

# Information Report



Service Area Corporate Services  
 Date Friday, September 16, 2022  
 Subject **2022 Mid-year Investment Performance Report**

## Executive Summary

### Purpose of Report

To report on the 2022 mid-year 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 \$4.4 million or 1.56 per cent annualized return for the first six months of the year. This is an increase of \$0.7 million compared with June 30, 2021, when the annualized rate of return was 1.60 per cent.

Figure 1

	Total Investment Portfolio and return compared from June 2022 to June 2021							
	June 30, 2022	June 30, 2022	June 30, 2022	June 30, 2022	June 30, 2021	June 30, 2021	June 30, 2021	June 30, 2021
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash and Savings Accounts	67,700,000	53,700,000	200,000	0.82%	86,000,000	87,900,000	300,000	0.68%
High Interest Savings Accounts	3,100,000	36,000,000	200,000	1.32%	159,000,000	14,900,000	-	0.62%
Long Term Investments	447,100,000	387,100,000	3,300,000	1.70%	238,900,000	280,100,000	2,600,000	2.01%
Investment Pools and Managed Funds	100,100,000	101,000,000	700,000	1.47%	90,900,000	90,400,000	800,000	1.78%
<b>Total</b>	<b>618,000,000</b>	<b>577,800,000</b>	<b>4,400,000</b>	<b>1.56%</b>	<b>574,800,000</b>	<b>473,300,000</b>	<b>3,700,000</b>	<b>1.60%</b>

The total portfolio balance is \$618.0 million, which is an increase of \$62.6 million from the December 31, 2021, total of \$555.4 million and an increase of \$43.2 million since June 30, 2021.

The City has increased cash and High Interest Savings Account (HISA) investment earnings due to the increased interest rate environment which was previously at historic lows. The lower portfolio return is primarily due to a capital loss of \$0.8 million on a bond that was sold during the year but was reinvested at a higher rate. These returns will be reflected in future years.

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

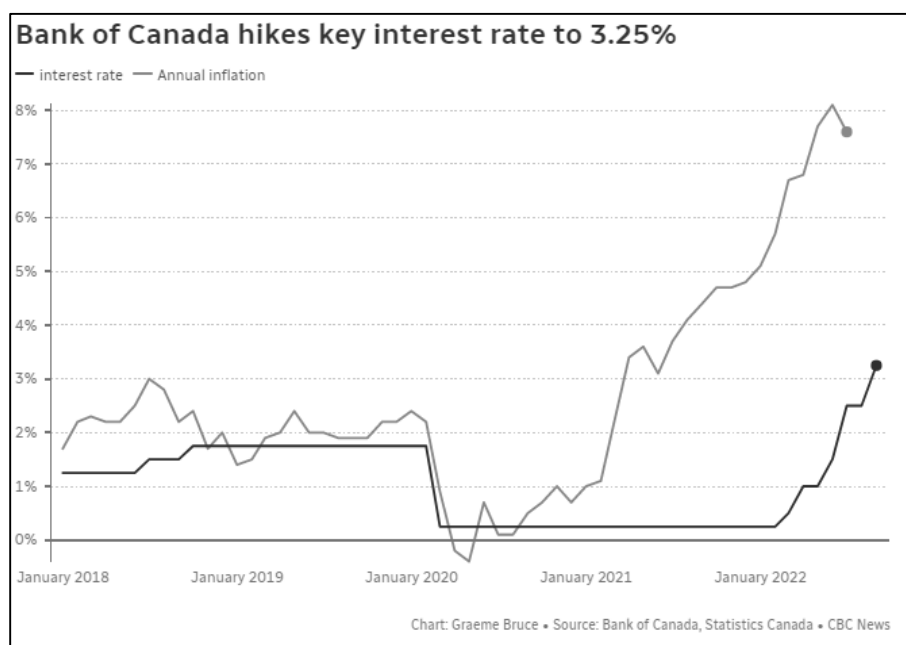
[Investment Policy](#) requires a report on the financial position, investment performance, and compliance status of the portfolio at least twice per year.

### **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 from March 27, 2020 to March 3, 2022 when it began to rapidly increase in response to high inflation.

