



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

Q2 2022 Investment Summary Information Report to Council

Report Number: INFO-2022-22

Department(s): Financial Services

Author(s): Andrea Tang, Manager, Finance & Accounting / Deputy Treasurer

Distribution Date: August 19, 2022

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.

Purpose

To inform the 2022 second quarter investment results.

Background

Financial Services reports on the Town's financial results on a quarterly basis. This report provides a summary on the 2022 second quarter investment results.

Discussion

Investment summary for the second quarter ended June 30, 2022 provides details on investments held during this period and the corresponding results.

The average weighted yield on reserve fund investments was 1.81% (2021 – 1.99%) compared to a weighted average benchmark of 1.38% for the six-month period. Investment returns on short and long-term investments resulted in total investment income of \$0.4 million against the benchmark return of \$0.3 million. As recommended in the Fiscal Strategy, all investment income were allocated to reserves and none was allocated to subsidize the operating budget.

At the end of June 2022, the reserve fund investment portfolio included:

- i) \$51.1 million (68.5%) Guaranteed Investment Certificates ("GIC") with major banks of which of which \$11.0 million will be transitioned to Canadian Equity Funds to be invested with ONE investment;

- ii) \$11.0 million (14.7%) in Canadian equities;
- iii) \$8.5 million (11.4%) in non-traditional investments (internal loans); and
- iv) \$4.0 million (5.4%) Principal-Protected Notes (“PPN”).

At the end of the second quarter, investments in Canadian Equities were valued at \$9.9 million against the average cost (book value) of \$11.0 million. Adjustments to reflect the market value of these investments whether they are gains or losses, will be recognized at the end of the fiscal year. Increased interest rates to bring down inflation and the war in Europe lowered the prospect of economic growth which led to market volatility. It is important to note that such periods are normal during times of economic uncertainty. Furthermore, these are long term investments; therefore interim fluctuations in investment values are less relevant than the returns over the long term investment horizon.

The operating fund investment portfolio no longer includes investment in GIC as it was matured in 2021. Future investments may be made pending completion of the Reserve and Reserve Fund review, along with consideration for capital requirements as outlined in the Asset Management Plan, to identify both short-term and long-term cash requirements. Once it's completed, investment strategies will be explored to meet the necessary cash requirements.

Passive investments

Total interest earned in the second quarter from the Town's operating bank accounts was \$0.5 million against year-to-date June budget of \$0.4 million. The promissory note repayment from Newmarket-Tay Power Distribution LTD in the amount of \$22 million was deposited in the bank account for a short period prior to the funds being invested in GICs and with ONE investment. This attributed to the higher year-to-date interest income.

Conclusion

In the opinion of the Treasurer, all investments made were in line with the investment policies, strategies and goals adopted by the Town. Although the equity market is experiencing volatility, it is important to note that these are long term investments; therefore focus should be on the returns over the long term investment horizon.

Business Plan and Strategic Plan Linkages

This report aligns with the Fiscal Strategy to discontinue the practice of allocating investment return above benchmark to subsidize the operating budget. 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. Investments in Canadian equity market represents 14.7% of the total investment portfolio. Adjustments to reflect the market value of these investments whether they are gains or losses, will be recognized at the end of the fiscal year.

Attachments

Attachment 1 - Investment Summary for the Six Months Ended June 30, 2022

Contact

Andrea Tang, CPA, CA
Manager, Finance & Accounting/Deputy Treasurer, atang@newmarket.ca (ext. 2104)

Approval

Mike Mayes, CPA, CGA, DPA
Director of Financial Services

Esther Armchuk, LL.B
Commissioner, Corporate Services

Investment Summary for the 6 Months Ended June 30, 2022
Reserve Fund Investment Summary for the 6 Months Ended June 30, 2022

Attachment 1

Description	Principal Amount		Starting Date	Term	January 1 to June 30,2022			
	2022-01-01	2022-06-30			Interest Rate	Return on Investment	Benchmark Return*	Incremental Income
Royal Bank	\$28,032,635	\$28,135,637	2017-09-21	Various	various	\$103,002	\$192,251	-\$89,249
NB Bank of Nova Scotia	\$6,000,000	\$6,000,000	2018-12-10	4 years	3.43%	\$102,054	\$41,129	\$60,925
CIBC	\$6,000,000	\$6,000,000	2018-12-10	5 years	3.55%	\$105,625	\$41,129	\$64,496
Loan - Newmarket Soccer Club Development Charges and Planning Fees	\$4,489	\$0	2011-09-30	10 years	4.00%	\$52	\$31	\$21
Internal Loan -Solar Panels (2013, Various Facilities)	\$175,733	\$169,879	2013-12-01	20 years	3.00%	\$2,906	\$1,164	\$1,742
Internal Loan - RJT Solar Panels (2014)	\$458,874	\$445,099	2015-01-01	20 years	3.00%	\$7,521	\$3,051	\$4,470
Internal Loan - Magna Solar Panels (2015)	\$1,124,090	\$1,092,405	2016-01-01	20 years	2.70%	\$16,496	\$7,488	\$9,008
Internal Loan - Honeywell Streetlights Retrofit Project	\$6,594,592	\$6,765,630	2013-12-10	20 years	2.70%	\$96,156	\$46,377	\$49,779
Sub-Total	\$48,390,413	\$48,608,650				\$433,812	\$332,620	\$101,192

* Average Benchmark Return = Weighted CIBC Prime Rate - 1.5%

PRINCIPAL PROTECTED NOTE INVESTMENTS

Description	Principal Amount		Starting Date	Term	January 1 to June 30,2022			
	2022-01-01	2022-06-30			Interest Rate	Return on Investment	Benchmark Return	Incremental Income
CIBC (Note 1)	\$2,000,000	\$2,000,000	2019-09-30	4 years				
CIBC (Note 1)	\$2,000,000	\$2,000,000	2019-09-30	5 years				
Sub-Total	\$4,000,000	\$4,000,000						

Investment Summary on repayment of promissory note from Newmarket Tay Power Distribution LTD.

Description	Principal Amount		Starting Date	Term (days)	January 1 to June 30, 2022			
	2022-01-01	2022-06-30			Interest Rate	Return on Investment	Benchmark Return	Incremental Income
National Bank Coastal Capital Savings \$5.5MM			2022-03-09	90	1.49%	4,939	4,582	357
National Bank Coastal Capital Savings		5,500,000	2022-03-09	180	1.60%	27,244	23,537	3,707
National Bank Coastal Capital Savings		5,500,000	2022-03-09	270	1.85%	31,501	23,537	7,963
Sub-Total		\$11,000,000				63,684	51,657	12,027

CANADIAN EQUITY PORTFOLIO

Description	Principal Amount		Starting Date	Term	January 1 to June 30,2022			
	2022-01-01	2022-06-30			Interest Rate	Return on Investment	Benchmark Return	Incremental Income
ONE INVESTMENT		\$5,500,000	2022-04-08					
ONE INVESTMENT		\$5,500,000	2022-06-07					
Sub-Total		\$11,000,000						

Grand Total	<u>\$52,390,413</u>	<u>\$74,608,650</u>
--------------------	---------------------	---------------------

Note 1:

Principal protected participation notes are a structured investment product that provides returns linked to the performance of a reference asset while also guaranteeing 100% principal protection at maturity. The original principal is fully protected at maturity regardless of the performance of the reference asset.