



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 7th, 2020
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2020**

Investment Activities

During the quarter, there were no market investments made as we carried six investments into the quarter with a total value of \$121,541,416 with an average cost of \$20,256,903 and original average term of 362 days. This compares to last year when we carried six investments with a total cost of \$121,658,720. One investment with an original time to maturity of 358 days matured late in the quarter at a value of \$35,000,000 and an initial cost of \$34,392,750.

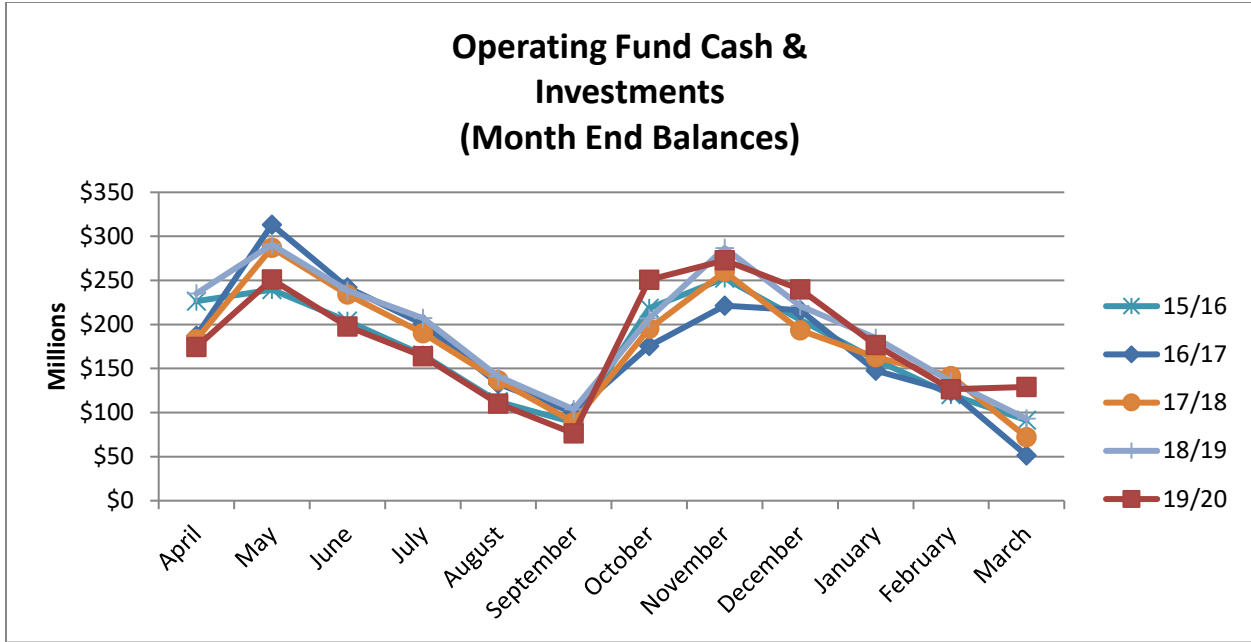
Operating fund investment income for the 3 months ending March 31, 2020 was \$856,430 versus an updated projection of \$620,000 and an original budget of \$750,000. The actual rate of return for the quarter was 0.53% which exceeded the projected rate of 0.49%.

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 \$303,323,659 at the end of the quarter. Incremental income for the investment accounts over BA's and BDN's, using a rate of 1.65% as the three-month proxy for the BA and BDN rates, was \$481,523 for the quarter. The income from our investment accounts provided a quarterly return of 0.55%, and a 12 month return of 2.36%.