The graph below (Figure 2) shows the recent rate changes in the context of the past 14 years. The previous rate of 0.25 per cent was a historic low not seen since the 2008 financial crisis. The current rate is 3.25 percent. Such a rapid increase in rates from 0.25 per cent to 3.25 per cent in 9 months has not been seen in recent history. It is expected the bank will continue to increase rates until inflation is closer to the 2 per cent target.

*Figure 2*



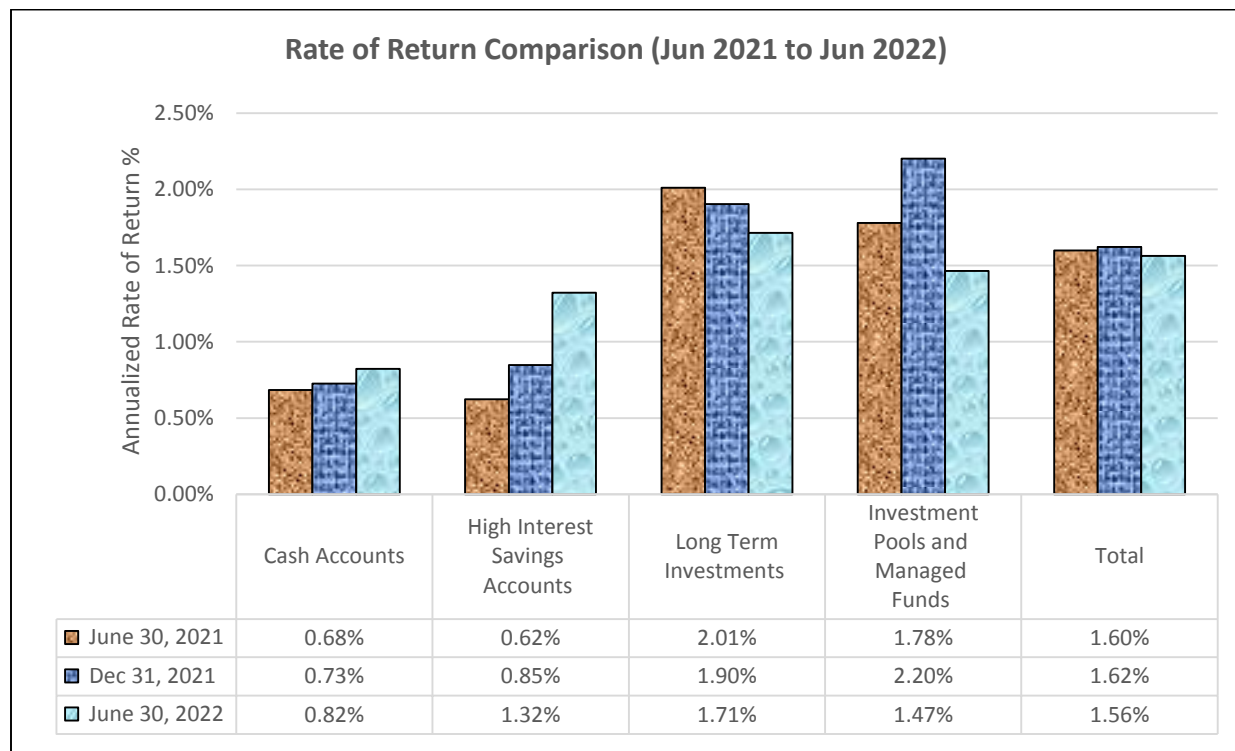
This interest rate environment impacts investment returns in the following ways:

1. Any cash on hand immediately receives a higher rate from the City's bank account as this interest rate is tied closely with the Bank of Canada rates.
2. Longer-term bonds that mature in a rising rate environment can be reinvested at an improved rate.
3. There will be a delay for increased interest rates to be reflected in the returns of long-term investments as they have locked in rates until maturity. Occasionally long-term bonds may be sold at a loss in order to reinvest at a higher rate to increase overall return for the life of the investment (as was done in early 2022). In those cases, the impact of the loss is reflected in the rate of return immediately, whereas the increased return over the life of the bond impacts the City's rate of return over time.

## Statement of Performance

Mid-year returns are based on returns for the first six months of the year and annualized to estimate a full-year return. The final rate of return will not be known until 2022 year-end when all transactions have been recorded for the year.

