

**Region of Waterloo**

**Corporate Services**

**Treasury Services**

---

**To:** Administration and Finance Committee

**Meeting Date:** August 15, 2023

**Report Title:** Investment Position at June 30, 2023

---

**1. Recommendation**

For Information.

**2. Purpose / Issue:**

To report on the Region's investment position as at June 30, 2023.

**3. Strategic Plan:**

The Region's prudent use of investment maturity laddering and regular monitoring of cash flow supports the Corporate Strategic Plan's Responsive and Engaging Public Service Focus Area Strategic Objective 5.4: Ensure the Region provides value for money and long term financial sustainability.

**4. Report Highlights:**

- The Municipal Act and the Region's Consolidated Investment Policy govern the Region's investing activities. All investments are verified to comply with the Region's Consolidated Investment Policy at the time of purchase.
- Investment balances are increasing in alignment with modest increases in reserves and reserve funds. Short term rate increases will result in increased investment income to be attributed to reserves and reserve funds.
- Cash flow balances are healthy and staff do not anticipate any cash flow issues in the near future.

**5. Background:**

**Investment Policy Governance** - Investing activities are governed by Section 418 of the "Municipal Act," Ontario Regulation 438/97 and the Region's Consolidated Investment Policy. Provincial regulations establish the type of investments the Region can hold while the Region's Consolidated Investment Policy establishes limits for the allowable investments. Investments are verified to comply with the Region's

Consolidated Investment Policy at the time of purchase.

**General Investment Portfolio Purpose** - The Region's General Portfolio is comprised of reserves, reserve funds and operating funds. Variations in the book balance for the General Portfolio largely reflect the timing of the Region's capital expenditures and funding.

**Sinking Fund Portfolio Purpose** - Sinking Fund debentures are characterized by the entire principal amount maturing at the end of the term. Semi-annual interest-only payments are made to bond holders, and annual contributions are made to the Sinking Fund which, along with interest earned, will be sufficient to retire these debentures upon maturity.

**Portfolio summaries** as at June 30, 2023 are as follows:

<b>General Portfolio (\$ M)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Cash balances	\$213.6	\$259.8	\$282.3	\$209.4
Investment balances	149.4	197.0	236.0	289.1
<b>Total Book Value</b>	<b>\$363.0</b>	<b>\$456.8</b>	<b>\$518.3</b>	<b>\$498.5</b>
Annualized average rate of return (investments only)	2.60%	2.19%	2.06%	2.87%
Annualized average rate of return (total portfolio)	2.30%	1.41%	1.82%	3.57%

Information on the General Investment portfolio holdings is set out in Appendix A.

<b>Sinking Fund Portfolio (\$ M)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Cash balances	\$8.0	\$5.1	\$0.1	\$0.1
Investment balances	49.2	52.8	56.4	64.0
<b>Total Book Value</b>	<b>\$57.2</b>	<b>\$57.9</b>	<b>\$56.5</b>	<b>\$64.1</b>
Annualized average rate of return (investments only)	3.70%	3.19%	3.18%	3.89%
Annualized average rate of return (total portfolio)	3.34%	3.01%	3.14%	3.90%

Information on the Sinking Fund portfolio holdings is set out in Appendix B.

During the first months of 2023, the Region did not invest in any of its own securities in either fund and none have matured.

## **6. Communication and Engagement with Area Municipalities and the Public**

**Area Municipalities:** Nil.

**Public:** Nil.

## **7. Financial Implications:**

The Region's cash holdings, cash equivalents and longer term investments generate interest earnings which are allocated primarily to the Region's reserves and reserve funds at year end.

The Bank of Canada raised the target for its overnight rate by 25 basis points to 5% in July 2023, following the surprise 25 basis point rate increase from the previous meeting. The Bank of Canada has increased its target rate three times in 2023 (0.75% in total) in addition to increases totalling 4% in 2022. These increases impact the rate of return on the Region's cash holdings as well as any investments made in 2022 and 2023. Fluctuations in interest rates have a direct impact on the rate of return on the Region's investment portfolios.

The ongoing impact of capital cost inflation on the Region's capital program as well as its reserve holdings is significant, and staff will continue to pursue options for maximizing yield while ensuring the preservation of the Region's capital.

## **8. Conclusion / Next Steps:**

Nil.

## **9. Attachments:**

Appendix A: General Investment Portfolio at June 30, 2023

Appendix B: Sinking Fund Portfolio at June 30, 2023

**Prepared By:** Lori McDonald, Financial Analyst

**Tricia Alpaugh**, Manager, Treasury Services and Corporate Accounting

**Reviewed By:** Cathy Deschamps, Director, Treasury Services/Deputy Treasurer

**Approved By:** Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer