



Report to: General Committee

Report Date: October 12th, 2012

SUBJECT: 2012 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

THAT the report dated October 12, 2012 entitled “2012 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, 2012, the City of Markham’s Income Earned on Investments was \$7.300 million, compared to a budget of \$7.289 million, representing an \$11,000 favourable variance.

The 2012 investment income budget is \$9.745 million (an increase of \$0.2 million over 2011) which assumes an average portfolio balance of \$243.6 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	\$205.0m	4.00%	\$2,044,384
Q2	\$261.5m	4.00%	\$2,607,836
Q3	\$261.5m	4.00%	\$2,636,493
Q4	\$243.6m	4.00%	\$2,456,274
2012 Total	\$243.6m	4.00%	\$9,745,000

The budget for the first three quarters of 2012 assumes an average general fund portfolio balance of \$243.6 million to be invested at an average rate of return of 4.00%. The actual average portfolio balance was below budgeted levels, while the average rate of return was higher than budget. The details of these two factors will be discussed below.

Interest Rate

Throughout 2012, 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 three quarters of 2012, the City's investments had an average interest rate of 4.07%; 7 basis points higher than budget. Furthermore, through active bond trading, the City realized \$413,000 of Capital Gains, thereby increasing the actual rate of return to 4.31%; 31 basis points over the budgeted rate. The difference in the rate of return accounts for a favourable variance of \$529,000.

Portfolio Balance

The budgeted average portfolio balance for the first three quarters of 2012 is \$243.6 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2012 was \$226.3 million. The lower portfolio balance accounts for an unfavourable variance of \$518,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$243.6m	\$226.3m	(\$17.3m)
Interest Rate	4.00%	4.31%	0.31%
Investment Income	\$7.289m	\$7.300m	\$0.11m
Portfolio Balance Variance Impact			(\$0.518m)
Interest Rate Variance Impact			\$0.529m

Portfolio Composition

All investments made in the first three quarters of 2012 adhered to the City of Markham investment policy. At September 30, 2012, 50% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 50% of

the portfolio was made up of instruments issued by Schedule I Banks. All of these levels are within the targets established in the City's Investment Policy (Exhibit 1).

The September 30, 2012 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 88% and GICs 12% (Exhibit 2).

At September 30, 2012, the City's portfolio balance for all funds was \$395.4 million (including bank balances). DCA investments represented \$84.3 million of this amount. The City's portfolio (all funds excluding DCA) of \$311.1 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	14.7%
1 month to 3 months	11.9%
3 months to 1 year	19.1%
Over 1 year	54.3%
Weighted average investment term	1,769.5 days
Weighted average days to maturity	1,090.4 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 2012 was 0.95% (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 2012 had an average return of 1.29%. Therefore, the City's money market investments outperformed 3-month T-Bills by 34 basis points. See Exhibit 4 for all money market securities held by the City of Markham in the first three quarters of 2012.

Bond Market Performance

The 2012 YTD highlights of Markham's bond portfolio are as follows:

- 11 bonds were purchased with a face value of \$49.6 million
- 2 bonds were sold with a face value of \$12.4 million
- \$413,000 of Capital Gains were realized

Throughout most of 2012, both the short and long term bond rates were relatively stable, therefore the opportunities for bond trading were limited.

Outlook

Interest Rates are currently at historically low levels (eg. 1.79% for a 10-year Canada bond) and there is little indication that rates will be increasing in 2013. Approximately 67% of 2012 forecasted average portfolio balance has been invested in instruments that have at least 2 years until maturity with yields notably higher than the current market rates. These investments will allow the City to increase its investment budget in 2013.

OPTIONS/ DISCUSSION:

Not Applicable

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

Not Applicable

ENVIRONMENTAL CONSIDERATIONS:

Not Applicable

ACCESSIBILITY CONSIDERATIONS:

Not Applicable

ENGAGE 21ST CONSIDERATIONS:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

29/10/2012

X 

Joel Lustig
Treasurer

26/10/2012

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 – 2012 Q3 Money Market Investments
- Exhibit 5 – 2012 Q3 Bond Market Investments
- Exhibit 6 – 2012 Q3 DCA Fund Investments