



# Finance, Administration and Audit Committee Report

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**DATE:** Wednesday, June 05, 2019

**WARD(S):** ALL

**TITLE: 2018 ANNUAL INVESTMENT REPORT**

**FROM:**

Michael Coroneos, Chief Financial Officer and City Treasurer

**ACTION:** FOR INFORMATION

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## **Purpose**

To report to Council on the City's investment portfolio activities during the year 2018, 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 \$19.69 million for 2018, which represents a weighted average income return of 2.38%
- The Money Market portfolio earned interest income of \$11.20M, Bond portfolio had earned income of \$1.89M, Alectra promissory note had earned income of \$3.74M, and cash balance in the bank had interest income of \$2.86M
- The majority of the investment income was distributed to the City's reserve funds (\$15.11M) and a portion (\$0.83M) going to the operating budget, which helps to reduce the tax levy requirement
- All investments to December 31, 2018 were made in accordance with the approved City's Investment Policy and in 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 on April 2015, 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 at least 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**

[2017 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 \$899.05 million (cash and investments) at December 31, 2018 (\$661.05 million 2017), (Attachment 1). These funds represent the funding requirements for day to day operations of the Corporation and represent investment funds held in the reserves, reserve funds, working capital and other funds of the organization. The credit quality of all investments is in compliance with the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the Municipal Act.

### ***2017 City of Vaughan Investment Portfolio***

During 2018, the City's investment portfolio generated investment income in the amount of \$19.69 million, which represents a weighted average earned income return of 2.38%. As a basis of year over year comparison, the City's investment income was \$13.76 million in 2017, which represented a weighted average earned income return of 1.91%. The increase in 2018 investment income was due to higher interest rates, higher asset funds available for investments and effective cash management.

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

<b>Portfolio Summary as at Dec 31, 2018</b>	<b>Book Value Mil (\$)</b>	<b>Earned Income Mil (\$)<sup>1</sup></b>
Money Market Portfolio	700.00	11.20
Bond Portfolio	87.29	1.89
Alectra Note <sup>2</sup>	78.24	3.74
<b>Subtotal Investments</b>	<b>\$ 865.53</b>	<b>\$ 16.83</b>
Cash in Bank	33.52	2.86
<b>Total Investments</b>	<b>\$ 899.05</b>	<b>\$ 19.69</b>

