



**STAFF REPORT
ACTION REQUIRED**

Joint Management of Move Ontario Trust’s Investment Portfolio between the City and the Region of York

Date:	January 18, 2010
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Cf\Ec10005cf (AFS #11172)

SUMMARY

This report requests authority to jointly manage the fixed income investment portfolio of the Move Ontario Trust (“MOT”) with the Region of York.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Corporate Finance Division staff be authorized to manage, jointly with the appropriate staff from the Region of York, the investment portfolio of the Move Ontario Trust.
2. The Deputy City Manager and Chief Financial Officer be authorized to negotiate and execute the agreements required with the Region of York and the Move Ontario Trust to implement Recommendation 1, and address the issues as set out in this report on terms and conditions satisfactory to the Deputy City Manager and Chief Financial Officer and the City Solicitor.
3. Investment management fees received by the City from the MOT be allocated to the City’s non-program interest/investment earnings account.

Financial Impact

The proposed investment management fees of \$225,000 per year plus 1.6 basis points (0.016%) of the average value of the portfolio will be paid to the City and the Region by the Move Ontario Trust. The proposed joint management of the portfolio is estimated to

save the MOT approximately \$561,000 for 2010 compared with the estimated cost of an external investment manager while providing the City with an estimated fee of \$184,500.

The estimated savings to the MOT will be realized by the City of Toronto and Region of York's capital accounts related to the construction of the Toronto-York Spadina Subway Extension as they are the only beneficiaries of the MOT.

DECISION HISTORY

The report contained in Policy and Finance Committee Report No. 7, approved by Council at its meeting on September 25, 26, and 27, 2006 "Proposed Spadina Subway Extension - Capital Cost Allocation between the City of Toronto and the Regional Municipality of York; and Appointment of Municipal Trustee for the Move Ontario Trust - Proposed Spadina Subway Extension". The report authorized the City to appoint a trustee and provided the authority for staff to negotiate the required agreements with the MOT.

BACKGROUND

The Move Ontario Trust was established as part of the 2006 Ontario Budget to administer and invest approximately \$670 million which the Province had committed toward the cost of constructing the extension of the Toronto York Spadina Subway Extension.

When the MOT was created, this amount represented one-third of the updated estimated capital cost of the project. Since then, the Province provided an additional amount of \$200 million to increase their participation to reflect the increased estimated cost of the subway project. As of November 31, 2009, the MOT held approximately \$912 million, net of interest paid out and funding of capital expenditures paid to date.

The MOT is administered and managed by three trustees, Mr. Cam Weldon, Deputy Manager and Chief Financial Officer, City of Toronto, Mr. Lloyd Russell, Commissioner of Finance and Treasurer, Region of York and Mr. Bruce McQuaig, Deputy Minister of Transportation for the Province of Ontario.

COMMENTS

During 2009, the Trustees contracted with an independent financial advisor to develop an investment strategy for the MOT's portfolio. Previously, the funds have been invested with a major Canadian chartered bank and were earning competitive rates of return until the Bank of Canada, in response to the recent economic recession, lowered short-term interest rates to very low levels. With the MOT having a projected life of six to seven years and with Government of Canada bonds currently yielding 3.10% for a seven year term, the advisor concluded that the Trust should employ more active investment management to earn a higher rate than is available at a bank while preserving its capital and maintaining the liquidity needed to meet the subway project's capital expenditures.

In order to implement the recommended investment strategy of using more active management combined with the matching of bonds to projected payouts, the investment advisor recommended that a professional portfolio manager be retained by the MOT at an estimated cost of 10 basis points (0.10%) per year or approximately \$900,000 for 2010.

The respective investment staffs of the City and Region were invited by the Trustees to review the investment advisor's report and provide their comments. While there was agreement with the advisor's recommendations pertaining to investment policies and strategy, it was felt that an external investment manager was not required as the City and Region are capable and qualified to assume the role of jointly managing the MOT's portfolio at a reduced cost. Also, if this recommendation was adopted by the Trustees, a lengthy and costly RFP process would be avoided and the advisor's investment recommendations could be implemented sooner.

The City manages a portfolio of approximately \$4.6 Billion and the Region manages \$1.2 Billion, both consisting of fixed income and money market investments. Both municipalities have consistently outperformed their investment benchmarks and have a depth of experience numbering over 25 years for several managers.

The City and Region prepared and presented a proposal to the Trustees to jointly manage the MOT's investment portfolio using a cost recovery management fee structure of \$369,000 per year or \$184,500 for the City's 50% share of the combined management fee.

Investment Manager	Fees to be Charged	Based Upon \$900 Million Portfolio
External Investment Manager	10 basis points (0.10%)	\$900,000
City and Region Combined	\$225,000 plus 1.6 basis points (0.016%)	369,000
MOT 2010 Savings		\$531,000

These proposed fees are estimated to save the MOT approximately \$531,000 during 2010 compared with the estimated cost of an external investment manager. Additional savings will be realized until the project is completed and all of the funds have been spent but the magnitude depends upon the size of the investment portfolio's average annual balances.

At its meeting held on November 26, 2009, the Trustees approved a joint proposal for the City and Region to act as the investment manager for the MOT.

In order to facilitate this proposal, two legal agreements need to be signed by the City, the Region and the Trustees of MOT. Currently, the investment management service agreement is in the process of being negotiated by the three parties and the investment management relationship agreement is also being negotiated by the City and the Region.

The first agreement defines the relationship between the City and the Region of York (as the "Manager") and the Trust agreeing to provide the investment management services.

The terms of the agreement address the following:

- Reference to the Investment Strategy agreed upon between the parties
- Reference to agreed upon performance benchmarks
- Basis for charging the Management Fee
- Services to be provided by the Managers
- Limitation of liability of the Region and City to the Trust to one year's annual management fee
- Ability of any of the parties to terminate the agreement with 90 days written notice

The second agreement, between the City and the Region of York, defines the working relationship, investment responsibilities and the sharing of liability between the two parties in providing joint management services. If the City and the Region were found to be negligent in the performance of their duties, the City's and Region's liability would be limited to the fees received from the MOT during the year.

CONTACT

Len Brittain, Director
Corporate Finance Division
Tel: 416-392-5380
Email: lbrittai@toronto.ca

Martin Willschick, Manager
Capital Markets, Corporate Finance
Tel: 416-392-8072
Email: mwillsch@toronto.ca

SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer