

# Information Report

---



---

Service Area	Corporate Services
Date	Friday, May 28, 2021
Subject	<b>2020 Year-end Investment Performance Report</b>

---

## Executive Summary

### Purpose of Report

To report on the 2020 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the Municipal Act and City Council's approved Investment Policy. The Treasurer's statement of compliance is included in Attachment-1 to this report.

### Key Findings

The carrying value of the total investment portfolio as of December 31, 2020 is \$372.1 million, plus cash holdings of \$68.4 million for a total of \$440.5 million. The market value of the total investment and cash holdings as at December 31, 2020 is \$449.1 million.

Total investment income as of December 31, 2020 is \$9.8 million, which includes interest earned on investments and cash of \$8.9 million and \$900 thousand in capital gains and other revenue. This is the same total amount of investment earnings recorded as of December 31, 2019 and represents an average rate of return of 2.20% (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.

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. In 2020, Canadian banks 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 investigation of expanded investment opportunities available through the Prudent Investor Standard and interim changes to the Investment Policy approved by Council in February 2021 (per report [2021-31 – Prudent Investor Standard Analysis and Recommendations](#)).

# Financial Implications

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

The City’s strong investment strategy leading into the pandemic will be a natural hedge as the negative impact will be spread out over a number of years as the market recovers.

## 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:

<b>Classification</b>	<b>Carrying value as of December 31, 2020</b>	<b>Carrying value as of December 31, 2019</b>
Long-term	\$187,846,317	\$204,444,152

<b>Classification</b>	<b>Carrying value as of December 31, 2020</b>	<b>Carrying value as of December 31, 2019</b>
Short-term	\$184,273,231	149,901,605
<b>Total Investments</b>	<b>\$372,119,548</b>	<b>\$354,345,757</b>
Cash	\$68,424,895	\$51,051,683
<b>Total Cash and Investments</b>	<b>\$440,544,443</b>	<b>\$405,397,440</b>

As at December 31, 2020 the carrying value of the investment portfolio is \$372.1 million plus cash holdings of \$68.4 million, totaling \$440.5 million. Interest and other investment income earned on cash and investments as of December 31, 2020 is \$9.8 million, the same as the amount earned in 2019. This computes to an average rate of return of 2.20% (December 31, 2019: 2.45%). Investment income exceeded the amount budgeted by \$1.2 million (14.2%), mainly due to higher than expected distributions from the ONE Investment Corporate Bond and Canadian Equity portfolios.

The market value of the total cash and investments portfolio as at December 31, 2020 is \$449.1 million (December 31, 2019, \$408.9 million). The City’s investment portfolio as at December 31, 2020 is provided in the Investment Portfolio by Issuer (Attachment–2) and the Investment Portfolio by Security (Attachment–3).

**Cash Activity**

In March 2020 the Bank of Canada’s Policy Interest Rate was reduced by a total of 1.5% (three reductions of 0.5% each) from 1.75% to 0.25%, which has remained the rate since March 27, 2020, up to the most recent review date as of the writing of this report, April 21, 2021.

