



The Corporation of the Town of Milton

Report To:	Council
From:	Glen Cowan, Chief Financial Officer / Treasurer
Date:	April 11, 2022
Report No:	CORS-023-22
Subject:	2021 Year End Report on Investments
Recommendation:	That report CORS-023-22 be received for information.

EXECUTIVE SUMMARY

This report provides a detailed review of the Town's investment portfolio for the twelve months ending December 31, 2021 with the following information of note:

- The average portfolio balance was \$205.8 million.
- The overall portfolio average return was 1.51% on an annualized basis.
- The Town generated \$3.1 million in investment revenue in 2021, which was \$0.7 million lower than 2020 but exceeded budget by \$0.2 million.

REPORT

Background

This report has been prepared to provide an annual update to Council on the 2021 performance of the Town of Milton's investment portfolio as required by Ontario Regulation 438/97 (as amended) of the Municipal Act, 2001 and the Town's policy No. 116 - Financial Management - Treasury.

All investments made by the Town of Milton are in accordance with the approved Investment Policy which has the following basic objectives, in order of priority:

- i. Adherence to statutory requirements;
- ii. Preservation of principal;
- iii. Ensuring availability of cash to meet disbursements and other obligations;
- iv. Maintaining liquidity;
- v. Diversification of the investment portfolio, commensurate with constraints in (i) to (iv);
- vi. Earning a competitive rate of return, commensurate with constraints in (i) to (v);
- vii. Regular review of the effectiveness of the policy in meeting the above objectives;
- viii. Periodic audit of the investment program to ensure adherence to the policy.

Background

In addition, all investments must meet the eligibility requirements set out by Ontario Regulation 438/97 (as amended), which specifies specific limits for each type of investment that can be held.

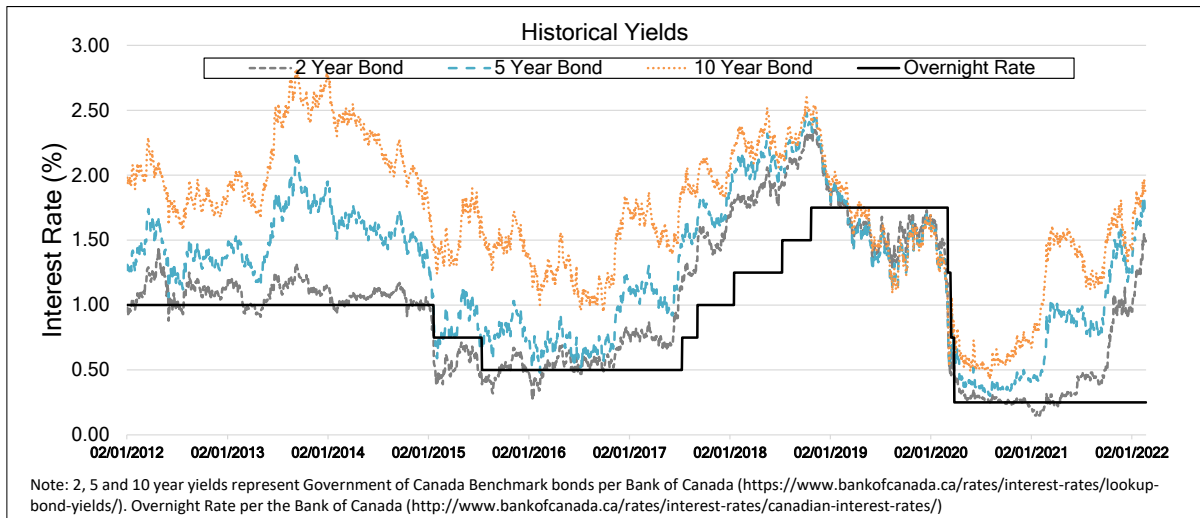
Discussion

Interest Rates

2021 continued to be impacted by the COVID-19 pandemic however in the second half of the year economic activity continued to recover both globally and in Canada leading to strong momentum heading into 2022. Throughout 2021 the Bank of Canada held the overnight rate at 0.25%.

The return on a 5 year Government of Canada bond averaged 0.95% in 2021 (2020 average: 0.60%) and 10 year Government of Canada yields averaged 1.36% in 2021 (2020 average: 0.75%)¹.

