

Investment Policy Update

Date	February 3, 2021
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	EX21-11

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Approve the changes to the City's Investment Policy as recommended and outlined in this report.
2. Instruct the City Solicitor to prepare amendments to *Bylaw 2003-69, The Regina Administration Bylaw*, No. 2003-69 to amend Schedule C in that Bylaw as outlined in this report.
3. Approve these recommendations at its February 24, 2021 meeting.

ISSUE

The City's investment policy was last reviewed more than 10 years ago. In 2020, the City engaged Aon to work with Administration to review the City's current investment strategy and policy, and recommend changes as appropriate. As a result of this review, Administration recommends that the City's Investment Policy, Schedule C of *The Regina Administration Bylaw*, No. 2003-69, be updated to reflect the changes recommended and discussed in this report. Proposed changes are included in Appendix A.

IMPACTS

The impact of the recommendation is an increase in the types of investment opportunities available to the City within the investment portfolio. Increasing the types of investment

opportunities will allow the City to better manage the investment portfolio in a manner that balances investment risk and achieves appropriate returns while protecting the value of City assets.

OTHER OPTIONS

Administration has evaluated the following other options for updating the investment policy.

1) Status Quo

The City could leave the investment policy unchanged and continue investing using the current Investment Policy, resulting in accessing fixed income investments only. This alternative is not recommended as restricting investments to fixed income reduces the opportunity for risk reduction and return enhancement through diversification.

COMMUNICATIONS

Public notice was issued on January 26, 2021 of the intent to amend Schedule C of *The Regina Administration Bylaw, 2003-69*.

DISCUSSION

Background

City Council and Administration have a fiduciary responsibility to the citizens of Regina to prudently manage the City's reserve and other funds. Municipalities generally take one of the following two approaches to investing: investing in fixed income only or investing following the prudent person principle. Municipalities that invest in fixed income only invest in bonds, commercial paper, government treasury bills and GIC's. Municipalities following the prudent person principle may invest in a broad range of investments, so long as they do so with the care, skill, prudence and diligence that a prudent person acting in that capacity would use.

Canadian municipalities' investment approach is often determined through provincial legislation, where some provinces legislate cities to invest only in fixed income. Where provincial legislation does not restrict investments, a city's bylaw guides their investment strategy. Saskatchewan legislation through section 132 of *The Cities Act* requires that City Council establish an investment policy by bylaw and that a city only invest in investments authorized by its respective investment policy. However, the legislation does not otherwise limit the investment approach applied by municipalities. This can be determined by City Council in the investment policy.

The City of Regina has followed a fixed income investment strategy as outlined in Schedule C of *The Regina Administration Bylaw, 2003-69*. This strategy has resulted in investment returns as outlined in the table below.

Year	2020*	2019	2018	2017	2016	2015	2014
City Investment Return (%)	1.32	4.42	0.65	1.75	3.87	4.67	4.25

* unaudited

Investment Strategy Review

In 2017 and 2018, the Bank of Canada increased interest rates, resulting in a decrease in the market value of the City's fixed income investments. In 2019, the City sold its bond investments and booked a capital gain, resulting in an annual return of 4.42% for 2019. Given the changing market conditions and that it has been over ten years since the City's investment policy was last reviewed, Administration determined that a review of the investment policy, strategy and performance measures was prudent. In November 2019, the City released a Request for Quotes/Qualifications (RFQ) for investment consulting services. In January 2020, the City contracted Aon to work with City staff to review and make recommendations, as necessary, to amend the City's investment policy and practices.

Aon is a global consultancy focusing on investment advisor services, risk management, and insurance. Aon's engagement team included individuals with decades of investment advisory and municipal investment experience. The engagement was led and delivered by Chartered Financial Analyst's (CFA's).

The objectives of the review were:

- 1) Develop a governance structure that is responsive to changing market environments
- 2) Ensure the City's investment strategies are prudent
- 3) Manage risk while achieving appropriate returns
- 4) Ensure the City's Investment Policy is informed by industry best practices

The project included the following phases:

- 1) Municipal Investment Best Practices Survey
A survey was sent to 25 municipalities to gather information on the investment policies of a broad cross section of Canadian municipalities. Survey responses were impacted by the COVID-19 pandemic, but responses were received from ten cities as well as the Municipal Finance Authority of British Columbia.
- 2) Investment Scenario Modelling
Aon performed modelling of numerous portfolios based on historical risk and return data to illustrate the potential investment returns and associated risk the City could achieve in a fixed income only or prudent person approach to investing.
- 3) Final Recommendations
Aon presented a final report with their recommendations based on analysis of the City's investments, policies, Municipal Best Practices Survey, and investment scenario modelling.

