



Report
Staff Report
Committee of Council
The Corporation of the City of Brampton
2022-05-11

Date: 2022-05-05

Subject: Investment Report for the Year Ended December 31, 2021

Contact: Nash Damer, Treasurer
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Report Number: Corporate Support Services-2022-189

Recommendations:

That the report titled: **Investment Report for the year ended December 31, 2021**, to the Committee of Council meeting of May 11, 2022 be received.

Overview:

- This report provides information on the City's earnings on the investment portfolio for the year ended December 31, 2021. The investment portfolio holds operating funds as well as reserves and reserve funds.
- The total investment portfolio had net investment income of \$28.9 million on an average monthly balance of \$1,295.9 million and yielded a return of 2.2%.
- City's investment portfolio is comprised of cash deposits, short-term fixed income securities, long-term bonds and equity investment through One Investment.
- In compliance with Provincial Regulation 438/97, it is the opinion of the Treasurer that all investments to December 31, 2021 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 Councils. 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 sufficient operating funds between major 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 deposits (i.e. bank accounts), GICs and eligible bond securities.

Investment Environment

Canadian GDP grew 6.6% in 2021 vs 3.5% expected at the beginning of the year after shrinking 5.4% in 2020. In 2021, inflation rose at record level; labor market recovery, supply issues and higher oil price were the bigger contributors to the 4.8% CPI on a year-over-year basis in December 2021. By the beginning of Q4-2021, bond yields recovered on the expectation of interest rate hikes. Post Covid, interest rates remained at their lowest level ever (0.25%) with the first hike of 25 basis points by Bank of Canada only taking place in March 2022 and

subsequently another 50 basis points hikes took place in April 2022. Current bond yield are reflecting at least another 125 basis points hikes by end of 2022. Equity also experienced similar optimism with over 20% increase in TSX index in 2021.

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-20	31-Dec-21	Change
Reserves & Reserve Funds Portfolio	\$1,038.0	\$1,193.3	\$155.3
Operating Fund Portfolio	\$41.5	\$118.5	\$76.9
Total Portfolio Funds (Book Value)	\$1,079.5	\$1,311.7	\$232.2

Monthly Average Book Value (\$millions)	31-Dec-20	31-Dec-21	Change
Reserves & Reserve Funds Portfolio	\$982.4	\$1,113.6	\$131.2
Operating Fund Portfolio	\$173.3	\$182.3	\$9.0
Total Portfolio Funds (Monthly Average)	\$1,155.7	\$1,295.9	\$140.2

In terms of year-end book value, the overall balance as of December 31, 2021 was \$1,311.7 million, an increase of \$232.2 million from 2020. This increase in overall balance is a result of the higher property tax collections. The year over year average balance increase is mostly contributed by increase in balances for a number of reserve funds namely DC Reserve Funds, Storm Water Charge Fund, Canada Community Building Fund and Municipal Transit Capital Expenditure Fund.

Since 2018-Q4, City has started participating 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. By end of 2021, City had 36% of the investments in Cash deposits & GICs, 62% 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-20	31-Dec-21	Change
Cash deposits and GICs	\$332.0	\$470.7	\$138.6
Bond portfolio	\$725.4	\$812.1	\$86.7
Equity Portfolio	\$22.1	\$28.9	\$6.9
Total Portfolio Funds (Book Value)	\$1,079.5	\$1,311.7	\$232.2

Average Book Value (\$millions)	31-Dec-20	31-Dec-21	Change
Cash deposits and GICs	\$438.9	\$495.1	\$56.2
Bond portfolio	\$700.7	\$776.7	\$76.0
Equity Portfolio	\$16.1	\$24.0	\$8.0
Total Portfolio Funds (Monthly Average)	\$1,155.7	\$1,295.9	\$140.2

In 2021, 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 invested a \$6.9M in equity portfolio through ONE Fund.

Funds' Performance

In 2021, the total investment portfolio had net investment income of \$28.9 million on an average monthly balance of \$1,295.9 million which equates to an average yield of 2.2%. The yield is 10 basis points lower than that of 2020 mainly due to lower rate on Cash deposits. For example, Bank of Canada overnight interest rate stayed at 0.25% for all through 2021 and till March 2022 that started in March-2020 at the onset of Covid-19 measures.

The following tables show the break-down of the overall realized income for 2020 and 2021.

Funds	Investment income (\$m)*		Annualized return**	
	2020	2021	2020	2021
Reserves & Reserve Funds	\$22.7	\$25.2	2.3%	2.3%
Operating Fund	\$4.0	\$3.7	2.3%	2.0%
Total investment income	\$26.7	\$28.9	2.3%	2.2%
* 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**	
	2020	2021	2020	2021
Cash deposits and GICs	\$6.0	\$4.2	1.4%	0.8%
Bond portfolio	\$20.0	\$22.6	2.9%	2.9%
Equity Portfolio	\$0.7	\$2.1	4.1%	8.8%
Total investment income	\$26.7	\$28.9	2.3%	2.2%
* Investment earnings include earned interest income and realized capital gain				
** Earned income divided by the monthly average portfolio balance at book value				

Benchmarking

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. In 2021 the market return for the bond portfolio is lower by 85 basis points compared to the benchmark. On a long-term basis, the bond portfolio is still adding value over the benchmark. For example, 2-year and 4-year rolling returns are respectively 80 and 68 basis points higher than benchmark.

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 2021, total investment income in the amount of \$ 6.9 million was contributed to the operating budget compared to a budgeted amount of \$6.5 million and \$22.0 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, 2021.

As per Provincial Regulation 438/97, it is the opinion of the Treasurer that all investments, to December 31, 2021, were made in accordance with the City's Investment Policy.

Authored by:

Reviewed by:

Majbah Ahmed, Manager, Banking and Investments

Nash Damer, Treasurer

Approved by:

Cynthia Ogbarmey-Tetteh,
Commissioner, Corporate Support
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Attachments:

Appendix A: Market Benchmarking for the Bond Portfolio

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