

City of Mississauga
Corporate Report



<p>Date: March 12, 2024</p> <p>To: Chair and Members of General Committee</p>	<p>Originator's files:</p>
<p>From: Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer</p>	<p>Meeting date: April 10, 2024</p>

Subject

2023 Treasurer's Annual Report on Investment

Recommendation

That in compliance with Provincial legislation governing municipal investment practices, the "2023 Treasurer's Annual Report on Investment" dated March 12, 2024 from the City Manager and Chief Administrative Officer be received for information.

Executive Summary

- The City Funds investment portfolio realised net income of \$54.1 million, generating a net yield of 3.21%.
- Revenue allocated to the Operating Budget was \$14.4 million, while Reserve Funds received \$39.7 million.

Background

Regulation 438/97, with amendment 43/18, of the Municipal Act, 2001, requires a municipality to adopt a statement of investment policies and goals, and requires a Treasurer's report to be submitted to Council annually. This report is tabled in compliance with the regulation.

As permitted by legislation, the City maintains operating funds, a number of reserves and reserve funds, and trust funds for various purposes. These funds are invested in accordance with the Municipal Act and Ontario regulations, the Funeral, Burial and Cremation Services Act, the Trustee Act and the City's Corporate Policy and Procedures on Investment.

The four major decision criteria, in order of priority, for the City's Investment Policy are:

1. Legality of investments – conforming to legislative constraints;

2. Preservation of principal – avoiding the loss of monies from default, of an issuer, in the payment of principal or interest;
3. Liquidity – meeting current and expected annual operating needs through a combination of cash and marketable securities that can be readily converted to cash; and
4. Competitive rate of return – maximizing the return on investments while conforming to prior objectives.

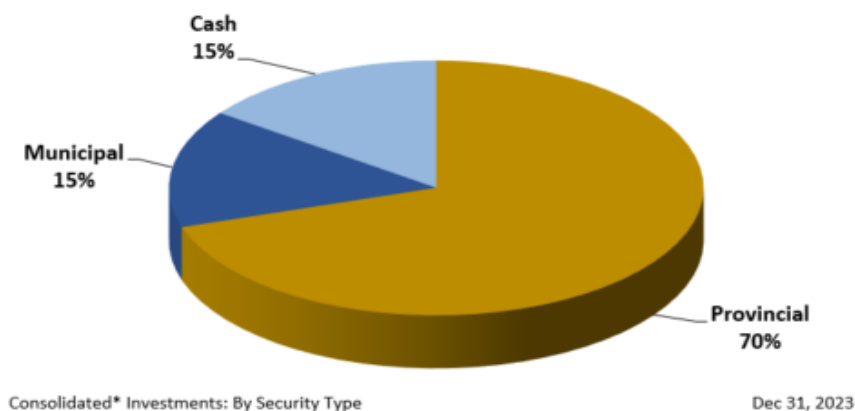
This Report outlines the implementation of these priorities and includes a summary of investment results and analysis. The City's investment practices and procedures are subject to audits by the Corporation's external auditors, KPMG.

Comments

In 2023, the City earned \$54.5 million in gross investment income (net income: \$54.1 million) on average cash and portfolio investment balances of \$1.68 billion. Using average account balances held throughout the year, an overall gross investment yield of 3.23% (a net investment yield: 3.21%) was achieved. Details for 2023 and prior years are shown below:

	Average Balance (<u>Book Value</u>)	Income (<u>Gross \$</u>)	Yield (<u>Gross %</u>)	Yield (<u>Net %</u>)
2023	1,684,614,497	54,475,486	3.23%	3.21%
2022	1,646,352,502	47,059,186	2.86%	2.83%
2021	1,447,504,465	43,586,903	3.01%	2.99%

As at December 31, 2023, the Consolidated Investment Portfolio¹ held \$1.715 billion in cash and securities (at par value²) in various security types, as outlined in the Pie Chart below:



¹ Marketable securities and cash for combined City Funds Portfolio and DCA Portfolio.

