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Date **June 15, 2022**

Report No. 2022-377

To Chair and Members
 Finance Committee

From Joelle Daniels
 Director of Finance and City Treasurer

1.0 Type of Report

Consent Item	<input checked="" type="checkbox"/>
Item For Consideration	<input type="checkbox"/>

2.0 Topic Treasurer's Investment Report for 2021[Financial Impact-none]

3.0 Recommendation

THAT report No. 2022-377 regarding the Treasurer's Investment Report for 2021 BE RECEIVED.

4.0 Executive Summary

This report provides an analysis of the City's investment portfolio performance for 2021 including a summary of the portfolio holdings. A brief overview of current economic conditions is provided and the investment strategy in place to respond to these economic conditions.

5.0 Purpose and Overview

To provide Council with the Treasurer's Investment Report for 2021.

6.0 Background

This report is to comply with the annual reporting requirements for investments in accordance with section 418 of the Municipal Act, 2001 and related regulation O. Reg. 438/97 which states: 8. (1) If a municipality has an investment in a security prescribed under this Part, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council, each year or more frequently as specified by the council, an investment report. O. Reg. 438/97, s. 8 (1); O. Reg. 43/18, s. 7. (2) The investment report referred to in subsection (1) shall contain, (a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report; (b) a description of the estimated proportion of the total investments of a municipality 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 or her 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 the council may require or that, in the opinion of the treasurer, should be included. O. Reg. 438/97, s. 8 (2); O. Reg. 655/05, s. 6.

7.0 Corporate Policy Context

Desired Outcome #4 of Council's Priorities is "There is high trust in the City through demonstrated progress in taxpayer affordability and value for money". A Tier 1 priority to achieve this outcome is to "Enhance communication to residents demonstrating evidence of high value for tax dollars".

8.0 Input From Other Sources

N/A

9.0 Analysis

Interest Rate and Economic Outlook

The Bank of Canada (BoC) overnight rate remained constant throughout 2021 at 0.25% as the economy still required considerable monetary policy support to mitigate the effects of the COVID-19 pandemic. The rebound of the economy that began in the second half of 2020 continued into 2021. Progress stalled, however, in the second quarter of 2021 with the reintroduction of measures to contain the spread of the virus coupled with supply chain issues. In the second half of 2021, economic growth improved as vaccination rates increased and

health restrictions eased once again. While overall recovery was strong in 2021, interest rates remained low while the disruptions impacting global supply chains resulted in a significant increase in inflation as prices increased for many goods and services. Inflation for 2021 was 3.4%, well above the 2 percent inflation target set by the BoC.

Investment Performance

At December 31, 2021, the book value of the City's investment portfolio including cash and cash equivalents was \$419.4 million (2020 - \$370.9 million) with an annual return of \$7.7 million (2020 - \$8.6 million). Interest rates remained low in 2021 causing a decrease in the portfolio's overall rate of return as funds from investments that matured in 2021 were reinvested at lower rates.

To offset the impact of the lower rates, an equity portfolio account was opened with ONE Investment in 2021. The ONE Canadian Equity Portfolio is a diversified, conservatively managed portfolio of equity securities issued by corporations, as permitted by applicable regulation. The ONE Canadian Equity Portfolio offers long-term investment returns through capital growth and dividend yield which allows the City to further diversify its investment portfolio.

A significantly high average rate of return of 7.29% was earned on this investment in 2021 which helped offset the lower rates of return on fixed income investments while also protecting the portfolio against inflation increases. Equity investments tend to do well when fixed income investments are doing poorly and vice versa. It is important to note that returns from investing in equity can fluctuate with changes to market conditions therefore it is prudent to keep a higher proportion of the portfolio invested in fixed income securities to reduce market risk. Approximately three quarters of the City's portfolio is invested in fixed income securities.

Table-1 below outlines the weighted average rates of return on our investments for 2021 versus 2020. The weighted average rates of return are annualized balance-weighted rates of individual yields that make up the portfolio and therefore do not represent current market rates.

