



COUNTY OF WELLINGTON

COMMITTEE REPORT

To: Chair and Members of the Administration, Finance and Human Resources Committee
From: Ken DeHart, County Treasurer
Date: Tuesday, February 21, 2023
Subject: **Cash Holdings and Investment Portfolio as of December 31, 2022**

Background:

The County's Cash and Investment Management Policy states that the "goals and objectives for the investing of surplus funds are as follows, in priority order: adherence to statutory requirements; preservation of capital; maintenance of liquidity; diversification; and competitive rate of return." The policy requires that a semi-annual report be provided to the Committee and Council with respect to the status of short and long-term investments. This report provides a summary of the County's cash holdings and investment portfolio as of December 31, 2022.

Cash Holdings

The County had a total cash holding of \$49,949,615 as of December 31, 2022 in the following accounts:

- \$44,480,477 in Canadian Dollar general bank accounts and investment cash accounts maintained at RBC Dominion Securities, BMO Nesbitt Burns, CIBC Wood Gundy and National Bank Financial
- \$5,430,265 in Investment Savings Accounts at Meridian Credit Union and ONE Funds HISA accounts
- \$38,873 (CAD) in a U.S. Dollar bank account

Portfolio Summary

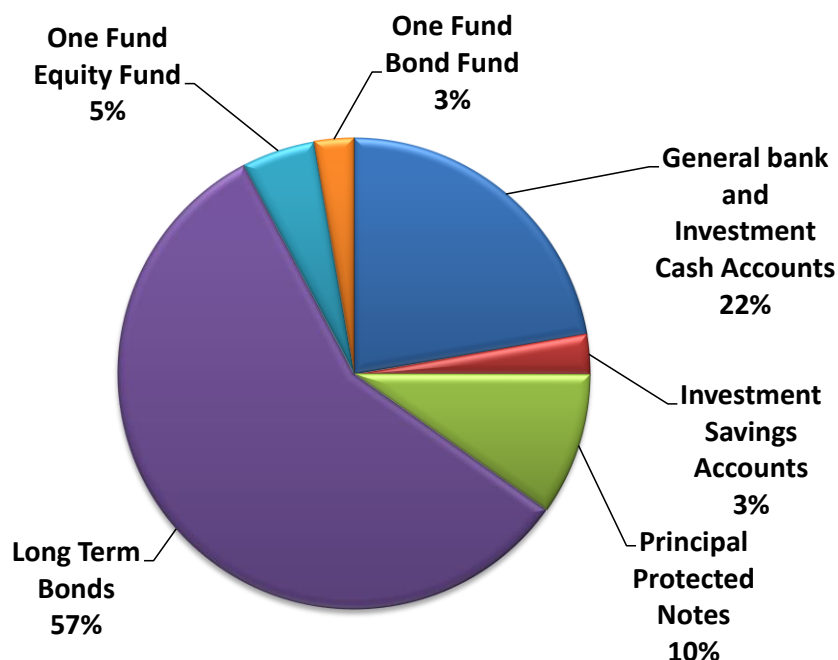
The attached schedules outline the County's investment holdings by type and provide a complete listing of individual securities and the portfolio performance as measured by the weighted average yield to maturity. The portfolio is summarized as follows:

	Cash Holdings	Portfolio Investments	
		Bonds & GIC's	Other (PPN & Equity Fund)
Face value at 12/31/2022	\$49,949,615	\$120,108,357	\$29,430,530
% of portfolio	25.04%	60.21%	14.75%
Number of securities	n/a	119	21
Funds invested	Short term cash requirements	Reserves and reserve funds	Reserves and reserve funds
Investment strategy	Designed to meet general cash flow requirements	Maturities to coincide with expected use of reserves and reserve funds	Maturities to coincide with expected use of reserves and reserve funds
Yield as of 12/31/2022	4.69%	2.93%	N/A
Weighted Average Term to Maturity		4.10 years	6.27 years

The overall change in the portfolio since the last report is summarized as follows:

	Cash Holdings	Portfolio Investments
Face value at 7/31/22	\$45,223,884	\$141,163,844
Face value at 12/31/22	\$49,949,615	\$149,538,887
\$ change	\$4,725,731	\$8,375,043
Change attributable to:	Attractive HISA yields and anticipation of longer-term investment purchases	Additional funds were available for investing in 2022 as bond yields have significantly improved.

