

Information Report



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| Service Area | Corporate Services |
| Date | Friday, September 20, 2019 |
| Subject | 2019 Interim Investment Performance Report |
| Report Number | CS-2019-25 |

Executive Summary

Purpose of Report

To report on the interim 2019 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act and the City's Council-approved Investment Policy.

Key Findings

The carrying value of the total investment portfolio as of June 30, 2019 is \$295.1 million, plus cash holdings of \$111.3 million for a total of \$406.4 million. The market value of the total investment and cash holdings as at June 30, 2019 is \$409.5 million (June 30, 2018: \$371.9 million).

Total investment income as of June 30, 2019 is \$6.1 million, which included interest earned on investments and cash of \$3.3 million and \$2.8 million of dividends, gains and other charges. This surpassed the June 30, 2018 earnings by \$900 thousand. This computes to an average rate of return of 2.33 per cent (December 31, 2018: 2.19 per cent).

The City has managed its investment portfolio in accordance with Ontario Regulation 438/97 of the Municipal Act and in accordance with the current City's Council-approved Investment Policy.

Staff continue to be innovative in order to diversify the City's investment portfolio including increasing contributions to the One Fund portfolios, considering partnerships with other municipalities and continuing to monitor the broader municipal response to the Prudent Investor Status regulation changes.

Financial Implications

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increases the value of reserve funds used to finance future expenditures.

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 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; and
- 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, market value, and compliance status of the portfolio at least twice per year.

Definitions

Carrying Value: The portion of an asset’s value not depreciated. Carrying value is not market value, which is determined by market forces, such as stock prices; also called book value.

Market Value: The current price at which a security can be sold.

Face Value: The value of a bond or another type of debt instrument at maturity; also called par value.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.

A. Statement of Performance

The investment and cash positions of the City are as follows:

| Classification of Investment | Carrying value as of June 30, 2019 | Carrying value as of June 30, 2018 |
|-----------------------------------|------------------------------------|------------------------------------|
| Long-term | \$148,008,627 | \$188,535,921 |
| Short-term | \$147,096,250 | \$105,559,311 |
| Total Investments | \$295,104,877 | \$294,095,232 |
| Cash | \$111,344,208 | \$75,144,061 |
| Total Cash and Investments | \$406,449,085 | \$369,239,293 |

As at June 30, 2019, the carrying value of the investment portfolio is \$295.1 million plus cash holdings of \$111.3 million, totaling \$406.4 million. Interest earned on investment and cash as of June 30, 2019 is \$6.1 million, which surpassed the June

30, 2018 earnings by \$900 thousand. This computes to an average rate of return of 2.33 per cent (June 30, 2018: 2.05 per cent).

The market value of the total investment and cash as at June 30, 2019 is \$409.5 million (June 30, 2018: \$371.9 million). The City’s investment portfolio as at June 30, 2019 is provided in the Investment Portfolio by Issuer (Attachment-2) and the Investment Portfolio by Security (Attachment-3).

