

Information Report

Service Area Corporate Services
 Date Friday, August 27, 2021
 Subject **2021 Mid-year Investment Performance Report**

Executive Summary

Purpose of Report

To report on the mid-year 2021 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 City earned overall investment income of \$3.7 million for the first six months of the year. This represents a return of 1.60% on a total carrying value of the portfolio of \$574.9 million as of June 30, 2021. This is a decrease of \$1.2 million compared to June 30, 2020 where the average rate of return was 2.37%.

The table below summarizes the investment portfolio and return compared to this time last year.

	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2020	June 30, 2020	June 30, 2020	June 30, 2020
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash	86,007,697	87,911,318	296,257	0.68%	64,847,590	68,629,731	429,451	1.27%
HISA*	159,030,427	14,875,116	45,684	0.62%	19,353,454	27,597,956	341,594	2.51%
Short-term Investments	61,198,563	122,374,725	1,035,564	1.72%	155,537,721	103,201,333	1,133,610	2.23%
Long-term Investments	177,740,109	157,768,124	1,564,625	2.01%	145,086,145	133,916,015	1,960,572	2.97%
Investment Pools /Managed Funds	90,881,134	90,368,803	793,338	1.78%	88,031,697	85,033,103	1,010,944	2.41%
Total	574,857,930	473,298,087	3,735,469	1.60%	472,856,606	418,378,138	4,876,171	2.37%

*High Interest Savings Account

The total portfolio balance is \$574.9 million, which is an increase of \$102.1 million from the June 30, 2020 total of \$472.8 million. This includes the proceeds of the recent debenture issue of approximately \$49 million as well as increased grant revenue received in the first half of 2021.

The main driver of the reduced investment earnings is the low-rate environment, which is at historic lows. In response to the global pandemic, in March 2020 the Bank of Canada cut its Policy Interest Rate three times taking the target overnight rate from 1.75% down to 0.25%. The overnight rate has remained at 0.25% since March 27, 2020. As older bonds mature, the proceeds cannot be reinvested at the same rate, which reduces the overall rate of return.

The interest rate environment is expected to remain low in the short-term, but it is expected that rates will increase over the longer-term as the economy rebounds. Staff continue to look for the best investment options in this environment including contributions to Investment Pools, and expanded investment opportunities through the Prudent Investor Standard.

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 following two exceptions.

1. The City has two holdings in municipal bonds totaling \$4.0 million, which have a term longer than 10 years. The City Investment Policy has a maximum 10-year term for municipal bonds; however, these bonds are rated as AAA and therefore does not represent a significant risk to the City. These bonds are within the limitations of the Municipal Act that do not mandate a term limit for these investments. Staff will align the City policy with the Municipal Act in future updates.
2. The City has 23 holdings in loan and trust companies totaling \$1.93 million with a term longer than one year. The City policy restricts these holdings to terms less than one year. These holdings were not purchased directly by the City but were included as part of an RBC managed portfolio. These investments are still permitted by the Municipal Act, which does not mandate a term limit for these investments. The City will be taking steps to discuss divesting these holdings with our RBC agent and/or considering a City policy change to align with the Municipal Act.

The details of these exceptions to the policy can be found in Attachment-4: Investment Policy Limit Exceptions.

Financial Implications

Investment income reduces the amount otherwise needed from property tax to fund City services. Investment income increases the value of reserve funds used to finance future expenditures. The low interest rate environment negatively impacts overall investment returns; however, it also provides opportunities for the City to secure debt financing at a low cost.

While the rate of return is lower than last year, the overall portfolio balance is larger which should partially offset the lower return. However, it is likely that overall investment returns in 2021 will be lower than budgeted and could result in a negative variance at year-end.

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:

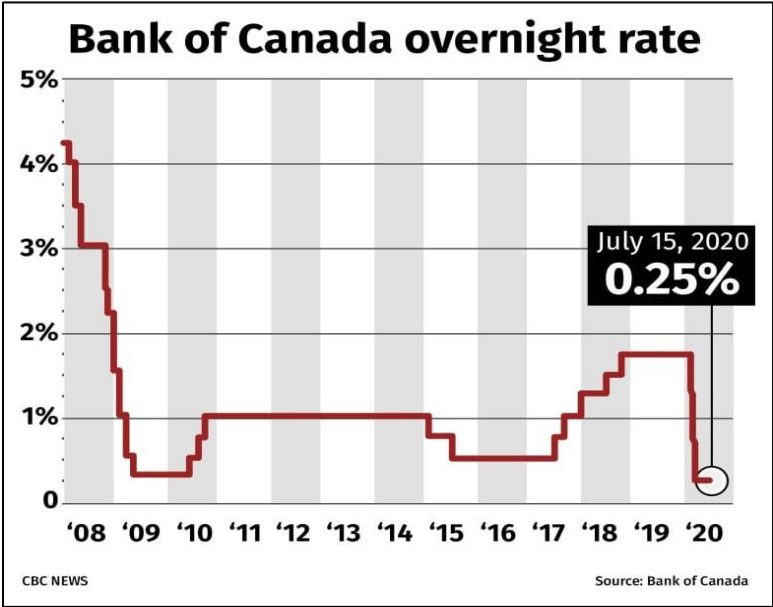
- adherence to statutory requirements
- preservation of capital
- maintaining liquidity
- earning a competitive rate of return

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, and compliance status of the portfolio at least twice per year.

Economic (Interest Rate) Analysis

The Bank of Canada's Policy Interest Rate forms the basis of what the market will pay for debt and investments. In March 2020 the Bank of Canada cut its Policy Interest Rate three times, taking the target rate from 1.75% down to 0.25%. The overnight rate has remained at 0.25% since March 27, 2020.

The graph below shows how this rate of 0.25% in the context of the past 12 years. The current rate is a historical low as the government responded to the COVID crisis by lowering rates to stimulate the economy.



This low-rate environment impacts investment returns in three key ways.

1. Any surplus cash on hand immediately receives a lower interest rate from the City's bank account as this interest rate has declined along with the Bank of Canada rates.

2. Longer-term bonds that mature in this low-rate environment cannot be reinvested at the same rate. For example, if a 10-year bond was paying 4% per annum matured in 2021, the City could not reinvest those funds at the same rate. To reinvest in the same 10-year bond in 2021 it would likely earn a return of 1.5% - 2%.
3. Since rates are at historic lows, it is prudent to hold more cash or to invest in shorter time horizons as the City does not want to lock-in low long-term rates. Shorter-term investments tend to pay lower overall rates than longer-term investments that will have a temporary impact on investment returns.

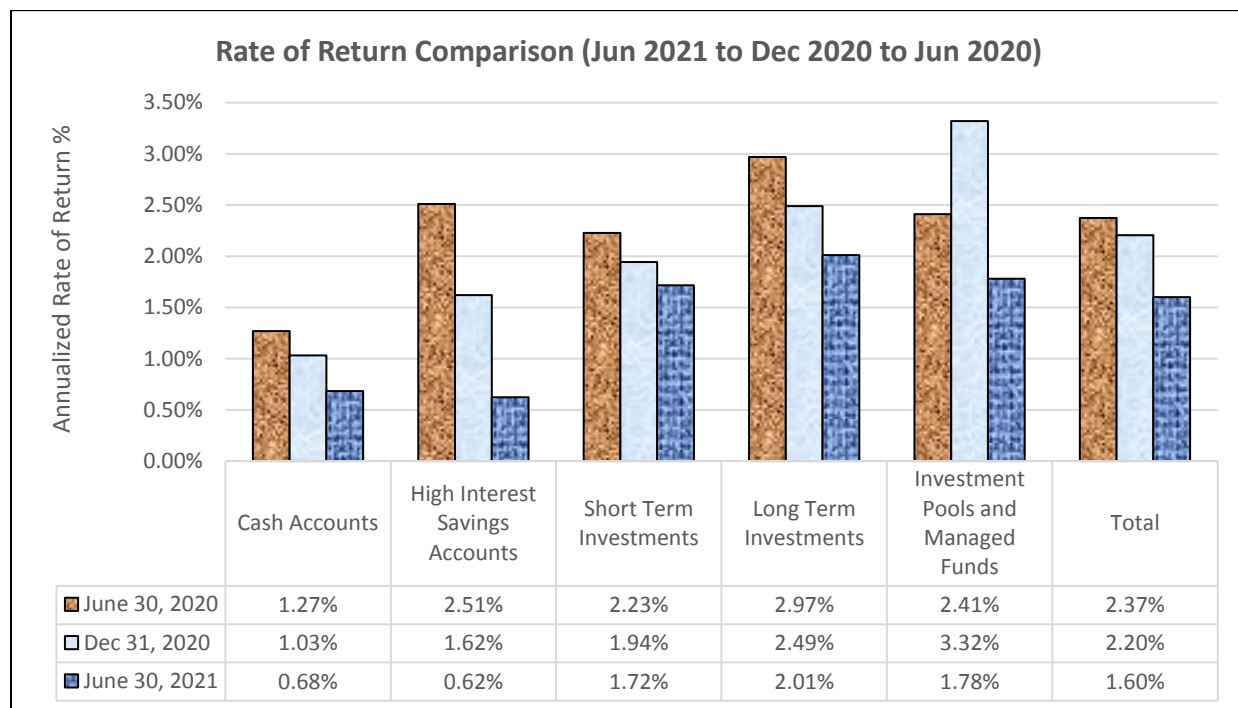
Eventually interest rates are expected to increase. The City’s strategy is to take advantage of potential market changes by keeping funds invested in shorter time horizons now, and shifting to longer-term investments as appropriate once rates begin to rise.

