



Report to: General Committee

Meeting Date: May 7, 2018

SUBJECT: 2018 First Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated May 7, 2018 entitled “2018 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:

For the three months ending March 31, 2018, the City of Markham's Income Earned on Investments was \$3.145 million, compared to a budget of \$2.589 million, representing a \$556,000 favourable variance.

The 2018 investment income budget is \$10.35 million which assumes an average portfolio balance of \$400.0 million and an average interest rate of 2.5875%. The monthly budget allocations reflect the changing portfolio balances and rates of returns throughout the year.

Period	Avg. Balance	Avg. Rate	Budget
Q1	\$360.0m	2.92%	\$2,589,041
Q2	\$425.0m	2.40%	\$2,544,241
Q3	\$425.0m	2.40%	\$2,572,200
Q4	\$389.4m	2.69%	\$2,644,518
2018 Total	\$400.0m	2.5785%	\$10,350,000

The first quarter typically has low 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 2018 budget assumes an average general fund portfolio balance of \$360.0 million to be invested at an average rate of return of 2.92%. The actual average portfolio balance and the average rate of return were both above the budgeted levels.

Interest Rate

At the beginning of 2018, the Bank of Canada Prime Rate was at 3.20%. In mid-January, the prime rate was increased to 3.45%. During the first quarter of 2018, the City's general portfolio investments had an average interest rate of 3.36%; 44 basis points higher than budget. The difference in the rate of return accounts for a favourable variance of \$417,000.

Portfolio Balance

The budgeted average portfolio balance for Q1 2018 was \$360.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2018 was \$379.3 million. The higher portfolio balance accounts for a favourable variance of \$139,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$360.m	\$379.3m	\$17.9m
Interest Rate	2.92%	3.36%	0.44%
Investment Income	\$2.589m	\$3.145m	\$0.556m
Portfolio Balance Variance Impact			\$0.139m
Interest Rate Variance Impact			\$0.417m

Portfolio Composition

All investments made in the first quarter of 2018 adhered to the City of Markham investment policy. At March 31, 2018, 46% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 54% 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, 2018 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 89%, and GICs 11% (Exhibit 2).

At March 31, 2018, the City's general portfolio balance (all funds excluding DC) was \$476.4 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	48.2%
1 month to 3 months	3.3%
3 months to 1 year	7.3%
Over 1 year	41.2%
Weighted average investment term	1,371.5 days
Weighted average days to maturity	779.0 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 quarter of 2018 was 1.63% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the City of Markham during the first quarter of 2018 had an average return of 1.89%. Therefore, the City's money market investments outperformed 3-month T-Bills by 26 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2018.

Bond Market Performance

The 2018 YTD highlights of Markham's bond portfolio are as follows:

- 3 bonds matured with a face value of \$9.0 million

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2018.

Outlook

With the interest rate increase in mid-January, the \$10.35 million annual budget will likely be surpassed and allows for the possibility to increase the Investment Income budget in 2019.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

2018-04-23

2018-04-23

X 

Joel Lustig
Treasurer
Signed by: cxa

X 

Trinela Cane
Commissioner, Corporate Services
Signed by: cxa

ATTACHMENT:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2018 Q1 Money Market Investments
- Exhibit 5 – 2018 Q1 Bond Market Investments
- Exhibit 6 – 2018 Q1 DCA Fund Investments