



Report to: General Committee

Report Date: April 27, 2012

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

RECOMMENDATION:

THAT the report dated April 27, 2012 entitled "2012 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, 2012, the Town of Markham's Income Earned on Investments was \$2.288 million, compared to a budget of \$2.044 million, representing a \$244,000 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%	\$2,456,287
2011 Total	\$243.6m	4.00%	\$9,745,000

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 2012 budget assumes an average general fund portfolio balance of \$205.0 million to be invested at an average rate of return of 4.00%. The actual average portfolio balance was below the budgeted level, while the average rate of return was above the budgeted level. The details of these two factors will be discussed below.

Interest Rate

In the first quarter of 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 quarter of 2012, the Town's investments had an average interest rate of 4.19%; 19 basis points higher than budget. Furthermore, through active bond trading, the Town realized \$302,000 of Capital Gains, thereby increasing the actual rate of return to 4.83%; 83 basis points over the budgeted rate. The difference in the rate of return accounts for a favourable variance of \$391,000.

Portfolio Balance

The budgeted average portfolio balance for Q1 2012 is \$205.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2012 was \$190.2 million. The lower portfolio balance accounts for an unfavourable variance of \$147,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$205.0m	\$190.2m	(\$14.8m)
Interest Rate	4.00%	4.83%	0.83%
Investment Income	\$2.044m	\$2.288m	\$0.244m
Portfolio Balance Variance Impact			(\$0.147m)
Interest Rate Variance Impact			\$0.391m

Portfolio Composition

All investments made in the first quarter of 2012 adhered to the Town of Markham investment policy. At March 31, 2012, 55% of the Town's portfolio (not including bank balances) was comprised of government issued securities. The remaining 45% of the portfolio was made up of instruments issued by Schedule 1 Banks. All of these levels are within the targets established in the Town's Investment Policy (Exhibit 1).

The March 31, 2012 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 73%, Term Deposits 12%, T-Bills/Provincial Notes 12%, and GICs 3% (Exhibit 2).

At March 31, 2012, the Town's portfolio balance for all funds was \$456.1 million (including bank balances). DCA investments represented \$103.9 million of this amount. The Town's portfolio (all funds excluding DCA) of \$352.2 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	24.1%
1 month to 3 months	13.7%
3 months to 1 year	10.2%
Over 1 year	52.0%
Weighted average investment term	1,503.5 days
Weighted average days to maturity	999.7 days

Money Market Performance

The Town 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 2012 was 0.88% (source: Bank of Canada). Non-DC Fund money market investments (including bank balances) held by the Town of Markham during the first quarter of 2012 had an average return of 1.24%. Therefore, the Town's money market investments outperformed 3-month T-Bills by 36 basis points. See Exhibit 4 for all Money Market securities held by the Town of Markham in the first quarter of 2012.

Bond Market Performance

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

- 2 bonds were purchased with a face value of \$12.0 million
- 1 bond was sold with a face value of \$7.4 million
- \$302,000 of Capital Gains were realized

Throughout most of Q1 2012, both the short and long term bond rates were relatively stable, therefore the opportunities for bond trading were limited.

Outlook

Over 75% of 2012 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 \$9.745 million investment income budget will be achieved in 2012. In the early stages of Q2 2012, the yields are beginning to increase which should present better buying opportunities for the Town.

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:

08/05/2012

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Joel Lustig, Treasurer
Acting Commissioner, Corporate Services

ATTACHMENT 1:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2012 Q1 Money Market Investments
- Exhibit 5 – 2012 Q1 Bond Market Investments
- Exhibit 6 – 2012 Q1 DCA Fund Investments

