



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: March 17, 2025

Report No: ES-010-25

Subject: 2024 Year End Report on Investments

Recommendation: THAT report ES-010-25 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, 2024 with the following information of note:

- The average portfolio balance was \$364.5 million.
- The overall portfolio average return was 4.26% on an annualized basis.
- The Town generated \$15.5 million in investment revenue in 2024, which was \$3.9 million higher than 2024 and exceeded budget by \$4.7 million.

REPORT

Background

This report has been prepared to provide an annual update to Council on the 2024 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);

Background

- 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.

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.

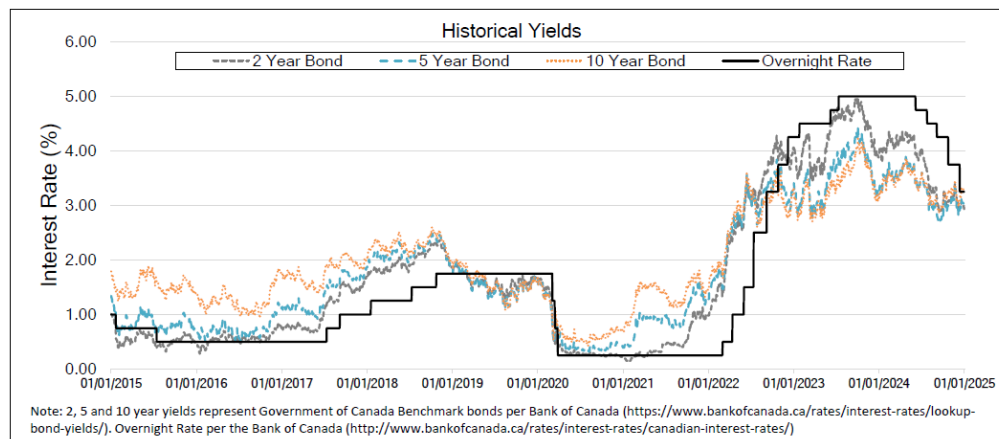
Discussion

Interest Rates and Canadian Economy

In 2024, the Canadian economy experienced moderate growth, with GDP growth averaging around 1.3%, inflation averaging 2.4% and future inflation expectations normalized. Based on economic conditions the Bank of Canada (BOC) decreased the overnight rate by 175 basis points from 5.00% to 3.25% in 2024. Household spending remained strong, supported by the interest rate cuts, while the labour market showed signs of softness with slowing wage growth.

Throughout the first half of 2024, yields on longer-dated bonds remained relatively flat. However, starting in June, as the BOC started to decrease the overnight rate and signal further cuts, long-term investment yields started to decline. Overall, the average bond returns were slightly lower in 2024 than in 2023. For reference, the return on a 5 year Government of Canada bond averaged 3.30% in 2024 (2023 average: 3.56%) and 10 year Government of Canada yields averaged 3.34% in 2024 (2023 average: 3.36%)¹.

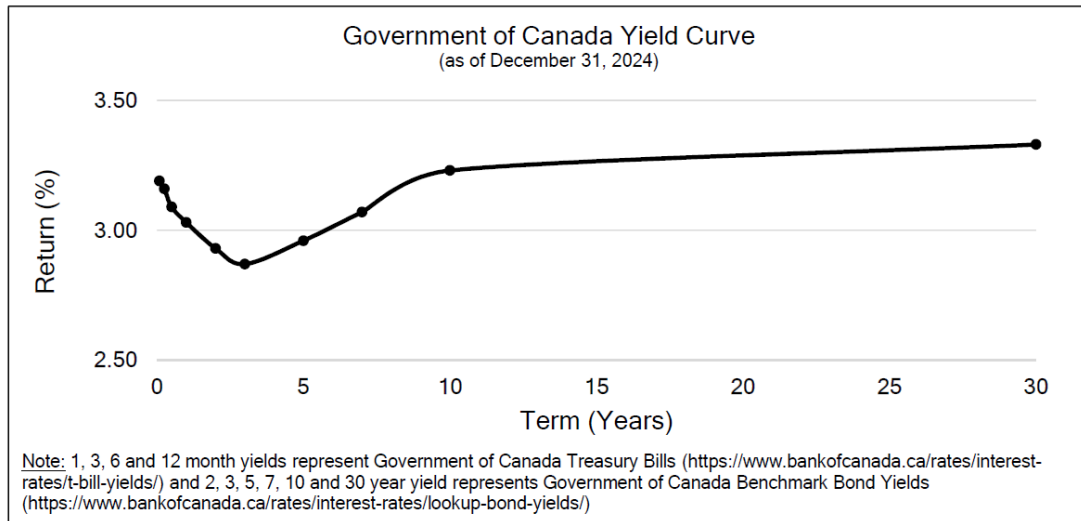
Historical overnight rates and bond yields are illustrated in the graph below, highlighting that yields reached their highest levels in a decade in 2023 before beginning to decline in late 2023 and continued throughout 2024.



