Item 7.1

HALIFAX

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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Vicki Robertson, Deputy Treasurer, Finance & Asset Management
DATE: September 11, 2023
SUBJECT: Treasurer's Report Quarter Ending June 30, 2023

Investment Activities

During the quarter, three money market investments were made and one investment was carried from the prior period for a total ending value of $98,329,620, an average cost of $24,582,405, and an original average term of 216 days. There were no investment maturities during the quarter. This compares to the same period last year when there were five investments held at the end of the period with a total cost of $107,737,964, an average cost of $21,547,593 and an average term to maturity of 270 days.

No additional provincial bond investments were made during the quarter. Two bonds matured late in the quarter and three bonds were carried from prior periods for an ending face value of $118,600,000 and an original average term of two years. This compares to the same period last year when there were five investments held at the end of the period with a total face value of $157,100,000 with an average term to maturity of two years.

Operating fund investment income for the three months ending June 30, 2023 totaled $4,276,759 versus the updated forecast of $3,500,000. The positive variance was the result of higher than expected cash balances over the reporting period. The total investment income for the portfolio was $9,601,065 including investment income for operating fund, trusts, reserves, and related entities.

The actual rate of return for the quarter was 1.10% versus a projection of 1.12%. The rate of return for the 12 months ending June 30, 2023 was 3.60% while the projected rate of return was 3.67%. The negative variance results from a smoothing of the projected rate of return over the year as lower yielding investments mature and are reinvested at a higher rate. In future quarters, this variance is expected to be positive providing the projected annual rate of return.

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

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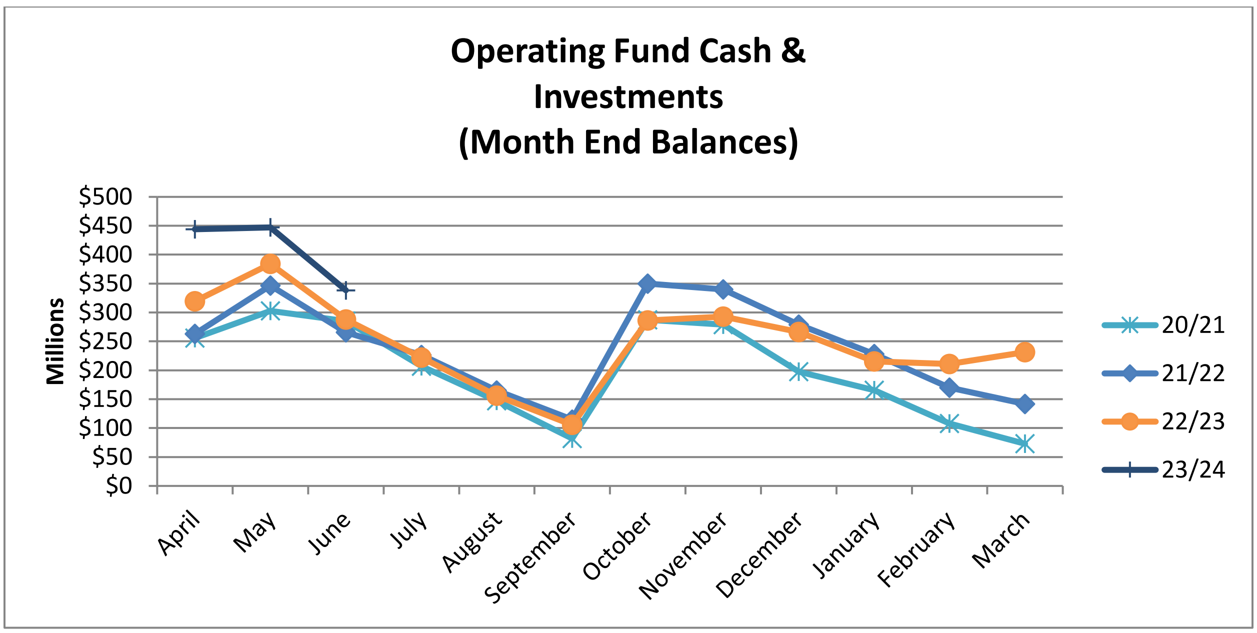
Money Market Performance

Financial Institution Investment Accounts

Funds held in the investment bank accounts, including term deposits and GICs, totaled $621,614,278 at the end of the quarter. This balance represents all funds including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds.

