

Information Report



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| Service Area | Corporate Services |
| Date | Friday, April 26, 2019 |
| Subject | 2018 Year-end Investment Performance Report |
| Report Number | CS-2019-10 |

Executive Summary

Purpose of Report

To report on the 2018 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 at December 31, 2018 was \$279.1 million, plus cash holdings of \$45.9 million. The total investment and cash market value as at December 31, 2018 was \$328.3 million (2017- \$299.6 million).

Interest earned on investments and cash as at December 31, 2018 was \$8.0 million, which resulted in a positive variance to budget of \$0.9 million, and has surpassed the 2017 earnings by \$0.5 million. This computes to an average rate of return of 2.19 per cent (2017: 1.91 per cent). In accordance with the City's General Reserve and Reserve Fund Policy, an allocation of \$5.2 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 and user fees 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 –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; also called book value

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

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

A. Statement of Performance

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

| | December 31, 2018 (Carrying Value) | December 31, 2017 (Carrying Value) |
|-------------------------------------|---------------------------------------|---------------------------------------|
| Long-term | \$156,165,851 | \$201,796,769 |
| Short-term | \$122,984,136 | \$62,286,067 |
| Total Investments | \$279,149,987 | \$264,082,836 |
| Cash | \$45,869,153 | \$33,543,258 |
| Total Cash & Investments | \$325,019,140 | \$297,626,094 |

The carrying value of the total investment portfolio as at December 31, 2018 was \$279.1 million plus cash holdings of \$45.9 million. Interest earned on investments and cash as at December 31, 2018 was \$8.0 million, which resulted in a positive variance to budget of \$0.9 million, and has surpassed the 2017 earnings by \$0.5 million. This computes to an average rate of return of 2.19 per cent (2017: 1.91 per cent).

The total investment and cash market value as at December 31, 2018 was \$328.3 million (2017- \$299.6 million). The details of the City's specific investment portfolio as at December 31, 2018 are attached in the City of Guelph Investment Portfolio by Issuer (ATT-2) and the City of Guelph Investment Portfolio by Security (ATT-3).

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 \$5.2 million was transferred to the reserve funds at year-end.

Cash Activity

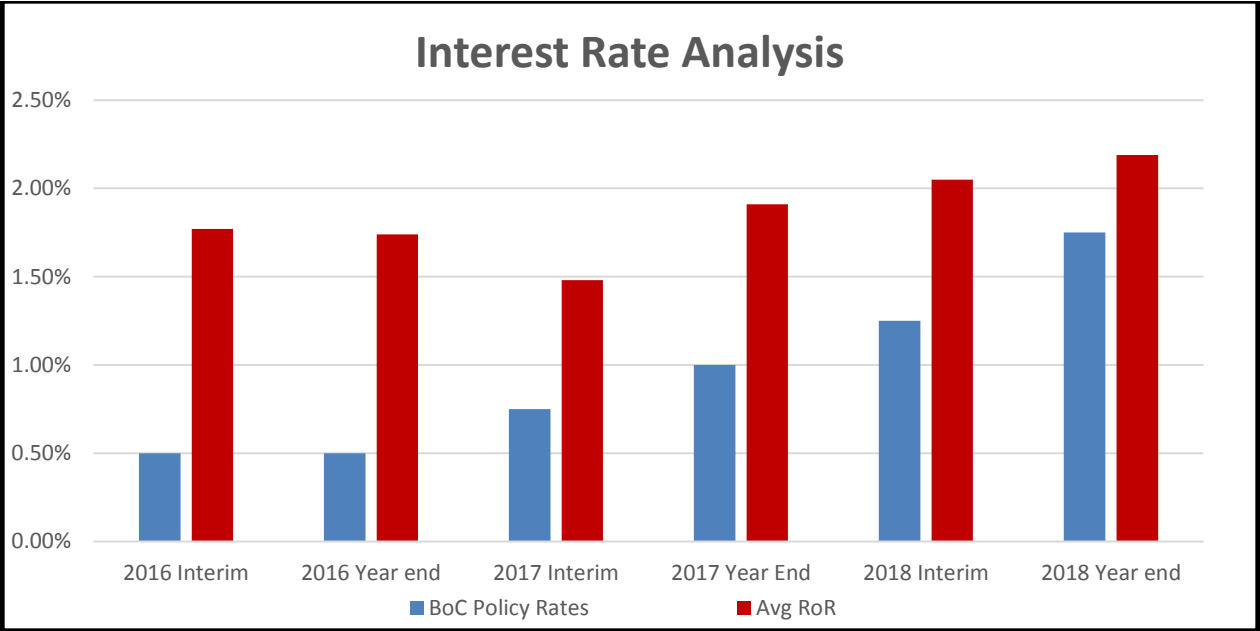
During 2018, the Bank of Canada raised the policy interest rate in January to 1.25 per cent. The policy interest rate had remained stable at 1.25 per cent for the second and third quarter, however in response to inflationary pressures during the last quarter of 2018 the rate was increased to 1.75 per cent. Policy rate increases represent favourable outcomes for the City's interest earned on cash balances as it is based on prime rate. 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 Policy. The intent is to optimize the returns on available cash throughout the year. Staff monitors cash balances on a frequent basis to ensure that any excess cash is locked into short-term investments or transferred to the One Fund High Interest Savings account, which as of December 2018 was earning 2.42 per cent.

