

To:	Warden Halliday and Members of Grey County Council
Committee Date:	May 24, 2018
Subject / Report No:	FR-CW-14-18
Title:	2017 Investment Report
Prepared by:	Kevin Wepler, Director of Corporate Services
Reviewed by:	Kim Wingrove
Lower Tier(s) Affected:	
Status:	Recommendation adopted by Committee as presented per Resolution CW136-18 on May 24, 2018; Endorsed by County Council on June 14, 2018 per Resolution CC57-18.

Recommendation

1. That Report FR-CW-14-18 regarding the 2017 Investment Report be received for information.

Executive Summary

Section 418 of the *Municipal Act, 2001* provides authority for a municipality to invest in prescribed securities, money that it does not require immediately. The prescribed securities are outlined in Ontario Regulation 438/97.

The current Regulation forms part of the County's Cash and Investment Policy.

Subsection 8(1) of Ontario Regulation 438/97 states that if a municipality has an investment in a security under the Regulation, the council of the municipality shall require the treasurer to prepare and provide an investment report each year.

Background and Discussion

The County's financial investments are governed by the Council approved "Cash and Investment Management Policy". The policy applies to all investments of Revenue Funds, Reserves and Reserve Funds, and Trust Funds of the County of Grey. The assets of the County shall be invested and reinvested in consideration of the following:

- Ensure the preservation of the capital in the overall portfolio.
- Remain sufficiently liquid to meet all operating or cash flow requirements and to

minimize temporary borrowing requirements.

- Obtain a competitive rate of return to maximize the return earned on its portfolio by seeking competitive bids for investment products, seeking information and advice from the financial sector professionals and to assess the market conditions to the County's need for cash.
- Ensure that the net revenue budgeted from investments in a fiscal year and used in the calculation of the County's tax rate is not greater than 1% of own purpose levy and that any revenue that is budgeted that exceeds this threshold shall be placed in a one-time funding reserve for the use in funding non-recurring expenditures.
- The County shall invest only in securities that are expressed or payable in Canadian dollars.

This report has been prepared to provide detail of the County's cash holding and investment portfolio as of December 31, 2017.

2017 Cash Holdings and Investments

The attached worksheet titled Investment Activity Report – 2017, provides a snapshot of the cash holdings and investments held by the County at December 31, 2017. The County's portfolio totaled approximately \$57 million with net investment income earning \$742,526 in 2017.

Cash On Hand and On Deposit

The County's cash on hand and on deposit are funds generally used to meet the general cash flow requirement of the organization.

Interest on the County's general bank account is earned at a rate of Bank Prime less 1.75%. Interest earnings are calculated on daily balances and applied to the various bank accounts and equaled approximately \$238,000 for 2017. In 2017, the County's banking provider made two changes to its Prime Interest Rate in response to the Bank of Canada interest rate decisions in July and September.

Investments

2017 Investment earnings were generated from term deposits, guaranteed investment certificates (GICs), and investments in the One Investment Program (Bond Fund and Universe Corporate Bond), operated by the Local Authority Services (LAS), which is a corporation of the Association of Municipalities of Ontario (AMO) and CHUMS, which is a wholly owned subsidiary of the Municipal Finance Officers' Association (MFOA).

The past few years' investment rates have been historically low. 2017 provided some interest rate increases which occurred with policy decisions by the Bank of Canada to increase interest rates. Purchases in 2017 were made with shorter maturities in order to keep funds available for higher rates of return as these became available.

The County has also utilized its funds that were not required immediately to self-finance the County Administration Building addition and renovation.

One Invest Program

The One Investment Program currently offers five investment options to suit the various risk and liquidity profiles established by investors. Oversight of the One Investment Program and the Program's professional portfolio managers is provided by the LAS and MFOA Boards of Directors, as well as the Program's Peer Advisory Committee, consisting of municipal finance professionals, and the Investment Advisory Committee, consisting of investment and legal sector representatives.

