

Date: 2024-04-17

Subject: 2023 Year-End Investment Report

Contact: Nash Damer, Treasurer, Finance

Report Number: Corporate Support Services-2024-368

Recommendations:

- 1) That the report from Nash Damer, Treasurer, Finance, to the Committee of Council meeting of May 22, 2024 re: **2023 Year-End Investment Report**, be received; and
- 2) That the existing Investment Policy FIN-210 be replaced with the revised Investment Policy as provided in Attachment 3.

Overview:

- The City's investment portfolio generated investment income of \$50.8 million or 3.5% return on an average book value of \$1,432.9 million, for the year ended December 31, 2023.
- Of the \$50.8 million in investment income, \$42.5 million was allocated to Reserves, while \$8.3 million was contributed to the 2023 Operating Budget to offset property tax requirements.
- For fiscal year 2023, the average book value of \$1,432.9 million was funded primarily from Reserve Funds in the amount of \$1,317.4 million, with the remaining \$115.5 million funded through the Operating Funds. The average allocation of these funds consisted of \$507.4 million in short-term Cash and GIC's, \$891.0 million in medium to long-term Bonds and \$34.5 million in Equities.
- In compliance with Provincial Regulation 438/97, it is the opinion of the Treasurer that all investments to December 31, 2023 were made in accordance with the City's Investment Policy.
- The City's current Investment Policy (Fin-210), was last revised and approved by Council on June 24, 2020.

- **Staff have reviewed the Investment Policy and conducted a peer review of similar policies in other comparable municipalities. Through this review, staff have identified recommended changes to the existing investment policy, with the goal of applying best practices to maximize investment returns. Specifically, staff are recommending to pool operating and reserve funds into a single portfolio, as opposed to the current practice of maintaining two independent portfolios, which limits the ability to maximize fund allocation. In addition, staff are recommending increasing the % of issuer limit in Schedule I Banks from 15% to 25% to allow the City to take advantage of preferred rates from the 4 big banks in Canada.**

Background:

In accordance with the requirements of Ontario Regulation 438/97 of the *Municipal Act, 2001* and Council approved Investment Policy, this report presents the results of the investment activities, interest earnings and investment yield for the year ended December 31, 2023.

The City's Investment Policy (FIN-210) directs staff to manage the City's investments with the goal of achieving the following outcomes:

- Adherence to legislative and regulatory requirements on eligible investments;
- Preservation of the City's capital funds while maximizing investment returns;
- Minimize the City's investment risk; and,
- Maintain liquidity of the City's funds.

Funding for the City's Investment Portfolio is provided from the following two sources:

Reserve Funds – the City maintains funding in reserve accounts to grow, enhance and maintain the City's infrastructure, protect against unforeseen events and provide financial flexibility to invest in strategic projects. These reserves include Development Charges, Infrastructure Repair and Replacement, Canada Community Building Fund, Strategic Reserves and the General Rate Stabilization Reserve. Approximately 70% of the funds are typically available for investment over longer periods and are allocated mainly to Government Bonds, Bank Bonds and similar securities permitted by the *Municipal Act, 2001, Ontario Regulation 438/97* with maturities extending beyond one year.

Operating Funds - consist of revenues collected primarily through property taxes and users fees, to fund day-to-day operations of the municipality. The priority of these funds are to ensure necessary liquidity is available to process expenditure payments, such as payroll and contractor payments. With this priority in mind, staff monitor timing differences between revenues and expenditures and prudently invest funds in short-term financial instruments to maximize investment revenue. These funds are typically available for investment over short periods and consist of cash deposits (i.e. bank accounts), GICs and eligible bond securities.

Current Situation:

Investment Performance

The City's investment portfolio generated investment income of \$50.8 million or 3.5% return on an average book value of \$1,432.9 million, for the year ended December 31, 2023. This compares to a return of \$34.3 million or 2.4% on an average book value of \$1,404.6 million in 2022.

