

Prudent Investor Standard Analysis and Recommendations

Municipal Investments Legislation

Municipal Act, Section 418 and Part I of Ontario
Regulation 438/97 (legal list)

- Eligible investments:
 - Bonds issued by Canadian federal, provincial and municipal governments and associated entities
 - Short-term fixed-income securities issued by Canadian chartered banks and credit unions
 - Canadian equities (only accessible through ONE Investment Canadian Equity portfolio)
- Default position for municipal investing
- Basis for City Investment Policy (approved by Council)
- Treasurer responsible for compliance with Investment Policy

Municipal Investments Legislation

Municipal Act, Section 418.1 and Part II of Ontario Regulation 438/97 (Prudent Investment)

- Can invest in any security
- Governance options are to form an Investment Board (IB) or join a Joint Investment Board (JIB)
 - Municipalities who have greater than \$100 million in funds not immediately required, or greater than \$50 million in net financial assets can choose either option
 - Municipalities who do not meet one of the above criteria can still join a JIB
- Council approves Investment Policy
- JIB responsible for creating and implementing investment plan and for compliance with Council-approved policy
- By-law required to opt-in; legislation change to opt-out

ONE Investment

- Formed in 1993 by Local Authority Services and CHUMS Financing Corp to provide municipal investment options
- Operates two bond portfolios and two equity portfolios:
 - Canadian Corporate Bond Fund (legal list compliant)
 - Canadian Government Bond Fund (legal list compliant)
 - Canadian Equity Fund (legal list compliant)
 - Global Equity Fund (Prudent Investor only)
- Also operates short-term high interest savings account and money market portfolio
- Operates a JIB with six current members (only JIB currently in existence)

Options Considered

- Continue to invest under legal list and continue to self-manage most of the portfolio
- Continue to invest under legal list but expand the managed portion of the portfolio
- Opt-in to Prudent Investor (PI) and form an IB
- Opt-in to PI and join the ONE JIB

Consultant Findings

- Risk adjusted investment returns could be increased by opting-in to PI because of access to global equity markets which are more diversified than Canadian equity markets and have historically outperformed Canadian equity markets.
- Higher returns under the legal list could be achievable through expansion of the professionally managed portion of the City's portfolio as historical analysis demonstrated that the ONE funds outperformed the City's self-managed investment returns.

Note: Recommendations are based on analysis of historical performance which does not guarantee future returns.

City Readiness for Prudent

- The City meets both of the financial criteria required to opt-in to PI.
- Significant progress made toward developing foundational structures through reserve and reserve fund strategy and capital funding strategies.
- Continued development of long-term cash flow forecasting function is required.
- Development of a new Investment Policy required to reflect expanded investment options under PI is needed.

Staff Recommendations

- Continue the work to ready the City for implementation of the JIB option under PI and report back to Council within two years.
- Amend current investment policy immediately to increase access to professionally managed ONE portfolios as an interim step.

Questions?