

Subject: Draft Statement of Investment Policies and Procedures for Prudent Investor Standard

File Number: ACS2024-FCS-FIN-0009

**Report to Finance and Corporate Services Committee on 16 September 2024
and Council 2 October 2024**

**Submitted on September 5, 2024 by Isabelle Jasmin, Deputy City Treasurer,
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Ward: Citywide

**Objet : Énoncé préliminaire des politiques et des procédures
d'investissement dans le cadre de la Règle de l'investisseur prudent**

Numéro de dossier : ACS2024-FCS-FIN-0009

Rapport présenté au Comité des finances et des services organisationnels

Rapport soumis le 16 septembre 2024

et au Conseil le 2 octobre 2024

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Quartier : À l'échelle de la ville

REPORT RECOMMENDATION

**That the Finance and Corporate Services Committee recommend that Council
receive, for information purposes, the Draft Statement of Investment Policies and**

Procedures (SIPP) for the City of Ottawa’s prudent investor standard that will be used as a framework for a request for proposal for an Outsourced Chief Investment Officer service provider working with staff and input from the Ottawa Investment Board to develop a final SIPP for approval by Council in 2025.

RECOMMANDATION DU RAPPORT

Que le Comité des finances et des services organisationnels recommande au Conseil de prendre connaissance, dans le cadre de la Règle de l’investisseur prudent de la Ville d’Ottawa, de l’Énoncé préliminaire des politiques et des procédures d’investissement, qui servira de base à une demande de propositions visant à obtenir les services d’un agent en chef des placements externe. Ce dernier travaillera avec le personnel et s’appuiera sur les commentaires du Conseil d’investissement d’Ottawa pour créer la version définitive de l’Énoncé, qui sera présentée au Conseil aux fins d’approbation en 2025.

BACKGROUND

Current Investments Authority and Reporting

The City of Ottawa is authorized, under section 418 of the *Municipal Act, 2001* (the Act), to invest funds not immediately required. On June 22, 2022, Council approved migrating investments to the prudent investor regime ([ACS2022-FSD-FIN-0005](#)). The migration to the prudent regime is progressing but until it is complete staff must adhere to Ontario Regulation 438/97, as amended, that establishes a set of conservative criteria for eligible investments and portfolio strategies considered suitable for Ontario municipalities not adopting the Prudent Investor Standard pursuant to section 418.1.

The City’s Investment Policy, as approved by Council on November 12, 2015 ([ACS2015-CMR-FIN-0044](#)), sets sector, issuer, credit, and term limits, and acts as the governing guideline for the management of the City’s investment portfolios. The reporting requirements in the City’s Investment Policy are reviewed annually and section 8(1) of Ontario Regulation 438/97 requires that a report be submitted to Council each year.

Currently, Treasury staff in the City of Ottawa’s Corporate and Finance Services Department, manage several investment portfolios:

- Cash and cash equivalents
- Endowment Fund Investments

- Long term investment of the amounts being held in Reserve and Reserve Funds for capital projects
- Sinking Fund (in which long-term investments are made for repayment of debenture principal)

Going forward, Treasury staff would continue to manage the following investment portfolios in accordance with the *Municipal Act, 2001*:

- Cash and cash equivalents
- Short term investments which are held in Reserve and Reserve Funds for capital projects
- Sinking Fund (in which long-term investments are made for repayment of debenture principal)

The Ottawa Investment Board would manage long term investments, including the Endowment Fund, which are held in Reserve and Reserve Funds for capital projects under the prudent investor regime. The anticipated size of this fund is estimated between \$800 million to \$1 billion.

Table 1 - Summary of City Investments as at December 31, 2023

Investment Portfolio	Value as at December 31, 2023 (millions)
Cash & Cash Equivalents	\$877
Endowment Fund	\$200
Long-Term Investments	\$1,508
Sinking Fund	\$358

Prudent Investor Standard for Municipalities in Ontario

In 2019, Ontario municipalities became eligible under the *Municipal Act, 2001* to invest their funds not immediately required for use under the prudent investor standard. Since 2019, at least two Ontario municipalities including Toronto and Barrie are investing their eligible municipal funds through this investment standard. Section 418.1 and Ontario Regulation 438/97 (a regulation under the Act) outline the rules and requirements that municipalities must follow to be eligible to invest using the standard, including that a municipality must delegate its authority to an investment board to manage and oversee

the municipalities' investment of funds not immediately required, among other requirements.

