



The Corporation of the Town of Milton

Report To: Council
From: Glen Cowan, Chief Financial Officer / Treasurer
Date: March 27, 2023
Report No: CORS-012-23
Subject: 2022 Year End Report on Investments
Recommendation: THAT report CORS-012-23 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, 2022 with the following information of note:

- The average portfolio balance was \$263.7 million.
- The overall portfolio average return was 2.60% on an annualized basis.
- The Town generated \$6.8 million in investment revenue in 2022, which was \$3.7 million higher than 2021 and exceeded budget by \$4.0 million.

REPORT

Background

This report has been prepared to provide an annual update to Council on the 2022 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 limits for each type of investment that can be held.

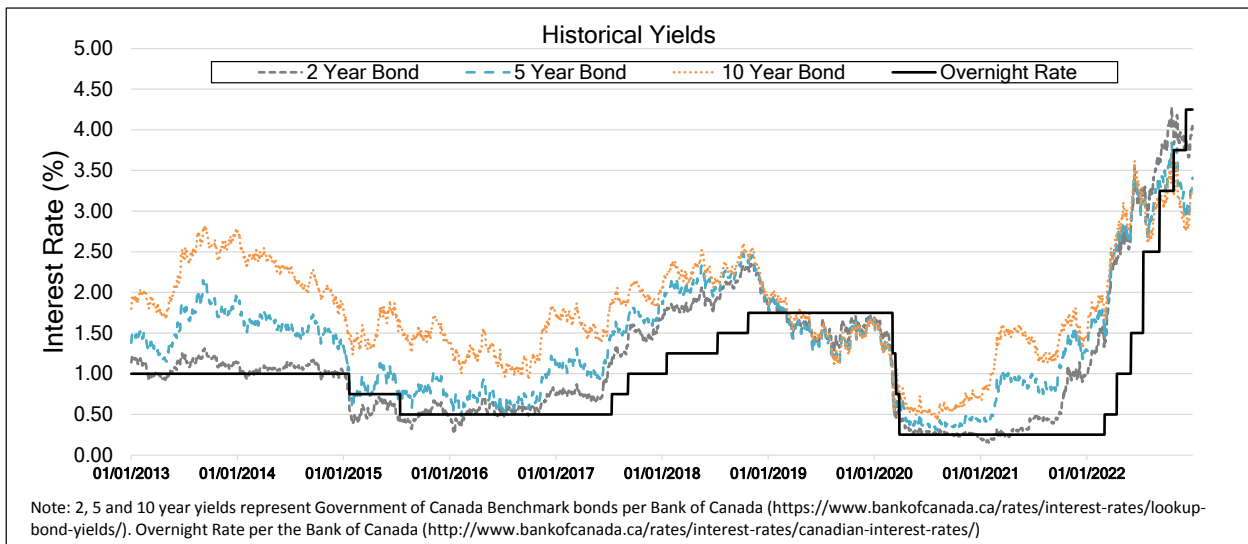
Discussion

Interest Rates

Throughout 2022 the Bank of Canada (BOC), along with other central banks pursued one of the most aggressive rate-hiking cycles in history in attempts to manage elevated inflation and future inflation expectations. Starting in March, 2022 the BOC increased the overnight rate from 0.25% to 4.25% as of December 31, 2022, bringing it to the highest level since 2007. The overnight rate directly impacts the return received by the Town on funds in the bank and some short term investments.

Yields on longer dated bonds increased rapidly throughout 2022 before starting to decline, resulting in an inverted yield curve at the end of the year. For reference, the return on a 5 year Government of Canada bond averaged 2.78% in 2022 (2021 average: 0.95%) and 10 year Government of Canada yields averaged 2.77% in 2022 (2021 average: 1.36%)¹.

