

Information Report

Service Area Corporate Services
 Date Friday, April 22, 2022
 Subject **2021 Year-end Investment Performance Report**

Executive Summary

Purpose of Report

To report on the year-end 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 investment income of \$8.5 million for the year ending December 31, 2021. This represents a return of 1.62 per cent on a total carrying value of the portfolio of \$555.1 million as of December 31, 2021. The portfolio has increased by \$113.4 million compared to Dec 31, 2020 but the return has decreased from the average rate of return in 2020 of 2.21 per cent.

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

	Dec 31, 2021	Dec 31, 2021	Dec 31, 2021	Dec 31, 2020	Dec 31, 2020	Dec 31, 2020
	Closing Balance	Income (\$)	Return (%)	Closing Balance	Income (\$)	Return (%)
Cash and Savings Accounts	49,033,876	516,704	0.73%	64,818,956	579,849	1.03%
High Interest Savings Accounts	80,204,874	747,196	0.85%	4,521,275	509,371	1.62%
Long Term Investments	333,767,393	5,049,176	1.90%	282,614,799	5,833,829	2.16%
Managed Funds and Pools	92,435,385	2,179,385	2.20%	90,087,795	2,894,130	3.33%
Total	\$555,441,527	\$8,492,459	1.62%	\$442,042,825	\$9,817,178	2.21%

The main driver of reduced investment earnings compared to 2020 returns was the low interest rate environment, which was at historic lows throughout 2021. 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 per cent down to 0.25 per cent - a historic low. The overnight rate remained at 0.25 per cent for all of 2021 and was only increased in March 2022 to 0.5 per cent; a further increase of 0.5 per cent was implemented on April 13, 2022, for a target rate of 1.0 per cent at the time of preparation of this report.

As older bonds mature, the proceeds were not able to be reinvested at the same rate, which reduced the overall rate of return. In the first quarter of 2022, we have seen interest rates begin to rebound, with a few opportunities beginning to present themselves. As mentioned above, the Bank of Canada has started to increase rates in early 2022 and it is expected rates will further increase through the year responding to a strengthening economy and high inflationary pressure. Staff continue to look for the best investment options in this environment including expanded use of High Interest Savings Accounts which generated returns consistent with short term GICs with the benefit of additional flexibility and liquidity.

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 do not represent a significant risk to the City. These bonds are within the limitations of the Municipal Act which does 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 \$1.8 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 are 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

The low interest rate environment negatively impacts overall investment returns; however, it also provided the opportunity for the City to secure debt financing at a low cost through the [2021 Debenture Issue](#).

Investment income reduces the amount needed from property tax to fund City operating services and increases the value of reserve funds used to fund future capital expenditures.

Total investment revenue was \$1.3 million less than 2020 but was in-line with the total investment income budget before the allocation to the reserve funds.

Factoring in the transfer to reserve funds, a negative variance of \$2.7 million was realized due to a number of factors. The transfer of investment income to the reserve funds is impacted by the rate of return earned, the size of the portfolio, and the balance in reserve funds which are allocated interest first before the remainder is recognized in the operating budget as investment revenue. Staff are exploring ways to reduce this volatility/vulnerability of investment returns on the operating budget and will be presented in future investment reports.

