

INVESTMENT MANAGEMENT

VALUE STATEMENT

I expect the municipality is managing its cash effectively by investing in a manner that minimizes risk while meeting the organization's cash flow requirements and reasonable return on investment.

INVESTMENT MANAGEMENT

What is this Service?

Investment Management implements short- and long-term investment strategies for money market, bond and equity portfolios in accordance with provincial government legislation and the municipality's own investment policies.

Influencing Factors:

- **Administrative Expenses:** incurred to administer the portfolio, including staff time (monitoring, performance reporting, and reconciliation), technology expenses such as Bloomberg, annual and semi-annual report production, and other general expenses.
- **Amount of Funds Invested**
- **Asset Mix:** Corporate Bonds vs. Government Bonds vs. Equities
- **Availability of Product**
- **Cash Inflows/Outflows to Portfolio:** is there new cash being added to portfolio or is the size of the portfolio shrinking?
- **Impact of "Market-to-Market Return":** includes all aspects of investment income including realized interest and both realized and unrealized capital gains.
- **Internal Costs:** staffing, technology, general expenses.
- **Internal Constraints:**
 - What are risk tolerances of management and/or /Council?
 - What resources are there available to help manage the investment portfolio (i.e. staffing, systems, information sources, internal controls, etc.)?
 - Are there adequate internal controls and monitoring systems in place to oversee investment activities?
- **Investment Policy Constraints:**
 - Policy objectives: do they focus on capital preservation, liquidity needs or market returns?
 - Does the policy dictate term restrictions: by credit or for the overall portfolio?
 - Does the policy allow for active management, or does it restrict selling at a capital loss (which might limit a portfolio manager's propensity to take on risk)?

- **Legislative Investment Policy Constraints**
- **Municipal-specific Needs:**
 - Reserve availability (operating and capital) and their obligations - how much money is on hand and how long is it available for? How reliable is the cash flow analysis and how often is it updated?
 - Has the municipality instituted a capital asset replacement strategy and determined the impact on the investment horizon of the portfolio?
 - What is the debt profile of the municipality? How does the reserve and/or investment strategy impact the municipality's borrowing program?
- **Prevailing Interest Rates and Shape of the Yield Curve**
- **Professional Services Utilized:** advisors, accountants, and lawyers.
- **Realized Capital Gains/Losses from Trading Activity**
- **Strategies Employed:** active versus passive, fixed income versus balanced.
- **Type of Investment Management:** investment managers, brokers.
- **Under One Year Cash Requirements:** how much of portfolio must be kept liquid?

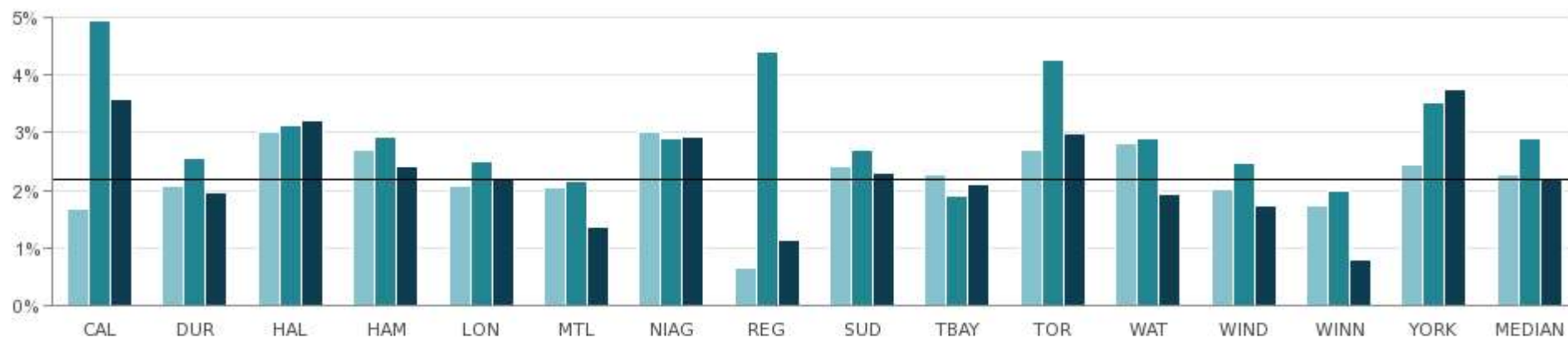
Extenuating Circumstances:

- **COVID-19 Pandemic:** Service delivery was not impacted despite the transition to working from home for most municipalities but changes in market yields did have some impact on the rate of return-on-investment portfolios.