Table 1: Weighted Average Rates of Return for 2021 and 2020

Investment Type	2021	2020	% Increase/ (Decrease)
General Bank Account	0.66%	0.95%	(0.29%)
High Interest Savings Account	0.74%	1.08%	(0.34%)
Short term	1.82%	2.00%	(0.18%)
Medium term	2.09%	2.47%	(0.38%)
Long term	2.50%	2.49%	0.01%
Portfolio	1.86%	2.28%	(0.24%)

Low interest rates continued throughout 2021 with the BoC overnight rate remaining steady at 0.25%. Most weighted average rates of return decreased from the previous year; however, long term rates remained unaffected due to the fixed-income nature of these investments.

Investment Transactions

Investment purchases in 2021 totaled \$172.5 million with terms ranging from 3 years to 15 years and rates from 0.91% to 2.53%. The ONE Canadian Equity Portfolio is a liquid investment and has a variable rate of return. Maturities in 2021 totaled \$80.1 million with terms ranging from 1 year to 12.5 years and rates from 1.14% to 6.80%. In July 2021, bonds and a deposit note valued at \$9.1 million were sold at a gain of \$196,057. Details of purchases and maturities in 2021 are summarized in Table-2 and Table-3 below.

Table 2: 2021 Investment Purchases

Purchases	Amount (\$)	Term	Rate of Return
ONE Equity Portfolio	10,000,000	N/A	Variable
GIC - First Ontario Credit Union	6,000,000	2 years	2.00%
GIC - Royal Bank	15,000,000	3 years	0.91%
GIC - First Ontario Credit Union	7,000,000	3 years	1.65%
GIC - Royal Bank	15,000,000	4 years	1.12%
GIC - Royal Bank	6,000,000	4 years	1.45%
GIC - Royal Bank	10,000,000	4 years	1.55%
GIC - Royal Bank	10,000,000	5 years	1.35%
GIC - Royal Bank	6,000,000	5 years	1.70%
GIC - Royal Bank	5,000,000	5 years	1.70%
GIC - First Ontario Credit Union	10,000,000	5 years	2.10%
Principal Protected Note - National Bank	7,000,000	5 years	Variable
Step Up Note - BMO	14,000,000	7 years	1.95%
Principal Protected Note - BMO	6,000,000	7 years	Variable
Deposit Note - Royal Bank	5,000,000	7 years	1.91%
Deposit Note - CIBC	5,000,000	7 years	1.78%
Strip Bond - CIBC	5,789,198	8.4 years	2.48%
Strip Bond - CIBC	3,574,410	8.5 years	2.53%
Step Up Note - BMO	10,000,000	10 years	2.33%
Deposit Note - Scotia Bank	10,000,000	10 years	2.41%
Municipal Own - Brantford 184-2021	6,150,000	15 years	2.27%

Table 3: 2021 Investment Maturities

Maturities	Amount (\$)	Term	Rate of Return
GIC - HSBC	5,000,000	1 year	1.82%
GIC - Scotia Bank	2,607,815	1.5 years	1.14%
GIC - Scotia Bank	10,251,688	2 years	2.51%
GIC - CIBC	25,000,000	2 years	2.83%
GIC - Scotia Bank	5,291,523	3 years	2.87%
GIC - National Bank	5,000,000	3 years	2.92%
GIC - National Bank	4,000,000	3 years	3.03%
Bond - City of Toronto	2,340,400	3.8 years	6.80%
GIC - CIBC	1,000,000	4 years	1.82%
Deposit Note - BMO	4,963,881	4 years	1.61%
GIC - CIBC	5,000,000	5 years	2.05%
GIC - Scotia Bank	5,444,381	5 years	2.15%
Bond - Province of Saskatchewan	1,060,500	6.5 years	3.20%
Bond - City of Toronto	3,002,100	7.1 years	2.45%
Municipal Own - Brantford 74-2013	53,509	7.5 years	3.23%
Municipal Own - Brantford 74-2013	54,373	8 years	3.23%
Municipal Own - Brantford 27-2012	12,465	9 years	3.83%
Municipal Own - Brantford 27-2012	12,704	9.5 years	3.83%
Municipal Own - Brantford 130-2011	9,534	9.5 years	3.59%
Municipal Own - Brantford 130-2011	9,705	10 years	3.59%
Municipal Own - Brantford 187-2008	8,553	12 years	5.87%
Municipal Own - Brantford 187-2008	8,804	12.5 years	5.87%

