

# **Draft Statement of Investment Policies and Procedures**

City of Ottawa Prudent Investor Standard

July 2024

# Section 1 - Introduction

---

## 1.01 Purpose of the Investment Policy

This Statement of Investment Policies and Procedures (the “Policy”) provides the framework for the investment of the assets designated not immediately required (the “Fund”) to be invested prudently in accordance with the requirements of the Municipal Act that includes the requirement to establish the Ottawa Investment Board (the “OIB”). The objective of this Policy is to ensure that the assets of the Fund shall be invested in accordance with the prudent investor standard. The Ottawa Investment Board (the “Board”) has been established by the City Council of Ottawa (the “Council”) to oversee the Fund.

The purpose of this Investment 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; and
- address other relevant issues.

## 1.02 Nature of the Fund

In order to establish an appropriate policy for the investment and administration of the assets of the Fund, it is important to understand the nature of the Fund and how it is intended to be used.

### Background of Fund

As of January 1, 2019, new provincial legislation enables eligible municipalities to pass a by-law opting into prudent investment, in accordance with the requirements of section 418.1 of the Municipal Act, 2001 and Ontario Regulation 438/97.

As such, the Council has established the Ottawa Investment Board to oversee the prudent investment of the City’s funds not immediately required. The Board operates within the guidelines and authority as outlined in the Board Governance Manual, Term of Reference (approved June 14, 2023, ACS2023-FCS-FIN-0005) and this SIP&P.

Prudent investor standards require the Council and Board to exercise care, skill, diligence, and judgment that a prudent investor would exercise in making investment decisions. The standard is like that which governs trustees and pension administrators and creates a fiduciary duty.

1. Investments shall be made with judgment and care - under the circumstances then prevailing - which persons of prudence, discretion, and integrity exercise in the management of investments, considering the necessity of safety of capital as well as the probable income to be derived.
2. The standard to be used by investment officials shall be the “prudent person” standard as required by the Regulation and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy.
3. The duty includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

### **1.03 Long-Term Investment Objectives**

The long-term goals of the Fund are:

1. Earn a gross nominal rate of return of 5.5% to meet its annual distribution target and expenses.
2. Earn a long-term (10+ years) rate of return of at least CPI + 3.5%.

In addition, due to evolving market conditions and potential future amendments to the Fund’s eligible set of investments, the long-term objectives of the Fund can be re-visited at any time but at a minimum of every five years.

The investment objectives and guidelines set out in the next section of this Policy are intended to generate a total investment rate of return sufficient to allow the Fund to meet the above objectives.

### **1.04 Return on Investment**

The return on investment, for the purposes of this Policy, includes the following:

- interest and dividends;
- gains and losses realized on the sale of investments; and
- changes in the amount of unrealized gains and losses on investments held at the end of the reporting period.



## 2.03 Investment Beliefs

This Investment Policy (the "Policy") was developed by keeping in mind some general investing principles, or "beliefs", as outlined below:

(i) consistency with the Prudent Investor Standard and Modern Portfolio Theory:

(ii) there is a relationship between risk and return – higher returns generally require taking higher risk:

(iii) in the long term, equities will outperform bonds to compensate for their higher risk:

(iv) the long-term Asset Mix is the most important component of a portfolio's risk and return:

(v) risk control managed primarily through the diversification of Asset Mixes. Additional risk control is provided by restrictions to permitted investments, implementation strategies, and depth and breadth of the monitoring and controls:

(vi) a passive management approach shall be considered where there is a belief that indexing is an efficient and cost-effective means to gain exposure to an asset class. An active management approach may be used where a belief is held that a manager can add value above the indicative benchmark on an after fees basis and/or reduce the volatility of returns:

(vii) alternative strategies/asset classes may be appropriate and will be evaluated based on their liquidity, the management time needed to monitor the investment and the level of transparency:

(viii) market timing at the policy level is an inefficient strategy for consistently increasing returns:

(ix) trading should not be based on technical analysis alone; investment decisions should be supported by an array of key factors:

(x) It is understood that the prudent investor standard will result in the fund being exposures to investments denominated in currencies other than the Canadian dollar. Each investment opportunity will be evaluated based on the expected risk/return characteristics individually as well as in a total portfolio context. Currency risks will be evaluated, and management strategies will be explored based on expected risk, costs, and ease of implementation.

