

# Information Report



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Service Area	Corporate Services
Date	Friday, August 28, 2020
Subject	<b>2020 Interim Investment Performance Report</b>

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## Executive Summary

### Purpose of Report

To report on the interim 2020 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act and City Council's approved Investment Policy.

### Key Findings

The carrying value of the total investment portfolio as of June 30, 2020 is \$387.9 million, plus cash holdings of \$84.9 million for a total of \$472.9 million. The market value of the total investment and cash holdings as at June 30, 2020 is \$479.4 million.

Total investment income as of June 30, 2020 is \$4.9 million, which includes interest earned on investments and cash of \$4.3 million and \$600 thousand in capital gains and other revenue. This is a decrease of \$1.2 million from the investment earnings recorded as of June 30, 2019 and represents an average rate of return of 2.37% (December 31, 2019: 2.45%).

The City has managed its investment portfolio in accordance with Ontario Regulation 438/97 of the Municipal Act and in accordance with City Council's approved Investment Policy with the exception of the amount invested in Schedule I banks which is currently at 76.2% (maximum of 75% per the approved Investment Policy); approximately \$3.5 million of the \$360.4 million invested in Schedule 1 Banks is invested in long-term Principal Protected Notes to which return is linked to the equity markets, lending some diversity within this classification. This reflects the availability and attractiveness of interest rates on bank Guaranteed Investment Certificates (GICs) versus provincial and municipal bond offerings in 2020 to date.

In March 2020 the Bank of Canada cut its Policy Interest Rate three times, by 0.5% each time, taking the target percentage from 1.75% down to 0.25%. The rate has remained at 0.25% since March 27, 2020. This has driven borrowing rates down significantly and as a result, the rates of return available to municipal investors through the provincial and municipal bond market. Over the last several months Canadian banks have experienced significant excess liquidity and as a result the rates available on principal protected investments (GICs, Term Deposits) have also decreased significantly.

The outlook for return on investment is poor for the short to medium term as rates are expected to stay low for the foreseeable future. Staff continue to be innovative in order to diversify the City's investment portfolio including increasing contributions to the One Fund portfolios, and beginning investigations into the expanded investment opportunities available through the Prudent Investor Standard.

## **Financial Implications**

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increases the value of reserve funds used to finance future expenditures.

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## **Report**

### **Details**

Ontario Regulation 438/97 of the Municipal Act requires a municipality to adopt a statement of investment policies and goals and requires an investment report to be provided to Council at least annually. This report has been prepared in compliance with this regulation.

The primary objectives of the investment policy are as follows:

- Adherence to statutory requirements
- Preservation of capital
- Maintaining liquidity
- Earning a competitive rate of return

Provincial legislation requires that the Treasurer submit an investment report to Council each year, or more frequently as specified by Council. The City's current investment policy requires a report on the financial position, investment performance, market value, and compliance status of the portfolio at least twice per year.

### **Definitions**

**Carrying Value:** Also called book value. This is the portion of an asset's value not depreciated. Carrying value is not market value, which is determined by market forces such as stock prices.

**Market Value:** The current price at which a security can be sold.

**Face Value:** Also called par value; the value of a bond or another type of debt instrument at maturity.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.

### **Statement of Performance**

The investment and cash positions of the City are as follows:

Classification	Carrying value as of June 30, 2020	Carrying value as of June 30, 2019
Long-term	\$214,584,424	\$148,008,627
Short-term	\$173,340,275	\$147,096,250
<b>Total Investments</b>	<b>\$387,924,699</b>	<b>\$295,104,877</b>
Cash	\$84,931,907	\$111,344,208
<b>Total Cash and Investments</b>	<b>\$472,856,606</b>	<b>\$406,449,085</b>

As at June 30, 2020 the carrying value of the investment portfolio is \$387.9 million plus cash holdings of \$84.9 million, totaling \$472.9 million. Interest earned on cash and investments as of June 30, 2020 is \$4.9 million, a decrease of \$1.2 million from the first six months of 2019. This computes to an average rate of return of 2.37% (June 30, 2019: 2.41%). As of June 30, 2019 investment income is at 57% of the annual budget; however, earnings are expected to decrease in the second half of the year given the decline in interest rates over the past several months. We therefore estimate that there will be a negative variance of approximately \$500 thousand in investment income at year-end.

The market value of the total cash and investments portfolio as at June 30, 2020 is \$479.4 million (June 30, 2019, \$409.5 million). The City's investment portfolio as at June 30, 2020 is provided in the Investment Portfolio by Issuer (Attachment-2) and the Investment Portfolio by Security (Attachment-3).

