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Town of Aurora

## Policy

Financial Management

Contact: Advisor, Financial Management

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## Investment

### Overview

Municipalities that are subject to the Municipal Act, 2001 (the “Act”) have no general power to invest money. Such powers must be found either in express provisions of the Act or by necessary implication.

Historically, municipalities that are subject to the Act had very limited express investment powers under section 418 of the Act. Section 418 continues to apply to all municipalities that are subject to the Act unless they elect to pass a by-law pursuant to the new section 418.1. Section 418 of the Act provides that “money that is not required immediately” (M.N.R.I.) can only be invested in securities prescribed by the Province in O. Reg. 438/97 (the “Regulation”). These prescribed securities are generally referred to as the “Legal List Securities” and are included in Part I of the Regulation.

Effective January 1, 2019, the new section 418.1 of the Act came into force. Section 418.1 provides that M.N.R.I. can be invested under that section in any security, provided that in making the investment the municipality exercises the care, skill, diligence and judgment that a prudent investor would exercise in making the investment. If a municipality elects to pass a by-law under section 418.1, the effect will be that its M.N.R.I. must be invested in accordance with the prudent investor regime. The rules, conditions and procedures that apply to investments under section 418.1 are set out in Part II of the Regulation.

Investing M.N.R.I. in Legal List Securities or in accordance with the prudent investor regime are mutually exclusive alternatives. That is to say, section 418 does not apply to a municipality that has adopted the prudent investor regime under section 418.1.

Every municipality, regardless of whether section 418 or 418.1 applies to it, has M.N.R.I. and also money that is required immediately (M.R.I.). Municipalities retain the management and control of their M.R.I. The Act does not include any express

provisions that deal with the investment of M.R.I. However, it is consistent with prudent practice to invest such money until it is actually spent, in order to preserve the capital value of that money. Accordingly, it is necessarily implied that a municipality has the power to invest such money on a short term basis. Because the Act is silent as to how municipalities are to deal with M.R.I. and because of the historical investment powers under the Act, a conservative approach is to invest M.R.I. in appropriate Legal List Securities.

Municipalities that elect to pass a by-law pursuant to the new section 418.1 include in their investment policy:

- i. the basis upon which they distinguish between M.N.R.I. and M.R.I.,
- ii. principles governing the investment of each category of money, and
- iii. This Investment Policy Statement (I.P.S.) is intended to respond to the foregoing requirements.

Town of Aurora staff and Council understand that the funds being invested belong to the residents of Aurora. This investment and procedures documentation will ensure that all funds are invested with care, diligence and judgement of a prudent investor with a primary objective of principal preservation while maximizing returns.

## **Purpose**

This I.P.S. governs the investment of the Municipality's M.N.R.I. and M.R.I. It is intended, among other things, to direct the Treasurer in the investment of M.R.I. and to direct ONE Joint Investment Board (ONE J.I.B.) in the investment of M.N.R.I. by implementing the Authorizing By-law 6502-23 pursuant to which the Municipality authorized the establishment of guidelines for the prudent management of the Municipality's M.N.R.I. pursuant to section 418.1 of the Act.

In addition to the Municipality's M.R.I. and M.N.R.I., the Municipality is from time to time entrusted with the management of money and investments for a third-party beneficiary ("third party trust funds"), or Third-Party trust Funds. The Municipality's Third-Party Trust Funds are listed in Schedule B of this I.P.S.

There are also source(s) of money in which the Municipality may have an indirect interest but which the Municipality currently has no authority to invest. Such source(s) of money, referred to in this I.P.S. as "Designated Funds", are listed in Schedule B of this I.P.S. The Designated Funds and the Restricted Special Assets, listed in Schedule A of this I.P.S., are identified in this I.P.S. for the sole purpose of enabling the Municipality to better see, on an aggregated basis, the various financial assets in which the Municipality has an interest.

ONE J.I.B. is not responsible for the investment activities or performance of Third- Party Trust Funds, Designated Funds or Restricted Special Assets.

The goals of this I.P.S. are to:

- Define and assign responsibilities for investment of M.R.I. and M.N.R.I.;
- Describe the Municipality's responsibilities with respect to Restricted Special Assets, Third-Party Trust Funds and Designated Funds;
- Ensure compliance with the applicable legislation;
- Direct ONE J.I.B. as to the Municipality's investment goals and risk tolerance;
- Provide guidance and limitations regarding the investments and their underlying risks;
- Establish a basis of evaluating investment performance and the underlying risks; and,
- Establish a reporting standard to Council.

### **Governing Legislation**

Investments of M.R.I. will, in accordance with this I.P.S., only be made in Legal List Securities.

Investments of M.N.R.I. 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 Municipality to earn improved risk-adjusted rates of return.

Money and investments that the Municipality holds as Restricted Special Assets, Third-Party Trust Funds or has an interest in as Designated Funds will be subject to applicable legislation and any related agreements or instruments.

