

Information Report



Service Area	Corporate Services
Date	Friday, May 29, 2020
Subject	2019 Year-end Investment Performance Report

Executive Summary

Purpose of Report

To report on the 2019 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act and the City's Council-approved Investment Policy. The Treasurer's statement of compliance is included in Attachment-1 to this report.

Key Findings

The carrying value of the total investment portfolio as at December 31, 2019 was \$354.3 million, plus cash holdings of \$51.1 million (total carrying value of \$405.4 million). The total investment and cash market value as at December 31, 2019 was \$408.9 million (2018-\$328.3 million). The carrying value of the City's investment and cash portfolio holdings went up in 2019 by \$80.4 million compared to prior years which was expected given the rise in reserve and reserve funds and the 2019 \$33.1 million debenture issuance. There were a number of transactions including the receipt of the \$13.5 million special dividend from Guelph Municipal Holdings Inc. (GMHI), higher than normal development charge revenues by \$12 million and the one-time doubling of the Federal Gas Tax funding that contributed to reserve and reserve fund increase.

Interest earned on investments and cash as at December 31, 2019 was \$9.8 million, which resulted in a positive variance to budget of \$3.1 million, and has surpassed the 2018 earnings by \$2.5 million. This computes to an average rate of return of 2.45 per cent (2018: 2.19 per cent). In accordance with the City's General Reserve and Reserve Fund Policy, an allocation of \$6.9 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.

Looking forward into 2020, the market conditions through the COVID-19 Pandemic have changed considerably since year-end. The Bank of Canada has reduced rates as part of their fiscal policy response and the City has had significant revenue

losses and cash flow impacts from property tax and rate revenue deferrals. For this reason, contingency reserves have had to be accessed, temporarily reducing the amount of cash and investment portfolio that is invested. Both the reduction in the size of the portfolio and the market rate decline will have a negative impact on the 2020 return on investments. The City's strong investment strategy leading into the COVID crisis will be a natural hedge as this negative impact will be spread out over a number of years as the market recovers.

Report

Details

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 City's 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.

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.

Statement of Performance

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

	December 31, 2019 (Carrying Value)	December 31, 2018 (Carrying Value)
Long-term	\$204,444,152	\$156,165,851
Short-term	\$149,901,605	\$122,984,136

	December 31, 2019 (Carrying Value)	December 31, 2018 (Carrying Value)
Total investment portfolio	\$354,345,757	\$279,149,987
Cash	\$51,051,683	\$45,869,153
Total cash and investments	\$405,397,440	\$325,019,140

The carrying value of the total investment portfolio as at December 31, 2019 was \$354.3 million, plus cash holdings of \$51.1 million (total of \$405.4 million).

Interest earned on investments and cash as at December 31, 2019 was \$9.8 million, which resulted in a positive variance to budget of \$3.1 million, and has surpassed the 2018 earnings by \$2.5 million. This computes to an average rate of return of 2.45 per cent (2018: 2.19 per cent).

The total investment and cash market value as at December 31, 2019 was \$408.9 million (2018-\$328.3 million). The details of the City's specific investment portfolio as at December 31, 2019 are attached in Attachment-2 2019 Investment Portfolio by Issuer and in Attachment-3 2019 Investment Portfolio by Security Type.

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 \$6.9 million was transferred to the reserve funds at year-end.

Cash Activity

Throughout 2018, the Bank of Canada had made several rate hikes, including one in the last quarter of 2018, which increased the policy interest rate to 1.75 per cent. Despite market speculation of further increases through 2019, the rate remained stable throughout the year through to March 4, 2020, at which time the rates were reduced because of the COVID-19 pandemic. This stable 2019 rate of 1.75 per cent created a more favourable rate environment than in 2018 and contributed to the positive revenue variance.

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 earned 2.44 per cent in 2019.

