
HALDIMAND COUNTY

Report CS-FI-10-2018 Investment Status and Hydro Legacy Fund Reporting – December 31, 2017



For Consideration by Council in Committee on June 5, 2018

OBJECTIVE:

To provide Council with information regarding the County's investment position, as at December 31, 2017, and to allocate any surplus or deficit exceeding \$100,000 to or from the Investment Income Stabilization Reserve, as well as to report on the Hydro Legacy Fund transactions for 2017, including accrued interest to be applied to that fund.

RECOMMENDATIONS:

1. THAT Report CS-FI-10-2018 Investment Status Report and Hydro Legacy Fund Reporting – December 31, 2017 be received;
2. AND THAT, in accordance with Section 3(b)(i) of the Hydro Legacy Fund Policy #2018-01, the weighted average market yield to maturity be set at 4.34% for the purpose of accruing investment interest earnings to the Hydro Legacy Reserve Fund for 2017.

Prepared by: Mark Merritt, CPA, CA, Treasurer

Respectfully submitted: Karen General, CPA, CGA, General Manager of Corporate Services

Approved: Donald G. Boyle, Chief Administrative Officer

EXECUTIVE SUMMARY:

The Municipal Act requires that the Treasurer present a report to Council on an annual basis with respect to the performance of the County's investment portfolio, in addition to other specifics as noted below. This report addresses the performance of the County's investment portfolio for the period January 1, 2017 to December 31, 2017. The total unaudited book value of the County's investment portfolio, as at December 31, 2017, is approximately \$170.9 million, which is comprised of \$78.9 million in fixed income investments, and \$92.0 million in growth/equity investments.

The County is required to report the carrying value of its investments (and investment earnings) based on the lower of cost or market, which means any accrued market gains are not reported as income unless the underlying investment is liquidated. "Realized" earnings means actual cash income from the investment which has been deposited with the County. "Market" gains, on the other hand, relate to the growth in the investment portfolio, but the gain has not been received since the investment was not liquidated. Upon review by the Investment Committee and with the assistance/advice of the County's investment manager, the County did not liquidate any of its growth portfolio in 2017. Therefore, cash interest earnings was only realized on the fixed income portfolio for 2017. The realized return on this portion of the portfolio was **3.13%** for 2017, or approximately **\$2.5** million of actual cash interest received by the County, net of applicable investment fees.

The County's net investment interest income is allocated annually as follows:

- Apportioned back to interest bearing reserve funds (including the Hydro Legacy Reserve Fund as outlined in CS-GM-02-2018 and described in more detail below) to help offset inflationary pressures when used to fund future expenses;
- Conversely, "funds" in a negative cash position (e.g. Community Vibrancy Fund (CVF), Development Charges) are charged "interfund" interest since we are internally borrowing from other "general fund" sources to cover that fund's expenses in advance of receipt of the related deposits;
- The remaining cash interest received in a calendar year is credited to the County's "general fund" and helps to reduce the annual tax levy. Historically, a budget of \$1.6 million in interest income is allocated to the "general fund". Any annual surplus/deficit in the general fund's realized interest income, greater than \$100,000, is to be funded from the Investment Income Stabilization Reserve as outlined in the County's Cash Management and Investment Policy.

On March 27, 2018, staff presented report CS-GM-02-2018 Hydro Legacy Fund Policy & By-law. Through that report, Council approved that interest be accrued on an annual basis to the Hydro Legacy Reserve Fund based on a weighted average yield to maturity, which would then be reconciled as longer term investments matured or were liquidated. The County's Investment Committee recently met with the CIBC investment manager to determine what an appropriate weighted average yield to maturity would be based on 2017 performance, as well as to set a projection for 2018. As a result of this analysis and discussion, it is proposed that a full rate of return of **4.34%** be allocated to the Hydro Legacy Reserve Fund for 2017. This is a weighted average of the 3.13% realized return (actual cash received, as noted above) and 2017 market growth of 5.37% on the equity portion of the investment portfolio that will not be realized until the investment is liquidated. This blended rate of return is viewed as conservative, particularly since it does not include increased market value since acquisition of the majority of this investment portfolio in 2016. Using the 4.34% earnings figure results in total interest earnings of approximately **\$3.24 million** being accrued to the Hydro Legacy Fund for 2017. The Investment Income Stabilization Reserve will be used to balance the accrual, as outlined in the Hydro Legacy Fund Policy. Even with such an accrual, it is expected that there will still be some significant gains in the investment return when the growth investments are liquidated in future years. This accrual approach will avoid such future "windfalls" due solely to timing, and will allow utilization of some of the earnings from the Hydro sale proceeds while preserving the principal.

