



## Staff Report

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<b>Report To:</b>	<b>General Government Committee</b>	
<b>Date of Meeting:</b>	November 9, 2020	<b>Report Number:</b> FND-038-20
<b>Submitted By:</b>	Trevor Pinn, Director of Financial Services	
<b>Reviewed By:</b>	Andrew C. Allison, CAO	<b>By-law Number:</b>
<b>File Number:</b>		<b>Resolution#:</b> GG-404-20, GG-465-20
<b>Report Subject:</b>	Investment Options Update	

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### Recommendation:

1. That Report FND-038-20 be received; and
2. That the Director of Financial Services/Treasurer be directed to work with the ONE JIB to become a member of the joint investment board and adopt the prudent investor standard.

## Report Overview

The 2020 investment returns for the Municipality have significantly declined as a result of the global pandemic. The current legal list of investments are highly restrictive and force the Municipality into very specific areas of investing, primarily government bonds or bank GICs/bonds.

In 2019, municipalities could begin to adopt the prudent investor standard which would allow them to invest in any type of investment; however, the governance for this type of investing is prescribed by the Province of Ontario and requires the establishment of an independent investment board.

Since the previous report on the matter, a group of six municipalities have established a joint investment board and have begun to invest on behalf of member municipalities. The City of Barrie has also established an investment board however it has not yet passed an investment plan.

Financial Services staff continue to recommend that a change in the investment approach is necessary in order to improve the investment returns and mitigate tax levy increases.

## 1. Background

### Previous Report to Council

- 1.1 At its meeting on October 28, 2019, Council passed resolution #C-368-19 to table report Resolution #C-367-19 dealing with Report [FND-028-19](#) to the November 9, 2020 General Government Committee meeting. For reasons outlined in Report FND-038-19, Staff recommends that Report FND-028-20 be received for information.
- 1.2 Report FND-028-19 report was asking Council to provide guidance to staff to continue to work with ONE Investment to bring back a new Investment Policy Statement (IPS) and the necessary agreements to establish a new Joint Investment Board (JIB) and implement the Prudent Investor (PI) regime.
- 1.3 Subsequent to that meeting, ONE Investment worked with six municipalities to establish the ONE JIB. These municipalities include:
  - a. Town of Whitby;
  - b. District of Muskoka;
  - c. Town of Bracebridge;
  - d. Town of Huntsville;
  - e. Town of Innisfil;

f. City of Kenora;

- 1.4 As the direction in report FND-028-19 is now outdated, it is recommended that the report be received for information. The Municipality of Clarington is not able to participate as a founding member in the ONE JIB.
- 1.5 For full disclosure, the author of this report is a member of the Board of Directors of ONE Investment Inc. This appointment was through the MFOA and is overseeing all of the operations of ONE Investment Inc., not just the prudent investor operations. Reference to the ONE JIB is a reference to an independent municipal services board which was established by six municipalities under the *Municipal Act, 2001* which receives services from ONE Investment. The author is not on the ONE JIB and is not compensated by either ONE JIB or the ONE Investment Inc.

### **Investment Rules for Municipalities**

- 1.6 Municipalities in the Province of Ontario by default are allowed to invest in a “legal list” of eligible investments as outlined in O.Reg 438/97. This list is predominantly comprised of bank bonds, government bonds, and deposit instruments (guaranteed investment certificates). Municipalities may not invest directly in equities (unless through ONE Investment), may not invest in corporate bonds with a maturity greater than five years (unless through ONE Investment), and may only invest in investments rated AA or higher.
- 1.7 Effective January 1, 2019, municipalities in Ontario have been provided the option to pass a by-law to elect into the prudent investor standard. This allows the municipality to invest in any investment provided they follow certain requirements. A requirement is the creation of a municipal services board called an Investment Board (or a Joint Investment Board). The Investment Board is independent of Council and may not include any members of Council or staff (except for up to 25 per cent of the Board may be municipal treasurers).
- 1.8 As of October 16, 2020 the only investment boards established under the prudent standard are the City of Toronto (under the City of Toronto Act), the City of Barrie (established in 2020) and the ONE JIB (a joint board of six participating municipalities).
- 1.9 Report [FND-014-19](#) provided information on the changes to the investment regulations and asked Council to determine if the Municipality should look at the prudent investor standard or continue with the legal list. At that time, Council provided direction to work towards prudent investor and the establishment of a joint investment board through ONE Investment.

### **Current Investment Realities**

- 1.10 Since the beginning of March 2020, the interest returns on fixed incomes have been significant reduced; there was already a trend towards decreasing fixed income returns however the pandemic exacerbated this decline.
- 1.11 Investment advisors, including our advisor with RBC Dominion, are expecting fixed income returns to remain low for several years. There continues to be the risk of negative returns. Our advisor has been recommending that we look outside of the existing areas that we can invest into areas such as equities or corporate bonds for long term holdings.
- 1.12 Staff are not expecting GIC interest rates to return for several years and are looking at ways to improve the ability of the Municipality to earn a return, which mitigates future tax levy increases. We have started to move more into the ONE Fund portfolios for equities (which have rebounded to pre-Pandemic levels).
- 1.13 Even if investing in ONE Investment portfolios, the investments are still restricted to the legal list of investments. This restricts equities to Canadian equities, and fixed income investments to AA- or higher. This restricts the ability to properly diversify investments to reduce risks.

## **2. Options**

- 2.1 As previously outlined, the best option for the Municipality to increase its investment returns is to look at the prudent investor option. This provides that all investments would be available to the Municipality and will improve the ability to properly diversify.
- 2.2 Prudent Investor would require the establishment of a Municipal Services Board which is independent of Council (only the Treasurer may sit on it) and would have care and control of the Municipality's investments.
- 2.3 Two options for a board are available, a Clarington specific investment board or we could establish a joint board with another municipality. Staff are not aware of any local Durham municipalities that would be interested, the Town of Whitby was a founding member of the ONE JIB.
- 2.4 There is currently one joint investment board established in the Province of Ontario, the ONE JIB. The advantage with a joint board is that the cost of running the board and hiring managers are shared between all the participating parties.
- 2.5 There is only one municipality, other than the City of Toronto, that has established an investment board and that is the City of Barrie. The City of Barrie's investment board has determined that it will allow staff to continue to make the investment decisions;

however, there are two full-time investment staff in the City of Barrie. If we were to establish our own board there would be costs associated with compensating the members of the board, as well, we would either have to pay for investment managers or hire qualified staff to do the active investing in house. The Municipality currently does not have any licensed or qualified investors.

- 2.6 The third option is to remain on the legal list of investments. This will restrict our ability to find higher returns but would not cost the Municipality and additional fees.

### **3. Concurrence**

Not Applicable.

### **4. Conclusion**

It is respectfully recommended that the Municipality work with ONE Investment staff with the goal of entering the ONE JIB and adopting the prudent investor standard. As an alternative, or in combination with the recommendation, ONE Investment may be invited to present to Committee at a future meeting on the municipal investment environment.

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Staff Contact: Trevor Pinn, Director of Financial Services/Treasurer, 905-623-3379 ext. 2602 or tpinn@clarington.net.

Attachments:

Not Applicable

Interested Parties:

The following interested parties will be notified of Council's decision:

- a. ONE Investment