

**Subject: 2021 Investments, Endowment Fund, and other Treasury Activities**

**File Number: ACS2022-FSD-FIN-0005**

**Report to Finance and Economic Development Committee on 7 June 2022**

**and Council 22 June 2022**

**Submitted on May 27, 2022 by Isabelle Jasmin, Deputy City Treasurer, Corporate Finance**

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**Ward: Citywide**

**Objet : Placements de 2021, fonds de dotation et autres activités de la trésorerie**

**Dossier : ACS2022-FSD-FIN-0005**

**Rapport au Comité des finances et du développement économique le 7 juin 2022**

**et au Conseil le 22 juin 2022**

**Soumis le Choisir la date par Isabelle Jasmin, Trésorière municipale adjointe, Finances municipales**

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**Quartier : À l'échelle de la ville**

## **REPORT RECOMMENDATIONS**

**That the Finance and Economic Development Committee recommend that Council:**

- 1. Receive the results of the City's investments for 2021, as required by Ontario Regulation 438/97 as amended, Section 8(1), and the City of Ottawa Investment Policy;**

2. Receive the Long-Term and Short-Term debt summary;
3. Adopt the Prudent Investor Regime to investing City Funds not immediately required by passing a by-law substantially in the form attached as Document 2, consistent with the requirements of the *Municipal Act, 2001* section 418.1 and associated Regulation 438/97;
4. Direct the Chief Financial Officer/Treasurer (or their delegate) to develop the Investment Governance Plan that is supported by an Outsource Chief Investment Officer;
5. Establish an Investment Board whereby Council will delegate authority to the Board to manage and oversee the City's investments of funds not immediately required by the City, as is required by Ontario Regulation 438/97 subsection 17. (1) as further described in this report;
6. Authorize the Chief Financial Officer (or their delegate) to initiate a recruitment process for Investment Board members in accordance with the City's appointment policy; and
7. Direct the Chief Financial Officer (or their delegate) to develop the Statement of Investment Policies and Procedures to be reported back to Council for approval.

## **RECOMMANDATIONS DU RAPPORT**

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

1. de prendre acte des résultats des placements de la Ville pour 2021, conformément au paragraphe 8(1) du *Règlement de l'Ontario 438/97*, dans sa dernière version, et à la Politique en matière de placements de la Ville d'Ottawa;
2. de prendre acte du sommaire de la dette à court et à long terme;
3. d'adopter le régime de l'investisseur prudent pour investir les sommes dont la Ville n'a pas besoin immédiatement, en adoptant un règlement essentiellement sous la forme jointe en document 2, conformément aux exigences de l'article 418.1 de la *Loi de 2001 sur les municipalités* et du *Règlement de l'Ontario 438/97* connexe;

4. de demander à la cheffe des finances/trésorière (ou à son mandataire) de mettre au point le plan de gouvernance des placements qui est approuvé par un chef des placements externe;
5. d'établir une commission des placements à laquelle le Conseil déléguera le pouvoir de gérer et de superviser l'investissement des sommes dont la Ville n'a pas besoin immédiatement, conformément au paragraphe 17(1) du *Règlement de l'Ontario 438/97*, comme décrit plus en détail dans le présent rapport;
6. d'autoriser la cheffe des finances (ou son mandataire) à lancer un processus de recrutement des membres de la commission des placements, conformément à la Politique de nomination de la Ville; et
7. de demander à la cheffe des finances (ou à son mandataire) d'élaborer la Déclaration des politiques et des procédures d'investissement, qui sera soumise à l'approbation du Conseil.

## **EXECUTIVE SUMMARY**

### **Investment Reporting**

In 2021, the City had investment fund returns of 1.18% in the Reserve Fund, 2.9% in the Sinking Fund, and 17% in the Endowment Fund. The City held less than one half of one per cent in City of Ottawa issued Bonds and no new maturities or purchases of City of Ottawa bonds occurred in 2021. All investments were consistent with the investment policies and goals adopted by Council.