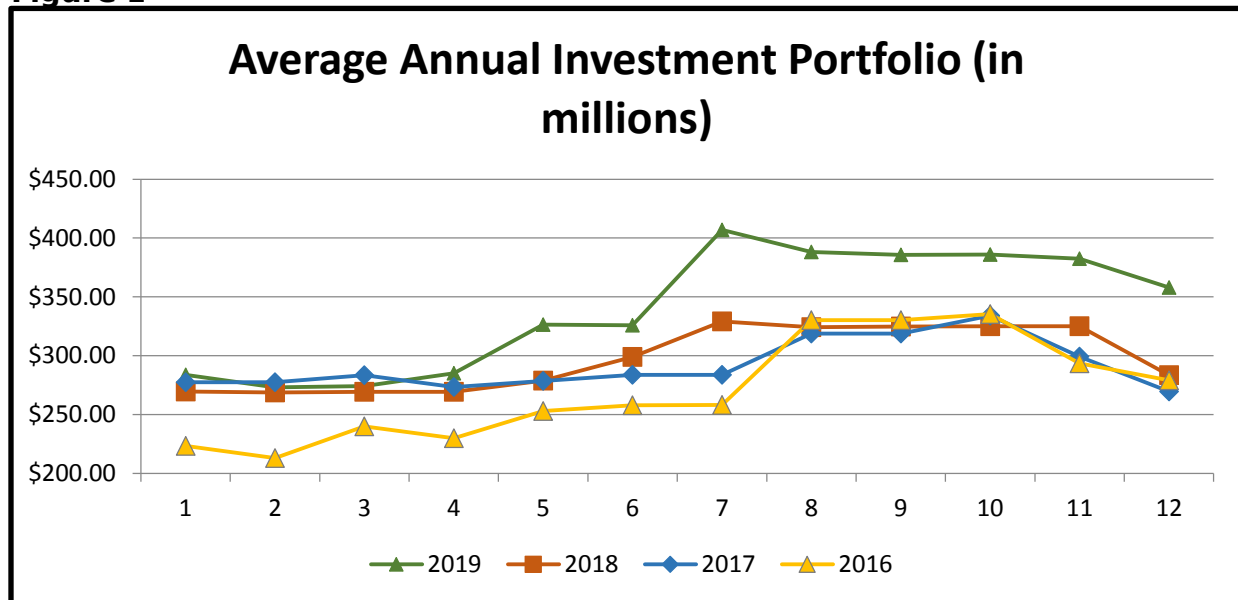
Investment Portfolio

As demonstrated in Figure 1, the City's investment portfolio holdings (not including cash holdings) went up in 2019 by \$75 million compared to prior years which was expected given the rise in reserve and reserve funds and the 2019 \$33.1 million debenture issuance. There were a number of transactions including the receipt of the \$13.5 million special dividend from GMHI, higher than normal development charge revenues by \$12 million and the one-time doubling of the Federal Gas Tax funding that contributed to reserve and reserve fund increase. Further, the timing

of capital projects can impact the investment portfolio balance at any given point in the year.

In July of each year, there is an increase in the investment portfolio holdings because of the timing of the property tax collection due date and then a natural maturity cycle that occurs later in year due to liquidity requirements.

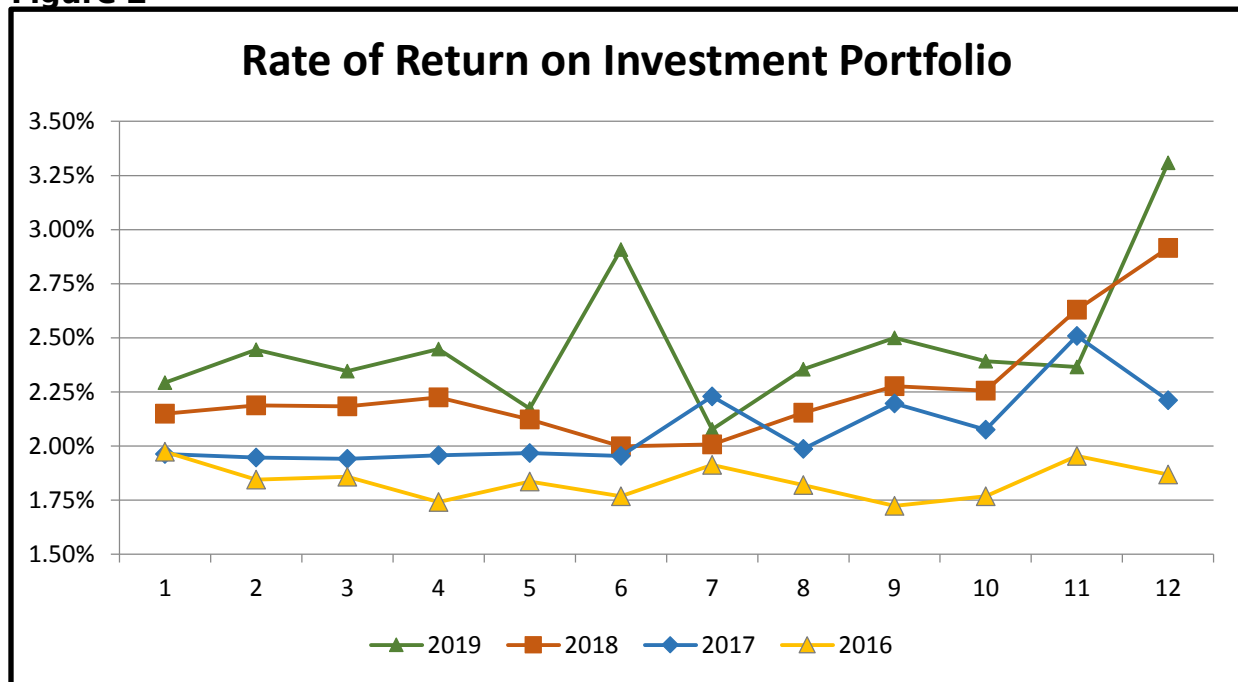
Figure 1



The City has earned a total of \$8.4 million (2018: \$6.6 million) from the investment portfolio which excludes interest earned on cash balances. This represents an average return of 2.47 per cent as at December 31, 2019 compared to a 2.22 per cent average return for 2018. See Figure 2 below for a comparison of the average income earned from 2016 through 2019.

