

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JULY 17, 2018
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2017 INVESTMENT REPORT

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer:

- a) The 2017 Investment Report, providing a summary of the performance of the City of London's investment portfolio, **BE RECEIVED** for information.
- b) The update on amendments to the *Municipal Act, 2001* and *Ontario Regulation 438/97*, including the Prudent Investor Standard, **BE RECEIVED** for information.
- c) The attached proposed by-law (Appendix "B") **BE INTRODUCED** at the Municipal Council meeting on July 24, 2018, to amend By-law CPOL.-39-235 entitled "Investment Policy" to revise the investment term limitations and change to investment term targets, revise the delegation of authority and authorization to reflect the City's current organizational structure, reformat into the new Council Policy template and review with the gender equity lens.

LINK TO THE 2015-2019 STRATEGIC PLAN

Council's 2015-2019 Strategic Plan for the City of London identifies "Leading in Public Service" as one of four strategic areas of focus. The 2017 Investment Report supports this strategic area of focus by contributing towards the strategic priority "Proactive financial management". The "Proactive financial management" strategic priority involves, among other things, making sure that financial issues are not created and pushed to the future, creating problems for future generations. Investing public funds in accordance with the City's Investment Policy helps the City maximize investment return and minimize investment risk while meeting the cash flow requirements of the City.

BACKGROUND

As outlined in *Ontario Regulation 438/97*, the City Treasurer is required to provide an annual investment report to Municipal Council. The report, at a minimum, shall contain the following;

- a) a statement about the performance of the portfolio of investments during the period covered by the report;
- b) a description of the estimated proportion of the total investments that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- c) a statement by the City Treasurer as to whether or not, in their opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
- e) such other information that Municipal Council may require or that, in the opinion of the Treasurer, should be included.

This report meets the above requirements.

Portfolio Balance

In 2017, the City of London (the “City”) maintained a monthly average investment portfolio balance of \$913 million (2016, \$827 million), consisting of cash and investments in securities prescribed under *Ontario Regulation 438/97*. As at December 31, 2017, the City’s investment portfolio included over 400 investment securities, primarily government bonds, corporate bonds, and guaranteed investment certificates (GICs). A summary of the City’s investment portfolio at year-end is attached as **APPENDIX “A”**.

Investment Income

For the purposes of this report, investment income includes interest income and realized gains and losses. In 2017, the City earned a total income of approximately \$13.4 million (\$14.2 million in 2016) from investments of which \$9.6 million (\$10.8 million in 2016) was earned from reserve fund investments and \$3.8 million (\$3.4 million in 2016) was earned from general fund investments.

The decline in investment income in 2017 compared to 2016 is primarily related to the realized gains and losses from the City’s externally managed bond portfolios. The performance objective of the City’s externally managed bond portfolios is to outperform the stated portfolio benchmark over the medium to long-term based on the market value. Market value includes unrealized gains and losses, which is not reflected in the City’s overall investment income. The timing of purchases and sales will influence when the City realizes capital gains and losses, and is at the discretion of the external portfolio manager. The performance of the City’s externally managed portfolios in comparison to the benchmarks is detailed later in this report.

In accordance with the *Municipal Act, 2001* (the “Act”), interest and capital gains earned on reserve fund investments are allocated to all reserve funds on a prorated basis and are used for the purpose for which the reserve fund was created. Investment income earned from the general fund is allocated to general revenues, which contributes to offsetting the amount of taxes levied.

Market Summary for 2017

The Bank of Canada raised its overnight target rate twice throughout 2017, from 0.50% to 1.00%. Canadian bond yields continued to stay relatively low through the first half of the year. During the second half of the year, yields began to rise due to strong economic growth, employment gains, and the rise in the Bank of Canada’s overnight rate.

The table below shows a comparison of Government of Canada benchmark yields from 2017 to 2015.

Benchmark Yield	2017 Average Monthly Yield	2016 Average Monthly Yield	2015 Average Monthly Yield
3-month T-Bill	0.70%	0.50%	0.50%
3-year Gov’t of Canada Bond	1.20%	0.60%	0.54%
5-year Gov’t of Canada Bond	1.39%	0.75%	0.83%
10-year Gov’t of Canada Bond	1.79%	1.26%	1.49%

Economic conditions are continually monitored by the City and its team of professional portfolio managers to ensure the City’s investment portfolio is adjusted to reflect changing market conditions.

Investment Strategy

As directed by the City’s Investment Policy, the City’s overall investment strategy is to invest public funds in a manner that prioritizes security and liquidity of principal over attaining higher investment returns. The investment strategy in 2017 continued to focus on building a balanced and diversified portfolio relative to short-term, medium-term and long-term investment instruments.

Below is a comparison of the City's portfolio to the policy targets.

Classification	Maturing in	Average for 2017	Target
Cash & Short-Term	Less than 1 year	50%	50%
Medium-term	1 – 5 years	24%	25%
Long-term	More than 5 years	26%	25%

The City has worked towards the targets to provide further diversification and increase the overall investment return while maintaining liquidity.