Working with City staff, AON identified that the key objectives of the City's Investment Policy are as follows:

- Safety of Principal
- Liquidity
- Investment Returns

Each of these investment objectives is impacted by the investment approach employed by a municipality.

Governance

The City's investments are governed by Council through Schedule C of *The Regina Administration Bylaw, 2003-69*. Through the Bylaw, Council determines:

- 1) The types of investments the City can purchase
- 2) The minimum quality standards for investments
- 3) The minimum and maximum amounts of investment in asset classes
- 4) Prohibited investments

The Municipal Best Practices Survey indicated that cities generally use an Investment Committee that is responsible for implementing the strategy approved by Council, selecting investment managers, selecting appropriate performance benchmarks and administrative procedures for investment managers, and annual reporting to Council.

As part of the review, Aon recommended that the Executive Director, Financial Strategy and Sustainability form and chair an Investment Committee. Administration agrees and recommends that the Investment Policy include this authority to form an Investment Committee, and that the Executive Director and the Investment Committee invest the City's funds in accordance with the policy.

The Investment Committee will be responsible to oversee the investment accounts, set the investment objectives, ensure the investment strategic vision is maintained, and select and review the results achieved by the investment manager. The inaugural Committee will be made up of four City of Regina senior finance staff: Executive Director, Financial Strategy & Sustainability (chair), Director, Financial Services, Manager, Financial Analysis & Support, and Manager, Budget & Long-Term Financial Planning. The Committee will engage an external investment advisor to support the committee, as required.

Further, the Investment Committee will submit an annual investment report to Council on or before June 30 each year which will include the following:

- The rate of return achieved in the prior period for each account and combined portfolio;
- An analysis of the accounts and portfolio compared to relevant benchmarks;
- Any proposed changes to the policy.

The above are changes from the current Investment Policy which does not contemplate an

investment committee or annual reporting to Council. These changes provide enhanced public transparency.

Investment Management

The Municipal Best Practices Survey identified that most cities use a combination of external professional investment managers with some investment activities managed by City staff. The City has historically used this approach by investing in pooled bond funds managed by TD Emerald Pooled Funds, in conjunction with City staff managing the City's operating bank account and short-term investments such as guaranteed investment certificates (GIC's). The City will continue to use professional investment managers for the management of all investments other than GIC's. This requirement will be included in the Investment Policy.

Investment Time Horizon

The City has reserve funds and other investment funds with a variety of time horizons for their expenditure. As such, Aon recommended that the City create three accounts - short, mid, and long-term, each focusing on the three objectives for the City's investments to varying degrees. The long-term account has a larger focus on investment returns, while the mid and short-term accounts place greater emphasis on liquidity and preservation of principal. Administration recommends that the Investment Policy be amended to include a description of these three types of accounts and the investment strategy and investment time horizon of each.

The City's Financial Services Department prepares cash flow forecasting on a weekly and monthly basis, that determines the amounts that can be placed in each of the investment accounts. All funds required in the next three years would be placed in the short-term account. The composition of the proposed short-term account is outlined in the table below. The short-term account is the most conservative account and is designed to provide returns greater than inflation, protecting the purchasing power of the City's funds.

Asset Class	Minimum (%)	Benchmark (%)	Maximum (%)
Short-Term Corporate Bonds	40	70	80
Short-Term Government Bonds	0	0	20
Money Market Funds	20	30	40
Guaranteed Investment Certificates	0	0	40
Total Account		100	

The mid-term account is funded with the City's funds not required for three to five years. The goal for these funds is to provide a greater return than the short-term account, while still preserving principal and providing liquidity if changes in the City require accessing these funds sooner than the three-year to five-year time horizon.

