



Report to: General Committee

Meeting Date: April 30, 2024

SUBJECT: 2024 First Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments, x4260

RECOMMENDATION:

- 1) THAT the report dated April 30, 2024 entitled “2024 First Quarter Investment Performance Review” be received.

EXECUTIVE SUMMARY:

Not Applicable

PURPOSE:

Pursuant to Regulation 438/97 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:

Not Applicable

OPTIONS/ DISCUSSION:

Not Applicable

FINANCIAL CONSIDERATIONS:

The 2024 budget for Income Earned on Investments is \$17.479 million (an increase of \$3.000 million from the 2023 budget). The \$17.479 million budget is based on a forecasted \$500.0 million average balance invested at an average rate of 3.50%. Note: Interest rates are at levels that have not been seen for decades, which translates into higher investment income. The budget was not fully increased to reflect current rates; however, was set based on what was deemed sustainable over a number of years. Therefore, it is likely there will be investment income surpluses over the next 12-24 months.

The following table shows the budgeted investment income by quarter. The quarterly budget allocations reflect the projected changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Forecast
Q1	\$460.0m	3.50%	\$3,965,099
Q2	\$530.0m	3.50%	\$4,619,245
Q3	\$530.0m	3.50%	\$4,670,066
Q4	\$479.5m	3.50%	\$4,224,650
2024 Budget	\$500.0m	3.50%	\$17,479,000

The first quarter typically has lower 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 2024 forecast assumes an average general fund portfolio balance of \$460.0 million to be invested at an average rate of return of 3.50%. Both the actual average portfolio balance and average rate of return were greater than budget.

For the three months ending March 31, 2024, the City of Markham's Income Earned on Investments was \$11.173 million, compared to a budget of \$3.965 million, representing a \$7.208 million favourable variance to budget. Any surpluses at year-end will be transferred to reserves (e.g., Life Cycle Replacement and Capital Reserve) to help meet future City needs and requirements, as per City policies.

Interest Rate

Since March 2022, the Bank of Canada have raised interest rates multiple times. Throughout the first quarter of 2024, the Prime Rate remained unchanged at 7.2%.

The City's general portfolio investments (including interest charged to reserves with negative balances) had an average interest rate of 5.76%; 226 basis points higher than forecast. Additionally, through the sale of Principal Protected Notes in Q1, the City earned \$4.619 million of capital gains, thereby increasing the rate of return to 9.83%.

The difference in the rate of return accounts for a favourable variance of \$7.198 million.

Portfolio Balance

The forecasted average portfolio balance for Q1 2024 was \$460.0 million. The actual average general fund portfolio balance (including cash balances) for the first quarter of 2024 was \$461.1 million. The higher portfolio balance accounts for a favourable variance of \$10,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$460.0m	\$461.1m	\$1.1m
Interest Rate	3.50%	9.83%	6.33%
Investment Income	\$3.965m	\$11.173m	\$7.208m
Portfolio Balance Variance Impact			\$0.010m
Interest Rate Variance Impact			\$7.198m

Portfolio Composition

All investments made in the first quarter of 2024 adhered to the City of Markham investment policy. At March 31, 2024, 38% of the City's portfolio (not including bank balances) was comprised of government issued securities. The remaining 62% 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, 2024 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 45%, Principal Protected Notes (PPNs) 39%, and GICs 16% (Exhibit 2).

At March 31, 2024, the City's general portfolio balance (all funds excluding DC) was \$532.1 million (including bank balances). The City's portfolio (all funds excluding DCA) was broken down into the following investment terms (Exhibit 3):

Under 1 month	46.3%
1 month to 3 months	2.5%
3 months to 1 year	9.0%
Over 1 year	42.2%
Weighted average investment term	1,566.6 days
Weighted average days to maturity	1,023.3 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 2024 was 4.94% (source: Bank of Canada). Money market investments (including bank balances) held by the City of Markham during the first quarter of 2024 had an average return of 5.23%. Therefore, the City's money market investments outperformed 3-month T-Bills by 29 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first quarter of 2024.

Bond Market Performance

The 2024 YTD highlights of Markham's bond portfolio are as follows:

- 9 Bonds/Principal Protected Note (PPNs) purchased with a face value of \$49.0 million
- 1 bond matured with a face value of \$5.0 million
- 3 Principal Protected Notes (PPNs) sold with a face value of \$12.0 million
- \$4.619 million of capital gains earned

See Exhibit 5 for all Bonds held by the City of Markham in the first quarter of 2024.

Outlook

Interest rates are expected to start to decline in 2024. There has been a focused effort to invest any excess cash the City has in longer term bonds and PPNs in Q1 and the goal is to continue with this approach while the rates are high.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

X

Joseph Silva
Treasurer

X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENT:

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2024 Q1 Money Market Investments
- Exhibit 5 – 2024 Q1 Bond Market Investments
- Exhibit 6 – 2024 Q1 DCA Fund Investments