



## REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE

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<b>TO:</b>	<b>FINANCE AND CORPORATE SERVICES COMMITTEE</b>
<b>PREPARED BY AND KEY CONTACT:</b>	<b>T. RAYAISSE, PORTFOLIO MANAGER (X4724)</b> <b>J. COWLES, SENIOR MANAGER CORPORATE FINANCE AND INVESTMENT (X5347)</b>
<b>SUBMITTED BY:</b>	<b>C. MILLAR, DIRECTOR OF FINANCE AND TREASURER (X5130)</b>
<b>GENERAL MANAGER APPROVAL:</b>	<b>D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES</b>
<b>CHIEF ADMINISTRATIVE OFFICER APPROVAL:</b>	<b>M. PROWSE, CHIEF ADMINISTRATIVE OFFICER</b>
<b>DATE:</b>	<b>MAY 1, 2019</b>
<b>SUBJECT:</b>	<b>2018 INVESTMENT MANAGEMENT ANNUAL REPORT</b>

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### **RECOMMENDED MOTION**

1. That the Report to Finance and Corporate Services Committee dated May 1, 2019 concerning the 2018 Investment Management Annual Report be received for information.
2. That the Prudent Investor Standard be approved and an Investment Board (Board) be established and comprised of:
  - a) Director of Finance and Treasurer; and
  - b) Four (4) citizen members with background in Investment management be appointed by Barrie City Council, for a term expiring on November 14, 2022, or until a successor(s) is appointed.
3. That the Terms of Reference for the Board attached as Appendix "C" to the Report to Finance and Corporate Services dated May 1, 2019, be approved.
4. That delegated authority to follow an Investment Plan related to how the Board will invest the City's money in accordance with the City's Investment Policy, be approved.
5. That staff in the Legislative and Court Services Department advertise for interested applicants for the citizen positions on the Board.
6. That the Procedural By-law 2013-072, be amended to add the Board as a Committee that reports to the Finance and Corporate Services Committee.
7. That funding in the amount of \$40,000 for 2019 be allocated from the existing Finance Department budget to the Board for the purpose of compensation to the four citizen members.
8. That staff in the Finance Department report back to the Finance and Corporate Services Committee with an update to the City's Investment Policy to reflect the Prudent Investor Standard.
9. That the Report to the Finance and Corporate Services Committee dated May 1, 2019 and the 2019 Business Plan be deemed to satisfy the requirements of paragraph 18 of motion 17-G-199 of the 2017 Business Plan and staff be authorized to proceed with debenture issuance on the Barrie-Simcoe Emergency Services Campus project.

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## **PURPOSE & BACKGROUND**

### **Prudent Investor Standard**

10. The purpose of this report is to update and discuss the Investment and Debt activities undertaken during 2018, as required by Ontario Regulation 438/97 (as amended) of the *Municipal Act, 2001*, and the City's Investment Policy, as well as make a recommendation with regards to the Prudent Investor Standard.
11. Ontario Regulation 438/97 (Eligible Investments, Related Financial Agreements and Prudent Investment) of the *Municipal Act, 2001* requires certain disclosures to Council as outlined in Appendix 'A'. Required disclosure includes a statement from the Treasurer indicating if all investments are consistent with the investment policies and goals adopted by the City through Investment Policy Statement (IPS) (Appendix 'B').
12. Starting January 1, 2019 municipalities are allowed to pass a by-law adopting the Prudent Investor Standard based on the revision of Section 418.1 of the *Municipal Act, 2001* that authorizes municipalities to opt into the prudent investor standard, which became effective March 1, 2018.
13. Under the prudent investor standard, municipalities have to exercise the care, skill, diligence and judgement that a prudent investor would exercise in making investment decisions. Diversification is mandated and investment decisions have to be made in the context of the overall investment portfolio.
14. Currently the City is only allowed to invest in a very limited list of securities prescribed by the Province and consisting of Canadian federal, provincial and municipal government or government-guaranteed bonds and short-term fixed-income securities issued by Canadian chartered banks and credit unions.
15. The City strives for the optimum utilization of its cash resources within statutory limitations, and the need to protect and preserve capital with near risk free investments, while maintaining solvency and liquidity to meet ongoing financial requirements.
16. The Investment Policy Statement is to ensure the prudent management of the Corporation's surplus funds and investment portfolio, and has the following objectives:
  - a) Adherence to statutory requirements;
  - b) Preserving of Capital;
  - c) Maintaining liquidity; and,
  - d) Earning a competitive rate of return: the investment portfolio shall be designed to attain the maximum rate of return while meeting the above three objectives.

### **Barrie-Simcoe Emergency Services Debenture Issuance**

17. On July 24, 2017, City Council adopted motion 17-G-199 regarding the Barrie-Simcoe Emergency Services Campus Alternatives as follows:

"That staff in the Finance Department continue to investigate financing options with the objective of reducing overall interest costs of the Barrie-simcoe Emergency Services Campus project and overall debt mitigation, without adversely impacting the City's working capital, and report back to General Committee on alternatives including but not limited to the following, prior to the issuance of any debentures

  - a) Utilizing all of the approximately \$1.9 million of tax funding that will become available in 2019 through the retirement of \$24.3 million in debt, to help offset the impact of new financing requirements."

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## **Summary of Investment and Financing Activities**

18. Total investment income was \$3.4 million for the year 2018 comprising of \$312 thousand in interest on bank deposits, \$2.2 million from portfolio investments, and \$900 thousand in interest from the Hydro promissory note. Total investment income increased by \$1 million (or 42%) year over year, and over \$600 thousand ahead of forecast.
19. Investment return for 2018 was 2.58% on average capital of \$130 million; an increase of 37 basis points year over year.
20. Total Debt Service Cost was \$29.28 million for the year comprising of \$12.24 million interest and \$17.04 million principal repayment. At year end the City had total outstanding debentures of \$284.23 million.
21. On October 11, 2018, Standard and Poor's (S&P) Global Ratings affirmed the City's 'AA' long-term issuer credit rating, with a stable outlook on the back of its growing and diversifying economy, its liquidity position, and its strong financial management.