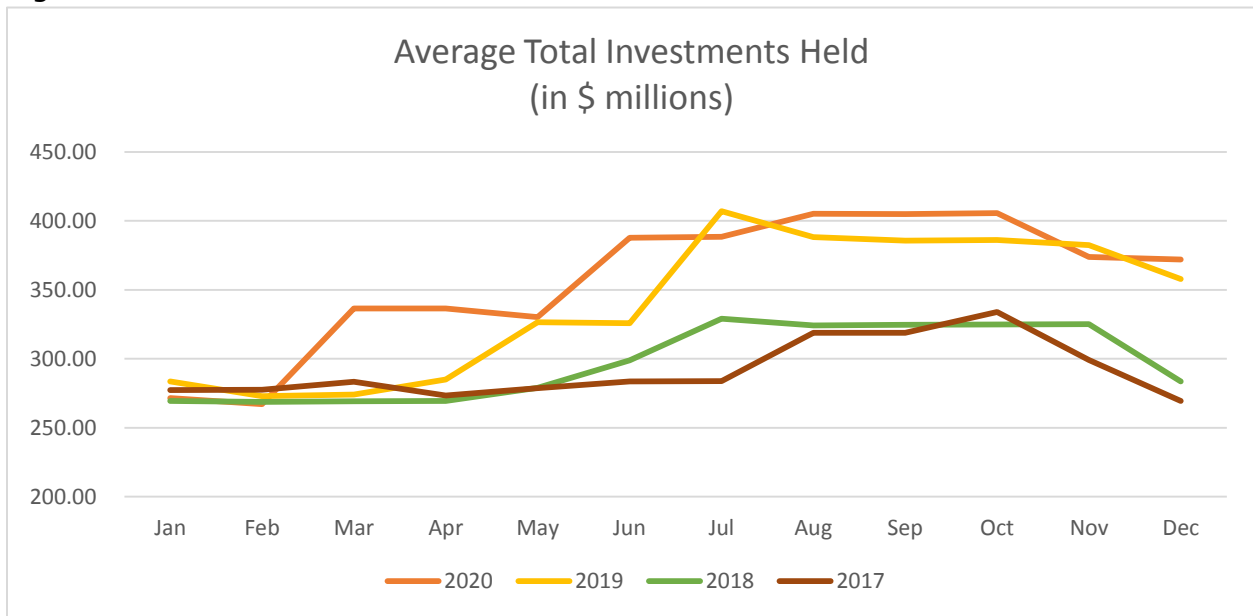
Rate increases and decreases have a significant impact on the City’s interest earned on cash balances, as the Policy Interest Rate drives bank prime and other reference rates to which interest on cash balances is linked.

Of the \$68.4 million in cash as of December 31, 2020, \$4.5 million was in the high interest savings account with The One Investment Program. The interest rate on this account decreased from 0.915% to 0.165% effective January 1, 2021, so these funds were transferred to the City’s general bank account which has a higher rate. Alternative high interest savings account options have been put in place in 2021 with more competitive rates.