### **Debt Reporting**

The City can issue long-term debt to fund Council approved capital projects. The Chief Financial Officer/Treasurer, under the City of Ottawa *Delegation of Authority By-law*, has authority to issue debt for capital projects up to a maximum of the amount approved by Council as part of the annual budget process and in accordance with the legislative criteria set out in the *Municipal Act, 2001*. The total net long-term debt outstanding as of December 31, 2021, was \$3.04 billion, which was an increase from \$2.95 billion the previous year. All debt was issued in accordance with the *Delegation of Authority By-law*.

## **Short-Term Debt**

The Chief Financial Officer/Treasurer, under the City of Ottawa *Short-Term Borrowing By-law* and *Delegation of Authority By-law*, can issue short-term debt for operations. To facilitate the possible need for short-term borrowing throughout the year, the City implemented a Promissory Note Program. Per Council approval, the program allows for up to \$500 million in short-term borrowing. During 2021 proceeds from Promissory Note issuances provided the City with short-term liquidity and avoided the need to maintain costly short-term investment holdings. To maintain a strong market presence, staff issue Promissory Notes on a weekly basis with maturities ranging from one to three months, and offset the cost by investing the proceeds in short-term conservative investments. There was \$200 million of outstanding Promissory Notes at the end of 2021, all of which matured, and were paid back in January 2022.

## **Prudent Investor Standard**

This report recommends Council pass a by-law (Document 2), as required by the *Municipal Act, 2001* to adopt the Prudent Investor Standard. In considering the appropriateness of the recommendation, staff evaluated general economic conditions, the effect of inflation or deflation, the role that each investment or course of action plays within the municipality's portfolio of investments, expected total return from income and capital appreciation, and need for liquidity, regularity of income and preservation or appreciation of capital. The benefits of moving to a prudent investor regime include increased risk adjusted returns, additional investment expertise through a specialized Municipal Investment Board, portfolio diversification for better risk management, Environmental, Social and Governance (ESG) expertise, and cost efficiencies. On average over a long-term horizon, investment returns are anticipated to increase depending on holdings and risk tolerances.

This report also recommends that Council direct the Chief Financial Officer/Treasurer (or their delegate) to develop the Investment Governance Plan, coordinate the establishment of the Municipal Investment Board, and develop the Statement of Investment Policies and Procedures (referred to as the Investment Policy in the *Municipal Act*). The Chief Financial Officer/Treasurer will present these draft documents to Council for approval in Q4 of 2022 as part of the 2022-2026 Term of Council Governance Review report. It is also recommended that the Chief Financial Officer/Treasurer initiate a recruitment process for Investment Board members in accordance with the City's appointment policy in consultation with the City Clerk's office.

## RÉSUMÉ

### Rapport sur les placements

En 2021, le rendement des fonds de placement de la Ville a été de 1,18 % pour le fonds de réserve, de 2,9 % pour le fonds d'amortissement et de 17 % pour le fonds de dotation. La Ville détenait moins d'un demi pour cent d'obligations émises par la Ville d'Ottawa et aucun nouvel achat ou nouvelle échéance d'obligations de la Ville d'Ottawa n'a eu lieu en 2021. Tous les placements ont été conformes aux politiques et aux objectifs d'investissement adoptés par le Conseil.

### Rapport sur la dette

La Ville peut émettre une dette à long terme pour financer les projets d'immobilisations approuvés par le Conseil. La cheffe des finances/trésorière, en vertu du Règlement sur la délégation de pouvoirs de la Ville d'Ottawa, est autorisée à émettre des titres de créance à l'égard de projets d'immobilisations jusqu'à concurrence du montant approuvé par le Conseil dans le cadre du processus budgétaire annuel et conformément aux critères législatifs énoncés dans la *Loi de 2001 sur les municipalités*. Le total de la dette à long terme nette au 31 décembre 2021 était de 3,04 milliards de dollars, soit une augmentation par rapport aux 2,95 milliards de dollars de l'année précédente. Tous les titres de créance ont été émis conformément au Règlement sur la délégation de pouvoirs.

