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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Vicki Robertson, Deputy Treasurer, Finance & Asset Management
DATE: December 4, 2023
SUBJECT: **Treasurer's Report Quarter Ending September 30, 2023**

Investment Activities

During the quarter, no money market investments were made with three investments carried over from the prior period and one investment maturing. The total ending value of money market investments was \$82,835,141 with an average cost of \$27,611,714, and an original average term of 181 days. This compares to the same period last year when there were two investments held at the end of the period with a total cost of \$34,493,200, an average cost of \$17,246,600 and an average term to maturity of 237 days.

There were no additional bond investments made during the quarter. One bond matured late in the quarter and two bonds were carried from prior periods for an ending face value of \$103,000,000 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 September 30, 2023 totaled \$3,038,097 versus a budgeted amount of \$2,500,000. The positive variance was the result of higher than expected cash balances over the reporting period. The total investment income for the portfolio was \$8,846,870 including investment income for operating fund, trusts, reserves, and related entities.

The actual rate of return for the quarter was 1.18% versus a projection of 1.12%. The rate of return for the 12 months ending September 30, 2023 met the projection at 4.18%.

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.

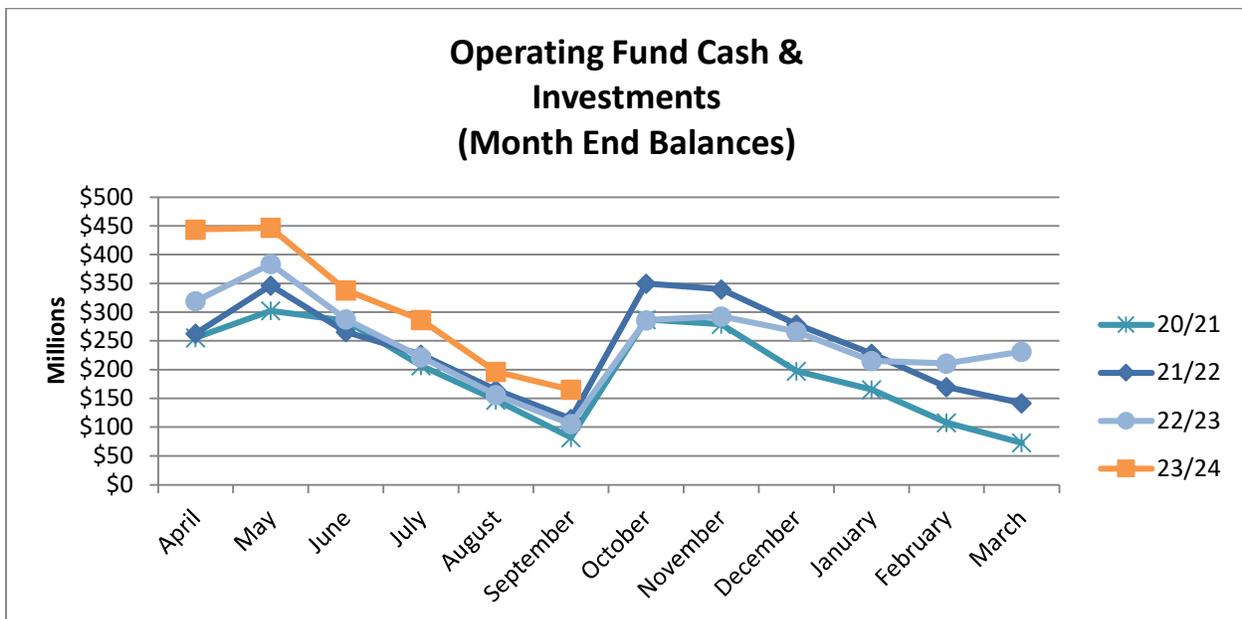
Money Market Performance

Financial Institution Investment Accounts

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$455,961,720 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 1.40% for an annualized return of 5.58%. Using 5.22% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$394,028 over BA's and BDN's.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,748,114 including a \$142,091 increase during the reporting period. An additional increase of \$208,365 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 \$2,981,727.