The cash balance of \$45.9 million at year-end may appear to be under-utilized, however liquid funds are required for the City's working capital needs. The cash outflows for the month of January were \$48.1 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. Additionally, on December 27th a \$10 million investment matured which was used for capital spending in January 2019. Staff continue to monitor the cash flow on a monthly basis to ensure that any excess cash is invested; earning the highest rate possible.

Investment Activity

The majority of the City’s investments are short-term Guaranteed Investment Certificates and term deposits which are receiving the benefit of an increased prime rate as they renew. Please refer to Table 1; as the policy rates increase, there is no immediate impact to short-term investment returns as there is a time lag between brokers passing on the rate benefits externally to the primary markets. To balance this, some of the City’s long-term investments are currently locked in at rates that are no longer favourable in today’s market, but this is expected in a well-balanced portfolio. Staff monitor these investments by reaching out to their investment counterparts to determine if the current rate of return outweighs the penalties that would be incurred upon early redemption.

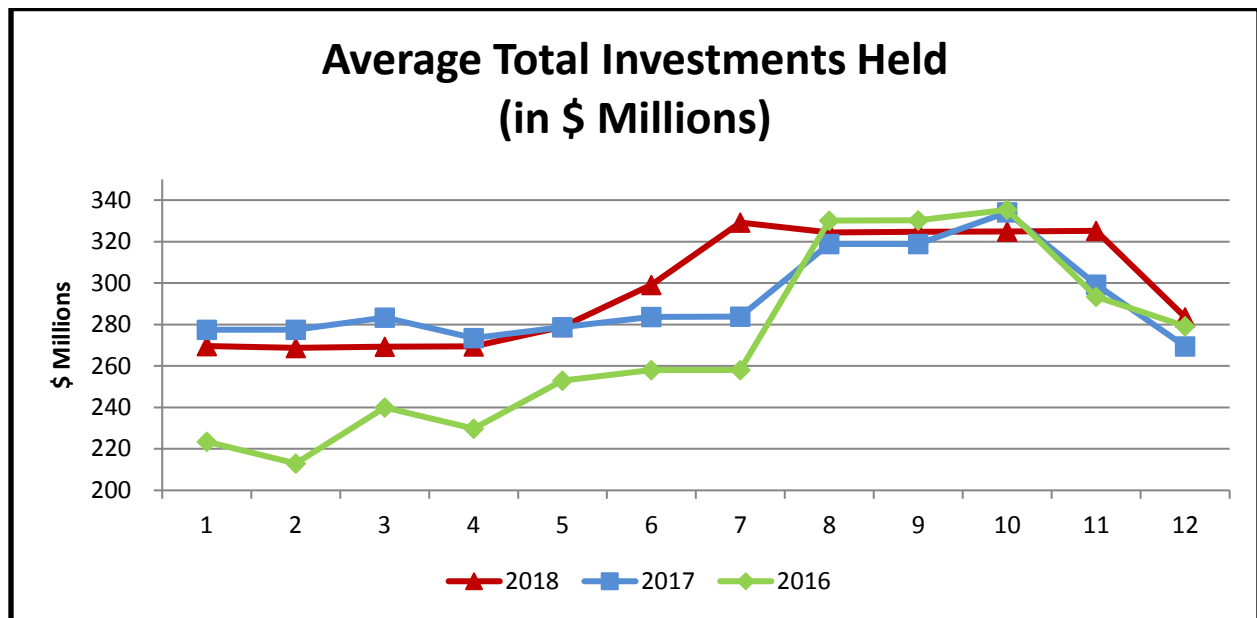
Table 1



Investment Portfolio Analysis

The City has earned a total of \$6.6 million (2017: \$6.1 million) from the investment portfolio which excludes interest earned on cash balances. This represents an average return of 2.22 per cent as at December 31, 2018 compared to a 2.08 per cent average return for 2017. See Table 2 below for a comparison of the average carrying value of investments held in 2018, 2017 and 2016. Please note that during the last quarter of the year, the investment balances decline due to the fact that funds are typically required for capital needs. This cash flow pattern is consistent with prior years.

Table 2



RISK/OPPORTUNITY IDENTIFICATION

Following are the risks and opportunities that were present during the 2018 fiscal year:

- i. On June 26, 2018, Council had approved staff’s recommendation to not pursue the Prudent Investor Status at this time. Staff has committed to monitor the market to determine how other municipalities will respond to the regulation changes. Additionally, Council had approved the Investment Policy to increase the allowable holdings of Joint Municipal Investment Boards by five per cent and designate the One Fund Canadian Equity Portfolio as an allowable investment option. Staff have made the decision to not invest in the equity market at the moment to assess how the market responds to existing political pressures with trade agreements and the impact on Gross Domestic Product, as a result of the Bank of Canada policy changes.
