

Information Report

Service Area	Corporate Services
Date	Friday, April 21, 2023
Subject	2022 Year-end Investment Performance Report

Executive Summary

Purpose of Report

To report on the investment portfolio for the year-ended December 31, 2022 and 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 \$12.7 million for the year-ending December 31, 2022. This represents a return of 2.14 per cent (2021 – 1.62 per cent) on a total carrying value of the portfolio of \$586.8 million as of December 31, 2022 (2021 – \$555.4 million).

The main driver of increased investment earnings compared with 2021 returns was the increasing interest rate environment throughout 2022. In response to high inflation in 2021 and 2022, the Bank of Canada increased its Policy Interest Rate seven times in 2022 taking the target overnight rate from 0.25 per cent up to 4.25 per cent by the end of 2022.

Just as it did when interest rates decreased in 2020, the impact on the rate of return on the City's portfolio has lagged behind the Bank of Canada decisions (it was slower to decrease then and is slower to increase now). Since older bonds and GICs were purchased before the Bank of Canada's interest rate increases, those investments generate a lower yield than investments made in the year. In the first quarter of 2023, interest rates have continued to rise. There are varied projections about what the Bank of Canada will do with its target overnight rate in 2023 depending on how quickly the measures taken to date decrease inflation. Staff continue to look for the best investment options in this environment including strengthening the cash flow forecast to keep short-term account balances low and lock in longer-term investments while rates are higher.

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 one holding in municipal bonds totaling \$2.1 million, which has a term longer than 10 years. The City Investment Policy has a maximum 10-year term for municipal bonds; however, this bond is rated as AAA and therefore

does not represent a significant risk to the City. The bond is 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 13 holdings in loan and trust companies totaling \$1.6 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 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.

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.

Financial Implications

Increasing interest rates positively impacted overall investment returns through increased interest on cash and high interest savings accounts and provided the opportunity to lock in medium and long-term fixed income investments at higher yields.

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 \$4.2 million higher than in 2021.

Report

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
- 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. The Bank’s overnight rate was 0.25 per cent from March 27, 2020 until March 2, 2022 when the rate was increased to 0.5 per cent. Throughout 2022 there were seven rate increases of between 0.25 per cent and 1.0 per cent. The overnight rate at 2022 year-end was 4.25 per cent and was further increased by 0.25 per cent in the first quarter of 2023.

This higher-rate environment impacts investment decisions in three key ways:

1. Any cash on hand in the City’s bank account and high interest savings accounts immediately receives a higher interest rate as this interest rate is closely tied to the Bank of Canada rate.
2. Longer-term bonds that mature in this higher-rate environment can be reinvested at a higher rate. For example, if a 10-year bond that was paying 2 per cent per annum matured in 2022, the City could reinvest those funds at a rate of approximately 4 per cent.
3. In the current interest rate environment, shorter-term investments have higher yields than longer-term investments, however, it is not expected that these higher rates will persist indefinitely so balance is key to taking a longer-term view that is matched with the timing of when reserve funds are required.

Higher interest rates targeted to control inflation are increasing the cost of borrowing and this impacts business growth and encourages consumers to save rather than spend. While the future is uncertain, it is predicted that this will result in a slowdown in the overall economy in 2023, and interest rate increases may level off or begin to decrease in response to a slowdown. Staff continue to closely monitor the investment portfolio, reinvest maturities at higher rates, and diversify holdings where possible.

Statement of Performance

Total investment income for 2022 was \$12.7 million, which represents an average return of 2.14 per cent. This is an increase of \$4.2 million compared with 2021 when the year-end return was \$8.5 million and the average rate of return was 1.62 per cent. Figure 1 summarizes the investment portfolio and return compared with this time last year.

