

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JUNE 17, 2014</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2013 INVESTMENT REPORT</b>

**RECOMMENDATION**

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the 2013 Investment Report **BE RECEIVED** for information.

**BACKGROUND**

The City of London maintained a monthly average investment portfolio of approximately \$549 million in 2013 (2012, \$460 million), which includes investments in securities, prescribed under Ontario Regulation 438/97. As such, the City is required to provide an annual investment report to Council. The report, at a minimum, shall contain the following;

- a) a statement about the performance of the portfolio of investments during the period covered by the report;
- b) a description of the estimated proportion of the total investments that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- c) a statement by the Treasurer as to whether or not, in his opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
- e) such other information that Council may require or that, in the opinion of the Treasurer, should be included.

The following report meets the above requirements.

**Investment Strategy**

The City of London's overall investment strategy is to invest public funds in a manner that prioritizes security and liquidity of principal over attaining higher investment returns. The investment strategy in 2013 focused on investing reserve fund cash that was available for the medium-term (1 – 5 years) and purchasing bonds at varying maturity dates. The City accomplished this by investing \$25 million in an externally managed medium-term portfolio with Scotia Private Client Group.

The City also has an actively managed long-term (5 – 10 years) portfolio with Scotia Private Client Group, which it has invested a total of \$75 million since 2005. The active management of these portfolios allows the City to benefit from the services provided by a sophisticated investment team, which includes frequent monitoring and trading, diversifying funds, and anticipating interest rate changes. It is anticipated that the higher returns offered by an actively managed portfolio will exceed the cost of administration.



The 2014 investment strategy will continue to focus on building a balanced portfolio, with the goal to move the current portfolio closer towards the City's investment policy targets. A comparison of the City's portfolio at December 31, 2013 to policy targets is shown below;

Classification	Description	% of Portfolio (Dec. 31, 2013)	Target
Cash & Short-Term	Maturing in less than 1 year	72%	50%
Medium-term	Maturing in 1 – 5 years	11%	25%
Long-term	Maturing in more than 5 years	17%	25%

To move towards these targets, reserves and reserve fund cash available for the medium and long term will be used to purchase bonds with varying terms to maturity. This strategy ensures a steady stream of cash flows will be available to match cash demands and minimizes interest rate risk by smoothing fluctuations in the market over time.

### **Performance of Portfolio Investments**

#### **Cash & Short-Term**

In 2013, the City had an average of \$423 million in cash earning interest at an average rate of 1.26%. This City's regular bank account earns interest at bank prime less 1.75% (currently 1.25%). In April 2013, the City invested \$75 million in a premium interest rate investment account, earning 0.1% (10 bps) above the City's regular bank account, while maintaining liquidity. A large proportion of cash is being held in the bank primarily due to yields on short-term investments (< 1 year) being lower than interest earned in the bank. In 2013, the average yield on 3 month Treasury Bills was 0.97%.

#### **Medium-Term**

In 2013, the City had an average of \$38 million in medium-term investments. The average yield on medium-term investments for 2013 was 2.75%. In comparison, the 2013 average yield for a 5-year Government of Canada bond was 1.62%.

#### **Long-Term**

In 2013, the City's long-term investment portfolio had an average balance of \$88 million. The City's long-term portfolio is externally managed with Scotia Private Client Group, and had an average yield of 3.75% (net of fees) in 2013. This portfolio is compared to the Government Short/Mid Blend Benchmark, which is similar in duration and composition to the City's portfolio. The benchmarks are designed to measure the performance of the fixed income market. In 2013, the market rate of return on the City's externally managed long-term portfolio outperformed the benchmark by 1.02%.

### **Eligible Investments (Statement of Compliance)**

The Municipal Act, 2001 stipulates that a municipality can invest only in securities prescribed under Ontario Regulation 438/97. A complete listing of the City's investments held as at December 31, 2013 is attached in **APPENDIX A**. All investments meet the eligibility requirements as prescribed by Ontario Regulation 438/97 and were made in accordance with the investment policies and goals adopted by the City.

### **Investment in Own- Securities**

Ontario Regulation 438/97 requires that the City report the estimated proportion of total investments that are invested in its own long-term and short-term securities to the total investments held by the municipality. At the end of 2013, the City held \$250,000 par value of its own securities, which was approximately 0.2% of total investments (excludes cash). The securities mature on August 6, 2014. No additional own-securities were purchased during the year and there was no change (2012, 0.2%) in the proportion of own securities to total investments from the previous year's report.




**Investment income**

The Municipal Act, 2001, S.O. 2001, c.25 subsection (2) states that “any earnings derived from an investment shall be credited to the fund from which the money was invested and earnings from combined investments shall be credited to each separate fund in proportion to the amount invested from it”. Therefore, interest and capital gains earned on reserve fund investments are allocated to all reserve funds on a prorated basis and are used for the purpose for which the reserve fund was created. Investment income earned from the general fund is allocated to general revenues, which contributes to offsetting the amount of taxes levied.

In 2013, the City earned a total income of \$9,724,246 (\$8,272,972 in 2012) from investments of which \$7,153,877 (\$6,391,630 in 2012) was earned from reserve fund investments and \$2,570,369 (\$1,881,342 in 2012) was earned from general fund investments.

**Looking Ahead**

Canadian economic growth is expected to strengthen in 2014 and 2015, although certain slacks still remain, such as the labour market. The key factor behind this growth will be acceleration in the U.S. economy over the next 2 years. The Bank of Canada Overnight Target Rate is forecasted to increase from the current 1.0% to 1.5% by the end of 2015 (TD Economics, Long-Term Economic Forecast - March 20, 2014). This outlook is based on information available to date and is subject to change relative to the economic climate.

