



Town of Newmarket
395 Mulock Drive P.O. Box 328,
Newmarket, Ontario, L3Y 4X7

Email: info@newmarket.ca | Website: newmarket.ca | Phone: 905-895-5193

Preliminary 2023 Fourth Quarter Investment Summary Information Report

Report Number: INFO-2024-05

Department(s): Financial Services

Author(s): Mike Mayes, Director, Financial Services / Treasurer

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In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Executive Summary

The Town has developed practical targets for its investments. The post-pandemic era (high interest rates) presented a challenge which has been met through diversification.

Some re-balancing is required, but overall goals were achieved.

Purpose

To provide a preliminary report on 2023 investments and to inform the preliminary financial results of the need, if any, to rebalance investment returns in compliance with current practices and policies.

Background

Financial Services reports on the Town's financial results on a quarterly basis. As recommended by the Fiscal Strategy, investment results are shown separately from the general quarterly financial update.

On October 2, 2023, the Reserves and Reserve Funds Review proposed solutions to address five funding challenges for Asset Management. One of them was to use the Non-Residential Construction Price Index as the target (benchmark) for reserve fund investments. Doing this would protect the balances against inflation.

This rationale was used in 2022 to transfer \$1.4 million from surplus operating bank account interest to reserve funds (see Reports 2023-10 Preliminary 2022 Q4 Investment Summary and 2023-14 Preliminary 2022 Fourth Quarter Financial Summary).

Discussion

Investments have been split between short-term and long-term.

With this report, investments will start to be segregated by term. This is not based on the maturity date but on the underlying purposes for the funds.

Short-term investments support the operating budgets. Currently this consists of only interest earned on the operating bank account. In the future, it can be expanded to include money market instruments, such as short-term deposits at credit unions, to take advantage of regular seasonal cashflow fluctuations.

Long-term investments support the capital budgets and other future requirements (development, long term disability, etc.). These are the reserve funds. Investments include guaranteed investment certificates (GIC), bonds, principal-protected notes (PPN), and Canadian equities through ONE Investment (authorized vehicle for municipalities to expand their investment options).

Middle-term investments have not been defined and segregated yet. A need for their inclusion may arise as the Town further develops its investment strategy.

New benchmarks have been set.

Previously, the benchmark used to measure the performance of our investment returns was the basic bank rate – prime less 1.5%. It is the interest rate that could have been earned if the Town had left its cash in its bank account – passive investments. However, this standard does not reflect actual needs, and has been updated.

For short-term investments, the expectation is that the budget will be met. Anything less puts pressure on other areas of the budget. Anything more is a surplus. The 2023 budget for operating fund investments was \$785,000.

For long-term investments, the expectation is that the reserve fund balances will maintain their purchasing power despite inflation, and that investment maturities will be timed to match future cash requirements. The Reserves and Reserve Funds Review suggested use of the Non-Residential Construction Price Index as a target. This index, which is also used for annual increases in Development Charges, increased by 5.47% in 2023. – higher than its pre-pandemic increases in the 3.5 to 4.0% range.

Consolidated returns are good but not equal.

The Investment Summary for the 12 Months Ended December 31, 2023 (attachment 1) shows a \$918,000 investment surplus. Attachment 2 provides details on each investment.

Short-term investments had a \$2.0 million surplus. Interest earned on bank balances averaged 5.43% during 2023. Because high interest rates are anticipated to start dropping, the budget kept to a pre-pandemic level will remain achievable in the future.

Long-term investments were \$1.1 million under the benchmark (5.47%).

- On average, Guaranteed Investment Certificates are doing well, with the exception of those bought on the secondary market. The Town has started divesting of these - \$13 million was shifted to other options in 2023.
- Investments in Canadian Equities and Principal-Protected Notes fell short but have significant unrealized gains (see below) which indicate future potential.
- Non-traditional investments (internal loans) earned 2.81% on average but have non-financial benefits – they were used to fund retrofits.

The Preliminary Fourth Quarter Financial Summary report will be recommending a transfer of \$1.1 million from the operating budget to the reserve funds.

With a \$2 million surplus in short-term investments, due to high interest rates, it is reasonable to use some of this to offset the \$1.1 million shortfall in long-term investments, which is also due to high interest rates.

\$1.4 million was transferred in 2022 on the same basis.

Interest rates have a major impact on investments.

With interest rates starting to decrease, \$37 million of cash in bank accounts has been used to purchase bonds and principal-protected notes to lock in higher long-term rates.

The portfolio shows reasonable diversification.

Investments	2023		2022	
	\$ millions	% of portfolio	\$ millions	% of portfolio
Guaranteed Investment Certificates	\$ 31.2	29.7%	\$ 34.3	50.6%
Canadian equities	\$ 23.9	22.8%	\$ 21.6	31.9%
Principal-Protected Notes	\$ 22.0	21.0%	\$ 7.9	11.6%
Bonds	\$ 20.0	19.0%	-	-
Non-traditional investments	\$ 7.9	7.5%	\$ 4.0	5.9%

Total	\$ 105.0	100%	\$ 67.8	100%
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To further diversify, the Town is developing a ladder strategy of variable maturity dates.

Unrealized gains have not been realized.

Unrealized gains occurs when the value of an asset has increased (e.g. per a stock market listing), but it has not yet been sold. It indicates potential but only exists on paper until sold.

At the end of 2023, the fair market value (FMV) of our investments exceeded their principal value.

Investments	Principal	Fair Market Value	Unrealized gain	Unrealized gain as a % of principal
	\$ millions			
Guaranteed Investment Certificates	\$ 31.2	\$ 31.9	\$ 0.7	2.2%
Canadian equities	\$ 23.9	\$ 25.3	\$ 1.4	5.8%
Principal-Protected Notes	\$ 22.0	\$ 23.3	\$ 1.3	5.9%
Bonds	\$ 20.0	\$ 20.0	-	-
Non-traditional investments	\$ 7.9	\$ 7.9	-	-
Total	\$ 105.0	\$ 108.4	\$ 3.4	3.2%

Guaranteed Investment Certificates (GIC) include \$15.2 million purchased on the secondary market which had a FMV of \$15.9 million. These gains may be realized in 2023 as the Town continues to divest.

Canadian Equities are a basket of shares that are actively bought and sold by ONE Investment. The unrealized gains should be realized in future years but are not guaranteed.

Principal-Protected Notes (PPN) have a guaranteed rate, which is realized, and a potential capital gain based on its underlying products – usually a stock market index. The unrealized gain is not realized until maturity and can fluctuate over the years.

Bonds are similar to Canadian equities with an active market, but only the principal is guaranteed at maturity. They are also similar to PPNs with underlying products whose gains may fluctuate and may not be realized at maturity.

Non-traditional investments, being internal loans, do not have a market to trade them on, and therefore no FMV. If there was one, their low return would result in their value being discounted.

Unrealized gains have not been factored into the reported returns:

1. Potential volatility – the unrealized gains may be reversed and not realized at maturity.
2. The Town does not do active trading: the basic strategy is buy and hold to maturity.
3. Public Sector Accounting Standards (PSAS) generally do not require the reporting of unrealized gains. The exception is for derivatives, which includes our bond portfolio.

This methodology may be reviewed in the future as more experience is gained.

If there were unrealized losses, they would be reported.

Future Considerations

The current Investment Policy, Strategy, and Procedures should be updated to reflect and support the concepts in this report. Some specifics include:

- Determining if middle-term investments are required.
- Expanding short-term investments
- Setting diversification targets and limits for investments by type, maturity, and vendor.
- Further strengthen alignment with cashflow needs – long-term and short-term.

Conclusion

In the opinion of the Treasurer, all investments made were in line with the investment policies, strategies and goals adopted by the Town. As per the goals approved in staff report 2022-09, the Town's investment in the equity market does not exceed 40% of the total investment portfolio.

After the audit of the 2023 Financial Statements is completed, staff will report on any adjustments, if any, to this report.

Business Plan and Strategic Plan Linkages

All investment returns on reserves have been allocated to the corresponding reserves. It also supports the Council priority under the strategic pillar of Long-Term Financial Sustainability.

Consultation

Not applicable.

Human Resource Considerations

Not applicable.

