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MEMORANDUM

TO: Investment Policy Advisory Committee
FROM: Vicki Robertson, A/Director of Revenue, Deputy Treasurer, Finance & Asset Management
DATE: March 4, 2024
SUBJECT: **Treasurer's Report Quarter Ending December 31, 2023**

Investment Activities

There were eight money market investments made during the quarter while three investments were carried over from the prior period and three investments matured. At the end of the quarter, the total value of money market instruments at cost was \$206,850,645 with an average cost of \$25,856,331, and an original average term of 204 days. 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 \$93,942,969, an average cost of \$18,788,594 and an average term to maturity of 186 days.

There were no additional bond investments made during the quarter. One bond matured late in the quarter, and one carried over from prior periods with an ending face value of \$50,000,000 and an original term of three years. This compares to the same period last year when there were five bond investments held at the end of the period with a total face value of \$157,100,000 and an average term to maturity of two years.

Operating fund investment income for the three months ending December 31, 2023 totaled \$4,909,167 versus a budgeted amount of \$3,600,000. The positive variance was the result of a higher rate of return than expected as well as higher cash balances over the reporting period. The total investment income for the portfolio was \$11,284,071 including investment income for operating fund, trusts, reserves, and related entities.

The actual rate of return for the quarter was 1.27% versus a projection of 1.18%. The rate of return for the 12 months ending December 31, 2023 met the projection at 4.55%.

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.

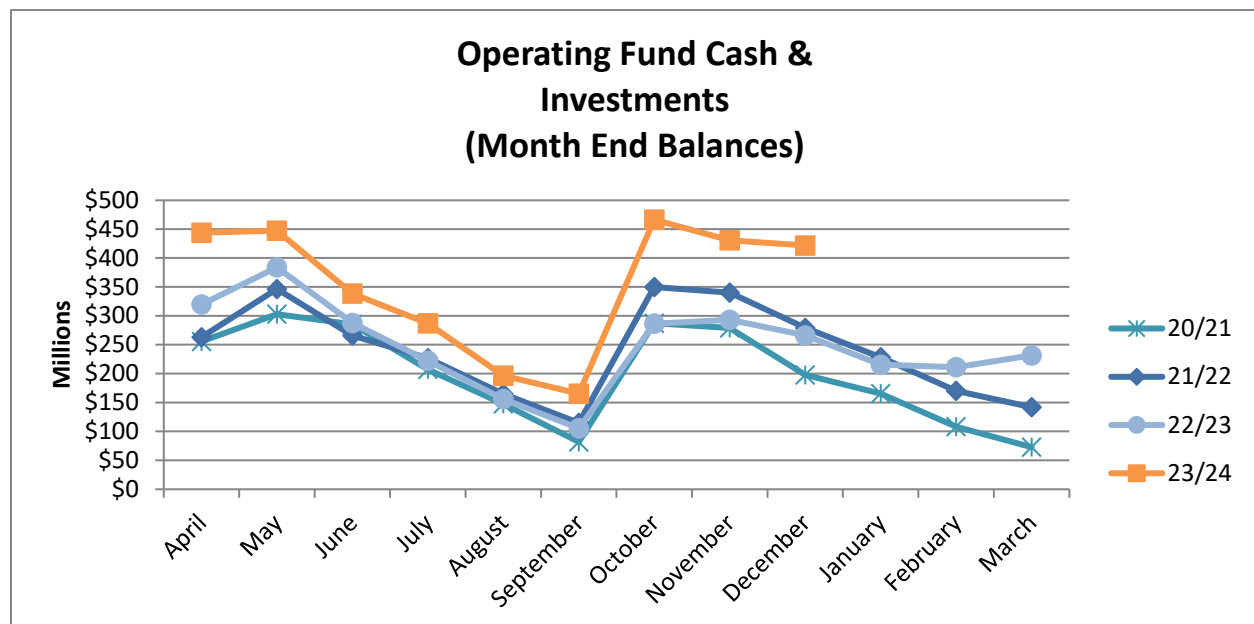
Money Market Performance

Financial Institution Investment Accounts

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$662,897,903 at the end of the quarter. This balance includes funds for related agencies such as Halifax Water, HRM reserve funds, as well as operating funds.

The income from investment accounts provided a quarterly return of 1.42% for an annualized return of 5.67%. Using 5.25% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$589,173 over BA's and BDN's.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$6,135,517 including a \$387,403 increase during the reporting period. An additional increase of \$407,230 was realized over the reporting period due to the 2019 investment policy change to exclude operational cash requirements from the sector weights, providing a cumulative impact since April 2019 of \$3,388,958.

