



Report to: General Committee

Report Date: Feb 6, 2012

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**SUBJECT:** 2011 Investment Performance Review  
**PREPARED BY:** Mark Visser, Senior Manager of Financial Strategy & Investments x.4260

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**RECOMMENDATION:**

- 1) THAT the report dated February 6, 2012 entitled “2011 Investment Performance Review” be received;
- 2) AND THAT staff be authorized and directed to do all things necessary to give effect to this resolution.

**EXECUTIVE SUMMARY:**

Not applicable

**FINANCIAL CONSIDERATIONS:**

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.

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## BACKGROUND:

For the year ending December 31, 2011, the Town of Markham's Income Earned on Investments was \$11.04 million, compared to a budget of \$9.60 million, representing a \$1.44 million favourable variance.

The 2011 budget assumed an average general fund portfolio balance of \$234.15 million to be invested at an average rate of return of 4.10%. Both the actual average portfolio balance and the average rate of return were higher than budgeted levels. The details of these two factors will be discussed below.

### Interest Rate

Throughout 2011, the Bank of Canada Prime Rate was at 3.00%, with short-term money market rates in the 1.00-1.35% range. As well, bond rates dropped throughout the year as investors sought out less risky investments. 10-year Canada bonds dipped as low as 2.0% in September (approximately 80 basis points lower than the same point in 2010). The Town has able to take advantage of these low rates by selling some of its bond holdings and realizing substantial Capital Gains.

In 2011, the Town's investments had an average interest rate of 3.90%, 20 basis points below forecast. However, through active bond trading, the Town realized \$1.55 million of Capital Gains, thereby increasing the actual rate of return to 4.54%; 44 points higher than the 4.10% forecasted rate. The difference in the rate of return accounts for a favourable variance of \$1.07 million.

### Portfolio Balance

The budgeted average portfolio balance for 2011 was \$234.15 million. The actual average general fund portfolio balance (including cash balances) for 2011 was \$243.19 million, resulting in an additional \$9.04 million that was available for investment purposes. The higher portfolio balance accounts for a favourable variance of \$0.37 million.

### Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$234.15m	\$243.19m	\$9.04m
Interest Rate	4.10%	4.54%	0.44%
Investment Income	\$9.60m	\$11.04m	<b>\$1.44m</b>
Portfolio Balance Variance Impact			<b>\$1.07m</b>
Interest Rate Variance Impact			<b>\$0.37m</b>

## Portfolio Composition

All investments made in 2011 adhered to the Town of Markham investment policy. At December 31, 2011, 59% of the Town's portfolio was comprised of government issued securities and 41% of the portfolio was made up of instruments issued by Schedule A Banks. All of these levels are within the targets established in the Town's Investment Policy. (Exhibit 1).

The December 31, 2011 investment portfolio was comprised of the following instruments: Bonds 61%; Accruals/Residuals 39% (Exhibit 2).

At December 31, 2011, the Town's portfolio balance for all funds was \$365.2 million (including bank balances). DCA investments represented \$69.9 million of this amount. The Town's portfolio (all funds excluding DCA) of \$295.3 million was broken down into the following investment terms (Exhibit 3):

	<u>2011</u>	<u>2010</u>
Under 1 month	24.9%	27.3%
1 month to 3 months	0.3%	6.2%
3 months to 1 year	14.0%	4.0%
Over 1 year	60.7%	62.4%
Weighted average investment term	1,836.3 days	1,659.1 days
Weighted average days to maturity	1,280.5 days	1,184.9 days

Since December 31, 2010, the weighted average days to maturity has increased from 1,184.9 days to 1,280.5 days. This reflects the fact that the Town invested over \$33 million in 2011 in instruments greater than 5 years in length.

## 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 2011 was 0.92% (source: Bank of Canada). Non-DCA Fund money market investments held by the Town of Markham in 2011 (including bank balances) had an average return of 1.27%. Therefore, the Town's money market investments outperformed 3-month T-Bills by 35 basis points. See Exhibit 4 for all Money Market securities held by the Town of Markham in 2011.