With limited reinvestment options, staff may consider alternative investment portfolio options through the Prudent Investor Standard.

Statement of Performance

Total investment income as of June 30, 2021 is \$3.7 million, which represents an average return of 1.60%. This is a decrease of \$1.2 million compared to June 30, 2020 where the mid-year return was \$4.9 million and average rate of return of 2.37%.

The table below outlines the historic investment return:



The lower rate of return is driven by the low-rate environment, higher cash balances and the shorter time horizon of investments. Surplus cash has historically been placed in a High Interest Savings Accounts (HISA) in order to earn higher return than the City’s daily chequing account.

In early 2021, the City’s HISA provider advised that they would be reducing the HISA rate from 0.915% to 0.165%. In addition, the cash rate on the general account was reduced from 0.78% to 0.65%, which negatively impacts cash returns. City staff opened up a number of new HISA accounts and were informed of increasing HISA rates in June of 2021. A significant amount of cash was moved in June of 2021 to take advantage of these new rates and should result in higher cash returns in the second half of 2021.

Finally, a number of investments including the ONE funds have historically realized gains in the second half of the year, which are not reflected in this report. It is likely that similar returns will materialize again in the later part of the year and will be included in the overall portfolio return at year-end.

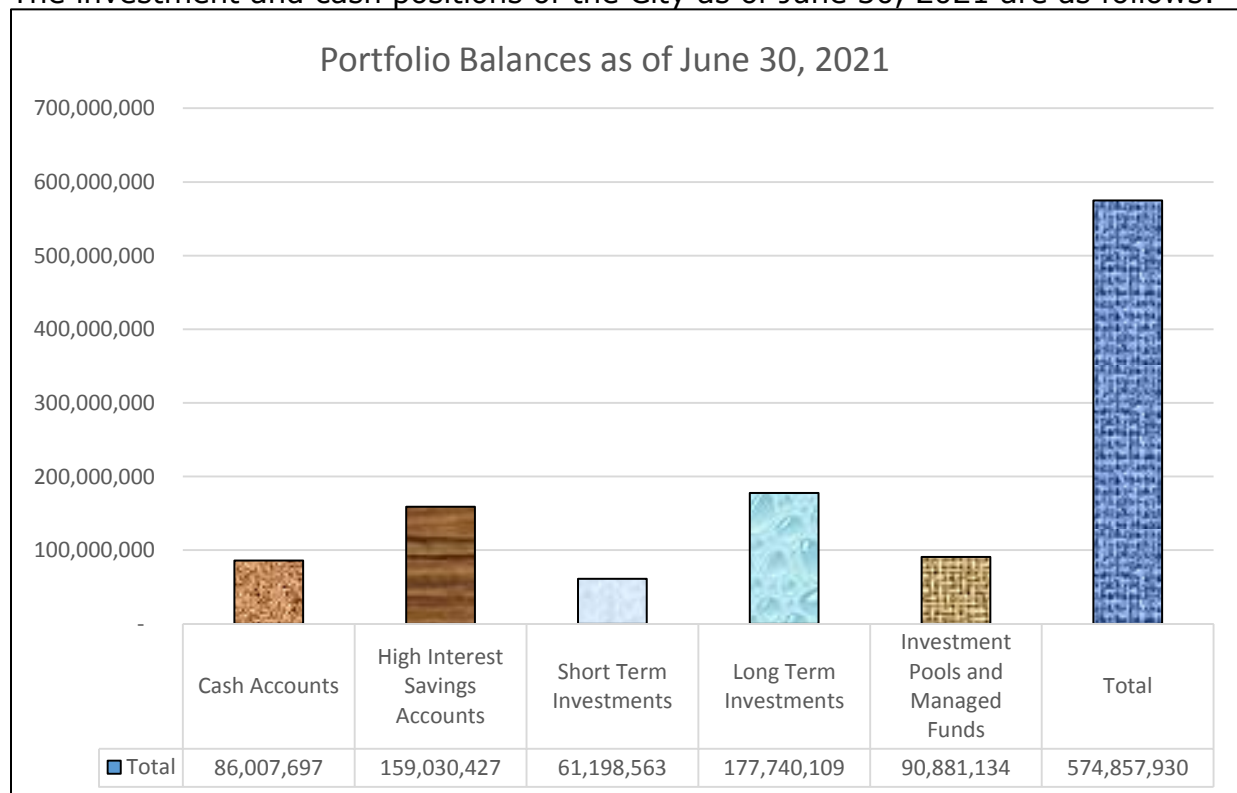
Staff continue to monitor the investment portfolio and diversify the holdings where possible in a very difficult/low market. There are very few attractive options for short or long-term investments currently available in the market.

