

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

**DATE:** 2019 January 14

**FROM:** DIRECTOR FINANCE

**FILE:** 7500-01

**SUBJECT:** CITY INVESTMENTS – 2018 YEAR END REPORT

**PURPOSE:** To provide an update on the 2018 Investment Portfolio and present a forecast for 2019.

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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 2018 investment portfolio and presents a forecast for 2019.

The City of Burnaby Investment Portfolio on 2018 December 31, totaled \$1,696,166,744.72 (2017 – \$1,324,184,026.12). The portfolio holds all of the City's reserve funds and reserves including restricted funds such as Development Cost Charges and allocated funds such as Community Benefit Bonus funds.

**1.0 CORPORATE STRATEGIC PLAN**

The investment activities have a positive impact on the community through alignment with the City of Burnaby's Corporate Strategic Plan by supporting the following goals and sub-goals:

**A Connected Community**

- Partnership

**A Dynamic Community**

- Economic opportunity
- Community development

**A Thriving Organization**

- Financial Viability

## **2.0 2018 SIGNIFICANT EVENTS**

### **2.1 *Investment Portfolio***

Despite continued low market yields, in 2018 the City generated \$53.8 million (3.16%) return on investments (2017 – \$45.1 million, 3.22%).

Internal management of the investment portfolio, guided by the legislative requirements of the *Community Charter* and internal policies, provides flexibility required to meet operational and capital requirements, while meeting corporate strategic goals. In 2018, the Association of Public Treasurers of the United States & Canada presented the City of Burnaby with the Associations Investment Policy Certificate of Excellence Award. Policy certification is assurance that the City of Burnaby is abiding by a professional set of standards for the management of public funds and confirmation that the City is maintaining a policy framework that includes prudence, diversification, strong internal controls, delegation of authority, annual review and adoption, and reporting transparency.

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 of Burnaby Investment Portfolio 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 1.00% and closed on 2018 December 31 at 1.75%. Longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year. However, the percentage of the portfolio in these longer term investments has decreased as maturities have occurred and re-investment is made into shorter term investments which are providing better value than longer term investments.

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 across Canada as identified in Attachment 1. The City may also invest in one of three investment pooled funds offered by the Municipal Finance Authority of British Columbia (MFA-BC). 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. The City currently does not hold any investments in MFA pooled funds as higher yields have been obtained outside of these options.

Table 1 provides 2018 average interest rates and comparable returns.

**Table 1: Market Interest Rates**

	<b>2018 Low %</b>	<b>2018 High %</b>	<b>2018 Average %</b>
90 Day Banker's Acceptance	1.51	2.24	1.84
3 Month Treasury bill	1.05	1.73	1.37
2 Year Government of Canada Bonds	1.68	2.36	1.99
10 Year Government of Canada Bonds	1.95	2.60	2.28
30 Year Government of Canada Bonds	2.13	2.58	2.36
MFA-BC Money Market Fund (term under 1 year)*			1.58
MFA-BC Intermediate Fund (term 1 – 3 years)*			1.49
MFA-BC Bond Fund (term greater than 3 years)*			0.50
<b>City of Burnaby 2018 Return</b>			<b>3.16</b>

*\*Source: MFA-BC 2018 year to date return as at 2018 November 30*

In 2018 the City continued discussions with the Municipal Finance Authority of British Columbia around alternative investment pool strategies, including the creation of a Mortgage Fund. Treasury Services is reviewing this opportunity as a possible investment vehicle for a portion of the portfolio.

The City currently invests 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. The City will continue to review further investment opportunities in SRI products when they are available.

## **2.2 Investment Limits and Banking Relationships**

Treasury Services monitors the financial institutions we invest in as part of our ongoing risk mitigation strategy and investment procedures. The City's investment banking relationships remained consistent during 2018 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 2018 the City began investing in term deposits issued by Ontario Credit Unions which includes Alterna, First Ontario and Meridian and represents the three largest credit unions in the Province. Effective 2018 November 01, Coast Capital Savings Credit Union completed the process of deregistering as a British Columbia credit union and became a federal credit union.

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. For 2019, Innovation Credit Union, Saskatchewan, the third largest credit union in the Province, has been added to the financial institutions list and will

provide further diversification within that sector. In addition, the City is adding Translink (South Coast British Columbia Transportation Authority). The 2019 limits with corresponding Dominion Bond ratings are identified in Attachment 1.

