



The Corporation of the Municipality of Arran-Elderslie

Staff Report

Council Meeting Date: May 26, 2025

Subject: FIN-2025-07 Investments

Report from: David Munro, Interim Treasurer

Appendices: Investment Policy

Schedule A – Ontario Regulation 438/97

Recommendation

Be It Resolved that Council hereby,

1. Receive Report FIN-2025-07 - Investments and approve the recommendations on the Principal Protected Note (PPN) and the Guaranteed Investment Certificate (GIC) that are maturing later this year to be invested with ONE Investment;
2. Approve the updated Investment Policy to allow investment with CIBC and/or One Investment.
3. Directs staff to bring a bylaw to the next available Council meeting to bring force and effect to the policy.

Report Summary

In 2021, the Municipality invested \$10.5 million in five Principal Protected Notes (PPNs). One of the PPNs matured in 2024, and was reinvested in a Guaranteed Investment Certificate (GIC) that is due to mature in September 2025. One of the four remaining PPNs expires in July of this year. Staff recommends that the principal amounts of both investments (that are maturing this year) be reinvested into investment products from One Investment.

Background

Arran-Elderslie has money reserved for future use. For example, as per the 2022 Audited Financial statements, the Municipality had \$8.5 million in our Water Reserve

and \$3.7 million in the Sewer Reserve. These two reserves alone add to \$12.2 million. Our reserves are in the form of either cash in the bank or PPNs and GICs.

In 2021, \$10.5 million was invested in five Principal Protected Notes (PPNs). PPNs protect the principal and strive for a return higher than a “normal” GIC (Guaranteed Investment Certificate). At the time of investment, in 2021, 3-year GICs were paying between 0.7% to 0.9% per year.

Each PPN has a different maturity date and investment potential gain is tied to a specific index.

Expiry Year (all July 9)	Amount	Investment potential gain
2024	\$1,500,000	Canadian Insurance Index
2025	\$2,500,000	Canadian Banks Index
2026	\$2,000,000	Canadian Telecoms Index
2027	\$2,000,000	Canadian Equity Yield
2028	\$2,500,000	Canadian Large Cap Index

ONE Investment

The *Municipal Act* allows Ontario municipalities to participate in joint municipal investment strategies. These amendments permitted municipalities to pool their investments in order to gain the opportunity to earn higher returns over the longer term, through access to diversified, high-quality investment portfolios.

ONE Investment is an option available to all municipalities for pooled investment options. ONE is operated by Local Authority Services (LAS), the business services arm of the Association of Municipalities of Ontario (AMO), and CHUMS Financing Corp., a subsidiary of the Municipal Finance Officers' Association of Ontario (MFOA). ONE Investment is an incorporated not-for-profit organization focused on one thing: providing investment options that support the needs of Ontario's municipalities.

ONE Investment brings Ontario's municipal sector together to benefit from the greater options and lower fees made possible by combining their investment power.

ONE historically offered a Canadian Government Bond Portfolio, with a Canadian Equity Portfolio added in 2007 and a Corporate Bond Portfolio in 2008. The Corporate Bond and Equity portfolios were launched as a result of 2005 amendments to the Municipal Act Eligible Investment Regulation (O. Reg. 438/97) allowing municipalities to invest in Canadian equities and longer term Canadian corporate bonds. The regulation, however, offers access to these investment types only through ONE Investment.

The program has continued to grow and now also welcomes investment from organizations within the broader Ontario public sector, including conservation authorities and municipal services boards. ONE Investment also offers a High Interest Savings Account (HISA) option with two Schedule 1 Canadian banks, that is fully liquid, and where municipal investments are CDIC insured. The HISA provides a competitive rate of return for municipal deposits premised on the collective investment power of the municipal sector.

In 2018, LAS and CHUMS sought an Ontario Securities Commission exemption that would permit them to provide investment advice to clients. To facilitate the exemption application, ONE Investment was incorporated as a non-profit. In November 2018, ONE Investment was granted the exemption and now offers investment management services, including professional investment advice.

Local co-mingled (pooled) government investments have proven to be highly successful and popular investment and cash management tools for municipalities. Participation in such pools is, in fact, recognized as a recommended practice for achieving portfolio diversification and liquidity by the Government Finance Officers Association of the United States and Canada.

Since 1993, ONE Investment has successfully met the needs of Ontario municipalities by providing safe and high-quality investment opportunities. Asset levels in ONE at October 2024 are more than \$4 billion. ONE provides professional investment services to more than 180 organizations, and performance has been competitive against other permitted alternative investments for Ontario municipalities.

