
TO: INVESTMENT BOARD

SUBJECT: 2020 INVESTMENT MANAGEMENT ANNUAL REPORT

**PREPARED BY AND
KEY CONTACT:** T. RAYAISSE, PORTFOLIO MANAGER, EXT. 4724
J. BAYLEY, INVESTMENT ANALYST EXT. 4423

SUBMITTED BY: C. MILLAR, DIRECTOR OF FINANCE AND TREASURER, EXT. 5130

RECOMMENDED MOTION

1. That the Report to the Investment Board concerning the 2020 Investment Management Annual Report, and approved by the Investment Board on April 7, 2021, be received for information.

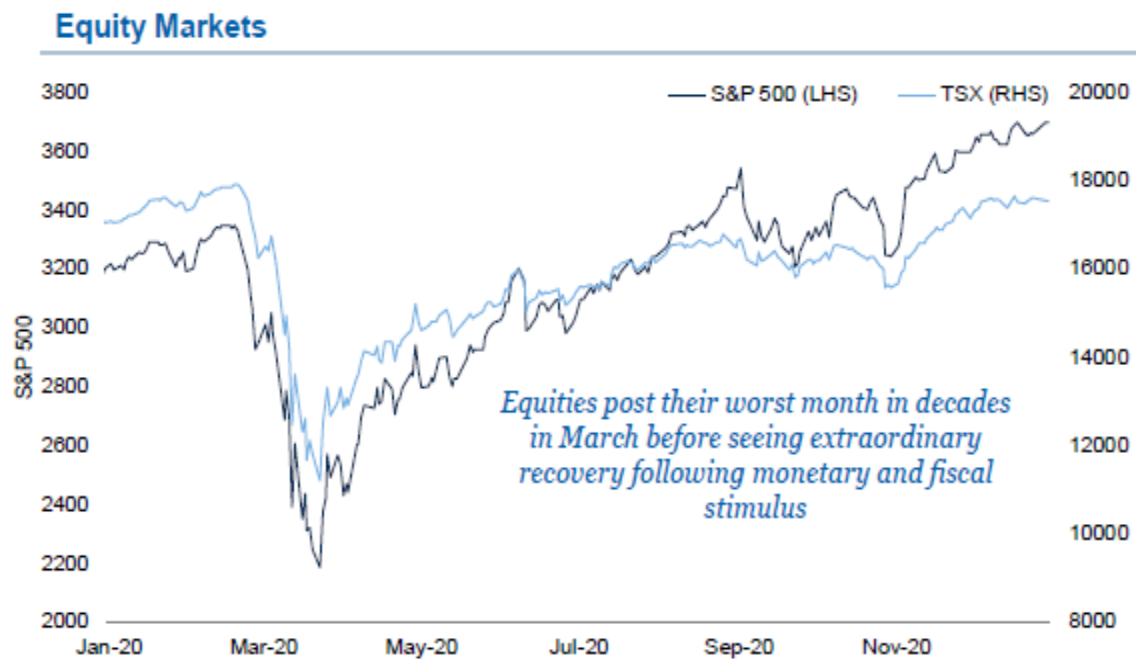
PURPOSE & BACKGROUND

2. The purpose of this Report is to discuss the performance of the investment portfolio in 2020, as required by Ontario Regulation 43/18 (as amended) of the *Municipal Act, 2001*.
3. Ontario Regulation 43/18 (Eligible Investments and Related Financial Agreements) of the *Municipal Act, 2001* requires certain disclosures to Council as outlined in Appendix "A" including a statement from the Treasurer indicating if all investments are consistent with the City's Investment Policy and Investment Plan.
4. On June 3, 2019, City Council passed By-law 2019-047 adopting the Prudent Investor Standard in accordance with Section 418.1 of the *Municipal Act, 2001* and approved the establishment of an Investment Board. The Investment Board is responsible for control and management of the City's investments pursuant to the Prudent Investment Standard and the Investment Policy Statement adopted by City Council.
5. On January 13, 2020, City Council approved motion 20-G-001 appointing four citizen representatives to the Investment Board in accordance with the Terms of Reference as authorized. Membership is comprised of the City's Treasurer and the four citizen members. Members are appointed for a term to expire on November 14, 2022, unless otherwise provided by a resolution of City Council.
6. Following Council's adoption of motion 20-G-091 regarding the Investment Policy Statement on June 15, 2020, the Investment Board approved an Investment Plan on November 18, 2020 to achieve the objectives set out in the Investment Policy. The Investment Plan deals with how money is invested and sets out the asset allocation plan.
7. As per Ontario Regulation 43/18, the Investment Board should submit an annual report to the Finance and Corporate Services Committee about the performance of the City's investment portfolio.

