



# City of Richmond

## Report to Committee

**To:** Finance Committee  
**From:** Mike Ching, CPA, CMA  
 Director, Finance  
**Re:** 2023 Investment Report

**Date:** January 10, 2024  
**File:** 03-1095-01/2024-Vol  
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### Staff Recommendation

That the staff report titled “2023 Investment Report” dated January 10, 2024 from the Director, Finance be received for information.

Mike Ching, CPA, CMA  
 Director, Finance  
 (604-276-4137)

<b>REPORT CONCURRENCE</b>	
<b>CONCURRENCE OF GENERAL MANAGER</b>	
<b>SENIOR STAFF REPORT REVIEW</b>	<b>INITIALS:</b>
<b>APPROVED BY CAO</b>	

**Staff Report**

**Origin**

The purpose of this report is to comply with the City’s Investment Policy 3703 in providing Council with information on the City of Richmond’s (the City’s) cash and investment position and performance for fiscal year 2023.

This report supports Council’s Strategic Plan 2022-2026 Focus Area #4 Responsible Financial Management and Governance:

*Responsible financial management and efficient use of public resources to meet the needs of the community.*

*4.1 Ensure effective financial planning to support a sustainable future for the City.*

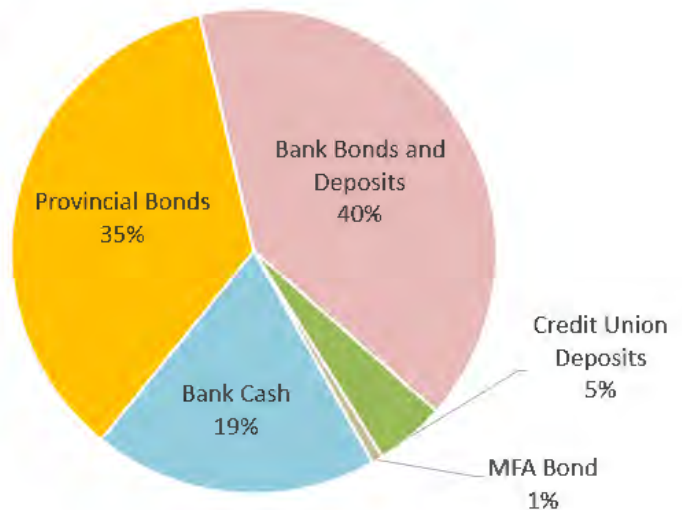
**Analysis**

**Summary of the City’s Cash and Investment Position**

The City’s cash and investment balance was approximately \$1.69 billion as at December 31, 2023. The balance was comprised of \$1.37 billion in investments and \$320 million in high interest savings cash accounts. The breakdown of the City’s cash and investment balance by issuer category as of December 31, 2023 is shown in Table 1 below.

**Table 1: Breakdown of December 31, 2023 Cash and Investment Balance**

Issuer	Investments	Amount
Banks	Bonds and Term Deposits	\$ 676 million
Provinces	Bonds	\$ 600 million
Banks	Cash	\$ 320 million
Credit Unions	Term Deposits	\$ 78 million
MFA	Bonds	\$ 12 million
<b>Total Cash and Investment</b>		<b>\$1.69 billion</b>



The aggregate net impact of the financial activities are reflected in the City’s assets (cash and investment), liabilities (deposits, restricted liabilities and working capital funds) and equity (reserve balances), as summarized in Table 2 below.

**Table 2: Composition of the City's December 31, 2023 Cash and Investment Balance**

Type	Nature of Balance	% of Total
Liabilities and Working Capital	Funds held by the City arising from operational or contractual requirements where the City has an obligation to fulfill.	20%
Development Cost Charges	Funds collected from developments to pay for current and future capital infrastructure required to support growth.	15%
Committed Reserves	Funds set aside for approved projects that are still in progress (i.e. when timing of capital approval does not coincide with cash outflow in the same fiscal period).	25%
Uncommitted Reserves	Funds set aside for specific purposes where the use of funds has to comply with the restrictions as set out in the reserve bylaw and usage has to be approved by Council.	40%

### Community Charter Section 183 and City's Investment Policy 3703

The City is only permitted to invest in the following types of investments, as prescribed under section 183 of the *Community Charter*:

- securities of Canada or of a province;
- securities guaranteed for principal and interest by Canada or by a province;
- securities of a municipality, regional district or greater board;
- investments guaranteed by a chartered bank;
- deposits in a savings institution, or non-equity or membership shares of a credit union;
- securities of the Municipal Finance Authority (MFA); and
- MFA pooled investment funds.

The City's Investment Policy 3703 (last approved by Council in February 2019) requires that the City's practices and procedures in the investment of public funds be conducted in compliance with statutory requirements of the *Community Charter*, while ensuring safety of capital, maintaining appropriate liquidity in meeting anticipated cash flow demands, and attaining a reasonable rate of return after taking into account the investment constraints and liquidity requirements.

All investment activities have been conducted in accordance with the City's Investment Policy 3703, where all cash and investment funds are invested in a diversified range of safe and high credit quality securities with Dominion Bond Rating Service (DBRS) credit rating A (high) or better and principal-guaranteed investment products.

### 2023 Investment Performance

The City's overall weighted average investment yields for 2023 was 4.5% (2022: 2.5%), which is largely driven by the market interest rate conditions.

In controlling inflation, the Bank of Canada raised interest rates three times to the current level of 5.0% during 2023 as it continued to assess incoming job and economic data. Table 3 below shows a recent economic forecast published by TD Economics, which projects that the Bank of

Canada may begin to cut interest rates during 2024 until inflation rate returns to the target level of 2.0% by year 2025.

