MARKHAM

Report to: General Committee Report Date: October 31, 2011

SUBJECT: 2011 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

THAT the report dated October 31, 2011 entitled "2011 Third Quarter Investment Performance Review" be received.

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, 2011, the Town of Markham's Income Earned on Investments was $8.341 million, compared to a budget of $7.180 million, representing a $1.161 million favourable variance.

The 2011 investment income budget is $9.6 million (an increase of $0.4 million over 2010) which assumes an average portfolio balance of $234.15 million and an average interest rate of 4.10%. The monthly budget allocation has been set to reflect the changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Budget
Q1	$215.00m	4.10%	$2,173,561
Q2	$244.00m	4.10%	$2,494,149
Q3	$243.13m	4.10%	$2,512,564
Q4	$234.15m	4.10%	$2,419,726
2011 Total	**$234.15m**	**4.10%**	**$9,600,000**

The budget for the first three quarters of 2011 assumes 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 average rate or return were higher than the 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 continued to drop 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 it its bond holdings and realizing substantial Capital Gains.

During the first three quarters of 2011, the Town's investments had an average interest rate of 3.90%; 20 basis points lower than budget. Q2 and Q3 is when the Town takes in the majority of tax money to be paid to the Region and School Boards, therefore the portfolio balances are at their peak. However, this money must be invested in short term investments that have very minimal returns, thereby decreasing the average rate of return. However, through active bond trading, the Town realized $1.25 million of Capital Gains, thereby increasing the actual rate of return to 4.59%; 49 basis points higher than the budgeted rate. The difference in the rate of return accounts for a favourable variance of $894,000.

Portfolio Balance

The budgeted average portfolio balance for the first three quarters of 2011 was $234.15 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2011 was $242.87 million. The higher portfolio balance accounts for a favourable variance of $267,000.

Portfolio Composition

All investments made in the first three quarters of 2011 adhered to the Town of Markham investment policy. At September 30, 2011, 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 September 30, 2011 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds and similar instruments 73%, T-Bills/ Provincial Promissory Notes 10%, and Certificates of Deposit/Term Deposits 17% (Exhibit 2).

At September 30, 2011, the Town's portfolio balance for all funds was $379.9 million (including bank balances). DCA investments represented $112.3 million of this amount. The Town's portfolio (all funds excluding DCA) of $267.5 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	10.7%
1 month to 3 months	9.3%
3 months to 1 year	8.3%
Over 1 year	71.7%
Weighted average investment term	1,970.5 days
Weighted average days to maturity	1,428.2 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 three quarters of 2011 was 0.94% (source: Bank of Canada). Non-DC Fund money market investments held by the Town of Markham during the first three quarters of 2011 had an average return of 1.27%. Therefore, the Town's money market investments outperformed 3-month T-Bills by 33 basis points. See Exhibit 4 for all Money Market securities held by the Town of Markham in the first three quarters of 2011.

Bond Market Performance

The 2011 YTD highlights of the program are as follows:

- 15 bonds were purchased with a face value of $70.5 million
- 7 bonds were sold with a face value of $18.5 million
- $1.25 million of Capital Gains were realized

Uncertainty with the global economic environment has caused long-term interest rates to fall to extremely low levels, with 10-year Canada bonds dipping to the 2.0% mark. Most of 2011 has provided an opportune time to reduce the average term of the portfolio and book some profits. As a result, the Town has earned $1.25 million of Capital Gains.

Outlook

The strategy for Q4 will be to invest in instruments with durations of less than five years and continue to sell longer-term bonds when appropriate. The forecast is that the $9.6 million target will be met by the end of the year. In addition, it is forecasted that at least $1.0 million of Capital Gains will be able to be transferred to the Capital Gains reserve to assist with future year's budgets.

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:

24/10/2011

X Joel Lustig

Joel Lustig
Treasurer

17/10/2011

X

Kimberley Kitteringham
Acting Commissioner Corporate Services

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