

Report on Investments 2024

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 b) which requires the preparation and distribution of the annual report on investments.

Administration updated the Corporate Investment Policy to include investments such as equities and alternatives. While considering [Proposed Amendments to the Corporate Investment Policy](#), City Council at its Regular Business Meeting held on August 28, 2024, resolved:

“That the City Clerk’s Office be requested to amend City Council Policy No. C12-002, Investment Committee; City Council Policy No. C12-003, Securities Handling; and City Council Policy No. C12-009, Portfolio Management, in accordance with Appendices 1, 2 and 3, respectively.”

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

Market Update

In 2024 the Bank of Canada (BoC) began slowly cutting its overnight lending rate as the inflation rate stabilized at the BoC 2% target. Although shelter prices were putting upward pressure on inflation, the BoC cut the overnight rate by 25 basis points to 3% in January 2025, before the imposition of United States (US) tariffs on Canadian exports and retaliatory measures taken by Canada.¹

The economic outlook in the BoC’s January 2025 Monetary Policy Report forecasted that the Canadian economy would grow by 1.8% in 2025, and the US economy would

¹ A basis point (bps) is 1/100 of one percentage point and are used in finance to express small percentage changes (i.e., 100 basis points is equivalent to 1 percentage point). Generally, a change between two rates is expressed as percentage points, but for interest rates they referred to as basis points.

grow by 2.6%.² It also noted that the inflation rate would hover around the 2% target before the forecast horizon.

The outlook did not include assumptions on the imposition of US tariffs and their effects on macroeconomic indicators. Instead, it produced a hypothetical scenario, generally concluding that the imposition of US tariffs and Canadian counter measures would lower Gross Domestic Product and generate higher inflation relative to a no-tariff scenario(s).³

Trade tensions between Canada and the USA has dominated headlines in 2025. Trade uncertainty has the potential to cause significant volatility in the fixed income market. Bond yields have been quite volatile to begin the year as investors are uncertain about the outcome. Tariffs are expected to decrease demand while also generating a one-time inflationary price increase creating a difficult situation for the BoC to navigate.

On March 12, 2025, the BoC announced another 25-basis point cut to the overnight lending rate, falling to 2.75%. The primary reason given for this centered on the heightened trade tensions and tariffs imposed by the US, with BoC arguing that these measures will “likely slow the pace of economic activity and increase inflationary pressures in Canada.”⁴ This comes on the heels of strong economic growth in Canada (+2.6%) and a relatively robust labour market to conclude 2024. Nonetheless, the core message from the BoC is that “monetary policy cannot offset the impacts of a trade war. What it can and must do is ensure that higher prices do not lead to ongoing inflation.”⁵ This suggests that monetary policy interventions are uncertain in the short-term.

Bank Interest and Investment Income

The City held a market value of \$781.26 million in investments across all investment accounts as of December 31, 2024. 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, 2024. The list of securities in Appendix 2 contributes to the interest on investments displayed in Table 1 below. This table compares the actual income amounts to the budgeted income amounts for interest on investments and bank interest for 2024.

Table 1

2024	Budget	Actual	Variance
Interest on Investments	\$11,934,200	\$18,617,200	\$6,683,000
Bank Interest	\$ 1,540,000	\$ 6,526,800	\$4,986,800
Total	\$13,474,200	\$25,144,000	\$11,669,800

² See Bank of Canada Monetary Policy Report 2025, <https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/>

³ See <https://www.bankofcanada.ca/publications/mpr/mpr-2025-01-29/in-focus-1/>

⁴ See <https://www.bankofcanada.ca/2025/03/fad-press-release-2025-03-12/>

⁵ See note 3.

Despite their volatility, bond yields remained high in 2024 and were higher than what was forecasted for budget. The City's interest on investments continues to benefit from higher yields and contributed to the \$6.68 million favorable variance. Cash balances were also strong throughout the year providing the City with ample opportunity to increase investments in the portfolio which further contributed to the favorable variance. New investments purchased in 2024 helped increase the weighted average coupon rate from 2.66% at the end of 2023 to 2.94% at the end of 2024 as can be seen at the bottom of Appendix 2.

The City's bank interest rate remained high in 2024 and was above the interest rate Administration forecasted for budget. The higher bank interest rate along with strong cash balances helped the City to earn a favorable variance of \$4.99 million on cash balances held in the bank account.

Overall, the City was able to generate \$11.67 million positive variance on investment and banking interest, as outlined in table 1. Of this variance \$9.14 million was realized in the operating budget year-end results, while the remainder was allocated to reserves in line with City Council bylaw, policy, and development agreements.

While the bond earnings and bank interest resulted in a \$9.14 million surplus in the 2024 operating budget, it is anticipated that in 2025 investment income from these portfolios should be closer to budget for the following reasons:

- The approved 2025 civic operating budget included an increase of \$4.03 million in net investment income based on these favourable results and projection.
- The Bank of Canada targeted overnight rate began 2024 at 5.00% but started declining in June 2024. On March 12, 2025, the Bank of Canada further reduced the target for the overnight rate by 0.25% bringing that rate to 2.75%. As the City's bank interest is tied to the overnight rate, this reduction has impacted the amount of interest earned in the City's bank account; and
- The bond market is currently experiencing some uncertainty and reductions in returns for various reasons including interest rate reductions and the introduction of more political uncertainty than in previous years including the impact of potential tariffs.

Environmental, Social and Governance Bonds

An additional \$6.05 million of environmental, social, and governance (ESG) bonds were purchased in 2024 which resulted in a total book value of \$25.25 million, or 3.64% of the General Account that is invested in ESG bonds as of December 31, 2024.

Administration continues to actively seek ESG bonds as they become available, provided they meet the 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 portfolios.

External Investment Manager Search Update

Administration has issued a Request for Proposal to hire an external investment manager to manage the City’s investments in the Growth Portfolio which will consist of equities and alternative investments. Once an agreement is signed between the City and the successful proponent, the City will begin investing in the newly approved asset classes in the revised Corporate Investment Policy.

FINANCIAL IMPLICATIONS

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

OTHER IMPLICATIONS

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

NEXT STEPS

There are no next steps required with this report.

APPENDICES

1. Funds and Reserves: Composition and Market Value – 2024
2. General Account Long-Term Investment Portfolio as of December 31, 2024

REPORT APPROVAL

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