



# City of Richmond

## Report to Committee

**To:** Finance Committee

**Date:** February 7, 2018

**From:** Jerry Chong  
Director, Finance

**File:** 03-0900-01/2018-Vol  
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**Re:** 2017 Investment Report

### Staff Recommendation

That the report titled 2017 Investment Report dated February 7, 2018 from the Director, Finance be received for information.

Jerry Chong  
Director, Finance  
(604-276-4064)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER 	
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE 	INITIALS: CJ
APPROVED BY CAO 	

### Staff Report

#### Origin

This report provides an overview of the City’s investment position for fiscal year 2017.

This report supports Council’s 2014-2018 Term Goal #7 Strong Financial Stewardship:

*Maintain the City’s strong financial position through effective budget processes, the efficient and effective use of financial resources, and the prudent leveraging of economic and financial opportunities to increase current and long-term financial sustainability.*

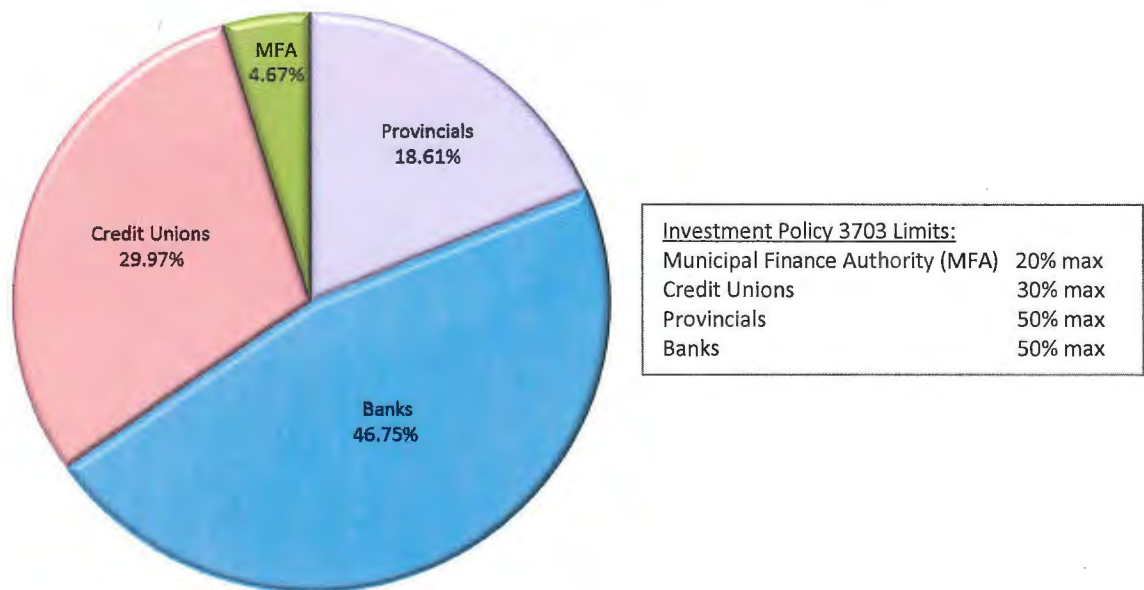
- 7.1. *Relevant and effective budget processes and policies.*
- 7.2. *Well-informed and sustainable financial decision making.*
- 7.3. *Transparent financial decisions that are appropriately communicated to the public.*
- 7.4. *Strategic financial opportunities are optimized.*

#### Analysis

The City’s investment portfolio’s book value was \$964 million as of December 31, 2017.

The investment balance includes the City’s short-term working capital that is required to meet ongoing operating expenditure obligations as well as funds set aside for approved capital projects, uncommitted reserves, deposits, development cost charges and other reserve funds that will be expended in future years.

The City holds a diversified investment portfolio that complies with both Section 183 of the *Community Charter* and the City’s Investment Policy 3703. The chart below shows the breakdown of the City’s investment by issuer type as of December 31, 2017. Further breakdown of the City’s investment holdings can be found in Attachment 1.



