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## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Vicki Robertson Deputy Treasurer, Finance & Asset Management  
DATE: June 7, 2021  
SUBJECT: **Treasurer's Report Quarter Ending March 31, 2021**

### Investment Activities

During the quarter, there were no money market investments made as we carried five investments into the period with a total value of \$231,759,860, an average cost of \$46,351,972, and an original average term of 177 days. This compares to the same period last year when there we also carried five investments into the period with a total cost of \$87,148,666, average cost of \$17,429,733 and average term to maturity of 362 days.

Operating fund investment income for the three months ending March 31, 2021 was \$206,666 versus an original budget of \$187,500. Total investment income for the portfolio was \$909,280 which includes investment income for the operating fund, trusts and reserves, as well as related entities. The positive variance in the investment income is a result of higher cash balances for the period than expected. The actual rate of return for the quarter was 0.15% which is below the projected rate of 0.21%. The negative variance in the rate of return was expected and is primarily attributable to the Government half of the portfolio as well as a reduction in interest rate on an investment account. The actual rate of return for the year was 0.82%, slightly below the projected annual rate of return of 0.84%.

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.

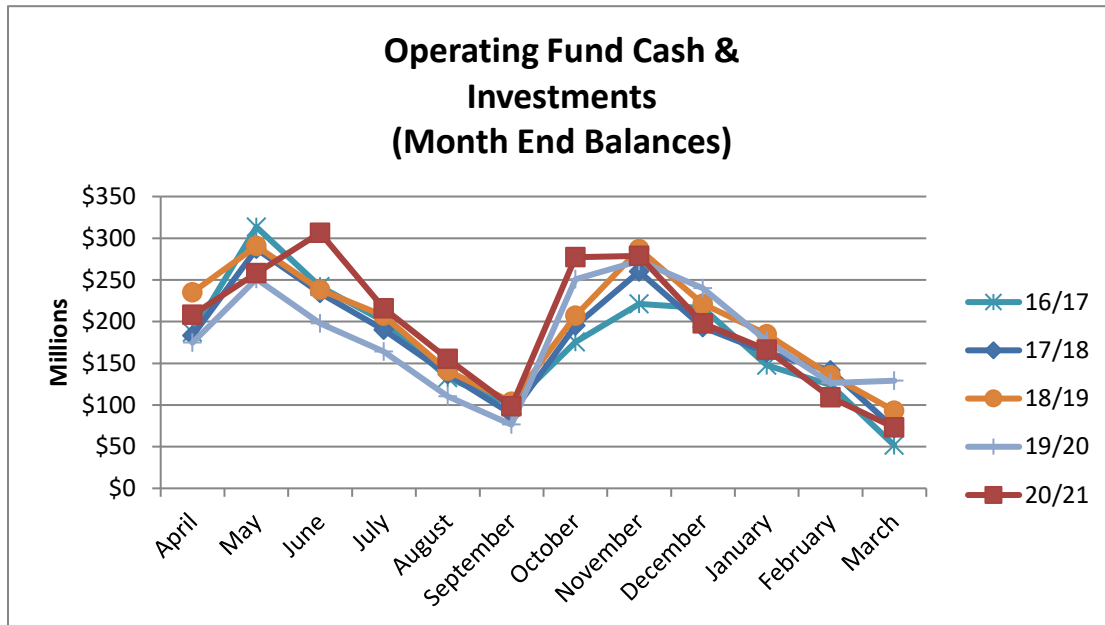
### HRM Investment Accounts

Funds held in the investment bank accounts, including term deposits, totaled \$312,288,563 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 0.19% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$596,738 for the quarter over BA's and

BDN's. The income from our investment accounts provided a quarterly return of 0.21%, and an annual return of 0.88%.

