

PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Vicki Robertson Deputy Treasurer, Finance & Asset Management  
DATE: March 2<sup>nd</sup>, 2020  
SUBJECT: **Treasurer's Report Quarter Ending December 31, 2019**

### Investment Activities

During the quarter, there were three money market investments made totaling \$47,855,866 with an average term to maturity of 362 days and an average cost of \$15,951,955. This compares to last year when 4 investments were made at a total cost of \$101,449,461 with an average term of 153 days and average individual investment cost of \$25,362.365. In addition, two investments with an original time to maturity of 181 days matured during the quarter at a value of \$54,500,000.

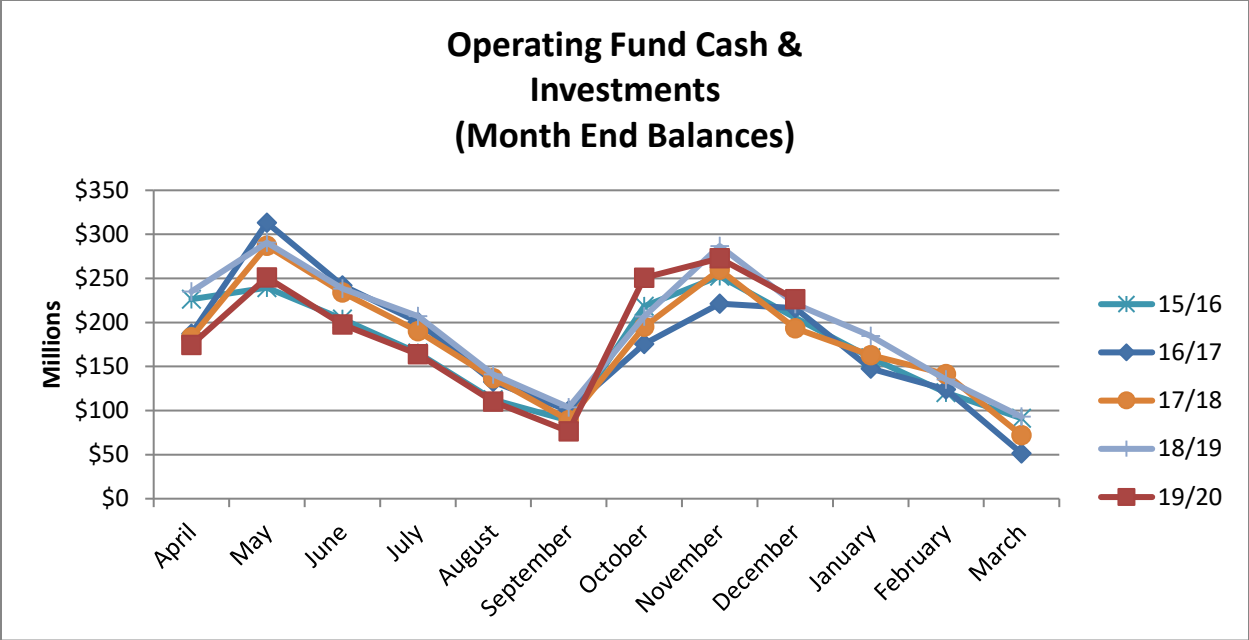
Operating fund investment income for the 3 months ending December 31, 2019 was \$1,209,396 versus an updated projection of \$1,210,000 and an original budget of \$750,000. The actual rate of return for the quarter was 0.56% which met the projected rate.

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 \$372,055,640 at the end of the quarter. Incremental income for the investment accounts over BA's and BDN's, using a rate of 1.87% as the three-month proxy for the BA and BDN rates, was \$470,645 for the quarter. The income from our investment accounts provided a quarterly return of 0.60%, and a 12 month return of 2.4%.

