



PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

MEMORANDUM

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

Investment Activities

During the quarter, there were no money market investments made. However, we carried existing investments into the quarter 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 2 investments were made at a total cost of \$20,209,259 with an average term of 153 days and average individual investment cost of \$10,104,629. There were no investments that matured during the quarter.

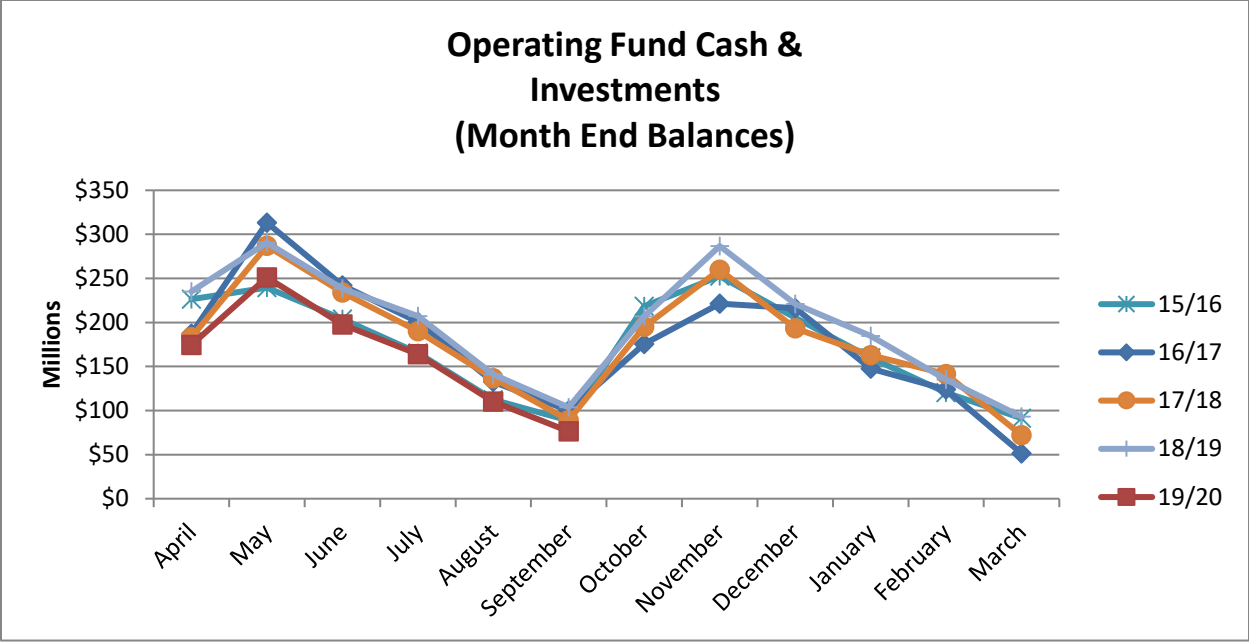
Operating fund investment income for the 3 months ending September 30, 2019 was \$1,112,484 versus an updated projection of \$960,000 and an original budget of \$750,000. This positive variance of \$152,484 (15.9%) is due to higher cash flows than forecast. The actual rate of return for the quarter was 0.56% which met the projected rate.

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 \$204,974,889 at the end of the quarter, and an additional \$46,026,160 was held in current accounts. Incremental income for the investment accounts over BA's and BDN's, using a rate of 1.82% as the three-month proxy for the BA and BDN rates, was \$427,487 for the quarter. The income from our investment accounts provides a quarterly return of 0.61%, and a 12 month return of 2.38%.