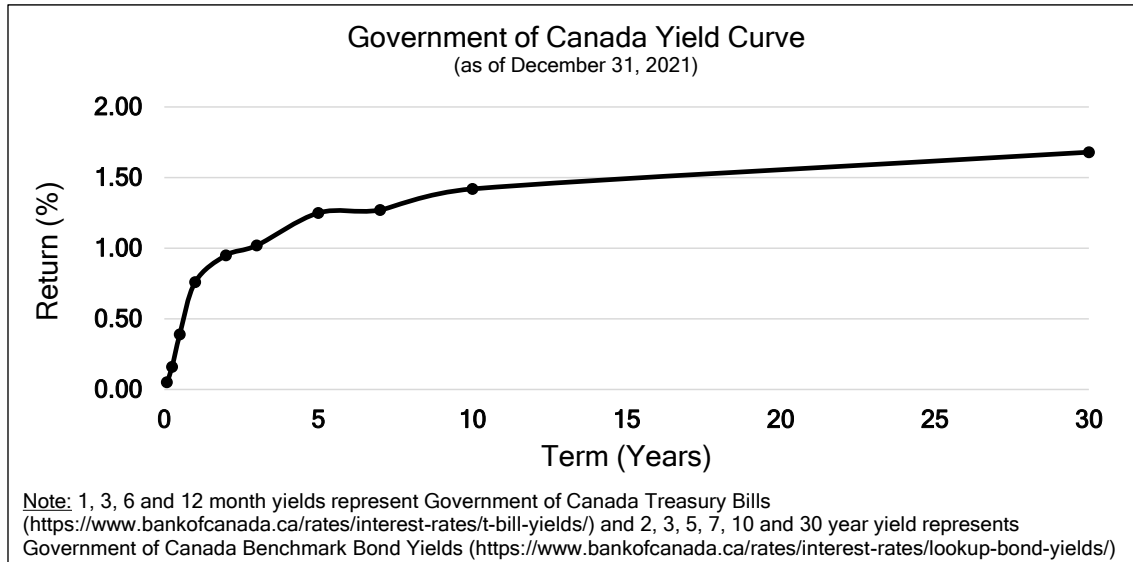
Historical overnight rates and bond yields are illustrated in the graph below which also shows that once the initial lockdowns started to ease in late 2020/early 2021 long term yields began to increase.



The chart below shows investment yields at the end of 2021 were starting to return to a normalized yield curve (upward sloping) where short term investments have a lower yield than long term investments, assuming the same credit quality, increasing the financial benefits associated with long-term investment opportunities as compared to short-term.

¹ Bank of Canada. Canadian Bond Yields: 10 Year Lookup table, V39059 Government of Canada Marketable Bonds Average Yield 1 to 3 Year and V39055 Government of Canada Benchmark Bond Yields 10 Year. <http://www.bankofcanada.ca/rates/interest-rates/lookup-bond-yields/>. Accessed February 23, 2022.

Discussion



Investment Portfolio

2021 year-end cash and investment holdings for the Town, excluding the Town's investment in Milton Hydro, were as follows:

Investment Holdings (\$ Millions) as of December 31, 2021

Investment Type	Book Value	Market Value	Return in 2021
Cash	\$67.0	\$67.0	0.81%
Short Term	\$21.0	\$21.0	1.08%
Long Term	\$110.8	\$111.0	2.21%
Total	\$198.8	\$199.0	1.51%

Cash

The Town's 2021 year-end cash balance was \$67.0 million, and had an average balance of \$85.5 million. The average yield on cash balances for 2021 was 0.81% generating \$0.7 million in interest. The cash balances remained high during 2021 due to market conditions and the uncertainty related to the COVID-19 recovery.

Short Term Investments

During 2021 short term investments (securities with a holding period of one year or less) were purchased as the yields were favourable to savings and five year provincial bonds while still providing liquidity options if the funds were required. Short term investments generated \$0.2 million in investment earnings and at the end of 2021 the Town held three



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short term securities with a value of \$21.0 million. The average balance through 2021 was \$22.2 million.

