

A nighttime photograph of a city street. On the right, a large, ornate clock tower is illuminated with warm yellow lights. The clock faces are visible. To the left, a street lamp with a blue-tinted light is visible. The background shows other city buildings and streetlights.

AC2020-0442
2019 Annual Investment Report
April 20, 2020





Investment Governance

- ▶ Investment management is guided by two City policies:
 - ▶ Investment Governance Policy (*CFO001*)
 - ▶ Investment Policy (*CFO007*)

- ▶ The Investment Advisory Committee (IAC) is responsible for investment and risk oversight to ensure investments are optimally managed in accordance with legislation and Council Policy

- ▶ All internally and externally managed portfolios were in compliance with Policy in 2019

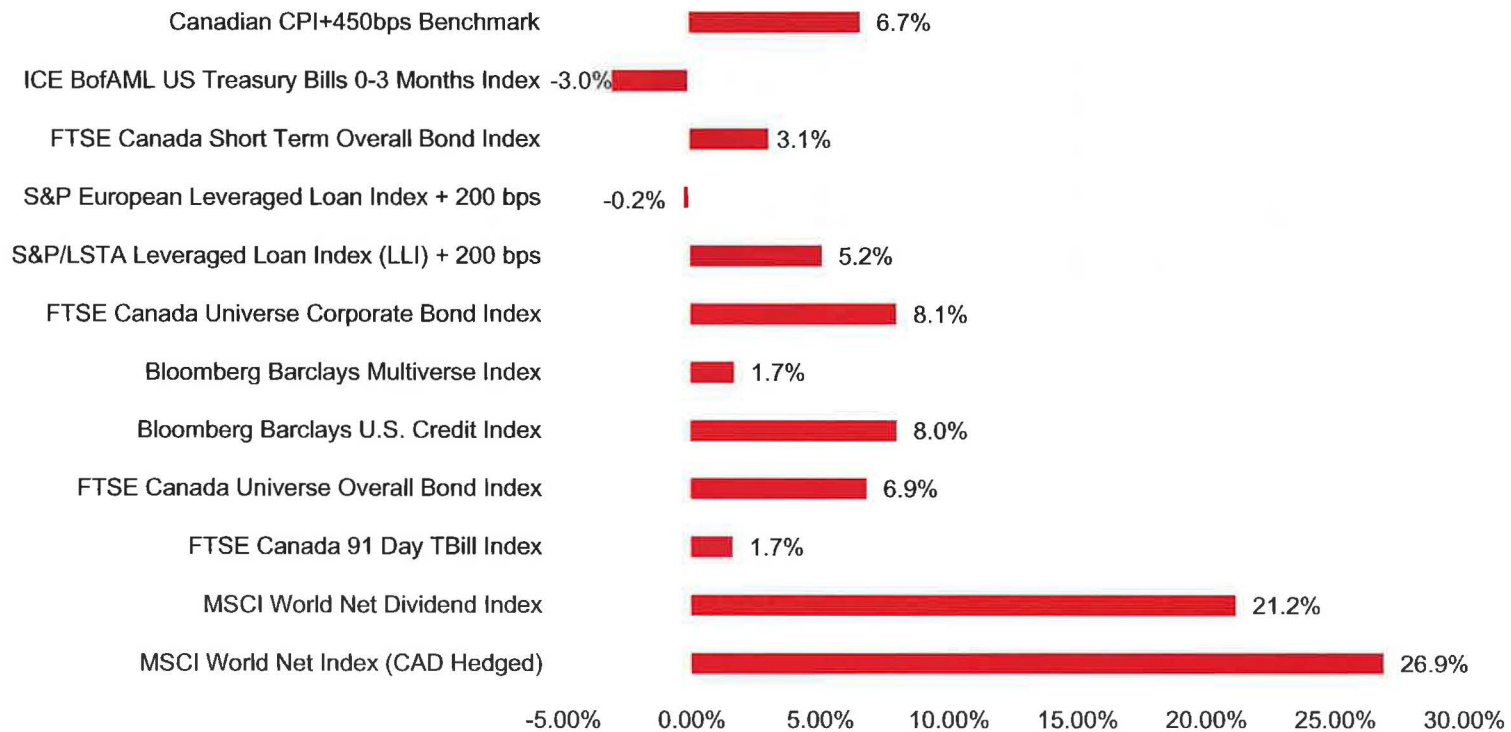
- ▶ The City has three primary investment objectives:
 - ▶ Capital Preservation
 - ▶ Risk Mitigation
 - ▶ Investment Return



2019 Market Overview

- ▶ Strong performance in global equity markets. Many indices ended the year at (or near) all-time highs
- ▶ Progress made on U.S. – China trade relations and Brexit deal was agreed.