Cash Activity

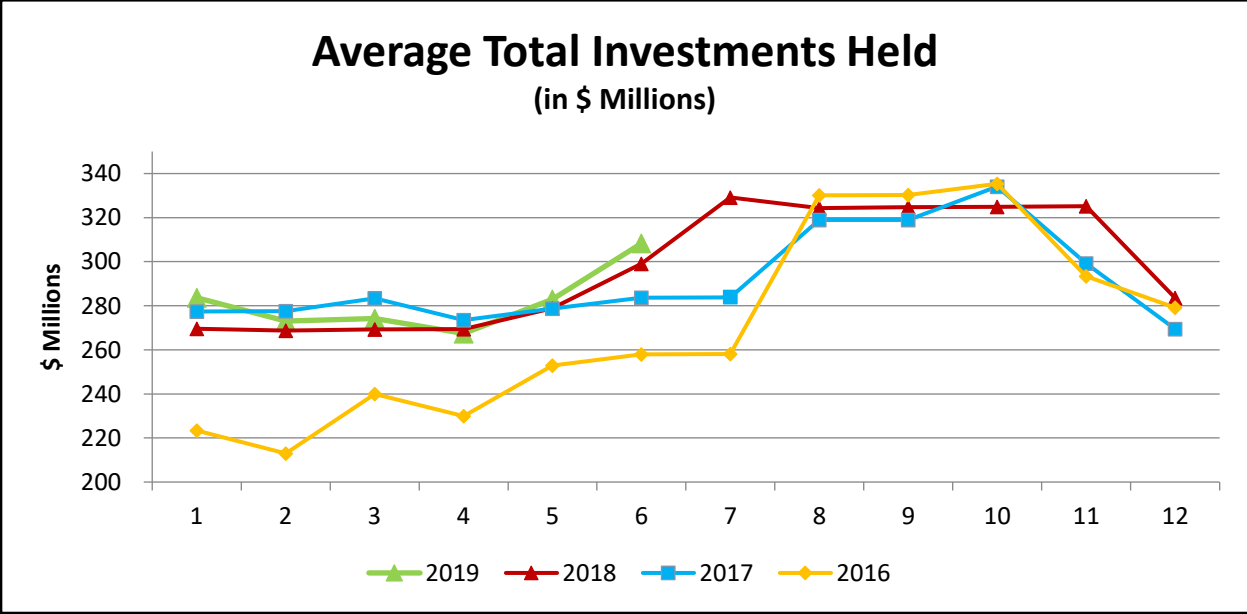
Throughout 2018, the Bank of Canada has made several rate hikes, including one in the last quarter of 2018, which increased the policy interest rate to 1.75 per cent. However, despite market speculation of increases, the rate has remained stable throughout the first six months of 2019. Rate increases represent favourable outcomes for the City’s interest earned on cash balances, as it is significantly dependent on prime.

The cash balance of \$111.3 million at June 30, 2019 may appear higher than expected, however several significant transactions were deposited at the end of June; such as property tax collections of \$13.2 million, debt issuance of \$33 million and a \$10 million dollar Guaranteed Investment Certificate redemption. Approximately \$70 million of funds were invested in early July. Staff continue to monitor the cash flow on a monthly basis to ensure that any excess cash is invested earning the highest rate possible.

Investment Portfolio

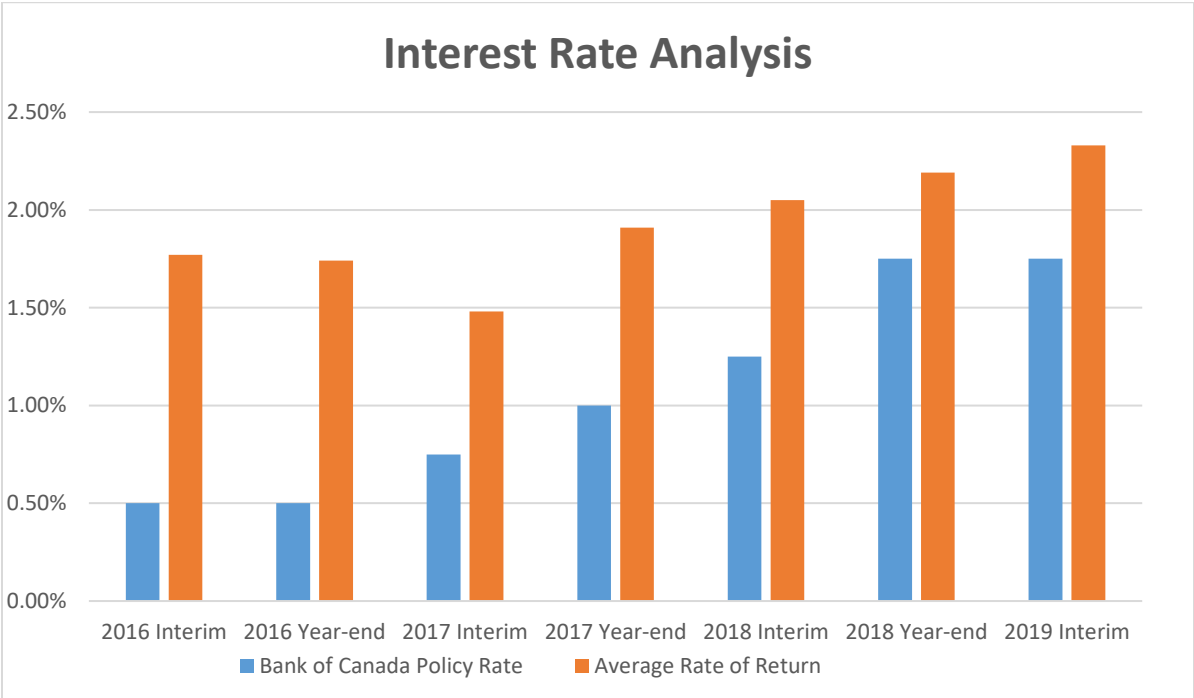
Consistent with the trend year-over-year, the City typically builds cash and investments throughout May to October, then balances decline in the last quarter, as funds are required for capital needs. Figure 1 shows the average investment portfolio (excluding cash holdings) and this annual trending over four years.