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 January 20, 2025.

Discussion

Based on the yield curve at the end of 2024, as shown in the chart below, short-term rates are elevated but declining to approximately the three-year mark where the yield curve shifts back to an upward slope. This indicates that long-term rates are higher than medium-term rates, providing higher returns to investors who commit to longer-term investments, assuming the same credit quality.



Investment Portfolio

2024 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, 2024			
Investment Type	Book Value	Market Value	Return in 2024
Cash	\$157.4	\$157.4	4.93%
Short Term	\$15.0	\$15.0	6.00%
Long Term	\$217.1	\$217.2	3.72%
Total	\$389.5	\$389.6	4.26%

Cash

The Town's 2024 year-end cash balance was \$157.4 million, and had an average balance of \$146.5 million. The average yield on cash balances for 2024 was 4.93% generating \$7.2 million in interest. The cash balance is at a higher level than in prior years due largely to additional funds received during 2025 that are shorter term in nature such as roads cash flow assistance received from landowners to assist with providing for the capital costs associated with the delivery of municipal services, grant funding received from various levels of government and timing of both capital projects and development charges received relative to spending.

Discussion

Short Term Investments

The balance in short term investments (securities with a holding period of one year or less) was \$15.0 at year end as the Town was able to take advantage of a favourable investment opportunity. During 2024 the average balance was \$8.8 million which generated \$0.5 million in investment income and returned an average yield of 6.00%.

