

Committee of the Whole (2) Report

DATE: Tuesday, June 21, 2022

WARD(S): ALL

TITLE: 2021 ANNUAL INVESTMENT REPORT

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: FOR INFORMATION

Purpose

To report to Council on the City's investment portfolio activities during the year 2021, as required by Ontario Regulation 438/97 (as amended) of the Municipal Act and the City's Investment Policy.

Report Highlights

- The City's investment portfolios generated total investment income of \$13.02 million in 2021, which represents a weighted average income return of 1.3%
- The managed portfolios, which include Money Market Funds, Bonds and cash earned investment incomes of \$6.67 million, \$1.15 million and \$1.75 million, respectively
- The majority of the investment income from the managed portfolios were distributed to the City's reserve funds (\$7.18M) and the remaining (\$2.39M) to the operating budget, which helps reduce the tax levy requirement
- The Alectra promissory note earned \$3.45 million, which also reduced pressures on the tax levy requirement
- All investments to December 31, 2021 were made in accordance with the City's Investment Policy and compliance with Ontario Regulation 438/97 (as amended) and the Municipal Act

Recommendations

1. That this report be received for information.

Background

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended, outlines the criteria for eligible investments. The City's investment policy, approved by Council, conforms to this legislation and acts as the governing parameters in managing the City's investment portfolio.

The reporting requirements in the City's investment policy and the Municipal Act require that the Treasurer, or designate, submit an investment report to Council annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions completed over the last year.

Previous Reports/Authority

[2020 ANNUAL INVESTMENT REPORT](#)

Analysis and Options

The Financial Planning and Development Finance Department manages the investment portfolio for the City with a book value of approximately \$1,134 million (cash and investments) at December 31, 2021 (\$954.86 million in 2020), as outlined in Attachment 1. These investments consist of the cash requirements for day to day operations and funds held in reserves, reserve funds and other funds of the Corporation. The credit quality of all investments follows the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the Municipal Act.

2021 City of Vaughan Investment Portfolios

During 2021, the City's investment portfolios generated investment income in the amount of \$13.02 million, which represents a weighted average earned income return of 1.30%. As a basis of year over year comparison, the City's investment income was \$19.29 million in 2020, which represented a weighted average earned income return of 2.06%. Interest rates in 2021 continued to be at historical lows which impacted all income generating assets in which the City invests. Investments that matured were re-invested at much lower rates resulting in a decrease in investment income. To mitigate this decrease, staff continued with the strategy of active cash management to capture higher rates when opportunities arose.

The table below provides a summary of the investment breakdown by portfolios.

Portfolio Summary as at Dec 31, 2021	Book Value Mil (\$)	Earned Income Mil (\$)¹
Money Market Portfolio	902.60	6.67
Bond Portfolio	83.51	1.15
Alectra Note	78.24	3.45
Subtotal Investments	\$ 1,064.35	\$ 11.27
Cash in Bank	70.16	1.75
Total Investments	\$ 1,134.51	\$ 13.02