Investment Portfolio

The City’s portfolio balances have been steadily increasing over the past few years, which is in part due to a deliberate effort to strengthen reserve balances for long-term sustainability in alignment with established reserve targets.

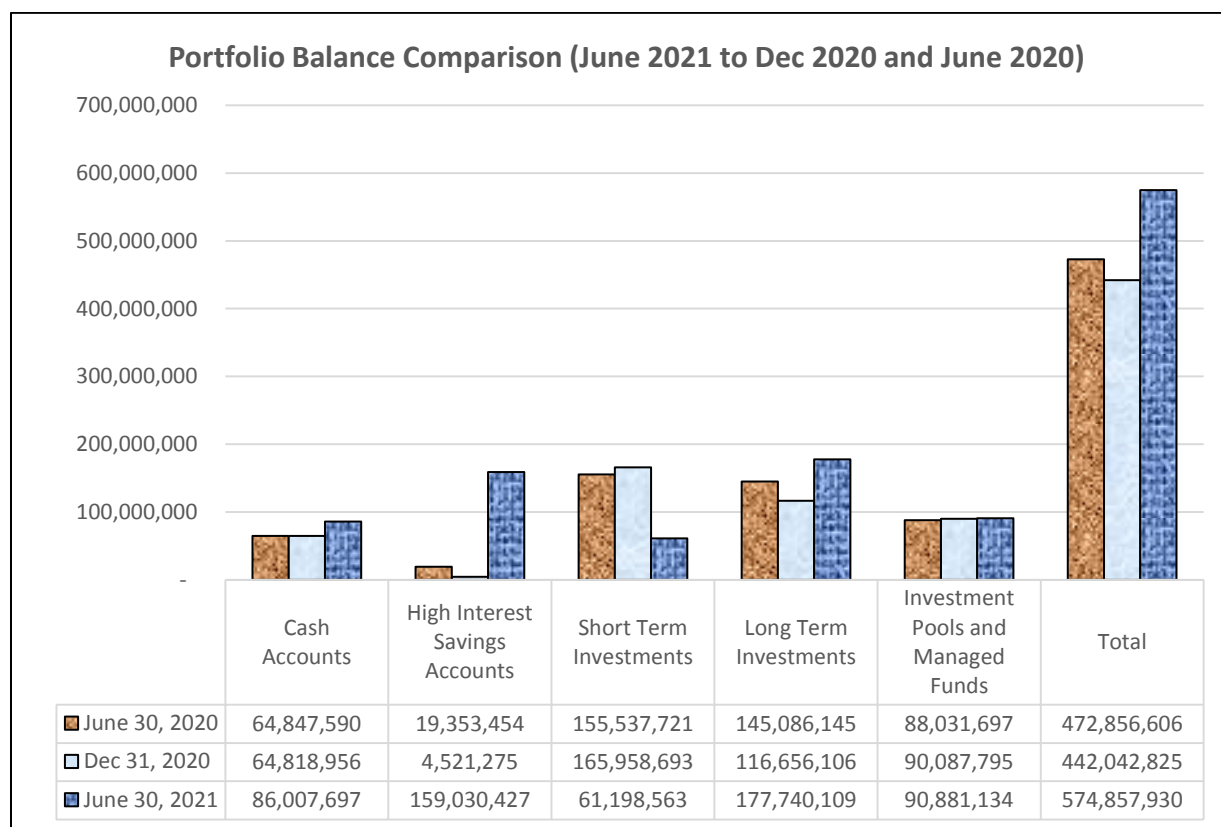
This surplus is also partially the result of the City’s noted gap in human resources required to execute the growing capital budget as described in Report [2021-39 Capital Program Resourcing Strategy](#). As the City increases its capacity to deliver on Council’s approved capital plan, staff expect to see this portfolio balance to stabilize and slightly reduce over time.

