

<p>4. 2016 INVESTMENT AND ENDOWMENT FUND REPORT</p> <p>RAPPORT SUR LE FONDS D'INVESTISSEMENT ET DE DOTATION DE 2016</p>

COMMITTEE RECOMMENDATIONS

That Council:

- 1. Receive this report on the results of the City's investments for 2016, as required by Ontario Regulation 438/97 as amended, Section 8 (1), and the City's Investment Policy.**
- 2. Approve the addition of one full time equivalent in the Treasury Branch and increase the compensation budget by adjusting investment revenue by \$90,000.**
- 3. Receive the summary of changes to the Commodity Price Hedging Policy and that the City Clerk and Solicitors office make the necessary amendments to by-law 2008-426 as highlighted in the disposition.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil de :

- 1. Prenne connaissance du présent rapport sur les résultats des investissements de la Ville pour l'année 2016, comme l'exigent le paragraphe 8 (1) du Règlement de l'Ontario 438/97, modifié, et la Politique d'investissement de la Ville.**
- 2. Approuve l'ajout d'un poste équivalent à temps plein à la Direction de la trésorerie et l'augmentation du budget de rémunération avec l'ajustement des revenus des investissements en montant de 90 mille de dollars.**
- 3. Prenne connaissance du sommaire des changements à la Politique sur la régulation des prix des marchandises et que le Bureau du greffier municipal et de l'avocat général apporte les modifications nécessaires au Règlement 2008-426, comme il est indiqué à la section Suite à donner.**

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, dated 30 May 2017 (ACS2017-CSD-FIN-0015)

Rapport de la Trésorière municipale adjointe, Finances municipales, daté le 30 mai 2017 (ACS2017-CSD-FIN-0015)

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
6 June 2017 / 6 juin 2017**

**and Council
et au Conseil
14 June 2017 / 14 juin 2017**

**Submitted on May 30, 2017
Soumis le 30 mai 2017**

**Submitted by
Soumis par:
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municipale adjointe, Finances municipales**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2017-CSD-FIN-0015

SUBJECT: 2016 Investment and Endowment Fund Report

OBJET: Rapport sur le fonds d'investissement et de dotation de 2016

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council:

- 1. Receive this report on the results of the City's investments for 2016, as required by Ontario Regulation 438/97 as amended, Section 8 (1), and the City's Investment Policy.**
- 2. Approve the addition of one full time equivalent in the Treasury Branch and increase the compensation budget by adjusting investment revenue by \$90,000.**
- 3. Receive the summary of changes to the Commodity Price Hedging Policy and that the City Clerk and Solicitors office make the necessary amendments to by-law 2008-426 as highlighted in the disposition.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil de :

- 1. Prendre connaissance du présent rapport sur les résultats des investissements de la Ville pour l'année 2016, comme l'exigent le paragraphe 8 (1) du Règlement de l'Ontario 438/97, modifié, et la Politique d'investissement de la Ville.**
- 2. Approuver l'ajout d'un poste équivalent à temps plein à la Direction de la trésorerie et l'augmentation du budget de rémunération avec l'ajustement des revenus des investissements en montant de 90 mille de dollars.**
- 3. Prendre connaissance du sommaire des changements à la Politique sur la régulation des prix des marchandises et que le Bureau du greffier municipal et de l'avocat général apporte les modifications nécessaires au Règlement 2008-426, comme il est indiqué à la section Suite à donner.**

BACKGROUND

The City of Ottawa is authorized, under Section 418 of the Municipal Act, 2001, to invest funds not immediately required. Ontario Regulation 438/97, as amended, establishes a set of conservative criteria for eligible investments and portfolio strategies considered suitable for Ontario Municipalities.

Endowment Fund Performance

The City's Investment Policy, as approved by Council on 12 November 2015, 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 and Section 8 (1) of O. Reg. 438/97 require that a report be submitted to Council each year. Regulation 438/97 was amended on 12 December 2005, by Regulation 655/05. This regulation provides a wider range of eligible investments in Canadian corporate bonds and equities for the City's Endowment Fund. The regulation and the City's adopted Statement of Investment Policies and Procedures require reporting on the performance of the Endowment Fund, which has been included in this report.

Treasury Branch Services

The Treasury Branch provides debt and investment management services for the City. With a staff complement of 5 full-time equivalent (FTE), the group is responsible for the management, monitoring and administration of City investments, debt, banking, commodity hedging, Treasury accounting, pension support, and a center of expertise for other departments in financing and cash management.

