



Report to: General Committee

Report Date: October 26, 2015

SUBJECT: 2015 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

THAT the report dated October 26, 2015 entitled “2015 Third Quarter Investment Performance Review” be received.

EXECUTIVE SUMMARY:

Not applicable

PURPOSE:

Pursuant to Regulation 74/97 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, 2015, the City of Markham’s Income Earned on Investments was \$7.739 million, compared to a budget of \$7.741 million, representing a \$2,000 unfavourable variance.

The 2015 investment income budget is \$10.35 million which assumes an average portfolio balance of \$258.8 million and an average interest rate of 4.00%. The monthly budget allocation has been modified to reflect the changing portfolio balances throughout the year.

| Period | Avg. Balance | Avg. Rate | Budget |
|-------------------|-----------------|--------------|---------------------|
| Q1 | \$225.0m | 4.00% | \$2,219,178 |
| Q2 | \$275.4m | 4.00% | \$2,745,940 |
| Q3 | \$275.4m | 4.00% | \$2,776,115 |
| Q4 | \$258.8m | 4.00% | \$2,608,767 |
| 2015 Total | \$258.8m | 4.00% | \$10,350,000 |

The budget for the first three quarters of 2015 assumes an average general fund portfolio balance of \$258.8 million to be invested at an average rate of return of 4.00%. The actual average portfolio balance was higher than the budgeted level, while the average rate of return was below the budgeted level.

Interest Rate

In January, the Bank of Canada lowered the Bank of Canada Prime Rate from 3.00% to 2.85%. In July, there was a further 15 basis point cut to the Prime Rate. As a result, short-term money market rates have been in the 1.00% range for most of the year, while 10-year Canada bonds average 1.52% over the first three quarters. During the first three quarters of 2015, the City's general portfolio investments had an average interest rate of 3.80%; 20 basis points lower than budget. However, through bond trading, the City realized \$294,000 of Capital Gains, thereby increasing the actual rate of return to 3.95%; 5 basis points lower than the budgeted rate. The difference in the rate of return accounts for an unfavourable variance of \$93,000.

Portfolio Balance

The budgeted average portfolio balance for the first three quarters of 2015 was \$258.8 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2015 was \$261.8 million. The higher portfolio balance accounts for a favourable variance of \$91,000.

Variance Summary

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------|---------------|---------------|-------------------|
| Portfolio Balance | \$258.8m | \$261.8m | \$3.0m |
| Interest Rate | 4.00% | 3.95% | (0.05%) |
| Investment Income | \$7.741m | \$7.739m | (\$0.02m) |
| Portfolio Balance Variance Impact | | | \$0.091m |
| Interest Rate Variance Impact | | | (\$0.093m) |

Portfolio Composition

All investments made in the first three quarters of 2015 adhered to the City of Markham investment policy. At September 30, 2015, 52% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 48% 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, 2015 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 94%, and GICs 6% (Exhibit 2).

At September 30, 2015, the City's portfolio balance for all funds was \$380.7 million (including bank balances). DCA investments represented \$30.8 million of this amount. The City's portfolio (all funds excluding DCA) of \$349.9 million was broken down into the following investment terms (Exhibit 3):

| | |
|-----------------------------------|--------------|
| Under 1 month | 36.2% |
| 1 month to 3 months | 3.3% |
| 3 months to 1 year | 8.7% |
| Over 1 year | 51.8% |
| Weighted average investment term | 1,710.5 days |
| Weighted average days to maturity | 908.2 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 2015 was 0.56% (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 2015 had an average return of 1.31%. Therefore, the City's money market investments outperformed 3-month T-Bills by 75 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first three quarters of 2015.

Bond Market Performance

The 2015 YTD highlights of Markham's bond portfolio are as follows:

- 8 bonds were purchased with a face value of \$36.2 million
- 3 bonds were sold with a face value of \$7.0 million
- \$294,000 of Capital Gains were realized

Outlook

Approximately 75% of 2015 forecasted average portfolio balance has been invested in instruments maturing in 2017 or later. Based on the known returns on these investments, it is forecasted that the \$10.35 million investment income budget will be achieved in both 2015 and 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:

27/10/2015

16/10/2015

X 

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 – 2015 Q3 Money Market Investments](#)

[Exhibit 5 – 2015 Q3 Bond Market Investments](#)

[Exhibit 6 – 2015 Q3 DCA Fund Investments](#)