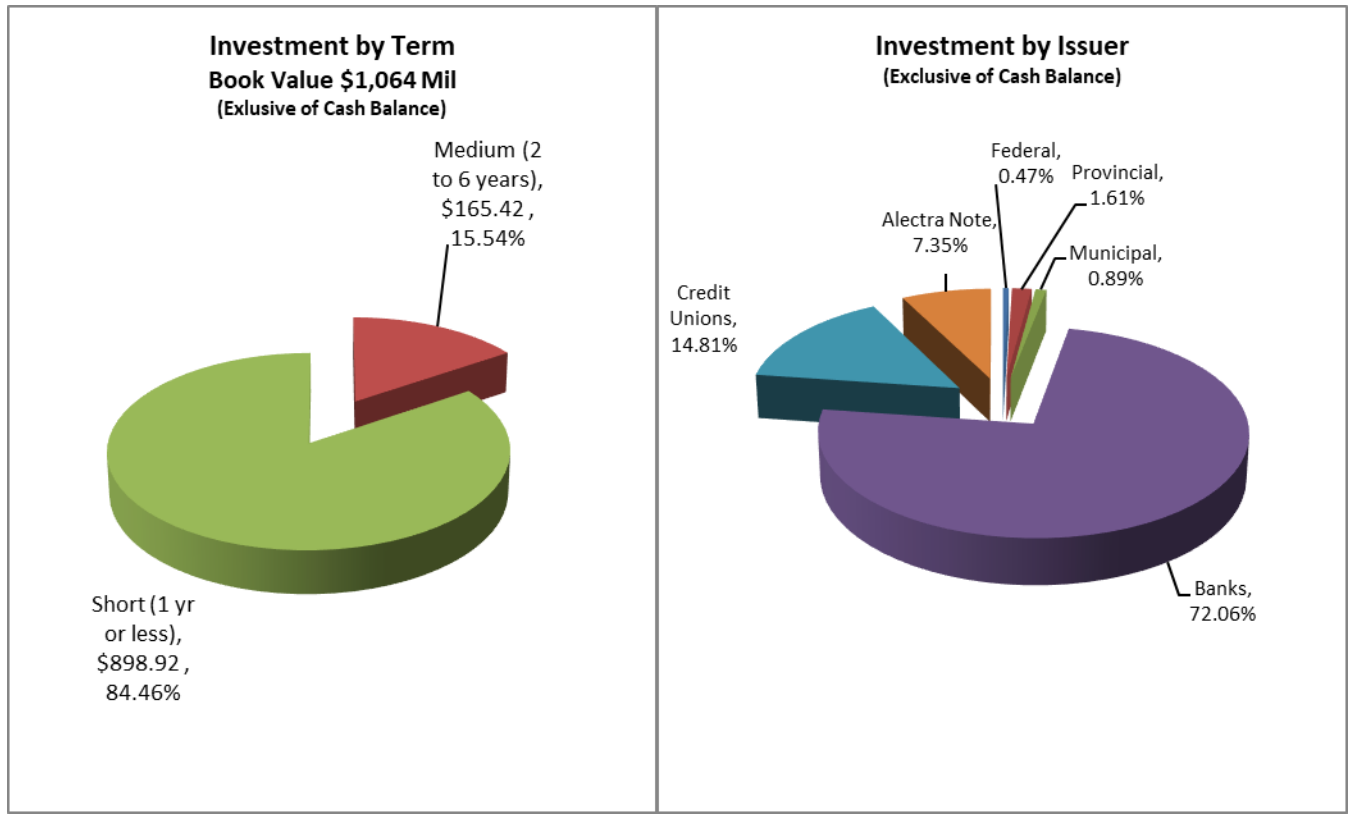
¹ Earned Income includes interest income, realized gain/loss, other income, bond amortization, less expenses
(excludes unrealized gain/loss)

The Money Market portfolio (total holdings of \$902.60 million) averaged a rate of return of 0.94% outperforming the 90-day average T-bill rate of 0.11%. The cash balance held in the City's bank account earned an average rate of return of 0.68%, which is higher than the average one-month Banker's Acceptance Money Market instrument of 0.19%. The Bond Fund portfolio and the Alectra Note (total holdings of \$161.75 million) earned an average rate of return of 2.94%. The earned rate of return includes interest income and realized capital gains/losses. The earned income return is used to determine the allocation of investment earnings to the City's reserve funds and operating budget. The low interest rates in 2021 resulted in lower earned income allocated to reserve funds compared to the previous year.

The City's investment program has a dual focus on providing liquidity for the day-to-day operations and long-term reserve management. This dual focus has transformed the investment portfolio to become more diversified in its holdings in both investment terms and financial institutions / issuers with high quality credit ratings that comply with the City's Investment Policy. The shift to reserve management is aligned with the City's fiscal framework and long-term financial sustainability.

Summary of Holdings

The following charts provide summary overviews of the City's current holdings by both term and issuer. Details of these holdings are included in Attachment 1.



Outlook for 2022

Several factors are creating challenges in capital markets and central bank policy in 2022:

- Bank of Canada raising interest rates in an attempt to curtail high inflation
- supply chain issues continue to prevail
- geopolitical and economic fallout with Ukraine/Russia war; and
- continued Covid-19 uncertainties as global economies open up

These challenges are causing extreme market swings. Staff are monitoring these factors and will make strategic investments that will diversify the portfolio, maintain liquidity, and potentially earn higher than expected market yields. Currently, the City's portfolio is predominately short term and is positioned to take advantage of changing market conditions.

Financial Impact

The investment income generated from the investment portfolio in 2021 totaled \$13.02 million. The majority of the income from managed portfolios was distributed to the City's reserve funds and the remaining portion to the operating budget. The Operating Budget for 2021 Investment Income was \$1.07 million; the actual Investment Income allocated to the Operating Budget was \$2.37 million, or \$1.30 million over budget.

The City's investment portfolio includes a promissory note from Alectra but excludes the City's investment in Vaughan Holdings Inc. The dividends received from Vaughan Holdings Inc. are reported separately through the City's annual financial reports.

Broader Regional Impacts/Considerations

Not applicable

Conclusion

In 2021, the City's investment portfolio generated investment income of \$13.02 million. Investment income, which contributed to reserves and reduced tax levies. Investments were made in compliance with the City's Investment Policy approved by Council and the Ontario Regulation 438/97 (as amended) of the Municipal Act.

For more information, please contact:

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Attachments

1. Listing of Securities Held as at December 31, 2021
2. Investments Held by Sector as at December 31, 2021

Prepared by

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Approved by



Michael Coroneos, Deputy City
Manager, Corporate Services, City
Treasurer and Chief Financial Officer,

Reviewed by



Nick Spensieri, City Manager