City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	February 6, 2019
From:	Jerry Chong Director, Finance	**File:**	03-0900-01/2019-Vol 01
Re:	**2018 Investment Report**		

Staff Recommendation

That the staff report titled "2018 Investment Report" dated February 6, 2019 from the Director, Finance be received for information.

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

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

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Staff Report

Origin

This report provides an overview of the City's cash and investment position for fiscal year 2018.

Analysis

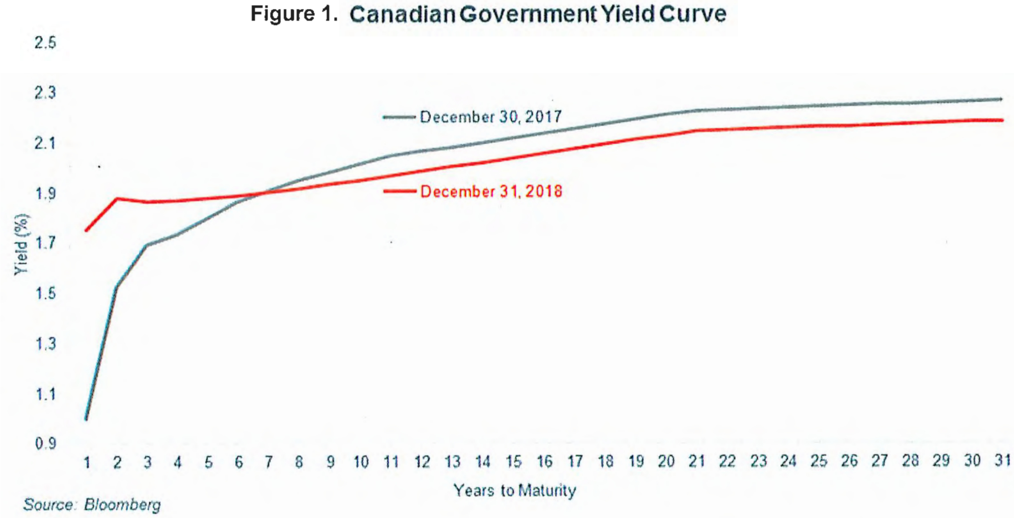
<u>Overview of Cash and Investment Position</u>

The City's Cash and Investment balance was approximately $1.12 billion as at December 31, 2018. The balance is made up of $121.0 million in cash and cash equivalents (deposits with terms 90 days or less) and $994.8 million in investments.

Cash and Cash Equivalents

The cash and cash equivalents balance of $121.0 million represents the City's short-term working capital that is required to meet ongoing operating expenditure obligations. As shown in Figure 1 below by the red line, the Canada yield curve remains relatively flat which results in little difference between short-term and long-term yields. Therefore staff have strategically placed operational funds in short-term products in order to optimize the overall yield and liquidity in an increasing interest rate environment.

Figure 1. Canadian Government Yield Curve

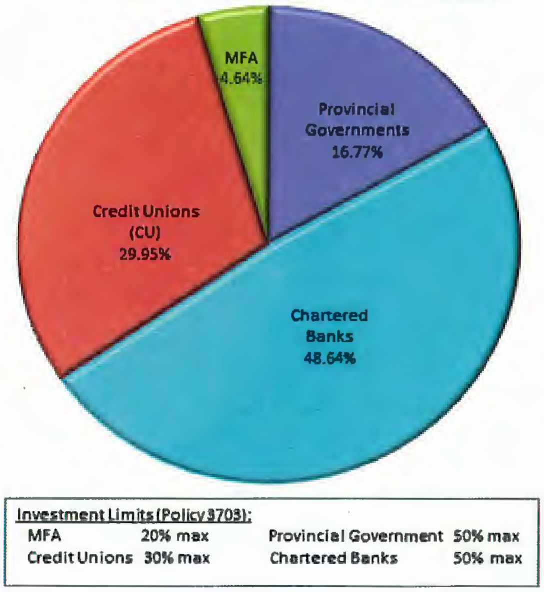


Investments

As at December 31, 2018, the City held a diversified investment portfolio of $994.8 million that complied with both Section 183 of the *Community Charter* and the City's Investment Policy 3703. The investment balance is comprised of amounts from funded but incomplete capital projects (30%), deposits and deferred revenues (15%), development cost charges (15%) and other uncommitted reserve and provision funds (40%) that will be expended in future years.

