

2013 INVESTMENT AND ENDOWMENT FUND REPORT

**RAPPORT SUR LE FONDS D'INVESTISSEMENT ET DE DOTATION DE
2013**

COMMITTEE RECOMMENDATION

That Council receive this report on the results of the City's investments for 2013, as required by Ontario Regulation 438/97 as amended, Section 8 (1), and the City's Investment Policy.

RECOMMANDATION DU COMITÉ

Que le Conseil prenne connaissance du présent rapport sur les résultats des investissements de la Ville pour l'année 2013, comme l'exigent le paragraphe 8 (1) du Règlement de l'Ontario 438/97 et la Politique d'investissement de la Ville.

DOCUMENTATION / DOCUMENTATION

1. Marian Simulik, City Treasurer, report dated May 27, 2014 (ACS2014-CMR-FIN-0024)
Marian Simulik, Trésorière municipale, rapport daté du 27 mai 2014 (ACS2014-CMR-FIN-0024)
2. Extract of Draft Minutes 44, 3 June 2014
Extrait de l'ébauche du procès-verbal 44 du 3 juin 2014

**FINANCE AND ECONOMIC
DEVELOPMENT COMMITTEE
REPORT 44
11 JUNE 2014**

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**COMITÉ DES FINANCES ET DU
DÉVELOPPEMENT ÉCONOMIQUE
RAPPORT 44
LE 11 JUIN 2014**

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique**

**and Council
et au Conseil**

**May 27, 2014
27 mai 2014**

**Submitted by
Soumis par:**

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Contact Person

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2014-CMR-FIN-0024

SUBJECT: 2013 INVESTMENT AND ENDOWMENT FUND REPORT

**OBJET: RAPPORT SUR LE FONDS D'INVESTISSEMENT ET DE DOTATION
DE 2013**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council receive this report on the results of the City's investments for 2013, as required by Ontario Regulation 438/97 as amended, Section 8 (1), and the City's Investment Policy.

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil de prendre connaissance du présent rapport sur les résultats des investissements de la Ville pour l'année 2013, comme l'exigent le paragraphe 8 (1) du Règlement de l'Ontario 438/97 et la Politique d'investissement de la Ville.

BACKGROUND

The City of Ottawa is authorized, under Section 418 of the *Municipal Act, 2001*, to invest funds not immediately required. Ontario Regulation 438/97 as amended outlines the criteria for eligible investments, which provides for a relatively conservative investment mix.

The City's Investment Policy, as approved by Council on 25 June 2003, sets sector, issuer, credit and term limits, and acts as the governing guideline in the management of the City's investment portfolios. The reporting requirements in the City's Investment Policy and Section 8 (1) of O. Reg. 438/97 require that a report be submitted to Council each year. Regulation 438/97 was amended on 12 December 2005, by Regulation 655/05. This regulation provides a wider range of eligible investments in Canadian corporate bonds and equities for the City's Endowment Fund. The regulation and the City's adopted Statement of Investment Policies and Procedures require reporting on the performance of the Endowment Fund, which has been included in this report.

DISCUSSION

Financial Market Review 2013

Economic performance in Canada was unsteady throughout last year. 2013 marked another year of mediocre growth with real GDP increasing by 2%. A key factor to the

weak performance was the export sector which failed to make a substantial contribution to the annual growth rate. This was exacerbated by the relative increase in Canadian unit labour costs and relatively strong Canadian currency. Further, the lack of external demand weighed on business investment limiting the annual increase in spending on capital goods and non-residential construction projects.

The Bank of Canada went through a change in leadership with Governor Stephen Poloz assuming the role in July. Investors were attuned to any change in policy but little changed with the key interest rate remaining at 1 percent where it has been for three years. What Governor Poloz did bring to the table was a shift in view on a Bank tightening. The BoC has long held the position that the next move in interest rates would be upward, but Governor Poloz gave inference that the next interest rate move by the Bank could be a reduction in interest rates in order to try and further stimulate the economy.

The Canadian equity markets had a positive year gaining 9.6% in 2013. The S&P/ TSX Composite Index opened the year at 12,434 and closed at 13,622.

Canada's housing market remained resilient in 2013. Average home prices rose 9.8 percent on a year-over-year basis, showing that the housing industry in Canada continues to be over-zealous. The Bank of Canada has expressed concerns that Canada may be developing a housing bubble which may potentially burst. The Bank of Canada has also expressed concerns over higher than normal household debt.