Portfolio Composition

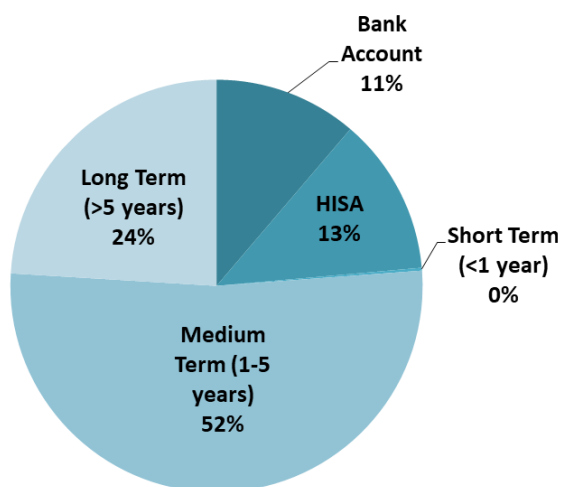
Liquid and short term investments which include the City's high interest savings accounts (HISA) and bank accounts make up 24% of the total portfolio. Medium term investments with terms between 1 and 5 years represent 52% of the portfolio with long term investments making up the remaining 24%. More than half of the portfolio is invested in GIC's as they offer many attractive benefits including flexibility, low-risk, steady income from regular interest payments and a guaranteed return on the amount invested. A breakdown of the various investment types held by the City is listed below along with the percentage they comprise of the portfolio.

- GIC's (54%)
- High Interest Savings Account (13%)
- General bank accounts (11%)
- Step-up notes (6%)
- Regular bonds (4%)
- Principal Protected Notes (3%)
- Strip bonds (3%)
- Deposit notes (2%)
- Equity securities that make up the One Investment Equity Portfolio (2%)
- Bonds, debentures and promissory notes that make up the Universe Corporate Bond Portfolio offered through One Investment program (1%)
- Municipal-own debentures (1%)

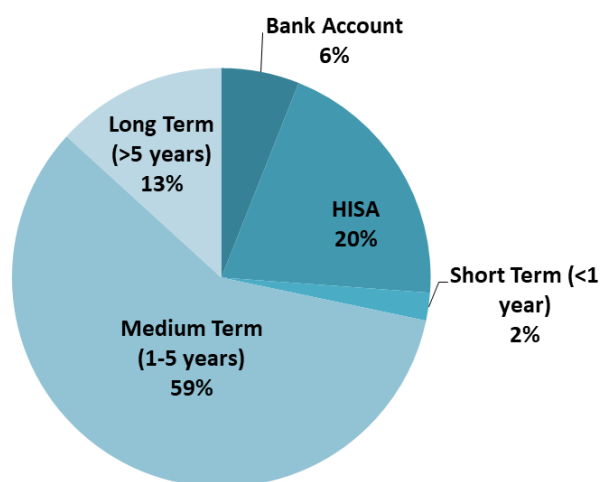
Chart 1 illustrates the breakdown of the City's portfolio by bank account, HISA, short term investments (less than 1 year), medium term investments (1-5 years) and long term investments (greater than 5 years). In 2021, while interest rates remained low, a greater proportion of the portfolio shifted to longer term investments in order to obtain higher interest rates.

Chart 1: Portfolio Composition for 2021 and 2020

December 31, 2021



December 31, 2020



Municipal-own Investments

Table-4 below summarizes the City's investment holdings in its own debenture issues (City of Brantford debenture issues that are purchased internally) as at December 31, 2021 and December 31, 2020.