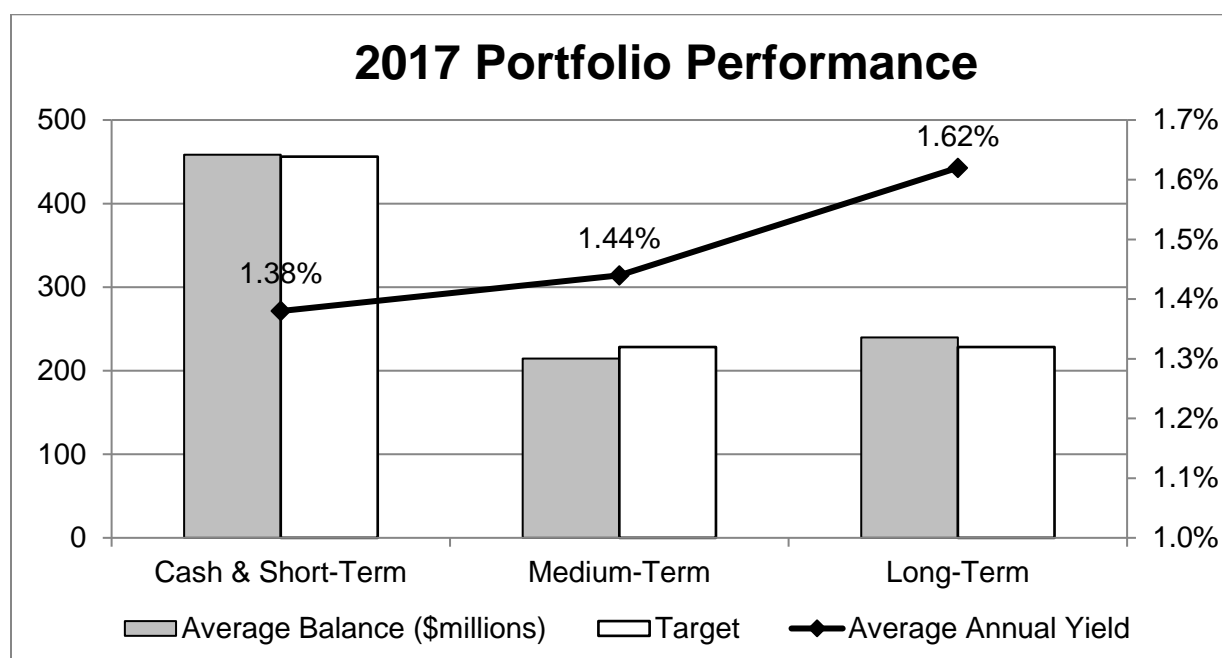
The City purchased investments of \$57 million internally through investment brokers throughout 2017 to move the portfolio towards the targets. The City purchased \$43 million of GICs and \$14 million of Provincial bonds once bond yields began to trend upwards. The City's internally managed portfolio utilizes the buy and hold strategy, buying investment products from investment brokers at varying maturity dates. This strategy ensures a steady stream of cash flows will be available to match cash demands and minimizes interest rate risk by smoothing fluctuations in the market over time.

Scotia Institutional Asset Management (Scotia), RBC Global Asset Management (RBC GAM) and RBC Dominion Securities (RBC DS) manage the City's external portfolios. The management of these portfolios allows the City to benefit from the services provided by sophisticated investment teams, which includes frequent monitoring and trading, diversifying funds, and anticipating interest rate changes. No additional funds were invested in externally managed portfolios in 2017.

Using multiple external investment managers in addition to internal management helps diversify the City's investment portfolio. Differing investment styles and strategies offer additional risk control while also ensuring that the City's investment policy objectives are met.

Performance of Portfolio Investments

The chart below shows a breakdown of the average annual yields for 2017, as well as the investment portfolio balance in comparison to policy targets. For the purposes of this report, yield includes interest income and realized gains and losses. Yield does not include unrealized gains and losses (i.e. market value appreciation).



The relatively small gap between the City's short, medium and long-term average yields is in part due to increases in interest rates in 2017, and the average term of the portfolios. Medium and long-term portfolios will not experience an immediate increase in yields from an increase in interest rates until current investments held begin to mature and higher yielding investments are purchased. This may take longer for portfolios that have a longer average term to maturity.

Cash & Short-Term

In 2017, the City had an average cash and short-term balance of \$459 million. The average yield on the City's cash and investments with an original maturity of less than 1 year was 1.38%. The cash & short-term target is 50% and aims to accommodate cash fluctuations during the year related to the timing and collection of property taxes along with disbursements for expenditures.

Medium-Term

In 2017, the City's medium-term investment portfolio had an average balance of \$214 million (\$79 million internally managed and \$135 million externally managed). The average yield on the City's medium-term investments for 2017 was 1.44% (net of fees).

Externally Managed Medium-Term

The City's externally managed medium-term bond portfolio is compared to the Financial Times Stock Exchange (FTSE) TMX Canada Short-Term Government Bond Index, which is similar in duration and composition to the City's portfolio. The FTSE TMX Canada benchmarks provide widely used performance standards for Canadian fixed income investments. It should be noted that benchmarks are used as a reference to give an approximate basis of comparison of how the City's portfolio performed. Not all bonds within the indices would meet the City's guidelines in terms of credit quality, liquidity, and term to maturity, and not all of the City's portfolios are designed with the same risk exposures or to track the performance of the benchmark.

The City's medium-term bond portfolio with Scotia had an average yield of 0.65% (net of fees) in 2017. The portfolio with Scotia outperformed the benchmark by 0.43% in 2017.