The Act provides that the Municipality, and therefore ONE J.I.B., must consider the following criteria in planning investments of M.N.R.I., 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 Municipality'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.

## **Prudent Investor Standard**

For M.N.R.I., the standard to be used by the Municipality and ONE J.I.B. 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 Municipality's M.N.R.I. 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 I.P.S. 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 I.P.S. and market factors. The Municipality's staff acting in accordance with written procedures and this I.P.S., 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 I.P.S.

## **Scope**

This I.P.S. applies to employees of the Municipality, to ONE J.I.B. and to the employees of ONE Investment. ONE J.I.B., the Treasurer, and any agent, sub-investment manager or advisor providing services to ONE J.I.B. in connection with the investment of the portfolio shall accept and strictly adhere to this I.P.S.

## **Definitions**

The following capitalized terms are defined terms which have the meanings set out below:

### **Act**

Means the Municipal Act, 2001, S.O. 2001, c. 25, as amended from time to time.

### **Agent**

Means any administrator, Custodian, payment servicer, investment counsel, consultant, banker, broker, dealer or other service provider engaged or appointed by ONE J.I.B. and authorized by ONE J.I.B. to exercise any of the functions of ONE J.I.B. 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, and the Sub- Investment Manager.

**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. Alternative investments are typically less liquid than traditional investments and are appropriate only for allocations with a long investment horizon.

**Asset Class**

An asset class is a specific category of assets or investments, such as cash, fixed income, equities, alternative investments, real estate etc.

**Asset Mix (or Asset Allocation)**

Means the proportion of each asset class in a portfolio. Asset classes include bank deposits, money market securities, bonds and equities, among other things.

**Authorizing By-law**

Means a by-law of the Municipality that authorizes it to invest its money and investments that it does not require immediately in the O.C.I.O. offering of ONE J.I.B. pursuant to section 418.1 of the Act, to approve various documents, the entering into of agreements including a Prudent Effective Date Agreement and the delegation of certain powers and duties to ONE J.I.B./ONE Investment.

**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 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 (M.F.O.A.) which, in conjunction with L.A.S., established ONE Investment.

**CFA Institute**

Refers to the global, not-for-profit professional association that administers the Chartered Financial Analyst (C.F.A.) and the Certificate in Investment Performance Measurement (C.I.P.M.) curricula and examination programs worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance reporting standards for the investment industry.

**Credit Risk**

Means the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. That is, the risk that a lender may not receive the owed principal and interest.

**Custodian**

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

**Designation Funds**

Means source(s) of money in which the municipality may have an indirect interest but which the Municipality currently has no authority to invest. Designated Funds are listed in Schedule B of this I.P.S.

**Diversification**

Means a risk management technique that mixes a variety of investment types within a portfolio to help mitigate portfolio risk. A diversified portfolio holds different kinds of investments to improve the risk adjusted returns.

**Derivative**

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes, and stocks.

**Environment, Social and Governance (E.S.G.) Investing**

Means considering and integrating E.S.G. factors into the investment process, rather than eliminating investments based on E.S.G. factors alone. Integrating E.S.G. information can lead to more comprehensive analysis of a company.

**External Portfolio Managers**

Means external third-party investment management firms whose investment offerings are accessed by ONE J.I.B. directly or through services provided to a Pooled Fund. External Portfolio Managers are agents authorized by ONE J.I.B. in accordance with Part II of the Regulation.

**Interest Rate Risk**

Refers to the possibility that the value of a bond or other fixed- income investment will suffer as the result of a change in interest rates. Interest rate risk can be managed to help improve investment outcomes.

**Internal Controls**

Means a system of controls that may include authorities, policies, procedures, separation and segregation of duties, compliance checks, performance measurement and attribution, reporting protocols, measures for safekeeping of property and data, and the audit process.

**Investment Plan**

Means the investment plan applicable to the M.N.R.I. and adopted by ONE J.I.B. under the Regulation, as it may be amended from time to time.

**Investment Policy Statement (I.P.S.)**

Means the investment policy applicable to the Municipality's investments adopted and maintained by the Council of the Municipality for M.N.R.I. under the Regulation, and for M.R.I., as the same may be amended from time to time. The I.P.S. may also apply to the money and investments held by the Municipality for the benefit of persons other than the Municipality itself and may make reference to source(s) of money in which the Municipality may have an indirect interest but which the Municipality has no authority to invest.

**J.I.B.**

Is short for Joint Investment Board and means 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 Securities**

Means the securities and other investments and financial instruments that are included from time to time in Part I of the Regulation.

**Leverage**

Means an instrument 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 investment risks.

**Liquidity**

Means the ability to turn an investment into cash relatively quickly, without a substantial loss in value. For Example, a savings account is more liquid than real estate.

**Local Authority Services (L.A.S.)**

Means an entity which, in conjunction with M.F.O.A./CHUMS, established ONE Investment.

