

Information Report



Service Area	Corporate Services
Date	Friday, April 27, 2018
Subject	2017 Year-end Investment Performance Report
Report Number	CS-2018-13

Executive Summary

Purpose of Report

To report on the 2017 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act and the City’s Council-approved Investment Policy.

Key Findings

The carrying value of the total investment portfolio as of December 31, 2017 was \$264.1 million, plus cash holdings of \$33.5 million. The total investment and cash market value as at December 31, 2017 was \$299.6 million (2016- \$318.5 million).

Interest earned on investments and cash as of December 31, 2017 was \$7.5 million, which resulted in a positive variance to budget of \$0.9 million, and has surpassed the 2016 earnings by \$1.4 million. This computes to an average rate of return of 1.91 per cent (2016: 1.74 per cent). In accordance with the City’s General Reserve and Reserve Fund Policy, an allocation of \$4.6 million was transferred to the reserve funds at year-end.

The City has managed its investment portfolio in accordance with Ontario Regulation 438/97 of the Municipal Act and in accordance with the current City of Guelph’s Council-approved Investment Policy.

Financial Implications

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

Background

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; and
- 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.

Report

Definitions

Carrying Value – Also known as book value. The portion of an asset's value that is not depreciated. Carrying value is not market value, which is determined by market forces, such as stock prices.

Face Value - The value of a bond or another type of debt instrument at maturity. Also called par value.

Market Value - The price at which a security currently can be sold.

A. Statement of Performance

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

	Dec 31, 2017 (Carrying Value)	Dec 31, 2016 (Carrying Value)
Long-term	\$ 201,796,769	\$ 216,673,892
Short-term	\$ 62,286,067	\$ 56,115,834
Total Investments	\$ 264,082,836	\$ 272,789,726
Cash	\$ 33,543,258	\$ 43,909,175
Total	\$297,626,094	\$316,698,901

The carrying value of the total investment portfolio as at December 31, 2017 was \$264.1 million plus cash holdings of \$33.5 million. Interest earned on investments and cash as of December 31, 2017 was \$7.5 million, which resulted in a positive variance to budget of \$0.9 million, and has surpassed the 2016 earnings by \$1.4 million. This computes to an average rate of return of 1.91 per cent (2016: 1.74 per cent).

The total investment and cash market value as at December 31, 2017 was \$299.6 million (2016- \$318.5 million). The details of the City's specific investment portfolio as at December 31, 2017 are attached in the Investment Portfolio by Issuer (ATT-3) and the Investment Portfolio by Security (ATT-4).

Investment income earned on investments and cash balances are allocated to the reserve funds at year-end in proportion to their average balances. In accordance with the City's General Reserve and Reserve Fund Policy, an allocation of \$4.6 million was transferred to the reserve funds at year-end.

