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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Vicki Robertson Deputy Treasurer, Finance & Asset Management
DATE: May 21st, 2019
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2019**

HRM Investment Activities

During the quarter, there were no additional money market investments made as we carried six investments into the quarter for a total \$121,658,720. Of those investments, \$20,209,260 matured early in the quarter, leaving \$101,449,460 remaining in the portfolio at an average cost of \$25,362,365 and an average term of 153 days. This compares to last year when 2 investments were made at a total cost of \$24,092,485 with an average term of 186 days and average individual investment cost of \$12,046,243.

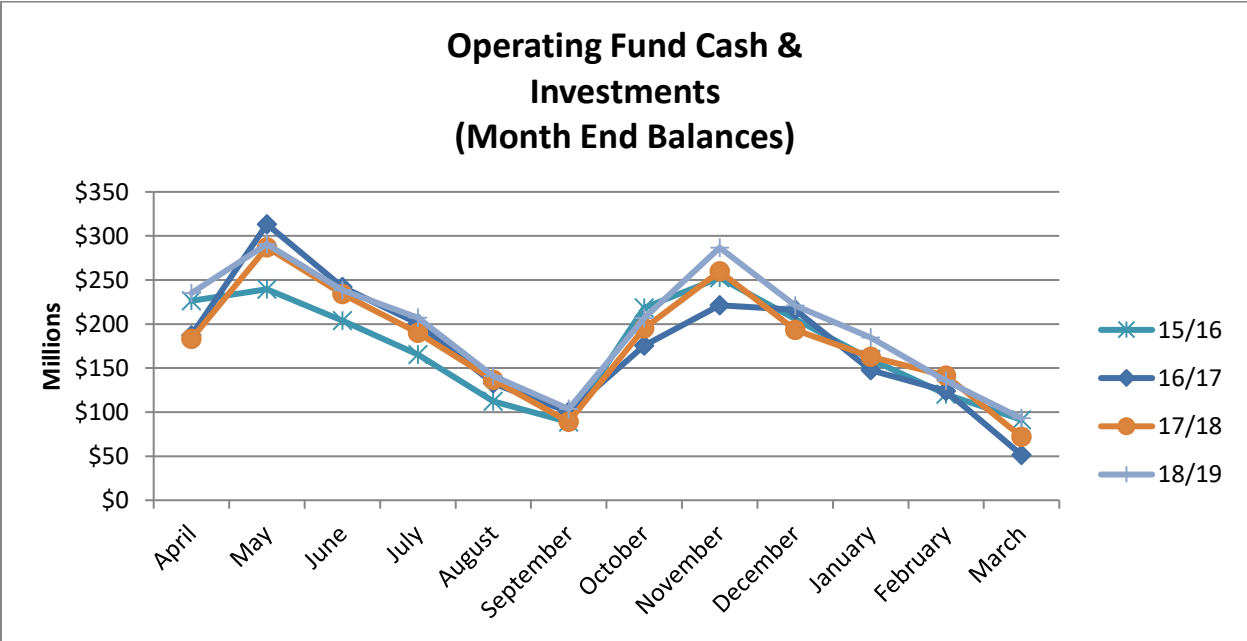
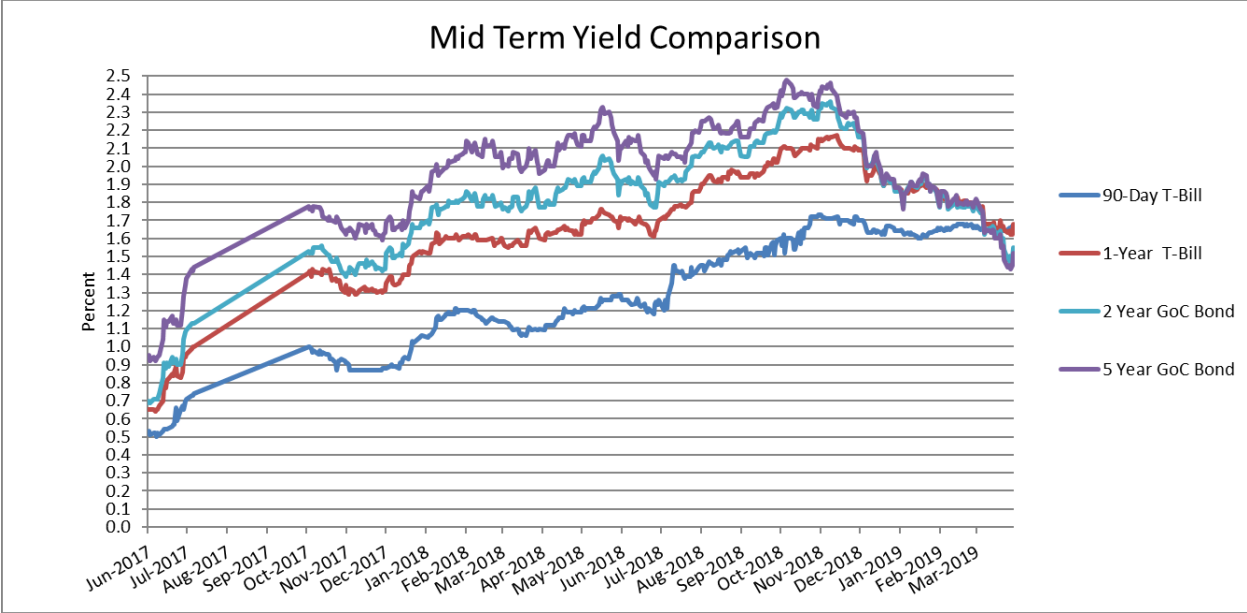
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights. Funds held in the investment bank accounts, including term deposits, totaled \$267,676,250 by the end of the quarter. Incremental income over BA's and BDN's, using a rate of 2.00% as a proxy for the BA and BDN rates, was \$197,536 for the quarter.

