



PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Aaron Khan, Deputy Treasurer, Finance & Asset Management  
DATE: December 5, 2022  
SUBJECT: **Treasurer's Report Quarter Ending September 30, 2022**

### Investment Activities

During the quarter, there were no money market investments made, three investment maturities and two investments carried from the prior period with a total ending value of \$34,493,200, an average cost of \$17,246,600, and an original average term of 237 days. This compares to the same period last year when we held five investments at the end of the period with a total cost of \$155,610,221, an average cost of \$31,122,044 and average term to maturity of 259 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 September 30, 2022, was \$1,201,189 versus the updated forecast of \$1,230,000. The total investment income for the portfolio was \$4,534,844 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 0.61% while the updated projected rate of return was 0.62%. We anticipate an updated projected annual rate of return of 2.50%.

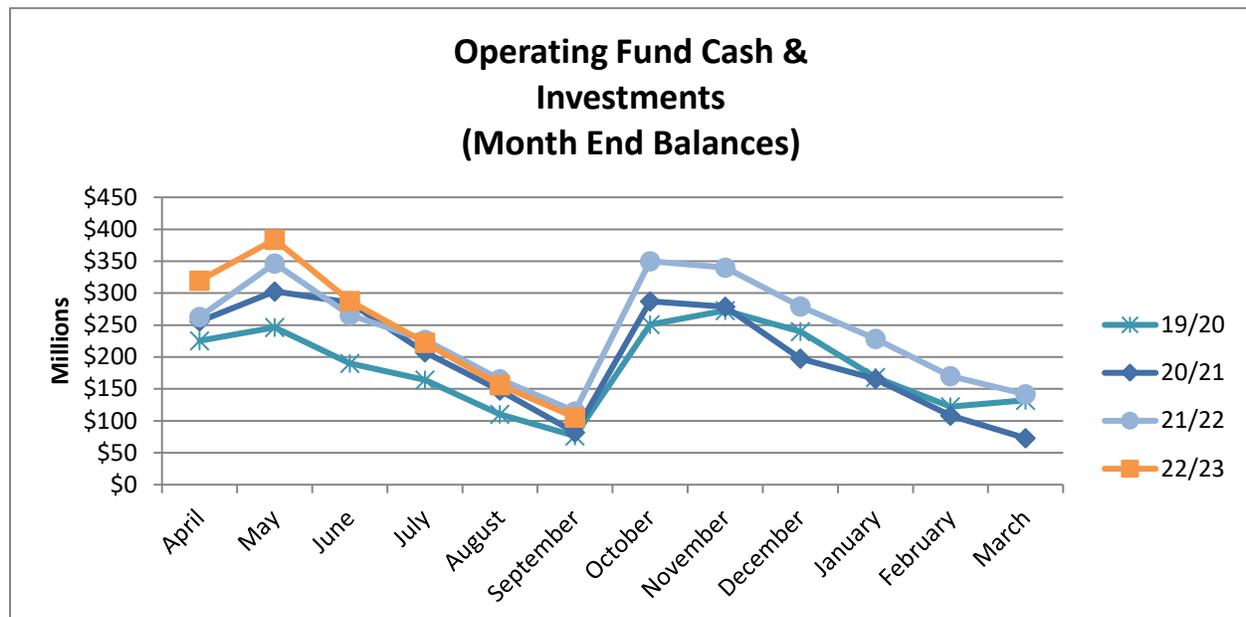
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

## HRM Investment Accounts Performance

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$459,316,095 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 3.40% as the proxy for the BA and BDN average annual yield for the three months, incremental losses in the investment account were \$480,455 for the quarter below BA's and BDN's. The incremental loss for the quarter is attributable to the rapidly changing interest rate landscape increasing the average proxy rate for the quarter. This is due to the BAs and BDNs anticipating the higher rates which is reflected in the proxy, however, our investment accounts do not reflect the higher rates until the actual increase occurs. This disproportionately affected the incremental income/loss calculation due to the higher cash balances earlier in the quarter, when interest rates were lower. Once interest rates stabilize, the investment accounts will begin to experience continued incremental income over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.74%, and an annualized return of 2.95%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,093,489 including a \$208,704 decrease during the reporting period. A decrease of \$230,658 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 \$2,244,607. The decreases are attributable to the rapidly changing interest rate landscape affecting the benchmark used (for the same reasons outlined above), however, the cumulative effective of each policy change is still overwhelmingly positive.

