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# The Regional Municipality of Durham Information Report

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From: Commissioner of Finance  
Report: #2023-INFO-67  
Date: August 4, 2023

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**Subject:**

2022 Annual Investment Report

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**Recommendation:**

Receive for information.

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**Report:**

1. Purpose

- 1.1 In accordance with the *Municipal Act, 2001*, *Ontario Regulation 438/97*, and the Region's "Statement of Investment Policy and Goals" (Policy), the Treasurer is required to report annually on the Region's investment portfolio following the end of each fiscal year, generally to report on performance of the portfolio and its compliance with investment policies and goals.
- 1.2 This report summarizes the performance of the investment portfolio for 2022 and provides the required statement of the Treasurer, based on the updated Investment Policy approved by Regional Council in January 2022.

**2. Background**

- 2.1 The Statement of Investment Policy and Goals establishes and prioritizes the Region's investment objectives and provides strategic direction for the management of the Region's operating, capital, and reserve funds by establishing guidelines for investing within the parameters of the prevailing legislation. The Policy also formalizes the expected standard of care required for investment staff and others as custodians of public funds in the execution of the Regional investment strategy.

- 2.2 The Policy and the overall investing approach emphasizes capital preservation and liquidity when considering investment opportunities to maximize returns within risk tolerance guidelines. For funds invested over the short-term, a low risk tolerance is adopted, whereas investments made with longer-term funds will demonstrate a low to moderate risk tolerance.
- 2.3 In 2022, capital markets were extremely volatile but fixed income yields were boosted by a 4.0% increase in the Bank of Canada overnight rate. Combined with a more active investment approach, the performance of the Region's investment portfolio benefitted from higher returns on new investments. However, portfolio returns were negatively affected by lower yields on older investments purchased in a low interest rate environment. Starting in July 2022 and continuing into 2023, returns were also affected by an inverted yield curve, a phenomenon where longer term yields fall below short-term yields due to perceived economic weakness and recession fears.
- 2.4 The Region prioritizes liquidity by investing available funds not required for immediate use in its operations, reserve funds, and capital programs. Earnings from the investment portfolio are allocated to each of these areas in proportion to the cash balances invested.

### **3. Previous Reports and Decisions**

- 3.1 An investment report is prepared annually by the Treasurer to report on the performance of the investment portfolio for the prior fiscal year and compliance with the Region's investment policies and goals. The 2021 Annual Investment Report (#2022-INFO-68) was provided to Council in August 2022.
- 3.2 Under Report #2022-F-1, an updated Statement of Investment Policy and Goals was approved.
- 3.3 Report #2023-F-4 provided an Investment Portfolio Update.

### **4. Performance of the Investment Portfolio**

#### Investment Returns

- 4.1 First and foremost, the newly approved Statement of Investment Policy and Goals recognizes compliance with the legality of investments as permitted by the Municipal Act, 2001, as amended. The Policy specifically recognizes the Region's role as custodian of public funds, with safeguarding of funds being paramount. The investment strategy emphasizes the security of principal and the maintenance of adequate liquidity to ensure the daily operating cash flow requirements can be met. Competitive rates of return, on higher yielding, marginally riskier securities is sought for longer-term investments.

- 4.2 While investment returns are an important measure of the performance of the portfolio, they are a function of the investment objectives adopted by the Region, as well as market conditions.
- 4.3 The Region's overall investment returns were higher than those obtained in the prior year, reflecting the more active investing approach and the higher interest rates available in the marketplace for interest-bearing accounts and securities. For 2022, the return on the portfolio averaged 2.943% (2021 – 1.512%).
- 4.4 The average rate of return for investments stratified by the remaining term is shown in the following table. Note that under the new Policy, new term periods were adopted, so prior year comparatives are not applicable for all terms.

#### Investment Returns by Remaining Term

Remaining Term of Investment	2022	2021
Less than 6 months	3.60%	1.34%
6 months to 18 months	3.43%	n/a
6 months to 1 year	n/a	2.14%
18 months up to 5 years	3.35%	n/a
1 year up to 5 years	n/a	1.34%
5 years up to 10 years	1.87%	2.49%
10 years up to 30 years	4.59%	4.31%

#### Investment Terms

- 4.5 The Statement of Investment Policy and Goals provides guidelines for the stratification of the Region's portfolio over investment terms ranging from less than six months up to thirty years.
- 4.6 At December 31, 2022, the Region's portfolio was invested in securities with the below remaining terms to maturity.

#### Investment Terms by Remaining Term

Remaining Term of Investment	2022	2021
Less than 18 months	51.1%	53.1%
18 months to 5 years	43.2%	45.0%
Maturities beyond 5 years	5.6%	2.0%

- 4.7 The liquidity guideline ensures ready access to funds in order to meet the financial obligations of the Region as they come due and recommends that a minimum of 25% of the Region's investments should have a term of 18 months or less. Short-term investment holdings were above this target at the end of 2022. The allocation to maturities over 5 years also increased with efforts to lock in higher returns over longer term investment horizons.