Figure 3



Cash accounts and HISAs showed improved returns due to increasing interest rates since the start of the year. It is expected this overall return will improve in the second half of 2022.

The low rate of return on long-term investments is driven primarily by a \$0.8 million capital loss from a bond sold in January 2022. This bond had a low interest rate and was sold and immediately reinvested to take advantage of rising rates. This sale will yield an increase in returns over the next five years, but the full loss from the sale is recorded in the current year while income from the reinvestment is recorded over the life of the bond.

The lower return on the investment pools and managed funds is due to low performance in the RBC managed account which realized capital losses in the first six months of the year. The RBC return of 1.02 per cent was less than half what the return was in 2021. It is expected that this return will improve with rising rates and as higher yielding investments are added to the fund.

The ONE funds historically pay out more significant distributions in the second half of the year. If similar distributions materialize again in the later part of 2022, they will be included in the overall portfolio return at year end.

Staff continue to monitor the investment portfolio and take advantage of improving investment opportunities while maintaining daily cash and liquidity needs.

**Budgeted return projections**

There was a change for 2022 in the way that investment income is reflected in the operating budget. To avoid large fluctuations, the revised approach includes only income from the bank balance held for operating cash and operating contingencies as part of the operating budget. Any interest earned on the longer-term portfolio is allocated to reserves and not reflected in the reported variance.

The operating budget investment income for 2022 is \$0.4 million, based on an estimated working fund balance of \$60 million and a roughly 0.7 per cent cash return. Due to significantly increased rate of return on cash balances, staff anticipate a surplus in the operating budget for 2022 which has been reflected in the second quarter variance report and forecast.

It is expected that the Bank of Canada will continue to raise interest rates for 2022 and staff project an estimated surplus of \$0.8 million. This would require an annualized cash return of over 2 per cent which is likely if rates continue to rise.

It is unlikely that longer-term investments will realize such high returns. This is primarily due to many bonds having locked in rates resulting in a lag between maturities and reinvestment at higher rates. Long-term investment income is allocated to the reserve funds at year end.

**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 challenges in executing the growing capital program 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 decline over time.