(xi) although the City is a non-taxable entity, care should be exercised to minimize possible adverse tax situations (e.g. foreign investments); and

(xii) ensure conformity to all legislation governing the investment of the City's assets.

## 2.04 Investment Management

The Board has adopted the Outsourced Chief Investment Officer (OCIO) model and thus have delegated investment manager selection, and most operational aspects of the Fund investments to the OCIO. The OCIO is expected to ensure all investment managers:

- i. comply with this Policy and the Investment Plan; and
- ii. provide monthly compliance reports to the Board and more comprehensive reports to the Investment Board at least quarterly.
- iii. Assist Staff in providing detailed annual reporting to Council and Senior Management

The OCIO shall make any investment manager changes, from time to time, as are deemed in the best interest of the Fund. With each Investment Manager the OCIO and Investment Board shall agree upon a set of guidelines within which the Investment Manager is expected to operate, including discretion limits, diversification and quality standards, and performance expectations.

The Total Fund benchmark portfolio and asset mix guidelines (by market value) are set out below:

### Total Fund Asset Mix

Asset Class	Minimum	Target	Maximum
Short Term Fixed Income	35%	40%	45%
Canadian Equities	5%	10%	15%
Global Equities	25%	30%	35%
Real Estate	0%	8%	10%
Infrastructure	0%	6%	8%
Private Debt	0%	6%	8%
Total		100%	

## 2.05 Performance Benchmarks

Asset Class	Benchmark
Short Term Fixed Income	FTSE Canada Short Term Overall Index
Canadian Equities	S&P TSX Composite Index
Global Equities	MSCI World Index (CAD)
Real Estate	

Infrastructure	MSCI/REALPAC Canada Quarterly Property Fund Index CPI + 3.5%
Private Debt	Secured Overnight Financing Rate (SOFR) + 3.5%

---

1. The total fund benchmark will be calculated as the weighted average of the individual asset class benchmarks based on the target total fund asset mix above.

## 2.06 Measurement Basis and Time Frame

Investment performance will be monitored and evaluated on a quarterly basis against the above objectives. The time frames for assessing the performance of the managers will normally be based on a four-year moving average time horizon and the cumulative period since the manager was hired.

Return objectives include realized and unrealized capital gains or losses plus income from all sources. Investment returns are measured on a time-weighted basis.

## 2.07 Rebalancing Guidelines

Asset Class	Minimum	Benchmark	Maximum
Short Term Fixed Income	35%	40%	45%
Canadian Equities	5%	10%	15%
Global Equities	25%	30%	35%
Real Estate	0%	8%	10%
Infrastructure	0%	6%	8%
Private Debt	0%	6%	8%
Total		100%	

The asset mix will be reviewed as at the end of each calendar quarter. If any of the allocations are outside the above ranges, the OCIO is expected to rebalance towards the mid-point of the range within six months of the quarter end.

Rebalancing can be achieved by direct transfer between asset class or redirecting cash inflows or outflows between asset classes.

There will be a degree of temporary latitude within these rebalancing guidelines with respect to allocations to illiquid asset classes which will be discussed and agreed with between the Board and OCIO at the time of any rebalancing requirement.

## Section 3 – Permitted and Prohibited Investments

---

### 3.01 General Guidelines & Permitted Investments

All investments must be legal investments within the laws that govern the Fund. Investments in the categories below may be made directly by the purchase of securities, or indirectly by the purchase of pooled investment funds, mutual funds, or other limited liability corporate structures. Derivatives can be used for purposes of risk mitigation and hedging purposes, however, options, futures, and other derivatives used primarily for speculation purposes are prohibited.