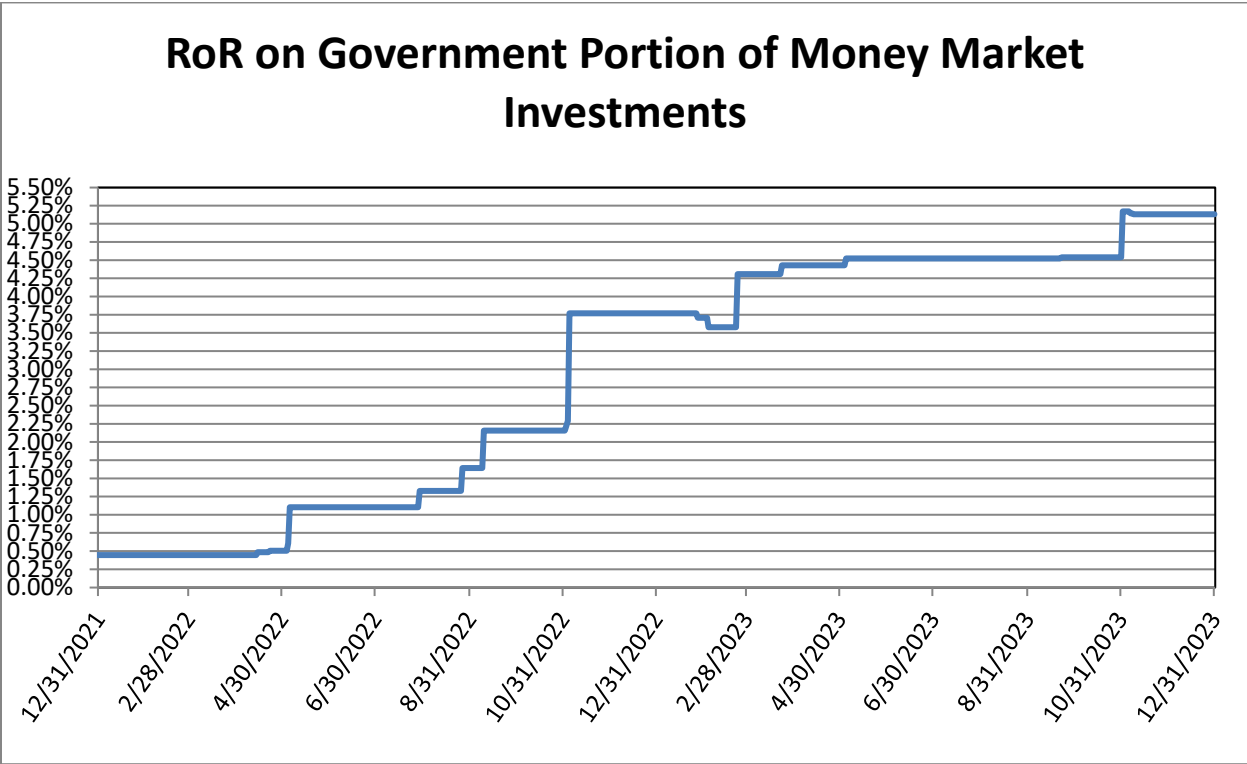


Government Money Market Instruments

The government money market portion of the portfolio started the quarter with three instruments with a total value at cost of \$82,835,141. During the quarter, eight money market investments were made and three investments matured, resulting in an ending balance of \$206,850,645. The average duration of the money market investments held at end of the reporting period is 204 days.

The rate of return on money market instruments for the quarter ending December 31, 2023 is 1.24%, and when annualized, provides a return of 4.97% while the rolling one-year return was 4.48%. The average yield of a benchmark one-year T-bill was 4.92% over the reporting period producing a variance as a result of lower returns realized earlier in the fiscal year.

