




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

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| TO: | Members and Chair HMRF / HWRF Pension Administration Sub-Committee |
| COMMITTEE DATE: | November 20, 2023 |
| SUBJECT/REPORT NO: | Master Trust Pension Statement of Investment Policies and Procedures (FCS23098) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Rosaria Morelli (905) 546-2424 Ext. 1390 |
| SUBMITTED BY: | Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department |
| SIGNATURE: |  |

RECOMMENDATION

- (a) That Appendix "A" to Report FCS23098, respecting the 2023 City of Hamilton Defined Benefit Pension Plans Master Trust Statement of Investment Policies and Procedures, be approved and replace the previous 2022 City of Hamilton Defined Benefit Pension Plans Master Trust Statement of Investment Policies and Procedures contained in Report FCS23009 and approved by Council on April 12, 2023;
- (b) That Appendix "A" to Report FCS23098, respecting the 2023 City of Hamilton Defined Benefit Pension Plans Master Trust Statement of Investment Policies and Procedures, be forwarded to the Hamilton Street Railway Pension Advisory Committee for their information.

EXECUTIVE SUMMARY

The Statement of Investment Policies and Procedures for the City of Hamilton Defined Benefit Pension Plans Master Trust (the "Master Trust SIPP") has been updated as a result of the annual formal review required under the Master Trust SIPP. The updated Master Trust SIPP is attached as Appendix "A" to Report FCS23098.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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The Master Trust SIPP comprises the investment policies of the Hamilton Municipal Retirement Fund (HMRF), the Hamilton Street Railway Company Pension Plan, 1994 (HSR) and the Hamilton-Wentworth Retirement Fund (HWRF) pension plans. The data pertaining to the Provision for Adverse Deviations (PfAD) was updated in the Master Trust SIPP.

The PfAD is a reserve that pension plans are required to establish and fund on a going-concern basis and which is part of the pension funding regime for Ontario defined benefit pension plans effective as of May 1, 2018. Amendments pertaining to the PfAD were first made to the Master Trust SIPP in Report FCS18090 respecting the 2018 Master Trust Pension Statement of Investment Policies and Procedures (City Wide), in order to comply with regulatory disclosure requirements.

For this annual formal review, there were no changes in the applicable pension legislation affecting the Master Trust SIPP since the preceding review that was undertaken and described in Report FCS23009 respecting the 2022 City of Hamilton Defined Benefit Pension Plans Master Trust Statement of Investment Policies and Procedures.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Not Applicable.

Staffing: Not Applicable.

Legal: Not Applicable.

HISTORICAL BACKGROUND

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: HMRF, HSR and HWRF. Assets for the three pension plans (the “Plans”) 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. Each of the pension plans participates in the Master Trust.

Appendices “A”, “B” and “C to the Master Trust SIPP contain details of the individual statement of investment policies and procedures for the HMRF, HSR and HWRF pension plans, respectively.

Since 2006, a policy review of the Master Trust SIPP has been completed annually except for fiscal years 2010 and 2013. For each review, the applicable Master Trust SIPP was replaced with the amended version adopted and approved by Council.

Details of each review can be found in the following staff reports: Report FCS07096; Report FCS08111; Report FCS09093; Report FCS11033; Report FCS12084; Report FCS14080; Report FCS15083; Report FCS16081; Report FCS17079; Report FCS18090; Report FCS19073; Report FCS20074, Report FCS21095 and Report FCS23009.

The review for the year of 2010 was constrained because of the City's decision to implement the Dynamic Investment Policy (Report FCS09112) which was approved by Council on February 10, 2010. Similarly, in 2013, unplanned pressures resulted in the deferral of the annual review.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Ontario Regulation 909 (the "Regulation") made under the *Pension Benefits Act* (PBA) requires that the administrator of a provincially regulated pension plan establish a written statement of investment policies and procedures that complies with requirements of the federal investment regulations as modified in Sections 47.8 and 79 of the Regulation.

RELEVANT CONSULTATION

The City's investment consultant, Aon, undertook a review of the Master Trust SIPP from a compliance and governance perspective. Aon took account of all applicable regulatory guidance and addressed any relevant changes where appropriate in the Master Trust SIPP.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The data pertaining to the Provision for Adverse Deviations (PfAD) was updated in the Master Trust SIPP.