Budget Impact

All investment returns on reserves have been allocated to the corresponding reserves.

Attachments

Attachment 1: Investment Summary for the 12 Months Ended December 31, 2023

Attachment 2: Investment Details for the 12 Months Ended December 31, 2023

Approval

Mike Mayes, CPA, CGA, DPA

Director, Financial Services / Treasurer.

Esther Armchuk, LL. B

Commissioner, Corporate Services

Contact

Mike Mayes, CPA, CGA, DPA, Director, Financial Services / Treasurer,
mmayes@newmarket.ca (ext. 2102)

Attachment 1: Investment Summary for the 12 Months Ended December 31, 2023

	Short-term investments				Long-term Investments				Consolidated			
	Principle December 31, 2024	Return on Investment	Benchmark	Surplus / shortfall (-)	Principle December 31, 2024	Return on Investment	Benchmark	Surplus / shortfall (-)	Principle December 31, 2024	Return on Investment	Benchmark	Surplus / shortfall (-)
Active investments												
Guaranteed Investment Certificates (GIC)				\$ -	\$ 31,205,029	\$ 1,207,753	\$ 1,847,518	-\$ 639,765	\$ 31,205,029	\$ 1,207,753	\$ 1,847,518	-\$ 639,765
Canadian equities				-	23,910,220	1,086,010	1,278,187	- 192,177	23,910,220	1,086,010	1,278,187	- 192,177
Principal-Protected notes (PPN)				-	22,000,000	245,578	302,287	- 56,709	22,000,000	245,578	302,287	- 56,709
Bonds				-	20,000,000	24,658	26,975	- 2,317	20,000,000	24,658	26,975	- 2,317
Non-traditional investments (internal loans)				-	7,399,494	207,924	404,752	- 196,828	7,399,494	207,924	404,752	- 196,828
	\$ -	\$ -	\$ -	\$ -	\$ 104,514,743	\$ 2,771,923	\$ 3,859,719	-\$ 1,087,796	\$ 104,514,743	\$ 2,771,923	\$ 3,859,719	-\$ 1,087,796
Passive Investments												
Bank account interest		\$ 2,832,288	\$ 785,000	\$ 2,047,288		\$ 5,519,707	\$ 5,560,987	-\$ 41,280		\$ 8,351,995	\$ 6,345,987	\$ 2,006,008
Total		\$ 2,832,288	\$ 785,000	\$ 2,047,288		\$ 8,291,630	\$ 9,420,706	-\$ 1,129,076		\$ 11,123,918	\$ 10,205,706	\$ 918,212

Attachment 2: Investment Details for the 12 Months Ended Dec 31, 2023

GUARANTEED INVESTMENT CERTIFICATES (GIC)										
Description	Principal Amount		FMV	Starting Date	Maturity Date	Term	January 1 to Dec 31, 2023			
	2023-01-01	2023-12-31					Interest Rate	Return on Investment	Benchmark Return*	Incremental Income
Royal Bank	\$28,383,448	\$15,205,029	\$15,877,689	2017-09-21	Various	Various	Various	\$961,857	\$1,506,130	-\$544,273
CIBC (Matured)	\$6,000,000			2018-12-10	2023-12-12	5 years	3.55%	\$213,000	\$309,317	-\$96,317
CIBC - Callable		\$6,000,000	\$6,000,000	2023-12-22	2028-12-22	5 years	5.05%	\$7,471	\$8,093	-\$621
CANACORD GENUITY CORP - DUCA FINANCIAL - GIC		\$2,000,000	\$2,000,000	2023-12-15	2028-12-15	5 years	5.50%	\$4,822	\$4,796	\$26
CANACORD GENUITY CORP - DUCA FINANCIAL - GIC		\$2,000,000	\$2,000,000	2023-12-15	2027-12-15	4 years	5.60%	\$4,910	\$4,796	\$114
CANACORD GENUITY CORP - DUCA FINANCIAL - GIC		\$2,000,000	\$2,000,000	2023-12-15	2026-12-15	3 years	5.80%	\$5,085	\$4,796	\$289
CANACORD GENUITY CORP - DUCA FINANCIAL - GIC		\$2,000,000	\$2,000,000	2023-12-15	2025-12-15	2 years	6.00%	\$5,260	\$4,796	\$465
CANACORD GENUITY CORP - DUCA FINANCIAL - GIC		\$2,000,000	\$2,000,000	2023-12-15	2024-12-16	1 years	6.10%	\$5,348	\$4,796	\$552
Sub-Total	\$34,383,448	\$31,205,029	\$31,877,689					\$1,207,753	\$1,847,518	-\$639,765