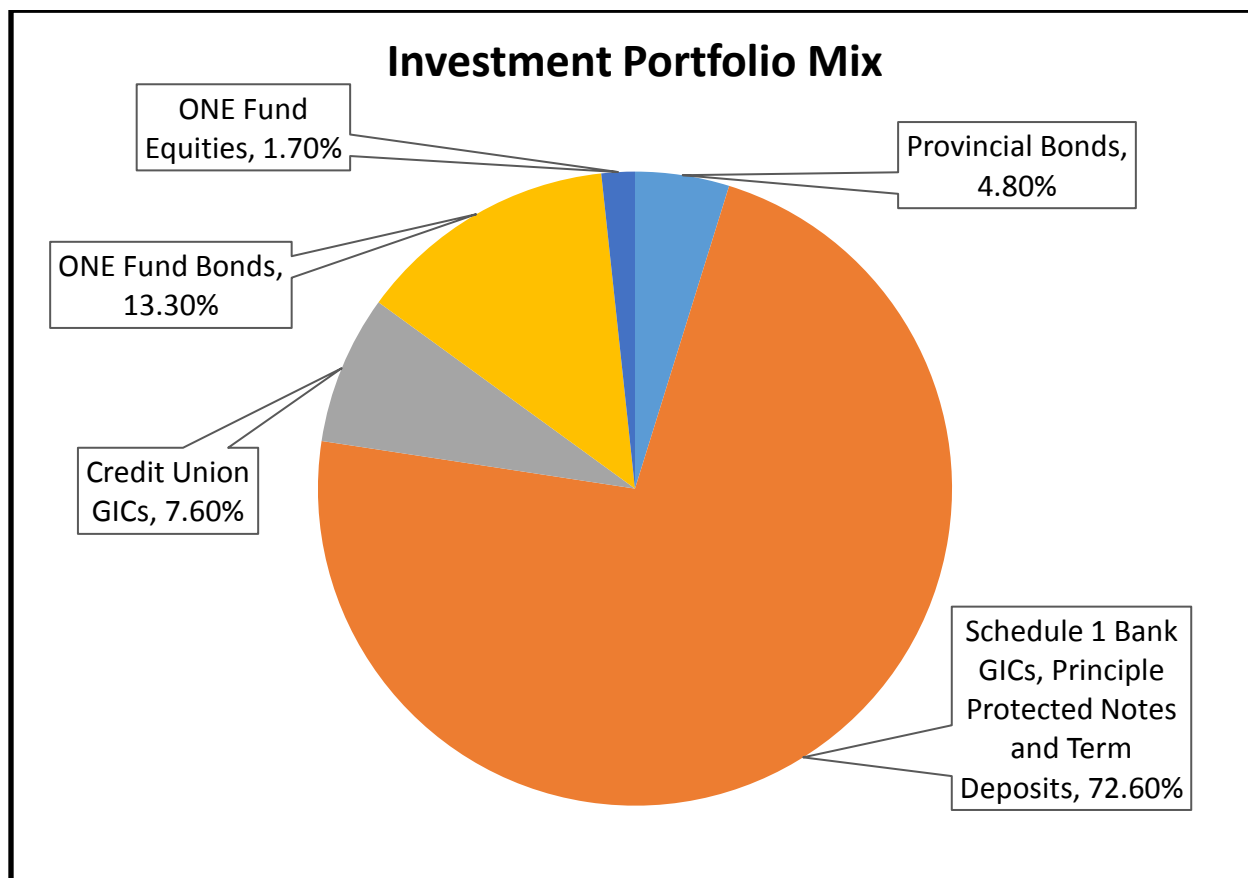
There were two times during 2019 where the rate of return spiked upwards due to staff acting on advice to take advantage of market conditions and trade for higher earning investment facilities.

Figure 2



Staff continue to monitor the investment portfolio and diversify the holdings where possible in a very difficult/low market. On June 26, 2018, 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. Figure 3 shows the diversity within the investment portfolio that assists in protecting the City from significant market changes.

Figure 3



The City has purchased \$7 million of Canadian equities through the One Fund Investment Portfolio since this policy change in 2018. As of December 31, 2019 the equity fund market value was approximately \$217 thousand higher than the original investment. This is a long-term investment which will experience swings with market conditions.