The City's medium-term GIC portfolio with RBC DS had an average yield of 1.90% (net of fees) in 2017.

Internally Managed Medium-Term

The City's internally managed investments with an original maturity of 1 to 5 years had an average yield of 2.22%. The portfolio was comprised entirely of GICs with higher yields (in comparison to bonds).

Long-Term

The City's long-term investment portfolio had an average balance of \$240 million in 2017 and an average yield of 1.62% (net of fees).

Externally Managed Long-Term

The City's externally managed long-term investment portfolio had an average yield of 1.61% (net of fees). The City's externally managed long-term investment portfolios are managed by Scotia and RBC GAM and are compared to the FTSE TMX Canada Short/Mid All Government Blend Bond Index, which is similar in duration and composition to the City's portfolio. The portfolio with Scotia outperformed the benchmark by 0.46% in 2017, while the portfolio with RBC GAM outperformed the benchmark by 1.72%.

Internally Managed Long-Term

The City's internally managed long-term investments with an original maturity of 5 to 10 years had an average yield of 2.19%. The portfolio consists of bonds purchased during the end of 2017, when bond yields were beginning to rise due to economic conditions and increases in interest rates.

Eligible Investments (Statement of Compliance)

The Act stipulates that a municipality may invest in securities prescribed under *Ontario Regulation 438/97*. All investments meet the eligibility requirements as prescribed by *Ontario Regulation 438/97* and were made in accordance with the investment policies and goals adopted by the City.

Investment in Own-Securities

Ontario Regulation 438/97 requires that the City report the estimated proportion of total investments that are invested in its own long-term and short-term securities to the total investments held by the municipality. In 2017, the City did not hold or purchase any of its own securities, reflecting no change in proportion of own securities to total investments from the previous year's report.

Looking Ahead

The year 2017 saw improvements in economic growth and impressive employment gains, although slowing in the back half of the year. In the first quarter of 2018, the economy appears to

be operating at capacity and economic growth will decrease to a more sustainable level. Interest rates should continue to rise over the next few years, but at a pace much slower than the U.S Fed. The Bank of Canada is expected to increase interest rates once more in 2018 (TD Quarterly Economic Forecast, March 15, 2018).

As directed by the City's Investment Policy, the City's overall investment strategy will continue to focus on maximizing investment returns in a manner that first prioritizes security and liquidity. The 2018 strategy will focus on managing the City's portfolio to the City's policy term targets.

NEW PRUDENT INVESTOR STANDARD UPDATE

Summary

On March 1, 2018, amendments were made to the *Municipal Act, 2001* and *Ontario Regulation 438/97*, granting eligible municipalities' access to invest in any security in accordance with the prudent investor standard and other requirements set out in the regulation.

Amendments were also made to the prescribed list of eligible investment securities for municipalities that do not wish to invest or are not eligible to invest under the new prudent investor standard. Eligible municipalities will have the option to continue under the updated prescribed list or move to the prudent investor standard on January 1, 2019, at the earliest.

Given the costs, resources and regulatory and governance framework required to move to the prudent investor standard, Civic Administration is recommending continuing for the time being under the existing framework of the updated prescribed list, while undertaking the necessary due diligence to fully evaluate all potential options and implications of the prudent investor standard. Civic Administration will report back to Council at the appropriate time with a recommendation regarding the prudent investor standard. More immediately, changes to the prescribed list of eligible investments will be implemented in the City's investment portfolio to the extent that they are in compliance with the objectives of the City's Investment Policy.

Previous Regulation

Prior to March 1, 2018, a municipality's ability to invest its funds was limited to those institutions and security types that were listed in *Ontario Regulation 438/97*. The regulation provided a list of eligible securities in which a municipality can invest. Investment options were primarily limited to government bonds, bank issued debt, corporate bonds and a select few other fixed income securities. The regulation also permitted a municipality to invest in shares issued by a corporation that is incorporated under the laws of Canada or a province in Canada, only if the investment was made through the One Investment Program. The One Investment Program is a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by *Ontario Regulation 438/97*. The One Investment Program is jointly operated by Local Authority Services (LAS), and CHUMS Financing Corp. (a subsidiary of the Municipal Finance Officers' Association of Ontario).

The restricted list of eligible securities limited potential returns in an interest rate environment that was at or near historical lows. Several stakeholders lobbied for reforms to municipal investment powers that not only provided an opportunity to generate higher rates of return, but also the flexibility to cater to the unique circumstances of municipalities.

New Regulation – Prudent Investor Standard

On March 1, 2018, the Province of Ontario amended the *Municipal Act, 2001* and *Ontario Regulation 438/97*, allowing eligible municipalities the option to opt into the prudent investor standard on January 1, 2019, at the earliest, or remain under the current prescribed list of investments. If a municipality were to opt in, it must invest in accordance with the prudent investor standard "money and investments that it does not require immediately". A municipality must also, among other requirements, exercise the care, skill, diligence and judgment that a prudent investor would exercise in making such an investment.