### **Cash Activity**

Throughout 2019 the Bank of Canada's Policy Interest Rate remained stable at 1.75%, however in March 2020 the rate was reduced by a total of 1.5% (three reductions of 0.5% each) to 0.25%, which has remained the rate since March 27, 2020.

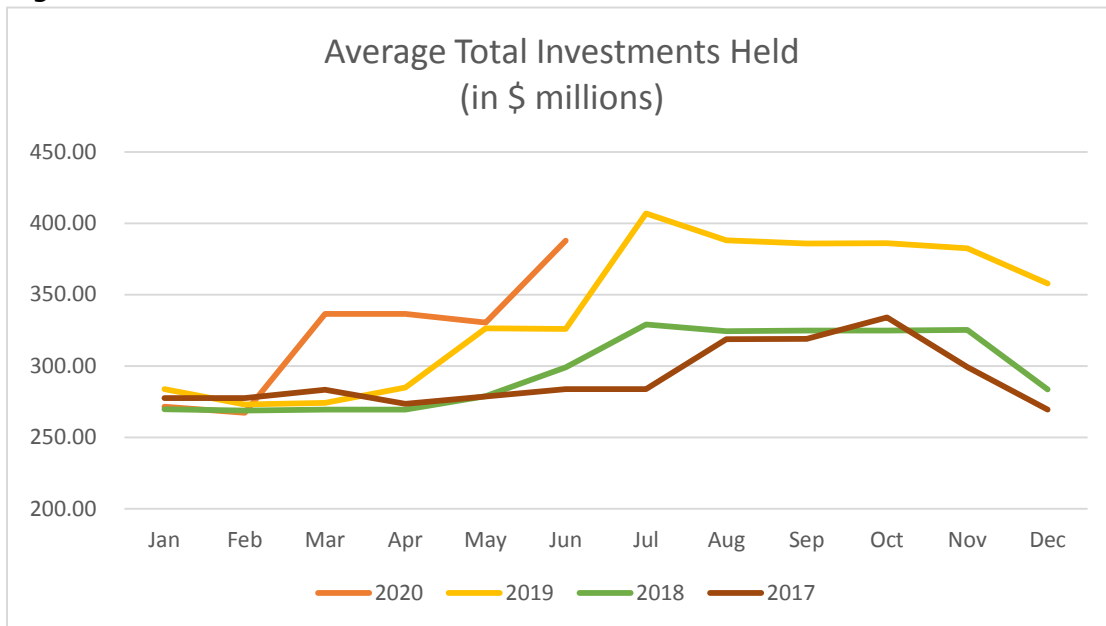
Rate increases and decreases have a significant impact on the City's interest earned on cash balances, as the Policy Interest Rate drives bank prime rates and interest on cash balances is linked to prime.

Of the \$84.9 million in cash as of June 30<sup>th</sup>, \$19.4 million is in the high interest savings account with The One Investment Program. A further \$30.0 million was transferred to that account in early July as these funds will be required later in the year and the interest rate on this account is higher than what is currently available in the short-term GIC market.

### **Investment Portfolio**

Consistent with the trend year-over-year, the City typically builds cash and investments throughout May to October when property tax revenue is received; balances then decline in the last quarter as funds are required for capital and operating needs. Figure 1 shows the average investment portfolio by month (excluding cash holdings) over four years.

