

Corporate Report

REPORT NUMBER 139-2023-Corporate Services & Long-Term Care-Financial Services

DATE

PREPARED

April 18, 2023

FILE

MEETING DATE

May 15, 2023

SUBJECT

Investment of Municipal Funds and Investment Policy Statement Update

RECOMMENDATION

WITH RESPECT to Report 139-2023 (Corporate Services & Long-Term Care – Financial Services), it is recommended that the Investment Policy Statement (IPS), as amended, attached as Attachment A be approved;

AND THAT any necessary by-laws be presented to City Council for ratification.

EXECUTIVE SUMMARY

The report includes information regarding the Investment of Municipal Funds for the period January 1, 2022 to December 31, 2022. The City invested under the Legal List to March 31, 2022 and effective April 1, 2022 transitioned money not required immediately (MNRI) to the ONE Joint Investment Board (ONE JIB) in accordance with By-law 17/2022, the “Prudent Investor Enabling By-Law”.

The consolidated portfolio return for MNRI since inception (April 1, 2022) is -3.5% and the return for money required immediately (MRI) ranged from 0.715% in the first quarter of 2022 and 4.215% in the last quarter of 2022.

At a minimum, Council is required to review and if necessary, amend the Investment Policy Statement (IPS) annually. The IPS establishes a distinction between short term funds or money required immediately (MRI) and long term funds or money not required immediately (MNRI). The IPS (Attachment A) is a comprehensive overview that allows Council to provide direction to the ONE JIB. It is through the IPS that Council ultimately controls MNRI. The IPS presented is consistent with the IPS passed by Council in 2022 and has been amended for general housekeeping updates only.

Following a review of short term obligations, long term projections, reserve fund balances and commitments, and 2023 budget implications, Administration has identified no change to MNRI.

ONE JIB must prepare an annual investment report for Council which is included as Attachment B.

DISCUSSION

Investment of Municipal Funds

In order to transition to the Prudent Investor regime, the City liquidated the investment portfolio (R 6/2022 - Corporate Services & Long Term Care – Financial Services) and transferred funds to the ONE JIB. The following chart summarizes 2022 investment activity leading to the Prudent Effective Date of April 1, 2022 (in millions).

Book Value	HISA	TD Money Market	TDAM Bond Portfolio	ONE Canadian Equity Fund	ONE JIB	Total
Balance @ Jan 1, 2022 (Cost)	69.2	2.0	77.6	15.8	-	164.6
Additions/ (Redemptions)	8.0	(2.0)	2.0	-	-	8.0
Income	0.1	-	(0.1)	-	-	-
Gain/(Loss) on Liquidation	-	-	(4.6)	7.3	-	2.7
Total	\$77.3	-	\$74.9	\$23.1	-	\$175.3
Transfer to ONE JIB April 1, 2022	(13.8)	-	(74.9)	(23.1)	111.8	-
Balance @ April 1, 2022	\$63.5	-	-	-	\$111.8	\$175.3

Financial Results - MNRI

The following chart shows the total market value of MNRI of \$107.9 million by investment product at December 31, 2022. MNRI is diversified among multiple asset classes which affects the risk and return characteristics of the investment portfolio. The ONE JIB invests MNRI with the objective of attaining returns over the long term.

The consolidated portfolio return for MNRI since inception (April 1, 2022) is -3.5%.

Investment Product	\$ (millions)	% of Portfolio	Return (Net of Fees)
ONE HISA	10.0	9.3%	1.8%
ONE Canadian Government Bond Fund	8.0	7.4%	-1.0%
ONE Canadian Corporate Bond Fund	7.8	7.2%	-3.0%
ONE Global Bond Fund	36.0	33.4%	-4.5%
ONE Canadian Equity Fund	13.5	12.5%	-6.3%
ONE Global Equity Fund	32.6	30.2%	-3.5%
Total @ December 31, 2022	\$107.9	100.0%	-3.5%

The equity exposure for MNRI is 42.7%. When combined with MRI (\$83.1 million), the equity exposure for the entire portfolio (\$191.0 million) is 24.1%. The ONE JIB considers allocation by purpose and timeframe of the funds rather than a consolidated limit which permits a portfolio that is more tailored to the characteristics of the funds. The following chart shows the market value (MV) allocation by investment outcome and fund (in millions):