Cash Holding and Investment Portfolio



Investment in the County's own Securities

In accordance with the County's Cash Management and Investment Policy, a record of the date of each transaction in or disposal of the County's own securities must be made, including a statement of the purchase and sale price of the County's own securities. Details of the current holdings of the County's own securities are included in **Appendix A** of this report.

The County currently holds a GIC investment with Meridian Credit Union exceeding two years in duration. In accordance with the Municipal Act (O. Reg 438/97) the County obtained the required documentation outlined in the Act from Meridian Credit Union within 30 days before the day the investment was confirmed. The details of the investment are provided below:

Purchase Date	Description	Maturity Date	Face Value	Purchase Price	Book Value	Coupon	Yield
7/18/19	Meridian Term Deposit	7/18/23	\$1,130,265	100.00	\$1,048,050	2.55%	2.55%

PPN and Equity Fund

In 2022, the County purchased an additional seven separate Principal Protected Notes (PPN) with the intention of continuing the laddered approach to maturities that is adhered to in the purchase of long-term bonds. The County has two forms of PPNs the first being deposit notes (growth) with varied maturities that entitle the investor to repayment of the principal amount at maturity, in addition to the potential to receive variable interest linked to the price performance of an equity index or portfolio of blue chip companies depending on the investment. The second form (auto callable) of PPN operate in the same way except that on the yearly anniversary date of the purchase of the investment if the market value exceeds the purchase price, the investment is called, and the County will receive a

predetermined investment return for that period. The total current investment in PPN's in the investment portfolio currently sits at \$19.5 million.

There were three PPN investments that were called in 2022. This occurred as the value of the investment on its maturity date exceeded the purchase price and these investments are auto called with an interest amount paid to the County at that time. Below are the details of the three PPN investments called, and the corresponding interest amounts earned. The investment yield for these holdings ranged between 4.4% and 5.1% in comparison to bond purchases made by the County during the same period that were providing yields between 2% and 3%.

Investment No.	Issuer	Purchase Date	Maturity Date	Book Value	Investment Called	Call Date	Interest Earnings
W254	BNS Equity AC Deposit	2-Jan-20	7-Jan-27	\$1,000,000	\$1,000,000	07-Jan-22	\$ 101,494
W272	BMO Pipeline Auto Callable	19-Mar-21	19-Mar-31	\$1,300,000	\$1,300,000	31-Mar-22	\$ 56,933
W282	Solactive Canada Pipelines AR Index	16-Jun-21	16-Jun-31	\$1,000,000	\$1,000,000	16-Jun-22	\$ 45,018

The Equity portfolio (through the One Equity Fund) is fully-liquid if funds are needed but the portfolio objective has been developed for longer term funding needs such as infrastructure and capital asset maintenance and remediation reserves. Staff invested \$2 million additional County funds into the portfolio in March 2022 and investment income and capital gains in the County's holdings were realized in December (\$379,242) and reinvested in the portfolio. Currently the balance invested in this portfolio at Dec 31, 2022, had a market value of \$9,930,530.

