



PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Aaron Khan, Deputy Treasurer, Finance & Asset Management  
DATE: June 6, 2022  
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2022**

### Investment Activities

During the quarter, there were no money market investments made as we carried six investments into the period with a total value of \$153,113,221, an average cost of \$25,518,870, and an original average term of 294 days. This compares to the same period last year when we carried three investments into the period with a total cost of \$178,776,780, average cost of \$59,592,260 and average term to maturity of 230 days.

No additional provincial bond investments were made, we carried forward five bond investments with a total face value of \$157,100,000, and an original average term of 2 years. No bonds were held in the same period last year.

Operating fund investment income for the three months ending March 31, 2022 was \$378,727 versus the updated budget of \$375,000 (originally budgeted at \$187,500). Total investment income for the portfolio was \$1,469,304 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

The actual rate of return for the quarter was 0.22% while the projected rate was 0.16%. This variance is attributable to both higher than expected returns in the Financial Institution half of the portfolio for the quarter, and higher yields on provincial bond investments compared to money market holdings. The actual rate of return for the year was 0.72%, slightly above the updated projected annual rate of return of 0.65% (originally budgeted at 0.45%).

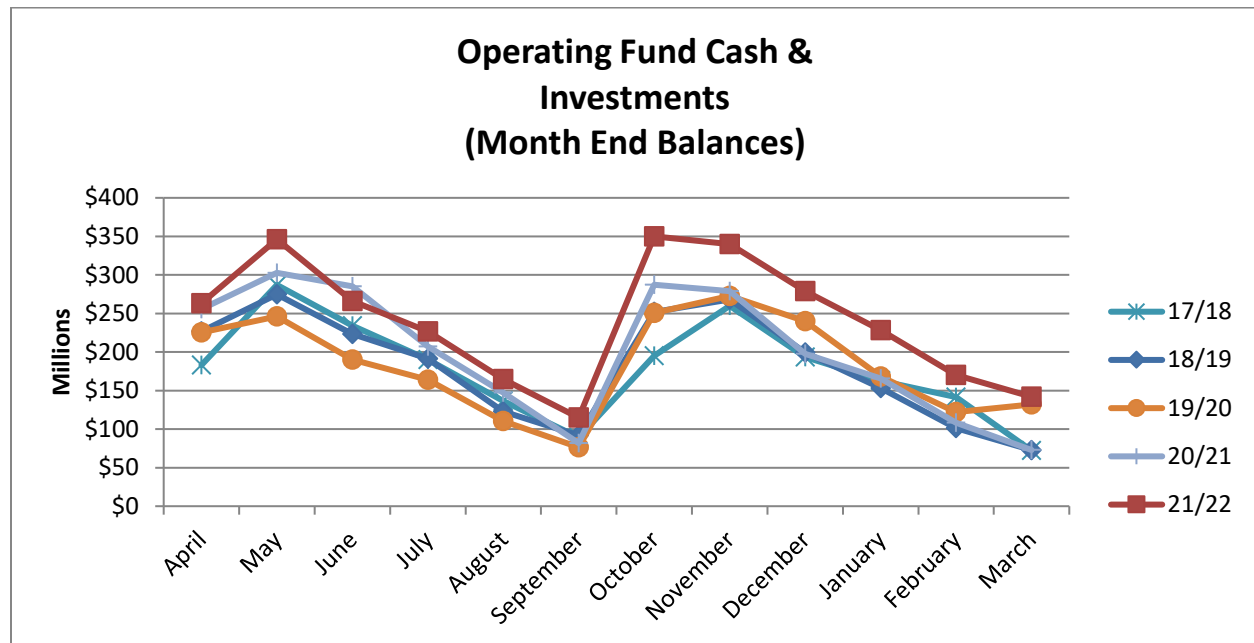
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

## HRM Investment Accounts Performance

Funds held in the investment bank accounts, including term deposits, totaled \$331,659,372 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 0.66% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$185,510 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.22%, and an annual return of 0.88%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,725,358 including a \$85,486 decrease during the reporting period. A decrease of \$122,424 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 \$2,887,742. The decreases are attributable to the rapidly changing interest rate landscape affecting the benchmark used, however, the cumulative effective of each policy change is still overwhelmingly positive.

