
Subject: Investment Report

Staff Report No. FI-004-25

**Department/
Commission:** Finance Services Commission

Date: April 16, 2025

Recommendation:

- 1) That Council receive Report FI-004-25 for information.

Report Highlights

- This report meets the statutory provisions within the Municipal Act with respect to reporting on the Town's Investment Portfolio.
- Diversification of the portfolio and a favourable year in the bond and equity markets has allowed for significant growth of the Town's investments during 2024.
- As of December 31, 2024, the Town's investments are in compliance with the Town's Investment Policy (AP84).

1. Purpose:

The purpose of this report is to inform Council with respect to the investment portfolio of the Town. The report meets statutory provisions within the Municipal Act, 2001 and provides additional information to Council with respect to the management of investment funds under the Town's Investment Policy annual reporting requirement.

2. Background:

Regulations under the Municipal Act, 2001 and the Town's investment policy guide investment decisions to mitigate risk and generate a desirable rate of return. While adequate cash is required to meet the obligations of the Town, it is prudent to invest cash not needed in the near term for operational purposes to improve the rate of return to the Town.

The Town utilizes an asset allocation strategy to improve the rate of return at risk levels consistent with the objectives of the investment policy, including the preservation of capital. Liquidity is also an important factor to ensure funds are available in a timely manner, however investments with greater liquidity generally provide a lower rate of return. Therefore, there is a requirement to balance the availability of funds with the opportunity to improve the return on investment.

A rebalancing of the Town's portfolio has led to higher returns and has allowed for longer term investments to be considered where appropriate. Cash flows are routinely examined to ensure short term requirements are met, and any cash deemed as not required in the short term is invested to maximize returns and build the Town's reserve balances.

The investment of funds by municipalities is governed by the Municipal Act, 2001 and Ontario Regulation 438/97 (the "Regulation"). The Regulation is prescriptive with respect to allowable investments and reporting obligations. The Town's Investment Policy (the "Policy") dated June 2023, states principles to guide the management of funds and has additional direction with respect to the selection of investment securities. While this limits the ability of the Town to fully diversify, the objective of this additional direction is primarily to mitigate investment risks.

3. Analysis:

The Treasurer has a responsibility to ensure that funds not required for day-to-day transactions are invested to generate a desirable rate of return, while investing in a manner that is consistent with the Town's Investment Policy and Provincial regulations under the Municipal Act, 2001.

3.1 The Investment Policy

The Investment Policy of the Town must be consistent with O. Reg 438/97 and may be more restrictive but not less restrictive. The Regulation and the Policy seek to mitigate various investment related risks through prescriptive standards. The Regulation is highly prescriptive, placing constraints on the type of securities that can be purchased and stipulates the credit rating of allowable investments.

The Regulation also requires that an investment for which the credit rating drops below either the Policy or the Regulation must be disposed of within a prescribed time. No investments fell below the standard required for investments during the 2024 fiscal period.

Further, investments must be consistent with investment policies and goals adopted by the Town. A key requirement within the Town's policy speaks to the term limitation of investments. This is in place to ensure that the Town always has adequate liquidity. As shown in Table 1, the Town's portfolio meets the term limitations established with the Policy and as of December 31, 2024, held 40% of its' investments with a maturity date deemed to be within one (1) year.

Table 1: Term Limitation within Investment Portfolio

Term Limitation	Range of Investment	Actual Portfolio
Less than 90 Days	20% to 100%	31.42%
Less than 1 Year	30% to 100%	40.07%
From 1 year up to, but not including 5 years	0% to 85%	31.19%
From 5 years up to, but not including 10 years	0% to 50%	28.74%
From 10 years up to 20 years	0% to 30%	0%

While maintaining adherence the Municipal Act, 2001 and Ontario Regulation 438/97, the Town's investment policy provides flexibility around the investment options available to the Town. As the Town's investment portfolio continues to grow, this policy will be better aligned and allow for strategic investment decisions to be made.