The five investment options are classified as follows:

- High Interest Savings Account (Short-Term)
- Money Market Portfolio (Short-Term)
- Bond Portfolio (Short-to-Medium-Term)
- Universe Corporate Bond Portfolio (Medium-Long-Term)
- Canadian Equity Portfolio (Long-Term)

As of December 31, 2017, the One Investment Program had investment balances totaling \$1.67 billion on behalf of Ontario municipalities and broader public sector investors.

The County of Grey has invested funds in the Bond Portfolio and the Universe Corporate Bond Portfolio since 2013.

The Bond Portfolio contains a diversified selection of federal, provincial and municipal bonds, as well as high quality bank paper. The County's 2017 closing book value in the Bond Portfolio was \$2,533,520 as compared to the market value of \$2,386,296 for this investment. While the investment has realized investment income of \$172,507 since the County's investment in this program in 2013, change in market value of (\$147,224) has reduced the net return on this investment. This change in market value would only be realized if this investment was to be redeemed and therefore is only a loss on paper at this time. Finance staff have recorded on the County's financial in 2017 the lower value of this investment and the Universe Corporate Bond investment, that being the market value.

The change in the market value is the result of a rising interest rate environment, where bond portfolio managers ensure long term earnings by disposing of lesser valued bonds incurring small, short-term losses and securing new, higher valued bonds.

The Universe Corporate Bond (UCB) Portfolio contains moderately diversified, highly rated corporate bonds. The County's 2017 closing book value in the UCB Portfolio was \$1,806,031 as compared to the market value of \$1,772,306. This investment instrument has realized investment income of \$183,602 since the County's investment in this program in 2013 as compared to an unrealized change in market value of (\$33,725) or a net increase of \$149,877.

These market fluctuations as a result of interest rate changes, among others, are the reason for diversified investment strategies which allows the investor to keep these funds in place and not have to realize the losses while the portfolio managers secure the longer-term earnings that may be realized when the interest rate environment stabilizes.

As of December 31, 2017, the County's participation in the One Investment Program products has resulted in an annualized return of 1.06%.

Prudent Investor Standard

As part of the *Modernizing Ontario's Municipal Legislation Act, 2017*, the Province has introduced broader investment powers for municipalities through the introduction of Section 418.1 (Prudent Investment) to the *Municipal Act, 2001*.

Section 418.1 of the *Municipal Act, 2001*, authorizes municipalities (other than the City of Toronto) to opt into the prudent investor regime and was proclaimed in force, effective March 1, 2018. On the same date, regulatory amendments that set out the rules and requirements will come into force. Specifically, those rules and requirements include: eligibility criteria, the governance framework, and the rules for municipalities investing together as a group. However, despite coming into force, a municipality shall not pass a by-law adopting the prudent investor regime until January 1, 2019.

The regulatory amendments provide a framework within which municipalities will have the opportunity to invest in a much wider array of securities and investment vehicles. These broader investment powers will be subject to the prudent investment standard which requires a municipality to exercise the care, skill, diligence and judgment that a prudent investor standard would exercise in making such an investment.

To be eligible, municipalities would need to (i) individually or collectively achieve a minimum investment balance of \$100 million or (ii) individually hold a position with a net financial assets balance of more than \$50 million.

A municipality can either establish or participate through an investment board, and delegate to it control and management of the municipality's investments.

There are also joint investment scenarios where:

- 1) A group of municipalities may collectively meet the \$100 million threshold and together establish an investment board with control and charge of day-to-day municipal investments; or
- 2) A municipality may enter into an agreement to have an investment board of another municipality (or group of municipalities) already investing under the standard invest on its behalf.

LAS continues to provide staff with information and updates on this prudent investor standard, and seek ways for municipalities to be eligible to consider utilizing these broader investment powers.

Legal and Legislated Requirements

Section 418 of the *Municipal Act, 2001* provides authority for a municipality to invest in prescribed securities, money that it does not require immediately. The prescribed securities are outlined in Ontario Regulation 438/97.

Subsection 8(1) of Ontario Regulation 438/97 states that if a municipality has an investment in a security under the Regulation, the council of the municipality shall require the treasurer to prepare and provide an investment report each year.

