

## Committee of the Whole (2) Report

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**DATE:** Tuesday, June 8, 2021

**WARD(S):** ALL

**TITLE:** 2020 ANNUAL INVESTMENT REPORT

**FROM:**

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

**ACTION:** FOR INFORMATION

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**Purpose**

To report to Council on the City's investment portfolio activities during the year 2020, 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 \$19.29 million for 2020, which represents a weighted average income return of 2.06%
- The Money Market portfolio earned interest income of \$12.92M, Bond portfolio and Alectra' promissory note earned \$4.81M, and cash balance in the bank earned interest income of \$1.56M
- The majority of the investment income was distributed to the City's reserve funds (\$10.15M) and a portion (\$5.59M) to the operating budget, which helps reduce the tax levy requirement
- All investments to December 31, 2020 were made in accordance with the City's Investment Policy and compliance with Ontario Regulation 438/97 (as amended) and the Municipal Act

**Recommendation**

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 at minimal 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**

[2019 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 \$954.86 million (cash and investments) at December 31, 2020 (\$943.06 million in 2019), 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.

## **2020 City of Vaughan Investment Portfolios**

During 2020, the City's investment portfolios generated investment income in the amount of \$19.29 million, which represents a weighted average earned income return of 2.06%. As a basis of year over year comparison, the City's investment income was \$25.92 million in 2019, which represented a weighted average earned income return of 2.65%. The decrease in 2020 investment income was due to significantly lower interest yields across all income generating assets which resulted from the Bank of Canada lowering interest rates in response to the COVID-19 global pandemic. The investment income decrease was offset by effective cash management to capture higher rates when available.

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

<b>Portfolio Summary as at Dec 31, 2020</b>	<b>Book Value</b>	<b>Earned Income</b>
	<b>Mil (\$)</b>	<b>Mil (\$)<sup>1</sup></b>
Money Market Portfolio	707.68	12.92
Bond Portfolio	82.38	1.36
Alectra Note	78.24	3.45
<b>Subtotal Investments</b>	<b>\$ 868.30</b>	<b>\$ 17.73</b>
Cash in Bank	86.56	1.56
<b>Total Investments</b>	<b>\$ 954.86</b>	<b>\$ 19.29</b>
<sup>1</sup> Earned Income includes interest income, realized gain/loss, other income, bond amortization, less expenses		
(excludes unrealized gain/loss)		

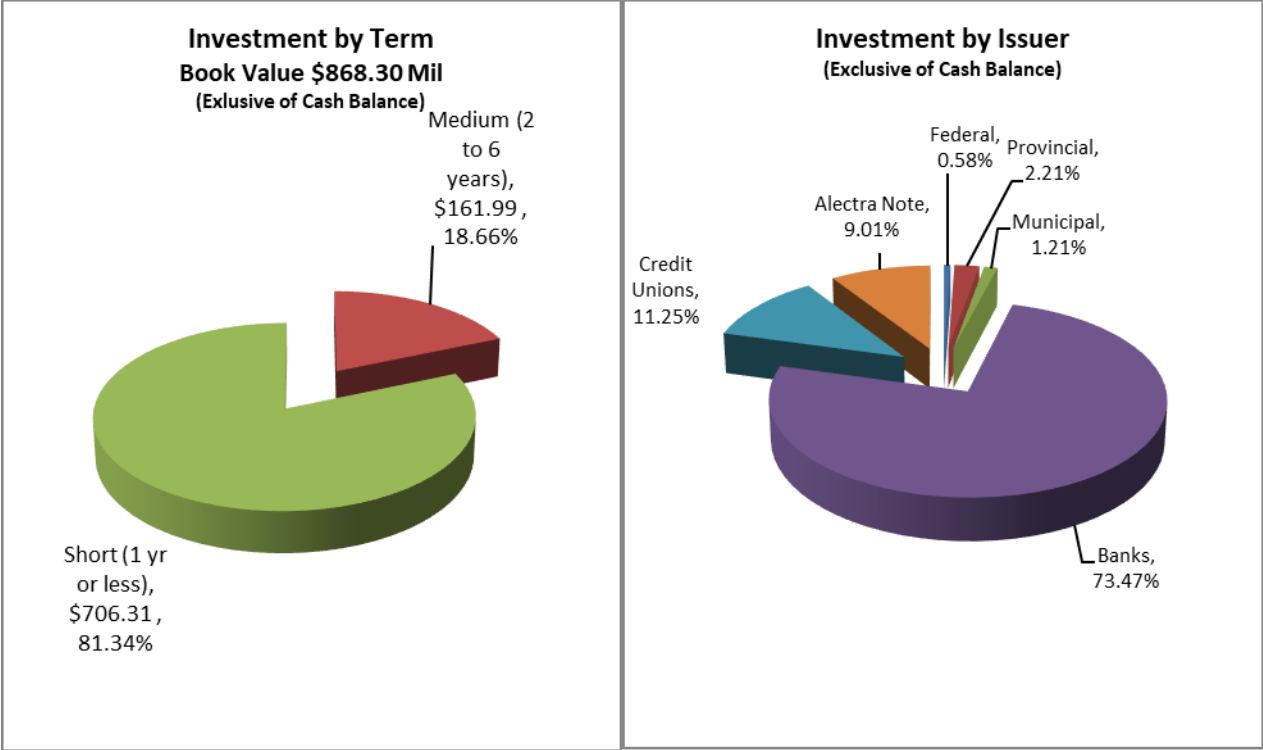
The Money Market portfolio (total holdings of \$707.68 million) averaged a rate of return of 1.86% outperforming the 90-day average T-bill rate of 0.44%. The cash balance held in the City's bank account earned an average rate of return of 1.07%, which is higher than the average one-month Banker's Acceptance Money Market instrument of 0.63%. The Bond Fund portfolio and the Alectra Note (total holdings of \$160.61 million) earned an average rate of return of 3.05%. The earned rate of return includes interest income and realized capital gains/losses.

Allocation of investment income to reserve funds is based on the Bank of Canada's (BOC) interest rate. Earned income over and above the BOC interest rate is allocated to the City's operating budget. As mentioned above, the BOC lowered interest rates in response to the global pandemic in 2020. As a result, earned income allocated to reserve funds was significantly lower than 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 is transforming the investment portfolio to become more diversified in its holdings in both financial institutions / issuers with credit ratings that comply with the City's Investment Policy and terms of the investments. 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 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 2021**

Bond yields and interest rates are at historical lows. This is expected to continue in 2021 which would place pressure on investment income in 2021. All asset classes and capital markets are facing extreme market swings as the COVID-19 pandemic continues. Staff is monitoring the capital market and will focus on strategic purchases that will diversify the portfolio while at the same time 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 2020 totaled \$19.29 million. The majority of the income was distributed to the City’s reserve funds and the remaining portion to the operating budget. The Operating Budget for 2020 Investment Income was \$2.56 million; the actual Investment Income allocated to the Operating Budget was \$5.59 million, or \$3.03 million over budget, due mainly to lower allocations to reserve funds as a result of lower BOC rates.

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 2020, the City's investment portfolio generated investment income of \$19.29 million. Investment income revenue contributes to reserves and reduces the tax levy requirement. 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, 2020
2. Investments Held by Sector as at December 31, 2020

## **Prepared by**

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## **Approved by**



Michael Coroneos, Deputy City  
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Treasurer and Chief Financial Officer,

## **Reviewed by**



Jim Harnum, City Manager