Figure 4

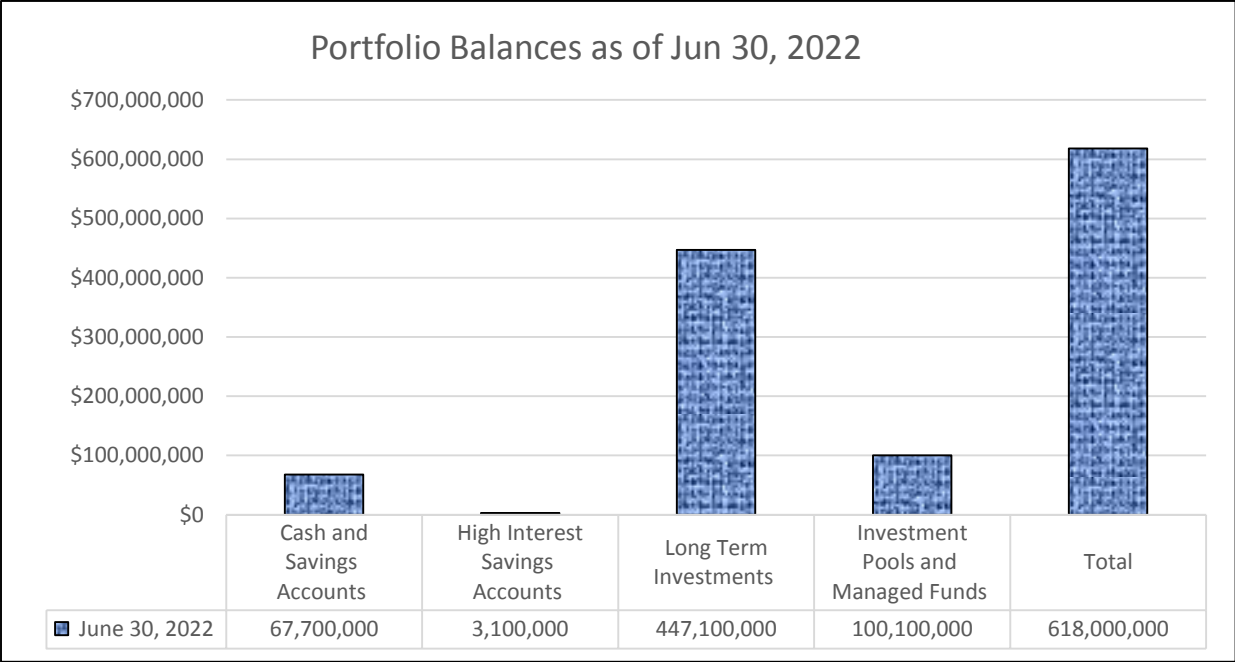
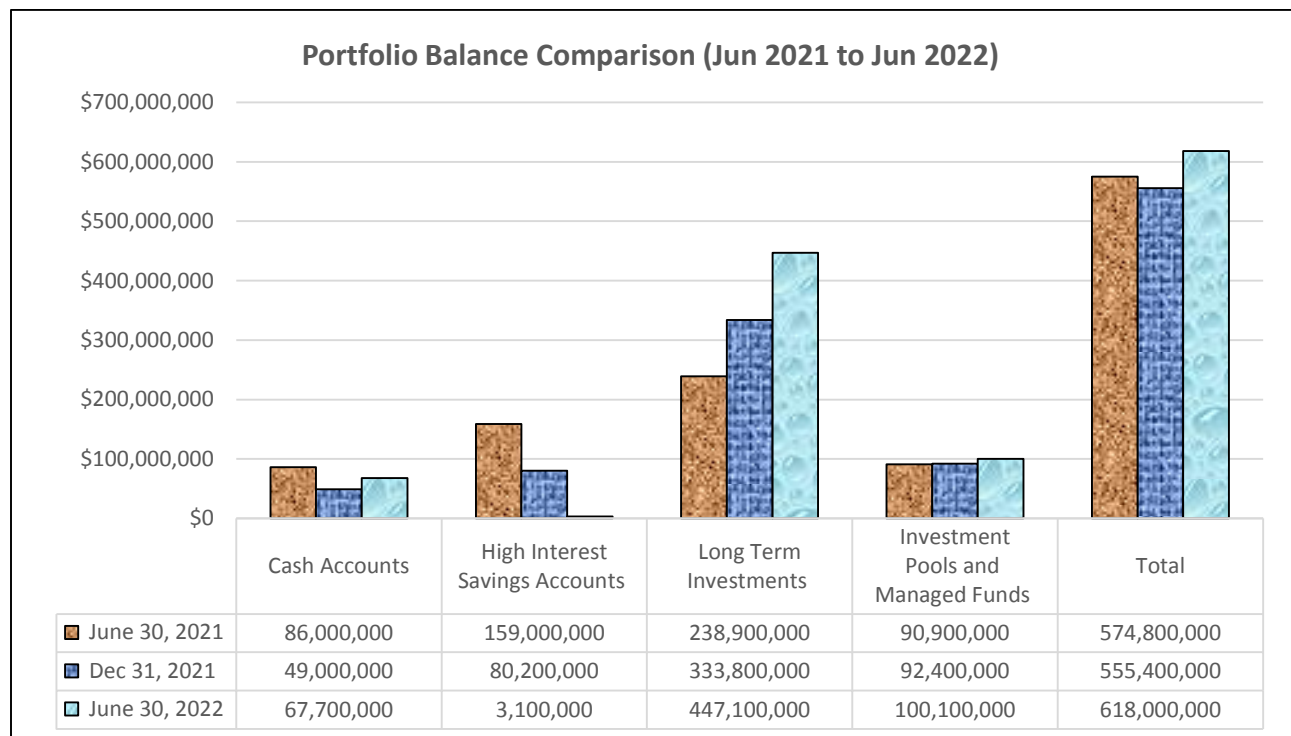


Figure 4

- Cash balances total \$67.7 million and include the City’s general bank account and smaller balances in other savings accounts. This tends to be higher at mid-year due to tax installment payments due June 30th.
- HISA accounts total \$3.1 million. Cash accounts and HISA accounts are both used to obtain higher returns while maintaining liquidity needs.
- Long-term investments total \$447.1 million and include all holdings that were invested for a term greater than 12 months. These products tend to earn a higher return as they are locked in for a longer time period but performance also lags whatever is happening in the market for the same reason.
- Investment pools total \$100.1 million and include holdings in the ONE Corporate and Government Bond Funds and the ONE Equity Fund. This category also includes approximately \$19.2 million of actively managed funds by RBC investments.

