City of Mississauga
Corporate Report

MISSISSAUGA

Date: February 19, 2025	Originator's files:
To: Chair and Members of Budget Committee	
From: Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer	Meeting date: March 26, 2025

Subject
2024 Treasurer's Annual Report on Investment

Recommendation
That in compliance with Provincial legislation governing municipal investment practices, the "2024 Treasurer's Annual Report on Investment" dated February 19, 2025 from the City Manager and Chief Administrative Officer, be received for information.

Executive Summary
- The City Funds investment portfolio realised net income of $59 million, generating a net yield of 3.31%.
- Revenue allocated to the Operating Budget was $14.4 million, while Reserve Funds received $44.6 million.
- An overall slowing economy is expected to moderate returns throughout 2025. City Funds portfolio expected net income is in the $55 to $60 million range.

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 Investments Policy.

The four major decision criteria, in order of priority, for the City's Investments 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 auditor, KPMG.

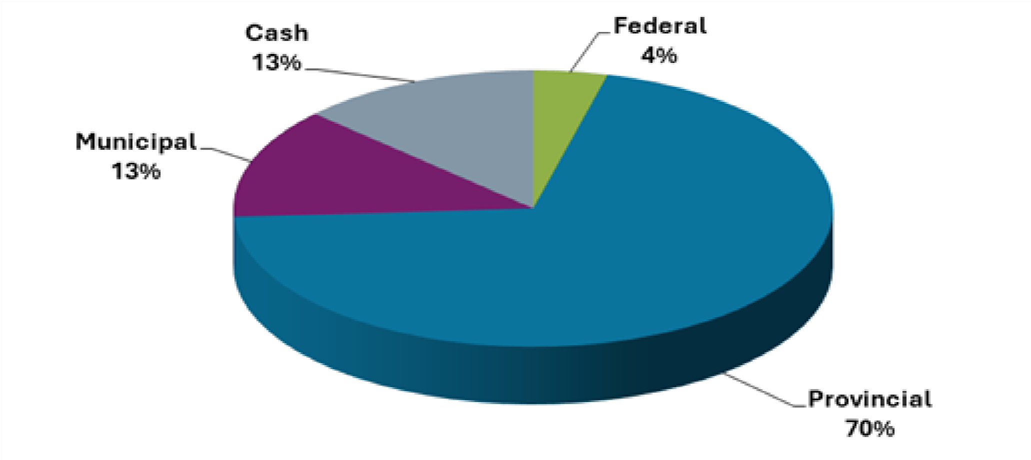
Comments

In 2024, the City earned $59.4 million in gross investment income (net income: $59 million) on average cash and portfolio balances of $1.78 billion. Using average balances held throughout the year, an overall gross investment yield of 3.33% (a net investment yield: 3.31%) was achieved. Details for 2024 (and prior year) are shown below:

	Average Balance (Book Value)	Income (Gross $)	Yield (Gross)	Yield (Net)
2024	1,785,116,410	59,376,152	3.33%	3.31%
2023	1,684,614,497	54,475,486	3.23%	3.21%

As at December 31, 2024, the Consolidated Investment Portfolio[1] held $2,006 million (at par value[2]) in cash and securities of various 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, 2024, is $1.759 million.

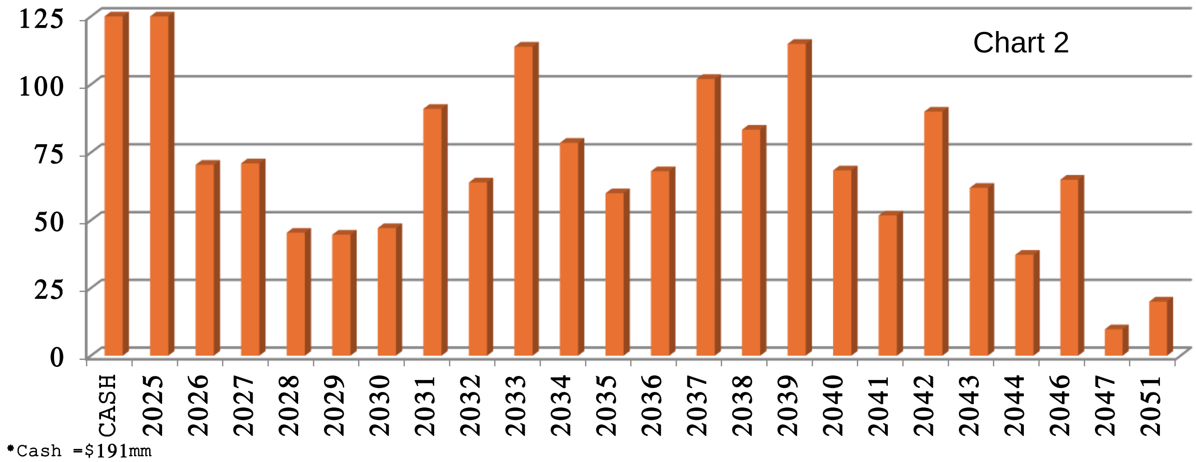


Municipal investment regulation recognizes the fiduciary nature of financial balances (obligatory reserve funds, segregated funds, tax funds, etc.) held by any municipality and therefore regulation maintains and prescribes specific guidelines (security type, term, credit, etc.) in order to minimize default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

Liquidity management is a primary component of policy which ensures that the ongoing maintenance of cash, or near-cash, balances to meet operational needs are not sacrificed for 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 revenue, monies already at work (working capital) or that is earmarked for near-term work (budgeted) are not put at risk.