## Bond Market Performance

2011 marks the tenth year of the Town's bond strategy. The 2011 highlights of the program are as follows:

- 20 bonds were purchased with a face value of \$86.3 million
- 9 bonds were sold with a combined face value of \$22.5 million
- \$1,555,000 million of Capital Gains were realized

At December 31, 2011, the Town held 75 bonds (up from 70 in 2010) in the general fund portfolio. The amortized value of these bonds at year-end was \$227.7 million (an increase of \$32.2 million over 2010). The market value of these bonds at December 31, 2011 was \$242.0 million. This translates into \$14.3 million of unrealized gains at year end (up from \$6.9 million at the end of 2010).

In 2011, the Town continued to increase its bond holdings to take advantage of the yield curve while it was relatively steep (i.e. long term rates were notably higher than short term rates) during the first half of the year (over 90% of the Town's long term bond purchases in 2011 occurred before the end of the second quarter).

Throughout the year, and especially in the second half when longer term rates began to drop, the Town took advantage by selling bonds and earning \$1,555,000 in Capital Gains (68% of the Capital Gains were earned June through October). See Appendix 5 for all 2011 bond transactions.

In November, 2009, Council granted approval to establish a Capital Gains Reserve to be funded through surpluses in the Capital Gains account. As the budget for Capital Gains is \$200,000/year (incorporated into the \$9.6 million budget), up to \$1,355,000 can be transferred to the Capital Gains Reserve to offset fluctuations in returns in future years. The exact amount of this transfer will be brought forward to Council in the Year End Results of Operations report later in the first quarter of 2011.

### **Reserve Funds and Other Interest**

The following table outlines the interest on investments for all major Town funds and reserves.

	<u>Average Balance</u>	<u>Interest Earned</u>	<u>Average Rate</u>
General Portfolio	\$243,200,000	\$11,038,000	4.54%
Reserve Funds	\$115,900,000	\$1,415,000	1.22%
Trust Funds	\$2,300,000	\$93,000	4.13%
Powerstream Promissory Note	\$67,900,000	\$3,787,000	5.58%
MEC/District Energy Loans	\$16,800,000	\$785,000	4.67%
Development Charge Reserves	\$75,400,000	\$1,073,000	1.42%

Because of the large swing in portfolio balances throughout the year (due to the timing of the collection and disbursement of taxes), there will always need to be a significant portion of the Town's funds invested in the money market.

The Town's Interest Allocation Policy (as approved by Council) stipulates that money market rates be allocated to the interest bearing reserves and bond interest be allocated to the general portfolio. The reasons for this are 1) over the long term, bond rates generally outperform money market rates, therefore the Town is able to achieve higher rates of return in its general portfolio and thereby reducing the immediate need for tax increases; 2) bond market rates are more stable which allows for smoother budgeting; and 3)

reserves and reserve funds can more easily absorb these money market rate fluctuations as the requirements for these funds are longer term in nature.

The average rate earned for the Development Charge Reserves is also low as the majority of investments need to be kept short term, as it is forecasted that the reserves will be depleted by 2013.

## **OPTIONS/ DISCUSSION:**

### **Outlook**

Short term interest rates remained stable in the 1.00-1.35% range for all of 2011. However, long term rates hit historic lows in the second half of the year. The forecast for 2012 indicates that longer term rates will start to rise. The Town's strategy for early 2012 will be to continue selling bonds before the rates begin to increase.

Although rates have been low for a sustained period of time, the Town is still well positioned to weather the current environment. At the beginning of 2012, the Town's amortized bond and long term accrual investments balance was approximately \$227.7 million, with approximately 70% of that amount locked in until at least 2014 at attractive rates.

The Investment Income budget for 2012 is \$9.8 million (an increase of \$0.2 million over the 2011 budget). This is comprised of an estimated \$245.0 million general portfolio balance invested at an average rate of 4.00%.

### **FINANCIAL TEMPLATE (Separate Attachment):**

Not applicable

### **ENVIRONMENTAL CONSIDERATIONS:**

Not applicable

### **ACCESSIBILITY CONSIDERATIONS:**

Not applicable

### **ENGAGE 21<sup>ST</sup> CONSIDERATIONS:**

Not applicable

### **BUSINESS UNITS CONSULTED AND AFFECTED:**

[Insert text here]

**RECOMMENDED BY:**

26/01/2012

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Joel Lustig  
Treasurer, Acting Commissioner

**ATTACHMENTS:**

[Attachment 1:](#)

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2011 Money Market Investments
- Exhibit 5 – 2011 Bond Market Investments
- Exhibit 6 – 2011 DCA Fund Investments