PREPARED BY:	REVIEWED BY:
	
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CONCURRED BY:	RECOMMENDED BY:
	
<p><b>Larry Palarchio</b>  <b>Director of Financial Planning &amp; Policy</b></p>	<p><b>Martin Hayward</b>  <b>Managing Director, Corporate Services and City Treasurer, Chief Financial Officer,</b></p>

Appendix A

Cc. M.Turner, Deputy City Treasurer



**APPENDIX A - City of London Investment Portfolio as at December 31, 2013**

Instrument	Cost	Yield	Maturity Date (DD-MM-YR)
<b>Cash Held in the Bank &amp; Short-Term Investments:</b>			
General	\$ 139,894,859	1.26%	
Reserve Funds	252,139,378	1.26%	
City of London Serial Debenture	250,000	5.75%	06-Aug-14
Waterloo Security	499,000	4.70%	19-Nov-14
<b>Total Cash &amp; Short-Term Investments</b>	<b>\$ 392,783,238</b>		
<b>Medium-Term Investments:</b>			
Canadian Imperial Bank Deposit Note	\$ 5,000,000	2.00%	17-Feb-15
Canadian Imperial Bank Guaranteed Term Deposit	4,000,000	1.81%	15-Oct-15
Toronto-Dominion Bank	1,991,000	3.37%	02-Nov-15
Bank of Montreal Residual	8,771,700	2.72%	08-Jul-16
Canadian Imperial Bank Guaranteed Term Deposit	6,000,000	2.09%	17-Oct-16
Bank of Montreal Residual	7,760,000	3.82%	26-Sep-17
Canadian Imperial Bank Guaranteed Term Deposit	3,000,000	2.19%	15-Oct-17
<b>Scotia Private Portfolio (Medium-Term)</b>			
Capital Cash	7,658	0.50%	
Canada Government T-Bill	9,666,776	0.91%	16-Jan-14
Royal Bank of Canada	1,021,800	3.18%	16-Mar-15
Bank of Montreal	1,004,500	1.89%	05-Oct-15
Canada Housing Trust	2,072,300	2.75%	15-Jun-16
TD Bank	1,029,000	2.95%	02-Aug-16
Canada Housing Trust	3,039,000	1.85%	15-Dec-16
Ontario Province	1,083,000	4.30%	08-Mar-17
Canada Housing Trust	2,031,680	2.05%	15-Jun-17
Ontario Province	2,002,510	1.90%	08-Sep-17
Canada Housing Trust	992,410	1.75%	15-Jun-18
Ontario Province	994,780	2.10%	08-Sep-18
<b>Total Scotia Portfolio (Medium-Term)</b>	<b>24,945,414</b>		
<b>Total Medium-Term Investments</b>	<b>\$ 61,468,114</b>		
<b>Long-Term Investments <i>Note (A)</i>:</b>			
<b>Scotia Private Portfolio (Long-Term)</b>			
Capital Cash	\$ 7,497	0.50%	
Canada Government T-Bill	249,844	0.94%	03-Jan-14
Canada Housing Trust	1,995,915	2.75%	15-Dec-14
Royal Bank	2,474,750	4.71%	22-Dec-14
Canada Housing Trust	4,080,405	2.95%	15-Mar-15
Bank of Montreal	2,002,740	1.89%	05-Oct-15
Canada Government	2,005,568	1.25%	01-Feb-16
Ontario Province	3,969,200	4.40%	08-Mar-16
Bank of Montreal	991,000	5.10%	21-Apr-16
New Brunswick	1,060,300	4.70%	21-Jul-16
Canada Housing Trust	4,046,420	1.85%	15-Dec-16
Royal Bank of Canada	1,991,150	3.66%	25-Jan-17
Canada Housing Trust	4,053,730	2.05%	15-Jun-17
CIBC Dep. Notes	2,078,030	3.95%	14-Jul-17
Ontario Province	3,985,200	1.90%	08-Sep-17
Manitoba Province	1,053,400	4.70%	22-Sep-17
Ontario Province	4,024,600	4.20%	08-Mar-18
Toronto-Dominion Bank	1,956,510	2.17%	02-Apr-18
Quebec Province	2,032,760	4.50%	01-Dec-18
Canada Housing Trust	5,789,934	4.10%	15-Dec-18
British Columbia Province	1,302,481	2.25%	01-Mar-19
Quebec Province	2,197,400	4.50%	01-Dec-19
BC Province	3,602,535	4.10%	18-Dec-19
New Brunswick	2,196,000	4.50%	02-Jun-20
Canada Housing Trust	1,969,731	2.65%	15-Mar-22
Ontario Province	1,983,480	3.15%	02-Jun-22
Canada Housing Trust	1,913,520	2.40%	15-Dec-22
Short-Mid Government Bond Pool <i>Note (B)</i>	24,528,391	2.89%	15-Dec-15 to 03-Dec-23
<b>Total Long-Term Investments</b>	<b>\$ 89,542,491</b>		
<b>Total Investment Portfolio</b>	<b>\$ 543,793,843</b>		
<b>Note: <sup>(A)</sup> This portfolio is deemed long-term as the intention of administration is to invest these funds for a period of more than five years.</b>			
<b><sup>(B)</sup> Contains Canada Housing Trust, Province of Ontario, Quebec, BC, New Brunswick and Nova Scotia Bonds, weighted average yield 2.89%</b>			