Commentary

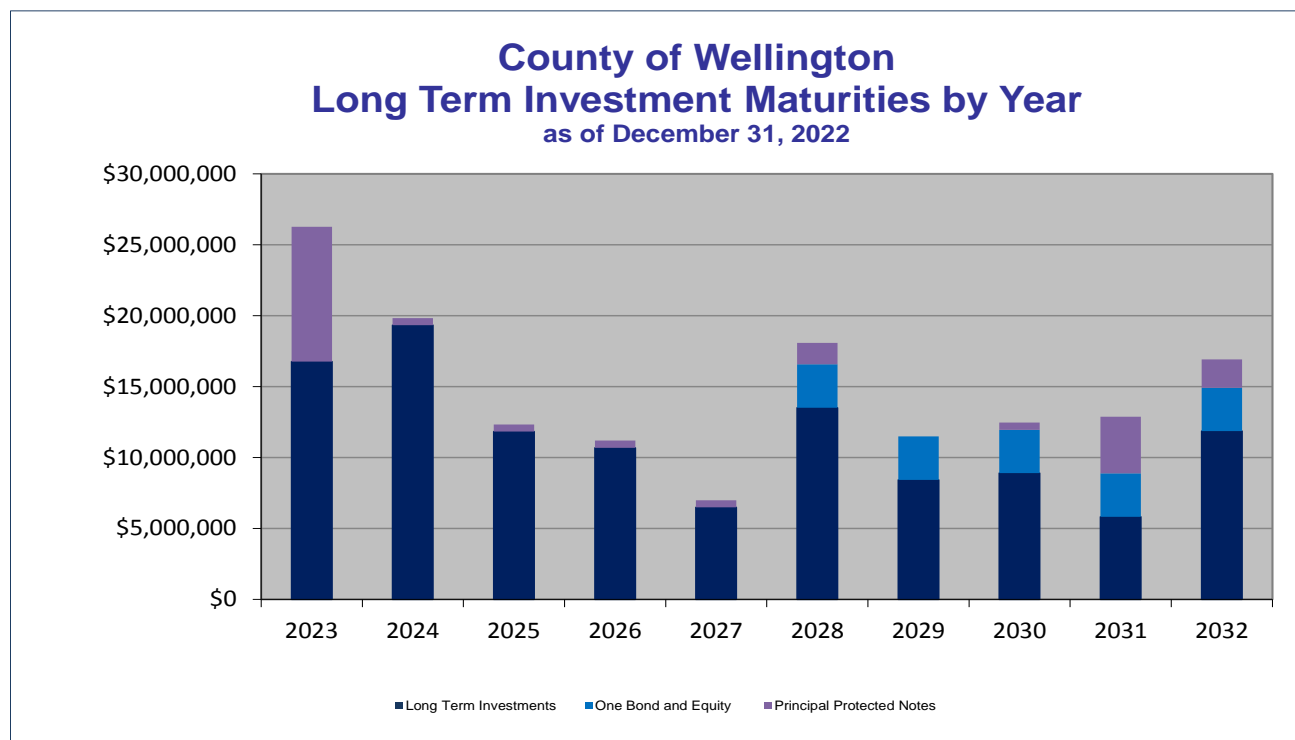
The County's total cash holdings and investment portfolio balance on December 31, 2022, is \$199.5 million, which is about \$13.1 million higher than the balance as of July 31, 2022, and approximately \$28.6 million higher than the balance at the end of 2021. In general, this increase can be related to operating surpluses, higher reserve and capital fund balances due to timing differences between the receipt of funds and spending. In 2022, the County completed a debt issue in the amount of \$6.5 million in advance of most expenditures for the new Arthur Shop construction.

The County's portfolio is more heavily weighted towards maturities in 2023 and 2024 in order to ensure the needed funds are available for these short-term commitments. County staff have continued to hold additional cash in the bank as there is an expectation for use of funds for financial commitments in 2023. The Bank of Canada has instituted a number of interest rate hikes in 2022 in order to curb the historically high inflation, with an additional rate hike taking place in early 2023. This has presented strong investment opportunities during 2022 for both the bond market as well as the PPN investments. The County has maintained an approach of keeping a shorter average term to maturity, which sits at under five years. This should provide an opportunity to continue the purchase of higher yielding bonds as the rates remain attractive.

