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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Renée Towns, Director of Revenue, Treasurer, Finance & Asset Management
DATE: December 6, 2021
SUBJECT: **Treasurer's Report Quarter Ending September 30, 2021**

Investment Activities

During the quarter, there was one money market investment made, one investment maturity and five investments carried from the prior period with a total ending value of \$155,610,221, an average cost of \$31,122,044, and an original average term of 259 days. This compares to the same period last year when we carried three investments into the period with a total cost of \$47,855,866, average cost of \$15,951,955 and average term to maturity of 362 days.

Operating fund investment income for the three months ending September 30, 2021 was \$306,473 versus an original budget of \$187,500. Total investment income for the portfolio was \$1,141,119 which includes investment income for the operating fund, trusts and reserves, as well as related entities. The positive variance in the investment income is a result of higher than expected cash balances for the period in addition to a positive variance for the rate of return.

The actual rate of return for the quarter was 0.16% while the original projected rate was 0.11%. This variance is attributable to higher than expected returns in the Financial Institution half of the portfolio for the quarter. The original budgeted annual rate of return for the year was 0.45%. Based on market conditions, this has been revised up to 0.65%.

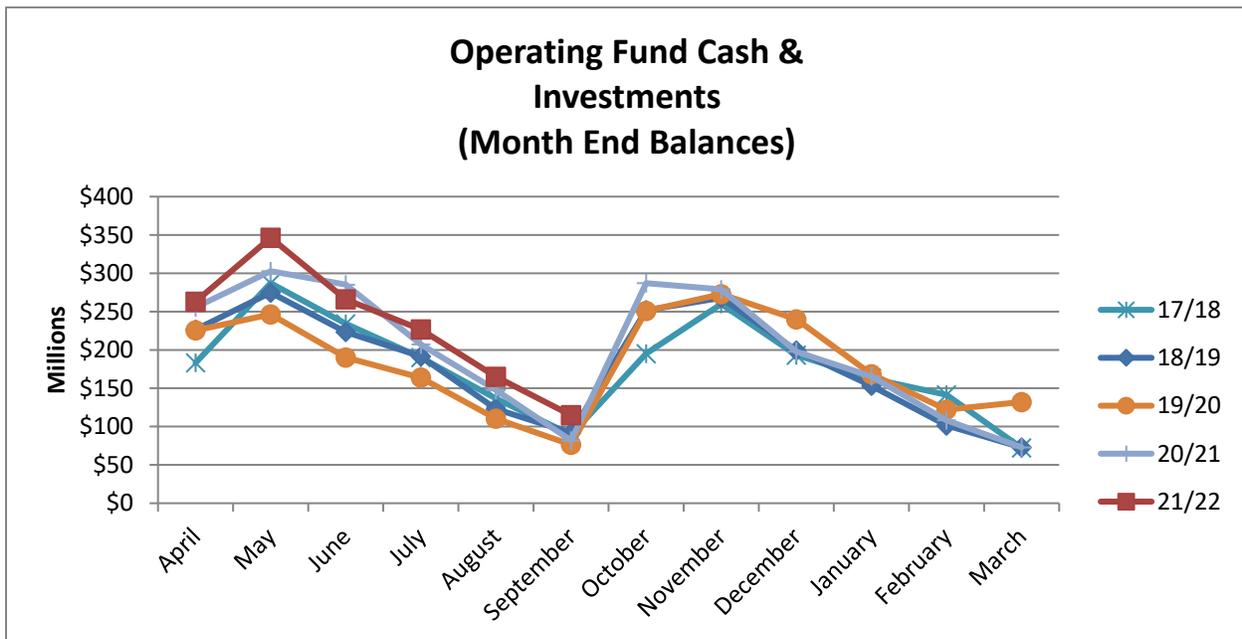
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

HRM Investment Accounts

Funds held in the investment bank accounts, including term deposits, totaled \$513,366,741 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds.

Using 0.21% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$649,991 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.19%, and an annual return of 0.75%.

