

Item:



Finance, Administration and Audit Committee Report

DATE: Wednesday, June 06, 2018

WARD(S): ALL

TITLE: 2017 ANNUAL INVESTMENT REPORT

FROM:

Laura Mirabella, Chief Financial Officer and City Treasurer

ACTION: FOR INFORMATION

Purpose

To report to Council on the City's investment portfolio activities during the year 2017, as required by Ontario Regulation 438/97 (as amended) of the Municipal Act and the City's Investment Policy.

Recommendations

1. That this report be received for information.

Report Highlights

- During 2017 the City's investment portfolios generated investment income of \$13.76 million, which represents a weighted average income return of 1.91%
- The short-term Money Market portfolio had interest income of \$7.70M, Bond portfolio and Alectra promissory note had earned income of \$5.1M, and cash balance in the bank had interest income of \$0.95M.
- The majority of the investment income was distributed to the City's reserve funds (\$10.87M) and the remaining portion (\$2.89M) to the operating budget, which helps to reduce the tax levy requirement.
- All investments to December 31, 2017 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

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

Not applicable

Analysis and Options

The Financial Planning and Development Finance Department manages the investment portfolio for the City with a book value of approximately \$661.05 million (cash and investments) at December 31, 2017 (\$662.49 million 2016), (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 2017, the City's investment portfolio generated investment income in the amount of \$13.76 million, which represents a weighted average earned income return of 1.91%. As a basis of year over year comparison, the City's investment income was \$13.15 million in 2016, which represented a weighted average earned income return of 1.84%. The increase in 2017 investment income was due to higher interest rates and higher investments made in the long bond portfolio.

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

| Portfolio Summary as at Dec 31, 2017 | Book Value Mil (\$) | Earned Income Mil (\$)¹ |
|---|--------------------------------|---|
| Short Term "Money Market" Portfolio | 475.00 | 7.70 |
| Long Term Bond Portfolio | 85.85 | 1.22 |
| Alectra (PowerStream) Note ² | 78.24 | 3.88 |
| Total Investments | \$ 639.09 | \$ 12.81 |
| Cash in Bank | 21.96 | 0.95 |
| Total | \$ 661.05 | \$ 13.76 |

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

(excludes unrealized gain/loss)