CIBC has a team of advisors which have been managing the majority of the County's investment portfolio since the later part of 2013. This relationship began with the management of the County's bond portfolio, but has grown to involve a more comprehensive and diversified portfolio built upon a relationship of communication and monitoring that is based on CIBC's proven track record in the municipal investment market. Finance staff have regular communication with the CIBC team. The County's investment committee (consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Corporate Services and the Treasurer) meet at least semi-annually with the CIBC team to review the portfolio's performance. In addition, monthly internal investment performance reports are provided to the committee for monitoring. A projected weighted average yield to maturity of **4.88%** is proposed as a target for 2018. This 2018 rate will be what the County uses to benchmark actual performance during 2018.

BACKGROUND:

Legislated Investment Reporting

As provided for under the Municipal Act, the County can invest funds not required to meet current expenditures in accordance with prescribed restrictions and rules. Intended to preserve and protect the security of these public funds, Provincial regulations restrict the nature and term of eligible investments. These regulations require all municipalities to adopt a policy outlining its investment policies and goals. The County's "Cash Management and Investment Policy" (2001-11, amended in 2016) was enacted to meet the legislative requirements. The County's policy: describes the eligible investments and restrictions; establishes priority objectives of adherence to the statutory requirements; and balances liquidity and cash flow needs with a competitive return on the portfolio of investments. The Policy delegates the authority of control and management of these investments to the Treasurer, with reporting oversight by senior staff, as well as input and advice from the external investment manager.

The County's Investment Policy, as well as legislation, requires the Treasurer to present an investment report to Council on an annual basis. The investment report is to provide the following information:

- a statement related to the performance of the securities held in the investment portfolio;
- estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment;
- a statement by the Treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the County.

Staff also continue to indirectly communicate investment performance to Council on a semi-annual basis through the reporting of investment income in the Tax Supported Operating Budget Variance report and the Tax Supported Operating Budget document.

Furthermore, through CS-FI-08-2016 *RE: Investment Status Report and Investment Policy Update*, Council approved the establishment of an Investment Committee consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Corporate Services and the Treasurer. As per revised Policy No. 2001-11 *Cash Management and Investments*, the Investment Committee is mandated to meet *at least* semi-annually to review performance and obtain advice on future trends from the external investment manager. The Investment Committee met formally on two separate occasions in 2017.

The intent of this report is to meet the formal reporting requirements of the County's investment policy, as well as to provide Council with an indication of the market value of the investment portfolio.

It should be noted that recent legislative amendments have been enacted by the Province that have changed some of the eligible investment regulations as well as provided a framework for a "Prudent Investor" status. As these regulations are still in various stages of development or are not effective until January 2019, a future report to Council in 2019 will outline the changes and any recommended amendments, if any, to the County's current investment policy.

Hydro Legacy Reserve Fund

Staff Report CS-GM-02-2018 Hydro Legacy Fund & By-law was presented for Council's consideration on March 27th, 2018. In that report, it was recommended that the interest allocated to the Hydro Legacy Reserve Fund be based on the weighted average yield to maturity, not the realized income as is the practice for other interest bearing reserve fund accounts. As longer term investments mature or are liquidated, a reconciliation process will occur to ensure the interest allocated to the Hydro Legacy Reserve Fund is not materially over or understated due to timing. Based on the analysis of the 2017 returns, a weighted average interest earnings rate of 4.34% is recommended to be allocated to the Hydro Legacy Reserve Fund for 2017, as outlined in further detail below.