Investment Management

Figure 16.1 Gross Percent Realized Return on the Total Investment Portfolio

This measure is based on the Average Adjusted Book Value and refers to the General Investment Fund only. Sinking funds, pension funds, and trust funds are excluded. In 2020, lower prevailing market interest rates and increased liquidity requirements resulting from uncertainties due to COVID-19 led to lower rates of return and impacted municipal investment decisions.



2018	1.67%	2.07%	3.02%	2.69%	2.07%	2.03%	3.02%	0.65%	2.41%	2.28%	2.70%	2.82%	2.02%	1.73%	2.43%	2.28%
2019	4.96%	2.57%	3.12%	2.94%	2.50%	2.17%	2.91%	4.42%	2.70%	1.89%	4.27%	2.90%	2.48%	2.00%	3.53%	2.90%
2020	3.58%	1.96%	3.22%	2.40%	2.19%	1.37%	2.94%	1.13%	2.31%	2.09%	2.97%	1.93%	1.73%	0.79%	3.76%	2.19%

Source: INVT310 (Efficiency)

Calgary and Toronto: Increase in 2019 due to higher returns on externally managed portfolios. (See Figure 16.3).

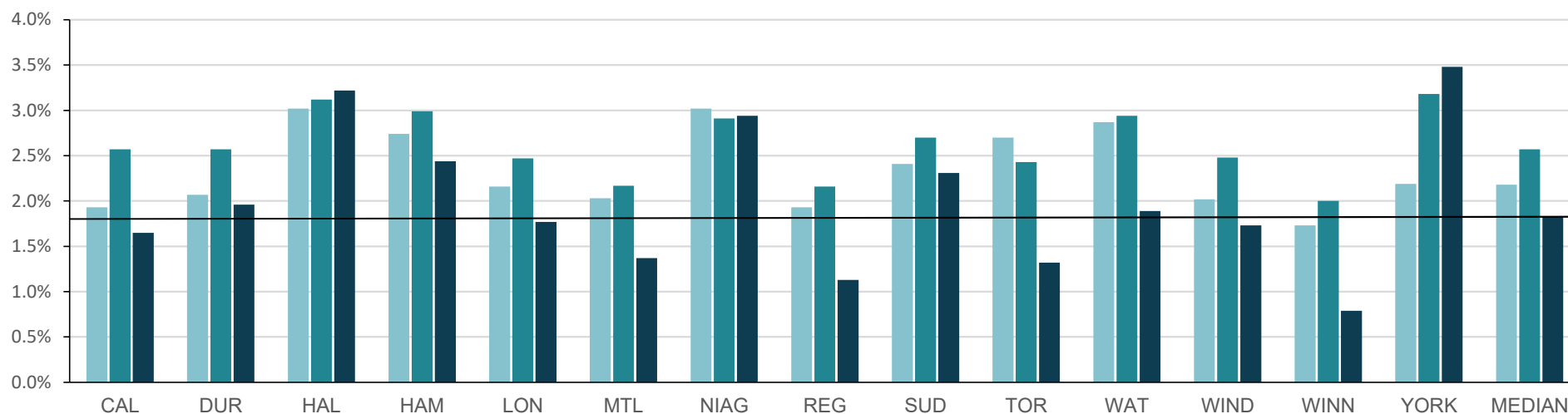
Regina: In 2019, the City liquidated bond fund portfolio reversing 2018 valuation of portfolio and earning gains from sale.

York: In 2019, there was a greater opportunity to realize capital gains due to falling interest rates.

Investment Management

Figure 16.2 Gross Percent Realized Return on the Total Internally Managed Investment Portfolio

This measure is based on the Average Adjusted Book Value and represents the General Investment Fund. Sinking funds, pension funds, and trust funds, etc. are excluded. In 2020, lower prevailing market interest rates and increased liquidity requirements resulting from uncertainties due to COVID-19 led to lower rates of return and impacted municipal investment decisions.