The total portfolio balances compared with the same period last year is shown in the following table (Figure 5).

Figure 5

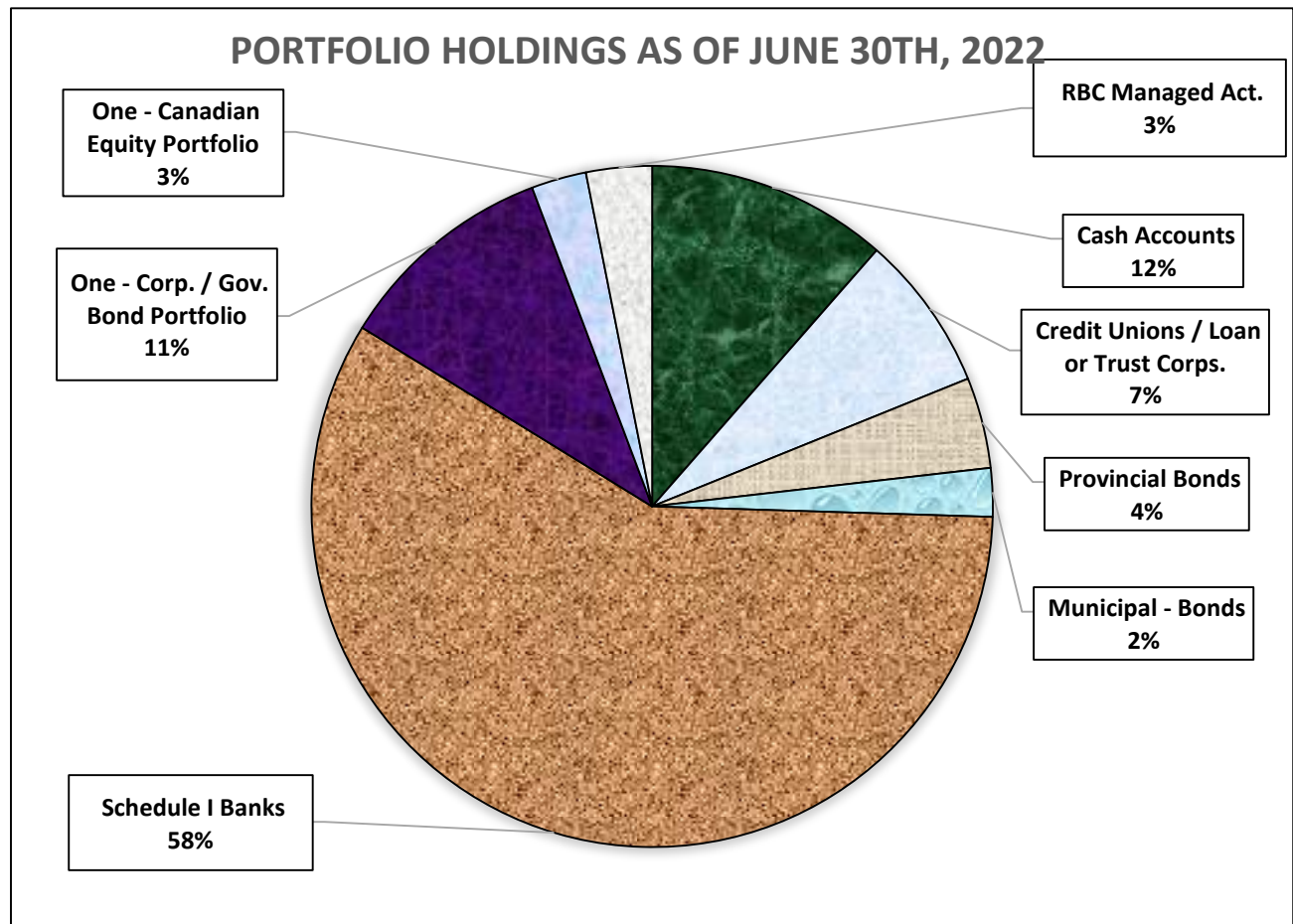


The portfolio has increased by \$62.6 million since December 31, 2021, demonstrating continued strong reserve and liquidity position at the City.