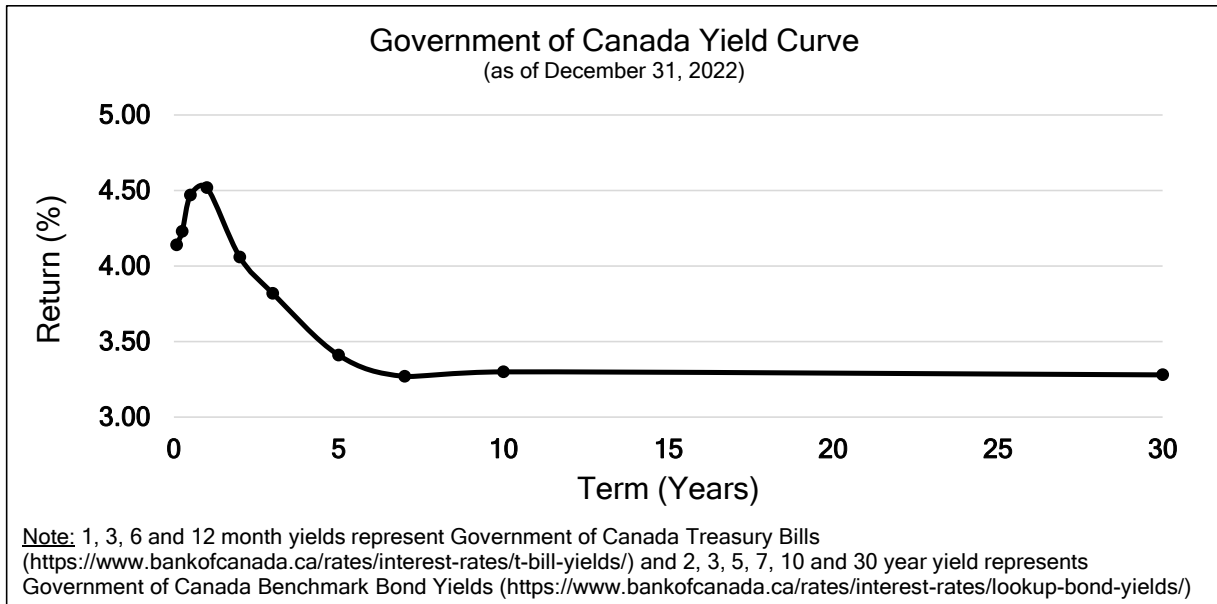
Historical overnight rates and bond yields are illustrated in the graph below which also shows that in 2022 yields increased to the highest levels in the previous ten years.



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

The chart below shows investment yields at the end of 2022 were inverted (downward sloping) where short term investments have a higher yield than long term investments, assuming the same credit quality, decreasing the financial benefits associated with long-term investment opportunities as compared to short-term.



Investment Portfolio

2022 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, 2022

Investment Type	Book Value	Market Value	Return in 2022
Cash	\$70.7	\$70.7	2.53%
Short Term	\$25.8	\$25.7	2.50%
Long Term	\$171.5	\$165.3	2.65%
Total	\$268.1	\$261.8	2.60%

Cash

The Town's 2022 year-end cash balance was \$70.7 million, and had an average balance of \$94.8 million. The average yield on cash balances for 2022 was 2.53% generating \$2.4 million in interest. The cash balances remained high during 2022 due to market conditions and timing of payments related to the capital program.



Discussion

Short Term Investments

During 2022 short term investments (securities with a holding period of one year or less) were purchased as the yields were favourable to savings and five and ten year provincial bonds while still providing liquidity options if the funds were required. Short term investments generated \$0.6 million in investment earnings and at the end of 2022 the Town held three short term securities with a value of \$25.8 million. The average balance through 2022 was \$22.4 million. The lower overall short term return is related to short term GIC's that were purchased through 2021 at lower rates of return which have now matured in 2022.

Long Term Investments

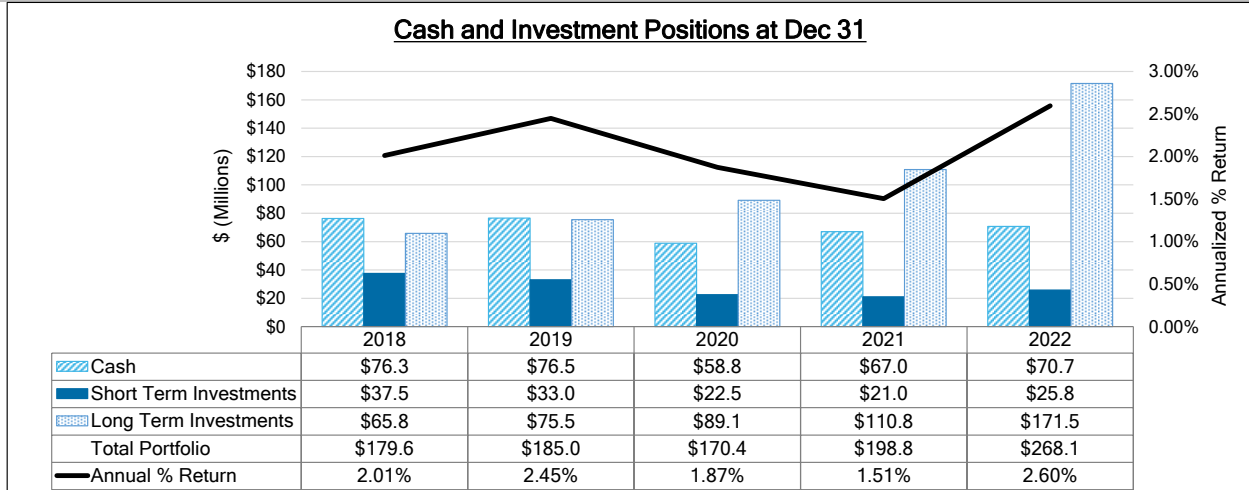
Long term investments had an average balance of \$146.5 million during 2022. At year-end, the Town held 71 securities with a book value of \$171.5 million and a market value of \$165.3 million. This translates into \$6.2 million in unrealized losses due to the rapid rise in interest rates (bond prices decline as yields increase) 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 2.60%, generating \$6.8 million in investment income (includes interest income and amortized premiums or discounts) which is an increase of \$3.7 million when compared to 2021. Due to the rapid increase in interest rates throughout 2022 the overall results were \$4.0 million favourable to budget.