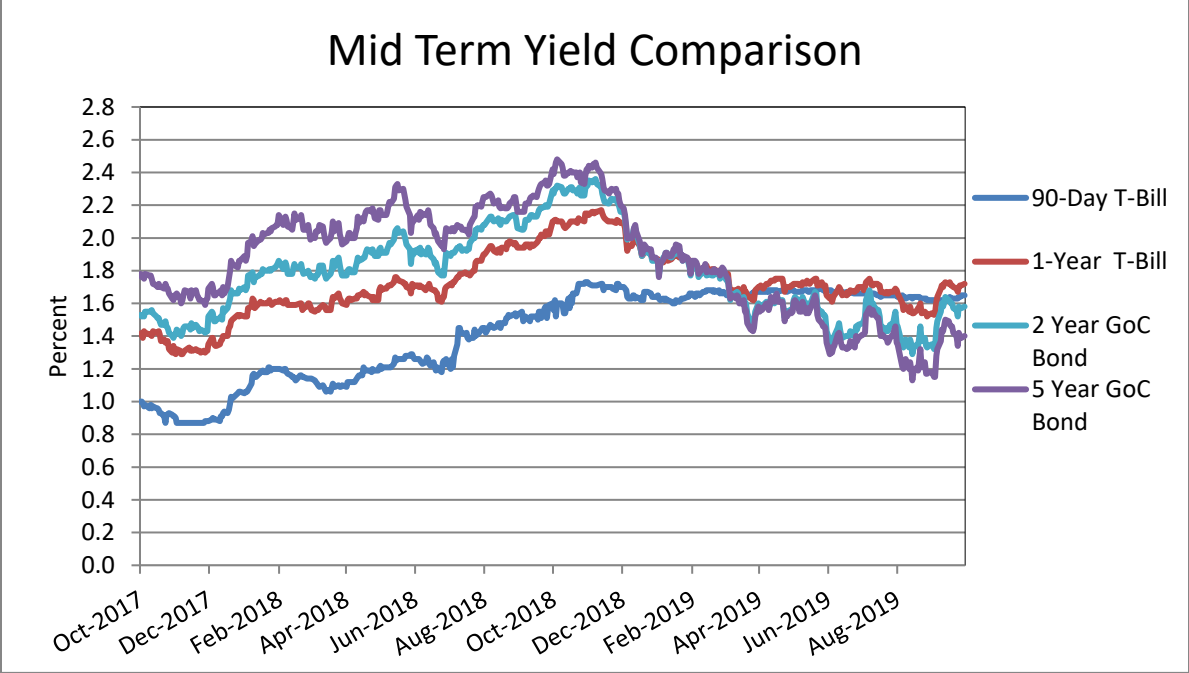
The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,909,506 including a \$160,211 increase during the quarter. An additional \$251,251 was realized over the quarter due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights for a cumulative impact since April 2019 of \$417,464.



HRM Short Term Bond Pool

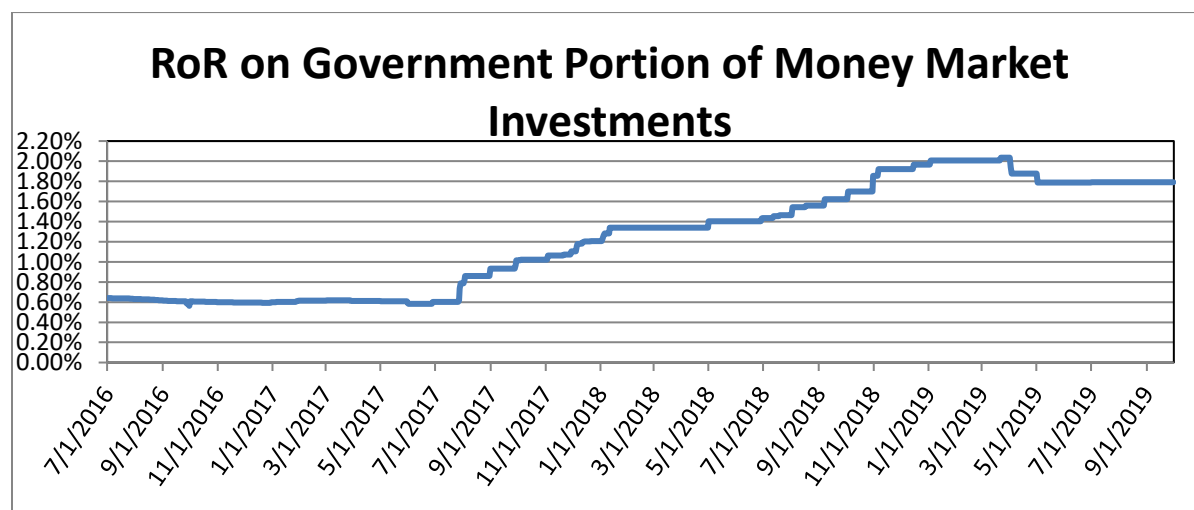
Currently, the portfolio does not contain any bonds. Staff will continue to look for opportunities to add to the bond portfolio.

Government Sector Performance – October 2017 to September 2019



HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio maintained a steady balance throughout the quarter of \$127,712,600. The rate of return for the quarter was 0.45%, and when annualized, provides a return of 1.80% while the rolling one-year return is currently 1.87%. The average duration of the money market portfolio is 290 days. The average return over the quarter of a benchmark one-year T-bill was 1.65%.



HRM Overall results

Our current benchmark for the portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of 26 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.

Money Market Funds	3 Months (to Sept 30, 2019)	1 Year (to Sept 30, 2019)
5 th Percentile	0.51%	2.14%
1 st Quartile	0.47%	2.01%
Money Market Median	0.46%	1.88%
3 rd Quartile	0.44%	1.81%
95 th Percentile	0.37%	1.50%
Average Return	0.45%	1.87%
HRM Overall	0.56%	2.29%
HRM Money Market	0.45%	1.87%
HRM Investment Accounts	0.61%	2.38%

Finance & Asset Management

Tel: 902.817.1479
Email: robertv@halifax.ca

Fax: 902.490.4005
halifax.ca

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

Pooled fund surveys have been used over the years to provide a consistent comparison to those instruments typically found in a treasury portfolio where liquidity is a significant concern. This complies with our Investment Policy that states,

“In evaluating the return on investments, performance of investments shall be measured against the median rate of return on a one year rolling basis of a recognized Institutional Pooled Fund Survey of Money Market Funds as agreed by the Policy Committee with an allowance for average fees for this asset class.”

