

Committee of the Whole (2) Report

DATE: Tuesday, June 16, 2020

WARD(S): ALL

TITLE: 2019 ANNUAL INVESTMENT REPORT

FROM:

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

ACTION: FOR INFORMATION

Purpose

To report to Council on the City's investment portfolio activities during the year 2019, 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 \$25.92 million for 2019, which represents a weighted average income return of 2.65%
- The Money Market portfolio earned interest income of \$17.70M, Bond portfolio and Alectra' promissory note had earned income of \$5.08M, and cash balance in the bank had interest income of \$3.14M
- The majority of the investment income was distributed to the City's reserve funds (\$20.64M) and a portion (\$1.53M) going to the operating budget, which helps to reduce the tax levy requirement
- All investments to December 31, 2019 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

Recommendation

1. That the 2019 Annual Investment 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 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

[2018 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 \$943.06 million (cash and investments) at December 31, 2019 (\$899.05 million in 2018), (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 follows the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the Municipal Act.

2019 City of Vaughan Investment Portfolio

During 2019, the City's investment portfolios generated investment income in the amount of \$25.92 million, which represents a weighted average earned income return of 2.65%. As a basis of year over year comparison, the City's investment income was \$19.69 million in 2018, which represented a weighted average earned income return of 2.38%. The increase in 2019 investment income was due to slightly higher interest yields and effective cash management.

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

Portfolio Summary as at Dec 31, 2019	Book Value Mil (\$)	Earned Income Mil (\$)¹
Money Market Portfolio	747.50	17.70
Bond Portfolio	88.61	1.63
Alectra Note ²	78.24	3.45
Subtotal Investments	\$ 914.35	\$ 22.77
Cash in Bank	28.72	3.14
Total Investments	\$ 943.06	\$ 25.92

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

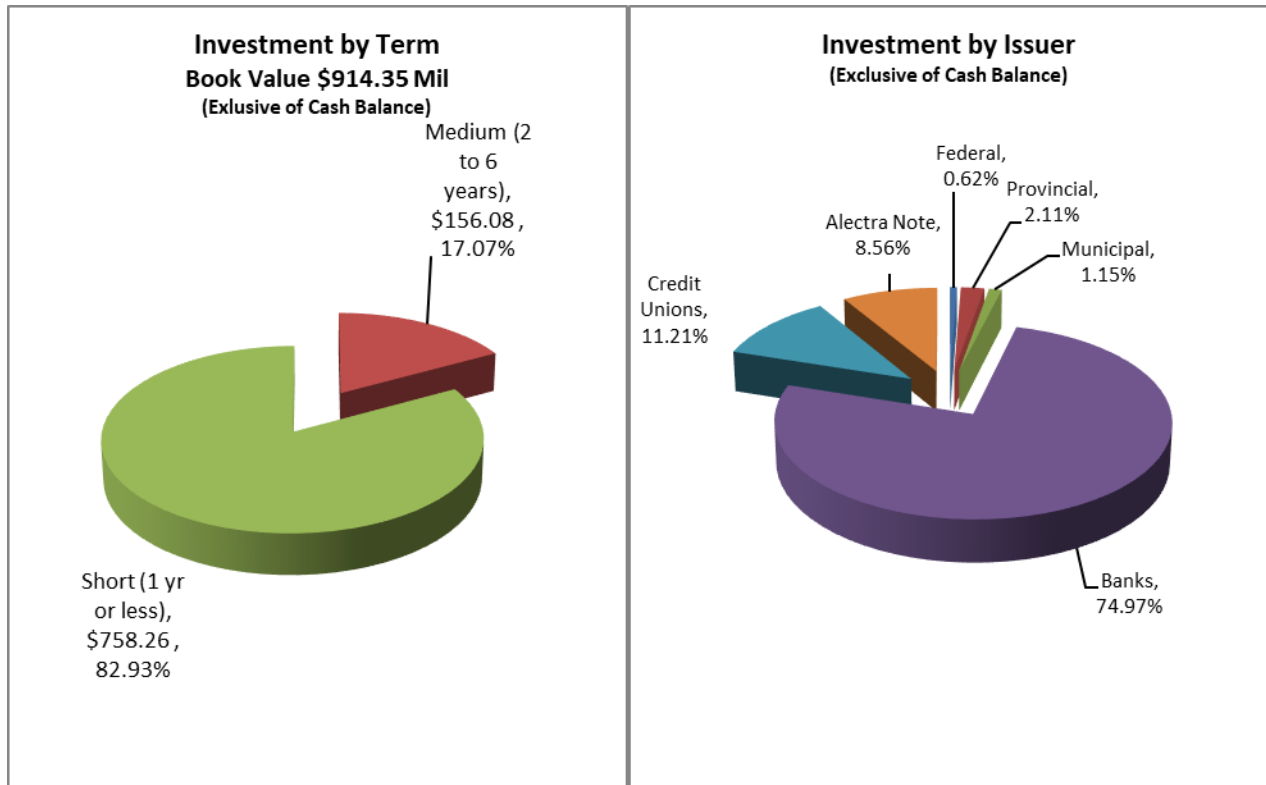
² Maturity Dec 31, 2024

The Money Market portfolio (total holdings of \$747.50 million) averaged a rate of return of 2.55% outperforming the 90 days average T-bill rate of 1.65%. The cash balance held in the City's bank account earned an average rate of return of 2.25%, which is higher than the average one-month BA Money Market instrument of 1.86%. The Bond Fund portfolio and the Alectra Note (total holdings of \$166.85 million) averaged an earned income rate of return of 3.15%. 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 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.

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 2020

With the unique situation of the coronavirus outbreak, all asset classes and capital markets are facing extreme market swings. Bond yields and interest rates are at historical lows. This will put pressure on expected investment income for 2020. Staff is monitoring the capital market and will focus on strategic purchases that will diversify the portfolio while at the same time potentially earn better than expected market yields. 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 in the future.

Financial Impact

The investment income generated from the investment portfolio in 2019 amounted to \$25.92 million. Most of this balance was distributed to the City's reserve funds and the remaining portion to the operating budget. The Operating Budget for 2019 Investment Income was \$2.56 million; the actual Investment Income allocated to the Operating Budget was \$1.53 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 2019, the City's investment portfolio generated investment income of \$25.92 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 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

Kenneth Quan, Manager, Corporate Financial Planning & Analysis, Ext. 8029

Alex Ly, Senior Analyst, Investments, Ext. 8312

Attachments

1. Listing of Securities Held as at December 31, 2019
2. Investments Held by Issuer as at December 31, 2019

Prepared by

Alex Ly, Senior Analyst, Investments, Ext. 8312