**2017 Investment Performance**

The City maintains an intermediate investment fund (short to medium term) and a fixed income fund (longer term) in its investment portfolio. The overall investment yield of the City’s investment portfolio was 2.0% in 2017 which generated approximately \$20 million in investment income for the year. The City’s weighted average yield exceeded its benchmarks:

Investment Category	City of Richmond’s Yield	MFA’s Yield
Intermediate Fund	1.93%	1.52%
Bond Fund	2.12%	1.82%

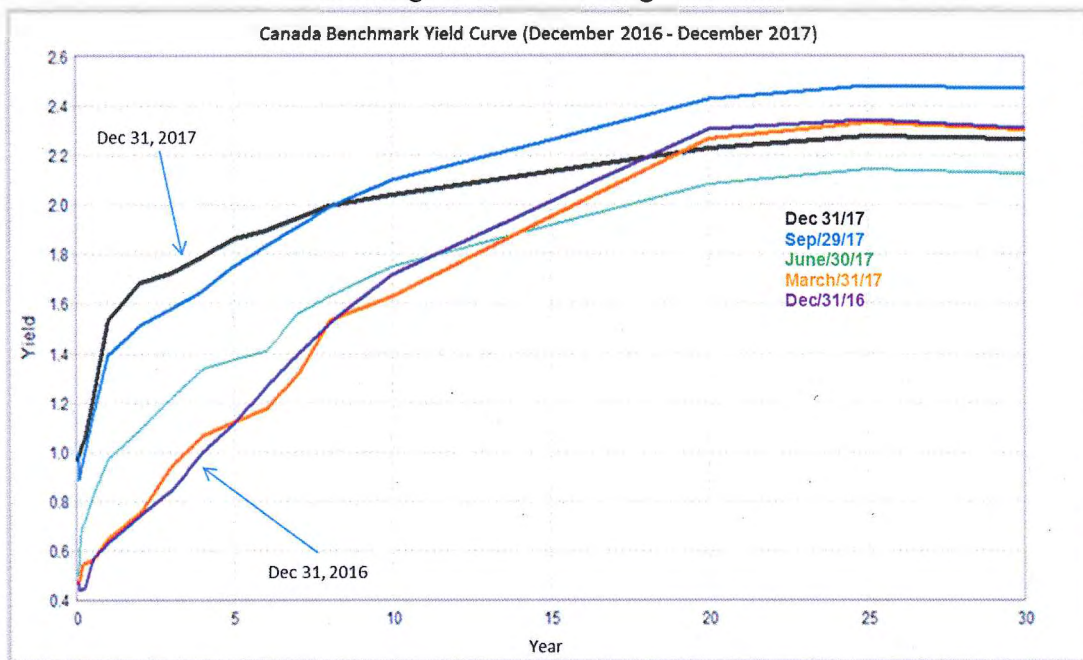
**Looking Back at 2017 and Outlook for 2018**

Strong economic data during the first half of 2017 resulted in the Bank of Canada raising the overnight interest rate in July 2017 for the first time in seven years. Two subsequent interest rate increases took place in September 2017 and January 2018 respectively – moving the overnight interest rate from the historical low of 0.50% to the current level of 1.25%.

While the economic outlook is expected to warrant higher interest rates over time, the Bank of Canada will remain cautious in considering future policy adjustments, guided by incoming data in assessing the economy’s sensitivity to interest rates, the impact of mortgage guidelines on residential investments, the evolution of economic capacity, and the dynamics of both wage growth and inflation. The uncertainty about the future of NAFTA is also weighing increasingly on the outlook, which will be one of the key factors in the Bank of Canada’s near future monetary policy decisions.

**City’s Investment Strategy – 2018 and Beyond**

Yield enhancement strategies will continue to play a key role in the City’s investment activities. As shown in the Canada yield curves below, during fiscal 2017 the yield curves continued to flatten as the short-term rates climbed higher while the long-term rates trailed behind.



Therefore, current conditions remain favourable to take advantage of the yields and flexibility of short term deposits (with term less than one year) instead of exposing the City's investment portfolio to the incrementally narrow spread and flat yield curve of the longer term fixed income products. The City will continue to ladder investment maturities in its intermediate investment fund, which will allow the City to take advantage of the opportunity to reinvest in products that are priced at the higher prevailing market interest rates.

A significant portion of the City's existing investment portfolio will mature throughout 2018 as the result of the previously deployed straddling maturity strategy. Based on the current economic forecast of one to three interest rate hikes in 2018, the City's investment yield is projected to increase gradually in the range of 0.25% to 0.50% during 2018 as reinvestment activities take place.

The yield enhancement strategy has continued to allow the City to pursue the best possible overall market yield for our portfolio while meeting the City's investment objectives of statutory compliance, capital preservation, maintaining of liquidity and credit risk diversification.