### Dette à court terme

La cheffe des finances/trésorière, en vertu du Règlement d'emprunt à court terme et du Règlement sur la délégation de pouvoirs de la Ville d'Ottawa, peut émettre une dette à court terme pour des besoins opérationnels. Pour faciliter le besoin éventuel d'emprunts à court terme tout au long de l'année, la Ville a mis en place un programme de billets à ordre. Moyennant l'approbation du Conseil, le programme permet d'emprunter jusqu'à 500 millions de dollars à court terme. En 2021, le produit des billets à ordre émis a permis à la Ville de disposer de liquidités à court terme et d'éviter le maintien de placements à court terme coûteux. Pour maintenir une forte présence sur le marché, le personnel émet chaque semaine des billets à ordre assortis d'échéances allant d'un à trois mois, et en compense le coût en investissant le produit dans des placements prudents à court terme. Il y avait 200 millions de dollars de billets à ordre en circulation à la fin de 2021, qui sont tous arrivés à échéance et ont été remboursés en janvier 2022.

## **Règle de l'investisseur prudent**

Le présent rapport recommande au Conseil d'adopter un règlement sur la règle l'investisseur prudent (document 2), comme l'exige la *Loi de 2001 sur les municipalités*. Pour déterminer la pertinence de la recommandation, le personnel a tenu compte de la conjoncture économique générale, de l'effet de l'inflation ou de la déflation, du rôle que joue chaque placement ou ligne de conduite dans le portefeuille de placements de la municipalité, du rendement total attendu des recettes et de la plus-value en capital, du besoin de liquidités, de la régularité des recettes, et de la préservation ou de l'appréciation du capital. Au nombre des avantages de l'adoption d'un régime de l'investisseur prudent figurent une augmentation des rendements ajustés au risque, une expertise supplémentaire en matière d'investissement grâce à une commission municipale des placements spécialisée, une diversification du portefeuille pour une meilleure gestion du risque, une expertise en matière d'environnement, de société et de gouvernance (ESG) et des économies de coûts. En moyenne, sur un horizon à long terme, le rendement des placements devrait augmenter en fonction des avoirs et de la tolérance au risque.

Le présent rapport recommande également au Conseil d'ordonner à la cheffe des finances/trésorière (ou à son mandataire) d'élaborer le plan de gouvernance des placements, de coordonner la création de la commission municipale des placements et de rédiger la Déclaration des politiques et des procédures d'investissement (appelée politique d'investissement dans la *Loi de 2001 sur les municipalités*). La cheffe des finances/trésorière présentera ces documents provisoires au Conseil pour approbation au quatrième trimestre de 2022 dans le cadre du Rapport sur l'examen de la structure de gestion municipale du mandat du Conseil 2022-2026. Il est recommandé aussi que cheffe des finances/trésorière lance un processus de recrutement des membres de la commission des placements, conformément à la Politique de nomination de la Ville et en consultation avec le Bureau du greffier municipal.

## **BACKGROUND**

### **Investment Authority**

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 not adopting the Prudent Investor Standard pursuant to section 418.1.

### **Long-Term Debt Authority**

The City of Ottawa is authorized, under section 401 of the *Municipal Act, 2001*, to issue long-term debt for capital projects. Ontario Regulation 403/02, as amended, establishes a set of conservative debt issuance measures and standards considered suitable for Ontario municipalities. The Chief Financial Officer/Treasurer, in accordance with the criteria set under the *Delegation of Authority By-law 2022-29*, as amended by By-law 2022-77, and provincial regulations, is authorized to proceed with one or more debt issues or bank loan arrangements at any time during the year throughout the term of Council.

### **Short-Term Debt Authority**

The City of Ottawa is authorized, under section 407 of the *Municipal Act, 2001*, to issue short-term debt to meet current expenditures of the City until taxes are collected. In accordance with the *Short-Term Borrowing By-law 2019-269*, the Mayor and the Chief Financial Officer/Treasurer of the City are authorized to borrow for the purpose of meeting the current expenditures of the City. This borrowing includes: amounts required for sinking and retirement funds, principal and interest due on any debt of the City, school purposes, other purposes the municipality is required by law to provide for and the amount of principal and interest payable by a person or municipality primarily liable for a debt, and if the City has guaranteed the debt and the debt is in default until the taxes are collected and other revenues are received. To facilitate short-term borrowing needs, the City established a \$100 million line of credit and a \$500 million Promissory Note program.