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

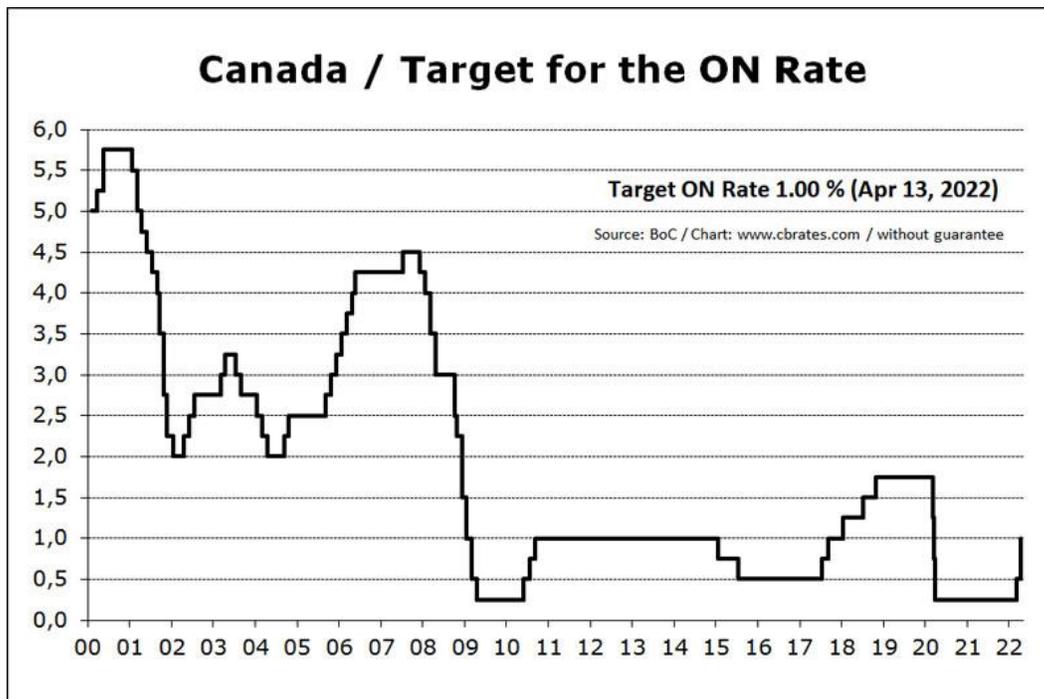
Provincial legislation requires that the Treasurer submit an investment report to Council each year, or more frequently as specified by Council. The City's current [Investment Policy](#) requires a report on the financial position, investment performance, and compliance status of the portfolio at least 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 per cent down to 0.25 per cent. The overnight rate remained at 0.25 per cent since March 27, 2020 until March 2, 2022 when the rate was increased to 0.5 per cent; a further increase of 0.5 per cent was implemented on April 13, 2022, for a target rate of 1.0 per cent at the time of preparation of this report.

The graph below shows this rate of 0.25 per cent in the context of the past 22 years. The rate in 2021 was at historical lows as the government responded to the COVID-19 crisis by lowering rates to stimulate the economy.

Figure 1



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 is closely tied to the Bank of Canada rate.
2. Longer-term bonds that mature in this low-rate environment may need to be reinvested at a lower rate. For example, if a 10-year bond that was paying 4 per cent per annum matured in 2021, the City could not reinvest those funds at the same rate. To reinvest the same 10-year bond in 2021 it would likely earn a return of around 2 per cent.
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 rates than longer-term investments which will have a temporary negative impact on investment returns.

In 2022 interest rates are expected to increase to deal with rising inflation. The City's strategy has been to keep considerable funds in cash and shorter time horizons in 2021. Staff will begin shifting these liquid funds to longer-term investments as appropriate as rates begin to rise.