### 3.02 Environmental, Social and Governance ESG Considerations

The Board and Council believe that companies and OCIO that have good Environmental, Social, and Governance (“ESG”) practices are preferred investments. ESG views are based on the following fundamental beliefs:

- a) Companies that do well in managing ESG matters should have less financial risk and should perform better financially over the longer term.
- b) Taking ESG matters into account enables investors to better understand, manage and mitigate risks associated with long-term investments.
- c) Companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less favorable practices.
- d) ESG factors may affect investment performance over time and to varying degrees across companies, sectors, regions, and asset classes.
- e) We prefer companies that act responsibly in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships.
- f) *The OCIO provider should demonstrate an ESG strategy that may be considered in alignment with or superior to the UN Principles for Responsible Investing and may include a clear statement on their approach to engagement, divestment, diversity and inclusion, and any other ESG matter they consider critical.*

ESG considerations will be incorporated into the ongoing OCIO selection and monitoring process. The OCIO is expected to evaluate ESG policies and practices as part of ongoing portfolio management.



### **3.03 Prior Permission Required**

If there is a lack of clarity as to whether an investment opportunity is eligible or ineligible, the OCIO must err on the side of caution and obtain prior permission from the Board to pursue this opportunity.

### **3.03 Securities Lending**

The securities of the Fund may be loaned, for the purpose of generating revenue for the Fund. Such loans must be secured by cash and/or readily marketable government bonds (issued by domestic or foreign national governments), treasury bills and/or letters of credit, discount notes and bankers' acceptances of Canadian Schedule I, II and III banks. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the custodian, which includes full indemnification. The custodian shall, always, ensure that the Board has a current list of those institutions that are approved to borrow the Funds' investments.

### **3.04 Borrowing**

While it is understood that some investment strategies may involve the use of leverage at the strategy level, in general, money shall not be borrowed on behalf of the Funds and the Funds' assets, at the total portfolio level, shall not be pledged or otherwise encumbered in respect thereof.

## Section 4 – Monitoring and Control

---

### 4.01 Delegation of Responsibilities

Overall responsibility for the Fund rests with the Board. The Board was established to facilitate the prudent investment of the Fund that includes outsourcing of investment management to an OCIO.

- (a) **The Board is responsible for:**
  - (i) selecting, appointing and ongoing monitoring of the OCIO:
  - (ii) establishing investment guidelines for individual investment mandates within the context of this Investment Policy:
  - (iii) selecting a custodian:
  - (iv) selecting an investment consultant:
  - (v) monitoring and evaluating performance, and
  - (vi) reporting at least once each year to the City Council of Ottawa.
- (b) **The OCIO**  
The OCIO will:
  - (i) provide the Board and Staff recommendations on, and assistance with, rebalancing activities as required (see 4.02):
  - (ii) select, monitor and replace investment managers:
  - (iii) ensure assets are invested in accordance with this Investment Policy:
  - (iv) meet with the Board as required and provide written reports regarding their past performance, their future strategies and other issues as requested by the Board; and
  - (v) file quarterly compliance reports with the Board and the Investment Consultant (see Section 4.04).
- (c) **Custodian**  
The Board has retained a custodian to:
  - (i) maintain safe custody over the assets of the Funds;

- (ii) execute the instructions of the Council and any investment manager appointed to manage the assets of the; and
- (iii) record income and provide monthly financial statements to the Council as required.

(d) **Investment Consultant**

The Board will retain an Investment Consulting firm to:

- (i) assist the Board in developing a prudent long-term asset mix, specific investment objectives and policies:
- (ii) monitor, analyze and report to the Board and/or Staff on the Funds' investment performance and asset mix:
- (iii) Perform an annual review assessment of the performance of the OCIO in relation to established objectives.
- (iv) as required, report on the status of compliance reports received from the OCIO; and
- (v) support the Committee on any investment related matters.

