



# Investment Annual Report

For the year ended December 31, 2024

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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. In response to high inflation, the Bank of Canada increased its Policy Interest Rate three times in 2023 taking the target overnight rate from 4.25 per cent to 5.00 per cent by the end of 2023. The 5.00 per cent target overnight rate was maintained until June 2024, when it decreased to 4.75 per cent; the rate was reduced four more times taking the rate from 4.75 per cent to 3.25 per cent by the end of 2024. 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.

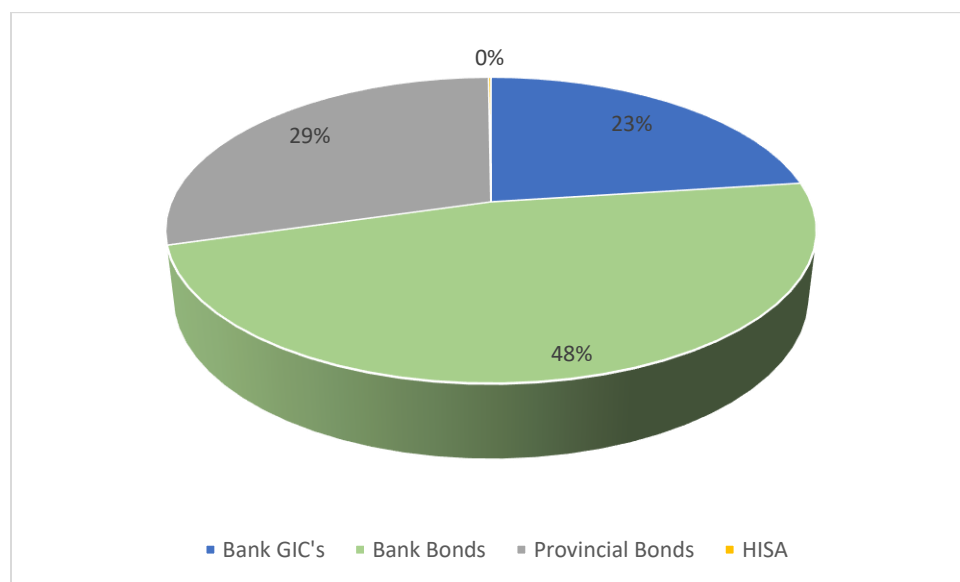
## 2024 Investment Performance

The Township's overall weighted average investment yields for 2024 was 5.7%, 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 the first half of 2024, the Township continued to actively reposition 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 started to decline. An additional \$3.2 million was added to the investment portfolio during 2024, excluding any reinvested interest. There were no cash withdrawals from the portfolio during the year. All matured investments, along with earned interest, were fully reinvested. 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, 2024:



The largest holdings are invested with Schedule 1 banks mostly in the form of GICs and bonds. This represents 71% 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 0% 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.

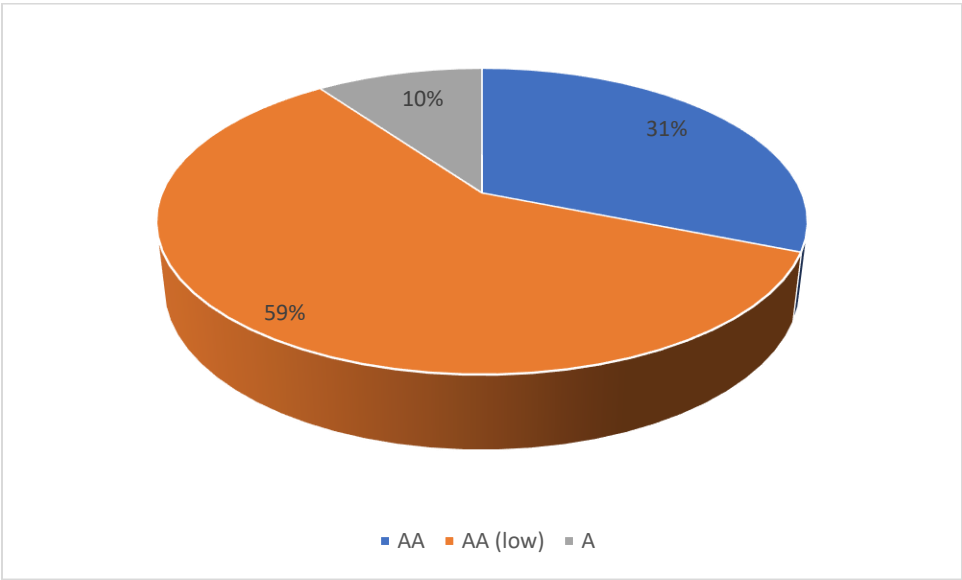
**DBRS Rating Scale**

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, 2024:



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 2025**

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 income returns are part of the operating budget surplus and contributed to a positive variance in 2024.

Investment market conditions were strong in the first half of 2024 then began to decline in the latter part of the year. The decreasing rate environment impacts investment decisions in three key ways:

1. Any cash on hand in the Township's bank account and High Interest Savings Account (HISA) accounts immediately receives a lower interest rate as these interest rates are closely tied to the Bank of Canada rate.
2. Re-investment of longer-term bonds that mature will be reinvested at the prevailing rates available which are now lower than earlier in 2024.
3. In the current interest rate environment, longer-term investments have higher yields than shorter-term investments.

Staff continue to closely monitor the investment portfolio, reinvest maturities in alignment with timing of planned expenditures, and diversify holdings where possible.

Higher than historical average interest rates also positively impacted overall investment returns through increased interest on cash and HISA and provided the opportunity to lock in medium and long-term fixed-income investments at higher yields. Near the end of the second quarter, this trend of increasing rates began to reverse, as the Bank of Canada reduced rates 5 times during 2024 in response to stabilizing levels of inflation.

Market expectations are for interest rates to continue to decline in 2025 with the hopes of preventing a recession. However, it is not expected that interest rates will be cut overly 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 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 2024 and considerations for 2025. The Township of The Archipelago's Investment Portfolio on December 31, 2024 totaled \$20.9 million (not including general account funds).

Diversification and a prescribed investment strategy have provided the Township with a 2024 return of \$492,536 an annual yield of 5.7%. Keep in mind that certain investments pay their yield only at maturity, thus not realized in the current year. For 2025, 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.