



Staff Report

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Report To:	General Government Committee	
Date of Meeting:	June 6, 2022	Report Number: FSD-019-22
Submitted By:	Trevor Pinn, Deputy CAO/Treasurer	
Reviewed By:	Mary-Anne Dempster, CAO	By-law Number:
File Number:		Resolution#:
Report Subject:	2021 Annual Investment Report	

Recommendation:

1. That Report FSD-019-22 be received for information.

Report Overview

The following report is the annual reporting requirement under the Municipality of Clarington's Investment Policy. Regulations under the Municipal Act, 2001 require that the Treasurer report certain information to Council on an annual basis and certify compliance with the Municipality's adopted Investment Policy.

This report fulfills the annual reporting requirement under the Municipal Act, 2001 and the Municipality's Investment Policy.

At December 31, 2021, the Municipality was in compliance with the Province of Ontario's eligible investment regulations and the Municipality's approved Investment Policy. Investment Income for the Municipality was approximately \$3.7 million which is slightly higher than \$3.6 million in 2020. During the year, investable funds increased from \$121.1 million to \$158.9 million. Overall the return on investment was 2.44% which is a reasonable return given interest rates during 2021.

1. Background

- 1.1 In June 2018, through report [FND-011-18](#) the Municipality of Clarington reviewed and revised its Investment Policy. This policy requires the Treasurer of the Municipality to report the state of the Municipality's investments to Council on an annual basis.
- 1.2 Section 8 of the Municipality's Investment Policy requires the Treasurer to report on an annual basis to Council on the performance of the investments, the balance of the investment portfolio, and the Municipality's compliance with the investment policy and goals.
- 1.3 A snapshot summary of key information pertaining to the portfolio follows:

Fund	Opening Balance, January 2021	Closing Balance, December 2021	Investment Income	Return on Average Balance
General Fund	\$26,436,972	\$41,092,730	\$1,060,574	3.14%
Development Charges Reserve Fund	31,788,316	32,604,525	624,705	1.94%

Fund	Opening Balance, January 2021	Closing Balance, December 2021	Investment Income	Return on Average Balance
Non-DC Reserve Fund	52,290,047	74,387,525	1,123,800	1.77%
Strategic Capital Reserve Fund	10,551,081	10,783,566	612,865	5.75%
	\$121,066,416	\$158,868,346	\$3,421,944	2.44%

Investment Environment in 2021

- 1.4 Interest rates continued to be low in 2021 as Ontario, Canada and the World continued to deal with the impacts of the COVID-19 Pandemic. Fixed income investments such as GICs, bonds and deposit notes continued to have significantly lower rates of return.
- 1.5 Throughout 2021, the Bank of Canada's target for the overnight rate was 0.25%. The "Bank Rate" was 0.50% for the year, demonstrating the extremely low return environment the Municipality tends to invest in.
- 1.6 Three times during 2021, the Municipality's primary banking partner reduced the interest rate on its general bank account. Staff mitigated this decrease by moving funds to other institutions, including high-interest savings accounts. The reduction of bank interest rates was not a uniquely Clarington issue, as many municipalities in Ontario had similar experiences.

Looking into 2022

- 1.7 Financial Services is looking at a rebalancing of the reserve funds to ensure investments align with the needs of the individual funds and better reflect the timing requirements of those funds.
- 1.8 Staff expect that fixed income investment rates will rise in 2022 as the Bank of Canada increases the overnight and bank rates; however, it is also expected that inflation will continue to be high in 2022 which does impact the Municipality's purchasing power.

Staff continue to look at different investment vehicles to maximize investment returns while mitigating risk.

- 1.9 It is expected that the investment mix within the Municipality will continue to diversify. The historical tendency to invest in GICs does not meet the need of the Municipality from a rate of return perspective. The primary objective is capital preservation; however, the changing economic and investment environment means that these objectives can be met through other instruments while earning a reasonable return.
- 1.10 Staff continue to monitor the adoption of prudent investor standard across Ontario. The City of Quinte West and the Municipality of Neebing joined the ONE JIB effective January 1, 2022, through the adoption of the prudent investor standard. Effective April 1, 2022, the City of Thunder Bay is also joining the ONE JIB.
- 1.11 Staff are currently only aware of the investment boards established by the City of Toronto (under the City of Toronto Act), ONE JIB (a joint-board under the Municipal Act) and the City of Barrie (an investment board under the Municipal Act) which provide for the applicable municipalities to invest under the prudent investor standard. The Municipality of Clarington continues to follow the legal-list of eligible investments.