Eligibility Criteria

In order for a municipality to be eligible to opt into the prudent investor standard, there are several criteria that must be met, which include:

1. Meeting specific financial criteria (detailed later in this section);

2. Passing an appropriate by-law;
3. Establishing and investing through an Investment Board which is to be a municipal service board;
4. Adopting and maintaining an investment policy including requirements for return on investment, risk tolerance and the need for liquidity;
5. Having the Investment Board adopt and maintain the investment plan;
6. Ensuring money is invested under the direction and supervision of the Investment Board in compliance with the investment policy and investment plan; and
7. Putting in place a mechanism for regular reviews and report (at least annually), and as necessary, updates to the municipality's investment policy and investment plan.

Further, a municipality will be able to qualify to invest under the prudent investor standard either independently or as part of a group. Once a municipality has opted into the prudent investor standard, it cannot opt out unless a future regulation is passed permitting it to invest again in accordance with the prescribed list of securities.

Financial Criteria for a Municipality to Independently Qualify

For a municipality to independently qualify, its treasurer must be of the opinion that the municipality can satisfy one of the following criteria:

1. The municipality has at least \$100 million in money and investments that it does not require immediately; or
2. The municipality has at least \$50 million in net financial assets (as per Schedule 70 of the most recent Financial Information Return).

Financial Criteria to Invest Together as a Group

If a municipality does not independently qualify, it can invest under the new standard as part of a group of municipalities if it can satisfy one of the following criteria:

1. Enter into an agreement to establish and invest through a Joint Investment Board with one or more other municipalities, and all of the municipalities must have a combined total of at least \$100 million in money and investments that the municipalities do not require immediately.
2. Enter into an agreement with the following parties to invest through an Investment Board or a Joint Investment Board that was established by another municipality or municipalities before the day the municipality passes the by-law:
 - a. The Investment Board or Joint Investment Board, as the case may be.
 - b. Any other municipalities investing through the Investment Board or Joint Investment Board on the day the municipality passes the by-law.

Investment Board (IB) or Joint Investment Board (JIB)

The Investment Board or Joint Investment Board may not have appointed an officer or employee of any municipality for which it invests or a member of Council of any municipality for which it invests. The above does not apply to the Treasurer of a municipality; however the Treasurer(s) may not make up more than one quarter of the Investment Board or Joint Investment Board.

Financial Implications and Other Important Considerations

Through the prudent investor standard, municipalities can theoretically earn a higher rate of return over a long-term investment horizon by building more diverse investment portfolios. However, several considerations must be taken into account, including the following:

- The expected additional revenue to be generated offset by resources required to establish an Investment Board and annual operating costs. Costs could include board member remuneration, consultant fees, and increases in third party management fees;
- How other municipalities are addressing this regulation;
- Potential synergies, costs savings, as well as drawbacks of Joint Investment Boards;
- The City's interpretation of "money and investments that it does not require immediately";
- The implications of relinquishing control to an Investment Board all money and investments not required immediately;
- Interaction between investment decisions made by an arm's-length Board and changes to the City's capital plan, reserve strategies, and other long-term financial plans; and
- The One Investment Program business model that is proposed to give municipalities' access to the new standard through a pooled arrangement.

In 2016, the City of Toronto, under the *City of Toronto Act*, was granted prudent investor status, effective January 1, 2018. City of Toronto staff have indicated that they needed the full 2 years the Province gave to prepare, and set up an interim 2017 budget of approximately \$560 thousand,

which included costs to establish a prudent investor board as well as annual operating costs.

Changes to Prescribed List of Investments

Some of the key changes to the prescribed list of investments are:

1. Minimum credit rating requirement for certain bank issued debt amended from AA- to A-;
2. Minimum credit rating requirement for certain corporate bonds amended from A to A-;
3. Greater flexibility to invest in securities issued or guaranteed by a Credit Union; and
4. Municipalities are enabled to invest in Deposit Securities denominated in U.S. currency.

Conclusion

With the changes to *Ontario Regulation 438/97* and the *Municipal Act, 2001*, Civic Administration is undertaking the necessary due diligence to fully evaluate all potential options and implications of the prudent investor standard. Civic Administration will report back to Council at the appropriate time with a recommendation regarding the prudent investor standard. More immediately, changes to the prescribed list will be implemented in the City’s investment portfolio to the extent that they are in compliance with the objectives of the City’s Investment Policy.

AMENDMENTS TO INVESTMENT POLICY

The Investment Policy has been:

- Updated for reformatting into the new Council Policy template;
- Reviewed with the gender equity lens; and
- Updated to include the Director, Financial Planning & Business Support (previously Director, Financial Planning & Policy) as an authorized individual for investment transactions reflecting the City’s current organizational structure and signing authority.

