



City of Richmond



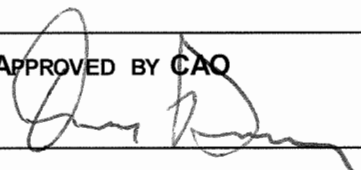
Report to Committee

To: Finance Committee
From: Ivy Wong
Acting Director, Finance
Date: February 9, 2022
File: 03-0900-01/2022-Vol
01
Re: **2021 Investment Report**

Staff Recommendation

That the staff report titled "2021 Investment Report" dated February 9, 2022 from the Acting Director, Finance be received for information.

Ivy Wong
Acting Director, Finance
(604-276-4046)

REPORT CONCURRENCE	
CONCURRENCE OF GENERAL MANAGER  Acting GM, F&CS	
SENIOR STAFF REPORT REVIEW	INITIALS: 
APPROVED BY CAO 	

Staff Report

Origin

The purpose of this report is to provide Council with an annual update of the City of Richmond's (the City's) cash and investment position and performance for fiscal year 2021 along with a general market update.

This report supports Council's Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

Accountable, transparent, and responsible financial management that supports the needs of the community into the future.

5.1 Maintain a strong and robust financial position.

Analysis

Summary of the City's Cash and Investment Position

The City's cash and investment balance was approximately \$1.36 billion as at December 31, 2021. The amount is comprised of the City's working capital for ongoing operational obligations, as well as amounts that are specifically set aside into reserves and liability accounts for future and restricted uses.

The aggregate net impact of the financial activities are reflected in the City's assets (cash and investment), liabilities (deposits and accounts payable that are payable on demand) and equity (reserve balances). All investment activities have been conducted in accordance with the City's Investment Policy 3703 throughout the year.

All funds are invested in a diversified range of safe and high credit quality securities (DBRS credit rating A high or better) and principal-guaranteed investment products as permitted under Section 183¹ of the *Community Charter*.

Issuer Category	Investment Type	Amount	% of Total
Chartered Banks	Cash and Short-Term Deposits	\$ 672 million	49%
Provincial Governments	Fixed Income Bonds	\$ 282 million	21%
Chartered Banks	Fixed Income Bonds	\$ 159 million	12%
Chartered Banks	Term Deposits	\$136 million	10%
Credit Unions	Term Deposits	\$ 109 million	8%
Total Cash and Investment Balance (December 31, 2021)		\$ 1.36 billion	100%

Table 1: Summary of Cash and Investment Holdings by Issuer Category as of December 31, 2021

¹ Under the legislation, local governments are only permitted to invest funds in securities and principal-guaranteed investments of Canada, province, municipality or regional district, chartered bank, credit union, as well as securities and pooled investment funds of the Municipal Finance Authority (the MFA).

2021 Investment Performance

The City’s investment portfolio performance is largely driven by the market interest rate conditions (Table 2. Canadian Yield Curve). The historical low interest rate environment since the start of the COVID-19 pandemic almost two years ago has suppressed investment portfolio yields for fixed income investments and term deposit products. In 2021, the City earned an overall weighted average investment yield of 1.30% from its short-term and long-term portfolios.