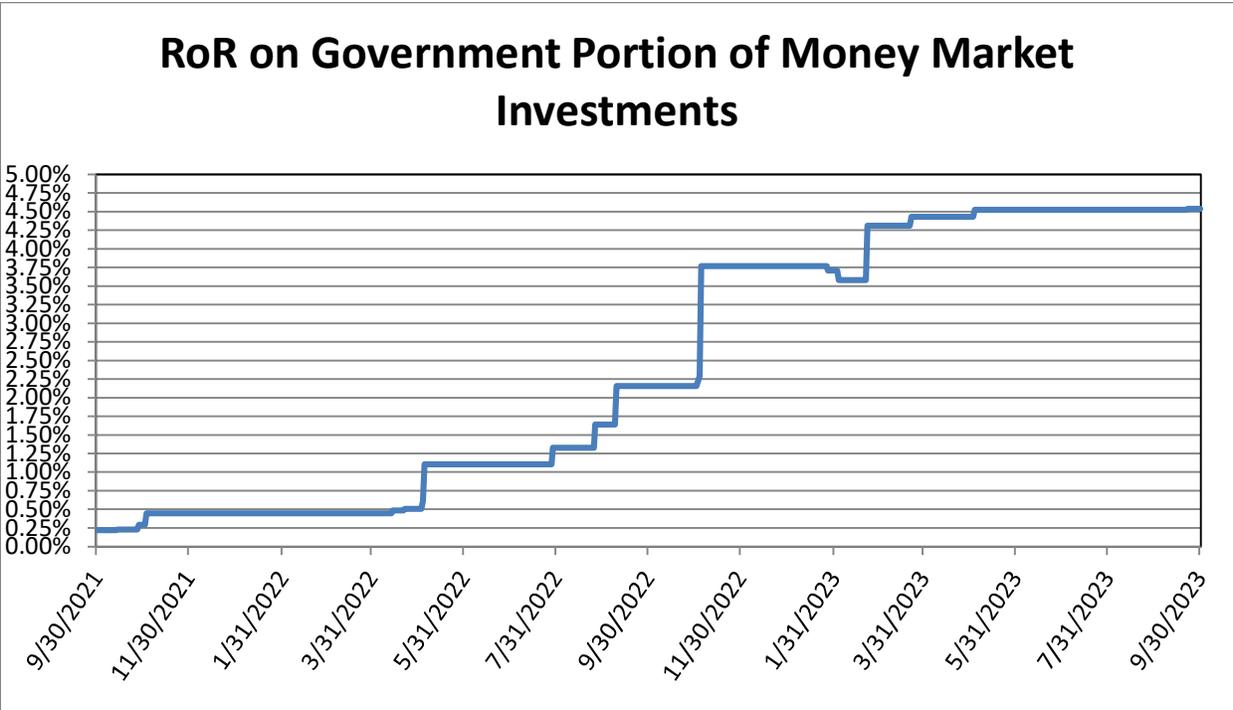


Government Money Market Instruments

The government money market instruments portion of the portfolio started the quarter with a balance of \$98,329,620. During the quarter, no money market investments were made, and one investment reached maturity, resulting in an ending balance of \$82,835,141. The average duration of the three money market investments held at end of the reporting period is 181 days.

The rate of return for the quarter ending September 30, 2023 is 1.14%, and when annualized, provides a return of 4.56% for the money market holdings in the portfolio. The rolling one-year return of 4.03% reflects lower returns earlier in the fiscal year. The average yield of a benchmark one-year T-bill was 5.16% over the reporting period. The variance is attributable to a strong performance in the benchmark T-bill over the past six months while the instruments held were purchased when the benchmark rate was 4.3%.

The following graph depicts the increase in the return on money market instruments over the past two years.

