

## Report to Corporate Services Committee

**To:** Chair and Members  
Corporate Services Committee

**From:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports

**Subject:** Investment Holdings Notification

**Date:** September 20, 2021

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, this Investment Holdings Notification report **BE RECEIVED** for information.

## Executive Summary

This report provides a notification to Council that on September 8, 2021, Civic Administration became aware of investment holdings that were inconsistent with the City's Investment Policy. As stipulated in both the City's Investment Policy and Ontario Regulation 438/97, this report satisfies the requirement to notify Council within 30 days of becoming aware of such an inconsistency.

At the time of writing this report, the inconsistent investment holdings have either matured or have been sold and the City's existing investment holdings are compliant with the City's Investment Policy and Ontario Regulation 438/97.

## Linkage to the Corporate Strategic Plan

Council's 2019 to 2023 Strategic Plan for the City of London identifies 'Leading in Public Service' as a strategic area of focus. The ongoing monitoring of adherence to the City's financial policies supports maintaining London's finances in a transparent and well-planned manner to balance equity and affordability over the long term.

## Analysis

### 1.0 Background Information

As outlined in Ontario Regulation 438/97 (Eligible Investments, Related Finance Agreements and Prudent Investment) and the City of London's Investment Policy, the City Treasurer is required to report to Council investments made which are inconsistent with the investment policies and goals adopted by the municipality within 30 days after becoming aware of it. This report is to notify Council that such an instance has been identified.

### 2.0 Discussion and Considerations

On September 8, 2021, Civic Administration became aware that one of its external portfolio managers had purchased and held three securities within the City's externally managed investment portfolio that were inconsistent with Ontario Regulation 438/97 and therefore inconsistent with the City's Investment Policy. As outlined in the City's Investment Policy, the first objective is adherence to statutory requirements.

Civic Administration initiated a review into this respective managed account based on a documentation request from the corresponding investment custodian. Civic Administration engaged with the external portfolio manager to verify compliance of our holdings.

It was discovered that the external portfolio manager had purchased 'Maple Bonds' believing these were compliant with Ontario Regulation 438/97. Maple Bonds are Canadian dollar denominated bonds issued by a foreign borrower in the Canadian fixed income market. In

this specific instance, the three holdings were issued by United States of America domiciled multinational corporations and hence ineligible.

The three holdings in aggregate represented a relatively small amount of the City's investment holdings. The three holdings represented the following proportion of balances (based on Cost) as of the end of 2020:

- Percentage of Externally Managed Portfolios – 2.37 percent
- Percentage of Total City Investment Holdings – 1.27 percent

One of the holdings matured in March 2021. The other two holdings remained in the portfolio on September 8, 2021 when Civic Administration became aware of this inconsistency. At Civic Administration's direction, the external portfolio manager disposed of the remaining inconsistent holdings on the same day. The holdings yielded small capital gains on disposition. Funds from the sale of the holdings will be reinvested in compliant holdings.

Civic Administration has also followed up with the relevant external portfolio manager to understand the measures that will be implemented to prevent a recurrence of this situation in the future.

Civic Administration discusses compliance with the City's Investment Policy as part of regular quarterly portfolio reviews with all external portfolio managers. However, after discovering this unique situation, Civic Administration asked all other external portfolio managers to re-confirm compliance with the City's Investment Policy and received affirming responses.

## **Conclusion**

Civic Administration became aware of investment holdings inconsistent with the City of London's Investment Policy and Ontario Regulation 438/97. This report provides notification to Council within 30 days of becoming aware of such an inconsistency as required by the regulation and based on immediate actions taken, the City's investment portfolio is currently aligned with the applicable policy and regulation.

**Prepared by:** **Martin Galczynski, CPA, CA, Manager, Financial Planning and Policy**

**Submitted by:** **Kyle Murray, CPA, CA, Director, Financial Planning and Business Support**

**Recommended by:** **Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports**