



Staff Report

Report To: Dan Best, Chief Administrative Officer
From: **Sandy Becker, Financial Services
Manager/Treasurer**
Date: October 2 2017
Report: FIN.17.21
Subject: Annual Investment Report

Recommendations:

That South Huron Council receives the report Sandy Becker, Financial Services Manager/Treasurer, re: Annual Investment Report for information.

Purpose:

The purpose of this report is to provide Council with an annual investment report on the investment portfolio for the period August 1, 2016 to July 31, 2017 inclusive, as required by Ontario Regulation 438/97.

Background and Analysis:

Ontario Regulation 438/97 of the Municipal Act, 2001 and the Municipalities 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, 2016 to July 31, 2017 inclusive.

Interest Rates

In 2017 interest rates remained low for the first two quarters of 2017 with the Bank of Canada rate at 0.5%. Rates did not increase until the middle of

July 2017.¹ Although lower rates are beneficial for borrowing purposes the opposite is true for investments.

Investment Strategy The primary objectives of the Municipality's investment activities, as defined in Investment Policy (By-Law 53-2008) is, adherence to statutory requirements, preservation of capital, sufficient liquidity to meet all cash flow requirements and to maximize the rate of return earned on our investment portfolio. The majority of our investment portfolio remains in securities with relatively low risk.

The Municipality does hold a few longer term portfolios with OneFund that fluctuate when analyzed on an annual basis. With these investments the time horizon is important as they are intended for periods greater than five years. Risk is higher, however expected return is also higher. The greater the time horizon can minimize risk as the likelihood of withdrawing the funds in a high performing year increases.

Although these are riskier investments the Municipal Act restricts these to the most stable industries. Thus, minimizing risk associated with public funds.

Current Investment Portfolio

Bank Accounts Bank accounts are considered an investment as they are interest bearing accounts. Below is a summary of the current accounts. The average return on these chequing accounts was 0.90%.

Account	Balance, as of July 31, 2017	Interest Earned (Aug 2016-July 2017)
General	\$8,324,437	\$74,860
Cemetery	\$26,759	\$230
Reserve	\$2,321,791	\$20,809
Total	\$10,672,987	\$95,899

OneFund Investments The One investment program is designed for the Ontario public sector to provide investment opportunities that adhere to the

¹ <http://www.bankofcanada.ca/rates/interest-rates/canadian-interest-rates/>

guidelines documented in the Municipal Act, 2001. The program enables Municipalities to pool funds and expand their investment capacity.

The Municipality of South Huron holds a diverse portfolio within the OneFund Investments ranging from a high interest savings account to bond funds and equity funds. All of these funds are subsequently invested in stable, diversified bonds and equities to ensure the safety of public assets.

The operational funds are invested in the high interest savings account (HISA) and the money market. Both of these investments are highly liquid to ensure availability of funds as needed. The HISA is currently earning interest of 1.665% as of September 2017.

Cemetery trust funds (Care & Maintenance) are invested in the bond fund, universe corporate bond fund and the equity portfolio. These portfolios are recommended for longer term investments of 5+ years. The capital portion of the cemetery trust funds cannot be used and will remain a longer term investment, therefore the bond and equity portfolios are a suitable investment option for these funds. The potential for higher returns are more likely in these investments as well. As interest rates begin to rise, the market value of the bonds is expected to decrease, however, will retain its stated yield if held until maturity. Therefore, it is reasonable to see the market value of the bond funds below decrease although we anticipate an overall return upon maturity.

Investment Type	Initial Investment	Opening Market Value	Closing Market Value	Interest Earned
High Interest Savings Account (HISA)	NA	\$2,594,298	\$2,620,575	\$26,277
Money Market	\$2,000,000	\$2,057,201	\$2,066,109	\$8,908
Bond Fund	\$60,000	\$60,175	\$58,203	\$1,292
Universe Corporate Bond Fund	\$220,000	\$235,401	\$222,206	\$13,333
Equity Market	\$100,000	\$101,473	\$108,847	N/A

GIC Investments The Municipality holds a number of short term GIC investments within the 1-3 years maturity range. Upon maturity the Treasurer requests interest rate quotes from the banks and selects the highest rate for investment.

	Principal Invested (July 31, 2017)	Average Annual Return
Guaranteed Investment Certificates (GIC's)	\$684,349	1.74%

The average return for the chequing accounts was 0.90%. For the period August 1, 2016 to July 31, 2017 the GIC investments earned more than the funds would have earned in a chequing account and are therefore considered successful.

Portfolio Breakdown The following is a breakdown of the components in the portfolio as of July 31, 2017. The cash balance is comprised of the aforementioned general, cemetery and reserve chequing accounts. The short term investments represent the GIC's, HISA and Money Market funds. Lastly, the long term investments represent the bond funds and equity markets.

Investment	Balance (\$) July 31, 2017	% of Portfolio
Cash	\$10,672,986	64.95%
Short Term Investments	\$5,371,033	32.68%
Long Term Investments	\$389,255	2.37%
Total	\$16,433,275	100%

Treasurer's Statement

In my opinion, the investments held by the Corporation of the Municipality of South Huron, for the period August 1, 2016 to July 31, 2017, are consistent with the investment policy and goals adopted by Council. In addition, said investments were all prescribed securities in accordance with Section 418

(1) of the Municipal Act, 2001 and are all eligible investments as per Ontario Regulation 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:

There is no financial impact as a result of this report as it is for information purposes.

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

Respectfully submitted,

Sandy Becker, Financial Services Manager/Treasurer