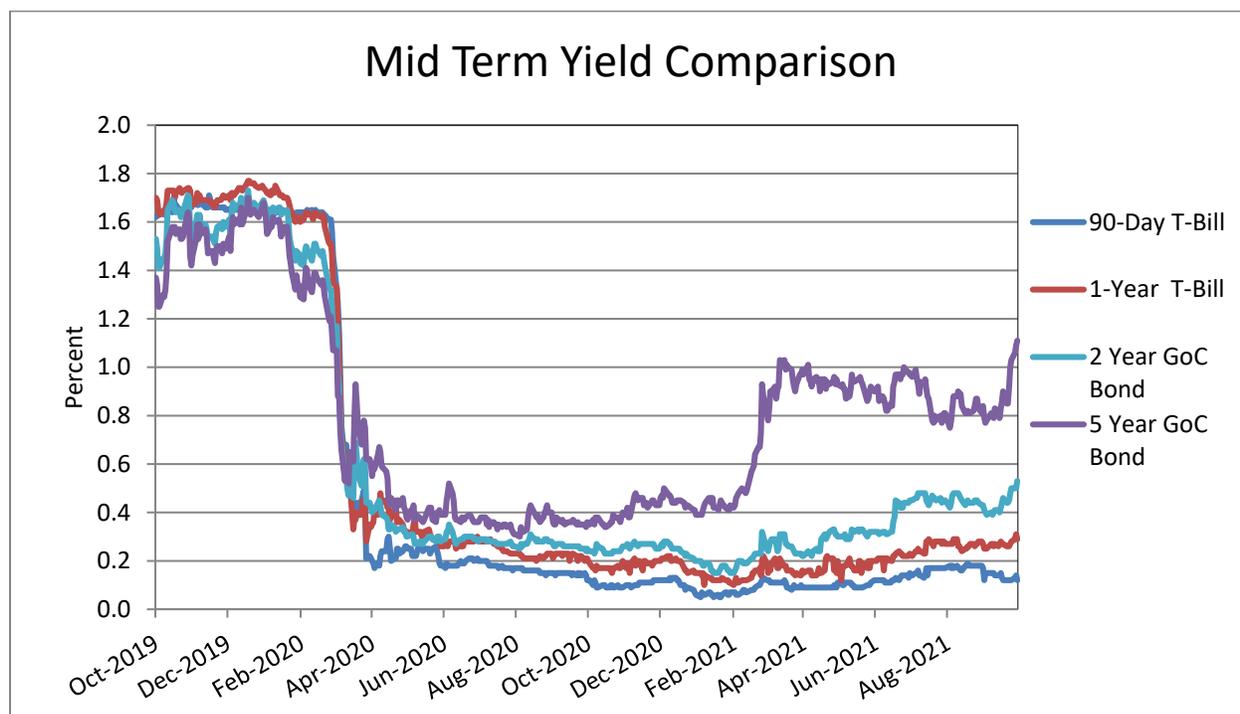
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,745,099 including a \$223,225 increase during the reporting period. An additional \$228,946 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$2,954,795.



HRM Short Term Bond Pool

As of September 30, 2021, the portfolio did not contain any bonds. The semi-annual portfolio rebalance occurred at the beginning of November 2021 and included bond purchases, which will be reported in the following quarterly report.

Government Sector Performance – October 2019 to September 2021



HRM Short Term (Money Market Pool) Investment Performance

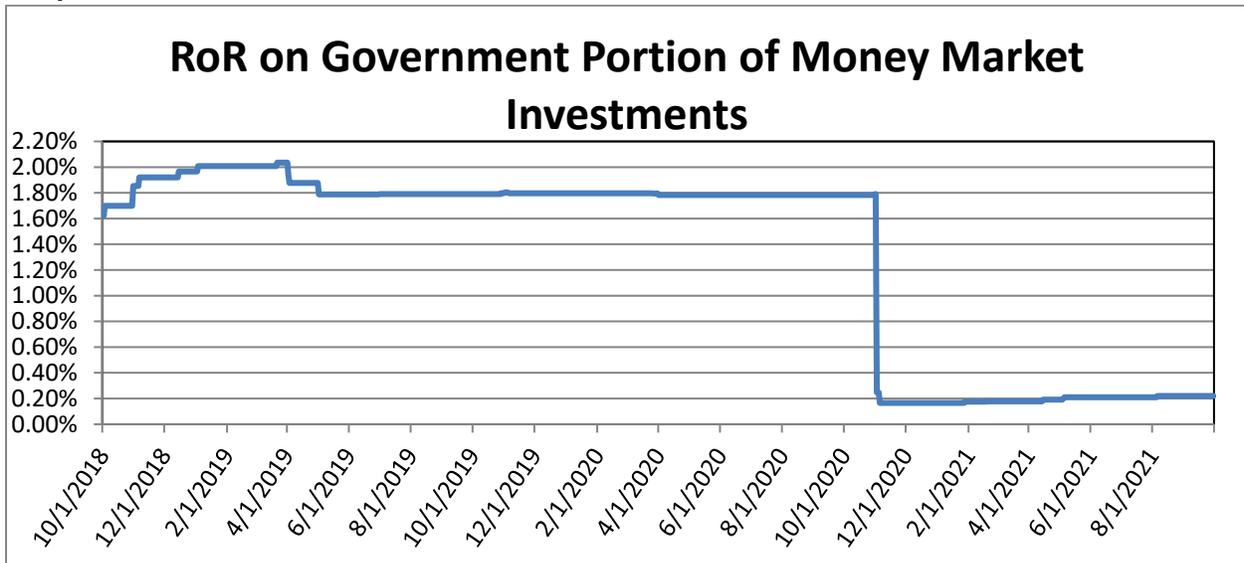
The money market portion of the portfolio began the quarter with a balance of \$179,688,050 and ended with a balance of \$155,610,221.

The money market rate of return for the quarter ending September 30, 2021 is 0.05%, with a rolling one-year return of 0.33%, and an average duration of 259 days. The average return over the reporting period of a benchmark one-year T-bill was 0.27%.

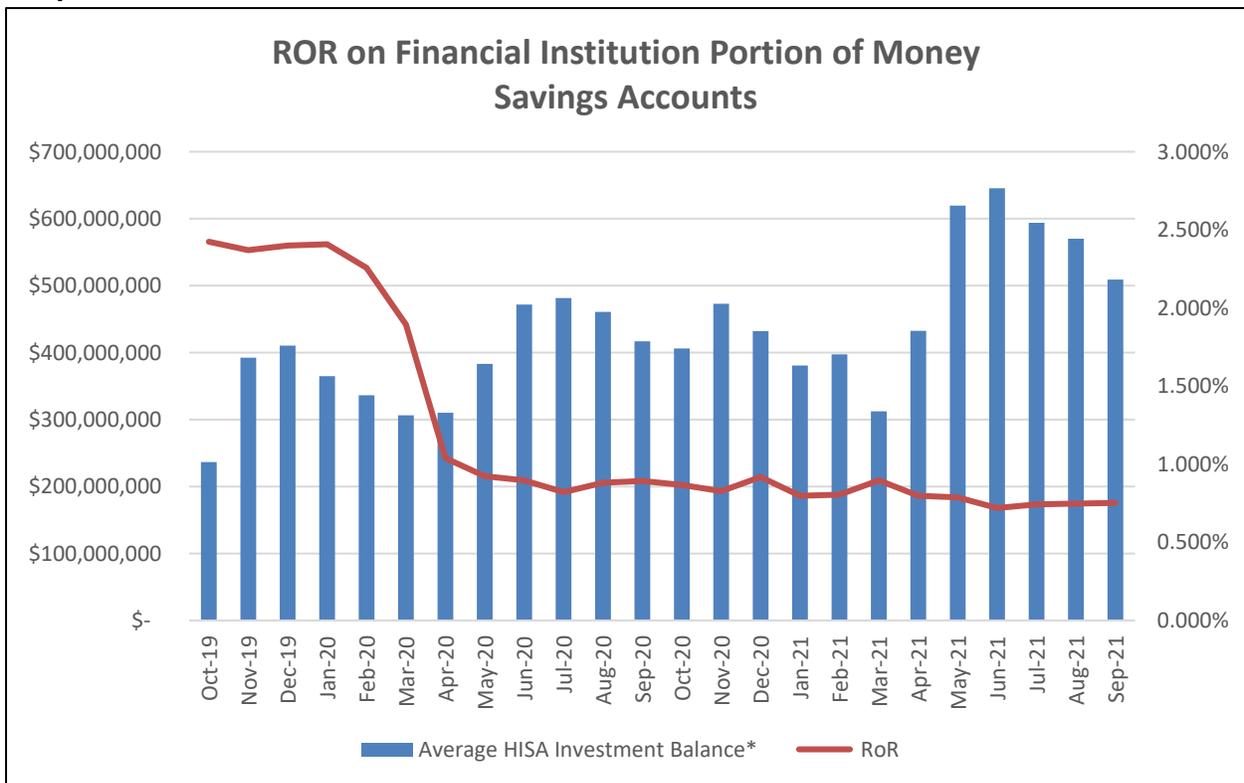
Graph “A” below depicts the decline in return on our money market investments in early November 2020 when our long-held instruments matured and we made new investments at a lower rate of return. This most recent quarter shows a slight increase as shorter duration instruments with lower yields matured early in the period.