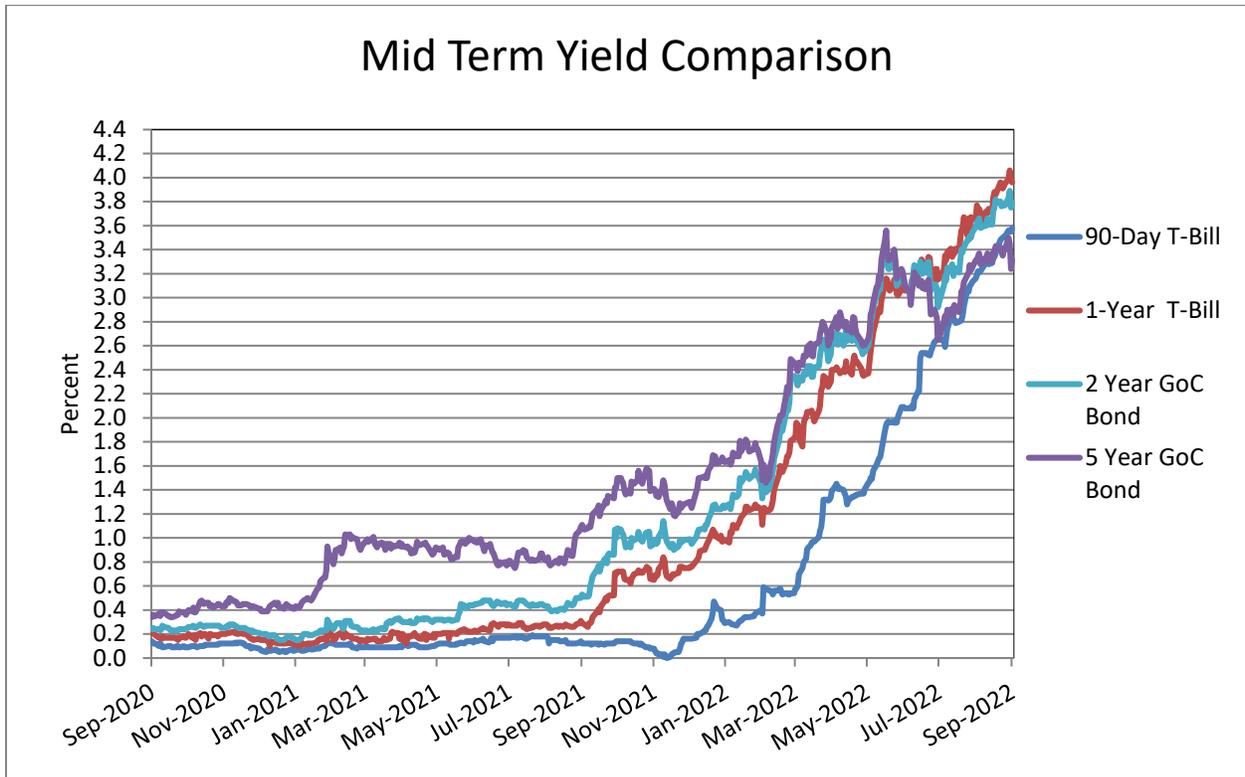


## HRM Long Term (Bond Pool) Investment Performance

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 – September 2020 to September 2022**

