

<b>TO:</b>	<b>CHAIR AND MEMBERS FINANCE AND ADMINISTRATION SERVICES COMMITTEE MEETING ON SEPTEMBER 4, 2012</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER,</b>
<b>SUBJECT:</b>	<b>2011 INVESTMENT REPORT</b>

<b>RECOMMENDATION</b>
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1. That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the 2011 Investment Report **BE RECEIVED** for information.

<b>BACKGROUND</b>
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The City of London maintained a monthly average investment portfolio of approximately \$347 million in 2011, 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;
- 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 were made in accordance 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;
- e) such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

The following report meets the above requirements.

<b>INVESTMENT REPORT</b>
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### **Investment Strategy**

The City of London's overall investment strategy as outlined in Investment Policy 8(12A) is to invest public funds in a manner that prioritizes security and liquidity of principal over attaining higher investment returns.

The 2011 investment strategy was focused on using an increased proportion of reserve/reserve fund cash that was available for the next five to ten years and purchasing mid to long-term bonds with varying maturity dates. This strategy was predicated on issuing a large amount of debt in early fall of 2011.

In early 2011, long-term interest rates were forecasted to increase, however due to the economic climate these increases were postponed. As a result the City chose to postpone its debt issuance until December 2011, to take advantage of the lower long-term interest rates. By delaying an increase in fixed income investments, short-term financing was available to fund operating and capital expenditures until December 2011, when the debt proceeds were

received. If the City's investment portfolio had not been liquid, external short-term borrowing (current rate of 2.50%) may have been required resulting in approximately \$205,281 of additional interest charges. The average monthly borrowing for 2011, was approximately \$23 million (\$18 million in 2010), ranging from \$8 million to \$123 million throughout the year (range in 2010 was \$9 million to \$99 million). Also, the reserve/reserve funds earned an additional \$30,000, as the operating account pays interest to the reserve/reserve funds on loans at a rate of prime less 1.60% (currently 1.40%) and the City earns interest at prime less 1.75% in the bank (currently 1.25%).

In keeping with the 2011 strategy, the City purchased three longer term instruments earning between 2.72% and 3.89% with maturities ranging from 4 to 5 years using funds from a maturing GIC, which earned interest at 1.35%. For 2012, the City anticipates increasing its mid-term (1 – 5 year range) investments by approximately \$25 million on the heels of a debt issuance which is expected in early fall at which point liquidity for the City's general funds will be favourable.

Also, on August 2, 2012, the City increased its long-term asset management investment portfolio with Scotia Private Client Group by \$25 million. The Scotia Private Client Group investment portfolio started with an initial investment of \$25 million in August 2005 and then in September 2008 an additional \$25 million was invested. The City's strategy with this long-term investment portfolio is to continue to reinvest the interest earned each month. As at June 30, 2012, the City has earned interest of \$9,827,603 from inception of the portfolio, which is an accumulated return (net of fees) of approximately 20% over the past 7 years. For 2011, the net return was 3.53%.

The 2012 investment strategy will focus on continuing to increase the proportion of reserve/reserve fund cash that is available for the next five to ten years and purchasing mid to long term bonds with varying maturity dates. Higher yields are best obtained by taking advantage of the interest rate curve of the capital market which tends to yield higher rates of returns for longer term investments. This investment strategy complies with the City's investment policy of preserving principal and liquidity. Long term bonds, when held to maturity, have limited risk to the principal invested and by varying the maturity dates of the long term bonds the City will be able to maintain liquidity.

### **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, 2011 is attached in **APPENDIX A**. The City maintained an externally managed (Scotia Asset Management Portfolio) investment portfolio which was approximately 68% of the total investments (excluding cash held in bank) held by the City. 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 2011, the City held \$250,000 par value of its own securities, which was approximately 0.30% of total investments. The securities mature on August 6, 2014. No additional own securities were purchased during the year and there was no change in the proportion of own securities to total investments from the previous year's report.

### **Performance of Portfolio Investments**

In 2011, the City's average amount of funds available for investing from the General Fund (operating and capital), Reserve Funds and Reserves was \$347 million. Of this amount \$260 million was held in cash earning interest at bank prime less 1.75%, the average earned on cash held in the bank for 2011 was 1.26% (0.82% in 2010). This liquidity allowed the City to temporarily advance funds for the Infrastructure Stimulus Projects' capital expenditures until upper level government funding was received. The remaining amount was held in investments, which earned an average of 3.41% (4.13% in 2010). The overall investment return for 2011 was 1.76% (1.56% in 2010).

