

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

Item 7, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 7, 2016.

7

2015 ANNUAL INVESTMENT REPORT

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer, dated May 30, 2016:

Recommendation

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

1. This report be received for information.

Contribution to Sustainability

Not applicable.

Economic Impact

Investment income generated from the investment portfolio in 2015 amounted to \$12.67 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 2015 Investment Income was \$2.275 million. The actual Investment Income allocated to the Operating Budget was \$2.01 million, which resulted in an unfavourable variance of \$0.26 million. The unfavourable variance was primarily due to unexpected rate cuts by the Bank of Canada, which lowered the yields earned on the City's investments.

It should be noted that the City also receives investment income through its wholly owned Vaughan Holdings Inc., which in turn owns a 45.3 per cent share of PowerStream Inc. This report does not include the investment income from that corporation as those details are provided to Council through separate reports and can be found in the City's Financial Statements. However, the investment income from PowerStream's promissory note to the City is included in this report.

Communications Plan

Not applicable.

Purpose

To report to Council on the City's investment portfolio activities during the year 2015, as required by Ontario Regulation 438/97 (as amended) of the *Municipal Act* and the City's Investment Policy.

Background - Analysis and Options

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended to O. Regulation 292/09 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.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

Item 7, Finance Report No. 7 – Page 2

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 made over the last year. The report submitted to Council each year should contain the following:

- a) Listing of individual securities held at the end of the reporting period;
- b) Listing of investments by maturity date;
- c) Realized and unrealized gains or losses resulting from investments that were not held until maturity;
- d) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- e) Percentage of the total portfolio which each type of investment represents; and
- f) A statement about the performance of the investment portfolio during the period covered by the report;

The Financial Planning and Development Finance Department manages the investment portfolio for the City with a maturity value of approximately \$571.32 million (cash and investments) at December 31, 2015 (\$565.31 million 2014), (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*.

The 2015 Economic and Capital Market Environment continued to be at a low

Canadian economic growth faltered in 2015. The sharp drop in global crude oil prices was negative for Canadian growth. The Bank of Canada lowered its rate twice in 2015, resulting in the overnight rate dropping from 1 per cent to 0.50 per cent. This resulted in lowered rates that the City can invest in and reduced expected overall interest income. Furthermore, the long bond rates continued to be near historical low levels. The Canadian 10 year Government bond yield fell from 1.78 per cent to 1.39 per cent at the end of 2015. The low long bond rate means that there were few opportunities to extend the term of the portfolio to earn higher rates.

2015 City of Vaughan Investment

During 2015 the investment portfolio generated investment income in the amount of \$12.67 million. As a basis of year over year comparison, the City's investment income was \$13.78 million in 2014. The decline in 2015 investment income was due to lower money market rates and a lower average amount invested in the long term portfolio, as historically higher yield bonds matured in 2015. There were no realized gains or losses resulting from investments that were not held until maturity in 2015.

The Money Market portfolio (total holdings of \$436.50 million) averaged a rate of return of 1.29 per cent outperforming the 90 day average T-bill rate of 0.52 per cent. The cash balance held in the City's bank account earned an average rate of return of 1.00 per cent, a 17 basis points higher than the average one month BA Money Market instrument. The Bond Fund portfolio (total holdings of \$91.93 million) averaged earned income rate of return was 5.16 per cent. 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.

