

# Town of Whitby

## Staff Report

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**Report Title: 2023 Annual Investment Report**

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**Report to: Committee of the Whole**

**Date of meeting:** March 4, 2024

**Report Number: FS 06-24**

**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 06-24, the 2023 Annual Investment Report, be received.

### 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 4.76%, or \$20.7M of investment income. Average returns were:
  - 5.73%, or \$14.5M for the Short-Term investment portfolio; and
  - 3.40%, or \$6.2M for the Long-Term portfolio.
- Earnings were allocated proportionately to the General Fund (\$2.4M) and Trust & Reserves (\$18.3M) per the Town's interest allocation methodology.
- Investment transactions & portfolio details are provided in Appendix A of this report.

**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 and have no recommended updates to the IPS for 2024.

**Portfolio Composition**

As at December 31, 2023, the Town's portfolio comprised 58% short-term and 42% long-term investments.

The short-term portfolio mix was 89% cash and cash equivalents and a 11% 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, 2023, the Town's total investment portfolio, by maturity date, is as follows:

	<u>2023</u>	<u>2022</u>
<b>Under 1 month</b>	54%	25%
<b>1 month to 2 years</b>	7%	37%
<b>2 to 5 years</b>	16%	12%
<b>5 to 10 years</b>	13%	14%
<b>Over 10 years</b>	10%	12%

### **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, 2023, the market value of the short-term investments totaled \$253,474,374 (2022 - \$245,167,931), which represents a year-over-year increase of \$8,306,443 (see details in Appendix A).

The Short-Term portfolio generated an interest income of \$14.5M (2022 - \$6.7M), resulting in an average rate of return of 5.73% (2022 – 2.74%).

- Cash on hand at Royal Bank earned interest of \$5.91M (2022 - \$2.63M). The additional interest earned of \$3.28M (compared to 2022) is mainly due to higher interest rates, which started at 4.75% in January 2023 and increased to 5.50% by July 2023, where it stayed the remainder of the year.
- Meridian GIC totalling \$4.75M invested on September 1, 2021, matured on March 1, 2023, earned interest of \$0.01M in 2023. The proceeds were deposited to the Meridian BA Savings account and earned \$0.13M in fiscal 2023.
- Royal Bank GIC totalling \$22.25M matured in March 2023, earning interest income of \$0.29M. The principal plus an additional \$4.75M was reinvested in a \$27M Royal Bank GIC, earning a total of \$1.22M interest income for the period April to August 2023.
- Scotiabank GIC totalling \$72.25M matured on August 11, 2023, earning interest of \$2.13M in 2023. Proceeds of \$75.75M (including 2022 interest) were deposited to the Scotiabank high-interest savings account ("HISA"), earning 5.70% interest in 2023.

- Scotiabank GIC totalling \$25M matured on December 27, 2023, earning interest of \$1.51M in 2023. Proceeds of \$26.54M (including 2022 interest) were deposited to the Scotiabank HISA, earning 5.70% interest in 2023.
- Scotiabank HISA earned a total of \$1.76M in interest over 2023.
- Royal Bank GIC totalling \$25M matured December 27, 2023, earning interest income of \$1.58M.

### **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, 2023, reflect a current market value of \$183,052,005 (2022 - \$165,002,271), which represented a net year over year market value increase of \$18,049,284 (see details in Appendix A). The increase is mainly due to unrealized gains of \$13.3M and income distribution of \$5.03M. Offsetting the unrealized gains and income distribution is a decline in Scotiabank 5 Year PPN market value of \$0.29M.

The Long-Term (PI) portfolio generated an investment income of \$6.2M (2022 - \$3.7M), resulting in an average rate of return of 3.40% (2022 – 2.27%).

- ONE Investment HISA (Prudent Investor) totalling \$24.13M earned interest of \$0.90M until September 27, 2023, when ONE Investment converted all funds in HISA accounts to ONE Canadian Government Bond.
- ONE Investment Equity accounts with a market value of \$73.3M (2022 - \$75.8M), earned a return of 5.07%. The Canadian Equity Fund and the Global Equity Fund had strong returns, that generated an average rate of return of 7.10% and 4.21% totalling \$1.32M and \$1.85M, respectively.
- ONE Investment Bond accounts with a market value of \$108.8M (2022 - \$67.9M) earned a return of 1.87%. The Canadian Corporate Bond Fund and Canadian Government Bond Fund remained relatively flat, earning an

average rate of return of 0.35% totalling \$0.18M. In contrast, the Global Bond Fund earned an average rate of return of 3.02% totalling \$1.98M.

- Scotiabank PPN held with BMO Nesbitt Burns Inc. has a face value of \$1.0M and a market value of \$1.0M (2022 - \$1.29M).

The Town allocated the total 2023 investment income of \$20.7M (comprised of \$14.5M short-term and \$6.2M long-term) as follows:

- \$2.4M to the General Fund
- \$18.3M 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 2023 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 2023 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*.

#### 2024 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., land and construction of a new Whitby Fire Hall, and continuation of the Whitby Sports Complex construction, Mid-Block Arterial Road projects. 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 Q2 2024. 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:**

As noted in the 2024 Outlook section above, the Town is planning to hold more funds in Short-Term investments for 2024 (with no projected MNRI transfer to ONE JIB in 2024). This will provide the cash required to pay for major capital projects, such as the a new Whitby Fire Hall (Fire Hall #6), 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 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; 2.27% or \$3.7 million in 2022; and 3.4% or \$6.2 million in 2023. In comparison, short-term investment returned 1.2%, 1.15%, 2.74% and 5.73%, respectively.

Structuring the Town's Short-Term and Long-Term investment portfolios 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.

**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