

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)

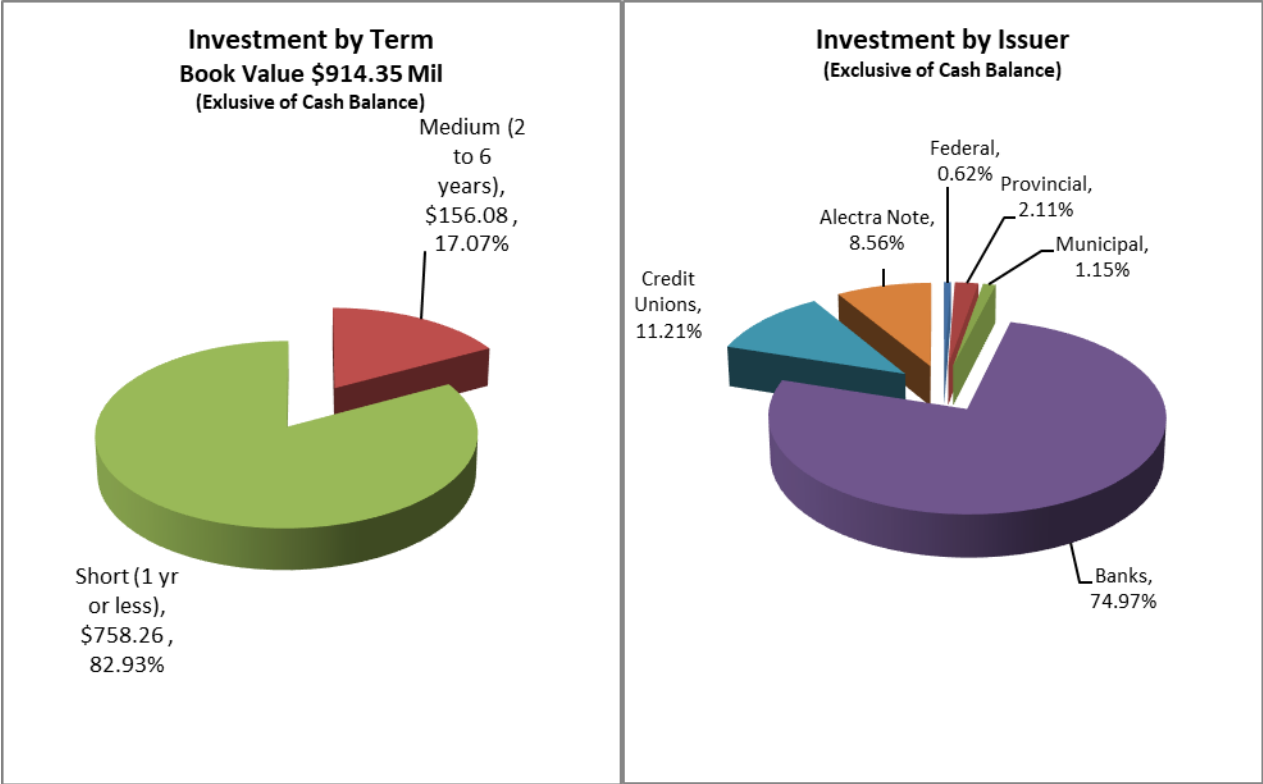
² Maturity Dec 31, 2024

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

Attachment 1

City of Vaughan Investments - as at December 31, 2019				
Money Market Portfolio				
Security Description	Maturity Date	Par Value	Base Cost	Yield ¹
Scotia	30-Sep-20	10,000,000	10,000,000	2.45%
Scotia	30-Sep-20	40,000,000	40,000,000	2.45%
Scotia	30-Sep-20	10,000,000	10,000,000	2.45%
NB GIC	30-Mar-20	20,000,000	20,000,000	2.46%
Duca CU	9-Apr-20	20,000,000	20,000,000	2.95%
Scotia	9-May-20	15,000,000	15,000,000	2.45%
Scotia GIC	4-Jun-20	15,000,000	15,000,000	2.38%
BMO GIC	2-Mar-20	10,000,000	10,000,000	2.30%
BMO GIC	8-Jun-20	20,000,000	20,000,000	2.43%
BlueShore Fin. CU	8-Jun-20	15,000,000	15,000,000	2.50%
Scotia	14-Jul-20	10,000,000	10,000,000	2.45%
BNS Term Dep	15-Jan-20	15,000,000	15,000,000	2.36%
Coast Capital Savings	27-Jul-20	15,000,000	15,000,000	2.60%
BMO GIC	22-Jan-20	10,000,000	10,000,000	2.33%
BMO GIC	27-Jul-20	25,000,000	25,000,000	2.45%
Affinity CU	17-Aug-20	7,500,000	7,500,000	2.40%
BMO GIC	12-Feb-20	10,000,000	10,000,000	2.33%
BNS Term Dep	19-Feb-20	25,000,000	25,000,000	2.33%
