



**City of
Peterborough**

To: Members of the General Committee

**From: Richard Freymond
Commissioner of Corporate and Legislative Services**

Meeting Date: May 10, 2021

**Subject: Report CLSFS21-020
Legacy Fund Investment Policy**

Purpose

A report to recommend the City's Legacy Fund Investment Policy for the proceeds from the sale of assets of Peterborough Distribution Inc. to Hydro One.

Recommendations

That Council approve the recommendations outlined in Report CLSFS21-020 dated May 10, 2021, of the Commissioner of Corporate and Legislative Services, as follows:

- a) That the Legacy Fund Investment Policy as appended to Report CLSFS21-020 as Appendix A, be approved;
- b) That the City's existing general Investment Policy be amended to clarify that the policy does not apply to the Legacy Fund;
- c) That with respect to the management of the Legacy Fund, Council establish a Legacy Fund Advisory Committee consisting of:
 - i) Mayor Therrien, or another member of Council as the Mayor may determine
 - ii) Councillor Pappas – Chair of the Finance Committee
 - iii) Councillor Riel – Vice Chair of the Finance Committee
 - iv) Mrs. Sandra Clancy – Chief Administrative Officer

- v) Mr. Richard Freymond – City Treasurer
 - vi) Ms. Yvette Peplinskie – Manager of Financial Services
 - vii) Mr. Darren Hancock – Chief Accountant
- d) That to mitigate the potential budget impacts as a result of volatility in the markets, a Legacy Fund Income Retention Reserve be established;
- e) That up to 50% of the proceeds from the sale of assets of Peterborough Distribution Inc. be held in a High Investment Savings Account, or other highly liquid investment, until a Council decision about investing in City of Peterborough Holdings Inc. has been made.

Budget and Financial Implications

With the approval of the recommendations of this report, staff will begin to transfer up to 50% of the proceeds of the sale of assets of Peterborough Distribution Inc. to Hydro One with ONE Investment, as a Legacy Fund as approved by Council through Report CLSFS21-005. Net proceeds in the amount of \$59.7 Million have been received to date.

Background

As reported to Council through Report CLSFS20-049 dated September 21, 2020, on August 4-5, 2020, the City has received amounts totaling \$59.7 Million related to the sale of the assets of Peterborough Distribution Inc. As indicated in the Report, it is possible that further distributions may yet be forthcoming.

As directed through recommendation b) of Report CLSFS20-029 dated June 8, 2020, 100% of the proceeds are to be invested to bring a financial return to the City. The motion read as follows:

That 100% of the proceeds from the sale of Assets of Peterborough Distribution Inc. to Hydro One be invested to generate a return to the City of Peterborough and other spending options only be considered for the return itself.

As directed through recommendation c) of Report CLSFS21-005 dated February 8, 2021, Council resolved:

That staff be directed to update the City's Investment Policy, as required, for Council consideration.

Staff, in consultation with ONE Investment, developed the Legacy Fund Investment Policy (Policy), included in Appendix A of this Report. The Policy outlines the principles and guidelines to be followed in the management of the Legacy Fund, including investing in compliance with applicable legislation, preserving the principal investment in perpetuity, and providing annual income to the City to fund capital projects.

With Council's approval of this report, the City will have one Investment Policy for general investments and a separate Investment Policy for the Legacy Fund. The existing Investment Policy will be amended in a subsequent staff report to clarify that it does not apply to the Legacy Fund investments.

Legacy Fund Advisory Committee

ONE Investment recommends that an Advisory Committee be established to oversee the Legacy Fund. This administrative committee will be comprised of staff and council members and will oversee the investment performance of the Legacy Fund as well as review the amount of income to be included in the draft budget annually. Staff recommend that the Advisory Committee meet at least three times per year at key points in the budget process.

Legacy Fund Income Retention Reserve

Staff are recommending that the Legacy fund capital and investment income earned be managed through two different reserves.

The first reserve, the Legacy Fund Reserve was established through approval of Report CAO16-018 on December 15, 2016, wherein Council directed that the net proceeds of the sale be held in an interest-bearing reserve account under the control of the City Treasurer. This Legacy Fund Reserve refers to the initial investment of the fund capital.