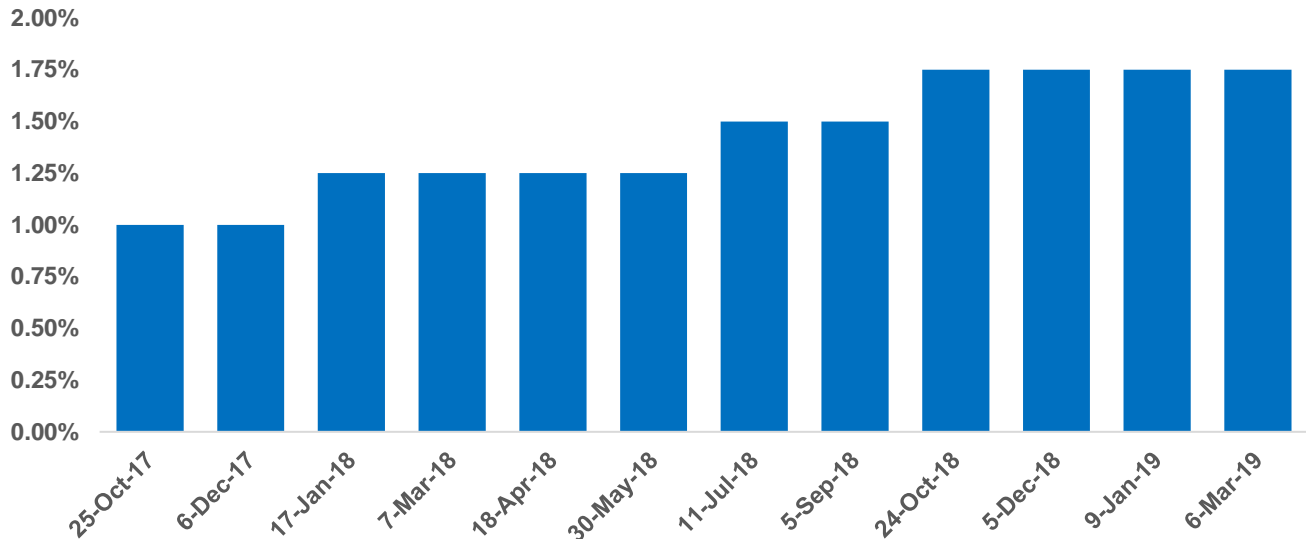
## **ANALYSIS**

### **Barrie-Simcoe Emergency Services Debenture Issuance**

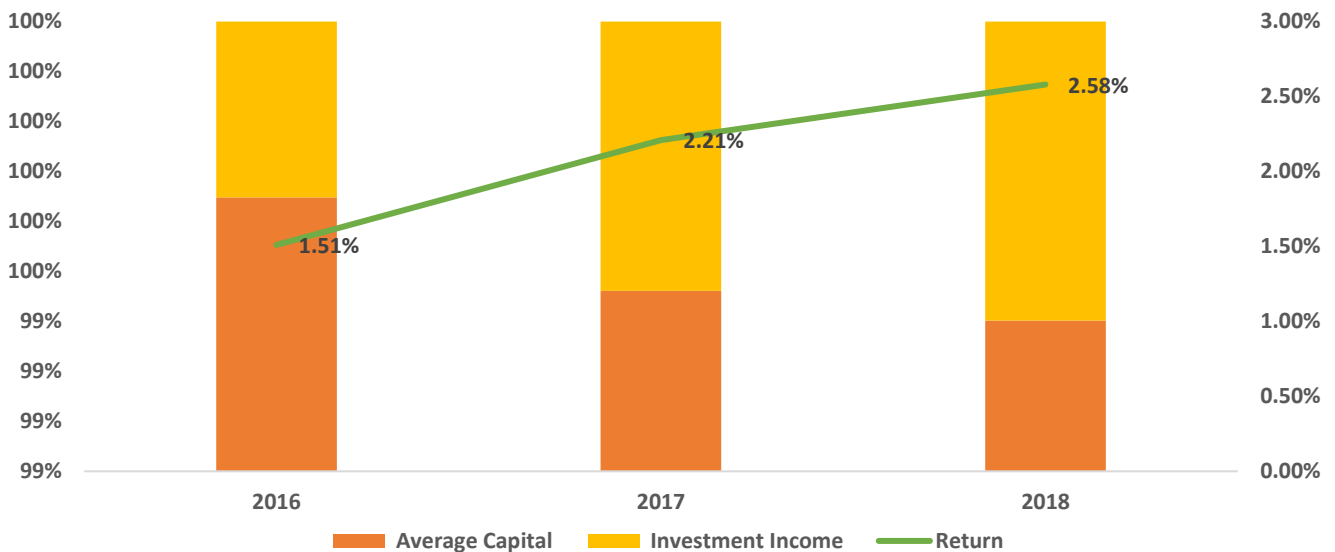
22. Debenture issuance for 2019 is expected to amount to \$47.5 million of which \$29.4 million relates to the Barrie-Simcoe Emergency Services Campus. Pursuant to motion 17-G-199, Staff intend to explore financing alternatives that will lower the overall interest costs associated with the project. As requested by Council under the same motion, the overall debenture amount was reduced by \$2 million during the 2019 budget deliberations.
23. In addition short-term financing in the amount of \$24 million was secured in 2018 by means of three-month Banker's acceptance. Staff anticipate converting the short-term financing into long term debentures as part of the 2019 financing plan. Average short-term borrowing rates were on average 25 basis points lower than traditional short-term financing sources or approximately \$60 thousand in annualized interest savings as a result of ongoing debt innovation and cost reduction strategies.

### **Investment Performance**

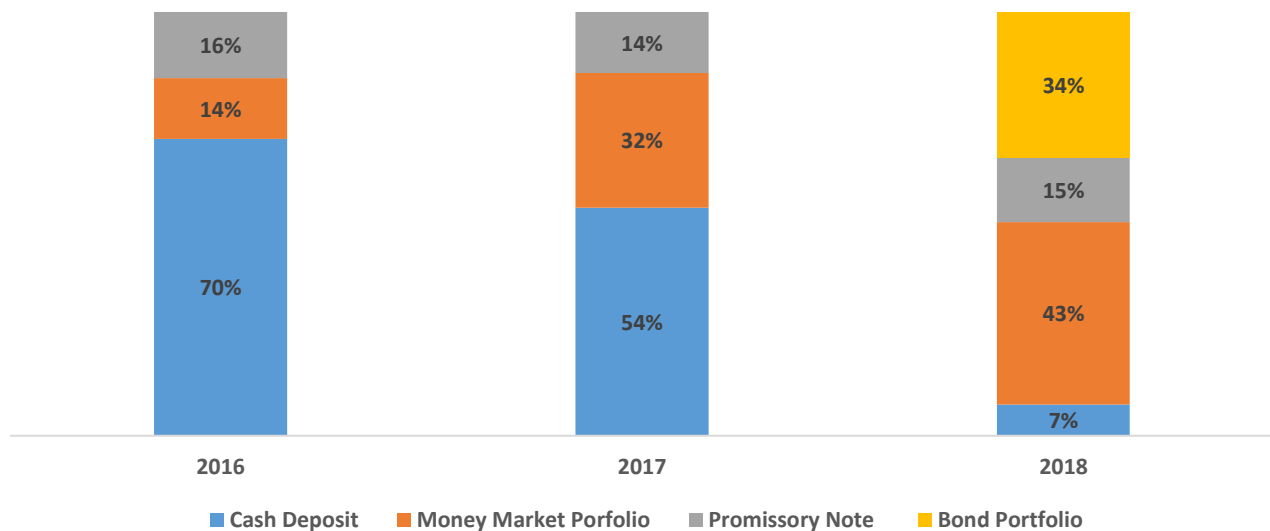
24. The Bank of Canada continued the process of normalizing interest rates into 2018 by increasing the overnight rate by 0.75% during the first three quarters of the year before hitting the pause button in the last quarter on the back of heightened trade conflicts and lower oil prices.



