



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning and Policy**

<b>TO:</b>	Chair and Members HMRF/HWRF Pension Administration Sub-Committee
<b>COMMITTEE DATE:</b>	December 3, 2015
<b>SUBJECT/REPORT NO:</b>	2015 Master Trust Pension Statement of Investment Policies and Procedures (FCS15083) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gerald T. Boychuk 905-546-4321 Rosaria Morelli 905-546-2424 Ext. 1390
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the 2014 Master Trust Statement of Investment Policies and Procedures be deleted and replaced with the 2015 Master Trust Statement of Investment Policies and Procedures (attached as Appendix “A” to Report FCS15083).
- (b) That the 2015 Master Trust Statement of Investment Policies and Procedures (attached as Appendix “A” to Report FCS15083) be forwarded to the Hamilton Street Railway Pension Advisory Committee for their information.

**EXECUTIVE SUMMARY**

A formal annual review of the Statement of Investment Policies and Procedures (“SIPP”) for the City of Hamilton Defined Benefit Pension Plans Master Trust (the “Master Trust”) has been undertaken and completed. The Master Trust SIPP is attached as Appendix “A” to Report FCS15083.

The most material change made to the Master Trust SIPP complies with the amendment made to applicable pension legislation impacting the Master Trust SIPP related to environmental, social and governance (ESG) factors. Effective January 1, 2016, a pension plan’s SIPP must state whether ESG factors are incorporated into the pension plan’s investment policies and procedures, and if so, to include a description of how these factors are incorporated. Under **Section 2.05** of the Master Trust SIPP, the City states that it does not directly take ESG factors into account when making investment decisions. The City has delegated the search for investment managers to

its Investment Consultant who is directed to search and select the best investment managers for investing the assets of the pension plans considering factors such as business, staff, historical performance and investment process, since the City believes that these factors will contribute to higher investment returns in the long run and manage risk.

The other significant changes in the Master Trust SIPP (details of which are in the Analysis and Rationale for Recommendation section of this report) were made to comply with the federal investment regulations (FIR) as amended and/or for clarification purposes.

Finally, the Master Trust SIPP was updated with information on the status of the pension plan members, contributions, benefits and liabilities for the Hamilton Street Railway Company Pension Plan (HSR), the Hamilton-Wentworth Retirement Fund (HWRF) and the Hamilton Municipal Retirement Fund (HMRF).

***Alternatives for Consideration – Not Applicable***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)**

Financial: None.

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND (Chronology of events)**

The Master Trust SIPP provides the framework for the investment of the assets of the City of Hamilton's three non-OMERS defined-benefit pension plans (HSR, HWRF and HMRF). These assets have been aggregated for investment purposes in a private pooling vehicle structure or master trust structure (the Master Trust), which was approved and adopted by Council on May 18, 1999. The Master Trust SIPP also contains for reference purposes the details of the individual statement of investment policies and procedures for each of the HSR, HWRF and HMRF pension plans participating in the Master Trust.

Since 2006, the Master Trust SIPP has been revised for each formal policy review with the existing Master Trust SIPP being replaced with the Council-approved revised version. Details of each review can be found in the following staff reports: Report FCS07096; Report FCS08111; Report FCS09093; Report FCS12084; and Report FCS14080.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Ontario Regulation 909 (the “Regulation”) made under the *Pension Benefits Act* requires that the administrator of a provincially regulated pension plan establish a written SIPP that complies with requirements of the FIR as modified in sections 47.8 and 79 of the Regulation. The Regulation also requires that each pension plan’s SIPP be reviewed at a minimum once every year.

In 2015, changes were made to the Regulation concerning the SIPP of a pension plan, including the following:

- Effective January 1, 2016, the SIPP shall include information as to whether ESG factors are incorporated into the plan’s investment policies and procedures and, if so, how those factors are incorporated.
- Effective January 1, 2016, the administrator of a registered pension plan is required to file with Financial Services Commission of Ontario (FSCO): a SIPP by March 1, 2016; and an amendment to the SIPP within 60 days after the date the amendment is made.
- Effective January 1, 2016, the assets of every pension plan are to be invested in accordance with pension plan’s SIPP (provided the SIPP does not conflict with the FIR as modified by the Regulation) and the pension plan’s SIPP must comply with the FIR. In the event of a conflict, the FIR will prevail over the SIPP for the plan, the provisions of the plan or an instrument governing the plan.
- Effective July 1, 2016, the administrator of a pension plan must provide prescribed information about the SIPP to pension plan members, former members and retired members.

## **RELEVANT CONSULTATION**

Staff consulted with the Financial Services Division who updated information contained in each of the City pension plan’s SIPP with regard to members, contributions, benefits and liabilities.

City Manager’s Office – Legal Services Division was consulted in the preparation of this report.

Aon Hewitt, the City’s Investment Consultant, was engaged to review the Master Trust SIPP, and to recommend and write amendments or revisions to the Master Trust SIPP in order to be compliant with the changes made to the applicable pension legislation impacting the Master Trust SIPP. Aon Hewitt provided advice with regard to ESG

factors and issues; and with regard to standard industry and best practices for a pension plan SIPP.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION  
(Include Performance Measurement/Benchmarking Data if applicable)**

The sections of the Master Trust SIPP that were materially amended are listed below, together with a brief description of the amendment.

Section 2.05 – Environmental, Social and Governance Issues (page 8 of the Master Trust SIPP)

A new section, **Section 2.05**, was added to the Master Trust SIPP to reflect the City's (the administrator of the pension plans) position that it does not directly take ESG factors into account when making investment decisions. The City has delegated the search for investment managers to its Investment Consultant who is directed to search and select the best investment managers for investing the assets of the pension plans considering factors such as business, staff, historical performance and investment process, since the City believes that these factors will contribute to higher investment returns in the long run and manage risk.

Section 3.02(d) Permitted Investments, Derivatives (page 11 of the Master Trust SIPP)

**Section 3.02(d)** of the Master Trust SIPP pertaining to derivatives was amended and now explicitly states that direct investments are not undertaken in derivatives securities, but that if investments in derivatives securities are undertaken by pooled fund investment managers then the appropriate risk management processes and procedures would be in place by those managers to help mitigate any risks associated with investing in derivative securities. This amendment was made further to FSCO's guidance note entitled Prudent Investment Practices for Derivatives (March 2015).

Section 3.04(a) Maximum Quantity Restrictions, Total Fund Level (page 14 of the Master Trust SIPP)

**Section 3.04(a)** of the Master Trust SIPP pertaining to the 10% rule was amended to comply with revisions to the 10% rule in the FIR which become effective after June 30, 2016. The amendment recalibrates the 10% limit from book value to market value so that no one equity holding shall represent more than 10% of the total market value of the Master Trust's assets.

Section 5.02 Related Party Transactions (page 22 of the Master Trust SIPP)

**Section 5.02** of the Master Trust SIPP pertaining to related party transactions was amended to comply with revisions to the related party rules in the FIR which become effective after June 30, 2016. Generally, the amendments include additional exemptions to the related party rules and include a prohibition to lend the moneys of the pension plans to a related party or to use those moneys to hold an investment in the securities of a related party.

Compliance with New Filing Requirements

It is understood that the Master Trust SIPP can be filed separately as the SIPP for each of the HSR, HWRF and HMRF pension plans.

**ALTERNATIVES FOR CONSIDERATION**

N/A

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN**

**Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

**Strategic Objective**

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.
- 2.2 Improve the City's approach to engaging and informing citizens and stakeholders.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS15083 2015 Master Trust Pension Statement of Investment Policies and Procedures