	2011		2010		2009		2008	
	Average Monthly Balance	Average Annual Return						
Cash Held In Bank	\$ 260.7	1.26%	\$ 280.9	0.82%	\$ 275.6	0.75%	\$ 161.8	3.09%
Investments								
Short term (<1 yr)	\$ 7.6	1.32%	\$ 12.3	1.04%	\$ 11.3	3.84%	\$ 147.9	3.55%
Long term	78.5	3.61%	72.6	4.65%	82.8	5.72%	61.3	-1.32%
Total Investments	\$ 86.1	3.41%	\$ 84.9	4.13%	\$ 94.1	5.49%	\$ 209.2	2.12%
Total Invested	\$ 346.8 <sup>(A)</sup>	1.76%	\$ 365.8	1.56%	\$ 369.7	1.94%	\$ 371.0	2.56%

(Average monthly balance in millions)

**Note:**

<sup>(A)</sup> 2011 Actual ending cash and investment balance as at December 31, 2011 was \$379 million. The above table shows the monthly average balance for 2011.

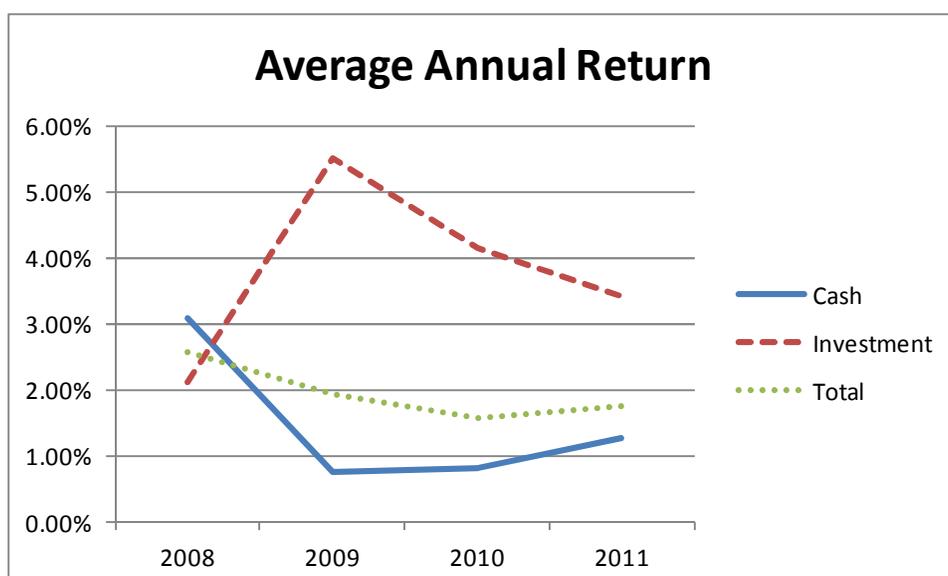
2009 Significant decrease in investment portfolio due to short term investments maturing and then remaining as cash in bank as bank rates were higher than short term investment rates.

2008 Long term investment return low due to large decline in market value of One Fund-Equity.

From 2008 – 2010, the proportion of cash held in the bank has increased primarily due to yields on short term investments (< 1 year) being lower than interest earned in the bank. In 2008, the 3 month Treasury Bills average yield was 2.30%, ranging from 3.41% in January 2008 to 0.83% in December 2008. By December 2009, the yield on 3 month Treasury Bills was 0.19%, with an average of 0.32% for the year and from 2010 to 2011 the average increased from 0.58% to 0.91%, still lower than what the City was earning in the bank.

In 2011, there was a drop in the overall investment balance primarily from funding capital expenditures that were advanced in order to take advantage of the Infrastructure Stimulus Funding Program offered by the government. The Federal and Provincial governments provided two thirds of the funding leaving the municipality to fund the remaining one third. The City debt financed approximately \$21 million and required cash to temporarily fund capital expenditures related to these projects resulting in a reduced cash balance in 2011. On December 15, 2011, the City issued \$116 million of debt through the capital markets and Ontario Infrastructure and Lands Corporation (OILC) which relieved the pressure of using the reserve funds to temporarily finance capital works in 2012. This will allow the City to invest in both mid and long-term investments, earning higher yields in 2012.

For 2011, approximately 75% of the City's total investments were in cash and short-term investments, which is consistent with the years of 2007 to 2010 where cash and short-term investments ranged from 78% - 87% of the total investment portfolio. In 2011, the City has "turned the curve" as the overall returns have increased from its lowest point in 2010. The increase is due to the increase in bank interest rates as compared to 2010 as well as the increase in longer term instruments earning higher yields.



### **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 Funds cash and 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.

#### *Interest Income*

In 2011, the City earned a total of \$6,385,518 (\$5,367,390 in 2010) of interest income from investments of which \$5,498,112 (\$4,079,068 in 2010) was earned from Reserve Fund investments and \$887,406 (1,288,322 in 2010) was earned from General Fund investments.

