

# Town of Whitby Staff Report

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## Report Title: 2024 Annual Investment Report

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**Report to:** Committee of the Whole

**Date of meeting:** May 5, 2025

**Report Number:** FS 15-25

**Department(s) Responsible:**

Financial Services Department

**Submitted by:**

Fuwing Wong, Commissioner, Financial Services & Treasurer

<b>Acknowledged by M. Gaskell, Chief Administrative Officer</b>
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### 1. Recommendation:

1. THAT the report FS 15-25 entitled “2024 Annual Investment Report”, be received for information.

### 2. Highlights:

- This annual investment report fulfils the reporting requirements of Ontario Reg 438/97 and that of Corporation of the Town of Whitby (“**the Town**”) Investment Policy [F 100 Investment Policy](#) (“**IPS**”)
- The Town's consolidated investments include the short-term portfolio, managed by Town staff, and the long-term portfolio managed by the ONE Joint Investment Board (“**ONE JIB**”), achieved average returns of 3.84%, which translates to \$21.8 million in investment income from an average consolidated portfolio balance of \$567.5 million. The average returns were:
  - 3.76%, or \$14.5 million for the short-term portfolio; and
  - 4.01%, or \$7.3 million for the long-term portfolio.

- In 2024, in accordance with the Town's interest allocation methodology, earnings were allocated as follows:
  - \$2.4 million to the General Fund; and
  - \$19.4 million to the Trust & Reserves.
- On March 24, 2025, through staff report *FS 07-25 Annual Investment Policy Statement Review and Transition to Outsourced Chief Investment Officer Offering*, Council endorsed an update to the Town's Investment Policy Statement which included ONE JIB's transition of investment portfolios to the Outsourced Chief Investment Officer ("**OCIO**") Offering.
- As of March 3, 2025, the OCIO transition resulted in a net (realized) gain of \$14.4 million on the disposition of investment (in 2025), comprised of:
  - a realized gain of \$18.6 million from the equity funds;
  - offset by a realized loss of \$4.4 million from the bond funds.

### 3. Background:

Section 8 of Ontario Regulation 438/97 and the Town's Investment Policy requires the Treasurer to provide Council an investment report on an annual basis. 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 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, accounting for changes in municipal circumstances.

The Town's IPS was significantly updated in 2025 and approved by Council, via [Staff Report FS 07-25, entitled "Annual Investment Policy Statement Review and Transition to Outsourced Chief Investment Officer Offering"](#), on March 24, 2025. The most notable changes the IPS, since the Town's adoption of the Prudent Investor ("PI") standard, include a definition of Restricted Special Assets to include the Town's investment in Elexicon Corporation as Money Not Required Immediately, and the transition to the OCIO Offering for long-term investments.

### Portfolio Composition

As of December 31, 2024, the Town's portfolio was comprised of 56% short-term and 44% long-term investments.

The short-term portfolio mix consisted of 80% cash and cash equivalents and 20% in Guaranteed Investment Certificates ("GIC"). The Town's long-term portfolio was fully invested in ONE Investment Pooled Funds, comprising 35% equities and 65% bonds.

The following table summarizes the Town's total investment portfolio compositions as of December 31, 2024, and 2023.

	<u>2024</u>	<u>2023</u>
<b>Under 1 month</b>	45%	54%
<b>1 month to 2 years</b>	11%	7%
<b>2 to 5 years</b>	19%	16%
<b>5 to 10 years</b>	14%	13%
<b>Over 10 years</b>	11%	10%

### 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 prioritizing the preservation of capital, stable returns, and high liquidity. Prior year figures are presented in parentheses for reference.

As of December 31, 2024, the market value of short-term investments was \$252,284,487 (2023 – \$253,474,374), indicating a decrease of \$1,189,887 year-over-year (refer to details in Appendix A).

The Short-term portfolio generated interest income of **\$14.5 million** (2023 – \$14.5 million), resulting in an average annual rate of return of 3.76% (2023 – 3.61%\*).

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\* The 2023 figure has been corrected since last reported.