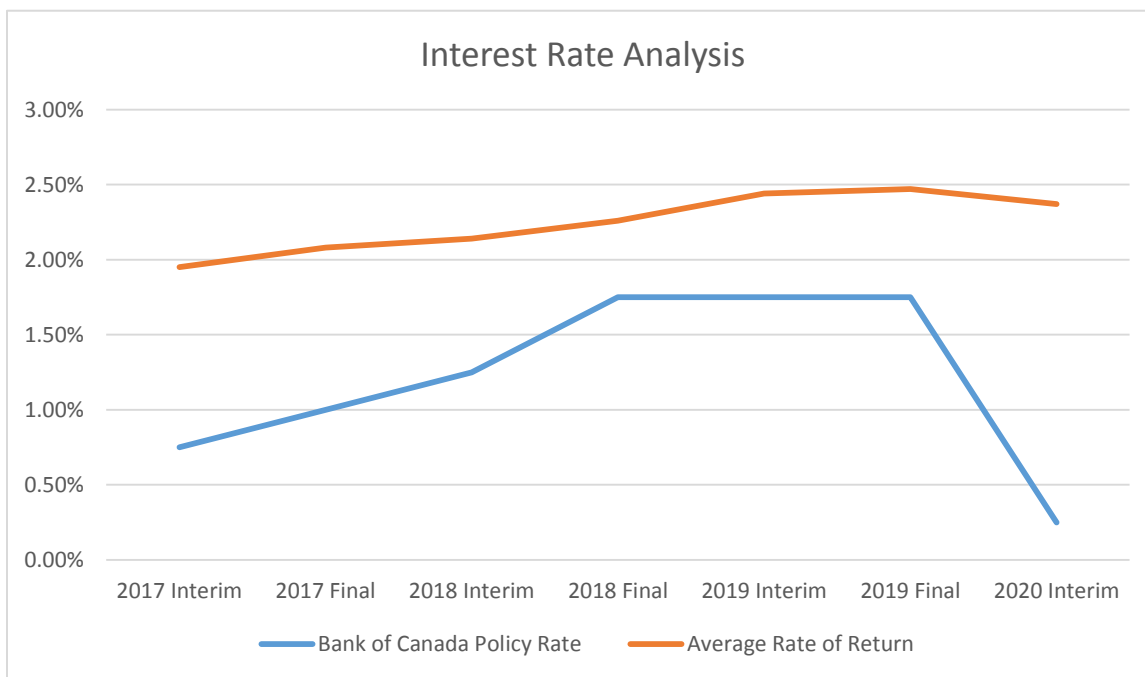
Figure 1



The City has earned a total of \$4.0 million (June 30, 2019: \$3.3 million) on its investment portfolio which excludes interest earned on cash balances of \$900 thousand. This represents an average rate of return of 2.37%.

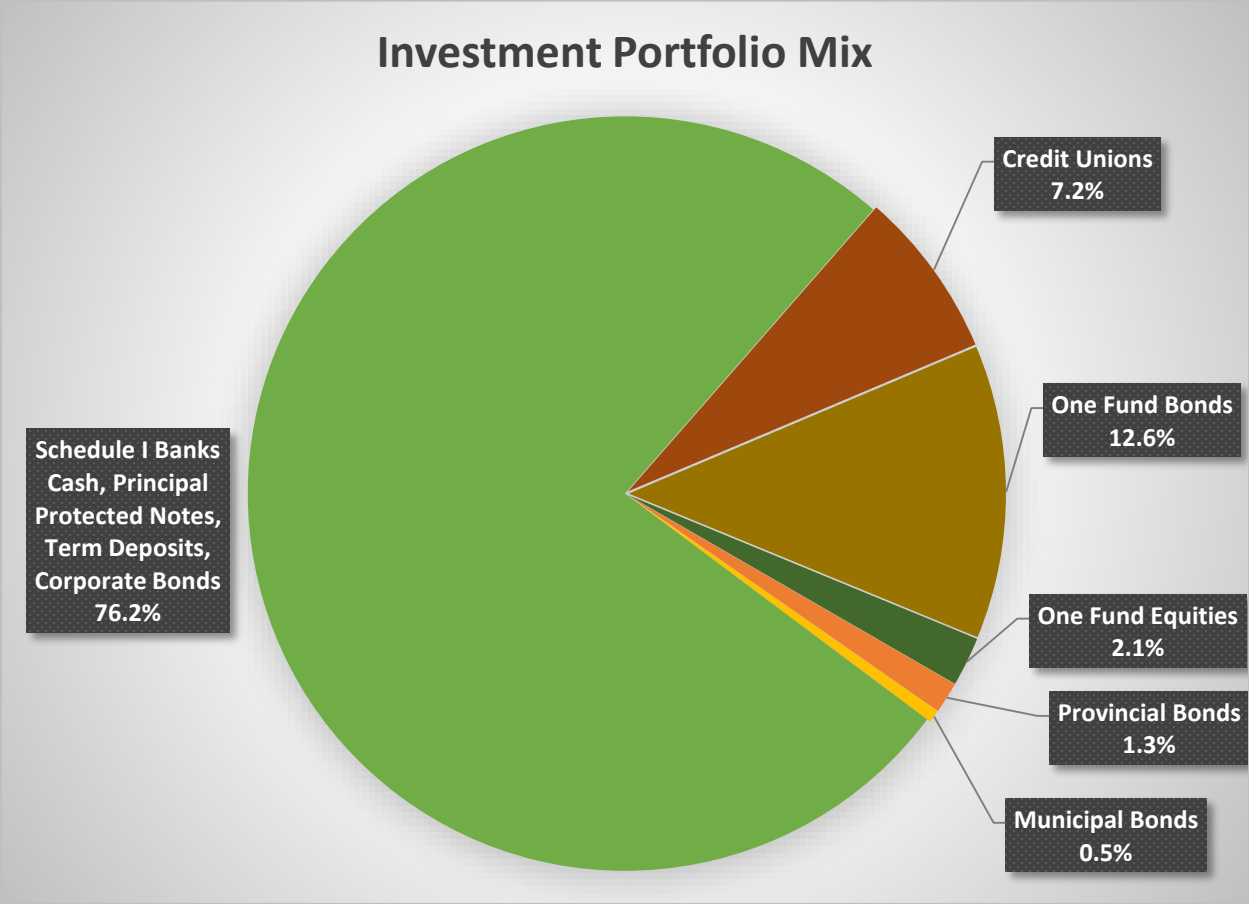
The Bank of Canada’s Policy Interest Rate also impacts investment returns as it represents the base upon which financial institutions build their prime lending rates which in turn impacts the rates that they are willing to pay to investors that provide the funds that they lend (among other factors).