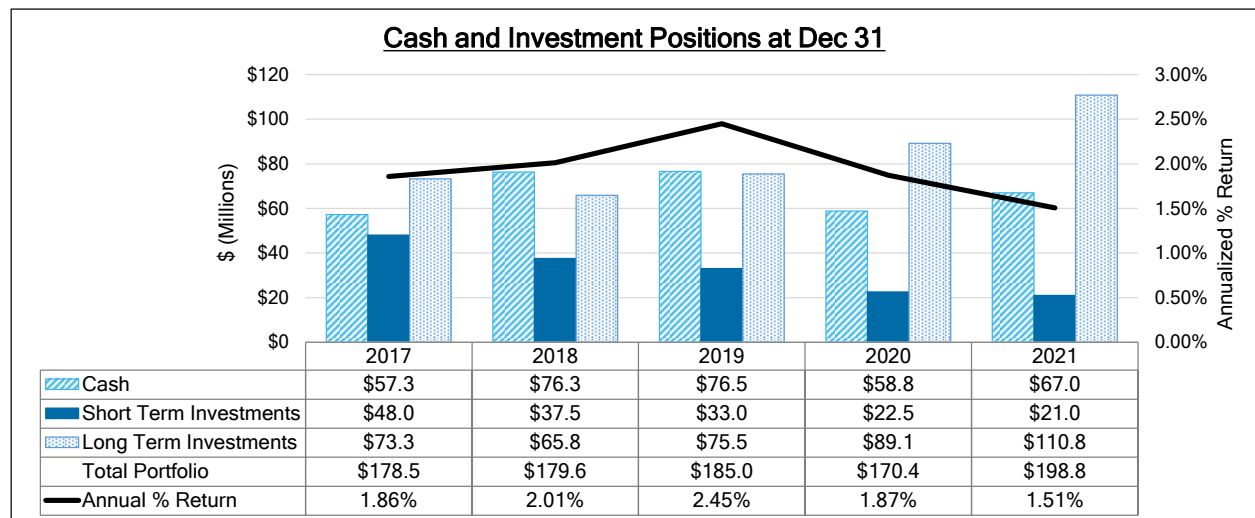
Long Term Investments

Long term investments had an average balance of \$98.1 million during 2021. At year-end, the Town held 55 securities with a book value of \$110.8 million and a market value of \$111.0 million. This translates into \$0.2 million in unrealized gains and consistent with prior years has not been included in the investment return figures. As the Town generally holds investments until maturity the unrealized book losses will have no impact on investment earnings.

Overall Portfolio

The average rate of return for the year for the entire portfolio was 1.51%, generating \$3.1 million in investment income (includes interest income and amortized premiums or discounts) which is a decrease of \$0.7 million when compared to 2020. Based on interest rate and cash flow projections the decrease was anticipated in the development of the 2021 budget with the overall results ending \$0.2 million favourable to budget.

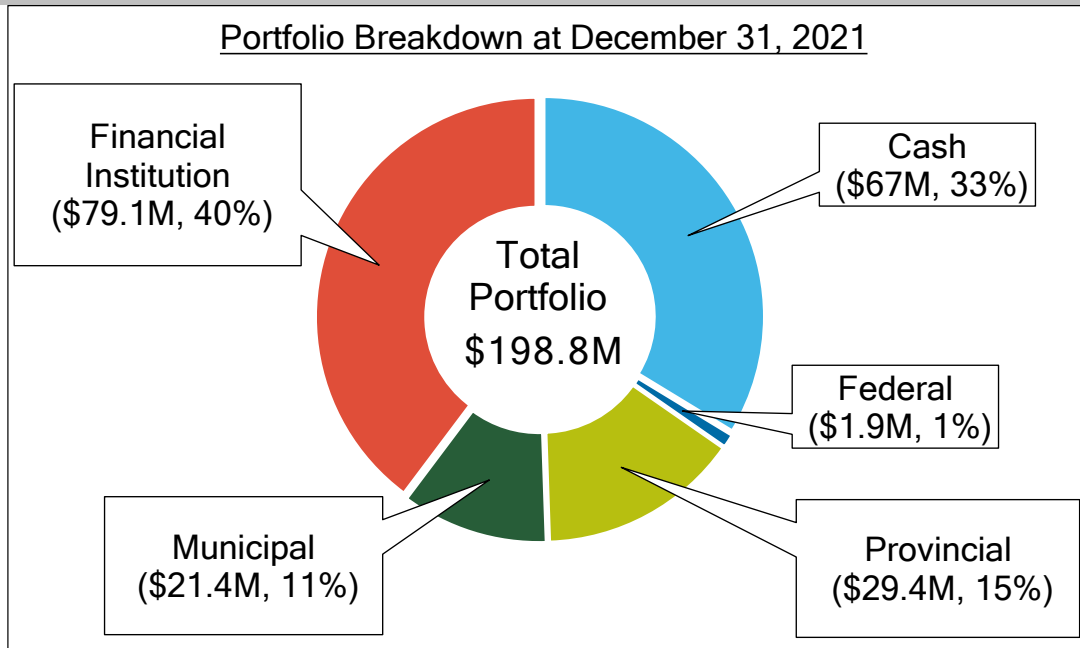
Holdings at year-end and historical returns are compared over the past five years in the following table:



Portfolio Breakdown and Policy Limits

The chart below shows the portfolio breakdown by category as of December 31, 2021

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The Town's Treasury Policy outlines limitations on holdings, expressed as a percentage of the total portfolio as well as identifying the minimum credit rating for securities based on the classification of the issuing organization and the form of investment. A detailed table showing investment portfolio holding by category as compared to policy limitations is included in Appendix 1.

All securities held in 2021 satisfied the credit rating requirement. None of the investments held by the Town in 2021 were in its own long-term or short term securities.

Comparison to Benchmark

Direct comparator information is not easily available due to differing calculation methods for investment returns, different portfolio compositions, term structures and investment strategies.

The industry report that has historically been used to benchmark the Town's performance no longer presents performance in a manner comparable to the Town. Staff are currently reviewing options for alternate benchmark reporting and will report back to Council on the Town's comparison to benchmark as this information becomes available.

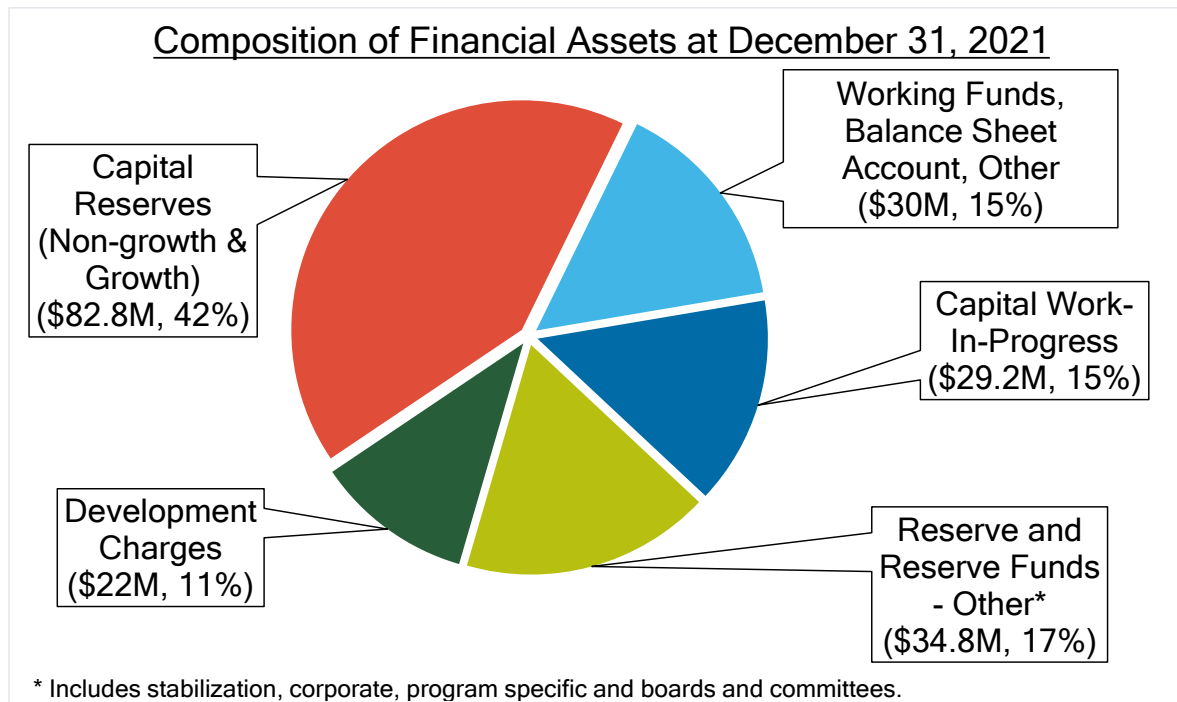
Sources of Funds

The Town's portfolio is comprised of funds held for a variety of purposes, each with its own investment horizon and liquidity needs. As the third priority in Milton's investment policy involves ensuring sufficient cash is available to satisfy the disbursements and obligations

