



The Corporation of the Town of Milton

Report To:	Council
From:	Glen Cowan, Chief Financial Officer/Treasurer
Date:	April 27, 2020
Report No:	CORS-010-20
Subject:	Year End Report on Investments
Recommendation:	That report CORS-010-20 be received for information.

EXECUTIVE SUMMARY

This report has been prepared to provide an annual update to Council on the 2019 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. 61 - Financial Cash Management and Investment.

The highlights for the twelve months ending December 31, 2019 are:

- The Town's cash management and investment program generated \$4.86 million in revenue;
- The average portfolio balance was \$198.5 million; and
- The overall portfolio average return was 2.45% on an annualized basis.

REPORT

Background

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.



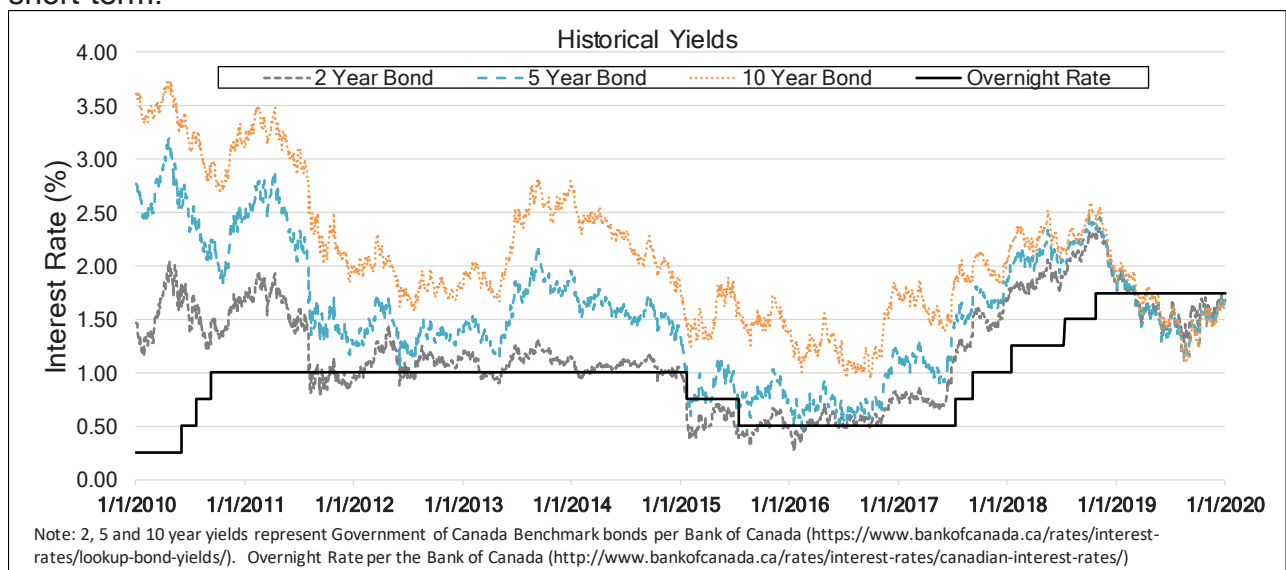
In addition, all investments must meet the eligibility requirements set out by Ontario Regulation 438/97 (as amended), which specifies specific limits for each type of investment that can be held.

Discussion

Interest Rates

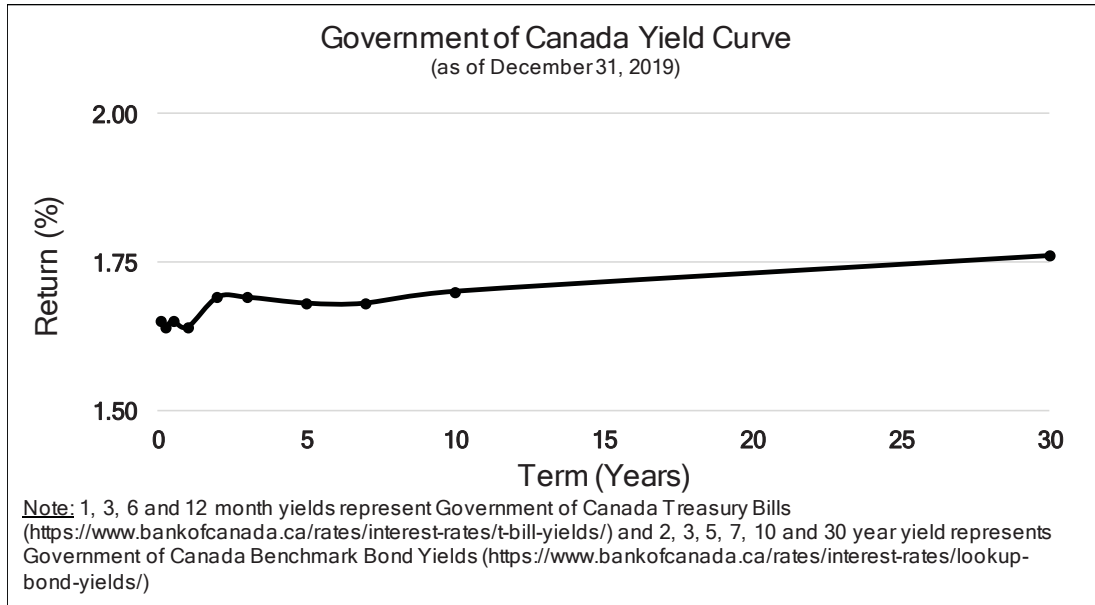
After the Bank of Canada increased the target for the overnight interest rate three times during 2018 to 1.75% there were no changes throughout 2019 as the Canadian economy was operating at close to potential and inflation was on target. The overnight rate has a direct impact on the interest rate received on the Town's general bank account.

