

2. PRUDENT INVESTOR UPDATE MISE À JOUR SUR LA RÈGLE DE L'INVESTISSEUR PRUDENT
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COMMITTEE RECOMMENDATION

That Council direct the Chief Financial Officer/Treasurer to make a request to the Ministry of Municipal Affairs and Housing to make amendments required to Municipal Regulations to include the proposed pilot project approach for adopting the Prudent Investor Standard model as described in this report.

RECOMMANDATION DU COMITÉ

Que le Conseil enjoint à la cheffe des finances de demander au ministère des Affaires municipales et du Logement de modifier la réglementation tel que nécessaire afin d'inclure le projet pilote proposé visant l'adoption de la règle de l'investisseur prudent, comme il est décrit dans le présent rapport.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Corporate Finance, Finance Services Department, dated September 23, 2021 (ACS2021-FSD-FIN-0023)

Rapport de la Trésorier municipale adjointe, Finances municipales, Direction générale des services des finances, daté le 23 septembre 2021, (ACS2021-FSD-FIN-0023)

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
5 October 2021 / 5 octobre 2021**

**and Council
et au Conseil
13 October 2021 / 13 octobre 2021**

**Submitted on September 23, 2021
Soumis le 23 septembre 2021**

**Submitted by
Soumis par:**

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**Ward: CITY WIDE / À L'ÉCHELLE DE
LA VILLE**

File Number: ACS2021-FSD-FIN-0023

SUBJECT: Prudent Investor Update

OBJET: Mise à jour sur la règle de l'investisseur prudent

REPORT RECOMMENDATION

That the Finance and Economic Development Committee recommend that Council direct the Chief Financial Officer/Treasurer to make a request to the Ministry of Municipal Affairs and Housing to make amendments required to Municipal Regulations to include the proposed pilot project approach for adopting the Prudent Investor Standard model as described in this report.

RECOMMANDATION DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil d'enjoindre à la cheffe des finances de demander au ministère des Affaires municipales et du Logement de modifier la réglementation tel que nécessaire afin d'inclure le projet pilote proposé visant l'adoption de la règle de l'investisseur prudent, comme il est décrit dans le présent rapport.

BACKGROUND

On June 9, 2021, Council received the report 2020 Investments, Endowment Fund and other Treasury Activities ([ASC2021-FSD-IN-0013](#)) which provided an overview of the City's 2020 investment activities and a status update on the plans to implement the Prudent Investor Standard (the Standard). Staff committed to report back to Council on future developments.

Ontario municipalities became eligible to invest their funds not immediately required for use under the Prudent Standard in 2019. Despite this, only a handful of municipalities have adopted this new standard as it is administratively and financially onerous.

Since then, the City has had several detailed discussions with various ministries and agencies including:

- Ministry of Municipal Affairs and Housing (MMAH);
- Ministry of Finance (MOF);
- Investment Management Corporation of Ontario (IMCO); and
- the Ontario Finance Authority (OFA).

The discussions focused on the City's proposal to implement the most efficient way to adopt the Standard. It was determined that an Outsource Chief Investment Officer model, an industry best practice governance structure, was the best approach for the City of Ottawa.

The Prudent Investor Standard is an industry best practice methodology to investing an entity's funds. The prudent investor rule essentially means that, when a person is given discretionary control over another person's assets, they must make investments that a person of reasonable intelligence, discretion, and prudence could be expected to make.

As a result of the discussions described above, the concept of implementing a pilot project for adopting an Outsource Chief Investment Officer (OCIO) model was recommended. The proposed pilot project involves the City leveraging the governance OCIO model and appointing the Investment Management Corporation of Ontario (IMCO) as the City's OCIO provider to implement the Standard.

The OCIO model replaces the regulatory requirement to setup an external board with an investment firm. With the proposed pilot, the board is replaced with experts in managing corporate funds and investment governance. The proposed pilot model would replace a board of five to seven members with an investment firm of over 200 employees consisting of legal, financial, governance, investment, and environmental and social governance (ESG) experts dedicated to the public sector. Council will have oversight and fiduciary duty of the investment strategy and the OCIO would implement it.

