II of the Regulation.

Legal List Investments: means the eligible securities and other investments and financial instruments that are included from time to time in Part I of the Regulation.

Leverage: means an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Typically leverage also tends to increase the risks of investing by magnifying potential gains as well as losses.

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

Local Authority Services (LAS): means an entity which, in conjunction with MFOA, established ONE Investment.

Local Distribution Corporation or LDC: means a corporation incorporated under section 142 of the Electricity Act, 1998.

Long-Term Funds: means money and investments that the Region has defined as long-term and characterized as money that is not required immediately (MNRI) by the Region as described in section 8.2. Monies that are Long-Term Funds will be invested in accordance with the Prudent Investor Standard.

Managed Assets: means, with respect to a participating municipality, the assets of the participating municipality managed and controlled by ONE JIB pursuant to, and subject to, the terms and conditions set out in the ONE JIB Agreement.

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

Market Value: means the current market price of a security.

Maturity: means 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.

Money Not Required Immediately (MNRI): means the long-term funds that will be invested in accordance with the Prudent Investor Standard.

Money Required Immediately (MRI): means the short-term funds or money to be used to meet financial obligations within the next three years.

Municipal Services Corporation (MSC): means a corporation established by a municipality(ies) under section 203 of the Municipal Act, 2001 to provide a municipal system, service or thing.

Municipal Finance Officers Association of Ontario (MFOA): means an entity which, in conjunction with LAS, established ONE Investment.

OCIO Offering: means the comprehensive investment program made available through ONE JIB pursuant to which a duly qualified investment manager who is an External Portfolio Manager is engaged by ONE Investment to advise a participating municipality with regard to the investment of the participating municipality's Managed Assets and to invest and manage such Managed Assets in accordance with the terms and conditions set out in the ONE JIB Agreement;

ONE Investment: means the not-for-profit corporation founded by CHUMS and LAS which provides certain management, administrative and other services to ONE JIB in connection with the ONE Investment Offering.

ONE Investment Offering: means the comprehensive suite of products and services relating to investment by municipalities in Ontario made available through ONE Investment and includes the ONE Pools Offering and the OCIO Offering;

ONE Investment Pool: means a pooled investment vehicle managed by ONE Investment whose securities are available to participating municipalities through ONE Investment as part of the ONE Pools Offering;

ONE JIB: means ONE Joint Investment Board, established by certain founding municipalities under section 202 of the Act as a JIB for purposes of Part II of the Regulation, which is the duly appointed JIB for the Region, as constituted from time to time and which acts in accordance with the Act, the Regulation, the ONE JIB Agreement, including the Terms of Reference, this IPS and the Investment Plan.

ONE JIB Agreement: means the agreement first approved on May 19, 2020 by ONE JIB pursuant to which participating municipalities invest their MNRI through ONE JIB in accordance with the Prudent Investor Standard;

ONE Pools Offering: means the comprehensive investment program made available through ONE JIB pursuant to which ONE Investment advises the participating municipality with regard to the participating municipality's Managed Assets and the underlying investment products consist of ONE Investment Pools and other investment products offered by ONE Investment from time to time;

Outsourced Chief Investment Officer (OCIO): means the External Portfolio Manager, being an asset management firm or investment consultant, to whom the full or partial responsibility

for the investment management of a municipality's MNRI is delegated, through a Joint Investment Board and based on an IPS approved by the Council of the municipality.

Pooled Fund: means a unit trust established under a trust instrument, generally not available to the public, in which institutional, sophisticated, or high net worth investors contribute funds that are invested and managed by an OCIO/External Portfolio Manager. Funds are pooled or combined with funds of other investors.

Prudent Effective Date: means the agreed upon effective date of the Region's authorization of the application of Section 418.1 of the Act to it on which the Prudent Investor Standard applies to the Region.

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 which means the standard of prudence applies to, and results are measured with respect to, the entire portfolio in respect of a municipality's long-term funds and not to individual securities.

Rebalancing: means 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.

Region: means The Regional Municipality of Durham.

Regulation: means Ontario Regulation 438/97.

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

Schedule I Banks: means 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: means 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: means 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: means 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.

Short-Term Funds: means money that is required immediately by the Region as described in section 8.1 and which remains under the control and management of the Region. The funds can be invested in appropriate Legal List Investments.

