SUBJECT: Restructuring of City Investments (FCS07084) (City Wide)

RECOMMENDATION:

That report FCS07084 “Restructuring of City Investments” be received for information.

EXECUTIVE SUMMARY:

BACKGROUND:

Refer to Financial/Staffing/Legal Implications.

ANALYSIS/RATIONALE:

N/A

ALTERNATIVES FOR CONSIDERATION:

N/A
FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

With the recent volatility in the Canadian investment market, short-term Asset Backed Commercial Paper halted trading due to an investment pool not being able to refinance its' product. Deutsche Bank, a highly rated bank, did not honour a credit call from Coventree, an administrator of several asset backed commercial paper pools. While the underlying assets backing these securities continue to be highly rated, they are of a longer term nature rather than short-term. This has created a short-term liquidity issue in the market place.

Asset-Backed Commercial Paper, which is sold by Canadian and Foreign Banks, is the largest segment of the Canadian Commercial Paper Market (30%). These securities are rated R1-High which is equivalent to AAA by the DBRS, a Canadian Rating Agency and were added as a permitted investment by the province several years ago.

National Bank, along with several other financial institutions and the majority of the investors, are proposing to restructure these securities into longer term securities over the course of the next sixty days. The notes will continue to accrue interest and become a new rated security likely with credit rating and marketability. There is significant interest being expressed to purchase these notes upon restructuring by investors. This restructuring will re-establish stability in the market place.

The City currently has $97.6 million in Asset-Backed Commercial Paper in our investment portfolio which totals approximately $740 million. Since the City’s bond portfolio is currently under invested, the conversion of these securities into longer term notes can be accommodated within our policy guidelines. In addition, the other holdings are highly liquid, in nature, and therefore the City’s short-term cash flow needs can be accommodated.

POLICIES AFFECTING PROPOSAL:

City’s Investment Policy.

RELEVANT CONSULTATION:

N/A
CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. □ Yes ☑ No

Environmental Well-Being is enhanced. □ Yes ☑ No

Economic Well-Being is enhanced. ☑ Yes □ No

Does the option you are recommending create value across all three bottom lines? □ Yes ☑ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? □ Yes ☑ No