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## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Vicki Robertson, A/Director of Revenue, Deputy Treasurer, Finance & Asset Management  
DATE: June 10, 2024  
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2024**

### Investment Activities

No money market investments were made during the quarter. However, eight investments were carried over from the prior period and one investment matured. At the end of the quarter, the total value of money market instruments at cost was \$176,548,991 with an average cost of \$25,221,284, and an original average term of 221 days. This compares to the same period last year when one investment was held at the end of the period at a cost of \$15,494,479 and an original term to maturity of 322 days.

No additional bond investments were made during the quarter, and there were no bond maturities. One bond 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 five bond investments were 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 was \$4,613,892 for the three months ending March 31, 2024 versus a budgeted amount of \$2,400,000. The positive variance resulted from a higher rate of return than expected as well as higher cash balances over the reporting period. The portfolio investment income was \$10,837,153 including investment income for operating fund, trusts, reserves, and related entities. The actual rate of return for the quarter was 1.32% versus a projection of 1.18%. The rate of return for the 12 months ending March 31, 2024 met the projection at 4.88%.

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.

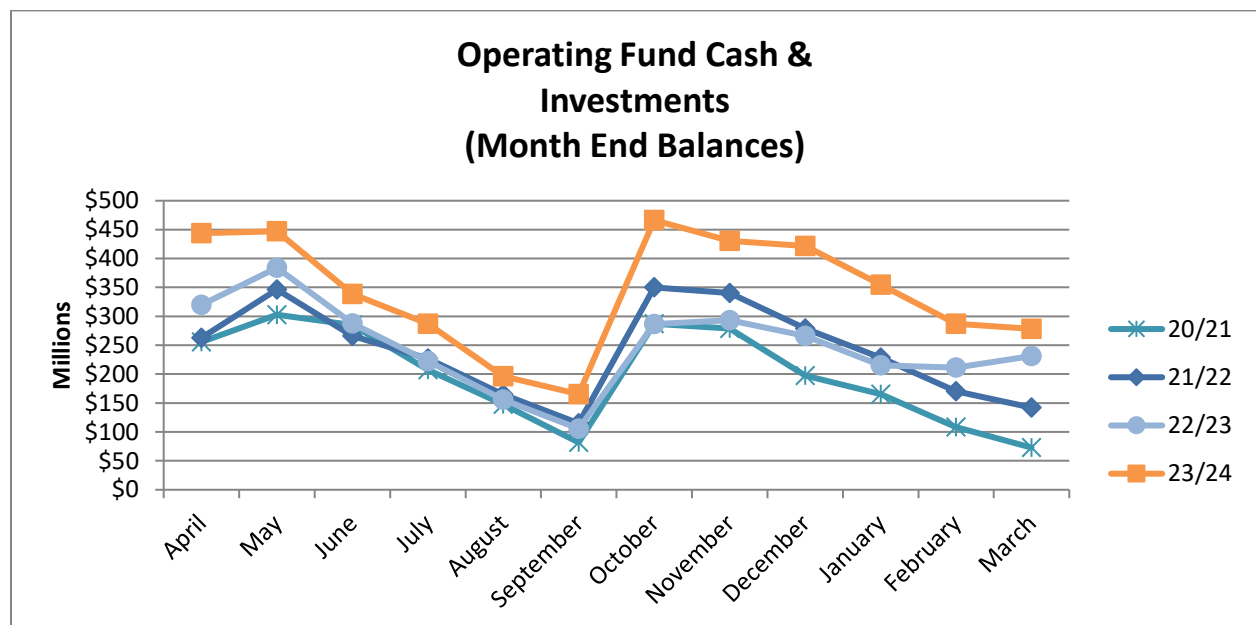
## Money Market Performance

### Financial Institution Investment Accounts

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$526,756,508 at the end of the quarter. This balance includes funds for related agencies such as Halifax Water, HRM reserve funds, and operating funds.

The income from investment accounts provided a quarterly return of 1.43% for an annualized return of 5.71%. Using 5.10% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$872,308 over BA's and BDN's.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$6,580,402 including a \$444,885 increase during the reporting period. An additional increase of \$553,932 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 \$3,942,890.