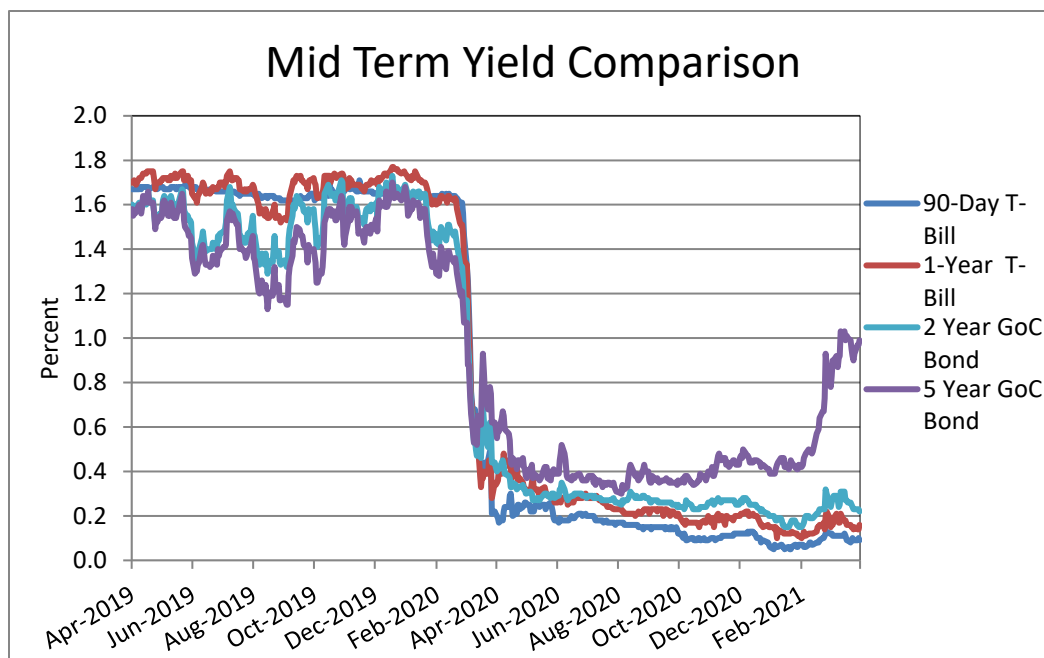
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,242,120 including a \$212,607 increase during the reporting period. An additional \$243,891 was realized over the reporting period due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$2,470,125.



### HRM Short Term Bond Pool

Currently, the portfolio does not contain any bonds. Staff will continue to look for opportunities to add to the bond portfolio.

## Government Sector Performance – April 2019 to March 2021



### HRM Short Term (Money Market Pool) Investment Performance

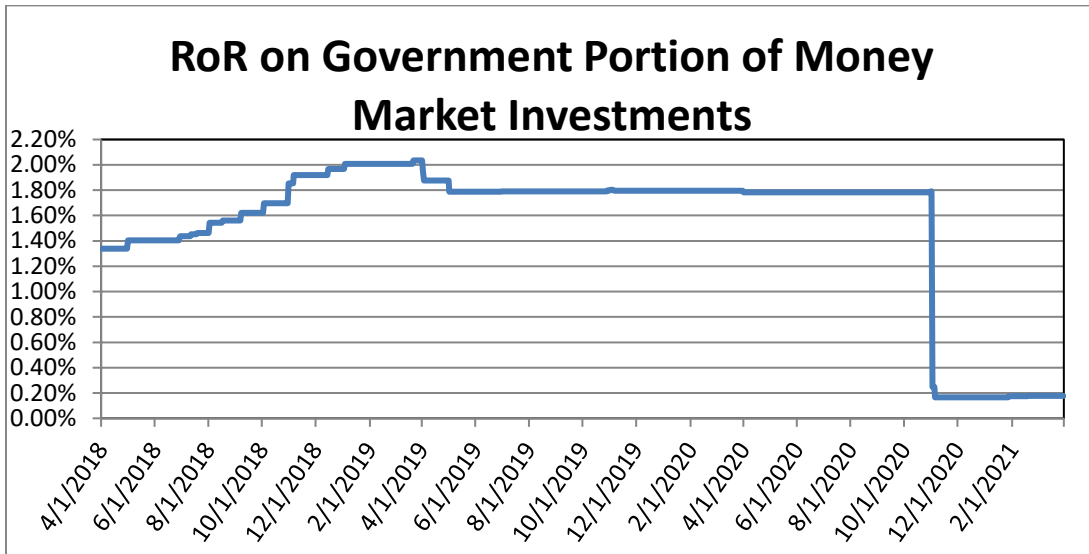
The money market portion of the portfolio began the quarter with a balance of \$231,759,860 and ended with a balance of \$178,776,780 as two instruments matured during the quarter with a total initial cost of \$52,983,080.

