

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON JUNE 20, 2017</b>
<b>FROM:</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES, CITY TREASURER AND CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2016 INVESTMENT REPORT</b>

<b>RECOMMENDATION</b>
-----------------------

That, on the recommendation of the Managing Director, Corporate Services, City Treasurer, and Chief Financial Officer, the 2016 Investment Report, providing a summary of the performance of the City of London's investment portfolio, **BE RECEIVED** for information.

<b>BACKGROUND</b>
-------------------

As outlined in Ontario Regulation 438/97, the City Treasurer is required to provide an annual investment report to Municipal 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 City Treasurer as to whether or not, in their 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 Municipal Council may require or that, in the opinion of the Treasurer, should be included.

This report meets the above requirements.

**Portfolio Balance**

In 2016, the City of London (the "City") maintained a monthly average investment portfolio balance of \$827 million (2015, \$752 million), consisting of cash and investments in securities prescribed under Ontario Regulation 438/97. As at December 31, 2016, the City's investment portfolio included over 300 investment securities, primarily government bonds, corporate bonds, and GICs. A summary of the City's investment portfolio at year-end is attached as **APPENDIX A**.

**Investment Income**

In 2016, the City earned a total income of approximately \$14.2 million (\$12.0 million in 2015) from investments of which \$10.8 million (\$9.0 million in 2015) was earned from reserve fund investments and \$3.4 million (\$3.0 million in 2015) was earned from general fund investments. If, in 2016, the City's entire portfolio was held in cash, total income would have been \$9.5 million.

In accordance with the *Municipal Act, 2001* (the "Act"), 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.

## **Market Summary for 2016**

The Bank of Canada maintained its overnight target rate at 0.50% throughout 2016. Canadian bond yields continued to stay relatively low throughout most of the year, although the effects of the United States election in November saw Canadian bond yields rise following the spike in U.S. bond yields. The rising bond yields in the U.S. reflected increased expectations for growth, inflation and positively trending economic data.

The table below shows a comparison of Government of Canada benchmark yields from 2016 to 2014.

<b>Benchmark Yield</b>	<b>2016 Average Monthly Yield</b>	<b>2015 Average Monthly Yield</b>	<b>2014 Average Monthly Yield</b>
3-month T-Bill	0.50%	0.50%	0.91%
3-year Gov't of Canada Bond	0.60%	0.54%	1.15%
5-year Gov't of Canada Bond	0.75%	0.83%	1.56%
10-year Gov't of Canada Bond	1.26%	1.49%	2.19%

Economic conditions are continually monitored by the City and its team of professional portfolio managers to ensure the City's investment portfolio is adjusted to reflect changing market conditions.

## **Investment Strategy**

As directed by the City's Investment Policy, the City'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 2016 continued to focus on building a balanced and diversified portfolio relative to short-term, medium-term and long-term investment instruments.

Below is a comparison of the City's portfolio to the policy targets.

<b>Classification</b>	<b>Maturing in</b>	<b>Average for 2016</b>	<b>Target</b>
Cash & Short-Term	Less than 1 year	52%	50%
Medium-term	1 – 5 years	22%	25%
Long-term	More than 5 years	26%	25%

The City has worked towards the targets to provide further diversification and increase the overall investment return while maintaining liquidity.

The City purchased investments of \$155 million throughout 2016 to move the portfolio towards the targets. In response to low bond yields throughout most of the year the City, as part of the \$155 million, purchased \$137 million of GICs to achieve higher yields.

Of the \$155 million invested throughout 2016, \$53 million was invested in externally managed portfolios. Scotia Institutional Asset Management (Scotia), RBC Global Asset Management (RBC GAM) and RBC Dominion Securities (RBC DS) manage the City's external portfolios. The management of these portfolios allows the City to benefit from the services provided by sophisticated investment teams, which includes frequent monitoring and trading, diversifying funds, and anticipating interest rate changes.

The remaining \$102 million of the \$155 million was invested internally through investment brokers. The City's internally managed portfolio utilizes the buy and hold strategy, buying investment products from investment brokers at varying maturity dates. 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.

