

EPORT

Council

Meeting Date: May 27, 2024

FROM: Finance Department

DATE: May 14, 2024

SUBJECT: Investment Policy Update

LOCATION: Town-wide

WARD: Town-wide

Page 1

RECOMMENDATION:

That the updated Investment Policy be approved.

KEY FACTS:

The following are key points for consideration with respect to this report:

- The town invests its cash resources with the purpose of providing the highest investment return with the maximum security, while meeting the daily cash flow requirements of the town and conforming to legislation.
- Municipal investments are highly regulated through the Municipal Act and supporting regulations.
- The town's Investment Policy states the primary objectives of the Investment Program, which guide the staff in cash management and overseeing the investment portfolio.
- Staff has undertaken a review of investment practices and opportunities to ensure the town is taking advantage of investment products available to enhance cash flow and investment returns.
- The update to the Investment Policy (Appendix A) will allow for increased diversification and rates of return, while complying with legislation and policy objectives.

BACKGROUND:

Municipal investments are highly restricted through the Municipal Act and supporting regulations. Investments are generally restricted to high quality money market and

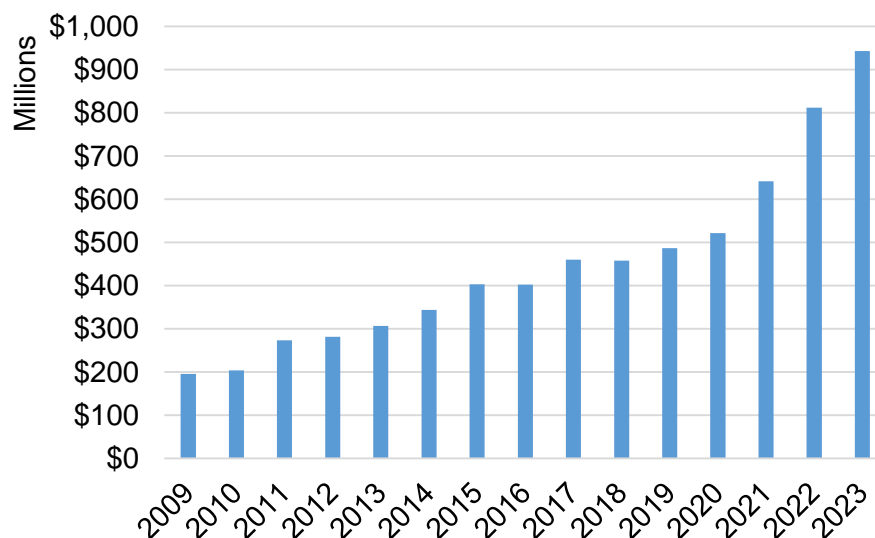
bond investments. The existing Council approved Investment Policy provides primary objectives of the town's Investment program. In order of priority, these are:

- Adherence to statutory requirements
- Preservation of principal
- Diversification of investment portfolio
- Maintaining liquidity; and
- Earning a competitive rate of return

Staff manage the cash needs of the town through daily monitoring of bank account balances and cash flow forecasts, considering both short-term and long-term needs. Short-term needs include operational requirements and spending for capital projects that are underway. Longer term needs are identified through the annual budget and long-term capital forecast. The town invests funds it does not need immediately, aiming for both diversification and near risk-free investments to ensure security of funds. Returns on investment allow for growth in the portfolio to meet future obligations, and to hedge against inflation.