Financial and Resource Implications

The 2017 General Administration Budget had estimated investment income to be realized in 2017 in the amount of \$800,000. The 2017 year-end position for the General Administration Budget was investment income short fall of \$60,385.

Relevant Consultation

External – Local Authority Services (LAS)

Appendices and Attachments

[Attachment to FR-CW-14-18 Investment Activity Report - 2017](#)

County of Grey
Investment Activity Report - 2017

	General Revenue	Reserve & Reserve Funds	Total	Issuer	Type of Instrument	Issue Date	Maturity Date	Purchase Price	Market Value	Rate/Yield	2017 Investment Income	% of Portfolio	Account Numbers
Cash on hand and on deposit													
Chartered Banks													
General	\$16,104,863.90			TD Canada Trust							\$168,558.59		410081-3376
Payroll Account	\$0.00			TD Canada Trust							\$0.00		412645-3376
EFT PMT	\$0.00			TD Canada Trust							\$0.00		5228247-3376
Provincial Offences	\$0.00			TD Canada Trust							\$860.85		309534-3376
Affordable Housing Ownership	\$0.00			TD Canada Trust							\$1,719.47		5213568-3376
Social Housing	\$0.00			TD Canada Trust							\$2,556.89		0312039-3376
Social Services	\$0.00			TD Canada Trust							\$0.00		413609-3376
Social Services	\$139,084.26			CIBC							\$0.00		04052/26-01117
LTC - Rockwood Terrace	\$15,490.83			CIBC							\$180.13		02852 41-01111
Development Charges		\$8,233,671.02		TD Canada Trust							\$63,865.51		5213541-3376
Total Cash	\$16,259,438.99	\$8,233,671.02	\$24,493,110.01					Average		1.147%	\$237,741.44	42.83%	
Investment													
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	7-Nov-2016	6-Feb-2017	\$3,279,780.61		1.150%	\$3,823.42	0.00%	8131469-06
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	6-Feb-2017	8-May-2017	\$3,289,184.15		1.200%	\$9,840.52	0.00%	8131469-06
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	8-May-2017	5-Sep-2017	\$3,299,024.67		1.150%	\$12,473.02	0.00%	8131469-06
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	5-Sep-2017	6-Nov-2017	\$3,311,497.69		1.430%	\$8,043.76	0.00%	8131469-06
TD Canda Trust		\$3,319,541.45		Toronto Dominion Bank	Term Deposit	6-Nov-2017	5-Feb-2018	\$3,319,541.45		1.560%	\$7,803.20	5.80%	8131469-06
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	2-Nov-2016	2-Mar-2017	\$3,189,444.01		1.170%	\$6,236.47	0.00%	8131469-07
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	2-Mar-2017	31-May-2017	\$3,201,712.45		1.170%	\$9,236.72	0.00%	8131469-07
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	31-May-2017	27-Nov-2017	\$3,210,949.17		1.140%	\$18,051.69	0.00%	8131469-07
TD Canda Trust		\$3,229,000.86		Toronto Dominion Bank	Term Deposit	27-Nov-2017	26-Feb-2018	\$3,229,000.86		1.530%	\$4,601.97	5.65%	8131469-07
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	28-Oct-2016	27-Feb-2017	\$3,179,364.56		1.170%	\$5,911.00	0.00%	8131469-08
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	27-Feb-2017	27-Jun-2017	\$3,191,798.05		1.190%	\$12,487.36	0.00%	8131469-08
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	27-Jun-2017	26-Sep-2017	\$3,204,285.41		1.150%	\$9,187.08	0.00%	8131469-08