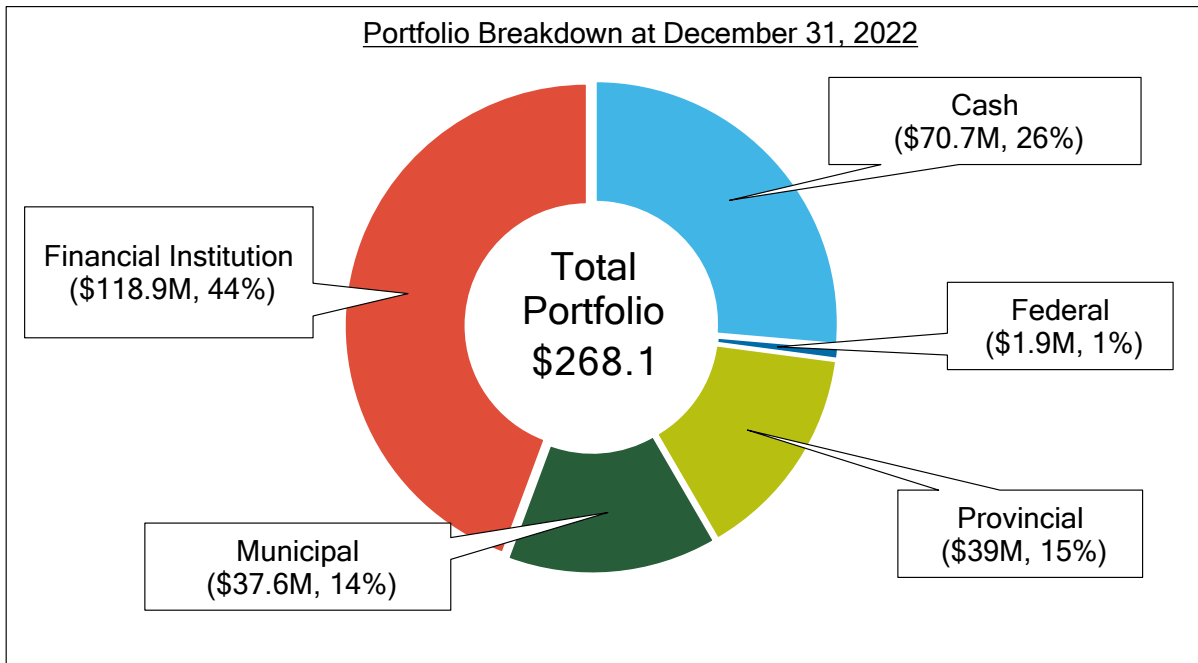
Holdings at year-end and historical returns are compared over the past five years in the following table:

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Portfolio Breakdown and Policy Limits

The chart below shows the portfolio breakdown by category as of December 31, 2022



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. Through a Financial Policy Update (report CORs-024-22), Council approved an expansion to the list of eligible investments for the Town that would allow for



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exposure to the equity market through the ONE equity fund. At this time, no investments have been made in that fund and it is expected that when the introduction of that investment product does occur, it will be undertaken on a phased basis.

All securities held in 2022 satisfied the credit rating requirement. In June 2022 the Town purchased a \$2.0 million Region of Halton debenture at a price of 99.909 representing less than 1% of the overall portfolio.

Comparisons

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

One alternative that is available to municipalities is products offered by the One Investment Fund. Below are the returns for those funds as noted in their December 2022 Performance Report.

