

**TO:** CHAIR AND MEMBERS  
FINANCIAL MANAGEMENT COMMITTEE

**DATE:** 2018 January 10

**FROM:** DIRECTOR FINANCE

**FILE:** 7500-01

**SUBJECT:** CITY INVESTMENTS – 2017 YEAR END REPORT

**PURPOSE:** To provide an update on the 2017 Investment Program and present a forecast for 2018.

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**RECOMMENDATION:**

1. **THAT** this report be received for information purposes.

**REPORT**

Part 6, Division 3, Section 183 of the Community Charter states that the City may invest or reinvest money that is not immediately required for expenditures. Council has assigned the responsibility for the management of the investment portfolio to the Director Finance (Bylaw No. 11553). This report provides an update on the 2017 investment program and presents a forecast for 2018.

The City of Burnaby Investment Fund on 2017 December 31, totaled \$1,324,184,026.12 (2016 – \$1,100,947,412.54). The fund is represented by a single investment portfolio and includes restricted funds such as Development Cost Charges, allocated funds such as Community Benefit Bonus funds and all other reserve funds.

**1.0 2017 UPDATE****1.1 Investment Funds**

Internal management of the investment portfolio, guided by the legislative requirements of the *Community Charter* and internal policies, provides the City with the flexibility required to meet operational and capital requirements, while meeting corporate strategic goals. The City's investment portfolio grew in 2017, generating \$45.1 million (3.22%) return on investments (2016 – \$44 million 3.62%), despite low market yields.

The City invests in both short and long-term products to ensure adequate cash flow liquidity and long-term sustainable growth. A portion of the portfolio's investments is held in money market instruments until cash is required for expenditures. The City's Investment Fund is therefore directly impacted by changes in both short and long-term interest rates.

The Bank of Canada conducts monetary policy through adjustments to the Target for the Overnight Rate which affects deposit, loan and other interest rates. This rate opened the year at 0.50% and

closed on 2017 December 31 at 1.00%. Longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year despite historical lows in money market and bond market yields. However, the percentage of the portfolio in these longer term investments has decreased as maturities have occurred.

The City of Burnaby's investment portfolio consists of debt issued by the Federal Government of Canada, approved Provinces of Canada, Canadian Banks and Credit Unions as identified in Attachment 1. The City may also invest in one of three funds offered by the Municipal Finance Authority of British Columbia (MFA-BC); however, the City currently does not have investments in these funds. All three funds offered by the MFA-BC include corporate debt which typically provides for increased yields. The Community Charter restricts the City from investing in corporate debt unless we invest directly into the MFA-BC's funds. Table 1 provides 2017 average interest rates and comparable returns.

**Table 1: Market Interest Rates**

	<b>2017 Low %</b>	<b>2017 High %</b>	<b>2017 Average %</b>
90 Day Banker's Acceptance	0.81	1.48	1.09
3 Month Treasury bill	0.43	1.05	0.69
2 Year Government of Canada Bonds	0.66	1.69	1.09
10 Year Government of Canada Bonds	1.39	2.13	1.78
30 Year Government of Canada Bonds	1.96	2.52	2.28
MFA-BC Money Market Fund (term under 1 year)*			0.87
MFA-BC Intermediate Fund (term 1 – 3 years)*			0.82
MFA-BC Bond Fund (term greater than 3 years)*			0.69
<b>City of Burnaby 2017 Return</b>			<b>3.22</b>

\*Source: MFA-BC 2017 year to date return as at 2017 November 30

In 2017 the City invested in a Bank of Montreal Socially Responsible Investment (SRI) product which is fossil fuel free. Investments in SRI funds consider both financial return and social good to bring about a positive social change. Through the direction and guidance of Council, the City also continued discussions with the MFA-BC to provide advisory support for the creation of a new MFA-BC SRI fund.

## **1.2 Investment Guarantors and Banking Relationships**

Treasury Services monitors the guarantors we invest in as part of our ongoing risk mitigation strategy and investment procedures. The City's investment banking relationships remained consistent during 2017 for long-term investments. RBC Capital Markets, TD Securities, CIBC-Wood Gundy, Scotia Capital, BMO-Nesbitt Burns and Raymond James were the City's lead investment bankers. For short-term money market investments, the City invested with British Columbia, Alberta and Saskatchewan Credit Unions. In 2017 the City began investing in term deposits issued by Federation Des Caisses Desjardins, the largest co-operative in Canada, serving over 7 million members and over \$250 billion in total assets. Also in 2017, the City began investing directly into bonds issued by the MFA-BC.

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From: Director Finance  
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Coast Capital Savings Credit Union has received the necessary approvals and is currently in the process of deregistering as a British Columbia credit union and in turn registering as a federal credit union. The City plans on maintaining our investment relationship with Coast Capital and will adjust the guarantor limits when the transition takes place.

The City's portfolio growth over the last decade means increased investment limits are required to remain well diversified and to ensure the City's continued ability to deploy funds into the market with the flexibility that a large portfolio requires. Diversification is essential for managing investment risk and return. The 2018 guarantor limits are identified in Attachment 1.

## **2.0 OUTLOOK FOR 2018**

While interest rates have increased slightly over the past year and markets are pricing in additional central bank rate hikes, the impact on the City's investment yield will remain negligible. Interest rates remain at historical lows, translating into a lower rate of return.