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	26-Sep-2017	27-Nov-2017	\$3,213,472.49		1.520%	\$8,296.92	0.00%	8131469-08
TD Canda Trust		\$3,221,769.41		Toronto Dominion Bank	Term Deposit	27-Nov-2017	26-Feb-2018	\$3,221,769.41		1.530%	\$4,591.68	5.63%	8131469-08
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	22-Nov-2016	23-Jan-2017	\$5,133,282.60		1.120%	\$3,622.83	0.00%	8131469-09
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	23-Jan-2017	25-Apr-2017	\$5,143,048.49		1.170%	\$15,167.06	0.00%	8131469-09
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	25-Apr-2017	25-Jul-2017	\$5,158,215.55		1.170%	\$15,046.44	0.00%	8131469-09
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	25-Jul-2017	24-Oct-2017	\$5,173,261.99		1.400%	\$18,056.81	0.00%	8131469-09
TD Canda Trust		\$5,191,318.80		Toronto Dominion Bank	Term Deposit	24-Oct-2017	23-Jan-2018	\$5,191,318.80		1.570%	\$15,184.24	9.08%	8131469-09
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	28-Oct-2016	27-Feb-2017	\$5,141,954.32		1.170%	\$9,559.81	0.00%	8131469-11
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	27-Feb-2017	27-Jun-2017	\$5,162,062.88		1.190%	\$20,195.69	0.00%	8131469-11
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	27-Jun-2017	26-Sep-2017	\$5,182,258.57		1.150%	\$14,858.17	0.00%	8131469-11
TD Canda Trust		\$0.00		Toronto Dominion Bank	Term Deposit	26-Sep-2017	27-Dec-2017	\$5,197,116.74		1.600%	\$20,959.33	0.00%	8131469-11
TD Canda Trust		\$5,218,076.07		Toronto Dominion Bank	Term Deposit	27-Dec-2017	28-Mar-2018	\$5,218,076.07		1.580%	\$903.51	9.12%	8131469-11
Bank of Nova Scotia		\$1,000,000.00		CIBC Wood Gundy	GIC	13-May-2016	13-May-2018	\$1,000,000.00		1.700%	\$16,999.99	1.75%	410-3349512
Bank of Nova Scotia		\$500,000.00		CIBC Wood Gundy	GIC	13-May-2016	13-May-2020	\$500,000.00		1.900%	\$9,473.97	0.87%	410-3349512
CIBC				CIBC Wood Gundy	GIC	13-May-2016	15-May-2017	\$1,000,000.00		1.500%	\$5,589.03	0.00%	410-3349512
CIBC		\$1,000,000.00		CIBC Wood Gundy	GIC	13-May-2017	15-May-2018	\$1,000,000.00		1.150%	\$7,246.57	1.75%	410-3349512
CIBC		\$500,000.00		CIBC Wood Gundy	GIC	13-May-2016	13-May-2021	\$500,000.00		2.100%	\$10,471.24	0.87%	410-3349512
Meridian		\$1,058,463.83		Meridian	GIC	14-May-2016	14-May-2018	\$1,039,748.36		1.800%	\$18,940.03	1.80%	GIC 11
Meridian		\$0.00		Meridian	GIC	23-Feb-2016	23-Feb-2017	\$1,096,642.67		1.600%	\$1,510.26	0.00%	GIC 9
Meridian		\$1,114,237.02		Meridian	GIC	23-Feb-2017	23-Aug-2018	\$1,114,237.02		1.850%	\$17,177.80	1.95%	GIC 12
RBC				RBC Dominion Securities	GIC	20-May-2014	20-May-2017	\$3,000,000.00		2.035%	\$23,667.33	0.00%	571-35822-1-0
RBC		\$3,000,000.00		RBC Dominion Securities	GIC	20-May-2014	31-May-2018	\$3,000,000.00		2.200%	\$38,638.40	5.25%	571-35822-1-0
One Fund - Universe Corp Bond		\$1,806,031.65		MFS Invest. Man. Canada	Bond				\$1,772,306.55	2.240%	\$44,806.42	3.16%	
One Fund - Bond Fund		\$2,533,520.32		MFS Invest. Man. Canada	Bond				\$2,386,296.58	0.360%	\$56,125.68	4.43%	
Total Investments		\$32,691,959.41	\$32,691,959.41								\$504,785.42	57.17%	
TOTAL CASH HOLDINGS AND INVESTMENTS			\$57,185,069.42								\$742,526.86		