One Investment Fund Returns for the Period Ending December 31, 2022

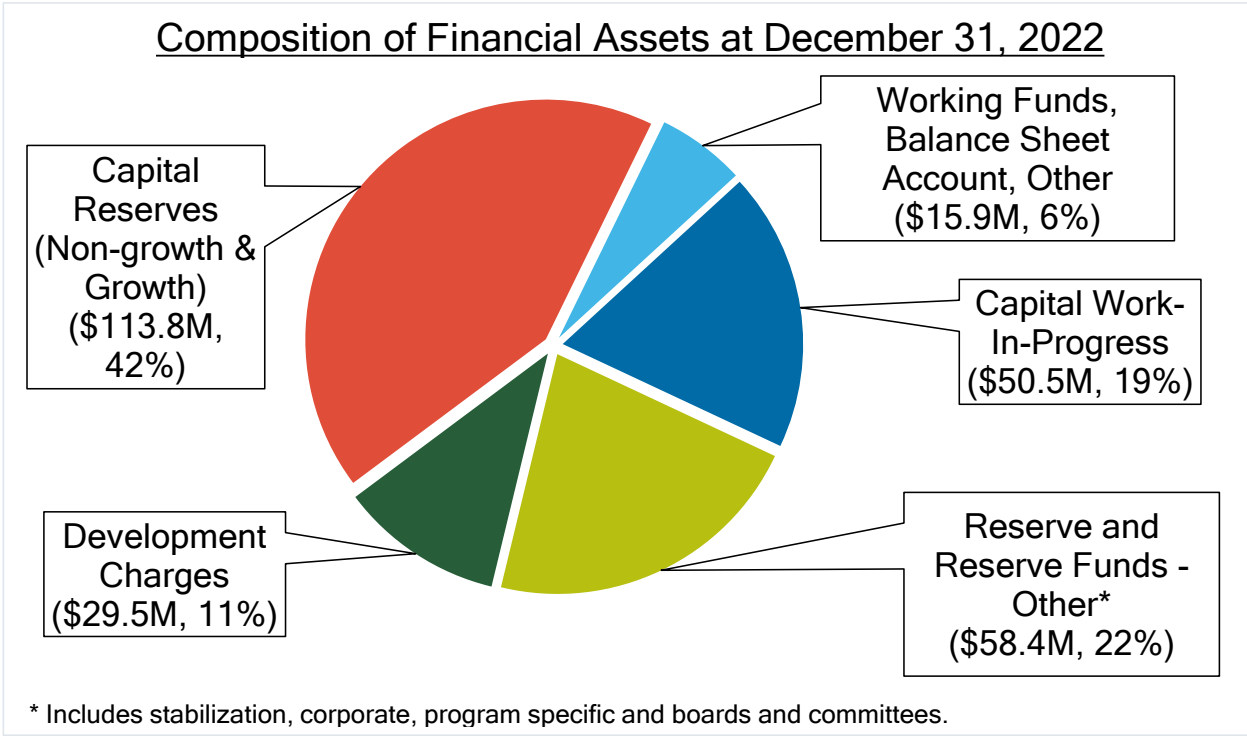
Portfolio	1 Year	5 Year	10 Year
Money Market Portfolio	1.57%	N/A	N/A
Canadian Government Bond Portfolio	(4.04%)	0.73%	1.02%
Canadian Corporate Bond Portfolio	(8.37%)	0.43%	1.59%
Canadian Equity Portfolio	(7.94%)	6.32%	9.58%

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 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 2022 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.

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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 2022, Milton's contribution to the sinking fund equaled \$302,726 and \$78,653 in return on investment was achieved by the Region of Halton. As such, the year-end value of the fund was \$2,419,902, which exceeds the originally projected year-end balance.

2023 Outlook

In January 2023 the BOC raised the overnight rate by an additional 25 basis points to 4.50% and communicated if economic developments are in line with their outlook, it's expected the overnight rate will remain at the current level while the impact of the interest rate increases in 2022 and 2023 are assessed. The most recent forecasts from the BOC project CPI inflation to decrease to around 3% in the middle of 2023 and back to the 2% target in 2024. Staff will continue to monitor market conditions for the purposes of making



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investment decisions while adhering to the objectives of the Town's Treasury Policy No. 116.

Financial Impact

Of the \$6.8 million realized in investment income in 2022, \$1.6 million was allocated to the Operating budget and the remaining funds of \$5.2 million to reserves and reserve funds in accordance with the 2022 budget allocations and the Town's Treasury Policy No. 116.

The aforementioned \$4.0 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 2023.

