



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 7, 2020
SUBJECT: **Treasurer's Report Quarters Ending June 30, 2020 and September 30, 2020**

Investment Activities

During the reporting period comprised of the quarters ending June 30 and September 30, there were no additional money market investments as we carried five investments into the period with a total value of \$87,148,666, an average cost of \$17,429,733, and original average term of 362 days. This compares to last year when there were five money market investments made for quarter ending June 30, 2019 with a total cost of \$127,712,600, an average cost of \$25,542,520, and an average term to maturity of 290 days.

Operating fund investment income for the 3 months ending June 30, 2020 was \$588,783 versus an original budget of \$187,500. The actual rate of return for the quarter was 0.25% which exceeded the projected rate of 0.21%. For the 3 months ending September 30, 2020, operating fund investment income was \$408,217 versus an original budget of \$187,500. The actual rate of return for the quarter was 0.23% which exceeded the projected rate of 0.21%. The positive variance for both quarters is primarily due to higher than expected cash balances for the period, as well as a positive variance in the rate of return originally projected.

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.

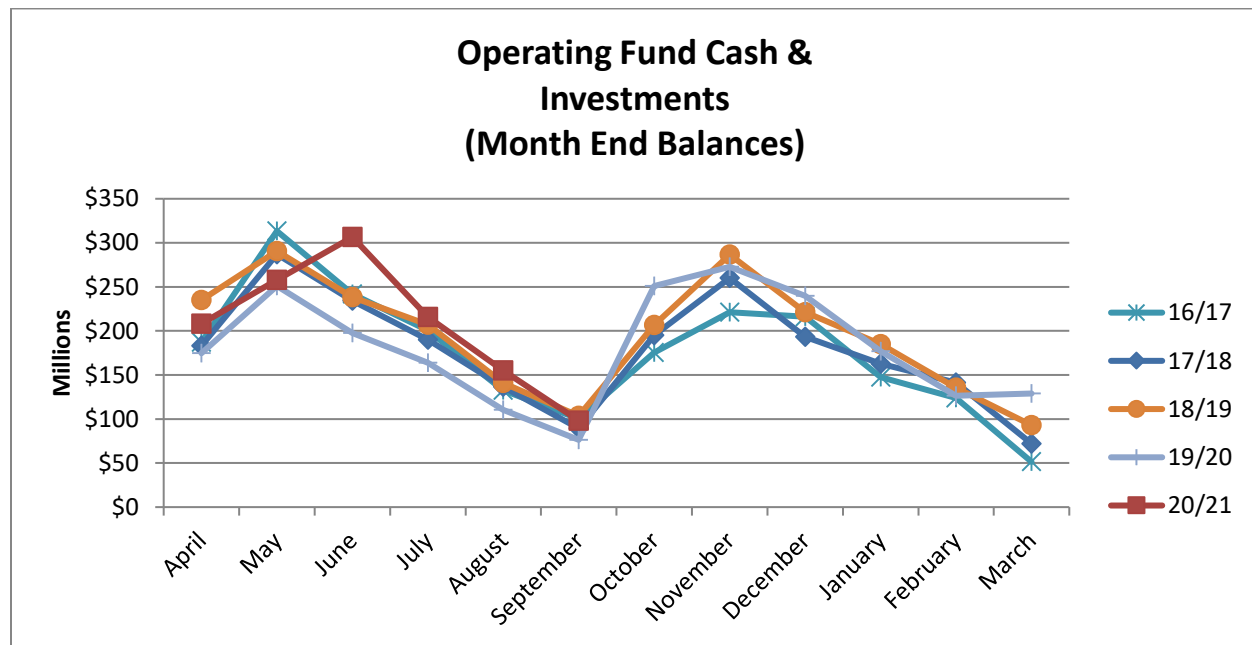
HRM Investment Accounts

For the quarter ending June 30, funds held in the investment bank accounts, including term deposits, totaled \$481,181,548 at the end of the quarter. Using 0.377% as the proxy for the BA and BDN average annual yield for the three months, incremental income for the investment accounts over BA's and BDN's was \$550,147 for the quarter. The income from our investment accounts provided a quarterly return of 0.24%, annualized to 0.96%.