ANALYSIS

Market commentary

8. A year for history books, 2020 saw life as we knew it turned upside down as COVID-19 wreaked havoc. The global economy came to a literal standstill. Businesses closed, unemployment skyrocketed, and consumers stayed home under strict lockdown orders to contain the spread of the virus. What began as a record setting year quickly turned to turmoil by the end of the first quarter. Stock markets plummeted as volatility in interest rates, corporate credit, equity, and energy markets spiked. Storage constraints exacerbated the Russia-Saudi oil price war sending crude oil below zero, an unprecedented event.
9. The S&P 500 plunged 33.79% in March as the pandemic worsened before recovering by August (see chart below; Source: RBC Capital Markets).



10. In March 2020, the Bank of Canada and the Federal Government moved swiftly with large scale monetary and fiscal policy measures not seen since World War II to shore up liquidity and confidence in the financial system.

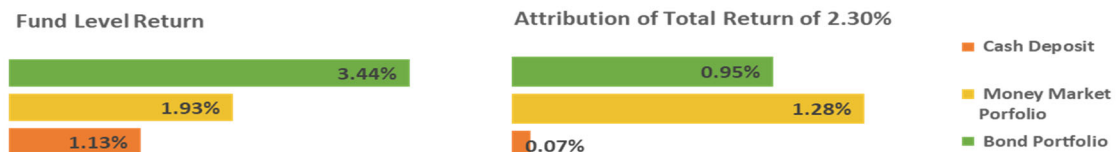
11. The Bank of Canada and the US Federal Reserve both cut short-term interest rates by 1.5% sending bond yields to all-time lows in August of 2020 as shown in the graph below (Source: RBC Capital Markets).



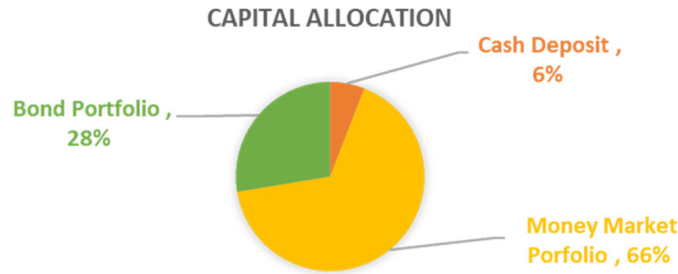
12. Global equity markets resumed their pre-COVID historic ascent to finish the year on a strong note. On a total return basis, the S&P500 gained 18.40% and the S&P/TSX was up by 5.6% in 2020. Non-US developed markets, as measured by the MSCI World ex USA Index, returned 7.59%. Emerging markets, as measured by the MSCI Emerging Markets Index, returned 18.5% for the year (see Appendix "B").
13. The Tech heavy Nasdaq index increased by 45.1% in 2020. Technology stocks benefited from two major trends ushered in by the lockdowns. Firstly, earnings were boosted as businesses brought forward technology investments to facilitate working from home and consumers moved to online retail platforms. Secondly, a decline in government bond yields made the future earnings of these stocks more valuable today. Technology stocks are regarded as long-duration asset as they are expected to grow their earnings over the longer term.

Investment Performance

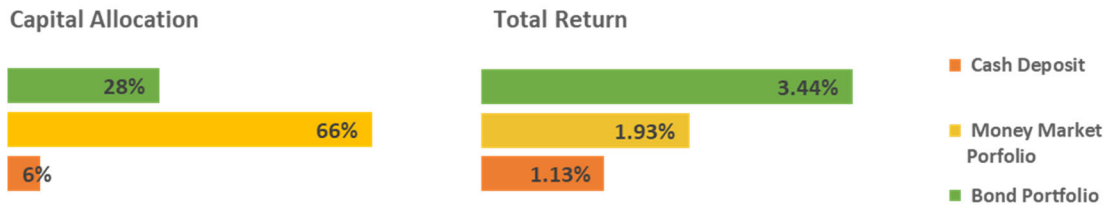
14. The 2020 total investment return was 2.30% compared to the pre-COVID budget return forecast of 2.60%. However, investment income was \$4.25 million versus \$3.38 million budgeted. The bond portfolio returned 3.44% contributing 0.95% to the total return, followed by the money market at 1.93% making up 1.28% of total return and cash at 1.13% adding 0.07% to total return as shown below.