The cost of managing the overall portfolio is in order of 0.05% of the portfolio value and has been included in the 2022 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

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

905-878-7252
Ext. 2248

Attachments

Appendix 1 - Investment Portfolio Holdings and Limitations

Approved by CAO
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



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the water, food and resources. We stand as allies with the First Nations as stewards of these lands.

Appendix 1 - CORS-012-23

Investment Portfolio Holdings and Limitations

Authorized Investments and Limitations at December 31, 2022 (\$ 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	\$70.71	-	-	\$70.71	26%					
Federal and Federal Guaranteed⁽⁴⁾	-	-	\$1.95	\$1.95	1%	100%	100%	20	N/A	A (low)
Provincial and Provincial Guaranteed⁽⁴⁾										
Alberta	-	\$2.06	\$6.23	\$8.29	3%		20%	15	R-1 (low)	A (low)
British Columbia	\$0.85	-	\$0.95	\$1.79	1%		20%			
Manitoba	\$3.34	-	\$5.43	\$8.77	3%		20%			
Ontario	\$1.00	-	\$12.35	\$13.35	5%		20%			
Prince Edward Island	-	-	\$0.99	\$0.99	0%		20%			
Quebec	\$0.82	-	\$3.80	\$4.62	2%		20%			
Saskatchewan	-	-	\$1.05	\$1.05	0%		20%			
Provincial and Provincial Guaranteed Sub-total	\$6.01	\$2.06	\$30.79	\$38.86	14%	100%				
Municipal and Municipal Guaranteed										
BC Municipal Finance Authority	-	-	\$8.53	\$8.53	3%		10%	15	R-1 (low)	A (low)
City of Toronto	-	\$0.98	\$1.00	\$1.97	1%		10%			
Regional Municipality of York	-	\$6.73	\$6.04	\$12.77	5%		10%			
Regional Municipality of Peel	-	\$1.04	-	\$1.04	0%		10%			
City of Montreal	-	\$1.49	\$4.34	\$5.83	2%		10%			
Region of Waterloo	-	-	\$4.42	\$4.42	2%		10%			
Region of Halton	-	-	\$2.00	\$2.00	1%		10%			
City of Vancouver	-	\$1.06	-	\$1.06	0%		10%			
Municipal and Municipal Guaranteed Sub-total	\$0.00	\$11.29	\$26.32	\$37.61	14%	50%				
Boards / Schools⁽⁵⁾ Sub-total	\$0.00	\$0.00	\$0.00	\$0.00	0%	15%		15	R-1 (low)	AA(low)
Financial Institution⁽⁶⁾										
Schedule I Bank (Six Majors)										
Bank of Montreal	\$8.34	\$11.00	-	\$19.34	7%		20%	10	R-1 (low)	A(low) ⁽⁸⁾
Bank of Nova Scotia (The)	\$7.00	\$27.00	\$9.00	\$43.00	16%		20%			
Canadian Imperial Bank of Commerce	\$9.93	\$14.00	-	\$23.93	9%		20%			
Royal Bank of Canada	\$15.91	\$3.95	\$7.73	\$27.59	10%		20%			
Toronto-Dominion Bank (The)	-	\$5.04	-	\$5.04	2%		20%			
Schedule I Bank (Six Majors) Sub-total	\$41.18	\$60.99	\$16.73	\$118.90	44%	60%				
Other Sch I/Sch II/Trust/Credit Union Sub-total	\$0.00	\$0.00	\$0.00	\$0.00	0%	20%		2	R-1 (low)	A(low) ⁽⁸⁾
Financial Institution Sub-total⁽⁷⁾	\$41.18	\$60.99	\$16.73	\$118.90	44%	60%				
ONE Investment Program⁽⁹⁾	\$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	\$117.90	\$74.34	\$75.79	\$268.03	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) Includes bonds, debentures or other evidence of indebtedness issued or guaranteed by the Government of Canada, or a Province of Canada. 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) Includes bonds, debentures, deposit receipts, deposit notes, certificates of deposit or similar instruments issued, accepted, guaranteed or endorsed by a bank in Schedule I or II or a Credit Union, including bail-in. 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). Credit Unions require financial statements or certification in writing that various financial criteria has been met as outlined in O. Reg. 438/97.

(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) For securities of bonds, debentures, promissory notes or other evidence of indebtedness, issued or guaranteed by a bank listed in Schedule I, II or III to the Bank Act (Canada) with a term-to-maturity less than or equal to 2 years on the day the investment is made, the prescribed minimum credit rating is AA(low).

(9) 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.