The income from investment accounts provided a quarterly return of 1.29%, and an annualized return of 5.18%. Using 4.87% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was $501,884 over BA's and BDN's.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was $5,606,022 including a $287,930 increase during the reporting period. An additional increase of $300,312 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 $2,773,362.



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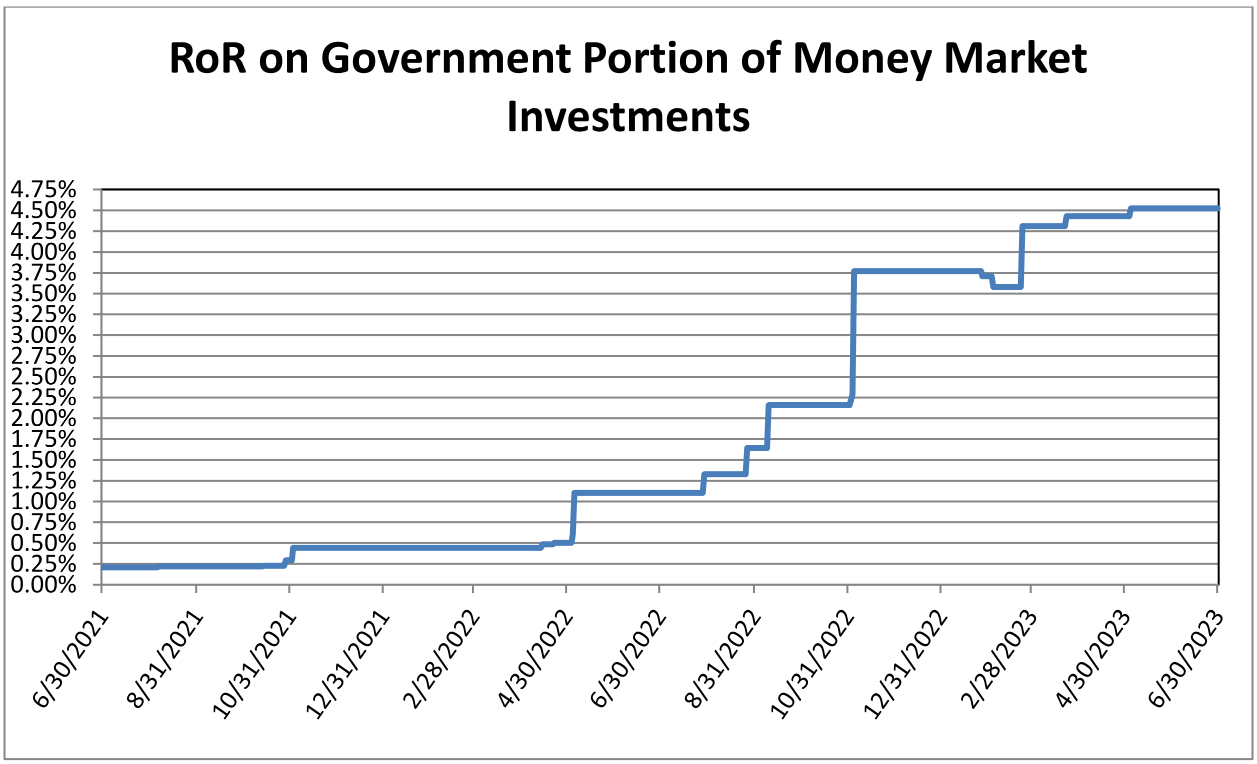
Government Money Market Instruments

The government money market instruments portion of the portfolio started the quarter with a balance of $15,494,479. Three money market investments were made in the quarter, providing an ending balance of $98,329,620. The average duration of the four money market investments held at end of the reporting period is 216 days.

The rate of return for the quarter ending June 30, 2023 is 1.12%, and when annualized, provides a return of 4.48% for the money market holdings in the portfolio. The rolling one-year return of 3.27% reflects lower returns earlier in the fiscal year. The average return of a benchmark one-year T-bill was 4.65% over the reporting period. The variance is attributable to an upward yield movement of 70 basis points in the benchmark rate over the quarter while the instruments held were purchased when the benchmark rate was 4.3%. The increase in the benchmark yield resulted from the Bank of Canada signalling future overnight rate increases in the near term.

