



Report to: General Committee

Meeting Date: November 1, 2021

SUBJECT:	2021 Third Quarter Investment Performance Review
PREPARED BY:	Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated November 1, 2021 entitled “2021 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.

FINANCIAL CONSIDERATIONS:

The 2021 budget for Income Earned on Investments is \$11.0 million. The \$11.0 million budget is based on a forecasted \$458.3 million average balance invested at an average rate of 2.4%.

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	\$429.2m	2.60%	\$2,751,541
Q2	\$470.0m	2.31%	\$2,706,741
Q3	\$469.7m	2.31%	\$2,734,699
Q4	\$464.0m	2.40%	\$2,807,019
2021 Budget	\$458.3m	2.40%	\$11,000,000

The 2021 forecast for the first three quarters assumes an average general fund portfolio balance of \$456.4 million to be invested at an average rate of return of 2.40%. The actual average portfolio balance was below the forecasted amount, while the average rate of return was above the forecasted amount.

For the nine months ending September 30, 2021, the City of Markham's Income Earned on Investments was \$9.860 million, compared to a budget of \$8.193 million, representing a \$1.667 million favourable variance to budget.

Interest Rate

The Prime Rate has been stable at 2.45% throughout 2021. During the first three quarters of 2021, the City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 2.48%; 8 basis points higher than forecast. Furthermore, the City realized \$1.752 million of capital gains, increasing the actual rate of return to 3.02%. The difference in the rate of return accounts for a favourable variance of \$2.012 million.

Portfolio Balance

The forecasted average portfolio balance for the first three quarters of 2021 was \$456.4 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2021 was \$437.2 million. The lower portfolio balance accounts for an unfavourable variance of \$19.2m.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$456.4m	\$437.2m	(\$19.2m)
Interest Rate	2.40%	3.02%	0.62%
Investment Income	\$8.193m	\$9.860m	\$1.667m
Portfolio Balance Variance Impact			(\$0.345m)
Interest Rate Variance Impact			\$2.012m

Portfolio Composition

All investments made in 2021 adhered to the City of Markham investment policy. At September 30, 2021, 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, 2021 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 49%, Principal Protected Notes (PPNs) 37%, and GICs 14% (Exhibit 2).

At September 30, 2021, the City's general portfolio balance (all funds excluding DC) was \$422.5 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	45.9%
1 month to 3 months	0.0%
3 months to 1 year	11.5%
Over 1 year	42.6%
Weighted average investment term	1,683.0 days
Weighted average days to maturity	1,035.9 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 2021 was 0.12% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first three quarters of 2021 had an average return of 1.03%. Therefore, the City's money market investments outperformed 3-month T-Bills by 89 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first three quarters of 2021.

Bond Market Performance

The 2021 YTD highlights of Markham's bond portfolio are as follows:

- 9 bonds/Principal Protected Notes (PPNs) purchased with a face value of \$38.0 million
- 1 bond matured with a face value of \$3.5 million
- 3 bonds/PPNs sold with a face value of \$12.0 million
- \$1.752 million of capital gains realized

See Exhibit 5 for all Bonds held by the City of Markham in the first three quarters of 2021.

Outlook

Interest rates are expected to stay low though the remainder of 2021 and into 2022. There is little incentive to invest longer term at the moment, apart from purchasing PPNs when the timing is right. While interest rates are low and equity markets are performing well, an opportunity exists for the City to potentially make some capital gains by selling some investments. This will help the City achieve the \$11 million budget for 2021 and 2022.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

X

Joel Lustig
Treasurer

X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENT:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2021 Money Market Investments
- Exhibit 5 – 2021 Bond Market Investments
- Exhibit 6 – 2021 DCA Fund Investments