### Investment Portfolio Composition

- 4.8 The Investment Policy establishes general guidelines for minimum and maximum investment targets by type of financial instrument and by issuers, as well as minimum credit ratings for issuers. The portfolio composition at any one point in time should reflect the availability of high credit quality investments at rates of return that exceed those being received on surplus operating cash balances. During the year, none of the investments fell below the minimum credit ratings standards and virtually all investments were held to maturity.
- 4.9 As at December 31, 2022, 92.7% of the portfolio was invested with Schedule I Banks, including investments in GICs and High Interest Savings Accounts. This is above the policy target of 50%, with the deviation from the target approved at the discretion of the Commissioner of Finance in accordance with the Policy. To improve diversification under the new Policy, a strategy was undertaken in 2022 to increase the portfolio's exposure to longer term bonds and equity securities.
- 4.10 The composition of the Region's investment portfolio at year end by type of financial institution is shown in the following table:

#### **Investment Portfolio Composition**

<b>Financial Institution / Instrument</b>	<b>Target Maximum</b>	<b>Actual at Dec 31/22</b>
Government of Canada	100%	0.6%
Provincial Governments	75%	0.6%
Large Urban Municipal Debentures		
Region of Durham	25%	0.6%
Other	30%	0.6%
Schedule 1 Banks	50%	92.7%
ONE Investment High Interest Savings Account	10%	1.4%
ONE Investment Canadian Equity Portfolio	10%	3.5%

- 4.11 Canadian interest rates increased rapidly over 2022. GICs, both short-term and long-term, were the primary investment vehicles for the Region but diversification into other asset classes and instruments approved under the Policy remains a priority. This approach allows the Region to continue to benefit from the high interest rates in future years while mitigating interest rate and reinvestment risk.
- 4.12 The Investment Policy also permits the Region to invest in its own debt issuances, with the requirement to report such investments in each annual investment report. The following table lists the Region of Durham debentures, totalling \$22,857,467, held in the investment portfolio as at December 31, 2022. A total of \$9.7 million of Region of Durham debentures were acquired on issuance in 2022.

### Investment in Own Debt

Broker	Coupon Rate	Maturity Amount	Issue Date	Purchase Date	Maturity Date
RBC	4.588%	\$4,794,467*	Oct. 6/05	Feb. 14/11	Oct. 6/28
RBC	4.15%	\$1,538,000	Oct. 16/13	Oct. 16/13	Oct. 16/29
RBC	4.20%	\$1,602,000	Oct. 16/13	Oct. 16/13	Oct. 16/30
RBC	4.25%	\$1,669,000	Oct. 16/13	Oct. 16/13	Oct. 16/31
RBC	4.30%	\$1,740,000	Oct. 16/13	Oct. 16/13	Oct. 16/32
RBC	4.30%	\$1,814,000	Oct. 16/13	Oct. 16/13	Oct. 16/33
RBC	4.50%	\$3,256,000	July 5/22	July 5/22	July 5/34
RBC	4.70%	\$1,500,000	July 5/22	July 5/22	July 5/38
RBC	4.70%	\$1,571,000	July 5/22	July 5/22	July 5/39
RBC	4.75%	\$1,647,000	July 5/22	July 5/22	July 5/40
RBC	4.75%	\$1,726,000	July 5/22	Jul. 5/22	July 5/41

\*Amortizing bond – amount will reduce over the term

4.13 The total value of the Region's investment portfolio was \$3,975,030,424 as at December 31, 2022. Below is a summary of the portfolio composition by type of security at year end:

### Portfolio Composition by Type of Security

Type of Investment	\$( '000's)	Yield % Range	Maturity Range
<b>Bonds / GICs</b>			
Government of Canada	22,500	3.25 – 3.70	2027 – 2028
Provinces	22,500	4.49	2032
Municipalities	47,857	4.18 – 4.77	2028 – 2042
Schedule 1 Banks	3,681,364	0.96 – 6.75	2023 – 2027
<b>High Interest Accounts</b>	59,852	4.72 – 4.83	On demand
<b>ONE Canadian Equity Portfolio</b>	140,957	Not applicable	Not applicable

## 5. Compliance with Investment Policies and Goals

- 5.1 Internal controls established by Finance Department staff are an integral component in ensuring that all investment transactions are made in accordance with the Region's Statement of Investment Policies and Goals. They include those outlined in the Policy as well as professional ethics and conflict of interest guidelines.
- 5.2 The Region's investments are also audited annually by Deloitte LLP, the independent external auditor, as part of the audit of the Region's Consolidated Financial Statements.

## **6. Forecast**

- 6.1 In 2022, there was a rapid increase to interest rates. The objective of the higher interest rates is to moderate the economy and reduce inflation. The Bank of Canada expects inflation will hover around 3% for the next year until gradually declining to the 2% target by the middle of 2025. Given that, we should expect to see higher rates and prolonged inversion in the yield curve until inflation consistently returns to within the Bank of Canada's target range.
- 6.2 As investments continue to mature in 2023, proceeds should be invested in diversified, higher yielding investments which will significantly impact the portfolio's Net Rate of Return, as seen in 2022. Higher returns will positively impact investment earnings on the Region's available cash balances and investments, as well as benefit reserve funds and capital programs that rely on investment earnings to supplement funding for tangible capital asset investments.

## **7. Relationship to Strategic Plan**

- 7.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:
- a) Goal 5.4 Service Excellence – This investment report demonstrates the commitment to financial stability and transparency by communicating the annual performance of the portfolio along with compliance results.

## **8. Conclusion**

- 8.1 The Region continues to invest in a diverse portfolio of high credit quality securities delivering a suitable rate of return considering the market conditions.
- 8.2 In my opinion, all investment transactions for 2022 continue to conform to the Region's investment policies and goals as adopted by Regional Council, reflecting the objectives for optimizing returns on investments and funds not immediately required.

Respectfully submitted,

Original Signed By

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Nancy Taylor, BBA, CPA, CA  
Commissioner of Finance