Laurentian GIC	31-Aug-20	25,000,000	25,000,000	2.32%
TD Term Dep	7-Jan-20	25,000,000	25,000,000	2.26%
BMO GIC	10-Sep-20	25,000,000	25,000,000	2.35%
TD Term Dep	10-Mar-20	25,000,000	25,000,000	2.29%
TD Term Dep	25-Mar-20	25,000,000	25,000,000	2.31%
BMO GIC	16-Mar-20	15,000,000	15,000,000	2.34%
RBC GIC	18-Sep-20	20,000,000	20,000,000	2.35%
BNS Term Dep	21-Sep-20	10,000,000	10,000,000	2.41%
BNS Term Dep	23-Sep-21	15,000,000	15,000,000	2.30%
TD Term Dep	30-Mar-20	20,000,000	20,000,000	2.28%
BMO GIC	25-Sep-20	25,000,000	25,000,000	2.36%
BNS Term Dep	30-Sep-20	20,000,000	20,000,000	2.38%
BMO GIC	30-Sep-20	10,000,000	10,000,000	2.33%
TD Term Dep	14-Jan-20	15,000,000	15,000,000	2.25%
TD Term Dep	15-Apr-20	20,000,000	20,000,000	2.30%
BMO GIC	2-Nov-20	25,000,000	25,000,000	2.42%
Affinity CU	5-Nov-20	10,000,000	10,000,000	2.60%
TD Term Dep	5-Mar-20	15,000,000	15,000,000	2.27%
Alterna Credit Union	19-Nov-20	20,000,000	20,000,000	2.72%
BNS Term Dep	1-Jun-20	10,000,000	10,000,000	2.31%
BNS Term Dep	2-Dec-20	15,000,000	15,000,000	2.31%
BMO GIC	7-Dec-20	25,000,000	25,000,000	2.37%
RBC GIC	7-Dec-20	25,000,000	25,000,000	2.38%
First Ontario CU	7-Dec-20	15,000,000	15,000,000	2.50%
Money Market Portfolio			747,500,000	