Content Updates

Current Investment Policy	Proposed Investment Policy – Appendix “C”								
<p><u>Investment Term Limitations</u> For the purpose of this policy, a short-term investment is defined as maturing in less than one year, medium-term as maturing between one and five years and long-term as maturing in greater than five years.</p> <p>The term limitations for the portfolio are as follows:</p> <p>Short-term – minimum 50% of total investment portfolio; Medium-term – maximum 25% of total investment portfolio; and Long-term – maximum 25% of total investment portfolio.</p> <p>The portfolio percentage limitations shall apply at the time the investment is made. At specific times the portfolio limitations may not be compliant to the policy for a short time for various reasons, for example the timing of maturities.</p>	<p><u>Investment Term Targets</u> For the purpose of this policy, a short-term investment is defined as maturing in less than one year, medium-term as maturing between one and five years and long-term as maturing in greater than five years.</p> <p>The term targets, listed as a percentage of the total investment portfolio, are as follows:</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Term</u></th> <th style="text-align: left;"><u>Target</u></th> </tr> </thead> <tbody> <tr> <td>Short-term</td> <td>40%</td> </tr> <tr> <td>Medium-term</td> <td>30%</td> </tr> <tr> <td>Long-term</td> <td>30%</td> </tr> </tbody> </table> <p>The portfolio percentage targets shall apply at the time the investment is made. At specific times the portfolio percentages may deviate from the target for various reasons, for example the timing of maturities. The current guideline is to maintain a range of ±10% from each term target.</p>	<u>Term</u>	<u>Target</u>	Short-term	40%	Medium-term	30%	Long-term	30%
<u>Term</u>	<u>Target</u>								
Short-term	40%								
Medium-term	30%								
Long-term	30%								

Rationale

A detailed review of the current Investment Policy term limitations was undertaken by staff. The proposed amendments to the Investment Policy would:

- Improve long-term investment returns;
- Provide for further diversification among short, medium and long-term;
- Maintain sufficient liquidity to meet the daily operating and capital cash flow requirements of the City; and

- Change “investment term limitations” to “investment term targets” to allow deviations from targets for various reasons such as timing of maturities, cash flow fluctuations, and changes in the capital market environment.

Over the past number of years, the City’s investment program has shown significant growth, which has allowed the City to increasingly focus on medium and long-term investment management. To illustrate the movement towards the term limitations, below is a comparison of the City’s investment portfolio over the past 5 years as detailed in the City’s annual Investment Reports.

Year	Short-Term	Medium-Term	Long-Term
2013	72%	11%	17%
2014	60%	24%	16%
2015	49%	35%	16%
2016	52%	22%	26%
2017	50%	24%	26%

The additional flexibility provided in the proposed term targets between short, medium and long-term gives the City the ability to respond to changing market conditions, including the interest rate curve of the capital markets as well as any changes in the City’s investment portfolio.

One of the primary objectives of the City’s Investment Policy is the maintenance of liquidity. The policy states that the investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing. The proposed target of 40% cash & short-term provides sufficient liquidity to meet the daily operating and capital cash flow requirements of the City, maintains a buffer for contingencies, and accommodates for cash fluctuations during the year related to timing and collection of property taxes and disbursements for expenditures. Furthermore, a significant portion of the City’s medium and long-term portfolios consist of securities with active secondary markets, adding another layer of liquidity to the overall portfolio.

With the City moving closer towards the current term limitations of 50% short-term, 25% medium-term and 25% long-term, revision of the current Investment Policy is proposed to improve long-term investment returns while maintaining liquidity.

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APPENDIX "A" - City of London Investment Portfolio as at December 31, 2017

Instrument	Book Value	Yield	Maturity Date (DD-MM-YR)
Cash Held in the Bank & Short-Term Investments (maturing in less than 1 year):			
<u>Internally Managed</u>			
General Cash ^(A)	\$ 111,988,289		
Reserve Fund Cash ^(A)	250,425,707		
Royal Bank GIC	3,256,240	2.28%	12-Feb-18
Bank of Nova Scotia GIC	2,512,819	1.73%	23-Feb-18
National Bank of Canada GIC	2,001,771	2.06%	02-Apr-18
Canadian Western Bank GIC	3,000,000	2.32%	18-May-18
Royal Bank GIC	2,500,000	1.39%	29-Jun-18
B2B Bank GIC	3,000,000	1.86%	13-Jul-18
Laurentian GIC	3,009,000	1.86%	13-Jul-18
Laurentian GIC	5,015,653	1.87%	09-Aug-18
Laurentian GIC	12,014,731	1.87%	10-Sep-18
Laurentian GIC	3,002,762	1.83%	09-Oct-18
Canadian Western Bank GIC	2,000,000	1.92%	29-Oct-18
Bank of Montreal GIC	6,000,000	1.97%	02-Nov-18
Bank of Montreal GIC	7,000,000	1.99%	05-Dec-18
Bank of Montreal GIC	3,000,000	1.71%	14-Dec-18
Bank of Montreal GIC	3,000,000	2.00%	19-Dec-18
Total Cash & Short-Term Investments	\$ 422,726,972		
Medium-Term Investments (maturing in 1 - 5 years):			
<u>Internally Managed</u>			
National Bank of Canada GIC	\$ 4,000,000	2.03%	01-Apr-19
National Bank of Canada GIC	1,000,000	1.91%	21-May-19
Laurentian GIC	4,002,008	2.02%	02-Jul-19
Laurentian GIC	3,000,000	2.09%	22-Jul-19
Laurentian GIC	2,000,736	2.12%	06-Aug-19
Laurentian GIC	2,500,000	2.33%	30-Sep-19
National Bank of Canada GIC	2,000,000	1.77%	28-Oct-19
Laurentian GIC	4,000,385	2.40%	04-Nov-19
Laurentian GIC	2,000,000	2.41%	05-Dec-19
National Bank of Canada GIC	5,000,000	2.18%	30-Mar-20
National Bank of Canada GIC	2,000,000	2.06%	19-May-20
National Bank of Canada GIC	3,000,000	1.95%	10-Aug-20
Bank of Montreal GIC	6,000,000	2.36%	27-Oct-20
National Bank of Canada GIC	3,000,000	1.87%	28-Oct-20
National Bank of Canada GIC	1,500,000	2.52%	26-Nov-20
National Bank of Canada GIC	3,500,000	2.03%	14-Dec-20
National Bank of Canada GIC	6,000,000	2.39%	30-Mar-21
National Bank of Canada GIC	2,000,000	2.26%	18-May-21
Bank of Montreal GIC	3,000,000	1.97%	28-Oct-21
National Bank of Canada GIC	6,000,000	2.03%	15-Nov-21
Royal Bank GIC	1,650,000	2.42%	19-Dec-21
Bank of Montreal GIC	2,500,000	2.04%	29-Jun-22
Royal Bank GIC	1,650,000	2.53%	19-Dec-22
Total Internally Managed (Medium-Term)	71,303,129		
<u>Externally Managed ^(B)</u>			
Scotia Institutional Asset Mgmt Portfolio	84,613,444		
RBC Dominion Securities Portfolio	50,643,321		
Total Externally Managed (Medium-Term)	135,256,765		
Total Medium-Term Investments	\$ 206,559,894		
Long-Term Investments (maturing in more than 5 years):			
<u>Internally Managed</u>			
Province of Ontario Bond	\$ 3,024,391	2.31%	02-Jun-23
Province of Quebec Bond	3,032,210	2.41%	01-Dec-23
Province of Ontario Bond	3,014,964	2.75%	02-Dec-24
Province of Ontario Bond	3,016,105	2.90%	02-Dec-25
Total Internally Managed (Long-Term)	12,087,670		
<u>Externally Managed ^(B)</u>			
RBC Global Asset Mgmt Portfolio	117,863,406		
Scotia Institutional Asset Mgmt Portfolio	119,710,398		
Total Externally Managed (Long-Term)	237,573,804		
Total Long-Term Investments	\$ 249,661,474		
Total Investment Portfolio	\$ 878,948,339		
Notes: ^(A) Cash balances as per bank accounts as at December 31, 2017.			
^(B) Externally managed portfolios primarily comprised of gov't/corporate bonds & GICs. Cash and investment balances, unaudited.			
Total Internally Managed: \$506,117,770 Total Externally Managed: \$372,830,569			