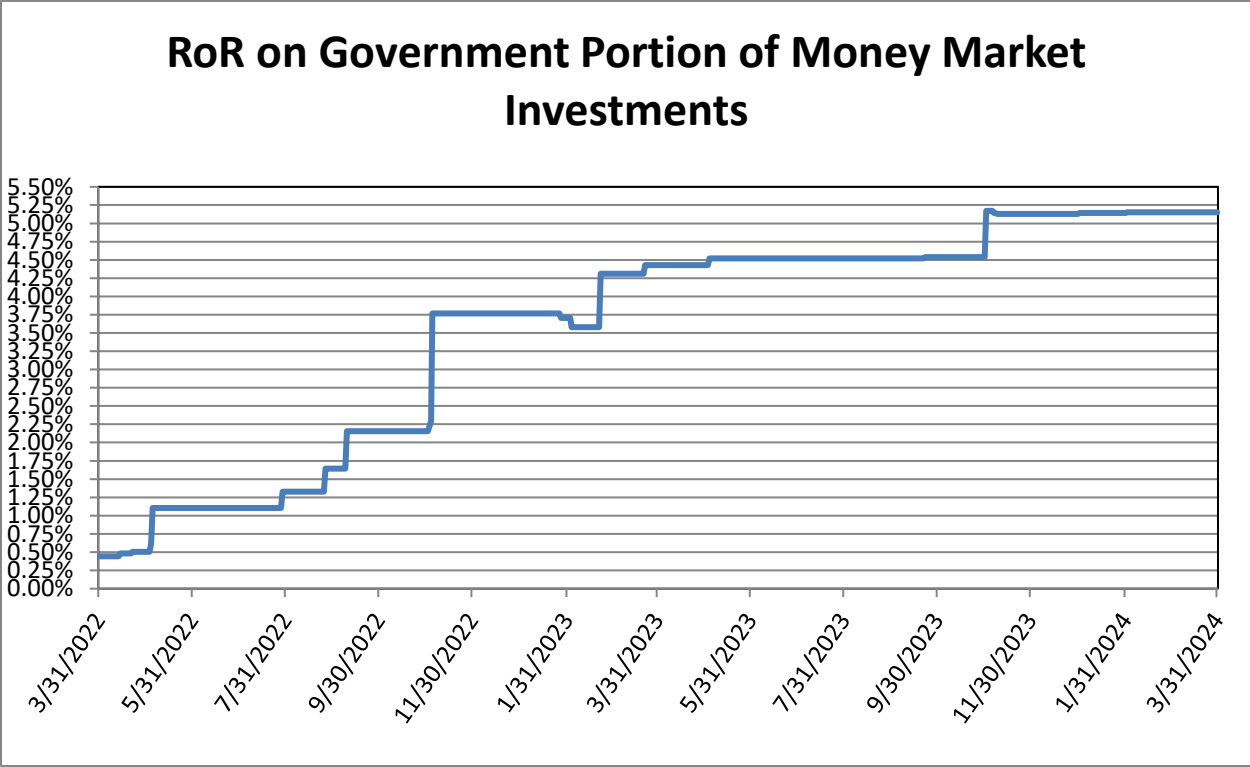


*Government Money Market Instruments*

The government money market portion of the portfolio started the quarter with eight instruments with a total value at cost of \$206,850,645. During the quarter, one investment matured, resulting in an ending balance of \$176,548,991. The weighted average duration of the money market investments held at end of the reporting period is 202 days.

The rate of return on money market instruments for the quarter ending March 31, 2024 is 1.28%, and when annualized, provides a return of 5.12% while the rolling one-year return was 4.78%. The average yield of a benchmark one-year T-bill was 4.73% over the reporting period.