Update of the Commodity Price Hedging Policy

In accordance with section 7 of the Delegated Authority bylaw 201-435, the City Treasurer has authority to amend the Commodity Price Hedging Policy. When the Treasurer relies on section 7 of the Delegation of Authority by-law to update the "Commodity Price Hedging Policy", a summary of the Treasurer's updates may be included in a future report which rises from FEDCO to Council and provides in the disposition that the City Clerk and Solicitor's office update the "Commodity Price Hedging Policy" in Schedule "A" of by-law 2008-426 to revise the updates to the policy. Accordingly, this report includes the applicable summary and disposition.

DISCUSSION

Financial Market Review 2016

Canadian economic performance was a tale of two stories in 2016. The year started with fears about declining economic performance in China, potential for US rate hikes, and weak economic figures, which led to a sharp correction in financial markets

(especially near the end of the month of February). This contrasts with the year ending with strengthening economic data, firming market sentiment, and an improving risk environment. This improving risk sentiment is highlighted by the limited impact of populist victories in the UK Brexit vote and the US Presidential election. The Canadian market also performed well in the second half of the year, propped up by oil's surge from February lows.

The Bank of Canada's key interest rate remained at 0.50% in 2016, after cutting it twice in 2015. The central bank also trimmed its growth forecast for the Canadian economy for 2016 and 2017. Despite a dovish monetary policy stance taken by the Bank of Canada, yields rose across the yield curve, following the US bond market after the election of the US president, in addition to better than expected global economic data and rising commodity prices. While the rise in US bond yields appears consistent with improving growth, the rise in Canadian yields does not appear to be supported by economic fundamentals.

The Canadian equity markets had a positive year gaining 21.08 percent in 2016, finishing the year ahead of all other major equity indices. The S&P/ TSX Composite Index opened the year at 12,927.15 and closed at 15,287.59.

2016 was a net cash flow positive year for the City that resulted in higher investment reserve balances year-over-year. The increase to the investment balances were reinvested in short-term fixed income investments as the funds are expected to be drawn down in the early part of 2017. 2017 is expected to be a cash flow draw down in anticipation of higher capital expenditures. The following table shows the average portfolio balance during 2016 and the income earned for the year. Document 1 (*Held on file with the City Clerk*), outlines the investment portfolio by asset class, term and credit exposure.

Table 1 Average Portfolio Balance and Income in 2016

Portfolio	Average Portfolio Value (\$ million)	Earned Income (\$ millions)	Investment Return (%) [1]
Short-Term Investments	563.0	8.2	1.45
Long-Term Funds	893.2	22.3	2.50
Total General Funds	1,456.2	30.5	2.09
Sinking Funds	97.9	3.4	3.52
All Funds	1,554.1	33.9	2.18

¹ Represents the return on the monthly average holdings for the year 2016 compared to Note 3 in the draft Consolidated Financial Statements which provides the weighted average yield on investments held as at December 31, 2016.

Endowment Fund Performance

The Endowment Fund (Fund) was established from the proceeds received from Hydro Ottawa when it completed its refinancing in 2005. The Province broadened the scope of eligible investments for the Fund to include Canadian equities and corporate bonds. Two external investment managers manage the investments for the Fund.

On June 14, 2006 Council adopted the investment policy and procedures for the Fund which set the target return at 6.50% and established the Endowment Fund Investment Committee to oversee the operation of the Fund. The Fund year end was set at September 30 to provide the Committee sufficient time to declare a payout to the City for the following budget year. Each year the Investment Committee reviews the returns for the Fund and calculates the amount to be distributed to the City based on a formula of 6.50% of the average market value for the Fund at the end of the three immediately preceding years ending September 30 provided that the Fund does not fall below the

initial amount invested of \$200 million. On October 10, 2012, Council endorsed the following recommendation: “That the City of Ottawa Endowment Fund be maintained at \$200 million and any excess continue to be directed to fund the capital program” (ACS2012-CMR-FIN-0039).

The market value of the Fund as at December 31, 2016 was \$197.7 million. The Fund made three payouts to the City in 2016 - on July 22nd for \$5 million, on August 10th, for \$8 million and on December 13th for \$5 million for a total payout of \$18 million. The market value of the Fund has increased to \$203 million as at April 25, 2017.