2. Performance of the Investment Portfolio

- 2.1 The Municipality's portfolio consists of several funds, including general funds, trust funds, reserve funds, and other investments.

General Fund

- 2.2 The General Fund is the primary operating fund for the Municipality. This fund has the least number of active investments. The majority of the investments in this fund are in the HISA operated by ONE Investment Inc. This HISA account offers favourable interest rates for a highly liquid investment.
- 2.3 The ONE Investment Inc. HISA was established in September 2016 and held low balances throughout 2017. In 2018, the Municipality began being more active with its investments and moved funds from the lower interest-earning bank accounts to the higher HISA account. At December 31, 2021, the ONE Investment HISA had approximately \$5.1 million (2020 - \$23.4 million). Funds held in the HISA are available within 24 hours.
- 2.4 In 2021, the Municipality opened a HISA with Scotiabank which provides a higher interest rate, however, notice of 30-days is required to withdrawal funds. During the year, \$30 million was transferred from the ONE Investment HISA to the Scotiabank HISA, this provides the Municipality approximately \$5 million available within 24 hours and \$30 million available within 30 days.

Non-Development Charges Reserve Funds

- 2.5 The Municipality operates a Non-Development Charges Reserve Fund investment portfolio for all reserve funds not established under the *Development Charges Act, 1997*. There is one exception: the Strategic Capital Reserve Fund, a separate fund.
- 2.6 The total book value of investments is approximately \$74.4 million (2020 - \$51.3 million), including approximately \$27.4 million (2020 - \$26.5 million) in bank balances. At December 31, 2021 the portfolio was comprised of \$10.2 million (2020 - \$14.8 million) in GICs with maturities in each of 2022 and 2023 and \$20.8 million (2020 - \$9.1 million) in bonds with maturities from 2027 to 2032. The portfolio includes \$16.0 million (2020 - \$0) in principle-protected notes; these are bank notes which are linked to an index but are issued by a chartered bank. For purposes of this report, the TD Bank Reserve Fund bank account is included in this portfolio.
- 2.7 The Municipality has adopted a five-year laddering strategy for these investments with roughly equal distribution each year. This ensures that assets will be cashable in any given year and can be withdrawn from the reserve fund. At December 31, 2021, the third and fourth year of this ladder is lacking as interest rates for those years over the past year have not been attractive enough to lock in funds for that amount of time. Staff continue to monitor and invest in 2024 and 2025 as rates become feasible.
- 2.8 In 2019, as a result of a decrease in interest rates for GICs, the Municipality started to look at bonds to continue to have safe investments with a reasonable return. The bonds held by the Municipality include Canadian chartered banks (BMO, TD and Bank of Nova Scotia) and the City of Toronto. Although bonds have a longer maturity, they are generally reasonably liquid as they are actively traded in the market. The Municipality has also began to invest in Principle-Protected Notes (PPN) which are bank issued deposit notes, linked to an equity index (but the Municipality does not own the equity)

Development Charges Reserve Funds

- 2.9 The Development Charges Reserve Fund portfolio meets the obligations of the Municipality under the relevant legislation for Development Charges.
- 2.10 The Municipality has two accounts with the ONE Investment Program related to this fund: a Bond account and an Equity account.
- 2.11 Clarington opened its ONE Investment bond account in 2000. The investment pool was transferred to its current custodian in 2005 with a book value of \$2.6 million. As at December 31, 2021 the book value, as a result of reinvested income, was \$4.4 million (2020 - \$4.3 million). This is an increase of 69.2% over 16.75 years, or 4.1% per year. At December 31, 2021 the market value was below book value, however, the adjusted return is still 3.5% per year since 2005.

2.12 The ONE Investment equity account was established in 2007 with an initial investment of \$500,000 and a \$2.0 million investment during 2020. At December 31, 2021 the book value of the investment is \$2.8 million (2020 - \$2.6 million) resulting from reinvested income and capital gains. The portfolio had a market value of \$4.2 million. In 2021 there was an increase in the market value of \$473,158 on top of approximately \$246,941 of reinvested income in the portfolio.