The investment and cash positions of the City as of June 30, 2021 are as follows:



- Cash balances total \$86 million and include the City’s general bank account and smaller balances in other miscellaneous bank accounts.
- HISA accounts total \$159 million. These tend to offer slightly higher returns than the general bank account. As short-term GICs have been paying very low rates, the City has been utilizing HISA accounts to earn the best rate and to keep the funds liquid.
- Short-term investments total \$61.2 million and include any holdings that mature within 12 months. These are usually longer-term investments which are set to mature in the next 12 months. The City typically does not invest in bonds shorter than one year.
- Long-term investments total \$177.8 million and include all holdings that mature greater than 12 months from June 30, 2021. These products tend to earn a higher return as they are locked in for a longer time period.
- Investment pools total \$90.9 million and include holdings in the ONE Corporate and Government Bond Funds and the ONE Equity Fund. This category also includes approximately \$19 million of actively managed funds by RBC investments.

The total portfolio balances compared to the same period last year is shown in the following table.

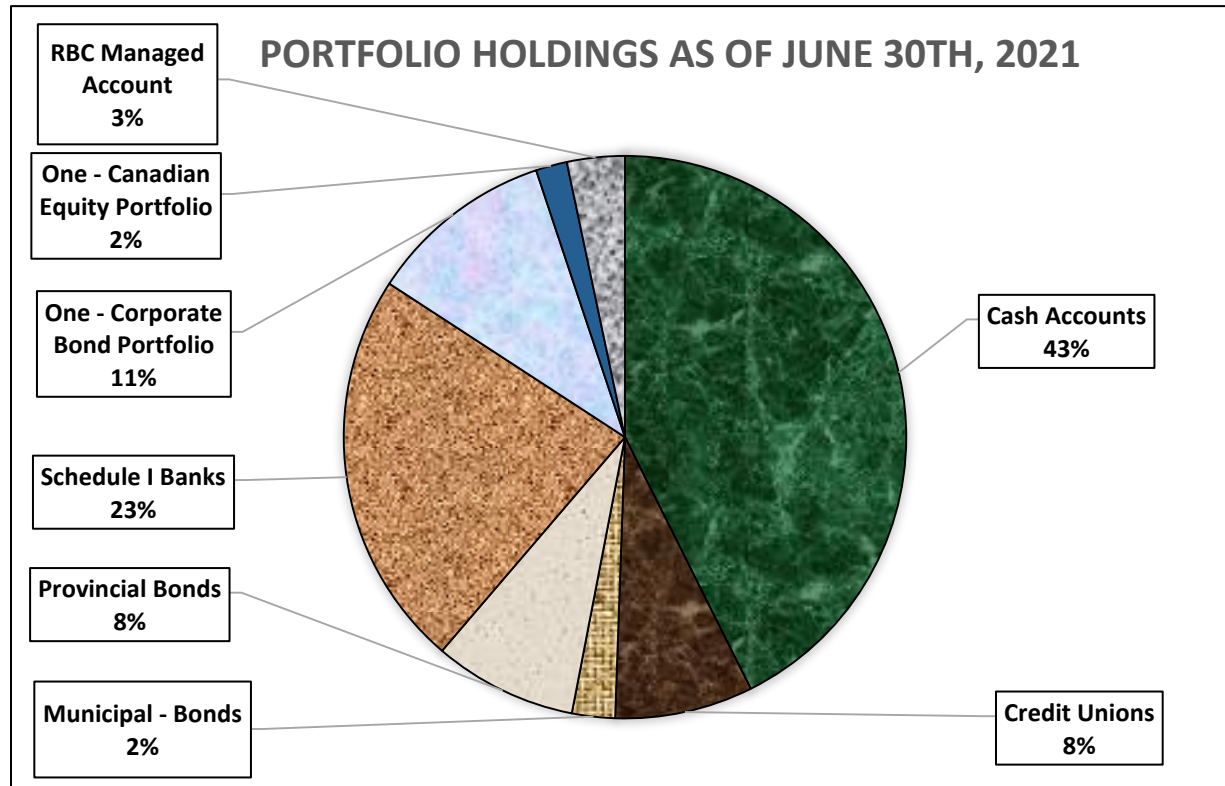


The City portfolio has increased by \$102 million since June 2020. This includes debt proceeds of the \$49 million and increased grant funding such as the COVID Safe Restart funds, which were kept in short-term holdings at the time of this report.

These funds will eventually be invested in longer-term investments throughout the second half of the year. The higher concentration of cash and HISA funds at the

mid-year date of this report means that a smaller portion of the overall portfolio is invested in higher yielding investments that lowers the calculation of the overall rate of return.

The following figure outlines the investment portfolio mix as of June 30, 2021.



The largest holding is in cash, which represents approximately 43% of the total portfolio and is aligned with City policy to prioritize liquidity and to minimize risk. The second largest holding is Schedule 1 Banks which is making up approximately 23% of the portfolio.

Investment pools and managed funds include the ONE Equity and Bond Portfolio and the RBC managed account that make up a total of 16% of the portfolio. It should be noted that the ONE equity portfolio return is not included in the investment return but has had substantial unrealized gains in this account.

Compliance with Investment Policy

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.

There are two exceptions to the City's Investment Policy:

1. The City has two holdings in municipal bonds totaling \$4.0 million which have a term longer than 10 years. The City Investment Policy has a maximum 10-year term for municipal bonds; however, these bonds are rated as AAA and therefore does not represent a significant risk to the City. These bonds are within the limitations of the Municipal Act that do not mandate a term limit

for these investments. Staff will align the City policy with the Municipal Act in future updates.

