



## The Corporation of the Town of Tecumseh

Financial Services

**To:** Mayor and Members of Council

**From:** Tom Kitsos, Director Financial Services & Chief Financial Officer

**Date to Council:** May 13, 2024

**Report Number:** FS-2024-07

**Subject:** 2023 Annual Report on Investment and Cash Management

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### Recommendations

It is recommended:

**That** the 2023 Annual Report on Investment and Cash Management **be received** for information.

### Background

#### Investment Policy

As per Policy #87 – Investment Policy, “the Town of Tecumseh (Town) strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital while maintaining solvency and liquidity to meet ongoing financial requirements.”

The Director Financial Services & Chief Financial Officer is required to submit an annual Investment Report to Council including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. The report is to include the following:

- Listing of individual securities held at the end of the reporting period,

- Listing of investment by maturity date,
- Percentage of the total portfolio which each type of investment represents,
- Average weighted yield to maturity on investments,
- A statement by the Director Financial Services & CFO as to whether, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Town, and
- Such other information that Council may require or that, in the opinion of the Director Financial Services & CFO, should be included.

Policy # 87 meets the requirements set forth in O. Reg. 438/97, Eligible Investments and Related Financial Agreements.

## Comments

### Investment Report

Table 1 contains the listing of individual securities held at the end of the reporting period, percentage of the total portfolio, and the average weighted yield to maturity with comparison values for the prior two years.

Table 1 Listing of Individual Securities Held at December 31 (\$000)									
Term length	2023			2022			2021		
	Amount @ Dec 31	% of Funds	Ave. Int. Rate	Amount @ Dec 31	% of Funds	Ave. Int. Rate	Amount @ Dec 31	% of Funds	Ave. Int. Rate
Cash	\$ 3	0%		\$ 3	0%		\$ 3	0%	
Bank Balances	\$ 79,869	83%	5.72%	\$ 72,063	82%	3.33%	\$ 65,610	80%	1.71%
<b>Short-Term</b>	\$ 79,872	83%	5.72%	\$ 72,066	82%	3.33%	\$ 65,613	80%	1.71%
Drain 5 year Receivables	\$ 68	0%	4.94%	\$ 105	0%	5.37%	\$ 132	0%	5.87%
EPC Financing Agreement	\$ 1,544	2%	3.80%	\$ 1,544	2%	3.80%	\$ 1,544	2%	3.80%
<b>Medium-Term</b>	\$ 1,612	2%	3.85%	\$ 1,649	2%	3.90%	\$ 1,676	2%	3.96%
EPC - Equity - Common	\$ 11,931	12%	3.91%	\$ 11,898	13%	3.87%	\$ 11,729	14%	3.92%
EPC - Equity - Green	\$ 374	0%	7.00%	\$ 374	0%	7.00%	\$ 374	0%	7.00%
<b>EPC - Equity - Subtotal</b>	\$ 12,305	13%	4.01%	\$ 12,272	14%	3.96%	\$ 12,103	15%	4.02%
ONE Fund - Equity	\$ 2,655	3%	0.00%	\$ 2,174	2%	0.00%	\$ 2,201	3%	0.00%
<b>Long-Term</b>	\$ 14,960	16%		\$ 14,446	16%		\$ 14,305	18%	
<b>Total Funds</b>	\$ 96,444	100%	5.31%	\$ 88,161	100%	3.35%	\$ 81,594	100%	2.06%

Notes:

1. EPC - Equity - Common amount is recorded using the modified equity basis of accounting. The Town recognizes its equity interest in the annual income or loss of EPC in its Consolidated Statement of Operations with a corresponding increase or decrease in its investment account. Any

dividends that the Municipality receives from EPC are reflected as reductions in the investment account. The Average Interest Rate earned is calculated based on the change in the investment account balance.

2. The percentage of funds by category remains within limits specified in Policy \$ 87 – Investment Policy

Section 6.2 of the Investment Policy states, “**short-term** funds will be compared to the return on the three-month Government of Canada Treasury Bills and the ONE Investment Program’s Money Market Fund.” The 5.72% rate of return compares favourably with the ONE Fund and Canada Treasury Bills 1 year returns for:

- Money Market Portfolio 4.65%
- Canada Treasury Bills 4.78%

Note that the Town’s rate of return for the cash balances above does not include the benefit of an absence of fees for most banking services.

Although the Investment Policy is silent on performance standards for **medium-term** investments, the Town’s 2023 actual return of 3.86% compares to:

- ONE - Canadian Corporate Bond Portfolio 6.25%
- Scotia Bond Fund (Series A) 7.50%

Investment Policy Performance Standards 6.3 states, “**long-term** funds will be compared to Scotia McLeod’s All Government Short-Term Bond Index and ONE Fund’s Bond Investment Program.” The Scotia McLeod Index is no longer available and is replaced by RBC Canadian Government Bond Index Fund. The Essex Power Corporation return of 4.01% compares to:

- RBC Canadian Government Bond Index Fund 4.50%
- ONE – Canadian Government Bond Portfolio 4.61%
- ONE – Canadian Corporate Bond Portfolio 6.25%

Note that any inherent growth in the market value of Essex Power Corporation (EPC) Common shares is not reflected in the analysis within this report.

