

# Information Report

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Service Area	Corporate Services
Date	Friday, April 19, 2024
Subject	<b>2023 Year-end Investment Performance Report</b>

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## Executive Summary

### Purpose of Report

To report on the investment portfolio for the year-ended December 31, 2023 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 \$21.1 million for the year-ending December 31, 2023. This represents a return of 3.44 per cent (2022 – 2.14 per cent) on a total carrying value of the portfolio of \$597.6 million as of December 31, 2023 (2022 – \$586.8 million).

The main driver of increased investment earnings compared with 2022 returns was the increasing interest rate environment throughout 2023. In response to high inflation, the Bank of Canada increased its Policy Interest Rate three times in 2023 taking the target overnight rate from 4.25 per cent to 5.00 per cent by the end of 2023.

### Strategic Plan Alignment

Linking to Future Guelph: Strategic Plan 2024-2027 through the theme of Foundations and the objective of maintaining the City's healthy financial position. Higher investment income results in more interest allocated to the City's reserve funds, ultimately maintaining the City's healthy financial position.

### Future Guelph Theme

Foundations

### Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

### 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 \$8.4 million higher than the same period in 2022. Higher than expected investment income will also provide a boost for the City's reserve funds at year-end.

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## **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 three times in 2023 to 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. 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 2023 was \$21.1 million, which represents an annualized return of 3.44 per cent. This is an increase of \$8.4 million compared with the same period in 2022 when the investment income was \$12.7 million, and the annualized rate of return was 2.14 per cent. Figure 1 summarizes the investment portfolio and return compared with this time last year.

Figure 1 - Investment Portfolio Comparison (Dec 31, 2023 to Dec 31, 2022)

	Dec 31, 2023	Dec 31, 2023	Dec 31, 2023	Dec 31, 2023	Dec 31, 2022	Dec 31, 2022	Dec 31, 2022	Dec 31, 2022
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash and Savings Accounts	67,800,000	51,500,000	2,700,000	5.20%	55,500,000	54,400,000	1,300,000	2.33%
High Interest Savings Accounts	20,200,000	23,200,000	1,300,000	5.62%	12,200,000	22,400,000	400,000	1.92%
Long Term Investments	405,000,000	437,300,000	13,500,000	3.08%	417,500,000	416,200,000	8,800,000	2.11%
Investment Pools and Managed Funds	104,600,000	102,300,000	3,600,000	3.57%	101,600,000	98,300,000	2,200,000	2.24%
<b>Total</b>	<b>597,600,000</b>	<b>614,300,000</b>	<b>21,100,000</b>	<b>3.44%</b>	<b>586,800,000</b>	<b>591,300,000</b>	<b>12,700,000</b>	<b>2.14%</b>

Cash and savings accounts total \$67.8 million and include the City's general bank account and balances in chequing and cash accounts. At year-end, the cash balance was above the target balance for these accounts due to maintaining a higher cash balance towards the end of the year as December and January are net cash outflow months.

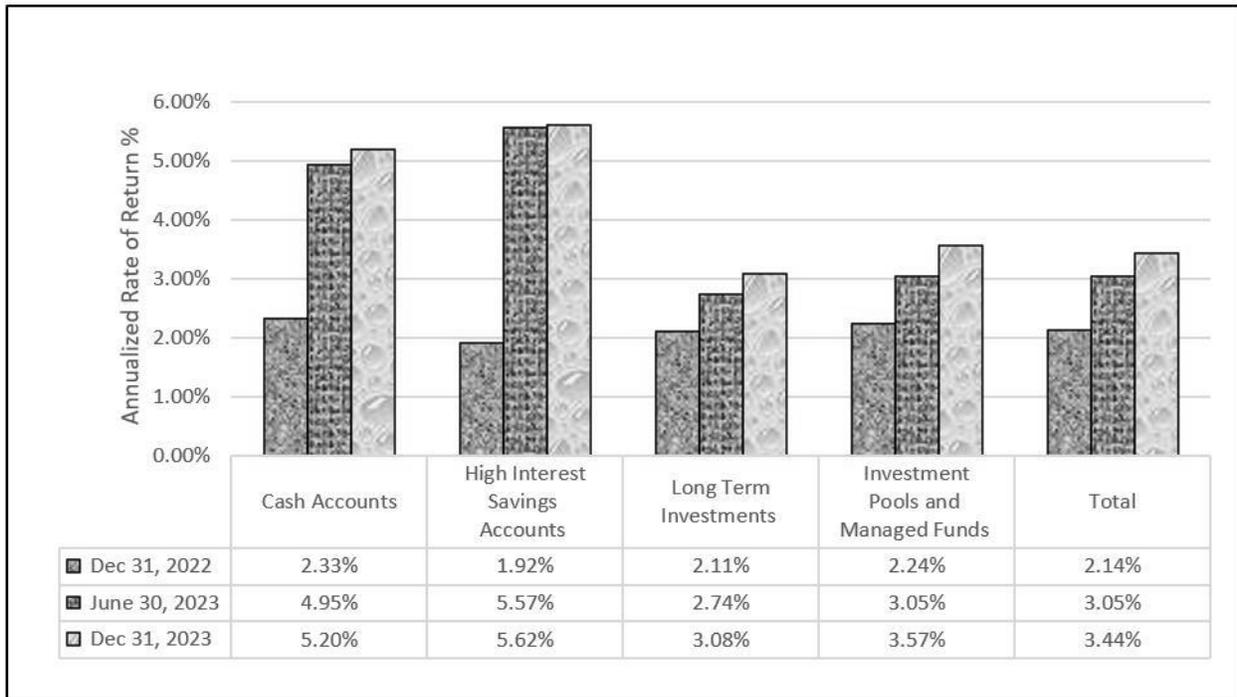
HISA accounts totaled \$20.2 million. The HISA accounts offer higher returns than the general bank account with similar liquidity. Surplus short-term cash has historically been placed in HISAs to earn higher returns than the City's daily chequing account and to provide liquidity compared to locking in fixed-income investments. This is shown in the higher returns on the HISA accounts compared with the returns in the cash and savings accounts.

