



BOARD REPORT

REPORT No.: 2022-19

MEETING DATE: APRIL 21, 2022

SUBJECT: 2021 INVESTMENT PORTFOLIO PERFORMANCE

RECOMMENDATION

THAT with respect to Report No. 2022-19 (Corporate Services Division), we, The District of Thunder Bay Social Services Administration Board, approve the transfer of \$6,302,677 into the TD investment account.

REPORT SUMMARY

To provide The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board) with information relative to the performance of the Board's investment portfolio for the 2021 year.

BACKGROUND

The Board has approved the Reserve and Reserve Fund Policy #CS-02:19, and, on an annual basis approves the Reserve and Reserve Fund Strategy. Since 2015, TBDSSAB has transferred \$12.8 million to TD Waterhouse (TD), representing the value of various TBDSSAB Reserve Funds.

The Housing Portfolio Capital Reserve Fund is invested in the Social Housing Investment Program, administered by the Housing Services Corporation in accordance with Section 124(b) of the *Housing Services Act (HSA)*, and managed by Encasa Financial. Worldsource Financial Management Inc. is the principal distributor of these Funds.

TBDSSAB must follow the *Municipal Act* in terms of its investment activities including the list of eligible investments. Ontario Regulation 438/97 Section 2(8.1) allows "Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada". The *Municipal Act* is silent on pooled investment funds holding international securities that are managed by a Canadian corporation.

In accordance with the Investment Policy #CS-02:70, Administration presents the Board with an annual update of the investment portfolio's performance for the year.

COMMENTS

The Table below summarizes the performance of investments held at TD and Encasa for the 2021 year:

	Fair Market Value		
	TD (\$)	Encasa (\$)	Total (\$)
Opening Balance	14,731,538	10,063,240	24,794,778
Deposits	-	-	-
Withdrawals	-	-	-
Change in Value	909,818	(315,107)	594,711
Ending Balance	15,641,356	9,748,133	25,389,489
Return on Investment	6.2%	(3.1%)	2.4%

The fair market value (FMV) of investments at December 31, 2021, is \$25,389,489 (2020: \$24,794,778) compared to the book value (cost) of \$24,970,349 (2020: \$24,125,826). The FMV of investments increased by \$594,711 during 2021. Attachment 1 shows the FMV of investments over the past ten (10) years.

The book value is \$6,302,677 less than the total reserve fund balance of \$31,273,025 as indicated in Report No. 2022-16AGM 2021 Audited Consolidated Financial Statements. This difference is currently on deposit in the bank, earning minimal interest (prime less 1.7 = 0.75%). This amount could be transferred into the investment portfolio to earn a greater return.

The investment strategy approved by the Board includes a recognition that the priority of the investment portfolio is to generate income, while at the same time, preserving capital. As at December 31, 2021, the asset mix of TBDSSAB investments was as follows:

Component	TD		Encasa		Total	
	FMV (\$)	%	FMV (\$)	%	FMV (\$)	%
Fixed Income	11,289,621	72%	9,748,133	100%	21,037,754	83%
Equities	4,351,736	28%	-	0%	4,351,736	17%
Total	15,641,357		9,748,133		25,389,490	

The table below shows the annual FMV rate of return on the entire TBDSSAB investment portfolio compared to the S&P/TSX Composite Index and the investment income earned over the past five years:

Year	Total TBDSSAB Portfolio	S&P/TSX Composite Index	Income Earned
2017	2.9%	6.03%	\$1,151,506
2018	(1.1%)	(11.64%)	\$637,611
2019	6.5%	19.13%	\$495,318
2020	4.4%	2.17%	\$886,473
2021	2.4%	21.74%	\$921,304

These results are consistent with the guiding principles in the Investment Policy, considering the heavy concentration of fixed-income securities in the portfolio.

TBDSSAB's equity portfolio at TD employs a growth-oriented approach focused on investing in Canadian companies that generate excessive amounts of free cash flow. These companies retain the profits (lower dividends) to grow their businesses. Over the long-term, investors should be compensated with a higher total return in exchange for lower dividend income. TBDSSAB's portfolio profile at TD is "conservative income" and the portfolio risk tolerance is "low to moderate". As a result, the maximum equity component within the portfolio is capped at 30% as approved by the Board.

While the TD portfolio holdings include individual fixed income securities of various durations and shares in Canadian corporations, the options available through Encasa are limited to three managed investment funds: a Canadian Short-Term Bond Fund, a Canadian Bond Fund, and an Equity Fund. Due to the ambiguity of the *Municipal Act*, Administration has avoided the Encasa Equity Fund since approximately 62% of that fund is invested in shares of international corporations.

However, considering the Housing Services Act requires housing providers to participate in the Social Housing Investment Program, and that the Housing Services Corporation and Encasa Financial are Canadian corporations, and the strategic importance of diversification within an investment plan, it is reasonable that TBDSSAB can participate in the Encasa Equity Fund. Therefore, Administration will direct its Investment Advisor at Encasa to re-balance TBDSSAB's portfolio so that up to 30% is invested in the equity fund, to be consistent with the Board's direction on the TD portfolio.

STRATEGIC PLAN IMPACT

This report relates to the Board's strategic direction of Financial Stewardship, with a focus on ensuring accountability of TBDSSAB resources.

FINANCIAL IMPLICATIONS

The 2021 investment portfolio performance is reflected in the 2021 Consolidated TBDSSAB Financial Statements. Re-balancing the Encasa portfolio to transfer 30% into the Equity Fund could have a positive impact on future investment performance and provide diversification.



Transferring an additional \$6,302,677 into the investment portfolio, to match the total reserve fund balance, could also increase the rate of return on those funds. The transfer could be made to Encasa to match the funds invested in that account with the Housing Portfolio Capital Reserve Fund balance. However, there are more flexible options and diversification opportunities available through the TD portfolio.

CONCLUSION

It is concluded that all investments in 2021 were consistent with the Investment Policy and goals approved by the Board. It is also concluded that an additional \$6,302,677 should be transferred into the TD investment account and invested in accordance with the guiding principles of the Investment Policy.

REFERENCE MATERIALS

Attachment #1 [Historical Investment Portfolio Summary](#)

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**The District of Thunder Bay Social Services Administration Board
Historical Investment Portfolio Summary**

TD	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FMV	-	-	-	12,094,495	13,291,394	13,793,582	13,467,508	14,419,037	14,731,538	15,641,357
Change in FMV	-	-	-	12,094,495	1,196,899	502,188	(326,074)	951,529	312,501	909,819
	n/a	n/a	n/a	n/a	9.9%	3.8%	-2.4%	7.1%	2.2%	6.2%

Encasa	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
FMV	6,711,852	7,236,188	8,043,405	8,166,728	8,635,954	8,766,629	8,833,590	9,339,090	10,063,240	9,748,133
Change in FMV	335,851	524,336	807,217	123,323	469,226	130,675	66,961	505,500	724,150	(315,107)
	5.3%	7.8%	11.2%	1.5%	5.7%	1.5%	0.8%	5.7%	7.8%	-3.1%

