



Report to: General Committee

Report Date: November 12, 2018

SUBJECT: 2018 Third Quarter Investment Performance Review
PREPARED BY: Mark Visser, Senior Manager of Financial Strategy & Investments

RECOMMENDATION:

THAT the report dated November 12, 2018 entitled “2018 Third 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:

For the nine months ending September 30, 2018, the City of Markham’s Income Earned on Investments was \$10.101 million, compared to a budget of \$7.705 million, representing a \$2.396 million favourable variance.

The 2018 investment income budget is \$10.350 million which assumes an average portfolio balance of \$400.0 million and an average interest rate of 2.5875%. The monthly budget allocation has been modified to reflect the changing portfolio balances throughout the year.

Period	Avg. Balance	Avg. Rate	Budget
Q1	\$360.0m	2.92%	\$2,589,041
Q2	\$425.0m	2.40%	\$2,544,241
Q3	\$425.0m	2.40%	\$2,572,200
Q4	\$389.4m	2.69%	\$2,644,518
2018 Total	\$400.0m	2.5785%	\$10,350,000

The budget for the first three quarters of 2018 assumes an average general fund portfolio balance of \$403.7 million to be invested at an average rate of return of 2.55%. Both the actual average portfolio balance and average rate of return were above the budgeted levels.

Interest Rate

The Prime Rate started the year at 3.20%. The Bank of Canada increased the rate by 25 basis points in both January and July. These increases had a notable impact on long term interest rates. 10 year Canada bonds began the year trading at a 1.80% yield and had jumped to 2.48% by the end of the third quarter.

During the first three quarters of 2018, the City's general portfolio investments had an average interest rate of 3.23%; 68 basis points higher than budget. The difference in the rate of return accounts for a favourable variance of \$2.110 million.

Portfolio Balance

The budgeted average portfolio balance for the first three quarters of 2018 was \$403.7 million. The actual average general fund portfolio balance (including cash balances) for the first three quarters of 2018 was \$418.7 million. The higher portfolio balance accounts for a favourable variance of \$286,000.

Variance Summary

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Portfolio Balance	\$403.7m	\$416.7m	\$13.0m
Interest Rate	2.55%	3.23%	0.68%
Investment Income	\$7.705m	\$10.101m	\$2.396m
Portfolio Balance Variance Impact			\$0.286m
Interest Rate Variance Impact			\$2.110m

Portfolio Composition

All investments made in the first three quarters of 2018 adhered to the City of Markham investment policy. At September 30, 2018, 43% of the City's investment portfolio (not including bank balances) was comprised of government issued securities. The remaining 57% 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 September 30, 2018 investment portfolio (not including bank balances) was comprised of the following instruments: Bonds 82%, and GICs 18% (Exhibit 2).

At September 30, 2018, the City's portfolio balance for all funds was \$399.4 million (including bank balances). DCA investments represented \$29.0 million of this amount. The City's portfolio (all funds excluding DCA) of \$370.4 million was broken down into the following investment terms (Exhibit 3):

Under 1 month	38.1%
1 month to 3 months	1.9%
3 months to 1 year	17.9%
Over 1 year	42.1%
Weighted average investment term	1,750.4 days
Weighted average days to maturity	986.3 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 three quarters of 2018 was 1.28% (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 2018 had an average return of 2.04%. Therefore, the City's money market investments outperformed 3-month T-Bills by 76 basis points. See Exhibit 4 for all Money Market securities held by the City of Markham in the first three quarters of 2018.

Bond Market Performance

The 2018 YTD highlights of Markham's bond portfolio are as follows:

- 4 bonds were purchased with a face value of \$18.7 million
- 10 bonds matured with a face value of \$27.5 million

Outlook

The Prime Rate is the highest it has have been since December 2008. Because a large portion of the City's investment portfolio needs to be kept short term (to remit property taxes to York Region and the School Boards), changes in the Prime Rate have a significant impact on the overall performance of the portfolio. As a result, the investment income forecast for the remainder of 2018 and 2019 is much higher than in previous years. However, these increases may not be sustainable if interest rates decrease to levels similar to what they have been throughout the majority of this decade. As a result, the

2019 budget for Investment Income will reflect an increase over the 2018 budget to a level of what is deemed sustainable, with any favourable variances being transferred to reserves.

OPTIONS/ DISCUSSION:

Not Applicable

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

Not Applicable

ENVIRONMENTAL CONSIDERATIONS:

Not Applicable

ACCESSIBILITY CONSIDERATIONS:

Not Applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not Applicable

RECOMMENDED BY:

2018-10-25

2018-10-25

X 

Joel Lustig
Treasurer
Signed by: cxa

X 

Trinela Cane
Commissioner, Corporate Services
Signed by: cxa

ATTACHMENT

- Exhibit 1 – Investment Portfolio by Issuer
- Exhibit 2 – Investment Portfolio by Instrument
- Exhibit 3 – Investment Terms
- Exhibit 4 – 2018 Money Market Investments
- Exhibit 5 – 2018 Bond Market Investments
- Exhibit 6 – 2018 DCA Fund Investments