ANALYSIS:

Realized Gains/Investment Performance – 2017

This investment report reflects activity for the period of January 1, 2017 to December 31, 2017. The County's external investment portfolio is comprised of funds available from reserves, reserve funds and operating funds, as well as the proceeds from the 2015 Haldimand County Utilities Inc. divestiture, the net proceeds of which have been set aside by Council resolution into the Hydro Legacy Reserve Fund. A summary of the County's Investment Holdings, as of December 31, 2017, can be found in Attachment 1.

Provincial regulations establish the type of investments the County can hold, while the County's Investment Policy establishes limits for the allowable types of investments. As of December 31, 2017, the County's portfolio was comprised of holdings ranging from fixed income investments (daily money market instruments, long term bonds and debentures, as well as principal protected notes with an annual fixed income) and growth income investments (equity related principal protected notes). The total unaudited book value of the holdings, as at December 31, 2017, was \$170.9 million compared to a book value of \$149.2 million at December 31, 2016. The 2017 year end book value is comprised of approximately \$78.9 million in fixed income investments, compared to \$82.2 million in 2016, while the 2017 growth/equity year end book value is approximately \$92.0 million, compared to \$67.0 million at the end of 2016. Of the \$170.9 million 2017 year end investment portfolio balance, approximately \$77.5 million (45%) pertains to the monies held in the Hydro Legacy Reserve Fund.

In accordance with the requirements of the Municipal Act, in the opinion of the Treasurer, all investments held during 2017 were consistent with the investment policies and goals adopted by the County.

Fixed Income Performance - 2017

The fixed investment earnings, comparing 2017 to 2016, are summarized as follows, and are limited to the County's external investment portfolio so do not include any inter-fund interest allocation (i.e. allocation between operating fund, capital funds or reserve funds):

Table 1 – Fixed Income Investments

	2016 Audited Realized Income Returns				2017 Unaudited Realized Income Returns			
	Year End Book Value (million)	Percent of Portfolio	Realized Earnings	Average Yield (%)	Year End Book Value (million)	Percent of Portfolio	Realized Earnings	Average Yield (%)
Fixed Income Investments	82.16	55%	3,814,077	5.37%	78.87	46%	2,542,258	3.13%

Note 1 - Yields for individual holdings within each category above vary based on the timing of purchase and the maturity date.

Note 2 - Annualized average yield to December 31

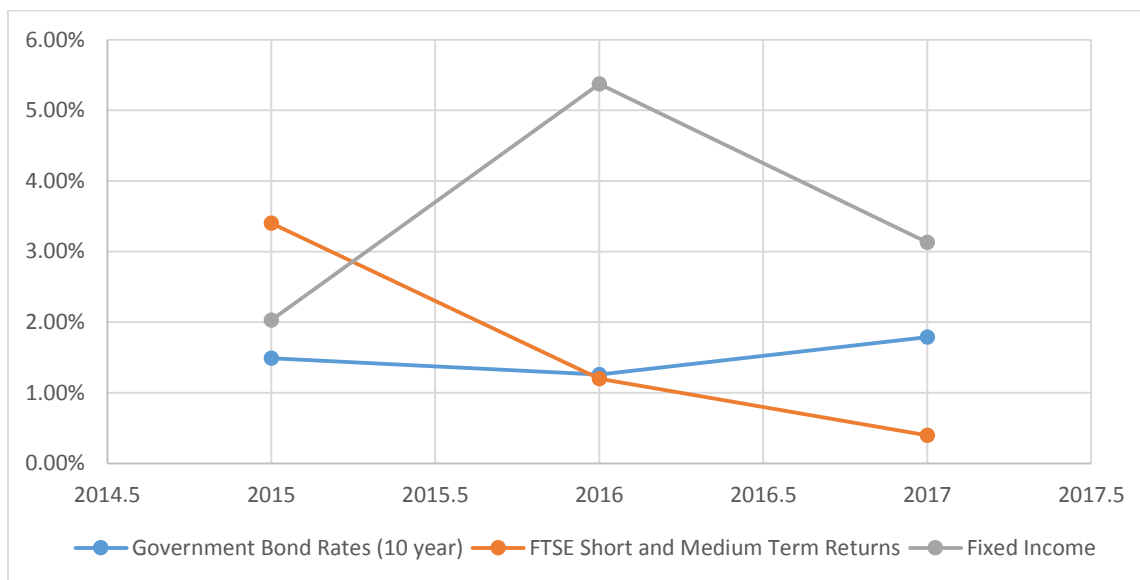
Note 3 – All earnings are net of investment fees

