



SUBJECT: Investment Policy

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-19-20

Wards Affected: not applicable

File Numbers: 401-13

Date to Committee: December 10, 2020

Date to Council: December 14, 2020

Recommendation:

Approve the updated Investment Policy as outlined in Appendix A of finance department report F-19-20.

PURPOSE:

The purpose of the report is to present an update to the Investment Policy of the City.

Background and Discussion:

The City engages in investment activity as governed by the Municipal Act and the City's Investment Policy. While the Municipal Act sets out the type of investments the City can invest in, the policy sets out guiding principles for the investment strategy. An investment policy serves as a strategic guide to the planning and implementation of an investment program. The City primarily invests in Federal, Provincial and Municipal bonds as long-term investments and money market instruments with Schedule I and II banks as well as Credit Unions for short term investments. The City does actively trade in the bond market to realize both interest income and capital gains. Trades in 2019 including purchases and sales totalling \$291 million. The City's Investment Policy is reviewed annually to determine if changes are needed. The last update was approved by Council in report F-22-19 on June 17, 2019. The update was to provide more earnings potential for short-term investments by increasing the duration of investments with Credit Unions. An annual review of the investment policy is considered essential to

adjust the policy to reflect the current economic environment. The nature of the investment market is associated with world events such as liquidity crisis, war, terrorism, trade policies and world tragedies, which make the market very volatile. In 2020 the market was unpredictable due to the Covid pandemic as well as the volatile environment generated by the U.S. election. As a result of these continuing economic conditions the Bank of Canada has been keeping interest rates low in order to stimulate the economy. With this trend anticipated to continue for another 2-3 years, additional refinement to the investment policy is considered necessary in order to maximize the City's return on investment potential. The current investment policy limits the investment in provincial bonds other than Ontario bonds to \$20m, Ontario bonds have no restriction. In order to provide more flexibility and to allow more investment in other provincial bonds which are like Ontario such as Quebec, the recommendation is to raise the limit to \$30 million. This provides the potential to earn a slightly higher rate of return while providing the flexibility to maintain liquidity to meet the City's obligations. Given the anticipated ongoing conditions in the market, an additional change is recommended to the City's Investment Policy in keeping with the following objectives:

- Adherence to legislative and statutory requirements
- Preservation of principal
- Maintenance of liquidity
- Rating the risk of securities and institutions
- Competitive return on investments
- Safeguarding of investment certificates and detail record keeping
- Regular review of the effectiveness of the policy in meeting the above objectives

The change being recommended not only addresses the marketplace today but also provides for future market opportunities.

Recommendation: To increase the investment limit in provincial bonds other than Ontario to \$30 million. The recommendation complies with legislative and statutory requirements and supports all objectives as set out in the current Investment Policy.

Financial Matters:

The interest income generated by the City's investments is an important component of the City's operating revenues. The 2019 financial statements of the City reflect investment income of \$10.1 million.

Climate Implications:

In 2020 the City had the opportunity to invest in a newly issued green bond by the Province of Ontario. Green bonds are used to finance projects with specific environmental benefits. Access to green bonds is limited as only a small number of provinces and regions are actively issuing these types of debt. Staff will continue to monitor provincial and regional programs and explore opportunities to support these environmental investments as prudent to do so.

Conclusion:

Staff believe the recommended changes to the investment policy will provide opportunities to increase investment income while maintaining a sufficient level of liquidity.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

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Appendices:

A. Corporate Investment Policy

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.