The investment return increase of \$16.5 million or 1.1% is primarily attributable to the higher interest rate environment and City's ability to invest and re-invest maturing cash at a higher rate in 2023. Bank of Canada's overnight interest rate increased to 5% by July-2023 with three hikes of 0.25% each between Jan to July of 2023.

Of the \$50.8 million investment income for fiscal year 2023, \$42.5 million was allocated to Reserves, while \$8.3 million was included in the 2023 Operating Budget to offset property tax requirements.

With respect to the investment allocation throughout 2023, the \$1,432.9 million was on average allocated to \$507.4 million in short-term Cash and GIC's, \$891.0 million in medium to long-term Bonds and \$34.5 million in Equities.

The following tables provide a year-over-year comparison of the funding sources and allocation of the average book value and investment returns:

Table 1: Funding Source – Average Book Value

Average Book Value (\$millions)	31-Dec-22	31-Dec-23	Change
Reserves & Reserve Funds Portfolio	\$1,222.6	\$1,317.4	\$94.8
Operating Funds Portfolio	\$182.1	\$115.5	(\$66.6)
Total Portfolio Funds (Average)	\$1,404.6	\$1,432.9	\$28.2

Funds	Investment income (\$m) *		Annualized return**	
	2022	2023	2022	2023
Reserves & Reserve Funds	\$29.6	\$48.1	2.4%	3.6%
Operating Funds	\$4.7	\$2.8	2.6%	2.4%
Total investment income	\$34.3	\$50.8	2.4%	3.5%

* Investment earnings include earned interest income and realized capital gain
** Earned income divided by the monthly average portfolio balance at book value

Table 2: Investment Allocation – Average Book Value

Average Book Value (\$millions)	31-Dec-22	31-Dec-23	Change
Cash and GICs	\$511.2	\$507.4	(\$3.8)
Bond portfolio	\$862.8	\$891.0	\$28.2
Equity Portfolio	\$30.6	\$34.5	\$3.9
Total Portfolio Funds (Average)	\$1,404.6	\$1,432.9	\$28.2

Portfolio	Investment income (\$m) *		Annualized return**	
	2022	2023	2022	2023
Cash and GICs	\$12.7	\$26.2	2.5%	5.2%
Bond portfolio	\$20.3	\$22.7	2.4%	2.5%
Equity Portfolio	\$1.3	\$2.0	4.4%	5.7%
Total investment income	\$34.3	\$50.8	2.4%	3.5%
* Investment earnings include earned interest income and realized capital gain				
** Earned income divided by the monthly average portfolio balance at book value				

Investment Environment

Canada's Gross Domestic Product (GDP) declined to 1.1% in 2023 from 3.8% in 2022. However, it is higher than the 0.9% initially forecasted for the year. Population growth was largely responsible for the strong demand that supported higher than expected GDP.

Canada's inflation in 2023 ended at 3.4% compared to 6.7% in 2022. While 2023 inflation is still higher than the Bank of Canada's targeted inflation rate, it is expected to reach 2.5% by June 2024 as excess supply in the economy weighs on prices. The targeted inflation rate of 2% is expected to be reached in 2025.

There were 3 rate hikes for a total of 75 bps in 2023 that peaked the Bank of Canada's interest rate to 5% by Jul 2023. These past rate hikes, as part of monetary policy, seem to be working to moderate spending and relieve price pressures across a wide range of goods and services except shelter price. This overall favourable economic scenario led to Bank of Canada maintaining interest rates without further hikes and a possible cut by mid-2024.

The expectations of future rate cuts drove equity and bond performance. TSX increased by 8.1% in 2023 vs a decline of 8.7% in 2022 while the FTSE Bond Index improved to 6.7% in 2023 compared to negative 11.7% in 2022.

The projection for 2024 GDP is under 1% which is lower than 2023. The past interest rate increases continue to constrain household spending and business investments which is resulting in a lower GDP forecast for 2024.