Table 4: Municipal Own Issues

Municipal-Own Investments	December 2021	December 2020
40 Queen St. Affordable Housing - 3.83%	795,414	820,582
Braneida Industrial Park - 3.23%	226,418	334,300
John Noble Home - 5.87%	541,054	558,410
Brantford Airport Hangars - 3.59%	235,211	254,451
Fire Station 2/Parkade/Police Roof - 2.27%	6,150,000	-
Total Investments in own issues	7,948,097	1,967,743
% of Total Investment Holdings	1.91%	0.59%

The maturities by date for the City's investments in its own issues are listed in Table 5. The maturities represent the principal payments on the City's own issues.

Table 5: Municipal Own Issues Maturities

Municipal Own Issues Maturities		Maturity Date	Amount (\$)	Interest Rate
John Noble Home	Brantford 187-2008	01/15/21	8,553	5.87%
John Noble Home	Brantford 187-2008	07/15/21	8,804	5.87%
40 Queen St. Affordable Housing	Brantford 27-2012	04/01/21	12,465	3.83%
40 Queen St. Affordable Housing	Brantford 27-2012	10/01/21	12,704	3.83%
Branedia Industrial Park	Brantford 74-2013	04/01/21	53,509	3.23%
Branedia Industrial Park	Brantford 74-2013	10/01/21	54,373	3.23%
Brantford Airport Hangers	Brantford 130-2011	06/15/21	9,534	3.59%
Brantford Airport Hangers	Brantford 130-2011	12/15/21	9,705	3.59%

The City endeavors to utilize investment holdings in its own issues when resources are available and it is advantageous to do so. In September 2021 the City elected to invest in its own issues by passing By-Law 184-2021 to borrow upon debentures in the amount of \$6.15 million towards the capital costs of the following projects:

- Fire Station 2 relocation - \$3.0 million
- Market Parkade rehabilitation and repairs - \$2.2 million
- Police Facility roof replacement - \$950,000

Table 6: Municipal Own Issues Purchases

Municipal Own Issues Purchases	Amount (\$)	Term	Rate of Return
Fire Station 2/Parkade/Police Roof	6,150,000	15 years	2.27%

Investment Strategy

The Bank of Canada increased the overnight rate by 50 basis points on June 1, 2022 after increasing it by 25 basis points in March 2022 and another 50 basis points in April 2022. The City's strategy will be to invest shorter term to allow for the opportunity to reinvest at higher rates as investments mature and interest rates improve. It is expected that the BoC will increase the rate again in the third and fourth quarters of 2022. Longer-term investments will be considered when the product is marketable and therefore advantageous to pick up higher returns. Staff will continue to monitor the economic conditions to ensure the City's investment strategy remains effective.

Treasurer's Statement:

In my opinion, the investments held by The Corporation of the City of Brantford during the calendar year of 2021 were consistent with the City of Brantford's investment policies and goals, and did not fall below the standards set out in section 218 of the Municipal Act, 2001 and regulated regulation O. Reg. 428/97.



Joelle Daniels
Director of Finance/City Treasurer

10.0 Financial Implications

Total investment income earned in 2021 was \$7,718,298. This exceeded the 2021 projection by \$1,358,146 partly due to the higher than expected return earned on the ONE Canadian Equity portfolio investment. The return was \$539,400 higher than originally projected. Of the \$7,718,298 earned, \$4,188,996 was allocated to reserve funds and the remaining \$3,529,302 was recognized as operational revenue. This resulted in a \$70,698 deficit in operating investment income due to a greater proportion of investment income being allocated to the reserve funds based on actual reserve fund balances.

11.0 Climate and Environmental Implications

N/A

12.0 Conclusion

This report fulfills the legislated annual reporting requirement with respect to the City's investments.



Joelle Daniels
Director of Finance and City Treasurer

Prepared By:

Wanda Harding, Manager of Accounting

Attachments: N/A

Copy to:

In adopting this report, is a by-law or agreement required? If so, it should be referenced in the recommendation section.

By-law required ☐ yes ☒ no

Agreement(s) or other documents to be signed by Mayor and/or City Clerk ☐ yes ☒ no

Is the necessary by-law or agreement being sent concurrently to Council? ☐ yes ☒ no