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UPDATE ON EQUITY INVESTMENTS THROUGH THE ONE FUND

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, September 5, 2006, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:
1. This report be received for information.

2. PURPOSE

This report provides an update on equity investments through the ONE Fund.

3. BACKGROUND

At its meeting held on June 22, 2006 Council authorized staff to consider equity investments when and if offered through the ONE Fund Group of Funds (the "ONE Fund") in accordance with the Investment Policy approved on May 25, 2006. However, the Commissioner of Finance was requested to provide an update on this matter at the Finance and Administration Committee to be held on October 5, 2006.

The ONE Fund is a group of investment funds jointly operated by the Local Authorities Service Limited (a subsidiary of the Association of Municipalities of Ontario) and by the CHUMS Financing Corporation (a subsidiary of the Municipal Finance Officers Association). It invests funds only in those securities that are permitted under the *Municipal Act*. The ONE Fund currently operates a money market fund and a short-term bond fund but is in the process of establishing two new funds – a corporate bond fund and an equity fund. All of these funds are or will be operated by highly qualified investment management firms. Each fund is or will be governed by a municipally focussed mandate and follow guidelines which adhere to provincial regulation.

The start-up date for the equity fund was originally anticipated to be the fall of 2006. However, ONE Fund management are still completing the process of selecting the new fund managers as well as setting the investment guidelines and appropriate performance benchmarks.

While the Region has indicated its interest in participating in the new equity fund, staff have not made any firm commitments to invest pending a final review.

4. ANALYSIS AND OPTIONS

Staff have had several opportunities to provide input and guidance in this matter. However, the selection of a suitable manager and the setting of investment guidelines and performance benchmarks will be the responsibility of the Advisory Board of the ONE Fund which is comprised of senior municipal financial officials including the Director of Policy, Risk and Treasury from the Region of York. Completion of this process is anticipated by the end of November 2006.

Prior to making any investments in the new equity fund, staff will ensure that the mandate and guidelines of the fund will meet the criteria that were identified in the report of the Commissioner of Finance to Council on June 22, 2006:

- All investments must meet statutory requirements for Ontario municipalities;
- Investments will be in predominately well-capitalized Canadian corporation;
- Investment will be mainly liquid and marketable;
- The fund will avoid over concentration in any particular sector, industry or individual company; and
- The managers will be required to report on portfolio holdings and performance at least monthly.

The Region's Investment Policy authorizes investments in both the equity fund and corporate bond fund up to a maximum of ten percent (10%) of its overall portfolio. Notwithstanding, it is anticipated that investments will only be made proportional to and at the same rate as long term contributions are made to reserve funds for capital asset replacement purposes will also be and dependant on portfolio performance and market conditions.

5. FINANCIAL IMPLICATIONS

Prudent investments in high quality Canadian equities will enable the Region to both diversify its portfolio holdings and enhance portfolio returns. Any excess returns derived from these investments will help reduce future funding requirements from tax and user rates.

6. LOCAL MUNICIPAL IMPACT

There is no direct impact on local area municipalities.

7. CONCLUSION

The ONE Fund has nearly finalized its guideline for the equity fund and is currently selecting its manager.

Prior to investing in the equity fund however, staff will ensure that its mandate, guidelines and performance benchmarks comply with government regulations and the objectives of the Investment Policy.

The Senior Management Group has reviewed this report.