**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.

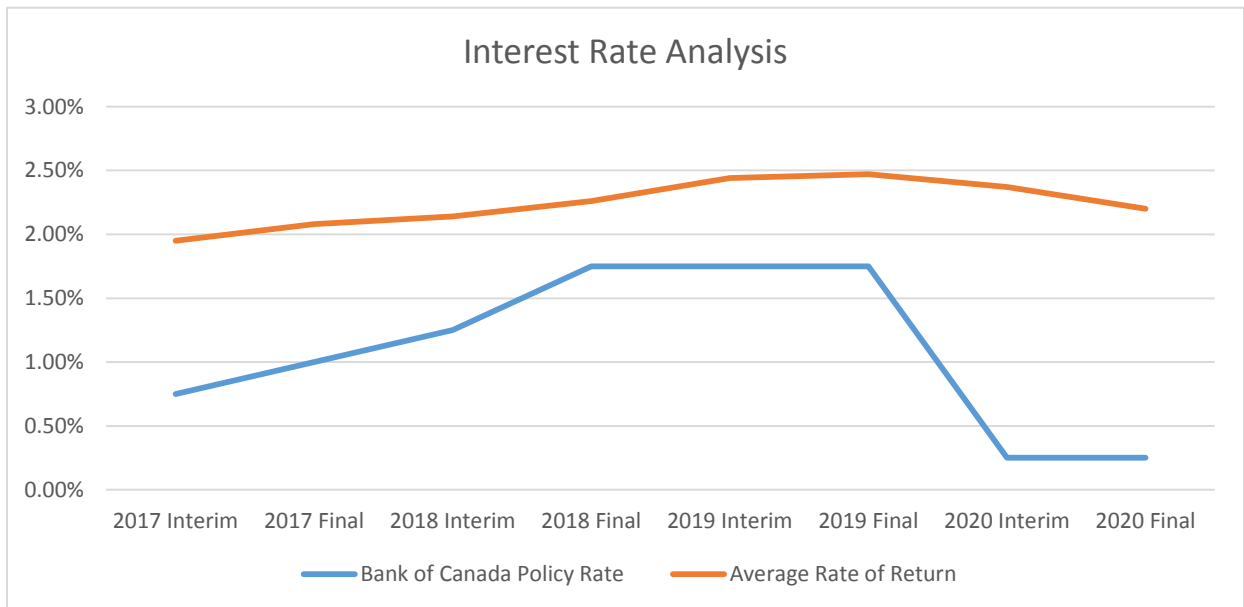
Figure 1



The City has earned a total of \$8.6 million (December 31, 2019: \$8.4 million) on its investment portfolio which excludes interest earned on cash balances of \$1.2 million. This represents an average rate of return of 2.41%.

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

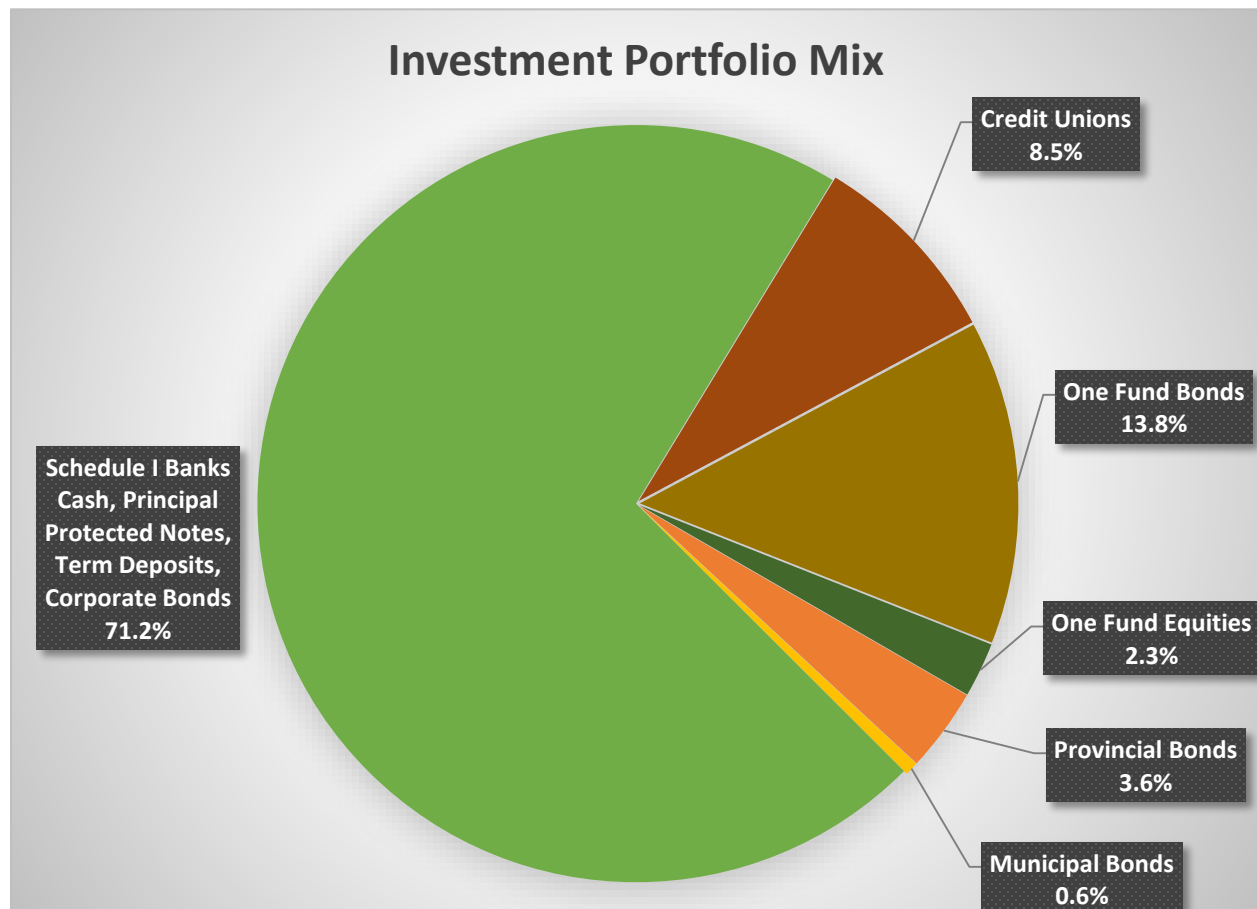


Locked in rates of return on long-term investments result in changes to the City’s average rate of return lagging behind changes to the Bank of Canada Policy Rate;