Figure 1

	Dec 31, 2022	Dec 31, 2022	Dec 31, 2022	Dec 31, 2022	Dec 31, 2021	Dec 31, 2021	Dec 31, 2021	Dec 31, 2021
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash and Savings Accounts	55,500,000	54,400,000	1,300,000	2.33%	49,000,000	71,100,000	500,000	0.73%
High Interest Savings Accounts	12,200,000	22,400,000	400,000	1.92%	80,200,000	88,200,000	700,000	0.85%
Long Term Investments	417,500,000	416,200,000	8,800,000	2.11%	333,800,000	265,300,000	5,000,000	1.90%
Investment Pools and Managed Funds	101,600,000	98,300,000	2,200,000	2.24%	92,400,000	99,000,000	2,200,000	2.20%
Total	586,800,000	591,300,000	12,700,000	2.14%	555,400,000	523,600,000	8,500,000	1.62%

The chart below outlines the investment return trend by investment type throughout 2022:

Figure 2



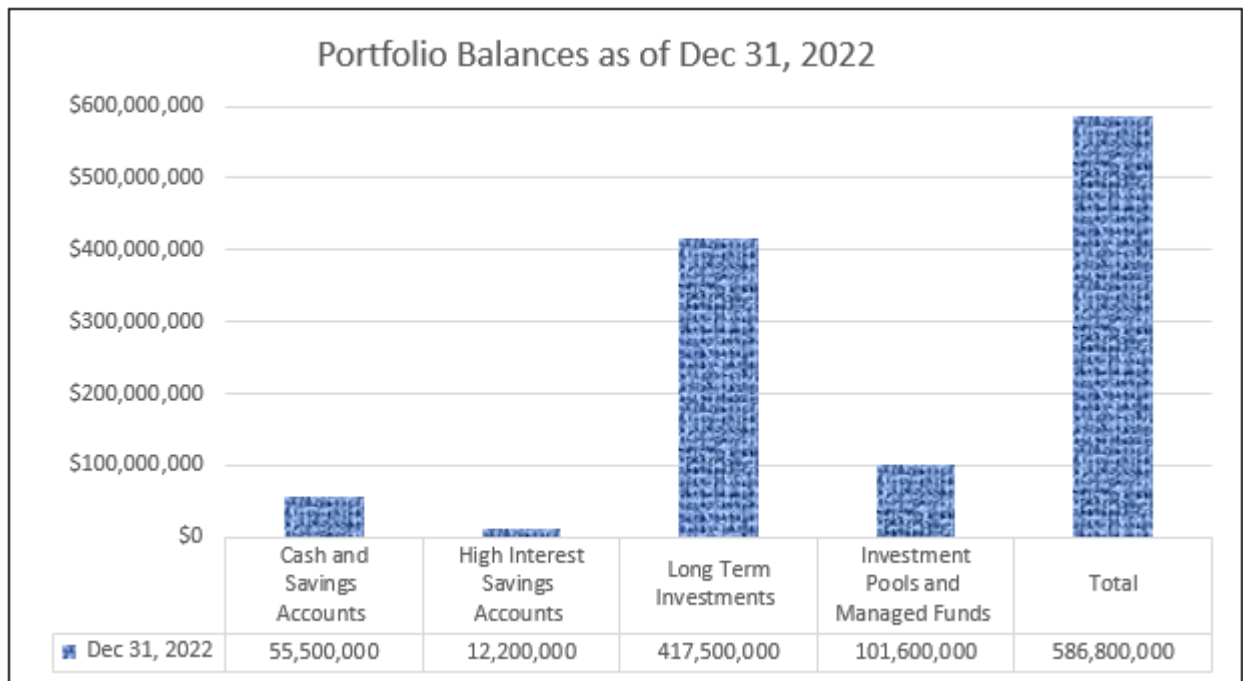
Surplus short-term cash has historically been placed in High Interest Savings Accounts (HISAs) to earn higher returns than the City’s daily chequing account and to provide liquidity compared to locking in fixed-income investments. The average return on the HISA accounts is lower than the average return on the cash accounts in 2022 because of high balances in the HISA accounts at the start of 2022 when interest rates were low and high balances in the cash accounts at the end of 2022 when interest rates were high. Some investments including the ONE Bond Portfolio funds have unrealized losses which are not included in the investment rate of return just as unrealized gains on this portfolio were not included in the rate of return over the past few years. Unrealized losses are due to the bonds being purchased in a lower interest rate environment and 2022 saw increasing bond yields which decreases the value of bonds purchased at lower rates.