- ii. Recent statements from the Bank of Canada indicate they will remain gradual in their approach to raising rates to achieve neutral stance to inflationary targets; a neutral stance is between 2.50 per cent and 3.5 per cent. Given this information, staff have been cautionary with placing long-term investments as they become due; hoping that we can benefit in the short-term from rising rates and lock in long-term once rates become more stable and the rate benefits are extended to the primary markets. This strategy can be noted in Table 1 above, as the short-term balances have risen by the end of 2018 in comparison to long-term.

- iii. During 2018, approximately \$111.8 million of investments came due that were earning an average rate of return of 1.98 per cent. Staff have been able place these funds at increased rates computing to an average rate of return of 2.65 per cent.
- iv. With the creation of the long-term capital plan, Finance staff is in the process of strategically aligning long-term investments with long-term capital projects. Variability in municipal spending largely relates to capital spending, since operating costs are relatively stable and predictable to budget. Therefore, aligning our investments with capital projects will assist in smoothing the impact of capital spending to ensure the cash is available when capital projects are underway. An additional benefit of aligning these two initiatives would be to hedge against interest rate differentials between debt funding for capital projects and investments.

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's Investment Policy.

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 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, 2018
ATT-3 City of Guelph Investment Portfolio by Security at December 31, 2018

Departmental Approval

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ATT-1 to report CS-2019-10

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 2.19 per cent on its investments and cash as at December 31, 2018.

2. Investments in Own Securities

None of the 2018 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 2018 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/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/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 to report CS-2019-10

