



To: Committee of the Whole
Meeting Date: May 9, 2024
From: Laura Mirabella
Commissioner of Finance and Regional Treasurer
Re: **2023 Investment Activities and Performance**

This memorandum provides an overview of investment activities during 2023, required by Ontario Regulation 438/97 of the *Municipal Act, 2021* (“Act”) and the Region’s Investment Policy (“Policy”).

The Treasury Office manages both the General Fund and Sinking Fund investment portfolios. As at December 31, 2023, these had a combined maturity value of approximately \$6.85 billion.

- The General Fund earned \$166 million on average investments of \$4.57 billion, representing a realized rate of return of 3.64%
- Total returns exceeded both the Financial Times Stock Exchange/Standard and Poor’s (FTSE/S&P) Index and ONE Investment Program benchmarks by 1.07% and 1.75% respectively
- The Sinking Fund earned \$35.6 million on average investments of \$1.2 billion, representing a realized rate of return of 2.96%
- All investments met the requirements of the investment policies approved by Council and the Sinking Fund Committee

General Fund investments adhere to the Investment Policy and Ontario Regulation 438/97

The General Fund consists of investments held for reserves and reserve funds, working capital and other funds of the corporation (Table 1). The maturity value of these investments at year end totaled \$5.178 billion.

Table 1
General Fund Portfolio Holdings
As at December 31, 2023
(\$millions)

Category	Total	% Total
Cash*	495	10%
Fixed Income	4,565	88%
Equity	118	2%
Total	5,178	100%

*Cash is in the form of bank deposits and high interest savings accounts

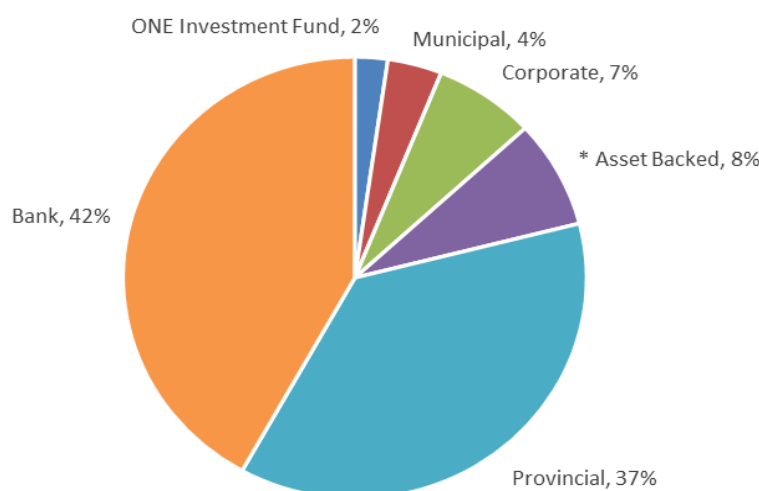
General Fund investments during the year were made in accordance with the Region's Investment Policy, which has the following objectives:

- Adherence to statutory requirements
- Preservation of capital
- Maintaining liquidity
- Earning a competitive rate of return

In addition, all investments met the eligibility requirements set out by Ontario Regulation 438/97 of the Act, which specifies the types of investments that can be held by municipalities.

Figure 1 shows a breakdown of investments held by sector categorization as at December 31, 2023. Approximately 98% of the General Fund's portfolio consisted of fixed income or interest-producing investments directly managed by the Region. The remaining 2% consisted of equity investments managed through the ONE Investment Program, a fund sponsored by the Association of Municipalities of Ontario and the Municipal Finance Officers' Association of Ontario.

Figure 1
General Fund Holdings by Sector Categorization
As at December 31, 2023



*Asset Backed Securities (ABS) are a type of financial investment collateralized by an underlying pool of high quality assets and are all AAA rated

Sinking Funds repay the principal amount of a debenture upon its maturity

Almost all debentures issued by the Region are required, by the Act, to have a sinking fund to repay its principal amount at maturity. In 2023, 12 “sinking fund” debentures were outstanding, maturing between 2025 and 2043. The Sinking Fund portfolio, which consists of investments held for this purpose, had a maturity value of \$1.674 billion on December 31, 2023 (Table 2).

Table 2
Sinking Fund Portfolio Holdings
As at December 31, 2023 (\$millions)

Category	Total	% Total
Cash*	11	1%
Fixed Income	1,663	99%
Total	1,674	100%

* Cash is in the form of bank deposits and high interest savings accounts

During 2023, \$195 million was contributed into the Sinking Fund to meet actuarial requirements needed for the retirement of outstanding sinking fund debentures. Sinking Fund contributions are shown as part of the annual budget and fiscal strategy as “principal” in the “principal and interest” calculation. Investments within the Sinking Fund portfolio are segregated to align with the maturity of their respective sinking fund debenture.

Sinking Fund investments are held in trust on behalf of all debenture participants, which for 2023 included the Town of Georgina, the Township of King and York Region.

All investments during the year were made according to the policy established by the Sinking Fund Committee¹, which is very similar to the Region’s Policy.

The General Fund earned \$166 million for a realized rate of return of 3.64%

In 2023, the General Fund earned \$166 million on an average portfolio balance of \$4.57 billion, equating to a realized rate of return of 3.64%. Returns are referred to as being “realized” when they represent all cash income realized from the investments (i.e., interest income, dividend earnings, capital gains). Another method of calculating investment performance is referred to as mark-to-market returns (also known as total returns). Mark-to-market investment returns include the same components as realized returns and include any change in the market value of securities held from one period to the next. This change in market value (due to changes in interest rates and stock market values) is not realized in the form of cash income, but the potential gain or loss if all the investments held are liquidated on December 31, 2023. The mark-to-market return for the General Fund in 2023 was 6.95%.

**Table 3
General Fund Portfolio
Comparison of Realized and Mark-to-Market Returns 2019 – 2023
(millions)**

Year	Average	Realized		Mark-to-Market	Mark to Market	
	Assets	Income	Return*	Adjustments	Income	Return*
2023	\$4,568.6	\$166.4	3.64%	\$153.3	\$319.7	6.95%
2022	\$4,320.0	\$110	2.55%	(\$223.6)	(\$113.6)	(2.63%)
2021	\$3,837.7	\$99.8	2.60%	(\$54.0)	\$45.8	1.19%
2020	\$3,305.7	\$124.4	3.76%	\$53.5	\$177.9	5.38%
2019	\$3,003.9	\$104.2	3.47%	\$47.2	\$151.4	5.04%

*These returns exclude program costs of approximately 2.5 basis points

**Market value (mark-to-market) adjustments reflect the gain or loss in value of securities over the prior year end valuation

After factoring in approximately \$900,000 cost to operate the investment program (staff, safekeeping, market monitoring services, transaction costs, etc.), the “net” realized rate of return for the General Fund was 3.615%, a difference of 2.5 basis points. The 2.5 basis point cost of

¹ The Sinking Fund Committee is comprised of York Region’s Commissioner of Finance (Chair), the Director of Corporate Services and Treasurer for the Town of Georgina, the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer for the City of Vaughan, and the Director of Finance and Treasurer for the Township of King

managing the program is significantly below the fee charged by the ONE Investment Program, of approximately 35 basis points for managing a similar portfolio.

Investment income earned during the year is credited back to the sources of invested funds, which comprise reserves, reserve funds and deferred revenue accounts (e.g., development charges) held by the Region. The Policy uses the anticipated length of time funds would be expected to remain in each of the reserves or deferred revenue accounts to determine whether they received the short, medium, or long-term interest rate the Region earned on its investment portfolio.

Sinking Fund earned \$35.6 million for a realized rate of return of 2.96%

In 2023, the Sinking Fund earned realized returns of \$35.6 million on an average portfolio of \$1.2 billion, equating to a realized rate of return of 2.96%. This return was \$10.4 million higher than the \$25 million needed in 2023 to achieve the Sinking Fund's actuarial requirement. Any excess return is kept in the Sinking Fund until maturity of the debenture, at which time it may be used to reduce the participant's final contribution or returned to the municipality.

Investment performance is measured against two external benchmarks

Investment performance of the General Fund is compared to two external benchmarks: a managed fund benchmark and an index fund benchmark. Both benchmarks are considered fair references as they reflect the nature and scope of the Region's investment program mandate, as intended by the Policy.

The managed fund benchmark is the weighted composite returns earned by the ONE Investment Program's Money Market, Bond and Equity portfolios. Each of these funds is professionally managed by a different investment management firm selected and monitored by the ONE Investment Program.

The index fund benchmark consists of the weighted composite (short, mid-term, and long-term) returns of the Financial Times Stock Exchange (FTSE) Canada Fixed Income Indexes, a predominant provider of exchange-related indices throughout the world, and for equity investments, the S&P/TSX (Standard and Poor's/Toronto Stock Exchange) Composite Index, which measures the market activity of stocks listed on the Toronto Stock Exchange. This benchmark reflects the returns earned on the passive investment of securities and can be tailored to the changing nature of a portfolio. The FTSE/S&P Composite Index is used as the primary benchmark when assessing the Region's portfolio performance.

General Fund has consistently outperformed and generated excess returns compared to benchmarks and municipal peers

The 2023 performance results for the General Fund, with comparative results for the ONE Investment Program and the FTSE/S&P Composite Index, are summarized in Table 4 and depicted in Figure 2 for the last five years.

Table 4
Comparison of Mark-to-Market Returns
General Fund versus FTSE/S&P Composite Index and ONE Program

Year	York Region	FTSE/S&P		ONE Program	
	Return	Return	Difference	Return	Difference
2023	6.95%	5.88%	1.07%	5.20%	1.75%
2022	(2.63%)	(6.04%)	3.41%	(3.23%)	0.60%
2021	1.19%	(0.79%)	1.98%	(0.26%)	1.45%
2020	5.38%	4.98%	0.40%	3.77%	1.61%
2019	5.04%	4.27%	0.77%	2.76%	2.28%
5 Year Average	3.19%	1.66%	1.53%	1.65%	1.54%

The composite mark-to-market return of the FTSE/S&P benchmark in 2023 was 5.88% and 5.20% for the ONE Program. York Region’s portfolio return of 6.95% exceeded those benchmarks by 1.07% and 1.75% respectively.

As Table 4 and Figure 2 indicate, the General Fund’s investment returns have consistently exceeded both the FTSE/S&P Composite Index and ONE Investment Program returns each year since 2019.