Figure 2



Locked in rates of return on long-term investments result in changes to the City’s average rate of return lagging behind changes to the Bank of Canada Policy Rate; however, as these investments mature, less attractive reinvestment options will drive down the City’s average rate of return.

Staff continue to monitor the investment portfolio and diversify the holdings where possible in a very difficult/low market. There are very few attractive options for short or long-term investments currently available in the market. To mitigate this staff have continued to increase the amounts invested in the One Fund Corporate Bond and Canadian Equity portfolios with purchases of \$5 million in the Corporate Bond portfolio and \$3 million in the Canadian Equity portfolio in March 2020. Figure 3 below shows the investment portfolio mix as of June 30, 2020.



**Financial Implications**

Investment income reduces the amount otherwise required from property taxation and user fees to finance City services, as well as increasing the value of reserve funds used to finance future expenditures.

As noted in the 2019 year-end investment report, the market conditions have deteriorated significantly as a result of the COVID-19 pandemic. The City’s strong investment strategy leading into pandemic will be a natural hedge as the negative impact will be spread out over a number of years as the market recovers.

## **Consultations**

None noted.

## **Strategic Plan Alignment**

Investment management is part of the City's Working Together for our Future pillar to run an effective, fiscally responsible and trusted local government. Transparent, frequent and consistent reporting builds trust in the City's financial oversight.

## **Attachments**

Attachment-1: 2020 Statement of the Treasurer

Attachment-2: 2020 Investment Portfolio by Issuer

Attachment-3: 2020 Investment Portfolio by Security Type

## **Departmental Approval**

None noted.

## **Report Author**

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## **Attachment-1: 2020 Statement of the Treasurer**

### **Investment Reporting Requirements**

These investment reporting requirements are in accordance with Ontario Regulation 438/97 of the Municipal Act, 2001.

1. Statement of Performance

The City of Guelph has earned an average return of 2.37% on its investments and cash as at June 30, 2020.

2. Investments in Own Securities

None of the 2020 investments of the City have been invested in its own long-term or short-term securities.

3. Record of Own Security Transactions

None of the 2020 investments of the City have been invested in its own long-term or short-term securities.

### **Statement of Treasurer**

I, Tara Baker, General Manager, Finance and City Treasurer for the City of Guelph, hereby state that:

All investments have been made in accordance with the O.R. 438/97 and the City's Investment Policy, with the following exception:

- The amount invested in Schedule I banks is currently at 76.2% (maximum of 75% per the approved Investment Policy).