### **Investments Reporting**

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 is reviewed annually and section 8(1) of Ontario Regulation 438/97 requires that a report be submitted to Council each year.

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 is included in this report.

## **Debt Reporting**

The City's Administration of Capital Financing and Debt policy ([ACS2007-CRS-FIN-0007](#)), approved by Council on April 11, 2007, establishes objectives, authorized financing instruments, reporting requirements and responsibilities, and governs the administration and management of capital financing and debt issuance activities. The reporting requirements of the policy state that Council receives information that the Chief Financial Officer/Treasurer considers appropriate in addition to any information requested by Council.

## **Prudent Investor Standard**

On October 13, 2021, Council received the Prudent Investor Update report ([ACS2021-FSD-FIN-0023](#)). This directed the Chief Financial Officer/Treasurer to request that the Minister of Municipal Affairs and Housing (MMAH) make any required amendments to municipal regulations to allow a pilot project to adopt the Prudent Investor Standard with the Investment Management Corporation of Ontario appointed as the City's Outsourced Chief Investment Officer.

A letter was sent to the MMAH on December 10, 2021, confirming Council resolution to implement the pilot and seeking approval for next steps to implement the pilot. After much discussion, the MMAH chose not to move forward with the proposed pilot. Therefore, staff recommend that the City implement Prudent Investor pursuant to section 418.1 of the *Municipal Act, 2001* to be under the control and management of a Municipal Investment Board with an Outsourced Chief Investment Officer (OCIO) acting as an agent for the Board.

## **DISCUSSION**

### **Financial Market Review 2021**

In 2021, economic performance in Canada recovered from the impact of the COVID-19 global pandemic resulting in the economy expanding by 6.7 per cent for the year as measured by Gross Domestic Product (GDP). Consumer Price Index (CPI) inflation increased by 4.8 per cent, year over year. A gradual relaxing of the province wide shutdown measures and border closures over the course of the year helped to spur economic activity across the country. The national unemployment rate was at 6 per cent in 2021, down from 8.8 per cent in 2020 with jobs being recovered in the restaurant, tourism, and service sectors.



The Bank of Canada's reduction in its overnight target rate during 2020, from 1.75 per cent to 0.25 per cent and its quantitative easing program, helped to support the country's economy and financial markets. Along with government support programs and other fiscal measures, the economy was able to stabilize and grow during the year. Therefore, the overnight target rate remained at 0.25 per cent throughout 2021.

The Canadian equity markets had a positive year climbing 21.7 per cent despite the lingering effects of the pandemic. Concerns around supply chains and labour shortages began to emerge as the economy reopened during the year with the population shifting their focus from consumer goods to services. The S&P/TSX Composite was able to surge ahead and ended the year in positive territory. The annual gain in the S&P/TSX Composite was driven by increases in the Energy sector (41.8 per cent), Real Estate (22.1 per cent), Financial sector (31.6 per cent), Consumer Staples (20.6 per cent) and the Technology sector (18.3 per cent), meanwhile only the Health Care sector was down (20.1 per cent).

### City of Ottawa Investment Returns

The City's investments are subject to the legislative guidelines prescribed by Ontario regulation. Due to increased net positive cash flows in 2021, the City was able to invest an additional \$219 million. This increase was re-invested in long-term and short-term fixed income investments. The City held less than one half of one per cent in City of Ottawa issued bonds and there were no new maturities or purchases of City of Ottawa bonds in 2021.

Table 1 below shows the average portfolio balance during 2021 and the income earned for the year. Document 1 outlines the investment portfolio by asset class, term, and credit exposure.

