CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Chair and Members HMRF / HWRF Pension Administration Sub-Committee
COMMITTEE DATE:	December 1, 2021
SUBJECT/REPORT NO:	Outsourced Chief Investment Officer (FCS21116) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Brian McMullen (905) 546-2424 Ext. 4549 Gerald T. Boychuk (905) 546-2424 Ext. 4321
SUBMITTED BY: **SIGNATURE:**	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department

RECOMMENDATION(S)

(a) That Council, as the Administrator of the City Hamilton Defined Benefit Pension Plans Master Trust, authorizes:

(i) the General Manager, Finance and Corporate Services, to negotiate any agreements for contractual or consulting services to develop the selection process to hire an Outsourced Chief Investment Officer (OCIO) in a form satisfactory to the City Solicitor which may include sole sourcing or single sourcing to the applicable service provider;

(ii) the General Manager, Finance and Corporate Services, to negotiate any agreements for the selection and hiring of an Outsourced Chief Investment Officer (OCIO) in a form satisfactory to the City Solicitor;

(iii) the General Manager, Finance and Corporate Services, to make any changes to applicable pension plan agreements, by-laws and policies in a form satisfactory to the City Solicitor;

(b) That staff of the Corporate Services, Financial Planning and Administration Policy, inform the HMRF/ HWRF Pension Administration Sub-Committee and Hamilton Street Railway Pension Advisory Committee through a Communication Update or Information Report of the successful Outsourced Chief Investment Officer (OCIO) after awarding of the contract.

EXECUTIVE SUMMARY

City of Hamilton's three non-OMERS pension plans being HMRF, HWRF and HSR (collectively known as City's legacy pension plans) have a market value of $344 M as at December 31, 2020. Staff in the Corporate Services Department discussed opportunities with OMERS to transfer the legacy pension plans to OMERS. After OMERS advised that they were no longer interested in pursuing a transfer of the City's legacy pension plan, staff began researching alternatives, including an Outsourced Chief Investment Officer.

Report FCS21116 outlines the business case for an Outsourced Chief Investment Officer (OCIO) and the plan to select a consultant to assist the City of Hamilton (City) Corporate Services Department staff to develop a Request for Proposal (RFP), evaluate submissions to the RFP, select an OCIO and review any necessary agreements.

An OCIO has expertise and experience in pension investment management with both internal and external investment managers and provides a broad range of asset management resources within the OCIO's firm.

The business case for the City's request for an OCIO includes:

- Staff in the City's Investment section can focus on non-City legacy pension plan investments of reserve funds, trust funds and treasury activities;
- The City's Chief Investment Officer will have oversight of the OCIO activities and will maintain legacy pension plan administrative responsibilities with the City's internal Investments team;
- Preliminary estimates for an OCIO of $350,000 annually are expected to be offset by savings in other City pension administration fees and investment management fees;
- Opportunity to extend OCIO duties beyond investments of the City's legacy pension plans to investments of the City's reserve funds and trust funds.

If approved, the next steps would begin in December 2021 as listed in the Analysis and Rationale Section.

Alternatives for Consideration – See Page 5

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Any costs associated with an OCIO are costs of the City's legacy pension plans. Preliminary estimates for an OCIO of up to $350,000 annually are expected to be offset by savings in other City pension administration fees and investment management fees.

Staffing: None

Legal: If approved, staff in Legal and Risk Management Services will be consulted regarding any necessary changes to the plan text in the City's legacy pension plan agreements, by-laws and policies.

HISTORICAL BACKGROUND

In November 2001, Council approved, through Report FCS01107, the establishment of the Joint Hamilton Municipal Retirement Fund (HMRF) and Hamilton-Wentworth Retirement Fund (HWRF) Pension Administration Sub-Committee and duties associated with administration of the pension plans. These duties included selection of investment managers, reviewing and analyzing investment reports, reviewing investment goals and policy and setting forth recommendations for Council approval regarding changes to investment strategy, funding levels of assets and liabilities and changes to current asset mix of the fund.

