

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 12, Report No. 8, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 24, 2014.

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2013 ANNUAL INVESTMENT REPORT

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Development Finance and Investments, dated June 16, 2014:

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Development Finance and Investments recommend that:

1. This report be received for information.

Contribution to Sustainability

Not applicable.

Economic Impact

Investment income generated from the investment portfolio in 2013 amounted to \$13.82 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 need for tax based funding. The Operating Budget for 2013 Investment Income was \$2.75 million. The actual Investment Income allocated to the Operating Budget was \$3.02 million, which provided a favourable balance of \$266,000. It should be noted that the City also receives investment income through its wholly owned Vaughan Holdings Inc. (VHI), which in turn owns a 45.3% share of PowerStream Inc. The investment income from the promissory note to PowerStream Inc., is combined in to this report, however this report does not include the investment income from VHI as those details are provided to Council through separate reports and can be found in the City's Financial Statements.

Communications Plan

Not applicable.

Purpose

To report to Council on the City's investment portfolio activities during the year 2013, 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 in December 2009 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 the Treasurer or designate to 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:

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- 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 Development Finance & Investment Department manages the investment portfolio for the City with a maturity value of approximately \$504.98 million (cash and investments) at December 31, 2013 (\$515.7 million 2012), (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 very slight fluctuation (0.02%) in balance from year to year can be attributed to many factors including: timing of major payments, timing of property tax and development charge revenue and timing of transfers of these revenues to the Region. 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*.

2013 Economic Environment

The financial credit crisis caused Central banks across the globe to lower interest rates to historic lows during 2008 and 2009. These low rates continued into 2010. The Bank of Canada began removing monetary stimulus in 2010 raising the overnight rate to 1%. The overnight rate remained unchanged at 1% throughout 2012 and 2013.

The Canadian economy improved in the second half of 2013. Real GDP growth is expected to pick up from 1.8% in 2013 to 2.5% in both 2014 and 2015 according to Bank of Canada. However, many uncertainties remain for both 2014 and 2015. Among other things, exports remain disappointing and business investments have yet to pick up despite improved demand in the United States.

Inflation in Canada remained low in the last quarter of 2013, reflecting significant slack in the economy. The Bank of Canada expects inflation to return to the 2% target in about two years as excess capacity is absorbed.

Given its current outlook and associated risks, and the substantial monetary policy stimulus currently in place, the Bank of Canada has maintained the overnight rate at 1%. The timing and direction of any rate change will depend on how new data affects the growth of the Canadian economy.

2013 Capital Market Environment

Despite a relatively calm first four months, 2013 will be remembered as a difficult year for the bond market. Bond yields, particularly long term rates, moved lower for the first four months, but this trend abruptly changed in May when the U.S. Federal Reserve (the "Fed") suggested that it may soon withdraw ("taper") its quantitative easing policy. (The quantitative easing program had been implemented to drive down the long bond rates to stimulate the U.S. economy). The long term yields were pushed higher as a reaction to this announcement as well as continued improvement in the U.S. economy.

The Fed decided its first tapering on December 18, when it reduced the size of its quantitative easing program from \$85 billion in monthly bond purchases to \$75 billion. The U.S. 10-year yield ended 2013 at 3.04%, up 134 basis points from the end of 2012.

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The Canadian bond yields were not immune to the U.S Fed's tapering decision. The Canadian 10 year Government bond ended 2013 at 2.77%, up 102 basis points from the end of 2012.

The volatile movements in yields were mostly confined to mid and long term bonds (those over 2 years). Short term rates movements were relatively benign and rates remained at historical lows. Short term rates are closely pinned to the Bank of Canada overnight rate policy, which is not expected to change in the near future.

2013 City of Vaughan Investment Performance

During 2013 the investment portfolio generated investment income in the amount of \$13.82 million. As a basis of year over year comparison, the City's investment income was \$14.1 million in 2012. The modest decline in 2013 investment income was due to a lower average amount invested in the long term portfolio, as historically higher yield bonds matured in 2013. There were no realized or unrealized gains or losses resulting from investments that were not held until maturity in 2013.

The City's Money Market portfolio (total holdings of \$370.01 million) averaged a rate of return of 1.33% outperforming the 90 day average T-bill rate of 0.97%. The Bond Fund portfolio (total holdings of \$134.91 million) averaged earned income rate of return was 5.32%. 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.

A large amount of cash is being held in the City's bank account due to the higher rate of return than that of Money Market instruments. At the end of the year the bank account earned a rate of return of 1.25% while according to a Bank of Canada statistic a Money Market instrument earned an average 1.15% resulting in a high cash balance in the City's bank account.

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 a long term reserve management. This change focused on transforming the investment portfolio from a short term money market portfolio to one that is more diversified in terms of credit and term exposure. This long term focus is planned to increase in to 2014 and 2015 and an Investment Policy update will be provided in a separate later report to support this initiative.