The money market rate of return for the quarter ending March 31, 2021 is 0.043%, and when annualized, provides a return of 0.17% while the rolling one-year return is 1.12%. The average duration of the money market portfolio is 177 days and a weighted average duration of 209 days. The average return over the reporting period of a benchmark one-year T-bill was 0.15% and a benchmark six-month T-bill average return was 0.12%.

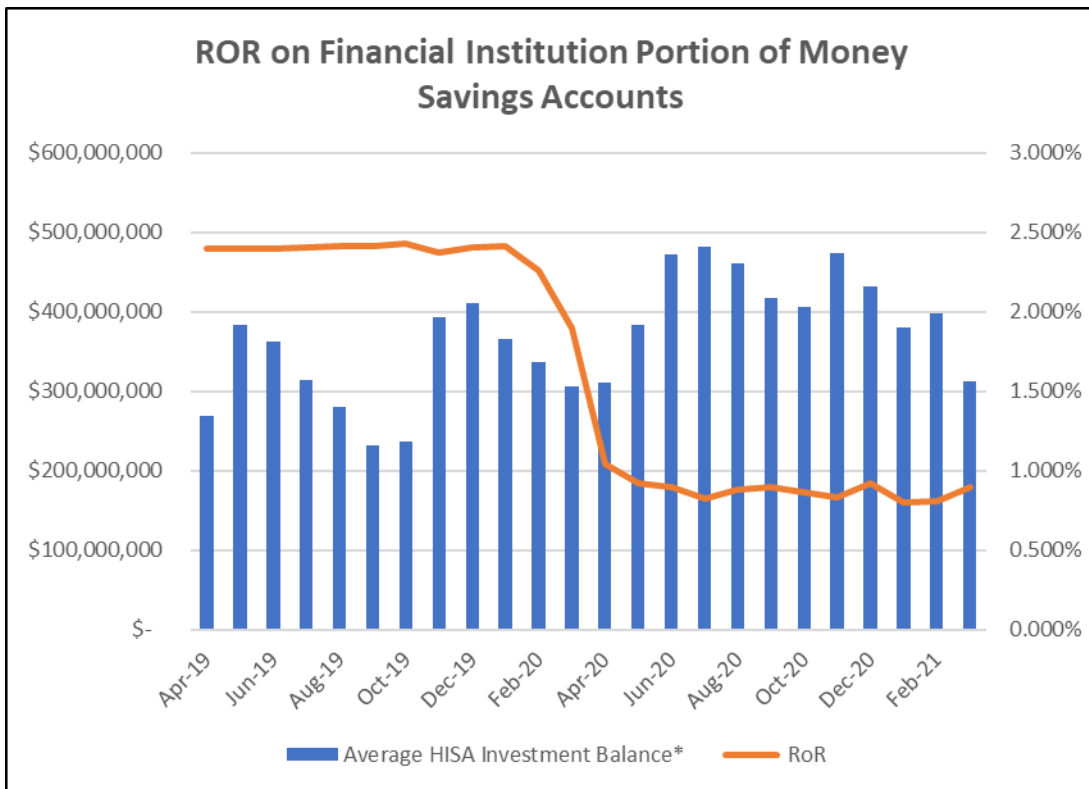
Graph "A" below depicts the decline in return on our money market investments in early November when our long-held instruments matured and we made new investments at the current rate of return. This most recent quarter shows a slight increase as shorter duration instruments with lower yield matured early in the period.

Graph "B" demonstrates the decline in the spring of 2020 on the Investment Accounts when the Bank of Canada rate dropped 150 basis points over the month.

**Graph A**



**Graph B**



## HRM Overall results

Our current benchmark for the portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of 24 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.

<b>Money Market Funds</b>	<b>3 Months (to Mar 31, 2021)</b>	<b>1 Year (to Mar 31, 2021)</b>
Average Return	0.06%	0.49%
5 <sup>th</sup> Percentile	0.12%	0.72%
1 <sup>st</sup> Quartile	0.07%	0.62%
Money Market Median	0.05%	0.52%
3 <sup>rd</sup> Quartile	0.03%	0.37%
95 <sup>th</sup> Percentile	(0.01%)	0.14%
<b>HRM Overall</b>	<b>0.15%</b>	<b>0.82%</b>

Overall performance continues to be positive as we note both the three-month and one-year return exceeds the 5<sup>th</sup> percentile. These returns are before any allowance for fees that could be paid for external management.