**Local Distribution Corporation or L.D.C.**

Means a corporation incorporated under section 142 of the Electricity Act, 1998.

**Market Value**

Means the price at which a security is trading and could presumably be sold. Also known as Fair Market Value it represents the current value of the investment.

**Maturity**

Means the date upon which the principal or stated value of an investment becomes due.

**Modern Portfolio Theory**

Means a theory of portfolio management that looks towards the portfolio as a whole, rather than towards the prudence of each investment in the portfolio. This is found in the CFA Institute Standards of Practice Handbook.

**Money Not Required Immediately (M.N.R.I.)**

Means the money that is not required immediately by the Municipality that will be under the control and management of ONE J.I.B. and as defined in this I.P.S. that will be invested in accordance with the Prudent Investor Standard.

**Money Required Immediately**

Means the money that is required immediately by the Municipality that remains under the control and management of the Municipality and, that can be invested in accordance with the Legal List Securities or other applicable legislation.

**Municipal Services Corporation (MSC)**

Means a corporation established under section 203 of the Act in accordance with the applicable regulation (Ontario Regulation 599/06).

**Municipality**

Means The Corporation of the Town of Aurora.

**O.C.I.O. Offering**

Means the comprehensive investment program made available through ONE Investment as an agent for ONE J.I.B., where a qualified investment manager is engaged to advise a Participating Municipality with regard to the investment of the Participating Municipality's M.N.R.I. and to invest and manage such M.N.R.I. in accordance with the terms and conditions set out in the ONE J.I.B. Agreement.

**ONE Investment**

Means the not-for-profit corporation established by CHUMS and L.A.S. which provides certain management, administrative and other services to ONE J.I.B. as its agents.

**ONE J.I.B.**

Means ONE Joint Investment Board, established by certain founding municipalities under section 202 of the Act as a J.I.B. for purposes of Part II of the Regulation, which is the duly appointed J.I.B. for the Municipality, as constituted from time to time and which acts in accordance with the Act, the Regulation, the ONE J.I.B. Agreement, including the Terms of Reference, this I.P.S. and the Investment Plan.

**ONE J.I.B. Agreement**

Means the agreement effective as of the Prudent Effective Date, entered into in accordance with the requirements of the Regulation, pursuant to which ONE J.I.B. has control and management of the Municipality's M.N.R.I.

**Participating Municipality**

Means from time to time each of the municipalities for whom ONE J.I.B. acts as the J.I.B. under the terms of the ONE J.I.B. Agreement.

**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 monies that are invested and managed by an External Portfolio Manager. Monies are pooled or combined with monies of other investors.

**Portfolio**

Means any collection of funds that are grouped together and required for specific purposes.

**Proxy Voting**

Means a legal transfer to another party of a shareholder's right to vote thereby allowing shareholders who cannot attend meetings to participate. External Portfolio Managers usually vote proxies on behalf of their clients.

**Prudent Effective Date**

Means the mutually agreed-upon date by the Municipality and ONE Investment on which the prudent investor regime applies to the municipality as a participating municipality.

**Prudent Effective Date Agreement**

Means an agreement entered into by the Municipality and ONE Investment that sets out the day on which the prudent investor regime starts to apply to the Municipality.

**Prudent Investment Standard**

Means the standard that applies when the Municipality invests money that it does not require immediately under section 418.1 of the 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 applies the standard of prudence to the entire portfolio in respect of the Municipality's M.N.R.I. rather than to individual securities. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the C.F.A. Institute Standards of Practice Handbook.

**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.

**Regulation**

Means Ontario Regulation 438/97.

**Restricted Special Assets**

Means investments specified by this I.P.S. and held by the Municipality as of the Prudent Effective Date, where ONE J.I.B. is not able to exercise control. Restricted Special Assets are listed in Schedule A of the I.P.S. and are not considered to be M.N.R.I.

**Risk**

Means the uncertainty of future investment returns or chance of loss of capital.

**Risk Tolerance**

Means the financial ability and willingness to absorb a loss in return for greater potential for gains.

**Safekeeping**

Means the holding of assets (e.g. securities) by a financial institution.

**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 or another appointed agent on behalf of investors. A Securities Lending program is widely used by institutional investors to generate additional marginal returns on the total portfolio.

**Sinking Fund**

Means a fund established to fulfil the requirements to make annual contributions in respect of various debenture issues wherein money is to be regularly set aside for the payment of the principal of the debentures at maturity.

**Sinking Fund Required Contributions (Annual Sinking Fund Requirement)**

Means the amount of money to be set aside each year for deposit into a sinking fund or a retirement fund, as applicable, for each sinking fund and term debenture issue in accordance with the Municipality's debenture by-laws when such debentures are issued.

**Sinking Fund Required Earnings**

Means the investment earnings needed for the Sinking Fund Contributions to continue to grow to a value sufficient to repay the principal at maturity for each issue of sinking fund and term debentures.