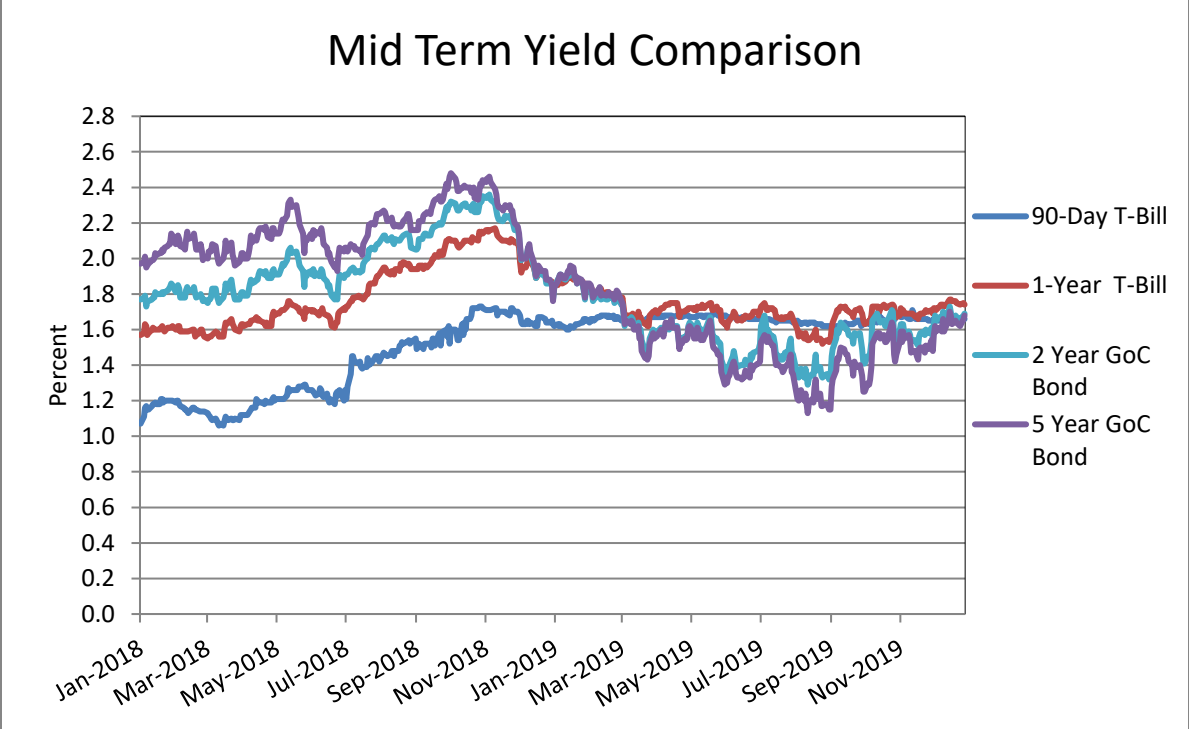
The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$4,164,553 including a \$255,047 increase during the quarter. An additional \$244,249 was realized over the quarter due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights for a cumulative impact since April 2019 of \$661,713.