APPENDIX "B"

Bill No.
2018

By-law No. CPOL.-

A by-law to amend By-law CPOL.-39-235 being
"Investment Policy".

WHEREAS section 5(3) of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

AND WHEREAS section 7 of Ontario Regulation 438/97, as amended, enacted under section 418(6) of the *Municipal Act, 2001*, S.O. 2001, c.25 as amended, provides that The Corporation of the City of London shall adopt a statement of its investment policies and goals;

AND WHEREAS the Municipal Council of The Corporation of the City of London wishes to amend By-law CPOL.-39-235 being "Investment Policy" to revise the investment term limitations and change to investment term targets, revise the delegation of authority and authorization to reflect the City's current organizational structure, reformat into the new Council Policy template and review with the gender equity lens;

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. By-law CPOL.-39-235 being "Investment Policy" is hereby amended by deleting Appendix 'C(28) to By-Law No. CPOL.-39-235 in its entirety and by replacing it with the attached new Appendix "C".
2. This by-law shall come into force and effect on the date it is passed.

PASSED in Open Council on July 24, 2018.

Matt Brown
Mayor

Catharine Saunders
City Clerk

First Reading – July 24, 2018
Second Reading – July 24, 2018
Third Reading – July 24, 2018

APPENDIX “C”

Policy Name: Investment Policy

Legislative History: Enacted June 13, 2017 (By-law No. CPOL.-39-235)

Last Review Date: July 17, 2018

Service Area Lead: Manager III, Financial Planning and Policy

1. Policy Statement

The Corporation of the City of London (the City) shall invest public funds in a manner that maximizes investment return and minimizes investment risk while meeting the daily cash requirements of the City and conforming to legislation governing the investment of public funds.

The purpose of this investment policy is to ensure integrity of the investment management process. The objective of this investment policy is to maximize investment income at minimal risk to capital. Accordingly, emphasis on investments is placed on security first, liquidity second and overall yields third.

Objectives

The primary objectives of this investment policy, in priority order, are as follows:

1.1. Adherence to statutory requirements;

All investment activities shall be governed by the Ontario Municipal Act, 2001 as amended. Investments, unless further limited by Council, shall be those eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations.

1.2. Preservation of capital;

Meeting this objective requires the adoption of a defensive policy to minimize the risk of incurring a capital loss and of preserving the value of the invested principal. As such, this risk shall be mitigated by investing in properly rated financial instruments in accordance with applicable legislation, by limiting the types of investments to a maximum percentage of the total portfolio and being mindful of the amount invested within individual institutions.

1.3. Maintenance of liquidity; and

The investment portfolio shall remain sufficiently liquid to meet daily operating cash flow requirements and limit temporary borrowing. The portfolio shall be structured to maintain a proportionate ratio of short, medium and long-term maturities to meet the funding requirements of the City. The term liquidity implies a high degree of marketability and a high level of price stability. Important liquidity considerations are a reliable forecast of the timing of the requirement of funds, a contingency to cover the possibility of unplanned requirement of funds and an expectation of reliable secondary marketability prior to maturity.