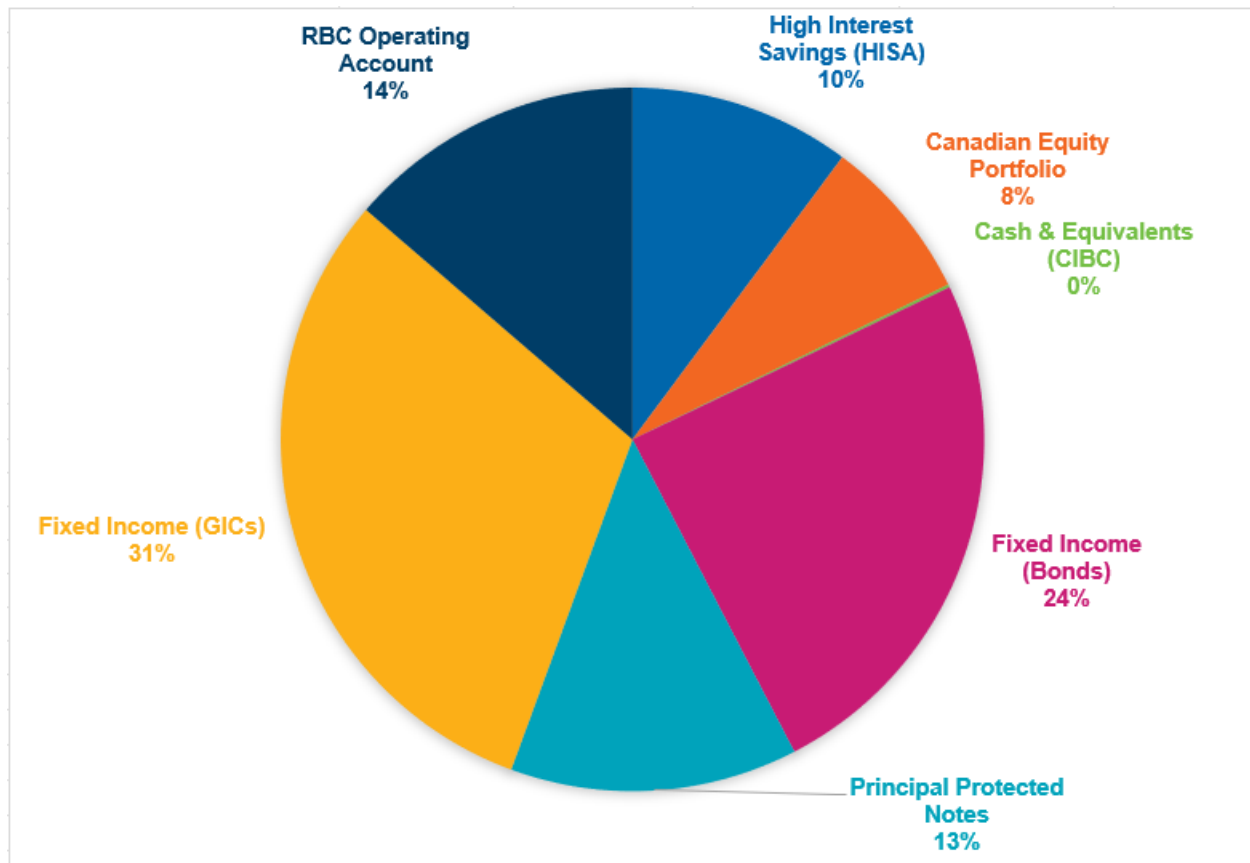
3.2 Investment Strategy

In 2024, the Town utilized a range of investment options, including the ONE Investment Program (OIP), direct investment in fixed income securities and maintaining cash balances in a High Interest Savings Account (HISA). The OIP invests on behalf of municipalities, maintains compliance with the Regulation, and utilizes external professional investment firms to manage the funds under administration.