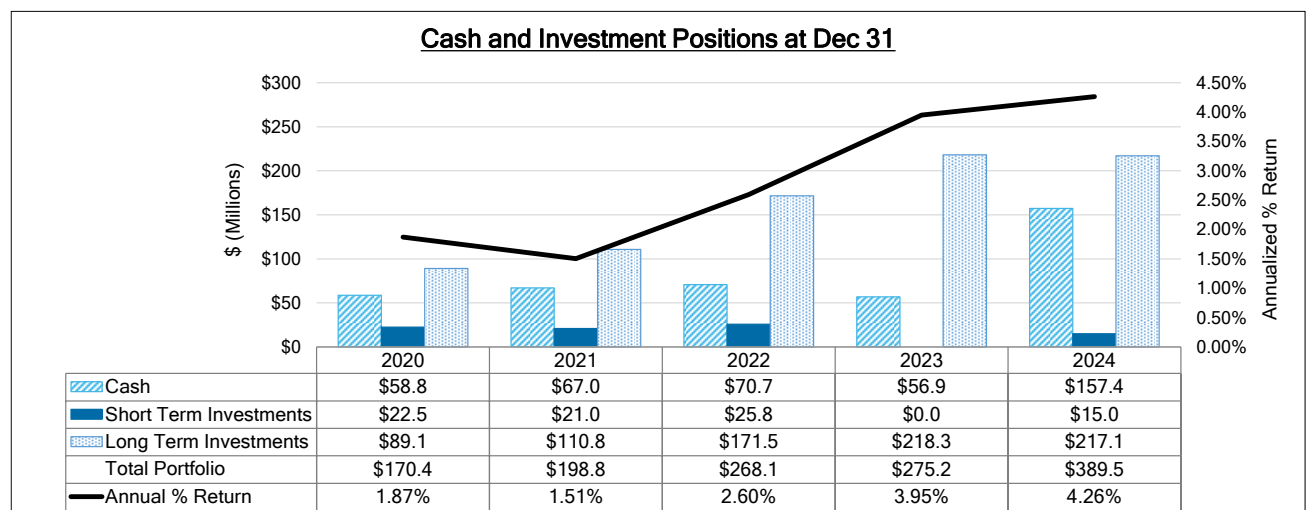
Long Term Investments

Long term investments had an average balance of \$209.2 million during 2024, generated \$7.8 million in investment income and returned an average yield of 3.7%. At year-end, the Town held 83 securities with a book value of \$217.1 million and a market value of \$217.2 million. This translates into \$0.1 million in unrealized gains due to the slight decline in interest rates (bond prices increase as yields decline) throughout 2024. Consistent with prior years the unrealized gains have not been included in the investment return figures as the Town generally holds investments until maturity and, therefore, the unrealized book gains will have no impact on investment earnings.

Overall Portfolio

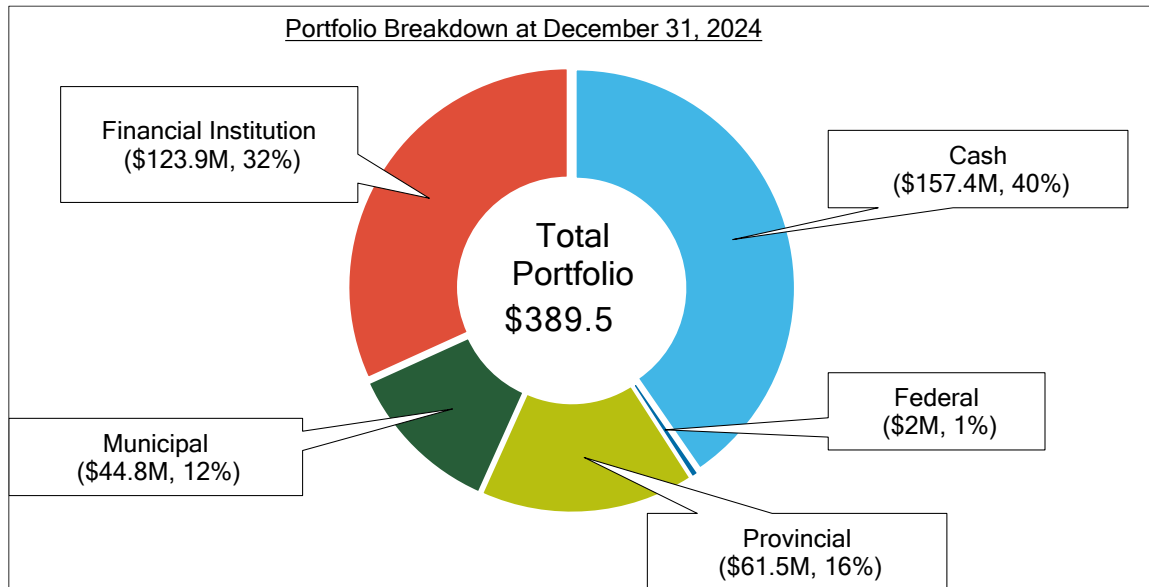
The average rate of return for the year for the entire portfolio was 4.26%, generating \$15.5 million in investment income (includes interest income and amortized premiums or discounts) which is an increase of \$3.9 million when compared to 2023. Due to a higher than expected portfolio balance and favourable investment opportunities the overall results were \$4.7 million favourable to budget.

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



Discussion

Portfolio Breakdown and Policy Limits



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 report CORS-024-22, Council approved an expansion to the list of eligible investments for the Town that would allow for exposure to the equity market through the ONE equity fund. No investments have been made in that fund to the end of 2024. It is expected that the Town will begin to invest in the equity fund in 2025 on a phased basis.

All securities held in 2024 satisfied the credit rating requirement. The Town holds \$4.1 million in Region of Halton debentures, representing approximately 1.1% of the total 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 2024 Performance Report.

