

Information Report



Service Area	Corporate Services
Date	Friday, August 28, 2020
Subject	2020 Interim Investment Performance Report

Executive Summary

Purpose of Report

To report on the interim 2020 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 carrying value of the total investment portfolio as of June 30, 2020 is \$387.9 million, plus cash holdings of \$84.9 million for a total of \$472.9 million. The market value of the total investment and cash holdings as at June 30, 2020 is \$479.4 million.

Total investment income as of June 30, 2020 is \$4.9 million, which includes interest earned on investments and cash of \$4.3 million and \$600 thousand in capital gains and other revenue. This is a decrease of \$1.2 million from the investment earnings recorded as of June 30, 2019 and represents an average rate of return of 2.37% (December 31, 2019: 2.45%).

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 exception of the amount invested in Schedule I banks which is currently at 76.2% (maximum of 75% per the approved Investment Policy); approximately \$3.5 million of the \$360.4 million invested in Schedule 1 Banks is invested in long-term Principal Protected Notes to which return is linked to the equity markets, lending some diversity within this classification. This reflects the availability and attractiveness of interest rates on bank Guaranteed Investment Certificates (GICs) versus provincial and municipal bond offerings in 2020 to date.

In March 2020 the Bank of Canada cut its Policy Interest Rate three times, by 0.5% each time, taking the target percentage from 1.75% down to 0.25%. The rate has remained at 0.25% since March 27, 2020. This has driven borrowing rates down significantly and as a result, the rates of return available to municipal investors through the provincial and municipal bond market. Over the last several months Canadian banks have experienced significant excess liquidity and as a result the rates available on principal protected investments (GICs, Term Deposits) have also decreased significantly.

The outlook for return on investment is poor for the short to medium term as rates are expected to stay low for the foreseeable future. Staff continue to be innovative in order to diversify the City's investment portfolio including increasing contributions to the One Fund portfolios, and beginning investigations into the expanded investment opportunities available through the Prudent Investor Standard.

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

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

Definitions

Carrying Value: Also called book value. This is 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.

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

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

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.

Statement of Performance

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

Classification	Carrying value as of June 30, 2020	Carrying value as of June 30, 2019
Long-term	\$214,584,424	\$148,008,627
Short-term	\$173,340,275	\$147,096,250
Total Investments	\$387,924,699	\$295,104,877
Cash	\$84,931,907	\$111,344,208
Total Cash and Investments	\$472,856,606	\$406,449,085

As at June 30, 2020 the carrying value of the investment portfolio is \$387.9 million plus cash holdings of \$84.9 million, totaling \$472.9 million. Interest earned on cash and investments as of June 30, 2020 is \$4.9 million, a decrease of \$1.2 million from the first six months of 2019. This computes to an average rate of return of 2.37% (June 30, 2019: 2.41%). As of June 30, 2019 investment income is at 57% of the annual budget; however, earnings are expected to decrease in the second half of the year given the decline in interest rates over the past several months. We therefore estimate that there will be a negative variance of approximately \$500 thousand in investment income at year-end.

The market value of the total cash and investments portfolio as at June 30, 2020 is \$479.4 million (June 30, 2019, \$409.5 million). The City's investment portfolio as at June 30, 2020 is provided in the Investment Portfolio by Issuer (Attachment-2) and the Investment Portfolio by Security (Attachment-3).

Cash Activity

Throughout 2019 the Bank of Canada's Policy Interest Rate remained stable at 1.75%, however in March 2020 the rate was reduced by a total of 1.5% (three reductions of 0.5% each) to 0.25%, which has remained the rate since March 27, 2020.

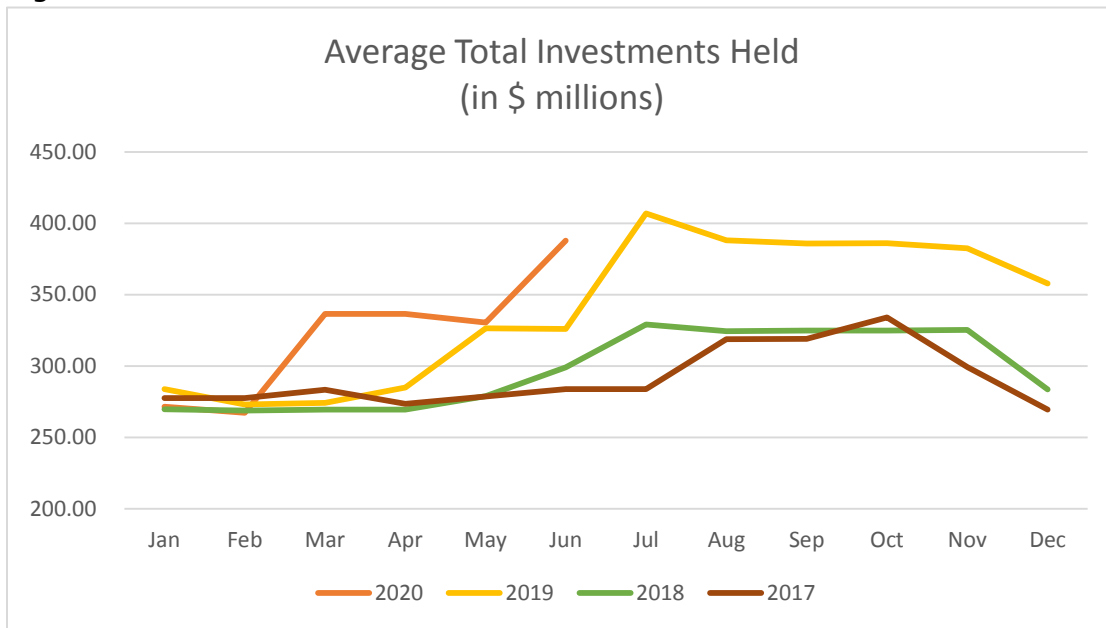
Rate increases and decreases have a significant impact on the City's interest earned on cash balances, as the Policy Interest Rate drives bank prime rates and interest on cash balances is linked to prime.