Sinking Fund: means securities and/or funds accumulated on a regular basis in a separate custodial account that will be used to retire associated sinking fund debentures at maturity. Sinking Fund contributions and securities are Long-Term Funds and will be invested in accordance with the Prudent Investor Standard under the control and management of ONE JIB in accordance with this IPS.

Supranational: means 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).

Trust Fund: means a fund which consists of assets that have been conveyed or assigned to a trustee to be administered as directed by agreement or statute. As a result, a trustee holds title to the assets for the purpose of providing benefits and being accountable to a beneficiary. The Region of Durham is the trustee of funds that are to be used for specific purposes by the Region of Durham or any related parties.

Workout Plan: means a formal strategy, including expected timelines, for the sale of securities held by a municipality 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.

5. Legislative Framework

5.1 Governing Legislation

Investments of MRI will only be made in Legal List Investments in accordance with this IPS and Section 418 of the Act.

Investments of MNRI are governed by the Prudent Investor Standard in accordance with Section 418.1 of the Act. This standard is similar to that which governs trustees and pension fund administrators and creates a fiduciary responsibility. Prudent investment in compliance with the Act and the Regulation enhances the potential for the Region to earn improved risk-adjusted rates of return.

The Act provides that the Region, and therefore ONE JIB, must consider the following criteria in planning investments of MNRI, in addition to other criteria relevant to the circumstances:

- General economic conditions;
- The possible effect of inflation or deflation;
- The role that each investment plays within the Region's total portfolio of investments;
- The expected total return from income and the appreciation of capital; and
- Needs for liquidity, regularity of income and preservation or appreciation of capital.

5.2 Prudent Investor Standard

For MNRI, the standard of care to be applied by the Region and ONE JIB shall be the Prudent Investor Standard as required by section 418.1 of the Act and Part II of the Regulation in the context of managing the Region's MNRI and investments thereof. Investments shall be made with the care, skill, diligence, and judgment, taking into account the prevailing circumstances, that persons of prudence, discretion and integrity would exercise in the management of investments, considering the necessity of preserving capital as well as the need for income and appreciation of capital. The Act includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

Officers, employees and investment agents acting in accordance with written procedures and the IPS and exercising due diligence shall take all necessary actions to optimize performance of investments on a portfolio basis, taking into account the prescribed risk and other parameters set out in this IPS and market factors. The Region's staff acting in accordance with written procedures and this IPS, shall be relieved of personal responsibility for an investment's performance, provided underperformance relative to expectations is reported to Council and the liquidation or sale of investments is carried out in accordance with this IPS.

6. MONEY REQUIRED IMMEDIATELY AND MONEY NOT REQUIRED IMMEDIATELY

6.1 Determination of MNRI and MRI

Determination of MNRI is the responsibility of Council. In making the determination, Council may consider:

- the time horizon within which the monies are needed to meet financial obligations;
- the purpose for which the monies have been collected or set aside and are to be used;
- the source of the money; or
- any combination of the foregoing

MNRI will be comprised of money that is to be used to meet financial obligations that become due more than three years from the date of receipt of such money by the Region.

For certainty, all money and investments that have not been identified as MNRI shall be deemed for purposes of this IPS to be MRI.

Determination of MNRI and MRI may be modified at any time and from time to time by action of Council and with respect to specific finds by the Treasurer in accordance with the provisions of Section 9.2.

Any changes in this IPS regarding MNRI and MRI must be communicated immediately in writing to ONE JIB.

6.2 Summary of Portfolios

The Region's portfolios represent funds required for specific purposes. A high-level description of each of these portfolios and their objectives is provided in section 8 below.

- Short-Term Portfolio, comprised of Short-Term Funds, or MRI, which is invested in Legal List Investments; and/or
- Long-Term Portfolio, comprised of Long-Term Funds, or MNRI, which is invested under the Prudent Investor Standard.

7. ROLES AND RESPONSIBILITIES

7.1 Role of Municipal Staff

This IPS is adopted and approved by Council with input from the Treasurer, and from ONE JIB with respect to MNRI. MRI of the Region, and any third-party trust funds will remain under the control and management of the Treasurer.

Consistent with this IPS, the Treasurer is responsible for the implementation of the investment program and the establishment of investment procedures which shall include:

- The transfer to, or withdrawal from, ONE JIB of control and management of MNRI, under the explicit delegation of authority regarding MNRI set out in the Regulation;
- Investment management of MRI and any third-party trust funds referenced in section 8.3 of this IPS; and
- A system of controls exercised by the Treasurer to regulate the investment activities of Investment Officer(s) of the Region when investing MRI.

In the management of MRI of the Region, and any third-party trust funds, the Treasurer may engage one or more agents and service providers. For example, at the request of the Region, ONE Investment can assist with the investment of the Region's MRI, in Legal List Investments or otherwise, and with the investment of third-party trust funds, in accordance with the terms of applicable trust, to the extent permitted.

7.2 Role of ONE JIB

ONE JIB has been appointed by the Region in accordance with the requirements of the Act and Regulation and on the terms and conditions set out in the ONE JIB Agreement as attached to the Authorizing By-law.

ONE JIB exercises control and management of the Region's MNRI and the investments made by it with such MNRI adhering to the objectives and constraints established in this IPS.

No person including, without limitation, ONE JIB, may engage in an investment transaction except as provided under the terms of this IPS.

Among the responsibilities of ONE JIB are the following:

- Reviewing this IPS;
- Adopting and maintaining an Investment Plan that complies with this IPS;

- Engaging Agents, including as applicable, an OCIO, External Portfolio Managers, Custodians, administrators and other investment professionals;
- Allocating the money and investments under its control and management among an OCIO and/or External Portfolio Managers;
- Monitoring the performance of the Agents; and
- Reporting to the Region

The foregoing is subject to the more detailed terms and conditions contained in the ONE JIB agreement.

7.3 Codes of Conduct and Conflicts of Interest

Individuals who are responsible for the Region's Short-Term Funds (MRI) and any third-party trust funds, shall comply with the Region's Conflict of Interest guidelines and any relevant professional codes of conduct (e.g., CFA Institute's Code of Ethics and Standards of Professional Conduct).

ONE JIB, in its capacity as a joint municipal service board, in addition to being a local board of each participating municipality is subject to a Code of Conduct as required by the Municipal Act, 2001 (the "Act"). This Code of Conduct applies to the Chair and the other Members of ONE JIB acting in their capacity as Members of ONE JIB.

8. Investment

8.1 Short-Term Funds (Money Required Immediately)

The Region's Money Required Immediately, or MRI, consists of money that is required to meet the short-term obligations of the Region coming due within three years and is managed by the Investment Officer(s) under the direction of the Treasurer. This is a reasonable estimate given the nature, size and scope of regional infrastructure projects, the delay between budget approvals and actual expenditures, and the critical need for capital plans and forecasts to meet demands upon infrastructure in the currently evolving municipal context.

8.1.1. Short-Term Funds: Investment Objectives

Short-Term Funds will be actively managed in accordance with any Short-Term Portfolio Term Constraints identified in Appendix B with the goal of achieving a more attractive risk-adjusted return than is available from conventional cash holdings. It is recognized that this will involve a modest increase in risk. This strategy is designed to provide superior short-term investment returns primarily through interest income and moderate capital appreciation. The returns generated by the investment of these monies will contribute to municipal revenues and to the extent possible, the Region shall attempt to match its investments with anticipated obligations.

The Region aims to maximize returns subject to the constraints set out in Part I of the Regulation, as amended from time to time, with a view to preserving capital, maintaining liquidity and managing risk through diversification by issuer and credit quality.

The investment objectives for Short-Term Funds, ranked in priority, are as follows:

i) Eligibility of investments

All investment activities shall be governed by the Act. Investments, unless further limited by Council, shall be those which are eligible under the Regulation, Part I or as authorized by subsequent provincial regulations.

ii) Preservation of Capital

Capital preservation is paramount for short-term portfolios and municipalities as custodians of public funds. Consequently, only high quality, short-term investments that are also Legal List Investments will be held in the short-term portfolio.

iii) Liquidity

The short-term investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements, utilizing securities which trade in a reliable secondary market and holding 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 is an important contributing factor to overall returns while minimizing risk. With the inclusion of higher yielding, short-term investments, and marginally riskier securities, returns can be enhanced within the constraints of this IPS.

The Region's short-term risk tolerance is low. 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, and diversifying investments amongst high credit quality securities issued by different institutions, across different sectors and varying maturities up to and including three years. For example, eligible securities will have constraints to mitigate concentration risk by sector, individual institution, and/or security.

8.1.2. Short-Term Funds: Eligible Investments

Short-Term Funds may be invested in high credit quality investments maturing in three years or less, as permitted by this IPS and the Regulation, Part I.