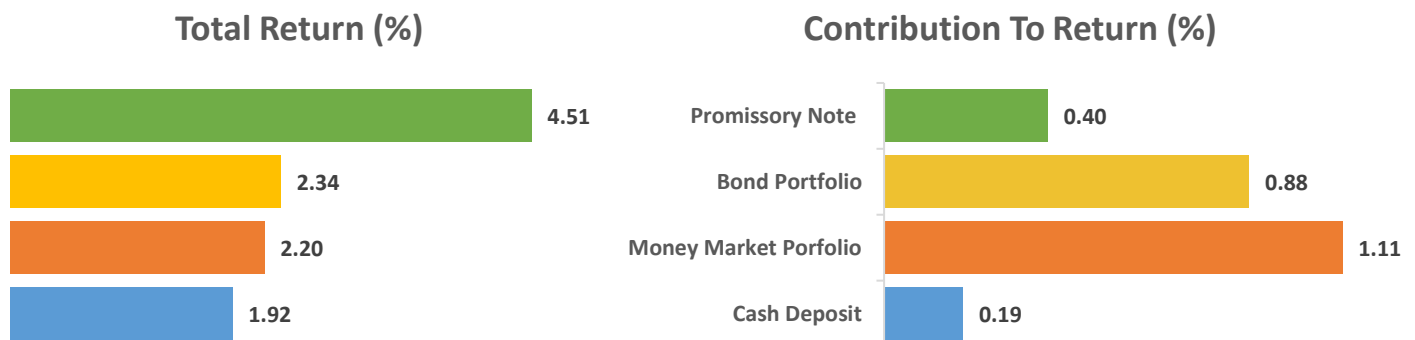
25. On March 6, 2019, the Bank of Canada maintained the overnight rate at 1.75% citing that the global economic slowdown has become more pronounced and widespread than previously anticipated. Consumer spending and the housing market softened in the fourth quarter of 2018; export activity and business investment were also weaker than expected. Expectations is for the Bank of Canada to maintain or potentially cut interest rates in the short to medium term.
26. Against this backdrop, the investment return for 2018 was 2.58% on average capital of \$130 million; an increase of 37 basis points year over year. The chart below shows the increase in return over the last three years. The decrease in capital over time is attributable to the decrease in debenture issuance. Meanwhile investment income increased over the same period.



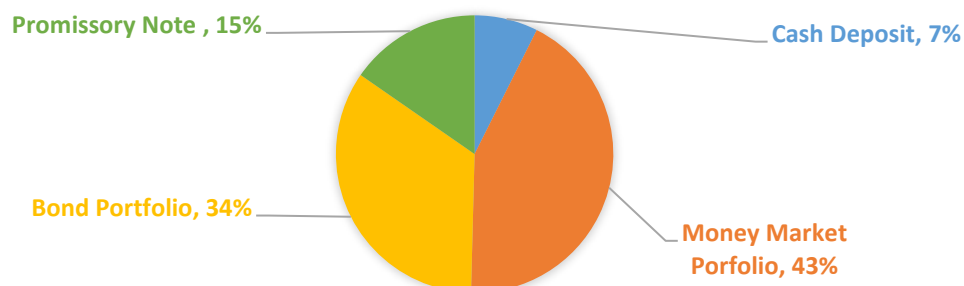
27. These results were achieved by the implementation of the investment management strategy over time. Starting in the fall of 2016, the City began moving from holding all its capital in cash deposits to adding a money market portfolio and a bond portfolio.



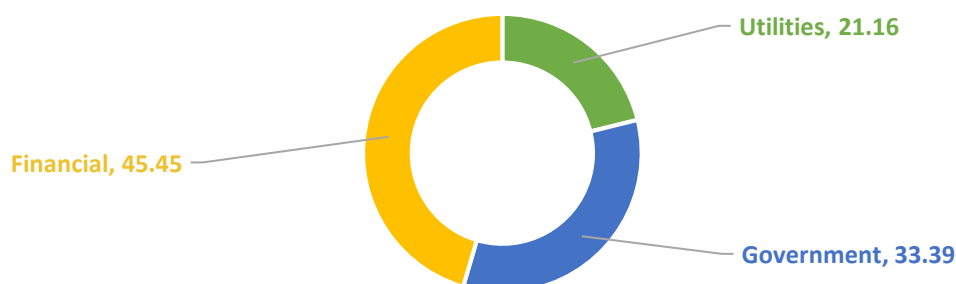
28. The 2018 performance of the overall investment portfolio was attributable to the higher yields generated by an expanded bond portfolio (2.34%), higher re-investment rate (2.20%) on coupons driven by Bank of Canada rate increases, overall improvements in cash flow forecasting which allowed for higher investment balances. The Hydro promissory note remains the highest yielding asset (4.51%).