In terms of long-term investments, the yield on 1-3 year Government of Canada bonds averaged 1.62% in 2019 (2018 average: 1.96%) and 10 year Government of Canada yields averaged 1.59% in 2019 (2018 average: 2.28%)¹. The decrease throughout the year in long-term rates was driven by numerous factors including ongoing geopolitical tensions that created further uncertainty in the market and concerns over global growth prospects. In addition, towards the end of the year the Bank of Canada revised growth projections lower creating further pressure in long-term yields and has led some of the major Canadian banks to forecast the Bank of Canada may start lowering the target for the overnight rate in the second or third quarter of 2020. These factors contributed to an inverted yield curve (long term rates were lower than short term rates) for the majority of 2019 reducing the financial benefits historically 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 6, 2020.

The chart below shows the flattening/slightly inverted yield curve between short and long term rates based on Government of Canada yields as of December 31, 2019.



Investment Portfolio

2019 year-end cash and investment holdings for the Town, excluding the Town's investment in Milton Hydro, were as follows:

Investment Type	Holdings (\$ Millions) (as of Dec 31, 2019)		Return in 2019
	Book Value	Market Value	%
Cash	\$76.5	\$76.5	2.32%
Short Term Investments	\$33.0	\$33.0	2.72%
Long Term Investments	\$75.5	\$75.6	2.45%
Total	\$185.0	\$185.1	2.45%

Cash

The Town's 2019 year-end cash balance was \$76.5 million, and had an average balance of \$85.0 million. The average yield on cash balances for 2019 was 2.32% generating \$2.0 million in interest. The cash balances remained high during 2019 due to market conditions, along with cash requirements for major capital projects including the Sherwood Community Centre and Fire Station No. 5.



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Short Term Investments

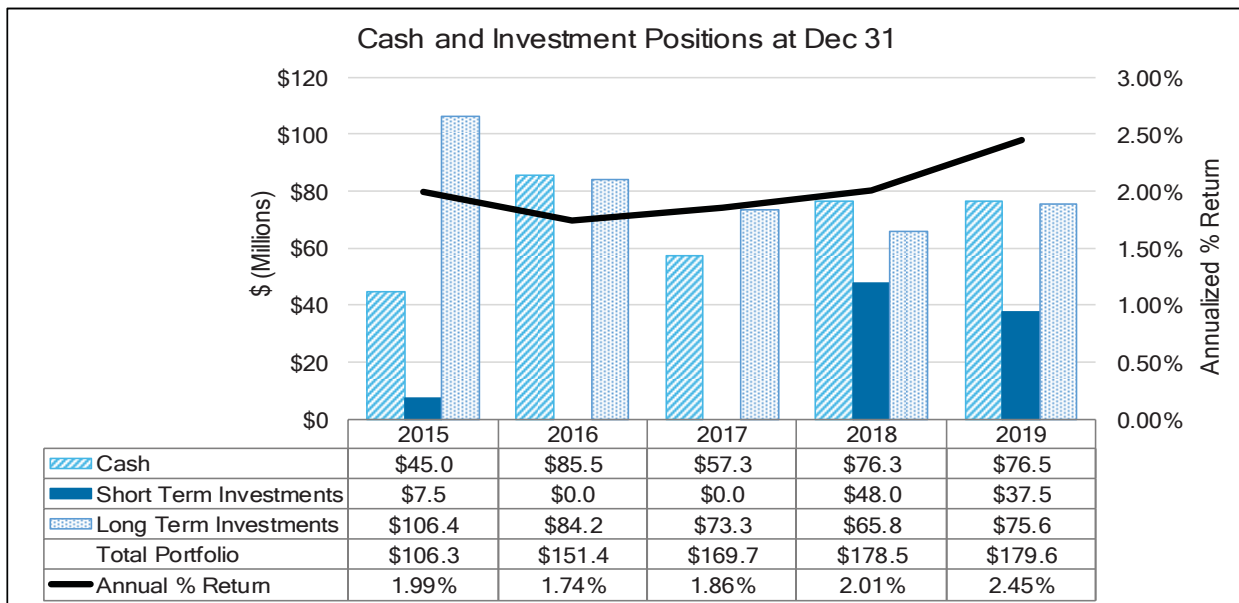
During 2019 short term investments (securities with a holding period of one year or less) were purchased as the yields were favourable to savings, high interest accounts and five year provincial bonds while still providing liquidity options if the funds were required. Short term investments generated \$1.0 million in investment earnings and at the end of 2019 the Town held four short term securities with a value of \$33.0 million. The average balance through 2019 was \$38.0 million.