Figure 1



The City has earned a total of \$3.3 million (June 30, 2018: \$2.7 million) on its investment portfolio which excludes interest earned on cash balances of \$681 thousand. This represents an average rate of return of 2.34 per cent. As Canadian policy rates increase, typically the market does not see an immediate impact on investment returns as there is a time lag between investment brokers becoming more competitive and passing the rate benefits externally to primary markets. As illustrated in Figure 2 below, the Bank of Canada policy rate has recently stabilized and the City’s average rate of return continues to increase over time.

Figure 2

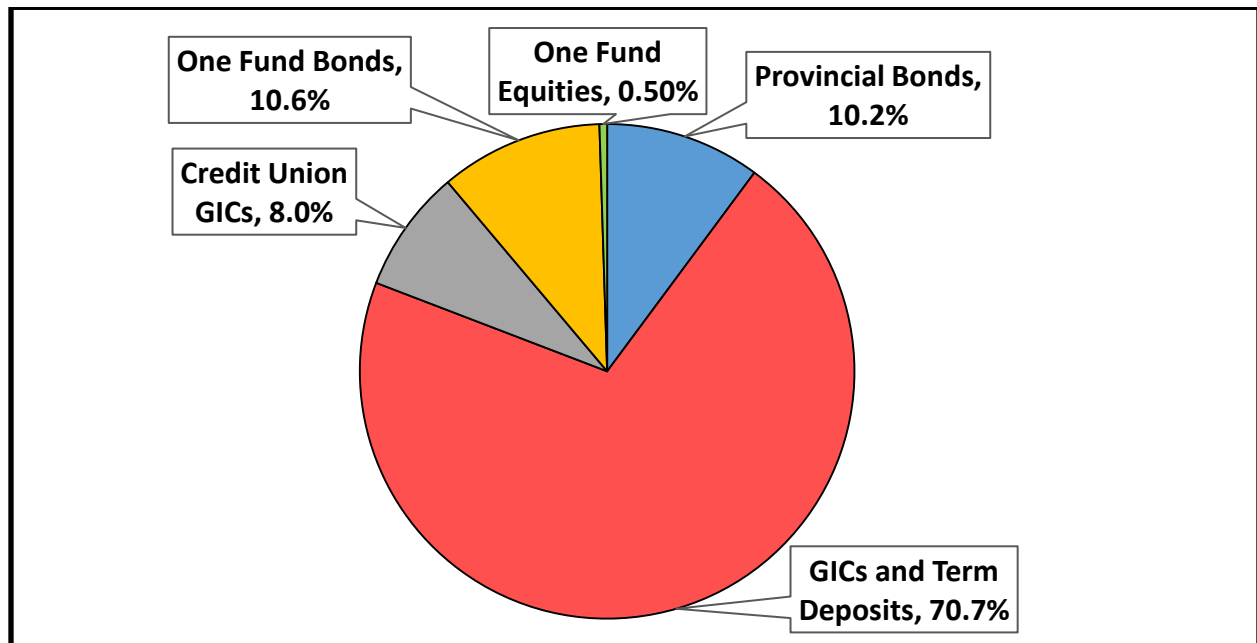


In addition to this, prior to the policy rate increases, the City had locked in at rates that are no longer favourable in today’s market; however this is expected in a balanced portfolio. Staff continually monitor all investments through the approved investment advisor list to determine early redemption options when the benefit outweighs any penalties incurred. In the last quarter, staff sold approximately \$5 million units of a provincial bond as part of this review. The trade extended the bond five months past its original maturity, and generated a \$201 thousand gain.