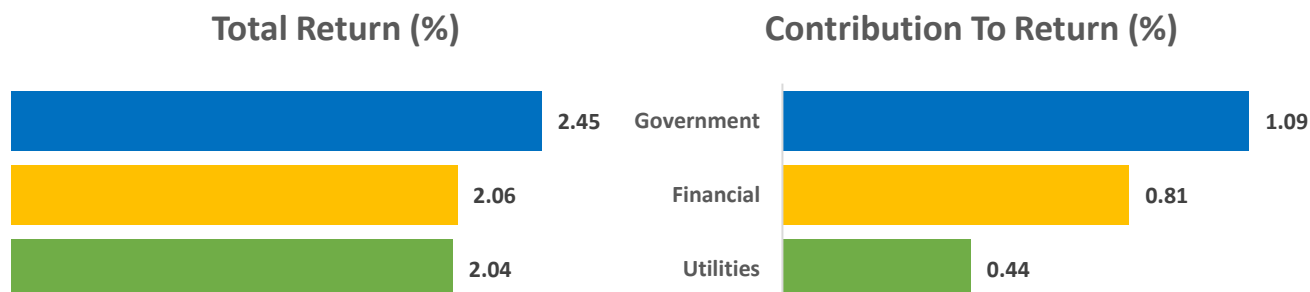
29. The following chart below shows the average capital allocation during the year. The larger allocation to Money Markets is reflective of strategic positioning pending the decision on of the Prudent Investor Standard.



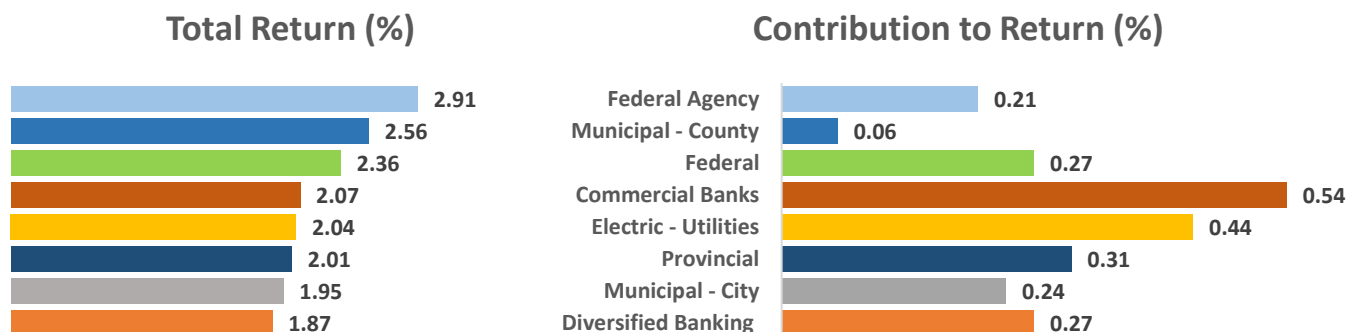
30. Investments are structured to meet the City's future cash flow requirements. This is primarily achieved by a cash flow match bond portfolio. The portfolio is constructed to meet the cash flow requirements in an efficient manner, and improve returns, and is immunized against interest rate risk. The following chart shows the average portfolio allocation (%) by sector.



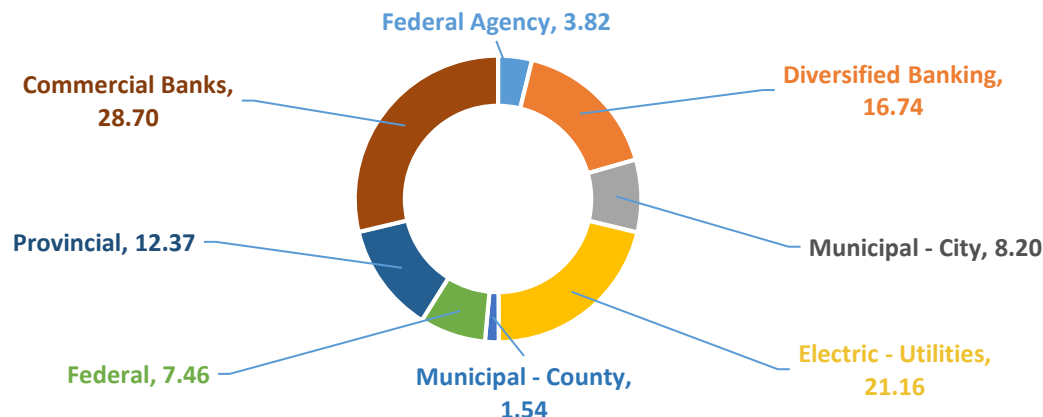
31. Government was the best performing sector of the bond portfolio with a return of 2.45% during the period. This is attributable to the increased volatility in the equities markets which triggered a flight to safety. During times of uncertainty investors tend to sell equities and buy bonds in general and government bonds in particular. The following chart shows the total return of the portfolio by sector.



31. A breakdown of the above sectors into industry subgroups shows that Federal Agency bonds led the way in performance with a total return of 2.91% during the period and contributed 0.21% to total return.



32. Commercial banks contributed 0.54% to total return with an average weight of for 28.7%.



33. Given the uncertainty around the timing and size of cash flows, a short-term (0-18 months) Money Market portfolio is managed daily to enhance liquidity and improve the re-investment rate of return on coupon received and interim excess cash. The return of 2.20% on this portfolio was driven largely by the Bank of Canada rate increases.
34. As of December 31, 2018, all cash and investment holdings were of very high quality with an average credit rating of AA or better, according to Standard & Poor's, Moody's, and Dominion Bond Rating Service. Investment portfolios were in compliance with the Investment Policy Statement (Appendix "B" to this Committee Report), and properly diversified. See Appendix "A" to this Committee Report for the regulatory disclosures.

## **Prudent Investor Standard**

35. Investment results are dependent upon many factors. The boundaries of these factors are delineated by the set of opportunities available to the investor. The set of investment opportunities currently available to the City was defined under the *Municipal Act, 2001* over a decade ago.
36. The Province recognized the limitations of the current regulation in light of the increasing financial burden assumed by municipalities. Indeed municipalities are expected, by higher levels of government and by their residents, to deliver more services with less resources in an ever increasing complex economic environment.
37. The Province responded positively to the call of municipalities to partner with them in finding efficient ways to manage their resources and to diversify their sources of revenue. Section 418.1 of the *Municipal Act, 2001* that authorizes municipalities to opt into the Prudent Investor Standard, became effective on March 1, 2018.
38. The Prudent Investor Standard expands the set of investments opportunities currently available to municipalities by allowing them to invest in a broader array of securities. This standard is by no means a novelty. Imbedded in it are robust principles of investment management practices used in all aspects of the industry, including pension funds. The standard is further supported by the *Trustee Act* that defines the parameters that a "Prudent Person" should consider in discharging his fiduciary duties.