Figure 2
General Fund Mark-to-Market Investment Returns
Compared to Benchmarks

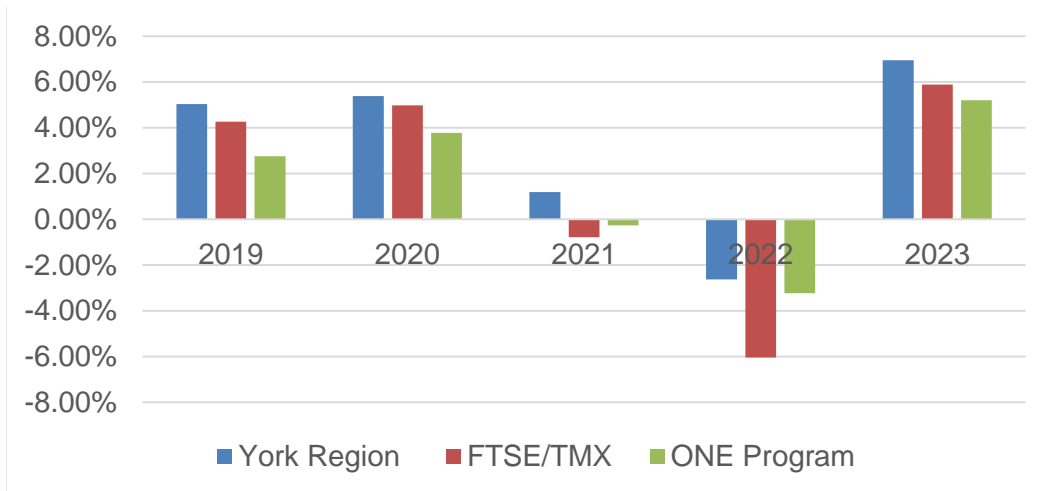
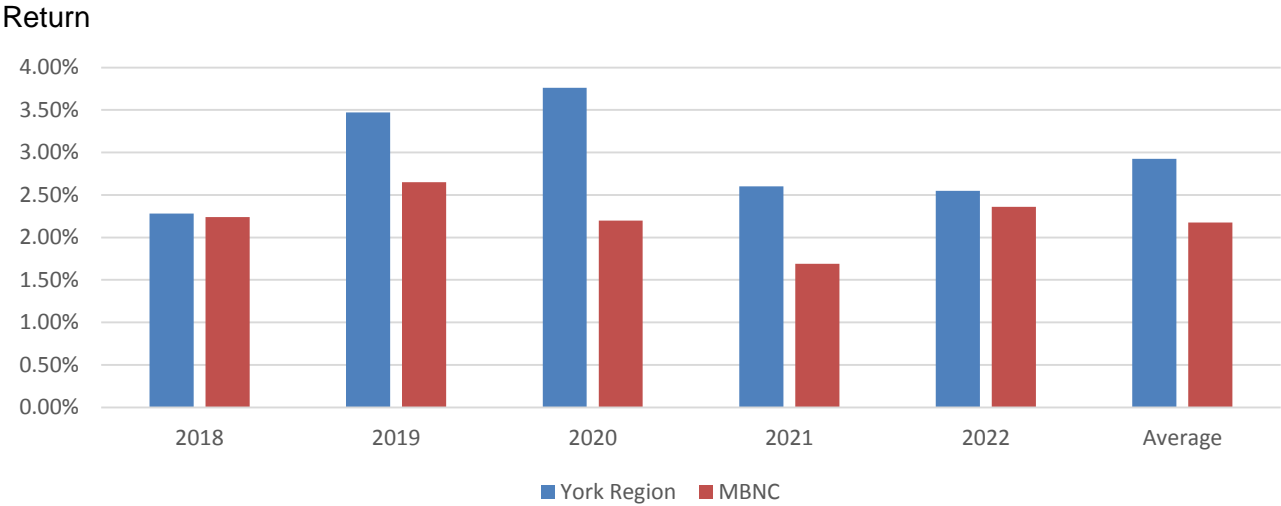


Figure 3 compares the General Fund’s realized returns against Municipal Benchmarking Network Canada (MBNC) participants. The MBNC comparison is a good measurement of how York Region’s investment program compares to municipal peers within Ontario and across

Canada. As depicted, York Region’s investment rate of returns exceeded its peers’ returns every year since 2018. 2023 comparisons are not provided as investment results for MBNC municipalities are not available until June/July 2024.

Figure 3
Comparison of General Fund Realized Investment Returns
with Municipal Peers

