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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Vicki Robertson, Deputy Treasurer, Finance & Asset Management
DATE: June 5, 2023
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2023**

Investment Activities

During the quarter, four money market investments matured with just one investment carried from the prior period with a value of \$15,494,479 and an original term of 322 days. There were no money market investments made during the quarter. 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 an average term to maturity of 294 days.

No additional provincial bond investments were made as 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 held in the same period last year.

Operating fund investment income for the three months ending March 31, 2023, totaled \$2,311,235 versus the updated forecast of \$2,350,000. The total investment income for the portfolio was \$7,088,578 including investment income for the operating fund, trusts, and reserves, as well as related entities.

The actual rate of return for the quarter was 0.99% versus an updated projected rate of return of 1.02%. The annual rate of return for the year ending March 31, 2023 is 2.86% while the projected rate of return was 2.90%.

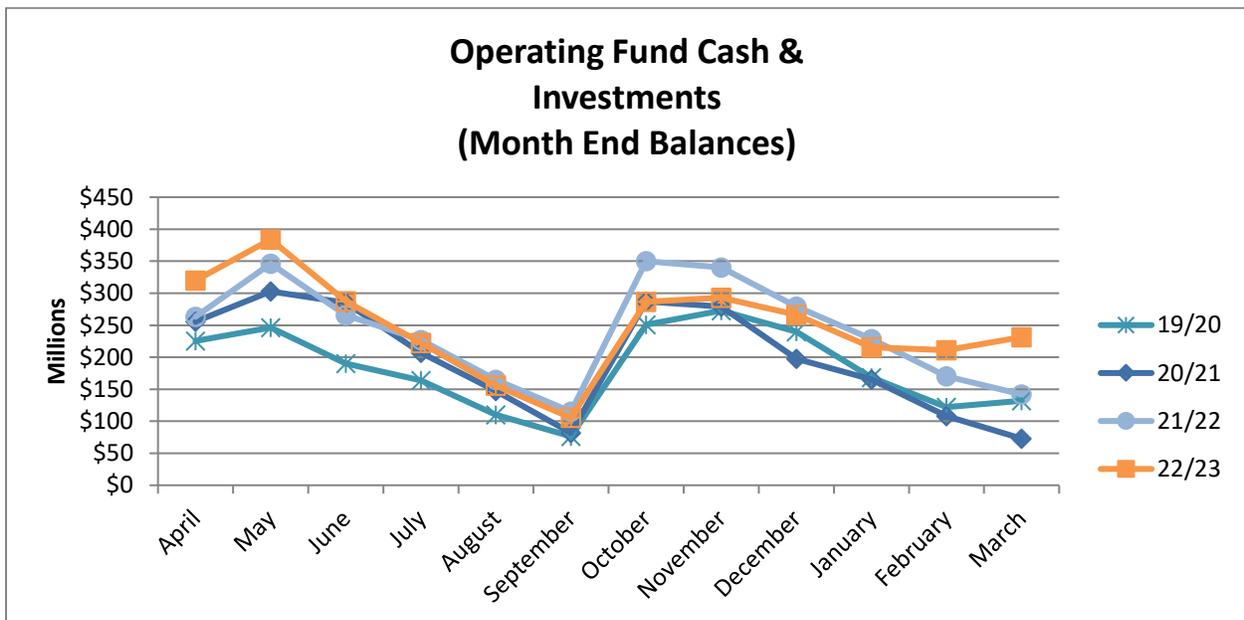
The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

HRM Investment Accounts Performance

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$537,574,807 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 4.75% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$264,991 over BA's and BDN's. The income from our investment accounts provided a quarterly return of 1.24%, and an annualized return of 4.94%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,318,092 including a \$205,142 increase during the reporting period. An additional increase of \$248,734 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, providing a cumulative impact since April 2019 of \$2,473,051.