**Sinking Fund Excess Earnings**

Means the investment earnings in excess of the required earnings.

**Sub-Investment Manager**

Means and asset management firm or investment consultant, acting as a sub-investment manager for ONE J.I.B. that provides investment advice and professional services and is involved in the implementation and operational aspects of the O.C.I.O. Offering, and that has full responsibility for the investment and management of a Participating Municipality's M.N.R.I. through ONE Investment, based on an I.P.S. approved by the Council of the municipality.

**Third-Party Trust Funds**

Means money over which the Municipality exercises both management and policy control but whose assets are not owned by the Municipality. These funds are governed by a variety of agreements and, in some cases, by legislation. Some funds may have externally mandated investment policies, and some may have investment policies that are determined by the Municipality. Third-Party Trust Funds are listed in Schedule B of this I.P.S.

**Trust Fund**

Means a fund which consists of assets that have been converted 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 purposes of providing benefits, and being accountable, to the beneficiary. The Municipality is the trustee of funds that are to be used for specific purposes by the Municipality or any related parties.

**Policy****Money Required Immediately and Money Not Required Immediately**

*Determination of M.N.R.I. and M.R.I.*

Determination of the Municipality's M.N.R.I. 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
- any combination of the foregoing

The Municipality has defined M.N.R.I. as money from the municipality's own reserves, reserve funds, sinking funds and current ONE Investments that will not be required to meet financial obligations that become due more than 2 years from the receipt of such money. The purpose of the money is to fund the municipality's future capital, operational and contingency needs.

For certainty, all money and investments of the Municipality that have not been identified as M.N.R.I. (other than Restricted Special Assets, Third-Party Trust Funds and any Designated Funds referenced in the [Purpose](#) section of this policy) shall be deemed for purposes of this I.P.S. to be M.R.I.

Determination of the Municipality's M.N.R.I. and M.R.I. may be modified at any time and from time to time by action of Council and with respect to specific money by the Treasurer in accordance with the provisions of the [Flow of Money Otherwise than through the Budget Process](#) section of this policy.

Any changes in this I.P.S. regarding the Municipality's M.N.R.I. and M.R.I. must be communicated immediately in writing to ONE J.I.B.

#### *Overview of Portfolios*

The Municipality's portfolios represent funds available to support Municipal needs. A high-level description of each of these portfolios and their objectives is provided in the [Investment](#) section below. This I.P.S. applies to the following money of the Municipality, its agencies, boards and commissions including:

- M.R.I. which is invested in Legal List Securities; and/or
- M.N.R.I. which is invested under the Prudent Investor Standard.

### **Investment**

#### *M.R.I.*

The Municipality's M.R.I. is described in this I.P.S. consists of money that is needed to meet the short-term financial obligations of the Municipality and are controlled and managed by the Treasurer.

#### **M.R.I.: Investment Objectives**

The main focus of the investment of M.R.I. is cash management, and the interest income generated by the investment of these monies contribute to municipal revenues. To the extent possible, the Municipality shall attempt to match its investments with anticipated obligations.

Capital Preservation is the paramount objective for M.R.I. investments, and these investments need to be highly liquid. Consequently, only high-quality investments that are also Legal List Securities will be held in this portfolio. The Municipality may invest in full liquid money market securities and deposit accounts. The Municipality 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 preserve capital and to further manage risk through diversification by issuer and credit quality.

The investment objectives, in the order of priority, for the Municipality for Short-Term Money are:

- **Compliance with Portfolio Restrictions:** The legal authority to invest funds comes from the Act. All investments acquired shall be in conformity with portfolio restrictions and permissions set out in O. Reg. 438/97 – Eligible Investments and Related Financial Agreements, as amended from time to time. The Municipality shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.
- **Preservation of Principal:** Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. Investments shall be made with judgement and care, not for speculation, but for investment, considering the probable safety of the principal invested as well as the probable income derived. Staff shall also endeavor to mitigate credit and interest rate risk by: pre-qualifying the financial institutions, brokers/dealers and advisors with which the Municipality does business; diversifying the investment portfolio; structuring the investment portfolio so that maturing securities meet ongoing cash flow requirements; and investing operating funds primarily in shorter-term securities or approved liquid investment pools.
- **Maintenance of Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. All non-equity investments shall be interest bearing in nature and equity exposure will be limited to investments in the ONE Investment Program equity funds. The Municipality's portfolio should be well staggered, using a ladder approach which allows investments to mature at various times and provides the Municipality the opportunity to build up the portfolio based on market conditions/opportunities. A portion of the portfolio may be placed in the ONE Investment Program, which offers compliance and liquidity.
- **Maximization of the Rate of Return:** The Investment Portfolio shall be designed with the goal of maximizing the rate of return through budgetary and economic cycles, considering the investment risk constraints and liquidity needs. Staff will explore and utilize any eligible investment vehicles in building the Municipality's investment portfolio. The investment portfolio will be managed with prudent investor principles, to maximize returns within established risk parameters. To take advantage of short-term fluctuations in interest rates, securities may be sold prior to maturity. Investments shall be purchased once multiple bids are received and analysed. The highest yielding bid, which meets the Municipality's cash flow requirements, will be accepted. If the highest yielding bid is not selected, an explanation describing the rationale shall be provided. Staff involved will retain written records of each transaction, including the name of the financial institutions, rates quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. With the goal of maximizing the rate of return on its investments, staff may utilize eligible

investment vehicles for which there is a sole available supplier, such as the ONE Investment Program products. In instances such as this, multiple bids will not be solicited.