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39. Under the *Trustee Act* a Prudent Person must consider the following criteria in making investment decisions, in addition to any others that are relevant to the circumstances:
- General economic conditions.
  - The possible effect of inflation or deflation.
  - The expected tax consequences of investment decisions or strategies.
  - The role that each investment or course of action plays within the overall portfolio.
  - The expected total return from income and the appreciation of capital.
  - Needs for liquidity, regularity of income and preservation or appreciation of capital.
  - An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.
40. Diversification is mandatory under the Prudent Investor Standard; seeking specialized advice and the use of agents are allowed under the *Trustee Act*.
41. What this means for the City is the benefit of increasing revenues and better risk management; thinking about investments in the broader scope of its overall funding and asset allocation strategy; being able to plan and respond according to economic and market conditions.
42. Beside the prescribed governance structure, the Prudent Investor Standard expands the current investment regime. The City can still pursue its successful investment strategy while affording itself additional risk management tools. For that the City has to first meet the eligibility criteria, pass a by-law enacting the Prudent Investor Standard and establish or join an Investment Board.
43. Under the revised *Municipal Act, 2001* municipalities are eligible to adopt the Prudent Investor Standard if individually, or together with one or more other municipalities, they have at least \$100 million in investable assets in the opinion of the Treasurer. The definition of investable assets did not change and remains the same as currently applied.
44. Municipalities unable to meet this threshold on their own could join forces with other municipalities to satisfy this requirement. The City would meet this requirement on a standalone basis. At year end the City held an investment portfolio of more than \$100 million not including the Alectra shares. Meeting this requirement does not preclude the City from joining with others if it chooses to do so.

### Investment Board

45. The governance framework requires municipalities to establish or join an independent Investment Board. With the exception of the Treasurer, an officer or employee or a member of the Council of any municipality for which the Investment Board invests cannot be a member of the Investment Board. Council conveys its objectives and goals to the Board via the Investment Policy Statement (IPS). The IPS is the governing document of all investment activities, including the risk and return objectives, and the types and proportion of investments to be held. The Investment Board then develops an Investment Plan to deliver on Council's strategic goals as stated in the IPS. (See Appendix "C" for the investment framework under the Prudent Investor Standard).
46. The benefits of establishing a Board include a custom solution for the City, a guaranteed seat for the Treasurer on the Board and the efficient use of Board time and talent as its only focus will be the City's Investment Plan. The City would also bear the cost of the Board including administrative and potential compensation should it decide to compensate the Board.



47. The benefit of the Joint Investment Board is the potential cost splitting. This may not translate into lower cost for the City because of the likelihood of the higher cost of running a Joint Board. In addition the City is not guaranteed to have its Treasurer on the Board all the time. The regulation limits Treasurers' seats to no more than 25% of the members. Therefore the minimum Board size with one Treasurer is four (4 members). For a second seat the Board size has to double in size to eight. Therefore under a joint Board one solution would be a rotating Treasurer' seat. The Board would also have to develop and implement an Investment Plan for each municipality according to its Investment Policy Statement. This adds a significant level of complexity as the number of participant increases.
48. As previously mentioned the current investment regime is very limited and not flexible enough to fully take advantage of effective risk management strategies, particularly diversification across asset classes. On a risk adjusted basis a portfolio managed under the prudent investor standard would outperform a portfolio constructed under the current regime. The prudent investor standard could have the potential to significantly improve return on investment for the City over time.
49. Based on the above assessment, staff is of the opinion that Council should adopt the prudent investor standard and establish its own Board. This will continue to build on the success of the current investment program by increasing returns, reducing risk, and providing solutions unique to the City while enhancing the governance structure.

### **ENVIRONMENTAL MATTERS**

50. There are no environmental matters related to the recommendation.

### **ALTERNATIVES**

51. The following alternatives are available for consideration by the Finance and Corporate Services Committee:

#### **Alternative #1**

The Finance and Corporate Services Committee could choose to adopt the Prudent Investor Standard and join an Investment Board. The following would need to be undertaken:

- a) Pass a by-law adopting the prudent investor standard
- b) Adopt an Investment Policy Statement in accordance with the prudent investor standard
- c) Seek a suitable Joint Investment Board to join or find others municipalities desirous to start a new Joint Investment Board with the City

This alternative is available, however it is not being recommended due to:

- a) The City Treasurer may not always have a seat on the Joint Investment Board
- b) The City may have unique investment assets and needs that need to be taken into consideration when developing a suitable plan.
- c) The cost involved in running such a complex Joint Investment Board will ultimately be borne by the City.

## Alternative #2

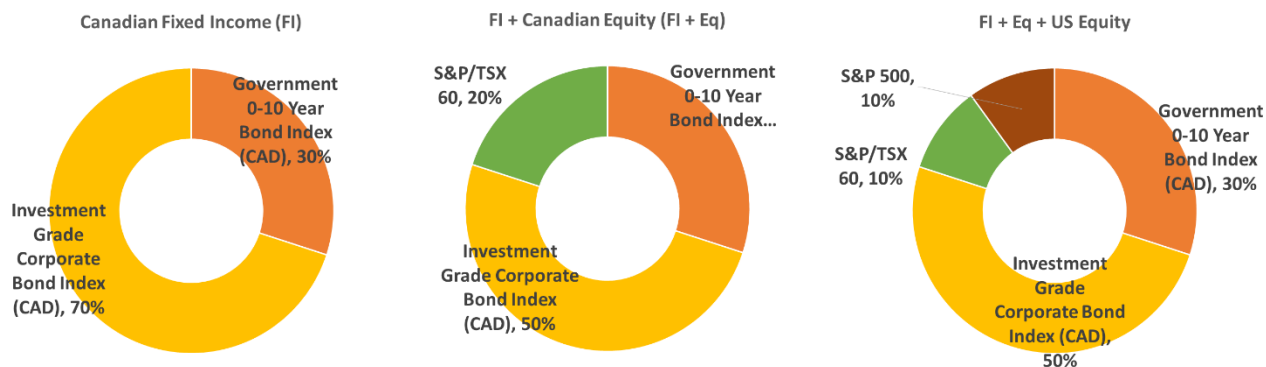
Finance and Corporate Services Committee could choose to remain under the current investment regime using the prescribed list. An update to the current investment policy would need to be undertaken.

This alternative is not recommended because:

- The list of securities as prescribed is very limited and only permits investing in Canadian federal, provincial and municipal government or government-guaranteed bonds and short-term and fixed-income securities issued by Canadian chartered banks and credit unions.
- In the current low interest rate environment, returns are barely keeping up with the rate of inflation. Diversifying across asset classes other than fixed-income and money market securities could potentially yield higher rates of return and reduce risk.