For a complete listing of Eligible Short-Term Investments under this IPS, refer to the Authorized Investments and Sector Guidelines found in Appendix A. The Investment Officer(s), with the approval of the Treasurer, is permitted to deviate +/- 5% from constraints to take advantage of evolving market conditions.

8.2 Long-Term Funds (Money Not Required Immediately)

Money Not Required Immediately, or MNRI, is described in this policy as Long-Term Funds not required by the Region for financial obligations within the next three years and includes

cash and securities held in Sinking Funds. These are not to be interpreted as surplus funds but rather an exercise to match the timing of funds with planned/forecasted expenditures. In accordance with the ONE JIB Agreement and this IPS, ONE JIB has exclusive control and management of Long-Term Funds and the investments made therewith, subject to the constraints outlined in section 8.6 of this IPS.

Long-Term Funds managed by ONE JIB will be used to meet the longer-term liabilities of the Region. Returns generated by investing Long-Term Funds will help to fund capital projects, preserve, and replace asset infrastructure and to cover shortfalls in operating expenses. The risk tolerance for capital losses is very low and risk needs to be balanced while achieving higher expected returns over a long-term investment horizon.

8.2.1. Long-Term Funds: Investment Objectives

In setting the objectives outlined below, the Region has taken into account the following considerations:

- Preservation of capital
- Adequate liquidity that takes into account the needs of financial obligations and reasonably anticipated budgetary requirements;
- Income and capital appreciation;
- Diversification by asset class, market, sector, issuer, credit quality and term; and
- Macro risks, such as inflation, economic growth and interest rates.

Investment of Long-Term Funds (MNRI) is managed by ONE JIB in a way that balances investment objectives, expected returns, and risk to develop asset allocations that achieve the Region's financial needs within stated risk tolerances.

The investment objectives for Long-Term Funds are as follows:

Outcome	Objective	Risk Tolerance*	Investment Horizon
Short-Term	-Preservation of capital; -High liquidity	Low risk (5% maximum annual loss)	3 – 5 years
Medium-Term	-Contributions toward capital projects, mitigating inflation impacts and meeting target funding requirements; -Liquidity	Low to moderate risk (7.5% maximum annual loss)	6 – 10 years
Long-Term	-Contributions toward capital projects, mitigating inflation impacts and meeting target funding requirements; -Emphasis on long-term inflation-adjusted growth	Moderate risk (10% maximum annual loss)	> 10 years

*Total Equity exposure across all long-term investments shall not exceed 40%.

The MNRI invested with ONE JIB will be broadly diversified among asset class, market, sector, issuer, credit quality, and term to maturity to help reduce the volatility of investment returns. Returns impact revenues and have a longer-term impact on future years' budgets and should, at a minimum, keep pace with inflation. The Long-Term funds shall be invested with the objective of obtaining a progressively higher rate of return for longer term investment horizons, commensurate with stated risk tolerances.

To the extent possible, long-term investment horizons will be aligned with the Region's obligations and cash flow requirements and may consist of liquid and non-liquid securities based on future cash flow requirements.

8.2.2. Long-Term Funds: Sinking Fund Investment Objectives

Sinking Funds established by the Region to retire sinking fund debentures as they become due are MNRI and will be managed separately by ONE JIB. Sinking Funds shall not be combined with other funds, and all investments, bank accounts, reporting and audits will be separate and distinct from other investments made with MNRI. Sinking Fund investments will be tracked separately and may require separate custodial accounts for additional transparency.

Annual contributions will be based on the required return to retire outstanding sinking fund debentures at maturity. For effective asset-liability matching, the expected return, net of fees, of the relevant Sinking Fund should, at a minimum, keep pace with the required return of the underlying debt to avoid the need for additional contributions. The funded status (Market value of Assets – Market value of Liabilities) will be reviewed annually by

the Treasurer. Annual deficits experienced in each respective Sinking Fund must be funded within 12 months by the Region.

The Sinking Fund Portfolio shall predominantly be invested in fixed income securities rated A (low) or better by Dominion Bond Rating Service (“DBRS”), or equivalent credit rating per Appendix D, to match the risk characteristics of the underlying debentures. Low risk, fixed income securities will be maintained for the portfolio to minimize volatility and the possibility of annual deficits. Total equity exposure in each Sinking Fund comprising the Sinking Fund Portfolio shall not exceed 5%.