**Attachment-2: 2020 Investment Portfolio by Issuer**  
**Short-term and Long-term Investments at June 30, 2020**

**Short-term Investment Portfolio – Term to Maturity (Days)**

Broker	Yield	Maturity	Carrying Value \$	30-Jun-20	Restriction	Exceeded
RBC Dominion Securities Various Bank GICs	1.6% - 3.27%	Various<1 year	16,602,360	<364	364	-
RBC Dominion Securities Investment Savings Mutual Funds	Variable	Liquid	1,200,194	<364	364	-
CIBC	1.00%	17-Aug-20	40,000,000	48.00	364	-
Meridian	2.60%	19-Aug-20	3,000,000	50.00	364	-
Meridian	2.60%	14-Sep-20	5,000,000	76.00	364	-
RBC	1.11%	12-Nov-20	17,950,000	135.00	364	-
BMO	2.25%	23-Nov-20	10,000,000	146.00	364	-
Meridian	2.70%	21-Nov-20	3,853,220	144.00	364	-
BMO	1.26%	14-Dec-20	3,000,000	167.00	364	-
Meridian Credit Union	2.00%	14-Mar-21	5,059,836	257.00	364	-
BMO	1.31%	15-Mar-21	3,000,000	258.00	364	-
BMO	1.67%	20-May-21	10,174,665	324.00	364	-
BMO	1.34%	17-Jun-21	3,000,000	352.00	364	-
CIBC	2.25%	21-Jan-21	14,500,000	205.00	364	-
Meridian Credit Union	2.70%	19-Feb-21	2,000,000	234.00	364	-
CIBC	1.65%	17-Mar-21	35,000,000	260.00	364	-

**Short-term Investment Total Carrying Value** **173,340,275**

**Long-term Investment Portfolio – Term to Maturity (Years)**

Broker	Yield	Maturity	Carrying Value \$	30-Jun-20	Restriction	Exceeded
Joint Municipal Investments Bonds	Variable	Liquid	59,498,295	Current	N/A	-
Joint Municipal Investments Equity	Variable	Liquid	9,999,985	Current	N/A	-
Bank of Nova Scotia	2.27%	20-Aug-21	30,000,000	1.14	10	-
Meridian Credit Union	2.10%	16-Sep-21	5,000,000	1.21	2	-
Meridian Credit Union	1.75%	15-Dec-21	5,093,836	1.46	10	-
BMO	1.38%	17-Dec-21	3,000,000	1.46	10	-
Meridian	1.95%	22-May-22	5,058,355	1.89	10	-
BMO	1.41%	17-Jun-22	3,000,000	1.96	10	-
Bank of Nova Scotia	2.45%	4-Jul-22	4,000,000	2.01	10	-
CIBC	2.50%	12-Sep-22	10,000,000	2.20	10	-
National Bank	2.16%	14-Nov-22	5,000,000	2.37	10	-
BMO - Provincial	3.04%	2-Dec-22	5,000,010	2.42	20	-
CIBC – Principal Protected Notes \$500 thousand matures each year	Variable	23-Sep-23, 24, 25, 26, 27	3,000,000	3.23 - 7.23	10	-
TD Wealth	2.33%	30-Aug-24	30,775,436	4.17	10	-
CIBC	2.09%	26-Nov-24	1,390,846	4.41	10	-
CIBC	2.67%	15-May-25	5,192,111	4.87	10	-
CIBC	2.51%	15-May-25	2,009,672	4.87	10	-
CIBC	2.18%	26-May-25	2,656,574	4.90	10	-
CIBC	2.13%	20-Jun-25	2,270,405	4.97	10	-
TD Wealth	2.81%	13-Aug-25	10,000,000	5.12	10	-
CIBC - Provincial	5.27%	2-Dec-26	1,339,477	6.42	20	-
CIBC	2.95%	7-Jan-27	3,224,392	6.52	10	-
CIBC	3.01%	15-May-27	1,805,586	6.87	10	-
National Bank - Municipal	1.73%	5-Jun-28	1,711,433	7.93	10	-
CIBC	3.06%	7-Jul-28	3,214,012	8.02	10	-
CIBC - Principal Protected Note	Variable	4-Feb-30	500,000	9.60	10	-
National Bank - Municipal	1.85%	5-Jun-30	844,000	9.93	10	-

**Long-term Investments Total Carrying Value** **214,584,424**



### Attachment-3: June 2020 Investment Portfolio by Security Type

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
<b>Federal</b>			
Government of Canada			100%
Federal Guarantees			50%
<b>Provincial Governments and Provincial Guarantees</b>	6,339,487	1.34%	75%
<b>Country Other than Canada</b>			5%
<b>Municipal</b>			
City of Guelph			50%
Other Municipalities & OSIFA – AAA & AA	2,555,433	0.54%	50%
Other Municipalities & OSIFA – A			10%
<b>School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.</b>			20%
<b>Financial Institutions</b>			
Schedule I Banks	360,395,923	76.22%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union	34,067,483	7.20%	10%
<b>Supranational Financial Institution or Government Organization</b>			25%
<b>Corporate Debt</b>			25%
<b>Commercial Paper</b>			15%
<b>Joint Municipal Investment Pools - Bonds</b>	59,498,295	12.58%	15%
<b>Joint Municipal Investment Pools – Equity</b>	9,999,985	2.12%	5%
<b>TOTAL</b>	<b>\$472,856,606</b>	<b>100.00%</b>	