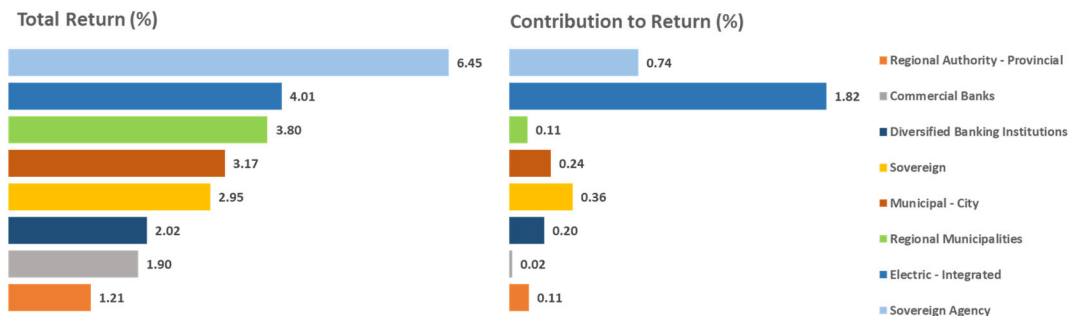
15. Compared to FY 2019 total return was lower by 53 basis points due to low interest rates and the portfolio move to more liquid securities. The Portfolio had higher allocation to money market investments given the uncertainty regarding the impact of COVID-19 on City revenues and to prepare for the transition to the Prudent Investor Standard, which will allow for more diversification of investments and potentially improve returns.



16. Investment income was \$4.25 million for the year comprised of \$123 thousand in interest on cash, \$2.32 million from the money-market investment portfolio, and \$1.8 million from the bond investment portfolio. Investment income was impacted by a delay in tax revenue collection as well as a lower yield on the money market investments which constituted 66% of the portfolio as shown in the chart above.



17. The bond portfolio represented 28% of the total capital and was the best performing asset in the portfolio returning 3.44%, an improvement of 25 basis points year over year. Government agency bonds were the best returning segment of the portfolio returning 6.45%, followed by utilities (hydro) and municipal sectors as shown below. Bond performance was driven by the decline in yields (interest rates) spurred by the Bank of Canada's pandemic response. Bond prices have an inverse relationship to yields and as market yields decrease, bond prices increase.



Looking Ahead

18. In November 2020, the Investment Board adopted the Investment Plan paving the way for the implementation of the Prudent Investor Standard over the course of this year. Investment performance in 2021 is expected to be a tale of two halves, with the first half dominated by the vaccine roll out and a gradual reopening of the economy with corporate earnings expected to recover in the second half.
19. Financial markets continue to be strong, anticipating that widespread vaccinations, financial stimulus, and pent-up consumer demand will drive robust economic growth in the coming quarters. This growth and low interest rates provide a favourable environment for equities but bring risks of higher-than-expected inflation and a vulnerability to central banks reducing market liquidity measures.
20. Much of the stock market rally thus far has been driven by the spectacular performance of the technology sector. A key theme for 2021 is whether the long-anticipated rotation into value stocks, which began late last year, will gain more momentum going forward. The positive vaccine news has led investors to begin shifting from richly priced growth stocks into value stocks, with cyclical stocks such as banks, energy and industrials playing catch-up in anticipation of a resumption of economic activity.
21. Looking forward key risks include worsening of the pandemic (including new variants of the virus and/or decreasing vaccine efficacy), an unexpected spike in inflation and increasing long-term interest rates. Recently the 10-year US government bond yield rose to 1.6%, driven by rising inflation expectations and rising confidence in the economic recovery which has triggered volatility spikes across capital markets. The major central banks have been clear that they will wait until after inflation increases before raising interest rates.