Key elements of the pilot are:

- Council must maintain the ultimate fiduciary duty for investments by approving good governance and the proposed investment strategy;
- The Chief Financial Officer/Treasurer is responsible for drafting the governance structure for Council approval;
- IMCO is responsible to drafting the investment strategy to be presented to Council by the Chief Financial Officer/Treasurer for approval;
- IMCO is responsible for executing the approved investment strategy in accordance with the governance structure; and
- The Chief Financial Officer/Treasurer is responsible for monitoring adherence to the governance structure and investment strategy that includes ongoing reporting

of performance, risk, governance, cost efficiency, operational measures, and client experience to Council on an annual basis or more often if required.

The City has offered to pilot the model. This involves us appointing IMCO as the Outsource Chief Investment Officer (OCIO) to invest City funds not immediately required as described in the *Municipal Act* (Section 418.1). Staff are seeking approval from Council to move forward with a formal request to the Ministry of Municipal Affairs and Housing to amend Municipal Regulations to include the proposed pilot project approach for adopting the Prudent Investor Standard model.

DISCUSSION

Staff have worked collaboratively with the Ministry of Municipal Affairs and Housing (MMAH), Ministry of Finance (MOF), Ontario Finance Authority (OFA), Investment Management Corporation of Ontario (IMCO), other municipalities and external consultants to develop the most efficient way to adopt the Standard. As a result of the collective efforts, the group agreed on a pilot of the described model above. The key principles guiding this work were to reduce inefficiencies, generate additional non-tax revenue, promote environmental and social stewardship, and better manage internal costs; all to provide greater financial flexibility and long-term financial sustainability to the City.

The Outsource Chief Investment Officer (OCIO) approach to investing an entity's assets was introduced to staff by industry experts and consultants several years ago resulting in the City moving to OCIO services for its legacy pension plans. Following extensive research, staff determined that an OCIO structure (replacing the regulatory requirement of appointing a municipal board) provides a value-added approach to implementing the Standard for the City's internal funds. It was demonstrated that working with an OCIO reduces fees due to their scale of assets, leads to process and governance efficiency due to their established industry standards, increases return on investment due to their ability to respond on a timely basis to market events, and improved social and environmental governance due to their industry and inhouse expertise. Building an OCIO structure that caters specifically to the municipal sector will take time and expertise very similar to establishing an external board structure.

Staff have had several meetings with the Ministry of Municipal Affairs and Housing (MMAH), Ministry of Finance (MOF), Ontario Finance Authority (OFA), and other municipalities to discuss the proposed structure and the suitability of the model. These

discussions determined that IMCO was the entity best positioned to develop an OCIO model and that a pilot project to develop the OCIO model for the municipal sector was the suitable option. These conclusions were also validated by an external consultant that reviewed the options available to municipalities to adopt the Standard.

Investment Management Corporation of Ontario (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.

Staff submitted a report to the Ministry of Municipal Affairs and Housing (MMAH) detailing the governance structure for the City to implement an OCIO model with IMCO. In the governance structure Council maintains the fiduciary duty to approve investment objectives, governance, investment policies, and ensuring oversight of monitoring and reporting. Part of Council's responsibility under the governance structure is the duty to appoint IMCO to perform operational activities including establishing an investment plan, selecting investment providers, executing investment transactions, portfolio rebalancing, risk management, providing timely reporting and general portfolio management. The Chief Financial Officer/Treasurer supports Council's oversight duties by reviewing required reports, monitoring performance and compliance, and reporting to Council annually or as needed.

The recommended duration of the proposed pilot will be a minimum of two years and the scope of the proposed pilot would include the following:

- Identification of funds not immediately required and duration of municipal liabilities;
- Development of a municipal-specific Asset-Liability Management framework;

- Establishment of an investment policy;
- Strategic asset allocation;
- Portfolio construction;
- Execution of investment strategies for funds not immediately required;
- Reporting and customer service;
- Establishment of investment governance at the municipality;
- Ongoing OCIO governance and oversight; and
- Pilot evaluation and performance measurement.

Staff are seeking approval from Council to move forward with a formal request to the Ministry of Municipal Affairs and Housing to amend Municipal Regulations to include the proposed pilot project approach for adopting the Prudent Investor Standard model.

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 associated with this report.

TERM OF COUNCIL PRIORITIES

Prudent Investing aligns with Council's priority of financial sustainability.

DISPOSITION

Upon approval of the report by Council, staff will share the resolution with the Ministry of Municipal Affairs and Housing and formally request any regulatory amendments required to carry out a pilot as described in this report.