Attachment 1 cont'd

City of Vaughan Investments - as at December 31, 2019				
Bond Portfolio				
Security Description	Maturity Date	Par Value	Base Cost	Yield¹
BANK OF NOVA SCOTIA 1.9%	2-Dec-21	2,000,000	1,997,817	1.96%
ROYAL BANK OF CANADA 1.583%	13-Sep-21	2,000,000	1,989,422	1.90%
BANK OF NOVA SCOTIA 1.83%	27-Apr-22	2,000,000	1,987,687	2.12%
MUNICIPAL FINANCE AUTH OF BC 2.15%	1-Dec-22	2,880,000	2,878,850	2.16%
PROV OF ONTARIO 2.85%	2-Jun-23	2,000,000	2,061,751	1.91%
PROV OF ONTARIO 3.15%	2-Jun-22	2,500,000	2,553,877	2.22%
CANADA HOUSING TRUST NO.1 2.4%	15-Dec-22	5,000,000	5,058,361	1.99%
PROV OF BRITISH COLUMBIA 2.7%	18-Dec-22	2,000,000	2,045,500	1.90%
PROV OF ALBERTA 2.55%	15-Dec-22	2,000,000	2,034,217	1.95%
PROV OF QUEBEC 1.65%	3-Mar-22	2,000,000	1,989,245	1.90%
TORONTO ONTARIO 3.9%	29-Sep-23	3,000,000	3,161,389	2.38%
ROYAL BANK OF CANADA 2.333%	5-Dec-23	2,000,000	1,997,393	2.37%
TORONTO DOMINION BANK 1.994%	23-Mar-22	3,000,000	2,982,119	2.27%
ROYAL BANK OF CANADA 2.36%	5-Dec-22	3,000,000	2,995,968	2.41%
PROV OF ALBERTA 1.35%	1-Sep-21	2,000,000	1,975,044	2.12%
YORK ONTARIO REGL MUNICIPALITY 2.6%	15-Dec-25	3,500,000	3,509,866	2.55%
BANK OF MONTREAL 2.1%	6-Oct-20	2,500,000	2,502,150	1.98%
PSP CAPITAL INC 3.03%	22-Oct-20	600,000	605,547	1.86%
PROV OF ONTARIO 2.6%	2-Jun-25	2,000,000	2,021,526	2.39%
PROV OF MANITOBA 2.45%	2-Jun-25	2,000,000	2,011,807	2.33%
PROV OF QUEBEC 2.75%	1-Sep-25	2,500,000	2,590,898	2.06%
YORK ONTARIO REGL MUNICIPALITY 4%	30-Jun-21	1,000,000	999,717	4.02%
BANK OF MONTREAL 2.12%	16-Mar-22	2,000,000	2,004,714	2.01%
ROYAL BANK OF CANADA 1.968%	2-Mar-22	2,500,000	2,496,861	2.03%
TORONTO DOMINION BANK 2.563%	24-Jun-20	2,500,000	2,507,347	1.93%
CANADIAN IMPERIAL BANK OF COMM 1.9%	26-Apr-21	2,000,000	2,001,648	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			12,649,863	
Bond Portfolio			88,610,585	
Promissory Note				
Alectra Note	31-Dec-24	78,236,285	78,236,285	4.41%
TOTAL Long Term Investments			166,846,870	
¹ Yield to maturity				

Attachment 2

MONEY MARKET PORTFOLIO				
Investment by Issuer				
As at December 31, 2019				
	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	145,000,000	19.40%		
CIBC	40,000,000	5.35%		
Royal Bank of Canada	95,000,000	12.71%		
Bank of Nova Scotia	195,000,000	26.09%		
National Bank	65,000,000	8.70%		
BMO	130,000,000	17.39%		
Banks Total	670,000,000	89.63%	100	
OTHER				
Asset Backed Securities	-	-	10	6 months
Credit Unions and Loan/Trust Corporations	77,500,000	10.37%	30	1 year
Other Total	77,500,000	10.37%	30	
TOTAL - Money Market	747,500,000			

Attachment 2 cont'd

BOND PORTFOLIO				
Investment by Issuer				
As at December 31, 2019				
	Amount	% of Total		
Sector / Issuer			Portfolio Limit %	Maximum Term
FEDERAL				
Government of Canada	5,663,907.35	3.39%	100	20 years
Federal Guarantees	-		50	20 years
Federal Total	5,663,907.35	3.39%	100	
PROVINCIAL				
PROVINCIALS (CANADIAN)	19,283,866	11.56%	70	20 years
Provincial Total	19,283,866	11.56%	70	
MUNICIPALS				
MUNICIPALS (CANADIAN) AAA			35	15 years
MUNICIPALS (CANADIAN) AA	10,549,822	6.32%	25	10 years
Municipals Total	10,549,822	6.32%	35	
BANKS				
Schedule I Banks	40,463,127	24.25%	50	10 years
Schedule II Banks	-		15	5 years
Banks Total	40,463,127	24.25%	50	
Cash & Cash Equivalent	12,649,863	7.58%	n/a	
Alectra Note	78,236,285		n/a	
TOTAL - Bond Portfolio	166,846,870			