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

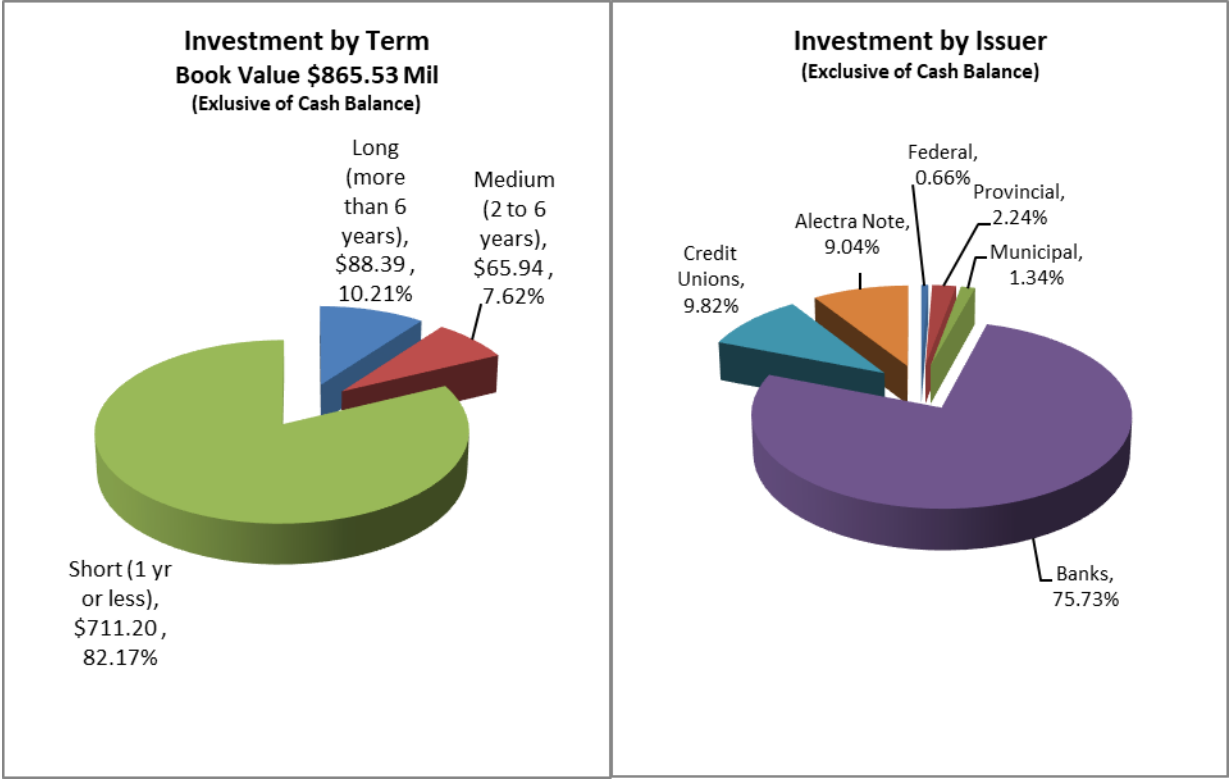
<sup>2</sup> Maturity Dec 31, 2024

The Money Market portfolio (total holdings of \$700 million) averaged a rate of return of 2.13% outperforming the 90 day average T-bill rate of 1.37%. The cash balance held in the City’s bank account earned an average rate of return of 1.98%, which is 26 basis points higher than the average one month BA Money Market instrument of 1.72%. The Bond Fund portfolio and the Alectra Note (total holdings of \$165.53 million) averaged an earned income rate of return of 3.27%. Earned income 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 City’s investment program has changed its focus from just providing liquidity for the day-to-day operations to long-term reserve management. This change focused on transforming the investment portfolio from a short term focused portfolio to one that is more diversified in terms of credit and term exposure. The shift to reserve management is to align with the City’s fiscal framework and long term financial sustainability. It is expected that the long- term bond purchases will continue when yields are attractive.

**Summary of Holdings**

The following charts provide a summary overview of the City’s current holdings by both term and by issuer. The details of these holdings may be found in Attachment 1.



## ***Outlook for 2019***

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher expected yields for 2019 and beyond. Currently, the City's portfolio is predominately short term and is positioned to take advantage of changing market conditions and a potential higher rate environment.

## **Financial Impact**

The investment income generated from the investment portfolio in 2018 amounted to \$19.69 million. The majority of this balance was distributed to the City's reserve funds and the remaining portion to the operating budget, which helps to reduce the tax levy requirement. The Operating Budget for 2018 Investment Income was \$2.56 million; the actual Investment Income allocated to the Operating Budget was \$0.83 million.

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

## **Broader Regional Impacts/Considerations**

Not Applicable

## **Conclusion**

In 2018, the City's investment portfolio generated investment income of \$19.69 million. Investment income revenue contributes to reserves and reduces the tax levy requirement. Investments were in compliance with the City's Investment Policy approved by Council on April 2015 and the Ontario Regulation 438/97 (as amended) of the Municipal Act.

**For more information**, please contact:

Michael Marchetti, Director of Financial Planning & Development Finance & Deputy City Treasurer, Ext. 8271

