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## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Vicki Robertson Deputy Treasurer, Finance & Asset Management  
DATE: September 9<sup>th</sup>, 2019  
SUBJECT: **Treasurer's Report Quarter Ending June 30, 2019**

### HRM Investment Activities

During the quarter, there were five money market investments made totaling \$127,712,600 with an average term to maturity of 290 days and an average cost of \$25,542,520. This compares to last year when 5 investments were made at a total cost of \$99,426,800 with an average term of 145 days and average individual investment cost of \$19,885,360.

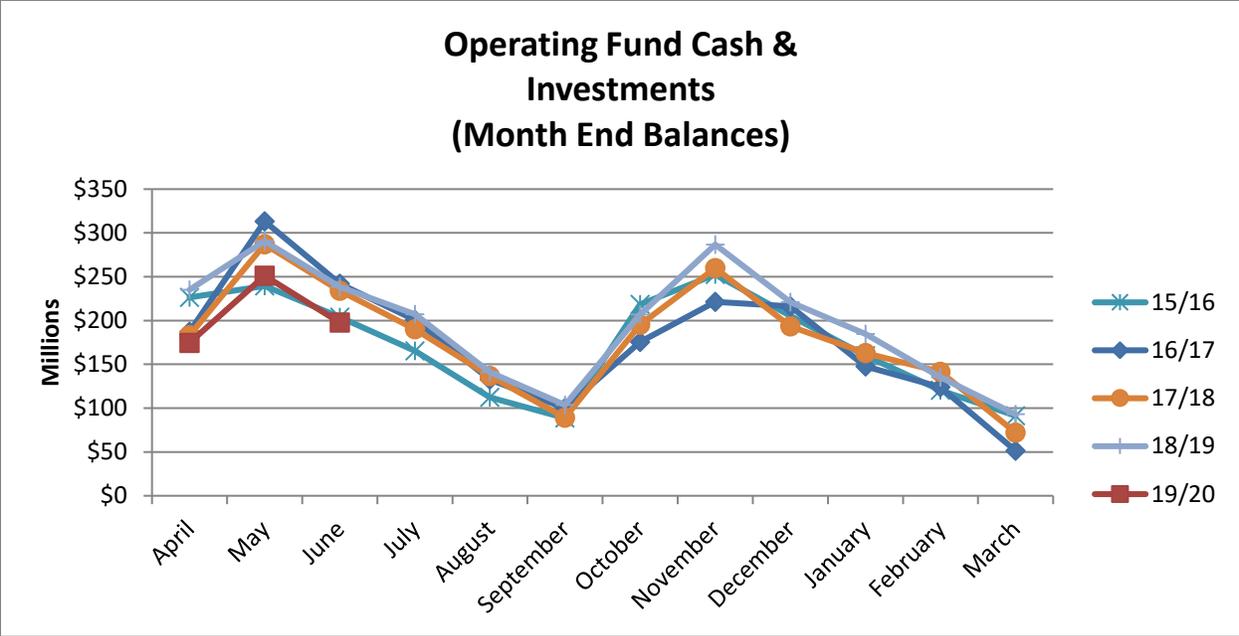
Operating fund investment income for the 3 months ending June 30, 2019 was \$1,162,917 versus a forecast of \$1,210,000. This \$47,083 variance (3.9%) is attributed to a lower-than-anticipated operating fund balance at the end of the quarter that resulted from rising reserve balances over the same period.

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.

### HRM Investment Accounts

Funds held in the investment bank accounts, including term deposits, totaled \$362,052,060 by the end of the quarter. Using a rate of 1.86% as the three-month proxy for the BA and BDN rate, incremental income for the investment accounts over BA's and BDN's, was \$450,015 for the quarter. The income from our investments provided a quarterly return of 0.58%, and a 12 month return of 2.23%.