It has been noted that our investment mix includes instruments with longer duration, therefore, other benchmarks may be more appropriate. To this end, we have calculated a weighted average benchmark based on two existing market indices that simulate the average duration of the corresponding instrument in our portfolio:

1. Average return over the quarter of a one-year T-bill reported by the Bank of Canada
2. Average return over the quarter of a 90-day Banker’s Acceptance (BA) reported by Investment Industry Regulatory Organization of Canada (IIROC)

The 90-day BA rate is to mimic the median duration of our operating cash in our investment accounts and the T-bill duration was selected based on the average duration of our current holding. The benchmark rates have been weighted based on the corresponding average weight in each sector over the quarter.

For the current period, the benchmark one-year T-bill return was 1.65% and the average 90-day BA return over the period was 1.838. The weighted average of money market investments was 32% and the investment accounts was 68%. As a result, the benchmark for the current quarter is 1.78%.

Month	Average HISA Investment Balance*	Money Market Balance	Total investments (Excludes Scotia operating)
July	\$ 313,971,171	\$ 127,712,600	\$ 441,683,771
August	\$ 279,785,772	\$ 127,712,600	\$ 407,498,372
September	\$ 231,304,688	\$ 127,712,600	\$ 359,017,288
	\$ 275,020,544	\$ 127,712,600	\$ 402,733,144
Weighted Average	68%	32%	
Benchmark rates	1.84%	1.65%	
	1.78%		

Our one-year rate of return of 2.29% compares favourably with this benchmark.

Finance & Asset Management

Operating Investment Income Projection – 2019/20

The operating investment income projection 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)

Quarter	Projected Quarter End Balance	Investment Income	Actual	Variance
Apr – Jun	\$253,200	\$1,210	\$1,163	-3.9%
Jul – Sept	\$115,600	\$ 960	\$1,112	15.9%
Oct – Dec	\$238,950	\$1,210		
Jan – Mar	\$ 92,500	\$ 782		
	TOTAL/YTD	\$4,100	\$2,275	12.9%

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

Both the Bank of Canada and the FOMC had announcements on October 30th. The FOMC reduced the target rate range by a further 25 bps. The Bank of Canada, however, maintained the current overnight rate at 1.75%, but noted there is significant complexity in the Canadian economy.

The immediate aftermath of the October 30th meetings saw some consensus that the Canadian overnight rate will be cut by 25 bps in the first quarter of 2020. However, the pessimism appears to have waned recently as we see the probability of a rate cut pushed out to the second quarter of 2020. There is also still some expected easing to take place in the US, but analysts believe the current level marks the end of the cuts forecast for 2019.

Bank of Canada October Monetary Policy Report

“Governing Council is mindful that the resilience of Canada’s economy will be increasingly tested as trade conflicts and uncertainty persist.”

*~Stephen Poloz, Governor
Bank of Canada*

October 30, 2019

Uncertainty in the global economy resulting from trade tensions persists. The resulting hesitancy to engage in large-scale investment has resulted in “stagnation” becoming the watchword for central banks and the Organisation for Economic Co-operation and Development (OECD). However, there is also some optimism as signs emerge the US-China trade stalemate may soon be resolved. That said, the outlook for Canada is weak growth for the next two years.

Outlook & Strategy

Outlook for Canada

“The strong labour market points to sources of growth such as information technology and other professional services... Some of this growth is being offset by negative effective coming through business investment and exports, particularly in manufacturing and the resource sector.”

*~Stephen Poloz, Governor
Bank of Canada*

October 30, 2019

While there is some concern about the potential decrease in the overnight rate, the investment bank accounts would continue to provide effective rates of return when compared to instruments with similar risk including those not subject to overnight rate fluctuations. 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.

Finance & Asset Management

Tel: 902.817.1479
Email: robertv@halifax.ca

Fax: 902.490.4005
halifax.ca

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 September 30th, 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		
	Jul	Aug	Sept	Jul	Aug	Sept
Unemployment Rate	5.7%	5.7%	5.5%	3.7%	3.7%	3.5%
Jobs Created / (Lost) ('000's)	-24.2	81.1	53.7	166.0	219.0	180.0
Core Inflation Rate (year over year)	2.0%	1.9%	1.9%	1.8%	1.7%	1.7%

Date	Central Bank	Central Bank Action
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 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
May 1 st , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
May 29 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
June 29 th , 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%
Sept 4 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%
Sept 18 th , 2019	U.S. Federal Open Market Committee	Lowered target range to 1.75% - 2.0%
Oct 30, 2019	Bank of Canada	Maintained overnight rate at 1.75%
Oct. 30. 2019	U.S. Federal Open Market Committee	Lowered target range to 1.5% - 1.75%

Finance & Asset Management

Tel: 902.817.1479 Fax: 902.490.4005
 Email: robertv@halifax.ca halifax.ca