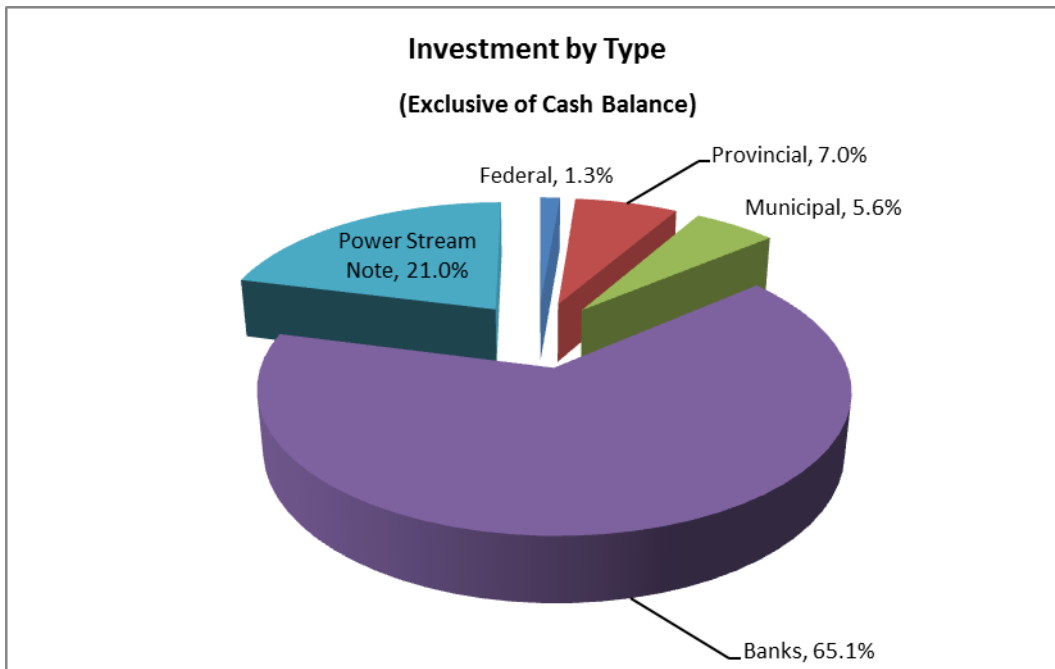
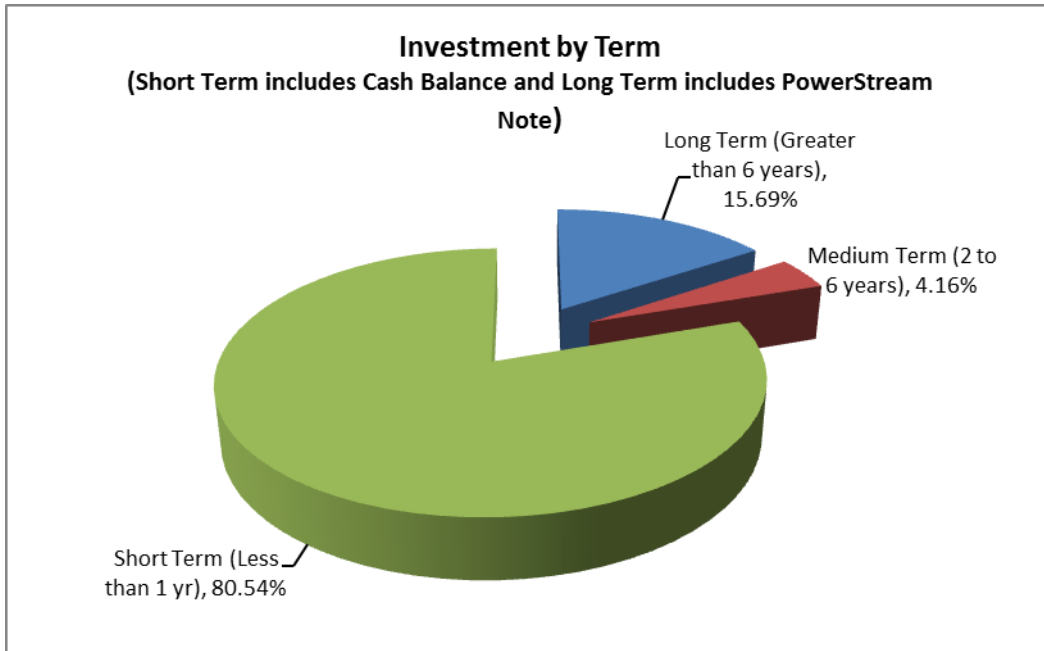
Summary of Holdings

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

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2014 Performance Expectations

As noted in the previously discussed economic environment section, short term interest rates are expected to remain low but mid and long term rates are expected to gradually rise as economic conditions improve and the Fed continue to reduce its bond buying program (quantitative easing). The City of Vaughan's budgeted investment income for 2014 reflected the original bank forecast adjusted for a level of conservatism. The actual results will therefore likely be very close to budget.

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Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds as interest rates rise. Currently, the City's portfolio is predominately short term (over 80% of holdings) and is well positioned to take advantage of a rising rate environment. An Investment Policy update report will be provided in a separate later report and will provide a more in depth look in to the City's future investment program.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

Conclusion

In 2013 the City's investment portfolio performed well given the modest global economic and financial market conditions. Increased investment income revenue contributes to reserves and reduces the need for tax based funding. Investments were in compliance with the City's Investment Policy approved by Council December 14, 2009 and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

Attachments

1. Listing of Securities Held As At December 31, 2013
2. Investments Held by Institution

Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and 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.)

2013 ANNUAL INVESTMENT REPORT

Recommendation

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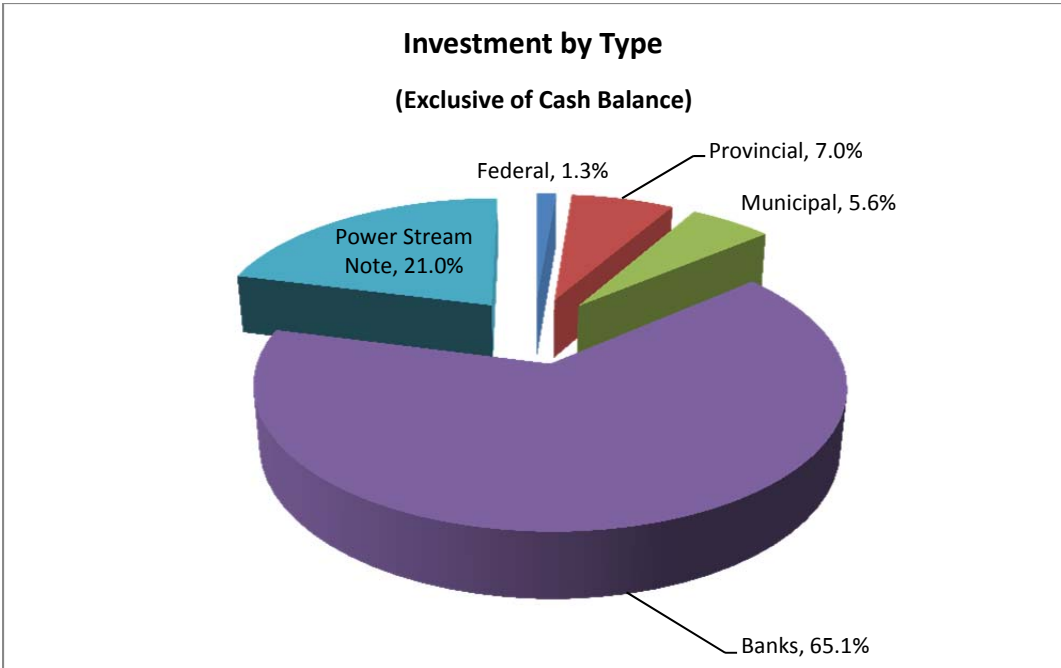
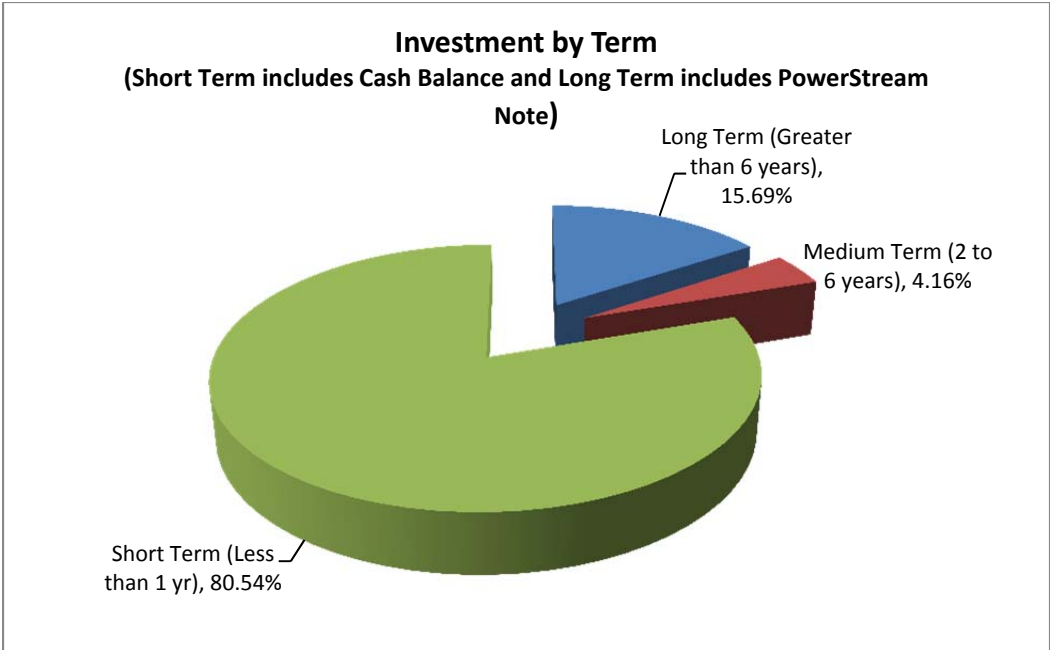
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Report prepared by:

Alex Ly, CFA, CGA
Senior Analyst, Development Finance and Investments

Respectfully submitted,

John Henry, CPA, CMA
Commissioner of Finance / City Treasurer

Lloyd Noronha, CPA, CMA
Director of Development Finance and Investments

**City of Vaughan
Investments Held by Issuer
December 31, 2013**

Issuer	Amount	Policy Limit	% of Limit	% of Total
Federal				
<u>Short Term:</u>				
Government of Canada	-	372,410,285	0.0%	0.0%
<u>Long Term:</u>				
Government of Canada	5,000,000	260,687,200	1.9%	1.3%
Subtotal	5,000,000	372,410,285	1.3%	1.3%
 <u>Federal Guarantees</u>				
<u>Long Term:</u>				
Canada Housing Trust	-	93,102,571	0.0%	0.0%
Subtotal	-	186,205,143	0.0%	0.0%
Federal Total	5,000,000	372,410,285	1.3%	1.3%
 Provincial				
<u>Short Term:</u>				
Province of Ontario	-	93,102,571	0.0%	0.0%
Province of British Columbia	-	93,102,571	0.0%	0.0%
Total (Short Term)	-	297,928,228	0.0%	0.0%
 <u>Long Term</u>				
Province of Ontario	6,000,000	93,102,571	6.4%	1.6%
Province of Alberta	12,000,000	93,102,571	12.9%	3.2%
Province of British Columbia	8,000,000	93,102,571	8.6%	2.1%
Subtotal- AAA/AA	26,000,000	260,687,200	10.0%	7.0%
Province of Manitoba	-	55,861,543	0.0%	0.0%
Subtotal- A	-	93,102,571	0.0%	0.0%
Provincial Total	26,000,000	297,928,228	8.7%	7.0%
 Municipal				
<u>Long Term</u>				
Regional Municipality of York	8,100,000	37,241,029	21.8%	2.2%
Region of Halton	2,000,000	37,241,029	5.4%	0.5%
BC Municipal Finance Authority	3,000,000	37,241,029	8.1%	0.8%
Subtotal- AAA	13,100,000	130,343,600	10.1%	3.5%
City of Edmonton	1,600,000	18,620,514	8.6%	0.4%
City of Hamilton	-	18,620,514	0.0%	0.0%
City of Peterborough	4,574,000	18,620,514	24.6%	1.2%
City of Toronto	1,500,000	18,620,514	8.1%	0.4%
Subtotal- AA	7,674,000	55,861,543	13.7%	2.1%
Municipal Total	20,774,000	130,343,600	15.9%	5.6%

Issuer	Amount	Policy Limit	% of Limit	% of Total
Banks				
<u>Short Term:</u>				
Bank of Montreal	40,000,000	93,102,571	43.0%	10.7%
CIBC	60,000,000	93,102,571	64.4%	16.1%
Royal Bank of Canada	7,500,000	93,102,571	8.1%	2.0%
Bank of Nova Scotia	50,000,000	93,102,571	53.7%	13.4%
Toronto Dominion Bank	80,000,000	93,102,571	85.9%	21.5%
Total (Short Term)	237,500,000	297,928,228	79.7%	63.8%
<u>Long Term:</u>				
Toronto Dominion Bank	-	37,241,029	0.0%	0.0%
Bank of Montreal	4,000,000	37,241,029	10.7%	1.1%
Bank of Nova Scotia	900,000	37,241,029	2.4%	0.2%
Royal Bank of Canada	-	37,241,029	0.0%	0.0%
Subtotal Banks	4,900,000	74,482,057	6.6%	1.3%
Total Banks	242,400,000	297,928,228	81.4%	65.1%
<u>Other:</u>				
PowerStream Note	78,236,285	n/a		21.0%
Total Other	78,236,285			21.0%
Total*	\$372,410,285			

* excludes cash in bank