EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7. 2016

Item 7, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 7, 2016.

2015 ANNUAL INVESTMENT REPORT

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer, dated May 30, 2016:

Recommendation

7

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

1. This report be received for information.

Contribution to Sustainability

Not applicable.

Economic Impact

Investment income generated from the investment portfolio in 2015 amounted to \$12.67 million. The majority of this balance was distributed to the City's reserve funds and the remaining portion to the operating budget, which helps to reduce the tax levy requirement. The Operating Budget for 2015 Investment Income was \$2.275 million. The actual Investment Income allocated to the Operating Budget was \$2.01 million, which resulted in an unfavourable variance of \$0.26 million. The unfavourable variance was primarily due to unexpected rate cuts by the Bank of Canada, which lowered the yields earned on the City's investments.

It should be noted that the City also receives investment income through its wholly owned Vaughan Holdings Inc., which in turn owns a 45.3 per cent share of PowerStream Inc. This report does not include the investment income from that corporation as those details are provided to Council through separate reports and can be found in the City's Financial Statements. However, the investment income from PowerStream's promissory note to the City is included in this report.

Communications Plan

Not applicable.

Purpose

To report to Council on the City's investment portfolio activities during the year 2015, as required by Ontario Regulation 438/97 (as amended) of the *Municipal Act* and the City's Investment Policy.

Background - Analysis and Options

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended to O. Regulation 292/09 outlines the criteria for eligible investments. The City's investment policy, approved by Council on April 2015, conforms to this legislation and acts as the governing parameters in managing the City's investment portfolio.

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7. 2016

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The reporting requirements in the City's investment policy and the Municipal Act require that the Treasurer, or designate, submit an investment report to Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. The report submitted to Council each year should contain the following:

- a) Listing of individual securities held at the end of the reporting period;
- b) Listing of investments by maturity date;
- c) Realized and unrealized gains or losses resulting from investments that were not held until maturity;
- d) Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;
- e) Percentage of the total portfolio which each type of investment represents; and
- A statement about the performance of the investment portfolio during the period covered by the report;

The Financial Planning and Development Finance Department manages the investment portfolio for the City with a maturity value of approximately \$571.32 million (cash and investments) at December 31, 2015 (\$565.31 million 2014), (Attachment 1). These funds represent the funding requirements for day to day operations of the Corporation and represent investment funds held in the reserves, reserve funds, working capital and other funds of the organization. The credit quality of all investments is in compliance with the City's Investment Policy and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

The 2015 Economic and Capital Market Environment continued to be at a low

Canadian economic growth faltered in 2015. The sharp drop in global crude oil prices was negative for Canadian growth. The Bank of Canada lowered its rate twice in 2015, resulting in the overnight rate dropping from 1 per cent to 0.50 per cent. This resulted in lowered rates that the City can invest in and reduced expected overall interest income. Furthermore, the long bond rates continued to be near historical low levels. The Canadian 10 year Government bond yield fell from 1.78 per cent to 1.39 per cent at the end of 2015. The low long bond rate means that there were few opportunities to extend the term of the portfolio to earn higher rates.

2015 City of Vaughan Investment

During 2015 the investment portfolio generated investment income in the amount of \$12.67 million. As a basis of year over year comparison, the City's investment income was \$13.78 million in 2014. The decline in 2015 investment income was due to lower money market rates and a lower average amount invested in the long term portfolio, as historically higher yield bonds matured in 2015. There were no realized gains or losses resulting from investments that were not held until maturity in 2015.

The Money Market portfolio (total holdings of \$436.50 million) averaged a rate of return of 1.29 per cent outperforming the 90 day average T-bill rate of 0.52 per cent. The cash balance held in the City's bank account earned an average rate of return of 1.00 per cent, a 17 basis points higher than the average one month BA Money Market instrument. The Bond Fund portfolio (total holdings of \$91.93 million) averaged earned income rate of return was 5.16 per cent. Earned income return includes interest income and realized capital gains/losses. The earned income return is used to determine the allocation of investment earnings to the City's reserve funds and operating budget.

