



Report to: General Committee

Meeting Date: November 4, 2019

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

RECOMMENDATION:

- 1) THAT the report dated November 4, 2019 entitled “2019 Third 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 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 returns 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
2019 Forecast	\$430.0m	3.20%	\$13,760,000
Forecasted Transfer to Reserves			(\$2,760,000)
2019 Budget			\$11,000,000

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. The second and third quarters typically result in higher average balances as the City receives the majority of its tax collections, including those for York Region and the Province, during this period. As a result, the forecast for the first three quarters of 2019 assumes an average general fund portfolio balance of \$440.2 million to be invested at an average rate of return of 3.17%.

For the first three quarters of 2019, the City of Markham's Income Earned on Investments was \$11.388 million, compared to a forecast of \$10.436 million, representing a \$0.952 million favourable variance to forecast.

Interest Rate

The Prime Rate was stable at 3.95% throughout the first three quarters of 2019. 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 1.62%, reaching a low of 1.09% in August.

During the first three quarters of 2019, the City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 3.38%. Furthermore, \$0.460 million of capital gains were generated, increasing the rate of return

to 3.53%; 36 basis points higher than forecast. The difference in the rate of return accounts for a favourable variance (to forecast) of \$1.149 million.

Portfolio Balance

The forecasted average portfolio balance for the first three quarters of 2019 was \$440.2 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2019 was \$431.9 million. The lower portfolio balance accounts for an unfavourable variance (to forecast) of \$0.197 million

Variance Summary

	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$440.2m	\$431.9m	(\$8.3m)
Interest Rate	3.17%	3.53%	0.36%
Investment Income	\$10.436m	\$11.388m	\$0.952m
Portfolio Balance Variance Impact			(\$0.197m)
Interest Rate Variance Impact			\$1.149m

Portfolio Composition

All investments made in 2019 adhered to the City of Markham investment policy. At September 30, 2019, 38% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 62% 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 September 30, 2019 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 50%, Principal Protected Notes (PPNs) 34%, and GICs 16% (Exhibit 2).

At September 30, 2019, the City's general portfolio balance (all funds excluding DCs) was \$352.8 million (including bank balances). The City's portfolio (all funds excluding DCs) was broken down into the following investment terms (Exhibit 3):

Under 1 month	39.2%
1 month to 3 months	3.0%
3 months to 1 year	15.0%
Over 1 year	42.8%
Weighted average investment term	1,807.1 days
Weighted average days to maturity	1,062.5 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 three quarters of 2019 was 1.65% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first three quarters of 2019 had an average return of 2.31%. Therefore, the City's money market investments

outperformed 3-month T-Bills by 66 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in 2019.

Bond Market Performance

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

- 7 bonds/PPNs purchased with a face value of \$27.3 million
- 8 bond matured with a face value of \$32.0 million
- 4 PPNs sold with a face value of \$8.8 million
- \$460,000 of capital gains earned

See Exhibit 5 for all bonds/PPNs held by the City of Markham in 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). The 2019 year end forecast for investment interest is expected to be \$14.5-15.0 million.

HUMAN RESOURCES CONSIDERATIONS

No 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:

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