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.



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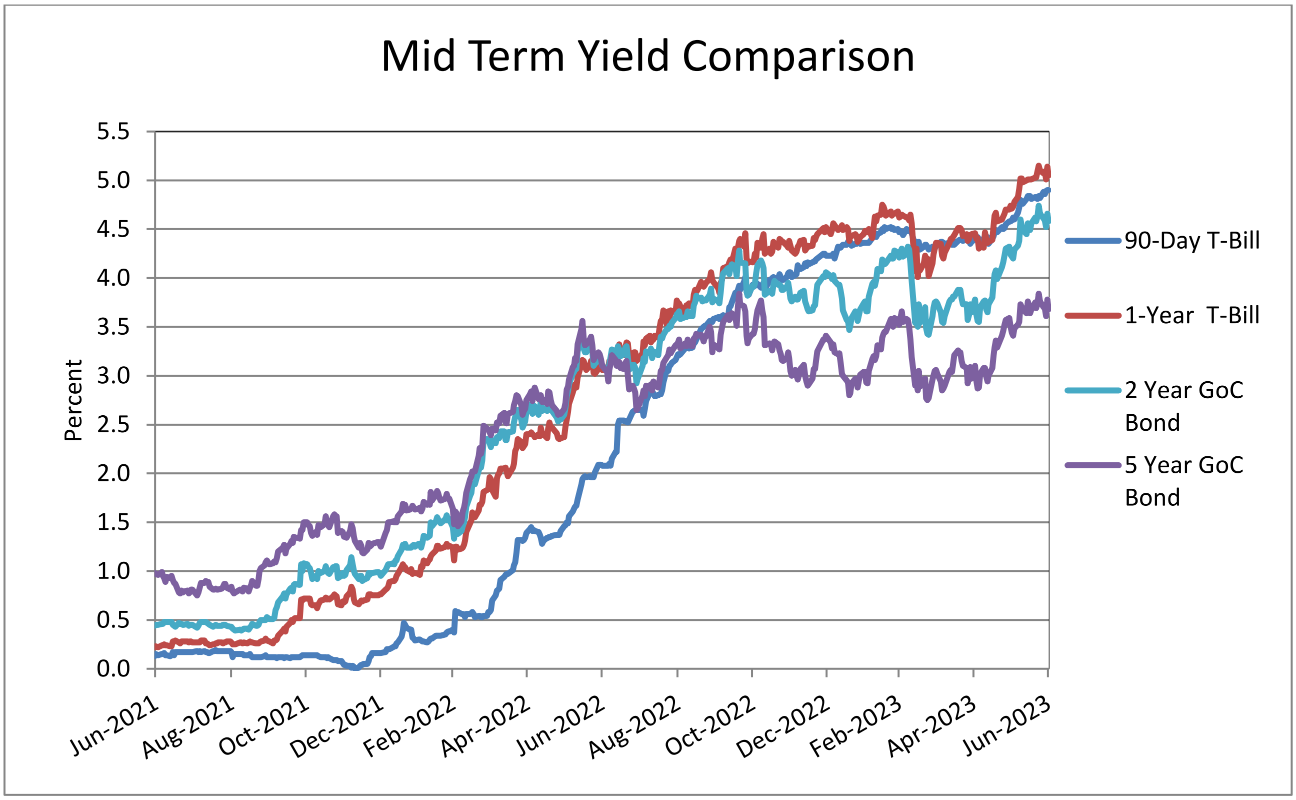
Long Term (Bond Pool) Investment Performance

At the end of the quarter, the provincial bond segment of the portfolio had a face value of $118,600,000 after two bonds matured during the quarter. This compares to the same period last year when there were five bond investments with total face value of $157,100,000.

Yields on the remaining bond holdings range from 1.11% to 1.37% with a weighted average yield of 1.24%. The bonds held at the end of the reporting period have maturity dates ranging from September 2023 to June 2024.