In December 2021, Council approved, through Report FCS20074, the current 2020 Master Trust Pension Statement of Investment Policies and Procedures (SIPP). On December 1, 2021, the HMRF / HWRF Pension Administration Sub-Committee is considering Report FCS21095 which is the 2021 Master Trust Pension Statement of Investment Policies and Procedures (SIPP).

The process to select and hire an Outsourced Chief Investment Officer is currently not included in any documents governing the City's legacy pension plans. If approved, amendments may be required to those pension documents, by-laws and policies.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

If approved, recommendations in Report FCS21116 may require changes to the HMRF, HWRF and HSR pension plan agreements, by-laws and Master Trust Pension SIPP. Any amendments will be brought back to the appropriate sub-committee or standing committee of Council.

RELEVANT CONSULTATION

Corporate Services Department – Financial Planning, Administration and Policy staff has consulted with Corporate Services staff in the Financial Services and Taxation Division (Payroll and Pensions Section and Procurement Section) and Legal and Risk Management Services Division.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Corporate Services Department, Financial Planning, Administration and Policy staff has been reviewing the marketplace for an Outsourced Chief Investment Officer (OCIO) for a few years after OMERS advised that they were no longer interested in pursuing a transfer of the City's legacy pension plan.

An OCIO has expertise and experience in pension investment management with both internal and external investment managers and provides a broad range of asset management resources within the OCIO's firm.

In the municipal sector in Ontario, only a few municipalities have legacy pension plans like the City of Hamilton's three non-OMERS pension plans being HMRF, HWRF and HSR (collectively known as City's legacy pension plans). The City of Ottawa is moving to an OCIO for one of their legacy pension plans.

City of Hamilton staff is seeking Council's approval:

- to negotiate any agreements for contractual or consulting services to develop the selection process to hire an Outsourced Chief Investment Officer (OCIO) which may include sole sourcing or single sourcing to the applicable service provider;
- to negotiate any agreements for the selection and hiring of an Outsourced Chief Investment Officer (OCIO); and
- to make any changes to the applicable legacy pension plan agreements, by-laws and policies.

The business case for the City's request for an OCIO includes:

- Staff in the City's Investment section can focus on non-City legacy pension plan investments of reserve funds, trust funds and treasury activities;
- The City's Chief Investment Officer will have oversight of the OCIO activities and will maintain legacy pension plan administrative responsibilities with the City's internal Investments team;

- Preliminary estimates for an OCIO of $350,000 annually are expected to be offset by savings in other City pension administration fees and investment management fees;
- Opportunity to extend OCIO duties beyond investments of the City's legacy pension plans to investments of the City's reserve funds and trust funds in the future.

Proposed Dates and Next Steps:

Dec. 2021 / Jan. 2022:	City staff will select a consultant to assist City staff with the development of the RFP to select an OCIO (known as RFP Consultant)
Feb. 2022:	RFP Consultant, with City staff, will develop the OCIO RFP and send to proponents
Mar. to June 2022:	RFP Consultant and City staff will evaluate submissions, interview proponents, recommend preferred proponent, select OCIO, award contract and execute agreement with OCIO
July 2022:	RFP Consultant and City staff will begin transition to an OCIO City staff amend and finalize agreements, by-laws and policies City staff inform HMRF / HWRF Pension Administration Sub-Committee and Council of OCIO through a Communication Update or Information Report

ALTERNATIVES FOR CONSIDERATION

Should Council not approve proceeding with an Outsourced Chief Investment Officer, staff would continue in the existing organization structure and will require Council to authorize the General Manager, Finance and Corporate Services, to negotiate any agreements for consulting services related to an Asset Liability study for the legacy pension plans in a form satisfactory to the City Solicitor.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance
Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

None

BM/dt