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of the Town, it is important to remain cognizant of the underlying needs when determining the Town’s investment strategy.

The following table summarizes the primary sources of the Town’s funds at 2021 year end. Although no individual category should be viewed as being entirely correlated to one specific investment timeframe, they have been presented in order of liquidity with the working funds / balance sheet amounts requiring the greatest liquidity (shortest time frame) and the capital reserves generally having a longer investment horizon.



Sinking Fund

In 2015 the Town approved a \$15 million 30 year sinking fund for a portion of the Town’s contribution to the Hospital. The Hospital sinking fund is held and managed by the Region of Halton, for the purposes of retiring the debt at maturity. As a result, the Town’s portfolio balances exclude the sinking fund and the overall investment income excludes any interest income earned on the sinking fund investments.

For 2021, Milton’s contribution to the sinking fund equaled \$302,726 and \$65,772 in return on investment was achieved by the Region of Halton. As such, the year-end value of the fund was \$2,038,523, which exceeds the originally projected year-end balance.

2022 Outlook



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In March of 2022 the Bank of Canada increased the overnight rate target to 0.50% due to the improving economic conditions and higher than anticipated inflation. Due to supply chain disruptions, rising energy prices and global uncertainty the Bank of Canada is projecting inflation to average close to 5% through the first half of 2022 which is well above its target of 2% (represents the midpoint of a target range of 1% to 3% over the medium term). As the economy continues to expand and inflation pressures remain elevated, the Bank of Canada and the major Canadian Banks expect interest rates will need to rise further which should translate into higher investment earnings. Staff will continue to monitor market conditions for the purposes of making investment decisions while adhering to the objectives of the Town's Treasury Policy No. 116.

Financial Impact

Of the \$3.1 million realized in investment income in 2021, \$1.6 million was allocated to the Operating budget and the remaining funds of \$1.5 million to reserves and reserve funds in accordance with the 2021 budget allocations and the Town's Treasury Policy No. 116.

The aforementioned \$0.2 million favourable variance is reflected in higher capital reserve and reserve fund balances and has no impact on the operating budget which limits investment earnings in the event of a significant market adjustment (see Financial Principles Policy No. 110). The revised interest earning amounts in those reserve balances will be incorporated into the capital financing and planning exercises undertaken in 2022.

The cost of managing the overall portfolio is in order of 0.05% of the portfolio value and has been included in the 2021 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Brad Schultz, CMA, CPA

Phone: Ext. 905-878-
7252 Ext. 2248

Attachments

Appendix 1 - Investment Portfolio Holdings and Limitations



CAO Approval
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.

