

Information Report



Service Area	Corporate Services
Date	Friday, August 23, 2024
Subject	2024 Interim Investment Performance Report

Executive Summary

Purpose of Report

To report on the 2024 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 \$15.9 million or a 5.26 per cent annualized return for the first six months of 2024. This is an increase of \$6.8 million compared with June 30, 2023, when the investment income was \$9.1 million, and the annualized rate of return was 3.05 per cent.

The main driver of increased investment earnings compared with 2023 returns was the strategic disposition of two One Equity investments in the Canadian Equity portfolio resulting in a one-time realized gain of \$4.6 million. Additionally, the increasing interest rate environment throughout 2023, and stable higher than average rates in the first half of 2024 contributed to the increased investment earnings. 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. The 5.00 per cent target overnight rate was maintained until June 5, 2024, when it decreased to 4.75 per cent. Since then, the Bank of Canada announced another decrease to 4.50 per cent, effective July 24, 2024, and further cuts are projected before the end of the year.

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, helping to maintain the City's healthy financial position.

Future Guelph Theme

Foundations

Future Guelph Objectives

Foundations: Maintain the City's healthy financial position

Financial Implications

Total investment revenue was \$6.8 million higher than the same period in 2023 due to sustained higher than average interest rates through most of the first six months of 2024, and because of a one-time gain from a strategic decision to exit the City's Canadian One Equity portfolio position during the period. This level of return is expected to be an exception to the normal rate of return realized over the long term. Interest rates have begun to decline based on recent Bank of Canada decisions, and further reductions are anticipated before the end of 2024.

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. Short-term investment income returns are part of the operating budget surplus or deficit and are expected to contribute to a positive variance in 2024, helping to offset cost pressures for social services increases that were phased-in through the multi-year budget. Long-term investment income returns are allocated to the City's reserve funds.

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 2024 was 5.00 per cent. This rate was maintained throughout 2024 until June 5, when it was decreased by 0.25 per cent to 4.75 per cent. An additional decrease of 0.25 per cent occurred in July 2024 decreasing the overnight target rate to 4.50 per cent, and additional decreases are projected before the end of the year.

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

1. Any cash on hand in the City's bank account and High Interest Savings Account (HISA) accounts immediately receives a lower interest rate as this interest rate is closely tied to the Bank of Canada rate.

2. Longer-term bonds that mature in this interest rate environment can be reinvested at a lower rate than what was available in the final six months of 2023.
3. In the current interest rate environment, shorter-term investments continue to have higher yields than longer-term investments, however, we are seeing changes in the markets with reductions to the Bank of Canada’s key policy interest rate. It is expected that the higher rates that have been available over the past year and a half will decline. Staff have continued to take a balanced approach by locking in investments at higher rates, aligned with cash flow projections to match the timing of when reserve funds are required, and changes to the City’s rate of return will therefore lag the overall market changes.

Staff continue to closely monitor the investment portfolio, reinvest maturities at the highest possible 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 the 2024 year-end when all transactions have been recorded for the year.

Total investment income for the first half of 2024 was \$15.9 million, which represents an annualized return of 5.26 per cent. This is an increase of \$6.8 million compared with the same period in 2023 when the investment income was \$9.1 million, and the annualized rate of return was 3.05 per cent. Figure 1 summarizes the investment portfolio and return compared with this time last year.

Figure 1 - Investment Portfolio Comparison (June 30, 2024 to June 30, 2023)

	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2024	June 30, 2023	June 30, 2023	June 30, 2023	June 30, 2023
	Closing Balance	Average Balance	Income (\$)	Return (%)	Closing Balance	Average Balance	Income (\$)	Return (%)
Cash and Savings Accounts	60,600,000	59,800,000	1,600,000	5.42%	82,000,000	50,900,000	1,300,000	4.95%
High Interest Savings Account	49,200,000	27,200,000	800,000	5.79%	35,900,000	14,300,000	400,000	5.57%
Long Term Investments	444,800,000	419,500,000	7,800,000	3.73%	435,400,000	434,300,000	5,900,000	2.74%
Investment Pools and Managed Funds	86,900,000	102,700,000	5,700,000	11.28%	102,500,000	101,800,000	1,500,000	3.05%
Total	641,500,000	609,200,000	15,900,000	5.26%	655,800,000	601,300,000	9,100,000	3.05%

Cash and savings accounts total \$60.6 million and include the City’s general bank account and balances in chequing and cash accounts. On June 30, the cash balance was above the target balance for these accounts due to the timing of the property tax due date at the end of June.

HISA accounts totaled \$49.2 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.