2013 was a net Cash flow positive year for the City which generated higher investment reserve balances at year-end. These balances were reinvested in short and long-term investments with a bias towards the short-term in anticipation of higher re-investment rates in 2013. The following table shows the average portfolio balance during 2013 and the income earned for the year. Document 1, attached, shows the investment portfolio by asset class, term and credit exposure.

Portfolio	Average Portfolio Value (\$ million)	Earned Income (\$ millions)	Investment Return (%) ¹
Short-Term Investments	1,187.4	14.2	1.20
Long-Term Funds	<u>434.5</u>	<u>15.6</u>	<u>3.58</u>
Total General Funds	1,621.9	29.8	1.84
Sinking Funds	<u>54.2</u>	<u>2.0</u>	<u>3.78</u>
All Funds	<u>1,676.1</u>	<u>31.8</u>	<u>1.90</u>

¹ Represents the return on the monthly average holdings for the year 2013 compared to Note 3 in the draft Consolidated Financial Statements which provides the weighted average yield on investments held as at December 31, 2013.

Endowment Fund

The Endowment Fund (Fund) was established from the proceeds received from Hydro Ottawa when it completed its refinancing in 2005. The Province broadened the scope of eligible investments for the Fund to include Canadian equities and corporate bonds. Two external investment managers manage the investments for the Fund.

The market value including accruals of the Fund as at December 31, 2013 was \$213.6 million. The fund made two payouts to the City in 2013 - on May 6, 2013 in the amount of \$13.7 million and on October 7, 2013 in the amount of \$4.5 million, for the total payout of 18.2 million. The market value of the Fund as at December 31, 2012 was \$205.9 million. The overall return of the Fund for calendar 2013 was 13.3%. The market value of the fund has increased to \$212 million as at May 14, 2014. The objective is to have a return that provides an opportunity to consider making a payout of 6.5% for the year.

The following are the details of the payments from the Fund compared to expected returns:

	Expected Return	Payments ¹
2008	13,000,000	-
2009	13,000,000	9,743,000
2010	13,000,000	13,643,000
2011	13,000,000	21,253,000
2012	<u>13,000,000</u>	<u>8,719,000</u>
2013	<u>13,000,000</u>	<u>18,183,604</u>
	<u>78,000,000</u>	<u>71,541,604</u>

On June 14, 2006 Council adopted the investment policy and procedures for the Fund which set the target return at 6.5% and established the Endowment Fund Investment Committee to oversee the operation of the Fund. Each year the Investment Committee reviews the returns for the Fund and calculates the amount to be distributed to the City based on a formula of 6.5% of the average market value for the Fund at the end of the three immediately preceding years ending September 30 provided that the Fund does not fall below the initial amount invested of \$200 million. On October 10, 2012, Council endorsed the following recommendation: "That the City of Ottawa Endowment Fund be maintained at \$200 million and any excess continue to be directed to fund the capital program (ACS2012-CMR-FIN-0039).

RURAL IMPLICATIONS

There are no rural implications as a result of this report.

¹ As a result of favourable financial markets in 2014, a distribution of \$13,000,000 was made on February 19, 2014 while maintaining the Fund value over \$200 million. A further distribution of \$6,500,000 will be considered when the Endowment Fund Committee meets in June.

CONSULTATION

The public consultation process is not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable.

LEGAL IMPLICATIONS

There are no legal impediments to the receipt of the report for information. The City of Ottawa is authorized under Section 418 of the Municipal Act, 2001 to invest funds not immediately required and Ontario Regulation 438/97 as amended outlines the criteria for eligible investments.

RISK MANAGEMENT IMPLICATIONS

There are no risk management impediments to receiving this report.

FINANCIAL IMPLICATIONS

It is the opinion of the City Treasurer that all investments were made during 2013 in accordance with the City's Investment Policy.

ACCESSIBILITY IMPACTS

There are no accessibility impact implications with this report.

ENVIRONMENTAL IMPLICATIONS

Not applicable.

TECHNOLOGY IMPLICATIONS

There are no technical implications associated with receiving this report.

TERM OF COUNCIL PRIORITIES

This aligns with FS2, maintain and enhance the City's financial position.

SUPPORTING DOCUMENTATION

Document 1 – Investment portfolios by asset class, term and credit exposure.

DISPOSITION

Following consideration by the Finance and Economic Development Committee, this report will be forwarded to Council for information.