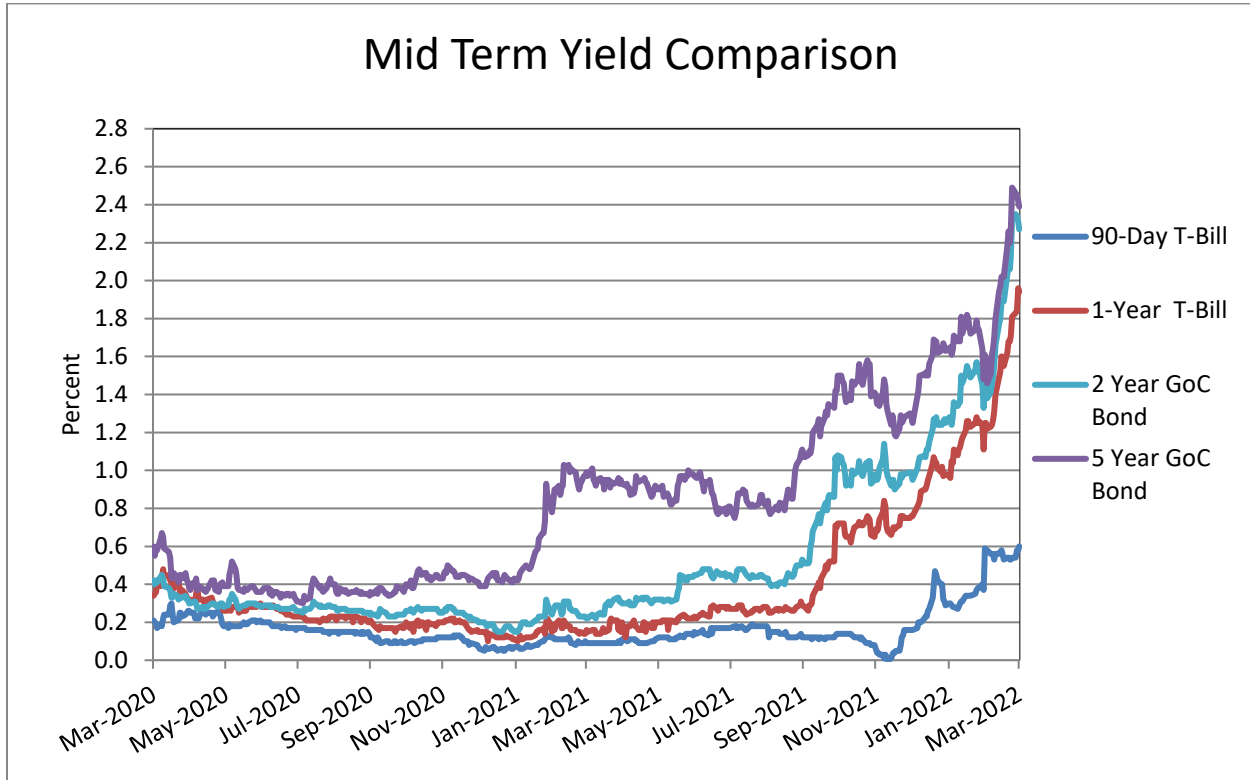


## HRM Long Term (Bond Pool) Investment Performance

The provincial bond portion of the portfolio did not change during the quarter, with total face value remaining at \$157,100,000.

On the bonds held, the yields range from 0.99% to 1.37% with a weighted average yield of 1.18%. The term to maturity ranges from June 2023 to June 2024.

