



Staff Report

Report To: Dan Best, Chief Administrative Officer
From: **Sandy Becker, Director of Financial Services**
Date: October 15 2018
Report: FIN.18.22
Subject: Annual Investment Report

Recommendations:

That South Huron Council receives the report from Sandy Becker, Director of Financial Services/Treasurer, re: Annual Investment Report as information only.

Purpose:

The purpose of this report is to provide Council with an annual investment report on the investment portfolio for the period August 1, 2017 to July 31, 2018 inclusive, as required by Ontario Regulation 438/97.

Background and Analysis:

Ontario Regulation 438/97 of the Municipal Act, 2001 and the Municipality of South Huron's Investment Policy requires that the Treasurer submit, at least, annually a report to Council on the investment portfolio activities and returns. The following information reports on the performance of the municipality's investment portfolio for the period August 1, 2017 to July 31, 2018 inclusive.

Interest Rates

Over the reporting period interest rates have been steadily on the rise as the economy recovers. The bank of Canada rate increased from 1% to 1.75%¹

¹ https://www.bankofcanada.ca/rates/interest-rates/canadian-interest-rates/?lookupPage=lookup_canadian_interest.php&startRange=2008-09-

within the twelve month period, which translates into an increase of 75 basis points.

Many investments have a return that is directly correlated with increases in interest rates, however, bond market values tend to have the opposite effect. This is due to the fact that the new bonds are issued with higher coupon rates, therefore, existing bonds with lower coupons are worth less and when not held to maturity will generate a loss being sold at a discount.

South Huron had two bond portfolios that were beginning to generate losses as "interest" is withdrawn annually to fund Cemetery operations. As a result, the funds were removed from this type of investment and placed in short term GIC's and a high interest savings account. Both of these investments are secure and will ensure no losses are realized at disposal.

Increase in Investments

An analysis was completed on the funds in the Municipality's general bank account that is not required immediately. While maintaining a healthy minimum balance the funds have been invested in a high interest savings account earning upwards of \$5,500 per month or approximately \$66,000 per year.

Portfolio Diversification

The diversification of the investment portfolio is important in order to minimize risk. South Huron invests in short-term (within 1 year) GICs, High Interest Savings Accounts, and Money Market Funds. All of these are very stable with minimal to no risk associated.

Current Investment Portfolio

Our investment portfolio is broken down by type of investment as follows:

Type of Investment	Principal Invested (Jul. 31, 2018)	Interest Earned	Realized Gain/(Loss)
High Interest Savings Account (HISA) – OneFund General	2,703,151	82,575	
HISA – ScotiaBank General	3,009,624	9,624	
HISA – OneFund Cemetery	251,554	1,140	
Money Market – OneFund General	2,089,135	23,026	
Bond Fund – Cemetery ²	-	656	(3,045)
Universe Corporate Bond Fund – Cemetery	-	2,836	(341)
Equity Market - Cemetery	-	-	13,290
GIC – General	1,000,000	3,767	
GICs – Cemetery	559,053	10,770	
Total	9,612,517	134,394	9,904

The following is a breakdown of the portfolio into asset types. The cash represents liquid bank accounts held for General Operations, Cemetery/Trust, and Reserves. The short-term investments includes high-interest savings accounts, money market funds, and GIC's.

² The bond funds, as mentioned earlier have an inverse relationship with interest rates and with the demand for annual interest to fund Cemetery operations it was best to realize the bond fund losses while they can still be offset by the gains in the equity market. This ensured no loss of principal investment.

Investment	Balance (\$) July 31, 2018	% of Portfolio
Cash	9,839,717	50.58%
Short Term Investments	9,612,517	49.42%
Total	19,452,234	100%

Treasurer's Statement

In my opinion, the investments held by the Corporation of the Municipality of South Huron, for the period August 1, 2017 to July 31, 2018, are consistent with the investment policy and goals adopted by Council. Additionally, said investments were all prescribed securities in accordance with Section 418 (1) of the *Municipal Act, 2001* and are all eligible investments as per O.Reg. 438/97.

Operational Considerations:

As this report is being presented for information purposes only, no alternatives are presented.

South Huron's Strategic Plan:

Section 6.2.2 of the Municipality of South Huron 2015- 2019 Strategic Plan identifies key priorities and strategic directions. The following elements are supported by the actions outlined in this report:

- ✓ Administrative Efficiency and Fiscal Responsibility
- ✓ Transparent, Accountable, and Collaborative Governance

Financial Impact:

As a result of a review of our investment strategy, including analysis of cash flow requirements, together with acquiring a higher rate on a High Interest Savings Account we realized approximately \$39,000 more in interest over the previous year.

Legal Impact:

There are no legal implications for the Corporation resulting from the proposed recommendation.

Staffing Impact:

There are no staffing implications for the Corporation resulting from the proposed recommendation.

Policies/Legislation:

Ontario Regulation 438/97 of the Municipal Act, 2001
South Huron's Investment Policy (Bylaw 53-2008)

Consultation:

Dan Best, CAO

Related Documents:

Prepared by,

Angela Shipway, Financial Services Supervisor

Respectfully submitted,

Sandy Becker, Director of Financial Services