Total returns vs. benchmark

The City uses FTSE (Financial Times Stock Exchange) index as a benchmark to measure the market performance of its bond portfolio. The benchmark is comprised of 65% FTSE Short Composite; 32.5% All Gov't Mid Term; 2.5% All Gov't Long Term. The city uses 3-month T-bills as a benchmark for the cash portfolio and S&P/TSX for the Equity portfolio. Total benchmark

return is calculated as the weighted average of the market return for Bond benchmark, cash benchmark and equity benchmark.

In 2023, the market return for the City’s overall portfolio was higher by 110 basis points compared to the benchmark. City’s total return for the overall portfolio was 6.34% vs. 5.23% on the benchmark. The higher interest rate environment as well as City’s active investment strategy led to this value add. On a 5-year average, the overall return for the portfolio is 2.20% vs benchmark return of 1.82%, adding value of 0.44% per annum.

- Cash and equivalent total returns were 5.03% compared to the benchmark return of 4.75%. The value addition of 0.27% is due to City’s attractive rates on Cash and GIC during the year.
- Bond portfolio’s total returns were 6.48% vs. 5.25% for the benchmark adding a value of 1.22%. Longer maturity holding contributed positively to this performance. Also, this year’s re-investment strategy and re-allocation of some fixed income security to a longer duration helped in this positive performance.
- Equity returned 12.72% compared to benchmark of 8.12%, resulting in a value addition of 4.60%.
- Equity has the highest 5-year average return in absolute term with a return of 7.03%. Cash and equivalent, 5-year average return is 2.3% and Bond portfolio’s 5-year average return is 1.84%.

Appendix A - Market Benchmarking for the Total Portfolio provides a performance summary of the Investment Portfolio’s returns against the benchmark index.

Year-End Book Value

As of December 31st 2023, the year-end book value of the City’s investment portfolio was \$1,247.0 million, which declined by \$75.3 million from the 2022 year-end book value of \$1,322.4 million. The main driver for the declining balance is primarily due to property acquisitions in the year.

The following tables provide a year-over-year comparison of the funding sources and allocation of the year-end book value and investment returns:

Table 3: Funding Source – Year-End Book Value

Year-end Book Value (\$millions)	31-Dec-22	31-Dec-23	Change
Reserves & Reserve Funds Portfolio	\$1,245.4	\$1,304.6	\$59.2
Operating Funds Portfolio	\$77.0	(\$57.6)	(\$134.6)
Total Portfolio Funds (Book Value)	\$1,322.4	\$1,247.0	(\$75.3)

Table 4: Investment Allocation – Year-End Book Value

Year-end Book Value (\$millions)	31-Dec-22	31-Dec-23	Change
Cash and GICs	\$419.1	\$312.0	(\$107.0)
Bond portfolio	\$870.7	\$896.4	\$25.7
Equity Portfolio	\$32.6	\$38.6	\$6.0
Total Portfolio Funds (Book Value)	\$1,322.4	\$1,247.0	(\$75.3)

Appendix B - List of Securities in Operating and Reserve Bond Portfolio itemizes the holdings and values of the securities maintained in the Investment Portfolio, as of December 31st 2023.

Compliance

In compliance with Provincial Regulation 438/97, it is the opinion of the Treasurer that all investments to December 31, 2023 were made in accordance with the City’s Investment Policy.

Investment Policy

The purpose of the City of Brampton’s Investment Policy is to provide investment guidelines which will direct the investment of the City’s funds not immediately required, with the goal of preserving capital, minimizing investment risk, maintaining liquidity, maximizing investment yields, and ensuring compliance with City’s Policy Statement and The *Municipal Act 2001*, Eligible Investments, Regulation 438/97 (amended to O. Reg 373/11).

Staff’s Recommendations:

The City’s current Investment Policy (Fin-210), was last revised and approved by Council on June 24, 2020. As per section 8.1 of the Governing Policy for Corporate Policy Program, the Investment Policy is due for review and update.

