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## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Vicki Robertson, Deputy Treasurer, Finance & Asset Management  
DATE: March 6, 2023  
SUBJECT: **Treasurer's Report Quarter Ending December 31, 2022**

### **Investment Activities**

During the quarter, there were four money market investments made, one investment maturity and one investment carried from the prior period with a total ending value of \$93,942,969, an average cost of \$18,788,594, and an original average term of 186 days. This compares to the same period last year when we held six investments at the end of the period with a total cost of \$153,113,221, an average cost of \$25,518,870 and average term to maturity of 294 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 two years. All five bonds were purchased in the same period last year.

Operating fund investment income for the three months ending December 31, 2022, was \$2,451,803 versus the updated forecast of \$2,420,000. The total investment income for the portfolio was \$7,051,624 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 0.90% while the updated projected rate of return was 0.91%. We anticipate a projected annual rate of return of 2.90%.

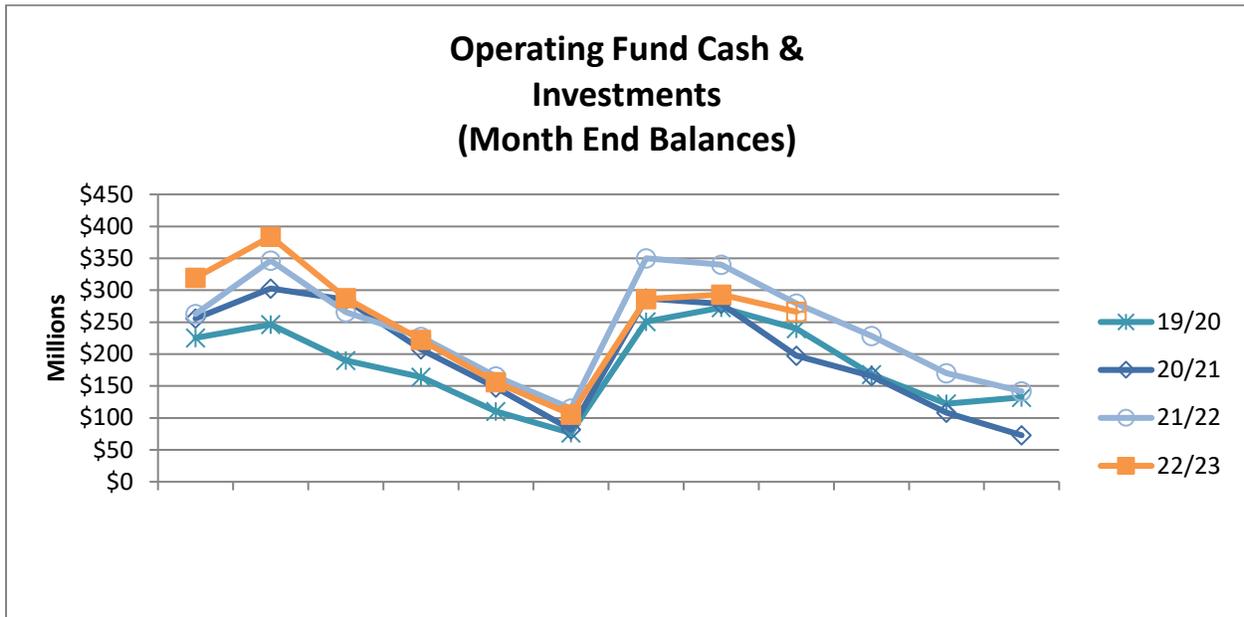
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

## HRM Investment Accounts Performance

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$505,207,805 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 4.39% as the proxy for the BA and BDN average annual yield for the three months, the incremental income in the investment account was \$30,169 for the quarter over BA's and BDN's. Interest rates are beginning to stabilize, and as noted in previous quarters, the investment accounts have returned to providing incremental income over BA's and BDN's. The income from our investment accounts provided a quarterly return of 1.09%, and an annualized return of 4.36%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,112,951 including a \$19,462 increase during the reporting period. An additional increase of \$13,898 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 \$2,224,317.