Enterprise cashflow forecasting is the foundation for investment decisions and, when coupled with a balanced approach to portfolio duration management (i.e. steady maturities), investment returns are protected over the long term, while ensuring that money is always available for operating the City, even as new money is being put to work at prevailing investment rates.

The City Funds investment maturity schedule, as at December 31st, 2024, is in Chart 2:



Investment Income Analysis

During 2024, the City Funds Portfolio[3] realised gross investment income of $59 million on average monthly cash and security balances of $1.78 billion. This translated into a net investment yield of 3.31%. Income was derived mainly from net interest as the unavailability of capital gains persists on fixed income investments and is not expected as a notable source of income before 2026.

Nevertheless, the City's above-weight cash position throughout 2024 ensured that investment income benefited from higher short-term interest rates throughout year. The overall return on financial balances performed favourably to the Consumer Price Index for the year (CPI being 1.8% to Dec/24) thereby working to protect the City's reserves, and reserve fund balances, against erosion from inflation.

The City's investment policy also works well to protect long-term reserve fund balances, by ensuring that any investment income derived from working capital is proportionately distributed back to respective source reserve funds, thereby supplementing capital fund balances for use in future capital budgets.

Investment Management

The Investment Unit, which is a section under Treasury, is responsible for monitoring day-to-day, as well as upcoming, operating cash needs, enterprise cash flow forecasting and monitoring, investment portfolio management and administration, the timing and management of

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[3] This excludes the DCA Portfolio. The DCA Portfolio earned $6,879,116 of investment income on average monthly cash & investment balances of $201 million, yielding 3.43%.,

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 1.9 basis point (0.019%) range, well under any fees which would be charged by an externally managed public fund. Comparative examples for management fees charged by third party managers would see anywhere from 15 basis points for a simple money market fund, to as much as 40-50 basis points (0.40% to 0.50%) for a bond fund. These fee structures are materially higher than the 0.019% incurred by the City.

Using 40 basis points as a cost benchmark for a similar balanced fund and calculating costs against investable balances for the City Funds Portfolio (the non-cash component), the difference between what the City's in-house investment management costs and what an externally managed fund would cost represents a $5 million dollar saving for the City.

Investment Outlook for 2025

While short term interest rates have moderated significantly over the last several months, due to easing monetary conditions from the Bank of Canada (BOC), the same cannot be said for longer term rates, which have remained sticky and relatively elevated.

Institutional investors in Canadian fixed income markets are taking their time accepting lower longer-term rates, as the jury is still out on whether or not a tariff war with the United States will lead to a resurgence in inflation due to a combination of a lower Canadian dollar and higher import costs.

On balance, if revenue neutral tariffs can be levied by Canada against the United States, with tariff revenue being redirected toward affected companies and displaced workers, then it is conceivable that Canada could experience a mild economic slowdown from its current levels of output. In this scenario, longer term bond rates are expected to remain higher, as economic demand and prices remain firm.

Another scenario could emerge where, on balance, the economy (and government) is unable to manage excessively high tariffs concentrated against Canadian high-employment sectors which are highly exposed to US markets (think 50%, and higher, on steel, aluminum, autos, etc.). This scenario would most likely see the country enter a recession (sometime by Q3), with both short and long-term interest rates falling in tandem, and probably significantly.

In this case, regardless of a lower Canadian dollar, the reduction in economic demand (and incomes) would work against any tariff driven price increases, thereby leading to inflation most likely falling. With no slowdown in sight currently for job growth (employment surged by 76,000 in January from December and was up over 416,000 from Jan/24), the BOC is taking a wait and see approach on the effect of tariffs on both prices and demand before determining the nature of further rate cuts.

Canadian government responses will also play a role in the BOC's decision-making process, as it is possible that excessive economic stimulus in response to tariffs could stoke inflation, if not well targeted to affected areas. Nevertheless, given that inflation has now been brought down into the BOC's target range of 2% (less than 2% at year-end), the direction for the Bank is to move the target for overnight interest rates further toward the inflation-neutral zone of 2.5%, or another 50 basis points lower.

For the City Funds Portfolio, the move by the BOC to a sustained monetary easing stance in Q4/24 precipitated a rebalancing away from cash and short-term investing, and toward medium and longer-term securities. As noted earlier, with longer-term rates being well above both short rates and inflation, prospects are good for maintaining returns into 2025 and beyond. Investment income for 2025 is expected to be in the same range as 2024, with a target forecast of $55 - $60 million.

Financial Impact

The City earned $59 million in net investment income during 2024, of which $14.4 million was allocated to the Operating Budget, and $44.6 million was allocated to Reserve Funds.

Conclusion

In compliance with Provincial Regulation 438/97, amended to 43/18, all investment transactions during 2024 were made in accordance with the existing Investment Policy.

As at December 31, 2024, the City Funds Portfolio held $1.82 billion (book value basis) in various securities, and cash. The net income for the Portfolio was $59 million translating into a net investment yield of 3.31%. As per Policy, investment proceeds were distributed between the Operating Budget ($14.4 million) and Reserve Funds ($44.6 million). Looking ahead, 2025 investment income is expected to range between $55 and $60 million.

Attachments

Appendix 1: Total Investment Portfolio – By Investment Type (as at December 31st, 2024)

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