Finance + Facilities Committee Report BH.04.JUN1418R15
June 14, 2018

Report To: Finance + Facilities Committee, Board of Health
Submitted by: Dr. Nicola Mercer, Medical Officer of Health & CEO
Subject: INVESTMENT STRATEGY DIRECTION

RECOMMENDATION(S):

(a) That the Finance + Facilities Committee makes recommendation to the Board of Health to receive this report for information.

(b) That the Finance + Facilities Committee makes recommendation to the Board of Health to provide direction to staff regarding next steps.

BACKGROUND:

The Board of Health has reserves and reserve funds for various purposes, with balances in these reserves and reserve funds as of March 31, 2018 as follows:

Name	Type	Balance (March 31, 2018)
Guelph Facilities Reserve Fund	Reserve Fund	$1,542,288.33
Orangeville Facilities Reserve Fund	Reserve Fund	800,083.03
Reserve for Technology	Reserve	1,170,464.96
Reserve for Contingencies	Reserve	1,569,542.64
Reserve for Expanded Fluoride Varnish Program	Reserve	68,025.54
Total		**$5,150,404.50**

In addition to these reserves and reserve funds, Wellington-Dufferin-Guelph Public Health (WDGPH) maintains a liability for vacation pay owing to staff due to the accrue and then use policy (approximately $1.3 million), and there is a fluctuating balance in deferred revenue throughout the year depending on the timing of payments from funders (as at March 31st that balance was approximately $967K).

These funds are deposited in the Board of Health's bank account with TD Bank and currently earn interest at prime – 1.7%. TD Bank prime rate is currently 3.45%, so the interest earned on WDGPH deposits is 1.75%. Interest is calculated daily and paid monthly.

WDGPH currently has long-term debt payable totaling approximately $12 million with an interest rate of 3.34%.

The purpose of an investment policy and procedure would be to put the structure in place to enable the investment of WDGPH funds in order to increase investment income earned by the Board of Health while ensuring the preservation of capital.

PUBLIC HEALTH AND/OR FINANCIAL IMPLICATIONS:

Staff have sought answers to the following questions to provide information to the Committee to help inform direction on next steps:

1. Are health units allowed to invest funds?

   The *Health Protection and Promotion Act* does not address the issue of investment of funds.

   Section 4.5 of the Accountability Agreement between the Ministry of Health and Long-Term Care and WDGPH says that "if the Province provides the Grant to the Board of Health prior to the Board of Health's immediate need for the Grant, the Board of Health shall place the Grant in an interest bearing account in the name of the Board of Health at a Canadian financial institution." Section 4.6 of the Accountability Agreement goes on to say that "if the Board of Health earns any interest on the Grant, it must be reported. If interest income is not reported in the manner specified by the Province, 1% of the Board of Health's case flow may be withheld through future payments."

   Staff's interpretation of these sections are that surplus MOHLTC funds throughout the year may not be invested outside of an interest bearing account at a Canadian financial institution.

   Since public health legislation and provincial funding contracts do not address the investment of funds, and since obligated municipalities are significant funders for public health, the *Municipal Act* was reviewed to assess whether any sections apply to the investment of funds by public health units. Public health units are considered "local boards" of municipalities under the *Act*. Section 418 of the *Municipal Act* sets out the legal framework under which municipalities may invest funds, however investment of funds by local boards is not specifically addressed.

2. If allowed, what legislation must health units comply with in investing funds?

   Based on the review of legislation, outlined under question 1 above, it does not appear that investment of municipal funds by health units is disallowed. Staff have assumed that the provisions of the *Municipal Act* concerning investment of funds apply to local boards as well. Legal advice should be sought to confirm this interpretation.

3. What are the types of investments that are allowed under the legislation?

   Section 418 of the *Municipal Act* says that "A municipality may invest in prescribed securities, in accordance with the prescribed rules, money that it does not require immediately including:
   (a) Money in a sinking, retirement or reserve fund;
   (b) Money raised or received for the payment of a debt of the municipality or interest on the debt; and
   (c) Proceeds from the sale, loan or investment of any debentures."

Section 418.1 of the *Municipal Act* allows for the investment of funds not immediately required in any security, rather than prescribed securities by passing a bylaw to have this section apply to the municipality. It is staff's interpretation of the legislation that WDGPH is not eligible to elect to use Section 418.1 because it does not meet the eligibility criteria found in section 15 of Ontario Regulation 438/97 which specify minimum investible funds that are significantly higher than WDGPH's investible funds.