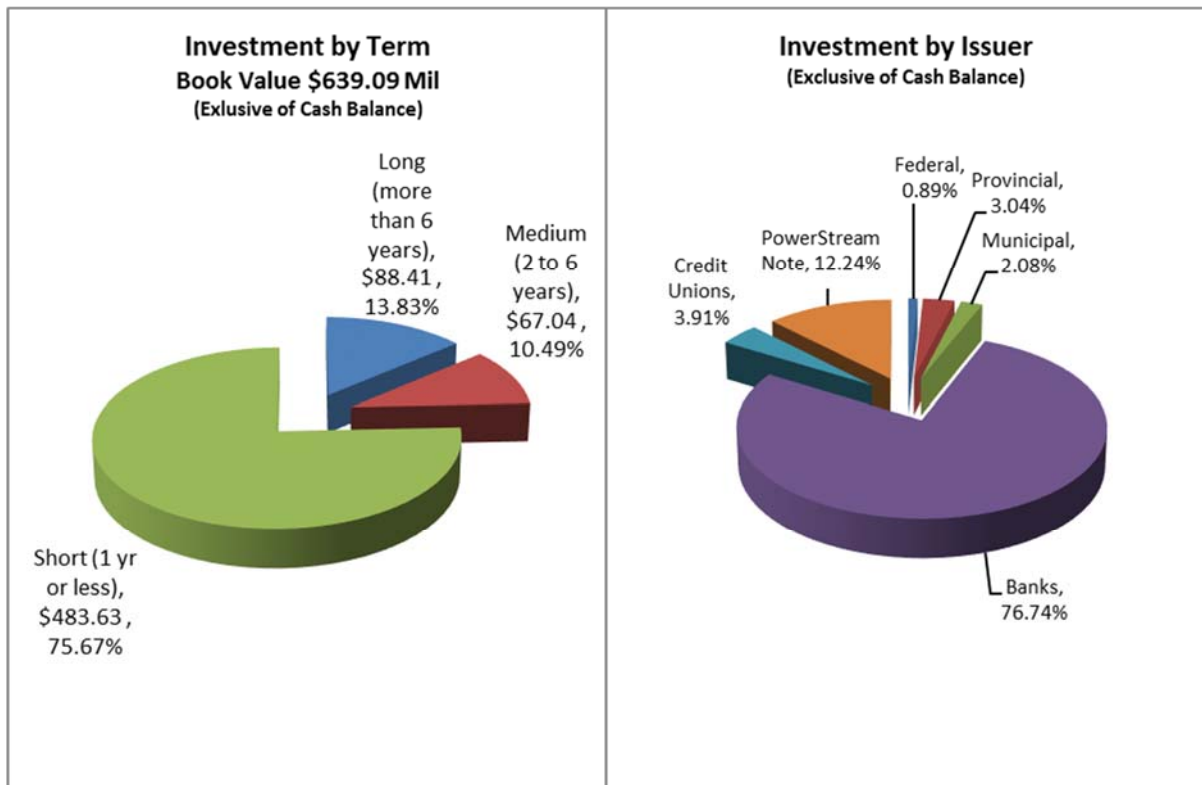
² Maturity Dec 31, 2024

The Money Market portfolio (total holdings of \$475 million) averaged a rate of return of 1.51% outperforming the 90 day average T-bill rate of 0.69%. The cash balance held in the City’s bank account earned an average rate of return of 1.21%, which is 17 basis points higher than the average one month BA Money Market instrument. The Bond Fund portfolio and the Alectra Note (total holdings of \$164.09 million) averaged an earned income rate of return of 3.24%. 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 money market 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. Thus, investments were made in the latter half of 2017 as long bond yields started to move higher. It is expected that the long- term bond purchases will continue in to 2018 and 2019.

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 2018

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher expected yields for 2018 and beyond. Currently, the City's portfolio is predominately short term and is positioned to take advantage of changing market conditions and a rising rate environment.

Financial Impact

The investment income generated from the investment portfolio in 2017 amounted to \$13.76 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 2017 Investment Income was \$2.50 million; the actual Investment Income allocated to the Operating Budget was \$2.89 million, which resulted in a favourable variance of \$0.39 million.

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

Broader Regional Impacts/Considerations

Not Applicable

Conclusion

In 2017, the City's investment portfolio generated investment income of \$13.76 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:

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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, 2017
2. Investments Held by Issuer as at December 31, 2017

Prepared by

Alex Ly, Senior Analyst, Investments, Ext. 8312

Attachment 1

| City of Vaughan Investments - as at December 31, 2017 | | | | |
|--|----------------------|------------------|--------------------|--------------------------|
| | | | | |
| Short Term Money Market Portfolio | | | | |
| Security Description | Maturity Date | Par Value | Base Cost | Yield¹ |
| Scotia | 30-Jun-18 | 10,000,000 | 10,000,000 | 1.70% |
| Scotia | 30-Jun-18 | 40,000,000 | 40,000,000 | 1.70% |
| Scotia | 30-Jun-18 | 10,000,000 | 10,000,000 | 1.70% |
| NB GIC | 19-Jan-18 | 20,000,000 | 20,000,000 | 1.55% |
| CIBC GIC | 30-Mar-18 | 10,000,000 | 10,000,000 | 1.45% |
| CIBC GIC | 4-Apr-18 | 10,000,000 | 10,000,000 | 1.41% |
| BNS Term Dep | 10-May-18 | 15,000,000 | 15,000,000 | 1.36% |
| VanCity CU | 4-Jun-18 | 10,000,000 | 10,000,000 | 1.45% |
| BNS Term Dep | 26-Jul-18 | 15,000,000 | 15,000,000 | 1.80% |
| VanCity CU | 20-Feb-18 | 15,000,000 | 15,000,000 | 1.55% |
| Laurentian GIC | 31-Aug-18 | 20,000,000 | 20,000,000 | 1.70% |
| TD Term Dep | 8-Mar-18 | 15,000,000 | 15,000,000 | 1.88% |
| TD Term Dep | 15-Mar-18 | 20,000,000 | 20,000,000 | 1.91% |
| BNS Term Dep | 18-Sep-18 | 15,000,000 | 15,000,000 | 2.01% |
| NB GIC | 25-Sep-18 | 25,000,000 | 25,000,000 | 1.95% |
| First Ontario CU | 9-Feb-18 | 10,000,000 | 10,000,000 | 1.80% |
| Affinity CU | 9-Feb-18 | 5,000,000 | 5,000,000 | 1.75% |
| TD Term Dep | 25-Jan-18 | 15,000,000 | 15,000,000 | 1.73% |
| CIBC GIC | 16-Jul-18 | 20,000,000 | 20,000,000 | 1.71% |
| Prospera CU | 9-Feb-18 | 10,000,000 | 10,000,000 | 1.82% |
| TD Term Dep | 30-Jan-18 | 10,000,000 | 10,000,000 | 1.70% |
| BMO GIC | 26-Oct-18 | 15,000,000 | 15,000,000 | 1.95% |
| BMO GIC | 1-Nov-18 | 25,000,000 | 25,000,000 | 2.00% |
| TD Term Dep | 31-Jan-18 | 20,000,000 | 20,000,000 | 1.69% |
| TD Term Dep | 20-Feb-18 | 20,000,000 | 20,000,000 | 1.67% |
| TD Term Dep | 27-Feb-18 | 20,000,000 | 20,000,000 | 1.67% |
| Laurentian GIC | 26-Nov-18 | 25,000,000 | 25,000,000 | 1.93% |
| BMO GIC | 28-Nov-18 | 10,000,000 | 10,000,000 | 1.95% |
| TD Term Dep | 6-Mar-18 | 20,000,000 | 20,000,000 | 1.68% |
| Short Term Portfolio | | | 475,000,000 | |