Long-term investments totalled \$405 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.

Investment pools and managed funds total \$104.6 million and include holdings in the ONE Corporate Bond Fund, One Government Bond Fund, and the ONE Equity Fund. This category also includes \$19.9 million of actively managed funds by RBC. The ONE Corporate Bond and ONE Government Bond Funds have unrealized losses which are not reported in the return until sold. Unrealized losses exist because these investments were purchased in a lower interest rate environment and 2023 saw increasing bond yields which decreases the value of bonds purchased at lower rates. The ONE Equity Fund has unrealized gains which are not reported until sold. Unrealized gains exist because of appreciation in equity market values.

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

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



### 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 totalling \$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 10 holdings in loan and trust companies totalling \$0.9 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.

### 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.

Higher investment income will also provide a boost for the City's reserve funds at year-end.

### **Consultations**

None.

### **Attachments**

Attachment-1 - 2023 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**

None.

### **Report Author**

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

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## **Attachment-1 - 2023 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 annualized return of 3.44 per cent on its investments and cash for the 12 months ended Dec 31, 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 \$850,857 (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 Year-end Investment Performance Report**  
**Investment Portfolio by Maturity Date**

Issuer of Security	Yield	Maturity Date	ST/LT*	Book Carrying Value as of Dec 31, 2023	Months to Maturity
Cash, Savings, HISA Accounts	5.33%	Liquid	ST	88,014,212	-
BMO Commercial	6.34%	3-Jan-24	ST	2,500,000	-
BMO	3.69%	6-Feb-24	ST	15,000,000	1
Bank of Nova Scotia	4.00%	15-Mar-24	ST	5,000,000	2
Bank of Nova Scotia	4.11%	14-Jun-24	ST	20,000,000	5
BMO Commercial	6.54%	7-Aug-24	ST	6,500,000	7
Bank of Nova Scotia	4.15%	16-Sep-24	ST	7,500,000	8
CIBC	0.00%	23-Sep-24	ST	500,000	8
TD Bank	2.09%	26-Nov-24	ST	1,492,245	10
BMO Commercial	6.48%	7-Nov-24	ST	20,000,000	10
BMO Commercial	5.59%	2-Dec-24	ST	18,000,000	11
Laurentian	1.67%	6-Dec-24	ST	10,000,000	11
BMO Commercial	1.98%	9-Dec-24	ST	10,000,000	11
Bank of Nova Scotia	5.85%	10-Mar-25	LT	10,000,000	14
CIBC	2.67%	15-May-25	LT	5,657,941	16
CIBC	2.51%	15-May-25	LT	2,189,062	16
TD Bank	2.18%	26-May-25	LT	2,858,607	16
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,439,038	17
TD Bank	0.59%	13-Aug-25	LT	2,500,000	19
TD Bank	0.35%	13-Aug-25	LT	2,500,000	19
TD Bank	1.35%	13-Aug-25	LT	5,000,000	19
CIBC	0.00%	23-Sep-25	LT	500,000	20
BMO Commercial	1.57%	25-Sep-25	LT	10,000,000	20
BMO Commercial	6.48%	17-Nov-25	LT	23,500,000	22
BMO Commercial	5.83%	12-Dec-25	LT	13,000,000	23
Bank of Nova Scotia	5.53%	15-Dec-25	LT	20,000,000	23
BMO Commercial	5.40%	13-Mar-26	LT	10,000,000	26
TD Bank	0.70%	2-Sep-26	LT	12,000,000	32
CIBC	0.00%	23-Sep-26	LT	500,000	32
BMO Commercial	1.70%	25-Sep-26	LT	10,000,000	32
Province of Ontario	5.27%	2-Dec-26	LT	1,522,140	35
CIBC	3.25%	6-Jan-27	LT	15,000,000	36
CIBC	3.25%	6-Jan-27	LT	19,922,800	36
CIBC	2.95%	7-Jan-27	LT	3,551,096	36
TD Bank	3.18%	28-Mar-27	LT	30,000,000	38
Region of Waterloo	1.61%	16-Apr-27	LT	2,857,274	39
CIBC	3.01%	15-May-27	LT	1,992,199	40
TD Bank	0.88%	2-Sep-27	LT	10,000,000	44
CIBC	0.00%	23-Sep-27	LT	500,000	44
Region of Waterloo	1.79%	16-Apr-28	LT	2,904,772	51
City of London	1.73%	5-Jun-28	LT	1,711,433	53
CIBC	2.76%	7-Jul-28	LT	3,555,509	54
TD Bank	1.00%	2-Sep-28	LT	10,000,000	56