As an additional long-term investment, the Town began participating in the ONE Investment Program Equity Portfolio in 2016 under by-law 2016-15. As shown in Table 3, \$2,022,370 has been invested to date: \$1,650,000 from the Post Retirement Reserve Fund and the remainder from reinvested income and capital gains. Since these funds were not going to be required for a considerable number of years, it was felt that it would be appropriate to invest in the equity market. History has shown that the equity market, over the long term, outperforms the short- and medium-term markets.

Annual returns for the ONE Canadian Equity Portfolio, as per ONE Investment Performance Report are shown in Table 2:

**Table 2**

**Period Ending December 31, 2023**  
**(Annualized Returns)**

	Canadian Equity Portfolio
1 Year	17.22%
2 Year	3.88%
3 Year	9.19%
4 Year	8.51%
5 Year	10.41%
10 Year	9.04%

\*Data taken from ONE Investment  
 December 2023 Performance Report

Table 3 shows the performance of the Town's investment in the ONE Equity Portfolio:

**Table 3**

<b>Year</b>	<b>Book Value</b>	<b>Market Value</b>	<b>Annual Return</b>	<b>Cumulative Return*</b>
2016	\$ 400,000	\$ 415,829	14.18%	14.18%
2017	\$ 1,000,000	\$ 1,095,684	10.97%	11.42%
2018	\$ 1,200,000	\$ 1,261,004	(3.07%)	3.22%
2019	\$ 1,399,999	\$ 1,713,193	17.48%	14.72%
2020	\$ 1,446,338	\$ 1,824,962	3.81%	5.35%
2021	\$ 1,575,380	\$ 2,201,246	13.55%	8.80%
2022	\$ 1,808,402	\$ 2,174,021	(11.33%)	4.29%
2023	\$ 2,022,370	\$ 2,654,836	12.19%	5.69%

\* Initial investment was in June 2016

Table 4 shows the listing of investments with respective maturity dates.

**Table 4**

**Listing of Maturity Dates**

	<u>Book Value</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<b><u>Short-Term</u></b>			
Cash & Bank	<u>\$ 79,872,339</u>	5.76%	N/A
<b><u>Medium-Term</u></b>			
Drain 5-Year Receivables			
	\$ 9,806	4.00%	2024
	\$ 22,290	2.70%	2025
	\$ 25,595	2.70%	2026
	<u>\$ 9,829</u>	6.76%	2028
<b>Medium-Term Total</b>	<u>\$ 67,520</u>		
EPC Financing Agreement	\$ 1,544,408	4.00%	2027
<b><u>Long-Term</u></b>			
EPC - Equity - Common	\$ 11,931,419	N/A	N/A
EPC - Equity – Green	\$ 373,943	N/A	2030
ONE Fund – Equity	<u>\$ 2,654,836</u>	N/A	N/A
<b>Long-Term Total</b>	<u>\$ 14,960,198</u>		

**Treasurer's Statement**

I, Tom Kitsos, Director Financial Services & Chief Financial Officer, hereby state that in my opinion all investments were made in accordance with the investment policies and goals adopted by the Town.

**Consultations**

None

Financial Implications

Actual investment income for the past three years is shown in Table 5.

Table 5

Investment Income Summary		2023	2022	2021
Cash & Bank	Interest	\$ 4,598,875	\$ 2,445,576	\$ 1,088,125
Drain 5-Year Receivables	Interest	3,335	5,651	7,731
EPC Financing Agreement	Interest	58,688	58,688	58,688
<b>Total - Interest Income</b>		4,660,898	2,509,915	1,154,544
EPC - Equity - Common	Dividends	466,930	460,099	460,099
EPC - Equity - Green	Dividends	26,176	26,176	26,176
<b>Total - EPC Equity Dividends</b>		493,106	486,275	486,275
ONE Fund - Equity		-	-	-
<b>Total - Dividend Income</b>		493,106	486,275	486,275
<b>Total Investment Income</b>		<b>\$ 5,154,004</b>	<b>\$ 2,996,190</b>	<b>\$ 1,640,819</b>

Link to Strategic Priorities

Applicable	<a href="#">2023-2026 Strategic Priorities</a>
<input checked="" type="checkbox"/>	Sustainable Growth: Achieve prosperity and a livable community through sustainable growth.
<input type="checkbox"/>	Community Health and Inclusion: Integrate community health and inclusion into our places and spaces and everything we do.
<input type="checkbox"/>	Service Experience: Enhance the experience of Team Tecumseh and our citizens through responsive and respectful service.

## Communications

Not applicable ☒

Website ☐ Social Media ☐ News Release ☐ Local Newspaper ☐

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Katherine Mao, BComm, MIBM  
Financial Analyst

Reviewed by:

Vanessa DaDalt, CPA, CA, CTP  
Deputy Treasurer & Manager Revenue Services

Reviewed by:

Tom Kitsos, CPA, CMA, BComm  
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP  
Chief Administrative Officer

Attachment Number	Attachment Name
None	None