Attachment 1 cont'd

| City of Vaughan Investments - as at December 31, 2017 | | | | |
|---|---------------|------------|-------------|--------------------|
| | | | | |
| Bond Portfolio | | | | |
| Security Description | Maturity Date | Par Value | Base Cost | Yield ¹ |
| TORONTO ONTARIO 3.9% | 29-Sep-23 | 3,000,000 | 3,242,652 | 2.38% |
| TORONTO DOMINION BANK 1.994% | 23-Mar-22 | 3,000,000 | 2,966,689 | 2.27% |
| YORK ONTARIO REGL MUNICIPALITY 2.6% | 15-Dec-25 | 3,500,000 | 3,512,882 | 2.55% |
| BANK OF MONTREAL 2.1% | 6-Oct-20 | 2,500,000 | 2,507,796 | 1.98% |
| PSP CAPITAL INC 3.03% | 22-Oct-20 | 600,000 | 619,163 | 1.86% |
| PROV OF ONTARIO 2.6% | 2-Jun-25 | 2,000,000 | 2,028,869 | 2.39% |
| PROV OF MANITOBA 2.45% | 2-Jun-25 | 2,000,000 | 2,015,839 | 2.33% |
| PROV OF QUEBEC 2.75% | 1-Sep-25 | 2,500,000 | 2,620,759 | 2.06% |
| BANK OF MONTREAL 2.12% | 16-Mar-22 | 2,000,000 | 2,008,877 | 2.01% |
| ROYAL BANK OF CANADA 1.968% | 2-Mar-22 | 2,500,000 | 2,494,065 | 2.03% |
| TORONTO DOMINION BANK 2.563% | 24-Jun-20 | 2,500,000 | 2,538,301 | 1.93% |
| CANADIAN IMPERIAL BANK OF COMM 1.9% | 26-Apr-21 | 2,000,000 | 2,004,142 | 1.83% |
| PROV OF ONTARIO 2.85% | 2-Jun-23 | 2,000,000 | 2,096,334 | 1.91% |
| PROV OF ONTARIO 3.15% | 2-Jun-22 | 2,500,000 | 2,596,752 | 2.22% |
| PROV OF BRITISH COLUMBIA 2.7% | 18-Dec-22 | 2,000,000 | 2,075,052 | 1.90% |
| PROV OF ALBERTA 2.55% | 15-Dec-22 | 2,000,000 | 2,056,502 | 1.95% |
| CITY OF EDMONTON 8.5% | 14-Sep-18 | 1,600,000 | 1,639,339 | 4.72% |
| YORK ONT REGL MUNICIPALITY 4% | 30-Jun-21 | 1,000,000 | 999,427 | 4.02% |
| PROV OF QUEBEC 1.65% | 3-Mar-22 | 2,000,000 | 1,979,654 | 1.90% |
| MUNICIPAL FINANCE AUTH OF BC 2.15% | 1-Dec-22 | 2,880,000 | 2,878,105 | 2.16% |
| ROYAL BANK OF CANADA 2.36% | 5-Dec-22 | 3,000,000 | 2,993,448 | 2.41% |
| CANADA HOUSING TRUST NO 1 2.4% | 15-Dec-22 | 5,000,000 | 5,096,289 | 1.99% |
| YORK ONTARIO REGL MUNICIPALITY 5% | 29-Apr-19 | 1,000,000 | 999,579 | 5.03% |
| BANK OF NOVA SCOTIA 1.9% | 2-Dec-21 | 2,000,000 | 1,995,627 | 1.96% |
| ROYAL BANK OF CANADA 2.333% | 5-Dec-23 | 2,000,000 | 1,996,160 | 2.37% |
| PROV OF ALBERTA 1.35% | 1-Sep-21 | 2,000,000 | 1,945,938 | 2.12% |
| BANK OF NOVA SCOTIA 1.83% | 27-Apr-22 | 2,000,000 | 1,976,795 | 2.12% |
| ROYAL BANK OF CANADA 1.583% | 13-Sep-21 | 2,000,000 | 1,977,272 | 1.90% |
| 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 | | | 6,988,789 | |
| Bond Portfolio | | | 85,851,095 | |
| Promissory Note | | | | |
| Alectra (PowerStream) Note | 31-Dec-24 | 78,236,285 | 78,236,285 | 4.41% |
| TOTAL Long Term Investments | | | 164,087,380 | |
| ¹ Yield to maturity | | | | |