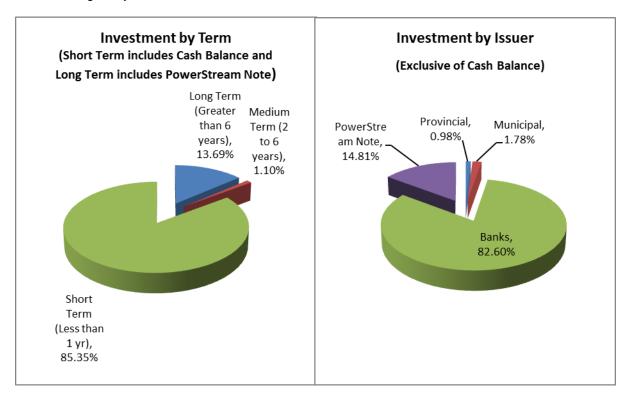
EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 7. 2016

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Over the past number of years, the City's investment program has changed its focus from just providing liquidity for the day-to-day operations to long-term reserve management. This change focused on transforming the investment portfolio from a short term money market focused portfolio to one that is more diversified in terms of credit and term exposure. Given the economic conditions seen in 2015 this long term focus has not yet to be fully implemented, but is expected to increase in to 2016 and 2017.

Summary of Holdings

The following charts provide a summary overview of the City's current holdings by both term (cash balance is considered "Short Term") and by issuer (excludes cash balance). The details of these holdings may be found in Attachments 1 and 2.



2016 Performance Expectations

The two Bank of Canada rate cuts caused sharp downward movements on the yields (returns) across all of the money market instruments that the City invests in. The rate cuts pushed investment yields to historical lows, and created uncertainties on the City's investment income budget. If this low rate environment persists, it may result in a negative impact to the City's 2016-2017 investment income budget.

Staff is monitoring the bond market and will focus on strategic purchases of longer term bonds that will have higher yields. However, given the prevailing low rate environment, patience will need to be exercised with these long bond purchases. Currently, the City's portfolio is predominately short term (over 80 per cent of holdings) and is well positioned to take advantage of changing market conditions and a rising rate environment when rate increases do materialize. It should be expected that investment performance will remain largely unchanged over the next few years given the economic environment.

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The recent City's approval of the PowerStream merger and acquisition will require an equity injection of approximately \$60M. The equity investment will reduce the overall available cash to invest in the money and bond market to earn interest income. This would reduce investment interest income, but it is anticipated that the equity investment will result in higher dividend income to the City over the long run.

Regional Implications

Not applicable.

Conclusion

In 2015 the City's investment portfolio generated investment income of 12.67 million. Investment income revenue contributes to reserves and reduces the tax levy requirement. Investments were in compliance with the City's Investment Policy approved by Council on April 2015 and the Ontario Regulation 438/97 (as amended) of the *Municipal Act*.

Attachments

- 1 Listing of Securities Held As At December 31, 2015
- 2 Investments Held by Issuer

Report prepared by:

Alex Ly Senior Financial Analyst, Investments

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

2015 ANNUAL INVESTMENT REPORT

Recommendation

The Chief Financial Officer and City Treasurer and the Director of Financial Planning and Development Finance and Deputy City Treasurer recommend that:

1. This report be received for information.

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2015 City of Vaughan Investment

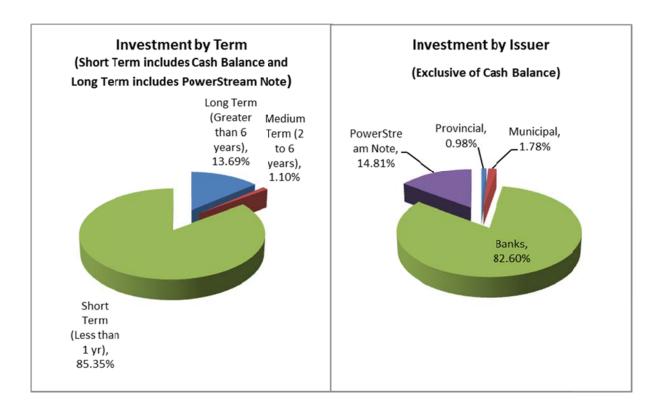
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Report prepared by:

Alex Ly
Senior Financial Analyst, Investments

Respectfully submitted,

Laura Mirabella-Siddall
Chief Financial Officer and City Treasurer

Lloyd Noronha
Director of Financial Planning & Development Finance &
Deputy CityTreasurer