Of the \$84.9 million in cash as of June 30th, \$19.4 million is in the high interest savings account with The One Investment Program. A further \$30.0 million was transferred to that account in early July as these funds will be required later in the year and the interest rate on this account is higher than what is currently available in the short-term GIC market.

Investment Portfolio

Consistent with the trend year-over-year, the City typically builds cash and investments throughout May to October when property tax revenue is received; balances then decline in the last quarter as funds are required for capital and operating needs. Figure 1 shows the average investment portfolio by month (excluding cash holdings) over four years.

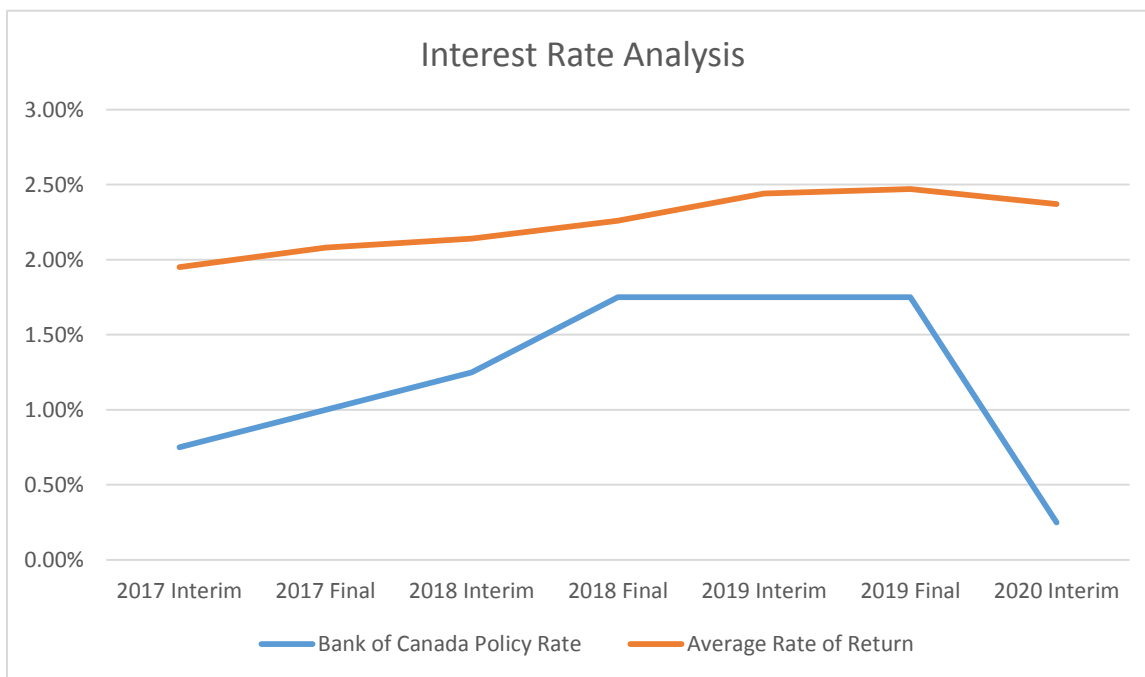
Figure 1



The City has earned a total of \$4.0 million (June 30, 2019: \$3.3 million) on its investment portfolio which excludes interest earned on cash balances of \$900 thousand. This represents an average rate of return of 2.37%.