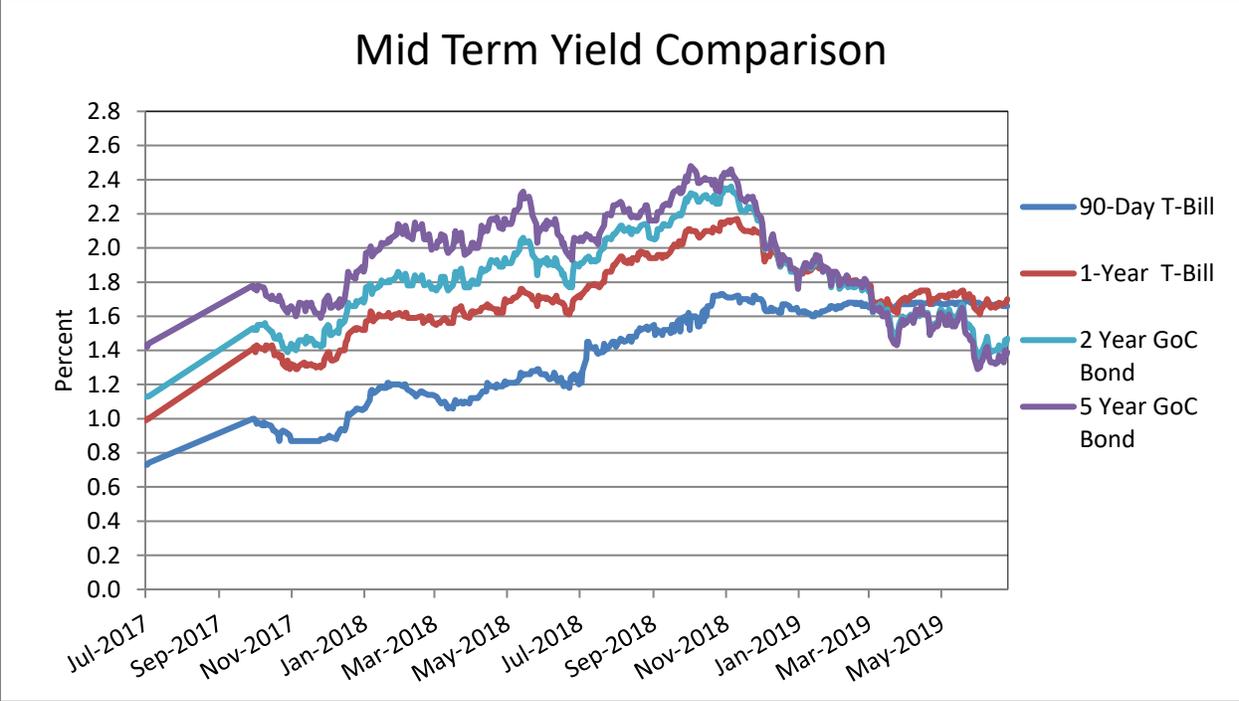
The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,749,294.87 including a \$180,613 increase during the quarter. An additional \$166,213 was realized over the quarter due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights.



**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.

**Government Sector Performance – July 2017 to June 2019**



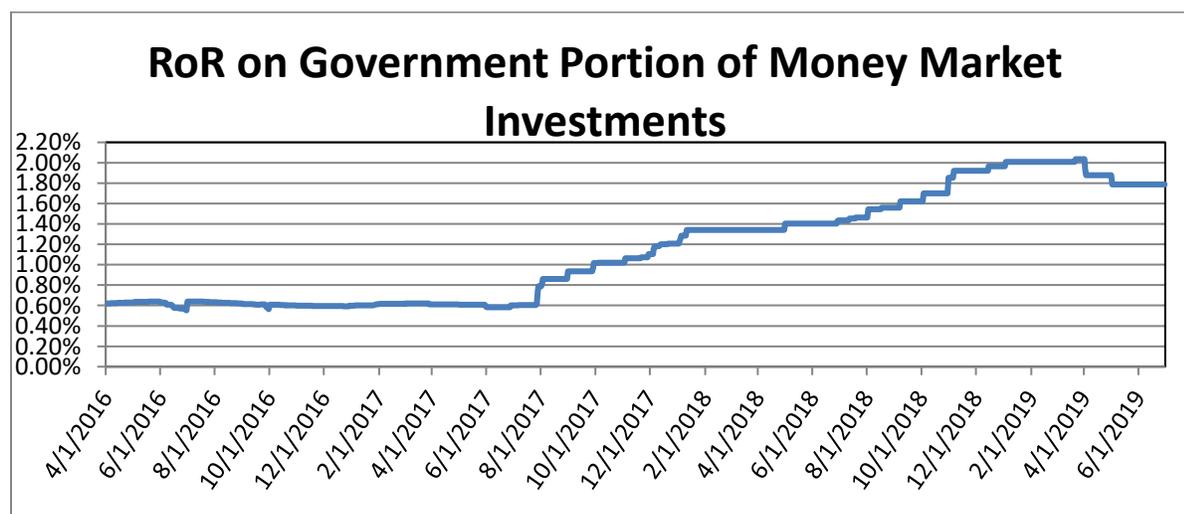
## HRM Short Term (Money Market Pool) Investment Performance

