

Information Report



Service Area	Corporate Services
Date	Friday, August 25, 2023
Subject	2023 Interim Investment Performance Report

Executive Summary

Purpose of Report

To report on the 2023 interim 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 \$9.1 million or a 3.05 per cent annualized return for the first six months of 2023. This is an increase of \$4.7 million compared with June 30, 2022, when the investment income was \$4.4 million, and the annualized rate of return was 1.56 per cent.

The main driver of increased investment earnings compared with 2022 was the increasing interest rate environment that continued in 2023. In response to high inflation that persisted into 2023, the Bank of Canada increased its Policy Interest Rate twice in the first half of 2023 taking the target overnight rate up to 4.75 per cent by June 30. Since June 30, the rate has increased by a further 0.25 per cent and there are varied projections about what the Bank of Canada will do with its target overnight rate for the remainder of the year depending on how the measures taken to date impact inflation.

Just as it did when interest rates decreased in 2020, the impact on the overall 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 began, those investments generate a lower yield than investments made since rates have been increasing. 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 14 holdings in loan and trust companies totaling \$1.1 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 is considering a 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 (HISA) 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 and user fees to fund City services and increases the value of reserve funds used to fund future capital expenditures.

Total investment revenue was \$4.4 million higher than the same period in 2022. Investment income is conservatively budgeted given the generally low interest rate environment that persisted for a number of years before rate hikes began in 2022 to combat inflation. A year-end operating budget surplus of approximately \$1.9 million from investment income is forecasted at this time. Higher than expected investment income will also provide a boost for the City's reserve funds at year-end.

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 fixed income investments. The Bank's overnight rate at the start of 2023 was 4.25 per cent and was increased twice in the first half of 2023 to 4.75 per cent; it has increased by an additional 0.25 per cent since June 30, 2023 and currently sits at 5.00 per cent.

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

1. Any cash on hand in the City's bank account and HISA 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, a one-year strip bond that was paying 2.76 per cent per annum matured in 2023, and the City reinvested those funds at a rate of 5.59 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 the second half of 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

Interim returns are based on returns for the first six months of the year and are annualized to estimate a full-year rate of return. The final rate of return will not be known until 2023 year-end when all transactions have been recorded for the year.

Total investment income for the first half of 2023 was \$9.1 million, which represents an annualized return of 3.05 per cent. This is an increase of \$4.7 million compared with the same period in 2022 when the investment income was \$4.4 million, and the annualized rate of return was 1.56 per cent. Figure 1 summarizes the investment portfolio and return compared with this time last year.

Figure 1 - Investment Portfolio Comparison (June 30, 2023 to June 30, 2022)

	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2022	June 30, 2022	June 30, 2022	June 30, 2022
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash and Savings Accounts	82,000,000	50,900,000	1,300,000	4.95%	67,700,000	53,700,000	200,000	0.82%
High Interest Savings Accounts	35,900,000	14,300,000	400,000	5.57%	3,100,000	36,000,000	200,000	1.32%
Long Term Investments	435,400,000	434,300,000	5,900,000	2.74%	447,100,000	387,100,000	3,300,000	1.71%
Investment Pools and Managed Funds	102,500,000	101,800,000	1,500,000	3.05%	100,100,000	101,000,000	700,000	1.47%
Total	655,800,000	601,300,000	9,100,000	3.05%	618,000,000	577,800,000	4,400,000	1.56%

Cash balances total \$82 million and include the City’s general bank account and balances in chequing and cash accounts. Subsequent to this reporting period, at the start of July, surplus cash was invested into high-yielding GICs and the cash balance dropped to \$46.5 million. The closing balance in the cash and savings accounts is higher than normal each year at June 30 due to cash inflows from the June 30 property tax installment.

