



DURHAM | FIFTY  
REGION | YEARS

# Prudent Investor Standard: Adoption and Next Steps

Finance and Administration Committee

Tuesday, April 9, 2024

# Agenda

- Path to Prudent Investor Standard
- Recommended Governance Structure
- Financial Considerations
- Next Steps
- Investment Policy Update
- Conclusion

# Path to Prudent Investor Standard (PI)

- On October 12, 2021, an information report on PI was provided to F&A Committee ([#2021-F-25 Eligible Investments & Portfolio Update](#))
- On March 1, 2023, Council instructed staff to investigate alternatives for transitioning to the PI Standard and assess its suitability for the Region's portfolio ([#2023-F-4 Investment Portfolio Update](#))
- On October 25, 2023, Council approved the adoption of the PI Standard and instructed staff to determine the most suitable governance structure, proceed with next steps as required and report back on status as feasible ([#2023-F-23 Prudent Investor: Options Analysis and Next Steps](#))
- Staff presented to Area Municipality Treasurers in November 2023 on options for adopting PI Standard and discussed opportunities to collaborate
- Staff conducted research and analysis with other municipalities and ONE Investment in late 2023 and early 2024

# **Recommended Governance Structure:**

## **Join ONE Joint Investment Board (ONE JIB)**

# Governance Structure Considerations

## Options

- i. Transition to PI and establish an independent Investment Board (IB);
- ii. Transition to PI and establish a Joint Investment Board (JIB) with one or more other municipalities (e.g., Durham Region JIB); or
- iii. Transition to PI and invest through an existing JIB (i.e., ONE JIB).



# Governance Structure Considerations (cont'd)

## Challenges of establishing an IB or JIB

- Complex, costly and extended implementation period
- May require Ontario Securities Commission (OSC) exemption required to invest on behalf of other municipalities
- Extensive support required from internal staff and external resources
- Inability to leave any JIB established by the Region
- Limited appetite for a “Durham Region JIB” amongst local area municipalities

# Governance Structure Considerations (cont'd)

## Merits of Joining ONE JIB

- Commitment to service excellence and responsible financial management
- Demonstrated leadership and collaborative role in the sector
- Enhanced diversification and opportunity to improve long-term returns
- Cost effective, efficient method for adopting PI with established JIB consisting of investment and municipal experts
- ONE JIB is an established PI solution, investing for municipalities since 2020
- Regional Treasurer expected to be appointed to the JIB in May
- Shorter implementation period and limited regulatory approvals
- Competitive fee structure across a range of investment products
- Collaboration with an Outsourced Chief Investment Officer (OCIO)
- Retain flexibility to investigate alternative governance structures in the future

# Governance Structure Considerations (cont'd)

## Outsourced Chief Investment Officer – PH&N

- ONE Investment undertook competitive process to identify OCIO
- PH&N is chosen as OCIO to act as a sub-advisor on behalf of ONE JIB
- PH&N has a competitive fee structure versus alternative service providers
- PH&N is one of Canada's largest asset management firms with 98 Canadian OCIO clients with over \$24.5B in Assets Under Management (AUM)
- PH&N invests on behalf of numerous municipalities in British Columbia
- Ability to leverage enhanced levels of dedicated staffing, external investment expertise and risk management capabilities
- Asset allocation study completed to assist in development of Region's asset mix and Investment Plan



# Financial Considerations

- Money Not Required Immediately (MNRI), or long-term funds, not required within three years, is estimated to be \$2.1B and will be managed by ONE JIB
- Money Required Immediately (MRI), or short-term funds, under three years, will continue to be managed internally
- MNRI will be recalculated at least annually to reflect regional priorities and operating requirements
- Estimated upfront and annual savings of \$2.0M and \$1.5M, respectively
- Estimated annual investment management and governance fees of 0.28%, offset by increased returns
- Investment management fees will increase with higher equity allocations and decrease as AUM achieves certain thresholds

## Next Steps

**If partnership with ONE JIB is approved, next steps would include:**

- Council approval of updated Investment Policy (April)
- Passage of irrevocable by-law to authorize adoption of PI (April)
- Approval by ONE JIB for the Region of Durham to become a participating municipality (May)
- Development of, and ONE JIB approval of, Investment Plan and Transition Plan (April/May)
- Regional Treasurer appointment to ONE JIB (May)
- Execution of required legal agreements to join ONE JIB (May/June)
- Confirmation of Prudent Effective Date (May/June)
- Transfer of long-term funds and/or investments to ONE JIB (Starting July)
- Development and execution of Communication Plan (April to Sept)

# Investment Policy Statement (IPS) update

- Defines and assigns responsibilities for investment of MRI and MNRI
- Requirements for transition to PI Standard
- Council maintains de facto control through the IPS
- Identifies objectives and risk tolerance for short and long-term funds to inform asset mix
- Establishes constraints to be observed by ONE JIB
- Required to review IPS at least annually, and update if required
- Reporting provided by ONE JIB at least annually to ensure compliance with IPS

# Conclusion

- Adopting PI Standard through ONE JIB is the most suitable governance structure for the Region
- Enhanced opportunity for diversification and potential for higher risk-adjusted long-term returns
- Customized asset mix based on regular review and update of Region's cash flow forecasting, risk tolerances, investment objectives and constraints
- Competitive fee structure given the size and complexity of portfolio
- Greater influence as a board member of ONE JIB
- Option open for a "Durham Region JIB" solution in the future but cannot move back to Legal List



# Thank You

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