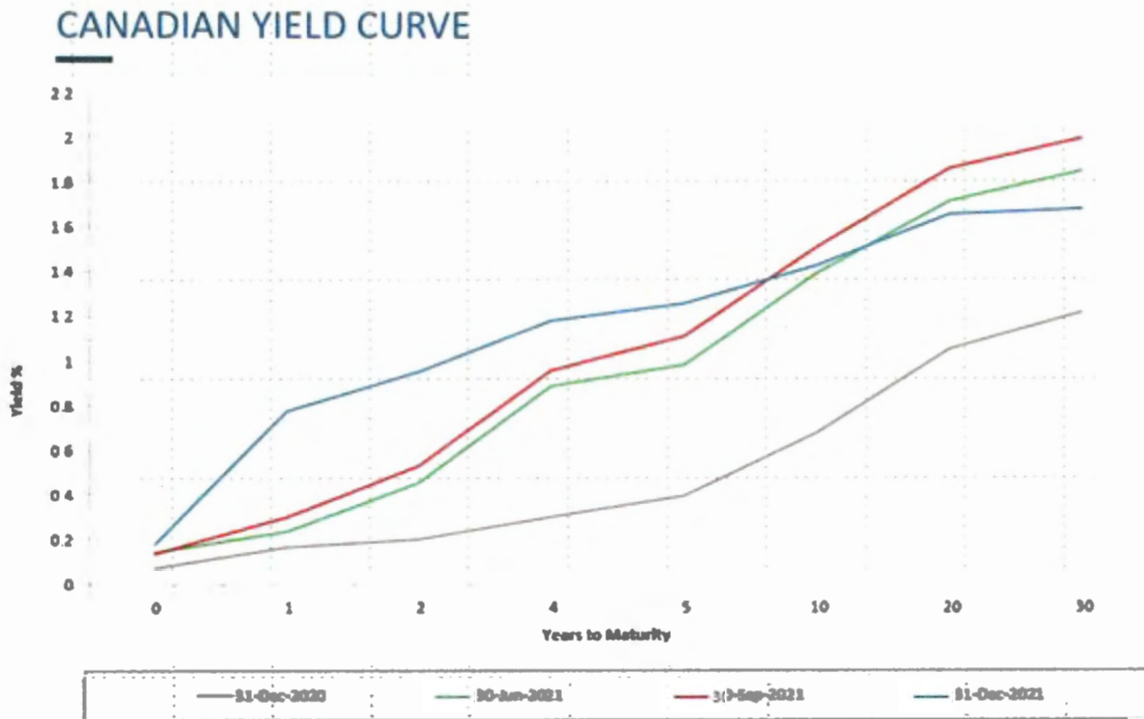


Table 2: Canadian Yield Curve Movements (Dec 31, 2020 to Dec 31, 2021)

Short-Term Funds

Due to the competitive and favourable yields on short-term and cashable products, along with the expected increase in interest rates, the City has strategically invested in short-term and high interest savings products in order to optimize the overall interest income for the City’s portfolio.

As a result of this yield maximization strategy, the City held approximately \$672 million in short-term deposits as of December 31, 2021. The short-term fund contains primarily of cash balances, cashable and short-term deposits and high interest savings accounts that are fully liquid with terms no more than 365 days. The City’s short-term fund earned an effective yield of 1.05% which exceeds the FTSE Canada T-Bill Index benchmark.

Long-Term Investment Portfolio

The City's long-term investment portfolio balance of \$687 million is comprised of a diversified range of fixed income provincial and bank bonds with straddling maturities between 1 to 7 years (with average term to maturity of 2.0 years). The 2021 average yield to maturity earned from the coupon income of these fixed income products was 1.60%. The investment return of the City's fixed income portfolio is consistent and slightly outperforms the comparable FTSE Canada Short Term Provincial Bond Index benchmark.

Interest Rate Outlook for 2022

The Bank of Canada (the Bank) kept the overnight interest rate unchanged in 2021 at the historical low level of 0.25%, which was the same level since the start of the COVID-19 pandemic in March 2020. Despite the recent winter surge of Omicron variant cases, the global economy continues to experience strong recoveries while historical high rates of inflation are occurring. The Bank signaled in their January 2022 interest rate announcement that future interest rate hikes are expected as the Bank moves to tighten monetary policy to curb inflation.

An economist's forecast is shown in Table 3 below, which projects that the Bank may start raising interest rates in Q1 2022, with projection that multiple interest rate hikes may follow.

Interest Rates	Spot Rate Jan-18	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
CANADA													
Overnight Target Rate	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50	1.75	1.75	1.75
3-mth T-Bill Rate	0.47	0.09	0.15	0.12	0.16	0.55	0.83	1.10	1.38	1.63	1.75	1.75	1.75
2-yr Govt. Bond Yield	1.28	0.22	0.45	0.53	0.95	1.45	1.60	1.70	1.80	1.85	1.85	1.85	1.85
5-yr Govt. Bond Yield	1.70	0.99	0.97	1.11	1.25	1.70	1.80	1.90	1.95	1.95	1.95	1.95	1.95
10-yr Govt. Bond Yield	1.89	1.55	1.39	1.51	1.42	1.90	2.00	2.10	2.20	2.30	2.30	2.25	2.20
30-yr Govt. Bond Yield	2.11	1.98	1.84	1.99	1.68	2.20	2.30	2.40	2.50	2.60	2.60	2.55	2.50
10-yr-2-yr Govt Spread	0.61	1.33	0.94	0.98	0.47	0.45	0.40	0.40	0.40	0.45	0.45	0.40	0.35

Table 3: Canadian Interest Rate Forecast (Source: January 2022 TD Dollar and Sense Economic Report)

The City's investment portfolio is strategically positioned with an overweight of liquid and short-term cash and high interest savings products. As interest rates rise, the City will have the opportunity to reinvest available funds at higher interest rates.

Financial Impact

None.

Conclusion

All investment activities have been conducted in compliance with the City's Investment Policy 3703. The City continues to hold and maintain a well-constructed and diversified portfolio with high credit quality in meeting the fundamental investment objectives of capital preservation, liquidity, diversification of credit risks and maximizing yield on investments.



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