Maggie Wang, Manager, Corporate Financial Planning & Analysis, Ext. 8029

Alex Ly, Senior Analyst, Investments, Ext. 8312

## **Attachments**

1. Listing of Securities Held as at December 31, 2018
2. Investments Held by Issuer as at December 31, 2018

## **Prepared by**

Alex Ly, Senior Analyst, Investments, Ext. 8312

## Attachment 1

City of Vaughan Investments - as at December 31, 2018				
<b>Money Market Portfolio</b>				
Security Description	Maturity Date	Par Value	Base Cost	Yield <sup>1</sup>
Scotia	31-Dec-19	10,000,000	10,000,000	2.45%
Scotia	31-Dec-19	40,000,000	40,000,000	2.45%
Scotia	31-Dec-19	10,000,000	10,000,000	2.45%
BMO GIC	28-Jan-19	15,000,000	15,000,000	2.30%
VanCity CU	21-Feb-19	15,000,000	15,000,000	2.42%
NB GIC	28-Mar-19	20,000,000	20,000,000	2.30%
NB GIC	4-Apr-19	10,000,000	10,000,000	2.30%
Coast Capital Savings	8-May-19	15,000,000	15,000,000	2.45%
BNS Term Dep	10-May-19	15,000,000	15,000,000	2.43%
VanCity CU	4-Jun-19	10,000,000	10,000,000	2.50%
BNS Term Dep	14-Jan-19	10,000,000	10,000,000	2.31%
BNS Term Dep	13-Jul-19	15,000,000	15,000,000	2.61%
TD Term Dep	15-Jan-19	5,000,000	5,000,000	2.21%
TD Term Dep	5-Feb-19	20,000,000	20,000,000	2.30%
TD Term Dep	19-Feb-19	15,000,000	15,000,000	2.34%
BMO GIC	9-Sep-19	25,000,000	25,000,000	2.59%
BNS Term Dep	20-Mar-19	10,000,000	10,000,000	2.35%
BNS Term Dep	23-Sep-19	15,000,000	15,000,000	2.62%
NB GIC	25-Sep-19	25,000,000	25,000,000	2.62%
TD Term Dep	27-Mar-19	25,000,000	25,000,000	2.40%
Conexus CU	30-Sep-19	10,000,000	10,000,000	3.00%
TD Term Dep	15-Jan-19	15,000,000	15,000,000	2.32%
NB GIC	28-Oct-19	15,000,000	15,000,000	2.76%
TD Term Dep	29-Jan-19	15,000,000	15,000,000	2.42%
RBC GIC	1-Nov-19	25,000,000	25,000,000	2.85%
TD Term Dep	7-Feb-19	10,000,000	10,000,000	2.43%
TD Term Dep	13-Feb-19	20,000,000	20,000,000	2.44%
CIBC GIC	21-May-19	25,000,000	25,000,000	2.60%
Laurentian GIC	19-Nov-19	15,000,000	15,000,000	2.90%
Alterna Credit Union	19-Nov-19	20,000,000	20,000,000	2.90%
TD Term Dep	27-Feb-19	15,000,000	15,000,000	2.45%
TD Term Dep	7-Mar-19	15,000,000	15,000,000	2.46%
Scotia GIC	28-Nov-19	10,000,000	10,000,000	2.84%
TD Term Dep	19-Mar-19	20,000,000	20,000,000	2.46%
BNS Term Dep	2-Dec-19	25,000,000	25,000,000	2.94%
BMO GIC	5-Dec-19	25,000,000	25,000,000	2.94%
CIBC GIC	3-Jun-19	15,000,000	15,000,000	2.60%
RBC GIC	6-Dec-19	25,000,000	25,000,000	2.89%
First Ontario CU	6-Dec-19	15,000,000	15,000,000	3.20%
TD Term Dep	27-Mar-19	20,000,000	20,000,000	2.47%
TD Term Dep	21-Mar-19	20,000,000	20,000,000	2.52%
<b>Money Market Portfolio</b>			700,000,000	

## Attachment 1 cont'd

City of Vaughan Investments - as at December 31, 2018				
<b>Bond Portfolio</b>				
Security Description	Maturity Date	Par Value	Base Cost	Yield <sup>1</sup>
YORK ONTARIO REGL MUNICIPALITY 5%	29-Apr-19	1,000,000	999,881	5.03%
BANK OF NOVA SCOTIA 1.9%	2-Dec-21	2,000,000	1,996,711	1.96%
ROYAL BANK OF CANADA 1.583%	13-Sep-21	2,000,000	1,983,289	1.90%
PROV OF ALBERTA 1.35%	1-Sep-21	2,000,000	1,960,342	2.12%
BANK OF NOVA SCOTIA 1.83%	27-Apr-22	2,000,000	1,982,184	2.12%
YORK ONT REGL MUNICIPALITY 4%	30-Jun-21	1,000,000	999,569	4.02%
PROV OF QUEBEC 1.65%	3-Mar-22	2,000,000	1,984,405	1.90%
ROYAL BANK OF CANADA 2.36%	5-Dec-22	3,000,000	2,994,720	2.41%
MUNICIPAL FINANCE AUTH OF BC 2.15%	1-Dec-22	2,880,000	2,878,473	2.16%
PROV OF ONTARIO 2.85%	2-Jun-23	2,000,000	2,079,208	1.91%
PROV OF ONTARIO 3.15%	2-Jun-22	2,500,000	2,575,553	2.22%
CANADA HOUSING TRUST NO.1 2.4%	15-Dec-22	5,000,000	5,077,514	1.99%
PROV OF BRITISH COLUMBIA 2.7%	18-Dec-22	2,000,000	2,060,416	1.90%
PROV OF ALBERTA 2.55%	15-Dec-22	2,000,000	2,045,468	1.95%
TORONTO ONTARIO 3.9%	29-Sep-23	3,000,000	3,202,504	2.38%
ROYAL BANK OF CANADA 2.333%	5-Dec-23	2,000,000	1,996,769	2.37%
TORONTO DOMINION BANK 1.994%	23-Mar-22	3,000,000	2,974,317	2.27%
YORK ONTARIO REGL MUNICIPALITY 2.6%	15-Dec-25	3,500,000	3,511,393	2.55%
BANK OF MONTREAL 2.1%	6-Oct-20	2,500,000	2,505,001	1.98%
PSP CAPITAL INC 3.03%	22-Oct-20	600,000	612,418	1.86%
PROV OF ONTARIO 2.6%	2-Jun-25	2,000,000	2,025,241	2.39%
PROV OF MANITOBA 2.45%	2-Jun-25	2,000,000	2,013,846	2.33%
PROV OF QUEBEC 2.75%	1-Sep-25	2,500,000	2,605,983	2.06%
BANK OF MONTREAL 2.12%	16-Mar-22	2,000,000	2,006,816	2.01%
ROYAL BANK OF CANADA 1.968%	2-Mar-22	2,500,000	2,495,449	2.03%
TORONTO DOMINION BANK 2.563%	24-Jun-20	2,500,000	2,522,973	1.93%
CANADIAN IMPERIAL BANK OF COMM 1.9%	26-Apr-21	2,000,000	2,002,907	1.83%
BANK OF MONTREAL PPN	3-Apr-20	7,500,000	7,500,000	
BANK OF MONTREAL PPN	20-Dec-22	7,500,000	7,500,000	
CASH Equivalent			10,199,826	
<b>Bond Portfolio</b>			87,293,175	
<b>Promissory Note</b>				
Alectra Note	31-Dec-24	78,236,285	78,236,285	4.41%
<b>TOTAL Long Term Investments</b>			165,529,460	
<sup>1</sup> Yield to maturity				