Being tracked closely by the City, and a major concern for Canadian municipalities is the implementation of *Bill 15-C, Budget Implementation Act 2016, Division 5 – Bank Recapitalization Regime*. This bill will be fully operationalized in 2018. The legislation provides that investors of specified investment products of the bank will carry the burden of bank recapitalization should the particular bank become non-viable. The Federal Government will be providing final guidelines in the next few months. The City of Burnaby, in conjunction with Metro Vancouver, is obtaining a legal opinion on the investment implications and limitations; in particular to the guidelines stated within the *Community Charter*. The final guidelines may limit the City's ability to invest long-term in various bank products, which will further erode investment yield for the City. Upon determination of the severity of impact and conflicting limitations within the *Community Charter*, further communication to Council will be provided.

For the City of Burnaby, 2018 investments will continue to be affected by the extreme low interest rate environment and legislative changes. As longer term investments mature, reinvestment at lower interest rates will result in lower annual portfolio yields. The City is projecting an annual yield of 3.00% for 2018 and \$44.5 million in investment income.

## **3.0 CONCLUSION**

Diversification and a conservative investment strategy have provided the City with a 2017 return of \$45.1 million at an annual yield of 3.22% on the City's Investment Fund. For 2018, Treasury Services will continue to monitor money and fixed income markets for investment opportunities to provide liquidity, capital preservation and yield management thus allowing the City to meet the corporate strategic goals for a dynamic community and thriving organization.



Noreen Kassam, CPA, CGA  
DIRECTOR FINANCE

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Attachment 1 – City of Burnaby – Investment Limits for 2018

Copied to: City Manager

# City of Burnaby

## Investment Limits for 2018

## Attachment 1

<u>SECURITIES CATEGORY</u>	<i>Short-term Investments</i> <u>DBRS Ratings</u>	<i>Long-term Investments</i> <u>DBRS Ratings</u>	<u>Investment Limits</u>	<u>Portfolio % Mix</u>
Federal & Federal Guaranteed	R1 – High	AAA	No Limit	
<b>TOTAL FEDERAL &amp; FEDERAL GUARANTEED</b>			<b>No Limit</b>	<b>No Limit</b>
Coast Capital Savings CU (\$60M max)	R1 – Low	BBB High	\$ 160,000,000	
Gulf & Fraser Credit Union (\$35M max) dba G&F Financial	Not Rated	Not Rated		
North Shore Credit Union (\$35M max) aka BlueShore Financial	Not Rated	Not Rated		
VanCity Savings CU (\$60M max)	R1 – Low	Not Rated		
Westminster Savings CU (\$35M max)	Not Rated	Not Rated		
<b>TOTAL BRITISH COLUMBIA CREDIT UNIONS *</b>			<b>\$ 160,000,000</b>	<b>25% Max</b>
Servus Credit Union (\$75M max)	Not Rated	Not Rated	\$ 150,000,000	
First Calgary Financial (\$75M max)	Not Rated	Not Rated		
<b>TOTAL ALBERTA CREDIT UNIONS **</b>			<b>\$ 150,000,000</b>	<b>25% Max</b>
Affinity Credit Union (\$30M max)	R1 – Low	Not Rated	\$ 60,000,000	
Conexus Credit Union (\$30M max)	Not Rated	Not Rated		
<b>TOTAL SASKATCHEWAN CREDIT UNIONS ***</b>			<b>\$ 60,000,000</b>	<b>10% Max</b>
Desjardins	R1 – High	AA	\$ 60,000,000	
<b>TOTAL QUEBEC CREDIT UNIONS</b>			<b>\$ 60,000,000</b>	<b>5% Max</b>
Alberta	R1 – High	AA	\$ 100,000,000	
British Columbia	R1 – High	AA High	\$ 160,000,000	
Manitoba	R1 – Middle	A High	\$ 80,000,000	
Municipal Finance Authority	R1 – High	AAA	\$ 100,000,000	
New Brunswick	R1 – Middle	A High	\$ 70,000,000	
Nova Scotia	R1 – Middle	A High	\$ 70,000,000	
Ontario	R1 – Middle	AA Low	\$ 100,000,000	
Prince Edward Island	R1 – Low	A Low	\$ 60,000,000	
Saskatchewan	R1 – High	AA	\$ 100,000,000	
Quebec	R1 – Middle	A High	\$ 90,000,000	
<b>TOTAL PROVINCES</b>			<b>\$ 930,000,000</b>	<b>60% Max</b>
Bank of Montreal	R1 – High	AA	\$ 160,000,000	
CIBC	R1 – High	AA	\$ 160,000,000	
Royal Bank	R1 – High	AA	\$ 160,000,000	
Scotia Bank	R1 – High	AA	\$ 160,000,000	
Toronto Dominion Bank	R1 – High	AA	\$ 160,000,000	
Canadian Western Bank	R1 – Low	A Low	\$ 60,000,000	
Manulife Bank of Canada	R1 – Middle	A High	\$ 60,000,000	
National Bank of Canada	R1 – Middle	AA Low	\$ 80,000,000	
<b>TOTAL SCHEDULE 'I' BANKS</b>			<b>\$ 1,000,000,000</b>	<b>60% Max.</b>
<b>TOTAL SCHEDULE 'II' BANKS</b>			<b>\$ 0</b>	<b>10% Max.</b>

\* British Columbia Credit Unions are CUDIC guaranteed

\*\* Alberta Credit Unions are CUDGC guaranteed and ensured by the Province of Alberta

\*\*\* Saskatchewan Credit Unions are CUDGC guaranteed