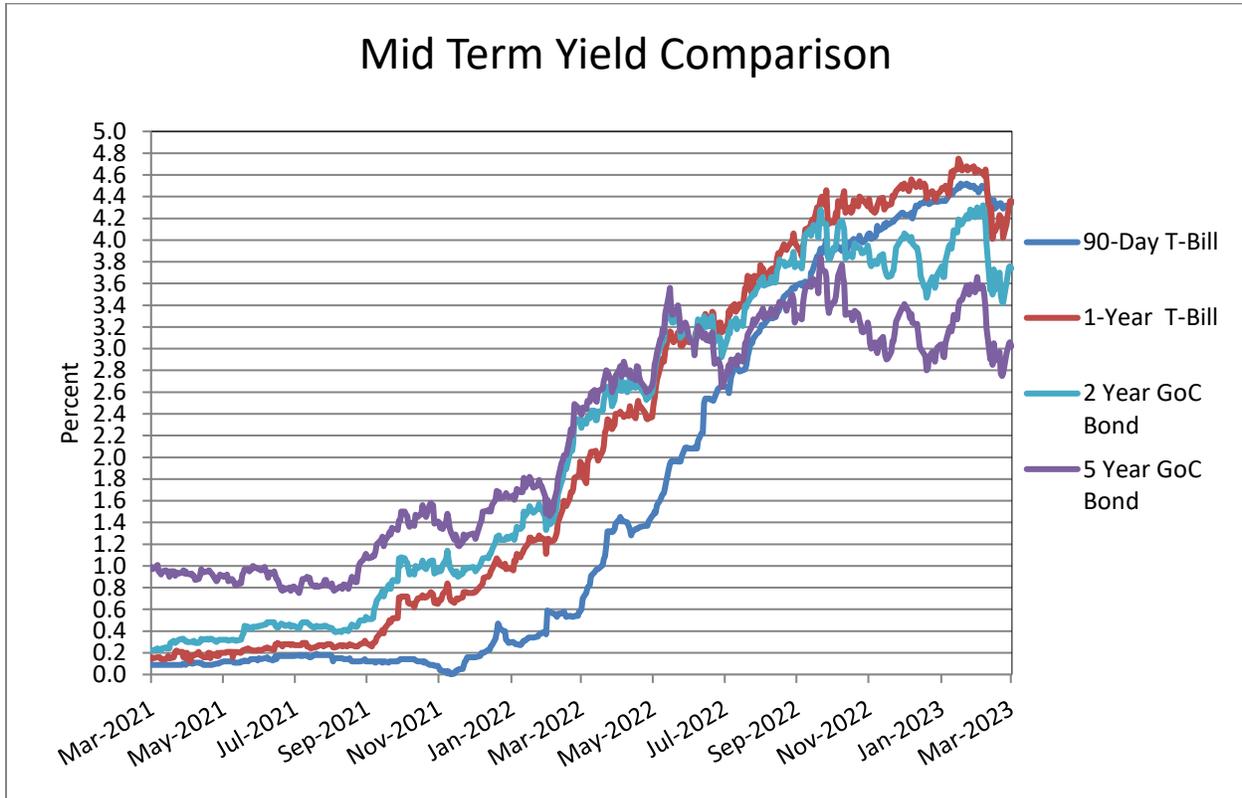


HRM Long Term (Bond Pool) Investment Performance

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

Of 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 2021 to March 2023

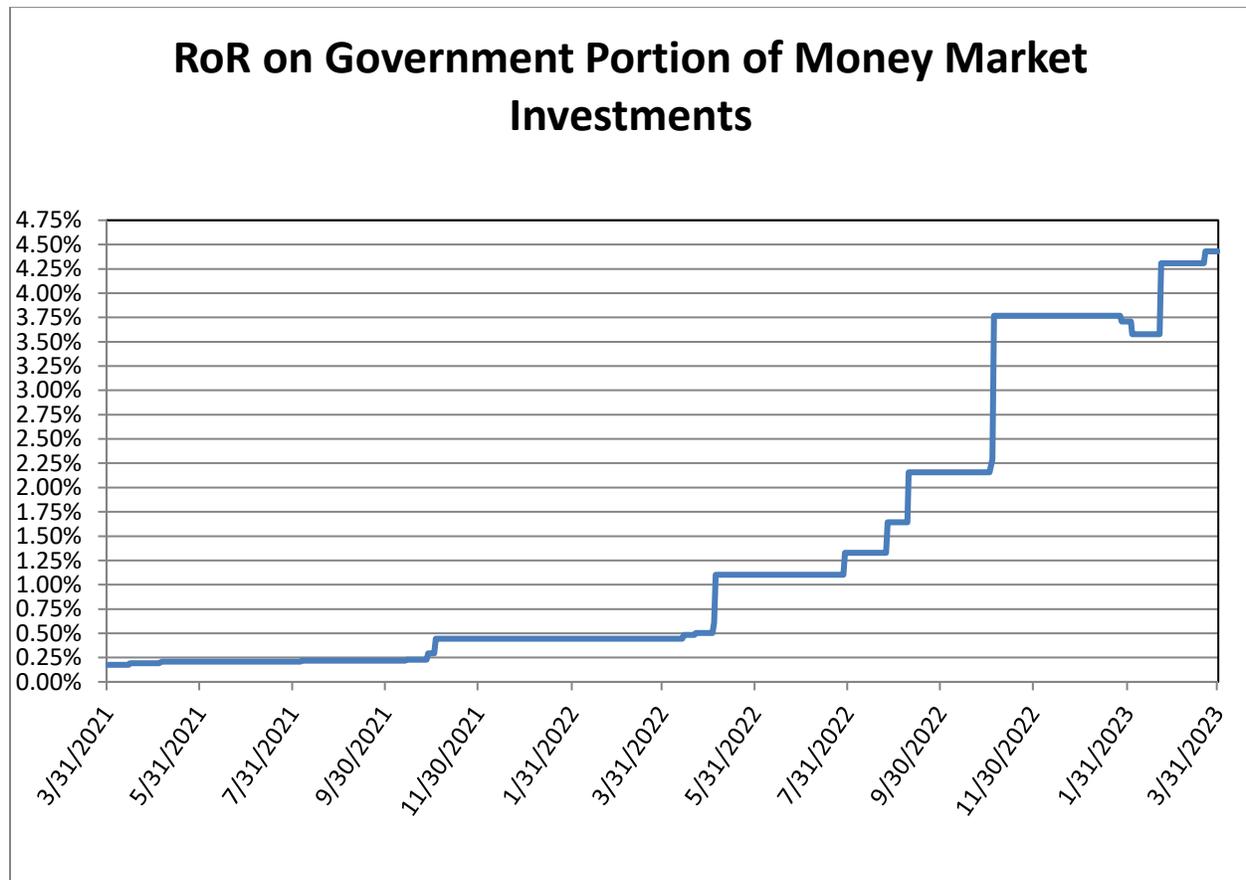


HRM Short Term (Money Market Pool) Investment Performance

The money market portion of the portfolio started the quarter with a balance of \$93,942,969 and ended with a balance of \$15,494,479 representing a single instrument remaining after four investments matured. The duration of the remaining money market investment held at end of this quarter is 322 days.

The money market rate of return for the quarter ending March 31, 2023 is 0.98%, and when annualized, provides a return of 3.91%. The rolling one-year actual return is 2.37% reflecting lower returns early in the year. The average return over the reporting period of a benchmark one-year T-bill was 4.46%. The variance to the actual return is attributable to holding money market investments during the quarter that were purchased prior to significant positive yield movements in the market.

The following graph depicts the increase in the return on money market instruments over the past two years. Most investments purchased before the sustained rise in yield have matured resulting in the upward trend shown below. We anticipate the yield curve to level out in subsequent quarters.



HRM Overall results

The benchmark for portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of 26 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. It should be noted that these pooled funds do not feature significant bond holdings.

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 Mar 31, 2023)	1 Year (to Mar 31, 2023)
Average Return	1.14%	2.95%
5 th Percentile	1.26%	3.19%
1 st Quartile	1.18%	3.08%
Money Market Median	1.11%	2.99%
3 rd Quartile	1.09%	2.85%
95 th Percentile	1.06%	2.59%
HRM Money Market	1.21%	3.34%
HRM Overall	0.99%	2.86%

We note the rolling one-year return for the HRM overall portfolio exceeds the 3rd quartile when compared to money market fund performance. These returns are before any allowance for fees that could be paid for external management.

When we distinguish between the performance of HRM's money market investments and bond holdings, we find that the quarterly return on money market instruments is 1.21% with an annual return of 3.34% while the return on short-term bonds remains steady at 1.16% for the year. This rate of return exceeds the median found in the RBC Pooled Fund Survey for Short Term Bonds of 1.15% as noted below.

Short Term Bond	1 Year (to Mar 31, 2023)
Average Return	1.26%
5 th Percentile	2.44%
1 st Quartile	1.31%
Median	1.15%
3 rd Quartile	1.05%
95 th Percentile	0.48%
HRM Bonds	1.16%

Operating Investment Income Projection – 2022/23