All ONE portfolios are governed by formal investment guidelines requiring that monies be invested only in instruments allowed under the *Municipal Act*, with additional restrictions being established by the guidelines.

ONE currently uses the professional investment services of MFS Investment Services for its Government Bond, and Corporate Bond Portfolios, and Guardian Capital LP for its Canadian Equity Portfolio. Both organizations have billions in assets under management and have a long track record of managing large multi-customer investment pools.

The investment guidelines and manager activities for each investment portfolio are monitored by ONE staff (including a Chief Investment Officer), as well as the Investment Advisory Committee, comprised of experienced investment professionals and public sector experts. ONE also receives oversight from the ONE Investment Board of Directors, comprised of municipal finance professionals, municipal administrators, and elected officials, as well as a periodic industry review.

There is no requirement for municipalities to invest for a specified period in ONE Investment's portfolio; money can be invested, withdrawn or transferred at any time, although each of the portfolios has been established with a certain investment duration in mind. The minimum transaction amount is \$5,000 for any Portfolio. There are no penalties or fees for deposit or withdrawal at any time. Investors also have access to their account balances through a secure portion of the ONE website. Portfolio balances and unit pricing are updated daily for each investor and account.

Investment fees for all invested monies are calculated on a daily basis based on the total balance held in the account, and all performance figures provided by ONE are always posted net of fees. One Investment annual fee schedule is provided below:

- ONE Canadian Government Bond Portfolio - 40 Basis Points
- ONE Canadian Corporate Bond Portfolio - 45 Basis Points
- ONE Canadian Equity Portfolio - 50 Basis Points
- ONE High Interest Savings Account – No Fees

For the fees paid, each investor receives numerous benefits, including but not limited to:

- Professional investment management and advice
- Reduced risk through diversification and regular investment oversight
- Flexibility & liquidity of investments
- Accounting & performance reporting
- Regulatory compliance guarantee

Analysis

On July 9, 2024, the 2024 PPN matured and the gain over the three years was \$150,900. This represents a 10% gain (or a little over 3% per year).

The \$1,500,000 principal was reinvested in a one-year GIC @ 3.9% interest which matures on September 25, 2025.

The PPN that matures on July 9, 2025, will be a minimum value of \$2,500,000.

Therefore, Arran-Elderslie will have \$4 million (\$1,500,000 (from GIC) + \$2,500,000 (from PPN)) to re-invest.

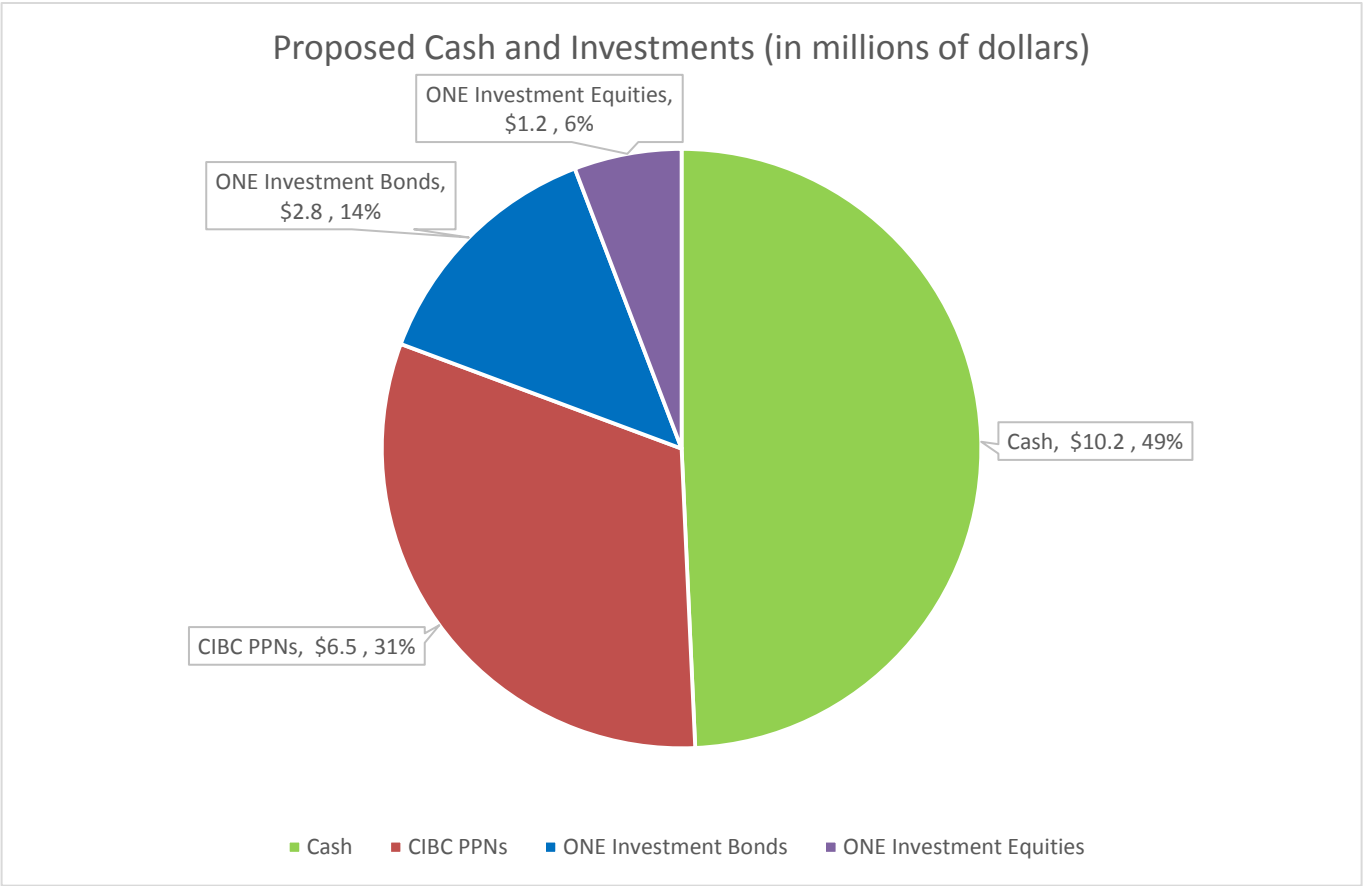
For now, staff recommends keeping the total investment amount the same at \$10.5 million. The Municipality has a large sum of money in the bank and may one day look at increasing the amount in longer-term investments.