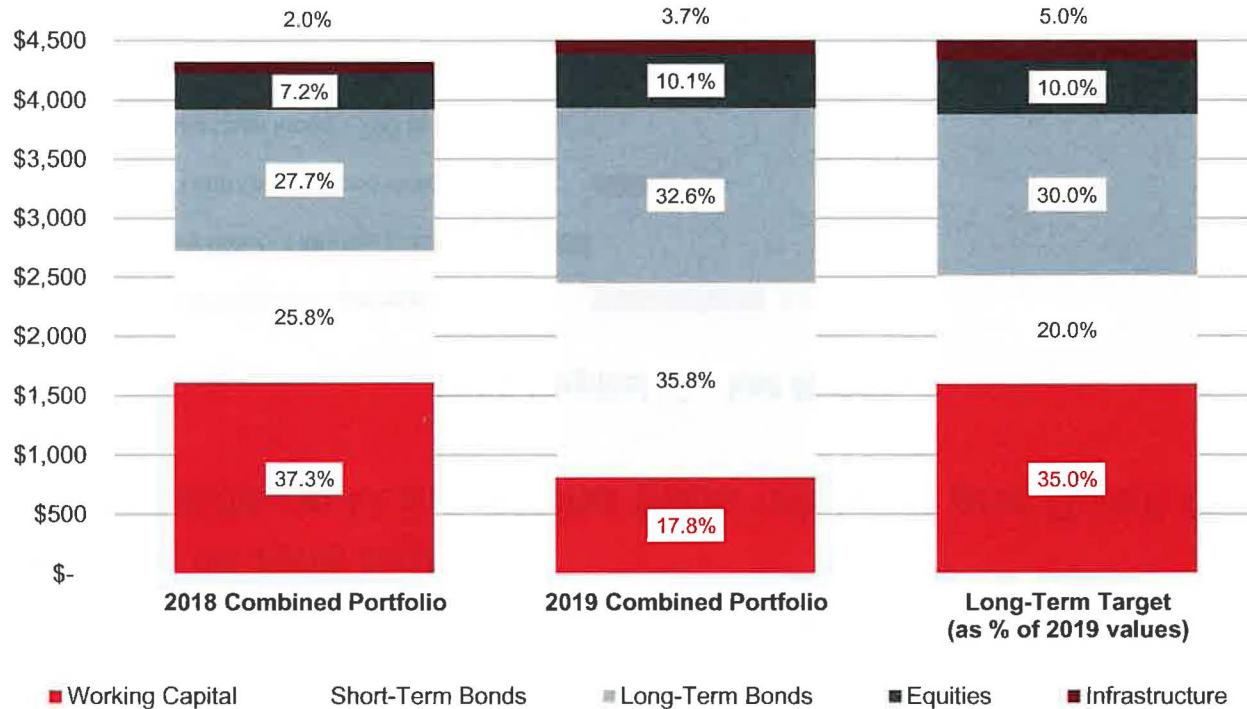
2019 Capital Market Returns



2019 Investment Summary

- ▶ In 2019, the market value of total investments under management was \$4.6 billion, up \$0.26 billion from \$4.3 billion in 2018.