On June 22, 2022, through consideration of the 2021 Investments, Endowment Fund, and other Treasury Activities report ([AS2022-FSD-FIN-0005](#)), City Council adopted the prudent investor standard and established an investment board to invest City funds not immediately required by passing By-law No. 2022-317, which was enacted on September 21, 2022. At this meeting, Council also directed the Chief Financial Officer (CFO) to develop an Investment Governance Plan supported by an Outsourced Chief Investment Officer (OCIO) and authorized the CFO to begin the recruitment process to select board members.

The key benefits of the prudent investor standard for the City include increased risk adjusted returns, additional investment expertise, portfolio diversification for better risk management, environmental, social and governance expertise, and cost efficiencies. Prudent investing can potentially generate additional investment revenues and reduce risk for municipalities, because it allows for the diversification of assets. This broader set of investment options can also enable municipalities to align risk and return strategies with council objectives and priorities.

On December 7, 2022, City Council delegated authority to a selection panel to appoint members to the Ottawa Investment Board (OIB) through the 2022-2026 Council Governance Review report ([ACS2022-OCC-GEN-0030](#)).

On June 14, 2023, Council approved the Terms of Reference and Governance Plan for the OIB through the 2022 Investments, Endowment Fund, and other Treasury Activities report ([ACS2023-FCS-FIN-0005](#)).

Ottawa Investment Board Mandate

In partnership with an Outsourced Chief Investment Officer, the Ottawa Investment Board will adopt and follow an investment plan using the OCIO model of investment. The investment plan will outline how the City's funds not immediately required are to be invested and proportioned among various asset classes.

DISCUSSION

Progress Update: Prudent Investor Standard for the City

Establishing the prudent investor standard for the City of Ottawa involves several steps, as communicated to Council on June 12, 2024 in the 2023 Investments, Endowment,

and Other Treasury Activities report ([ACS2024-FCS-FIN-0005](#)). Ottawa Investment Board members have been selected and they have attended two orientation sessions with staff. Two board meetings have taken place to date. The first was on May 31, 2024 to approve its procedure by-law and mandatory policies ([ACS2024-FCS-OIB-0001](#)) required under the Municipal Act for local boards. The second board meeting was held on [July 17, 2024](#) to discuss and receive feedback on the Draft Statement of Investment Policies and Procedures.

Work Underway: Developing a Statement of Investment Policy and Procedures and Hiring an Outsourced Chief Investment Officer

The next steps in establishing the prudent investor standard for the City are to finalize a Statement of Investment Policies and Procedures (SIPP) for Council's approval and to hire an Outsourced Chief Investment Officer to act as an agent for the Ottawa Investment Board.

A SIPP provides the framework for the investment of City assets designated not immediately required (the Fund) to be invested prudently in accordance with the guidelines of the Municipal Act. The purpose of the policy is to:

- Summarize the nature of the Fund
- Set out the long-term investment objectives and guidelines under which the Fund is to be invested
- Identify the permitted and prohibited investments
- Establish criteria for monitoring and controlling the investment of the Fund
- Address other relevant issues

An Outsourced Chief Investment Officer is an agent of the Board, to exercise the care, skill, diligence, and judgment that a prudent investor would exercise in making investment decisions for the City within the confines of the investment policy. As previously communicated to Council, staff recommend the OCIO model of investment and this provider will be responsible for developing an investment plan for the City under the oversight of the Investment Board.

The SIPP for the Prudent Investor Standard is a new policy for the City and is required as a framework to recruit the Outsourced Chief Investment Officer.

Following Council direction, the Chief Financial Officer has developed the Draft Statement of Investment Policy and Procedures (Document 1) with input from the Ottawa Investment Board.

The recruitment process for an OCIO will be overseen by the Ottawa Investment Board, with assistance of Treasury staff and an external consultant, through a request for proposal. This work will begin immediately following Council receipt of this report and the draft SIPP (Document 1) will be used as a framework to recruit the OCIO provider. Board members approved the hiring of the consultant Eckler Limited ([ACS2024-FCS-OIB-0002](#)) to conduct the OCIO search at their May 31 meeting.

The request for proposal for an OCIO will be issued in Q4 2024 and a preferred proponent is anticipated to be selected by the end of Q1 2025. The final Statement of Investment Policy and Procedures, that will incorporate input from the Outsourced Chief Investment Officer and any further input from the Ottawa Investment Board, will be brought to Council for approval in 2025.

