



Report to: General Committee

Report Date: May 2, 2016

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

RECOMMENDATION:

THAT the report dated May 2, 2016 entitled “2016 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:

For the three months ending March 31, 2016, the City of Markham’s Income Earned on Investments was \$2.683 million, compared to a budget of \$2.219 million, representing a \$464,000 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
2016 Total	\$300.0m	3.45%	\$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 2016 budget assumes an average general fund portfolio balance of \$260.9 million to be invested at an average rate of return of 3.45%. The actual average portfolio balance and average rate of return were above the budgeted levels.

Interest Rate

The Bank of Canada Prime Rate was at 2.70% throughout the first quarter, while 10 year Canada bonds averaged 1.21% which offered little incentive to invest in longer duration instruments but did create a good environment to realize some capital gains. During the first quarter of 2016, the City's general portfolio investments had an average interest rate of 3.06%; 39 basis points lower than budget. However, through bond trading, the City realized \$498,000 of Capital Gains, thereby increasing the actual rate of return to 3.76%; 31 basis points over the budgeted rate. The difference in the rate of return accounts for a favourable variance of \$222,000.

Portfolio Balance

The budgeted average portfolio balance for Q1 2016 was \$260.9 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2016 was \$289.2 million. The higher portfolio balance accounts for a favourable variance of \$242,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$260.9m	\$289.2m	\$28.3m
Interest Rate	3.45%	3.76%	0.27%
Investment Income	\$2.219m	\$2.683m	\$0.464m
Portfolio Balance Variance Impact			\$0.242m
Interest Rate Variance Impact			\$0.222m

Portfolio Composition

All investments made in the first quarter of 2016 adhered to the City of Markham investment policy. At March 31, 2016, 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, 2016 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 72%, and GICs/ 28% (Exhibit 2).

At March 31, 2016, the City's portfolio balance for all funds was \$467.6 million (including bank balances). DCA investments represented \$0.2 million of this amount. The City's portfolio (all funds excluding DCA) of \$467.4 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	38.1%
1 month to 3 months	11.1%
3 months to 1 year	8.9%
Over 1 year	41.9%
Weighted average investment term	1,284.9 days
Weighted average days to maturity	711.1 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 2016 was 0.46% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the City of Markham during the first quarter of 2016 had an average return of 1.34%. Therefore, the City's money market investments outperformed 3-month T-Bills by 88 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2016.

Bond Market Performance

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

- 2 bonds were purchased with a face value of \$11.0 million
- 3 bonds were sold with a face value of \$9.0 million
- \$498,000 of Capital Gains were realized

Internal Borrowing

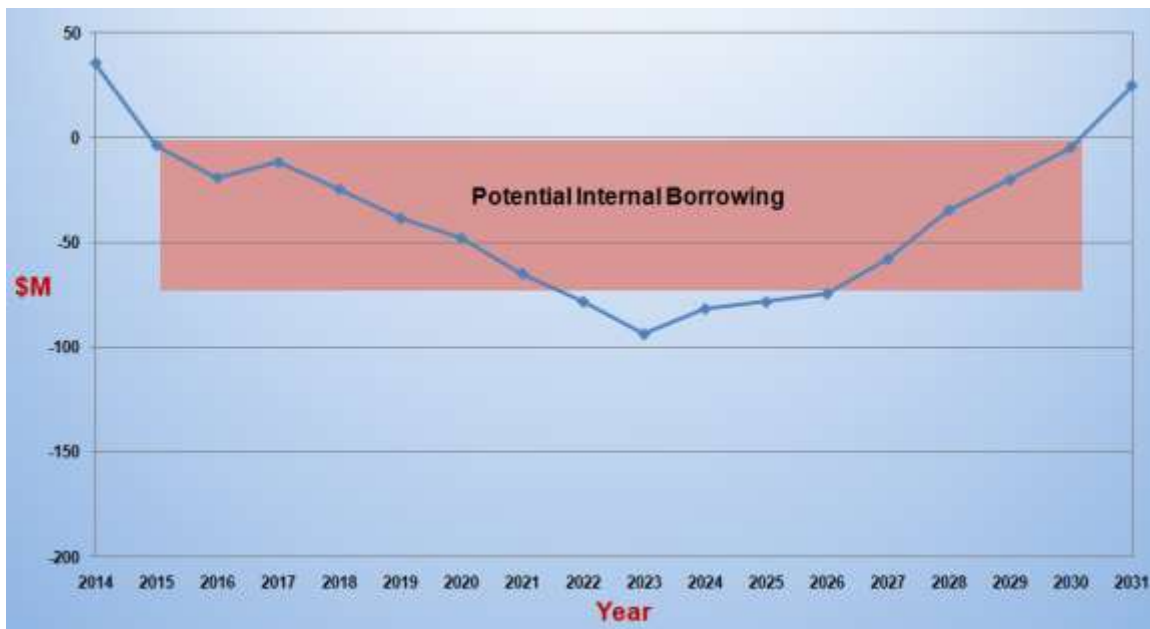
2016 marks the first year of sustained borrowing for the Development Charges (DC) reserves. In February, the DC reserves went into a negative position for the first time.

Past presentations to General Committee forecasted that DC borrowing would begin in late 2015/early 2016.

In 2010, Council approved a Development Charge Borrowing Policy which stated that “the City may loan the DC reserves up to a cumulative maximum of 25% of the previous year’s average general portfolio balance”. The 2015 general portfolio balance was approximately \$290.0M, therefore, internal borrowing is capped at \$72.5M.

In January, the DC Reserves borrowed \$20.0M from the general portfolio at the prime rate (2.70%).

Forecasts of DC revenues and expenditures indicate that internal borrowing can sustain the funding requirements of the DC reserves until approximately 2022, when external borrowing would be required.



Outlook

Approximately 65% of the 2016 forecasted average portfolio balance has been invested in instruments with 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 2016.

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:

4/26/2016

26/04/2016

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Joel Lustig
Treasurer

X 

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 Q1 Money Market Investments
- Exhibit 5 – 2016 Q1 Bond Market Investments
- Exhibit 6 – 2016 Q1 DCA Fund Investments