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MANAGEMENT OF MOVE ONTARIO TRUST INVESTMENT PORTFOLIO

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated December 18, 2009, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. Staff be authorized to manage, together with staff from the City of Toronto, the investment portfolio of the Move Ontario Trust.

2. The Regional Chair and the Regional Treasurer be authorized to execute any legal agreements necessary to effect this arrangement, subject to the review of legal staff, and other conditions outlined in this report.

2. PURPOSE

This report recommends that staff be authorized to jointly manage the investment portfolio of the Move Ontario Trust together with the City of Toronto.

3. BACKGROUND

The Move Ontario Trust was established to fund the Province's one third share of the Spadina Subway Extension costs

As part of the 2006 Ontario Budget, the Move Ontario Trust ("MOT") was created to administer approximately $670M of funds which the Province had committed toward the extension of the Toronto York Spadina Subway Extension ("TYSSE"). This amount represented one-third of the then estimated capital cost of the project.

In 2007, the Province deposited a further $200M to the MOT to top up its one third share based on the updated $2.6B estimate of the cost of the project as well as to bridge the funding gap resulting from the Federal Government's contribution being capped at $697M. In addition the Trust holds $75M from the Federal government which has been advanced from the Public Transit Capital Trust. As at the end of October, 2009 the MOT held approximately $912M after interest earned and expenses paid to date.

The three Trustees for the MOT are Lloyd Russell, Commissioner of Finance and Treasurer for York Region, Cam Weldon, Deputy City Manager and Chief Financial

Officer for the City of Toronto, and Bruce McCuiag, Deputy Minister of Transportation for the Province of Ontario.

The Move Ontario Trust is seeking an investment manager

Since its inception, the MOT's funds have been held at a major Canadian bank. However, during 2009, the Trustees contracted with an independent advisor to develop an investment strategy for its portfolio. This strategy will allow the MOT to earn a much higher rate of return than is being earned at the bank while meeting its primary investment objectives of preserving capital and maintaining the liquidity needed to fund the subway project.

In order to implement the proposed investment strategy, the MOT's independent advisor recommended that an investment manager be engaged at an estimated cost of at least 10 basis points per year, or approximately $1.9M over the life of the project.

4. ANALYSIS AND OPTIONS

The Region and the City have the necessary expertise to be the investment manager for the Move Ontario Trust at a lower cost than the marketplace

The Region and the City presently manage investment portfolios totalling nearly $6B (City of Toronto $4.6B, York Region - $1.2B) which are comprised of securities that are very similar in nature to those being proposed for the MOT. Of the municipalities reported upon by OMBI in 2008, York Region had the highest fixed income yield; the City had the 4th highest yield. Both organizations also have a depth of investment staff with over 25 years of investment experience.

The Region and the City have proposed to jointly manage the MOT's portfolio using a combined cost recovery management fee structure of $225,000 a year with an additional 1.6 basis points variable charge based on average portfolio value. This fee structure equates to about an average 7 basis point charge over the expected term of the portfolio. These proposed fees which are estimated to save the portfolio about $600,000 over the next four years and will allow more funding to be available for the subway extension.

At its meeting of November 26, 2009, the Trustees accepted the draft proposal from the City and the Region to act their investment manager.

Two Legal Agreements Need to be Signed

The Region and the City (the "Managers") have agreed to a framework for the management of the MOT's investments which involves the Region transacting the sales and purchases of investments, while the City will be principally responsible for recordkeeping and administration. Both municipalities will be responsible for recommending overall investment strategy.

A draft agreement for investment management services has been forwarded to the MOT for its review. The length of the agreement would be approximately four years.

The terms of the agreement include:

- 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

A second draft agreement regarding specifics has been discussed between the Region and the City. This agreement would also require any liability arising from the performance of these responsibilities to be equally shared between the Region and the City.

5. FINANCIAL IMPLICATIONS

If the Region and the City of Toronto act jointly as Manager for the Move Ontario Trust it is estimated the MOT could save a minimum of $600,000 in management fees over the next four years.

In the unlikely event the Managers were found to be negligent in the performance of their duties any liabilities to the Region would be limited to fees received from the MOT for that year - approximately $185,000. Additionally, this liability would be reduced to the deductible levels contained in the Region's insurance policies.

All additional costs and revenues for this management arrangement have been included in the Region's 2010 Budget.

6. LOCAL MUNICIPAL IMPACT

Facilitating the completion of the subway extension project will have significant positive implications for the City of Vaughan.

7. CONCLUSION

The Region and the City of Toronto are well placed to provide investment management services to the Move Ontario Trust. Savings to be realized from this arrangement can be used to offset capital project costs for the Spadina Subway extension.

For more information on this report, please contact Edward Hankins, Director, Policy, Risk and Treasury, ext. 1644.

The Senior Management Group has reviewed this report.