



Report to: General Committee

Meeting Date: Nov 7, 2023

SUBJECT: 2023 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated November 7, 2023 entitled “2023 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 2023 budget for Income Earned on Investments is \$14.479 million (an increase of \$3.479 million from the 2022 budget). The \$14.479 million budget is based on a forecasted \$450.0 million average balance invested at an average rate of 3.22%. Interest rates are at levels that have not been seen for decades, which translates into higher investment income. The budget was not fully increased to reflect current rates, and instead was set based on what was deemed sustainable over a number of years. As such, it is likely there will be investment income surpluses over the next 12-36 months.

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

Period	Avg. Balance	Avg. Rate	Forecast
Q1	\$420.0m	3.22%	\$3,332,153
Q2	\$470.0m	3.22%	\$3,770,270
Q3	\$470.0m	3.22%	\$3,811,701
Q4	\$439.6m	3.22%	\$3,564,875
2023 Budget	\$450.0m	3.22%	\$14,479,000

The 2023 forecast for the first three quarters assumes an average general fund portfolio balance of \$453.5 million to be invested at an average rate of return of 3.22%. The actual average portfolio balance and the average rate of return were above the forecasted amounts.

For the nine months ending September 30, 2023, the City of Markham's Income Earned on Investments was \$24.557 million, compared to a budget of \$10.914 million, representing a \$13.643 million favourable variance to budget.

Interest Rate

Since March 2022, the Bank of Canada has raised interest rates multiple times. In 2023, the Bank of Canada has raised interest rates by 75 basis points, increasing the Prime Rate to 7.2%.

The City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 5.19% (197 basis points higher than budget). Additionally, through the sale of Principal Protected Notes, the City earned \$5.289 million of capital gains, thereby increasing the rate of return to 6.62%.

The difference in the rate of return accounts for a favourable variance of \$12.621 million.

Portfolio Balance

The forecasted average portfolio balance for the first three quarters of 2023 was \$453.5 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2023 was \$496.0 million. The higher portfolio balance accounts for a favourable variance of \$1.022 million.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$453.5m	\$496.0m	\$42.5m
Interest Rate	3.22%	6.62%	3.40%
Investment Income	\$10.914m	\$24.557m	\$13.643m
Portfolio Balance Variance Impact			\$1.022m
Interest Rate Variance Impact			\$12.621m

Portfolio Composition

All investments made in 2023 adhered to the City of Markham investment policy. At September 30, 2023, 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, 2023 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 41%, Principal Protected Notes (PPNs) 39%, and GICs 20% (Exhibit 2).

At September 30, 2023, the City's general portfolio balance (all funds excluding DCA) was \$421.5 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	39.7%
1 month to 3 months	0.0%
3 months to 1 year	16.1%
Over 1 year	44.2%
Weighted average investment term	1,729.5 days
Weighted average days to maturity	1,025.9 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 2023 was 4.65% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first three quarters of 2023 had an average return of 4.82%. Therefore, the City's money market investments outperformed 3-month T-Bills by 17 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first three quarters of 2023.

Bond Market Performance

The 2023 YTD highlights of Markham's bond portfolio are as follows:

- 5 bonds/Principal Protected Notes (PPNs) purchased with a face value of \$21.0 million
- 3 bond matured with a face value of \$16.3 million
- 3 bonds/PPNs sold with a face value of \$8.0 million
- \$5.289 million of capital gains realized

See Exhibit 5 for all Bonds held by the City of Markham in the first three quarters of 2023.

Outlook

Interest rates are expected to remain high through 2024. This provides a good opportunity to lock into long term investments with any available cash flow. The 2024 Investment budget is expected to increase and the final amount will be determined through the budget process.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

Joseph Silva, 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 – 2023 Money Market Investments
- Exhibit 5 – 2023 Bond Market Investments
- Exhibit 6 – 2023 DCA Fund Investments