Investment Portfolio

The City’s portfolio balances have been steadily increasing over the past few years. This is partially due to a deliberate effort to strengthen reserve balances for long-term sustainability as well as the receipt of proceeds from the early debt issue in 2021 for the Baker District and South End Community Centre projects to take advantage of historically low interest rates. It is also partially due to previously identified challenges with executing the approved capital plan due to resource constraints. As inflationary impacts over the past two years continue to be experienced and the City increases its capacity to deliver on Council’s approved capital plan, staff expect to see this portfolio balance decrease over time.

The chart below outlines the investment and cash positions as of December 31, 2022:

Figure 3



- Cash balances total \$55.5 million and include the City’s general bank account and balances in chequing and cash accounts. The City targets a balance of \$40 million in its operating accounts and invests any cash surplus above this amount. At year-end, the cash balance was significantly above the \$40 million target due to comparable rates between chequing and HISA accounts and the need to maintain a slightly higher cash balance towards the end of the year as December and January are net cash outflow months.
- HISA accounts total \$12.2 million at year-end. The HISA accounts offer slightly higher returns than the general bank account with similar liquidity.
- Long-term investments total \$417.5 million. These products help to smooth out interest rate fluctuations helping the average portfolio return remain higher during periods of declining interest rates and holding returns lower as interest rates go up.
- Investment pools total \$101.6 million and include holdings in the ONE Corporate Bond Fund, One Government Bond Fund, and the ONE Equity Fund. This category also includes \$19.4 million of actively managed funds by RBC investments.

The City typically does not invest in bonds and GICs for terms shorter than one year, and staff no longer classify bonds as short-term if they mature in less than 12 months for the purposes of this report.

The largest holdings are invested with Schedule 1 banks mostly in the form of GICs and bonds. This represents 62 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 and high interest savings accounts making up 12 per cent of the portfolio.

Investment pools and managed funds include the ONE Equity Portfolio, ONE Bond Portfolios, and the RBC managed account make up 17 per cent of the portfolio. The

ONE equity portfolio and the RBC managed account have unrealized gains which are not reported in the return until sold.

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 one holding in municipal bonds totaling \$2.1 million which have a term longer than 10 years. The City's 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 13 holdings in loan and trust companies totaling \$1.6 million with a term longer than one year. The City policy restricts these holdings to terms one year or less. These holdings were not purchased directly by the City but were part of the 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 considering a policy change to align with the Municipal Act.

As noted, both policy exceptions are permitted by the Municipal Act, but the City's internal Investment Policy is more restrictive and requires this disclosure.

The full listing of policy exceptions is outlined in Attachment-4 - Investment Policy Limit Exceptions.

Consultations

None noted.

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 strong in 2022 in comparison with the historically low rates of the previous two years due to multiple Bank of Canada rate increases. The City's proactive investment strategy and robust portfolio position put the City in a good position to take advantage of rising rates.

Attachments

Attachment-1 - 2022 Year-end Statement of the Treasurer

Attachment-2 - Investment Portfolio by Maturity Date

Attachment-3 - Investment Portfolio by Security Type

Attachment-4 - Investment Policy Limit Exceptions

Departmental Approval

Shanna O'Dwyer, Manager, Financial Strategy and Long-Term Planning

Report Author

David Lin, Senior Corporate Analyst Financial Strategy

This report was approved by:

Tara Baker
General Manager Finance/City Treasurer
Corporate Services
519-822-1260 extension 2084
tara.baker@guelph.ca

This report was recommended by:

Trevor Lee
Deputy Chief Administrative Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca

Attachment-1 - 2022 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 2.14 per cent on its investments and cash as of December 31, 2022.

