




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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	January 18, 2024
SUBJECT/REPORT NO:	Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures Review (FCS24004) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Brian McMullen Acting General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

That Appendix “A” attached to Report FCS24004 respecting the Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures, dated December 12, 2023, be approved and replace the previous Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures contained in Report FCS19074 and approved by Council on December 11, 2019.

EXECUTIVE SUMMARY

Report FCS24004 requests that Council approve the Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures (the “SIPP”) dated December 12, 2023. The SIPP contains amendments arising from the formal review of the SIPP undertaken in 2023, which is required at a minimum once in every four calendar years. The amended SIPP is attached as Appendix “A” to Report FCS24004.

The SIPP is a document that contains investment policies and procedures in respect of the City’s portfolios of investments.

There are no substantive amendments to the SIPP that arose from changes that have occurred to legislation since the last review undertaken in 2019.

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An amendment to the SIPP that introduces for the first time the topic of Environmental, Social and Governance (ESG) considerations is contained in a new section, Section 1.10, on page 9 of the SIPP, as follows:

“The City of Hamilton believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long term financial performance.

The City has chosen to monitor the developments of ESG factors and will reconsider its approach as and when appropriate to do so.”

These ESG statements were recommended by Aon, the City’s investment consultant, in consultation with staff. The statements take into account the observation that ESG considerations are increasingly being considered in investment decisions and, therefore, into investment policies or SIPPs.

The statements also take into account the results of a survey undertaken by Aon who was engaged by the City to survey various Canadian municipalities with regard to whether and if so, how they take into account ESG and/or Responsible Investing (RI/ESG) considerations in their investment portfolios. (From the Principles for Responsible Investment website: “Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship).”)

Based on the findings of Aon’s survey, for those municipalities where there was RI/ESG wording in their SIPPs, the majority of those SIPPs contained RI/ESG wording that was very generic and did not clearly specify the steps required for implementation of RI/ESG within their respective investment portfolios.

Additionally, Aon’s survey found that a majority of the municipalities have RI/ESG policies (that are separate from their SIPPs) for governance and implementation of RI/ ESG that largely contains existing language limited to indicating a target of achieving approximately 50% reduction in emissions by 2030 and net zero or carbon neutral target by 2050. However, these separate RI/ESG policies do not speak to RI/ESG implementation related to their investment portfolios.

The following three minor amendments were made to the SIPP for the purpose of clarification, details of which can be found in the Analysis and Rationale for Recommendation Section of this Report FCS24004.

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- (i) With respect to accounting issues for the Reserve / Revenue Funds, the SIPP now includes wording on the new Public Standard Accounting Board (PSAB) standard on portfolio investments (PS 3041 - portfolio investments) for the Reserve / Revenue Funds. This wording is found in Section 3.04 on pages 13 and 14 of the SIPP.
- (ii) With respect to the Trust Accounts, the SIPP now includes the phrase “if need be” to reflect the current and long-existing practice that separate sub-policies for the Trust Accounts would only be developed only “if need be”. This added phrase is found in the Executive Summary in Section 5 on page 5 of the SIPP and in Section 5.03 on page 21 of the SIPP.
- (iii) With respect to the Trust Accounts, the SIPP now includes a new section to reflect the current and long-existing practice of lending securities held in the Trust Accounts to generate lending income for the Trust Accounts. This new section, Section 6.05, is found on page 25 of the SIPP.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Not Applicable.

Staffing: Not Applicable.

Legal: Not Applicable.

HISTORICAL BACKGROUND

According to Section 1.11 of the SIPP, the City Treasurer and Council must formally review the SIPP at a minimum once in every four calendar years.

The preceding formal review of the SIPP undertaken in 2019 is detailed in Report FCS19074 respecting Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures Review, which was approved by Council at its meeting held on December 11, 2019.

The scope of this year’s formal review focused primarily on updating the SIPP to incorporate any changes in legislation impacting the SIPP since the preceding review in 2019 and to include ESG considerations in the SIPP.

The City’s SIPP continues to be governed by legislation under the *Municipal Act, 2001* and Ontario Regulation 438/97 Part I, known as the Prescribed List and under the *Trustee Act* (Ontario).