**Table 3: Interest Rate Outlook**

Interest Rates	Spot Rate Jan-09	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
<b>CANADA</b>													
Overnight Target Rate	5.00	4.50	4.75	5.00	5.00	5.00	4.50	4.00	3.50	3.00	2.50	2.25	2.25
3-mth T-Bill Rate	5.04	4.34	4.90	5.07	5.04	4.75	4.25	3.75	3.25	2.75	2.38	2.25	2.25
2-yr Govt. Bond Yield	4.04	3.74	4.58	4.87	3.88	4.05	3.85	3.55	3.25	2.95	2.65	2.35	2.35
5-yr Govt. Bond Yield	3.34	3.02	3.68	4.25	3.17	3.35	3.30	3.05	2.85	2.65	2.60	2.60	2.60
10-yr Govt. Bond Yield	3.22	2.90	3.26	4.03	3.10	3.25	3.20	3.10	2.95	2.85	2.85	2.85	2.85
30-yr Govt. Bond Yield	3.14	3.00	3.08	3.81	3.02	3.20	3.15	3.15	3.15	3.15	3.15	3.15	3.15
10-yr-2-yr Govt Spread	-0.82	-0.84	-1.32	-0.84	-0.78	-0.80	-0.65	-0.45	-0.30	-0.10	0.20	0.50	0.50

Source: TD Economics (January 2024)

Due to the favourable market interest rate conditions in 2023, the City has actively repositioned its investment portfolio by placing available funds in securities with longer terms in order to lock in at the higher interest rates before the interest rates start to decline. Table 4 summarizes the changes in the composition of the City's investments by duration when compared to the previous calendar year when interest rate was on a rising trend.

**Table 4: Investment Holdings (Short-Term vs. Long-Term Balances)**

	December 31, 2023	December 31, 2022
Short-Term Funds	\$ 320 million	\$ 653 million
Long-Term Investments	\$ 1.37 billion	\$ 907 million
Average term to maturity	2.01 years	1.67 years

#### *Short-Term Funds*

The City's short-term fund consists primarily of cash balances, cashable products, short-term deposits with terms less than 90 days and high interest savings accounts. The City's short-term fund earned an effective average annual yield of 5.6% in 2023 that outperforms the FTSE (Financial Times Stock Exchange) Canada Treasury Bill Index, which is a selected performance benchmark in accordance the City's Investment Policy 3703.

#### *Long-Term Investments*

The City's long-term investment portfolio is comprised of a diversified range of fixed income provincial bonds, MFA bond, Canadian chartered bank bonds and term deposits with straddling maturities on average between one to five years. All fixed income bonds that the City holds are readily tradeable in the bond market so they are liquid investments that are backed by high credit quality issuers as permitted under the *Community Charter*.

The 2023 average yield to maturity of these long-term investment products was 4.3%. The investment return of the City's fixed income portfolio is consistent and outperforms the comparable FTSE Canada Short Term Provincial Bond Index benchmark, which is a selected performance benchmark in accordance the City's Investment Policy 3703.

## Updates to Environmental, Social and Governance (ESG) Disclosure Requirements for Issuers

At the 26th United Nations Climate Change Conference that took place in November 2021, a new International Sustainability Standards Board (ISSB) was announced in order to respond to a much-needed consistent approach at a global level.

The ISSB is an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards. The purpose of the ISSB is to address the disparities in the guidance and frameworks on ESG reporting. A Canadian Sustainability Standards Board (CSSB) will also liaise with the new ISSB to provide Canadian investors with a standardized approach that will guide companies on what sustainability disclosures are required to supplement their financial statements.

The ISSB published its first two Standards in June 2023:

- *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. It sets out the core content for a complete set of sustainability-related financial disclosures, establishing a comprehensive baseline of sustainability-related financial information to meet the needs of global capital markets.
- *IFRS S2 Climate-related Disclosures* sets out the requirements for a company to disclose information about its climate-related risks and opportunities, while building on the requirements described in IFRS S1. IFRS S2 integrates the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and requires the disclosure of information about both cross-industry and industry-specific climate-related risks and opportunities.

The main objective of the ISSB Standards is to elicit decision-useful information connected to financial statements that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of the investors and the financial markets. The standards are effective from January 1, 2024, but it will be for individual jurisdictions to decide whether and when to adopt. Ongoing consultation is still currently being undertaken by the CSSB, so the ISSB standards are currently voluntary in Canada.

Staff will continue to monitor the development of the ESG reporting landscape and will collaborate closely with the MFA and other municipalities to understand the evolving frameworks for ESG reporting in order to continue with the City's commitment in supporting sustainable investments practices.

### The City's ESG Rating

While a standardized ESG reporting landscape is still being developed by the regulators, the City continues to assess its investment portfolio's ESG rating on a quarterly basis using Morgan Stanley Capital International (MSCI). MSCI is one of the largest global investment research firms that provides benchmark indices and analytical services to investors.

MSCI provides ESG Rating reports to measure a company’s resilience to long-term industry-specific ESG risks. Issuers are rated on a scale from “AAA” to “CCC” (Table 5) according to their exposure to industry-specific ESG risks and their ability to manage those risks relative to their peers.

**Table 5: MSCI ESG Rating Scale**



The City’s fixed income investment portfolio continues to receive a MSCI ESG Rating of “AA” as of Q4 2023.

**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 realizing reasonable yield on investments.

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