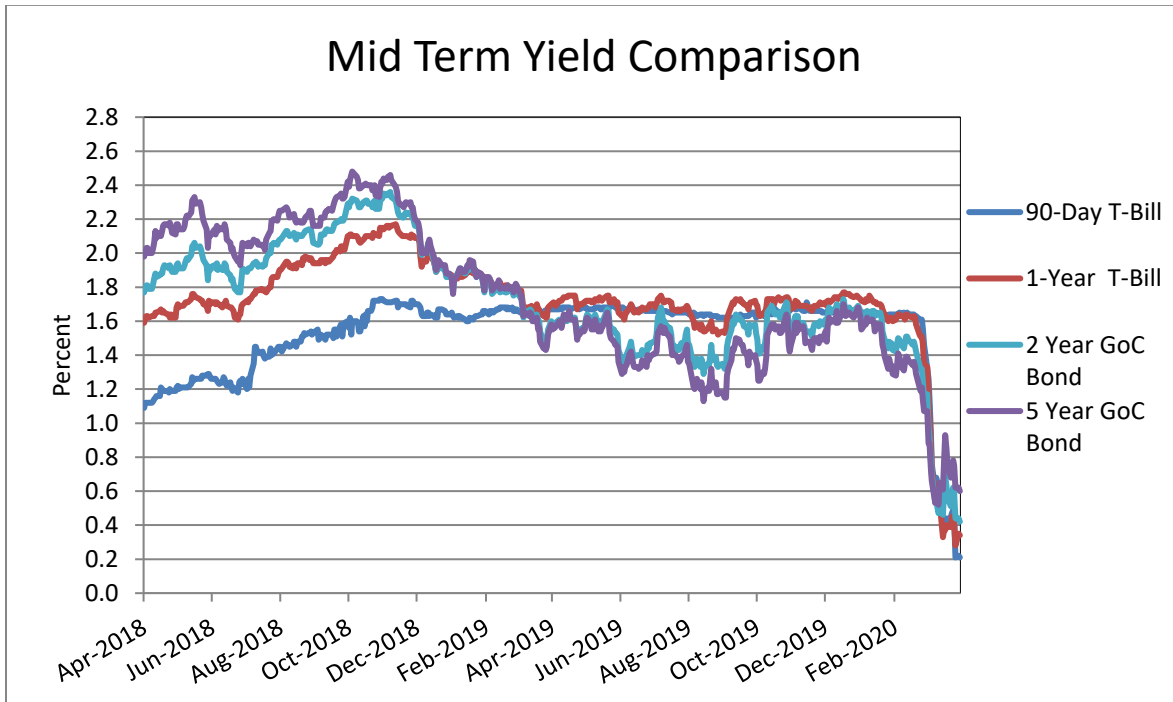
The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$4,372,909 including a \$208,356 increase during the quarter. An additional \$387,108 was realized over the quarter due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights for a cumulative impact since April 2019 of \$1,047,695.