Although not the subject of Report FCS24004, in 2018, legislation was introduced that would now enable eligible Ontario municipalities (other than the City of Toronto) to invest under either the Prescribed List or under Section 418.1 (Prudent Investment) of the *Municipal Act, 2001* and Part II of Ontario Regulation 438/97. The latter option is often referred to as the Prudent Investor Standard.

Investing under the prudent investor standard would provide municipalities with a framework and opportunity to invest in a much wider selection of securities and investments, but before being able to invest under the standard, a municipality must adopt the prescribed governance framework.

Under the prescribed governance framework, a municipality is required to establish an investment board in which City Council would delegate its authority to manage and oversee the municipality's investment funds that are not immediately required by the municipality.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The amended SIPP provides the framework for the investment of the Reserve / Revenue Funds in accordance with the Prescribed List – Ontario Regulation 438/97 Part I - and for the investment of monies for the Trust Accounts in accordance with the *Trustee Act* (Ontario).

Under the Prescribed List, City Council is required to adopt a statement of the City's investment policies and goals before the City invests in an investment prescribed under the Prescribed List. The SIPP is the City's statement of its investment policies and goals.

There are no changes to Ontario Regulation 438/97 Part I since 2019 that results in substantive changes to the City's SIPP. There are no changes to the *Trustee Act* (Ontario) since 2019 that results in substantive changes to the City's SIPP.

RELEVANT CONSULTATION

Staff consulted with Legal and Risk Management Services Division in the preparation of Report FCS24004.

Aon, the City's investment consultant, reviewed the SIPP from a compliance and governance perspective and provided recommended wording in the SIPP regarding ESG considerations. Aon was engaged to undertake a survey of ESG considerations in other Canadian municipalities' investment policies, the results of which informed their recommended wording in the SIPP regarding ESG considerations. In addition, Aon considered all applicable, regulatory guidance and any relevant changes were addressed in the SIPP, where appropriate.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

I. No Substantive Amendments to the City’s SIPP from Changes to Legislation

There are no changes to Ontario Regulation 438/97 Part I since 2019 that result in substantive amendments to the City’s SIPP. There are no changes to the *Trustee Act* (Ontario) since 2019 that results in substantive amendments to the City’s SIPP.

Nevertheless, the two minor amendments of a housekeeping nature were made to the SIPP that reflect changes to O. Reg. 438/97 (by O. Reg. 106/22) since 2019.

First, the *Credit Unions and Caisses Populaires Act, 1994* was replaced by the *Credit Unions and Caisses Populaires Act, 2020* (which came into force in 2022). (Note that changes to the *Credit Unions and Caisses Populaires Act, 2020* do not impact the SIPP, because the SIPP restricts permitted investments in credit unions to a term of one year or less.) Second, the word “central” replaces the word “league” to reflect the new nomenclature in the *Credit Union and Caisses Populaires Act, 2020*.

These two housekeeping amendments appear in Footnote 7 of Appendix A on page 27 of the SIPP. Footnote 7 now reads:

“these prescribed securities (which are deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments issued, guaranteed or endorsed by a credit union or central to which the *Credit Unions and Caisses Populaires Act, 2020* applies).”

II. Environmental, Social and Governance (ESG) Considerations

ESG considerations are increasingly being considered in investment decisions and, therefore, into investment policies or SIPPs.

The City consulted with its investment consultant, Aon, to provide guidance and best practices for how the City may include ESG considerations in its investment policy. Additionally, on the request of the City, Aon was engaged and conducted a survey to understand whether, and if so, how various Canadian municipalities are incorporating RI/ESG within their investment portfolios.

Based on Aon’s findings, for those municipalities where there was RI/ESG wording in their SIPPs, the majority of those SIPPs contained RI/ESG wording that was very generic and did not clearly specify the steps required for implementation of RI/ESG within their respective investment portfolios.