Short term investments included under Fixed Investments include cash. Cash is held under an interest bearing account that provides an interest rate of Monthly Average Prime (MAP) less 1.75% or 2.00% depending on the cash balance.

From Table 1 above, it can be seen that \$78.9 million of 46% of the entire investment portfolio was in fixed income investments in 2017, with actual cash realized earnings of approximately \$2.5 million, or 3.13%. The remainder of the County's \$170.9 million portfolio is held in growth/equity investments, as outlined in Table 2. It should be noted that in 2016, the County realized substantial income from liquidating a strip bond that it had held for quite some time, thus resulting in a larger than average yield for 2016 of 5.37%. Despite not having such a maturity in 2017, last year's average yield of 3.13% was also strong, particularly compared to related benchmarks, as discussed below.

The chart below compares the County's actual annual return pm the fixed income portfolio to the benchmark of the Bank of Canada 10 year Government bond rates and the Financial Times Stock Exchange (FTSE) short and medium term returns (the FTSE short term and mid term index has bonds up to 10 years). This shows that Haldimand's realized investment income is positive in 2017, despite not having any large liquidations of any of the portfolio.

Chart 1 – Fixed Income Portfolio Comparison to Benchmarks



Market Growth/Performance – 2017

Market growth/performance relates to growth in the value of the investment portfolio, but the gain has not been received since the investment was not liquidated or did not mature. The following table displays the market growth in the County's investment portfolio between December 31, 2016 and December 31, 2017:

Table 2: 2017 Market Growth

	2016 Market Growth				2017 Market Growth				
	Opening Balance (million)	Ending Balance (million)	Market Growth (million)	Market Return	Opening Balance (million)	Market Growth (million)	Transfers between Fixed/Growth (million)	Ending Balance (million)	Market Return
Growth/Equity Investments	67.90	72.90	5.00	7.37%	72.90	3.68	25.00	101.59	5.05%

As the conditions for higher returns in the long term were presumed to be greater in the growth market, the Investment Committee, with the advice of CIBC investment managers, moved approximately \$25 million from the fixed income market to the growth market in late 2017, as shown in Table 2 above. This resulted in the large increase in the growth/equity investments at the end of 2017 (all decisions made were in line with the Council approved Investment Policy).

It is critical to note that the market growth shown in the table above has not been realized (cash not yet received) as the related investments have not matured, thus creating the return. Significant cash inflows are expected in future years when any of the individual notes comprising this portion of the investment portfolio are liquidated.

Attachment #2 provides more detail on the investment portfolio performance for 2016 and 2017, along with a projected yield for 2018. This is the rate that the County will use to benchmark actual performance during the year. Given that 2017 is the first year of accruing for market yields for the Hydro Legacy Reserve Fund, establishing a benchmark rate for this purpose will help avoid significant reconciliations in future years.

Historical Tax Supported Investment Income

The annual operating budget for the unallocated interest income from the County's investment portfolio has remained constant over the past five years at \$1.6 million. The actual investment returns experienced significant deficits prior to 2015 (ranging from \$440,000 to \$360,000 between 2013 and 2014), in large part due to the low interest rate environment during those years. With the doubling of the investment portfolio in 2015, due to the Hydro sale proceeds, the County realized a more diligent approach was needed to achieve greater interest income. To help manage the portfolio and generate larger returns, the County moved to an external investment management team, CIBC, that the County began to see a turn around in investment income (more information provided later in this report).