2. Investments in Own Securities

The City of Guelph has \$1,934,666 in book value invested in its own long-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 excluding Bonds issued by the City of Guelph is \$2,079,867 (maximum term per approved investment policy is 10 years for this category)
- The amount invested in **Loan or Trust Companies** with a term longer than 1 year is \$1,611,143 (maximum term per approved investment policy is 1 year for this category)

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

Attachment-2 - 2022 Year-End Investment Report
Investment Portfolio by Maturity Date at Dec 31, 2022

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2022	Months to Maturity
Cash and Savings Accounts	2.21%	Liquid	ST	67,691,101	-
Meridian Credit Union	1.25%	14-Mar-23	ST	5,159,104	2
Meridian Credit Union	1.25%	14-Mar-23	ST	5,161,032	2
BMO Commercial	0.96%	27-Mar-23	ST	10,000,000	3
CIBC	2.50%	3-Apr-23	ST	6,088,735	3
Scotiabank	1.11%	22-Jun-23	ST	10,000,000	6
Meridian Credit Union	1.45%	25-Jun-23	ST	5,000,000	6
BMO Commercial	4.79%	26-Jun-23	ST	17,000,000	6
CIBC	0.00%	25-Sep-23	ST	500,000	9
BMO Commercial	1.12%	25-Sep-23	ST	20,000,000	9
BMO	3.54%	6-Nov-23	ST	20,000,000	10
Canadian Western Bank	2.00%	27-Nov-23	ST	10,000,000	11
Bank of Nova Scotia	3.87%	1-Dec-23	ST	5,000,000	11
BMO Commercial	1.72%	7-Dec-23	ST	20,000,000	11
BMO	3.69%	6-Feb-24	LT	15,000,000	13
Bank of Nova Scotia	4.00%	15-Mar-24	LT	5,000,000	14
Bank of Nova Scotia	4.11%	14-Jun-24	LT	20,000,000	17
Bank of Nova Scotia	4.15%	16-Sep-24	LT	7,500,000	21
CIBC	0.00%	23-Sep-24	LT	500,000	21
TD Bank	2.09%	26-Nov-24	LT	1,463,278	23
Laurentian	1.67%	6-Dec-24	LT	10,000,000	23
BMO Commercial	1.98%	9-Dec-24	LT	10,000,000	23
CIBC	2.67%	15-May-25	LT	5,526,267	28
CIBC	2.51%	15-May-25	LT	2,136,351	28
TD Bank	2.18%	26-May-25	LT	2,800,891	29
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,390,863	30
TD Bank	0.59%	13-Aug-25	LT	2,500,000	31
TD Bank	0.35%	13-Aug-25	LT	2,500,000	31
TD Bank	1.35%	13-Aug-25	LT	5,000,000	31
CIBC	0.00%	23-Sep-25	LT	500,000	33
BMO Commercial	1.57%	25-Sep-25	LT	10,000,000	33
TD Bank	0.70%	2-Sep-26	LT	12,000,000	44
CIBC	0.00%	23-Sep-26	LT	500,000	45
BMO Commercial	1.70%	25-Sep-26	LT	10,000,000	45
Province of Ontario	5.27%	2-Dec-26	LT	1,469,955	47
CIBC	3.25%	6-Jan-27	LT	15,000,000	48
CIBC	3.25%	6-Jan-27	LT	19,922,800	48
CIBC	2.95%	7-Jan-27	LT	3,457,760	48
TD Bank	3.18%	28-Mar-27	LT	30,000,000	51
Region of Waterloo	1.61%	16-Apr-27	LT	2,857,274	52
CIBC	3.01%	15-May-27	LT	1,938,885	52
TD Bank	0.88%	2-Sep-27	LT	10,000,000	56