Table 1: Average Portfolio Balance and Income in 2021

<b>Portfolio</b>	<b>Average Portfolio Value (\$ million)</b>	<b>Earned Income (\$ millions)</b>	<b>Investment Return<sup>1</sup> (%)</b>
Short-Term Investments	1,063.7	8.5	0.80
Long-Term Funds	1,353.9	20.0	1.47
<b>Total General Funds</b>	<b>2,417.7</b>	<b>28.5</b>	<b>1.18</b>
<b>Sinking Fund</b>	<b>160.0</b>	<b>4.6</b>	<b>2.90</b>

<sup>1</sup> Represents the return on the monthly average holdings in 2021 versus Note 4 in the draft Consolidated Financial Statements, which provides the weighted average yield on investments, held as of December 31, 2021.

## Endowment Fund Performance

The Endowment Fund (the Fund) was established from the proceeds received from Hydro Ottawa when it completed 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.

The market value of the Fund as of December 31, 2021, was \$202.5 million. Payouts were made to the City from the Fund in 2021 totalling \$13 million, which is in line with the 6.5 per cent target. An additional payout of \$8 million was also possible in 2021 to recover the 2018 shortfall, for a total distribution of \$21 million for the year and an annualized return of 17 per cent.

Table 2 below shows the details of the payments from the Fund compared to expected returns over the past two years and since inception:

Table 2: Payment Details and Expected Returns

Year	Expected Return	Actual Payments <sup>2</sup>
2008-2017	130,000,000	130,000,000
2018	13,000,000	5,000,000
2019	13,000,000	13,000,000
2020	13,000,000	13,000,000
2021	13,000,000	21,000,000
<b>Since Inception</b>	<b>182,000,000</b>	<b>182,000,000</b>

<sup>2</sup> As a result of low returns in 2018, the declared payout was limited to \$5M and the remaining \$8M was recovered in 2021.

On June 14, 2006, Council adopted the Investment Policy and Procedures for the Fund, which set the target return at 6.5 per cent 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 enough 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. On October 10, 2012, Council approved the Long Range Financial Plan – Tax Supported Capital IV report ([ACS2012-CMR-FIN-0039](#)), which 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”.

## Long-Term Debt

The City issued \$225 million in new long-term debt in 2021 in the form of a Green Debenture. The proceeds from the debt issue were used to finance the Stage 2 LRT project.

Total net long-term debt as of December 31, 2021, was \$3.04 billion, an increase from \$2.95 billion the previous year. At the same time, the City added \$1.9 billion in new tangible capital assets to its inventory, increasing the total value of the City's tangible capital assets to \$25.98 billion. The outstanding net long-term debt of \$3.04 billion represents 11.7 per cent of the value of the City's tangible capital assets. From a taxpayer's perspective, that is equivalent to a \$58 thousand mortgage on a \$500 thousand home.

Debt levels are continuously monitored to ensure the ongoing financial stability and sustainability of the City, in accordance with the fiscal framework principles. Council established debt servicing targets where principal and interest for tax supported debt are not to exceed 7.5 per cent of the City's own source revenue, and principal and interest for water and sewer rate supported debt will be limited to no more than 15 per cent of rate revenues; for a combined target of 8.5 per cent of total own source revenues. The total debt interest and principal payments for tax and rate supported long-term debt in 2021 was \$173.7 million, which represents 5.85 per cent of the City's total own-source revenues, well below the 8.5 per cent target established by Council.

### **Short-Term Debt**

The Treasury Branch uses short-term borrowing strategies to manage cash flow volatility and meet debt servicing obligations while maintaining a prudent investment approach. Short-term borrowing strategies are critical to ensuring there are sufficient funds to cover operating and capital spending, as and when required.

During 2021, proceeds from Promissory Note issuance provided short-term liquidity and replaced the requirement to maintain costly short-term investment holdings. To keep a market presence, staff issue Promissory Notes on a weekly basis with maturities ranging from one to three months and offset the cost by investing the proceeds in short-term conservative investments. There was \$200M of outstanding Promissory Notes at the end of the year, all of which matured and were paid back in January 2022.