CANADIAN EQUITIES										
Description	Principal Amount		FMV	Starting Date		Term	January 1 to Dec 31, 2023			
	2023-01-01	2023-12-31					Interest Rate	Return on Investment	Benchmark Return	Incremental Income
ONE INVESTMENT	\$22,824,210	\$23,910,220	\$25,298,727					\$1,086,010	\$1,278,187	-\$192,177
Sub-Total	\$22,824,210	\$23,910,220	\$25,298,727					\$1,086,010	\$1,278,187	-\$192,177

PRINCIPAL PROTECTED NOTES										
Description	Principal Amount		FMV	Starting Date	Maturity Date	Term	January 1 to Dec 31, 2023			
	2023-01-01	2023-12-31					Interest Rate	Return on Investment	Benchmark Return	Incremental Income
CIBC (Matured)	\$2,000,000			2019-09-30	2023-10-02	4 years		\$130,400	\$78,991	\$51,409
CIBC	\$2,000,000	\$2,000,000	\$2,285,500	2019-09-30	2024-09-30	5 years			\$109,400	-\$109,400
CIBC		\$10,000,000	\$10,460,000	2023-11-09	2030-11-12	7 Years	5.80%	\$82,630	\$77,929	\$4,701
National Bank (Royal Bank)		\$10,000,000	\$10,542,000	2023-12-07	2033-12-07	10 Years	4.95%	\$32,548	\$35,967	-\$3,419
Sub-Total	\$4,000,000	\$22,000,000	\$23,287,500					\$245,578	\$302,287	-\$56,709

BONDS										
Description	Principal Amount		FMV	Starting Date	Maturity Date	Term	January 1 to Dec 31, 2023			
	2023-01-01	2023-12-31					Interest Rate	Return on Investment	Benchmark Return*	Incremental Income
ROYAL BANK - Bonds Callable 5Y+1Y		\$10,000,000	\$9,978,793	2023-12-22	2031-12-22	8 years	4.95%	\$12,205	\$13,488	-\$1,282
ROYAL BANK - Bonds Callable 5Y+1Y		\$10,000,000	\$10,009,685	2023-12-22	2032-12-22	9 years	5.05%	\$12,452	\$13,488	-\$1,036
Sub-Total	\$0	\$20,000,000	\$19,988,478					\$24,658	\$26,975	-\$2,318

NON-TRADITIONAL INVESTMENTS (Internal loans)										
Description	Principal Amount		FMV	Starting Date	Maturity Date	Term	January 1 to Dec 31, 2023			
	2023-01-01	2023-12-31					Interest Rate	Return on Investment	Benchmark Return*	Incremental Income
Internal Loan -Solar Panels (2013, Various Facilities)	\$163,303	\$163,303		2013-12-01	2033-12-01	20 years	3.00%	\$4,335	\$8,933	-\$4,598
Internal Loan - RJT Solar Panels (2014)	\$428,732	\$428,732		2015-01-01	2035-01-01	20 years	3.00%	\$12,451	\$23,452	-\$11,001
Internal Loan - Magna Solar Panels (2015)	\$1,055,380	\$1,055,380		2016-01-01	2036-01-01	20 years	2.70%	\$27,652	\$57,729	-\$30,077
Internal Loan - Honeywell Streetlights Retrofit Project	\$6,233,559	\$6,233,559		2013-12-10	2033-12-10	20 years	2.70%	\$163,486	\$340,976	-\$177,490
Sub-Total	\$7,880,974	\$7,880,974						\$207,924	\$431,089	-\$223,165

Grand Total	\$69,088,632	\$104,996,223						\$2,771,923	\$3,886,056	-\$1,114,133
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