Attachment 1

City or va	ughan Invest	inents	- as at i	December 3 i	, 2015				
SETTLEMEN	MATURITY/SOLD	YIELD	TERM	PAR VALUE	MATURITY \$	SETTLEMENT \$	NO.	TYPE*	ISSUER
Jan 17, 2008	May 30, 2017	4.42%	3421	1,000,000	1,000,000	1,019,449	2008-007	В	Region of York
Aug 14, 2008	Jun 19, 2017	4.48%	3231	1,000,000	1,000,000	1,211,523	2008-138	В	Region of York
Sep 5, 2008	Jun 15, 2016	4.01%	2840	1,000,000	1,000,000	1,032,373	2008-159	В	ACFA
Sep 24, 2008	Jun 15, 2016	4.33%	2821	2,000,000	2,000,000	2,026,474	2008-180	В	ACFA
Sep 24, 2008	Sep 28, 2016	4.73%	2926	800,000	800,000	805,593	2008-181	В	Region of York
Apr 29, 2009	Apr 29, 2019	5.03%	3652	1,000,000	1,000,000	997,590	2009-038	В	Region of York
Jun 9, 2009	Sep 14, 2018	4.78%	3384	1,600,000	1,600,000	2,074,016	2009-044	В	Edmonton
Jun 10, 2009	Mar 8, 2016	3.75%	2463	2,000,000	2,000,000	2,099,863	2009-045	В	Prov of Ont
Var 5, 2010	Mar 5, 2016	3.65%	2192	2,286,000	2,286,000	2,286,000	2010-002	В	Peterborough
Jun 30, 2011	Jun 30, 2021	4.02%	3653	1,000,000	1,000,000	998,690	2011-019	В	Region of York
Jul 26, 2013	Mar 31, 2016	1.20%	979	10,000,000	10,000,000	10,000,000	2013-026	M	Scotia
Oct 7, 2013	Mar 31, 2016	1.20%	906	40,000,000	40,000,000	40,000,000	2013-033	M	Scotia
Jan 22, 2015	Jan 22, 2016	1.75%	365	20,000,000	20,350,000	20,000,000	2014-035	M	BNS GIC
Feb 26, 2015	Feb 26, 2016	1.55%	365	15,000,000	15,232,500	15,000,000	2015-004	M	BNS GIC
Var 17, 2015	Mar 17, 2016	1.55%	366	10,000,000	10,155,425	10,000,000	2015-005	M	RBC GIC
Var 23, 2015	Mar 23, 2016	1.55%	366	5,000,000	5,077,712	5,000,000	2015-006	M	RBC GIC
Apr 2, 2015	Mar 31, 2016	1.20%	364	10,000,000	10,000,000	10,000,000	2015-009	M	Scotia
May 29, 2015	May 30, 2016	1.70%	367	10,000,000	10,170,932	10,000,000	2015-018	М	BMO GIC
Jun 2, 2015	Jun 2, 2016	1.70%	366	10,000,000	10,170,466	10,000,000	2015-019	M	BMO GIC
Jul 13, 2015	Jul 13, 2016	1.55%	366	1,500,000	1,523,314	1,500,000	2015-023	M	BMO GIC
Jul 23, 2015	Jan 19, 2016	1.13%	180	25,000,000	25,139,315	25,000,000	2015-024	M	NB GIC
Jul 30, 2015	Aug 2, 2016	1.40%	369	25,000,000	25,353,836	25,000,000	2015-025	M	BMO GIC
Aug 4, 2015	Aug 4, 2016	1.45%	366	20,000,000	20,290,795	20,000,000	2015-026	M	BMO GIC
Aug 6, 2015	Aug 8, 2016	1.38%	368	25,000,000	25,347,836	25,000,000	2015-027	M	NB GIC
Aug 28, 2015	Aug 29, 2016	1.45%	367	20,000,000	20,291,589	20,000,000	2015-028	M	BNS GIC
Sep 21, 2015	Mar 18, 2016	1.12%	179	10,000,000	10,054,926	10,000,000	2015-031	M	NB GIC
Sep 21, 2015	Sep 21, 2016	1.65%	366	10,000,000	10,165,452	10,000,000	2015-032	M	BMO GIC
Sep 29, 2015	Sep 29, 2016	1.15%	366	15,000,000	15,172,973	15,000,000	2015-034	M	CIBC GIC
Sep 29, 2015	Jan 4, 2016	1.11%	97	20,000,000	20,058,997	20,000,000	2015-035	M	TD Term Dep
Oct 5, 2015	Apr 4, 2016	1.18%	182	20,000,000	20,117,677	20,000,000	2015-037	M	NB GIC
Oct 5, 2015	Jan 7, 2016	1.13%	94	25,000,000	25,072,753	25,000,000	2015-038	M	TD Term Dep
Oct 8, 2015	Oct 11, 2016	1.66%	369	15,000,000	15,251,729	15,000,000	2015-039	M	NB GIC
Oct 22, 2015	Apr 19, 2016	1.20%	180	10,000,000	10,059,178	10,000,000	2015-040	M	NB GIC
Nov 12, 2015	Feb 10, 2016	1.15%	90	25,000,000	25,070,890	25,000,000	2015-042	M	TD Term Dep
Nov 13, 2015	May 11, 2016	1.29%	180	20,000,000	20,127,233	20,000,000	2015-043	M	NB GIC
*	Mar 24, 2016	1.16%	93	20,000,000	20,059,112	20,000,000	2015-045	M	TD Term Dep
		Subtotal		450,186,000					
		Cash in Bank		42,899,075					
		PowerStream Note		78,236,285					
		Total Inves	tments	571,321,360					
	B - Bond								
	M- Money Market								

