

FILE: 05-1680-01/21

REPORT DATE: February 12, 2021 MEETING DATE: February 23, 2021
TO: Mayor and Council
FROM: Cheryl Harding
SUBJECT: 2020 Investment Update

CHIEF ADMINISTRATIVE OFFICER REVIEW/APPROVAL:



RECOMMENDATION(S): THAT Council:

- A. Receive for information the 2020 Investment Update staff report dated February 12, 2021; OR
- B. Other.

PURPOSE

In accordance with the City's investment policy, the purpose of this report is to provide an overview of the performance of the investment portfolio for 2019, as well as to identify investments held at December 31, 2020 and to disclose variances, if any, from the investment policy.

Information Report Decision Report Direction Report

DISCUSSION

Background:

The City has worked with CIBC Wood Gundy as its investment advisor since 1999. As part of the arrangement, their representative provides an annual report on investment along with a verbal update to Council. In 2017, staff compared the investment service the City is receiving to the market through the public procurement process and it was determined the City continues to receive the best value from CIBC Wood Gundy.

Relevant Policy, Bylaw or Legislation:

The investment policy C055 is included as Attachment B which provides direction to staff and CIBC Wood Gundy in regards to balancing the components of liquidity needs, investment security and maximization of interest earnings and rate of return.

Analysis:

The investment portfolio consists of reserve balances, collected DCCs and the working capital of the City. These funds are invested based on the investment policy. The policy provides direction to balance the needs of liquidity with the security investments and to maximize the rate of return.

The income earned on the investments is allocated to the individual reserve funds based on the reserve fund balance. The better the investments perform the more is allocated to reserve, which in turn reduces the pressure for reserve funding to come from general revenue. The intent of allocating interest to reserves is to recognize the cost of money (i.e. interest that could be earned if the reserve amounts were invested individually) and to ensure the reserve's 'buying power' does not diminish over time.

Performance

The 2020 yearend performance report and related information has been provided by Mr. Randy Clowes, the City's CIBC Wood Gundy representative, and is enclosed as Attachment A. The performance benchmark for the annual return, as per the agreement with CIBC Wood Gundy, is the blended return on the Municipal Finance Authority's pooled funds.

For 2020 the annual rate of return as noted in the letter from Mr. Clowes was 1.91% and is compared with the benchmark and prior year as follows:

1. MFA Benchmark – 1.69%
2. CIBC Wood Gundy 2020 – 1.91%
3. CIBC Wood Gundy 2019 – 2.60%

The nuances of bond pricing are complex, but in simple terms, the City continued to achieve a higher yield than the MFA benchmark despite the unexpected and unprecedented impacts brought on by COVID-19.

The rate of return the City achieves reflects the interest received during the year plus the market value of investments held at the end of the year.

While the market value of investments will fluctuate with market conditions, the City's normal approach is to buy and hold investment instruments to maturity in order to realize the effective rate of return at purchase. For accounting purposes, the investment income as reflected in the annual financial statements is inclusive of bank interest, bond interest and accounting adjustments for accrued interest and amortization of discounts and premiums on the purchase of applicable instruments.

Therefore, short term fluctuations in market value tend to not impact the City's real return over the life of the investment.

Investment Held

The best investment strategy matches investment maturities with short-term operating cash flow needs and anticipated capital purchases in order to achieve the highest performance yield while ensuring cash is available when needed.

The market value of investments held at December 31, 2020 was \$61 million:

- \$23 million or 38% were held in cash or cash equivalents that are either high interest savings, expire within one year or are readily convertible to cash. The amount currently available in cash and cash equivalents are sufficient to meet short-term operating cash flow requirements. This value is lower than last year's value which was \$30 million due to the timing of investments having matured and forecasted cash flow needs.
- \$38 million or 62% were invested in short-term instruments such as Strip Bonds, Canadian Bank paper, GICs and Principal Protected Notes and expire in the two to three year range.
- Planned investment maturities will be sufficient to provide funds to meet capital spending requirements such as the Fire Hall replacement.

COUNCIL STRATEGIC PLAN ALIGNMENT

- Principled Governance Balanced Economic Prosperity Corporate Excellence
 Community Spirit & Wellbeing Transportation & Infrastructure Initiatives
 Not Applicable
-

FINANCIAL IMPLICATIONS

- None Budget Previously Approved Referral to Business Planning
 Other
-

PUBLIC PARTICIPATION

- Inform Consult Involve Collaborate Empower

Comment(s):

Annual update on responsible management of public funds.