Year	CAL	DUR	HAL	HAM	LON	MTL	NIAG	REG	SUD	TOR	WAT	WIND	WINN	YORK	MEDIAN
2018	1.93%	2.07%	3.02%	2.74%	2.16%	2.03%	3.02%	1.93%	2.41%	2.70%	2.87%	2.02%	1.73%	2.19%	2.18%
2019	2.57%	2.57%	3.12%	2.99%	2.47%	2.17%	2.91%	2.16%	2.70%	2.43%	2.94%	2.48%	2.00%	3.18%	2.57%
2020	1.65%	1.96%	3.22%	2.44%	1.77%	1.37%	2.94%	1.13%	2.31%	1.32%	1.89%	1.73%	0.79%	3.48%	1.83%

Source: INVT312 (Efficiency)

Calgary: Increase in 2019 is largely attributed to intentional selection of a longer term to maturity, credit exposure and the illiquidity premium received on the term deposits held.

Thunder Bay: Does not have an internally managed portfolio.

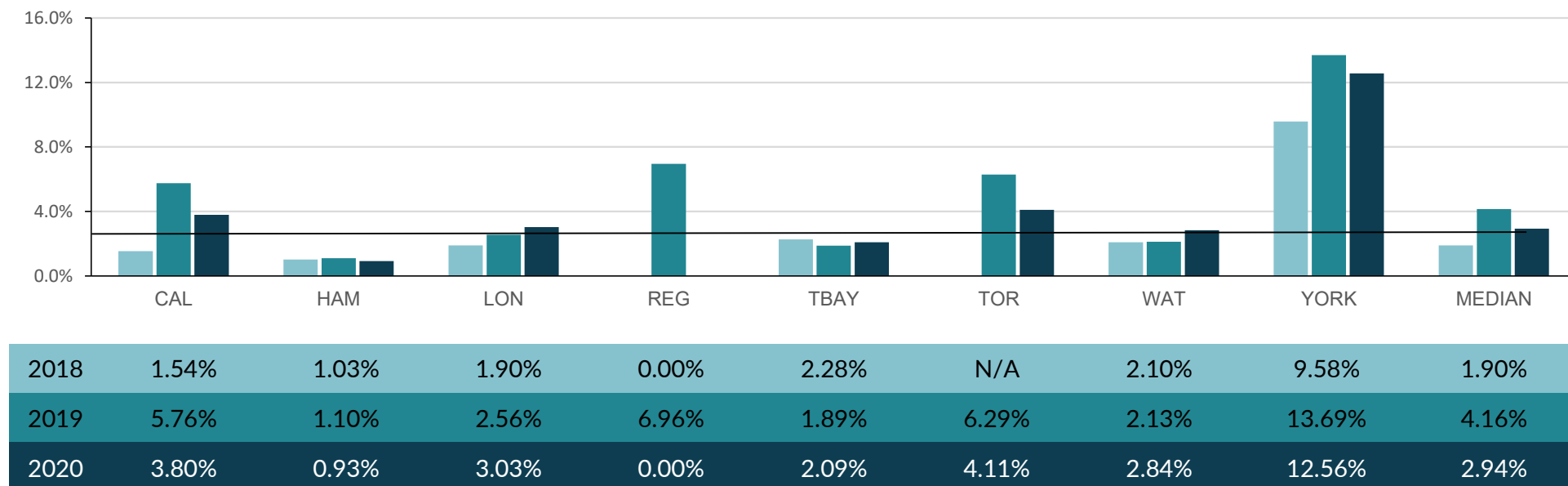
Toronto: Since 2018, the internally managed portfolio consists of short-term investments only.

York: In 2019 and 2020, there was a greater opportunity to realize capital gains due to falling interest rates.

Investment Management

Figure 16.3 Gross Percent Realized Return on the Total Externally Managed Investment Portfolio

This measure is based on the Average Adjusted Book Value and includes the General Investment Fund only (cash, fixed income and equity investments); and excludes all other investment portfolios.



Source: INVT314 (Efficiency)

Durham, Halton, Montréal, Niagara, Sudbury, Winnipeg and Windsor: Do not have externally managed portfolios.

Calgary: In 2019, previously unrealized gains were realized which contributed to higher income. A small cap equity mandate was terminated during the year and unrealized losses were realized further lower externally managed investment income in 2020.

Regina: In 2019, Regina liquidated bond fund portfolio reversing 2018 valuation of portfolio and earning gains from sale. Regina did not have an externally managed portfolio in 2020.

Toronto: Since 2019 was the transition year to external investment managers, the City incurred a one-time non-recurring capital gain. Therefore, 2020's result was lower than 2019 result for the long-term fund.

York: In 2020 and 2019, there were greater opportunities to realized capital gains in our equity holdings due to increasing equity valuations.