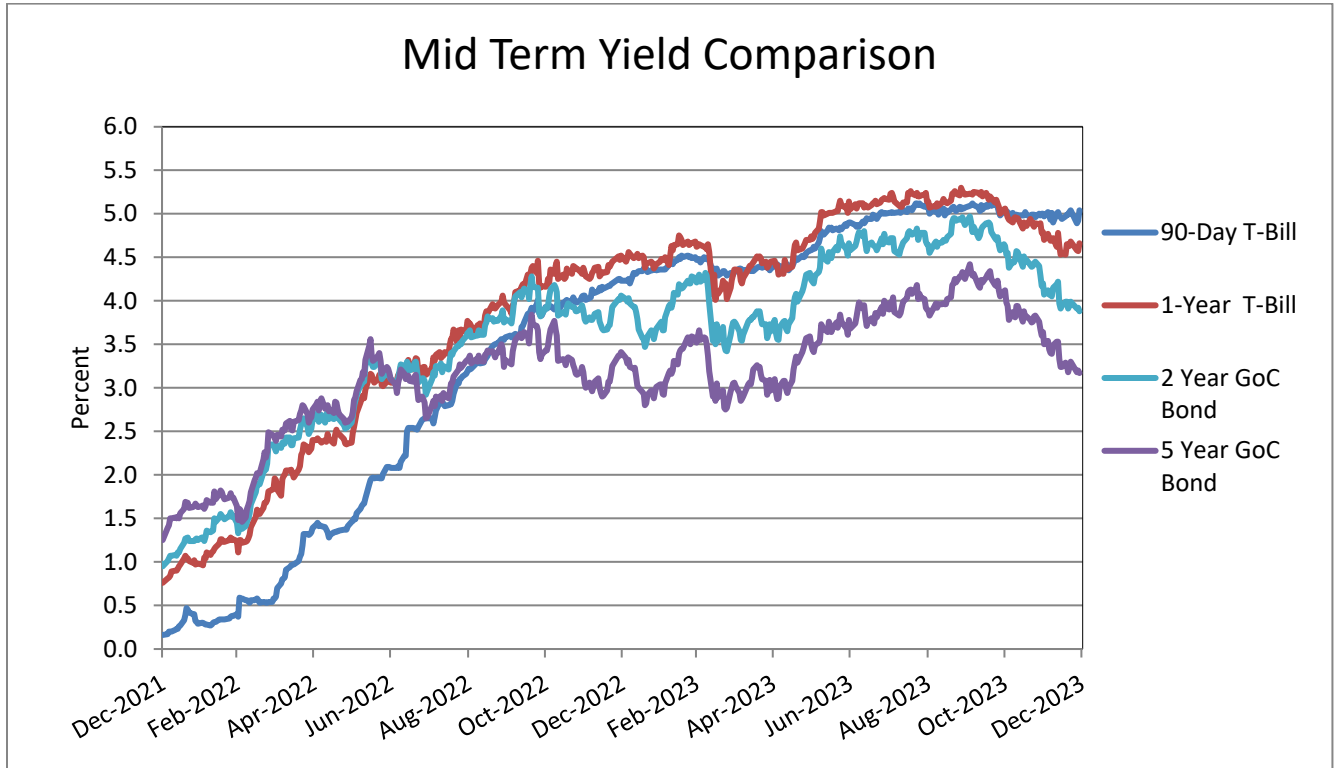
The following graph depicts the increase in the return on money market instruments over the past two years.



Long Term (Bond Pool) Investment Performance

At the end of the quarter, the provincial bond segment of the portfolio had a face value of \$50,000,000 reflecting bond maturities 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. The yield on the final remaining bond is 1.37% with a maturity date of June 2nd, 2024.

Government Sector Performance – December 2021 to December 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 December 31, 2023)	1 Year (to December 31, 2023)
Average Return	1.31%	4.93%
5 th Percentile	1.41%	5.27%
1 st Quartile	1.35%	5.08%
Money Market Median	1.32%	4.93%
3 rd Quartile	1.27%	4.80%
95 th Percentile	1.24%	4.45%
HRM Money Market	1.39%	5.23%
HRM Overall	1.27%	4.55%

The money market portion of the portfolio, including the high interest investment accounts, exceeded the 1st quartile 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	1 Year (to December 31, 2023)
Average Yield	6.02%
5 th Percentile	8.13%
1 st Quartile	6.15%
Median	5.90%
3 rd Quartile	5.52%
95 th Percentile	5.23%
HRM Bonds	1.20%

The one-year benchmark for short-term bonds reflects the increased overnight rate set by the Bank of Canada since March, 2022. The Municipality's bond holdings have not changed since November, 2021. The yield is currently 1.20 % which is below the benchmark rate for short duration bonds. The final bond holding will mature in June 2024.

Operating Investment Income Projection – 2023/24

The operating investment income is currently projected at \$16,000,000 for the 2023/24 fiscal year, incorporating the increased rate of return versus the original forecast. 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	\$4,909,167	\$1,309,167
Jan – Mar	\$6,400,000		
	\$16,000,000	\$12,224,023	\$2,624,023

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 January 11, 2024, 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 January 24, 2024, the Bank of Canada (BoC) maintained the overnight rate at 5% as expected. During deliberations, it was agreed that the interest rate increases have resulted in a slowing demand and weakened consumer confidence. The members of the Governing Council also recognized that labour market conditions are becoming balanced even though wage growth of 4% to 5% is still broad based. Inflation remains above the target with shelter prices being the largest component of the inflation index. That said, the Governing Council expected the inflation remaining around 3% for the first half of the year, gradually approaching the 2% target by 2025.

The timeline to begin cutting interest rates is still not clear from the deliberations of Governing Council. However, economists agree that the rates will be cut during 2024, starting as early as June. The full price drop may not be realized until late 2024 where it is anticipated the decrease will be a full 150 basis points from its current level of 5%.

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 1st quartile for the quarter ending December 31, 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
Acting Director of Revenue
Deputy Treasurer

Appendix A

Economic Statistics	Canada			United States		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	5.7%	5.8%	5.8%	3.8%	3.7%	3.7%
Jobs Created / (Lost) ('000's)	24	24	12	165	182	333
Core Inflation Rate (year over year)	3.1%	3.1%	3.4%	3.2%	3.1%	3.4%

Date	Central Bank	Central Bank Action
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%
Dec 6, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Dec 13, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Jan 24, 2024	Bank of Canada	Maintained overnight rate at 5.00%
Jan 31, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%