HRM Short Term Bond Pool

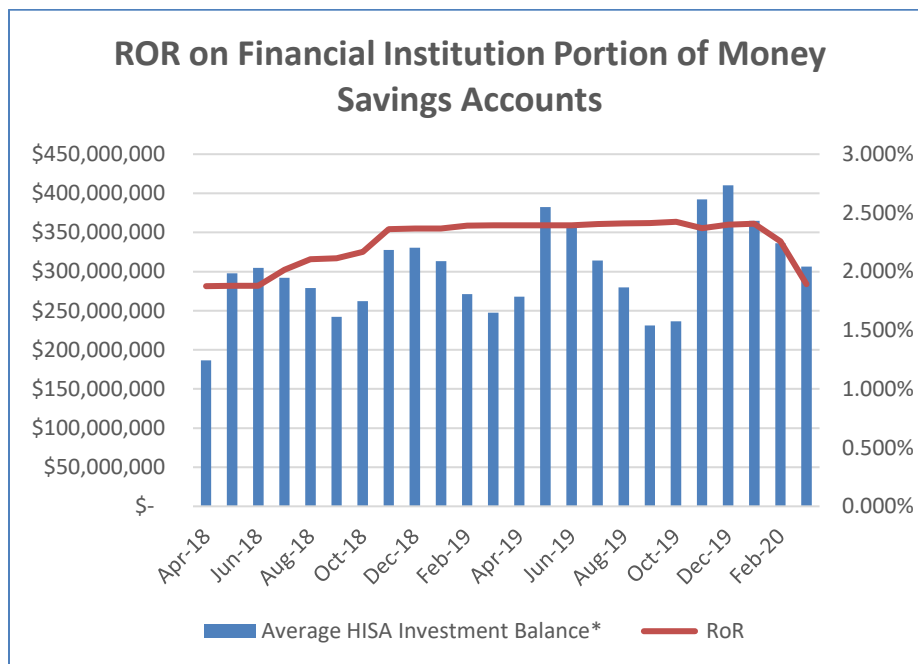
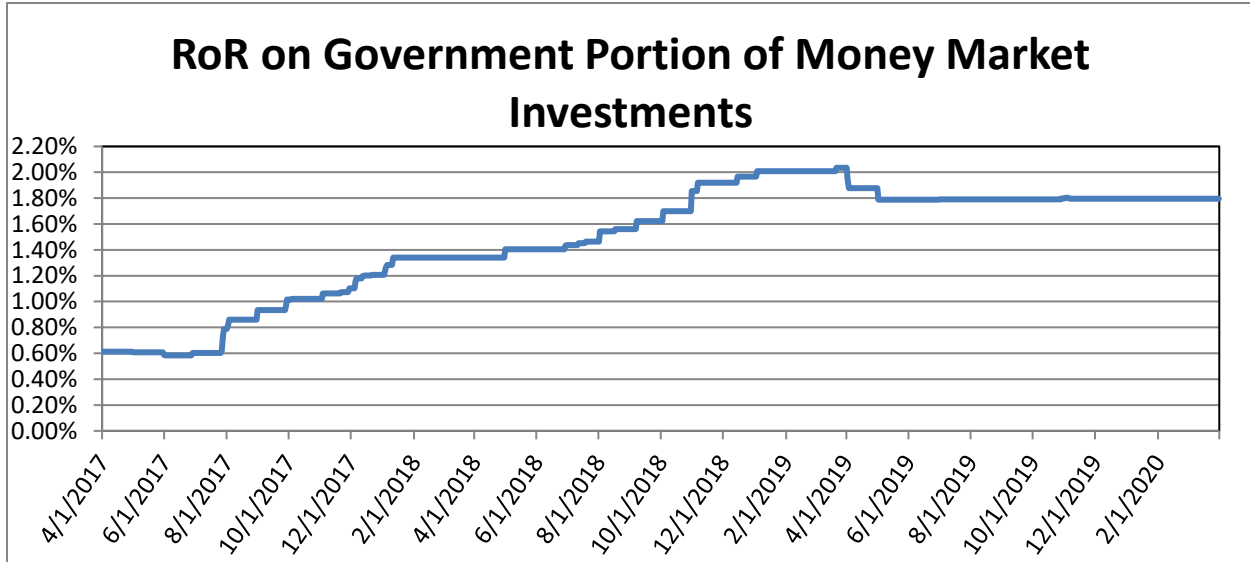
Currently, the portfolio does not contain any bonds. Staff will continue to look for opportunities to add to the bond portfolio.

Government Sector Performance – April 2018 to March 2020



HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio remained relatively steady through most of the quarter. The period started with a balance of \$121,541,416 in money market investments and ended with a balance of \$87,148,666 after a maturity late in the quarter with an initial cost of \$34,392,750. The rate of return for the quarter remained steady at 0.45%, and when annualized, provides a return of 1.80% while the rolling one-year return is 1.81%. The average duration of the money market portfolio is 362 days. The average return of a benchmark one-year T-bill over the quarter was 1.26%.



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. The duration of the instruments held vary based on current market conditions.

Money Market Funds	3 Months (to Mar 31, 2020)	1 Year (to Mar 31, 2020)
5 th Percentile	0.60%	2.07%
1 st Quartile	0.47%	1.92%
Money Market Median	0.44%	1.81%
3 rd Quartile	0.41%	1.73%
95 th Percentile	0.37%	1.48%
Average Return	0.45%	1.81%
HRM Overall	0.53%	2.23%
HRM Money Market	0.45%	1.80%
HRM Investment Accounts	0.55%	2.36%

Overall performance continues to be positive as we note the three-month return exceeds the 1st quartile, 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)

For the current period, the benchmark one-year T-bill return was 1.26% and the average 90-day BA return over the period was 1.65%. The weighted average of money market investments was 26% and the investment accounts was 74%. As a result, the benchmark for the current quarter is 1.83%.

