



Report to: General Committee

Meeting Date: May 1, 2017

SUBJECT: 2017 First Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated May 1, 2017 entitled “2017 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, 2017, the City of Markham's Income Earned on Investments was \$2.689 million, compared to a budget of \$2.589 million, representing a \$100,000 favourable variance.

The 2017 investment income budget is \$10.35 million which assumes an average portfolio balance of \$375.0 million and an average interest rate of 2.76%. The monthly budget allocation has been modified to reflect the changing portfolio balances throughout the year.

| Period | Avg. Balance | Avg. Rate | Budget |
|-------------------|-----------------|--------------|---------------------|
| Q1 | \$350.0m | 3.00% | \$2,589,041 |
| Q2 | \$400.0m | 2.55% | \$2,544,241 |
| Q3 | \$400.0m | 2.55% | \$2,572,200 |
| Q4 | \$349.7m | 3.00% | \$2,644,518 |
| 2017 Total | \$375.0m | 2.76% | \$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 2017 budget assumes an average general fund portfolio balance of 350.0 million to be invested at an average rate of return of 3.00%. The actual average portfolio balance was slightly below the budgeted level, while the average rate of return was above the budgeted level.

Interest Rate

The Bank of Canada Prime Rate was at 2.70% throughout the first quarter, while 10 year Canada bonds averaged 1.70%. During the first quarter of 2017, the City's general portfolio investments had an average interest rate of 2.69%; 31 basis points lower than budget. However, through bond trading, the City realized \$379,000 of Capital Gains, thereby increasing the actual rate of return to 3.13%; 13 basis points over the budgeted rate. The difference in the rate of return accounts for a favourable variance of \$111,000.

Portfolio Balance

The budgeted average portfolio balance for Q1 2017 was \$350.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2017 was \$348.5 million. The portfolio balance accounts for an unfavourable variance of \$11,000.

Variance Summary

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|---------------|---------------|-------------------|
| Portfolio Balance | \$350.m | \$348.5m | (\$1.5m) |
| Interest Rate | 3.00% | 3.13% | 0.13% |
| Investment Income | \$2.589m | \$2.689m | \$0.100m |
| Portfolio Balance Variance Impact | | | (\$0.011m) |
| Interest Rate Variance Impact | | | \$0.111m |

Portfolio Composition

All investments made in the first quarter of 2017 adhered to the City of Markham investment policy. At March 31, 2017, 43% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 57% 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, 2017 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 76%, and GICs 24% (Exhibit 2).

At March 31, 2017, the City's general portfolio balance (all funds excluding DC) was \$490.2 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 | 44.3% |
| 1 month to 3 months | 3.7% |
| 3 months to 1 year | 20.0% |
| Over 1 year | 32.0% |
| Weighted average investment term | 1,295.9 days |
| Weighted average days to maturity | 753.8 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 2017 was 0.48% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the City of Markham during the first quarter of 2017 had an average return of 1.30%. Therefore, the City's money market investments outperformed 3-month T-Bills by 82 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2017.

Bond Market Performance

The 2017 YTD highlights of Markham's bond portfolio are as follows:

- 4 bonds were purchased with a face value of \$23.0 million
- 3 bonds were sold with a face value of \$10.8 million
- \$379,000 of Capital Gains were realized

Outlook

While interest rates continue to stay low, the increase in portfolio balance is allowing the City to reach its budget targets. Approximately 50% of 2017 forecasted average portfolio balance has been invested in instruments greater than one year to maturity. Based on the known returns on these investments, it is forecasted that the \$10.35 million investment income budget will be met in 2017.

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 – 2017 Q1 Money Market Investments
- Exhibit 5 – 2017 Q1 Bond Market Investments
- Exhibit 6 – 2017 Q1 DCA Fund Investments