Asset Mix as at December 31, 2019

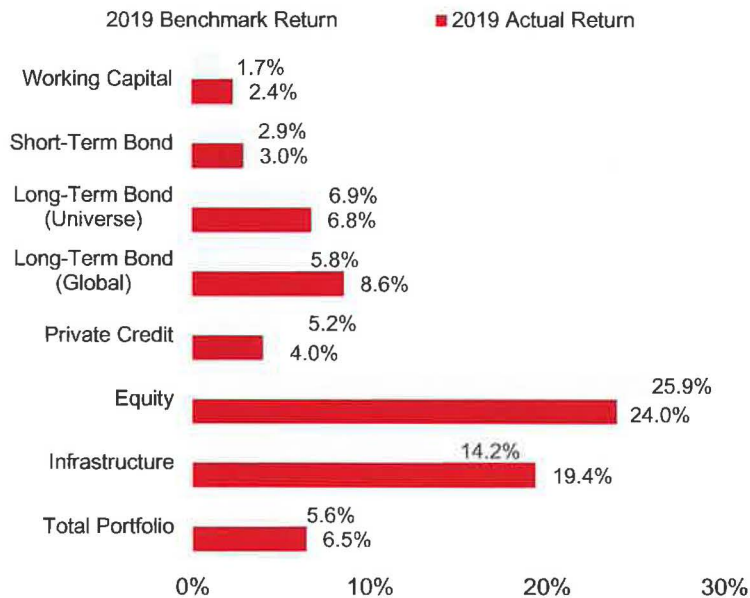




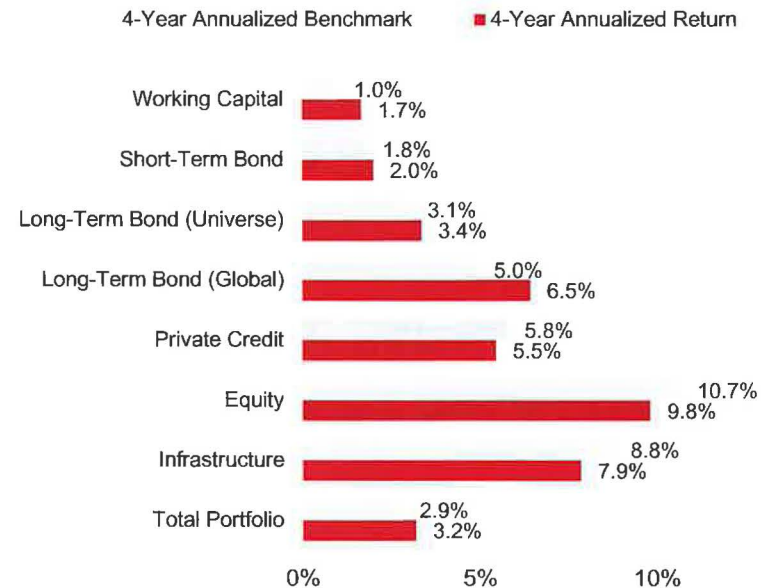
2019 Investment Summary

- ▶ Total investments returned 6.5% compared to the benchmark return of 5.6%
- ▶ \$211 million of investment income was generated for The City
- ▶ Equity was the strongest performer, returning 24.0%
- ▶ Internally managed portfolios returned 2.4.% against a benchmark of 1.7%.
- ▶ Total portfolio exceed benchmark on a 4-year annualized basis

2019 Annualized Returns



4-Year Annualized Returns





Current Market Conditions

- ▶ Coronavirus has negatively impacted global economies and financial markets. As of March 31, TSX was down 21.6% and S&P was down 20.0%.
- ▶ Dollar has weakened from 1.2965 to 1.4187 per US dollar.
- ▶ The Bank of Canada cut its overnight rate from 1.75% to 0.25%
- ▶ The WTI oil price from \$61.06 at year end to \$20.48 on March 31, 2020, a reduction of 66.5%.
- ▶ The City maintains a strong cash position with no liquidity challenges at this time.



Potential Policy Limit Breach

- ▶ City Council has approved a number of measures to support citizens as a result of the COVID-19 pandemic.
- ▶ Many of these measures have a short-term cash impact.
- ▶ As working capital comprises part of the current overall asset mix, a significant draw on The City's cash will put the portfolio offside other limits.
- ▶ Treasury consulted with Finance's Internal Controls & Policy Coordination group on how to deal with a potential breach.



Potential Policy Limit Breach

- ▶ On April 2, 2020, The City's Investment Advisory Committee met and approved the following recommendation:
 - ▶ That the IAC approved Treasury staff to operate the investment portfolio outside the following limits set in CFO007 until December 31, 2020:
 - ▶ 5.5.5.3 (a) – 20% maximum limit on commercial mortgages
 - ▶ 5.5.5.3 (d) – 20% maximum limit on global bonds
 - ▶ 5.5.5.4 (a) – 10% maximum limit on public equities
 - ▶ 5.5.5.4 (b) – 5% maximum limit on infrastructure equities
- ▶ Treasury reports quarterly to the IAC on asset mix compliance
- ▶ Administration will provide detailed reporting on any breach as well as remediation in the 2020 Annual Investment Report.



New Investment Policy Development

The significant changes from the previous policy are as follows:

- ▶ Investment and Governance Policy
 - ▶ New Investment & Governance Policy replaces and merges the previous Investment Policy (CFO007) and Investment Governance Policy (CFO001).
- ▶ Funds Admin Policy
 - ▶ This policy identifies the source, purpose, and investment objectives of the funds Treasury invests on behalf of The City.
- ▶ Investment Portfolios Admin Policy
 - ▶ New CFOD (Internal) policy detailing the six asset class portfolios that City funds are invested in and it will provide more detail and clarity than previous CFO007 policy.



Going Forward

- ▶ Continue to seek opportunities to enhance return and improve diversification.
- ▶ Detailed analysis of cash flow profiles to better optimize liquidity
- ▶ Improved risk reporting and portfolio analytics

Recommendation

- ▶ That the Audit Committee recommend that Council receive the 2019 Annual Investment Report for information