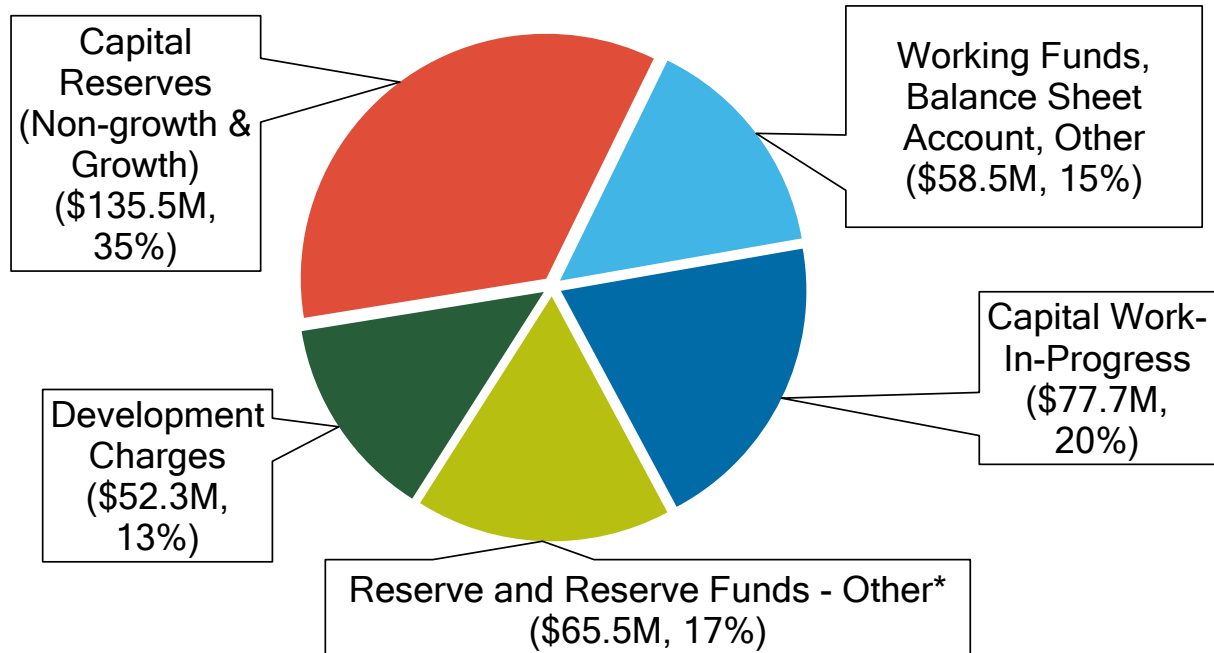
One Investment Fund Returns for the Period Ending December 31, 2024			
Portfolio	1 Year	5 Year	10 Year
Canadian Government Bond Portfolio	4.85%	1.78%	1.55%
Canadian Corporate Bond Portfolio	4.60%	1.35%	1.93%
Canadian Equity Portfolio	20.56%	10.82%	9.15%

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 2024 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.

Composition of Financial Assets at December 31, 2024 (\$389.5M)



* Includes stabilization, corporate, program specific and boards and committees.

Discussion

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 2024, Milton's contribution to the sinking fund equaled \$302,726 and \$111,438 in return on investment was achieved by the Region of Halton. As such, the year-end value of the fund was \$2,816,716, which exceeds the originally projected year-end balance.

2025 Outlook

In January, the BOC lowered the overnight rate to 3.00%. Major Canadian banks are predicting one or two more reductions by the end of 2025, as current forecasts suggest inflation will stay close to the BOC's 2% target. The BOC has forecast GDP to rise to around 1.8% in 2025 and 2026 noting the expected growth could be impacted by new government policies to slow immigration and potential trade policy and tariffs from the United States. 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 \$15.5 million realized in investment income in 2024, \$2.1 million was allocated to the Operating budget and the remaining funds of \$13.4 million to reserves and reserve funds in accordance with the 2024 budget allocations and the Town's Treasury Policy No. 116.