As depicted in Figure 3 below, the majority of the City’s investment portfolio is comprised of Guaranteed Investment Certificates (GICs) and Term deposits primarily because these investments are heavily dependent on prime rate. In today’s market, GICs and term deposits have higher yields because of their close correlation with Bank of Canada interest rates; comparative to a very flat or inverted bond yield. In addition to this, GICs and term deposits are typically less risky as they have guaranteed returns. Market speculation suggests that the Bank of Canada will lower the policy interest rate in last half of 2019. Due to the uncertainty, the interest rate options for short-term and long-term investments are very close, approximately 5-10 basis points between one and five year maturities.

Therefore, reinvested funds have been more attractive for short-term options and GICs.

Figure 3



On June 26, 2018, Council had approved the Investment Policy to increase the allowable holdings of Joint Municipal Investment Boards by five per cent and designate the One Fund Canadian Equity Portfolio as an allowable investment option. In response, the City has purchased \$2 million of Canadian equities through the One Fund Investment Portfolio in early June. As of June 30, 2019 the equity fund market value was approximately \$29 thousand higher than the original investment.

In 2015, the City purchased \$40 million of Universal Corporate Bonds through the One Fund Investment Portfolio. As of June 30, 2019, the fund has reinvested approximately \$3.8 million dividends, recognized \$179 thousand in realized gains and increased approximately \$198 thousand in market value.

Staff continue to be innovative in order to diversify the City's investment portfolio including increasing contributions to the One Fund Investment Portfolios, considering partnerships with other municipalities and continuing to monitor the broader municipal response to the Prudent Investor Status regulation changes.

B. Own Securities

The City has not invested in its own long-term or short-term securities.

C. Investment Policy and Regulation Investment Standard Compliance

In order to aid in the achievement of the primary objectives of the Investment Policy, the policy places restrictions and limitations on investment quality, diversification, and term. The current portfolio is in compliance with the Municipal

Act and Ontario Regulation 438/97 and within the targets set out in the City's Investment Policy.

Financial Implications

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increases the value of reserve funds used to finance future expenditures.

Consultations

N/A

Corporate Administrative Plan

Overarching Goals

Financial Stability

Service Area Operational Work Plans

Our Services - Municipal services that make lives better

Our Resources - A solid foundation for a growing city

Attachments

Attachment-1: Investment Reporting Requirements

Attachment-2: City of Guelph Investment Portfolio by Issuer - Short-term and Long-term Investments at June 30, 2019

Attachment-3: City of Guelph Investment Portfolio by Security at June 30, 2019

Departmental Approval

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Attachment-1 to CS-2019-25

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 return of 2.33 per cent on its investments and cash as at June 30, 2019.
2. Investments in Own Securities
None of the 2019 investments of the City have been invested in its own long-term or short-term securities.
3. Record of Own Security Transactions
None of the 2019 investments of the City have been invested in its own long-term or short-term securities.

Statement of Treasurer re: City of Guelph Investment Policy Compliance

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.



Tara Baker, CPA, CA
General Manager, Finance and City Treasurer

Attachment-2 to CS-2019-25

City of Guelph Investment Portfolio by Issuer - Short-term and Long-term Investments at June 30, 2019

