

# Town of Whitby

## Staff Report

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**Report Title: 2022 Annual Investment Report**

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**Report to: Committee of the Whole**

**Date of meeting:** April 4, 2023

**Report Number:** FS 14-23

**Department(s) Responsible:**

Financial Services Department

**Submitted by:**

Fuwing Wong, Commissioner, Financial Services & Treasurer, Ext. 4314

**Acknowledged by M. Gaskell, Chief Administrative Officer**

**For additional information, contact:**

Bren Bozzer, Senior Investment and Financial Analyst

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### 1. Recommendation:

1. THAT Report FS 14-23, 2022, the 2022 Annual Investment Report, be received;
2. THAT the updated Investment Policy F 100, attached as Appendix C to report FS 14-23, be approved;
3. That the Treasurer be directed to sign a copy of the Investment Policy F100 to indicate Council's approval and to forward a copy of this Policy to the ONE Joint Investment Board; and,
4. That delegated authority be provided to the Commissioner of Financial Services/Treasurer to approve housekeeping amendments to Investment Policy F100 as recommended by the ONE JIB/ONE Investment, and that the Clerk be directed to update the Delegation of Powers and Duties Policy (G 020) and Standards for Town Policies and Procedures (CA 080) to reflect this delegated authority.

### 2. Highlights:

- This annual investment report summarizes the performance of the Short-Term portfolio, managed by municipal staff, and the Long-Term portfolio, managed by the ONE Joint Investment Board ("ONE JIB").

- The Town's consolidated investment portfolio had average investment returns 2.55%, or \$10.4M of investment income. Average returns were:
  - 2.74%, or \$6.7M for the Short-Term investment portfolio; and
  - 2.27%, or \$3.7M for the Long-Term portfolio.
- Earnings were allocated proportionately to the General Fund (\$1.1M) and Trust & Reserves (\$9.3M) per the Town's interest allocation methodology.
- Long-Term funds or Money Not Required Immediately ("**MNRI**") transferred, on June 22, 2022, to the ONE JIB totalled \$25M.
- Investment transactions & portfolio details are provided in Appendix A of this report.
- As part of Staff's annual review of the Town's Investment Policy:
  - A number of updates to definitions and clarification of wording were made based on discussions with ONE JIB;
  - An updated Investment Policy is attached as Appendix C to this report. Details of the proposed changes to the Investment Policy are identified in a tracked changes version of the policy attached as Appendix D.

### 3. Background:

Ontario Regulation 438/97 Section 8 of the *Municipal Act, 2001* and the Town's Investment Policy require the Treasurer to provide an annual investment report to the Council. The investment report shall contain:

- a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- b) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- c) a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and

- e) such other information that the council may require or that, in the opinion of the treasurer, should be included.

#### 4. Discussion:

The Town's investment objectives are defined in the Town's Investment Policy ("**IPS**"). At least annually, Council shall review the IPS and update it, if required. This review provides an opportunity to update the Town's investment objectives and risk tolerances for short-term and long-term investments for changes in municipal circumstances.

The Town's Investment Policy was significantly updated and approved by Council in March 2020 to reflect the Town proceeding with the Prudent Investor ("**PI**") standard for long-term investments. In conjunction with preparing the Annual Investment Report, staff have completed the annual Investment Policy review in collaboration with ONE JIB and recommend the following the following update to the IPS for administrative matters:

- general maintenance of policy; removing unnecessary or redundant sections
- additional definitions and clarification of various sections of the policy to aid general understanding.
- removal of the Short-Term Funds: Eligible Investment section (as it is already covered in detail in the appendices).
- Purpose of the Policy previously found under section 2 moved to first page.

An updated IPS recommended for approval is attached to this report as Schedule C. Details of the proposed changes to the Investment Policy are identified in a tracked changes version of the policy attached as Appendix D.

#### **Portfolio Composition**

As at December 31, 2022, the Town's portfolio comprised 60% short-term and 40% long-term investments.

The short-term portfolio mix was 38% cash and cash equivalents and a 62% Guaranteed Investment Certificate ("**GIC**"). In comparison, the long-term portfolio comprised 99% invested with ONE Investment Pools and 1% Principal Protected Notes ("**PPN**").

As at December 31, 2022, the Town's total investment portfolio, by maturity date, is as follows:

|                           | <b><u>2022</u></b> | <b><u>2021</u></b> |
|---------------------------|--------------------|--------------------|
| <b>Under 1 month</b>      | 25%                | 34%                |
| <b>1 month to 2 years</b> | 37%                | 26%                |
| <b>2 to 5 years</b>       | 12%                | 13%                |

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|                      |     |     |
|----------------------|-----|-----|
| <b>5 to 10 years</b> | 14% | 16% |
| <b>Over 10 years</b> | 12% | 11% |

### **Short-Term Investments (Managed by Town Staff)**

In accordance with the Town's IPS, short-term investments do not extend beyond 24 months. Short-Term investment objectives include cash flow management and income generation to fund budgetary revenues while ensuring the preservation of capital, stable returns, and high liquidity.