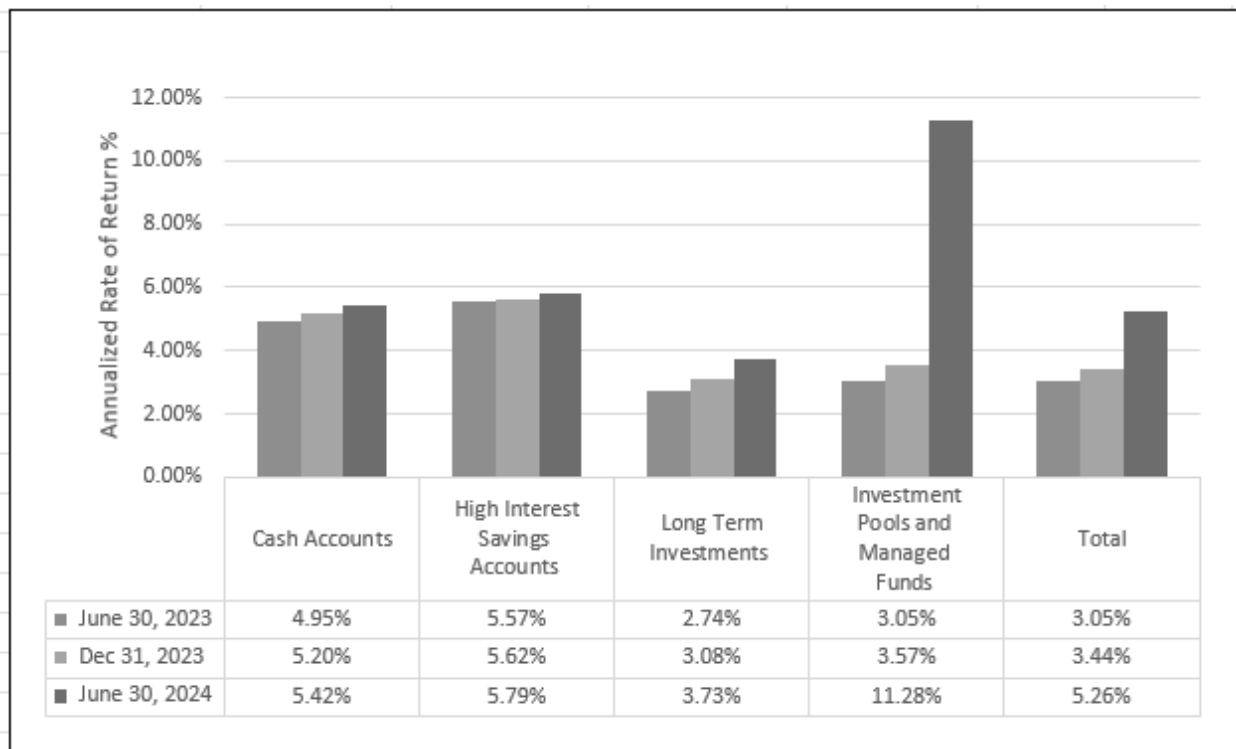
Long-term investments totalled \$444.8 million as of June 30, 2024. These products help to smooth out interest rate fluctuations, helping the average portfolio return

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 Guaranteed Investment Certificates (GICs) and bonds.

Investment pools and managed funds total \$86.9 million and include holdings in the ONE Corporate Bond Fund, and the One Government Bond Fund. This category also includes \$20.1 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 and 2024 saw increasing bond yields which decreases the value of bonds purchased at lower rates. In June 2024, the City exited the One Equity fund positions, and realized a gain of \$4.6 million.

The chart below outlines the annualized investment return trend by investment type for the first half of 2024 and compared with the returns in 2023:

Figure 2 - Rate of Return Comparison (June 30, 2024 to Dec 30, 2023 and June 30, 2024)



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 six holdings in loan and trust companies totalling \$0.4 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

Staff made a strategic decision to exit the Canadian One Equity portfolio position to solidify the significant unrealized gain that had accumulated over the term of the investment. Staff will monitor the market and look for an opportunity to re-enter the position in the One Equity portfolio in the future, as this has been a solid investment. This one-time realized gain positively contributed to the overall investment returns for the first half of 2024.

Higher than average interest rates also positively impacted overall investment returns through increased interest on cash and HISA and provided the opportunity to lock in medium and long-term fixed-income investments at higher yields. Near the end of the second quarter, this trend of increasing rates began to reverse, as the Bank of Canada reduced rates in response to stabilizing levels of inflation. There has been one additional decrease in the third quarter so far, and additional decreases are projected by the end of the year.

Based on the one-time gain from the One Equity disposition and the projected continuation of declining interest rates, the rate of return realized for the first half of 2024 is expected to be an exception, rather than a new normal. The City's rate of return always lags market changes as most of the investment portfolio is in fixed-income securities (bonds and GICs) with staggered maturities that are reinvested at the prevailing rates.