Note, CIBC is allowed to sell the Municipality Principal Protected Notes (PPNs), but not bond or equity funds that, generally, have a higher rate of return.

The Province of Ontario has approved the purchase of bond and equity funds through ONE Investment. Historically, bond and equity funds have outperformed simpler investments like Guaranteed Investment Certificates (GICs). Staff recommends that the Municipality should utilize ONE Investment for investment advice, and to invest in their products.

Although there is risk to the principal amounts, our time horizon is long, and if the Municipality needs to sell, and the markets are down, the Municipality has the option to wait / borrow until the market comes back up. In addition, the investments are more liquid than Principal Protected Notes (PPNs).

Asset Allocation



For the CIBC PPN maturing in July 2025 and the GIC maturing in September 2025, staff recommends the following mix with ONE Investment (dollars in millions):

Investment Product	% of Investment	July CIBC PPN	September GIC
ONE Canadian Equity Portfolio	30%	\$0.750	\$0.450
ONE Canadian Corporate Bond Portfolio	35%	\$0.875	\$0.525
ONE Canadian Government Bond Portfolio	35%	\$0.875	\$0.525
Total	100%	\$2.500	\$1.500

This maneuvers the Municipality into equities, and the Municipality can continue to compare CIBC and ONE Investment performance.

Timing

Furthermore, instead of investing the entire amount on the date the previous investment matures, staff recommends spreading the investment over several months. Staff is also recommending that the entire amount of the maturing principle be transferred to ONE Investment High Interest Savings Account and then invested as follows:

July, \$2.5 million CIBC PPN maturing. Invest \$500,000 each month July - November 2025

September, \$1.5 million CIBC GIC maturing. Invest \$500,000 each month October – December 2025

Investment Policy

Staff has updated the Investment Policy to allow the Municipality to invest with CIBC and/or One Investment. The Investment Policy is attached as well as Ontario Regulation 438/97 which is referenced in the policy.

Gravel Pit road damage deposit

Note, for Council's information, the Municipality holds one gravel pit road damage deposit worth approximately \$15,000 in a Toronto Dominion (TD) GIC. The GIC automatically renews, and the interest earned is paid to the gravel pit owner.

Link to Strategic/Master Plan

6.4 Leading Financial Management

Financial Impacts/Source of Funding/Link to Procurement Policy

In summary, when the CIBC PPN matures in July 2025 and the GIC matures in September 2025, staff will invest the principal amounts with ONE Investment.

Approved by: Emily Dance, Chief Administrative Officer