KATZIE FIRST NATION CONSIDERATIONS

Referral Yes No

SIGN-OFFS

Written by:

Cheryl Harding, Director of Financial Services

ATTACHMENT(S):

- A. Letter from Mr. Randy Clowes – CIBC Wood Gundy dated January 21, 2021
- B. C055 Investment Policy



PRIVATE WEALTH
MANAGEMENT

CIBC WOOD GUNDY

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January 21, 2021

City of Pitt Meadows
Attn: Cheryl Harding, Director of Finance
12007 Harris Road
Pitt Meadows, B.C.
V3Y 2B5

Dear Cheryl,

Please find attached the year-end performance reports and other supporting data for the past year. For the year ended December 31, 2020 the annual return on the portfolio was 1.91%

I was able to provide a margin of incremental return above the benchmarks. The weighted comparison with the MFA data was a blended return of 1.69%.

If we take an average portfolio value of \$40.6 million for the past year, the incremental return was:

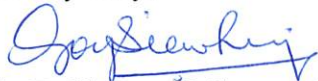
	<u>Blended rate:</u>	<u>Interest Earned:</u>
CIBC Wood Gundy	1.91%	\$775k
MFA	1.69%	\$686k
Net gain:		\$89k

The past year was a year of extremes as expectation in early 2020 was for a slow rise in yields and that abruptly came to a halt as COVID 19 arrived in March. Yields dropped immediately and created all time lows for bond yields across all maturity dates.

Given we were still keeping money for potential disbursement considerations in the 10% range that provided piece of mind and liquidity given the circumstances.

I look forward to reviewing the projected disbursement schedule in June and structuring a laddered maturity of investments to match your cash flow for the coming year.

Yours very truly,

P.P. 

Randy E. Clowes, B.Comm, CIM, FCSI, RIAC

First Vice-President

Portfolio Manager

CIBC Private Wealth Management

Vancouver, B.C.

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CITY OF PITT MEADOWS

PORTFOLIO ALLOCATION

<u>Category</u>	<u>Amount</u>	<u>% of Portfolio</u>	<u>Max % of Portfolio</u>
Government of Canada	\$ -	0.00%	100%
Provincial Government	\$19.3 million	47.50%	50%
Schedule "A" Banks	\$18.9 million	46.50%	50%
Schedule "B" Banks	\$2.4 million	6.00%	20%

As of December 31, 2020
balance of portfolio value was in cash.

The above was constructed with the following in mind:

- 1) Preservation of Capital
- 2) Insurance of Liquidity
- 3) Achievement of high returns



Prepared for: City of Pitt Meadows
Prepared by: Randy Clowes

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PORTFOLIO PERFORMANCE (CAD)

As of December 31, 2020

CITY OF PITT MEADOWS (81014727)

Cash

Your Portfolio Manager: Randy Clowes

	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION
	01/01/2020 - 12/31/2020	01/01/2018 - 12/31/2020	01/01/2016 - 12/31/2020	01/01/2011 - 12/31/2020	01/01/2000 - 12/31/2020
Starting Value	\$ 48,575,627.49	\$ 45,006,176.86	\$ 28,757,775.34	\$ 18,855,349.72	\$ 0.00
Inflows	\$ 28,756,000.00	\$ 79,556,000.00	\$ 122,332,250.00	\$ 227,918,250.00	\$ 402,661,394.90
Outflows	\$ -17,195,000.00	\$ -66,372,000.00	\$ -93,617,000.00	\$ -192,112,543.40	\$ -354,345,236.66
Income	\$ 611,107.80	\$ 1,657,520.83	\$ 2,332,612.89	\$ 4,543,871.54	\$ 8,458,194.94
Ending Value	\$ 61,024,876.53	\$ 61,024,876.53	\$ 61,024,876.53	\$ 61,024,876.53	\$ 61,024,876.53
Time-Weighted-Net	1.913 %	2.091 %	1.656 %	2.185 %	4.949 %

Notes: Values in percentage are annualized for periods of more than twelve months.
One or more underlying accounts are inactive or have been closed prior to the selected reporting period.



