STAFF REPORT

To:	Chief Administrative Officer	**Date:**	June 20, 2022
From:	Scott Ross, Manager of Accounting Services		
Subject:	**Investment Holdings Quarterly Report – March 31, 2022**		

Recommendation(s)

This report will bring Council and the public up-to-date on the City's cash and portfolio investment holdings. This report is provided for information purposes only. No staff recommendation accompanies this report and Council action is not required.

Purpose

The purpose of this report is to provide Council with a quarterly update of the City's cash and portfolio investment holdings.

Background

In accordance with the City's Investment Policy FIN.20, staff report to Council on the City's investment holdings on a quarterly basis.

Discussion and Analysis

The following table summarizes the City's cash and portfolio investment holdings subscriptions, redemptions, working capital uses and interest earnings from December 31, 2021 to March 31, 2022:

City of Mission

Cash & Investments Movement Q1 2022

	Opening Balance, Dec 31, 2021	Subscriptions	Redemptions [A]	Working capital [B]	Investment Income / (Loss)	Ending Balance, Mar 31, 2022
Bank & High interest savings accounts	$ 66,384,599	$ -	$ -	$ (28,658,123)	$ 122,320	$ 37,848,796
Fixed term deposits	50,166,470	18,117,227	(10,155,389)	-	298,866	58,427,174
Accrual notes	12,093,650	-	(23,500)	-	67,660	12,137,810
Government backed bonds	13,167,354	2,078,488	(33,622)	-	70,286	15,282,506
MFA Money Market	2,004,887	-	-	-	1,606	2,006,493
MFA Short-term bond fund	17,937,615	-	-	-	(493,261)	17,444,354
Total Cash & Investments	$ 161,754,575	$ 20,195,715	$ (10,212,511)	$ (28,658,123)	$ 67,477	$ 143,147,133

[A] Includes maturities or scheduled interest payments

[B] All uses of funds for City operating and capital programs

Excluding general bank interest earnings, the City's investment portfolio has yielded an average annualized return of approximately 0.17% for the three months ended March 31, 2022 compared to an average annualized return of approximately 1.17% for the three months ended December 31, 2021. Interest earnings from January to March 2022 was $67,477 compared to interest earnings from October to December 2021 of $484,575. The reason for the low earnings is because of the recent negative impact to the Municipal Finance Authority of British Columbia (MFABC) Bond fund.

In Q1, the Bank of Canada doubled its overnight rate from 0.25% to 0.50% in an effort to curb a sharp rise in inflationary pressures. After Q1, further increases were announced on April 13th and June 2nd bringing this key rate to 1.50%. Furthermore, the market broadly expects another rate increase of 50 basis points in July and the overnight rate to reach 3% by early 2023. These rate increases have negatively impacted all bond rates across the curve with 5-year, 10-year and 30-year Government of Canada bonds by over 1.5% over the last year.

A balanced portfolio should have both short-term deposits & money market instruments (i.e. high interest savings accounts) and longer-dated bonds, term deposits, and accrual notes based on the City's cash flow needs, as it is impossible to accurately predict the future path of interest rates and this strategy can hedge against both inflation and deflation. Deposits and money market instruments have no interest rate risk (their value does not move with Bank of Canada interest rate changes). Term deposit values are also protected against market rate swings since their rate of return is fixed and, unlike bonds, these instruments do not have an active secondary market. Longer-dated fixed income instruments (such as bond funds) offer higher yields BUT are subject to appearing to lose value (on paper and most often temporarily) if rates move up. Because the MFABC Bond fund is a pooled collection of dozens of individual bonds with varying terms and returns the values are "marked to market" which means the value changes every day based on what it could theoretically sell for on that particular day. This temporary decline in value does not represent an actual loss of funds unless the City was to cash out of the fund and crystalize that loss permanently.

When interest rates increase, as is happening now, bond fund values will fall, while term deposits maintain their value and new term deposits will offer higher yields; whereas when interest rates decrease, bond fund values increase providing greater yields than term deposits. This inverse relationship is illustrated in the image below:

	Prime Interest Rate Increases	Prime Interest Rate Decreases
Term deposit yields	↑	↓
Bond fund values	↓	↑

It should be noted that all MFABC pooled investment products are managed by Phillips, Hager, & North. Local governments and regional districts have the option to purchase these funds if desired. The MFABC recommends that we stay in the short-term bond fund for the next three years. The MFABC short-term bond fund has a duration of about 2.6 years, meaning that a 1% increase in interest rates causes a 2.6% decline in the value of the fund, based on the bonds held within the fund being marked-to-market. Given that these funds are not needed in the short or intermediate term, it would be prudent for the City to maintain these funds as is. As existing bonds mature within the MFABC short-term bond fund, these will be replaced with higher yielding bonds that should overcome the temporary capital losses that have been experienced in the fund. That being said, as we are presently in a rising interest rate environment, the MFABC short-term bond fund will likely continue to experience marked-to-market losses until rates begin to stabilize.

All investment decisions made comply with Section 183 of the *Community Charter* and adhere to the primary objective of the City's Investment Policy FIN.20 which is to ensure the preservation of capital. Staff continue to look for the best options for investment as opportunities arise.

Financial Implications

There are no financial implications directly associated with this report.

Communication

This report requires no internal nor external communications.

Summary and Conclusion

The City's total cash and portfolio investment balance is $143.1 million as at March 31, 2022 compared to $161.8 million as at December 31, 2021. Interest earnings from January to March 2022 was $67,477 compared to interest earnings from October to December 2021 of $484,575.

Overall, investment returns are not as high as in the prior quarter due to the marked-to-market (paper) loss within the MFABC short-term bond fund due to the rapid increase in the Bank of Canada's overnight rate.

Report Prepared by:	Scott Ross, Manager of Accounting Services
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Approved for Inclusion:	Barclay Pitkethly, Deputy Chief Administrative Officer