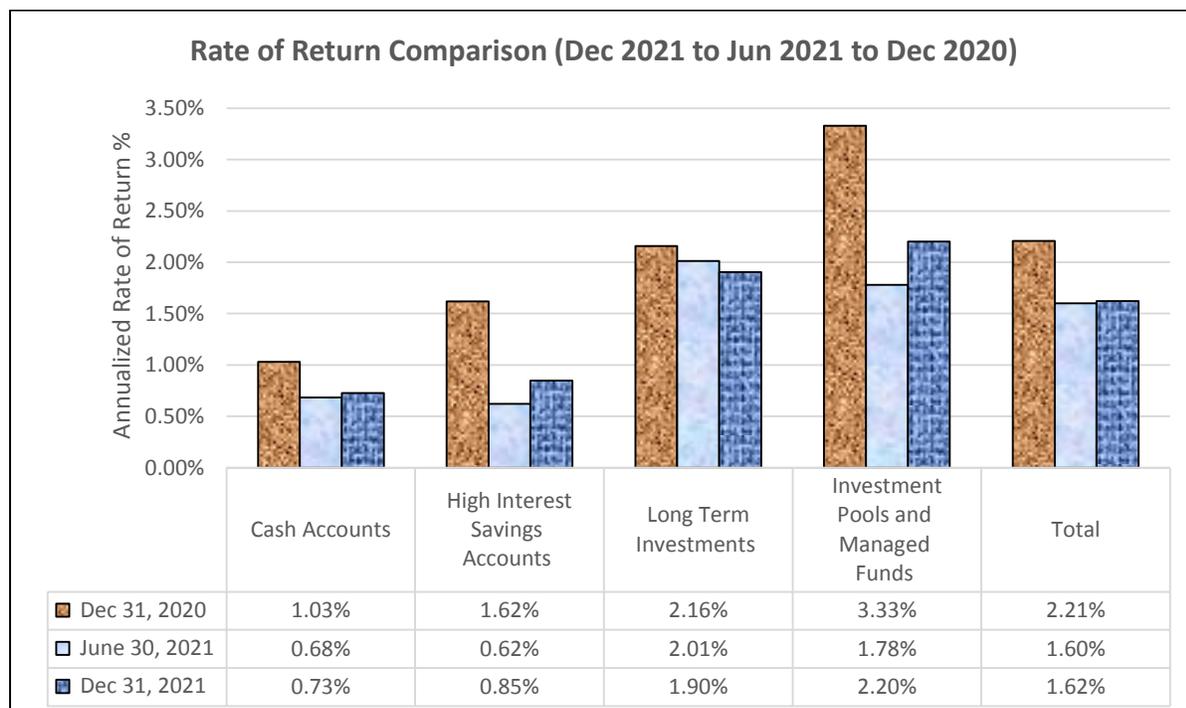
With limited reinvestment options as restricted by the Municipal Act, staff are continuing to consider alternative investment portfolio options through the Prudent Investor Standard.

Statement of Performance

Total investment income for 2021 was \$8.5 million, which represents an average return of 1.62 per cent. This is a decrease of \$1.3 million compared to 2020 where the year-end return was \$9.8 million and average rate of return of 2.21 per cent.

The table below outlines the investment return trend by investment type throughout 2021:

Figure 2



The lower rate of return is driven by the low-rate environment as well as higher cash balances due to lack of reasonable rate investment options and the shorter time horizon of investments overall.

Surplus cash has historically been placed in High Interest Savings Accounts (HISAs) to earn higher return than the City’s daily chequing account.

Several investments including the ONE funds have unrealized gains which are not reported in our investment performance. These include equities whose value has increased substantially over the past few years but are only recognized when sold.

Staff continue to monitor the investment portfolio and diversify the holdings where possible in a very difficult/low market. There were very few attractive options for short or long-term investments available in the market in 2021, but we are starting to see that change in 2022.

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.