Our current benchmark for money market performance is the *RBC Pooled Fund Survey* that reviews the performance of 27 pooled Canadian money market funds. These funds generally have Canadian government short-term instruments as their primary holding, with some investing in commercial paper as well. The duration of the instruments held vary based on current market conditions. Many of the funds surveyed rely on the FTSE TMX 91-day T-bill as a benchmark.

We include our results for both the government and financial sectors, as well as our overall performance, to provide appropriate context.

<b>Money Market Funds</b>	<b>3 Months (to Jun 30, 2019)</b>	<b>1 Year (to Jun 30, 2019)</b>
5 <sup>th</sup> Percentile	0.53%	2.14%
1 <sup>st</sup> Quartile	0.50%	1.98%
Money Market Median	0.47%	1.85%
3 <sup>rd</sup> Quartile	0.44%	1.75%
95 <sup>th</sup> Percentile	0.36%	1.43%
Average Return	0.36%	1.84%
<b>HRM Money Market</b>	<b>0.45%</b>	<b>1.80%</b>
<b>HRM Investment Accounts</b>	<b>0.60%</b>	<b>2.27%</b>
<b>HRM Overall</b>	<b>0.58%</b>	<b>2.23%</b>

Our rate of return for the quarter exceeded the average from the pooled survey. Overall performance continues to be positive as we note the 3 month and one-year returns exceed the 5<sup>th</sup> percentile. These returns are before any allowance for fees that could be paid for external management. As demonstrated, the investment bank accounts remain largely responsible for this relative performance.



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### Finance & Asset Management

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## **Investment Policy Changes**

As noted in the report from the previous quarter, we received ministerial approval for the proposed changes to the Investment Policy on April 24, 2019. The three significant changes to the policy are:

1. Re-balancing will be conducted semi-annually to coincide with cash inflows and will exclude operating cash requirements until the next re-balance
2. Increase counterparty limits for Provincial counterparties and Financial Institutions
3. Sector weight reporting will be consolidated for the total portfolio

The rebalancing that occurred in early May was done within the guidelines of the new Investment Policy.

## **Operating Investment Income Budget – 2019/20**

The operating investment income budget has been established at \$4,100,000 for the 2019/20 fiscal year. The projected investment income for each quarter is outlined below:

*(In Thousands)*

<b>Quarter</b>	<b>Projected Quarter End Balance</b>	<b>Investment Income</b>	<b>Actual</b>
Apr – Jun	\$253,200	\$1,210	\$1,163
Jul – Sept	\$115,600	\$ 960	
Oct – Dec	\$238,950	\$1,210	
Jan – Mar	\$ 92,500	\$ 782	
	TOTAL	\$4,100	

The key assumptions associated with this budget include the following:

1. Operating cash inflows and outflows will not vary significantly from last year
2. The rate of return will remain steady through the first two quarters
3. The Bank of Canada overnight rate will be cut by 25 bps in the third quarter

We will report on our actual versus projected performance each quarter and provide analysis of any significant variances.

## Subsequent to End of Reporting Quarter

Two noteworthy events occurred after the reporting quarter: In July, the FOMC cut its key rate by 25 bps despite relatively positive economic data while further hinting that another cut may occur in 2019, and Canada experienced an unexpected drop of 24,200 jobs in July with a corresponding increase in the unemployment rate to 5.8%.

Consensus in the future direction of the overnight rate continues to elude Canadian economists. There is some sentiment that the Bank of Canada may follow the US lead and cut the overnight lending rate in the coming months, but the Canadian economic indicators are generally pointing to steady growth belying the need for such a move. Trade tension between the US and China is creating global jitters, and the steady growth the US has experienced for the past decade is expected to pull back this year to a sustainable level. We see European central banks adjusting their policies to accommodate.