Appendix 1 - CORS-023-22 Investment Portfolio Holdings and Limitations

Authorized Investments and Limitations at December 31, 2021 (\$Millions)										
Category / Sector ⁽¹⁾	Remaining Term			Total	% of Portfolio	Portfolio Maximum	Individual Maximum ⁽²⁾	Term Limit (Years)	Minimum DBRS Rating ⁽³⁾	
	Less than 1 Year	1 to 5 Years	5 to 10 Years						Short-term	Long-Term
Cash	\$67.03	-	-	\$67.03	34%					
Federal and Federal Guaranteed⁽⁴⁾	-	-	\$1.93	\$1.93	1%	100%	100%	20	N/A	A (low)
Provincial and Provincial Guaranteed⁽⁴⁾										
Alberta	-	\$2.08	\$4.26	\$6.34	3%		20%	15	R-1 (low)	A (low)
British Columbia	\$1.96	\$0.83	\$0.94	\$3.73	2%		20%			
Manitoba	-	\$3.28	\$1.11	\$4.39	2%		20%			
Ontario	\$1.72	\$1.00	\$6.00	\$8.71	4%		20%			
Prince Edward Island	-	-	\$0.99	\$0.99	0%		20%			
Quebec	\$1.55	\$0.80	\$1.81	\$4.16	2%		20%			
Saskatchewan	-	-	\$1.06	\$1.06	1%		20%			
Provincial and Provincial Guaranteed Sub-total	\$5.24	\$7.98	\$16.17	\$29.38	15%	100%				
Municipal and Municipal Guaranteed										
BC Municipal Finance Authority	-	-	\$4.19	\$4.19	2%		10%	15	R-1 (low)	A (low)
City of Toronto	-	-	\$1.97	\$1.97	1%		10%			
Regional Municipality of York	-	\$5.23	\$5.27	\$10.50	5%		10%			
Regional Municipality of Peel	-	\$1.05	-	\$1.05	1%		10%			
City of Montreal	-	-	\$2.61	\$2.61	1%		10%			
City of Vancouver	-	-	\$1.07	\$1.07	1%		10%			
Municipal and Municipal Guaranteed Sub-total	\$0.00	\$6.28	\$15.11	\$21.39	11%	50%				
Boards / Schools⁽⁵⁾ Sub-total	\$0.00	\$0.00	\$0.00	\$0.00	0%	15%		15	R-1 (low)	AA(low)
Financial Institution										
Schedule I Bank (Six Majors)⁽⁶⁾										
Bank of Montreal	\$4.00	\$13.00	-	\$17.00	9%		20%	10	R-1 (low)	A(low)
Bank of Nova Scotia (The)	\$6.00	\$25.00	\$2.00	\$33.00	17%		20%			
Canadian Imperial Bank of Commerce	-	\$4.00	-	\$4.00	2%		20%			
Toronto-Dominion Bank (The)	-	\$4.06	-	\$4.06	2%		20%			
Schedule I Bank (Six Majors) Sub-total	\$10.00	\$46.06	\$2.00	\$58.06	29%	60%				
Other Sch I, Sch II, Trust Loan, Credit Union										
First Ontario	\$4.00	-	-	\$4.00	2.0%		10%	2	R-1 (mid)	A(low)
Meridian	\$17.00	-	-	\$17.00	8.6%		10%			
Other Sch I/Sch II/Trust/Credit Union Sub-total	\$21.00	\$0.00	\$0.00	\$21.00	11%	20%				
Financial Institution Sub-total⁽⁷⁾	\$31.00	\$46.06	\$2.00	\$79.06	40%	60%				
ONE Investment Program Sub-total	\$0.00	\$0.00	\$0.00	\$0.00	0%	25%		N/A	N/A	N/A
Asset Backed Securities				\$0.00	0%	10%	5%	5	R-1 (high)	AAA
Commercial paper or promissory notes				\$0.00	0%	10%	5%	1	R-1 (mid)	N/A
Total	\$103.26	\$60.32	\$35.21	\$198.79	100%					

Notes:

- (1) Per definitions and regulations under Ontario Regulation 438/97.
- (2) Individual maximum applies to either an individual institution or in the case of the ONE Investment Program it applies to individual portfolios.
- (3) Equivalent ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are also acceptable.
- (4) A minimum of 10% of the portfolio must be in the Federal or Provincial category.
- (5) Includes a University in Ontario that is authorized to engage in an activity described in section 3 of the Post-secondary Education Choice and Excellence Act, 2000 and a college established under the Ontario Colleges of Applied Arts and Technology Act, 2002.
- (6) Six major Schedule I Banks include: Bank of Montreal, Bank of Nova Scotia (The), Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto-Dominion Bank (The).
- (7) The overall Financial Institution category shall not exceed 60% of the total portfolio, within this category:
 - i) Aggregate holdings of the Six major Schedule I Banks shall not exceed 60% of the total portfolio; and
 - ii) Aggregate holdings of Schedule II & Other Schedule I Banks not listed above and Trust Loan / Credit Union's shall not exceed 20% of the total portfolio.
- (8) The ONE Investment Program provides recommended investment timelines for each fund however funds can be withdrawn with one day's notice and investments in each pool meet eligibility criteria as defined by regulations under the Municipal Act.