The investment returns in 2023 were stronger than anticipated. The County reached a new agreement in 2023 to increase the RBC bank cash account resulting in interest of just under \$815,000, which far exceeded the budget of \$300,000. The short and long-term investments provided interest earnings of \$3.4 million, resulting in an additional \$500,000 above the budgeted \$2.9 million. The overall interest for 2023 was \$1.05 million above budget.

RBC Cash Accounts Interest Rate				
December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
1.00%	2.25%	0.75%	0.60%	4.69%

The following chart shows long-term maturities by year as of December 31, 2022. The Canadian Corporate Bond Portfolio and Canadian Equity Portfolio have been shown maturing during the 2028-2032 period as the intention of these funds is to hold them for a period of 6-10 years. The County's principal protected notes are shown maturing in 2023 for those that are auto callable and various years in the forecast for those that are growth PPN. However, actual withdrawals will vary.



Recommendation:

That the County Treasurer's report re: Cash Holdings and Investment Portfolio as of December 31, 2022 be approved.

Respectfully submitted,

Ken DeHart, CPA, CGA
County Treasurer

Appendix “A”

The County made nine additional purchases of its own securities in 2022 as the yields began to improve significantly early in the year offering positive purchasing opportunities. The total face value of the County’s current investments in its own securities is \$6,193,000 and represents 4.1% of its total long-term investment portfolio. The County’s investment policy allows for the County to invest up to 25% of its long-term investments in its own securities.

Purchase Date	Description	Maturity Date	Face Value	Purchase Price	Book Value	Coupon	Yield
1/16/18	County of Wellington	6/3/27	\$ 65,000	117.76	\$76,545	5.25%	3.07%
1/16/18	County of Wellington	6/3/26	\$ 74,000	115.96	\$85,807	5.25%	3.12%
1/16/18	County of Wellington	6/3/28	\$ 50,000	118.64	\$59,321	5.3%	3.2%
6/3/18	County of Wellington	7/3/28	\$ 557,000	100.00	\$557,000	2.05 to 3.2%	2.86%
10/25/18	County of Wellington	5/30/24	\$ 689,000	98.58	\$679,216	2.9%	3.16%
3/3/20	County of Wellington	7/3/23	\$1,500,000	106.59	\$1,598,850	3.20%	0.97%
4/8/21	County of Wellington	6/3/24	\$125,000	112.55	\$140,687	5.05%	1.37%
4/8/21	County of Wellington	6/3/25	\$130,000	115.25	\$149,825	5.15%	1.63%
4/8/21	County of Wellington	11/04/32	\$180,000	97.91	\$176,238	2.4%	2.6%
4/8/21	County of Wellington	11/04/33	\$186,000	97.55	\$181,443	2.45%	2.67%
4/8/21	County of Wellington	11/04/34	\$189,000	97.40	\$184,086	2.45%	2.72%
3/7/22	County of Wellington	3/7/32	\$907,000	100	\$907,000	1.05 to 2.44%	2.23%
3/7/22	County of Wellington	3/7/32	\$518,000	100	\$518,000	1.05 to 2.44%	2.24%
5/19/22	County of Wellington	5/30/32	\$213,000	93.36	\$198,857	3.30%	4.08%
5/19/22	County of Wellington	11/4/32	\$56,000	85.55	\$47,905	2.40%	4.09%
5/19/22	County of Wellington	11/4/33	\$57,000	84.42	\$48,119	2.45%	4.16%
5/19/22	County of Wellington	5/30/34	\$195,000	91.11	\$177,672	3.35%	4.27%

5/19/22	County of Wellington	11/4/34	\$59,000	82.74	\$48,818	2.50%	4.29%
5/19/22	County of Wellington	5/30/35	\$200,000	91.06	\$182,112	3.40%	4.27%
5/19/22	County of Wellington	5/30/36	\$243,000	90.06	\$218,853	3.40%	4.33%
Total			\$6,193,000				