#### **4.02 Monitoring and Rebalancing the Asset Mix**

To ensure that the Funds operate within the guidelines stated in this Policy, the Board shall monitor the asset mix quarterly.

Rebalancing guidelines are described in 2.05. The OCIO is responsible for carrying out the rebalancing requirements.

#### **4.03 Performance Measurement**

Quarterly reports will be submitted by the OCIO to the Board members setting out the performance of the Funds and the investment managers, together with other relevant data. The performance of the Fund, and each individual investment mandate will be reviewed quarterly.

#### **4.04 Compliance Reporting by the OCIO**

The OCIO is required to sign off that they are compliant with Policy at the end of each calendar quarter. The compliance report should indicate whether all invested assets was following this Policy during the quarter.

The compliance report must be received by the Board within 30 calendar days of quarter end.

If, at any time, the OCIO is not in compliance with this Policy, the OCIO is required to advise the Chairperson of the Board, detailing the nature of the non-compliance, and recommending an appropriate course of action to remedy the situation.

#### **4.05 Investment Policy Review**

This Policy may be reviewed and revised at any time, but it must be formally reviewed, by the Board, at least annually.

#### **4.06 Standard of Professional Conduct**

The OCIO's staff and the Investment Consultant's staff are expected to comply, always and in all respects, with the Code of Ethics and Standards of Professional Conduct as promulgated by the CFA Institute.

DRAFT

## Section 5—Administration

---

### 5.01 Conflicts of Interest

(a) **Responsibilities**

This section applies to the members of the Board, as well as to all agents employed by them. An "agent" is defined to mean a company, organization, association or individual, as well as its employees, who are retained by the Board to provide specific services with respect to the investment, administration, and management of the Funds.

(b) **Disclosure**

In the execution of their duties, the Board members and their agents shall disclose any material conflict of interest relating to them, or any material ownership of securities, which could impair their ability to render unbiased advice, or to make unbiased decisions, affecting the administration of the Fund.

Further, it is expected that no Board member or agent shall make any personal financial gain (direct or indirect) because of his or her fiduciary position. However, normal, and reasonable fees and expenses incurred in the discharge of their responsibilities are permitted if documented and approved.

No affected person shall accept a gift or gratuity or other personal favour, other than one of nominal value, from a person with whom the affected person deals during performance of his or her duties.

It is incumbent on any person affected by this Investment Policy who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest, to disclose full details of the situation to the attention of the Chair of the Board immediately. The Chair, in turn, will decide what action is appropriate under the circumstances.

No person who has or is required to make a disclosure as contemplated in this section shall participate in any discussion, decision or vote relating to any proposed investment or transaction in respect of which he or she has made or is required to make disclosure.

## **5.02 Valuation of Investments Not Regularly Traded**

The following principles will apply for the valuation of investments that are not traded regularly:

- (a) **Bonds and Equities**  
average of bid-and-ask prices from two major investment dealers, at least once every calendar quarter, or another approach approved by the Board:
- (b) **Alternatives**  
valuations should be conducted quarterly, or at least annually by independent third-party appraisers.

## **5.03 Voting Rights**

The Board has delegated voting rights acquired through the investments held by the Fund to the custodian of the securities to be exercised in accordance with the OCIO's instructions. The OCIO is expected to ensure voting rights related are exercised in the best interests of the Fund investments.

## **5.04 Dismissal of the OCIO**

Reasons for considering the termination of the services of the OCIO may include, but are not limited to, the following factors:

- (a) performance results which are below the stated performance benchmarks;
- (b) changes in the overall structure of the Funds such that the OCIO's services are no longer required;
- (c) changes in personnel, firm structure or investment philosophy which might adversely affect the potential return and/or risk level of the portfolio; and/or
- (d) failure to adhere to this Policy.