Operating fund investment income for the 12 months ending March 31, 2019 was on target at \$3,730,459 versus a forecasted amount of \$3,700,000.

The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,568,682 or a \$113,662 increase during the quarter.

HRM Short Term Bond Pool

Currently, the portfolio does not contain any bonds. Staff will continue to look for opportunities to add to the bond portfolio.

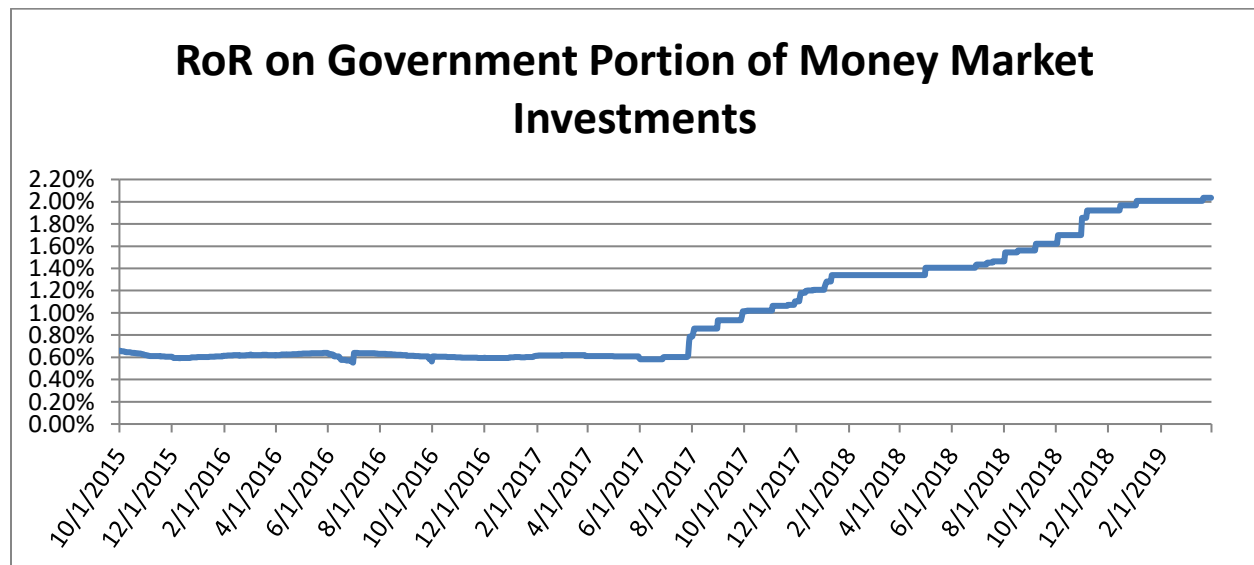


HRM Short Term (Money Market Pool) Investment Performance

As reported previously, Mercer has discontinued its Investment Consulting Survey of Canadian Institutional Pooled Funds. HRM had been using this survey to compare its investment returns with the industry. We have been including the RBC survey as well for quite some time and it is very similar to the Mercer Survey. Please see the table below with the results using the RBC Survey.

Money Market Funds	3 Months (to Mar 31, 2019)	1 Year (to Mar 31, 2019)
5 th Percentile	0.57%	2.00%
1 st Quartile	0.52%	1.87%
Money Market Median	0.47%	1.71%
3 rd Quartile	0.45%	1.65%
95 th Percentile	0.38%	1.36%
HRM	0.58%	2.09%

Relative performance continues to be positive as we note the 3 month and one-year returns exceed the 5th percentile. These returns are before any allowance for fees that could be paid for external management. The investment bank accounts remain largely responsible for this relative performance.



