



Report to: General Committee

Meeting Date: November 2, 2020

SUBJECT: 2020 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager, Financial Strategy

RECOMMENDATION:

- 1) THAT the report dated November 2, 2020 entitled “2020 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 2020 budget for Income Earned on Investments is \$11.0 million. The \$11.0 million budget is 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 return 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
2020 Budget	\$440.0m	2.50%	\$11,000,000

The 2020 budget, through nine months, assumes an average general fund portfolio balance of \$440.0 million to be invested at an average rate of return of 2.49%. The actual average portfolio balance and the average rate of return were both above the forecasted levels.

For the nine months ending September 30, 2020, the City of Markham's Income Earned on Investments was \$11.001 million, compared to a budget of \$8.193 million, representing a \$2.808 million favourable variance.

Interest Rate

The Prime Rate was at 3.95% throughout the first two months of 2020. In March and April, the Bank of Canada reduced interest rates by 150 basis points in an attempt to minimize the economic impacts caused by the COVID-19 pandemic. The Prime Rate has remained at 2.45% since that time.

During the first three quarters of 2020, the City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 2.80%. Through bond trading, the City earned \$1.163 million of capital gains, thereby increasing the rate of return to 3.13%; 64 basis points higher than forecast. The majority of the capital gains were earned in September through the sale of two investments. The difference in the rate of return accounts for a favourable variance of \$2.258 million.

Portfolio Balance

The forecasted average portfolio balance for the first three quarters of 2020 was \$440.0 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2020 was \$469.5 million. The higher portfolio balance accounts for a favourable variance of \$0.55 million

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$440.m	\$469.5m	\$29.5m
Interest Rate	2.49%	3.13%	0.64%
Investment Income	\$8.193m	\$11.001m	\$2.808m

Portfolio Balance Variance Impact

\$0.550m

Interest Rate Variance Impact**\$2.258m****Portfolio Composition**

All investments made in 2020 adhered to the City of Markham investment policy. At September 30, 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 September 30, 2020 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 47%, Principal Protected Notes (PPNs) 35%, and GICs 18% (Exhibit 2).

At September 30, 2020, the City's general portfolio balance (all funds excluding DC) was \$394.7 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	43.2%
1 month to 3 months	2.0%
3 months to 1 year	12.1%
Over 1 year	42.7%
Weighted average investment term	1,688.3 days
Weighted average days to maturity	1,033.0 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 2020 was 0.76% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first three quarters of 2020 had an average return of 1.22%. Therefore, the City's money market investments outperformed 3-month T-Bills by 46 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in 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
- 4 bonds/PPNs sold with a face value of \$15.2 million
- \$1.163 million of capital gains earned

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

Outlook

The COVID-19 pandemic has impacted the markets in a dramatic fashion. In March and April, the Bank of Canada reduced the prime rate by 150 basis points. Long term bond yields also went down as a result and are expected to stay low for the foreseeable future.

There are few opportunities to get good returns on investments. However, one surprising result has been the City's PPN holdings, which have performed much better than expected as the equity markets remain strong.

The priority for 2020 has been to manage cash flows to 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 resulted in shorter term investments and maintaining higher bank balances.

Looking forward to 2021, the priority will continue to be on maintaining proper cash flows while trying to take advantage of any swings in the equity market by either increasing or decreasing the City's PPN portfolio.

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 Money Market Investments
- Exhibit 5 – 2020 Bond Market Investments
- Exhibit 6 – 2020 DCA Fund Investments