Attachment 2

| SHORT TERM INVESTMENT PORTFOLIO | | | | |
|---|--------------------|---------------|-------------------|--------------|
| Investment by Issuer | | | | |
| As at December 31, 2017 | | | | |
| | Par Value | % of Total | | |
| Sector / Issuer | | | Portfolio Limit % | Maximum Term |
| FEDERAL | | | | |
| Government of Canada | - | - | 100 | 1 year |
| Federal Guarantees | - | - | 100 | 1 year |
| PROVINCIAL | | | | |
| | - | - | 100 | 1 year |
| | - | - | 80 | 1 year |
| | - | - | 20 | 1 year |
| Provincial Total | - | - | 100 | |
| BANKS | | | | |
| Schedule I Banks | | | 100 | 1 year |
| Toronto Dominion Bank | 140,000,000 | 29.47% | | |
| CIBC | 75,000,000 | 15.79% | | |
| Royal Bank of Canada | 50,000,000 | 10.53% | | |
| Bank of Nova Scotia | 105,000,000 | 22.11% | | |
| National Bank | 80,000,000 | 16.84% | | |
| Banks Total | 450,000,000 | 94.74% | 100 | |
| OTHER | | | | |
| Asset Backed Securities | - | - | 10 | 6 months |
| Credit Unions and Loan/Trust Corporations | 25,000,000 | 5.26% | 30 | 1 year |
| Other Total | 25,000,000 | 5.26% | 30 | |
| TOTAL - Short Term | 475,000,000 | | | |

Attachment 2 cont'd

| LONG TERM INVESTMENT PORTFOLIO | | | | |
|---------------------------------------|---------------------|-------------------|--------------------------|---------------------|
| Investment by Issuer | | | | |
| As at December 31, 2017 | | | | |
| | Amount | % of Total | | |
| Sector / Issuer | | | Portfolio Limit % | Maximum Term |
| FEDERAL | | | | |
| Government of Canada | - | | 100 | 20 years |
| Federal Guarantees | 5,715,451.65 | 3.48% | 50 | 20 years |
| Federal Total | 5,715,451.65 | 3.48% | 100 | |
| PROVINCIAL | | | | |
| PROVINCIALS (CANADIAN) | 19,415,699 | 11.83% | 70 | 20 years |
| Provincial Total | 19,415,699 | 11.83% | 70 | |
| MUNICIPALS | | | | |
| MUNICIPALS (CANADIAN) AAA | 2,878,105 | 1.75% | 35 | 15 years |
| MUNICIPALS (CANADIAN) AA | 10,393,879 | 6.33% | 25 | 10 years |
| Municipals Total | 13,271,983 | 8.09% | 35 | |
| BANKS | | | | |
| Schedule I Banks | 40,459,172 | 24.66% | 50 | 10 years |
| Schedule II Banks | - | | 15 | 5 years |
| Banks Total | 40,459,172 | 24.66% | 50 | |
| Cash & Cash Equivalent | 6,988,789 | 4.26% | n/a | |
| PowerStream Note | 78,236,285 | | n/a | |
| TOTAL - Long Term | 164,087,380 | | | |