The following are the details of the payments from the Fund compared to expected returns over the past year and since inception:

Table 2 Payment details and Expected Returns

	Expected Return	Actual Payments[1]
2015	13,000,000	0
2016	13,000,000	18,000,000
Since Inception	117,000,000	122,000,000

[1] The payment for 2015 of \$13 M was taken at the end of 2014 and reported in that year. As a result of strong returns in 2016, the City was able to declare a payout of \$5M that contributes to the 2017 capital budget. The goal is to draw the remaining \$8M from the Endowment in 2017.

Treasury Branch Resources - Addition of an FTE

With the growth in infrastructure investments and increasing reliance on debt, there has been an increased demand on Treasury Service’s expertise and resources to effectively manage the City’s overall investment portfolio and debt financing vehicles and agreements. The increased workload has resulted in Treasury Services actively looking at the possibility of outsourcing the investment and administrative tasks related to the Long Term Disability component of the reserve fund portfolio which would cost of \$90,000 per year.

A review was conducted to assess the benefits of paying \$90,000 for external investment management services (equivalent to one month of internal time in terms of workload) compared to the additional value that could be derived if those funds were used to fund one additional internal FTE staff resource. The additional eleven months of FTE effort would provide the capacity for expanded market and credit analysis and treasury systems integration, which in turn, would allow the Senior Investment Officers to dedicate more time to implementing debt and investment strategies that reduce cost and increase returns commensurate with Council's risk parameters. With this improved focus, it is estimated that the Senior Investment Officers could increase returns by 50 to 100 basis points, which equates to more than a \$1.0 million in additional investment revenues.

There is also a possibility that the Province will pass the Prudent Investor Standard legislation this year, with regulations in place for Municipalities to implement in 2018. With the granting of the Standard comes increased requirements, but also the opportunity to better align investment risk with return and the potential to increase investment revenues for the City. Implementing the Standard will require Treasury to add reporting and risk metrics to demonstrate the prudent approach to investments. The addition of one FTE in 2017 will increase investment income for the City and enable Treasury to begin implementing the needed reporting, analytical and systems capacity in advance of the 2018 Prudent Investor Standard implementation. It is therefore recommended that the funding for this additional position be gained by increasing the investment income account by \$90,000. The additional benefits from this position will be included in the 2018 budget.

Commodity Hedge Policy

The Report ACS2016-CMR-FIN-0001, as submitted to the Finance and Economic Development Committee on February 2, 2016 and approved by Council on February 10, 2016, contained the following staff recommendation, "That the Finance and Economic Development Committee recommend Council approve the continued practice of forward purchasing of natural gas when required, as detailed in this report." As a result, it was required that the Commodity Price Hedge Policy be updated to integrate the Natural Gas Policy. With the amalgamation of these two policies the City Treasurer approved the following changes to the Commodity Price Hedge Policy:

- All references to "municipality" were changed to "City",

- The title "Limited Financial Risk Exposure" was changed to "Risk Factors and Control Measures" providing greater clarity with regard to mitigating factors.
- The section titled "Partnership Agreements with other Public Sector Partners." was no longer required as a result of the disbanding of the Ottawa Carleton Energy Procurement Group.
- Amendment to the section titled "Commodity Price Hedging Contract Acquisition" to add Private sector suppliers. The amendment expanded opportunities for partnership agreements (cooperative commodity buying/hedging).
- Added a section on Ethics and Conflict of Interest stating that officers/staff involved in price hedging shall abide by the City's Employee Code of Conduct.
- Removed the reference and role of the "Deputy City Manager" and the role to determine the forecasted demand for the commodities being hedged and placed the responsibility with the Treasurer.

RURAL IMPLICATIONS

There are no rural implications as a result of this report.

CONSULTATION

The public consultation process is not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable.

ADVISORY COMMITTEE(S) COMMENTS

Not applicable.

LEGAL IMPLICATIONS

There are no legal impediments to approving this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments to receiving this report.

FINANCIAL IMPLICATIONS

It is the opinion of the City Treasurer that all investments were made during 2016 in accordance with the City's Investment Policy. With respect to the additional FTE it is proposed to be funded from an increase of \$90,000 in investment revenues.

ACCESSIBILITY IMPACTS

There are no accessibility implications.

TERM OF COUNCIL PRIORITIES

Not applicable

DISPOSITION

That the City Clerk and Solicitor office take the necessary steps to update the "Commodity Price Hedging Policy" in Schedule "A" to by-law 2008-426 to reflect the updates to the policy as approved by the Treasurer, and that Corporate Finance add the one FTE and complete budget adjustments, as described in this report.