There is a higher concentration of investments classified as long-term investments at mid-year because of a shift to a laddered approach to investments. This approach plans for long-term investments to mature on a regular basis to support cash flow needs while allowing investments higher yielding investments. As this approach develops the City should see an increase in the portfolio return while maintaining overall liquidity.

The following figure (Figure 6) outlines the investment portfolio mix as of June 30, 2022 (excluding cash).

Figure 6



The vast majority of the City's holdings are with Schedule 1 Banks which includes GICs. This represents approximately 58 per cent of the total portfolio and is aligned with City Policy to prioritize liquidity and minimize risk.

The second largest holding (aside from cash) is the ONE Corporate Bond Fund. This fund, together with the RBC Managed Fund and the ONE Equity Portfolio, allows for potential increased returns but also reduced risk since it is a professionally managed fund.

### **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 21 holdings in loan and trust companies totaling \$2.2 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 permitted by the Municipal Act which does not mandate a term limit for these investments. Staff will consider aligning the City Policy with the Municipal Act in future updates.

Both these exceptions are permitted by the Municipal Act, but our internal Investment Policy is more restrictive than the Act and requires this disclosure.

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.

The City's investment strategy and robust portfolio holdings position the City to take advantage of rising rates as the economy and investment market recovers. The rate of return is lower than the same period last year but is expected to move higher by year end as interest rates remain high. The overall portfolio balance is larger which should generate increased investment returns.

Staff expect a positive variance in investment return in the operating budget by year end of approximately \$0.8 million. This is due to rapidly increasing interest rates which are reflected in cash and short-term investment returns more quickly than the long-term returns.

### **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: 2022 Mid-year Statement of the Treasurer

Attachment-2: Investment Portfolio by Maturity

Attachment-3: Investment Portfolio by Security Type

Attachment-4: Investment Policy Limit Exceptions

## **Departmental Approval**

Shanna O'Dwyer, CPA, CA – Acting Treasurer

## **Report Author**

Colm Lynn, MBA, CPA, CGA - Manager Financial Strategy

## **This report was approved by:**

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## Attachment-1: 2022 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 an annualized return of 1.56 per cent on its investments and cash as of June 30, 2022.

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, Shanna O'Dwyer, Acting 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 \$2,231,301 (maximum term per approved investment policy is 1 year for this category)

Further details of these investments can be found in Attachment-4 – 2022 Mid-year Investment Policy Exceptions.

**Attachment-2: 2022 Mid-year Investment Report**  
**Investment Portfolio by Maturity at June 30, 2022**

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

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Jun 30, 2022	Days to Maturity
Cash and Savings Accounts	1.02%	Liquid	ST	70,772,936	-
<b>Total</b>				<b>\$ 70,772,936</b>	