- Cash on hand at the Royal Bank earned interest of \$7.9 million (2023 – \$5.9 million). The additional interest of \$2.04 million earned compared to fiscal year 2023, despite five interest rate cuts in 2024 that reduced the prime rate from 7.20% to 5.45% by year-end, is mainly attributed to the overall higher year-over-year average balance change of \$35 million.
- Royal Bank GICs with durations of three to six months, totaling \$127 million, matured and generated interest of \$4.2 million. From this amount, the \$100 million principal was reinvested equally in a Royal Bank GIC and a Royal Bank High-Interest Savings Account (“**HISA**”).
- Royal Bank GIC amounting to \$50 million matured on March 25, 2025, and earned interest income totaling \$0.6 million in 2024, resulting in an average rate of return of 4.51%.
- Scotiabank and Royal Bank's HISAs generated interest income amounting to \$1.5 million and \$0.2 million, yielding average rates of return of 6.51% and 3.53%, respectively.
- Meridian BA Savings account earned \$0.1 million in interest with an average rate of return of 2.34% for the fiscal year 2024.

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

In accordance with the Town's IPS, long-term investments are financial securities extending beyond 24 months. Long-term investment objectives include generating returns above inflation to contribute 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 JIB has prepared an Investment Plan using the long-term investment objectives listed above, which has been established in the Council-approved Investment Policy. The asset 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, they will be rebalanced as soon as practicable.

The Town's Long-term investments as of December 31, 2024 reflect a current market value of \$197,174,017 (2023 – \$183,052,005), representing a net year-over-year increase of \$14,122,012 (see details in Appendix A). This increase is comprised of unrealized gains of \$8.0 million, income distribution of \$6.9 million, quarterly rebates of \$0.2 million, and is offset from the redemption of Scotiabank 5-Year principal protected note (“**PPN**”) of \$1 million

The long-term PI portfolio generated investment income of **\$7.3 million** (2023 – \$6.2 million), resulting in an average annual rate of return of 4.01% (2023 – 3.10%\*).

- ONE Investment Equity accounts have a market value of \$83.7 million (2023 – \$73.3 million) and generated an average rate of return of 4.7%. The Canadian Equity Fund delivered robust returns, generating an average rate of return of 12.31%, amounting to \$2.4 million. In contrast, the Global Equity Fund experienced relatively stagnant performance, earning an average rate of return of 1.39%, equating to \$0.6 million.
- ONE Investment Bond accounts have a market value of \$113.5 million (2023 – \$108.8 million) and achieved a return of 3.5%. The Canadian Corporate Bond Fund, the Canadian Government Bond Fund, and the Global Bond Fund realized average rates of return of 2.79%, 3.28%, and 3.72%, respectively, amounting to \$4.1 million.
- Scotiabank's 5-Year PPN, with a face value of \$1.0 million and held with BMO Nesbitt Burns Inc., was redeemed, resulting in a realized gain of \$0.2 million, representing approximately a 22.8% return.

The Town allocated the total 2024 investment income of \$21.8 million (comprised of \$14.5 million short-term and \$7.3 million long-term) as follows:

- \$2.4 million to the General Fund
- \$19.4 million 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 in accordance with the Town's IPS.
- Controls include those outlined in the IPS, 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 2024 conform to the Town's Council approved IPS, reflecting the short-term and long-term investment objectives and risk tolerances established within. All investments held by the Town during 2024 were either prescribed securities in accordance with Section 418 or invested prudently subject to 418.1 of the Municipal Act,

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\* The 2023 figure has been corrected since last reported.

2001 and were all eligible investments as outlined in Ontario Regulation 438/97.