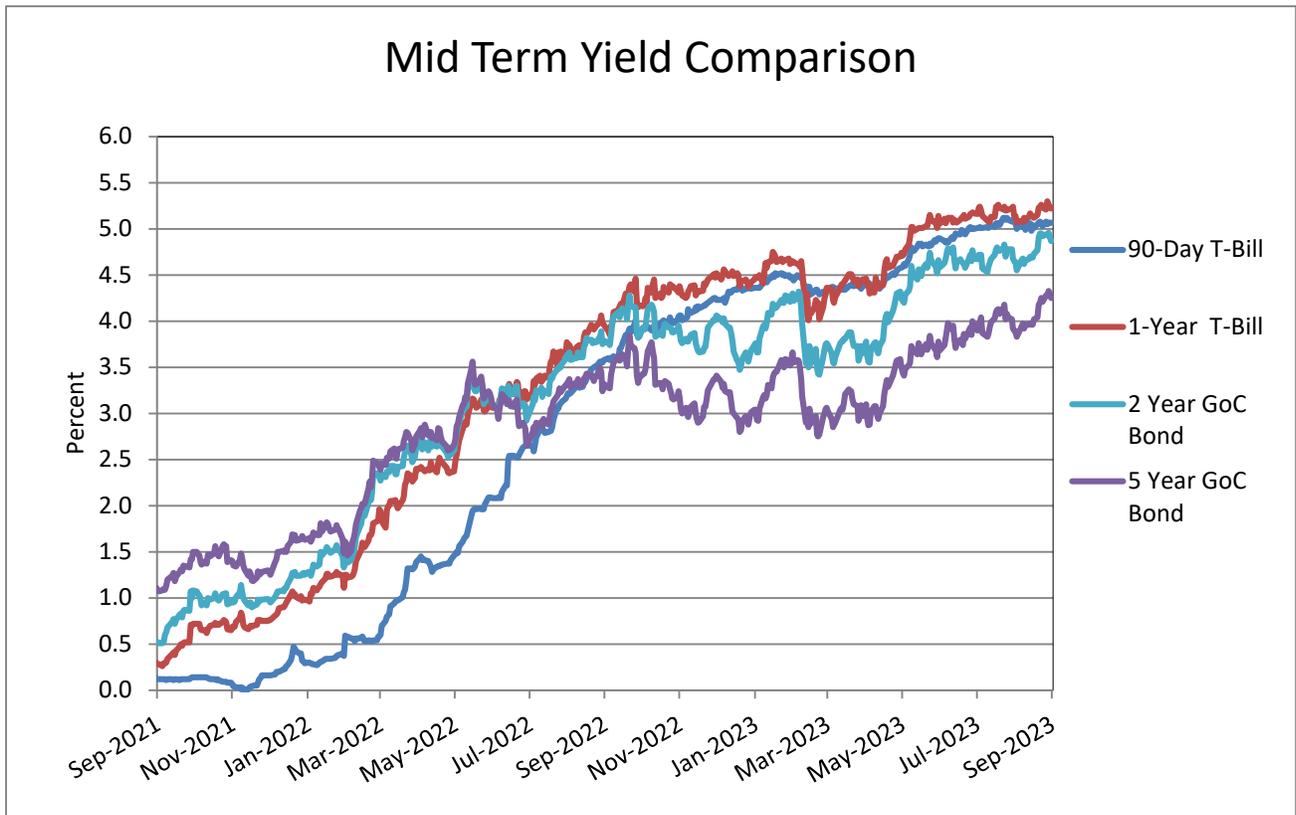


Long Term (Bond Pool) Investment Performance

At the end of the quarter, the provincial bond segment of the portfolio had a face value of \$103,000,000 after one bond 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 1.16% to 1.37% with a weighted average yield of 1.26%. The bonds held at the end of the reporting period have maturity dates ranging from December 2023 to June 2024.

Government Sector Performance – September 2021 to September 2023



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 September 30, 2023)	1 Year (to September 30, 2023)
Average Return	1.26%	4.59%
5 th Percentile	1.32%	4.80%
1 st Quartile	1.29%	4.74%
Money Market Median	1.25%	4.60%
3 rd Quartile	1.23%	4.46%
95 th Percentile	1.17%	4.35%
HRM Money Market	1.35%	4.90%
HRM Overall	1.18%	4.18%

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 September 30, 2023)	1 Year (to September 30, 2023)
Average Return	0.06%	2.79%
5 th Percentile	1.26%	6.04%
1 st Quartile	0.26%	2.66%
Median	-0.05%	2.25%
3 rd Quartile	-0.26%	1.91%
95 th Percentile	-0.47%	1.61%
HRM Bonds	0.31%	1.18%

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. The weighted average annual yield is currently 1.18% which is below the benchmark rate for short duration bonds; however, the quarterly results exceed the 1st quartile of the benchmark. As the bonds mature, the average yield will increase in subsequent quarters.

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	\$3,038,097	\$538,097
Oct – Dec	\$3,600,000	N/A	N/A
Jan – Mar	\$2,400,000	N/A	N/A
	\$12,000,000	\$7,314,856	\$1,314,856

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 October 12, 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 October 25, 2023, the Bank of Canada (BoC) maintained the overnight rate at 5% as expected. During deliberations, it was noted that the monetary policy was working to slow growth with consumer spending coming in weaker than expected. Foreign demand also softened resulting in exports leveling. The labour market is still tight but there are clear signs that it is easing. That said, it was also clear that concern remains that the 2% target core inflation may require a further rise in the policy rate.

In early November, Deputy Governor Rogers indicated that higher interest rates should be anticipated “for the stability and resilience of the financial system” during a speech to *Advocis Vancouver*. The factors underlying this stance are at the global level and result from many factors, among them the reversal of savings for retirement of the baby boomer generation, ongoing wars, and higher levels of government debt.

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.

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 September 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
Deputy Treasurer

Appendix A

Economic Statistics	Canada			United States		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	5.5%	5.5%	5.5%	3.5%	3.8%	3.8%
Jobs Created / (Lost) ('000's)	(6)	40	64	236	227	336
Core Inflation Rate (year over year)	3.3%	4.0%	3.8%	3.2%	3.7%	3.7%

Date	Central Bank	Central Bank Action
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%
Mar 8, 2023	Bank of Canada	Maintained overnight rate at 4.50%
Mar 22, 2023	U.S. Federal Open Market Committee	Raised target range to 4.75% to 5.00%
Apr 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%
Jun 7, 2023	Bank of Canada	Raised overnight rate to 4.75%
Jun 14, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.00% to 5.25%
Jul 12, 2023	Bank of Canada	Raised overnight rate to 5.00%
Jul 26, 2023	U.S. Federal Open Market Committee	Raised target range to 5.25% to 5.50%
Sep 6, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Sep 20, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Oct 25, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Nov 1, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%