## Prudent Investor Standard

Staff are recommending Council pass a by-law to adopt the Prudent Investor Standard for investment of funds not immediately required pursuant to section 418.1 of the *Municipal Act, 2001*. With the assistance of an independent consultant's report, staff identified the key benefits of moving to a prudent investor regime, which include increased risk adjusted returns, additional investment expertise, portfolio diversification for better risk management, Environmental, Social and Governance (ESG) expertise, and cost efficiencies. In considering the appropriateness of adopting the Prudent Investor regime to investing, staff evaluated the following criteria:

1. **General economic conditions.** Staff's experience with the City of Ottawa Endowment Fund and two legacy pension funds, along with direct input from independent consultants has led to the conclusion that when investments are diversified in a prudent manner, in accordance with a Council's objectives for return on investment and risk tolerances, risk adjusted returns have consistently outperformed the status quo over a longer time horizon. The higher long-term returns contribute to the City of Ottawa's financial sustainability.
2. **The possible effect of inflation or deflation.** Inflation erodes the purchasing power of a municipality over time. Current economic conditions reflect significant inflationary pressures in the economy. Prudently allocating investment assets helps to mitigate this issue.
3. **The role that each investment or course of action plays within the municipality's portfolio of investments.** To maintain sustainable operations and balanced budgets year in and year out, the City has established reserves and an Endowment Fund to mitigate against cash fluctuations for unanticipated events such as the pandemic. Staff have conducted high level modelling studies of reserve and endowment holdings to create asset liability frameworks to better understand the advantages of broader asset allocation opportunities under the Prudent Investor regime. An independent consulting report evaluating various investment alternatives was conducted, and the results clearly demonstrated the long-term return advantages of the Prudent Investor regime as compared to the status quo. The report concluded returns could increase by 0.70 per cent on the low end and 1.50 per cent on the higher end. The City currently holds \$2.1 billion in investments of which staff conservatively estimates half could be classified as funds not immediately

required and could be invested over a longer term.

4. **The expected total return from income and the appreciation of capital.**  
As highlighted above, an independent consultant report was conducted to measure the impacts of investing funds not immediately required under a prudent investor regime. The consultant report concluded returns, on average over a long-term horizon, are anticipated to increase materially, depending on holdings, risk tolerances, asset liability attribution leading to proper asset allocation and prudent investor approach.
5. **Needs for liquidity, regularity of income and preservation or appreciation of capital.** Liquidity is critical to City operations. To ensure adequate funds are available to maintain positive cash balances, staff have identified funds required by the City in the next three to five years. Staff will work with the Outsourced Chief Investment Officer (OCIO) to develop a Governance Plan and Statement of Investment Policies and Procedures (SIP&P) to provide more clarity around liquidity needs. Regularity of income and preservation or appreciation of capital will be guiding principles when developing the SIP&P.

### **Next Steps**

This report requests Council's approval to (1) pass a by-law to adopt the Prudent Investor regime, (2) develop the Prudent Investor Governance Plan, (3) establish a Municipal Investment Board, (4) appoint board members to the Municipal Board, and (5) develop the Statement of Investment Policies and Procedures (SIP&P). The steps required for each, are detailed below.

- (1) **A By-law adopting Prudent Investor (Document #2)** - Section 418.1 (3) of the *Municipal Act, 2001* states "A municipality may only pass a by-law adopting the prudent investor that authorizes municipalities to opt into the prudent investor regime if the municipality meets the requirements prescribed." This criterion is prescribed in Ontario Regulation 438/97 subsection 15(1) stating the municipality must have, in the opinion of its Treasurer, at least \$100 million in cash and investments that it does not require immediately. The City of Ottawa holds cash and investments not required immediately that are in excess of \$700 million. It should be noted that once passed the by-law cannot be revoked.
- (2) **Develop a Prudent Investor Governance Plan** - A key aspect of a prudent investment plan is the development of a strong governance structure. It is the

responsibility of Council, with the help and advice of the Chief Financial Officer/Treasurer (or their delegate), to establish and approve the various roles, responsibilities, governance structure, protocols, accountability, reporting, and remuneration and qualification requirements of the parties to the plan including Investment Board members, OCIO, consultants, the Chief Financial Officer/Treasurer, staff, and any other roles required by the Plan. The Chief Financial Officer/Treasurer will work with staff and industry experts to draft the Prudent Investor Governance Plan.