The liquidity or availability of funds to meet obligations is also important and factored into the allocation strategy. The Town must meet its financial obligations in a timely manner. Liquidity is high with pooled funds such as the OIP, as well as with investments in individual bond investments and with short-term options, such as high-interest savings accounts and short-term investment vehicles of less than 90 days. The Town also maintains adequate funds within its operating bank account to ensure that day to day operations are appropriately funded to limit the need to draw upon other liquid sources.

Diversification across the fixed income portion of the portfolio has allowed for an improved basket of securities to be purchased that while providing stronger upside potential, also provide the portfolio with improved liquidity and downside protection in the event of a downturn in the market.

The portfolio allocation in Figure 1 highlights the breakdown of the Town's Investment Portfolio, including funds held with its RBC operating account, as of December 31, 2024.

Figure 1: Investment Portfolio Asset Allocation as of December 31, 2024

For comparison purposes, Table 2 highlights the portfolio weighting at the beginning of 2024 to the end of 2024, based on the market value of holdings. As you will see, the percentage of allocations remained relatively stable across the portfolio, with the exception of the increase in cash that the Town held within its operating account at the end of the year.

Table 2: Portfolio Weighting in 2024

	Percentage of		Percentage of	
	Market Value at	Total Portfolio	Market Value at	Total Portfolio at
	01/01/2024	01/01/2024	12/31/2024	12/31/2024
ONE Investment Program				
High Interest Savings (HISA)	\$ 12,412,556	10.9%	\$ 13,069,024	10.2%
Canadian Equity Portfolio	8,058,083	7.0%	9,715,224	7.6%
Subtotal	\$ 20,470,639	17.9%	\$ 22,784,248	17.7%
CIBC Wood Gundy**				
Cash & Equivalents (CIBC)	\$ 324,818	0.3%	\$ 171,179	0.1%
Fixed Income (Bonds)	\$ 34,237,886	29.9%	\$ 31,465,528	24.5%
Principal Protected Notes	11,396,300	10.0%	\$ 16,977,430	13.2%
Subtotal	\$ 45,959,005	40.2%	\$ 48,614,137	37.9%
RBC Dominion Securities				
Cash	\$ -	0.0%	\$ -	0.0%
Fixed Income (GICs)	38,032,927	33.3%	39,428,461	30.7%
Subtotal	\$ 38,032,927	33.3%	\$ 39,428,461	30.7%
RBC Banking Services				
RBC Operating Account	\$ 9,876,823	8.6%	\$ 17,568,491	13.7%
Total Portfolio	\$ 114,339,394		\$ 128,395,337	

In the latter half of 2023 and throughout 2024, staff have been able to further diversify the Town's investment portfolio through improved security selection and the ability to maximize investment term and rates where possible. The 'laddered structure' within the fixed income portion of the portfolio provides annual maturities to address any cash flow needs while allowing for broader reinvestment options for preservation of capital and higher rates of return.

Overall, liquidity remains high within the portfolio, maximizing flexibility and ensuring that the Town has sufficient funds to meet operating and capital needs.

3.3 Performance of the Portfolio to December 31, 2024

Compared to 2023, the overall performance of the portfolio increased, primarily due to the diversification of the portfolio and improved security selection. The interest rate environment remained favourable during the majority of 2024 allowing staff to reinvest securities at competitive rates and for operating accounts to earn higher rates of interest on balances maintained throughout the year. The Canadian equity market was also strong in 2024 with the Town's investment in the OIP Canadian Equity Portfolio continuing to perform well. Active management within the CIBC portfolio allowed staff to capitalize on the favourable appreciation of certain securities, locking in price increases and interest income. Table 3 provides a comparison between book value and market value as of December 31, 2024, and highlights the unrealized gains and losses associated with each of the Town's investments.