## **Bank of Canada July Monetary Policy Report**

*“The Canadian economy is returning to potential growth. However, the outlook is clouded by persistent trade tensions. Taken together, the degree of accommodation being provided by the current policy interest rate remains appropriate.”*

*~Carolyn A. Wilkins  
Senior Deputy Governor,  
Bank of Canada*

*July 10, 2019*

## *Bank of Canada update on Global Outlook*

*“The Bank now expects global GDP to grow by 3 percent in 2019 and to strengthen to around 3 ¼ percent in 2020 and 2021, with the US slowing to a pace near its potential.”*

*~Carolyn A. Wilkins  
Senior Deputy Governor,  
Bank of Canada*

*July 10, 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.

In the near term, the dominant strategy will continue 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. Staff is also looking at options to include more diversity in the portfolio with the aim of increasing return while minimizing risk.

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## Finance & Asset Management

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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 5<sup>th</sup> percentile for the quarter ending June 30<sup>th</sup>, 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 looks forward to feedback from members of the Committee on both the content and format of this report.

Vicki Robertson, CPA, CGA  
Deputy Treasurer

# Appendix A

Economic Statistics	Canada			US		
	Apr	May	Jun	Apr	May	Jun
Unemployment Rate	5.7%	5.4%	5.5%	3.6%	3.6%	3.7%
Jobs Created / (Lost) ('000's)	106.5	27.7	-2.2	216.0	72	224
Core Inflation Rate (year over year)	2.0%	2.4%	2.0%	2%	2.1%	2%

Date	Central Bank	Central Bank Action
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%
Apr 24 <sup>th</sup> , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
May 1 <sup>st</sup> , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
May 29 <sup>th</sup> , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
June 29 <sup>th</sup> , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
July 10, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
July 31, 2019	U.S. Federal Open Market Committee	Lowered target range to 2.0% - 2.25%

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**Total Portfolio  
Sector Weights @ June 30, 2019**