Strategic Capital Reserve Funds

2.13 The Municipality established the Strategic Capital Reserve Fund portfolio to hold investments for the Strategic Capital Reserve Fund specifically. This reserve fund was created to provide a funding source for economic development activities. The intent was to keep the \$10.0 million capital as a source of internal borrowing for economic development capital investments. Interest earned on the investments is transferred to the general fund to offset the tax levy.

2.14 This fund invests \$4.7 million (2020 - \$6.7 million) in GICs with maturities ranging from December 2022 to June 2024. Interest rates vary from 1.63% to 3.2%. Bonds of Canadian chartered banks worth \$4.8 million (2020 - \$3.8 million) with maturities from November 2027 to January 2032 are also held with an interest rate of 1.4 to 3.1%.

2.15 In 2021, the fund invested in debt from the Province of Ontario with a face value of \$1.2 million. The debt matures June 2031 with an interest rate of 1.65%.

Overall Performance

2.16 The total income for 2021 and 2020, excluding trust funds and Elexicon, by fund are summarized below:

Fund	2021 Income	2020 Income	2019 Income	2018 Income
General Fund	\$1,060,573	\$1,046,664	\$1,129,639	\$1,351,995
Development Charges Reserve Fund	624,705	923,855	1,339,291	1,386,839
Non-DC Reserve Funds	1,123,800	1,343,802	336,824	976,382

Fund	2021 Income	2020 Income	2019 Income	2018 Income
Strategic Capital Fund	612,865	45,342	493,389	202,027
Total Investment	\$3,421,943	\$3,359,663	\$3,299,143	\$3,917,243

3. Compliance with Investment Policy

3.1 The Municipality of invests based on the legal list of investments outlined in [O.Reg. 438/97](#) as amended. The legal list is very prescribed and limits the ability of the Municipality to diversify its investments fully; however, it is relatively secure.

Investment Accounts

3.2 The Municipality of Clarington holds its investments through investment accounts with several financial organizations. In determining whether the Municipality is meeting its investment policies, the underlying asset is considered, not the custodian of the investment.

3.3 In 2021, the Municipality opened an investment account with ScotiaBank. This account is a high-interest savings account that provides a premium interest rate; however, the Municipality must provide 30-days notice to withdraw funds.

3.4 The Municipality held the following accounts throughout 2021:

Institution	Accounts Held
TD Bank	<ul style="list-style-type: none"> • General Fund bank • Several small bank accounts • Reserve Fund bank account • Guaranteed Investment Certificates (GICs)

Institution	Accounts Held
RBC Dominion Securities	<ul style="list-style-type: none"> • Reserve Fund investment account • DC Reserve Fund investment account • Strategic Capital Fund investment account
ONE Investment Inc.	<ul style="list-style-type: none"> • High Interest Savings Account (HISA) • Equity portfolio investment account • Bonds portfolio investment account
BMO Nesbitt Burns	<ul style="list-style-type: none"> • General fund investment • Reserve Fund investment account
ScotiaBank	<ul style="list-style-type: none"> • High Interest Savings Account (HISA)

3.5 The investment accounts with RBC Dominion Securities and BMO Nesbitt Burns hold a variety of investment instruments which could include GICs, government bonds, and bank deposit notes

Diversification Risk

3.6 The Municipality holds investments of several different types. It is essential to diversify the types of investments with an extensive portfolio to reduce the risk to the overall portfolio from variations in any one market. The following table shows the December 31, 2021, investments by type as well as the minimum and maximum percentage allowed per the Investment Policy:

Investment Type	Book Value at December 31, 2021	Percentage of Holdings	Minimum Range	Maximum Range
High Interest Savings Account	\$ 62,531,592	39.3%	0.0%	100.0%
Provincial Debt	11,007,539	6.9%	0.0%	80.0%
Municipal Debt	5,273,571	3.3%	0.0%	35.0%
Financial Institutions	70,487,041	44.3%	0.0%	80.0%
Corporate Debt (non-financial)	2,499,594	1.6%	0.0%	10.0%
ONE Investment Pools	7,224,710	4.5%	0.0%	25.0%
Total	\$159,024,047			

- 3.7 The policy guideline for financial institutions is zero percent to 80 percent of the investment portfolio. At December 31, 2021, the Municipality was within this limit.
- 3.8 While within the policy limits, the above indicates that the Municipality is heavily concentrated in Canadian financial institutions. Most of the investments consist of GICs purchased initially with a five-year term.