² Par Value is used, for Policy comparison purposes, to demonstrate various investment holdings across security types. Portfolio holdings, and their respective limits, can be found in Appendix 1. The Par Value represents what the portfolio is worth on a dollar basis, if each security (and the cash) are held to final maturity dates. The Book Value of the Consolidated Investment Portfolio (excluding cash), as at Dec 31st, 2023, is \$1.773 billion.

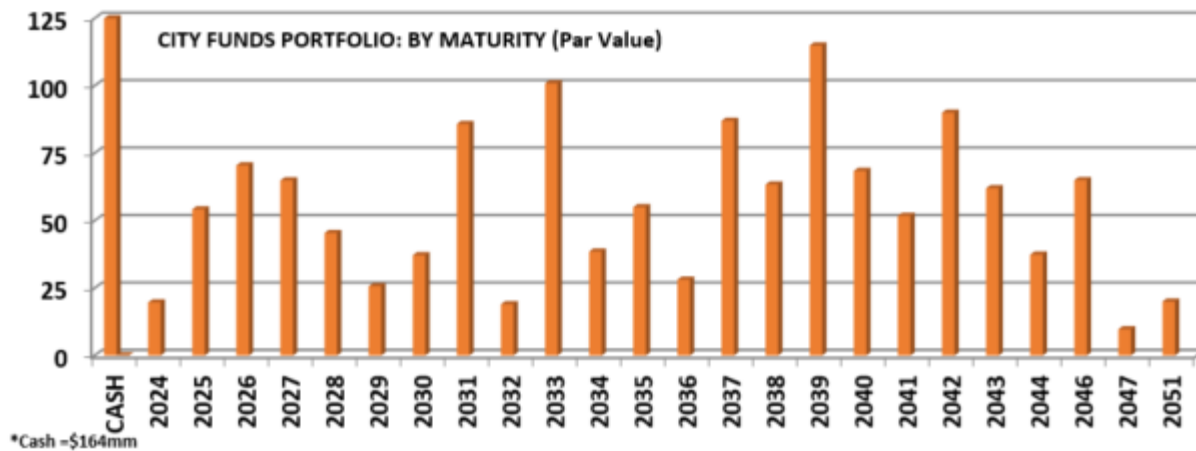
Municipal investment regulation recognizes the fiduciary nature of financial balances (obligatory, segregated, taxes, etc.) held by any municipality and therefore regulation maintains and prescribes quite specific guidelines (type, term, credit, etc.) to minimize default risk through control of eligible investments. In this light, Province of Ontario marketable securities do represent a core security-type holding in the portfolio, given its dominant position in the Canadian fixed income marketplace as one of the most liquid credit worthy bond issuers.

Liquidity management is a key aspect to overall investment returns as the City is foremost an entity whose first priority is to provide services to residents, paid for using previously collected taxes and other sources of income. Monies already at work (working capital) or earmarked for work (budgeted) are not put at risk.

Enterprise cashflow forecasting is the bedrock for investment decisions and, when coupled with a balanced approach to portfolio duration (i.e. steady maturities), this ensures that money is always available for operating the City while also affording the opportunity to put new money to work at prevailing investment rates, over time.

The City Funds investment maturity schedule, as at December 31st, 2023, is in Chart 2:

Chart 2



Investment Income Analysis

During 2023, the City Funds Portfolio³ realised gross investment income of \$54.5 million, the highest investment income in 15 years, on average monthly balances of \$1.68 billion. This translated into a net investment yield of 3.21%. All income was derived from net interest as the general unavailability of capital gains on fixed income investments is expected to persist throughout 2024, making this income-type a non-contributing source of investment income.

³ This excludes the DCA Portfolio. The DCA Portfolio earned \$8,649,440 of investment income (versus \$5,812,175 for 2022) on average monthly cash & investment balances of \$232 million, yielding 3.73%.

Nevertheless, the City's above weight cash approach ensures that investment income will continue to benefit from higher short-term interest rates throughout 2024 and 2025. The overall return on financial balances performed similarly to the Consumer Price Index (3.4% to Dec/23, 2.9% to Jan/24) thereby working to protect the City's reserves, and reserve fund balances, against erosion from inflation.