Figure 2 shows the breakdown of the City's investment by issuer type as of December 31, 2018.

Figure 2. Investment Holdings as of December 31, 2018 (by Issuer Type)



See Attachment 1 for a more detailed breakdown of the City's investment holdings.

2018 Investment Performance

The City's investment balance is comprised of a short-term portfolio and a bond portfolio. The weighted average investment yield of the City's total cash and investment portfolio was 2.38% in 2018 (2017: 2.00%) which generated approximately $24 million in investment income in 2018 (2017: $20 million).

At the end of fiscal year 2018, the City's investments were yielding approximately 2.75% as compared to the yield of 2.00% at the end of fiscal year 2017. The increase in yield of 0.75% is consistent with the Bank of Canada's interest rate increases that took place during 2018. The City's short-term investment strategy continues to play a key role in enhancing the overall yield of the City's investment portfolio. As the City's short- to mid-term investments matured throughout the year, the City was able to reposition its portfolio and realize the higher yields by reinvesting its funds at the higher prevailing market rates.

Based on comparison tables below, the City's overall investment performance for 2018 surpassed its benchmarks.

Table 1 below summarizes the yields of the City's yields in comparison with benchmarks:

Investment Category	City of Richmond's 2018 Average Yield	MFA's 2018 Average Yield	FTSE Canada 2018 Benchmarks
Short-Term Portfolio	2.49%	2.12%	1.82%
Bond Portfolio	2.27%	2.22%	2.02%
Average Term	2.26 years	2.80 years	2.94 years

Table 1: Comparison of performance with benchmarks

Table 2 below provides an overview of the movements of the relevant Canada benchmark yields for fiscal year 2018:

Benchmark	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018
3 month Canada T-Bills	1.05%	1.09%	1.25%	1.51%	1.67%
2 Year Canada Bonds	1.66%	1.80%	1.77%	2.19%	1.91%
5 Year Canada Bonds	1.82%	2.00%	1.93%	2.32%	1.93%
10 Year Canada Bonds	1.98%	2.11%	2.06%	2.42%	1.98%

Table 2: Movement of 2018 Government of Canada short-term and long-term benchmark yields. (Source: Bank of Canada)

Year 2018 in Review

The Canadian economy as a whole grew in line with economists' and the Bank of Canada's expectations. The effects of higher interest rates on consumption and housing as well as global trade policy developments were the main highlights in 2018.

The Bank of Canada raised overnight interest rate 3 times in 2018. Key monetary interest rate went from 1.00% in the beginning of the year to 1.75% at the end of the year.

Business investments and overall investor confidence fell due to the heightened trade uncertainty in the first few quarters in 2018. The conclusion of the tentative USMCA (US-Mexico-Canada) trade agreement in early October 2018 provided relief to the trade uncertainty facing Canadian businesses and will be an important ingredient in strengthening overall business confidence in the Canadian markets.

As the trade conflict between the United States and China continues, the impact is weighing on global growth and commodity prices. The persistence of the oil price shock, the evolution of business investment, and the Bank's assessment of the economy's capacity will factor importantly into the Bank of Canada's decisions about the future stance of monetary policy.

Outlook for 2019

With ongoing economic weakness alongside with rising global uncertainty, many of the same 2018 concerns will remain in play in 2019. The global trade conflict will continue to create volatility in the global economy. In Canada, provinces like Alberta and Saskatchewan will face some significant headwinds due to the oil price shock and the reduction in energy sector investments. Despite concerns over increase in household credit, regional housing markets appeared to be stabilizing following the significant slowdown in recent quarters. The Bank of Canada will continue to monitor closely the impact on both builders and buyers of tighter mortgage rules, regional housing policy changes and the impact of higher interest rates on the economy's capacity.