Government Sector Performance – June 2021 to June 2023



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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 June 30, 2023)**	**1 Year (to June 30, 2023)**
Average Return	1.15%	3.89%
5th Percentile	1.23%	4.13%
1st Quartile	1.20%	4.07%
Money Market Median	1.14%	3.92%
3rd Quartile	1.11%	3.77%
95th Percentile	1.02%	3.60%
HRM Money Market	**1.28%**	**4.25%**
HRM Overall	1.10%	3.60%

The money market portion of the portfolio, including the high interest investment accounts, exceeded the 5th percentile of the benchmark for both quarterly and annual performance as noted above. These returns are before any allowance for fees that could be paid for external management.

The overall results reflect the performance of the holdings in the bond portfolio which is not reflective of the benchmark funds. Therefore, the bonds are assessed separately below.

Short Term Bond	**3 Months (to June 30, 2023)**	**1 Year (to June 30, 2023)**
Average Return	-0.33%	2.63%
5th Percentile	0.65%	5.08%
1st Quartile	-0.25%	2.71%
Median	-0.43%	2.30%
3rd Quartile	-0.65%	2.06%
95th Percentile	-0.78%	1.82%
HRM Bonds	**0.29%**	**1.17%**

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The one-year benchmark for short-term bonds reflects the increases over the past year in the overnight rate set by the Bank of Canada. The Municipality's bond holdings have not changed since November, 2021 and the yield remains at 1.17% for the year, below the benchmark rate for short duration bonds. With the maturity of bonds during this quarter, it is anticipated the yield for bonds will increase in subsequent quarters as the instruments mature.

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Operating Investment Income Projection – 2023/24

The operating investment income was forecasted at $12,000,000 for the 2023/24 fiscal year, incorporating rate increases. As market conditions warrant, projections will be updated throughout the year.

Quarter	**Operating Investment Income Projection**	**Actual**	***Variance***
Apr – Jun	$3,500,000	$4,276,759	*$776,759*
Jul – Sept	$2,500,000	N/A	N/A
Oct – Dec	$3,600,000	N/A	N/A
Jan – Mar	$2,400,000	N/A	N/A
	$12,000,000	**$4,276,759**	***$776,759***

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Environmental, Social & Governance (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 for assessing ESG scores. Staff performed a counterparty review on July 11, 2023, revealing that ESG scores of all eligible counterparties were notably higher than the industry average. Throughout the review process, no significant upgrades or downgrades were identified for any of the listed counterparties.

Subsequent to End of Reporting Quarter

On July 12th, the Bank of Canada (BoC) raised the overnight rate to 5%. During deliberations, the governing council noted that "*measures of core inflation had proven to be stubborn".* The presence of strong demand and a limited labor market continues to generate inflationary pressures and consumer spending remains strong. The governing council also noted that the monetary policy was not sufficiently restrictive to slow demand and signaled future decisions will be made based on data.

The BoC continues to target 2% core inflation and the most recent releases of total CPI data indicates a dip in June. The July measure returned to 3.3% from 2.8% the previous month. The BoC's second-quarter survey suggested a median perspective from senior economists who expect the bank to maintain its interest rate at 5% until the end of 2023.

Outlook & Strategy

Staff continue to monitor guidance with respect to the BoC's overnight rate. Given current guidance, staff anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk. The strategy remains to maximize returns by investing short term surplus cash in high interest savings accounts, keeping in mind 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.

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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 for money market return exceeds the 5th percentile for the quarter ending June 30, 2023 before allowing for fees that could have been paid to an external management firm. Staff maintains that the rate of return objective of the Investment Policy has been met for the money market portfolio. Bond investments will continue to be held to maturity.

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
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Appendix A

Economic Statistics	Canada			United States		
	Apr	May	Jun	Apr	May	Jun
Unemployment Rate	5.0%	5.2%	5.4%	3.4%	3.7%	3.6%
Jobs Created / (Lost) ('000's)	41	(17)	60	217	306	209
Core Inflate Rate (year over year)	4.4%	3.4%	2.8%	4.9%	4.1%	3.0%

Date	Central Bank	Central Bank Action
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%
June 7, 2023	Bank of Canada	Raised overnight rate to 4.75%
June 14, 2023	U.S. Federal Open Market Committee	Maintained target range to 5.00% to 5.25%
July 12, 2023	Bank of Canada	Raised overnight rate to 5.00%
July 26, 2023	U.S. Federal Open Market Committee	Raised target range to 5.25% to 5.50%

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