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 increased 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, and sought to maximize credit union investments, which often offered higher rates of return than the Schedule 1 banks. Figure 3 below shows the investment portfolio mix as of December 31, 2020.

Figure 3



### 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 2020 interim investment report, the market conditions have deteriorated significantly as a result of the COVID-19 pandemic. The City's strong investment strategy leading into the 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: December 31, 2020 Statement of the Treasurer

Attachment-2: December 31, 2020 Investment Portfolio by Issuer

Attachment-3: December 31, 2020 Investment Portfolio by Security Type

## **Departmental Approval**

None noted.

## **Report Author**

Shanna O'Dwyer, CPA, CA – Manager of Financial Reporting and Accounting

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

Tara Baker, CPA, CA  
General Manager Finance/City Treasurer  
Corporate Services  
519-822-1260 extension 2084  
Tara.Baker@guelph.ca

## **This report was recommended by:**

Trevor Lee  
Deputy Chief Administrative Officer  
Corporate Services  
519-822-1260 extension 2281  
Trevor.Lee@guelph.ca

## **Attachment-1: December 31, 2020 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 return of 2.20% on its investments and cash for the year ended December 31, 2020.

2. Investments in Own Securities

None of the 2020 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 2020 investments of the City have been invested in its own long-term or short-term securities.

### **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.

**Attachment-2: December 31, 2020 Investment Portfolio by Issuer**  
**Short-term and Long-term Investments at December 31, 2020**

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

Broker	Yield	Maturity	Carrying Value \$	31-Dec-20	Restriction	Exceeded	Market Value December 31, 2020
CIBC	2.25%	21-Jan-21	14,500,000	21.00	364	-	14,500,000
Meridian Credit Union	2.70%	19-Feb-21	2,000,000	50.00	364	-	2,054,148
Meridian Credit Union	2.00%	14-Mar-21	5,059,836	73.00	364	-	5,059,836
Meridian Credit Union	1.13%	14-Mar-21	5,130,356	73.00	364	-	5,130,356
BMO	1.31%	15-Mar-21	3,000,000	74.00	364	-	3,000,000
CIBC	1.65%	17-Mar-21	35,000,000	76.00	364	-	35,000,000
Meridian Credit Union	1.24%	19-May-21	5,000,000	139.00	364	-	5,000,000
BMO	1.67%	20-May-21	10,174,665	140.00	364	-	10,286,857
BMO	1.34%	17-Jun-21	3,000,000	168.00	364	-	3,023,459
CIBC	1.00%	18-Jun-21	40,000,000	169.00	364	-	40,000,000
Bank of Nova Scotia	2.27%	20-Aug-21	30,000,000	232.00	364	-	30,938,568
Meridian Credit Union	2.10%	16-Sep-21	5,000,000	259.00	364	-	5,000,000
Meridian Credit Union	1.75%	15-Dec-21	5,093,836	349.00	364	-	5,093,836
BMO	1.38%	17-Dec-21	3,000,000	351.00	364	-	3,024,159
RBC Dominion Securities Investment Savings Mutual Funds	Variable	Liquid	1,300,027	<364	364	-	1,300,027
RBC Dominion Securities Various Bank GICs	1.0% - 3.37%	Various < 1 year	17,014,511	<364	364	-	17,243,064
<b>Short-term Investment Total Carrying Value</b>			<b>184,273,231</b>				<b>185,654,310</b>

