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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Renée Towns, Director of Revenue, Treasurer, Finance & Asset Management
DATE: March 7, 2022
SUBJECT: **Treasurer's Report Quarter Ending December 31, 2021**

Investment Activities

During the quarter, there were four money market investments made, three investment maturities and two investments carried from the prior period with a total ending 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 five money market investments in the period with a total cost of \$231,759,860, average cost of \$46,351,972 and average term to maturity of 177 days.

In addition to money market investments, after examining the return and related risks, there were also five provincial bond investment purchases made, with a total book cost of \$165,185,156, total face value of \$157,100,000, an average cost of \$33,037,031, 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 December 31, 2021 was \$539,952 versus the updated budget of \$375,000 (originally budgeted at \$187,500). Total investment income for the portfolio was \$1,531,271 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 0.19% 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 other investment holdings. We anticipate that we will achieve the updated projected annual rate of 0.65% (compared to the originally budgeted rate of 0.45%).

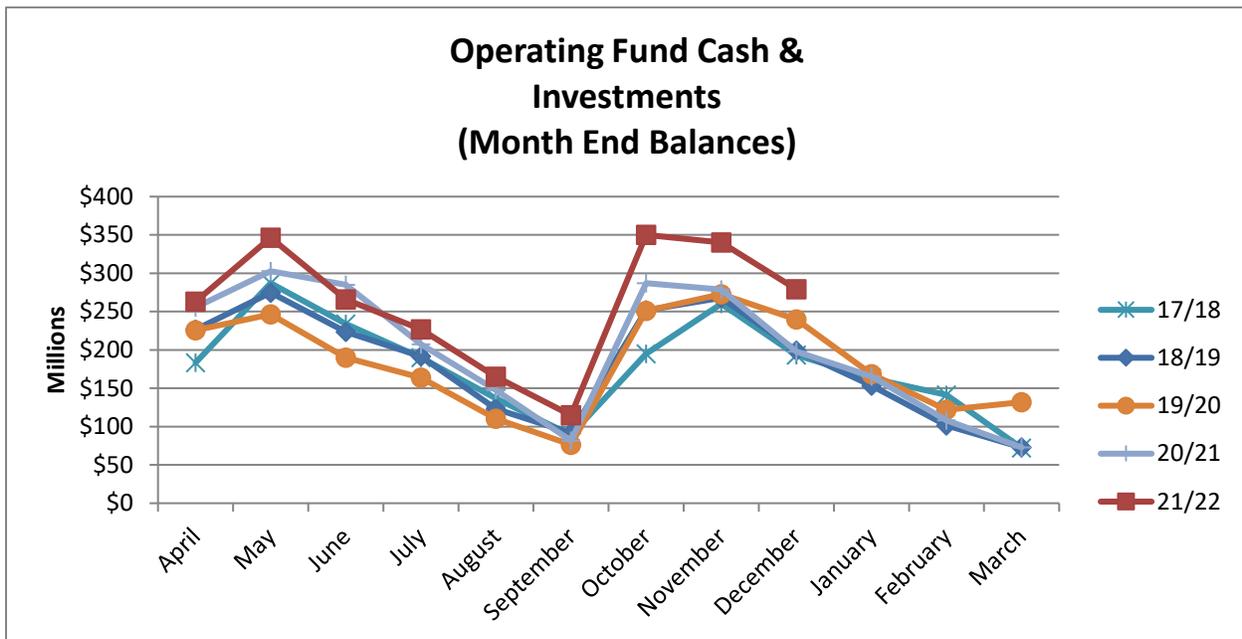
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

HRM Investment Accounts Performance

Funds held in the investment bank accounts, including term deposits, totaled \$464,799,566 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 0.25% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$598,523 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%.