Graph “B” demonstrates the rate decline on the Investment Accounts when the Bank of Canada rate dropped 150 basis points in March 2020.

Graph A



Graph B



HRM Overall results

The benchmark for portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of 24 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.

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.”

Money Market Funds	3 Months (to Sept 30, 2021)	1 Year (to Sept 30, 2021)
Average Return	0.05%	0.22%
5 th Percentile	0.09%	0.44%
1 st Quartile	0.06%	0.30%
Money Market Median	0.05%	0.22%
3 rd Quartile	0.03%	0.15%
95 th Percentile	(0.00%)	(0.07%)
HRM Overall	0.16%	0.33%

Overall performance continues to be positive as we note the three-month and one-year return exceeds the 5th percentile and 1st quartile respectively. These returns are before any allowance for fees that could be paid for external management.

Operating Investment Income Projection – 2021/22

The operating investment income budget has been established at \$750,000 for the 2021/22 fiscal year. As market conditions warranted, we have updated our annual income projection to \$1,500,000 for the fiscal year.

Quarter	Operating Investment Income Budget	Actual	Variance
Apr – Jun	\$187,500	\$366,073	\$178,573
Jul – Sept	\$187,500	\$306,473	\$118,973
Oct – Dec	\$187,500		
Jan – Mar	\$187,500		
	\$750,000		

Subsequent to End of Reporting Quarter

The Bank of Canada continues to maintain the overnight rate at 25 bps; however, guidance has shifted once again, as they signal that the rate will not stay at its lower bound for as long as originally forecast. The most recent report indicates that the target level of inflation of 2% should be reached in by late 2022 and a rate hike is expected as early as the second quarter of 2022.

Although Canada is now in a fourth wave of COVID-19, due to the high vaccine uptake, the economy has continued to show great resilience. As a result, the Canadian economic forecast is still projected upward. This optimistic view has been aided by the \$1 trillion infrastructure bill in the US and the world-leading vaccine uptake in Canada.

Bank of Canada April Monetary Policy Report

“The Canadian economy is once again growing robustly, enabled by a high vaccination rate and the associated easing of containment measures. While the Delta variant is requiring continued public health precautions and weighing on consumer confidence, domestic demand has continued to recover.”

*Bank of Canada
Monetary Policy Report
– October 2021*

Outlook for Canadian Economic Activity

“Given persistent supply constraints and the increase in energy prices, the Bank expects inflation to stay above the control range for longer than previously anticipated, before easing back to close to the 2 percent target by late 2022.”

*Bank of Canada
Monetary Policy Report
– October 2021*

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada’s overnight rate. As noted, the current outlook indicates the rate will remain at 0.25% until the second quarter of 2022, where it is expected to rise, up to 1.00% over the course of 2022.

There has been continued downward movement in the interest rates on the investment bank accounts and when compared to instruments with similar risk, we still enjoy higher overall returns. Therefore, the strategy remains to maximize returns by leveraging HISA accounts, keeping in mind that their liquidity adds a safety factor.

We balance the portfolio with government sector instruments, primarily in the form of provincial Treasury Bills. This provides diversification of the portfolio while maintaining a suitable level of risk for the needs of Treasury.

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 5th percentile for the quarter ending September 30, 2021 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.

Renée Towns, CPA, CGA, CTP
Director of Revenue, Treasurer

Appendix A

Economic Statistics	Canada			United States		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	7.5%	7.1%	6.9%	5.4%	5.2%	4.8%
Jobs Created / (Lost) ('000's)	94	90	157	1,091	483	312
Core Inflation Rate (year over year)	3.3%	3.5%	3.7%	4.3%	4.0%	4.0%

Date	Central Bank	Central Bank Action
Oct 28, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Nov 5, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Dec 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Dec 26, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jan 20, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jan 27, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Mar 10, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Mar 17, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Apr 21, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Apr 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jun 9, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jun 16, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jul 14, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jul 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Sept 22, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Oct 27, 2021	Bank of Canada	Maintains overnight rate at 0.25%