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

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Jun 30, 2022	Months to Maturity
Bank of Nova Scotia	2.45%	4-Jul-22	ST	4,000,000	0
Meridian Credit Union	1.20%	19-Aug-22	ST	2,082,107	2
Meridian Credit Union	1.20%	26-Aug-22	ST	8,000,000	2
CIBC	2.50%	12-Sep-22	ST	10,000,000	2
National Bank	2.16%	14-Nov-22	ST	5,000,000	5
CPN Province of Ontario	3.04%	2-Dec-22	ST	5,000,010	5
Meridian Credit Union	1.72%	8-Dec-22	ST	15,000,000	5
Meridian Credit Union	1.96%	18-Dec-22	ST	2,500,000	6
Meridian Credit Union	1.25%	14-Mar-23	ST	5,159,104	8
Meridian Credit Union	1.25%	14-Mar-23	ST	5,161,032	8
BMO Commercial	0.96%	25-Mar-23	ST	10,000,000	9
CIBC	2.50%	3-Apr-23	ST	5,978,764	9
Canadian Western Bank	2.00%	21-Jun-23	ST	10,000,000	12
Scotiabank	1.11%	22-Jun-23	ST	10,000,000	12
Meridian Credit Union	1.45%	25-Jun-23	ST	5,000,000	12
CIBC	0.00%	25-Sep-23	LT	500,000	15
BMO Commercial	1.12%	25-Sep-23	LT	20,000,000	15
BMO	3.54%	6-Nov-23	LT	20,000,000	16
Bank of Nova Scotia	3.87%	1-Dec-23	LT	5,000,000	17
BMO Commercial	1.72%	7-Dec-23	LT	20,000,000	17
BMO	3.69%	6-Feb-24	LT	15,000,000	19
Bank of Nova Scotia	4.00%	15-Mar-24	LT	5,000,000	21
Bank of Nova Scotia	4.11%	14-Jun-24	LT	20,000,000	24
Bank of Nova Scotia	4.15%	16-Sep-24	LT	7,500,000	27
CIBC	0.00%	23-Sep-24	LT	500,000	27
TD Bank	2.09%	26-Nov-24	LT	1,448,676	29
Laurentian	1.67%	6-Dec-24	LT	10,000,000	29
BMO Commercial	1.98%	9-Dec-24	LT	10,000,000	29
CIBC	2.67%	15-May-25	LT	5,459,889	35
CIBC	2.51%	15-May-25	LT	2,109,778	35
TD Bank	2.18%	26-May-25	LT	2,771,796	35
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,366,578	36
TD Bank	0.59%	13-Aug-25	LT	2,500,000	37
TD Bank	0.35%	13-Aug-25	LT	2,500,000	37
TD Bank	1.35%	13-Aug-25	LT	5,000,000	37
CIBC	0.00%	23-Sep-25	LT	500,000	39
BMO Commercial	1.57%	25-Sep-25	LT	10,000,000	39

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Jun 30, 2022	Days to Maturity
TD Bank	0.70%	2-Sep-26	LT	12,000,000	50
CIBC	0.00%	23-Sep-26	LT	500,000	51
BMO Commercial	1.70%	25-Sep-26	LT	10,000,000	51
Province of Ontario	5.27%	2-Dec-26	LT	1,443,648	53
CIBC	3.25%	6-Jan-27	LT	15,000,000	54
CIBC	3.25%	6-Jan-27	LT	19,922,800	54
CIBC	2.95%	7-Jan-27	LT	3,410,708	54
TD Bank	3.18%	15-Mar-27	LT	30,000,000	57
Region of Waterloo	1.61%	16-Apr-27	LT	2,857,274	58
CIBC	3.01%	15-May-27	LT	1,912,010	59
TD Bank	0.88%	2-Sep-27	LT	10,000,000	62
CIBC	0.00%	23-Sep-27	LT	500,000	63
Region of Waterloo	1.79%	16-Apr-28	LT	2,904,772	70
City of London	1.73%	5-Jun-28	LT	1,711,433	71
CIBC	2.76%	7-Jul-28	LT	3,408,772	72
TD Bank	1.00%	2-Sep-28	LT	10,000,000	74
CIBC	0.00%	25-Sep-28	LT	500,000	75
CIBC	2.48%	24-Sep-29	LT	10,799,032	87
CIBC	4.04%	7-Jan-30	LT	7,634,463	90
CIBC	0.00%	4-Feb-30	LT	500,000	91
City of London	1.85%	5-Jun-30	LT	844,000	95
CIBC	4.28%	7-Jan-31	LT	2,907,654	102
Province of BC	2.10%	23-Feb-32	LT	3,855,478	116
Region of Waterloo	2.35%	16-Apr-32	LT	1,883,442	118
City of Guelph	2.56%	11-Jul-32	LT	968,725	120
Hydro Quebec	2.27%	15-Feb-33	LT	7,896,708	128
City of Guelph	2.65%	11-Jul-33	LT	965,941	132
Hydro Quebec	1.96%	16-Jan-35	LT	3,476,786	151
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	166
Province of Ontario	2.11%	2-Dec-39	LT	5,082,276	209
Province of BC	1.97%	18-Jun-40	LT	1,135,833	216
<b>Total</b>				<b>\$ 447,139,356</b>	

### Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Jun 30, 2022	Years to Maturity
One Government Bond Fund	2.04%	varies	LT	1,007,966	N/A
One Corporate Bond Fund	2.04%	varies	LT	63,699,668	N/A
One Fund Equity*	0.00%	varies	LT	16,144,778	N/A
RBC Managed Account	1.02%	varies	LT	19,283,343	N/A
<b>Total</b>				<b>\$ 100,135,754</b>	

