



## 2022 Annual Investment Report

<b>Date</b>	June 15, 2023
<b>To</b>	Audit and Finance Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Financial Services
<b>Item No.</b>	AFC23-4

### RECOMMENDATION

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The Audit & Finance Committee recommends that City Council receive and file this report at its meeting on June 21, 2023.

### ISSUE

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The City's Investment Policy, adopted by City Council on February 24, 2021 (CR21-22) and set out in Schedule C to Bylaw 2003-69, being *The Regina Administration Bylaw*, requires that an annual investment report be submitted to Council.

### IMPACTS

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None with respect to this report.

### OTHER OPTIONS

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None with respect to this report.

### COMMUNICATIONS

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None with respect to this report.

## DISCUSSION

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City Council and Administration have a fiduciary responsibility to the citizens of Regina to prudently manage the City's cash and investment assets. Municipalities generally take one of the following two approaches to investing: investing in fixed income only or investing following the prudent person principle. Municipalities that invest in fixed income only invest in bonds, commercial paper, government treasury bills and Guaranteed Investment Certificates (GICs). Municipalities following the prudent person principle may invest in a broad range of investments, so long as they do so with the care, skill, foresight, and diligence that a prudent person acting in that capacity would use.

City Council approved the *Investment Policy* (the Policy) on February 24, 2021 (Schedule C of *The Regina Administration Bylaw*). The Policy allows for the City to follow the prudent person principle approach to invest in a broad range of investments. An Investment Committee was established and has the foremost fiduciary responsibility to ensure compliance with the Policy requirements. The Investment Committee is made up of five City finance staff, the Chair being the Executive Director, Financial Strategy and Sustainability.

The *Investment Policy* requires, that on or before June 30 of each year, an annual report be provided to City Council which includes the rate of return achieved on the investments, an analysis of investment accounts compared to benchmarks, and any proposed changes to the Investment Policy.

In 2021, the Investment Committee began the process of seeking and selecting an external Investment Manager to manage the City's investment portfolio. The selection process was completed in 2022 with TD Asset Management being the successful proponent. As a result, for 2021, most of the City's investments were in short-term liquid investments, such as GICs, to preserve liquidity during COVID and have funds available for the Investment Manager to invest once selected. With the hiring of an Investment Manager, in mid-year of 2022, the City began investing in a broader range of investments consistent with the City's revised *Investment Policy*.

During 2022, the money markets remained volatile due to the uncertainty of the economic impacts of increasing inflation and interest costs. The economy made steps for recovery, but the City remained prudent in ensuring that the liquidity of investments for short-term investment remained high to be able to handle any unforeseen events due to the uncertainty that the pandemic has continued to pose.

A summary of the City's investments, along with an analysis of the Short-, Mid- and Long-term investment portfolios compared to relevant benchmarks is provided below. Appendix A contains the details of the investment report.

**Summary of Investment Returns**

As at December 31, 2022, the realized gains of the City’s external investments was \$7.1 million while internally managed funds generated \$5.3 million, for an overall total of \$12.4 million. Details of investment returns are contained in Appendix A.

The following chart provides the City’s Investment Returns (per cent) over the last eight years:

Year	2022	2021	2020	2019	2018	2017	2016	2015
City Investment Returns (%)	2.37	0.59	1.13	4.42	0.65	1.75	3.87	4.67

The City’s investment returns are calculated by dividing the total investment income by the total City’s investment portfolio and cash balances during the year. Included in the investment income are realized gains and losses, while unrealized gains and losses are excluded. A gain occurs when the proceeds from the security sold are greater than the cost. A loss occurs when the proceeds are less than the cost. The City’s approach (consistent with investment revenue reported in the City’s audited financial statements) is to include realized gains/losses within investment income while unrealized gains/losses are excluded. Total investment returns is net of Investment Manager fees. When unrealized gains and losses are included in the investment return calculation, City invest returns rise to 3.13 per cent for 2022.

The interest rates at the beginning of 2022 were at record lows, with the short-term interest rates at around 0.5 per cent. Interest rates started to slowly rise in April 2022, with the greatest increases in July through December time period.

**Investment Accounts and Analysis**

The City has three investment accounts – Short-, Mid-, and Long-Term, each focusing on three objectives for the City’s investments in varying degrees. The Long-Term Account has a larger focus on investment returns, while the Mid- and Short-Term Accounts place a greater emphasis on liquidity and preservation of capital. The City’s Financial Services Department uses cash flow forecasting to determine the amounts to invest in each of the Investment Accounts.

**Summary of Externally Managed Investments**  
**Externally Managed Investments (with Realized Gains/Losses)**

Portfolio	Initial Investment (\$)	Cost at Year End (\$)	Investment Income (\$)	Investment Return (%)	*Annualized Investment Return (%)
Short-term	220,000,000	223,281,573	3,281,573	1.49	3.58%
Mid-term	70,000,000	71,697,570	1,697,570	2.43	5.82%
Long-term	80,000,000	82,118,656	2,118,656	2.65	6.36%
<b>Total</b>	<b>370,000,000</b>	<b>377,097,798</b>	<b>7,097,798</b>		

*\*Annualized investment return is shown for illustrative purposes only and represents actual investment return, annualized over a year.*

The investment returns above reflect four to six months of investment returns reflecting the fact the Investment Manger began converting cash to short to long term investments beginning in the middle of 2022. The above investment returns reflect realized gains and losses only. When unrealized gains and losses are included, Investment Returns for the short-term portfolio were 1.75 per cent, mid-term portfolio were 4.47 per cent, and long-term portfolio were 5.09 per cent.

**Summary of Internally Managed Investments**  
**Internally Managed Investments**

	Investment Income (\$)
Internally Managed Investments (G.I.C)	586,430
Interest earned on Cash Balance	4,708,366
<b>Total</b>	<b>5,294,796</b>

A detailed analysis of each investment account along with their performance against established benchmarks are provided in Appendix A.

**Performance Measurement Benchmarks**

Investment benchmarks are used for comparison purposes to assess the actual performance of the City’s external Investment Manages versus established performance benchmarks for each portfolio of investments. The Investment Manager is expected to generate higher returns than the benchmark measured over a 3-5 year period.

**DECISION HISTORY**

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At its meeting on February 24, 2021, City Council considered CR21-22: Investment Policy Update and resolved to concur in the recommendation of the Executive Committee, approving changes to the City’s Investment Policy, including the requirement for an Annual Investment report to Council.

On November 9, 2022, City Council received and filed the 2021 Annual Investment Report.

Respectfully Submitted,



Kim Krywulak  
Director, Financial Services

Respectfully Submitted,



Barry Lacey  
Executive Director, Financial Strategy & Sustainability

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**ATTACHMENTS**

Appendix A - Investment Report 2022