Month	Average HISA Investment Balance*	Money Market Balance	Total Investments
January	\$ 364,789,492	\$ 121,541,416	\$ 486,330,908
February	\$ 336,410,130	\$ 121,541,416	\$ 457,951,546
March	\$ 306,444,782	\$ 114,662,866	\$ 421,107,648
	\$ 335,881,468	\$ 119,248,566	\$ 455,130,034
Weighted Average	74%	26%	
Benchmark rates	1.65%	1.26%	
	1.55%		

Our one-year rate of return of 2.23% compares favourably with this benchmark.

Operating Investment Income Projection – 2019/20

The operating investment income projection has been established at \$4,000,000 for the 2019/20 fiscal year. The projected investment income 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	\$ 754*	-21.47%
Oct – Dec	\$238,950	\$1,210	\$1,209	-0.05%
Jan – Mar	\$169,000	\$ 620	\$ 856	38.13%
	YTD Projected	\$4,000	\$3,993	-0.20%

In mid-March, our projection for the quarter was updated to \$620,000, adjusting the annual projection to \$4,000,000 to reflect the market response to COVID-19 impacts.

Through the first half of the fiscal year, our operating investment income was less than forecasted while reserve balances remained higher than projected. For example, the operating fund actual balance was nearly \$40 million less at the end of September than forecast. As a result, the overall investment income was \$7,000 less than anticipated for a 0.20% negative variance.

*Adjusted due to error in accrual for quarter.

Subsequent to End of Reporting Quarter

Near the end of reporting period, the Bank of Canada reacted to the global pandemic by introducing three successive 50 bps rate cuts, reducing the overnight rate from 1.75% to 0.25%. Since that time, the rate has been held steady by the Bank, indicating in April that it considers the current rate as its “*effective lower bound*”.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada’s overnight rate in the coming months. We do not anticipate any further lowering of the rate, and guidance indicates the rate will not increase for the remainder of 2020.

The investment bank accounts continue to provide effective rates of return when compared to instruments with similar risk, even in the current environment. The dominant strategy is to maximize our returns by leveraging HISA accounts, keeping in mind that their liquidity adds a safety factor.

Bank of Canada April Monetary Policy Report

“Before COVID-19 struck Canada, the economy had been operating close to potential for nearly two years and inflation was at target.

...

“...economic activity overall was on relatively solid footing. That underlying resilience will help support the Canadian economy through this difficult period and the subsequent recovery.”

*~Stephen Poloz, Governor
Bank of Canada
Monetary Policy Report – April 2020*

Outlook for Canadian Economic Activity

“Considerable uncertainty surrounds the timing and evolution of the recovery. Its speed will depend heavily on how the pandemic and the efforts to control it unfold as well as on developments in the global oil markets.”

*~Stephen Poloz, Governor
Bank of Canada
Monetary Policy Report – April 2020*

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 in the 1st quartile for the quarter ending March 31st, 2020 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		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	5.5%	5.6%	7.8%	3.6%	3.5%	4.4%
Jobs Created / (Lost) ('000's)	34,5	30.3	-1010.7	214	251	-1373
Core Inflation Rate (year over year)	2.4%	2.2%	0.9%	2.5%	2.3%	1.5%

Date	Central Bank	Central Bank Action
May 1st, 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%
Dec 4, 2019	Bank of Canada	Maintained overnight rate at 1.75%
Dec 11, 2019	U.S. Federal Open Market Committee	Maintained target range to 1.5% - 1.75%
Jan 22, 2020	Bank of Canada	Maintained overnight rate at 1.75%
Jan 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 1.5% - 1.75%
Mar 3, 2020	U.S. Federal Open Market Committee	Lowered target range to 1.0% to 1.25%
Mar 4, 2020	Bank of Canada	Lowered overnight rate to 1.25%
Mar 13, 2020	Bank of Canada	Lowered overnight rate to .075%
Mar 15, 2020	U.S. Federal Open Market Committee	Lowered target range to 0.0% to 0.25%
Mar 27 2020	Bank of Canada	Lowered overnight rate to 0.25%