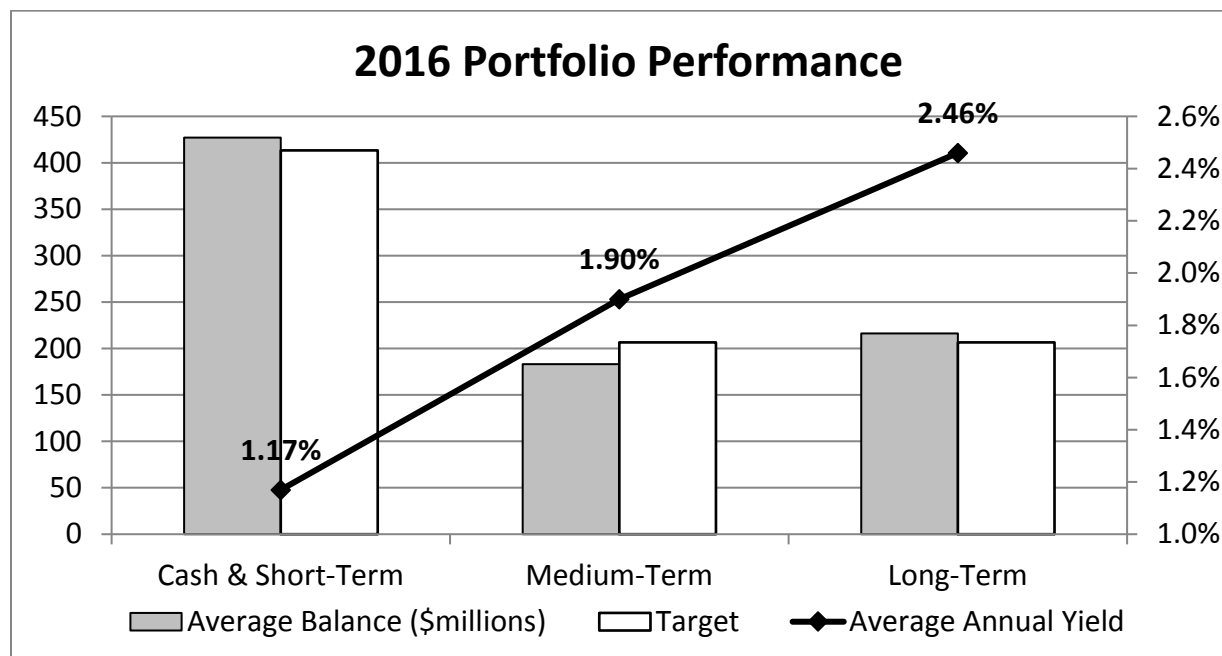
Using multiple external investment managers in addition to internal management helps diversify the City's investment portfolio. Differing investment styles and strategies offer additional risk control while also ensuring that the City's investment policy objectives are met.

**Short-Term Investment Strategy**

Included in the \$102 million of internally managed investment purchases was \$20 million related to the implementation of a \$25 million short-term investment strategy for general funds. This strategy was implemented to help maximize yields on the cash & short-term portion of the City's portfolio. Under this strategy in 2016, the City generated approximately \$37 thousand of additional revenue over cash in the bank.

**Performance of Portfolio Investments**

The chart below shows a breakdown of the average annual yields for 2016, as well as the investment portfolio balance in comparison to policy targets. For the purposes of this report, yield includes interest income and realized gains and losses. Yield does not include unrealized gains and losses (i.e. market value appreciation).



**Cash & Short-Term**

In 2016, the City had an average cash and short-term balance of \$427 million. The average yield on the City's cash and investments with an original maturity of less than 1 year was 1.17%. The cash & short-term target is 50% and aims to accommodate cash fluctuations during the year related to the timing and collection of property taxes along with disbursements for expenditures.

**Medium-Term**

In 2016, the City's medium-term investment portfolio had an average balance of \$183 million (\$68 million internally managed and \$115 million externally managed). The average yield on the City's medium-term investments for 2016 was 1.90% (net of fees).