Long Term Investments

Long term investments had an average balance of \$75.5 million during 2019. At year-end, the Town held 31 securities with a book value of \$75.5 million and a market value of \$75.6 million. This translates into \$0.1 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 2.45%, generating \$4.86 million in investment income (includes interest income and amortized premiums or discounts) which is an increase of \$980,000 when compared to 2018. Holdings at year-end and historical returns are compared over the past five years in the following graph:





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Policy Limits

The Town's Cash Management and Investment Policy outlines limitations on holdings, expressed as a percentage of the total portfolio. A comparison of holdings at December 31, 2019 to policy limitations are outlined in the following table:

Authorized Investments \$ Millions) and Limitations (31-Dec-2019)										
Category / Sector ⁽¹⁾	Short Term	Long Term based on original 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	\$76.53	-	-	\$76.53	41%					
Federal and Federal Guaranteed⁽⁴⁾	-	-	-	\$0.00	0%	100%	100%	20	N/A	A low
Provincial and Provincial Guaranteed⁽⁴⁾										
British Columbia	\$1.18	\$2.68	-	\$3.86	2%		20%			
Manitoba	-	\$3.15	-	\$3.15	2%		20%			
Nova Scotia	\$3.29	\$4.08	-	\$7.37	4%		20%	15	R-1 (low)	A (low)
Ontario	-	\$7.43	-	\$7.43	4%		20%			
Prince Edward Island	\$0.74	\$0.59	-	\$1.33	1%		20%			
Quebec	\$1.22	\$2.26	-	\$3.48	2%		20%			
Provincial and Provincial Guaranteed Sub-total	\$6.43	\$20.19	\$0.00	\$26.62	14%	100%				
Municipal and Municipal Guaranteed										
City of Toronto	-	-	\$0.96	\$0.96	1%		10%	15	R-1 (low)	AA (low)
Regional Municipality of York	-	-	\$7.52	\$7.52	4%		10%			
Municipal and Municipal Guaranteed Sub-total	\$0.00	\$0.00	\$8.49	\$8.49	5%	50%				
Boards / Schools⁽⁵⁾ Sub-total	\$0.00	\$0.00	\$0.00	\$0.00	0%	15%		10	R-1 (low)	AA(low)
Financial Institution										
Schedule I Bank Six Majors⁽⁶⁾										
Bank of Nova Scotia - The	\$12.38	\$16.00	-	\$28.38	15%		20%	10	R-1 (low)	AA(low)
Canadian Imperial Bank of Commerce	-	\$4.00	-	\$4.00	2%		20%			
Royal Bank of Canada	\$3.00	-	\$5.00	\$8.00	4%		20%			
Schedule I Bank Six Majors Sub-total	\$15.38	\$20.00	\$5.00	\$40.38	22%	60%				
Other Sch I, Sch II, Trust Loan, Credit Union										
First Ontario	\$16.50	-	-	\$16.50	8.9%		10%	2	R-1 (mid)	AA(low)
Meridian	\$16.50	-	-	\$16.50	8.9%		10%			
Other Sch I/Sch II/Trust/Credit Union Sub-total	\$33.00	\$0.00	\$0.00	\$33.00	18%	20%				
Financial Institution Sub-total⁽⁷⁾	\$48.38	\$20.00	\$5.00	\$73.38	40%	60%				
ONE Investment Program Sub-total⁽⁸⁾	\$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	\$131.34	\$40.19	\$13.49	\$185.02	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.

Town policy also identifies the minimum credit rating for securities based on the classification of the issuing organization and the form of investment. All securities held in 2019 satisfied the credit rating requirement.

None of the investments held by the Town in 2019 were in its own long-term or short term securities.



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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 One Investment Program is a municipal investment pool that is used by municipalities. The following chart compares the Town's performance to this benchmark.