For the quarter ending September 30, funds held in the investment bank accounts, including term deposits, totaled \$403,458,713 at the end of the quarter. Using 0.264% as the proxy for the

BA and BDN average annual yield for the three months, incremental income for the investment accounts over BA's and BDN's was \$685,195 for the quarter. The income from our investment accounts provided a quarterly return of 0.22%, annualized to 0.88%.

For the reporting period, the cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$4,864,704 including a \$491,795 increase during the two quarters of the reporting period. An additional \$624,354 was realized over the reporting period 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 \$1,671,950.

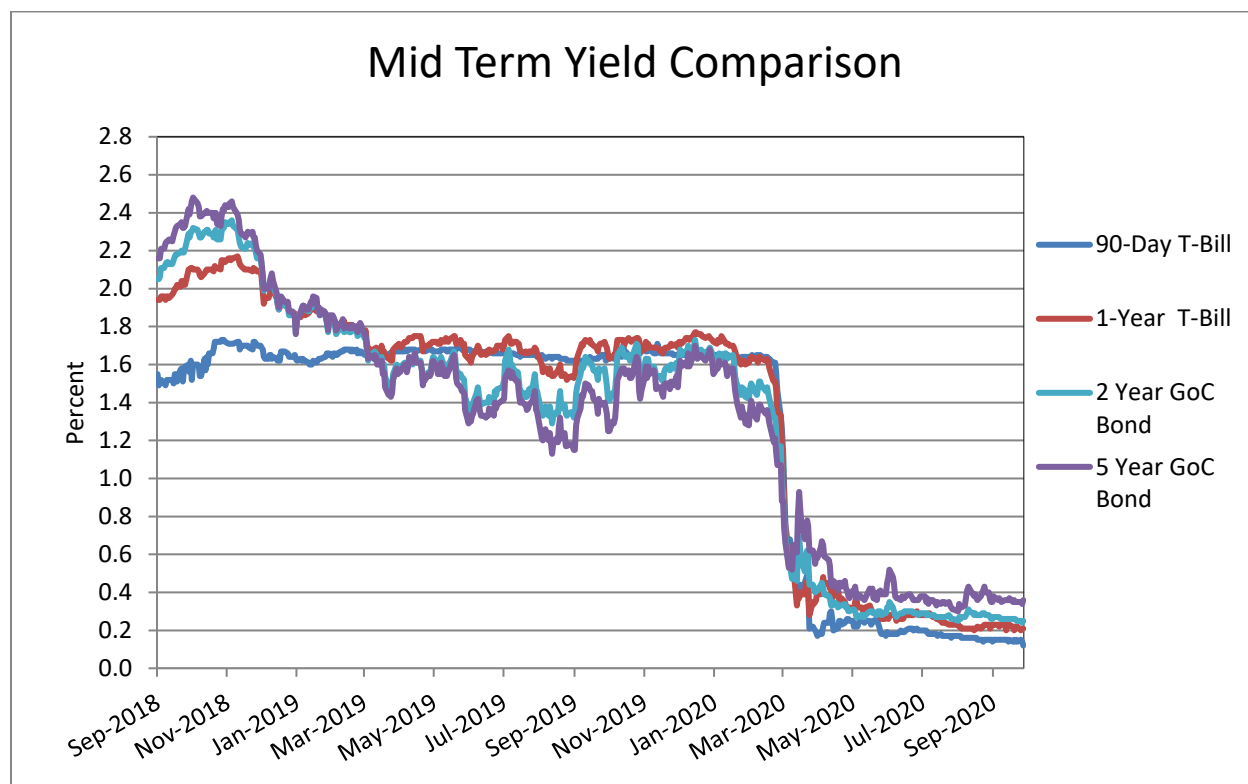


Note that the tax due date for the interim taxes was changed to June 1st resulting in a delay in the operating fund peak balance. However, the balance at September 30th is consistent with prior years.