The aforementioned \$4.7 million favourable variance is reflected in higher capital reserve and reserve fund balances and has no immediate 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 2025.

The cost of managing the overall portfolio is in order of 0.05% of the portfolio value and has been included in the 2024 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer



The Corporation of the Town of Milton

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

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

Appendix 1 - ES-010-25

Investment Portfolio Holdings and Limitations

Authorized Investments and Limitations at December 31, 2024 (\$ Millions)										
Category / Sector ⁽¹⁾	Remaining Term			Total	% of Portfolio	Portfolio Maximum	Individual Maximum ⁽²⁾	Term Limitation (Years)	Minimum DBRS Rating ⁽³⁾	
	Less than 1 Year	1 to 5 Years	5 to 10 Years						Short-term	Long-Term
Cash	\$157.39	-	-	\$157.39	40%					
Federal and Federal Guaranteed ⁽⁴⁾	\$0.00	-	\$1.97	\$1.97	1%	100%	100%	20	N/A	A (low)
Provincial and Provincial Guaranteed ⁽⁴⁾										
Alberta	-	\$4.15	\$4.03	\$8.18	2%		20%	15	R-1 (low)	A (low)
British Columbia	-	-	\$4.81	\$4.81	1%		20%			
Manitoba	-	\$3.45	\$8.83	\$12.28	3%		20%			
New Brunswick	-	-	\$2.07	\$2.07	1%		20%			
Ontario	-	\$2.43	\$12.94	\$15.37	4%		20%			
Prince Edward Island	-	-	\$0.99	\$0.99	0%		20%			
Quebec	-	-	\$16.75	\$16.75	4%		20%			
Saskatchewan	-	-	\$1.04	\$1.04	0%		20%			
Provincial and Provincial Guaranteed Sub-total	\$0.00	\$10.03	\$51.46	\$61.50	15.8%	100%				
Municipal and Municipal Guaranteed										
BC Municipal Finance Authority	-	\$3.11	\$5.39	\$8.50	2%		10%	15	R-1 (low)	A (low)
City of Toronto	-	\$0.99	\$1.00	\$1.98	1%		10%			
Regional Municipality of York	\$5.23	\$2.30	\$5.25	\$12.79	3%		10%			
Regional Municipality of Peel	-	\$1.02	-	\$1.02	0%		10%			
City of Montreal	-	\$3.07	\$5.37	\$8.44	2%		10%			
Quebec City	-	-	\$2.50	\$2.50	1%		10%			
Region of Waterloo	-	\$1.50	\$2.92	\$4.42	1%		10%			
Region of Halton	-	-	\$4.12	\$4.12	1%		10%			
City of Vancouver	-	\$1.03	-	\$1.03	0%		10%			
Municipal and Municipal Guaranteed Sub-total	\$5.23	\$13.02	\$26.56	\$44.81	12%	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)								10	R-1 (low)	A(low) ⁽⁸⁾
Bank of Montreal	\$5.00	\$7.00	\$10.00	\$22.00	6%		20%			
Bank of Nova Scotia (The)	\$4.00	\$18.40	\$17.49	\$39.89	10%		20%			
Canadian Imperial Bank of Commerce	-	\$10.00	-	\$10.00	3%		20%			
Royal Bank of Canada	\$2.00	\$10.08	\$10.70	\$22.78	6%		20%			
Toronto-Dominion Bank (The)	-	\$14.20	-	\$14.20	4%		20%			
Schedule I Bank (Six Majors) Sub-total	\$11.00	\$59.68	\$38.19	\$108.87	28%	60%				
Other Sch I, Sch II, Trust Loan, Credit Union								2	R-1 (low)	A(low) ⁽⁸⁾
First Ontario	\$15.00	-	-	\$15.00	3.9%		10%			
Other Sch I/Sch II/Trust/Credit Union Sub-total	\$15.00	\$0.00	\$0.00	\$15.00	4%	20%				
Financial Institution Sub-total ⁽⁷⁾	\$26.00	\$59.68	\$38.19	\$123.87	32%	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	\$188.62	\$82.74	\$118.18	\$389.54	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.