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Subsequent to End of Reporting Quarter

The updated Investment Policy for HRM was recently approved by the Minister of Municipal Affairs. The change in policy will see funds required for operations excluded from the portfolio sector weight limits. The existing investment bank accounts will be leveraged to hold the operating funds until required in the operating bank account. Additionally, the re-balancing of the portfolio will take place semi-annually to coincide with the cash inflows from property taxes.

The economic indicators are worth noting since quarter-end. There was a rise in the unemployment rate at the beginning of the reporting quarter (January), and it remained relatively steady throughout the quarter. However, April job numbers were higher than expected with 106,500 new jobs created. Overall, we have seen some volatility in the economic indicators in recent months, which has resulted in the Bank of Canada initially backing away from a potential overnight rate hike that had been previously predicted. The latest data is not definitive and there is little consensus on the forecast of the overnight rate but is generally forecasted to remain consistent for the remainder of 2019. Treasury continues to monitor closely.

Bank of Canada Abandons Rate-Hike Bias Amid Economic Slowdown

“Governing Council judges that an accommodative policy interest rate continues to be warranted,” officials led by Governor Stephen Poloz said in the statement. “We will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive.”

~Bloomberg.com

April 24, 2019

“Our base case scenario remains a Bank of Canada on the sidelines in 2019. Consequently we are comfortable with the market view that 3-month T-bills will be trading near their current yield nine months from now.”

*~Paul-André Pisonnault
Senior Economist,
National Bank of Canada
May, 2019*

Outlook & Strategy

The investment bank accounts continue to provide effective rates of return when compared to instruments with similar risk. Specifically, these accounts are continuing to provide better returns than are available from BA's and government instruments.

The dominant strategy will again be to maximize returns from the investment bank accounts, keeping in mind that their liquidity adds a safety factor, while looking for opportunities in the government half of the portfolio.

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Policy Compliance

Objectives:

Preservation of Capital - There was no loss of capital during the quarter.

Liquidity - No overdraft charges were incurred and sufficient cash was available to meet all requirements.

Competitive Return on Investments - The rate of return was again in the 5th percentile for the quarter ending March 31st, 2019 before allowing for fees that could have been paid to an external management firm. As a result, staff maintains that the rate of return objective of the Investment Policy has been met.

Strategies:

Diversification of Investment Portfolio - Staff believe that diversification has been adequately maintained under the constraints of the Policy.

Regular Review of Performance - Performance data continues to be reported to the Investment Policy Advisory Committee.

Risk Management Approach - In implementing investment decisions staff seek a balance between the objectives of the Investment Policy and the risks inherent in markets to look to achieve an optimal rate of return.

Staff invites any feedback the members of the Committee may have on both the content and format of this report.

Vicki Robertson, CPA, CGA
Deputy Treasurer

Appendix A

Economic Statistics	Canada			US		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	6.2%	6.1%	6.2%	4.0%	3.8%	3.8%
Jobs Created / (Lost) ('000's)	66.8	55.9	(7.2)	156.7	157	156.6
Core CPI (year over year)	1.4%	1.5%	1.9%	1.6%	1.5%	1.9%
GDP (annualized)	Q1: 0.1%			Q1: 3.2%		

Date	Central Bank	Central Bank Action
Apr 18, 2018	Bank of Canada	Maintained overnight rate at 1.25%.
May 2, 2018	U.S. Federal Open Market Committee	Maintain target range of 1.50%-1.75%.
May 30, 2018	Bank of Canada	Maintained overnight rate at 1.25%.
Jun 13, 2018	U.S. Federal Open Market Committee	Raised target range to 1.75%-2.00%.
July 11, 2018	Bank of Canada	Raised overnight rate to 1.50%.
Aug 1, 2018	U.S. Federal Open Market Committee	Maintained target range at 1.75%-2.00%.
Sept 5, 2018	Bank of Canada	Maintained overnight rate at 1.50%.
Sept 26, 2018	U.S. Federal Open Market Committee	Raised target range to 2.00%-2.25%.
Oct 24, 2018	Bank of Canada	Raised overnight rate to 1.75%.
Nov 8, 2018	U.S. Federal Open Market Committee	Maintained target range of 2.00%-2.25%.
Dec 5, 2018	Bank of Canada	Maintained overnight rate at 1.75%.
Dec 19, 2018	U.S. Federal Open Market Committee	Raised target range to 2.25% - 2.5%
Jan 9, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
Jan 30, 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
Mar 6, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
Mar 20, 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%

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