Additionally, Aon’s survey found that a majority of the municipalities have RI/ESG policies (that are separate from their SIPPs) in place for governance and implementation of RI/ ESG that largely contains existing language limited to indicating a target of achieving approx. 50% reduction in emissions by 2030 and net zero/ carbon neutral target by 2050. However, these separate RI/ESG policies do not speak to RI/ESG implementation related to their investment portfolios.

The following amendments are recommended by Aon and proposed to be included in the SIPP that speak to the topic of ESG considerations. These amendments are contained in a new section, Section 1.10, Environmental, Social and Governance (ESG) Factors, on page 9 of the SIPP:

“The City of Hamilton believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business and that these actions contribute to long term financial performance.

The City has chosen to monitor the developments of ESG factors and will reconsider its approach as and when appropriate to do so.”

III. Clarifications / Corrections

Three minor amendments were made to the SIPP for the purpose of clarification in the area of accounting issues for the Reserve / Revenue Funds and in the areas of sub-policies and lending income for the Trust Accounts, listed as follows:

i. Accounting Issues for the Reserve / Revenue Funds

The following paragraphs were added to the SIPP in Section 3.04, Accounting Issues, on pages 13 and 14 of the SIPP, in order to reflect the new Public Standard Accounting Board (PSAB) standard on portfolio investments (PS 3041- portfolio investments):

“The following guidance is outlined within PS 3041-Portfolio investments:

- .07 When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment should be written down to recognize the loss. The write-down should be included in the statement of operations.
- .08 A write-down of a portfolio investment to reflect a loss in value should not be reversed if there is a subsequent increase in value.

.10A decline in quoted market value below cost or amortized cost of an investment with a fixed maturity amount may be considered temporary unless it is anticipated that the investment will be disposed of before it matures or that the cost or amortized cost may not be realizable.”

ii. Sub-Policy for the Trust Accounts

The following two corrections were made to the SIPP to reflect that a sub-policy for the Trust Accounts would be developed “if need be”. Previously the statement regarding a sub-policy for the Trust Accounts did not include the words “if need be”.

1. In the Executive Summary, Section 5, on page 5 of the SIPP:

“Section 5: Trust Accounts

- A very brief description of the City’s Trust Accounts is included.
- The primary goals of the Trust Accounts include: 1) conforming to legislative constraints; 2) preserving capital; 3) maintaining adequate liquidity and 4) maximizing returns.
- Individual performance objectives will be set for each Trust Account. If need be, a customized sub-policy will also be drafted and appended to this Policy because the composition of investment assets and asset mix may vary broadly for each Trust Account.”

2. In Section 5, Trust Accounts, in subsection 5.01, on page 21 of the SIPP:

“5.01 Profile

The City’s Trust Accounts consist of multiple accounts, each with distinct and unique objectives. The individual Trust Accounts, therefore, although small, may not be co-mingled.

Notwithstanding the following, a sub-policy will be developed for each individual Trust Account and appended to this Policy, if need be. Each sub-policy will contain a statement of objectives, and constraints and guidelines customized to the unique requirements of the individual Trust Accounts.”

iii. Lending income for the Trust Accounts

The following new section was added to the SIPP, in Section 6.05, on page 25 of the SIPP, to take into account the current and long-existing practice that securities held in the Trust Accounts are used to generate lending income, as is also the current and long-existing practice for securities held in the Reserve / Revenue Funds investment portfolios.

“6.05 Securities Lending

The investments of the trust accounts may be loaned, for the purpose of generating revenue for the trust accounts on a fully indemnified basis.

For securities held in segregated accounts, such loans must be secured by cash and/or readily marketable government bonds, treasury bills and/or letters of credit, discount notes and bankers' acceptances of chartered banks. For bonds, the security held must have a market value of at least one hundred and two percent (102%) of the market value of the loaned securities. This market value relationship must be calculated at least daily.

The terms and conditions of any securities lending program will be set out in a contract with the Custodian. The Custodian shall, at all times, ensure that the City Treasurer has a current list of those institutions that are approved to borrow the trust accounts' investments.”

ALTERNATIVES FOR CONSIDERATIONS

Not Applicable.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS24004 – Reserve / Revenue Funds and Trust Accounts Statement of Investment Policies and Procedures dated December 12, 2023.

RM/dt