Eligible investments under section 418 of the *Municipal Act* are outlined in *Appendix "1"*.

These eligible investments can be roughly classified as follows:
- High interest savings account;
- Money market funds;
- Government bonds;
- Corporate bonds;
- Equities.

4. What are the potential risks and returns from each type of investment?

Investment risk can be broken down into sub-categories of risk, as follows:

Credit risk: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Interest Rate Risk: the risk associated with declines or rises in interest rates that cause an investment in a fixed-income security to increase or decrease in value.

Market Risk: the risk that the value of a security will rise or decline as a result of changes in market conditions.

Expert investment advice to better understand the potential risk and returns associated with each classification of investments and to gain an understanding of the Board's risk tolerance should be engaged if a decision is made to proceed with the development of an investment policy and procedure.

5. What external support would be required to manage the investment of funds on an ongoing basis?

External investment support requirements would depend on the classification of investments allowed under the Board's investment policy.

Some preliminary information has been provided at *Appendix "2"* on "The One Investment Program" as outlined below.

The One Investment Program is a professionally managed pooled investment portfolio associated with the Association of Municipalities of Ontario (AMO) in which many investors (municipalities and local boards) pool their idle cash to purchase securities. This is done through the purchase of units in the various investment portfolios as appropriate within the scope of each individual organization's investment policy, goals, and liquidity requirements. Investment earnings are generated when the securities held in the portfolio pay dividends, interest income, or increase in market value. This is not a recommendation for The One Investment Program or WDGPH's use thereof, simply a preliminary source of information to begin the discussion.

6. What investment fees would be associated with investing in the above classifications of eligible investments?

   Fees will vary based on who the Board decides to invest with, and what types of investments are made. As an example, the current annual fee schedule for The One Investment Program is as follows:

   Money Market Portfolio - 19 Basis Points
   Bond Portfolio - 40 Basis Points
   Corporate Bond Portfolio - 45 Basis Points
   Equity Portfolio - 60 Basis Points
   High Interest Savings Account – no fee paid by investor

   Note that 1 basis point is 0.01%. These fees are most likely low in comparison with other investment firms, but further research would be required if the Board chooses to proceed down the path of investment options.

7. What additional administrative work will be required internally for WDGPH to manage the investment of funds on an ongoing basis?

   A preliminary list of internal administrative work associated with investment of funds outside of the chequing account includes:
   - Development and maintenance of the Board's investment policy and procedure and operational policies and procedures related to investment management;
   - Development of internal controls for the investment program;
   - Forecasting cash flow needs and timing;
   - Communication with investment manager for transfers to and from investment accounts;
   - Reporting on investment performance (internally and to the Board of Health);
   - Reporting on compliance with investment policy and procedure;
   - Staying up-to-date on municipal investment legislation changes/requirements.

CONCLUSION:

Surplus MOHLTC funds throughout the year may not be invested outside of an interest bearing account at a Canadian financial institution which is currently in place.

The Board of Health needs to provide direction on which types of eligible investments outside of an interest bearing account at a Canadian financial institution that it wishes staff to further explore. This would also require a legal opinion confirming that section 418 of the *Municipal Act* applies to a Board of Health.

Understanding this decision and risk tolerance of the Board of Health will allow staff to determine the potential options and required external support, internal administrative work and the overall cost of this strategy.

APPENDICES:

Appendix "1" – Eligible Investments
Appendix "2" – The One Investment Program Performance Report – April 2018

REFERENCES:

N/A.

Original Signed Document on File

Prepared by:	Reviewed by:	Approved by:
Shanna O'Dwyer, Manager, Finance	Elizabeth Bowden, Interim Director, Administrative Services	Dr. Nicola Mercer, Medical Officer of Health & CEO

APPENDIX “1”

Eligible Investments

The following information is excerpted from Section 2 of Ontario Regulation 438/97: ELIGIBLE INVESTMENTS, RELATED FINANCIAL AGREEMENTS AND PRUDENT INVESTMENT:

The following are prescribed, for the purposes of subsection 418 (1) of the Act, as securities that a municipality may invest in:

1. Government bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an eligible entity as specified in the regulation.

2. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if it meets the criteria specified in the regulation.

3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by an eligible entity as specified in the regulation.

4. Bonds, debentures, promissory notes or other evidence of indebtedness, the terms of which provide that the principal and interest shall be fully repaid if issued or guaranteed by an institution listed in paragraph 3.1 of the regulation.

5. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments, the terms of which provide that the principal and interest shall be fully repaid more than two years after the day the investment was made if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 applies.

6. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a credit union or league to which the Credit Unions and Caisses Populaires Act, 1994 applies.

7. Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by eligible entities under the regulation.

8. Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.

9. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.

10. Securities that are arrangements for the sale of assets that entitle the purchaser to an undivided beneficial interest in a pool of assets.

11. Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.

12. Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.

13. Negotiable promissory notes or commercial paper, other than securities referred to in paragraph 7, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

14. Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

15. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the Electricity Act, 1998.

16. Any security if the municipality acquires the security as a gift in a will or as a donation not made for a charitable purpose.

APPENDIX "2"

The One Investment Program
PERFORMANCE REPORT – April 2018

The following are the performance statistics for all ONE portfolios as of the date noted above. This report is intended to serve only as information, providing average returns over the periods stated. Individual investor returns may vary according to investment time horizon. All returns stated are net of fees.

Money Market Portfolio: (Inception - May 1st, 1995)

Period Ending April 30, 2018:	Compounded Monthly					
Annualized Return - 1 month	1.48%	= (	1.45%	Income Earned) + (	0.03%	Market Impact)
Annualized Return - 3 months	1.42%	= (	1.37%	Income Earned) + (	0.06%	Market Impact)
Annualized Return - 6 months	1.16%	= (	1.11%	Income Earned) + (	0.05%	Market Impact)
Annualized Return - 9 months	1.08%	= (	1.03%	Income Earned) + (	0.05%	Market Impact)
Annualized Return - 1 year	0.85%	= (	0.85%	Income Earned) + (	0.00%	Market Impact)

Bond Portfolio: (Inception - March 1st, 1993)

Period Ending April 30, 2018:	Compounded Monthly					
Annualized Return - 1 year	-1.12%	= (	2.05%	Income Earned) + (	-3.17%	Market Impact)
Annualized Return - 2 year	0.08%	= (	2.11%	Income Earned) + (	-2.03%	Market Impact)
Annualized Return - 3 year	0.42%	= (	2.21%	Income Earned) + (	-1.80%	Market Impact)
Annualized Return - 5 year	1.09%	= (	2.40%	Income Earned) + (	-1.31%	Market Impact)
Annualized Return - Inception	4.34%	= (	4.67%	Income Earned) + (	-0.33%	Market Impact)
Non-annualized Growth Since Inception	191.39%	= (	215.61%	Income Earned) + (	-24.22%	Market Impact)

Universe Bond Portfolio: (Inception - August 8th, 2008)

Period Ending April 30, 2018:	Compounded Monthly					
Annualized Return - 1 year	-1.11%	= (	2.77%	Income Earned) + (	-3.88%	Market Impact)
Annualized Return - 2 year	0.77%	= (	2.75%	Income Earned) + (	-1.98%	Market Impact)
Annualized Return - 3 year	1.11%	= (	2.80%	Income Earned) + (	-1.68%	Market Impact)
Annualized Return - 5 year	2.30%	= (	3.01%	Income Earned) + (	-0.71%	Market Impact)
Annualized Return - Inception	4.03%	= (	3.49%	Income Earned) + (	0.54%	Market Impact)
Non-annualized Growth Since Inception	46.88%	= (	39.66%	Income Earned) + (	7.22%	Market Impact)

Equity Portfolio: (Inception - February 3rd, 2007)

Period Ending April 30, 2018:	Compounded Monthly					
Annualized Return - 1 year	1.80%	= (	4.98%	Income Earned) + (	-3.18%	Market Impact)
Annualized Return - 2 year	8.71%	= (	4.87%	Income Earned) + (	3.84%	Market Impact)
Annualized Return - 3 year	5.73%	= (	4.61%	Income Earned) + (	1.12%	Market Impact)
Annualized Return - 5 year	10.53%	= (	4.06%	Income Earned) + (	6.48%	Market Impact)
Annualized Return - Inception	6.85%	= (	2.83%	Income Earned) + (	4.03%	Market Impact)
Non-annualized Growth Since Inception	111.95%	= (	37.14%	Income Earned) + (	74.81%	Market Impact)

High Interest Savings Account (HIS 1.915% Payable for all deposits in month

Net Asset Value:

		Average Term	Average Duration (Option Adjusted)
HISA	$ 1,002,507,941.34		
Money Market Portfolio	$ 39,007,807.31	0.23	0.236
Bond Portfolio	$ 263,458,798.78	2.852	2.655
Universe Bond Portfolio	$ 252,256,731.06	6.953	5.505
Equity Portfolio	$ 311,063,086.66		
TOTAL	**$ 1,868,294,365.15**		