The PfAD is a reserve that pension plans are required to establish and fund on a going-concern basis and which is part of the pension funding regime for Ontario defined benefit pension plans effective as of May 1, 2018. Amendments pertaining to the PfAD were first made to the Master Trust SIPP in the Report FCS18090 respecting the 2018 Master Trust Pension Statement of Investment Policies and Procedures, in order to comply with regulatory disclosure requirements.

Data Pertaining to the Provision for Adverse Deviations (PfAD)

The calculation of the PfAD is based in part on a pension plan's asset allocation (as defined by the Regulation) generally summarized in a pension plan's PfAD Table.

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As of May 1, 2018, the SIPPs of Ontario defined benefit pension plans must disclose the percentage values of a pension plan's target asset allocation for each investment category listed in subsection 76(12) in the Regulation.

In this year's formal annual review, the Plans' PfAD Table on page 5 in Section 2.03 of the Master Trust SIPP has been updated with the percentage values as of June 30, 2023 for the Target Asset Allocations. Table 1 shows the Plans' PfAD Table.

**Table 1
Target Asset Allocations for Investment Categories (PfAD Table)**

| Investment Category under subsection 76(12) of Regulation 909 | Target Asset Allocation ¹ | Accessed Through Mutual or Pooled or Segregated Funds |
|---|--------------------------------------|---|
| 1. Insured contracts | 0.0% | - |
| 2. Mutual or pooled funds or segregated funds | N/A | - |
| 3. Demand deposits and cash on hand | 0.0% | - |
| 4. Short-term notes and treasury bills | 0.0% | - |
| 5. Term deposits and guaranteed investment certificates | 0.0% | - |
| 6. Mortgage loans | 0.0% | - |
| 7. Real estate | 0.0% | - |
| 8. Real estate debentures | 0.0% | - |
| 9. Resource properties | 0.0% | - |
| 10. Venture capital | 0.0% | - |
| 11. Corporations referred to in subsection 11(2) of Schedule III to the federal investment regs | 0.0% | - |
| 12. Employer issued securities | 0.0% | - |
| 13. Canadian stocks other than investments referred to in 1 to 12 above | 18.0% | Yes |
| 14. Non-Canadian stocks other than investments referred to in 1 to 12 above | 18.0% | Yes |
| 15. Canadian bonds and debentures other than investments referred to in 1 to 12 above | 64.0% | Yes |
| 16. Non-Canadian bonds and debentures other than investments referred to in 1 to 12 above | 0.0% | - |
| 17. Investments other than investments referred to in 1 to 16 above | 0.0% | - |

¹ The target asset allocation indicated in the PfAD table is based on the glidepath positioning as of June 30, 2023.

The percentage values for the Target Asset Allocation in the PfAD Table were derived from the Plans' actual target asset mix as of June 30, 2023.

Under the Plans' dynamic investment strategy, the Plans' actual target asset mix as of 30 June 2023 is determined from the glidepath set out on pages 6 and 7 in Section 2.03 of the Master Trust SIPP using the Plans' funded status as of June 30, 2023, as given in the Master Trust Pension Investment Performance Report as of June 30, 2023.

Hence, the Plans' actual asset mix, as of June 30, 2023, is shown in Table 2.

**Table 2
Plans' Actual Asset Mix
As of June 30, 2023**

| | |
|------------------|--------|
| Canadian Equity: | 18% |
| Global Equity: | 18% |
| Fixed Income: | 64% |
| (Funded Status: | 86.2%) |

Thus, in the PfAD Table, the investment categories 13 and 14 are allocated percentage values of 18% and 18%, respectively, and investment category 15 is allocated a percentage value of 64%.

The 2022 PfAD table reflected percentage values for investment categories 13, 14 and 15 of 23%, 22% and 55%, respectively, reflecting the Plans' actual asset mix (23% Canadian equity; 22% global equity; 55% fixed income) as of June 30, 2022. The implicit understanding was that the percentage values in the PfAD Table would need to be updated as the Plans' funded status (and therefore the actual target asset mix) changed over time.

Legislation affecting the Master Trust SIPP

For this annual formal review, there were no changes in the applicable pension legislation affecting the Master Trust SIPP since the preceding review that was undertaken and described in Report FCS23009 respecting the 2022 City of Hamilton Defined Benefit Pension Plans Master Trust Statement of Investment Policies and Procedures.

ALTERNATIVES FOR CONSIDERATION

Not Applicable.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS23098 – Statement of Investment Policies and Procedures – City of Hamilton Defined Benefit Pension Plans Master Trust, November 2023