Issuer of Security	Yield	Maturity Date	ST/LT*	Book Carrying Value as of Dec 31, 2023	Months to Maturity
CIBC	0.00%	25-Sep-28	LT	500,000	56
CIBC	2.48%	24-Sep-29	LT	11,225,056	68
CIBC	4.04%	7-Jan-30	LT	8,099,989	72
CIBC	0.00%	4-Feb-30	LT	500,000	73
City of London	1.85%	5-Jun-30	LT	844,000	77
CIBC	4.28%	7-Jan-31	LT	3,092,254	84
Province of BC	2.10%	23-Feb-32	LT	3,987,786	97
Region of Waterloo	2.35%	16-Apr-32	LT	1,883,442	99
City of Guelph	2.56%	11-Jul-32	LT	968,725	102
Hydro Quebec	2.27%	15-Feb-33	LT	8,194,083	109
City of Guelph	2.65%	11-Jul-33	LT	965,941	114
Hydro Quebec	1.96%	16-Jan-35	LT	3,589,592	132
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	147
Province of Ontario	2.11%	2-Dec-39	LT	5,271,306	191
Province of BC	1.97%	18-Jun-40	LT	1,174,947	197
<b>Total</b>				<b>\$ 493,045,318</b>	

#### Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT*	Book Carrying Value as of Dec 31, 2023	Months to Maturity
One Government Bond Fund	2.26%	Liquid	LT	1,040,322	-
One Corporate Bond Fund	2.42%	Liquid	LT	65,950,696	-
One Fund Equity	5.36%	Liquid	LT	17,732,651	-
RBC Managed Account	5.91%	Liquid	LT	19,859,262	-
<b>Total</b>				<b>\$ 104,582,931</b>	

<b>Total</b>				<b>\$ 597,628,249</b>	
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\*For the purpose of this attachment, ST is defined as expecting to hold for <= 12 months and LT > 12 months

**Attachment-3 - 2023 Year-end Investment Performance Report**  
**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	88,014,212	14.74%	100%
<b>Federal</b>			
Government of Canada			100%
Federal Guarantees			50%
<b>Provincial Governments and Provincial Guarantees</b>	23,455,266	3.92%	75%
<b>Country Other than Canada</b>			5%
<b>Municipal</b>			
City of Guelph	1,934,666	0.32%	50%
Other Municipalities & OSIFA – AAA & AA	12,280,788	2.05%	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	386,368,791	64.65%	75%
Schedule II and III Banks			25%
Credit Unions			10%
Loan or Trust Corporations	850,857	0.14%	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>	65,950,696	11.04%	40%
<b>Joint Municipal Investment Pools - Government Bonds</b>	1,040,322	0.17%	40%
<b>Joint Municipal Investment Pools – Equity</b>	17,732,651	2.97%	20%
<b>TOTAL</b>	<b>\$ 597,628,249</b>	<b>100.00%</b>	

**Attachment-4 - 2023 Year-end Investment Performance Report**  
**Investment Policy Limit Exceptions**

QTY	Instrument Description	Cost	Maturity Date	Months to Maturity	Policy Limit (Months)
1	BMO MORTGAGE CORP GI	\$ 97,415	08/25/2025	20	12
1	BMO MORTGAGE CORP GI	\$ 157,458	04/30/2025	16	12
1	BMO MORTGAGE CORP GI	\$ 96,351	01/15/2025	13	12
1	MONTREAL TRUST CDA G	\$ 100,638	10/27/2025	22	12
1	MONTREAL TRUST CDA G	\$ 24,127	03/17/2025	15	12
1	NATCAN TRUST COMPANY	\$ 39,220	10/28/2027	46	12
1	NATCAN TRUST COMPANY	\$ 48,855	10/28/2026	34	12
1	NATCAN TRUST COMPANY	\$ 73,536	02/13/2025	13	12
1	RBC MORTGAGE CORP GI	\$ 24,591	01/06/2025	12	12
1	ROYAL TRUST COMPANY	\$ 188,666	03/10/2025	14	12
<b>10</b>	<b>Total Trust and Loan Holdings</b>	<b>\$ 850,857</b>			

QTY	Instrument Description	Cost (CAD)	Maturity Date	Years to Maturity	Policy Limit (Years)
1	Region of Waterloo	\$ 2,079,867	4/16/2036	12	10
<b>1</b>	<b>Municipal Bonds Exceptions</b>	<b>\$ 2,079,867</b>			