PORTFOLIO EVALUATION (CAD)

As of December 31, 2020

CITY OF PITT MEADOWS (810147271C)

Cash

Your Portfolio Manager: Randy Clowes

Last Purchase	Quantity	Description	Unit Cost	Book Value	Market Price	Market Value	% of Total	G/L (%)	Unrealized G/L **
CASH & CASH EQUIVALENTS									
Securities Expiring Within a Year									
04/04/2017	2,507,217	CPN MANITOBA 5SP21	98.900	2,479,629.07	99.740	2,500,700.74	4.11	0.85	21,071.67
06/24/2016	1,000,000	HSBC BK CDA 2.908% 29SP21	104.250	1,042,500.00	101.751	1,017,507.00	1.67	(2.40)	-24,993.00
07/27/2017	1,420,000	CPN ONTARIO 2DC21	98.199	1,394,429.11	99.765	1,416,655.90	2.33	1.59	22,226.79
Total Securities Expiring Within a Year				\$ 4,916,558.18		\$ 4,934,863.64	8.10 %	0.37 %	\$ 18,305.46
High Interest Savings Account									
11/24/2020	7,502,124.340	CIBC HIGH INT SVG A(5002)	1.000	7,502,124.34	1.000	7,502,124.34	12.32		0.00
12/23/2020	3,166,178.500	CIBC HIGH INT SVG A(5004)	1.000	3,166,178.50	1.000	3,166,178.50	5.20		0.00
07/22/2020	7,510,154.730	REN HIGH INT SVG AC(5000)	1.000	7,510,154.73	1.000	7,510,154.73	12.33		0.00 *
Total High Interest Savings Account				\$ 18,178,457.57		\$ 18,178,457.57	29.85 %		\$ 0.00
Total Cash & Cash Equivalents				\$ 23,095,015.75		\$ 23,113,321.21	37.95 %	0.37 %	\$ 18,305.46
SHORT-TERM FIXED INCOME									
Strip Bonds									
12/17/2019	1,094,631	CPN MANITOBA 5MR23	96.030	1,051,169.02	98.872	1,082,281.37	1.78	2.96	31,112.35
12/17/2019	1,356,995	CPN NOVA SCOTIA 1JN23	95.471	1,295,540.70	98.476	1,336,317.11	2.19	3.15	40,776.41
11/06/2020	4,045,716	CPN ONTARIO 2JN23	98.936	4,002,664.90	98.876	4,000,246.20	6.57	(0.06)	-2,418.71
11/06/2020	9,192,115	CPN QUEBEC 1JN24	97.997	9,008,032.84	98.065	9,014,265.96	14.80	0.07	6,233.12
Total Strip Bonds				\$ 15,357,407.46		\$ 15,433,110.64	25.34 %	0.49 %	\$ 75,703.18
Canadian Bank Paper									
07/27/2017	3,000,000	BNS DPST NT 1.83% 27AP22	98.350	2,950,500.00	101.847	3,055,413.00	5.02	3.56	104,913.00
07/27/2017	3,000,000	BMO FIXD 2.27% 11JL22	100.350	3,010,500.00	102.678	3,080,328.00	5.06	2.32	69,828.00
11/06/2020	6,049,000	BMO CDN SR U 2.89% 20JN23	106.348	6,432,990.52	105.663	6,391,560.92	10.49	(0.64)	-41,429.60
11/06/2020	6,223,000	TDBK DPST N 1.909% 18JL23	103.865	6,463,518.95	103.329	6,430,176.12	10.56	(0.52)	-33,342.83
Total Canadian Bank Paper				\$ 18,857,509.47		\$ 18,957,478.04	31.13 %	0.53 %	\$ 99,968.57
Guaranteed Investment Certificate									
07/25/2017	1,400,000	CDN WEST A 2.1% 25JL22	100.000	1,400,000.00	100.000	1,400,000.00	2.30		0.00
Principal Protected Note									
12/18/2019	20,000.000	CIBC CDN EQTY GWT/D Ser 3 (6020)	100.000	2,000,000.00	100.000	2,000,000.00	3.28		0.00
Total Short-Term Fixed Income				\$ 37,614,916.93		\$ 37,790,588.68	62.05 %	0.51 %	\$ 175,671.75

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PORTFOLIO EVALUATION (CAD)

As of December 31, 2020

CITY OF PITT MEADOWS (810147271C)

Cash

Your Portfolio Manager: Randy Clowes

Total		\$ 60,709,932.68	\$ 60,903,909.89	0.50 %	\$ 193,977.21
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Accrued Interest:	\$ 120,967
Declared and Unpaid Dividends:	
Total Portfolio Value:	\$ 61,024,877

* The exchange rate and transfer date are calculated using default values.