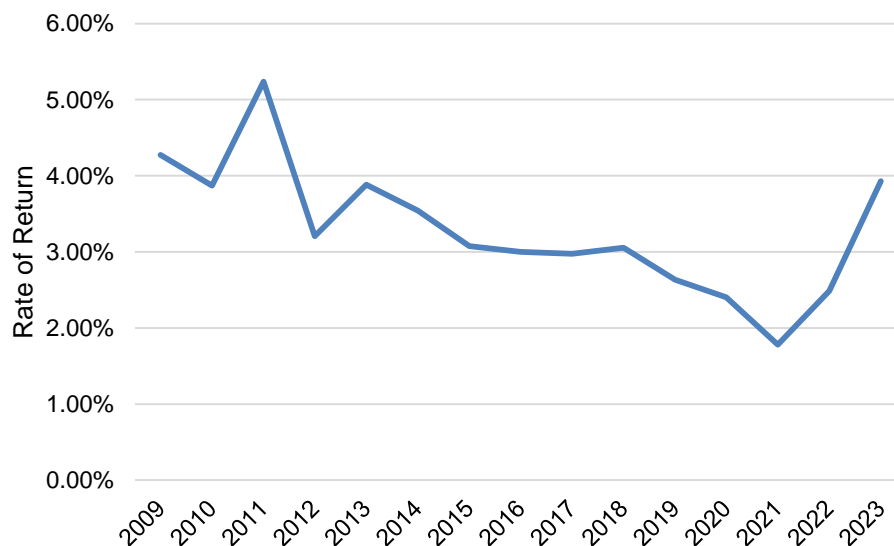
The investment strategy follows a conservative approach to mitigate term and interest rate risk by maintaining a portfolio structure of high-quality, medium-term investments. Staff aim to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations and capital projects, to avoid the need to sell securities on the open market prior to maturity. Through this focus on both current and long-term needs, and the investment objectives in the Investment Policy, staff seek to maximize the rate of return over the long-term.

The town's portfolio of cash and investments has grown significantly over the past 15 years. The chart below shows the size of the portfolio in millions over this time period.



The rapid rise can be attributed to a number of factors, including the general growth of the town and inflation, as well as rising reserve and reserve fund balances. It is important to note that capital expenditures can be cyclical, and as discussed in the 2024 Budget, reserve and reserve fund levels will decline over the coming years with the major capital expenditures planned and underway.

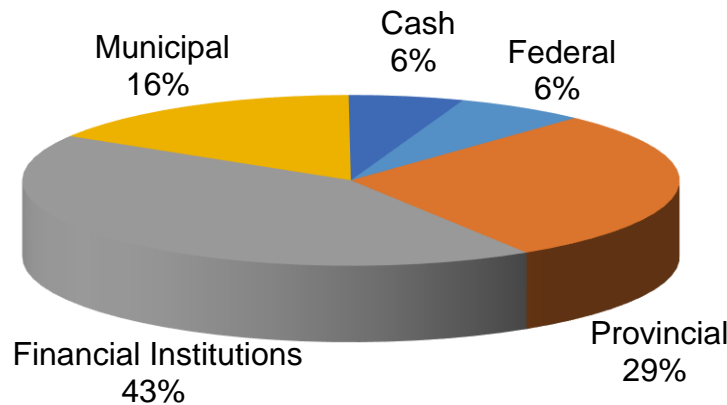
Over this 15-year time period, the town's annualized rate of return based on average cash and investment holdings has fluctuated. Returns on investment rise and fall due to a variety of economic factors and interest rate policies, which can clearly be seen over the past few years as a result of the pandemic. Returns also vary based on the timing of growth in an investment portfolio and the time horizon for cash needs.



The town's investment opportunities are limited to the institutions and security types that are listed in Ontario Regulation 438/97, referred to as the "legal list". The town's investment portfolio consists of the following types of investments:

- Canadian federal, provincial and municipal government bonds
- Fixed income securities issued by Canadian chartered banks and credit unions

At December 31, 2023 the town had a total portfolio of cash and investments of \$943 million (book value). The below chart illustrates the composition of the portfolio by security type.