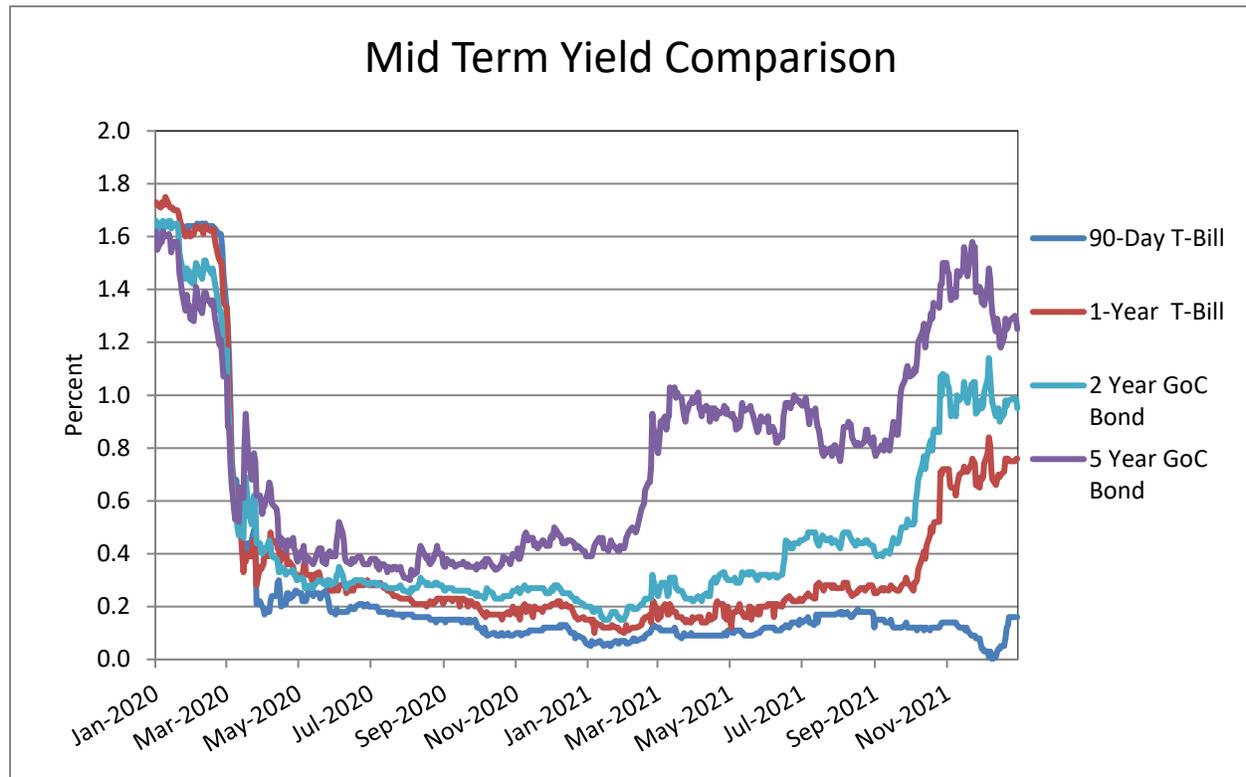
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,810,845 including a \$65,746 increase during the reporting period. An additional \$55,371 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$3,010,166.



HRM Long Term (Bond Pool) Investment Performance

During the quarter, there were five additions to the bond pool, bringing the total face value of the pool to \$157,100,000, with yields ranging from 0.99% to 1.37% with a weighted average yield of 1.26%. The term to maturity ranges from June 2023 to June 2024.

Government Sector Performance – January 2020 to December 2021



HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio began the quarter with a balance of \$155,610,221 and ended with a balance of \$153,113,221.

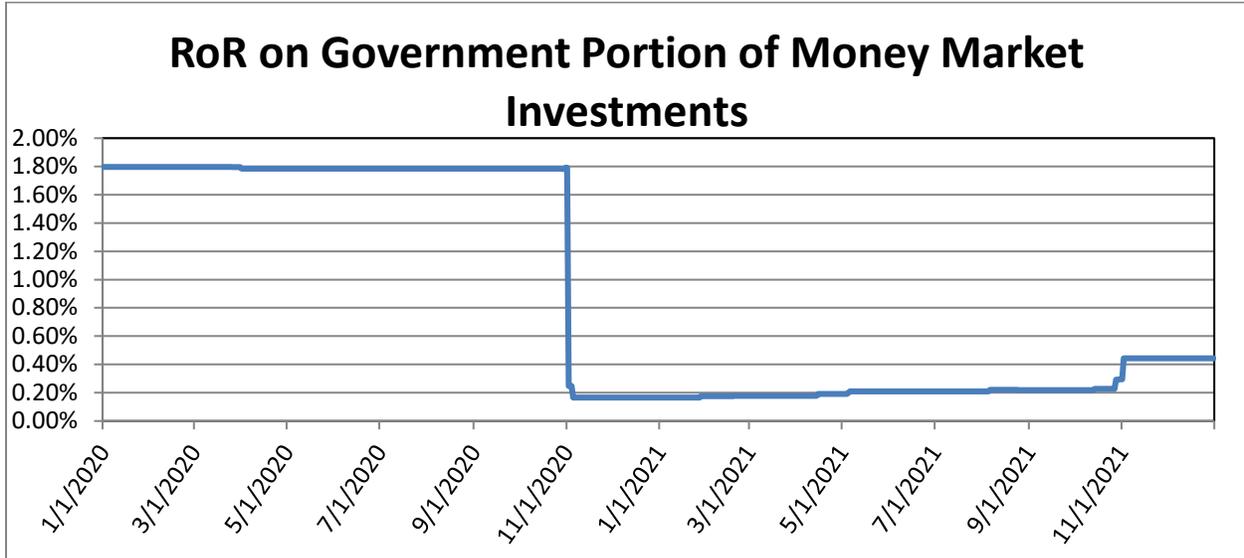
The money market rate of return for the quarter ending December 31, 2021 is 0.09%, with a rolling one-year return of 0.24%, and an average duration of 294 days. The average return over the reporting period of a benchmark one-year T-bill was 0.63%. The negative variance to the benchmark rate is primarily attributable to holding money market investments purchased prior to positive yield movements in the market.

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.