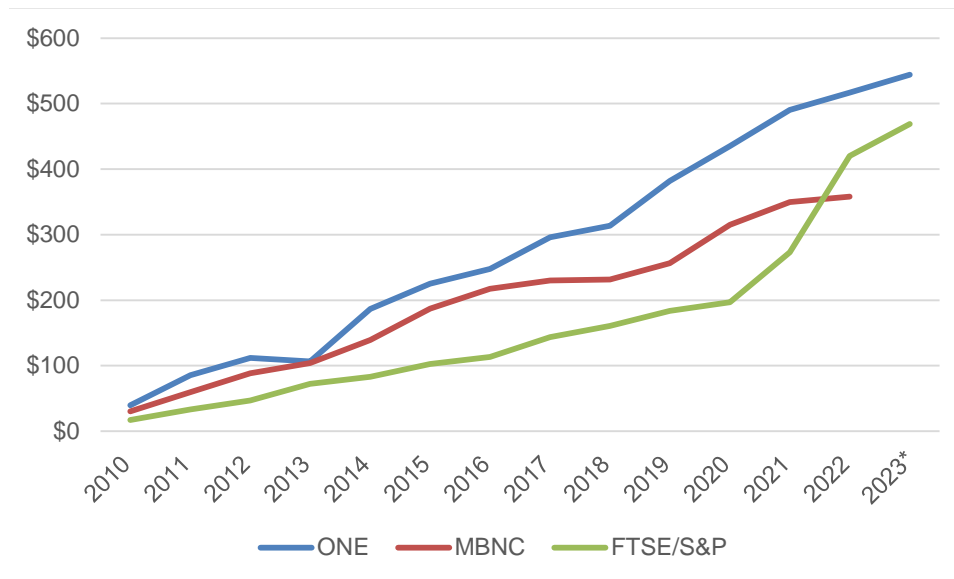


*MBNC 2023 data not available until June/July 2024

Figure 4 shows the amount of additional investment earnings the Region’s investment program generated compared to its respective benchmarks and peer municipalities from 2018 to 2023. The General Fund earned \$469 million more compared to a similar amount invested in the FTSE/S&P indices, \$358 million more than the average return of the MBNC member municipalities and \$544 million more than the ONE Program.

The Region’s investment returns have been achieved while consistently keeping both credit and term risk exposures at prudently low levels. The average credit ratings of securities held in the portfolio have been maintained at AA and the average term to maturity under four years.

Figure 4
Cumulative Surplus Over Benchmarks and Municipal Peers



*MBNC 2023 data not available until June/July 2024

Holdings of the Region’s own debt did not change materially during 2023

As of December 31, 2023, approximately 0.67% of the General Fund portfolio was invested in York Region’s own securities, compared to 0.72% a year ago. These securities are treated in the same way as any other securities in the portfolio in that they are bought when returns are promising and sold when funds are needed or other opportunities arise. Ontario Regulation 438/97 of the Act requires disclosure of transactions in the Region’s own debt; however, in 2023, there were no transactions to report.

For 2024, financial markets are focused on when and how much interest rates will decline

For 2024, market expectations are focused on when and how much interest rates will decline. Restrictive monetary policies implemented by central banks during 2022 and 2023 to date have had limited impact on global economies, which still exhibit demand for goods and services resulting in higher than expected employment and inflation rates. Interest rates have therefore had to stay high for longer than anticipated and equity markets have been more resilient. The uncertainty surrounding when interest rates will decline and economies weaken may lead to market volatility in 2024, and the Region’s investment portfolio is well positioned to capitalize on these events if and as they arise.

General Fund earnings of \$166 million in 2023 will augment reserves and reserve funds

The Region generated a realized return of \$166 million in 2023 on its General Fund investments. These returns are contributed to and augment reserve and reserve fund balances over the longer term, reducing future levels of required contributions to these funds.

\$10.4 million of earnings above the actuarial requirement of the Sinking Fund during 2023 will be used towards the retirement of outstanding debt

In 2023, the Sinking Fund generated realized returns \$10.4 million higher than the \$25 million required to meet the Sinking Fund actuarial requirement for 2023. Earnings over the actuarial requirement help defray costs of borrowing for those municipalities participating in these Sinking Funds and will be used towards the retirement of outstanding debt.

For more information on this memo, please contact Bonny Tam, Acting Director, Treasury Office at 1-877-464-9675 ext. 75885. Accessible formats or communication supports are available upon request.



Laura Mirabella

Commissioner of Finance and Regional Treasurer



Erin Mahoney

Chief Administrative Officer

April 23, 2024

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Appendix A – Maturity Distribution of General Fund Investments
Attachment 1 – General Fund Holdings

Regional Municipality of York					
Maturity Distribution of General Fund Fixed Income Investments					
General Fund					
For Year Ended at December 31, 2023					
	2023		2022		Difference
Period	Amount	%	Amount	%	%
Less than 1 year	1,417,246,153	28	1,698,621,446	36	(8)
From 1 year up to, but not including 5 years	1,874,987,000	37	1,791,199,520	38	(1)
From 5 years up to, but not including 10 years	840,860,149	17	592,456,149	13	4
From 10 years up to 30 years	927,148,000	18	649,351,000	14	5
Grand Total	5,060,241,302	100	4,731,628,115	100	
* excludes equities of \$118.4 million in 2023					