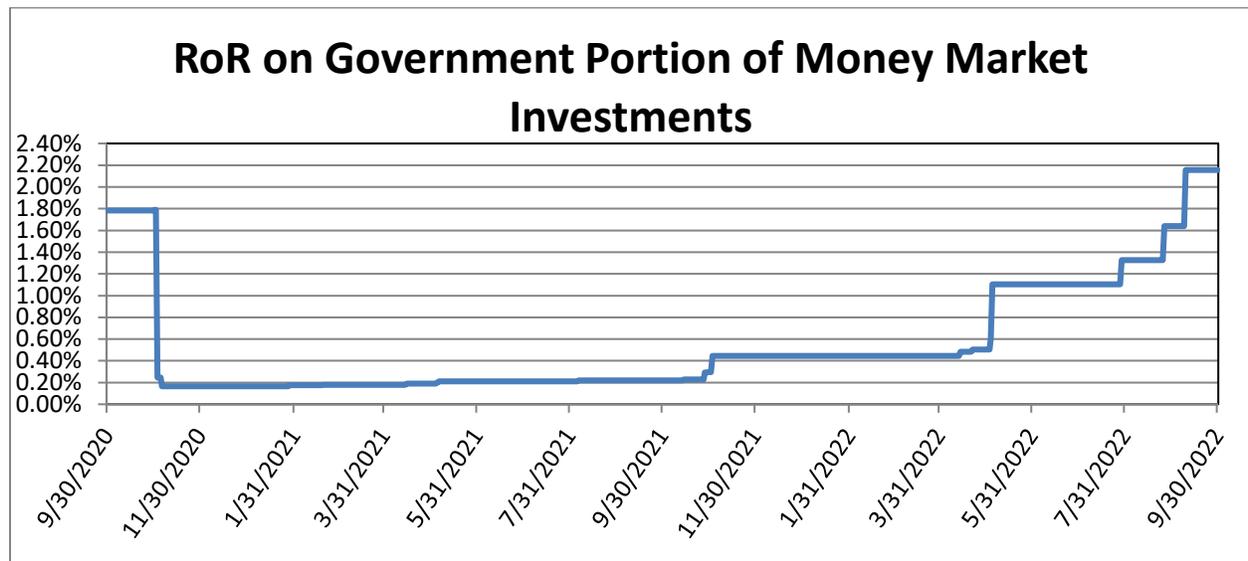


## HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio began the quarter with a balance of \$107,737,964 and ended with a balance of \$34,493,200.

The money market rate of return for the quarter ending September 30, 2022, is 0.37%, with a rolling one-year return of 0.80%, and an average duration of 237 days. The average return over the reporting period of a benchmark one-year T-bill was 3.52%. The negative variance to the benchmark rate is primarily attributable to both holding and purchasing money market investments prior to significant 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 pre-pandemic instruments matured, and we made new investments at a lower rate of return. The more recent portfolio rebalances show increases in rate of 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 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.

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 Sep 30, 2022)</b>	<b>1 Year (to Sep 30, 2022)</b>
Average Return	0.26%	0.62%
5 <sup>th</sup> Percentile	0.68%	1.19%
1 <sup>st</sup> Quartile	0.66%	1.08%
Money Market Median	0.62%	0.98%
3 <sup>rd</sup> Quartile	0.55%	0.89%
95 <sup>th</sup> Percentile	0.18%	0.24%
<b>HRM Overall</b>	<b>0.61%</b>	<b>1.36%</b>

Overall performance continues to be positive as we note the three-month return exceeds the average return 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 – 2022/23

The operating investment income is currently forecasted at \$6,640,000 for the 2022/23 fiscal year, which incorporated potential rate increases. We continue to monitor market conditions and will adjust the investment income projections if required.

<b>Quarter</b>	<b>Operating Investment Income Projection</b>	<b>Actual</b>	<b>Variance</b>
Apr – Jun	\$1,000,000	\$1,097,123	\$97,123
Jul – Sept	\$1,230,000	\$1,201,189	(\$28,811)
Oct – Dec	\$2,420,000		
Jan – Mar	\$1,990,000		
	<b>\$6,640,000</b>	<b>\$2,298,312</b>	<b>\$68,312</b>

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

The Bank of Canada announced a 50bps hike to the overnight rate on October 26<sup>th</sup>, 2022, which brought up the overnight rate to 3.75%.

As inflation continues to remain at levels higher than the target, the Bank of Canada initiated quantitative tightening in April 2022, which has continued after the reporting period. Additional rate hikes are expected to continue to combat high inflation with current forecasts by economists having the overnight rate stabilize at 4.25% moving into 2023.

### **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 potentially continue to increase over the next few months.

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 utilizing 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 average return of the benchmark for the quarter ending September 30, 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		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	4.9%	5.4%	5.2%	3.5%	3.7%	3.5%
Jobs Created / (Lost) ('000's)	(31)	(40)	21	537	292	315
Core Inflation Rate (year over year)	7.6%	7.0%	6.9%	8.5%	8.3%	8.2%

Date	Central Bank	Central Bank Action
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	Raised 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	Raised target range to 0.75% to 1.00%
Jun 1, 2022	Bank of Canada	Raised overnight rate to 1.50%
Jun 15, 2022	U.S. Federal Open Market Committee	Raised target range to 1.50% to 1.75%
Jul 13, 2022	Bank of Canada	Raised overnight rate to 2.50%
Jul 27, 2022	U.S. Federal Open Market Committee	Raised target range to 2.25% to 2.50%
Sept 7, 2022	Bank of Canada	Raised overnight rate to 3.25%
Sept 21, 2022	U.S. Federal Open Market Committee	Raised target range to 3.00% to 3.25%
Oct 26, 2022	Bank of Canada	Raised overnight rate to 3.75%
Nov 2, 2022	U.S. Federal Open Market Committee	Raised target range to 3.75% to 4.00%