<b>Total</b>				<b>\$ 618,048,046</b>	
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**Attachment-3: 2022 Mid-year Investment Report**  
**Jun 2022 Investment Portfolio by Security Type**

<b>Securities</b>	<b>Investment Value \$</b>	<b>Percentage of Holdings</b>	<b>Policy Maximum Portfolio Portfolio Limit</b>
Cash and HISA accounts	70,772,936	11.45%	100%
<b>Federal</b>			
Government of Canada			100%
Federal Guarantees			50%
<b>Provincial Governments and Provincial Guarantees</b>	26,644,255	4.31%	75%
<b>Country Other than Canada</b>			5%
<b>Municipal</b>			
City of Guelph	1,934,666	0.31%	50%
Other Municipalities & OSIFA – AAA & AA	12,280,788	1.99%	50%
Other Municipalities & OSIFA – A			10%
<b>School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.</b>			20%
<b>Financial Institutions</b>			
Schedule I Banks	379,659,447	61.43%	75%
Schedule II and III Banks			25%
Credit Unions	42,902,244	6.94%	10%
Loan or Trust Corporations	3,001,300	0.49%	5%
<b>Supranational Financial Institution or Government Organization</b>			25%
<b>Corporate Debt</b>			25%
<b>Commercial Paper</b>			15%
<b>Joint Municipal Investment Pools - Corporate Bonds</b>	63,699,668	10.31%	40%
<b>Joint Municipal Investment Pools - Government Bonds</b>	1,007,966	0.16%	40%
<b>Joint Municipal Investment Pools – Equity</b>	16,144,778	2.61%	20%
<b>TOTAL</b>	<b>\$ 618,048,046</b>	<b>100.00%</b>	

**Attachment-4: 2022 Mid-Year Investment Report**  
**Mid-Year Investment Policy Limit Exceptions**

QTY	Instrument Description	Cost (CAD)	Maturity Date	Months to Maturity	Policy Limit (Months)
1	ROYAL TRUST COMPANY	\$ 188,666	03/10/2025	32	12
1	ROYAL TRUST COMPANY	\$ 102,547	12/19/2024	30	12
1	ROYAL TRUST COMPANY	\$ 97,222	10/09/2024	27	12
1	ROYAL TRUST COMPANY	\$ 54,470	07/22/2024	25	12
1	ROYAL TRUST COMPANY	\$ 142,811	04/09/2024	21	12
1	ROYAL TRUST COMPANY	\$ 6,130	03/20/2024	21	12
1	ROYAL TRUST COMPANY	\$ 328,966	03/11/2024	20	12
1	ROYAL TRUST COMPANY	\$ 104,729	12/18/2023	18	12
1	ROYAL TRUST COMPANY	\$ 105,603	12/04/2023	17	12
1	ROYAL TRUST COMPANY	\$ 10,181	11/06/2023	16	12
1	ROYAL TRUST COMPANY	\$ 88,308	08/08/2023	13	12
1	ROYAL TRUST COMPANY	\$ 44,848	07/17/2023	13	12
1	RBC MORTGAGE CORP GI	\$ 16,401	12/19/2024	30	12
1	MONTREAL TRUST CDA G	\$ 97,063	08/06/2024	25	12
1	MONTREAL TRUST CDA G	\$ 277,386	03/19/2024	21	12
1	MONTREAL TRUST CDA G	\$ 100,169	10/11/2023	15	12
1	MONTREAL TRUST CDA G	\$ 103,314	08/08/2023	13	12
1	MONTREAL TRUST CDA G	\$ 102,827	07/17/2023	13	12
1	BMO MORTGAGE CORP GI	\$ 157,458	04/30/2025	34	12
1	BMO MORTGAGE CORP GI	\$ 96,351	01/15/2025	31	12
1	BMO MORTGAGE CORP GI	\$ 5,851	07/21/2023	13	12
<b>21</b>	<b>Total Trust and Loan Holdings</b>	<b>\$ 2,231,301</b>			

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
<b>2</b>	<b>Municipal Bonds Exceptions</b>	<b>\$ 3,963,309</b>			