The Region will consider permitting additional asset classes in the Sinking Fund Portfolio through this IPS as its borrowing program matures.

ONE JIB and the Region must adhere to Section 409 of the Act and Section 4 of the Regulation when managing investments for the Sinking Fund Portfolio.

8.2.3. Durham Region (Own) Debt

The Region currently holds debt securities issued by the Region that were acquired at the time of their issuance. These securities are long-term investments to be held to maturity and shall be included as in-kind assets for purposes of calculating MNRI under the Prudent Investor Standard.

As part of the Region’s overall debt strategy, additional debt securities issued by the Region with maturities over three years may be acquired from time to time. In these circumstances, the acquired securities will be considered MNRI and transferred in-kind to ONE JIB for management under the Prudent Investor Standard.

8.3 Third-Party Trust Funds

In addition to the Region’s own money, the Region is from time to time entrusted with third party trust funds, and the responsibilities and obligations with respect thereto may be subject to other legislation and governed by other agreements and instruments. To the extent that there is any conflict or inconsistency between the provisions of this IPS and the terms and conditions contained in such other legislation, agreements, or instruments applicable to third party trust funds, the latter shall prevail.

The Region’s third-party trust funds are listed in Appendix C.

For certainty, third-party trust funds are MRI of the Region, and such funds are not under the control or management of ONE JIB.

8.4 Investment Management

8.4.1. Investment Management of Short-Term Funds

The Short-Term Funds shall be controlled and managed by the Treasurer as it consists of funds required by the Region to meet its operating requirements.

8.4.2. Investment Management of Long-Term Funds

The investment of Long-Term Funds shall be controlled and managed by ONE JIB in accordance with this IPS.

An Outsourced Chief Investment Officer (“OCIO”) and/or External Portfolio Managers shall be appointed by ONE JIB, and they shall each enter into an agreement with ONE Investment that complies with this IPS and Part II of the Regulation and provide for delivery of compliance and performance reports. In accordance with the applicable regulatory requirements, ONE JIB shall make any OCIO and/or External Portfolio Managers changes deemed in the best interest of the participating municipalities. ONE Investment shall agree on a set of operational guidelines including constraints, discretion limits, diversification and quality standards, and performance expectations, which are documented in the OCIO’s and/or External Portfolio Managers’ guidelines.

8.5 Transition to Prudent Investor Regime

Until the Prudent Effective Date, the Region will continue to control and manage its MRI, MNRI and investments in Legal List Investments. Some existing Legal List Investments have been made with MRI and some with MNRI.

Upon and after the Prudent Effective Date, the control and management of money and investments that are determined to be not required immediately shall be transferred to ONE JIB. Investments made with MNRI may be held, and continue to be held, under the control and management of ONE JIB in instruments such as term deposits, guaranteed investment certificates or principal protected notes issued by a financial institution until maturity. Investments need not be liquidated or disposed of and may be invested in new securities upon receipt of cash proceeds at maturity.

Management of third-party trust funds are not affected by the Prudent Effective Date.

8.6 Investment Constraints

8.6.1. Environmental, Social and Governance (“ESG”) Investing

The Region supports ESG investing for Short-Term and Long-Term Funds. 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.

The Region has chosen to monitor the developments of ESG factors and will consider its approach to ESG investing for the Short-Term Portfolio as and when appropriate to do so by incorporating the International Capital Market Association’s (“ICMAs”) Green, Social and Sustainability principles and guidelines.

For the investment of Long-Term Funds, ONE JIB is required to explore and consider how the OCIO and/or other External Portfolio Managers are implementing responsible investing principles during periodic reviews and to report to the Region on its findings periodically,

as requested. The Region may then provide direction to ONE JIB with respect to further implementation of ESG and Green, Social and Sustainable Development principles and guidelines.

8.6.2. Securities Lending

For investments made with Short-Term Funds, the Region may engage in the practice of securities lending as provided in Section 418 of the Municipal Act to enhance returns on the custodial portfolio by lending certain securities to approved borrowers for a fee.

For the investment of Long-Term Funds, the Region may invest in pooled funds, and other investment funds that are managed by an OCIO and/or External Portfolio Managers who may engage in Securities Lending if the policies of the OCIO and/or External Portfolio Managers permit such activities.

8.6.3. Derivatives

Derivatives shall not be utilized for speculative purposes but as a risk management and mitigation tool to insure against or to protect investments against undesired market and credit risk exposure.