1.4. Competitive rate of return.

Investment yields shall be sought within the boundaries set by the three foregoing objectives and then consideration shall be given to the following guidance;

- Higher yields are best obtained by taking advantage of the interest rate curve of the capital market, which normally yields higher rates of return for longer term investments;
- Yields will also fluctuate by institution as per individual credit ratings (greater risk confirmed by a lower credit rating) and by the type of capital instrument. For

example, an instrument of a small trust company would in many cases have a slightly higher yield than a major bank;

- A lower credit rating generally makes an investment more difficult to sell on the secondary market and therefore less liquid; and
- Capital instruments that are non-callable will have a lower yield than instruments which are callable, but the call feature does not necessarily compromise marketability.

The investment portfolio is comprised of:

- Operating and Capital cash flow balances;
- Reserves;
- Reserve funds; and
- Trust Funds.

2. Definitions

- 2.1. **Asset Backed Securities:** fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.
- 2.2. **Basis Point (BPS):** a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.
- 2.3. **City Treasurer:** The individual appointed by the municipality as treasurer.
- 2.4. **Credit Risk:** is the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.
- 2.5. **Diversification:** a process of investing assets among a range of security types by sector, maturity, and quality rating.
- 2.6. **Interest Rate Risk:** the risk associated with declines or rises in interest rates that cause an investment in a fixed income security to increase or decrease in value
- 2.7. **Liquidity:** a measure of an asset's convertibility to cash.
- 2.8. **Market Risk:** the risk that the value of a security will rise or decline as a result of changes in market conditions.
- 2.9. **Market Value:** current market price of a security.
- 2.10. **Maturity:** the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.
- 2.11. **One Investment Program:** a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O.Reg 438/97. The program consists of Money Market Funds, Bond Funds and Equity Funds. The ONE Fund is operated by LAS (Local Authority Services Ltd., a subsidiary of the Association of Municipalities of Ontario) and the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers' Association of Ontario).
- 2.12. **Qualifying Assets:** financial assets, either fixed or revolving, that, by their terms converts into cash, within a finite time period, plus any rights or other assets

designed to assure the servicing or timely distribution of proceeds to security holders.

- 2.13. **Schedule I Banks:** domestic banks that are authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation.
- 2.14. **Schedule II Banks:** are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions.
- 2.15. **Special Purpose Entity:** a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

3. **Applicability**

This investment policy shall govern the investment activities of the City's General, Capital and Reserve Funds as well as Trust Funds. This policy applies to all investments made by the City on its own behalf and on behalf of its agencies, boards and commissions and any new funds created by the City.

4. **The Policy**

4.1 **Standard of Care**

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Delegation of Authority and Authorization

The City Treasurer shall have overall responsibility for the prudent investment of the City's investment portfolio. The City Treasurer shall have the authority to implement the investment program and establish procedures consistent with this policy. Such procedures shall include the explicit delegation of the authority needed to complete investment transactions however the City Treasurer shall remain responsible for ensuring that the investments are compliant with regulations and this policy. No person may engage in an investment transaction except as provided under the terms of this policy.

The City Treasurer shall be authorized to enter into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities in a manner that conforms to the *Municipal Act, 2001* and the City's policy manual.

Transfer of funds for investment transactions shall be authorized by two of the individuals listed below, one of whom must be City Treasurer or Deputy City Treasurer.

- i) City Treasurer
- ii) Deputy City Treasurer
- iii) Director, Financial Planning & Business Support
- iv) Director, Financial Services
- v) Manager, Financial Planning & Policy
- vi) Division Manager – Taxation & Revenue

4.2 Investment Strategy

4.2.1 Diversification

To minimize credit risk and to maintain liquidity of the investment portfolio, investment diversification shall be guided by the following:

- i) Limiting investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);
- ii) Limiting investment in securities to those that have higher credit ratings;
- iii) Investing in securities with varying maturities; and
- iv) Investing in securities which have an active secondary market.

4.2.2 Investment Type Limitations

Cash held in the bank (excluding trust funds), i.e. one day maturity, shall be no less than what is deemed necessary to meet daily operating and capital requirements of the City. The current guideline is approximately \$50 million in general funds and \$150 million in reserve funds. This guideline shall be evaluated on an annual basis and this policy shall be updated as necessary to reflect any changes.

The total investment in securities issued by governments (federal, provincial or municipal) and Schedule I banks shall be no less than 75% of the total investment portfolio (excluding cash held in the bank and trust funds).

The remaining portfolio may be invested in any other securities which are deemed eligible under O.Reg 438/97 however no more than 10% of the total investment portfolio (excluding cash held in the bank and trust funds) shall be invested in eligible asset-backed securities and eligible commercial paper. Also, no more than 5% of the total investment portfolio (excluding cash held in the bank and trust funds) shall be invested in eligible pooled equity funds (i.e. One Investment Program Equity Portfolio).

These portfolio percentage limitations apply at the time an investment is made and exclude trust fund investments, which are subject to trust fund investment requirements. Investments held in a professionally managed portfolio are also excluded as diversification is subject to the judgement of the investment manager.

