

**3. 2020 INVESTMENTS, ENDOWMENT AND OTHER TREASURY ACTIVITIES
FONDS D'INVESTISSEMENT ET DE DOTATION ET AUTRES ACTIVITÉS
DE LA TRÉSORERIE DE 2020**

COMMITTEE RECOMMENDATIONS

That Council:

- 1. Receive the results of the City's investments for 2020, as required by Ontario Regulation 438/97 as amended, Section 8(1), and the City of Ottawa Investment Policy;**
- 2. Receive information regarding progress towards the Prudent Investor implementation; and**
- 3. Receive the Long- and Short-term debt summary.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil :

- 1. prenne connaissance des résultats des placements de la Ville pour 2020, conformément aux exigences de l'article 8(1) du Règlement de l'Ontario 438/97, dans sa version modifiée, et de la Politique en matière de placements de la Ville d'Ottawa;**
- 2. prenne connaissance de l'information relative aux progrès réalisés dans la mise en œuvre de la règle de l'investisseur prudent; et**
- 3. prenne connaissance du sommaire de la dette à court et à long terme.**

DOCUMENTATION/DOCUMENTATION

- 1. Deputy City Treasurer's report, Corporate Finance, Finance Services Department, dated May 20, 2021 (ACS2021-FSD-FIN-0013)**

Rapport de la Directrice générale, Services sociaux et communautaires, daté le 20 mai 2021, (ACS2021-FSD-FIN-0013)

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
2 June 2021 / 2 juin 2021**

**and Council
et au Conseil
9 June 2021 / 9 juin 2021**

**Submitted on May 20, 2021
Soumis le 20 mai 2021**

**Submitted by
Soumis par:**

**Isabelle Jasmin, Deputy City Treasurer, Corporate Finance, Finance Services
Department / Trésorière municipale adjointe, Finances municipales, Direction
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2021-FSD-FIN-0013

SUBJECT: 2020 Investments, Endowment and other Treasury Activities

**OBJET: Fonds d'investissement et de dotation et autres activités de la
trésorerie de 2020**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council:

- 1. Receive the results of the City's investments for 2020, as required by Ontario Regulation 438/97 as amended, Section 8(1), and the City of Ottawa Investment Policy;**
- 2. Receive information regarding progress towards the Prudent Investor implementation; and**
- 3. Receive the Long- and Short-term debt summary.**

RECOMMANDATIONS DU RAPPORT

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

- 1. de prendre connaissance des résultats des placements de la Ville pour 2020, conformément aux exigences de l'article 8(1) du Règlement de l'Ontario 438/97, dans sa version modifiée, et de la Politique en matière de placements de la Ville d'Ottawa;**
- 2. de prendre connaissance de l'information relative aux progrès réalisés dans la mise en œuvre de la règle de l'investisseur prudent; et**
- 3. de prendre connaissance du sommaire de la dette à court et à long terme.**

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.

Debt Authority

The City of Ottawa is authorized, under section 401 of the *Municipal Act, 2001*, to issue 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 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. The Chief Financial Officer/Treasurer, in accordance with the set criteria of delegated Authority By-law 2020-360 and provincial regulations, is authorized to proceed with one or more debt issues, Promissory Note issue, Line of Credit and or bank loan arrangements at any time during a calendar year during the term of Council.

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 (which is reviewed annually) and section 8(1) of Ontario Regulation 438/97, require 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.

Prudent Investor Standard Progress

On December 9, 2020, Council approved the *2020 Divestment From Fossil Fuels and Increase in Sustainable Assets* report ([ACS2020-OCC-ENV-0008](#)). This report directed the Chief Financial Officer/Manager, Treasury to report back to FEDCO at the end of Q2 2021 with a summary of barriers to achieving Prudent Investor Status, how staff are addressing those barriers, and a summary of actions taken to date. Staff have worked diligently with the Ministry of Municipal Affairs and Housing to address legislative changes required to move the prudent investor mandate forward.

Debt Reporting

The City's Administration of Capital Financing and Debt policy, 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.