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

| Issuer | Yield | Maturity | Carrying Value \$ | 30-Jun-19 | Restriction | Exceeded |
|-------------------------|------------|----------------|-------------------|-----------|-------------|----------|
| Meridian Credit Union | 1.40% | Liquid | 1,880 | N/A | 364 | - |
| Meridian Credit Union | 2.50% | Liquid | 114,759 | N/A | 364 | - |
| RBC Dominion Securities | 0.70% | Liquid | 154,798 | N/A | 364 | - |
| Bank of Montreal HISA | 2.61% | Liquid | 10,003,342 | N/A | 364 | - |
| One Investment HISA | 2.42% | Liquid | 53,366,085 | N/A | 364 | - |
| RBC Dominion Securities | 1.20-2.82% | Various<1 year | 9,942,576 | <364 | 364 | - |
| RBC Dominion Securities | 2.15% | 19-Aug-19 | 10,000,000 | 50 | 364 | - |
| Meridian Credit Union | 3.02% | 14-Sep-19 | 17,833,419 | 76 | 364 | - |
| Meridian Credit Union | 2.94% | 04-Nov-19 | 3,860,250 | 127 | 364 | - |
| CIBC | 2.99% | 06-Dec-19 | 19,819,141 | 159 | 364 | - |
| TD Wealth | 2.50% | 06-Jan-20 | 15,000,000 | 190 | 364 | - |
| Meridian Credit Union | 3.00% | 08-Feb-20 | 5,000,000 | 223 | 364 | - |
| Meridian Credit Union | 2.90% | 21-May-20 | 2,000,000 | 326 | 364 | - |

Short-term Investment Total Carrying Value \$147,096,250

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

| Issuer | Yield | Maturity | Carrying Value \$ | 30-Jun-19 | Restriction | Exceeded |
|--------------------------------------|-------------|----------------|-------------------|-----------|-------------|----------|
| Joint Municipal Investments - Bond | Variable | Liquid | 43,259,141 | Current | N/A | - |
| Joint Municipal Investments - Equity | Variable | Liquid | 2,029,125 | Current | N/A | - |
| RBC Dominion Securities | 1.60%-3.22% | Various>1 year | 7,963,135 | >365-4.3 | 5 | - |
| Meridian Credit Union | 2.70% | 21-Nov-20 | 3,853,220 | 1.4 | 10 | - |
| CIBC | 2.25% | 21-Jan-21 | 14,500,000 | 1.6 | 10 | - |
| TD Wealth | 1.78% | 11-Jul-21 | 29,954,400 | 2.0 | 10 | - |
| National Bank | 1.81% | 14-Nov-22 | 5,000,000 | 3.4 | 10 | - |
| BMO Wealth Management | 3.04% | 02-Dec-22 | 5,000,010 | 3.4 | 10 | - |
| CIBC-Provincial | 3.30% | 02-Dec-24 | 3,698,413 | 5.4 | 20 | - |
| CIBC-Provincial | 3.30% | 15-May-25 | 5,060,988 | 5.9 | 20 | - |
| TD Wealth | 2.05% | 13-Aug-25 | 10,000,000 | 6.1 | 10 | - |
| CIBC-Provincial | 4.08% | 02-Dec-26 | 7,690,195 | 7.4 | 20 | - |
| National Bank | 2.00% | 04-May-27 | 10,000,000 | 7.8 | 10 | - |

Long-term Investment Total Carrying Value \$148,008,627

Attachment-3 to CS-2019-25

City of Guelph Investment Portfolio by Security at June 30, 2019

| Securities | Investment Value \$ | Investment Percentage of Holdings | Policy Maximum Portfolio Percentage Limit |
|---|----------------------|-----------------------------------|---|
| Federal | | | |
| Government of Canada | | | 100% |
| Federal Guarantees | | | 50% |
| Provincial Governments & Provincial Guarantees | 41,268,748 | 10.2% | 75% |
| Country Other than Canada | | | 5% |
| Municipal | | | |
| City of Guelph | | | 50% |
| Other Municipalities & OSIFA – AAA & AA | | | 50% |
| Other Municipalities & OSIFA – A | | | 10% |
| School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp. | | | 20% |
| Financial Institutions | | | |
| Schedule I Banks | 287,228,543 | 70.7% | 75% |
| Schedule II and III Banks | | | 25% |
| Loan or Trust Corporations, Credit Union | 32,663,528 | 8.0% | 10% |
| Supranational Financial Institution or Government Organization | | | 25% |
| Corporate Debt | | | 25% |
| Commercial Paper | | | 15% |
| Joint Municipal Investment Pools - Bonds | 43,259,141 | 10.6% | 15% |
| Joint Municipal Investment Pools – Equity | 2,029,125 | 0.5% | 5% |
| TOTAL | \$406,449,085 | 100.00% | |