However, in order to better manage the volatility of the market, staff recommend establishing a second reserve called a Legacy Fund Income Retention Reserve. In acknowledgement that ONE Investment recommends diversifying the Legacy Fund with a mix of equities and fixed income investments, as shown in Table 1 of the Policy, a Retention Reserve would be used to hold the income transferred from the Legacy Fund annually until the funds are used by the City's Capital Budget. In years of strong returns, Council may direct that funds be held in the Retention Reserve for a future budget year. Conversely, in a year of weak returns, Council may choose to use residual funds in the reserve for the upcoming budget.

The Transition Plan

The transition plan consists of two considerations: the transfer of funds to CoPHI and the transfer of funds to the Legacy Fund.

The Transfer of Funds to CoPHI

As included in Report CLSFS21-005, up to 50% of the proceeds of the sale of assets of Peterborough Distribution Inc. to Hydro One may be invested in preferred shares of the City of Peterborough Holdings Inc. (CoPHI). In order to avoid impacts on the return on investments until Council has made a decision on whether or not to invest, ONE Investment recommends that up to 50% of the Legacy Fund be held in a highly liquid investment, such as a High Investment Savings Account (HISA). Dependent upon

investment returns, this could be in a HISA with the ONE Fund, or with another financial institution.

Holding these funds in a highly liquid investment will require the Legacy Fund to temporarily be in a situation of noncompliance with the asset mix of investments as shown in Table 1 of the Policy. If and when a decision has been made and the transfer of cash to CoPHI completed, the Legacy Fund will be in compliance with the Legacy Fund Investment Policy.

The Transition of Funds to ONE Investment

The ONE Investment portion is intended to be invested into the ONE Investment portfolios in 2 separate tranches which are invested over a 2-month time frame. This is intended to relieve staff from the decisions about how to time the transactions, which may affect the returns.

Summary

This Report recommends a Legacy Fund Investment Policy. Investing the funds with the ONE Investment and with CoPHI meets Council's direction of investing 100% of the proceeds to generate revenue and have the potential to benefit the Peterborough community for generations to come.

Submitted by,

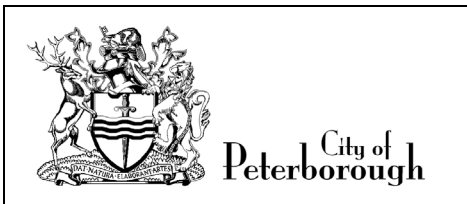
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Commissioner of Corporate and Legislative Services

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Attachment:

Appendix A – Legacy Fund Investment Policy (Draft)



Legacy Fund Investment Policy (Draft)

Department:	Corporate and Legislative Services
Division:	Financial Services Division
Section/Function:	Section
Approval Level:	Council
Effective Date:	2021-05-25
Revision #:	Not applicable

1.0 Purpose

- 1.1 This Policy outlines the Principles and Guidelines that must be adhered to when managing the City of Peterborough's Legacy Fund investment portfolio to ensure:
- Alignment with the City's Financial Policies Framework.
 - The optimum utilization of its Financial Resources within statutory limitations
 - Financial risk exposure is limited.
 - Preservation of initial Capital investment.

2.0 Application

- 2.1. This Policy applies to all those responsible for overseeing, approving, conducting, and/or monitoring Legacy Fund investment activities on behalf of the City.
- 2.2. This Policy applies to all investments made through the City's Legacy Fund.
- The Legacy Fund is an investment fund established February 22, 2021 by the City with the net proceeds from the sale of assets of Peterborough Distribution Inc. to Hydro One.

3.0 Definitions and Acronyms

Capital – For the purpose of this Policy, refers to the net proceeds from the sale of assets of Peterborough Distribution Inc. to Hydro One.

Diversification – A process of investing assets among a range of security types by sector, maturity, and quality rating.

Financial Resources – Assets of the City available to fund operations, investments, and capital projects.

In Perpetuity – An unlimited duration or for all time.

Legacy Fund – An endowment style investment strategy designed to preserve the initial capital investment while providing a stable income return for the investor.

Liquidity – A measure of an asset's convertibility to cash.

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder.

ONE Investment – A not-for-profit entity that operates the ONE Investment Program, a co-mingled investment strategy in which local governments and the broader Ontario public sector can invest.