DISCUSSION

Financial Market Review 2020

In 2020, economic performance in Canada was severely impacted by the COVID-19 global pandemic resulting in the economy decreasing by 2.9 per cent for the year as measured by Gross Domestic Product (GDP). Consumer Price Index (CPI) inflation increased slightly by 0.7 per cent, year over year. A succession of province wide shutdown measures and border closures over the course of the year stifled economic activity across the country. The national unemployment rate rose to 8.8 per cent in 2020 with job losses primarily in the restaurant, tourism and service sectors.

The Bank of Canada had decreased its overnight target rate three times in March 2020, from 1.75 per cent to 0.25 per cent in a coordinated response to the pandemic with other central banks. A quantitative easing program was also introduced by the Bank of Canada to support bond markets. Along with government support programs and other fiscal measures, the economy was able to stabilize itself for the remainder of the year. Therefore, the overnight target rate remained at 0.25 per cent for the rest of 2020.

The Canadian equity markets had a positive year climbing 6 per cent despite the challenges presented by the pandemic. Concerns about lasting effects of the pandemic on the Canadian economy fueled a sharp correction in equity markets during March 2020. Ultimately, the S&P/TSX Composite was able to recover from this uncertainty and ended the year in positive territory. The annual gain in the S&P/TSX Composite was driven by increases in the Technology sector (30.6 per cent), the Financial sector (2.6 per cent), and Consumer Discretionary (13.4 per cent) meanwhile the Health Care sector (-16.4 per cent), Energy Sector (-27.2 per cent) and Travel & Leisure (-6.9 per cent) were all down.

City of Ottawa Investment Returns

The City's investments are subject to the legislative guidelines prescribed by Ontario regulation.

2020 was a net positive cash flow year for the City resulting in a year over year investment portfolio increase of \$501 million. The increase to the investment portfolio was re-invested in long-term and short-term fixed income investments.

Table 1 below shows the average portfolio balance during 2020 and the income earned for the year. Document 1, attached, outlines the investment portfolio by asset class, term and credit exposure.

Table 1: Average Portfolio Balance and Income in 2020

Portfolio	Average Portfolio Value (\$ million)	Earned Income (\$ millions)	Investment Return ¹ (%)
Short-Term Investments	1,514.1	15.6	1.03
Long-Term Funds	635.9	13.6	2.14
Total General Funds	2,150.0	29.2	1.36
Sinking Fund	114.9	3.5	3.06

¹ Represents the return on the monthly average holdings for the year 2020 versus Note 4 in the draft Consolidated Financial Statements, which provides the weighted average yield on investments, held as at December 31, 2020.

Endowment Fund Performance

The Endowment Fund (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 at December 31, 2020 was \$199.9 million. The Fund made a payout to the City in 2020 in the amount of \$13 million which is in line with the 6.5% target.

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 ²
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
Since Inception	169,000,000	161,000,000

² As a result of low returns in 2018, the declared payout was limited to \$5M.

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”.

Prudent Investor Update

The Prudent Investor Standard (the Standard) legislation and accompanying Regulations came into effect in January 2019. The Standard leads to a broader set of investment options enabling Municipalities to appropriately align risk and return strategies with Council objectives and priorities. As an example, the Standard provides added capacity to prudently consider reducing fossil fuel holdings in portfolios contributing to environmental stewardship. The broader scope of investment alternatives associated with the Standard has historically generated additional investment revenues, reduced risk and/or both scenarios as a result of the prudent concept of diversification of assets.

Staff have been working closely with the Ministry of Municipal Affairs and Housing (MMAH), other municipalities, an external consultant (who prepared an independent study of the prudent investor alternatives available to the City), and expert investment management organizations, including the Investment Management Corporation of Ontario (IMCO) to develop the appropriate model for the City to implement the Standard. The key principles guiding this work were to reduce inefficiencies and red tape, generate additional non-tax revenue, environmental and social stewardship, and better manage internal costs; all to provide greater financial flexibility and long-term financial sustainability to the City.

The external consultants concluded that working with IMCO to develop a governance model and investment strategy was the best solution for the City of Ottawa to meet our

investment management needs and the most suitable approach for the City to adopt the Standard.