4.2.3 Investment Term Targets

For the purpose of this policy, a short-term investment is defined as maturing in less than one year, medium-term as maturing between one and five years and long-term as maturing in greater than five years. In general, professionally managed portfolios are deemed to be long-term investments, as it is likely that the intention of Administration is to invest funds that are not required for the next five years. For the purposes of this section, professionally managed portfolios shall be considered long-term investments, unless it is specifically known otherwise. The total investment portfolio in calculating term targets shall exclude trust funds. The term targets, listed as a percentage of the total investment portfolio, are as follows:

<u>Term</u>	<u>Target</u>
Short-term	40%
Medium-term	30%
Long-term	30%

The portfolio percentage targets shall apply at the time the investment is made. At specific times the portfolio percentages may deviate from the target for various reasons, for example the timing of maturities. The current guideline is to maintain a range of $\pm 10\%$ from each term target. Prior to any changes to the portfolio based on term targets, the City Treasurer may, at their discretion, retain the investment(s), that contravenes the portfolio targets provided that such action is not contrary to the Municipal Act, 2001.

Type limitations and term targets shall be reviewed annually by the City Treasurer and this policy shall be amended as necessary to minimize the City's exposure to changes in the financial marketplace after giving consideration to the available financial information.

Trust fund portfolio limitations are subject to the terms and conditions of the agreement to which the fund applies. Absent specific wording, compliance with the stated portfolio limitations is required, and should be considered separately from City of London funds.

4.2.4. Buy and Hold

To achieve the primary objectives of this investment policy, internally managed funds shall, for the most part, follow the buy and hold strategy. As noted above, higher yields are best obtained by taking advantage of the interest rate curve of the capital market which normally yields higher rates of return for longer term investments. By purchasing securities at varying maturity dates and holding the investments to term the interest rate risk is minimized, liquidity is maintained and capital is preserved. To be successful with the buy and hold strategy, matching cash requirements to investment terms is a key element and requires a solid cash flow forecast.

Some municipalities actively trade investments rather than holding to term. This 'active' investment strategy can produce a modest improvement in yield, but to be successful a large amount of excess cash and sophisticated investment expertise is required. Professionally managed funds charge a fee (usually basis points deducted from the yield) but it is anticipated the performance of the fund will exceed the cost of administration. Nevertheless, performance of professionally managed funds shall be regularly compared to industry benchmarks and to the result that might be achieved using the internally managed approach.

4.2.5 Performance Standards

The investment portfolio shall be managed in accordance with parameters specified within this policy. The portfolio should obtain a market average rate of return throughout budgetary and economic cycles proportionate with investment risk constraints and the cash flow needs of the City.

The performances of investments shall be measured using multiple benchmarks and performance indicators. The baseline yield for investments is the interest rate earned by the City on cash held in its bank account. Then, investment yields can be compared to Government of Canada Treasury Bills and Benchmark Bond Yields. Furthermore, prime interest rates and other applicable market rates, such as Banker's Acceptance can be used to provide useful benchmarks with consideration to limitations attributable to the Municipal Act, 2001.

4.2.6 Internal Borrowing

In developing the cash requirements for the year, sufficient cash shall be available to fund capital expenditures. The main cash elements of the operating budget are stable and predictable, e.g. tax revenue and operating expenditures

which is established in the budget process. The primary variable in forecasting cash demands is capital spending. Capital spending is supported (temporarily financed) by the General fund prior to securing long-term financing (primarily long-term debentures).

If the General fund does not have sufficient cash to support capital expenditures and operating expenditures during the year, the best option is to borrow from the Reserve Funds on a short-term basis, rather than obtaining external financing. In order for this to occur, the Reserve Funds must have sufficient cash available (i.e. not locked into long-term investments) to support the General Fund through this period. A fair rate of interest shall be applied based on the interest rate paid on funds in the City's consolidated bank account. For the most part the interest charged is going 'from one City pocket to another', but given that some reserve funds are non-rate funded, there is a requirement to pay a fair rate to the reserve funds for 'investing' in the General fund.

4.2.7 Trust Funds

Trust funds by nature must be maintained in a separate account and invested separately. The investment strategy will be dictated by the terms of the trust agreement. In the absence of specific direction, the strategy shall be in compliance with this policy.

Given the variability of capital spending, interest rates, and non-tax revenues, the investment strategy shall be reviewed, at a minimum, on an annual basis. Any changes in the investment strategy shall be reported to Council in the annual investment report and the investment policy shall be amended for the change in strategy.

4.3 Reporting

The City Treasurer shall provide an annual investment report to Council which includes, at a minimum, the requirements set forth in O. Reg. 438/97. Under the current regulations the investment report shall contain the following:

- i) a statement about the performance or the portfolio of investments of the municipality during the period covered by the report;
- ii) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- iii) a statement by the treasurer as to whether or not, in their opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- iv) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security;
- v) such other information that the council may require or that in the opinion of the treasurer, should be included;
- vi) a statement by the treasurer as to whether any of the investments fall below the standard required for that investment during the period covered by the report; and
- vii) the details of the proposed use of funds realized in the disposition of an investment for which the City sold as a result of a decline in rating below the standard required by O.Reg. 438/97.

In addition to the annual report, the City Treasurer shall report to Council any investment that is made that is not, in their opinion, consistent with investment policy adopted by the City within thirty days after becoming aware of it.