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.”*

It has been noted that our investment mix includes instruments with longer duration, therefore, other benchmarks may be more appropriate. For the past year, we have calculated a weighted average benchmark based on two existing market indices that simulate the average duration of the corresponding instrument in our portfolio:

1. Average return over the quarter of a one-year T-bill reported by the Bank of Canada
2. Average return over the quarter of a 90-day Banker’s Acceptance (BA) reported by Investment Industry Regulatory Organization of Canada (IIROC)

For the current period, the benchmark one-year T-bill return was 0.15% and the average return on a 90-day BA over the period was 0.19%. The weighted average of money market investments was 32% and the investment accounts was 68%. As a result, the annual return benchmark for the reporting period is 0.18%. Our one-year rate of return of 0.82% compares favourably with this benchmark.

### Operating Investment Income Projection – 2020/21

The operating investment income budget has been established at \$750,000 for the 2020/21 fiscal year. As market conditions warrant, we will update projections throughout the year.

<b>Quarter</b>	<b>Operating Investment Income Budget</b>	<b><i>Actual</i></b>	<b><i>Variance</i></b>
Apr – Jun	\$187,500	\$588,755	\$401,255
Jul – Sept	\$187,500	\$408,217	\$220,717
Oct – Dec	\$187,500	\$386,240	\$198,740
Jan – Mar	\$187,500	\$206,666	\$19,166
	<b>\$750,000</b>	<b>\$1,589,878</b>	

## **Subsequent to End of Reporting Quarter**

The Bank of Canada continues to maintain the overnight rate at 25 bps; however, guidance has shifted as we see signals that the rate will not stay at its lower bound for as long as originally forecast. The most recent report indicates that the target level of inflation of 2% could be reached in late 2022 which would trigger an increase in the rate.

Although Canada is now mired in a third wave of COVID-19, businesses have now adapted and the economy has shown greater resilience than predicted. As a result, the Canadian economic forecast has been revised upward. This optimistic view has been aided by a stimulus package in the US and the vaccination program continuing apace.

## ***Bank of Canada April Monetary Policy Report***

*“The economic impact of the third wave is expected to be material but temporary. Without the adaptation seen in the second wave and the increasing number of people vaccinated, the effects of the third wave would be more severe and long lasting.”*

*Bank of Canada  
Monetary Policy Report  
April 2021*

## ***Outlook for Canadian Economic Activity***

*“In view of the more favourable economic outlook, the Bank now expects slack will be absorbed and inflation will sustainably return to target some time in the second half of 2022. This timing is more uncertain than usual, however, given the uncertainty around potential output and the highly uneven impacts of the pandemic.*

*Bank of Canada  
Monetary Policy Report – April 2021*

## **Outlook & Strategy**

We continue to monitor guidance with respect to the Bank of Canada’s overnight rate and are beginning to see signs of optimism in the Monetary Policy Reports.

Although we are now seeing some downward movement in the interest rates on the investment bank accounts, when compared to instruments with similar risk, we still enjoy higher overall returns. Therefore, the strategy remains to maximize returns by leveraging HISA accounts, keeping in mind that their liquidity adds a safety factor.

We balance the portfolio with government sector instruments, primarily in the form of provincial Treasury Bills. 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 rate of return exceeded the 5<sup>th</sup> percentile for the quarter ending March 31, 2021 before allowing for fees that could have been paid to an external management firm. 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, CGA  
Deputy Treasurer



# Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	9.4%	8.2%	7.5%	6.3%	6.2%	6.0%
Jobs Created / (Lost) ('000's)	(213)	259	303	49	379	916
Core Inflation Rate (year over year)	1.0%	1.1%	2.2%	0.3%	0.4%	0.6%

Date	Central Bank	Central Bank Action
Mar 27 2020	Bank of Canada	Lowered overnight rate to 0.25%
Apr 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Apr 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
June 3, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Jun 10, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
July 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
July 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Oct 28, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Nov 5, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Dec 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Dec 26, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jan 20, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jan 27, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Mar 10, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Mar 17, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Apr 21, 2021	Bank of Canada	Maintains overnight rate at 0.25%