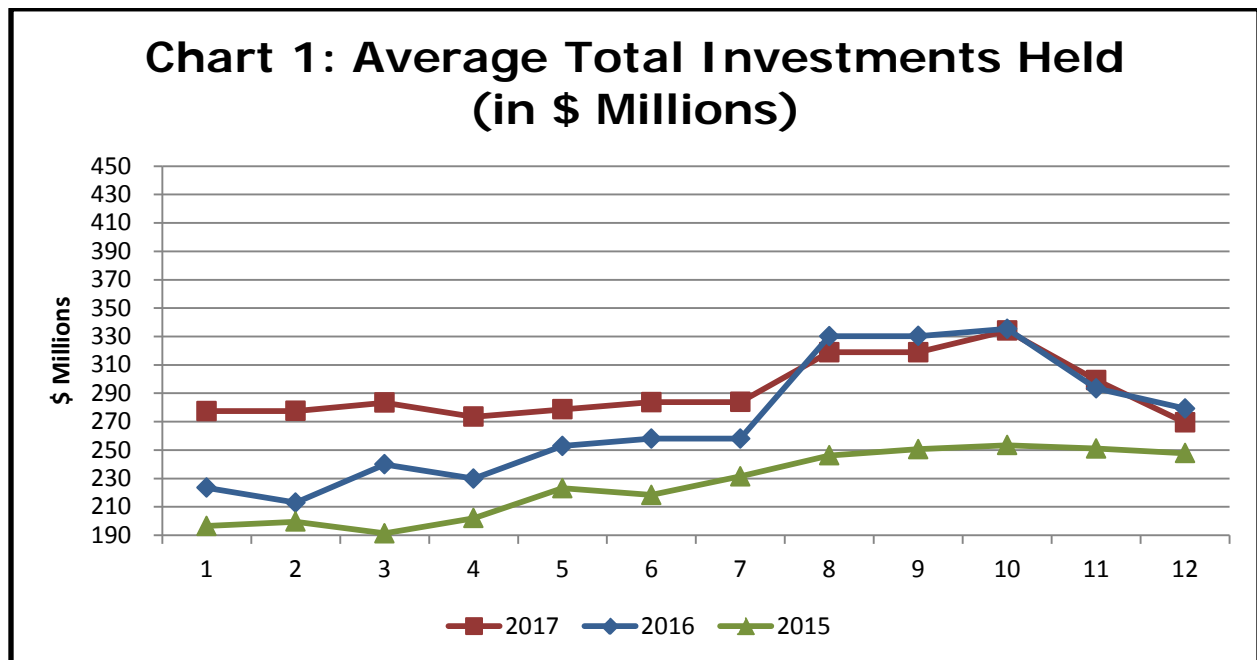
2017 Investment Activity – Cash

Since August of 2015, the low interest rate environment had been negatively affecting the City's investment returns. During this period, City staff continued to analyze and manage the City's investment portfolio in order to optimize earnings and minimize risk in the present climate. Recent changes implemented by the Bank of Canada to increase the short-term interest rates has provided more opportunity to turn positive returns on guaranteed investments for the remainder of the 2017 fiscal year. The Bank of Canada increased the rate by 0.25 basis points in July and September bringing the overnight rate to 1.00 per cent as at December 31, 2017. Subsequent to year-end, they announced another increase of 0.25 basis points in January 2018. The rate increases represent favourable outcomes for the City's cash and investments as the majority are based upon the prime rate.

The cash balance of \$33.5 million at year-end may appear to be under-utilized but the liquid funds are required for the City's working capital needs. The cash outflows for the month of January were \$35.6 million and the majority of the cash inflows for the City do not occur until the end of the month when property taxes are due. Staff continue to monitor the cash flow on a monthly basis to ensure that any excess cash is invested earning the highest rate possible.

2017 Investment Activity – Investment Portfolio

The City has earned a total of \$6.1 million from the investment portfolio (excluding interest earned on cash balances). This represents an average return of 2.08 per cent as at December 31, 2017 compared to a 1.84 per cent average return for 2016. See Chart 1 below for a comparison of the average carrying value of investments held in 2017, 2016 and 2015. Please note that during the last quarter of the year, the investment balance declined due to the fact that funds were required for capital needs. This cash flow pattern is consistent with prior years; however a one-time cash outflow of \$10 million was required for the loan repayment for the Hanlon Creek Business Park, as well as capital purchases budgeted in prior years.



RISK/OPPORTUNITY IDENTIFICATION

Following are the risks and opportunities that were present during the 2017 fiscal year:

- i) As of January 2017, the Class A-1, Class A-2 and Class B Master Asset Vehicle II Notes (MAV) were paid down in full as per agreements communicated by the investment custodians of these assets. For the City, this meant a full recovery of the carrying value of its Class A & B holdings and the majority of its Class Cs. As at year-end, an impairment provision of \$15,073 has been recorded to write down the current book value of the remaining MAV II C asset. Further, the City has decided to divest in the remaining MAV assets taking into consideration the value of the investments was zero. This decision to divest has no financial impact as these assets have a carrying value of zero.