#### Update on Changes to the Banking Industries

There are two ongoing matters that staff continue to monitor and assess.

##### 1. Bail-in Legislation Update

The 2008 global financial crisis has led a number of governments around the world, including Canada, to pass financial regulations to address the potential risks to the financial system where financial institutions are perceived as "too big to fail".

In June 2016, the federal government passed Bill C-15, also known as the bank recapitalization regime or bail-in legislation. This legislation aims to limit taxpayer exposure in the unlikely event of a failure of "domestic systemically important banks" (D-SIBs) by requiring long-term bank bonds with terms over 400 days to be converted to common shares.

Previous discussions have been held on this matter as the issue was raised as to whether the bail-in legislation could impact the types of investments that municipalities are permitted to hold under the *Community Charter*. Metro Vancouver, on behalf of its members, received a legal opinion that confirmed that long-term bank deposit notes continue to be an acceptable investment in accordance with the *Community Charter*.

##### 2. Coast Capital Savings Credit Union (Coast Capital) to become a Federal Credit Union

Members of Coast Capital voted in favour of moving ahead with the plan to transition Coast Capital from a provincial credit union to a federal credit union. Its application was approved in August 2017 by the Financial Institutions Commission of British Columbia (FICOM) and the Credit Union Deposit Insurance Corporation (CUDIC) with conditions. Subject to Coast Capital meeting the conditions and obtaining final approval from the Ministry of Finance, Coast Capital should transition to a federal credit union before the end of 2018.

Grandfathering provisions will be granted to any deposits that existed before the transition date until they mature. Therefore, all of the City's current deposits at Coast Capital as well as any new deposits created before the transition date will continue to be covered under the unlimited guaranteed by the BC CUDIC until maturity.

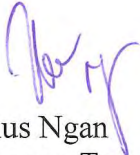
Once Coast Capital becomes a federal credit union, future investments at Coast Capital will be assessed to ensure compliance with the investment limits as set out in the City's Investment Policy. Staff will continue to monitor the progress of the transition and take the necessary actions to ensure compliance with existing policy.

**Financial Impact**

None.

**Conclusion**

The City's investment activities for 2017 have been conducted in accordance with the City's Investment Policy and the *Community Charter*. Staff will continue to administer the investment portfolio in a prudent manner to ensure that the City's investment objectives will continue to be met.



Venus Ngan  
Manager, Treasury and Financial Services  
(604-276-4217)

Att. 1: Investment Portfolio Holdings as of December 31, 2017

City of Richmond  
Investment Portfolio Holdings as of December 31, 2017

<b>Issuer</b>	<b>Term</b>	<b>Investment Book Value (in thousands)</b>	<b>% of Total Portfolio</b>	<b>Policy Limit</b>
Alberta	2019-2022	\$ 68,794	7.14%	25%
British Columbia	2019	65,213	6.76%	25%
Quebec	2022-2023	22,242	2.31%	10%
Manitoba	2018	12,000	1.24%	10%
Ontario	2024	11,199	1.16%	20%
Total Provincials		\$ 179,448	18.61%	50%
Bank of Nova Scotia	2018-2022	\$ 135,427	14.04%	15%
Royal Bank	2018-2023	68,131	7.07%	15%
National Bank of Canada	2018-2021	55,578	5.77%	10%
CIBC	2018-2022	48,424	5.02%	15%
TD Bank	2018-2023	46,376	4.81%	15%
HSBC Bank of Canada	2021-2023	32,258	3.35%	5%
Bank of Montreal	2018-2025	29,934	3.11%	15%
Canadian Western Bank	2018	24,482	2.54%	3%
B2B/Laurentian Bank	2018	10,000	1.04%	3%
Total Banks		\$ 450,610	46.75%	50%
Coast Capital Savings	2018-2019	\$ 85,122	8.83%	10%
Vancity	2018	82,757	8.58%	10%
Gulf and Fraser	2018-2019	49,913	5.18%	\$50 million
Blue Shore Financial	2018-2019	35,732	3.71%	\$50 million
Westminster Savings	2018	35,360	3.67%	\$50 million
Total Credit Unions		\$ 288,884	29.97%	30%
MFA Pooled Investment Fund		\$ 45,065	4.67%	20%
<b>Total Investment Portfolio Balance</b>		<b>\$ 964,007</b>	<b>100%</b>	