#### **M.R.I.: Eligible Investments**

M.R.I. may be invested in high quality investments that are also Legal List Securities available from banks, dealers and other financial institutions. Investments issued or guaranteed by approved institutions will be permitted by this I.P.S., as deemed eligible by the Regulation or as authorized by subsequent provincial regulations.

#### ***M.N.R.I.: Long-Term Money***

The Municipality's M.N.R.I. is described in the [Determination of M.R.I. and M.N.R.I.](#) section of this policy. In accordance with the ONE J.I.B. Agreement and this I.P.S., ONE J.I.B. has exclusive control and management of the 2M.N.R.I. and the investments made therewith.

From time to time, the Municipality may require money immediately to meet financial obligations and may require ONE J.I.B. to liquidate one or more investments in order to generate money to meet those obligations. ONE J.I.B. will select the investment(s) to be liquidated. The timing of such liquidation will be determined by ONE J.I.B. in consultation with the Treasurer.

#### **M.N.R.I.: Investment Objectives**

In setting the objectives noted below, the Municipality 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;
- Diversification by asset class, market, sector, issuer, credit quality and term to maturity;
- Income and capital appreciation; and,
- Macro risks, such as inflation, economic growth and interest rates.

Investment of M.N.R.I. is managed by ONE J.I.B. in a way that balances investment objectives, expected returns, and risk to develop asset allocations that achieve the Municipality's financial objectives within stated risk tolerances.

Investment of M.N.R.I. is to be managed by ONE J.I.B., in a way that balances the investment objectives, with a level of risk that is appropriate for the municipality. The M.N.R.I. invested with ONE J.I.B. will be broadly diversified to help reduce the volatility of returns. Returns have an impact on revenues, as well as a longer-term impact on future years' budgets and should, at a minimum, keep pace with inflation. To the extent

possible, the Long-Term Money's investment horizons are aligned with the Municipality's obligations and cash flow requirements and may consist of liquid and non-liquid securities based on future cash flow requirements.

#### **M.N.R.I.: Eligible Investments**

Eligible investments for Long-Term Money include any Pooled Fund or other collective investment vehicle or institutional investment management product approved or selected by ONE Investment for the Prudent Investment Program (O.C.I.O. Offering), provided always that the products and the selection of products comply in all material respects with the I.P.S.

Additionally, nothing in this I.P.S. prevents M.N.R.I. from being held in cash, short term money market instruments, or overnight deposits.

#### **M.N.R.I.: Sinking Funds**

Sinking Funds are currently not applicable to the Municipality; however, should any sinking funds be established in the future, they are to be classified as M.N.R.I. and will be managed separately by ONE J.I.B.

#### **Local Distribution Corporation (L.D.C.) Securities**

Not applicable to this Municipality.

#### **Restricted Special Assets**

With the exception of the Municipality's investments held in the ONE Investment Legal List Portfolios specified below, all existing assets, listed in Schedule A of this I.P.S. and held by the Municipality on the Prudent Effective Date, shall be considered to be Restricted Special Assets, and shall not be held by ONE J.I.B. as M.N.R.I. The Treasurer may choose to liquidate these investments and determine that the proceeds are M.N.R.I., to be invested as per this I.P.S. and the approved ONE J.I.B. Investment Plan.

For certainty, Restricted Special Assets are not M.N.R.I. of the Municipality, and such assets are not under the control or management of ONE J.I.B.

The ONE Investment Legal List Portfolio Investments, held by the Municipality, shall be considered to be M.N.R.I. and transferred to ONE J.I.B. to be invested as M.N.R.I., unless deemed by the Municipality to be M.R.I.

#### ***Third Party Trust Funds and Designated Funds***

Not applicable to this Municipality.

#### ***Investment Management***

Investment Management of M.R.I.

The investment of Short-Term Funds shall be controlled and managed by the Treasurer and his/her designate as documented in By-law #6212-19, Schedule "C".

## Investment Management of M.N.R.I.

The investment of M.N.R.I. shall be controlled and managed by ONE J.I.B. in accordance with this I.P.S. and the ONE J.I.B. Agreement.