2. The City has 23 holdings in loan and trust companies totaling \$1.93 million with a term longer than one year. The City policy restricts these holdings to terms less than one year. These holdings were not purchased directly by the City but were included as part of an RBC managed portfolio. These investments are still permitted by the Municipal Act that does not mandate a term limit for these investments. The City will be taking steps to discuss divesting these holdings with our RBC agent and/or considering a City policy change to align with the Municipal Act.

Both of these exceptions are still allowed by the Municipal Act but our internal Investment Policy is more restrictive and requires this disclosure.

The full listing of policy exceptions are outlined in Attachment-4: Investment Policy Limit Exceptions.

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.

The investment market conditions have deteriorated as a result of the COVID pandemic. However, the City's strong investment strategy and robust portfolio holdings position the City to take advantage of rising rates as the economy and investment market recovers.

While the rate of return is lower than last year, the overall portfolio balance is larger which should partially offset the lower return. However, it is likely that overall investment returns will be lower in 2021 than budget and could result in a negative variance at year-end.

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. Managing investments in a responsible way safeguards the City's financial assets while generating revenue and ensuring long-term sustainability. Transparent, frequent and consistent reporting builds trust in the City's financial oversight.

Attachments

Attachment-1: 2021 Mid-year Statement of the Treasurer

Attachment-2: Investment Portfolio by Issuer

Attachment-3: Investment Portfolio by Security Type

Attachment-4: Investment Policy Limit Exceptions

Departmental Approval

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Attachment-1: 2021 Mid-year 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 annual return of 1.60% on its investments and cash as at June 30, 2021.
2. Investments in Own Securities
The City of Guelph has \$1,934,666 book value invested in its own long-term or short-term securities.
3. Record of Own Security Transactions
As described above the City has \$1,934,666 invested in its own long-term securities. The details of these securities are outlined below:
 - \$968,725 - City of Guelph - 2.56% yield, Maturing July 11, 2032
 - \$965,941 – City of Guelph – 2.65% yield, Maturing July 11, 2033


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 two exceptions:

- The amount invested in **Municipal Bonds** with a term longer than 10 years is \$3,963,309 (maximum term per approved investment policy is 10 years for this category)
- The amount in invested in **Loan or Trust Companies** with a term longer than one-year is \$1,928,381 (maximum term per approved investment policy is one-year for this category)

Further details of these investments can be found in Attachment-4: 2021 Mid-Year Investment Policy Exceptions.