- (3) **Establish a Municipal Investment Board** – Under *Municipal Act, 2001* and Regulation 438/97, the City is required to establish an “Investment Board”. An Investment Board as outlined in the Act means a Municipal Service Board that is established under section 196 of the Act by a municipality for the purposes of this Part. Regulation 438/97 subsection 17. (1) provides that a municipality may invest money only through an Investment Board that has been established by the municipality and that the Investment Board has been given the control and management of the municipality’s investments that are not immediately required. Subsection 17(1) also provides that the Board has the municipality’s powers to make the investments and that it is required to follow the municipality’s prudent investment duties under section 418.1 of the *Municipal Act, 2001*. The City’s Investment Policy, which will be made in accordance with Regulation 438/17 subsection 18(1), will inform the Investment Plan to be adopted and maintained by the Investment Board pursuant to subsection 19(1) of the Regulation.
- (4) **Appoint Board Members to the Investment Board** –The Prudent Investor regulation states that, other than the Treasurer of a Municipality, an officer or employee of any municipality or a member of council of any municipality may not be appointed to the Board. Staff will conduct an external search for qualified Investment Board members, in accordance with the City’s appointment policy. Board members will be selected on the basis of their knowledge and experience to execute their duties with care, skill, diligence, and judgement including the duty to obtain the advice that a prudent investor would obtain under comparable circumstances.
- (5) **Develop Statement of Investment Policies and Procedures** – Regulation 438/97 18. (1) states “The Council of a municipality shall 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 policy shall include 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. It is recommended that the investment policy include the OCIO Model as an investment matter to be in the best interests of the City. Under Section 22, the investment board will procure and authorize an OCIO provider, as 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. Staff also recommend including an environmental, social and governance (ESG) statement in the investment policy that is aligned with council's objectives and meets the prudent investor standard as stated above. At least annually, council shall review the investment policy and update it, as necessary.

The Chief Financial Officer/Treasurer will prepare the Investment Governance Plan, coordinate the appointment of Board members to the Municipal Investment Board with the Clerks office in accordance the City's appointment policy, and develop the Statement of Investment Policies and Procedures for Council approval. Staff anticipate the drafts will be presented to Council in Q4 of 2022 as part of the 2022-2026 Term of Council Governance Review report.

## **FINANCIAL IMPLICATIONS**

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

By adopting the Prudent Investor regime, 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 set up the Prudent Investor regime of \$230,000 will be absorbed by the expected increase in investment revenue.

Long-Term Debt is implemented to fund capital projects and equitably spread project cost amongst the ultimate users over time.

Short-Term debt is implemented to manage the City's cash flows and investment strategies with the goal of reducing interest cost and maximizing investment revenue in line with council priorities and objective.

## **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, as described in this report, 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. As further described in this report, the City of Ottawa meets the prescribed requirements set out in paragraph 1 of section 15, of Regulation 438/97 requiring at least \$100,000,000 in money and investments that it does not require immediately, in order to adopt the by-law. The investments made pursuant to the Prudent Investor Enabling By-law will only be carried out through an Investment Board established by the municipality and 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.

## **ACCESSIBILITY IMPACTS**

There are no accessibility implications associated with this report.

## **ENVIRONMENTAL IMPLICATIONS**

Adopting the Prudent Investor regime expands the opportunity to evaluate Environmental, Social and Governance strategies to investing the City investment funds.

## **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 Investment Board the City can benefit from the OCIO's sophisticated risk management capabilities. The Statement of Investment Policies and Procedures approved by Council 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 Investment Board through a third-party investment custodian.

### **RURAL IMPLICATIONS**

There are no rural implications associated with this report.

### **TERM OF COUNCIL PRIORITIES**

This report supports the City's on-going commitment to financial sustainability and transparency.

### **SUPPORTING DOCUMENTATION**

Document 1 - City of Ottawa Holdings

Document 2 - A By-law of the City of Ottawa to adopt the Prudent Investor regime

### **DISPOSITION**

Legal Services in consultation with Finance Services Department staff will finalize the required by-law as described in this report and place the by-law on the agenda of Council for enactment.