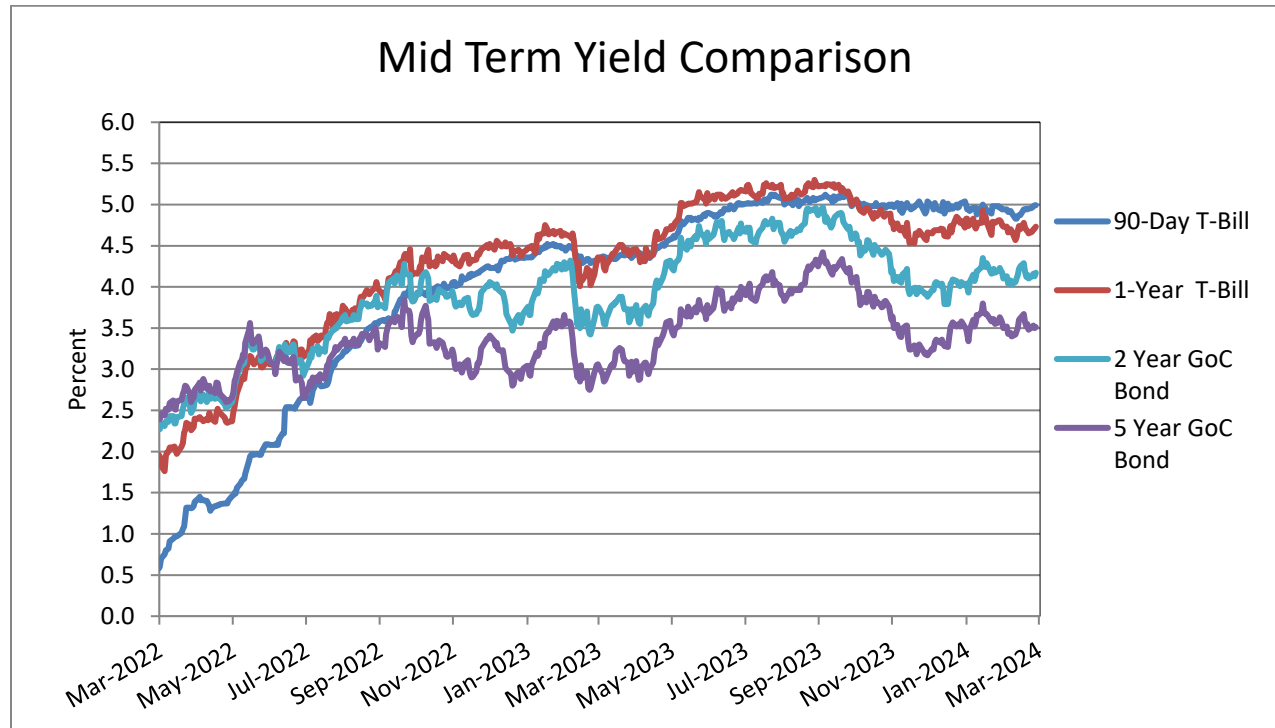
The following graph depicts the increase in the return on money market instruments over the past two years.



## 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 2<sup>nd</sup>, 2024.

### **Government Sector Performance – March 2022 to March 2024**



### Overall results

The benchmark for portfolio performance is "the average yield of the three-month Canadian T-bill over the reporting period", as stated in the HRM Investment Policy.

The most recent update to HRM's *Investment Policy* set the benchmark for portfolio performance as "the average yield of the three-month Canadian T-bill over the reporting period". Prior to this period, the benchmark for portfolio performance was the median of the *RBC Pooled Fund Survey of Money Market Funds*. For the period of January 1<sup>st</sup>, 2024 to March 31<sup>st</sup>, 2024, the benchmark is set at 4.95% while the one-year return on the HRM portfolio is 4.88%. Staff notes this variance is due to the continued low-yield bond holdings during the period that continue to create a drag on returns. This bond was purchased in late 2021 when the average one-year T-bill yield was 0.63%, and is maturing in early June. Staff anticipates future returns will meet the benchmark.

## **Operating Investment Income Projection – 2023/24**

The operating investment income for the 2023/24 fiscal year was budgeted at \$12,000,000. The final results exceeded the budgeted amount by 40% primarily as a result of the Bank of Canada overnight rate remaining at its peak for longer than anticipated.

<b>Quarter</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
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	\$2,400,000	\$4,613,892	\$2,213,892
	<b>\$12,000,000</b>	<b>\$16,837,915</b>	<b>\$4,837,915</b>

## **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 March 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 Events**

On June 5th, the Bank of Canada (BoC) lowered the overnight rate 25 bps to 4.75% representing the first decrease in more than four years. The rationale stated for this move is that the core inflation rate continues to ease while the bank still sees signs of economic growth. Governing Council still anticipates a steady return to the target 2% inflation and continued overnight rate cuts; however, it is also signalling further cuts may occur gradually as there is still inflation risk.

## **Outlook & Strategy**

Staff continue to monitor guidance with respect to the BoC's overnight rate. Staff anticipate the investment bank accounts and GICs 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 one-year rate of return for the portfolio was 4.88% before allowing for fees that could have been paid to an external management firm versus the benchmark of 4.95%. 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  
Acting Director of Revenue  
Deputy Treasurer

# Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	5.7%	5.8%	6.1%	3.7%	3.9%	3.8%
Jobs Created / (Lost) ('000's)	37	41	(2)	256	236	315
Core Inflation Rate (year over year)	2.9%	2.8%	2.9%	3.1%	3.2%	3.5%

Date	Central Bank	Central Bank Action
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%
Mar 6, 2024	Bank of Canada	Maintained overnight rate at 5.00%
Mar 20, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Apr 10, 2024	Bank of Canada	Maintained overnight rate at 5.00%
May 1, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
June 5, 2024	Bank of Canada	Lowered overnight rate to 4.75%