ii) As at June 30, 2017, the City of Guelph held two investments totalling \$30 million purchased in 2013 and 2014 which were to provide for higher than normal interest returns. With the drop in the Bank of Canada's prime rate in 2015, these investments are no longer within the lower limit of the note terms and therefore were no longer earning any return. During the month of June 2017, there was speculation that the Bank of Canada's rate would increase which opened up investment opportunities to move these funds to earn positive returns. The City decided to act upon the opportunity to sell the two range accrual investments.

iii) The City's perpetual cash flow model continues to enable staff to identify and act on timely opportunities for investing (within the City's investment policies), with the intent to optimize the returns on available cash throughout the year. Further, realizing the current interest rates on term deposits and bonds was stationary, the City decided to capitalize on higher interest rates in the secondary market where GICs were trading on average at 1.88 per cent for short-term and 2.36 per cent for long-term investments. An additional \$15 million was invested into the secondary market in 2017.

iv) The Bank of Canada's prime rate had been stable prior to July 2017. The majority of the City's investments are GICs and term deposits which are based upon prime rate. Therefore, due to the current market conditions, we were unable to guarantee the same return for investments that were maturing during the first two quarters of 2017 that had initially been invested at higher rates in the past. Staff chose not to reinvest the funds from maturing investments during the second quarter and hold a higher cash balance to ensure we were able to act upon changes in the prime rate if necessary. This move deemed profitable as we were able to invest approximately \$45 million at a higher interest rate once the Bank of Canada announced raising its overnight rate on July 12, 2017. There continues to be speculation that the Bank of Canada will increase interest rates once more during 2018, however there is a strong indication that the largest impact has already occurred in 2017 and January 2018.

v) Cash was required during the last quarter for operating and capital expenditures which resulted in the City requiring approximately \$30 million of funds maturing during this period that would have been otherwise reinvested in Schedule I Banks. Staff would like to highlight in ATT-3 that the Investment percentage of holdings for Credit Unions is currently one per cent higher than the maximum as per the City's Investment Policy. Fluctuations in the cash bank balance and the timing of investment redemptions can create risk that at any given point in time the Investment Policy could be offside temporarily. Consistent with the policy, the City was onside with the Credit Union percentages when the initial purchase was made and it's not in the City's best interest to cash out of investments when there is a temporary allocation change. City Staff continues to monitor the percentage of holdings each month to ensure that any fluctuations are temporary and would not be eligible to invest additional Credit Union funds until the allocation space was available.

vi) As of March 1, 2018 the Municipal Act, 2001 was amended to include section 418.1 Prudent Investor Standard. This standard authorizes municipalities to opt into the prudent investor regime. In order to proceed with the new standard, municipalities must meet specific criteria as set out in the standard. City Staff is currently reviewing the criteria and will be providing a separate information report to Council in June with a recommendation on how the City shall proceed.

B. Own Securities

The City has not invested in its own long-term or short-term securities.

C. Investment Policy and Regulation Investment Standard Compliance

In order to aid in the achievement of the primary objectives of the Investment Policy, the policy places restrictions and limitations on investment quality, diversification, and term. The current portfolio is in compliance with the Municipal Act and Ontario Regulation 438/97 and within the targets set out in the City Investment Policy in all but the following respects:

- Under the current policy, the maximum percentage of holdings for Credit Unions is ten per cent. As outlined above, the Credit Union percentage of holdings was at 11 per cent at year-end but was onside at the time of original purchase.

In all other respects, investments are fully consistent with the investment policies and goals adopted by the City.

Financial Implications

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increasing the value of reserve funds used to finance capital projects.

Consultations

N/A

Corporate Administrative Plan

Overarching Goals

Financial Stability

Service Area Operational Work Plans

Our Services - Municipal services that make lives better

Our Resources - A solid foundation for a growing city

Attachments

- ATT-1 Investment Reporting Requirements
- ATT-2 City of Guelph Investment Portfolio by Issuer - Short-term and Long-term Investments at December 31, 2017
- ATT-3 City of Guelph Investment Portfolio by Security at December 31, 2017

Departmental Approval

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ATT-1

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 1.91 per cent on its investments and cash as at December 31, 2017.