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

Broker	Yield	Maturity	Carrying Value \$	44196	Restriction	Exceeded	Market Value December 31, 2020
Meridian	1.42%	19-Feb-22	5,000,000	1.14	10	-	5,000,000
Meridian	1.95%	22-May-22	5,058,355	1.39	10	-	5,058,355
BMO	1.41%	17-Jun-22	3,000,000	1.46	10	-	3,024,685
Bank of Nova Scotia	2.45%	4-Jul-22	4,000,000	1.51	10	-	4,148,610
CIBC	2.29%	12-Sep-22	10,000,000	1.70	10	-	10,327,960
National Bank	2.16%	14-Nov-22	5,000,000	1.87	10	-	5,009,500
BMO - Provincial	3.04%	2-Dec-22	5,000,010	1.92	20	-	6,649,188
TD Wealth	2.33%	30-Aug-24	30,775,436	3.66	10	-	31,856,577
CIBC	2.09%	26-Nov-24	1,405,345	3.90	10	-	1,406,191
CIBC	2.67%	15-May-25	5,259,641	4.37	10	-	5,400,077
CIBC	2.51%	15-May-25	2,034,340	4.37	10	-	2,076,953
CIBC	2.18%	26-May-25	2,685,459	4.40	10	-	2,727,007
CIBC	2.13%	20-Jun-25	2,294,514	4.47	10	-	2,300,191
TD Wealth	0.59%	13-Aug-25	2,500,000	4.61	10	-	2,505,696
TD Wealth	0.35%	13-Aug-25	2,500,000	4.61	10	-	2,503,343
TD Wealth	1.35%	13-Aug-25	5,000,000	4.61	10	-	5,025,890
CIBC - Provincial	5.27%	2-Dec-26	1,365,585	5.92	20	-	1,582,581
CIBC	2.95%	7-Jan-27	3,271,089	6.02	10	-	3,452,104
CIBC	3.01%	15-May-27	1,832,259	6.37	10	-	1,891,639
National Bank - Municipal	1.73%	5-Jun-28	1,711,433	7.43	10	-	1,755,115
CIBC	3.06%	7-Jul-28	3,262,835	7.51	10	-	3,360,996
CIBC - Principal Protected Note	Variable	4-Feb-30	500,000	9.09	10	-	581,360
National Bank - Municipal	1.85%	5-Jun-30	844,000	9.43	10	-	862,169
CIBC	1.97%	16-Jan-35	3,364,596	14.04	20	-	3,283,990
CIBC	2.12%	2-Dec-39	4,894,278	18.92	20	-	4,749,261
CIBC	1.98%	18-Jun-40	1,096,933	19.46	20	-	1,062,377
CIBC – Principal Protected Notes \$500 thousand matures each year	Variable	23-Sep-23, 24, 25, 26, 27	3,000,000	3.23 - 7.23	10	-	3,061,340
Joint Municipal Investments Corporate Bonds	Variable	Liquid	60,887,742	Current	N/A	-	62,439,495
Joint Municipal Investments Canadian Equity	Variable	Liquid	10,302,468	Current	N/A	-	11,912,375
<b>Long-term Investments Total Carrying Value</b>			<b>187,846,317</b>				<b>195,015,025</b>



### Attachment-3: December 31, 2020 Investment Portfolio by Security Type

Securities	Investment Value \$	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
<b>Federal</b>			
Government of Canada			100%
Federal Guarantees			50%
<b>Provincial Governments and Provincial Guarantees</b>	\$15,721,401	3.57%	75%
<b>Country Other than Canada</b>			5%
<b>Municipal</b>			
City of Guelph			50%
Other Municipalities & OSIFA – AAA & AA	2,555,433	0.58%	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	313,732,589	71.21%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union	37,344,810	8.48%	10%
<b>Supranational Financial Institution or Government Organization</b>			25%
<b>Corporate Debt</b>			25%
<b>Commercial Paper</b>			15%
<b>Joint Municipal Investment Pools - Bonds</b>	60,887,742	13.82%	15%
<b>Joint Municipal Investment Pools – Equity</b>	10,302,468	2.34%	5%
<b>TOTAL</b>	<b>\$440,544,442</b>	<b>100.00%</b>	