**Externally Managed**

The City's externally managed medium-term bond portfolio is compared to the FTSE TMX Canada Short-Term Government Bond Index, which is similar in duration and composition to the City's portfolio. The FTSE TMX Canada benchmarks provide widely used performance standards for Canadian fixed income investments. It should be noted that benchmarks are used as a reference to give an approximate basis of comparison of how the City's portfolio performed. Not all bonds within the indices would meet the City's guidelines in terms of credit quality, liquidity, and term to maturity, and not all of the City's portfolios are designed with the same risk exposures

or to track the performance of the benchmark.

The City's medium-term bond portfolio with Scotia had an average yield of 1.79% (net of fees) in 2016. The portfolio with Scotia outperformed the benchmark by 0.58% in 2016.

The City's medium-term GIC portfolio with RBC DS had a yield of 1.93% (net of fees) as at December 31, 2016. To take advantage of higher yields on GICs relative to bonds, the City invested an additional \$35 million in this portfolio in 2016.

#### *Internally Managed*

The City's internally managed investments with an original maturity of 1 – 5 years had an average yield of 2.21%. The portfolio was comprised mainly of GICs with higher yields (in comparison to bonds). The remainder of the portfolio includes bonds purchased in 2011, when yields were higher as compared to when the externally managed portfolios were opened (2013 and 2015).

#### Long-Term

The City's long-term investment portfolio had an average balance of \$217 million in 2016 and an average yield of 2.46% (net of fees).

The City's long-term investment portfolio is managed by Scotia and RBC GAM and is compared to the FTSE TMX Canada Short/Mid All Government Blend Bond Index, which is similar in duration and composition to the City's portfolio. The City's long-term investment portfolio with Scotia outperformed the benchmark by 0.20% in 2016, while the portfolio with RBC GAM outperformed the benchmark by 0.82%.

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

The Act stipulates that a municipality may invest in securities prescribed under Ontario Regulation 438/97. 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. In 2016, the City did not hold or purchase any of its own securities, reflecting no change in proportion of own securities to total investments from the previous year's report.

### **Looking Ahead**

The year 2016 presented its fair share of growth challenges for Canada, but the outlook has brightened in recent months. The improved outlook does not mean that economic risks are fading. The Bank of Canada is expected to hold the line on interest rates in the coming quarters, despite expectations of an accelerated rate hike path for the U.S. Fed (TD Quarterly Economic Forecast, March 17, 2017).

As directed by the City's Investment Policy, the City's overall investment strategy will continue to focus on maximizing investment returns in a manner that first prioritizes security and liquidity. The 2017 strategy will focus on maintaining the City's policy term targets and continuing to implement the City's short-term investment strategy for general funds.

<b>PREPARED BY:</b>	<b>REVIEWED BY:</b>
<b>RICK LAMON MANAGER, ACCOUNTING &amp; REPORTING</b>	<b>ANNETTE RIPEPI MANAGER, FINANCIAL PLANNING &amp; POLICY</b>
<b>CONCURRED BY:</b>	<b>RECOMMENDED BY:</b>
<b>LARRY PALARCHIO DIRECTOR, FINANCIAL PLANNING &amp; POLICY</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES, CITY TREASURER AND CHIEF FINANCIAL OFFICER</b>