### **Government Sector Performance – March 2020 to March 2022**

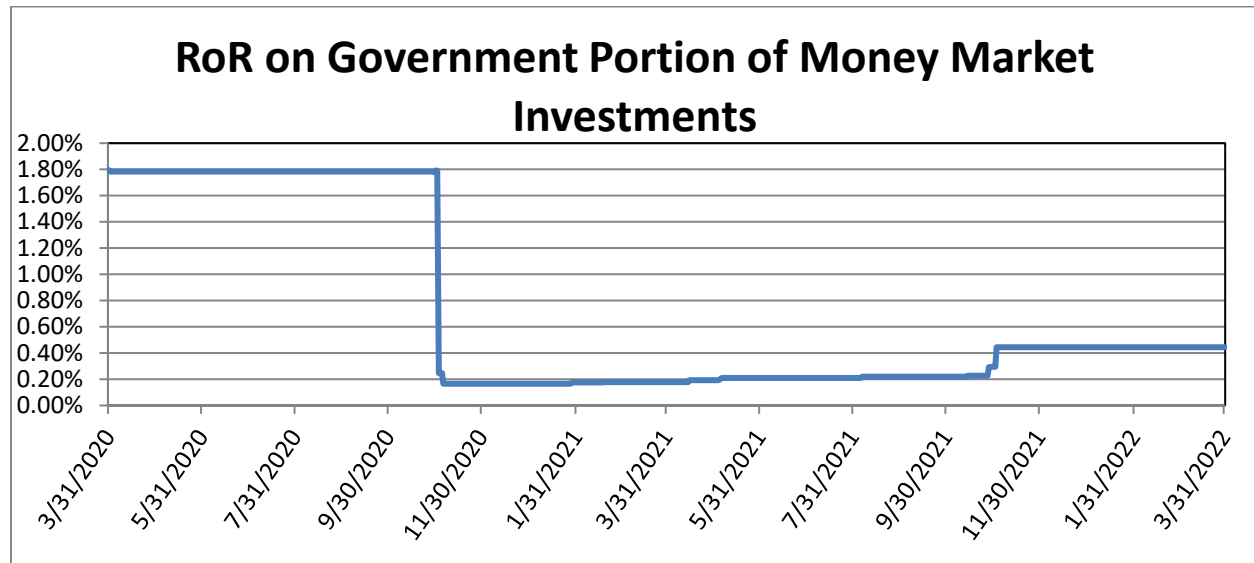


## HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio did not change during the quarter, remaining at \$153,113,221.

The money market rate of return for the quarter ending March 31, 2022 is 0.11%, with a rolling one-year return of 0.31%, and an average duration of 294 days. The average return over the reporting period of a benchmark one-year T-bill was 1.23%. The negative variance to the benchmark rate is primarily attributable to holding money market investments purchased prior to positive yield movements in the market.

The following graph 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 two quarter show a slight increase in return as we invest into new instruments with higher yields.



## 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.”*

<b>Money Market Funds</b>	<b>3 Months (to Mar 31, 2022)</b>	<b>1 Year (to Mar 31, 2022)</b>
Average Return	0.07%	0.20%
5 <sup>th</sup> Percentile	0.14%	0.39%
1 <sup>st</sup> Quartile	0.09%	0.27%
Money Market Median	0.07%	0.20%
3 <sup>rd</sup> Quartile	0.04%	0.16%
95 <sup>th</sup> Percentile	0.01%	(0.03%)
<b>HRM Overall</b>	<b>0.22%</b>	<b>0.72%</b>

Overall performance continues to be positive as we note the three-month and one-year return exceeds the 5<sup>th</sup> percentile. 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 was originally established at \$750,000 for the 2021/22 fiscal year. As market conditions warranted, we had updated our annual income projection to \$1,500,000 for the fiscal year.

<b>Quarter</b>	<b>Operating Investment Income Budget</b>	<b>Actual</b>	<b>Variance</b>
Apr – Jun	\$375,000	\$366,073	(\$8,927)
Jul – Sept	\$375,000	\$306,473	(\$68,527)
Oct – Dec	\$375,000	\$539,952	\$164,952
Jan – Mar	\$375,000	\$378,727	\$3,727
	<b>\$1,500,000</b>	<b>\$1,591,225</b>	<b>\$91,225</b>

### **Subsequent to End of Reporting Quarter**

The Bank of Canada announced a 50bps hike to the overnight rate on April 13, 2022, bringing the rate up to 1%. Another rate hike is expected to be announced on June 1<sup>st</sup>.

As inflation continues to remain at levels higher than the target, economist expect continued rate hikes throughout 2022 to combat inflation. Current forecasts by economists put the overnight rate between 1.75% to 2.50% by the end of 2022.

### **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 continue to increase over the course of 2022.

There has been upward 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 High Interest Savings 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 and provincial bonds. 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 5<sup>th</sup> percentile for the quarter ending March 31, 2022 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.

Aaron Khan, CPA  
Deputy Treasurer

# Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	6.5%	5.5%	5.3%	4.0%	3.8%	3.6%
Jobs Created / (Lost) ('000's)	(200)	337	73	504	714	428
Core Inflation Rate (year over year)	4.3%	4.8%	5.5%	6.0%	6.4%	6.5%

Date	Central Bank	Central Bank Action
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%
Dec 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Dec 15, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jan 26, 2022	Bank of Canada	Maintains overnight rate at 0.25%
Jan 26, 2022	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Mar 2, 2022	Bank of Canada	Raised overnight rate to 0.50%
Mar 16, 2022	U.S. Federal Open Market Committee	Maintained target range to 0.25% to 0.50%
Apr 13, 2022	Bank of Canada	Raised overnight rate to 1.00%
May 4, 2022	U.S. Federal Open Market Committee	Maintained target range to 0.75% to 1.00%