



Report to: General Committee

Meeting Date: May 9, 2022

SUBJECT: 2022 First Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated May 9, 2022 entitled “2022 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.

FINANCIAL CONSIDERATIONS:

The 2022 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 2.40%.

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
2022 Budget	\$458.3m	2.40%	\$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. As a result, the Q1 2022 forecast assumes an average general fund portfolio balance of \$429.2 million to be invested at an average rate of return of 2.60%. The actual average portfolio balance was lower than budget, while the average rate of return was greater than budget.

For the three months ending March 31, 2022, the City of Markham's Income Earned on Investments was \$4.641 million, compared to a budget of \$2.752 million, representing a \$1.889 million favourable variance to budget.

Interest Rate

In early March, The Bank of Canada made a change to the Prime Rate for the first time since March 2020, when they increased the rate by 25 basis points. This increase was expected to be the first of several increases expected in 2022.

The City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 2.76%, 16 basis points higher than forecast. Additionally, through the sale of two investments in Q1, the City earned \$1.776 million of capital gains, thereby increasing the rate of return to 4.47%.

The difference in the rate of return accounts for a favourable variance of \$1.939 million.

Portfolio Balance

The forecasted average portfolio balance for Q1 2022 was \$429.2 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2022 was \$421.4 million. The lower portfolio balance accounts for an unfavourable variance of \$50,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$429.2m	\$421.4m	(\$7.8m)
Interest Rate	2.60%	4.47%	1.87%
Investment Income	\$2.752m	\$4.641m	\$1.889m
Portfolio Balance Variance Impact			(\$0.050m)
Interest Rate Variance Impact			\$1.939m

Portfolio Composition

All investments made in the first quarter of 2022 adhered to the City of Markham investment policy. At March 31, 2022, 36% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 64% 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, 2022 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 43%, Principal Protected Notes (PPNs) 29%, and GICs 28% (Exhibit 2).

At March 31, 2022, the City's general portfolio balance (all funds excluding DC) was \$603.6 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	53.7%
1 month to 3 months	1.0%
3 months to 1 year	14.8%
Over 1 year	30.5%
Weighted average investment term	1,259.5 days
Weighted average days to maturity	808.8 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 2022 was 0.56% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first quarter of 2022 had an average return of 1.34%. Therefore, the City's money market investments outperformed 3-month T-Bills by 78 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2022.

Bond Market Performance

The 2022 YTD highlights of Markham's bond portfolio are as follows:

- 3 bonds/Principal Protected Notes (PPNs) purchased with a face value of \$23.0 million
- 1 bond matured with a face value of \$5.0 million
- 2 bonds/Principal Protected Notes (PPNs) sold with a face value of \$9.0 million
- \$1.776 million of capital gains earned

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2022.

Outlook

Interest rates are expected to continue to increase in 2022 as the Bank of Canada attempts to curb the growth of inflation. Much of these expected increases are being priced into the market. As a result, the remainder of the year represents a good buying opportunity.

As well, equity markets continue to stay strong which should translate into unrealized gains on 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:

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 – 2022 Q1 Money Market Investments
- Exhibit 5 – 2022 Q1 Bond Market Investments
- Exhibit 6 – 2022 Q1 DCA Fund Investments