The Region may enter into Forward Rate Agreements (“FRAs”), to reduce the cost or risk associated with short-term investments due to fluctuations in interest rates in accordance with the applicable legislation.

For Long-Term Funds, derivatives may be used for hedging purposes only.

Bond Forward Agreements may be used by the Investment Officer(s) to mitigate the cost of debt issuances in accordance with the applicable legislation.

8.6.4. Pooled Funds

All investment strategies may be pursued directly through holdings of corporate and government issues or indirectly via pooled funds and investment funds or any combination thereof as approved in this IPS.

8.6.5. Currency Hedging

The Short-Term Portfolio will not utilize currency hedging.

The Region’s funding requirements are in Canadian dollars. However, some exposure to foreign currencies in the Long-Term Portfolio may be desirable and provide diversification and potentially increase returns. Therefore, investments in global mandates may be unhedged, fully or in part, where the diversification benefits of the currency exposure are considered beneficial by ONE JIB.

8.6.6. Alternative Asset Classes

The Legislation does not prevent the direct/indirect placement of the Long-Term Funds in Alternative Asset Classes. However, this IPS restricts investments in alternative investments due to the inherent risks of this asset class.

As the Region's Long-Term investment strategy evolves, the merits of Alternative Asset Classes, will be considered as a way to further enhance returns and protect against downside risk. Alternative Asset Classes may have uncorrelated return characteristics when compared with the performance of the broader capital markets, and may thereby be a prudent component of a well-diversified portfolio.

8.6.7. Use of Leverage

Nothing in this IPS prevents the use of leverage, provided it is prudent to do so. Leverage is inherent in the use of certain types of investment strategies and instruments. Where leverage is employed, ONE JIB (for MNRI) shall have processes and procedures to manage, monitor and report counterparty risk exposure. Leverage should not be exercised for speculative purposes but may be used as a hedging tool.

8.7 Municipal Service Corporations and Others

8.7.1. Municipal Service Corporations

The ownership in Municipal Services Corporations ("MSCs") established under section 203 of the Act, such as Durham OneNet, Inc., and any future facilities that the Region establishes for providing municipal services do not qualify as investments under the Regulation.

8.7.2. Local Distribution Corporation ("LDC") Securities

The direct investment in LDC shares and/or promissory notes, as may be applicable, acquired after the Prudent Effective Date, shall be included as part of the Long-Term Funds/MNRI. Specific details of this investment shall be approved by Council in its sole and absolute discretion, and ONE JIB shall adhere to all terms and conditions as directed by the Region. More specifically, ONE JIB shall be prohibited from selling, transferring, assigning, or pledging any LDC securities.

LDC shares are considered restricted, special assets and LDC securities are to be viewed as separate standalone investments with the subject matter expertise and administrative functions remaining under the purview of the Region. Council would retain direct, de facto control of the LDC and, more specifically, Council would control all acquisition and disposition decisions related to any future LDC assets. Any voting related to LDC shares would be undertaken solely by the Region.

Investments in LDC shares would not be included in calculations regarding asset mix/allocations or other constraints that apply to the Long-Term Funds.

8.7.3. Durham Region Municipal Insurance Pool (“DMIP”)

The DMIP was established to protect the member municipalities, or subscribers, from increasing insurance premium costs. The DMIP provides an integrated insurance program which effectively combines the insurance and risk management requirements of the member municipalities into a single common “pool”.

Contributions to the pool are restricted for insurance purposes of its subscribers and do not qualify as MNRI.

8.7.4. Durham York Energy Centre (“DYEC”)

The DYEC Co-owners Agreement establishes terms to ensure clarity around the Region’s and The Regional Municipality of York’s shared obligations with respect to the operation of the waste management facility including site servicing and owner obligations and responsibilities with respect to the executed Project Agreement with Covanta.

The Region’s share of ownership in the DYEC does not qualify as MNRI.

8.7.5. York Durham Sewage System (“YDSS”)

Under the YDSS Co-Owners Agreement, York and Durham Regions share the cost of operating and maintaining the co-owned assets, and investment in new assets to service growth. An operating agreement outlines the roles and responsibilities for York Region and Durham Region (the Co-owners) and Durham Region (the Operator) of the York Durham Sewage System Primary System to ensure regulatory requirements are met.

The Region’s share of ownership in the YDSS does not qualify as MNRI.