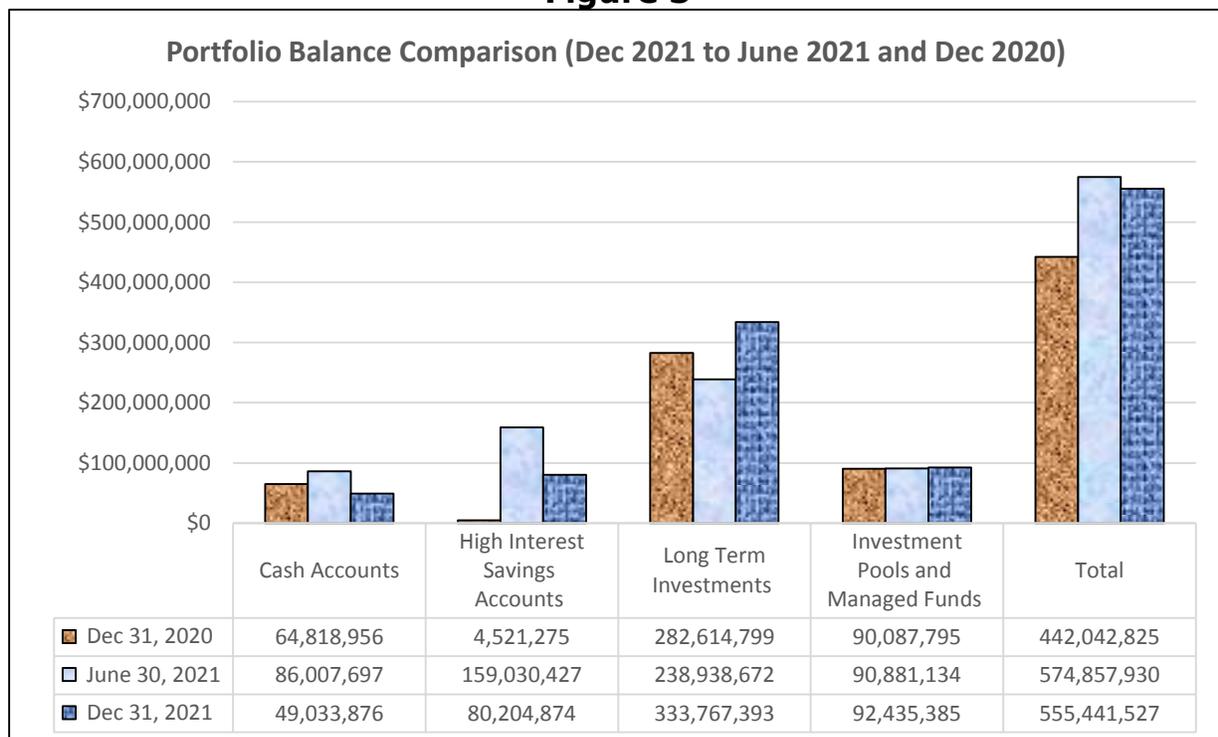
This surplus is also partially the result of the City’s noted gap in human resources required to execute the growing capital budget as described in Report [2021-39 Capital Program Resourcing Strategy](#). As the City increases its capacity to deliver on Council’s approved capital plan, staff expect to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

The investment and cash positions as of December 31, 2021 are as follows:

- Cash balances total \$49 million and include the City’s general bank account and smaller balances in other miscellaneous bank accounts. The City targets a balance of \$40 million in its operating accounts and invests a cash surplus above this amount.
- HISA accounts total \$80 million at year-end. HISA accounts tend to offer slightly higher returns than the general bank account and were the primary place that maturing investment proceeds and funds planned for investment were parked since short-term GICs have been paying relatively low rates.
- Long-term investments total \$333.7 million and include all holdings that were invested for a period greater than 12 months. These products tend to earn a higher return since they are invested for a longer period.
- The City typically does not invest in bonds shorter than one year, and staff no longer classify bonds as short term if they mature less than 12 months in this report.
- Investment pools total \$92.4 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.