Table 3: Book Value vs. Market Value Comparison

	Book Value at 12/31/2024	Market Value at 12/31/2024	Unrealized Gains (losses) at Year end
ONE Investment Program			
High Interest Savings (HISA)	\$ 13,069,024	\$ 13,069,024	\$ -
Canadian Equity Portfolio	6,733,640	9,715,224	2,981,583
Subtotal	\$ 19,802,664	\$ 22,784,248	\$ 2,981,583
CIBC Wood Gundy**			
Cash & Equivalents (CIBC)	\$ 171,179	\$ 171,179	\$ -
Fixed Income (Bonds)	\$ 29,957,388	\$ 31,465,528	\$ 1,508,140
Principal Protected Notes	\$ 16,963,000	\$ 16,977,430	14,430
Subtotal	\$ 47,091,567	\$ 48,614,137	\$ 1,522,570
RBC Dominion Securities			
Cash	\$ -	\$ -	\$ -
Fixed Income (GICs)	38,757,505	39,428,461	670,956
Subtotal	\$ 38,757,505	\$ 39,428,461	\$ 670,956
RBC Banking Services			
RBC Operating Account	\$ 17,568,491	\$ 17,568,491	-
Total Portfolio	\$ 123,220,228	\$ 128,395,337	\$ 5,175,109

The unrealized gains represent increases in the market value of securities held within the Town's portfolio. These securities are still invested; thus, this amount will fluctuate until the time that the security either matures or is sold.

As shown in Table 3, the portfolio has performed well with positive performance in all investment categories. The reinvestment of principal and interest earned has allowed for growth within the fixed income portion of the portfolio (RBC and CIBC). In addition to the compounding growth within the portfolio, the diversification of the portfolio and a continued strong interest rate environment helped to earn higher levels of investment income throughout the year. Fixed income securities pay interest income throughout the year. This income is pooled in a money market fund or HISA to continue earning interest income prior to being reinvested in a term investment. This is represented by the \$171,179 held within the CIBC portfolio as cash and equivalents at year-end.

The OIP Canadian Equity Portfolio produced strong results as Canadian equities emerged as one of the best-performing global equity markets in the fourth quarter of 2024, delivering a total return of close to 4%. This was slightly stronger than U.S. equity markets, where large-cap technology stocks performed well. Canada also outperformed most international equity markets, many of which experienced negative returns in the 4th

quarter. This performance allowed the Town to achieve growth in the equity portion of its' portfolio of 12.84%.

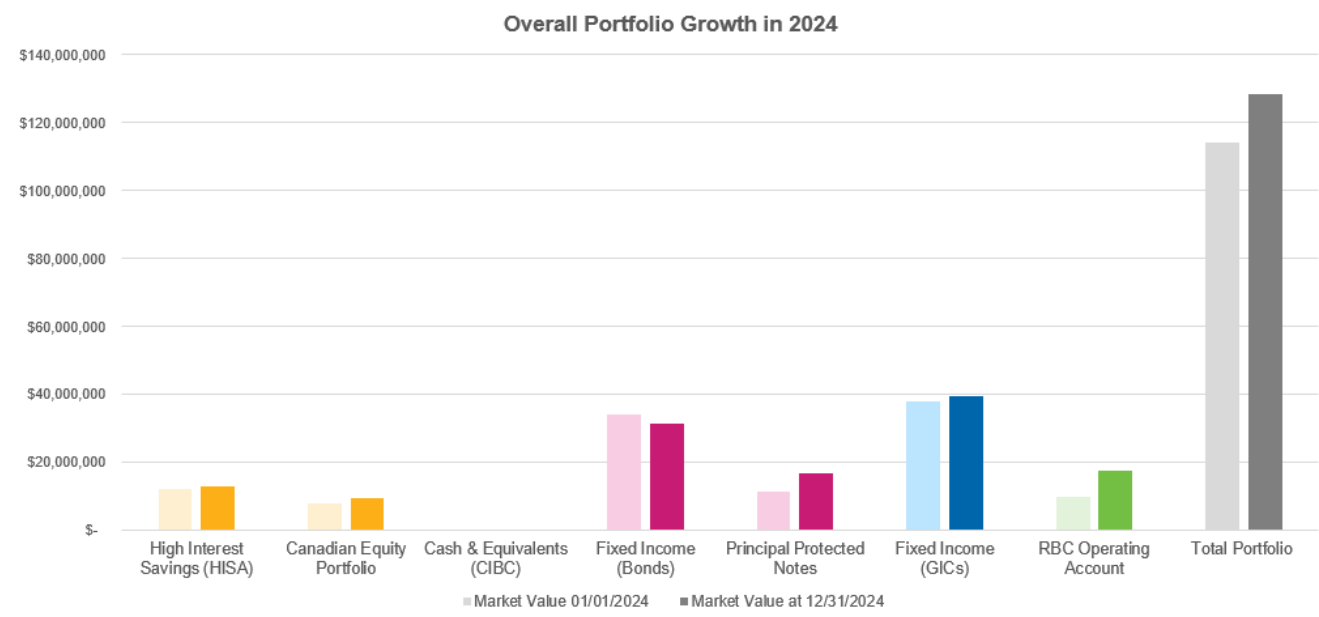
Table 4 outlines the year over year growth that each portion of the portfolio earned in 2024.