Attachment 2

SHORT TERM INVESTMENT POR	RTFOLIO			
Investments Held by Issuer				
As at December 31, 2015				
	Par Value	% of Total		
Sector / Securities			Portfolio Limit %	Individual Limit %
FEDERAL				
Government of Canada	-	ı	100	100
Federal Guarantees	-	-	100	50
PROVINCIAL	-	-	100	50
	-	-	80	35
	-	-	20	5
Provincial Total	-	-	100	
BANKS				
Schedule I Banks			100	50
Toronto Dominion Bank	90,000,000	20.62%		
CIBC	35,000,000	8.02%		
Royal Bank of Canada	81,500,000	18.67%		
Bank of Nova Scotia	60,000,000	13.75%		
National Bank	170,000,000	38.95%		
Schedule II Banks	-		15	5
			10	3
Schedule III Banks	-		5	2
Banks Total	436,500,000	100.00%	100	
OTHER				
Asset Backed Securities	-	-	10	3
Corporations	-	-	30	5
Other Total	-	-	30	
TOTAL - Short Term	436,500,000			

Investments Held by Issuer					
As at December 31, 2015					
7.0 0.1 2000					
	Amount	%of Total			
		7007 700			Maximum
Sector / Securities			Portfolio Limit %	Individual Limit %	Term (yrs)
FEDERAL					
Government of Canada	-		100	100	20
Federal Guarantees	-		50	25	20
Federal Total			100		
PROVINCIAL			70	35	20
Province of Ontario	2,002,267.28	2.17%			
Province of Alberta	3,001,544.87	3.26%			
			35	15	15
			10	5	5
Provincial Total	5,003,812.15	5.43%	70		
MUNICIPALS					
			35	10	15
York Region Municipality	4,838,653.53	5.25%			
1 13 1 1 1 1 1	,,		25	5	10
City of Edmonton	2,286,000.00	2.48%			
City of Peterborough	1,750,879.08	1.90%			
ony on one or organ	1,1 00,01 0100	1.0070			
			10	2	5
Municipals Total	8,875,532.61	9.64%	35		
BANKS					
Schedule I Banks	-		50	20	10
Schedule II Banks	-		15	5	5
Schedule III Banks	-		10	3	5
Banks Total			50		
OTHER					
Asset Backed Securities			10	3	5
Loan/Trust Corporations, Credit					
Unions, and Other Corporations			10	3	5
Other Total			10		
ONE FUND					
Money Market			10	N/A	N/A
Bond Fund			10	N/A	N/A
Equity			5	N/A	N/A
Corporate Debt			5	N/A	N/A
ONE Fund Total			20	N/A	N/A
PowerStream Note	78,236,285		n/a		
	92,115,630				