Figure 3



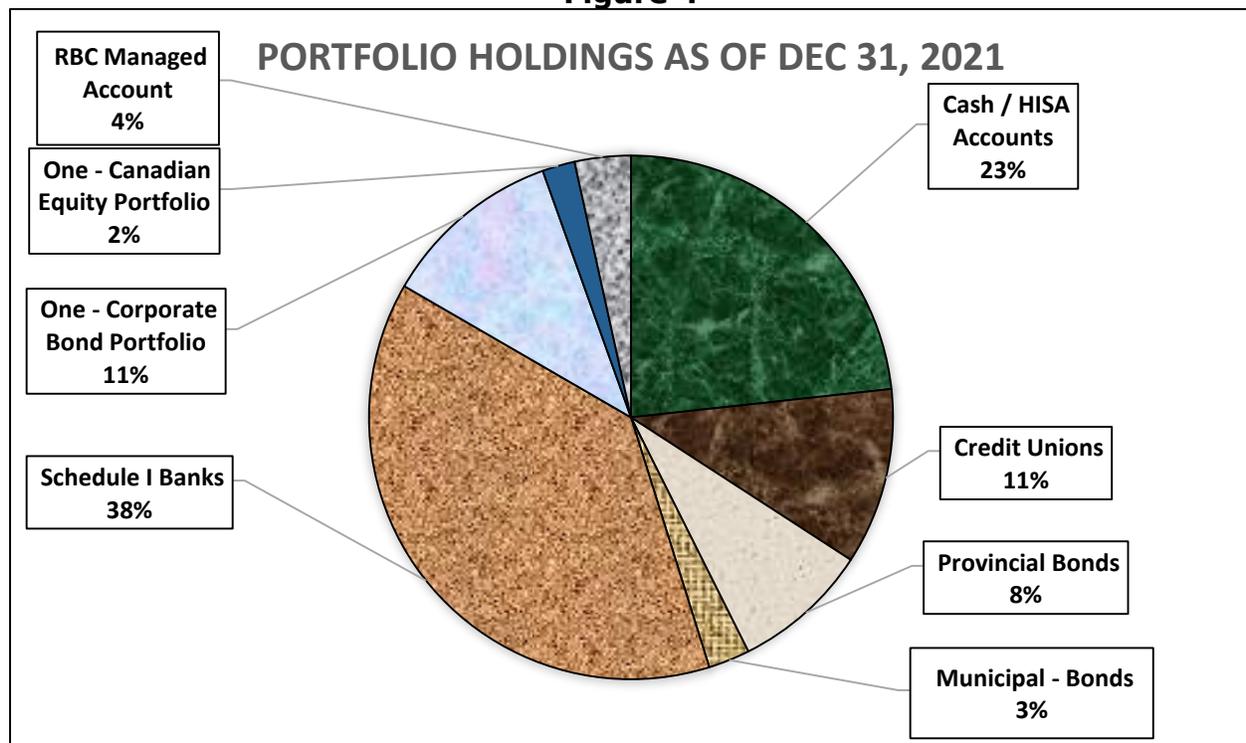
The City’s investment portfolio has increased by \$113.4 million since December 2021. This includes debt proceeds of \$49 million from the spring 2021 debt issue, and increased grant funding such as the COVID-19 Safe Restart funds. This

increased portfolio balance also reflects lower than anticipated capital spending which has been a concern for the last few years.

These funds will eventually be invested in longer-term investments to take advantage of rising rates throughout 2022 and beyond. The higher concentration of cash and HISA funds at year-end compared to 2021 means that a smaller portion of the overall portfolio is invested for longer terms. More cash and short-term investments tend to lower the overall rate of return but provide flexibility as rates rise.

The following figure outlines the investment portfolio mix as of December 31, 2021.

Figure 4



The largest holdings are invested with Schedule 1 banks usually in the form of GICs. This represents approximately 38 per cent of the total portfolio and is aligned with City policy to minimize risk while generating a reasonable return. The second largest holding is in cash making up approximately 23 per cent of the portfolio which includes HISAs and current accounts.

Investment pools and managed funds include the ONE Equity and Bond Portfolio and the RBC managed account that make up a total of 17 per cent of the portfolio. It should be noted that the ONE equity portfolio in particular has substantial unrealized gains in this account which are not reported in the return until sold. The City will likely be increasing its portion of funds in equity investments beyond the current 2 per cent as our policy limit for equity pools was increased to 20 per cent of the total portfolio in 2021.

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 which does 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 \$1.82 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 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.

As noted, both policy exceptions are permitted by the Municipal Act, but our internal Investment Policy is more restrictive and requires this disclosure. Staff will be looking at potential revisions to our investment policy in 2022.

The full listing of policy exceptions is 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.

Investment market conditions were weak in 2021 due to the COVID-19 pandemic. However, the City's proactive investment strategy and robust portfolio position will put the City in a good position to take advantage of rising rates as the investment market recovers in 2022.

Investment returns compared to budget resulted in a negative variance in 2021 of approximately \$80,000, however due to the allocation of returns between reserves and reserve funds the tax supported operating variance is \$2.7 million after the allocation of investment income to the reserve funds.

It is important to note the budget impact for investment returns are made up of four key components.

1. The size of the investment portfolio.
2. The rate of return on the portfolio.
3. The investment mix of the portfolio (short term, long term, and type of investments).

4. The allocation of investment interest to reserves (and the mix between tax and rate supported reserves).

The rate of return is lower than last year due to lower interest rates and more funds than usual being kept in cash and shorter-term investments in order not to lock in historically low rates.