Table 4: Portfolio Performance

Actual Returns Received (%)		
	2023	2024
ONE Fund HISA	5.39	5.17
ONE Fund Equity	5.03	12.84
RBC GIC	3.27	3.67
CIBC Portfolio	0.71	4.13

In 2024, the Town did not make any additional contributions to the investment portfolio. All growth achieved with the portfolio is attributed to interest income and appreciation in the bond and equity markets. Figure 2 provides a visual of the overall growth in the portfolio. The total portfolio had a market value of \$128 million, including the RBC Operating account at year end. Invested funds had a market value of \$110.8 million with this money continuing to be invested to ultimately fund the projects identified within the Town's Operating and Capital budget and forecast.

Figure 2: Overall Portfolio Growth in 2024



3.4 2024 Portfolio Transactions

Ontario Regulation 438/97 stipulates that all portfolio transactions over the course of the year must be presented as part of the annual report. Table 6 outlines the transactions that took place within each of the Town's investment accounts during 2024. Of note, no additional funds were added to these accounts in 2024, and no funds were withdrawn.

Table 6: 2024 Portfolio Transactions

Account	Opening	Deposits / Withdrawals ⁽¹⁾	Reinvested Income ⁽²⁾	Market Value Gains (Losses) ⁽³⁾	Closing
ONE Investment Program					
HISA	\$ 12,412,556		656,468	-	\$ 13,069,024
Canadian Equity					
Book Value	\$ 5,429,356	-	1,304,302	(18)	\$ 6,733,640
Market Value	\$ 8,058,083	-	1,304,302	352,839	\$ 9,715,224
Account	Opening	Deposits/ Reinvestments ⁽⁴⁾	Redeemed/ Withdrawals ⁽⁵⁾	Interest ⁽⁶⁾	Closing
RBC Dominion Securities					
Cash	\$ -	8,902,485	(10,138,886)	1,236,401	-
Mutual Funds	\$ 22,664	561,886	(264,908)	4,863	\$ 324,505
Fixed Income	\$ 38,010,264	9,577,000	(8,637,577)	154,269	\$ 39,103,956
Account	Opening	Deposits/ Reinvestments ⁽⁷⁾	Redeemed/ Withdrawals ⁽⁸⁾	Interest ⁽⁹⁾	Closing
CIBC Wood Gundy					
Cash	\$ 80,225.75	26,769,512	(28,342,322)	1,572,810	\$ 80,225.75
Fixed Income	\$ 34,237,886.46	3,111,000	(6,986,311)	1,102,953	\$ 31,465,528.26
Mutual Funds	\$ 244,592.67	10,518,322	(10,698,177)	26,216	\$ 90,953.63
Principal Protected Notes (PPN's)	\$ 11,396,300.00	14,713,000	(9,000,000)	(131,870)	\$ 16,977,429.64

Notes:

ONE Investment Program

(1) There were no deposits or withdrawals from ONE Fund in 2024

(2) Reinvested Income: Reinvested income includes realized capital gains (losses), interest and other income received throughout the year.