8.8 Performance Monitoring, Rebalancing and Management

8.8.1. Short-Term Funds

The performance benchmarks may vary from time to time, as agreed upon by the Investment Officer(s) and the Treasurer, subject to the investment constraints listed in the IPS.

8.8.2. Long-Term Funds

For the investment of Long-Term Funds, ONE JIB shall establish parameters for monitoring investments and rebalancing through policy or directly within the Investment Plan.

Investments are expected to achieve returns at least equal to their benchmarks measured over a rolling five-year period.

9. ADMINISTRATIVE POLICIES

9.1 Flow of Funds and Annual Municipal Budget

9.1.1. Transfer to ONE JIB as Part of Review Process

As part of the Region's annual review process, the Region shall identify the amount, if any, of Long-Term Funds that it holds. Any Long-Term Funds not already under the control and management of ONE JIB shall be transferred to ONE JIB as soon as practicable.

9.1.2. Transfer to the Region as Part of Budget Process

On an annual basis, as part of the Region's budget process, ONE JIB shall be notified by the Treasurer as to the amount, if any, required by the Region from the Long-Term Funds then under the control and management of ONE JIB for the Region's operational purposes. Such amount shall be deemed to be Short-Term Funds and shall be returned to the Region in a lump sum or by way of periodic payments, as directed by the Treasurer.

9.2 Flow of Funds Otherwise than through the Budget Process

9.2.1. Surplus Funds

The Short-Term Funds capture revenues received by the Region during each year after the approval of the Region's budget for the year. On an annual basis, any surplus funds allocated to the reserve and reserve funds and deemed to be MNRI by the Treasurer shall be transferred to ONE JIB to be under its management and control as Long-Term Funds. Amounts so transferred will be recorded annually in the Investment Plan and allocated by ONE JIB in accordance with the Investment Plan.

9.2.2. Contingencies

The Treasurer is authorized, from time to time after the approval of the Region's budget, to direct ONE JIB to return any amounts determined by the Treasurer to be required to meet expenditures for unexpected contingencies not anticipated by the Region's budget in force for that year. Provided, however that the aggregate of the amounts to be returned to the Region under this Section 9.2.2 during the year shall not exceed 25% of the Long-Term Funds under the control and management of ONE JIB as at the date that the Region approved its budget for the year (the Budgeted Long-Term Funds). In determining the Budgeted Long-Term Funds for purposes of calculating the 25% limit, any Long-Term Funds to be transferred to the control and management of ONE JIB in accordance with that year's budget pursuant to Section 9.1.1 shall be included and any amount to be returned by ONE JIB to the Region pursuant to Section 9.1.2 shall be excluded. The OCIO and/or External Portfolio Managers should be made aware of material transactions in advance to ensure the orderly sale of securities to fund withdrawals.

9.3 Valuation of Investments

Investments shall be valued according to the values used by the Custodian(s). For the investment of Long-Term Funds, values of unitized vehicles shall be valued according to the

unit values published daily by the Custodian. Other investments shall be valued at their market value when that is available from regular public trading. If a market valuation of an investment is not available, then a fair value shall be supplied by the OCIO and/or External Portfolio Managers to the Custodian no less frequently than quarterly.

9.4 **Voting Rights**

Subject to the provisions of 8.2.3, where an OCIO and/or External Portfolio Managers have been appointed, such agents of ONE JIB may assume the responsibility of exercising voting rights and will report their voting policies to ONE JIB annually. The Region may access these policies at any time.

9.5 **Internal Controls**

The Treasurer shall establish an annual process of review of all investments made under this IPS. This review will provide internal control by assuring compliance with governing legislation and with policies and procedures established by the Treasurer and will occur in conjunction with the development of the monthly and/or annual investment report. To the extent ONE JIB's input is needed, these requirements will be communicated in advance to ONE JIB.

9.6 **Custodians**

All investments and assets of the investment portfolios shall be held by a Custodian and any of the Custodian's sub-custodians or nominees. For Long-Term Funds, the Custodian shall be acceptable to ONE Investment. For Short-Term Funds the Custodian shall be acceptable to ONE Investment if ONE Investment is administering the investment of the Region's Short-Term Funds, otherwise the Custodian shall be acceptable to the Region. All Custodians shall provide monthly reporting showing at the minimum all securities held, their book values, market values and all income received.

9.7 **Reporting**

Regulation 438/97 of the Municipal Act, 2001 requires the Treasurer or delegate to provide an annual report of investments made by the Region to Council.