There are a number of factors that come in to play when analyzing the performance on the County's investment portfolio. These factors include:

- **liquidation**: In order for the County to meet its short term cash obligations, a critical characteristic of the investment portfolio is the existence of liquidity. This limits the County's ability to invest more of its portfolio in longer term, higher yielding instruments;
- **market conditions**: Similar to all investors, the County's investment portfolio may be affected, either positively or negatively, by the market conditions at any given point in time. For example, in 2015 and 2016, the County liquidated some of its bond holdings and, due to market conditions, realized a fairly significant amount of investment income. It should be noted that these were older stripped bonds with a higher yield. The current bond market is not performing at the same level as it was back when these bonds were purchased, and therefore it can be reasonably expected that similar returns in this aspect of the County's portfolio are unlikely to occur again in the near future – which was the case in 2017;
- **timing**: An important aspect to take into account when examining the performance of the County's investment portfolio is timing. Given the magnitude of the portfolio, particularly since the sale of Haldimand County Hydro, the County relies heavily on its external investment manager, CIBC, to keep abreast of the market conditions. The County's Investment Committee meets at least semi-annually with CIBC to ensure the County's resources are being managed effectively and that the portfolio is achieving the best returns possible.

Additional Background Information on External Investment Manager

In late 2013, the County obtained investment management services from CIBC. Given the size of the investment portfolio at the time, as well as the pending increase in available funds from the sale of Haldimand County Hydro, staff determined it was prudent to utilize an external investment management team as the County did not have the in-house resources and expertise to manage such a large investment portfolio. This allowed staff to deal directly with one broker and better manage cash flows and timing of transfers in and out of our investment portfolio.

When the County received the proceeds from the sale of Haldimand Hydro, the available investment portfolio nearly doubled to over \$145 million. This precipitated a review of the County's portfolio mix, eligible investments and use of external fund managers. County staff met with several investment fund managers (current CIBC manager, Association of Municipalities Ontario (AMO)/Local Authority Services (LAS's) One Investment Program, TD Wealth Private Investment, BMO Nesbitt Burns, Raymond James and Meridian Credit Union) to review their product mix offerings and projected market returns. Both CIBC and the One Investment Program made formal presentations to the now formally established "Investment Committee". Based on this review, available products and proposed portfolio mix, it was recommended to continue to utilize CIBC and to move to a more balanced investment mix, which included making investments into Principal Protected Notes (PPNs) – both Fixed Income and Equity.

The recommended portfolio mix required the current Investment Policy to be updated and approved by Council in the spring of 2016. The main revisions to the County's policy were as follows:

- Authorized Investment Limits/Mix and Individual Issuer Limitations
- Ability to Invest in the *One Investment Program* to allow for investment in Canadian Bonds and Equities
- Provision for establishment of an Investment Income Stabilization Reserve
- Establishment of an internal investment committee, consisting of the Mayor, Chief Administrative Officer, Chief Financial Officer/General Manager of Corporate Services and Treasurer
- Requirement to report annual investment returns in comparison to selected benchmarks

When considering the need for a secure, yet attractive return, from the investment of public funds, some of the key features of CIBC deposit notes (PPNS) include:

- Capital Preservation – 100% principal protection at maturity with CIBC issuer guarantee
- Diversification – Can be linked to a variety of asset classes including equities
- Enhanced Income and/or Growth Potential – can be designed to generate minimum guaranteed returns, enhanced income or long-term growth potential
- Asset/Liability Matching – Ensure the availability of sufficient capital to meet future funding obligations over defined time horizons
- Liquidity – Daily secondary market (which could result in a value above or below par if the Deposit Notes are liquidated prior to maturity.)

Some additional factors that led to the selection of CIBC as the portfolio manager were:

- a) CIBC has a track record of investment expertise including:
 - they have the longest running secondary market for Structured Notes in Canada and their secondary market has been open every day since the notes program began, with the exception of September 11, 2001;
 - they issued their first Structured Note in 1994 and have originated more than \$20 billion in notes to date;

- they were named Canada Derivative House of the Year (the 2014 & 2015 Global Capital Derivatives Awards);
 - #1 in Structure Products Market Share (Brendan Wood International 2015 Investment & Corporate Banking World Watch).
- b) The team at CIBC offers a number of key services that prove them to be the best fit with the County, at this time:
- Specialization in the development of municipal investment products that are tailored to specific market views and risk tolerances;
 - The ability to invest in principal protected notes (PPNS) that not only improve portfolio diversification, they provide full principal protection at maturity. They may also generate higher potential return than traditional fixed income investments;
 - CIBC Deposit Notes combine key fixed income and equity investments. They rank equal to CIBC bank deposit and qualify as eligible investments under the Municipal Act.