** Where applicable, Unrealized G/L includes accumulated interest. Accumulated interest is included in the "Unit Cost" / "Invested Cost" and in the "Book Value" / "Invested Capital" columns.

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COUNCIL POLICY C055

05 - Finance

Investments

Effective Date: September 3, 1991
Revised Date: May 6, 2008
Revised Date: March 4, 2014
Revised Date: July 22, 2014
Reaffirmed Date: June 16, 2015

Purpose:

The purpose of this policy is to ensure that the investment of public funds is handled with due care.

Objectives:

The investment of public money must reflect a conservative philosophy based on the following three prioritized objectives:

- (1) **Safety of Principal** - Investments shall be made to ensure the preservation of capital through placement of funds with creditworthy institutions and through portfolio diversification;
- (2) **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements; and
- (3) **Maximization of Returns** - The investment portfolio shall be designed with the objective of maximizing market rate of return subject to the investment risk constraints and liquidity requirements of the City.

Requirements to Meet Objectives:

- (1) All investments must be made in accordance with section 183 of the *Community Charter* which reads as follows:

Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- a) securities of the Municipal Finance Authority;
 - b) pooled investment funds under Section 16 of the Municipal Finance Authority Act;
 - c) securities of Canada or of a province;
 - d) securities guaranteed for principal and interest by Canada or a province;
 - e) securities of a municipality or regional district or greater board;
 - f) investments guaranteed by a chartered bank;
 - g) deposits in a savings institution, or non-equity or membership shares of a credit union;
 - h) other investments specifically authorized under this or another Act.
- (2) All securities invested in must achieve a rating of better than or equivalent to R-I Low as determined by Dominion Bond Rating Services, or equivalent. Long term investments (beyond 1 year) would require BBB rating or higher as determined by Dominion Bond Rating Services and comply with Sector Limitations, as outlined in Appendix A.
- (3) Investments with maturity dates of greater than one year, specific debtors/guarantors are limited, as outlined in Appendix A.
- (4) Only liquid or callable financial instruments should be invested in for each calendar year's cash flow needs.
- (5) Funds of the Municipal revenue and reserve funds can be pooled for investment purposes.
- (6) All securities must be held in safekeeping by a recognized financial institution.
- (7) Investment transactions occur electronically (i.e.; no physical cheque is drawn). Investment transactions that occur between the City chequing account and the City investment account (including investment roll-overs within the investment account), must be approved by the Director of Finance & Facilities (or designate).

- (8) All other investment transactions must be approved by the Director of Finance & Facilities (or designate) and either the Mayor, Deputy Mayor, or Chief Administrative Officer (or designate). Written confirmation of all transactions must be obtained and maintained in the investment file.

Prudence:

Investments shall be made with the degree of judgment and care that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but with priority given firstly to safety of principle, secondly to liquidity and thirdly to maximization of returns.

The standard of prudence to be executed by the Director of Finance & Facilities (or designate), Council, or Chief Administrative Officer (or designate) making investment decisions shall be the ‘prudent person’ standard whereby those who act in accordance with the City’s investment policy and exercise due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes provided that deviations from expectations are reported in a timely fashion, and the liquidity and sale of securities are carried out in accordance with the terms of this policy.

Reporting:

A report shall be prepared annually by the Director of Finance & Facilities and presented to Council no later than May 15th which identifies the investments held as at the prior December 31st, the overall rate of return on the investment portfolio, discloses any variance from this policy and will provide appropriate industry benchmarks.

APPENDIX A

Investments with maturities of greater than one year shall be invested only in securities issued/guaranteed by the following entities, and the share of the investment portfolio (including investments with maturities of greater than one year only) held therein, shall not exceed the % stated below:

Government of Canada	100%
Provinces of Canada	50%
Federal or Provincial Principal Protected Notes (PPN's)	20%
Municipal Finance Authority of BC	30%
Schedule A Banks*	50%
Schedule B Banks	20%
Guaranteed Investment Certificates – Schedule A or B Banks	20%

*Within the Schedule A Banks category, PPNs could be utilized to a maximum of 20%

In accordance with Sector Term Limitation, five year laddering of maturity dates will be utilized, whenever possible, but the ability to extend maturities to a maximum of 10 years is permitted.