Total investment revenue was \$6.8 million higher than the same period in 2023. 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. Short-term investment income returns are part of the operating budget surplus or deficit and are expected to contribute to a positive variance in 2024, helping to offset cost pressures for social services increases that were phased-in through the multi-year budget. Long-term investment income returns are allocated to the City's reserve funds.

Consultations

None.

Attachments

Attachment-1 - 2024 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

None.

Report Author

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Attachment-1 - 2024 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 5.26 per cent on its investments and cash for the 6 months ended as of June 30, 2024.

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 \$391,736 (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 - 2024 Interim Investment Performance Report
Investment Portfolio by Maturity Date

Issuer of Security	Yield	Maturity Date	ST/LT*	Book Carrying Value as of June 30, 2024	Months to Maturity
Cash, Savings, HISA Accounts	5.54%	Liquid	ST	109,795,216	-
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	1,506,728	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	5,723,778	16
CIBC	2.51%	15-May-25	LT	2,215,418	16
TD Bank	2.18%	26-May-25	LT	2,887,466	16
Bank of Nova Scotia	2.13%	20-Jun-25	LT	2,463,125	17
BMO Commercial	5.56%	25-Jun-25	LT	22,300,000	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
BMO Commercial	5.59%	14-May-26	LT	6,000,000	28
BMO Commercial	5.53%	14-Aug-26	LT	5,000,000	31
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
BMO Commercial	5.36%	9-Nov-26	LT	18,000,000	34
Province of Ontario	5.27%	2-Dec-26	LT	1,548,232	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	3,597,763	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	2,018,855	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	3,604,289	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 June 30, 2024	Months to Maturity
CIBC	0.00%	25-Sep-28	LT	500,000	56
CIBC	2.48%	24-Sep-29	LT	11,366,676	68
CIBC	4.04%	7-Jan-30	LT	8,273,206	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	3,163,983	84
Province of BC	2.10%	23-Feb-32	LT	4,031,769	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	8,292,938	109
City of Guelph	2.65%	11-Jul-33	LT	965,941	114
TD Bank	5.07%	13-Mar-34	LT	30,000,000	122
Hydro Quebec	1.96%	16-Jan-35	LT	3,627,092	132
Region of Waterloo	2.73%	16-Apr-36	LT	2,079,867	147
Province of Ontario	2.11%	2-Dec-39	LT	5,334,144	191
Province of BC	1.97%	18-Jun-40	LT	1,187,950	197
Total				\$ 554,576,881	

Investment Pools and Managed Funds

Issuer of Security	Yield	Maturity Date	ST/LT*	Book Carrying Value as of June 30, 2024	Months to Maturity
One Corporate Bond Fund	2.39%	Liquid	LT	66,738,402	N/A
RBC Managed Account	3.94%	Liquid	LT	20,142,100	N/A
Total				\$ 86,880,502	

Total				\$ 641,457,383	
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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 - 2024 Interim Investment Performance Report
Investment Portfolio by Security Type

Securities	Investment Value \$	Percentage of Holdings	Policy Maximum Portfolio Portfolio Limit
Cash and HISA accounts	109,795,216	17.13%	100%
Federal			
Government of Canada			100%
Federal Guarantees			50%
Provincial Governments and Provincial Guarantees	24,022,124	3.74%	75%
Country Other than Canada			5%
Municipal			
City of Guelph	1,934,666	0.30%	50%
Other Municipalities & OSIFA – AAA & AA	12,280,788	1.91%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	425,835,330	66.39%	75%
Schedule II and III Banks			25%
Credit Unions			10%
Loan or Trust Corporations	850,857	0.13%	5%
Supranational Financial Institution or Government Organization			25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools - Corporate Bonds	66,738,402	10.40%	40%
Joint Municipal Investment Pools - Government Bonds			40%
Joint Municipal Investment Pools – Equity			20%
TOTAL	\$ 641,457,383	100.00%	

Attachment-4 - 2024 Interim 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	13	12
1	MONTREAL TRUST CDA G	\$ 100,638	10/27/2025	16	12
1	MONTREAL TRUST CDA G	\$ 97,654	4/13/2026	22	12
1	NATCAN TRUST COMPANY	\$ 39,220	10/28/2027	40	12
1	NATCAN TRUST COMPANY	\$ 48,855	10/28/2026	28	12
1	RBC MORTGAGE CORP GI	\$ 7,954	10/20/2025	16	12
6	Total Trust and Loan Holdings	\$ 391,736			

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
1	Municipal Bonds Exceptions	\$ 2,079,867			