Additionally, as per the reserve interest policy, many reserve funds are allocated interest revenue before the remainder is retained as investment income in the tax supported budget. The City's reserve funds have increased compared to previous years, particularly on the rate supported side, which means more investment revenue is allocated to these reserve funds. This has created a negative budget variance as more interest earned is allocated to reserve funds than anticipated.

Staff are exploring ways to reduce the volatility/vulnerability of investment returns on the operating budget and smoothing the impact through transfers to capital reserve funds. This could be done over several years and avoid large fluctuations in our operating budget.

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 Year-end 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 Year-end 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 1.62 per cent on its investments and cash as of December 31, 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 per cent yield, Maturing July 11, 2032
- \$965,941 - City of Guelph - 2.65 per cent 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 1 year is \$1,823,603 (maximum term per approved investment policy is 1 year for this category)

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

Attachment-2: 2021 Year-End Investment Report

Cash, Short-term (ST) and Long-term (LT) Investments at December 31, 2021

Table 1: Cash and HISA Accounts

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2021	Days to Maturity
Cash Accounts	0.73%	Liquid	ST	49,033,876	-
High Interest Savings Accounts	0.85%	Liquid	ST	80,204,874	-
Total				\$ 129,238,749	

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

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2021	Years to Maturity
CPN Province of Ontario	3.04%	2-Dec-22	ST	5,000,010	<1
National Bank	2.16%	14-Nov-22	ST	5,000,000	<1
Bank of Nova Scotia	2.45%	4-Jul-22	ST	4,000,000	<1
CIBC	2.50%	12-Sep-22	ST	10,000,000	<1
Meridian Credit Union	1.95%	22-May-22	ST	5,058,355	<1
BMO Commercial	1.41%	17-Jun-22	ST	3,000,000	<1
Meridian Credit Union	1.42%	19-Feb-22	ST	5,000,000	<1
Meridian Credit Union	1.20%	19-Aug-22	ST	2,082,107	<1
Meridian Credit Union	1.20%	26-Aug-22	ST	8,000,000	<1
Meridian Credit Union	1.08%	26-Jun-22	ST	5,046,373	<1
Meridian Credit Union	1.02%	25-Mar-22	ST	5,000,000	<1
Meridian Credit Union	1.72%	8-Dec-22	ST	15,000,000	<1
Province of Ontario	5.27%	2-Dec-26	LT	1,417,770	4.9
CIBC	2.67%	15-May-25	LT	5,394,594	3.4
CIBC	2.51%	15-May-25	LT	2,083,639	3.4
CIBC	0.00%	25-Sep-23	LT	500,000	1.7
CIBC	0.00%	23-Sep-24	LT	500,000	2.7
CIBC	0.00%	23-Sep-25	LT	500,000	3.7
CIBC	0.00%	23-Sep-26	LT	500,000	4.7
CIBC	0.00%	23-Sep-27	LT	500,000	5.7