Liquidity Risk

- 3.9 The Municipality attempts to balance cash flows through the timing of the maturity of investments. Staggered maturity dates ensure that cash is readily available to meet the needs of the Municipality and reduces interest rate risk. At December 31, 2021, the maturity dates, and allowable ranges, of investments held by the Municipality were as follows:

Timeframe	Book Value at December 31, 2021	Percentage of Portfolio	Minimum Range	Maximum Range
Up to 90 Days	\$ 71,830,823	45.2%	20.0%	100.0%
90 Days to 1 Year	3,837,128	2.4%	30.0%	100.0%
1 to 5 Years	21,838,289	13.7%	0.0%	85.0%
5 to 10 Years	56,679,358	35.6%	0.0%	50.0%
10 to 20 Years	4,841,449	3.0%	0.0%	30.0%
	\$ 159,027,047			

- 3.10 The Municipality's Investment Policy indicates the target range for less than 90 days is 20% to 100%, and less than one year is 30% to 100%. The amount shown above that is 90 days to 1 year should be added to the amount held less than 90 days to determine compliance with the requirement. Total amounts maturing less than one year is \$75,667,951, which is 47.6% of the investment portfolio.
- 3.11 The Municipality's HISA and TD Reserve Fund bank accounts are considered to have a maturity of less than 90 days, as they are available to the Municipality within 24 hours.
- 3.12 The Municipality is allowed in certain circumstances to invest in terms greater than ten years, at December 31, 2021, there was \$4.8 million (2020 - \$4.8 million) invested with a maturity greater than ten years. These investments are bonds held in the three reserve fund investment portfolios and are traded on an active market.

Concentration Risk

- 3.13 The Municipality attempts to diversify its investment portfolio by restricting the percentage of investments any single institution may have. Diversification mitigates the risk to the Municipality if an investment becomes insolvent. Note that the Canadian Deposit Insurance Corporation (CDIC) only guarantees investments up to \$100,000 per institution, therefore, most of the Municipality's investments are not insured through CDIC.

3.14 At December 31, 2021 the Municipality's investments by institution were as follows:

Institution	Book Value at December 31, 2021	Percentage of Portfolio	Maximum Allowed
TD Bank - Savings	\$ 27,438,107	17.3%	100.0%
ONE – HISA	5,081,669	3.2%	100.0%
ONE – Equity	2,835,624	1.8%	15.0%
ONE – Bond	4,389,086	2.8%	15.0%
Scotiabank HISA	30,011,060	18.9%	100.0%
Royal Bank of Canada	8,191,674	5.2%	25.0%
RBC – HISA	75,278	0.0%	100.0%
National Bank	8,805,845	5.5%	25.0%
Bank of Nova Scotia	13,256,329	8.3%	25.0%
Bank of Montreal	25,865,779	16.3%	25.0%
HSBC	3,358,884	2.1%	25.0%
TD Bank	9,549,817	6.0%	25.0%
Province of British Columbia	3,773,141	2.4%	20.0%

Institution	Book Value at December 31, 2021	Percentage of Portfolio	Maximum Allowed
City of Toronto	4,778,046	3.0%	10.0%
Province of Alberta	6,118,857	3.8%	20.0%
Province of Quebec	2,499,732	1.6%	20.0%
Ontario Hydro	2,499,594	1.6%	5.0%
Regional Municipality of York	498,525	0.3%	10.0%
	\$159,027,047		

4. Concurrence

Not Applicable.

5. Conclusion

- 5.1 In my opinion, all investments were made in accordance with the investment policies and goals adopted by the Municipality of Clarington and are in compliance with the regulations adopted under the Municipal Act, 2001.
- 5.2 In my opinion, the Municipality was compliant with its investment policy at December 31, 2021.
- 5.3 It is respectfully recommended that this report be received.

Staff Contact: Trevor Pinn, CPA, CA, Director of Financial Services/Treasurer, 905-623-3379 ext.2602 or tpinn@clarington.net.

Attachments:

Not Applicable

Interested Parties:

There are no interested parties to be notified of Council's decision.