DocuSigned by:

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Tara Baker, CPA, CA
General Manager, Finance/ City Treasurer

Attachment-2: 2021 Mid-year Investment Report

Cash, Short-term (ST) and Long-term (LT) Investments at June 30, 2021

Table 1: Short-term Investment Portfolio – Term to Maturity (Days)

	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2021	Days to Maturity
Cash and Savings Accounts	0.67%	Liquid	ST	245,038,124	n/a
Bank of Nova Scotia	2.27%	20-Aug-21	ST	30,000,000	51
Meridian Credit Union	2.10%	16-Sep-21	ST	5,000,000	78
Meridian Credit Union	1.75%	15-Dec-21	ST	5,093,836	168
BMO Commercial	1.38%	17-Dec-21	ST	3,000,000	170
Meridian Credit Union	1.42%	19-Feb-22	ST	5,000,000	234
Meridian Credit Union	1.95%	22-May-22	ST	5,058,355	326
BMO Commercial	1.41%	17-Jun-22	ST	3,000,000	352
Meridian Credit Union	1.08%	26-Jun-22	ST	5,046,373	361
Holdings in RBC Managed Fund < 1 year	varies	varies	ST	8,886,687	varies
Total				\$315,123,374	

Table 2: Long-term Investment Portfolio - Term to Maturity (Years)

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2021	Years to Maturity
Bank of Nova Scotia	2.45%	4-Jul-22	LT	4,000,000	1.0
Meridian Credit Union	1.20%	19-Aug-22	LT	2,082,107	1.1
Meridian Credit Union	1.20%	26-Aug-22	LT	8,000,000	1.2
CIBC	2.50%	12-Sep-22	LT	10,000,000	1.2
National Bank	2.16%	14-Nov-22	LT	5,000,000	1.4
CPN Province of Ontario	3.04%	2-Dec-22	LT	5,000,010	1.4
Meridian Credit Union	1.25%	14-Mar-23	LT	5,159,104	1.7
Meridian Credit Union	1.25%	14-Mar-23	LT	5,161,032	1.7
CIBC	0.00%	25-Sep-23	LT	500,000	2.2
TD Bank	2.33%	30-Aug-24	LT	30,775,436	3.2
CIBC	0.00%	23-Sep-24	LT	500,000	3.2
TD Bank	2.09%	26-Nov-24	LT	1,405,345	3.4
CIBC	2.67%	15-May-25	LT	5,259,641	3.9
CIBC	2.51%	15-May-25	LT	2,034,340	3.9

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2021	Years to Maturity
TD Bank	2.18%	26-May-25	LT	2,685,459	3.9
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,294,514	4.0
TD Bank	0.59%	13-Aug-25	LT	2,500,000	4.1
TD Bank	0.35%	13-Aug-25	LT	2,500,000	4.1
TD Bank	1.35%	13-Aug-25	LT	5,000,000	4.1
CIBC	0.00%	23-Sep-25	LT	500,000	4.2
CIBC	0.00%	23-Sep-26	LT	500,000	5.2
Province of Ontario	5.27%	2-Dec-26	LT	1,365,585	5.4
CIBC	2.95%	7-Jan-27	LT	3,271,089	5.5
Region of Waterloo	1.61%	16-Apr-27	LT	2,857,274	5.8
CIBC	3.01%	15-May-27	LT	1,832,259	5.9
CIBC	0.00%	23-Sep-27	LT	500,000	6.2
Region of Waterloo	1.79%	16-Apr-28	LT	2,904,772	6.8
City of London	1.73%	5-Jun-28	LT	1,711,433	6.9
CIBC	2.76%	7-Jul-28	LT	3,262,835	7.0
CIBC	0.00%	25-Sep-28	LT	500,000	7.2
CIBC	2.48%	24-Sep-29	LT	10,425,000	8.2
CIBC	0.00%	4-Feb-30	LT	500,000	8.6
City of London	1.85%	5-Jun-30	LT	844,000	8.9
Province of Alberta	2.05%	1-Jun-31	LT	20,282,500	9.9
Province of BC	2.10%	23-Feb-32	LT	3,738,593	10.7
Region of Waterloo	2.35%	16-Apr-32	LT	1,883,442	10.8
City of Guelph	2.56%	11-Jul-32	LT	968,725	11.0
Hydro Quebec	2.27%	15-Feb-33	LT	7,634,000	11.6
City of Guelph	2.65%	11-Jul-33	LT	965,941	12.0
Hydro Quebec	1.96%	16-Jan-35	LT	3,364,596	13.6
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	14.8
Province of Ontario	2.11%	2-Dec-39	LT	4,894,278	18.4
Province of BC	1.97%	18-Jun-40	LT	1,096,933	19.0
Holdings in RBC Managed Fund > 1 year	varies	varies	LT	10,216,243	varies
Total				\$187,956,352	