### 2025 Outlook

- ONE Investment has adjusted its strategy to attract larger municipal investors and enhance its capacity to manage a growing number of portfolios. In support of this objective, ONE Investment introduced the OCIO offerings provided by PH&N (a wholly owned subsidiary of RBC Global Asset Management Inc.) and transitioned the Town to the OCIO model by the end of March 2025. The new model will offer municipalities, including the Town, broader investment options at the same or lower cost. On March 24, 2025, through staff report *FS 07-25 Annual Investment Policy Statement Review and Transition to Outsourced Chief Investment Officer Offering*, Council endorsed this transition.
- As of March 3, 2025, the OCIO transition resulted in an overall net realized gain of \$14 million, which comprises a realized gain of \$18.6 million from the equity funds. This gain is offset by a realized loss of \$4.4 million from the bond funds.
- As of March 6, 2025, the U.S. administration has imposed a 25% tariff on goods imported from Canada that are not covered by the Canada-United States-Mexico Agreement (CUSMA), except for Canadian energy and potash exports, which are subject to a 10% tariff. The financial industry anticipates that the Bank of Canada will continue to lower interest rates throughout 2025, with the rate expected to reach 2.25% by Q4 2025. However, it is predicted that the longer the tariffs remain in effect, the more likely it will be for the Bank of Canada to make more significant decreases to its interest rate to mitigate inflationary pressures. Accordingly, the Town will capitalize on the current market and invest available funds in short-term GICs to achieve a higher return.
- Staff have reviewed the cash-flow requirements for each reserve and reserve fund. The Town's planned infrastructure program will require substantial funding over the next 24 months, including the acquisition of land and the construction of a new fire hall, ongoing construction of the Whitby Sports Complex, the Columbus Road widening project, and the mid-block arterial road projects. As a result, money not required immediately ("**MNRI**") calculations indicate that no further transfers to the long-term Investment portfolio (such as investments with a duration exceeding 24 months) should occur at this time.

## **5. Financial Considerations:**

As noted in the 2025 Outlook, the Town plans to retain more funds in short-term investments for 2025 (with no projected MNRI withdrawal or transfer to ONE JIB

in 2025). Subject to portfolio rebalances recommended by ONE JIB, this strategy should also reduce the Town's need to divest from current long-term investment holdings to meet capital project cash-flow requirements.

The Town's OCIO transition occurred in 2025 and will be part of the Town's "2025 Annual Investment Report" next year which will reflect results for the full-year January 1 to December 31, 2025. However, since the OCIO Transition occurred last month, results on the transition, a net realized gain of \$14 million, is provided in this report. Details of the \$14 million net realized gain are as follows:

- ONE Investment Equity accounts, with a market value of \$84.1 million, achieved a net realized gain of \$18.62 million. Both the Global Equity Fund and Canadian Equity Fund recorded strong returns, generating realized gains of \$12.33 million and \$6.29 million, respectively. From the inception of Prudent Investment on July 2, 2020, to the OCIO Transition on March 4, 2025, the equity funds earned \$30.6 million.
- ONE Investment Bond accounts, with a market value of \$115.2 million, incurred a net realized loss of \$4.4 million. The Global Bond Fund and the Canadian Corporate Bond Fund reported losses of \$5.4 million and \$0.3 million, respectively. In contrast, Canadian Government Bonds recognized a realized gain of \$1.3 million, which slightly mitigated the overall net realized loss in the ONE Investment Bond accounts. Since its inception, the bond funds have generated earnings of \$7.7 million leading up to the OCIO Transition.

Through the PI regime, the Town generated a total income of \$39.6 million from its inception to the OCIO Transition, which includes \$1.3 million from the Prudent Investment HISA. This resulted in an overall internal rate of return of 5.44%.

Structuring the Town's short-term and long-term investment portfolios to match the cash flow requirements of planned capital projects more closely enables the Town to maximize its return on investment. This strategy encourages investment decisions that seek higher-yielding investments with maturity dates that align with projected capital funding requirements, thereby increasing the overall investment income that the Town can 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.

#### OCIO Impact on 2025 and Future Financial Statements:

Historically, the Town's financial statements show long-term investments recorded on a cost basis. This means that market gains or losses are not reflected until the investment is sold (e.g. the cost basis does not reflect "paper

gains” and “paper losses”). The transition to OCIO with PH&N provides access to a broader range of actively traded portfolios. In accordance with the Public Sector Accounting Board regulations, specifically PS 3450 on Financial Instruments, portfolio investments in equity instruments quoted in an active market are required to be measured at fair value. This guidance on fair value measurement will mean that investments shown in the Town’s 2025 and future financial statements will reflect unrealized gains and losses, annually. Accordingly, the Town’s financial position may show material year-over-year fluctuations in alignment with market fluctuations (regardless of investment dispositions in the year).

**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