## Attachment 2

<b>MONEY MARKET PORTFOLIO</b>				
<b>Investment by Issuer</b>				
<b>As at December 31, 2018</b>				
	<b>Par Value</b>	<b>% of Total</b>		
<b>Sector / Issuer</b>			<b>Portfolio Limit %</b>	<b>Maximum Term</b>
<b>FEDERAL</b>				
Government of Canada	-	-	100	1 year
Federal Guarantees	-	-	100	1 year
<b>PROVINCIAL</b>				
	-	-	100	1 year
	-	-	80	1 year
	-	-	20	1 year
<b>Provincial Total</b>	<b>-</b>	<b>-</b>	<b>100</b>	
<b>BANKS</b>				
Schedule I Banks			100	1 year
Toronto Dominion Bank	215,000,000	30.71%		
CIBC	55,000,000	7.86%		
Royal Bank of Canada	75,000,000	10.71%		
Bank of Nova Scotia	150,000,000	21.43%		
National Bank	105,000,000	15.00%		
BMO	65,000,000	9.29%		
<b>Banks Total</b>	<b>665,000,000</b>	<b>95.00%</b>	<b>100</b>	
<b>OTHER</b>				
Asset Backed Securities	-	-	10	6 months
Credit Unions and Loan/Trust Corporations	35,000,000	5.00%	30	1 year
<b>Other Total</b>	<b>35,000,000</b>	<b>5.00%</b>	<b>30</b>	
<b>TOTAL - Money Market</b>	<b>700,000,000</b>			

**Attachment 2 cont'd**

<b>BOND PORTFOLIO</b>				
<b>Investment by Issuer</b>				
<b>As at December 31, 2018</b>				
	<b>Amount</b>	<b>% of Total</b>		
<b>Sector / Issuer</b>			<b>Portfolio Limit %</b>	<b>Maximum Term</b>
<b>FEDERAL</b>				
Government of Canada	5,689,931.44	3.44%	100	20 years
Federal Guarantees	-		50	20 years
<b>Federal Total</b>	<b>5,689,931.44</b>	<b>3.44%</b>	<b>100</b>	
<b>PROVINCIAL</b>				
PROVINCIALS (CANADIAN)	19,350,462	11.69%	70	20 years
<b>Provincial Total</b>	<b>19,350,462</b>	<b>11.69%</b>	<b>70</b>	
<b>MUNICIPALS</b>				
MUNICIPALS (CANADIAN) AAA			35	15 years
MUNICIPALS (CANADIAN) AA	11,591,821	7.00%	25	10 years
<b>Municipals Total</b>	<b>11,591,821</b>	<b>7.00%</b>	<b>35</b>	
<b>BANKS</b>				
Schedule I Banks	40,461,135	24.44%	50	10 years
Schedule II Banks	-		15	5 years
<b>Banks Total</b>	<b>40,461,135</b>	<b>24.44%</b>	<b>50</b>	
<b>Cash &amp; Cash Equivalent</b>	<b>10,199,826</b>	<b>6.16%</b>	n/a	
<b>Alectra Note</b>	<b>78,236,285</b>		n/a	
<b>TOTAL - Bond Portfolio</b>	<b>165,529,460</b>			