



Report to: General Committee

Report Date: April 28, 2014

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**SUBJECT:** 2014 First Quarter Investment Performance Review  
**PREPARED BY:** Mark Visser, Senior Manager of Financial Strategy & Investments

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**RECOMMENDATION:**

THAT the report dated April 28, 2014 entitled “2014 First 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 three months ending March 31, 2014, the City of Markham’s Income Earned on Investments was \$2.509 million, compared to a budget of \$2.219 million, representing a \$290,000 favourable variance.

The 2014 investment income budget is \$10.35 million which assumes an average portfolio balance of \$250 million and an average interest rate of 4.14%. The monthly budget allocation has been modified to reflect the changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Budget
Q1	\$217.4m	4.14%	\$2,219,178
Q2	\$266.0m	4.14%	\$2,745,940
Q3	\$266.0m	4.14%	\$2,776,115
Q4	\$250.0m	4.14%	\$2,608,767
<b>2013 Total</b>	<b>\$250.0m</b>	<b>4.14%</b>	<b>\$10,350,000</b>

The first quarter typically has low average portfolio balances as Markham makes payments to the Region and School Board on December 15<sup>th</sup> and doesn't begin collecting tax payments again until February. As a result, the Q1 2014 budget assumes an average general fund portfolio balance of \$217.4 million to be invested at an average rate of return of 4.14%. The actual average portfolio balance was lower than the budgeted level, while the average rate of return was above the budgeted level.

### Interest Rate

In the first quarter of 2014, the Bank of Canada Prime Rate was at 3.00%, with short-term money market rates in the 1.00-1.40% range. During the first quarter of 2014, the City's general portfolio investments had an average interest rate of 3.90%; 24 basis points lower than budget. However, through bond trading, the City realized \$459,000 of Capital Gains, thereby increasing the actual rate of return to 4.77%; 63 basis points over the budgeted rate. The difference in the rate of return accounts for a favourable variance of \$332,000.

### Portfolio Balance

The budgeted average portfolio balance for Q1 2014 was \$217.4 million. The actual average general fund portfolio balance (including bank balances) for the first quarter of 2014 was \$213.3 million. The lower portfolio balance accounts for an unfavourable variance of \$42,000.

### Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$217.4.0m	\$213.3m	(\$4.1m)
Interest Rate	4.14%	4.77%	0.63%
Investment Income	\$2.219m	\$2.509m	<b>\$0.290m</b>
Portfolio Balance Variance Impact			<b>(\$0.042m)</b>
Interest Rate Variance Impact			<b>\$0.332m</b>

### **Portfolio Composition**

All investments made in the first quarter of 2014 adhered to the City of Markham investment policy. At March 31, 2014, 58% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 42% 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, 2014 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 73%, T-Bills 8%, and GICs 19% (Exhibit 2).

At March 31, 2014, the City's portfolio balance for all funds was \$507.2 million (including bank balances). DCA investments represented \$74.0 million of this amount. The City's portfolio (all funds excluding DCA) of \$433.2 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	46.2%
1 month to 3 months	3.4%
3 months to 1 year	2.1%
Over 1 year	48.3%
Weighted average investment term	1,365.2 days
Weighted average days to maturity	814.6 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 2014 was 0.88% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the City of Markham during the first quarter of 2014 had an average return of 1.27%. Therefore, the City's money market investments outperformed 3-month T-Bills by 39 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2014.

### **Bond Market Performance**

The 2014 YTD highlights of Markham's bond portfolio are as follows:

- 3 bonds were purchased with a face value of \$12.0 million
- 2 bonds were sold with a face value of \$7.0 million
- \$459,000 of Capital Gains were realized

Throughout most of Q1 2014, both the short and long term bond rates were relatively stable, therefore the opportunities for bond trading were limited.

### **Outlook**

Over 80% of 2014 forecasted average portfolio balance has been invested in instruments greater than one year in duration. Based on the known returns on these investments, it is forecasted that the \$10.35 million investment income budget will be achieved in 2014.

**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:**

08/04/2014

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Joel Lustig  
Treasurer

08/04/2014

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 – 2014 Q1 Money Market Investments
- Exhibit 5 – 2014 Q1 Bond Market Investments
- Exhibit 6 – 2014 Q1 DCA Fund Investments