The City's investment policy works very well to protect long-term reserve fund balances, by ensuring that investment income derived from working capital funds is proportionately distributed back to the source reserve fund. When calculating the actual (or "effective") rate of return on uncommitted reserve fund balances, City reserve funds effectively earned a 7.5% return, which is a very healthy rate of return for any near-risk free regulated portfolio.

Investment Management

The Investment Unit, which is a section of Treasury, is responsible for monitoring day-to-day, as well as upcoming, operating cash needs, cash flow forecasting and monitoring, investment portfolio management and administration, the timing and management of both temporary bank borrowing as well capital debenture borrowing and the coordination of the City's annual credit rating.

The Investment unit demonstrates value to the City with costs in the 2.2 basis points (0.022%) range, well under fees which would be charged by an externally managed public fund. Comparative examples for management fees charged by third party managers would see ~15 basis points for a money market fund, and as much as 40 basis points (0.40%) for a bond fund. Both are materially higher than the 0.022% incurred by the City.

Using 40 basis points as a cost benchmark for an externally managed bond portfolio, when calculating management costs against monthly balances for the City Funds Portfolio (excluding the cash component), the difference between the City's in-house investment management costs and an externally managed fund represents a hard dollar financial saving to the City of approximately \$5 million for 2023.

Investment Outlook for 2024

Interest rates remain at elevated levels, as global central banks continue to adjust to stronger post-pandemic economies and higher inflation. Locally, Canada continues to grapple with somewhat unique "Made-In-Canada" economic imbalances, seemingly exacerbated by what appears to be a significant influx of immigration over several years.

Some private sector studies have focussed on the sudden immigration surge as the source of general price and demand imbalances in the economy and, more specifically, imbalances in the housing sector.

While the Federal and Provincial governments have stepped in with policy changes, which are meant to restore balance in certain areas of the housing sector, the Bank of Canada (BOC) must take a wait and see approach on the actual effect to demand from these policy changes.

With no meaningful employment losses, resulting from tight monetary policy in the Canadian economy, the BOC cannot afford to move pre-emptively with any interest rate reduction. Given that CPI inflation continues to run at more than 1 percentage point above the BOC's target rate (of 2%), and Service inflation itself continues to run at over 4%, it is perhaps just as likely that inflation will persist above 3% in the near term, rather than suddenly collapse into the 2% range.

The BOC knows that on-going government stimuli, coupled with robust employment income, is the gasoline for a future inflation fire. The "match" would be the BOC mistakenly reducing interest rates (a demand stimulant) when demand (both consumer and business) is already being fueled by strong income support from past employment gains, as well as government income transfer programs.

For the City Funds Portfolio, higher overnight bank rates continue to be a welcome event, given the City's necessity to maintain riskless operating cash balances. The City is being well compensated for doing regular business as returns to cash and short-term investments are now expected to stay above the rate of inflation for 2024, and beyond. Accordingly, overall realised investment income for 2024 is expected to match, or be higher, than that of 2023, with a target forecast of \$50 - \$55 million.

Financial Impact

The City earned \$54.1 million in net investment income during 2023, of which \$14.4 million was allocated to the Operating Budget, and \$39.7 million was allocated to Reserve Funds.

Conclusion

In compliance with Provincial Regulation 438/97, amended to 43/18, all investment transactions during 2023 were made in accordance with the existing Investment Policy.

As at December 31, 2023, the City Funds Portfolio held \$1.53 billion (book value basis) in various securities, and cash. The net income for the Portfolio was \$54.1 million translating into a net investment yield of 3.21%. As per Policy, investment proceeds were distributed between the Operating Budget (\$14.4 million) and Reserve Funds (\$39.7 million). Looking ahead, 2024 investment income is expected to range between \$50 and \$55 million.

Attachments

Appendix 1: Total Investment Portfolio – By Investment Type (as at December 31st, 2023)



Shari Lichterman, CPA, CMA, City Manager and Chief Administrative Officer

Prepared by: Mark Waugh, Manager, Treasury