Although the revised investment approach is still relatively new, staff are very satisfied with both the performance to date and the services provided by CIBC. Regular internal reporting and meetings with the external advisors will ensure that the investment portfolio is meeting the County's objectives.

Hydro Legacy Reserve Fund Reporting:

Section 3(e) of the Hydro Legacy Fund Policy #2018-01 outlines the reporting requirements related the Hydro Legacy Fund.

Under this section of the Policy, the Treasurer is required to report to Council, at least annually, on the financial position of the Hydro Legacy Fund. This report must:

- Review the investment performance and earnings related to this Fund, including market versus realized gains/losses, as well as a reconciliation of actual to accrued earnings from prior periods;
- Outline the recommended benchmark interest rate for accruing of investment income to this Fund for the coming year;
- Provide an accounting of all transactions, with specific details, affecting this Fund;
- Outline any transactions affecting the litigation allowance (originally set at \$7 million);
- Outline the projected maximum amount of investment earnings that could be considered for use in the upcoming budget, based on the priorities and parameters stipulated in the Policy; and
- Include any other information pertinent to the Hydro Legacy Fund as deemed appropriate.

Section 3(e) also stipulates that Haldimand County's website will contain a section devoted to the Hydro Legacy Fund where the public may access:

- Information regarding the Hydro Legacy Fund Policy;
- Any associated reports, including the above-noted Treasurer's financial reports;
- Notice of projects funded by the Hydro Legacy Fund, with a focus on promotion and awareness of such benefit;
- Public notice of any meeting whereby users of the Hydro Legacy Fund or changes to the Hydro Legacy Fund Policy will be considered; and
- Any other relevant information.

The information noted above will also be publicized through the County's social media network, as well as in local newspapers, and specific signage at capital project locations, as deemed appropriate.

An unaudited statement showing all of the transactions affecting the Hydro Legacy Fund, to the end of 2017, is presented as Attachment 3 of this report.

FINANCIAL/LEGAL IMPLICATIONS:

As noted in Table 1, actual cash investment earnings realized in 2017 amounted to **\$2,542,258** (unaudited.) The allocation of this cash income is as follows:

Interest bearing reserve funds (excluding Hydro Legacy Reserve Fund)	\$ 0.6 million
Hydro Legacy Reserve Fund interest (earned)	\$ 1.1 million
Interest expense charged on unfinanced capital	\$ (0.13 million)
Interest expense charged on CVF timing deficit	\$ (0.41 million)
General Tax Supported Interest Income (remaining balance)	\$ 1.46 million

Some of the significant factors affecting the above include:

- Strong results in the County's fixed income portfolio
- No liquidation in the County's equity/growth income portfolio
- The allocation of interest earnings to various interest-bearing reserve funds at a rate equal to the average investment earning

General Tax Supported Interest Income

The 2017 interest income related to the County's general fund (unallocated) was budgeted at \$1,600,000 (including inter-funding), whereas this fund's share of the remaining balance equated to \$1,445,862 (per above) leaving an overall projected deficit of \$154,138. It should be noted that this actual cash interest income is realized only on the fixed income portion of the portfolio, meaning it does not reflect any market earnings which can be expected in future years, given that over 50% of the portfolio is in growth/equity investments.

The Investment Policy requires variances in investment earnings, greater than \$100,000, to be transferred to or from Investment Income Stabilization Reserve so a transfer of approximately \$54,000 will be made in 2017. The purpose of this reserve is to mitigate the impact of annual fluctuations in investment returns, particularly due to the timing of liquidating the growth/equity investments.