APPENDIX "A"

Regulatory Disclosures

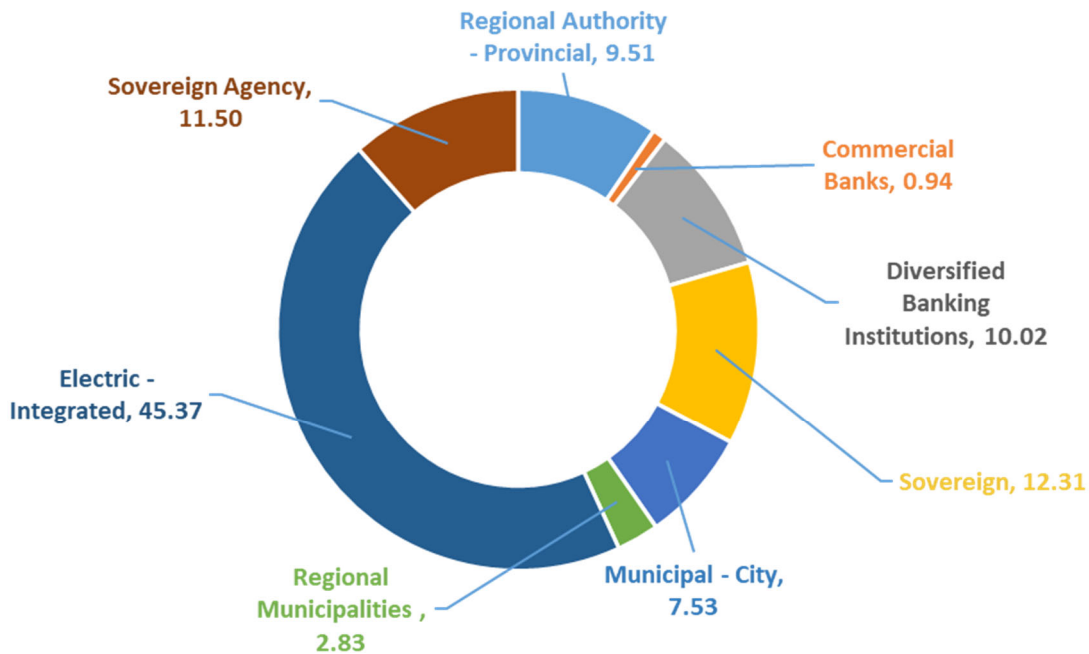
i) Performance

The Corporation of the City of Barrie earned a total return of 2.30% in 2020, 53 basis points lower than last year and 30 basis points lower than the forecasted return. Despite lower return in percentage terms, dollar investment income was better than forecast by \$870 thousand. This mismatch was mainly attributable to the larger capital base than forecasted.

ii) Asset Allocation

The following chart and table show the average asset allocation for the bond portfolio and total portfolio, respectively.

% Average Weight



	% Average Weight	Contribution to Return (%)	Total Return (%)
BOND PORTFOLIO	100	3.44	3.44
Commercial Banks Non-U.S.	0.94	0.02	1.90
CWBCN 2.881 03/01/21	0.70	0.02	2.54
HSBC 2.938 01/14/20	0.24	0.00	0.08
Diversified Banking Institutions	11.61	0.24	2.03
BNS 2.27 01/13/20	0.13	0.00	0.06
BNS 3.27 01/11/21	11.48	0.24	2.05
Municipal - City	7.72	0.24	3.17
MNTRL 4 ½ 12/01/21	2.35	0.08	3.38
TRNT 3 ½ 12/06/21	2.31	0.08	3.48
VANC 3.45 12/02/21	2.31	0.08	3.41
VANC 4 ½ 06/01/20	0.75	0.01	0.81
Municipal - County	2.89	0.11	3.79
PEEL 3 ½ 12/01/21	2.31	0.08	3.44
WTRLOO 3.1 11/26/22	0.57	0.03	5.20
Regional Authority	9.99	0.12	1.21
BRCOL 10.6 09/05/20	3.70	0.05	1.30
NBRNS 4 ½ 06/02/20	1.53	0.01	0.77
ONT 4.85 06/02/20	1.93	0.01	0.76
Q 4 ½ 12/01/20	2.82	0.05	1.64
Sovereign	13.28	0.39	2.95
CAN 9 ¼ 06/01/22	6.81	0.24	3.60
CAN 9 ¾ 06/01/21	6.48	0.15	2.26
Sovereign Agency	7.73	0.50	6.45
CANHOU 2.55 12/15/23	7.73	0.50	6.45
Electric - Integrated	45.85	1.83	3.98
OHYD 10 02/06/20	1.15	0.00	0.22
OHYD 11 ½ 11/27/20	5.49	0.09	1.71
ALECTRA 4.41 12/23	39.20	1.73	4.41
MONEY MARKET PORTFOLIO	100	1.93	1.93
Guaranteed Invest. Cert.	29.99	0.81	2.71
MERIDIAN CREDIT UNION	12.28	0.33	2.72
ALTERNA SAVINGS	4.16	0.11	2.74
FIRST ONTARIO CREDIT UNION	3.39	0.09	2.24
DUCA CREDIT UNION	6.78	0.18	2.38
KINDRED CREDIT UNION	3.39	0.09	2.24
Deposit	70.01	1.11	1.59
SCOTIABANK	18.45	0.29	1.41
BANK OF MONTREAL	50.97	0.81	1.39
MERIDIAN CREDIT UNION	0.59	0.01	2.69
ONE FUND	0.00	0.00	1.16
CASH DEPOSIT	100	1.13	1.13