Preservation of Capital – The concept of ensuring the principal value of investments is maintained despite fluctuations in various market conditions.

Rate of Return – The gain or loss of an investment over a specified period of time expressed as a percentage of the investment's cost.

Retention Reserve – Reserve general ledger account to hold income transferred from Legacy Fund until used by capital program.

Securities – A tradeable financial asset including bonds, debentures, treasury bills, commercial paper, repurchase agreements, promissory notes and asset-backed securities.

Treasurer – An individual appointed by Council in accordance with the **Municipal Act, 2001** who is responsible for handling all of the financial affairs of the City on behalf of and in the manner directed by the Council of the City.

4.0 Policy Statements

4.1 Principles

To ensure the City manages its Legacy Fund investment portfolio in a fiscally responsible and sustainable manner, the following principles must be adhered to:

- a. Ensure investment activities are in compliance with statutory limitations.
- b. Preserve the Capital.
- c. Ensure an adequate level of Liquidity.
- d. Diversify the investment portfolio.
- e. Earn a competitive Rate of Return.

- f. Provide a stable annual income for the City from investment returns.

4.2. **Guidelines**

The following Guidelines must be adhered to when managing the City's Legacy Fund investment portfolio:

- a. The City will hold the Capital in the Legacy Fund In Perpetuity while making annual contributions from investment earnings towards the City's capital program.
- b. The Legacy Fund will consist of an adequate level of securities that can be easily liquidated.
- c. The City will ensure Diversification of its securities within the Legacy Fund.
- d. The composition of the City's Legacy Fund portfolio will be as shown in the asset mix detailed in Table 1 of Appendix A.

4.3. **Role of the Treasurer**

- a. The Treasurer, in consultation with the Fund Advisory Committee, has the overall authority and responsibility for the prudent investment of the City's Legacy Fund portfolio in accordance with this Policy and the **Municipal Act, 2001**.

4.4. **Governance, Management, and Reporting**

- a. Council will appoint a Fund Advisory Committee comprised of:
 - The Mayor, or another member of Council as the Mayor may determine
 - The Chair of the Finance Committee
 - The Vice-Chair of the Finance Committee
 - The Chief Administrative Officer
 - The City Treasurer
- b. The Fund Advisory Committee will be responsible for:
 - Reviewing the investment performance of the Legacy Fund and Fund manager(s) in accordance with this Policy.
 - Reviewing the current investment guidelines for the Legacy Fund.
 - Making recommendations to Council with respect to changes to this Policy.
 - Reviewing the amount of current year transfer from the Legacy Fund to the Retention Reserve, and from the Retention Reserve to the capital program.
- c. The Treasurer will report to Council annually on Legacy Fund investment activity and returns.

5.0 Appendix, Related Documents & Links

Note: All references refer to the current version, as may be amended from time to time.

5.1. Pertinent Resources:

- Municipal Act
<https://www.ontario.ca/laws/statute/01m25>
- O. Reg. 438/97 Eligible Investments, Related Financial Agreements and Prudent Investment
<https://www.ontario.ca/laws/regulation/970438>

5.2. Related Policies:

- Financial Policies Framework
- Investment Policy

5.3. Related Procedures:

- Legacy Fund Investment Procedure

5.4. Related Forms:

- N/A

5.5. Miscellaneous:

- N/A

6.0 Amendments/Reviews

Date (yyyy-mm-dd)	Section # Amended	Comments

Next Review Date:	
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Appendix A

The allocation of investments will be monitored on an ongoing basis and are intended to be maintained within the ranges identified in Table 1.

Table 1 – Legacy Fund Investment Asset Mix

	Minimum Weight	Target Weight	Maximum Weight
Cash			
HISA ⁽¹⁾	0.0%	0.0%	5.0%
Equities			
ONE Canadian Equity Portfolio	45.0%	50.0%	55.0%
Fixed Income			
ONE Corporate Bond Portfolio	22.0%	25.0%	28.0%
ONE Canadian Bond Portfolio	22.0%	25.0%	28.0%

(1) The High Investment Savings Account (HISA) allocation may hold amounts for known liquidity purposes or other drawdowns as needed.