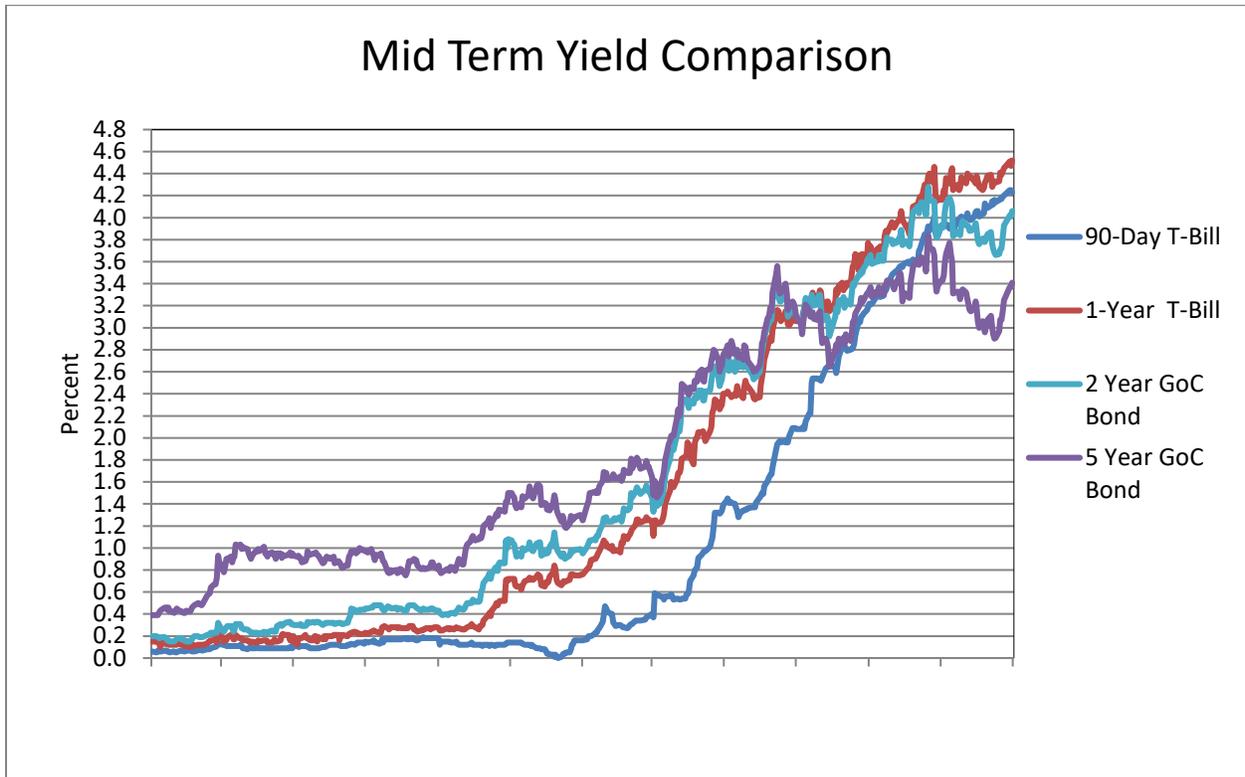


## HRM Long Term (Bond Pool) Investment Performance

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 – December 2020 to December 2022**

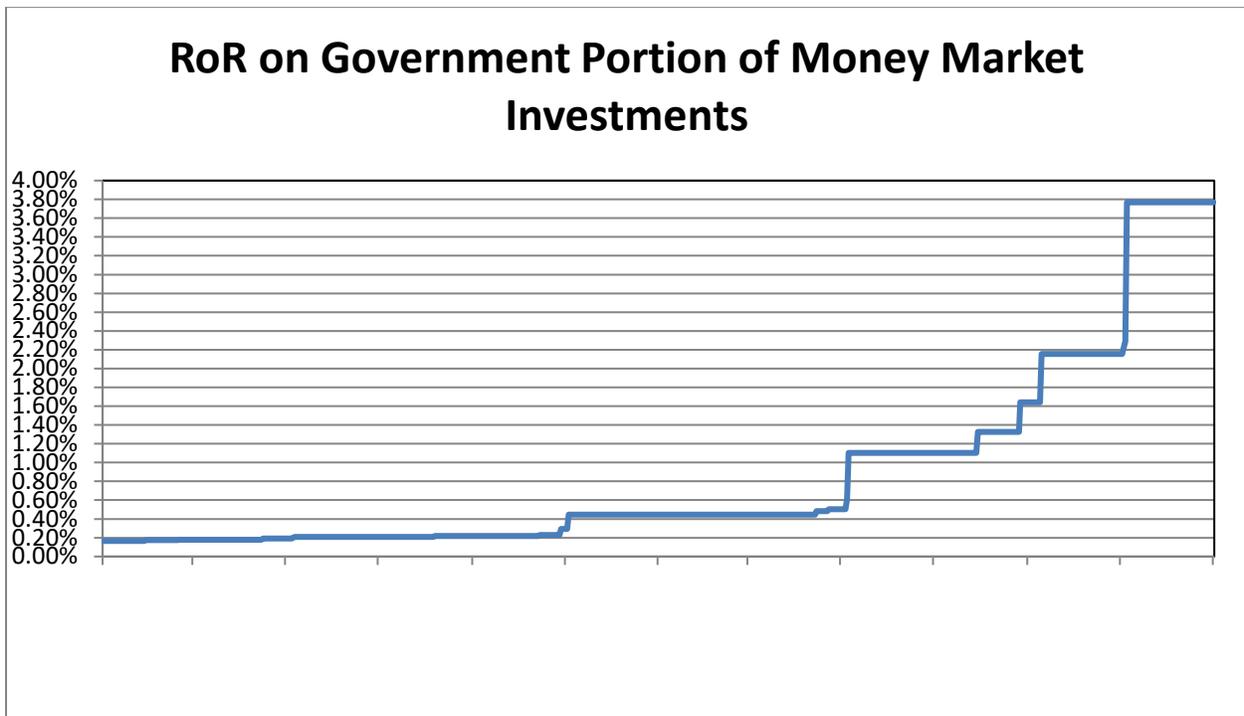


## HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio started the quarter with a balance of \$34,493,200 and ended with a balance of \$93,942,969.