Staff continue to be innovative in order to diversify the City's investment portfolio including increasing contributions to the One Fund Investment Portfolios, entering into partnerships with other municipalities and continuing to monitor the broader municipal response to the Prudent Investor Status regulation changes.

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.

Looking forward into 2020, the market conditions through the COVID-19 Pandemic have changed considerable since year-end. The Bank of Canada has reduced rates as part of their fiscal policy response and the City has had significant revenue losses and cash flow impacts from property tax and rate revenue deferrals. For this reason, contingency reserves have had to be accessed, temporarily reducing the amount of cash and investment portfolio that is invested. Both the reduction in the size of the portfolio and the market rate decline will have a negative impact on the 2020 return on investments. The City's strong investment strategy leading into the

COVID crisis will be a natural hedge as this 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: 2019 Statement of the Treasurer

Attachment-2: 2019 Investment Portfolio by Issuer

Attachment-3: 2019 Investment Portfolio by Security Type

Departmental Approval

None noted.

Report Author

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Attachment-1: 2019 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 2.45 per cent on its investments and cash as at December 31, 2019.

2. Investments in Own Securities

None of the 2019 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 2019 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.

Attachment-2: 2019 Investment Portfolio by Issuer

Short-term and Long-term Investments at December 31, 2019

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

Issuer	Yield	Maturity	Carrying Value \$	31-Dec-19	Restriction	Exceeded
Royal Bank HISA	2.42%	Liquid	17,821,734	N/A	364	-
One Investment HISA	2.42%	Liquid	44,011,860	N/A	364	-
RBC Dominion Securities	1.20-3.37%	Various <1 year	18,214,791	<364	364	-
Bank of Montreal	2.58%	05-Jan-20	6,000,000	5	364	-
TD Wealth	2.50%	06-Jan-20	15,000,000	6	364	-
Meridian Credit Union	3.00%	08-Feb-20	5,000,000	39	364	-
Meridian Credit Union	2.40%	14-Mar-20	5,000,000	74	364	-
Bank of Montreal	2.33%	20-May-20	10,000,000	141	364	-
Meridian Credit Union	2.90%	21-May-20	2,000,000	142	364	-
Meridian Credit Union	2.50%	14-Jun-20	5,000,000	166	364	-
Meridian Credit Union	2.60%	19-Aug-20	3,000,000	232	364	-
Meridian Credit Union	2.60%	14-Sep-20	5,000,000	258	364	-
Bank of Montreal	2.25%	20-Nov-20	10,000,000	325	364	-
Meridian Credit Union	2.70%	21-Nov-20	3,853,220	326	364	-

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

Issuer	Yield	Maturity	Carrying Value \$	31-Dec-19	Restriction	Exceeded
Joint Municipal Investments - Bond	Variable	Liquid	53,848,452	Current	N/A	-
Joint Municipal Investments - Equity	Variable	Liquid	7,000,000	Current	N/A	-
CIBC	2.25%	21-Jan-21	14,500,000	1.1	10	-
Meridian Credit Union	2.70%	19-Feb-21	2,000,000	1.1	2	-
Bank of Nova Scotia	2.27%	20-Aug-21	30,000,000	1.6	10	-
Bank of Nova Scotia	2.45%	05-Jul-22	4,000,000	2.5	10	-
CIBC	2.50%	12-Sep-22	10,000,000	2.7	10	-
National Bank	2.16%	14-Nov-22	5,000,000	2.8	10	-
BMO-Provincial	3.04%	02-Dec-22	5,000,010	2.9	20	-
CIBC – Principle Protected Notes	Variable	23-Sep-23, 24, 25, 26, 27	\$3,000,000	\$500 thousand each year	10	-
TD Wealth	2.33%	30-Aug-24	30,775,436	4.7	10	-
CIBC-Provincial	2.52%	15-May-25	5,124,582	5.3	20	-
CIBC-Provincial	2.37%	15-May-25	1,985,003	5.3	20	-
CIBC-Provincial	2.30%	02-Jun-25	3,985,892	5.4	20	-
TD Wealth	2.50%	13-Aug-25	10,000,000	5.6	10	-
CIBC-Provincial	4.08%	02-Dec-26	3,268,168	6.9	20	-
CIBC	2.71%	7-Jan-27	3,177,696	7.0	10	-
National Bank	2.15%	04-May-27	10,000,000	7.4	10	-
CIBC	2.73%	15-May-27	1,778,913	7.4	10	-

Attachment-3: 2019 Investment Portfolio by Security Type

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	19,363,655	4.8%	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	294,330,375	72.6%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union	30,854,958	7.6%	10%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Bonds	53,848,452	13.3%	15%
Joint Municipal Investment Pools – Equity	7,000,000	1.7%	5%
TOTAL	\$405,397,440	100.00%	