The selected Sub-Investment Manager shall enter into an agreement with ONE Investment related to the O.C.I.O. Offering, that complies with this I.P.S. and Part II of the Regulation and will provide compliance and performance reports to ONE J.I.B. and ONE Investment. ONE J.I.B. shall make any investment management changes deemed in the best interest of the Municipality.

### *Transition to Prudent Investor Regime/O.C.I.O. Offering*

Until the Prudent Effective Date, the Municipality will continue to control and manage its M.R.I., M.N.R.I. and investments in Legal List Securities. Some Legal List investments were made with M.R.I. and some with M.N.R.I.

During the transition to the O.C.I.O. Offering the Chair and Vice-Chair of ONE J.I.B. have discretionary power to approve temporary investments recommended by the Sub-Investment Manager that may not be expressly described in this I.P.S. but are, in the opinion of the Chair and Vice-Chair, in the best interests of the Municipality and are entirely consistent with their fiduciary obligations to the Municipality.

All M.N.R.I. that is not Third-Party Trust Funds, Designated Funds or Restricted Special Assets shall be provide to ONE J.I.B. on the Prudent Effective Date.

### *Investment Constraints*

#### Environmental, Social and Governance (ESG) Investing

The Municipality supports ESG investing for M.R.I. and M.N.R.I. 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.

For the investment of M.R.I. will be done in compliance with the investment objectives identified in the [M.R.I.: Investment Objectives](#) section of this policy. Accommodating specific ESG considerations may not be possible due to conflicts with the investment objectives. The Municipality has chosen to monitor the developments of ESG factors and will reconsider its approach to ESG investing for the Short-Term Portfolio as and when appropriate to do so.

For the investment of M.N.R.I., ONE J.I.B. is required to explore and consider how the O.C.I.O. is implementing responsible investing principles at the time of hiring and during periodic reviews. It may report on results periodically, if requested.

## Securities Lending

For the investment of M.R.I. Securities Lending is not permitted.

For the investment of M.N.R.I., the Municipality may invest in pooled funds, and other investment funds that are managed by the Sub-Investment Manager who may engage in Securities Lending if the policies of the O.C.I.O. permit such an action.

## Derivatives

Derivatives may not be used for the investment of M.R.I. For the investment of M.N.R.I., futures and forward contracts, options and other derivative instruments may only be used to (a) create an asset mix position that does not leverage the portfolio, (b) replicate the performance of a capital market index, or (c) reduce risk as part of a hedging strategy.

## Use of Leverage

Nothing in this I.P.S. 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 J.I.B. (for M.N.R.I.) and the Treasurer (for M.R.I.) shall have in place monitoring procedures to manage overall exposure to any counterparty. Leverages should not be exercised for speculative purposes but may be used as a hedging tool.

## Pooled Funds

Investments in open-ended pooled funds, closed-ended pooled funds, limited partnerships and other specialist corporate structures (e.g. L.L.C.s), are permitted provided that the assets of such funds are permissible investments under this I.P.S. or provided that any non-permitted investments are disclosed by the Sub-Investment Manager. Within pooled funds, the External Portfolio Manager's policies will take precedence over this I.P.S.

## Currency Hedging

The M.R.I. Investment Portfolio will not utilize currency hedging.

The Municipality's funding requirements are in Canadian dollars. However, some exposure to foreign currencies in the M.N.R.I. Investment Portfolio may be advantageous to provide diversification and potentially enhance returns. Therefore, it shall not be a violation of this I.P.S. for investments in global mandates to be unhedged, in whole or in part, where the diversification benefits embedded in the currency exposure are considered to be beneficial or desirable by ONE J.I.B.

### Alternative Asset Classes

The applicable legislation does not prevent the direct/indirect placement of the M.N.R.I. in Alternative Asset Classes; this I.P.S. restricts investments in alternative investments for the purposes of management of M.N.R.I. under One J.I.B.

Alternative Asset Classes, such as infrastructure or real estate, may have uncorrelated return characteristics with traditional Asset Classes that may improve diversification within the portfolio, which may lead to better risk adjusted returns. Typically, these investments may not be fully liquid and are only appropriate for inclusion in portfolios with long investment horizons.

### Prohibited Investments

Not applicable for this Municipality.

### *Performance Monitoring, Rebalancing and Management*

#### M.R.I.

For the investment of M.R.I., Municipality staff will monitor the cash flow needs of the Municipality on a periodic basis. Should the needs on the Municipality no longer be met by the asset mix, staff will make changes, at the discretion of the Treasurer, taking into consideration the M.R.I. Investment objectives.

#### M.N.R.I.

For the investment of M.N.R.I., ONE J.I.B. 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. At minimum, ONE J.I.B. shall provide reporting described in the [Reporting](#) section of this policy that shows the Municipality's holdings, confirms compliance with this I.P.S. and reports on the Sub-Investment Manager's performance.