The money market rate of return for the quarter ending December 31, 2022 is 0.80%, and when annualized, provides a return of 3.20 % while the rolling one-year return is 1.50%, reflecting significantly lower returns early in the year. The average duration of the money market portfolio is 186 days. The average return over the reporting period of a benchmark one-year T-bill was 4.29%. The negative variance to the benchmark rate is attributable to holding money market investments purchased prior to significant positive yield movements in the market.

The following graph depicts the gradual increase in the return on money market instruments over the past two years. Some investments purchased before the recent rise in yield are yet to mature thereby depressing the overall return. As those investments do mature, we will see a gradual increase in the rate of return. The most recent portfolio re-balance in early November 2022 will provide an overall increase in return in future periods as we purchased 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 Dec 31, 2022)</b>	<b>1 Year (to Dec 31, 2022)</b>
Average Return	0.93%	1.87%
5 <sup>th</sup> Percentile	1.02%	2.09%
1 <sup>st</sup> Quartile	0.98%	2.03%
Money Market Median	0.93%	1.02%
3 <sup>rd</sup> Quartile	0.90%	0.96%
95 <sup>th</sup> Percentile	0.86%	0.60%
<b>HRM Overall</b>	<b>0.90%</b>	<b>2.08%</b>

Relative performance continues to be positive as we note the rolling one-year return exceeds the 1<sup>st</sup> quartile while the quarterly return meets the 3<sup>rd</sup> quartile. 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 \$6,500,000 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	\$2,451,803	\$31,803
Jan – Mar	\$1,850,000		
	<b>\$6,500,000</b>	<b>\$4,750,115</b>	<b>\$100,115</b>

## **ESG Monitoring & Reporting**

As proposed by the Committee and approved by Council, Staff has incorporated ESG ratings of each counterparty in the financial institution component of the municipal portfolio. The monitoring process begins with this reporting period.

S&P Global was selected as the rating agency to determine ESG scores. Staff performed a counterparty review on December 9, 2022 and determined that all eligible counterparties' ESG scores were well above the industry average. No major upgrades or downgrades were noted in the review process for any of the listed counterparties.

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

On January 25<sup>th</sup>, the Bank of Canada set the overnight rate to 4.5%, a 25 basis points increase, continuing the trend over the past year. In making this decision, deliberations indicate the Governing Council recognized that the 3<sup>rd</sup> quarter GDP was stronger than expected, the Canadian labour market remains tight, and the re-opening of China's economy provides uncertainty as a sharp increase in demand could once again create inflationary pressures.

The Bank of Canada is still seeking to maintain low, stable inflation as its primary objective and a target inflation of 2%. The data indicates the CPI is trending downward, retreating from a high of 8.1% to 6.3% in December. The Bank has signalled a pause in the overnight rate at current level to allow time for the policy changes to be fully realized, and the bar to further rate increases is now higher. However, should risks to the economy materialize resulting in higher inflation, the Bank of Canada will act.

## **Outlook & Strategy**

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. Given the guidance, we anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk. Therefore, the strategy remains to maximize returns by investing in High Interest Savings Accounts, keeping in mind that their liquidity adds a safety factor.

We continue to balance the portfolio with government sector instruments 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 rolling one-year rate of return exceeds 1<sup>st</sup> quartile of the benchmark for the quarter ending December 31, 2022 while the quarterly return meets the 3<sup>rd</sup> quartile, 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  
Deputy Treasurer

# Appendix A

Economic Statistics	Canada			United States		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	5.2%	5.1%	5.5%	3.7%	3.6%	3.5%
Jobs Created / (Lost) ('000's)	108	10	104	263	256	223
Core Inflation Rate (year over year)	6.9%	6.8%	6.3%	7.7%	7.1%	6.5%

Date	Central Bank	Central Bank Action
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%
Dec 7, 2022	Bank of Canada	Raised overnight rate to 4.25%
Dec 14, 2022	U.S. Federal Open Market Committee	Raised target range to 4.25% to 4.50%
Jan 25, 2023	Bank of Canada	Raised overnight rate to 4.50%
Feb 1, 2023	U.S. Federal Open Market Committee	Raised target range to 4.50% to 4.75%