(3) Market Value Gains (Losses): Market value changes are unrealized. Unrealized gains and losses do not impact the Town's actual results until investments are sold.

RBC Dominion Securities

(4) Deposits / Reinvestments:

Cash - The balance represents cash received on the redemption of investments and mutual funds

Mutual Funds & Fixed Income - The balance represents amounts purchased and reinvested in principal investments.

(5) Redeemed/ Withdrawals:

Cash - The balance represents amounts reinvested in principal investments.

Mutual Funds & Fixed Income - The balance represents amounts of principal redeemed during the year.

(6) Interest:

Cash: The balance represents the interest received during the year.

Fixed Income: The balance represents the difference between accrued interest at December 31, 2023 and December 31, 2024. On December 31, 2023 there was \$516,687 of interest accrued to achieve the opening market value of \$28.2 million. On December 31, 2024 there was \$670,956 of interest accrued to achieve the ending market value. Therefore, this figure presents as a positive figure due to increased interest rates received from 2023 to 2024 as previously discussed. Actual interest received on fixed income securities is represented above in the Cash-Interest cell and is also built into the reinvestments figure for fixed income securities.

CIBC Wood Gundy:

(7) Deposits / Reinvestments:

Cash - The balance represents cash received on the redemption of investments and mutual funds

Mutual Funds, Fixed Income & PPNs - The balance represents amounts purchased and reinvested in principal investments.

(8) Redeemed/ Withdrawals:

Cash - The balance represents amounts reinvested in principal investments.

Mutual Funds, Fixed Income & PPNs - The balance represents amounts of principal redeemed during the year.

(9) Interest:

Cash & Mutual Funds: The balance represents the interest received during the year.

Fixed Income & PPNs: The balance represents the gain on the market value of the portfolio as of December 31, 2024 and is calculated as Closing Market Value less Opening Market Value less Purchases plus Sales.

Actual interest received on fixed income securities and PPNs is represented above in the Cash-Interest cell and is also built into the reinvestments figure for fixed income securities.

3.5 2025 Outlook

As planned, several fixed income securities will mature in 2025, and staff will re-invest those proceeds after considering liquidity needs and re-investment options. While interest rates have been trending lower over the last number of months, current economic conditions are creating uncertainty within the markets making it difficult to forecast the direction that rates will take over the course of 2025.

Staff believe that the portfolio is well positioned to sustain any investment shocks that may occur in 2025. To date, steps have been taken to capitalize on some of the unrealized gains achieved in 2024 and reduce the Town's exposure to the equity market. Staff monitor cash balances on a daily basis to ensure that all cash flow requirements are met. If an investment opportunity arises that makes sense for the Town, staff will work with our Investment Advisors to continue to build the investment portfolio in line with the Town's Investment Policy.

3.6 Compliance to Investment Policy

As of December 31, 2024, the Town's investments are in compliance with the Town's Investment Policy AP84.

4. Financial Implications:

There are no direct financial implications arising from this report.

5. Broader Intergovernmental Impacts and/or Considerations:

None.

6. Communication:

None.

7. Alignment with Strategic Plan:

1. Good Governance
Provide Good Governance

8. Attachments:

None

9. Related Reports:

None

Author: Lauren Cusato, Finance Specialist
Carol Brown, Manager of Finance/Deputy Treasurer
Jeremy Harness, Commissioner of Finance / Treasurer

For further information on this report, please contact the Department Head: Jeremy Harness, Commissioner of Finance / Treasurer at 905-640-1910 or 1-855-642-8697 ext. 2243 or via email at jeremy.harness@townofws.ca.