Weighing all of these developments, the outlook for future rate hikes from the Bank of Canada will be influenced by events outside of the country's borders. With the U.S. Federal Reserve recently changing to a more cautious tone regarding future interest rate increases (or even possible interest rate cut) due to the slowdown in momentum of the economic expansion, there is less rationale for the Bank of Canada to tighten its monetary policy in the short-run. The projection is that no further interest rate changes will take place until around mid-2019 after

Recent Updates to the Banking Sector

Effective November 1, 2018, Coast Capital Savings has been given approval by the Ministry of Finance to become a federal credit union. As a federal credit union, Coast Capital Federal Credit Union is regulated by the Office of the Superintendent of Financial Institutions (OSFI), which is the same agency that oversees Canada's major banks and financial institutions.

Deposits with Coast Capital Federal Credit Union are insured up to $100,000 through the Canada Deposit Insurance Corporation (CDIC) instead of the previous unlimited deposit insurance under the BC's Credit Union Deposit Insurance Corporation (CUDIC).

As part of the transition to federal continuation, the CDIC will provide unlimited insurance for all pre-existing term deposits at Coast Capital (i.e. deposits made with Coast Capital on or prior to October 31, 2018 until the deposit matures). Any new deposits made on or after November 1, 2018 are covered separately under CDIC's standard $100,000 deposit insurance.

The City held approximately $87.5 million in term deposits with Coast Capital as of December 31, 2018, all of which were purchased before October 31, 2018 and have been grandfathered under the CDIC unlimited insurance protection. As the deposits at Coast Capital all carry the same level of protection as deposits held under B.C. Credit Unions, these balances at Coast Capital will still continue to be classified as B.C. Credit Union deposits under the City's Investment Policy 3703 until they mature in 2019.

The City's Investment Policy (3703) currently does not have provision for investments in federal credit union issuers. Therefore, staff has prepared a separate Report to Council titled "Investment Policy 3703 Amendment" dated February 6, 2019 to propose an amendment to the City's existing Investment Policy (3703) to include this new category of issuer.

Financial Impact

None.

Conclusion

The City's investment activities for 2018 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, CPA, CA
Manager, Treasury and Financial Services
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Att. 1: Investment Portfolio Holdings as of December 31, 2018

City of Richmond
Investment Portfolio Holdings as of December 31, 2018

Issuer	**Term**	**Investment Book Value (in thousands)**	**% of Total Portfolio**	**Policy Limit**
Alberta	2019-2022	$ 68,355	6.87%	25%
British Columbia	2019	65,042	6.54%	25%
Quebec	2022-2023	22,184	2.23%	10%
Ontario	2024	11,199	1.13%	20%
	Total Provincials	$ 166,780	16.77%	50%
Bank of Nova Scotia	2019-2022	$ 142,871	14.36%	15%
TD Bank	2019-2023	116,772	11.74%	15%
Royal Bank	2019-2023	69,821	7.02%	15%
National Bank of Canada	2019-2021	43,505	4.37%	10%
HSBC Bank of Canada	2021-2023	32,173	3.23%	5%
Bank of Montreal	2022-2025	29,948	3.01%	15%
CIBC	2019-2022	24,832	2.50%	15%
Canadian Western Bank	2019	24,000	2.41%	3%
	Total Banks	$ 483,922	48.64%	50%
Coast Capital Savings	2019	$ 87,520	8.80%	10%
Vancity	2019	77,204	7.76%	10%
Gulf and Fraser	2019	49,568	4.98%	5%
Blue Shore Financial	2019	47,819	4.81%	5%
Westminster Savings	2019	35,823	3.60%	5%
	Total Credit Unions	$ 297,934	29.95%	30%
	MFA Pooled Investment Fund	$ 46,150	4.64%	20%
Total Investment Portfolio Balance		**$ 994,786**	**100%**	