Staff have reviewed the Investment Policy and conducted a peer review of similar policies in comparable municipalities. Through this review, staff have identified recommended changes to the existing investment policy, with the goal of applying best practices to maximize investment returns. Specifically, staff are recommending to pool operating and reserve funds into a single portfolio, as opposed to the current practice of maintaining two independent portfolios, which limits the ability to maximize fund allocation. In addition, staff are recommending to change the % of issue limit in Schedule I Banks from 15% to 25% to allow the City to take advantage of preferred rates from the 4 big banks in Canada.

Total portfolio approach

It is recommended that the existing investment policy statement be amended to allow managing both operating portfolio and reserve portfolio in combination as a single portfolio and the compliance for the proposed total portfolio be compared against the set limit in Schedule A. Schedule B will be removed from the Investment policy. This recommendation is consistent with what is permissible under the current Municipal Act 2001, Eligible Investments, Regulation 438/97 (amended to O. Reg 43/18). This approach is also consistent with other municipalities in Ontario.

The proposed change will help managing the portfolio with greater flexibility and higher return potential. There would be no impact on City’s internal reporting for reserves and reserve funds.

Issuer limit for Schedule I Banks and eligible securities

It is recommended that the existing investment policy be amended to change the issuer limit to 25% from 15% for Schedule I Bank in Schedule A and the HISA (High Interest Savings Account) be excluded as part of eligible securities for the purpose of limit calculation. This recommendation is consistent with what is permissible under the current Municipal Act 2001, Eligible Investments, Regulation 438/97 (amended to O. Reg 43/18). This is also consistent with other municipalities in Ontario. The table below shows the comparable issuer limit by some peer municipalities.

Issuer Limit	Brampton Proposed	PEEL- General Fund	Halton Region	York Region	Ottawa	Mississauga
Schedule I Banks	25%	20%	20%	25%	25%	20%

Increasing this issuer limit will allow increased investment in higher yield asset class for some Schedule I banks. The objective of excluding HISA is to treat HISA as Bank deposits instead of part of eligible security. This will allow to increase the HISA balance to maximize return.

Corporate Implications:

Financial Implications:

In 2023, total investment income of \$ 8.4 million has been contributed to the operating budget and \$42.5 million contributed to Reserve Funds. The table below shows the breakdown of the investment income allocation to the Reserve funds and operating budget.

Funds	Total income (\$m)	Contributed to Reserve Funds	Contributed to Operating Budget
Reserves & Reserve Funds	48.08	42.48	5.60
Operating Funds	2.77	-	2.77
Total investment income	50.85	42.48	8.37

Strategic Plan:

This report achieves the Strategic Plan priorities of Good Government by delivering the statutory responsibility for “handling all the financial affairs of the municipality on behalf of and in the manner directed by Council” and providing value for taxpayers in the form of prudent management of the City’s funds.

Term of Council Priorities:

This report fulfils the Council Priority of a Well-Run City through strict adherence to effective financial management policies and ensuring sustainable financial operations.

Conclusion:

In accordance with the requirements of Regulation 438/97 of the *Municipal Act, 2001* and Council approved Investment Policy, this report presents the results of the investment activities, interest earnings and investment yield for the year ended December 31, 2023.

As per Provincial Regulation 438/97, it is the opinion of the Treasurer that all investments, to December 31, 2023, were made in accordance with the City's Investment Policy.

Authored by:

Reviewed by:

Majbah Ahmed
Manager, Banking and Investments
Finance

Nash Damer
Treasurer,
Finance

Approved by:

Approved by:

Alex Milojevic
Commissioner,
Corporate Support Services

Marlon Kallideen
Chief Administrative Officer

Attachments:

Attachment 1 - Appendix A - Total returns vs. benchmark

Attachment 2 - Appendix B - List of Securities in Operating and Reserve Bond Portfolio

Attachment 3 - Appendix C - Investment Policy