## FINANCIAL

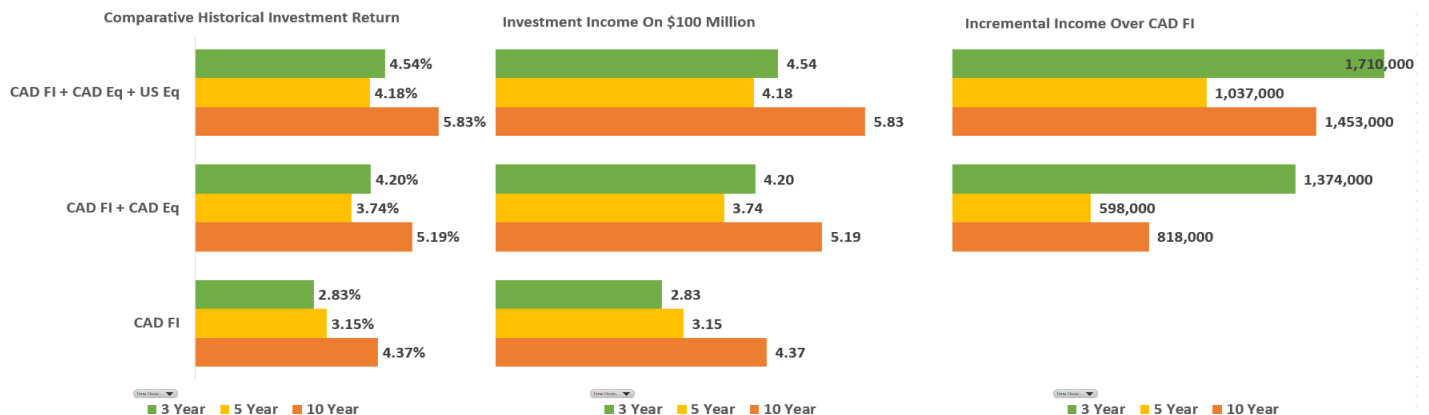
- Costs resulting from the Board's operation and activities are the responsibility of the municipality. The per diem for members of \$1,000 per meeting and per diem for the Chair of \$1,500 per meeting is to be funded from the Finance Department budget.
- It is anticipated that the greater breadth of potential investments available under the prudent investor standard will allow the City to realize improved returns over the longer-term while also reducing overall portfolio risk.
- The following graphs show three (3) different portfolios: a Canadian fixed income (FI) portfolio which is representative of the Current Investment Standard; a second portfolio that adds 20% Canadian equity to the FI portfolio and a third portfolio further diversified across geographies by splitting the 20% equity position equally between Canadian and US securities. The two (2) latter portfolios are representative of investing under the Prudent Investor Standard.



55. The table below show the historical performance (total return) of a select S&P indices as proxies for the following sectors: Canadian government and corporate bonds, and Canadian and US equities<sup>1</sup>.

Index Name	3 Yr Ann. Returns	5 Yr Ann. Returns	10 Yr Ann. Returns
 S&P/TSX 60 (TR) Launch Date: Dec 31, 1998	10.33 %▲	6.54 %▲	9.23 %▲
 S&P 500 (TR) Launch Date: Sep 11, 1989	13.69 %▲	10.93 %▲	15.58 %▲
 S&P Canada Investment Grade Corporate Bond Index Launch Date: Dec 31, 2013	3.46 %▲	3.55 %▲	5.14 %▲
 S&P Canada Government 0-10 Year Bond Index (CAD) Launch Date: Jan 24, 2018	1.36 %▲	2.20 %▲	2.58 %▲

56. The following graphs show that over the last three (3), five (5) and ten (10) years, both Prudent Investor Standard portfolios outperformed the Current Standard portfolio by 60 to 170 basis points. On a \$100 million portfolio this represents an incremental income range of \$600 thousands (portfolio 2 invested over five years) to \$1.7 million (portfolio 3 invested over three years).



## LINKAGE TO 2018-2022 STRATEGIC PLAN

57. The recommendations included in this Report support the following goal identified in the 2018-2022 Strategic Plan:

☒ Offering Innovation and Citizen Driven Services

The innovative solutions proposed in this report aim to further diversify the City revenue streams through active investment management.

<sup>1</sup> Source: <https://ca.spindices.com>; Accessed on March 29, 2019. S&P500 USD total return.

## APPENDIX 'A'

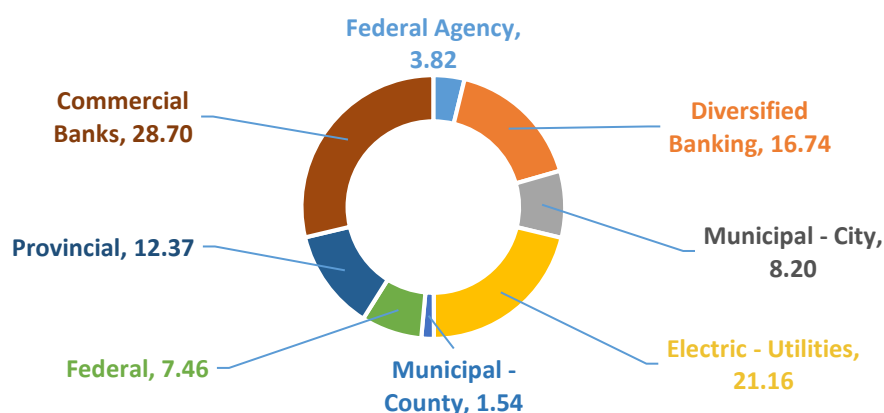
### Regulatory Disclosures

#### i) Performance

The Corporation of the City of Barrie earned a total return of 2.58% in 2018, which represented an increase of 37 basis points over 2017.

#### ii) Asset Allocation

The following charts shows the overall average capital allocation for the City's bond portfolio.