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2021	Years to Maturity
CIBC	0.00%	25-Sep-28	LT	500,000	6.7
CIBC	2.95%	7-Jan-27	LT	3,364,424	5.0
CIBC	3.01%	15-May-27	LT	1,885,572	5.4
CIBC	0.00%	4-Feb-30	LT	500,000	8.1
CIBC	2.76%	7-Jul-28	LT	3,360,393	6.5
TD Bank	2.09%	26-Nov-24	LT	1,434,312	2.9
TD Bank	2.18%	26-May-25	LT	2,743,175	3.4
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,342,689	3.5
City of London	1.73%	5-Jun-28	LT	1,711,433	6.4
City of London	1.85%	5-Jun-30	LT	844,000	8.4
TD Bank	0.59%	13-Aug-25	LT	2,500,000	3.6
TD Bank	0.35%	13-Aug-25	LT	2,500,000	3.6
TD Bank	1.35%	13-Aug-25	LT	5,000,000	3.6
Hydro Quebec	1.96%	16-Jan-35	LT	3,439,595	13.1
Province of Ontario	2.11%	2-Dec-39	LT	5,019,954	17.9
Province of BC	1.97%	18-Jun-40	LT	1,122,937	18.5
Province of Alberta	2.05%	1-Jun-31	LT	20,666,805	9.4
Province of BC	2.10%	23-Feb-32	LT	3,811,857	10.2
Hydro Quebec	2.27%	15-Feb-33	LT	7,798,667	11.1
CIBC	2.48%	24-Sep-29	LT	10,658,576	7.7
Meridian Credit Union	1.25%	14-Mar-23	LT	5,159,104	1.2
Meridian Credit Union	1.25%	14-Mar-23	LT	5,161,032	1.2
Region of Waterloo	1.61%	16-Apr-27	LT	2,857,274	5.3
Region of Waterloo	1.79%	16-Apr-28	LT	2,904,772	6.3
Region of Waterloo	2.35%	16-Apr-32	LT	1,883,442	10.3
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	14.3
City of Guelph	2.56%	11-Jul-32	LT	968,725	10.5
City of Guelph	2.65%	11-Jul-33	LT	965,941	11.5
TD Bank	0.70%	2-Sep-26	LT	12,000,000	4.7
TD Bank	0.88%	2-Sep-27	LT	10,000,000	5.7
TD Bank	1.00%	2-Sep-28	LT	10,000,000	6.7
BMO Commercial	1.12%	25-Sep-23	LT	20,000,000	1.7
BMO Commercial	1.57%	25-Sep-25	LT	10,000,000	3.7
BMO Commercial	1.70%	25-Sep-26	LT	10,000,000	4.7
Laurentian	1.67%	6-Dec-24	LT	10,000,000	2.9
Meridian Credit Union	1.45%	25-Jun-23	LT	5,000,000	1.5
BMO Commercial	0.96%	25-Mar-23	LT	10,000,000	1.2

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2021	Years to Maturity
Scotiabank	1.11%	22-Jun-23	LT	10,000,000	1.5
Canadian Western Bank	2.00%	21-Jun-23	LT	10,000,000	1.5
BMO Commercial	1.72%	7-Dec-23	LT	20,000,000	1.9
BMO Commercial	1.98%	9-Dec-24	LT	10,000,000	2.9
Total				\$ 333,767,393	

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

Table 3: Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2021	Years to Maturity
One Corporate Bond Fund	1.94%	varies	LT	62,069,803	N/A
One Fund Equity*	4.42%	varies	LT	11,144,778	N/A
RBC Managed Account	0.81%	varies	LT	19,220,804	N/A
Total				\$ 92,435,385	
Grand Total				\$ 555,441,527	

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

Attachment-3: 2021 Year-End Investment Report
December 2021 Investment Portfolio by Security Type

Securities	Investment Value \$	Percentage of Holdings	Policy Maximum Portfolio Limit
Cash and HISA accounts*	129,238,749	23.27%	100%
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	46,926,755	8.45%	75%
Country Other than Canada			5%
Municipal			
City of Guelph	1,934,666	0.35%	50%
Other Municipalities & OSIFA – AAA & AA	12,280,788	2.21%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	231,339,017	41.65%	75%
Schedule II and III Banks			25%
Credit Unions	60,506,971	10.89%	10%
Loan or Trust Corporations	-	0.00%	5%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Corporate Bonds	-	0.00%	40%
Joint Municipal Investment Pools - Government Bonds	62,069,803	11.17%	40%
Joint Municipal Investment Pools – Equity	11,144,778	2.01%	20%
TOTAL	\$ 555,441,527	100.00%	

*cash holdings are not specifically mentioned in our existing investment policy. This will be reflected in future policy updates.

Attachment-4: 2021 Year-End Investment Report
December 2021 Policy Limit Exceptions

QTY	Instrument Description	Cost (CAD)	Maturity Date	Months to Maturity	Policy Limit (Months)
1	BMO MORTGAGE CORP GIC -	96,351	various	>12	12
5	MONTREAL TRUST CDA GIC -	412,297	various	>12	12
3	RBC MORTGAGE CORP GIC -	138,777	various	>12	12
1	TD MORTGAGE CORP GIC - A	18,129	various	>12	12
13	ROYAL TRUST COMPANY GIC	1,158,049	various	>12	12
23	Total Trust and Loan Holdings	\$1,823,603			

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			