



Report to: General Committee

Meeting Date: May 6, 2025

SUBJECT: 2025 First Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

- 1) THAT the report dated May 6, 2025 entitled “2025 First Quarter Investment Performance Review” be received.

EXECUTIVE SUMMARY:

Not Applicable

PURPOSE:

Pursuant to Regulation 438/97 Section 8, the Municipal Act requires the Treasurer to “prepare and provide to the Council, each year or more frequently as specified by Council, an investment report”.

The investment report shall contain,

- (a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- (b) a description of the estimated portion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year’s report;
- (c) a statement by the Treasurer as to whether or not, in his opinion, all investments were made in accordance with the investment policies and goals adopted by the municipality;
- (d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security;
- (e) such other information that the Council may require or that, in the opinion of the Treasurer, should be included.

BACKGROUND:

Not Applicable

OPTIONS/ DISCUSSION:

Not Applicable

FINANCIAL CONSIDERATIONS:

The 2025 budget for Income Earned on Investments is \$22.979 million (an increase of \$5.500 million from the 2024 budget). The \$22.979 million budget is based on a forecasted \$600.0 million average balance invested at an average rate of 3.83%.

The following table shows the budgeted investment income by quarter. The quarterly budget allocations reflect the projected changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Forecast
Q1	\$580.0m	3.83%	\$5,477,186
Q2	\$600.0m	3.83%	\$5,919,978
Q3	\$600.0m	3.83%	\$5,985,033
Q4	\$579.8m	3.83%	\$5,596,803
2025 Budget	\$600.0m	3.83%	\$22,979,000

The first quarter typically has lower average portfolio balances as Markham makes payments to the Region and School Board on December 15th and doesn't begin collecting tax payments again until February. As a result, the Q1 2025 forecast assumes an average general fund portfolio balance of \$580.0 million to be invested at an average rate of return of 3.83%. Both the actual average portfolio balance and the average rate of return exceeded budget.

For the three months ending March 31, 2025, the City of Markham's Income Earned on Investments was \$10.695 million, compared to a budget of \$5.477 million, representing a \$5.218 million favourable variance to budget.

Interest Rate

Since June 2024, the Bank of Canada has cut interest rates on 7 occasions, reducing the prime rate from 7.20% to 4.95%.

The City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 5.02%; 119 basis points higher than forecast. Additionally, through the sale of a Principal Protected Note in Q1, the City earned \$3.274 million of capital gains, thereby increasing the rate of return to 7.24%.

The difference in the rate of return accounts for a favourable variance of \$5.038 million.

Portfolio Balance

The forecasted average portfolio balance for Q1 2025 was \$580.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2025 was \$599.0 million. The higher portfolio balance accounts for a favourable variance of \$180,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$580.0m	\$599.0m	\$19.0m
Interest Rate	3.83%	7.24%	3.41%
Investment Income	\$5.477m	\$10.695m	\$5.218m
Portfolio Balance Variance Impact			\$0.180m
Interest Rate Variance Impact			\$5.038m

Portfolio Composition

All investments made in the first quarter of 2025 adhered to the City of Markham investment policy. At March 31, 2025, 43% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 57% of the portfolio was made up of instruments issued by Schedule 1 Banks (Exhibit 1). All of these levels are within the targets established in the City's Investment Policy.

The March 31, 2025 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 50%, Principal Protected Notes (PPNs) 36%, and GICs 14% (Exhibit 2).

At March 31, 2025, the City's general portfolio balance (all funds excluding DCA) was \$640.2 million (including bank balances). The City's portfolio (all funds excluding DCA) was broken down into the following investment terms (Exhibit 3):

Under 1 month	49.4%
1 month to 3 months	0.7%
3 months to 1 year	8.2%
Over 1 year	41.7%
Weighted average investment term	1,465.0 days
Weighted average days to maturity	1,007.8 days

Money Market Performance

The City of Markham uses the 3-month T-bill rates to gauge the performance of investments in the money market. The average 3-month T-bill rate for the first quarter of 2025 was 2.85% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first quarter of 2025 had an average return of 3.57%. Therefore, the City's money market investments outperformed 3-month T-Bills by 72 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2025.

Bond Market Performance

The 2025 YTD highlights of Markham's bond portfolio are as follows:

- 2 Bonds/Principal Protected Note (PPNs) purchased with a face value of \$8.4 million
- 2 bonds matured with a face value of \$8.0 million

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- 1 Principal Protected Note (PPN) sold with a face value of \$2.0 million
 - \$3.274 million of capital gains earned

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2025.

Outlook

After a series of rates cuts over the past nine months, interest rates are expected to start to stabilize in order to keep inflation in check. However, there is still risk of further cuts if the economy starts to display recessionary trends. The City will continue to try to take advantage of any major moves in the market.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

Joseph Silva, Treasurer

Trinela Cane, Commissioner,
Corporate Services

ATTACHMENTS:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2025 Q1 Money Market Investments
- Exhibit 5 – 2025 Q1 Bond Market Investments
- Exhibit 6 – 2025 Q1 DCA Fund Investments