#### *Capital Gains*

In 2011, the City earned \$27,130 (\$466,778 in 2010) of capital gains on the sale of the City’s investment with the One Fund Equity from General Fund investments.

### **Looking Ahead**

As the economy continues to recover long-dated yields are forecasted to remain quite low for the balance of the year before moving moderately higher in 2013 and the Bank of Canada Overnight Target Rate is forecasted to increase from the current 1.0% to 1.50% by the end of the fourth quarter of 2013 (TD Bank Group, August 2012). This outlook is based on information available to date and is subject to change relative to the economic climate. The expected debt issuance in the fall will increase the City’s operating cash flow allowing the City to be even more active in the investment markets. In continuing with the City’s current investment strategy, higher yields are anticipated for the end of 2012 continuing through to 2013.

PREPARED BY:	REVIEWED BY:
<b>Annette Ripepi Manager of Modelling, Forecasting &amp; Systems Control</b>	<b>Ian Collins Manager of Financial Planning &amp; Policy</b>
CONCURRED BY:	RECOMMENDED BY:
<b>Larry Palarchio Director of Financial Planning &amp; Policy</b>	<b>Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer,</b>

cc. M.Turner, Deputy City Treasurer

**APPENDIX A - Investment Portfolio Held by the City of London as at December 31, 2011**

Instrument held	Purchase Price	Yield	Maturity Date (DD-MM-YR)	
<b>Cash Held in Bank</b>				
General	\$ 28,800,099	1.25%		
Reserve Funds	263,582,938	1.25%		
Total Cash Held in Bank	\$ 292,383,037			
<b>Investments</b>				
Internally Managed				
Fixed Income				
ING Bank Cash Equivalent	\$ 83,077	1.25%	01-Jan-11	<b>Note (B)</b>
Manulife Advantage	65,939	1.50%	01-Jan-11	<b>Note (B)</b>
Cash held in CIBC Wood Gundy	3,014,046	1.25%	01-Jan-11	<b>Note (B)</b>
Royal Bank GIC	159,236	1.00%	02-Oct-12	
City of London Serial Debenture	250,000	5.75%	06-Aug-14	
Waterloo Security	499,000	4.70%	19-Nov-14	
CIBC Deposit Note	5,000,000	2.00%	17-Feb-15	
Toronto-Dominion Bank	1,991,000	3.37%	02-Nov-15	
Bank of Montreal Residual	8,771,700	3.98%	08-Jul-16	
Bank of Montreal Residual	7,760,000	5.75%	26-Sep-17	
Total Internally Managed Fixed Income	\$ 27,593,998			
Fixed Income (Scotia Private Client Group)				
Capital Cash	\$ 4,721	1.25%	01-Jan-11	<b>Note (B)</b>
Canada Government T-Bill	4,522,187	0.75%	05-Jan-12	
Canada Government T-Bill	469,381	0.79%	16-Feb-12	
Canada Housing Trust	1,514,100	4.00%	15-Jun-12	
Canada Housing Trust	4,972,100	3.60%	15-Jun-13	
Ontario Province	3,969,200	4.40%	30-Apr-14	
Canada Housing Trust	3,991,830	2.75%	15-Dec-14	
Royal Bank Deposit Note	2,474,750	4.71%	22-Dec-14	
Canada Housing Trust	3,053,505	2.95%	15-Mar-15	
Saskatchewan Province	2,990,386	4.25%	03-Dec-15	
Bank of Montreal Deposit Note	1,961,000	4.78%	09-Mar-16	
Bank of Montreal Bond	991,000	5.10%	21-Apr-16	
New Brunswick Province	1,060,300	4.70%	21-Jul-16	
Royal Bank of Canada Bond	1,991,150	3.66%	25-Jan-17	
Canadian Imperial Bank Deposit Note	1,521,905	3.95%	14-Jul-17	
Manitoba Province	1,053,400	4.70%	22-Sep-17	
Ontario Province	4,024,600	4.20%	08-Mar-18	
Royal Bank of Canada Bond	1,031,000	5.45%	04-Nov-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	3,466,185	3.70%	20-Dec-18	
Alberta Province	2,034,530	4.00%	01-Dec-19	
British Columbia Province	3,602,535	4.10%	18-Dec-19	
Fixed Income	\$ 58,522,459			
Total Externally Managed	\$ 58,522,459			
Total Investments	\$ 86,116,457			
Total Investment Portfolio (General and Reserve Funds)	\$ 378,499,494	<b>Note (A)</b>		

**Note: <sup>(A)</sup> Monthly average balance of portfolio held for 2011 was \$346,769,430**

**Note: <sup>(B)</sup> Cash and cash equivalents held in investment portfolio**