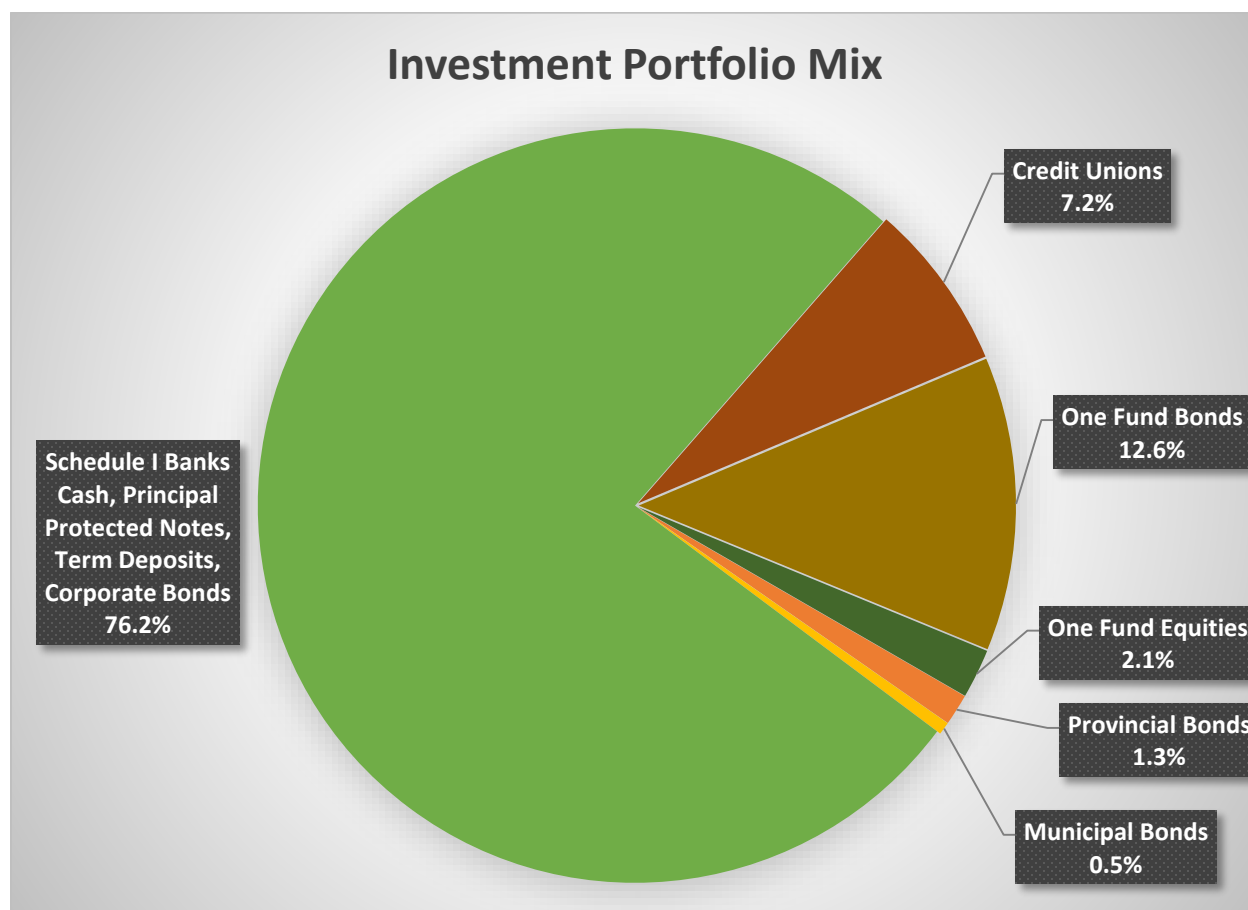
The Bank of Canada's Policy Interest Rate also impacts investment returns as it represents the base upon which financial institutions build their prime lending rates which in turn impacts the rates that they are willing to pay to investors that provide the funds that they lend (among other factors).

Figure 2



Locked in rates of return on long-term investments result in changes to the City's average rate of return lagging behind changes to the Bank of Canada Policy Rate; however, as these investments mature, less attractive reinvestment options will drive down the City's average rate of return.

Staff continue to monitor the investment portfolio and diversify the holdings where possible in a very difficult/low market. There are very few attractive options for short or long-term investments currently available in the market. To mitigate this staff have continued to increase the amounts invested in the One Fund Corporate Bond and Canadian Equity portfolios with purchases of \$5 million in the Corporate Bond portfolio and \$3 million in the Canadian Equity portfolio in March 2020. Figure 3 below shows the investment portfolio mix as of June 30, 2020.



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.

As noted in the 2019 year-end investment report, the market conditions have deteriorated significantly as a result of the COVID-19 pandemic. The City's strong investment strategy leading into pandemic will be a natural hedge as the negative impact will be spread out over a number of years as the market recovers.

Consultations

None noted.

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. Transparent, frequent and consistent reporting builds trust in the City's financial oversight.

Attachments

Attachment-1: 2020 Statement of the Treasurer

Attachment-2: 2020 Investment Portfolio by Issuer

Attachment-3: 2020 Investment Portfolio by Security Type

Departmental Approval

None noted.

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