The operating investment income was forecasted at \$7,000,000 for the 2022/23 fiscal year, incorporating rate increases. The actual investment income exceeded the latest projection by \$61,350, or 0.9% as a result of higher cash flows than expected in the last half of the year.

Quarter	Operating Investment Income Projection	Actual	Variance
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	\$2,350,000	\$2,311,235	(\$38,765)
	\$7,000,000	\$7,061,350	\$61,350

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 continues with this reporting period.

S&P Global was selected as the rating agency to determine ESG scores. Staff performed a counterparty review on March 10, 2023 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 April 12th, the Bank of Canada held its target for the overnight rate at 4.5%. While the Governing Council recognized inflation is easing, the Canadian labour market remains tight. That said, the prevailing sentiment during deliberations is that core inflation is on the projected path downward and more time is needed to determine if there is a need to raise interest rates further.

The Bank of Canada continues to target 2% core inflation and to signal willingness to raise the overnight rate further to achieve that target. The most recent release of Total CPI shows a modest increase from 4.3% in March to 4.4% in April. However, core inflation measures--the preferred measure of the Bank of Canada--continue to decline.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. Given current guidance, we anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk, but staff will look for higher return, instruments such as Guaranteed Investment Certificates in the Financial Institution half of the portfolio. The strategy remains to maximize returns by investing short term surplus cash 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 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 3rd quartile of the benchmark for the quarter ending March 31, 2023 before allowing for fees that could have been paid to an external management firm. The money market portfolio exceeded the 5th percentile of the benchmark, while separately, the short-term bond holdings exceeded the median of the bond benchmark. 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		
	Jan	Feb	March	Jan	Feb	Mar
Unemployment Rate	5.0%	5.0%	5.0%	3.4%	3.6%	3.5%
Jobs Created / (Lost) ('000's)	150	22	35	472	326	236
Core Inflation Rate (year over year)	5.9%	5.2%	4.3%	6.4%	6.0%	5.0%

Date	Central Bank	Central Bank Action
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%
March 8, 2023	Bank of Canada	Maintained overnight rate at 4.50%
March 22, 2023	U.S. Federal Open Market Committee	Raised target range to 4.75% to 5.00%
April 12, 2023	Bank of Canada	Maintained overnight rate at 4.50%
May 3, 2023	U.S. Federal Open Market Committee	Raised target range to 5.00% to 5.25%