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	%	Guideline Limit	%	Limit Available	%
<b>CASH &amp; EQUIVALENTS</b>							
<b>Federal Government &amp; its Guarantees</b>	<b>Open</b>	<b>0</b>	<b>0%</b>	<b>286,897,926</b>	<b>100%</b>	<b>286,897,926</b>	<b>60%</b>
Federal Government	Open	0	0%				
Business Development Bank	Open	0	0%				
Canada Mortgage & Housing Corp.	Open	0	0%				
Canadian Wheat Board	Open	0	0%				
Export Development Canada	Open	0	0%				
Farm Credit Corp	Open	0	0%				
<b>Provincial Governments &amp; their Guarantees</b>	<b>R-1 Mid or Greater</b>	<b>127,712,600</b>	<b>23%</b>	<b>286,897,926</b>	<b>100%</b>	<b>159,185,326</b>	<b>25%</b>
Total Alberta (R-1 High)	Open	0	0%	139,224,482	25%	139,224,481	25%
Alberta	Open	0					
Alberta Capital Finance Authority	Open	0					
Alberta Treasury Branches	Open	0					
British Columbia (R-1 High)	Open	34,698,650	6%	139,224,482	25%	104,525,832	19%
Manitoba (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
New Brunswick (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Nova Scotia (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Ontario (R-1 Mid)	Open	73,685,550	13%	139,224,482	25%	65,538,931	14%
Total Quebec (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan (R-1 High)	Open	19,328,400	3%	139,224,482	25%	119,896,082	25%
<b>Municipal Governments &amp; their Guarantees*</b>	<b>R-1 Mid or Greater</b>	<b>0</b>	<b>0%</b>	<b>120,531,701</b>	<b>25%</b>	<b>120,531,701</b>	<b>25%</b>
Calgary (R-1 High)	Open		0%	55,689,793	10%	55,689,793	12%
<b>Financial Institutions &amp; their Guarantees /Corporations</b>		<b>354,414,205</b>		<b>413,448,963</b>		<b>59,034,758</b>	
	<b>BA's Schedule A Canadian Banks R-1</b>						
<b>Tier 1 - Financial Institutions &amp; their Guarantees</b>	<b>Mid</b>	<b>276,392,440</b>					
Bank of Montreal (R-1 High)	Open	84,300,648	15%	111,379,585	20%	27,078,937	5%
BMO - Instruments		0					
BMO - Account		84,300,648					
Bank of Nova Scotia (R-1 High)	Open	24,015,198	4%	111,379,585	20%	87,364,387	16%
Bank of Nova Scotia - Effective Cash		14,015,198					
Bank of Nova Scotia - Notice Account		10,000,000					
Canadian Imperial Bank of Commerce (R-1 High)	Open	103,557,585	19%	111,379,585	20%	7,822,000	1%
CIBC - Instruments		0					
CIBC - Account		103,557,585					
Royal Bank (R-1 High)	Open	15,245,801	3%	111,379,585	20%	96,133,784	17%
RBC - Instruments		0					
RBC - Account		15,245,801					
Toronto Dominion (R-1 High)	Open	49,273,207	9%	111,379,585	20%	62,106,378	11%
TD - Instruments		0					
TD - Account		49,273,207					
<b>Tier 2 - Financial Institutions &amp; Corporations</b>	<b>R-1 Mid/High***</b>	<b>78,021,764</b>					
National Bank of Canada (R-1 Mid)	Open	78,021,764	14%	83,534,689	15%	5,512,924	1%
National - Instruments		0	0%	83,534,689	15%	83,534,689	15%
National - Account		77,921,569	14%	83,534,689	15%	5,613,119	1%
OMERS Finance Trust (R-1 High)	Open	0	0%	83,534,689	15%	83,534,689	15%
CDP Financial Inc (R-1 High)	Open	0					
Desjardins Total		0					
Desjardins Group (R-1 High)	Open	0					
Caisse Centale Desjardins (R-1 High)	Open	0					
<b>Total Cash and Equivalents</b>		<b>482,126,805</b>	<b>23%</b>				
<b>Fixed (Bonds, etc. over one year)</b>							
<b>Federal Government &amp; its Guarantees</b>							
<b>Money Market</b>		0	0%	556,897,926	100%	556,897,926	100%
<b>Reserves - Bond Pool</b>		0	0%	556,897,926	100%	417,673,445	75%
Canada Mortgage & Housing Corp.		0	0%	556,897,926	100%	556,897,926	100%
<b>Provincial Gov'ts &amp; Guarantees</b>							
<b>Money Market</b>		0					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,481	25%
Alberta Capital Finance Authority		0	0%	139,224,482	25%	139,224,482	25%
Alberta Treasury Branches		0	0%	139,224,482	25%	139,224,482	25%
British Columbia (AA High)		0	0%	139,224,482	25%	104,525,832	19%
Manitoba (A High)		0	0%	139,224,482	25%	139,224,482	25%
New Brunswick (A High)		0	0%	139,224,482	25%	139,224,482	25%
Nova Scotia (A High)		0	0%	139,224,482	25%	139,224,482	25%
Ontario (AA Low)		0	0%	139,224,482	25%	65,538,931	12%
Quebec (A High)		0	0%	139,224,482	25%	139,224,482	25%
Quebec		0	0%	139,224,482	25%	139,224,482	25%
Financement Quebec		0	0%	139,224,482	25%	139,224,482	25%
Hydro Quebec		0	0%	139,224,482	25%	139,224,482	25%
Saskatchewan (AA)		0	0%	139,224,482	25%	119,896,082	22%
<b>Reserves - Bond Pool</b>		0					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,481	25%
Alberta Capital Finance Authority		0	0%	139,224,482	25%	139,224,482	25%
Alberta Treasury Branches		0	0%	139,224,482	25%	139,224,482	25%
British Columbia (AA High)		0	0%	139,224,482	25%	104,525,832	19%
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New Brunswick (A High)		0	0%	139,224,482	25%	139,224,482	25%
Nova Scotia (A High)		0	0%	139,224,482	25%	139,224,482	25%
Ontario (AA Low)		0	0%	139,224,482	25%	65,538,931	12%
Quebec (A High)		0	0%	139,224,482	25%	139,224,482	25%
Quebec		0	0%	139,224,482	25%	139,224,482	25%
Financement Quebec		0	0%	139,224,482	25%	139,224,482	25%
Total Investments		482,126,805					
Interest Bearing Bank Accounts - O/S Cheque Coverage		17,000,000	*				
<b>Total Investments and O/S Cheques Coverage</b>		<b>499,126,805</b>					