Hydro Investment Earnings

Through CS-GM-02-2018, Council approved the Hydro Legacy Fund Policy. Contained in this Policy is the requirement for market earnings to be accrued to the Hydro Legacy Reserve Fund based on an average weighted yield to maturity, starting in 2017.

The annual market yield to be accrued to the Hydro Legacy Reserve Fund is to be determined by the Investment Committee, with advice from the external investment manager. Based on these requirements, the Investment Committee met with the external investment manager and determined that a weighted average yield to maturity of **4.34%** should be accrued to the Hydro Legacy Reserve Fund for 2017. This results in a total interest allocation of \$3,235,970 for 2017 – of which \$1,104,283 is Hydro's share of the realized income and \$2,131,687 is to be accrued and later reconciled as the related growth income matures or is liquidated (as per the terms of the Hydro Legacy Fund Policy).

The accrued income allocated to this Fund will be offset by the Investment Income Stabilization Reserve. The Draft 2017 Hydro Legacy Fund Statement can be found in Attachment 3 of this report. As noted in this statement, many of the growth portfolio investments were purchased in early 2016 and only the realized investment income from liquidated investments was recognized in 2016. As a result, any accrued market growth on these investments from initial purchase in 2016 will be recognized in future years when these investments are either liquidated or they mature - the recording of which will be part of the annual interest reconciliation process.

Investment Income Stabilization Reserve

Currently, the Investment Income Stabilization Reserve is utilized for two key functions: to smooth out any annual surplus/deficit in the realized investment income in excess of +/- \$100,000, and to allow for the allocation of accrued interest to the Hydro Legacy Reserve Fund, which is then reconciled as longer-term income is realized, as per the terms of the Hydro Legacy Fund Policy.

As at December 31, 2016, there was a favourable balance in the Investment income Stabilization Reserve of \$453,100. Based on the information presented within this report, the estimated balance of this reserve at December 31, 2017 is anticipated to be approximately (\$1,732,725), as outlined below:

2017 Unaudited Investment Income Stabilization Reserve Balance:

Opening balance, January 1, 2017	\$453,100
Less: Investment income deficit in excess of \$100,000	(\$54,138)
Less: Accrued income allocated to Hydro Legacy Fund	(\$2,131,687)
<u>Ending Balance, December 31, 2017</u>	<u>(\$1,732,725)</u>

Though the balance is currently projected to be in a negative position, under the terms of the Hydro Legacy Fund Policy, as the County's longer term investments mature or are liquidated, the annual accruals associated with the Hydro Legacy Fund are to be reviewed and reconciled. Over time, it is anticipated that there will be significant positive contributions to the Investment Income Stabilization Reserve as these longer time investments mature.

Growing Communities Fund

At the March 27 Council in Committee meeting, the following Recommendation was passed with respect to the Establishment of the Growing Communities Reserve Fund:

Recommendation #5:

AND THAT the Growing Communities Reserve Fund be interest bearing and funded by transferring the remaining uncommitted balance as well as any future related transfers from new CVF agreements to the 20% Unallocated component of the Community Vibrancy Fund, along with an annual transfer of \$750,000 from the Hydro Legacy Fund's investment earnings generated by the sale of Haldimand County Hydro, conditional on being compliant with Section 3(c) (ii) of the Hydro Legacy Fund Policy.

Section (c) (ii) of the Hydro Legacy Fund Policy states that any contributed amount towards the cost of major assets/infrastructure that benefit Haldimand County cannot exceed 60% of the prior year's net investment earnings (realized and unrealized), after deducting the sum first needed for inflation protection. The \$750,000 noted in the recommendation above is compliant with the items of the Hydro Legacy Fund Policy, so the transfer from the Hydro Legacy Reserve Fund to the Growing Communities Fund is able to be made in 2018.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: No

By-law: No

Budget Amendment: No

Policy: No

ATTACHMENTS:

1. Summary of Investment Holdings as of December 31, 2017
2. Investment Portfolio Performance: 2016, 2017 and 2018 Yields
3. Draft Hydro Legacy Reserve Fund Statement