As at December 31, 2022, the market value of the short-term investments totaled \$245,167,931 (2021 - \$229,531,028), which represents a year-over-year increase of \$15,636,903 (see details in Appendix A).

The Short-Term portfolio generated an interest income of \$6.7M (2021 - \$2.6M), resulting in an average rate of return of 2.74% (2021 – 1.15%).

- Cash on hand at Royal Bank earned interest of \$2.63M (2021 - \$1.1M). The additional interest earned of \$1.53M (compared to 2021) is mainly due to higher interest rates, which started at 0.75% in January 2022 and increased to 4.75% by December 2022.
- Meridian GIC totalling \$4.75M invested on September 1, 2021, maturing in March 2023, earned interest of \$0.05M in 2022.
- Scotiabank high-interest savings account (“**HISA**”) earned a total of \$0.33M in interest over 2022. ONE Investment HISA earned \$0.22M in 2022.
- Royal Bank GIC totalling \$15M matured in April 2022, earning interest income of \$0.04M. The principal was reinvested into two Royal Bank GIC's (\$10M and \$5M), earning a total of \$0.07M interest income for the period April to August 2022.
- Scotiabank Notice Plan account totalling \$93.7M earned interest of \$0.45M during the first half of 2022.
- Scotiabank Notice Plan balance was reinvested in \$104M Scotiabank Cashable GIC on June 24, 2022, and was later redeemed on August 11, 2022, earning a total of \$0.37M in interest.
- Funds from the redeemed Scotiabank GIC, Scotiabank HISA balance and matured Royal Bank GIC's were combined into two Scotiabank GIC investments of \$72.25M each in August 2022. One of which will mature in 2023 and earned \$1.37M in 2022.

- The second \$72.25M Scotiabank GIC was redeemed on December 23, 2022 in order to reinvest at a higher interest rate. Interest earned on this investment in 2022 was \$1.08M.
- Three Royal Bank GIC's were purchased on December 23, 2022 mainly from the proceeds of the Scotiabank GIC redemption on the same day (as noted above):
  - Royal Bank GIC \$25.25M @ 5.80%;
  - Royal Bank GIC \$25M @ 6.10%;
  - Royal Bank GIC \$25M @ 6.40%;
  - The three GIC's earned a total of \$0.11M at the end of 2022 (e.g., from December 23 to December 31, 2022).

### **Long-Term Investments (Managed by ONE JIB)**

In accordance with the Town's IPS, long-term investments are financial securities that extend beyond 24 months. Long-Term investment objectives include generating returns above inflation for contribution to contingencies, capital projects, unexpected events, and asset management reserves. This growth is maintained through diversified asset mixes while preserving capital and maintaining adequate liquidity.

ONE Joint Investment Board has prepared an Investment Plan using the Long-Term investment objectives listed above and established in the Council-approved Investment Policy. Assets mix includes fixed income, equity, and other investments to help balance volatility and returns. Should asset mixes deviate outside the ranges set out in the Investment Plan, the asset mix will be rebalanced as soon as practicable.

The Town's Long-Term investments as at December 31, 2022 reflect a current market value of \$165,002,721 (2021 - \$156,917,105), which represented a net year over year market value increase of \$8,085,616 (see details in Appendix A). The increase is mainly due to the transfer of MNRI to ONE JIB in 2022 totalling \$25.0M from the RBC Trust and Reserves account and income distribution of \$3.22M. However, offsetting the 2022 market value increase in Long-Term investments are: a \$14.38M decline in market values (2022 vs. 2021) in the One Investment portfolio, a decline in Scotiabank 5 Year PPN market value of \$0.25M, and redemption of \$5.5M Scotiabank 7 Year PPN (called early, in 2022).

The Long-Term (PI) portfolio generated an investment income of \$3.7M (2021 - \$6.4M), resulting in an average rate of return of 2.27% (2021 – 4.11%).

- ONE Investment HISA (Prudent Investor) totalling \$19.98M earned interest of \$0.34M in fiscal 2022.
- ONE Investment Equity accounts with a market value of \$75.8M (2021 - \$69.9M), earned a return of 1.17%. The Canadian Equity Fund and the Global Equity Fund had strong returns in the fourth quarter which helped to

offset losses earlier in the year, that generated an average rate of return of 0.63% and 1.39% totalling \$0.14M and \$0.73M, respectively.