iii) Maturity Distribution

As at December 31, 2020 all bond investments were due to mature within 36 months. 41% within 12 months, and the balance within 36 months.

The shorter term-bias of the bond portfolio reflected the view of rising interest rates and the need for flexibility to transition to the Prudent Investor Standard.

iv) Investment in Own Securities

None.

v) Statement of Treasurer regarding Compliance with Investment Policy

I, Craig Millar, Treasurer of the City of Barrie, hereby state that in my opinion, all investments were made in accordance with the investment policies and goals adopted by the City.

vi) Statement of Treasurer regarding Quality of Investment

I, Craig Millar, Treasurer of the City of Barrie, state that none of the investments held in the portfolio fell below the required standard during the period covered by this Report.

C. Millar, MBA, CPA, CGA
Director of Finance and Treasurer

APPENDIX "B"

Regional equity indices	2019 Total return	Index level		2020	
		31-Dec-19	31-Dec-20	Price return	Total return
S&P/TSX	22.8%	17,063	17,433	2.2%	5.6%
S&P/TSX Small Cap	15.8%	595	655	10.0%	12.9%
Dow Jones Industrial	25.3%	28,538	30,606	7.2%	9.7%
S&P 500	31.5%	3,231	3,756	16.3%	18.4%
Russell 2000	25.5%	1,668	1,975	18.4%	19.9%
Nasdaq	36.7%	8,973	12,888	43.6%	45.1%
MSCI All Country World	27.3%	565	646	14.3%	16.8%
MSCI Europe	26.8%	140	132	-5.4%	-2.8%
MSCI EAFE	22.8%	2,037	2,148	5.4%	8.4%
MSCI Emerging Markets Index	18.8%	1,115	1,291	15.8%	18.5%

Fixed income indices	2019 Total return	Index level		2020 YTD total return
		31-Dec-19	31-Dec-20	
FTSE Canada Universe Bond	6.9%	1,124	1,221	8.7%
FTSE Canada All Corporate Bond	8.1%	1,285	1,397	8.7%
Bloomberg Canada High Yield	9.5%	147	158	7.2%

Currencies	31-Dec-19	31-Dec-20	% change
CAD/USD	0.77	0.79	2.0%
CAD/EUR	0.69	0.64	-6.4%
EUR/USD	1.12	1.22	8.9%
GBP/USD	1.33	1.37	3.1%
USD/JPY	108.61	103.25	-4.9%

Bond yields	31-Dec-19	31-Dec-20	bps change
10 yr Canada Govt.	1.70%	0.68%	-103
10 yr U.S. Treasury	1.92%	0.91%	-100
10 yr Germany Govt.	(0.19)%	(0.57)%	-38
10 yr Japan Govt.	(0.01)%	0.02%	3
30 yr Canada Govt.	1.76%	1.21%	-55
30 yr U.S. Treasury	2.39%	1.64%	-74

Commodities	31-Dec-19	31-Dec-20	% change
Gold US\$/oz.	1,517.27	1,898.36	25.1%
Oil US\$/bbl.	61.06	48.52	-20.5%