IMCO was established by the Province to provide the expertise and oversight required by the public sector to participate in asset pooling to reduce investment management costs and enable sector funds to access a broader range of investment strategies. IMCO manages public sector assets in excess of \$70 billion with over 200 highly qualified staff, dedicated to providing comprehensive and value-added investment management and advisory solutions to public-sector clients in Ontario. They are independent, operating at arm's length from the government with strong oversight from a highly experienced and professional Board of Directors. This level of dedicated staffing, investment expertise, independent board oversight and public sector focus cannot be recreated without significant set up, administrative and ongoing costs to the City. Discussions continue with IMCO and the Province on the feasibility of appointing IMCO as the Investment Board for municipalities.

COVID-19 has delayed discussion with the Province on the required regulatory changes. However, City staff and senior management have met with the Province and there is continued interest and support in continuing to pursue this option. The Mayor has written to the Minister of MMAH expressing support in pursuing the IMCO model. If regulatory changes are completed by Q4 of this year, staff would report back to Council with an update on these developments and recommendations for implementing the Standard for approval by Council.

Long-Term Debt

The City issued \$300 million in new debt in 2020 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 at December 31, 2020 was \$2.95 billion, an increase from \$2.56 billion in 2020. At the same time, City added \$1.22 billion in new assets to its inventory, increasing the total value of the City's assets to \$24.12 billion. The outstanding net long term debt of \$2.95 billion represented 12.2% of the cost of the City's assets. From a taxpayer's perspective, that is equivalent to a \$49 thousand mortgage on a \$400 thousand home.

Debt levels are continuously monitored to ensure the ongoing financial well being of the City in accordance with its fiscal framework principles. Council established debt servicing targets where principal and interest for tax supported debt are not to exceed 7.5% 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% of rate revenues; for a combined target of 8.5% of total own source revenues. The total debt interest and principal payments for tax and rate supported long-term debt in 2020 was \$173 million, which represents 5.98% of the City's total own source revenues, well below the 8.5% target established by Council.

Promissory Note Program

The City's Treasury operations implement 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. In December 2018, the City implemented its Promissory Notes (PN) program (ACS2018-CSD-FIN-012) as a key short-term borrowing mechanism, as amended with By-Law (By-Law # 2019-268) authorizing short-term borrowing of PN program up to \$500 million.

During 2020, proceeds from PN issuance provided short-term liquidity and replaced the requirement to maintain costly short-term investment holdings. To keep a market presence, staff issue PN 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 were no PN outstanding at year end.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

The public consultation process is not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a city-wide report and Ward Councillor comments are not applicable.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments associated with this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

ACCESSIBILITY IMPACTS

There are no accessibility implications as a result of the recommendations.

TERM OF COUNCIL PRIORITIES

The levy reduction aligns with council's priority of financial sustainability.

SUPPORTING DOCUMENTATION

Document 1: City of Ottawa Holdings

DISPOSITION

Staff will report back regarding the Prudent Investor Standard in Q4 this year.

Document 1 - City of Ottawa Holdings

Table 1: Term Exposure for the City of Ottawa Investments as at 31 December 2020

Maturity	General Funds (%)	Sinking Funds (%)
1 - 5 years	81%	1%
5 - 10 years	17%	4%
10 years or more	2%	95%
	100%	100%

Table 2: City of Ottawa Short-Term Credit Exposure as at 31 December 2020

Rating	Exposure Percentage
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 at 31 December 2020

Rating (S&P) Equivalent	Long-Term (%)	Sinking Funds (%)
AAA/AA	95%	93%
A	1%	7%
BBB and Unrated	0%	0%
ONE FUND	4%	0%
Total	100%	100%

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

Table 4: Distribution of Investments by Sector as at 31 December 2020

All Funds	Par Value (\$1,000)	% of Total	Policy Range (%)
Federal	364,425	18%	100
Provincial	311,365	16%	80
Municipal	291,195	15%	50
Schedule I Bank	993,228	50%	50
Corporate	0	0%	25
Other - (One Fund, Blakes GIC)	29,665	1%	25
Grand Total	1,989,878	100%	