Once Council approves the SIPP in 2025, the Ottawa Investment Board will continue implementing the prudent investor regime by working with the OCIO to develop and implement an investment plan for the City that aligns with the Council-approved SIPP.

The draft SIPP establishes a long-term goal for the Fund to earn a gross nominal rate of return of 5.5% per annum to meet its annual distribution target and expenses. Over a longer-term 10 plus year horizon, the Fund is expected to earn a rate of return of at least CPI + 3.5% per annum.

Compliance with the Municipal Act

To be compliant with *Municipal Act, 2001* Regulation 438/97, Council must adopt and maintain an investment policy in relation to prudent investing under section 418.1 of the Act. O. Reg. 43/18, s. 10. In accordance with the Act, the draft policy includes requirements with respect to the municipality's objectives for return on investment, risk tolerance and liquidity needs. Section 18 (3) further states that the investment policy may include other requirements with respect to investment matters that Council considers to be in the interests of the municipality. At least annually, Council shall review the investment policy and update it, as necessary.

FINANCIAL IMPLICATIONS

Investment strategies have the goal of maximizing the City's investment holdings risk adjusted returns that are aligned with Council objectives and risk tolerances.

By adopting the prudent investor standard, it is anticipated that the City will increase its risk-adjusted investment returns, which means the City will be better compensated for

taking the same level of risk. Estimated costs to establish the prudent investor regime of \$230,000 will be funded and offset by the expected increase in investment revenue.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report. Pursuant to subsection 418.1 (2) of the *Municipal Act, 2001*, a municipality may enact a by-law, to have section 418.1 of the *Municipal Act, 2001* apply in order to adopt the prudent investor regime in respect of investments made by a municipality. Investments made pursuant to the prudent investor enabling By-law 2022-317 will be carried out through the Ottawa Investment Board in accordance with the requirements of section 418.1 of the Act and Regulation 438/97.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a citywide report.

CONSULTATION

The Chief Financial Officer developed the Draft Statement of Investment Policy and Procedures (Document 1) with input from the Ottawa Investment Board and with subject matter experts from Eckler Limited. The draft policy is required as a framework to recruit the Outsourced Chief Investment Officer. The request for proposal and contracting process for an OCIO will be overseen by the Ottawa Investment Board and will begin immediately following Council receipt of this report. Once an OCIO is selected, their input, and any further input from the Ottawa Investment Board, will be incorporated into the final document and brought to Council for approval in 2025.

ACCESSIBILITY IMPACTS

Finance and Corporate Services adheres to the requirements of the *Accessibility for Ontarians with Disabilities Act, (2005)* in its operations, programs and initiatives. This report is administrative in nature and has no associated accessibility impacts.

ENVIRONMENTAL IMPLICATIONS

Adopting the prudent investor standard expands the opportunity to evaluate Environmental, Social and Governance (ESG) strategies to investing the City investment funds. Staff recommended including an ESG statement in the investment policy that is aligned with Council's objectives and this was incorporated into Document 1.

RISK MANAGEMENT IMPLICATIONS

There are financial risk implications to investing. The City's investment portfolio under prudent investor is expected to increase diversification in comparison to the current investment portfolios. Under prudent investor it is anticipated that the City will increase its risk-adjusted investment returns, which means the City will be better compensated for taking the same level of risk. By outsourcing to an OCIO through the Ottawa Investment Board the City can benefit from the OCIO's sophisticated risk management capabilities. The final Statement of Investment Policies and Procedures (to be approved by Council in 2025) will consider Council's risk tolerances and will identify eligible investment asset classes and various limitations. The Chief Financial Officer/Treasurer has the duty to report to Council any investment that is not consistent with the investment policy. Compliance will also be monitored by the OCIO and the Ottawa Investment Board through a third-party investment custodian.

TERM OF COUNCIL PRIORITIES

This report supports the current 2023-2026 Term of Council Priorities as well as the City's commitment to financial sustainability and transparency.

Staff recommended including an environmental, social and governance statement in the investment policy that is aligned with Council's objectives and this was incorporated into Document 1.

SUPPORTING DOCUMENTATION

Document 1 - Draft Statement of Investment Policies and Procedures

DISPOSITION

Following Council's receipt of this report, the Ottawa Investment Board will begin the request for proposal and contracting for an Outsourced Chief Investment Officer in Q4 2024. A final Statement of Investment Policy and Procedures, which incorporates input from the selected Outsourced Chief Investment Officer and any further input from the Ottawa Investment Board, will be brought to Council for approval in 2025.