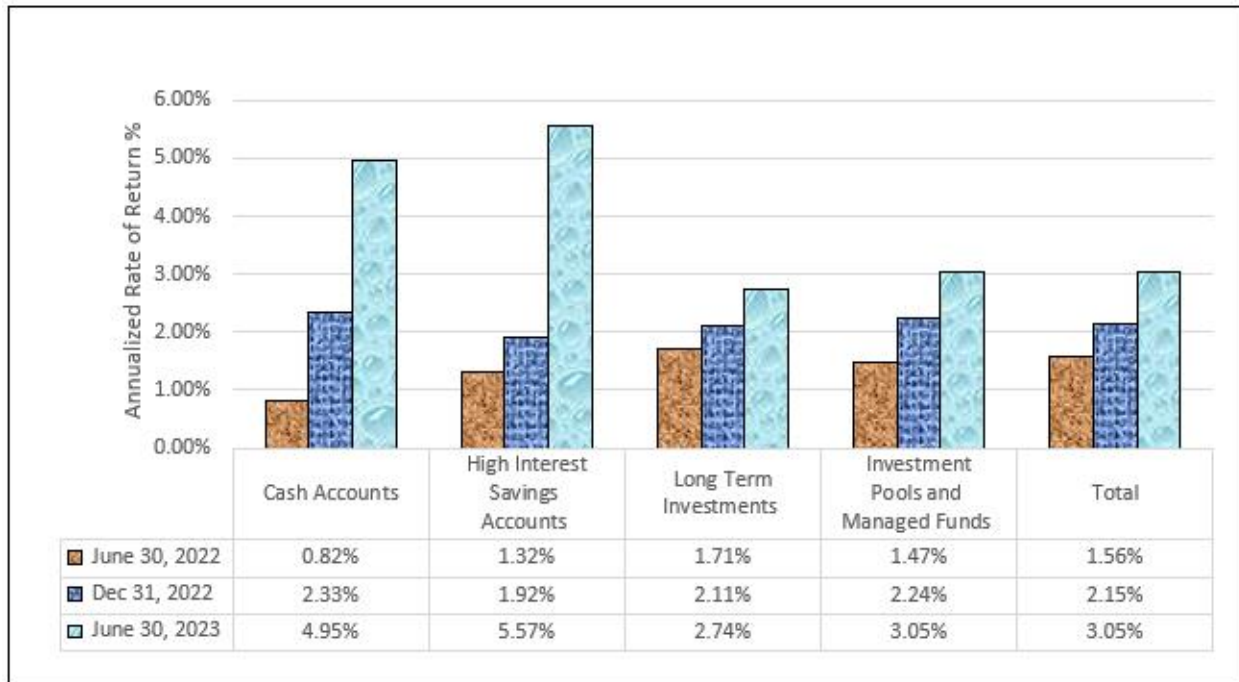
HISA accounts totaled \$35.9 million at June 30. The HISA accounts offer higher returns than the general bank account with similar liquidity. The closing balance in the HISAs was significantly higher than the average balance in the period mainly due to a \$17 million GIC that matured into the HISA account on June 26. The surplus cash was invested into high-yielding GICs at the start of July 2023. Surplus short-term cash has historically been placed in HISAs to earn higher returns than the City’s daily chequing account and to provide liquidity compared to locking in fixed-income investments. This is shown in the higher returns on the HISA accounts compared with the returns in the cash accounts.

Long-term investments totaled \$435.4 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. The largest holdings are invested with Schedule 1 banks mostly in the form of GICs and bonds. This represents 74 per cent of the total portfolio and is aligned with City policy to minimize risk while generating a reasonable return.

Investment pools total \$102.5 million and include holdings in the ONE Corporate Bond Fund, One Government Bond Fund, and the ONE Equity Fund. This category also includes \$19.5 million of actively managed funds by RBC investments. The ONE equity portfolio and the RBC managed account have unrealized gains and losses which are not reported in the return until sold. Unrealized losses occur when bonds are purchased in a lower interest rate environment and 2023 saw increasing bond yields which decreases the value of bonds purchased at lower rates.

The chart below outlines the annualized investment return trend by investment type for the first half of 2023 and compared with the returns in 2022:

Figure 2 - Rate of Return Comparison (June 30, 2023 to Dec 31, 2022 and June 30, 2022)



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 has 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 14 holdings in loan and trust companies totaling \$1.1 million with a term longer than one year. The City policy restricts these holdings to terms of 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 list of policy exceptions is outlined in Attachment-4 - Investment Policy Limit Exceptions.

Consultations

None noted.

Financial Implications

Increasing interest rates positively impacted overall investment returns through increased interest on cash and HISA 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 and user fees to fund City services and increases the value of reserve funds used to fund future capital expenditures.