- ONE Investment Bond accounts with a market value of \$67.9M (2021 - \$70.3M) earned a return of 2.60%. The Canadian Corporate Bond Fund and Canadian Government Bond Fund remained relatively flat, earning an average rate of return of 0.08% totalling \$0.02M. In contrast, the Global Bond Fund earned an average rate of return of 3.61% totalling \$2.0M.
- Scotiabank PPN held with BMO Nesbitt Burns Inc. has a face value of \$1.0M and a market value of \$1.29M (2021 - \$1.5M). This translates into approximately \$0.29M of unrealized gains at year-end. Scotiabank 7 Year \$5M PPN was called early in 2022, resulting in a realized gain of \$0.52M

The Town allocated the total 2022 investment income of \$10.4M (comprised of \$6.7M short-term and \$3.7M long-term) as follows:

- \$1.1M to the General Fund
- \$9.3M to Trust and Reserves

#### Compliance with Investment Policy & Municipal Act

- Internal controls established by Financial Services Department staff are an integral component in ensuring that all Short-Term investment transactions are made under the Town's Investment Policy Statement.
- Controls include those outlined in the Investment Policy, Financial Services Department investment procedures, and the guidelines established in the code of conduct for each of the Town and ONE JIB. In addition, the Town's investments are reviewed annually by the external auditors.
- In the opinion of the Town's Treasurer, the Town of Whitby's investment portfolio and all investment transactions for 2022 continue to conform to the Town's Council approved Investment Policy, reflecting the Short-Term and Long-Term investment objectives and risk tolerances established within. All investments held by the Town during 2022 were either prescribed securities in accordance with Section 418 or invested prudently subject to 418.1 of the *Municipal Act, 2001* and were all eligible investments as outlined in *Ontario Regulation 438/97*.

#### 2023 Outlook

- Staff have reviewed the cash flow requirements of each reserve and reserve fund. The Town's planned infrastructure program will require a significant amount of cash in the next 24 months to fund – e.g., Whitby Sports Complex, Mid-Block Arterial Road. Accordingly, MNRI calculations indicate no further

transfers to the Long-Term Investment portfolio (e.g., greater than a 24 month investment horizon) at this time.

- The industry forecasted that the Bank of Canada will begin to decrease interest rates by Q4 2023. The Town will take advantage of the current market and invest excess cash in short-term GICs to yield a higher return.

## 5. Financial Considerations:

At the end of 2022, there is an unrealized loss in the Long-Term Investments of approximately \$8 million (which is 4.6% of the book value of the One Investment portfolio or approximately 2% of the Town's total portfolio). An unrealized loss is when the market value of investments is lower than the book value. Unrealized losses are commonly referred to as "paper losses" and only become realized if the underlying investments are sold while the market value remains below the book value. If the market value of investments "rebound", unrealized losses could become unrealized gains (e.g., where the market value exceeds the book value of the investments) in future years. As shown in the Closing Balance section of Appendix A, the unrealized losses relate to the Town's Bond holdings (in the Long-Term Investments). Bonds have an inverse relationship to interest rates. Since January 2022, the Bank of Canada has increased rates eight (8) times to combat rising inflation. Accordingly, while the Town was benefitting from higher interest rates in the short-term investment portfolio (e.g., cash in the bank, GIC), bond prices declined in 2022.

As noted in the 2023 Outlook section above, the Town is planning to hold more funds in Short-Term investments for 2023 (with no projected MNRI transfer to ONE JIB in 2023). This will provide the cash required to pay for major capital projects, such as the Whitby Sports Complex and Mid-Block Arterial Road capital projects in the short-term. Subject to portfolio rebalances recommended by ONE JIB, this strategy should also mitigate the Town's need to divest of current long-term investment holdings (and realizing losses) to meet capital project cash flow requirements.

While there is a higher level of risk and volatility in the Long-Term Investment portfolio, the Town continues to benefit from income and capital gains on investments managed by ONE JIB. Actual investment returns since moving to the ONE JIB/prudent investor standard in 2020 are: 3% or \$3.7 million in 2020; 4.11% or \$6.4 million in 2021; and 2.27% or \$3.7 million in 2022. In comparison, short-term investment returned 1.2%, 1.15% and 2.74%, respectively.

Structuring the Town's Long-Term investment portfolio to more closely match the cash flow requirements of planned capital projects enables the Town to maximize return on investment. This strategy encourages investment decisions that seek higher yielding investments with maturity dates that coincide with projected capital funding requirements and increase the overall investment income that the Town could earn.

A coordinated effort between Financial Services and departmental business partners is integral to forecasting anticipated cash flows related to capital expenditures. Departments have a better understanding of the timing of their specific revenues and expenditure expectations.

A well-planned investment program will also help fund the Town's asset management plan by linking infrastructure assets to an active investment strategy. For example, compound interest is a powerful tool over long-term planning horizons, even in a low-interest environment.

**6. Communication and Public Engagement:**

Not Applicable

**7. Input from Departments/Sources:**

Not Applicable

**8. Strategic Priorities:**

Not Applicable

**9. Attachments:**

Appendix A: Investment Transactions & Details

Appendix B: ONE Investment Annual Investment Report

Appendix C: F 100 Investment Policy

Appendix D: F 100 Investment Policy – Tracked Changes