

Report on Investments 2021

ISSUE

This report informs the Standing Policy Committee on Finance of recent interest rate developments and trends, investment activity, portfolio compliance and performance.

BACKGROUND

The investment of City of Saskatoon (City) funds is governed by Council Policy Nos. C12-002, Investment Committee; C12-003, Securities Handling; and C12-009, Portfolio Management, which are collectively referred to as the Corporate Investment Policy. The Investment Committee is responsible for ensuring compliance with the provisions of the Corporate Investment Policy. This report is presented in accordance with Policy C12-009 section 4.3 subsection c) which requires the preparation and distribution of the annual report on investments.

CURRENT STATUS

Currently, the City is using cash holdings to purchase securities within the guidelines of the Corporate Investment Policy to maximize return while minimizing risk to liquidity, which in turn provides the City with additional income throughout the year.

DISCUSSION/ANALYSIS

Despite the pandemic continuing into 2021, optimism began to rise as hope for a successful vaccine rollout would mean an economic recovery. Supply chains have been greatly impeded by the pandemic causing inflation to rise, creating another issue for central banks. Prices of goods and commodities jumped throughout Canada and the United States (U.S.) as the cost for supply shortages were passed on to consumers. In addition to higher prices, bond yields also increased in the first half of the year as investors positioned themselves in the bond market for the prospective rise in inflation.

As vaccines were rolled out in the first half of the year the economy began to show signs of recovery. However, this progress was stalled as infections began to rise again with a third wave growing across Canada. Supply chain issues worsened in the summer months as the Canadian economy was also dealing with the effects of a drought causing further inflationary pressures on prices. Mudslides in British Columbia would add to these supply chain issues and increase the already mounting pressure on the Bank of Canada (BoC) to begin increasing rates to combat inflation. Expectations were high for the BoC to make a rate increase for the first time since cutting the overnight rate to 0.25% in March 2020 which was in response to pandemic pressures. Prospects are that the BoC will increase the overnight rate from 0.25% up to as high as 1.75% in 2022 in an effort to bring inflation down from its year end value of 3.4% to the BoC's long term target value of 2.0%.

There are many risks for the BoC to consider as it begins its rate setting process in 2022. One consideration is household debt as many households have taken on large mortgages compared to their incomes. Throughout the pandemic, as more people

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found themselves at home during work and leisure hours compared to pre-pandemic, the demand for houses increased. This increase in demand caused another supply issue as demand was too great for the housing market which pushed housing prices higher throughout the year. Another consideration for the BoC is if house prices were to fall along with household income the expectation is that households would reduce spending and end up slowing down the economy as a result. Lastly, as government pandemic supports are removed from the economy the BoC must consider the viability of some businesses and if they can remain profitable moving forward.

Bank and Interest Income

The City held a market value of \$537.07 million in investments as of December 31, 2021. Appendix 1 provides details of the composition and market values, and Appendix 2 lists the securities held in the General Account as of December 31, 2021. The following table displays actual income amounts compared to budgeted income amounts.

2021	Budget	Actual	Variance
Interest on Investments	\$11,668,300	\$12,477,100	\$808,800
Bank Interest	\$ 544,200	\$ 705,100	\$160,900
Total	\$12,215,500	\$13,182,200	\$969,700

Bond yields were low to begin the year which provided the City with an opportunity to realize favorable capital gains on the sale of a few bonds used to pay expenses in the early part of the year. This helped to offset the lower yields bonds were trading at for most of the year, but as inflation rose, yields began to rebound offering better investment opportunities heading into year end. The City earned a 2.22% annualized income rate of return on investments during 2021.

A total book value of \$18.2 million has been invested in environmental, social, and governance (ESG) bonds. ESG bonds are used to raise money for initiatives that support an environmental, social, or governance purpose. These are usually popular issues making it difficult to add to purchase, but the City was able to participate in a few new issues in 2021. The Investment Committee is actively seeking for ESG bonds as they become available provided, they meet City's mandate. This mandated criterion consists of capital preservation, maintaining liquidity and maximizing returns. If these three principles are met, then ESG bond offerings will be pursued for the City's investment portfolio. Additional information regarding ESG investments and bonds can be found in the [Environmental, Social and Governance Investments Report](#) presented to the Standing Policy Committee on Finance on March 14, 2022.

FINANCIAL IMPLICATIONS

Financial implications are discussed in the discussion/analysis section of the report.

OTHER IMPLICATIONS

There are no privacy, legal, social, or environmental implications identified.

NEXT STEPS

Although next steps are not required from this report, it is important to note that Administration will be reporting back to Committee regarding options to expand the investment policy into equities and ESG investments as directed at the March 14, 2022 Standing Policy Committee on Finance, who resolved:

“That the Administration report back further on equities and Environmental, Social and Governance (ESG) investing including the benefits, challenges and experiences of other cities which have moved to these types of investments.”

APPENDICES

1. Funds and Reserves: Composition and Market Value - 2021
2. General Account Long-Term Investment Portfolio as of December 31, 2021

REPORT APPROVAL

Written by: Spencer Janzen, Investment Manager
Reviewed by: Investment Committee
Approved by: Clae Hack, Chief Financial Officer

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