9.7.1. Short-Term Funds

For the investment of Short-Term Funds, the Treasurer shall report at least annually to Council, such report to be in such form and contain such content as Council may request. The report to Council shall include investment performance during the period covered and such other information as the Treasurer may consider to be pertinent, subject to the requirements of the Regulation.

9.7.2. Long-Term Funds

The Regulation provides that ONE JIB shall submit an investment report to Council in respect of the investment of Long-Term Funds at least annually. Such report shall include the following.

- Investment performance during the period covered by the report;

- Asset mix of the total portfolio;
- A listing of individual investments held at the end of the reporting period showing, where appropriate, their average term to maturity and yield relative to the benchmark, book value, market value, realized/unrealized gains/losses and actual income received;
- A list of all transactions including the trade date, settled date and the purchase/sale price;
- A statement by the Treasurer as to whether all investments were made in accordance with the IPS and as to whether all investments were made in accordance with the Investment Plan; and
- Any other pertinent information in the opinion of the Treasurer.

All securities invested on behalf of the Region by ONE JIB or with the assistance of ONE Investment shall be held for safekeeping in the name of the Region by a Custodian.

10. Approval, Subsequent Modifications and Effective Date

10.1 Revocation / Amendment of Previous Investment Policy

This IPS amends, and restates as so amended, the existing Statement of Investment Policy and Goals approved by Council on January 26, 2022.

10.2 Modification to the IPS

At least annually Council shall review the IPS and update it, if required. In the course of reviewing the IPS, Council may request comments from the Treasurer with respect to the investment of Short-Term Funds and from ONE JIB with respect to the investment of Long-Term Funds.

Following the Council's review of the IPS, ONE JIB shall review the Investment Plan and update it, if required.

At a minimum, the annual review will consider:

- The adequacy of funding for capital works;
- The Region's ability to reduce other spending;
- Flexibility of the timeframe to payout; and
- Sensitivity to loss.

11. Appendices

- Appendix A - Authorized Investments and Sector Guidelines
- Appendix B - Short-Term Portfolio Term Constraints
- Appendix C - Third-Party Trust Funds
- Appendix D - Credit Ratings

Appendix A: Authorized Investments and 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	A (low)	n/a	25%	5%
Schedule I Banks ^{5,6,7}	A (low)	R-1 (low)	50%	25%
Schedule II Banks ^{5,6,7}	A (low)	R-1 (mid)	10%	5%
Schedule III Banks ^{5,6,7}	A (low)	R-1 (mid)	5%	2%
Loan or Trust Corporations ^{5,6,7}	A (low)	R-1 (mid)	10%	5%
Credit Unions ^{5,6,7}	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 ⁷	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 Agents of the crown, such as Export Development Canada and Canada Housing Trust
- 3 - Includes Agent crown corporations of provinces where the debt is fully guaranteed by the province
- 4 - Includes BC Municipal Financing Authority, School Boards, Local Boards & Conservation authorities.
- 5 - Applies to Debt or Deposit securities, subject to the requirements of the Regulation
- 6 - Debt securities issued by Schedule I, II and III banks and Loan or Trust Corporations under 2 years must be rated AA (low).
- 7 - Aggregate exposure of the total portfolio par value cannot exceed 50%.
- 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 where the term of the investments should not exceed three years

The purchase of eligible securities under Part I of the Regulation not identified in Appendix A above and/or denominated in a foreign currency requires prior approval from the Treasurer.

Appendix B: Short-Term Portfolio Term Constraints

Term Limitation	Percentage	
	Minimum	Maximum
Less than 1 year	25%	100%
1 Year - 2 Year	0%	50%
2 Year - 3 Year	0%	50%

Appendix C: Third-Party Trust Funds

Balance as at December 31, 2022:

1. Fairview Lodge Trust	\$ 99,658.88
2. Hillsdale Estates Trust	\$ 39,604.73
3. Hillsdale Terraces Trust	\$ 46,238.94
4. Lakeview Manor Trust	\$ 43,204.48
5. Department of Social Services Trust	\$ 455,218.48

Appendix D: Credit Ratings

- Part I of the Regulation specifies that certain eligible securities must have a minimum credit rating provided by: Dominion Bond Rating Service (“DBRS”), Moody’s, Standard and Poor’s (“S&P”) or Fitch Ratings. A summary is provided in Table 2 below.
- Credit ratings for securities held in the Region’s Investment 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.

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.