

Date: 2021-03-15

Subject: **Investment Report for the year ended December 31, 2020**

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Report Number: Corporate Support Services-2021-260

Recommendations:

That the report titled: **Investment Report for the year ended December 31, 2020**, to the Committee of Council meeting of April 14, 2021 be received.

Overview:

- **This report provides information on the City's earnings on the investment portfolio for the year ended December 31, 2020. The investment portfolio holds operating funds as well as reserves and reserve funds.**
- **The total investment portfolio had net investment income of \$26.7 million on an average monthly balance of \$1,159.1 million and yielded a return of 2.3%.**
- **City's investment portfolio is comprised of cash, short-term fixed income securities and long-term bonds and equity investment through One Investment.**
- **In compliance with Provincial Regulation 438/97, all investments to December 31, 2020 were made in accordance with the City's Investment Policy.**
- **The City's current Investment Policy (Fin-200), was last revised and approved by Council on June 24, 2020. Staff are not recommending any changes to the Investment Policy.**

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, 2020.

Consideration is given to the following objectives that are set out in the Investment Policy:

- 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.

Sources of Investment Portfolio

Sources of investment portfolio funds managed by staff include operating funds for cash management purposes as well as reserves and reserve funds.

Reserve Funds

Reserve funds have been established by the City to address Growth-related infrastructure expansion (funded by Development Charges paid by developers), replacement of City Infrastructure and funding of other special projects as directed and approved by Council. About 70% of the funds are typically available for investment over longer periods and are comprised mainly of 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

The City retains necessary funds on hand to provide for any unanticipated operating budget shortfalls as well as to provide bridge financing between the time when expenditures, such as staff payroll and construction contractor payments, are required and the time when major cash inflows, such as tax, user fees and any grants are received. These funds are typically available for investment over short periods and are comprised mainly of cash holdings (i.e. bank accounts), GICs and eligible bond securities.

Investment environment

2020 has been an extraordinary year with the spread of Covid-19 and subsequent business and job loss. Since March 2020, the Bank of Canada has cut interest rate three times, each time by 50 basis points moving from 1.75% to 0.25%. As we entered into 2021, the vaccine rollout for COVID-19 presents significant promise in terms of economic rebound, though the yield curve remains very low.

Current Situation:

Fund Balances

The year-over-year details of the book value and monthly average book value of the total portfolio funds are shown below:

Year-end Book Value (\$millions)	31-Dec-19	31-Dec-20	Change
Reserves & Reserve Funds Portfolio	\$941.4	\$1,038.0	\$96.5
Operating Fund Portfolio	\$159.4	\$41.9	(\$117.4)
Total Portfolio Funds (Book Value)	\$1,100.8	\$1,079.9	(\$20.9)

Monthly Average Book Value (\$millions)	31-Dec-19	31-Dec-20	Change
Reserves & Reserve Funds Portfolio	\$855.4	\$982.4	\$127.0
Operating Fund Portfolio	\$258.9	\$173.3	(\$85.6)
Total Portfolio Funds (Monthly Average)	\$1,114.2	\$1,155.7	\$41.4

In terms of year-end book value, the overall balance as of December 31, 2020 was \$1,079.9 million, a decrease of \$20.9 million from 2019. This decrease in overall balance is a result of the lower property tax collection than forecasted. The year over year average balance increase is mostly contributed by the reduced cash out-flow on capital projects.

By end of 2020, City had 31% of the investments in Cash & GICs, 67% in Bonds and 2% in Equity. The following tables show the break-down of the total investment portfolio in terms of shorter-term and longer-term assets:

Year-end Book Value (\$millions)	31-Dec-19	31-Dec-20	Change
Cash and GICs	\$366.9	\$332.0	(\$34.9)
Bond portfolio	\$727.7	\$725.9	(\$1.9)
Equity Portfolio	\$6.2	\$22.1	\$15.9
Total Portfolio Funds (Book Value)	\$1,100.8	\$1,079.9	(\$20.9)

Average Book Value (\$millions)	31-Dec-19	31-Dec-20	Change
Cash and GICs	\$425.2	\$438.9	\$13.7
Bond portfolio	\$685.2	\$700.7	\$15.5
Equity Portfolio	\$3.8	\$16.1	\$12.3
Total Portfolio Funds (Monthly Average)	\$1,114.2	\$1,155.7	\$41.4

In 2020, the City increased the allocation to longer-term investments to improve the overall earnings while ensuring a prudent amount of liquidity was maintained to meet the cash flow requirements for operating and capital needs. During the year, the City has also increased the investment in equity when the market was very low. In addition, City has continued participation in the equity portfolio managed by ONE Investment. This initiative is part of an

investment strategy to diversify the overall portfolio and to improve the overall yield over the longer term.

Funds' Performance

In 2020, the total investment portfolio had net investment income of \$26.7 million on an average monthly balance of \$1,155.7 million which equates to an average yield of 2.3%. The yield is 20 basis points lower than that of 2019, mainly due to the 0.75 basis point interest rate cut by the Bank of Canada.

The following tables show the break-down of the overall realized income for 2019 and 2020.

Funds	Investment income (\$m)*		Annualized return**	
	2019	2020	2019	2020
Reserves & Reserve Funds	\$21.3	\$22.7	2.5%	2.3%
Operating Fund	\$6.4	\$4.0	2.5%	2.3%
Total investment income	\$27.7	\$26.7	2.5%	2.3%
* Investment earnings include earned interest income and realized capital gain				
** Earned income divided by the monthly average portfolio balance at book value				

Portfolio	Investment income (\$m) *		Annualized return**	
	2019	2020	2019	2020
Cash and GICs	\$10.4	\$6.0	2.4%	1.4%
Bond Portfolio	\$17.3	\$20.0	2.5%	2.9%
Equity Portfolio	\$0.0	\$0.7	0.0%	4.1%
Total investment income	\$27.7	\$26.7	2.5%	2.3%
* Investment earnings include earned interest income and realized capital gain				
** Earned income divided by the monthly average portfolio balance at book value				

Benchmarking

For the bond portfolio, on a market value basis, the 2020 return was 9.48% (2.85% realized yield plus 6.63 unrealized yield), outperforming the fund's benchmark index return of 6.87% by 2.61%. The benchmark was outperformed due to active readjustment of the portfolio holdings to a longer duration than the benchmark. Holding in longer duration worked very well due to a declining interest rate environment.

A breakdown of operating and reserve bond portfolio performance is included in Appendix A. List of all holdings in the operating and reserve fund portfolio are shown in Appendix B.

Investment Income Allocation

The City's total investment income gets allocated to the operating budget and reserve funds according to the Council approved policy. Realized income from all operating funds, Legacy Fund and Community Investment Fund are allocated to the operating budget. The realized income from all other reserves funds are allocated proportionately to each reserve fund.

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*).

The City's current Investment Policy (Fin-200), was last revised and approved by Council on June 24, 2020. Finance undertook a comprehensive analysis of municipal investment policies and practices, and consulted with Corporate Policy to ensure a consistent, transparent approach was undertaken. Staff is not recommending any changes to the current Investment Policy.

Corporate Implications:

None

Financial Implications:

In 2020, total investment income in the amount of \$ 7.7 million was contributed to the operating budget and \$19.0 million contributed to Reserve 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, 2019.

As per Provincial Regulation 438/97, all investments, to December 31, 2019, were made in accordance with the City's Investment Policy.

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Attachments:

Appendix A: Market Benchmarking for the Bond Portfolio

Appendix B: List of Securities in Operating and Reserve Bond Portfolio