CIBC	0.00%	23-Sep-27	LT	500,000	57
Region of Waterloo	1.79%	16-Apr-28	LT	2,904,772	64
City of London	1.73%	5-Jun-28	LT	1,711,433	65
CIBC	2.76%	7-Jul-28	LT	3,457,951	66
TD Bank	1.00%	2-Sep-28	LT	10,000,000	68
CIBC	0.00%	25-Sep-28	LT	500,000	69
CIBC	2.48%	24-Sep-29	LT	10,941,816	81
CIBC	4.04%	7-Jan-30	LT	10,460,480	84
CIBC	0.00%	4-Feb-30	LT	500,000	85
City of London	1.85%	5-Jun-30	LT	844,000	89
CIBC	4.28%	7-Jan-31	LT	4,213,195	96
Province of BC	2.10%	23-Feb-32	LT	3,899,821	110
Region of Waterloo	2.35%	16-Apr-32	LT	1,883,442	112
City of Guelph	2.56%	11-Jul-32	LT	968,725	114
Hydro Quebec	2.27%	15-Feb-33	LT	7,996,375	122
City of Guelph	2.65%	11-Jul-33	LT	965,941	126
Hydro Quebec	1.96%	16-Jan-35	LT	3,514,593	145
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	160
Province of Ontario	2.11%	2-Dec-39	LT	5,145,630	203
Province of BC	1.97%	18-Jun-40	LT	1,148,942	210
Total				\$ 485,201,282	

Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of Dec 31, 2022	Months to Maturity
One Government Bond Fund	2.03%	varies	LT	1,017,167	N/A
One Corporate Bond Fund	2.07%	varies	LT	64,375,731	N/A
One Fund Equity	4.48%	varies	LT	16,829,904	N/A
RBC Managed Account	1.00%	varies	LT	19,372,812	N/A
Total				\$ 101,595,614	

Attachment-3 - 2022 Year-End Investment Report
Dec 2022 Investment Portfolio by Security Type

Securities	Investment Value \$	Percentage of Holdings	Policy Maximum Portfolio Portfolio Limit
Cash and HISA accounts	67,691,101	11.54%	100%
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	21,644,245	3.69%	75%
Country Other than Canada			5%
Municipal			
City of Guelph	1,934,666	0.33%	50%
Other Municipalities & OSIFA – AAA & AA	12,280,788	2.09%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	382,551,123	65.19%	75%
Schedule II and III Banks			25%
Credit Unions	15,320,137	2.61%	10%
Loan or Trust Corporations	3,152,035	0.54%	5%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Corporate Bonds	64,375,731	10.97%	40%
Joint Municipal Investment Pools - Government Bonds	1,017,167		40%
Joint Municipal Investment Pools – Equity	16,829,904	2.87%	20%
TOTAL	\$ 586,796,896	100.00%	

Attachment-4 - 2022 Year-End Investment Report
Year-End 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	26	12
1	ROYAL TRUST COMPANY	\$ 102,547	12/19/2024	24	12
1	ROYAL TRUST COMPANY	\$ 97,222	10/09/2024	21	12
1	ROYAL TRUST COMPANY	\$ 54,470	07/22/2024	19	12
1	ROYAL TRUST COMPANY	\$ 142,811	04/09/2024	15	12
1	ROYAL TRUST COMPANY	\$ 6,130	03/20/2024	15	12
1	ROYAL TRUST COMPANY	\$ 328,966	03/11/2024	14	12
1	RBC MORTGAGE CORP GI	\$ 16,401	12/19/2024	24	12
1	MONTREAL TRUST CDA G	\$ 97,063	08/06/2024	19	12
1	MONTREAL TRUST CDA G	\$ 297,800	03/19/2024	15	12
1	BMO MORTGAGE CORP GI	\$ 157,458	04/30/2025	28	12
1	BMO MORTGAGE CORP GI	\$ 96,351	01/15/2025	25	12
1	BMO MORTGAGE CORP GI	\$ 25,258	12/30/2024	24	12
13	Total Trust and Loan Holdings	\$ 1,611,143			

QTY	Instrument Description	Cost (CAD)	Maturity Date	Years to Maturity	Policy Limit (Years)
1	Region of Waterloo	\$ 2,079,867	4/16/2036	14	10
1	Municipal Bonds Exceptions	\$ 2,079,867			