2. Investments in Own Securities

None of the 2017 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 2017 investments of the City have been invested in its own long-term or short-term securities.

Statement of Treasurer re: City of Guelph Investment Policy Compliance

I, Tara Baker, GM Finance and City Treasurer for the City of Guelph, hereby state that all investments have been made in accordance with the investment policies adopted by the City of Guelph.

Statement of Treasurer re: O.R. 438/97 Investment Standard Compliance

I, Tara Baker, GM 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.



Tara Baker, CPA, CA
GM Finance & City Treasurer

ATT-2

**City of Guelph
Investment Portfolio by Issuer, Short-term
and Long-term as at December 31, 2017**

Short-Term Investment Portfolio

Issuer	Yield	Maturity	Carrying Value \$	Term to Maturity (Days)		
				Dec 31	Restriction	Exceeded
Meridian Credit Union	1.00%	Liquid	106,918	N/A	364	-
One Investment Program	1.915%	Liquid	92,384	N/A	364	-
RBC Dominion Securities	0.7%	Liquid	4,050,836	N/A	364	-
RBC Dominion Securities	1.05-3.10%	Various<1 yr	10,530,881	<364	364	-
Meridian Credit Union	2.00%	03-Mar-18	7,059,548	62	364	-
Meridian Credit Union	1.85%	04-May-18	8,148,000	124	364	-
BMO Wealth Management	1.90%	07-May-18	10,000,000	127	364	-
TD Wealth	1.50%	07-Aug-18	5,000,000	219	364	-
Meridian Credit Union	2.00%	03-Sep-18	17,297,500	246	364	-
Short-term Investment Total			\$ 62,286,067			

Long-term Investment Portfolio

Issuer	Yield	Maturity	Carrying Value \$	Term to Maturity (Years)		
				Dec 31	Restriction	Exceeded
Joint Municipal Investments	Variable	Liquid	41,745,550	Current	N/A	-
RBC Dominion Securities	1.5%-2.82%	Various >1 yr	6,040,271	>365-4.2	5	-
Bank of Nova Scotia	1.54%	22-Apr-19	10,000,000	1.3	10	-
TD Wealth	1.81%	16-Apr-19	10,000,000	1.3	10	-
TD Wealth	1.783%	11-Jul-19	29,954,400	1.6	10	-
RBC Dominion Securities	2.15%	19-Aug-19	10,000,000	1.7	10	-
CIBC	2.99%	06-Dec-19	19,245,271	2.0	10	-
TD Wealth	2.50%	06-Jan-20	15,000,000	2.0	10	-
CIBC	2.25%	21-Jan-21	14,500,000	3.1	10	-
National Bank	1.806%	14-Nov-22	5,000,000	4.9	10	-
Bank of Montreal	3.04%	02-Dec-22	5,000,010	5.0	10	-
CIBC-Provincial	3.30%	02-Dec-24	8,085,928	7.0	20	-
TD Wealth	2.05%	13-Aug-25	10,000,000	7.7	10	-
CIBC-Provincial	4.08%	02-Dec-26	7,225,339	9.0	20	-
National Bank	2.00%	04-May-27	10,000,000	9.5	10	-
Long-term Investment Total			\$201,796,769			

TOTAL SHORT AND

LONG TERM INVESTMENTS \$264,082,836

**ATT-3
City of Guelph Investment Portfolio by Security
as at December 31, 2017**

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments & Provincial Guarantees	20,311,278	6.8%	75%
Country Other than Canada			5%
Municipal			
City of Guelph			50%
Other Municipalities & OSIFA – AAA & AA			50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	202,957,300	68.2%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union	32,611,966	11.0%	10%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools	41,745,550	14.0%	15%
TOTAL	\$297,626,094	100.00%	