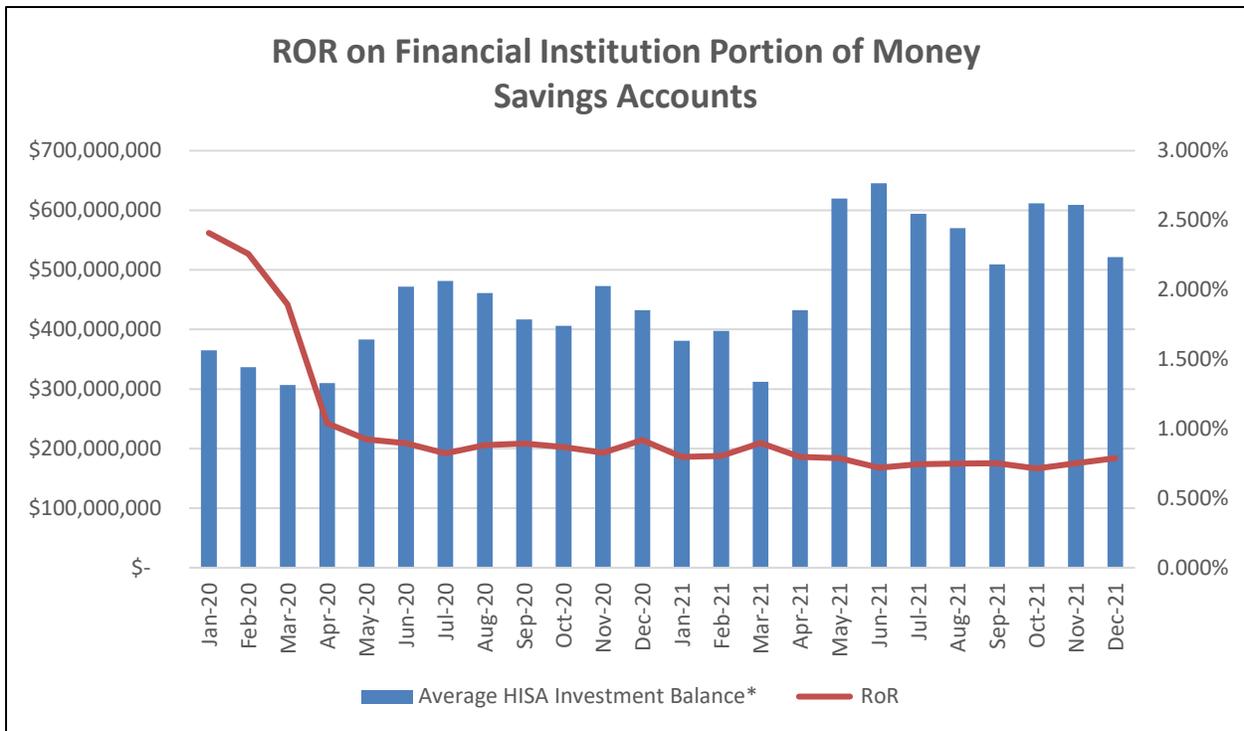
HRM Short Term (Money Market Pool) Investment Performance (Continued)

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 Dec 31, 2021)	1 Year (to Dec 31, 2021)
Average Return	0.05%	0.20%
5 th Percentile	0.09%	0.38%
1 st Quartile	0.06%	0.25%
Money Market Median	0.05%	0.18%
3 rd Quartile	0.03%	0.14%
95 th Percentile	0.01%	(0.07%)
HRM Overall	0.19%	0.65%

Overall performance continues to be positive as we note the three-month and one-year return exceeds the 5th 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 have updated our annual income projection to \$1,500,000 for the fiscal year.

Quarter	Operating Investment Income Budget	Actual	Variance
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		
	\$1,500,000	\$1,212,498	

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 inflation rate should decline to 3% by the end of 2022, above the target level of 2%. A rate hike is expected next quarter, with economists estimating a 0.25% to 0.50% hike.

Canada is well into the Omicron COVID-19 wave, but with the country's high vaccine uptake, many regions of Canada are shifting to a 'living with the virus' mentality. As a result of this shift, restrictions are expected to decrease, which will allow for continued upward trends in the Canadian economy.

Bank of Canada January Monetary Policy Report

"The Canadian economy experienced a strong rebound through the second half of 2021. Economic growth surged as the easing of public health measures boosted consumption of services, and exports bounced back due to growing foreign demand."

*Bank of Canada
Monetary Policy Report
– January 2022*

Outlook for Canadian Economic Activity

"The impacts from global and domestic supply disruptions are currently exerting upward pressure on prices. Inflationary pressures from strong demand, supply shortages and high energy prices should subside during the year. Inflation is expected to decline relatively quickly to about 3% by the end of 2022."

*Bank of Canada
Monetary Policy Report
– January 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 increase by at least 0.25% next quarter, and is expected to rise to 1.00% over the course of 2022.

There has been some 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 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 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 5th percentile for the quarter ending December 31, 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		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	6.7%	6.0%	6.0%	4.6%	4.2%	3.9%
Jobs Created / (Lost) ('000's)	31	154	79	677	647	510
Core Inflation Rate (year over year)	3.8%	3.6%	4.0%	4.6%	4.9%	5.5%

Date	Central Bank	Central Bank Action
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%
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%