



Report to: General Committee

Meeting Date: April 23, 2019

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**SUBJECT:** 2019 First Quarter Investment Performance Review  
**PREPARED BY:** Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

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**RECOMMENDATION:**

- 1) That the report dated April 23, 2019 entitled “2019 First Quarter Investment Performance Review” be received; and,
- 2) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

**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 2019 forecast for Income Earned on Investments is \$13.76 million based on an estimated average general portfolio balance of \$430.0M invested at an average rate of 3.20%. As discussed during the 2019 budget process, this amount may not be sustainable in future years as the Prime Rate is the highest it has been since 2008. As such, the 2019 Income Earned on Investments budget was set at \$11.0 million. Any interest earned in 2019 in excess of \$11.0 million in 2019 will be transferred to reserves.

The following table shows the forecasted investment income by quarter with an estimated transfer to reserves of \$2.76 million in 2019. The quarterly budget allocations reflect the changing portfolio balances and rates of return throughout the year.

Period	Avg. Balance	Avg. Rate	Forecast
Q1	\$400.0m	3.30%	\$3,254,795
Q2	\$460.0m	3.11%	\$3,570,876
Q3	\$460.0m	3.11%	\$3,610,117
Q4	\$399.7m	3.30%	\$3,324,212
<b>2019 Forecast</b>	<b>\$430.0m</b>	<b>3.20%</b>	<b>\$13,760,000</b>
Forecasted Transfer to Reserves			(\$2,760,000)
<b>2019 Budget</b>			<b>\$11,000,000</b>

The first quarter typically has lower average portfolio balances as Markham makes payments to the Region and School Board on December 15<sup>th</sup> and doesn't begin collecting tax payments again until February. As a result, the Q1 2019 forecast assumes an average general fund portfolio balance of \$400.0 million to be invested at an average rate of return of 3.30%. The actual average portfolio balance and the average rate of return were both above the forecasted levels.

For the three months ending March 31, 2019, the City of Markham's Income Earned on Investments was \$3.634 million, compared to a forecast of \$3.255 million, representing a \$379,000 favourable variance to forecast.

**Interest Rate**

The Prime Rate was stable at 3.95% throughout the first quarter. Although the Prime Rate continues to be at its highest since 2008, it is not being reflected in long term interest rates. During the first quarter, 10-year Canada bonds had an average yield of only 1.85%.

During the first quarter of 2019, the City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 3.46%. Furthermore, \$0.196 million of capital gains were generated, increasing the rate of return

to 3.66%; 36 basis points higher than forecast. The difference in the rate of return accounts for a favourable variance (to forecast) of \$360,000.

### **Portfolio Balance**

The forecasted average portfolio balance for Q1 2019 was \$400.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2019 was \$402.4 million. The higher portfolio balance accounts for a favourable variance (to forecast) of \$19,000.

### **Variance Summary**

	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$400.m	\$402.4m	\$2.4m
Interest Rate	3.30%	3.66%	0.36%
Investment Income	\$3.255m	\$3.634m	<b>\$0.379m</b>
Portfolio Balance Variance Impact			<b>\$0.019m</b>
Interest Rate Variance Impact			<b>\$0.360m</b>

### **Portfolio Composition**

All investments made in the first quarter of 2019 adhered to the City of Markham investment policy. At March 31, 2019, 41% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 59% 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, 2019 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 53%, Principal Protected Notes (PPNs) 29%, and GICs 18% (Exhibit 2).

At March 31, 2019, the City's general portfolio balance (all funds excluding DC) was \$535.6 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	55.8%
1 month to 3 months	4.1%
3 months to 1 year	10.4%
Over 1 year	29.7%
Weighted average investment term	1,250.2 days
Weighted average days to maturity	708.6 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 2019 was 1.65% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first quarter of 2019 had an average return of 2.31%. Therefore, the City's money market investments outperformed 3-month

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T-Bills by 66 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2019.

**Bond Market Performance**

The 2019 YTD highlights of Markham's bond portfolio are as follows:

- 2 bonds/PPNs purchased with a face value of \$10.0 million
- 1 bond matured with a face value of \$3.4 million
- 2 PPNs sold with a face value of \$4.8 million
- \$196,000 of capital gains earned

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2019.

**Outlook**

Given the low yields for long term bonds, there is little incentive to invest in anything other than short term instruments or PPNs (which have returns that are linked to equity markets). If the Prime Rate continues to stay in the 4% range, the \$13.76 million forecast for Investment Income should be able to be achieved.

**HUMAN RESOURCES CONSIDERATIONS**

Not applicable

**ALIGNMENT WITH STRATEGIC PRIORITIES:**

Not applicable

**BUSINESS UNITS CONSULTED AND AFFECTED:**

Not applicable

**RECOMMENDED BY:**

Joel Lustig, Treasurer

Trinela Cane, Commissioner,  
Corporate Services

**ATTACHMENTS:**

Appendix 1:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2019 Q1 Money Market Investments
- Exhibit 5 – 2019 Q1 Bond Market Investments
- Exhibit 6 – 2019 Q1 DCA Fund Investments