



Investment Annual Report

For the year ended December 31, 2023

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Background

The Municipal Act is the governing legislation for the investment of municipal funds. Ontario Regulation 438/97, as amended, outlines the criteria for eligible investments. The Township's Investment Policy, approved by Council, conforms to this legislation and provides the governing parameters for managing the Township's investment portfolio. This report has been prepared in compliance with this regulation.

The primary objectives of the Investment Policy are as follows:

- adherence to statutory requirements
- preservation of capital
- maintaining liquidity
- earning a competitive rate of return

The reporting requirements in the Municipal Act and the Township's Investment Policy require that the Treasurer, or designate, submit an investment report to Council annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions completed over the last year.

General Information

The investment program plays an essential role in ensuring the Townships' financial sustainability and is instrumental in the development of a future long range financial plan. Strong accountability and oversight matched with diversified expertise have allowed the program to provide considerable added value to the Township of The Archipelago.

Best practices suggest the most important determinant of investment returns and risks is asset mix. As a result, the Township establishes asset diversification within various asset classes and investment time horizons.

The Township invests in both short and long-term products to ensure adequate cash flow liquidity and as much as possible, long-term sustainable growth. The Township Investment Portfolio is therefore directly impacted by changes in both short and long-term interest rates. To counteract these yield and diversification limitations, the Township has continued to invest in pooled funds.

The Bank of Canada implements monetary policy through adjustments to the Target for the Overnight Rate, which affects deposit, loan, and other interest rates. The current Bank Prime Rate is 7.20% which is a drastic and aggressive increase from the January 2022 rate of 2.45% as the Bank of Canada has maintained a targeted inflation control policy. Longer term investments have continued to provide income and yield stabilization for the portfolio year-over-year, and we have been able to position ourselves more favourably for today and future years by taking advantage of the inflationary rate environment.

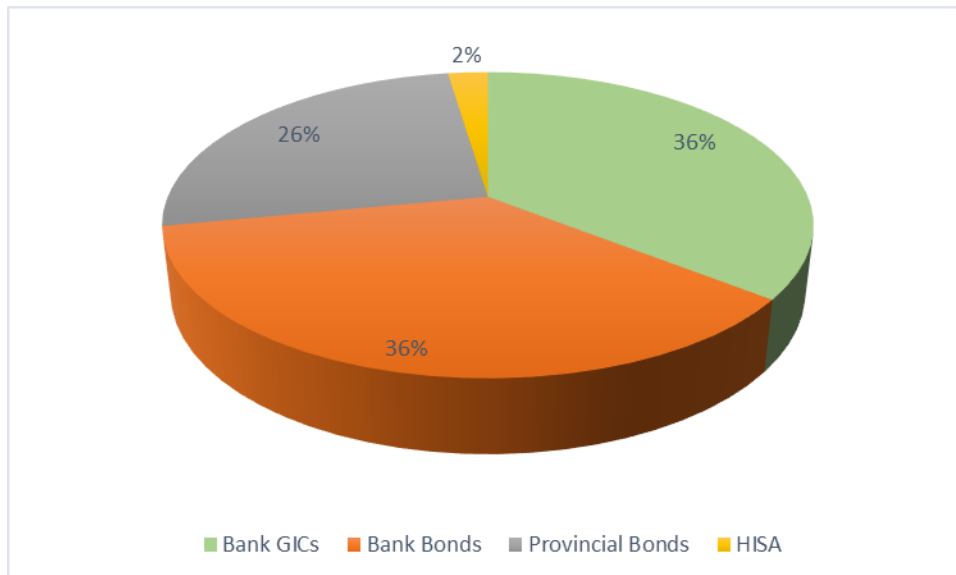
2023 Investment Performance

The Township's overall weighted average investment yields for 2023 was 6.4%, which is largely driven by the market interest rate conditions, as well as changes in bond prices. Much of this return occurred in the back half of the year as lower interest rates pushed our bond values higher.

Due to the favourable market interest rate conditions in 2023, the Township has actively repositioned its investment portfolio by placing available funds in securities with longer terms in order to lock in at the higher interest rates before the interest rates start to decline. The portfolio has locked in long-term yields of 5%+ over an average term of almost 3 years, which ensures the investments will continue to grow, even if forecasted interest rate cuts occur.

The Township's portfolio balances have been steadily increasing over the past few years. This is partially due to a deliberate effort to strengthen reserve balances for long-term sustainability as well as asset management planning.