City of Guelph Investment Portfolio by Issuer, Short-term and Long-term as at December 31, 2018

| Short-term Investment Portfolio | | | | Term to Maturity (Years) | | |
|------------------------------------|------------|--------------|----------------------|--------------------------|-------------|----------|
| Issuer | Yield | Maturity | Carrying Value \$ | 31-Dec-18 | Restriction | Exceeded |
| Meridian Credit Union | 0.95% | Liquid | 2,534 | N/A | 364 | - |
| One Investment Program | 2.42% | Liquid | 20,664,484 | N/A | 364 | - |
| RBC Dominion Securities | 0.70% | Liquid | 548,468 | N/A | 364 | - |
| RBC Dominion Securities | 1.05-3.10% | Various<1 yr | 9,449,532 | <364 | 364 | - |
| Meridian Credit Union | 2.75% | 03-Feb-19 | 7,200,739 | 34 | 364 | - |
| Meridian Credit Union | 2.10% | 03-Feb-19 | 106,907 | 57 | 364 | - |
| Bank of Nova Scotia | 1.54% | 22-Apr-19 | 10,000,000 | 112 | 364 | - |
| TD Wealth | 1.81% | 16-Apr-19 | 10,000,000 | 105 | 364 | - |
| Meridian Credit Union | 2.87% | 13-May-19 | 3,799,151 | 133 | 364 | - |
| BMO Wealth Management | 2.47% | 29-Jun-19 | 10,000,000 | 179 | 364 | - |
| RBC Dominion Securities | 2.15% | 19-Aug-19 | 10,000,000 | 231 | 364 | - |
| Meridian Credit Union | 3.02% | 14-Sep-19 | 17,833,419 | 257 | 364 | - |
| Meridian Credit Union | 2.94% | 04-Nov-19 | 3,750,000 | 308 | 364 | - |
| CIBC | 2.99% | 06-Dec-19 | 19,628,902 | 340 | 364 | - |
| Short-term Investment Total | | | \$122,984,136 | | | |

| Long-term Investment Portfolio | | | | Term to Maturity (Years) | | |
|-----------------------------------|-------------|--------------|----------------------|--------------------------|-------------|----------|
| Issuer | Yield | Maturity | Carrying Value \$ | 31-Dec-18 | Restriction | Exceeded |
| Joint Municipal Investments | Variable | Liquid | 42,748,511 | Current | N/A | - |
| RBC Dominion Securities | 1.35%-2.95% | Various>1 yr | 8,064,547 | >365-4.3 | 5 | - |
| TD Wealth | 2.50% | 06-Jan-20 | 15,000,000 | 1.0 | 10 | - |
| CIBC | 2.25% | 21-Jan-21 | 14,500,000 | 2.0 | 10 | - |
| TD Wealth | 1.78% | 11-Jul-21 | 29,954,400 | 2.5 | 10 | - |
| National Bank | 1.81% | 14-Nov-22 | 5,000,000 | 3.9 | 10 | - |
| BMO Wealth Management | 3.04% | 02-Dec-22 | 5,000,010 | 3.9 | 10 | - |
| CIBC-Provincial | 3.30% | 02-Dec-24 | 8,362,288 | 5.9 | 20 | - |
| TD Wealth | 2.05% | 13-Aug-25 | 10,000,000 | 6.6 | 10 | - |
| CIBC-Provincial | 4.08% | 02-Dec-26 | 7,536,095 | 7.9 | 20 | - |
| National Bank | 2.00% | 04-May-27 | 10,000,000 | 8.3 | 10 | - |
| Long-term Investment Total | | | \$156,165,851 | | | |

ATT-3 to report CS-2019-10

**City of Guelph Investment Portfolio by Security
as at December 31, 2018**

| Securities | Investment Value \$ | Investment Percentage of Holdings | Policy Maximum Portfolio Percentage Limit |
|---|----------------------------|--|--|
| Federal | | | |
| Government of Canada | | | 100% |
| Federal Guarantees | | | 50% |
| Provincial Governments & Provincial Guarantees | 20,898,393 | 6.4% | 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 | 228,679,486 | 70.4% | 75% |
| Schedule II and III Banks | | | 25% |
| Loan or Trust Corporations, Credit Union | 32,692,750 | 10.0% | 10% |
| Supranational Financial Institution or Government Organization | | | 25% |
| Corporate Debt | | | 25% |
| Commercial Paper | | | 15% |
| Joint Municipal Investment Pools - Bonds | 42,748,511 | 13.2% | 15% |
| Joint Municipal Investment Pools – Equity | | | 5% |
| TOTAL | \$325,019,140 | 100.00% | |
| | | | |