Total investment revenue was \$4.4 million higher than the same period in 2022. Investment income is conservatively budgeted given the generally low interest rate environment that persisted for a number of years before rate hikes began in 2022 to combat inflation. A year-end operating budget surplus of approximately \$1.9 million from investment income is forecasted at this time. Higher than expected investment income will also provide a boost for the City's reserve funds at year-end.

Attachments

Attachment-1 - 2023 Interim 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

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Attachment-1 - 2023 Interim 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 annualized return of 3.05 per cent on its investments and cash for the 6 months ended as of June 30, 2023.

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 \$1,096,468 (maximum term per approved investment policy is 1 year for this category)

Further details of these investments can be found in Attachment-4 – Investment Policy Limit Exceptions

Attachment-2 - 2023 Interim Investment Performance Report
Investment Portfolio by Maturity Date

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2023	Months to Maturity
Cash and Savings Accounts	5.08%	Liquid	ST	117,892,396	-
CIBC	0.00%	25-Sep-23	ST	500,000	3
BMO Commercial	1.12%	25-Sep-23	ST	20,111,079	3
BMO	3.54%	6-Nov-23	ST	20,351,090	4
Canadian Western Bank	2.00%	27-Nov-23	ST	10,099,178	5
Bank of Nova Scotia	3.87%	1-Dec-23	ST	5,095,955	5
BMO Commercial	1.72%	7-Dec-23	ST	20,170,586	5
BMO	3.69%	6-Feb-24	ST	15,274,475	7
Bank of Nova Scotia	4.00%	15-Mar-24	ST	5,099,178	9
Bank of Nova Scotia	4.11%	14-Jun-24	ST	20,407,622	12
Bank of Nova Scotia	4.15%	16-Sep-24	LT	7,654,346	15
CIBC	0.00%	23-Sep-24	LT	500,000	15
TD Bank	2.09%	26-Nov-24	LT	1,477,643	17
BMO Commercial	5.59%	2-Dec-24	LT	18,162,646	17
Laurentian	1.67%	6-Dec-24	LT	10,082,814	17
BMO Commercial	1.98%	9-Dec-24	LT	10,098,186	17
Bank of Nova Scotia	5.85%	10-Mar-25	LT	10,181,110	20
CIBC	2.67%	15-May-25	LT	5,591,563	23
CIBC	2.51%	15-May-25	LT	2,162,490	23
TD Bank	2.18%	26-May-25	LT	2,829,512	23
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,414,752	24
TD Bank	0.59%	13-Aug-25	LT	2,507,364	25
TD Bank	0.35%	13-Aug-25	LT	2,504,322	25
TD Bank	1.35%	13-Aug-25	LT	5,033,473	25
CIBC	0.00%	23-Sep-25	LT	500,000	27
BMO Commercial	1.57%	25-Sep-25	LT	10,077,855	27
BMO Commercial	5.83%	12-Dec-25	LT	13,064,370	29
Bank of Nova Scotia	5.53%	15-Dec-25	LT	20,342,405	30
BMO Commercial	5.40%	13-Mar-26	LT	10,168,658	32
TD Bank	0.70%	2-Sep-26	LT	12,041,655	38
CIBC	0.00%	23-Sep-26	LT	500,000	39
BMO Commercial	1.70%	25-Sep-26	LT	10,084,301	39
Province of Ontario	5.27%	2-Dec-26	LT	1,495,833	41
CIBC	3.25%	6-Jan-27	LT	15,241,747	42
CIBC	3.25%	6-Jan-27	LT	20,243,885	42
CIBC	2.95%	7-Jan-27	LT	3,504,044	42
TD Bank	3.18%	28-Mar-27	LT	30,473,079	45
Region of Waterloo	1.61%	16-Apr-27	LT	2,880,086	46
CIBC	3.01%	15-May-27	LT	1,965,323	47
TD Bank	0.88%	2-Sep-27	LT	10,043,390	50
CIBC	0.00%	23-Sep-27	LT	500,000	51
Region of Waterloo	1.79%	16-Apr-28	LT	2,930,556	58