Outcome	ONE HISA	ONE Canadian Gov't Bond Fund	ONE Canadian Corporate Bond Fund	ONE Global Bond Fund	ONE Canadian Equity Fund	ONE Global Equity Fund	Total
Cash	3.6	-	-	-	-	-	3.6
Contingency	-	1.4	1.4	6.5	4.1	9.9	23.3
Target Date 3-5 years	6.4	3.3	3.2	14.7	0.8	2.1	30.5
Target Date 5-10 years	-	2.7	2.6	12.1	5.1	12.2	34.7
Target Date 10+ years	-	0.6	0.6	2.7	3.5	8.4	15.8
Total \$ MV	10.0	8.0	7.8	36.0	13.5	32.6	107.9
Total Weight %	9.3%	7.4%	7.2%	33.4%	12.5%	30.2%	100%

Investment income for MNRI totalled \$4.8 million for the year ended December 31, 2022, made up of the following:

- MNRI - liquidation of portfolio to transition to ONE JIB: \$2.7 million
- MNRI - ONE JIB Portfolio (since April 1, 2022): \$2.1 million

Financial Results - MRI

The total market value of MRI at December 31, 2022 is \$83.1 million. MRI is held in ONE Investment's High Interest Savings Account (HISA) and the return ranged from 0.715% in the first quarter and 4.215% in the last quarter.

Investment income for MRI totalled \$1.8 million for the year ended December 31, 2022, made up of the following:

- MRI - interest received from High Interest Savings Account: \$1.8 million

Investment Fees

ONE Investment has a competitive cost structure. Fees are not invoiced to the municipality directly but are bundled into a single fee per investment pool. In 2022, the investment fees budget was reduced by 50%, \$87,500, in anticipation of the transition to Prudent Investor and in 2023, no investment fees budget was required. As a participating municipality through ONE Investment, the City received an asset tier discount rebate on fees of \$21,000 in 2022.

Prior to the transition to Prudent Investor, the City incurred investment fees of \$56,000 for the period January 1, 2022 to March 31, 2022. The breakdown of the fees is as follows:

- Investment Advisory Services \$21,200
- Investment Management Services \$30,000
- Custodian Services \$4,800

Market Conditions and Volatility

It was a challenging year for market performance and investment returns. Inflation reached 40-year highs, leading to unprecedented interest rate increases, and other factors such as the Russian invasion of Ukraine that impacted global financial markets.

While there remains uncertainty about the changing economic outlook and the ability to reduce inflation to more reasonable levels without triggering a recession, an important reminder is that ONE JIB invests MNRI with the objective of attaining returns over the long term. Short term results can often differ from long term outcomes. In addition, the Prudent Investor regime allows for the opportunity for better risk adjusted returns by building more diverse portfolios of investments. Focusing on long term goals and maintaining a well diversified portfolio to help reduce volatility while providing for the potential for growth over the long term, can help the City achieve its investment goals.

As of April 30, 2023, the total market value of MNRI is \$114.5 million, which is an improvement of \$6.6 million over the year-end market value.

Investment Policy Statement Review

The IPS, as appended to this report as Attachment A, is a comprehensive statement that allows Council to provide direction to the ONE JIB. Using the IPS, the ONE JIB designs and implements an Investment Plan. It is through the IPS that Council ultimately controls its money not required immediately.

At a minimum, Council is required to review and, if necessary, amend the IPS annually. However, if Council priorities change or fiscal circumstances require, the IPS can be reviewed and amended at any point in time.

The IPS establishes a distinction between money required immediately (MRI) and money not required immediately (MNRI). Investments classified as MRI represent funds required within 18 months and continue to be invested in appropriate Legal List Securities with capital preservation and high liquidity of the utmost importance.

Following a review of short term obligations, long term projections, reserve fund balances and 2023 budget implications, Administration has identified no change to the City's current MNRI and MRI which is updated through the Municipal Client Questionnaire (MCQ). The MCQ also provides direction to the ONE JIB on investment objectives and risk tolerance. The City's 2023 MCQ is consistent with the investment objectives and moderate risk tolerance approved by Council in 2022.

The IPS presented is consistent with the IPS passed by Council in 2022 and includes general housekeeping updates only. For example, references to Long-Term Funds and Short-Term Funds were replaced with Long-Term "Money" and Short-Term "Money". This was done to eliminate confusion as the term "Fund" has a different meaning specific to investments (ex. Pooled Fund, Reserve Fund, and Trust Fund).