Asset Class	Minimum (%)	Benchmark (%)	Maximum (%)
Equities			
Canadian Equities	5.5	7.5	10.5
Global Equities	12.5	17.5	22.5
Total Equities		25	
Alternative Investments			
Mortgages	7	10	13
Canadian Real Estate	2	5	8
Total Alternatives		15	
Fixed Income			
Mid-Term Corporate Bonds	25	30	35
Mid-Term Government Bonds	15	20	25
Money Market Funds	7	10	13
Total Fixed Income		60	
Total Account		100	

The long-term investment account is the most “return-seeking” component of the investment portfolio. Funds for expenditure in 5 years or more offer the City an opportunity to seek higher returns that can be used to fund operating and capital expenditures. The table below outlines the composition of the long-term account.

Asset Class	Minimum (%)	Benchmark (%)	Maximum (%)
Equities			
Canadian Equities	7.5	12.5	17.5
Global Equities	27.5	32.5	37.5
Total Equities		45	
Alternative Investments			
Mortgages	7	10	13
Canadian Real Estate	7	10	13
Total Alternatives		20	
Fixed Income			
Mid-Term Corporate Bonds	15	20	25
Mid-Term Government Bonds	10	15	20
Money Market Funds	0	0	10
Total Fixed Income		35	
Total Account		100	

Administration recommends that the Investment Policy be amended to include the above tables that include the minimum and maximum percentages and benchmarks for each of the short-term, mid-term and long-term accounts.

A key investment strategy recommended by Aon is the diversification benefits of adding

additional investment classes such as equities to the City's investment portfolio.

Diversification allows the City to increase the investment returns available to the City, while also reducing risk. Fixed income investments are considered low risk when compared to other types of individual investments, but even the safest of individual assets are riskier than a well diversified portfolio.

While the City is looking to increase investment returns, the City takes a conservative approach to financial management. As such, the account limits recommended are conservative in nature. The table below outlines the limits of the proposed long-term account in comparison with the Civic Employees Pension Plan. The table illustrates that the proposed asset mix is similar.

Asset Class	Minimum		Benchmark		Maximum	
	City	Civic Pension	City	Civic Pension	City	Civic Pension
Total Equity	35	30	45	40	55	50
Total Fixed Income	25	20	35	35	55	50
Total Real Assets	14	15	20	25	26	35

Permitted Investments and Minimum Quality Standards

It is recommended the following investments be permissible for investment of City funds, subject to the account limits listed in this report. To ensure no single investment causes excess concentration in any single entity, relevant restrictions are listed where applicable. It is recommended that the current Investment Policy be amended to include the restrictions outlined in the table below.

Investment	Description	Restrictions
Canadian & Foreign Equities	Common stock traded through a marketplace	No equity can represent more than 10% of the total portfolio The City may not own more than 10% of the voting shares of an entity
	Preferred Shares	Minimum rating of P-1 from a bond rating agency
Fixed Income & Mortgages	Bonds, notes or other debt instruments of Canadian issuers in Canadian dollars	Minimum credit rating of BBB or R1-Low for short term BBB bonds may not be purchased if the purchase would raise BBB holdings to

		more than 20% of the market value of the bond portfolio
	Mortgages on income-producing commercial property and multi-use residential properties in Canada	No more than 20% of the portfolio will be invested in commercial mortgages
	Term deposits and guaranteed investment certificates	Not applicable
	Asset-backed securities	Must have rating from at least two recognized bond rating agencies
	Treasury Bills issued by the federal and provincial governments and their agencies	Not applicable
	Commercial Paper and Term Deposits	Minimum credit rating of R1-Low
Real Estate	Investment in real estate through investment funds	Not applicable
Investment Funds	Institutional pooled funds managed by a professional fund manager	Not applicable

Additional Investment Policy Bylaw Changes

Additional changes to *The Regina Administration Bylaw, 2003-69* will include adding to the list of definitions required for the above changes.

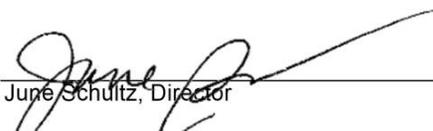
DECISION HISTORY

None with respect to this report.

The recommendations contained within this report require City Council approval.

Respectfully Submitted,

Respectfully Submitted,


June Schultz, Director 1/24/2021


Barry Lacey, Exec. Director, Financial Strategy & Sustainability 1/28/2021

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ATTACHMENTS

Appendix A - Investment Policy Changes