#### iii) Securities Holdings

		% Average Weight	Contribution to Return (%)	Total Return (%)
CFM5YR FIXED INCOME PORTFOLIO		100.00	2.34	2.34
<b>Commercial Banks</b>		28.70	0.54	2.07
	LBCN 3.278 10/15/18	15.60	0.32	1.52
	HSBC 2.938 01/14/20	10.44	0.16	1.76
	RY 2.35 12/09/19	1.99	0.04	1.90
	CWBCN 2.881 03/01/21	0.67	0.01	1.96
<b>Electric - Integrated</b>		21.16	0.44	2.04
	OHYD 10 02/06/20	17.50	0.33	1.93
	OHYD 11 ½ 11/27/20	3.66	0.11	2.04
<b>Diversified Banking Institutions</b>		16.74	0.27	1.87
	BNS 3.27 01/11/21	9.66	0.17	1.94
	BNS 2.27 01/13/20	7.08	0.10	1.85
<b>Provincial</b>		12.37	0.31	2.01
	BRCOL 10.6 09/05/20	3.56	0.09	1.74
	ONT 4.85 06/02/20	3.17	0.08	1.69
	Q 4 ½ 12/01/20	3.13	0.07	2.19
	NBRNS 4 ½ 06/02/20	2.52	0.07	1.75



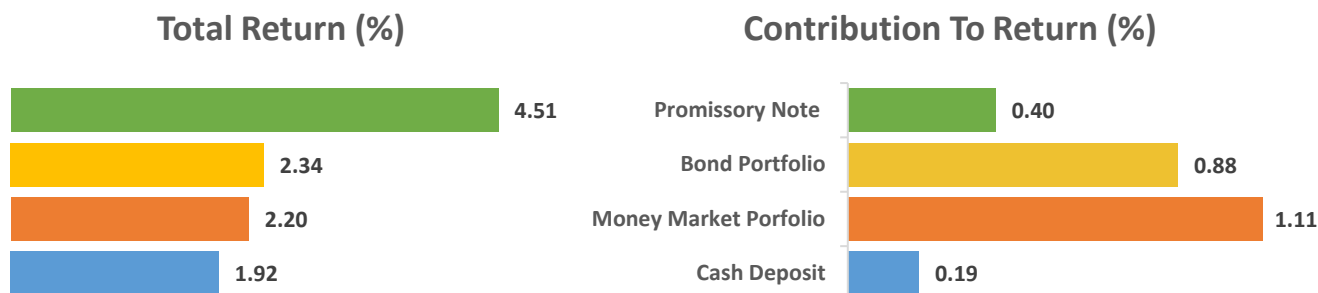
# REPORT TO FINANCE AND CORPORATE SERVICES COMMITTEE

<b>Municipal - City</b>	8.20	0.24	1.95
MNTRL 4 ½ 12/01/21	1.28	0.05	2.39
MNTRL 5.45 12/01/19	1.25	0.03	1.51
VANC 4 ½ 06/01/20	1.25	0.03	1.80
TRNT 4 ½ 12/02/19	1.24	0.03	1.46
TRNT 3 ½ 12/06/21	1.24	0.05	2.46
VANC 3.45 12/02/21	1.23	0.05	2.46
LONDON 2.65 09/03/18	0.72	0.01	0.57
<b>Federal</b>	7.46	0.27	2.36
CAN 9 ¼ 06/01/22	3.82	0.15	2.64
CAN 9 ¾ 06/01/21	3.64	0.12	2.14
<b>Federal Agency</b>	3.82	0.21	2.91
CANHOU 2.55 12/15/23	2.87	0.20	2.03
CANHOU 2.35 12/15/18	0.95	0.01	1.37
<b>Municipal - County</b>	1.54	0.06	2.56
PEEL 3 ½ 12/01/21	1.23	0.05	2.41
WTRLOO 3.1 11/26/22	0.30	0.01	3.21

	% Average Weight	Contribution to Return (%)
PROMISSORY NOTE	100.00	4.51
	% Average Weight	Contribution to Return (%)
MONEY MARKET PORTFOLIO	100.00	2.20
<b>Term Deposits (TD)</b>	6.06	0.13
TD Bank	6.06	0.13
<b>Guaranteed Investment Certificates</b>	2.93	0.06
Meridian	1.17	0.03
Alterna Savings	0.88	0.02
First Ontario	0.88	0.02
<b>Other Deposit Accounts</b>	91.01	2.00
One Fund	84.97	1.87
BMO	2.30	0.05
Scotia Bank	3.74	0.08
TD Bank	0.00	0.00
Meridian	0.00	0.00

## iv) Portfolio Yields

The bond portfolio had a total return of 2.34%; the weighted average yield to maturity is 2.25% and the weighted average cash flow yield 6%.



The Hydro promissory note has a yield to maturity of 4.51%.

## v) Maturity Distribution

As at December 31, 2018 all investments were due to mature within 60 months. The maturity distribution of all investments is as follow: 0-12 months: 50%; 0-36 months: 80%; 0-60 months: 100%.

The duration of the bond portfolio is currently 1.9 years. The short term-bias of the portfolio reflected the view of rising interest rates and the flexibility for transitioning to the Prudent Investor Standard.

## vi) Investment in Own Securities

None.

## vii) Statement of Treasurer regarding Compliance with Investment Policy

I, Craig Millar, Treasurer of the City of Barrie, hereby state that in my opinion, all investments were made in accordance with the investment policies and goals adopted by the City.

## viii) Statement of Treasurer regarding Quality of Investment

I, Craig Millar, Treasurer of the City of Barrie, state that none of the investments fell below its required standard during the period covered by this report.

**C. Millar, MBA, CPA, CGA**  
Director of Finance and Treasurer

## APPENDIX 'B'

City of Barrie										
Investment Policy Statement										
Current										
Category/Sector	Individually		Sector		Min	Max				
Federal, Provincial, Territorial, Supranational	Min	Max	Min	Max	Credit	Term				
				100%						
Direct Obligations	None	100%	30%	100%	Inv Grade	20 Years				
Federal Agencies										
Province of Ontario										
Ontario Gov't Agencies										
Other Provincial Gov't Agencies										
Other Provinces (AAA)										
Other Provinces (AA)										
Other Provinces (A)										
Territories										
Supranational Organizations										
Municipal Finance Agency	No Limit			None	15 Years					
Sovereign Debt Outside of Canada	0%	5%		5%						
Municipal, School Boards, and Local Boards			35%							
Ontario Municipalities	0%	10%	0%	35%	Inv Grade	20 Years				
Ontario School Boards										
Ontario Boards (Other)										
Non-Ontario Municipalities	0%	5%		15 Years						
Non-Ontario School Boards										
Ontario Universities & Colleges	0%	2%		1 Year						
Public Hospitals										
Non-profit Housing Corporations										
Financial Institutions			70%							
Schedule I Banks	0%	20%	0%	70%	Any	10 Years				
Schedule II Banks		10%		40%	A	5 Years				
Schedule III Banks		10%		2%	AA	2 Years				
Trust & Loan Companies		2%								
Credit Unions										
Non-Financial Institutions										
Asset-Backed Securities	0%	5%	0%	20%	AAA	5 Years				
Corporate Bonds				5%	AA					
Prommisory Notes										
Debentures										
Commercial Paper						1 Year				
Investment Pools										
ONE Money Market Fund	0%	20%	0%	25%	None	None				
ONE Bond Fund		5%								
ONE Universe Corporate Bond Fund										
ONE Equity Fund										
Cash & Cash Equivalents										
Cash	0%	100%	0%	100%	None	None				
High Interest Savings										
Guaranteed Income Certificates (GICs)										

## APPENDIX 'C'

### **Terms of Reference for the Investment Board under the Prudent Investor Standard**

#### **1. City Council**

Council's vision, strategic goals and objectives with regards to overall investments assets and activities are captured and developed in the Investment Policy Statement (IPS).

