Hello,

The purpose of my delegation is to recommend that the City of Hamilton pursue a project to seek provincial funding to create a financial enterprise to offer fund management services to Ontario municipalities in competition with the services offered by the major banks.

Currently, the City of Hamilton has over $600 million in financial reserves under management and across the province there is approximately $8 to 9 billion of municipal reserves under management. While this is a considerable sum of money it is a small part of the total business fund managers undertake. For instance, each of the two services providers for the City of Hamilton has over $1 trillion under management.

The city pays a fee of 2% of the total portfolio each year for the service. While 2% is a standard fee, in markets where there is more competition, it is usual for the fee to be reduced based on the size of the portfolio under management. For instance, in personal wealth management, it is usual to be able to negotiate a fee of 1% or .5% for portfolios over $1 million.

I've had market participants relate to me in the past that the contribution to overhead from their operations is 75 to 80%. Meaning, the banks are able to provide the service for 20 to 25% of the fees generated by the business. There is significant room for savings should more competition bring down the fees charged for the service of fund management. A target price of 1% of portfolio would realize a $6.5 million savings for the City of Hamilton and close to $90 million province wide each and every year going forward.
Reviewing the performance of fund managers show that outside of the period influenced by the ABCD issue, performance is within 0.2% suggesting the intellectual capital necessary to generate competitive returns is widespread enough in the industry to allow some of it to be recruited to a new enterprise.

While not the simplest of projects, at first glance there is nothing to suggest it would not be feasible and given the desire of municipalities to have more funding for infrastructure and the fiscal circumstance of senior levels of government, a project that could realize a $100 million per year benefit for a likely one-time investment of $25 million ought to be well received by the province. I hope you agree that such a project is worthy of further investigation by staff.

Thank you,

Keith M. Beck

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