### **Administrative Policies**

#### *Flow of Money and Annual Municipal Budget*

##### Transfer to ONE J.I.B. as Part of Annual Review Process

On an annual basis, as part of the Municipality's Annual Review process, the Municipality shall identify the amount, if any, of M.N.R.I. that it holds. Any M.N.R.I. not already under the control and management of ONE J.I.B. shall be transferred to ONE J.I.B. as soon as practicable.

##### Transfer to Municipality as Part of the Annual Review Process

On an annual basis, ONE J.I.B. shall be notified by the Treasurer as to the amount, if any, required by the Municipality from the M.N.R.I. then under the control and management of ONE J.I.B. for the Municipality's operational purposes. Such amount shall be deemed

to be M.R.I. and shall be returned to the Municipality in a lump sum or by way of periodic payments, as directed by the Treasurer.

#### *Flow of Money Otherwise than through the Budget Process*

##### **Surplus Funds**

The M.R.I. captures revenues received by the Municipality during each year after the approval of the Municipality's budget for the year. Any amounts deemed to be M.N.R.I. by the Treasurer at any such time during the year shall be transferred to ONE J.I.B. to be under its management and control as M.N.R.I. Amounts so transferred will be recorded annually in the Investment Plan and allocated by ONE J.I.B. in accordance with the Investment Plan.

##### **Contingencies**

The Treasurer is authorized, to direct ONE J.I.B. to return any amounts determined by the Treasurer to be required to meet expenditures for unexpected contingencies not anticipated by the Municipality's budget in force for that year, provided however that the aggregate of the amounts to be returned to the Municipality under this section during the year shall not exceed 25% of the M.N.R.I. under the control and management of ONE J.I.B. as at the date that the Municipality approved its budget for the year (the Budgeted M.N.R.I.). In determining the Budgeted M.N.R.I. for purposes of calculating the 25% limit, any M.N.R.I. to be transferred to the control and management of ONE J.I.B. in accordance with that year's Annual Review pursuant to the [Transfer to ONE J.I.B. as Part of Annual Review Process](#) section of this policy shall be included and any amount to be returned by ONE J.I.B. to the Municipality pursuant to the [Transfer to Municipality as Part of the Annual Review Process](#) section of this policy shall be excluded. ONE Investment should be made aware of material transactions in advance to ensure the orderly sale of securities to fund withdrawals.

##### *Valuation of Investments*

Investments shall be valued according to the values provided by the Custodian(s). For the investment of M.N.R.I., values of unitized vehicles shall be valued according to the unit values published 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 Sub-Investment Manager to ONE Investment no less frequently than quarterly.

##### *Voting Rights*

The Sub-Investment Manager shall assume the responsibility of exercising voting rights in respect of the Municipality's M.N.R.I. and will report their voting policies to ONE J.I.B. annually. The Municipality may access these policies at any time.

### *Internal Controls*

The Treasurer shall establish an annual process of review of all investments made under this I.P.S. This review will provide internal control by assuring compliance with governing legislation and with policies and procedures established by the Treasurer. To the extent ONE J.I.B.'s input is needed, these requirements will be communicated in advance to ONE J.I.B.

### *Custodians*

All municipal investments and assets of the investment portfolios shall be held by a Custodian and any of the Custodian's sub-custodians or nominees. For M.N.R.I., the Custodian shall be acceptable to ONE Investment.

For M.R.I. the following is a list of financial institutions authorized to provide investment services to the Municipality. This list will be maintained and updated as the business environment changes:

- TD Canada Trust
- CIBC Wood Gundy
- BMO Nesbitt Burns Inc.
- RBC Dominion Securities Inc.
- Raymond James Ltd.
- Canaccord Genuity
- ONE Investment

### *Reporting*

M.R.I.

For the investment of M.R.I., the Treasurer shall provide an annual investment report to Council. The Investment report shall contain:

- A statement about the performance of the investments during the period covered by the report;
- A statement by the Treasurer as to whether or not, in their opinion, all investments are consistent with the investments policies and goals of the Municipality;
- Listing of all investments by maturity date;
- Percentage of total portfolio that each type of investment represents; and
- Such other information that Council may request, or that the Treasurer may consider pertinent.

## M.N.R.I.

The Regulation provides that ONE J.I.B. shall submit an investment report to Council in respect of the investment of M.N.R.I. at least annually. This 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 fund level at the end of the reporting period showing, where appropriate book value, market value, realized/unrealized gains/losses and actual income received;
- A list of all transactions including the security name, trade date, and the purchase and/or sale price;
- A statement by the Treasurer as to whether all investments were made in accordance with the I.P.S. 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 Municipality by ONE J.I.B. or with the assistance of ONE Investment shall be held for safekeeping in the name of the Municipality by a Custodian.

## **Approval, Subsequent Modifications and Effective Date**

### *Revocation/Amendment of Previous Investment Policy*

This policy replaces any existing investment policy of the Municipality, in its entirety, and all previous investment policies are revoked and repealed.