There are additional investment types on the legal list that are currently not accessible to the town, these include:

- Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada (Canadian equities).
 - Only through the ONE Investment Program
- Bonds, debentures, promissory notes issued by a corporation that is incorporated under the laws of Canada or Ontario that is fully repaid in more than 1 year and less than 5 years.
 - Only available to municipalities with a credit rating or through the ONE Investment program
- Bonds, debentures, promissory notes issued by a corporation that is incorporated under the laws of Canada or Ontario that is fully repaid in more than 5 years.
 - Only available through the ONE Investment program
- Asset-backed securities or short-term commercial paper.
 - Only available to municipalities with a credit rating or through the ONE Investment program

Staff have undertaken a review of the town's Investment Policy and Procedure and investment practices to ensure the town takes advantage of opportunities to enhance cash flow and investment returns, while adhering to prudent investment practices that ensure preservation of principal. In considering new opportunities and researching best practices, high priority is placed on ensuring the preservation of capital and risk tolerance. The following section outlines the proposed change to the Investment Policy, updates to the procedure as approved by the CAO, and future considerations.

COMMENT/OPTIONS:

The Investment Policy provides the primary objectives to follow in the management of the investment program. Staff have recommended one change to the order of these objectives and added further clarity on the reason for and importance of maintaining liquidity. This change reflects the significance to be placed on structuring a portfolio that can meet the town's obligations and withstand unforeseen cash needs.

The Investment Procedure outlines the investment parameters, standards of care, reporting requirements, and responsibilities for the prudent management of the investment program. Minor changes were made by staff to reflect current practices.

Future Considerations

Through staff's review of investment opportunities and best practices from other municipalities, the inclusion of investment in equities is being reviewed. Equities can be volatile over the short and medium-term; however, over the long-term equities have historically provided enhanced returns compared to fixed income products. The ability to invest in equities could help to improve diversification and enhance returns over the longer term.

The town's long-term capital forecasting and strategies for reserves and reserve funds have developed over recent years. This is evident in the area of asset management through the ongoing Asset Management Plan updates in accordance with regulations, as well as through the town's master planning process and updates to growth funding tools. Through annual reserve and reserve fund outlooks, and the strong financial policies the town employs, there is a robust understanding of the long-term financial needs of the town. The town has money in reserves and reserve funds where the requirement for these funds is beyond 10 years, and investing a portion of these funds in the Canadian equity market could offer an opportunity for enhanced returns over the long term.

Staff have started conversations with the One Investment Program (ONE) to learn more about what they are able to offer. ONE is a municipal investment pool jointly sponsored by the Municipal Finance Officers' Association of Ontario (MFOA) and the Association of Municipalities of Ontario (AMO) through their subsidiaries CHUMS Financing Corporation (CHUMS) and Local Authority Services Limited (LAS) and is one of the few investment pools designed to be compliant with the Municipal Act. It has increased its offerings over time as a result of changes to Municipal Act and has created a range of products which meet the needs of larger municipalities. Some of these product lines include securities that the town would only be able to invest in directly through this program in accordance with the Municipal Act, including a Canadian equity portfolio. Staff have heard positive feedback from other municipalities in the GTA regarding the equity portfolio through ONE.

Staff will continue to explore the equity portfolio option available through ONE, and if recommended, bring back a report to Council for consideration. This report would include further information on the benefits and risks associated with equity investing, and information on the strategy staff would employ regarding equity investing in relation to reserves and reserve funds. Further updates would be needed to the Investment Policy and Procedure that would incorporate the inclusion of ONE and equities, including parameters regarding limits for equities within the portfolio to ensure the prudent management of the investment program. The report would also include the required by-law for Council consideration to invest through ONE, and authority to enter into the required agency agreement.

CONSIDERATIONS:**(A) PUBLIC**
N/A**(B) FINANCIAL**
The town's Investment policy and related procedure guide the investment of the town's cash resources in an optimal manner, to provide the highest investment return with the maximum security, while meeting cash flow requirements and conforming to legislation. Updates to the policy and procedure will allow the town to continue to meet investment objectives.**(C) IMPACT ON OTHER DEPARTMENTS & USERS**
N/A**(D) COUNCIL STRATEGIC PRIORITIES**
This report addresses Council's strategic priority of Accountable Government.**(E) CLIMATE CHANGE/ACTION**
N/A**APPENDICES:**

Appendix A – Investment Policy

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