



Report to: General Committee

Meeting Date: May 19 2020

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<b>SUBJECT:</b>	2020 First Quarter Investment Performance Review
<b>PREPARED BY:</b>	Mark Visser, Senior Manager, Financial Strategy & Investments x. 4260

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**RECOMMENDATION:**

- 1) That the report dated May 19, 2020 entitled “2020 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 2020 budget for Income Earned on Investments is \$11.0 million. [Note: the original forecast was approximately \$14.0 million but that amount is no longer achievable]. The \$11.0 million budget is now based on a forecasted \$440 million average balance invested at an average rate of 2.5%.

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

Period	Avg. Balance	Avg. Rate	Forecast
Q1	\$400.0m	2.76%	\$2,751,541
Q2	\$460.0m	2.36%	\$2,706,741
Q3	\$460.0m	2.36%	\$2,734,699
Q4	\$439.8m	2.53%	\$2,807,019
<b>2020 Budget</b>	<b>\$440.0m</b>	<b>2.5%</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 2020 forecast assumes an average general fund portfolio balance of \$400.0 million to be invested at an average rate of return of 2.76%. The actual average portfolio balance and the average rate of return were both above the forecasted levels.

For the three months ending March 31, 2020, the City of Markham's Income Earned on Investments was \$3.196 million, compared to a budget of \$2.752 million, representing a \$440,000 favourable variance to forecast.

### Interest Rate

The Prime Rate was stable at 3.95% throughout the first two months of 2020. In March, the Bank of Canada slashed interest rates by 150 basis points in an attempt to minimize the economic impacts caused by the COVID-19 pandemic. This did not have a major impact on Q1 results, as these rate reductions occurred late in the quarter.

During the first quarter of 2020, the City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 3.04%; 28 basis points higher than forecast. The difference in the rate of return accounts for a favourable variance of \$293,000.

### Portfolio Balance

The forecasted average portfolio balance for Q1 2020 was \$400.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2020 was \$422.0 million. The higher portfolio balance accounts for a favourable variance of \$151,000.

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**Variance Summary**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$400.m	\$422.0m	\$22.0m
Interest Rate	2.76%	3.04%	0.28%
Investment Income	\$2.752m	\$3.196m	<b>\$0.444m</b>
Portfolio Balance Variance Impact			<b>\$0.151m</b>
Interest Rate Variance Impact			<b>\$0293m</b>

**Portfolio Composition**

All investments made in the first quarter of 2020 adhered to the City of Markham investment policy. At March 31, 2020, 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 March 31, 2020 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 50%, Principal Protected Notes (PPNs) 33%, and GICs 17% (Exhibit 2).

At March 31, 2020, the City's general portfolio balance (all funds excluding DC) was \$503.4 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	47.2%
1 month to 3 months	3.1%
3 months to 1 year	10.4%
Over 1 year	39.3%
Weighted average investment term	1,464.0 days
Weighted average days to maturity	899.1 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 2020 was 1.26% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first quarter of 2020 had an average return of 2.09%. Therefore, the City's money market investments outperformed 3-month T-Bills by 83 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2020.

**Bond Market Performance**

The 2020 YTD highlights of Markham's bond portfolio are as follows:

- 4 bonds/PPNs purchased with a face value of \$27.0 million

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2020.

**Outlook**

At the beginning of the year, it was forecasted that the City would earn \$14.0 million of investment income on an \$11.0 million budget, with the extra \$3.0 million to be transferred to reserves. However, with interest rates being cut and the uncertainty surrounding the timing of the collection of property tax payments, the year-end forecast is being downgraded to the original \$11.0 million budget.

The priority for the remainder of the year is to manage cash flows to make ensure the ongoing operations of the City of Markham, as well as the being able to make scheduled tax remittances to the Province and York Region. This will result in shorter term investments and maintaining higher bank balances for the remainder of the year.

**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:**

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2020 Q1 Money Market Investments
- Exhibit 5 – 2020 Q1 Bond Market Investments
- Exhibit 6 – 2020 Q1 DCA Fund Investments