### **3.0 OUTLOOK FOR 2019**

While interest rates have increased slightly over the past year, the central banks are now pausing to reassess economic growth and momentum. Many geo-political factors are affecting the markets and economic stability in North America and globally. Interest rates remain near historical lows, translating into an overall lower rate of return on both short term and long term investments.

For the City of Burnaby, 2019 investments will continue to be affected by the low interest rate environment. 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 3.04% for 2019, translating to \$51 million in investment interest income.

### **4.0 CONCLUSION**

Diversification and a conservative investment strategy have provided the City with a 2018 return of \$53.8 million at an annual yield of 3.16% on the City's Investment Portfolio. For 2019, Treasury Services will continue to monitor both 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 connected community, dynamic community and thriving organization.



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DIRECTOR FINANCE

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Attachment: 1 – City of Burnaby Investment Limits for 2019

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## CITY OF BURNABY

## INVESTMENT LIMITS FOR 2019

	<i>Short-term Investments</i> <u>DBRS Rating</u>	<i>Long-term Investments</i> <u>DBRS Rating</u>	<u>Investment Limits</u>	<u>Portfolio % Mix</u>
Federal & Federal Guaranteed	R1 - High	AAA	No Limit	
<b>TOTAL FEDERAL &amp; FEDERAL GUARANTEED</b>			No Limit	No Limit
Gulf & Fraser Credit Union dba G&F Financial (\$35M max)	Not Rated	Not Rated	\$ 160,000,000	
North Shore Credit Union dba BlueShore Financial (\$35M max)	R1 - Low	BBB High		
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>			\$ 160,000,000	25% Max
First Calgary Financial (\$75M max)	Not Rated	Not Rated	\$ 150,000,000	
Servus Credit Union (\$75M max)	Not Rated	Not Rated		
<b>TOTAL ALBERTA CREDIT UNIONS</b>			\$ 150,000,000	25% Max
Affinity Credit Union (\$30M max)	R1 - Low	Not Rated	\$ 75,000,000	
Conexus Credit Union (\$30M max)	R1 - Low	Not Rated		
Innovation Credit Union (\$20M max)	R1 - Low	Not Rated		
<b>TOTAL SASKATCHEWAN CREDIT UNIONS</b>			\$ 75,000,000	15% Max
Alternia Credit Union (\$25M max)	Not Rated	Not Rated	\$ 60,000,000	
First Ontario Credit Union (\$25M max)	Not Rated	Not Rated		
Meridian Credit Union (\$25M max)	Not Rated	Not Rated		
<b>TOTAL ONTARIO CREDIT UNIONS</b>			\$ 60,000,000	5% Max
Federation des caisses Desjardins du Quebec	R1 - High	AA	\$ 60,000,000	
<b>TOTAL QUEBEC CREDIT UNIONS</b>			\$ 60,000,000	5% Max
Coast Capital Savings CU (\$60M max)	R1 - Low	BBB High	\$ 60,000,000	
<b>TOTAL FEDERAL CREDIT UNIONS</b>			\$ 60,000,000	5% Max
Municipal Finance Authority	R1 - High	AAA	\$ 120,000,000	
TransLink (South Coast BC Transportation Authority)	R1 - Middle	AA	\$ 60,000,000	
<b>TOTAL REGIONAL DISTRICT / GREATER BOARD</b>			\$ 180,000,000	25% Max
Alberta	R1 - High	AA	\$ 120,000,000	
British Columbia	R1 - High	AA High	\$ 160,000,000	
Manitoba	R1 - Middle	A High	\$ 80,000,000	
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	
Quebec	R1 - Middle	A High	\$ 90,000,000	
Saskatchewan	R1 - High	AA	\$ 100,000,000	
<b>TOTAL PROVINCES</b>			\$ 850,000,000	60% Max
Bank of Montreal	R1 - High	AA	\$ 160,000,000	
Bank of Nova Scotia	R1 - High	AA	\$ 160,000,000	
Canadian Imperial Bank of Commerce	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	
Royal Bank of Canada	R1 - High	AA	\$ 160,000,000	
Toronto Dominion Bank	R1 - High	AA	\$ 160,000,000	
<b>TOTAL SCHEDULE 'I' BANKS</b>			\$ 1,000,000,000	60% Max
<b>TOTAL SCHEDULE 'II' BANKS</b>			\$ 0	10% Max