The Chief Financial Officer/Treasurer will prepare the Investment Governance Plan, coordinate the appointment of Board members to the Municipal Investment Board with the Clerks office in accordance the City's appointment policy, and develop the Statement of Investment Policies and Procedures for Council approval. Staff anticipate the drafts will be presented to Council in Q4 of 2022 as part of the 2022-2026 Term of Council Governance Review report.

## Document 1 – City of Ottawa Holdings

**Table 1: Term Exposure for the City of Ottawa Investments as of 31 December 2021**

<b>Maturity</b>	<b>General Funds (%)</b>	<b>Sinking Funds (%)</b>
1 - 5 years	89%	1%
5 - 10 years	10%	6%
10 years or more	1%	93%
	<b>100%</b>	<b>100%</b>

**Table 2: City of Ottawa Short-Term Credit Exposure as of 31 December 2021**

<b>Rating</b>	<b>Exposure Percentage</b>
R-1 High	100%
R-1 Mid	0%
R-1 Low	0%
Grand Total	100%

**Table 3: City of Ottawa Long-Term and Sinking Fund Credit Exposure as of 31 December 2021**

<b>Rating (S&amp;P) Equivalent</b>	<b>Long-Term (%)</b>	<b>Sinking Funds (%)</b>
AAA/AA	96%	93%
A	2%	7%
BBB and Unrated	0%	0%
ONE FUND	2%	0%
Total	100%	100%

\*ONE FUND Holdings represent a basket of investments with different credit ratings

**Table 4: Distribution of Investments by Sector as of 31 December 2021**

<b>All Funds</b>	<b>Par Value (\$1,000)</b>	<b>% of Total</b>	<b>Policy Range (%)</b>
Federal	655,125	29%	100
Provincial	559,151	25%	80
Municipal*	394,714	17%	50
Schedule I Bank	623,867	28%	50
Corporate	0	0%	25
Other - (One Fund, Blakes GIC)	29,665	1%	25
Grand Total	2,262,522	100%	

\*Municipal holdings include \$53,000 issued by the City of Ottawa.

**Document 2 - A by-law of the City of Ottawa to adopt the Prudent Investor regime**

**BY-LAW NO. 2022 – XX**

A by-law of the City of Ottawa to adopt the Prudent Investor regime.

WHEREAS section 418.1 of the *Municipal Act, 2001* (the “Act”) provides that effective January 1, 2019, a municipality may, pursuant to subsection 418.1 (2) of the Act, pass a by-law to have section 418.1 apply in respect of investments made by a municipality (the “Prudent Investor Enabling By-law”);2001

AND WHEREAS the Act provides in subsection 418.1(3) that a municipality may only pass the by-law under subsection 418.1(2) if the municipality satisfies the prescribed requirements, which include those prescribed in *Municipal Act Regulation 438/97* respecting Eligible investments, related financial agreement and prudent investment (“Regulation 438/97”);

AND WHEREAS paragraph 1 of section 15, of Regulation 438/97 provides that in order to pass the by-law under 418.1(2) of the Act, that a municipality must have, in the opinion of its treasurer, at least \$100,000,000 in money and investments that it does not require immediately;

AND WHEREAS the Treasurer has confirmed that the City of Ottawa meets the prescribed requirements set out in paragraph 1 of section 15, of Regulation 438/97 as further described in the 2021 Investments, Endowment Fund and other Treasury Activities Report approved by City Council on June 7, 2022;

AND WHEREAS as required by Regulation 438/97, the investments made pursuant to this Prudent Investor Enabling By-law will only be carried out through an Investment Board established by the municipality and in accordance with the requirements of section 418.1 of the Act and Regulation 438/97;

THEREFORE Council of the City of Ottawa enacts as follows:

1. The municipality hereby declares that section 418.1 of the *Municipal Act, 2001* applies to it.
2. This By-law shall be deemed to come into force and take effect June 7, 2022.

ENACTED AND PASSED this 7 day of June 2022.