Table 3: Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2021	Years to Maturity
One Government Bond Fund	0.00%	varies	LT	-	N/A
One Corporate Bond Fund	1.95%	varies	LT	61,475,737	N/A
One Fund Equity*	0.00%	varies	LT	10,302,468	N/A
Total				\$71,778,204	
Grand Total				\$574,857,930	

*these holdings earn income but will not be recognized until maturity or sold

Attachment-3: 2021 Mid-year Investment Report
June 2021 Investment Portfolio by Security Type

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
Cash and HISA accounts	\$249,118,707	43.34%	100%
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	\$47,376,494	8.24%	75%
Country Other than Canada			5%
Municipal			
City of Guelph	\$1,934,666	0.34%	50%
Other Municipalities & OSIFA – AAA & AA	\$12,280,788	2.14%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	\$143,314,220	24.93%	75%
Schedule II and III Banks	\$45,600,806	7.93%	25%
Credit Unions	\$45,600,806	7.93%	10%
Loan or Trust Corporations	\$3,454,044	0.60%	5%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Bonds	\$61,475,737	10.69%	15%
Joint Municipal Investment Pools – Equity	\$10,302,468	1.79%	5%
TOTAL	\$574,857,930	100.00%	

Attachment-4: 2021 Mid-year Investment Report
June 2021 Policy Limit Exceptions

QTY	Instrument Description	Cost (CAD)	Maturity Date	Months to Maturity	Policy Limit (Months)
1	ROYAL TRUST COMPANY GIC	6,621	7/19/2022	13	12
1	RBC MORTGAGE CORP GIC	59,797	12/14/2022	17	12
1	ROYAL TRUST COMPANY GIC	20,991	1/31/2023	19	12
1	RBC MORTGAGE CORP GIC	96,588	2/14/2023	20	12
1	RBC MORTGAGE CORP GIC	25,788	2/22/2023	20	12
1	MONTREAL TRUST CDA GIC	8,924	2/28/2023	20	12
1	TD MORTGAGE CORP GIC	18,129	3/1/2023	20	12
1	ROYAL TRUST COMPANY GIC	43,892	3/6/2023	20	12
1	ROYAL TRUST COMPANY GIC	66,491	6/2/2023	23	12
1	ROYAL TRUST COMPANY GIC	44,848	7/17/2023	25	12
1	MONTREAL TRUST CDA GIC	102,827	7/17/2023	25	12
1	ROYAL TRUST COMPANY GIC	88,308	8/8/2023	25	12
1	MONTREAL TRUST CDA GIC	103,314	8/8/2023	25	12
1	MONTREAL TRUST CDA GIC	100,169	10/11/2023	27	12
1	ROYAL TRUST COMPANY GIC	105,603	12/4/2023	29	12
1	ROYAL TRUST COMPANY GIC	104,729	12/18/2023	30	12
1	ROYAL TRUST COMPANY GIC	328,966	3/11/2024	32	12
1	ROYAL TRUST COMPANY GIC	142,811	4/9/2024	33	12
1	MONTREAL TRUST CDA GIC	97,063	8/6/2024	37	12
1	ROYAL TRUST COMPANY GIC	97,222	10/9/2024	39	12
QTY	Instrument Description	Cost (CAD)	Maturity Date	Months to Maturity	Policy Limit (Months)
1	ROYAL TRUST COMPANY GIC	102,547	12/19/2024	42	12
1	RBC MORTGAGE CORP GIC	16,401	12/19/2024	42	12
1	BMO MORTGAGE CORP GIC	96,351	1/15/2025	43	12
23	Total Trust and Loan Holdings	\$1,928,381			
QTY	Instrument Description	Cost (CAD)	Maturity Date	Years to Maturity	Policy Limit (Years)
1	Region of Waterloo	1,883,442	4/16/2032	11	10
1	Region of Waterloo	2,079,867	4/16/2036	15	10
2	Municipal Bonds Exceptions	\$3,963,309			