



Report to: General Committee

Report Date: October 31, 2016

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**SUBJECT:** 2016 Third Quarter Investment Performance Review  
**PREPARED BY:** Mark Visser, Senior Manager of Financial Strategy & Investments

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**RECOMMENDATION:**

THAT the report dated October 31, 2016 entitled “2016 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.

**BACKGROUND:**

For the nine months ending September 30, 2016, the City of Markham’s Income Earned on Investments was \$7.952 million, compared to a budget of \$7.741 million, representing a \$211,000 favourable variance.

The 2016 investment income budget is \$10.35 million which assumes an average portfolio balance of \$300.0 million and an average interest rate of 3.45%. The monthly budget allocation has been modified to reflect the changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Budget
Q1	\$260.9m	3.45%	\$2,219,178
Q2	\$319.2m	3.45%	\$2,745,940
Q3	\$319.2m	3.45%	\$2,776,115
Q4	\$300.0m	3.45%	\$2,608,767
<b>2016 Total</b>	<b>\$300.0m</b>	<b>3.45%</b>	<b>\$10,350,000</b>

The budget for the first three quarters of 2016 assumes an average general fund portfolio balance of \$300.0 million to be invested at an average rate of return of 3.45%. The actual average portfolio balance was higher than the budgeted level, while the average rate of return was below the budgeted level.

### Interest Rate

The Bank of Canada Prime Rate was at 2.70% throughout the first three quarters of 2016, while 10 year Canada bonds averaged 1.18% which offered little incentive to invest in longer duration instruments, but did create a good environment to realize some capital gains. During the first three quarters of 2016, the City's general portfolio investments had an average interest rate of 2.89%; 56 basis points lower than budget. However, through bond trading, the City realized \$712,000 of Capital Gains, thereby increasing the actual rate of return to 3.17%; still 28 basis points lower than the budgeted rate. The difference in the rate of return accounts for an unfavourable variance of \$695,000.

### Portfolio Balance

The budgeted average portfolio balance for the first three quarters of 2016 was \$300.0 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2016 was \$335.1 million. The higher portfolio balance accounts for a favourable variance of \$906,000.

### Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$300.0m	\$335.1m	\$35.1m
Interest Rate	3.45%	3.17%	(0.28%)
Investment Income	\$7.741m	\$7.952m	<b>\$0.211m</b>
Portfolio Balance Variance Impact			<b>\$0.906m</b>
Interest Rate Variance Impact			<b>(\$0.695m)</b>

### **Portfolio Composition**

All investments made in the first three quarters of 2016 adhered to the City of Markham investment policy. At September 30, 2016, 41% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 59% 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, 2016 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 73%, and GICs 27% (Exhibit 2).

At September 30, 2016, the City's portfolio balance for all funds was \$346.1 million (including bank balances). DCA investments represented \$16.2 million of this amount. The City's portfolio (all funds excluding DCA) of \$329.9 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	19.4%
1 month to 3 months	1.5%
3 months to 1 year	25.3%
Over 1 year	53.9%
Weighted average investment term	1,854.1 days
Weighted average days to maturity	989.3 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 2016 was 0.50% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the City of Markham during the first three quarters of 2016 had an average return of 1.29%. Therefore, the City's money market investments outperformed 3-month T-Bills by 79 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first three quarters of 2016.

### ***Bond Market Performance***

The 2016 YTD highlights of Markham's bond portfolio are as follows:

- 6 bonds were purchased with a face value of \$29.7 million
- 4 bonds were sold with a face value of \$12.0 million
- \$713,000 of Capital Gains were realized

### **Outlook**

Interest rates remain extremely low and as investments mature, there are limited reinvestment opportunities. However, because of investments made in previous years, the \$10.35M annual budget is sustainable for 2017. Staff will continue to monitor the interest rate environment to try to take advantage of fluctuations in the market and reassess future year forecasts as rates change.

**OPTIONS/ DISCUSSION:**

Not Applicable

**FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)**

Not Applicable

**ENVIRONMENTAL CONSIDERATIONS:**

Not Applicable

**ACCESSIBILITY CONSIDERATIONS:**

Not Applicable

**BUSINESS UNITS CONSULTED AND AFFECTED:**

Not Applicable

**RECOMMENDED BY:**

10/25/2016

25/10/2016

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Joel Lustig  
Treasurer

X 

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Trinela Cane  
Commissioner, Corporate Services

**ATTACHMENT 1:**

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2016 Money Market Investments
- Exhibit 5 – 2016 Bond Market Investments
- Exhibit 6 – 2016 DCA Fund Investments