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 – September 2018 to September 2020

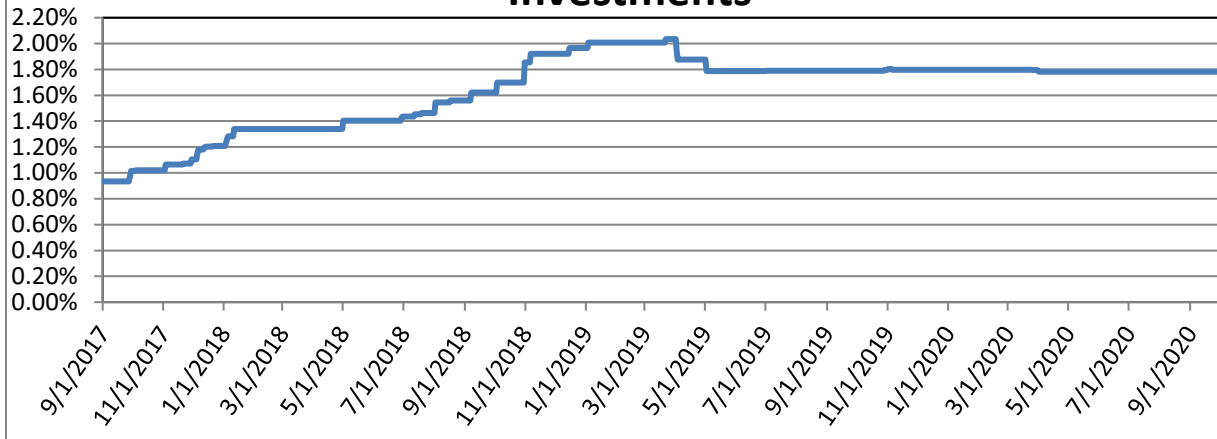


HRM Short Term (Money Market Pool) Investment Performance

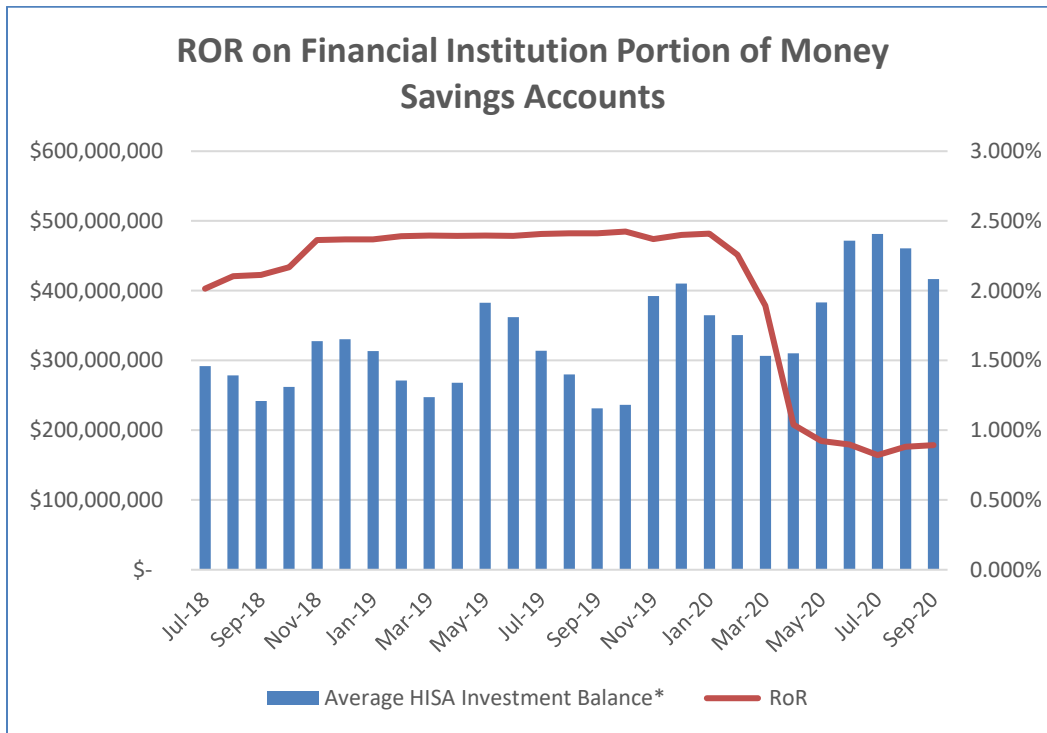
The money market portion of the portfolio receded during the initial part of the quarter ending June 30. The quarter started with a balance of \$87,148,666 in money market investments and ended with a balance of \$47,855,866 after two investment matured in late April with a total initial cost of \$39,292,800. The balance remained at \$47,855,866 throughout the quarter ending September 30.