CITY OF VAUGHAN

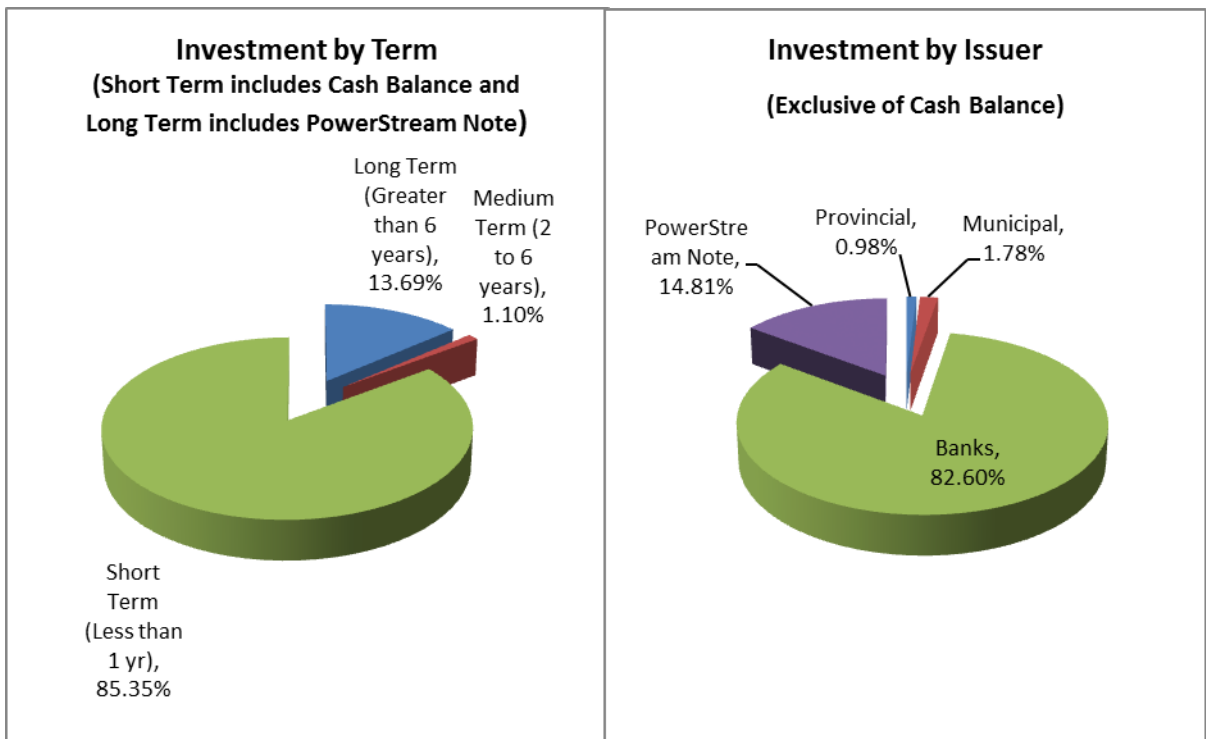
EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

Item 7, Finance Report No. 7 – Page 3

Over the past number of years, 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. Given the economic conditions seen in 2015 this long term focus has not yet to be fully implemented, but is expected to increase in to 2016 and 2017.

Summary of Holdings

The following charts provide a summary overview of the City's current holdings by both term (cash balance is considered "Short Term") and by issuer (excludes cash balance). The details of these holdings may be found in Attachments 1 and 2.



2016 Performance Expectations

The two Bank of Canada rate cuts caused sharp downward movements on the yields (returns) across all of the money market instruments that the City invests in. The rate cuts pushed investment yields to historical lows, and created uncertainties on the City's investment income budget. If this low rate environment persists, it may result in a negative impact to the City's 2016-2017 investment income budget.

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher yields. However, given the prevailing low rate environment, patience will need to be exercised with these long bond purchases. Currently, the City's portfolio is predominately short term (over 80 per cent of holdings) and is well positioned to take advantage of changing market conditions and a rising rate environment when rate increases do materialize. It should be expected that investment performance will remain largely unchanged over the next few years given the economic environment.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7, 2016

Item 7, Finance Report No. 7 – Page 4

The recent City's approval of the PowerStream merger and acquisition will require an equity injection of approximately \$60M. The equity investment will reduce the overall available cash to invest in the money and bond market to earn interest income. This would reduce investment interest income, but it is anticipated that the equity investment will result in higher dividend income to the City over the long run.

Regional Implications

Not applicable.

Conclusion

In 2015 the City's investment portfolio generated investment income of 12.67 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*.

Attachments

- 1 – Listing of Securities Held As At December 31, 2015
- 2 – Investments Held by Issuer

Report prepared by:

Alex Ly
Senior Financial Analyst, Investments

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

2015 ANNUAL INVESTMENT REPORT

Recommendation

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

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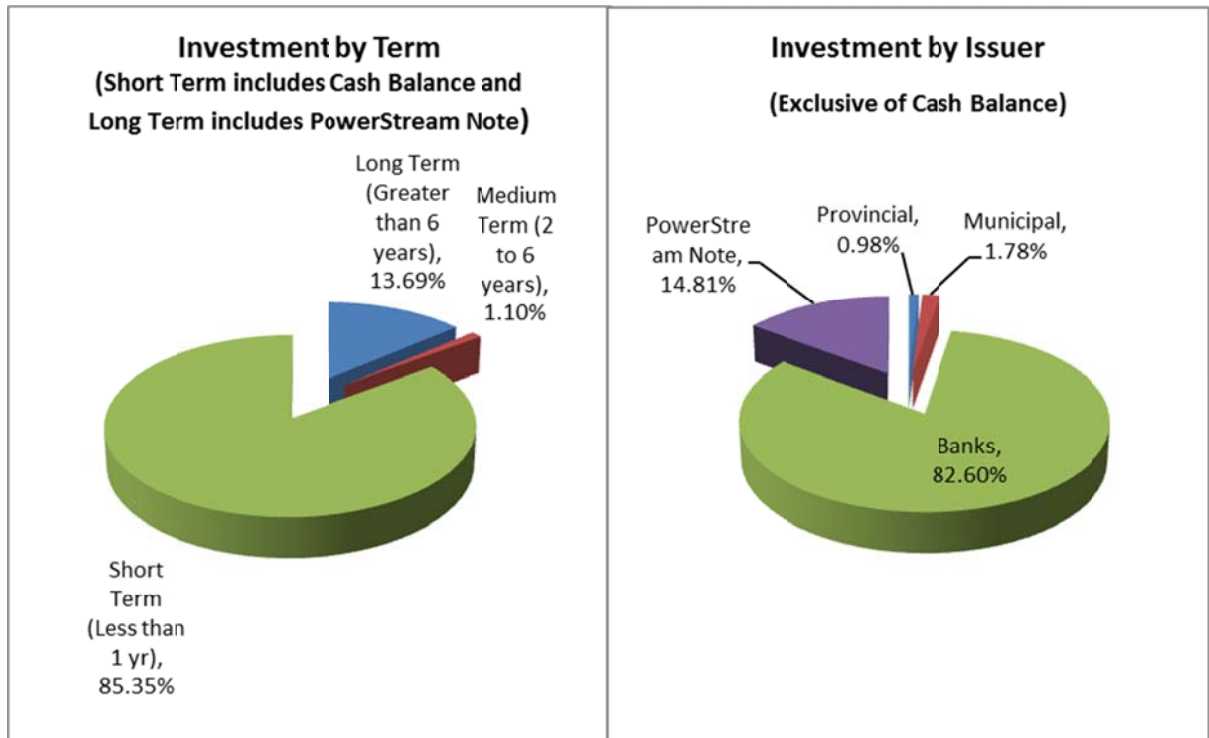
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Report prepared by:

Alex Ly
Senior Financial Analyst, Investments

Respectfully submitted,

Laura Mirabella-Siddall
Chief Financial Officer and City Treasurer

Lloyd Noronha
Director of Financial Planning & Development Finance &
Deputy City Treasurer

Attachment 2

SHORT TERM INVESTMENT PORTFOLIO				
Investments Held by Issuer				
As at December 31, 2015				
	Par Value	% of Total		
Sector / Securities			Portfolio Limit %	Individual Limit %
FEDERAL				
Government of Canada	-	-	100	100
Federal Guarantees	-	-	100	50
PROVINCIAL				
	-	-	100	50
	-	-	80	35
	-	-	20	5
Provincial Total	-	-	100	
BANKS				
Schedule I Banks			100	50
Toronto Dominion Bank	90,000,000	20.62%		
CIBC	35,000,000	8.02%		
Royal Bank of Canada	81,500,000	18.67%		
Bank of Nova Scotia	60,000,000	13.75%		
National Bank	170,000,000	38.95%		
Schedule II Banks	-		15	5
			10	3
Schedule III Banks	-		5	2
Banks Total	436,500,000	100.00%	100	
OTHER				
Asset Backed Securities	-	-	10	3
Corporations	-	-	30	5
Other Total	-	-	30	
TOTAL - Short Term	436,500,000			

LONG TERM INVESTMENT PORTFOLIO					
Investments Held by Issuer					
As at December 31, 2015					
	Amount	% of Total			
Sector / Securities			Portfolio Limit %	Individual Limit %	Maximum Term (yrs)
FEDERAL					
Government of Canada	-		100	100	20
Federal Guarantees	-		50	25	20
Federal Total			100		
PROVINCIAL					
Province of Ontario	2,002,267.28	2.17%			
Province of Alberta	3,001,544.87	3.26%			
			35	15	15
			10	5	5
Provincial Total	5,003,812.15	5.43%	70		
MUNICIPALS					
York Region Municipality	4,838,653.53	5.25%			
			35	10	15
			25	5	10
City of Edmonton	2,286,000.00	2.48%			
City of Peterborough	1,750,879.08	1.90%			
			10	2	5
Municipals Total	8,875,532.61	9.64%	35		
BANKS					
Schedule I Banks	-		50	20	10
Schedule II Banks	-		15	5	5
Schedule III Banks	-		10	3	5
Banks Total			50		
OTHER					
Asset Backed Securities			10	3	5
Loan/Trust Corporations, Credit Unions, and Other Corporations			10	3	5
Other Total			10		
ONE FUND					
Money Market			10	N/A	N/A
Bond Fund			10	N/A	N/A
Equity			5	N/A	N/A
Corporate Debt			5	N/A	N/A
ONE Fund Total			20	N/A	N/A
PowerStream Note	78,236,285		n/a		
TOTAL - Long Term	92,115,630				