### *Modifications to the I.P.S.*

At least annually Council shall review the I.P.S. and update it, if required. In the course of reviewing the I.P.S., Council may request comments from the Treasurer with respect to the investment of M.R.I. and from ONE J.I.B. with respect to the investment of M.N.R.I.

Following the Council's review of the I.P.S., ONE J.I.B. 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 Municipality's ability to reduce other spending;
- flexibility of the timeframe to payout; and
- sensitivity to loss.

### *Effective Date*

This I.P.S. is adopted by Council of the Municipality effective May 27, 2025. The Treasurer is directed to sign a copy of this I.P.S. to evidence approval and to deliver a copy of this I.P.S. to ONE J.I.B.

## **Responsibilities**

### **ONE J.I.B.**

ONE J.I.B. has been appointed by the Municipality in accordance with the requirements of the Act and the Regulation and on the terms and conditions set out in the ONE J.I.B. Agreement (Appendix I).

ONE J.I.B. exercises control and management of the Municipality's M.N.R.I. and the investments made by it in accordance with the objectives and risk tolerance established in this I.P.S.

Among the responsibilities of ONE J.I.B. are the following:

- Reviewing this I.P.S.;
- Adopting and maintaining an Investment Plan that complies with this I.P.S.;
- Engaging Custodians, administrators and other investment professionals (Agents);
- Allocating the money and investments under its control and management in compliance with this I.P.S.;
- Monitoring the performance of the O.C.I.O. Offering and Agents; and,
- Reporting to the Municipality.

The foregoing is subject to the more detailed terms and conditions contained in the ONE J.I.B. Agreement.

### **Municipal Staff**

This I.P.S. is approved and adopted by Council with input from the Treasurer, and from ONE J.I.B. with respect to M.N.R.I. M.R.I. of the Municipality, in addition to any Third-Party Trust Funds, Designated Funds and Restricted Special Assets referenced in the [Purpose](#) section of this policy, remain under the control and management of the Treasurer.

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

- Investment management of M.R.I. and any Third-Party Trust Funds, Designated Funds and Restricted Special Assets referenced in the [Purpose](#) section of this policy by, or under the direction of, the Treasurer;

- The deposit or withdrawal of M.N.R.I., under the explicit delegation of authority regarding M.N.R.I., and the investment thereof, to ONE J.I.B., which is responsible for the control and management of such funds and investments; and,
- A system of controls exercised by the Treasurer to regulate the activities of Deputy Treasurers and Financial Management Advisors.

No person including, without limitation, ONE J.I.B., may engage in an investment transaction except as provided under the terms of this I.P.S.

In the management of M.R.I. of the Municipality, and any Third-Party Trust Funds, Designated Assets and Restricted Special Assets referenced in the [Purpose](#) section of this policy, the Treasurer may engage one or more agents and service providers. ONE Investment can assist with the investment of the Municipality's M.R.I., in Legal List Securities, and with the investment of Third-Party Trust Funds, in accordance with the terms of the applicable trust, if permitted, at the request of the Municipality.

### **Ethics and Conflict of Interest**

Individuals who are responsible for the Municipality's Short-Term Portfolio shall comply with the Municipality's Conflict of Interest guidelines and any relevant professional codes of conduct (e.g. the CPA Code of Professional Conduct).

ONE J.I.B., in its capacity as a joint municipal service board, in addition to being a local board of each member 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 J.I.B. acting in their capacity as Members of ONE J.I.B.

### **Monitoring and Maintenance**

C.A.O. / directors / managers / supervisors and employees should work collaboratively to resolve issues related to this policy. Any employee found to be disrespecting the terms of this policy other than under exceptional circumstances, emergencies or operational requirement is subject to an investigation and discipline deemed appropriate by their immediate supervisor, Human Resources, the Town Clerk and / or C.A.O.

This policy will be reviewed two years from its effective or revision date, in accordance with the Town of Aurora's policy maintenance schedule.

### **References**

- [Electricity Act, 1998, S.O. 1998, c. 15, Sched. A](#)
- [Municipal Act, 2001, S.O. 2001, c. 25](#)
- [O. Reg. 438/97: Eligible Investments, Related Financial Agreements and Prudent Investment](#)
- [O. Reg. 599/06: Municipal Services Corporations](#)

- [By-law – Prudent Investor Enabling – 6502-23](#)
- [By-law – Delegation of Authority – 6212-19](#)

## **Schedule A: Restricted Special Assets**

### **Other**

- Guaranteed Investment Certificates \$1,000,000
- Bonds \$2,527,974.12
- Protected Principal Notes \$8,247,000
- Accrual Notes \$7,134,000
- Step-up Notes \$7,500,000

## **Schedule B: Third-Party Trust Funds and Designated Funds**

### **Third-Party Trust Funds**

None

### **Designated Funds**

None

## **Appendix I: ONE J.I.B. Agreement**

## **Appendix II: ONE External Portfolio Manager Mandates**