

Section I – Items for Board of Directors Action

TO: Chair and Members of the Executive Committee
Meeting #5/19, Friday, June 07, 2019

FROM: Michael Tolensky, Chief Financial and Operating Officer

RE: **TRCA INVESTMENT MANAGEMENT STRATEGY**
Proposed updates to align with partner municipalities

KEY ISSUE

Toronto and Region Conservation Authority (TRCA) voluntarily adheres to the investing regulations in the Municipal Act (the Act) in order to align its investing activities with those of its partner municipalities. As the Act has been updated and TRCA's partner municipalities are no longer limited to a prescribed restricted list of eligible investments, TRCA is proposing to modernize its investment strategy to achieve greater potential returns.

RECOMMENDATION

THE EXECUTIVE COMMITTEE RECOMMENDS THAT staff be authorized to negotiate an agreement with RBC Dominion Securities, TRCA's existing investment broker, to provide a comprehensive investment management solution.

THAT staff be authorized to sell investment holdings with its current RBC Dominion Securities brokerage and One Investment Program accounts, where deemed advantageous for TRCA.

AND THAT prior to any new investments of funds, TRCA staff and RBC Dominion Securities report back to the Executive Committee with an updated investment policy for approval, that reflects a practical approach to manage risk and improve financial returns.

BACKGROUND

TRCA's current investment policy was written in June 1997, with an update in 2016 to permit the organization to invest in the One Investment Program. The current policy is written in accordance with the investment regulations set out in the Municipal Act.

In 2015, the Province of Ontario approved amendments to Ontario Regulation 610/06, Financial Activities, under the City of Toronto Act, 2006, to provide a framework for Toronto to invest in accordance with the Prudent Investment Standard. This standard is akin to that which governs trustees and pension fund administrators and creates a fiduciary responsibility. These reforms enabled the City to earn improved risk-adjusted rates of returns on its investments as it was no longer restricted to a prescribed and limited list of eligible investments. Under section 418.1 of the Municipal Act, municipalities other than the City of Toronto are authorized to opt into the Prudent Investment Standard. The section of the Act came into effect on March 1, 2018 and is applicable to TRCA's partner municipalities.

In accordance with the Prudent Investment Standard, investments shall be made with judgement and care – under the circumstances then prevailing – which persons of prudence, discretion and integrity exercise in the management of investments, considering the necessity of safety of capital as well as the probable income to be derived.

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The standard to be used by investment officials shall be the “prudent person” standard as required by the Regulation and shall be applied in the context of managing the overall portfolio. Investment Officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy. The duty under the regulation includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances.

RATIONALE

In compliance with the Municipal Act, TRCA’s investment brokerage account with RBC Dominion Securities has been historically restricted to risk averse investments with limited returns, as proven by the organization’s three-year money-weighted rate of return of 1.64% (2016-2018). Since the beginning of 2017, TRCA staff have purchased only one investment using the brokerage account.

As TRCA’s partner municipalities are no longer bound by the rules previously guiding the TRCA investment strategy, TRCA staff obtained a legal memorandum to further clarify the organization’s regulatory position. The legal memorandum concluded that TRCA’s investment strategy is not required to follow regulations in the Municipal Act. Accordingly, TRCA would like to review its investment strategy with an aim to improve its financial returns and appropriately manage risk. TRCA staff propose to do this by aligning the organization with an investment manager, in order to create a fiduciary relationship between TRCA and an experienced investment manager to better balance risk and return.

In accordance with TRCA’s procurement policy and the Broader Public Sector procurement directive for non-competitive procurement, “procurement of financial services of financial analysts or the management of investments by organizations who have such functions as a primary purpose;” and “procurement of financial services respecting the management of financial assets and liabilities, including ancillary advisory and information services, whether or not delivered by a financial institution” are not required to follow a competitive procurement process. Given that (1) RBC is TRCA’s current banking provider, (2) RBC Dominion Securities have offered to waive transactional fees on the sale of the existing portfolio, and (3) RBC Dominion Securities further offered to waive all fees on an ongoing basis, except for a competitive annual management fee, TRCA staff believe that there is reasonable grounds to engage in a non-competitive process. As a point of reference, the annual management fees currently paid to the One Investment Program are as follows:

- Bond Portfolio - 40 Basis Points
- Corporate Bond Portfolio - 45 Basis Points
- Equity Portfolio - 60 Basis Points

Item 8.10.

RBC Dominion Securities' process for developing a strategic investment solution for TRCA's unique needs involves assessing:

- Risk appetite - TRCA's willingness to accept investment risk in the pursuit of the organization's objectives;
- Risk capacity – the amount of investment risk TRCA can financially tolerate;
- Investment objectives – the amount of investment risk TRCA must accept in order to achieve its goals;
- Disbursement quota – the investment cash flow needed to match spending commitments;
- Liquidity considerations – TRCA's need to access long-term funds at short notice; and
- Special considerations – legal restrictions, contractual obligations, time horizons, etc.

The investment manager will work with TRCA staff to tailor its investment strategy and will propose a solution, including an updated investment policy for Executive Committee and Board of Directors approval, as well as implementation and monitoring services. Monitoring will include monthly performance reports, performance review meetings, annual Executive Committee presentations, annual investment policy review and continuous availability for financial advice. The proposed practices will increase transparency and accountability for TRCA's investment decisions.

Regarding the report's second recommendation, it is unclear in the administrative by-law as to whether delegated authority to staff has been provided to sell investment holdings. As a result staff have suggested a recommendation to this effect.

DETAILS OF WORK TO BE DONE

Upon approval of the recommendations, TRCA staff will assess the sale of its investment holdings and work with RBC Dominion Securities to develop an updated investment policy for approval, reflecting a modernized strategy to manage risk and improve financial returns.

Living City, the TRCA 2013-2022 Strategic Plan

This report supports the following strategy set forth in the TRCA 2013-2022 Strategic Plan:

Strategy 7 – Build partnerships and new business models

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Date: June 3, 2019