Administration has been working with the CFO of ONE Investment in order to draft the City's Investment Plan. Following approval of the IPS, the IPS and Investment Plan will be presented to the ONE JIB at the next board meeting scheduled for June 1, 2023.

Investment Reporting Requirements

The City's Investment Policy Statement requires the City Treasurer to report 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.

It is the opinion of the City Treasurer that all investments were made in accordance with the City's Investment Policy Statement (05-01-04) and the City's Investment Plan.

The regulation requires ONE JIB to submit an investment report to Council in respect of the investment of long term funds at least annually. The annual report is attached as Attachment B.

FINANCIAL IMPLICATION

Investment income, after fees, for the year ended December 31, 2022 was \$6.6 million. The review and update of the IPS has no immediate financial implications.

CONCLUSION

It is concluded that the Investment Policy Statement (Attachment A) be approved and the Annual Investment Report for the period ended December 31, 2022 (Attachment B) be presented for information purposes.

BACKGROUND

For the period of January 1, 2022 through March 31, 2022 TD Asset Management Inc. was the City's investment manager for the bond and money market funds. AON was the City's investment advisor during this time frame while RBC Dexia Investor Services acted as the City's custodian.

ONE Investment is the City's investment manager for the Legal List HISA and effective April 1, 2022 ONE JIB is the investment manager for the Prudent Investment portfolio.

On March 6, 2018 the Minister of Municipal Affairs announced reforms to the municipal eligible investment regulations. Effective January 1, 2019, municipalities could pass a by-law authorizing the use of the new investment power under the Prudent Investor Standard. Rather than investing in a Legal List of eligible investments set out by the province, qualifying municipalities will be able to invest in any security, as long as it is prudent for their situation.

The Legal List is a relatively narrow list of allowable investments prescribed under Part 1 of Ontario Regulation 438/97. It restricts municipalities to low-risk, high-quality fixed income investments and limited participation in Canadian equities:

1. Government debt
2. Bank and financial institution debt, deposit receipts and notes
3. Corporate debt
4. Canadian equities through ONE Investment
5. A limited range of asset-backed securities

Investments also must have a sufficiently high credit rating. The Legal List works well for municipalities whose main objective is the preservation of capital.

The purpose of the reform is to give municipalities the opportunity to earn improved risk-adjusted rates of return by building more diverse portfolios of investments.

In addition, a municipality must diversify its investments to an extent that is appropriate for general economic and capital market conditions. It also has a duty to obtain the advice that a prudent investor would obtain under comparable circumstances. Under the Prudent Investor Standard, municipalities must delegate the management of their “money not required immediately” to an external investment board. The municipality would continue to have oversight over “money required immediately” (e.g., short-term funds required for operating purposes).

A municipality that passes a by-law to adopt the Prudent Investor Standard cannot revoke that by-law and return to the Legal List unless the Lieutenant Governor in Council authorizes the municipality to do so by regulation.

ONE Investment created a ONE Joint Investment Board in order to provide municipalities of all sizes access to the Prudent Investor Standard. On May 14, 2020, ONE Investment launched Ontario’s first Joint Investment Board with six founding municipalities: Bracebridge, Huntsville, Innisfil, Kenora, Muskoka, and Whitby. Any municipality can become a participating member of the board. It is designed for municipalities that wish to invest under the Prudent Investor Standard, but do not qualify on their own or are cautious about the work and cost of going it alone.

The ONE Joint Investment Board is affiliated with ONE Investment, a not-for-profit corporation formed by CHUMS Financing Authority, which is wholly owned by the Municipal Finance Officers’ Association of Ontario (MFOA), and Local Authority Services (LAS), the business services arm of the Association of Municipalities of Ontario (AMO). ONE Investment currently offers investment products for Ontario municipalities under both the Legal List and the Prudent Investor Standard. ONE Investment provides services to the ONE Joint Investment Board. The Board consists of a mix of investment experts and municipal finance experts.

REFERENCE MATERIAL ATTACHED

Attachment A: Corporate Policy 05-01-04 – Investment Policy Statement

Attachment B: Annual Investment Report for the period ended December 31, 2022

REPORT PREPARED BY

Carly Jaremey, Accountant – Financial Services

REPORT SIGNED AND VERIFIED BY

Emma Westover, General Manager – Corporate Services & Long-Term Care and City
Treasurer (Acting)

05/05/2023