The IPS defines:

- The goals of the investment program
- The Risk and Return objectives
- The Investment Philosophy
- What types of investment are appropriate
- The proportion of each type of investments
- The role and responsibility assigned to each party involved in the investment process
- Any unique need of the City to be taken into consideration.

Under the Prudent Investment Standard, Council selects and appoints an investment board to oversee and implement the investment program of the City.

#### **2. Mandate and Authority of the Investment Board**

The Investment Board is established as a City board, responsible to control and manage the City's investments pursuant to the Prudent Investment Standard and the Investment Policy Statement adopted by City Council.

The Board will adopt and follow an Investment Plan that implements the City's Investment Policy. The Investment Plan shall deal with how the Board will invest the City's money.

The Board may retain agents to act on its behalf pursuant to the requirements of the prudent investment standard.

#### **3. Board Composition and Term**

The Investment Board will be composed of five (5) members: including a Chair, three (3) citizen members and the City's Treasurer.

The term for Investment Board members will be ending on November 14, 2022 or until successors are appointed, served at the pleasure of City Council. The maximum term is two (2) four (4) year terms.

#### **4. Eligibility**

Officers and employees of the City and Council members are prohibited from appointment to the Investment Board with the exception of the Treasurer required under the Prudent Investor Standard. Members must not have declared bankruptcy, or had disciplinary action by a security regulator or self-regulating investment organization in the past twenty (20) years.



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## **5. Accountability and Reporting**

At least annually, following City Council's review of the Investment Policy, the Board will review its Investment Plan and update it as required. The Board will submit an annual report to Finance and Corporate Services Committee about the performance of the City's investment portfolio.

## **6. Member Qualifications**

Public members of the Board shall collectively represent a range of skills, knowledge and experience to discharge their duties in an effective manner including:

- Executive level experience in a major public or private organization;
- Senior level experience in the investment industry such as the management of institutional portfolios including pension funds, endowments, foundations, mutual funds, and closed-end funds;
- Professional skills relating to investment and/or debt management as well as an understanding of risk and financial administration within the framework of the prudent investor standard;
- Post-graduate degree in any one of the fields of: finance, business, economics, risk management, accounting, public administration or related fields that may include certification such as CFA designation, Chartered Investment Manager designation or equivalent;
- Possession of sound judgement and knowledge of good governance; and
- Understanding of the principles of public accountability and integrity.

A minimum of two (2) Board members must have senior level experience in the investment industry such as the management of institutional portfolios including pension funds, endowments, foundations, mutual funds, and closed-end funds.

## **7. Chair Qualifications**

In addition to the qualifications of Board Members, the Chair will be required to demonstrate the following qualifications:

- Leadership and administrative skills;
- Highly developed chairing and facilitation skills; and
- The ability to effectively represent the Board and communicate with City Council, City Committees, the media and general public.

## **8. Citizen Appointment Process**

The Legislative and Court Services department will be responsible for the citizen recruitment and application process. A team comprised of the Chief Administrative Officer, The GM of Community and Corporate services, the Director of Finance and the Portfolio Manager will review, short-list and interview applicants and recommend candidates for appointment by City Council.

## **9. Remuneration**

Members will be remunerated up to \$1,000 per meeting and the Chair will be remunerated up to \$1,500 per meeting;

Total Investment Board cost is estimated to range of \$0 to \$40,000 per annum and is to be funded from the Finance Department budget.

### **10. Meeting Management and City Liaison**

The Legislative and Court Services department will provide meeting management support to the Investment Board and staff from the Finance Department will be the City liaison(s) to the Board.

### **11. Staff Responsibilities and Duties**

Staff shall:

Finance Treasury Staff:

- Develop and review investment policies for recommendation and approval by Council;
- Implement the Investment Plan as directed by the Investment Board
- Preparation of investment performance reporting, Investment Board materials and reports to Council.

Legislative and Court Services department:

- Provide administrative support to the Investment Board for scheduled meetings. These duties will include preparing the Agenda and meeting package, booking meeting rooms, and taking minutes of the meeting.

Legal Services:

- Provide support to the Investment Board with regard to City policies, procedures, and other legal matters
- Assist the Investment Board to obtain outside legal counsel with regards to matters requiring more specialized expertise.

Finance Accounting Services:

- Record and reconcile transactions for all investment funds
- Make payments for various services required by the Investment Board and staff
- Prepare audited financial statements as required

## 12. Comparative analysis City Investment Board vs. Joint Investment Board

	<u>City of Barrie Board</u>	<u>Join Outside Board</u>
<b>Investment Strategy</b>	Customized Solution, tailored to City of Barrie	Funds are allocated into pooled funds according to each investor risk and return objectives
<b>Access to Funds</b>	Ability to better match needs for funding and re-allocate assets to be available same-day	Usually a notice period is required of 1-2 business days
<b>Risk Management</b>	Significantly improved risk management through diversification by asset class, sector, and credit quality. Cash Flow Match portfolio	Risk managed in the context of offered portfolio mandate.
<b>Board Composition</b>	Fully Independent Board – working on behalf of the City. <b>Treasurer member of board.</b>	Minimal to no representation. “25% of seats allocated to participating Municipalities”.
<b>Board Selection</b>	City determines selection criteria	City of Barrie has no influence
<b>Incremental Costs</b>	Board Cost: Est. \$40,000 per annum	Est. Share of Board Cost: \$80,000-\$100,000 per annum (8-10 basis points of \$100m portfolio)
<b>Reporting</b>	Content specific to City’s investments and reporting requirements.	Portfolio performance Statement. Periodic reporting
<b>Investment Managers</b>	In house or external.	Appointed by Investment Board, usually 3 <sup>rd</sup> Party Asset Managers
<b>Investment Performance</b>	Risk Adjusted Returns <b>2.34% Total Return on Bond portfolio</b>	Comparable Bond Portfolio: 1.51%