**APPENDIX A - City of London Investment Portfolio as at December 31, 2016**

Instrument	Book Value	Coupon Rate	Maturity Date (DD-MM-YR)
<b>Cash Held in the Bank &amp; Short-Term Investments (maturing in less than 1 year):</b>			
<u>Internally Managed</u>			
General Cash <sup>(A)</sup>	\$ 108,727,109		
Reserve Fund Cash <sup>(A)</sup>	162,646,213		
Bank of Nova Scotia GIC	2,507,817	1.45%	23-Feb-17
Bank of Nova Scotia GIC	1,637,731	1.90%	21-Mar-17
B2B Bank GIC	10,000,000	1.94%	03-Apr-17
Royal Bank GIC	701,296	2.60%	08-May-17
Canadian Western Bank GIC	4,500,000	1.82%	18-May-17
National Bank of Canada GIC	2,500,000	1.67%	14-Jun-17
Bank of Montreal GIC	2,500,000	1.62%	13-Jul-17
Royal Bank GIC	3,005,792	2.40%	18-Jul-17
Royal Bank GIC	3,000,000	2.31%	08-Aug-17
Bank of Montreal Trust GIC	2,500,000	1.66%	09-Aug-17
Bank of Montreal GIC	2,000,000	2.26%	05-Sep-17
Bank of Montreal GIC	2,500,000	1.66%	08-Sep-17
Bank of Montreal Residual	7,760,000	3.82%	26-Sep-17
Bank of Montreal GIC	2,500,000	1.59%	06-Oct-17
CIBC Term Deposit	3,000,000	2.19%	15-Oct-17
National Bank of Canada GIC	2,500,000	1.62%	14-Nov-17
Laurentian Bank GIC	2,500,000	2.07%	27-Nov-17
National Bank of Canada GIC	2,500,000	1.62%	14-Dec-17
Bank of Nova Scotia GIC	1,996,000	2.13%	18-Dec-17
<b>Total Cash &amp; Short-Term Investments</b>	<b>\$ 331,481,959</b>		
<u>Medium-Term Investments (maturing in 1 - 5 years):</u>			
<u>Internally Managed</u>			
Royal Bank GIC	\$ 3,258,700	2.35%	12-Feb-18
Bank of Nova Scotia GIC	2,508,295	1.55%	23-Feb-18
National Bank of Canada GIC	2,008,768	2.40%	02-Apr-18
Canadian Western Bank GIC	3,000,000	2.32%	18-May-18
B2B Bank GIC	3,000,000	1.86%	13-Jul-18
Laurentian GIC	3,003,000	1.65%	13-Jul-18
Laurentian GIC	5,004,604	1.65%	09-Aug-18
Laurentian GIC	12,003,683	1.87%	10-Sep-18
Laurentian GIC	3,000,552	1.83%	09-Oct-18
Canadian Western Bank GIC	2,000,000	1.92%	29-Oct-18
Bank of Montreal GIC	3,000,000	1.71%	14-Dec-18
National Bank of Canada GIC	4,000,000	2.03%	01-Apr-19
National Bank of Canada GIC	1,000,000	1.91%	21-May-19
National Bank of Canada GIC	2,000,000	1.77%	28-Oct-19
National Bank of Canada GIC	5,000,000	2.18%	30-Mar-20
National Bank of Canada GIC	2,000,000	2.06%	19-May-20
National Bank of Canada GIC	3,000,000	1.95%	10-Aug-20
Bank of Montreal GIC	6,000,000	2.36%	27-Oct-20
National Bank of Canada GIC	3,000,000	1.87%	28-Oct-20
National Bank of Canada GIC	1,500,000	2.52%	26-Nov-20
National Bank of Canada GIC	3,500,000	2.03%	14-Dec-20
National Bank of Canada GIC	6,000,000	2.39%	30-Mar-21
National Bank of Canada GIC	2,000,000	2.26%	18-May-21
Bank of Montreal GIC	3,000,000	1.97%	28-Oct-21
National Bank of Canada GIC	6,000,000	2.03%	15-Nov-21
Total Internally Managed (Medium-Term)	89,787,602		
<u>Externally Managed <sup>(B)</sup></u>			
Scotia Institutional Asset Mgmt Portfolio	84,064,184		
RBC Dominion Securities Portfolio	50,325,163		
Total Externally Managed (Medium-Term)	134,389,347		
<b>Total Medium-Term Investments</b>	<b>\$ 224,176,949</b>		
<u>Long-Term Investments (maturing in more than 5 years):</u>			
<u>Externally Managed <sup>(B)</sup></u>			
RBC Global Asset Mgmt Portfolio	\$ 115,440,061		
Scotia Institutional Asset Mgmt Portfolio	118,373,612		
<b>Total Long-Term Investments</b>	<b>\$ 233,813,673</b>		
<b>Total Investment Portfolio</b>	<b>\$ 789,472,581</b>		
<b>Notes:</b> <sup>(A)</sup> Cash balances as per bank accounts as at December 31, 2016.			
<sup>(B)</sup> Externally managed portfolios primarily comprised of gov't/corporate bonds & GICs. Cash and investment balances, unaudited.			
Total Internally Managed: \$421,269,561, Total Externally Managed: \$368,203,020			