2019 Returns Comparison: Town of Milton to One Investment Program			
Type of Investment	Town of Milton	One Investment Program ⁽¹⁾	Difference
Cash	2.32%	2.415% ⁽²⁾	-0.09%
Short Term Investments	2.72%	1.68% ⁽³⁾	1.04%
Long Term Investments	2.45%	2.29% ⁽⁴⁾	0.16%

Notes:

- (1) One Investment Program data taken from the December 2019 Performance Report.
- (2) One Investment Program annualized HISA rate, net of fees.
- (3) One Investment Program Money Market Portfolio annualized 1 year return, net of fees (0.19%) and excludes -0.01% Market Impact.
- (4) One Investment Program Bond Portfolio annualized 1 year return, net of fees (0.40%) and excludes 0.32% Market Impact.

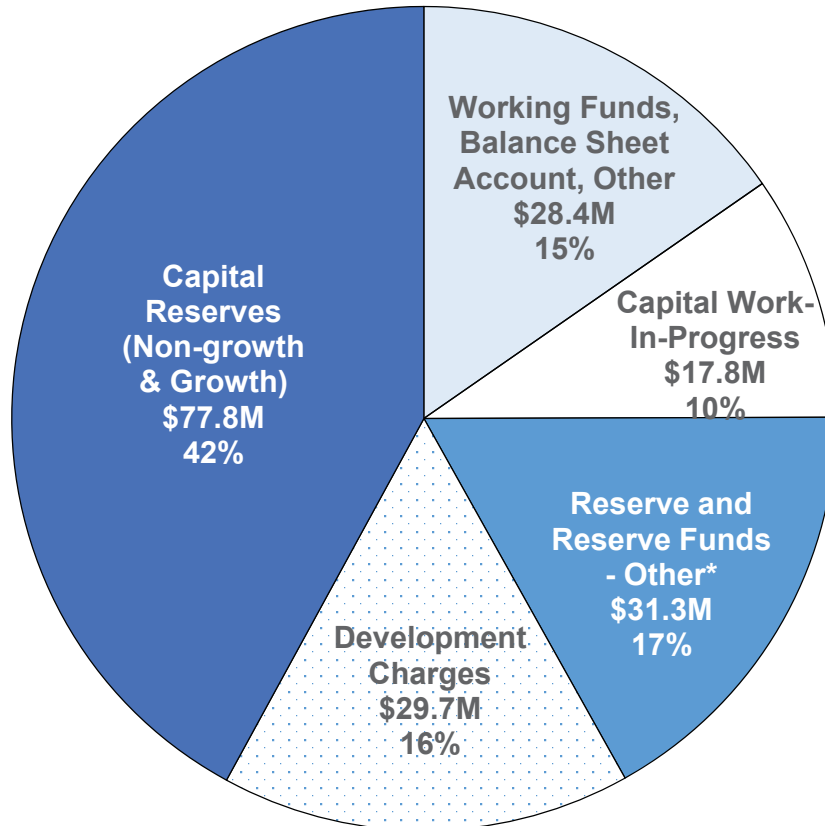
It should be noted that due to the classification of investment categories, timing, composition of investments and differences in reporting rates of return, a direct comparison cannot be made. The benchmark comparison does provide some assurance that Milton's investment performance is reasonable when considering the current low rate environment.

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 2019 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, 2019



* Includes stabilization, corporate, program specific, government & other reserve and

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 2019, Milton's contribution to the sinking fund equaled \$302,726 and \$42,463 in return on investment was achieved by the Region of Halton. As such, the year-end value of the fund was \$1,313,376, which exceeds the originally projected year-end balance.



2020 Outlook

An updated treasury policy is planned for 2020. Staff are also reviewing investment procedures, tools and resources with the intent of more efficiently managing the overall portfolio while augmenting returns and lessening risk.

To provide support to the Canadian financial system and the economy during the COVID-19 pandemic the Bank of Canada lowered the target for the overnight rate by 1.50% (150 basis points) to 0.25% in March 2020. The cuts along with pandemic concerns, decline in business and consumer confidence and reductions in growth projections has created an overall decline in bond yields. For example, the 10 year Government of Canada bond yield changed from 1.70% on December 31, 2019 to 0.73% on April 6, 2020. Staff will continue to monitor market conditions for the purposes of making investment decisions while adhering to the objectives of the Town's Cash Management and Investments Policy.

Financial Impact

The Town earned \$4.86 million in investment income in 2019, of which \$1.5 million was allocated to the Operating budget and the remaining funds of \$3.36 million to reserves and reserve funds. The cost of managing the overall portfolio is in order of 0.03% of the portfolio value and has been included in the 2019 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Brad Schultz, CMA, CPA Phone: 905-878-7252 x2248

Attachments

None.

CAO Approval
Andrew M. Siltala
Chief Administrative Officer