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2023	Months to Maturity
City of London	1.73%	5-Jun-28	LT	1,726,098	59
CIBC	2.76%	7-Jul-28	LT	3,506,330	60
TD Bank	1.00%	2-Sep-28	LT	10,049,589	62
CIBC	0.00%	25-Sep-28	LT	500,000	63
CIBC	2.48%	24-Sep-29	LT	11,082,272	75
CIBC	4.04%	7-Jan-30	LT	10,632,273	78
CIBC	0.00%	4-Feb-30	LT	500,000	79
City of London	1.85%	5-Jun-30	LT	851,743	83
CIBC	4.28%	7-Jan-31	LT	4,284,334	90
Province of BC	2.10%	23-Feb-32	LT	3,943,442	104
Region of Waterloo	2.35%	16-Apr-32	LT	1,905,390	106
City of Guelph	2.56%	11-Jul-32	LT	981,023	108
Hydro Quebec	2.27%	15-Feb-33	LT	8,094,417	116
City of Guelph	2.65%	11-Jul-33	LT	978,635	120
Hydro Quebec	1.96%	16-Jan-35	LT	3,551,785	139
Region of Waterloo	2.73%	16-Apr-36	LT	2,108,024	154
Province of Ontario	2.11%	2-Dec-39	LT	5,207,952	197
Province of BC	1.97%	18-Jun-40	LT	1,161,838	204
Total				\$ 435,431,714	

Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT	Book Carrying Value as of June 30, 2023	Months to Maturity
One Government Bond Fund	2.23%	varies	LT	1,028,440	N/A
One Corporate Bond Fund	2.37%	varies	LT	65,133,703	N/A
One Fund Equity*	0.00%	varies	LT	16,829,904	N/A
RBC Managed Account	7.99%	varies	LT	19,481,970	N/A
Total				\$ 102,474,017	
Total				\$ 655,798,127	

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

Attachment-3 - 2023 Interim Investment Performance Report
Investment Portfolio by Security Type

Securities	Investment Value \$	Percentage of Holdings	Policy Maximum Portfolio Portfolio Limit
Cash and HISA accounts	117,892,396	17.98%	100%
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	23,175,317	3.53%	75%
Country Other than Canada			5%
Municipal			
City of Guelph	1,934,666	0.30%	50%
Other Municipalities & OSIFA – AAA & AA	12,426,888	1.89%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	416,280,344	63.48%	75%
Schedule II and III Banks			25%
Credit Unions			10%
Loan or Trust Corporations	1,096,468	0.17%	5%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Corporate Bonds	65,133,703	9.93%	40%
Joint Municipal Investment Pools - Government Bonds	1,028,440	0.16%	40%
Joint Municipal Investment Pools – Equity	16,829,904	2.57%	20%
TOTAL	\$ 655,798,127	100.00%	

Attachment-4 - 2023 Interim Investment Performance Report
Investment Policy Limit Exceptions

QTY	Instrument Description	Cost (CAD)	Maturity Date	Months to Maturity	Policy Limit (Months)
1	BMO MORTGAGE CORP GI	\$ 157,458	04/30/2025	22	12
1	BMO MORTGAGE CORP GI	\$ 96,351	01/15/2025	19	12
1	BMO MORTGAGE CORP GI	\$ 25,258	12/30/2024	18	12
1	BMO MORTGAGE CORP GI	\$ 20,140	08/26/2024	14	12
1	MONTREAL TRUST CDA G	\$ 100,638	10/27/2025	28	12
1	MONTREAL TRUST CDA G	\$ 95,765	12/06/2024	17	12
1	MONTREAL TRUST CDA G	\$ 97,063	08/06/2024	13	12
1	MONTREAL TRUST CDA G	\$ 6,358	07/09/2024	12	12
1	RBC MORTGAGE CORP GI	\$ 16,401	12/19/2024	18	12
1	ROYAL TRUST COMPANY	\$ 188,666	03/10/2025	20	12
1	ROYAL TRUST COMPANY	\$ 102,547	12/19/2024	18	12
1	ROYAL TRUST COMPANY	\$ 38,131	12/17/2024	18	12
1	ROYAL TRUST COMPANY	\$ 97,222	10/09/2024	15	12
1	ROYAL TRUST COMPANY	\$ 54,470	07/22/2024	13	12
14	Total Trust and Loan Holdings	\$ 1,096,468			

QTY	Instrument Description	Cost (CAD)	Maturity Date	Years to Maturity	Policy Limit (Years)
1	Region of Waterloo	\$ 2,079,867	4/16/2036	13	10
1	Municipal Bonds Exceptions	\$ 2,079,867			