

Section I – Items for Board of Directors Action

TO: Chair and Members of the Executive Committee
Meeting #10/19 Friday, January 10, 2020

FROM: Michael Tolensky, Chief Financial and Operating Officer

RE: **INVESTMENT MANAGEMENT STRATEGY UPDATE**

KEY ISSUE

Approval of Toronto and Region Conservation Authority's Investments Statement of Policy and Procedure.

RECOMMENDATION

THE EXECUTIVE COMMITTEE RECOMMENDS THAT Toronto and Region Conservation Authority's (TRCA) Investments Policy be approved;

THAT investment of existing and future funds complies with the Investments Policy;

AND FURTHER THAT compliance with the Investments Policy and performance of the investment portfolio be monitored by the Investment Manager on an ongoing basis, reported to management on a quarterly basis and reported to the Board of Directors on an annual basis.

BACKGROUND

At Board of Directors Meeting #6/19, held on June 21, 2019, Resolution #A115/19 was approved as follows:

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 and hold in cash deposit accounts where deemed advantageous for TRCA.

AND FURTHER THAT prior to any new investments of funds, TRCA staff 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.

In response to recommendations above, TRCA staff engaged in discussions with municipal partners in addition to an investment management team at RBC Dominion Securities to review the proposed Investments Policy including an assessment of the reasonability of policy statements and procedures, appropriateness of benchmark indices, sharing of other public sector client experiences and general overall feedback. Aspects of these discussions were taken into consideration for the development of the proposed Investments Policy.

TRCA staff also instructed the sale of certain coupon investments held with RBC Dominion Securities, where the interest rate being earned was below the interest rate available in TRCA's current deposit accounts; therefore, all sales were deemed advantageous for TRCA, and all

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funds have subsequently been held in deposit accounts, without exception.

TRCA staff have developed an Investment Policy included in Attachment 1, which takes into consideration a review of TRCA's existing investment policy, detailed review of municipal investment policies, review of standard policies and operating procedures for public sector and other not-for-profit organizations, as well as inclusion of feedback from the investment management team at RBC Dominion Securities. Overall, the Investments Policy reflects a practical approach to managing risk and improving financial returns, which is further detailed below.

RATIONALE

The purpose of the Investments Policy included in Attachment 1 is to provide guidance over the management of TRCA's cash, short-term and long-term funds while taking into consideration:

- General economic conditions;
- Possible effects of inflation and deflation;
- The role that each investment or course of action plays within TRCA's investment portfolio;
- Expected total return from income and appreciation of capital;
- Liquidity needs, regularity of income and preservation or appreciation of capital; and
- Positive economic, social and environmental impact.

It is TRCA's objective to ensure that its financial assets are invested in a prudent manner and increase the likelihood that such assets will meet obligations as they come due, with the primary investment objectives, in order of priority being:

- i) Safety of principal – investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios;
- ii) Adequate liquidity – investments shall be undertaken in a manner that takes into account the needs of periodic cash flows and reasonably anticipated budgetary requirements;
- iii) Diversification – investments shall be sufficiently diversified as to avoid concentration in (a) specific issuers or credits, and (b) specific asset classes, markets, sectors and terms to maturity in order to reduce overall investment risk; and
- iv) Capital appreciation – investments shall be made to earn realized and unrealized investment income, but not at the investment risk of significantly eroding the principal, with the objectives in priority of:
 - Meeting annual budgetary requirements for earnings;
 - Maintaining portfolio term structure to support TRCA's long-term financial plan; and
 - Providing a return consistent with established benchmarks.

Based on the investment objectives above, the Investments Policy proposes to invest in a mix of cash and cash equivalents, fixed income and equity investments in order to balance any risk in volatility and returns. The target asset mix is developed while taking into consideration the possible effect of inflation, the expected return and investment risk of each proposed asset class, and TRCA's need for liquidity, capital preservation and income.

The proposed Investments Policy also introduces the role of a professional investment manager. The Investment Manager will be responsible for ensuring that TRCA is compliant with the Investments Policy and providing frequent reporting to TRCA and the Board of Directors.

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The Investment Manager will also be required to meet with the Board of Directors, or the Executive Committee as a delegate of the Board of Directors, at least once per year to provide information on:

- Compliance with the Investments Policy;
- Investment portfolio performance;
- Investment strategies used;
- Existing and forecasted market conditions;
- Planned investment strategies; and
- Any additional information the Investment Manager considers necessary, or the Board of Directors requests.

Overall, the introduction of a professional investment manager will provide increased transparency and accountability to TRCA's investment decisions in line with TRCA's Investments Policy. The Finance business unit will continue to be primarily responsible for the administration of TRCA's investment records and activities, as well as reporting requirements with external auditors, funders and other requests as required.

Relationship to Building the Living City, the TRCA 2013-2022 Strategic Plan

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

Strategy 9 – Measure performance

DETAILS OF WORK TO BE DONE

Following approval of the Investments Statement of Policy and Procedure, TRCA staff will engage with the investment manager to:

- establish a long-term financial plan
- perform a detailed review of the existing investment portfolio to identify steps towards achievement of long-term financial plan
- provide an update to the Board of Directors on progress towards the above items in Q3-Q4 of 2020.

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Date: December 16, 2019

Attachments: 1

Attachment 1: CS-3.10 Investments Statement of Policy and Procedure