The rate of return for each of the quarters covered by this report is 0.45%, and when annualized, provides a return of 1.80% while the rolling one-year return is 1.79%. The average duration of the money market portfolio is 362 days. The average return of a benchmark one-year T-bill over the reporting period was 0.28%.

RoR on Government Portion of Money Market Investments



ROR on Financial Institution Portion of Money Savings Accounts



HRM Overall results

Our current benchmark for the portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of approximately 25 pooled Canadian money market funds. These funds generally feature 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 June 30, 2020)	3 Months (to Sept 30, 2020)	1 Year (to Sept 30, 2020)
5 th Percentile	0.41%	0.18%	1.57%
1 st Quartile	0.31%	0.14%	1.37%
Money Market Median	0.24%	0.12%	1.25%
3 rd Quartile	0.18%	0.08%	1.13%
95 th Percentile	0.11%	0.03%	0.90%
Average Return	0.24%	0.11%	1.25%
HRM Overall	0.25%	0.23%	1.57%

Overall performance continues to be positive as we note the three-month return for both quarters exceeds the median with the most recent three-month return exceeding the 5th percentile. The current one-year return also meets the 5th percentile. These returns are before any allowance for fees that could be paid for external management.

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. For the past year, 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 0.28% and the average return on a 90-day BA over the period was 0.32%. The weighted average of money market investments was 8% and the investment accounts was 92%. As a result, the annual return

benchmark for the reporting period is 0.31%. Our one-year rate of return of 1.57% compares favourably with this benchmark.

Operating Investment Income Projection – 2020/21

The operating investment income budget has been established at \$750,000 for the 2020/21 fiscal year. As market conditions warrant, we will update projections throughout the year.

Quarter	Operating Investment Income Budget	Actual	Variance
Apr – Jun	\$187,500	\$588,755	\$401,255
Jul – Sept	\$187,500	\$408,217	\$220,717
Oct – Dec			
Jan – Mar			
	\$750,000	\$996,972	

Subsequent to End of Reporting Quarter

The Bank of Canada has kept the overnight rate at 25 bps as anticipated. Current projections maintain the rate at its current level until inflation reaches the target 2%. We are also seeing some of the banks pulling back rates on their high-interest savings account (HISA) products.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. As noted below, the current outlook indicates the rate will remain at its lower bound for the next two years.

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

Bank of Canada October Monetary Policy Report

“...the rebound in employment and GDP was stronger than expected as the economy reopened through the summer. The economy is now transition to a more moderate recuperation phase.”

*Bank of Canada
Press release – October 28, 2020*

Outlook for Canadian Economic Activity

“The economic recovery is projected to be prolonged, underpinned by policy support but largely influenced by the evolution of the virus, ongoing uncertainty and structural changes to the economy.

“As the economy recuperates, it will continue to require extraordinary monetary policy support. The Governing Council will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved. In our current projection, this does not happen until into 2023.”

*Bank of Canada
Monetary Policy Report – October 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 exceeded the median for the quarters ending June 30, 2020 and September 30, 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 – Q2			Canada – Q3			United States		
	Apr	May	June	Jul	Aug	Sept	Jul	Aug	Sept
Unemployment Rate	13.0%	13.7%	12.3%	10.2%	9.0%	10.2%	3.6%	3.5%	4.4%
Jobs Created / (Lost) ('000's)	(1993.8)	289.6	952.9	418.5	245.8	378.2	1761	1493	672
Core Inflation Rate (year over year)	(0.2%)	(0.4%)	0.7%	0.1%	0.1%	0.5%	1.0	1.3%	1.4%

Date	Central Bank	Central Bank Action
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%
Apr 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Apr 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
June 3, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Jun 10, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
July 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
July 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Oct 28, 2020	Bank of Canada	Maintains overnight rate at 0.25%