The chart below outlines the investment holdings as of December 31, 2023:



The largest holdings are invested with Schedule 1 banks mostly in the form of GICs and bonds. This represents 72% of the total portfolio and is aligned with Township policy to minimize risk while generating a reasonable return. The second largest holding is in provincial bonds, to ensure the stability and diversification of risk within the portfolio. The HISA (high interest savings account) total 2% of funds invested at year end. The HISA offer slightly higher returns than the general bank account with similar liquidity, thus it is used on a shorter-term basis and prior to purchasing larger investment products.

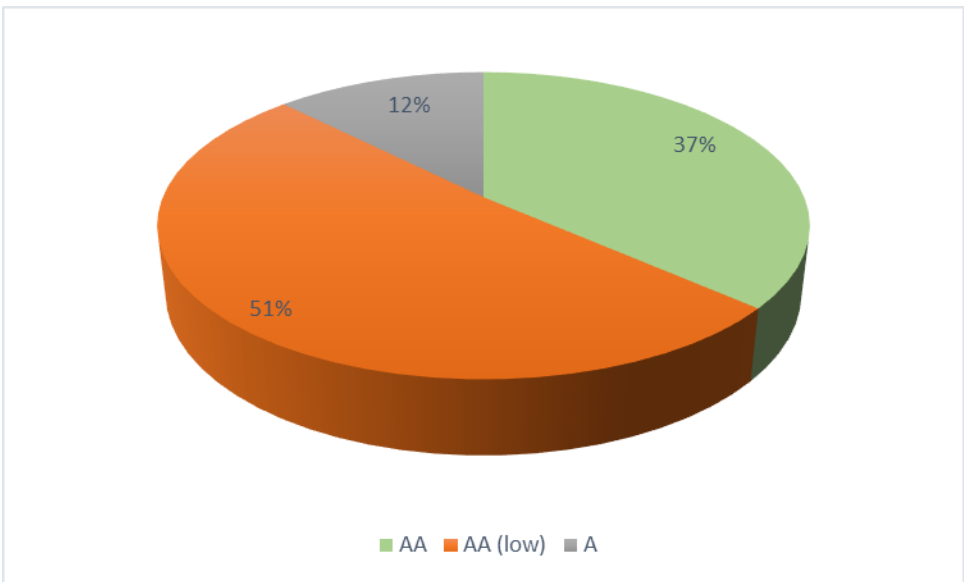
DBRS Rating Scale

DBRS (Dominion Bond Rating Service) Morningstar is a globally recognized credit quality rating agency. The database provides independent, third-party evaluations of corporate and government issues, worldwide and in a variety of market sectors.

The chart below explains the DBRS Rating System:



The chart below outlines the portfolio risk ratings as of December 31, 2023:



The portfolio is well diversified by issuer and has an excellent average credit rating of its holdings of AA (low) by Dominion Bond Rating Service.

Financial Implications & Outlook for 2024

Investment income reduces the amount otherwise required from property taxation and user fees to finance Township services, as well as increasing the value of reserve funds used to finance future expenditures.

Investment market conditions were strong in 2023 in comparison to the historically low rates of the previous years due to multiple Bank of Canada rate increases. The Township’s proactive investment strategy and robust portfolio position put the Township in a good position to take advantage of the rising rates.

Market expectations are for interest rates to decline in 2024 with the hopes of preventing a protracted recession. However, it is not expected that interest rates will be cut aggressively through monetary policy nor will rates reach the historical lows seen in recent years. The pace of rate reductions is currently projected to be in small increments through 2024, 2025 and into 2026. Economic conditions can deteriorate quickly and many Canadians are feeling cash flow pressures as food and housing costs have become an extremely high percentage of their incomes.

As maturities occur within the portfolio and are reinvested, the Township will be shortening our investment term duration. Our investments will be subject to lower rates as the Bank of Canada and other global central banks pivot their strategies to economic stimulus. Thus, resulting in lower rates of return on our investments.

Conclusion

This report highlights events that have occurred in our investment program during 2023 and considerations for 2024. The Township of The Archipelago's Investment Portfolio on December 31, 2023 totaled \$16.5 million (not including general account funds).

Diversification and a prescribed investment strategy have provided the Township with a 2023 return of \$401,000 an annual yield of 6.36%. Keep in mind that certain investments pay their yield only at maturity, thus not realized in the current year. For 2024, the Treasury Department in partnership with investment advisors will continue to monitor markets for investment opportunities in the money market, and fixed income securities to provide liquidity, capital preservation, yield management and long-term growth for the Township.