**HRM Short Term Bond Pool**

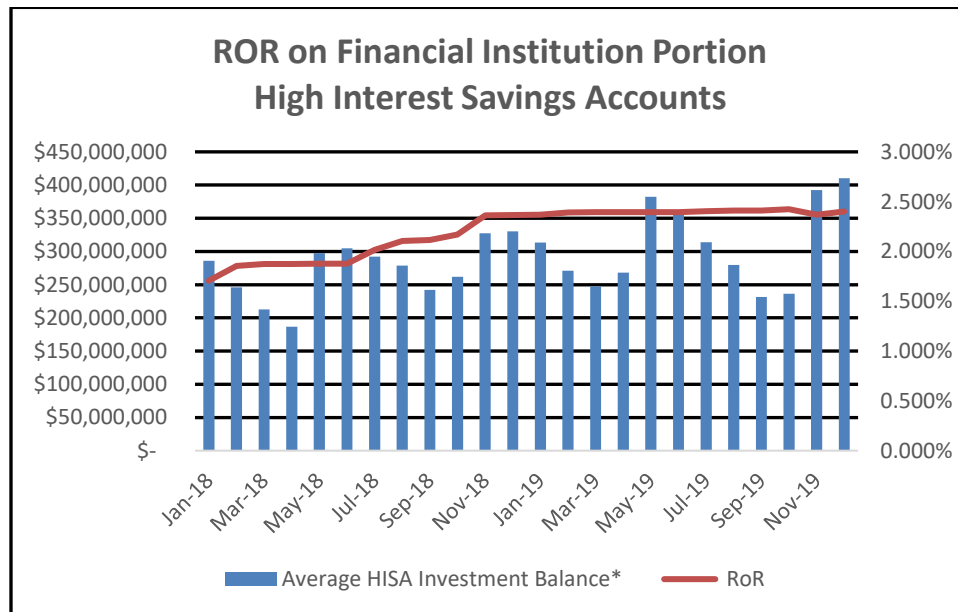
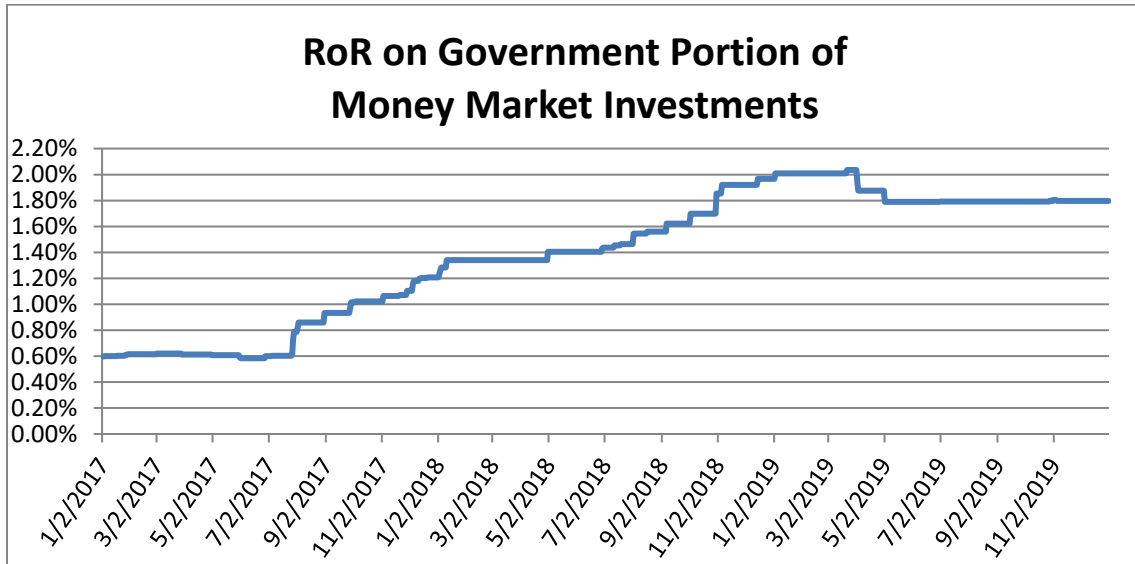
Currently, the portfolio does not contain any bonds. Staff will continue to look for opportunities to add to the bond portfolio.

**Government Sector Performance – January 2018 to December 2019**



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

The money market portion of the portfolio saw minor fluctuations as we re-balanced the portfolio in early November in accordance with the Investment Policy. We started the quarter with \$127,712,600 in investments and after maturities and purchases, we ended with a balance of \$121,541,416. The rate of return for the quarter remained steady at 0.45%, and when annualized, provides a return of 1.80% while the rolling one-year return is currently 1.85%. The average duration of the money market portfolio is 362 days. The average return over the quarter of a benchmark one-year T-bill was 1.71%.



## HRM Overall results

Our current benchmark for the portfolio performance is the *RBC Pooled Fund Survey* that reviews the performance of 26 pooled Canadian money market funds. These funds generally have 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 Dec 31, 2019)</b>	<b>1 Year (to Dec 31, 2019)</b>
5 <sup>th</sup> Percentile	0.49%	2.09%
1 <sup>st</sup> Quartile	0.46%	1.95%
Money Market Median	0.44%	1.85%
3 <sup>rd</sup> Quartile	0.42%	1.79%
95 <sup>th</sup> Percentile	0.39%	1.51%
Average Return	0.44%	1.85%
<b>HRM Overall</b>	<b>0.56%</b>	<b>2.29%</b>
<b>HRM Money Market</b>	<b>0.45%</b>	<b>1.85%</b>
<b>HRM Investment Accounts</b>	<b>0.60%</b>	<b>2.40%</b>

Overall performance continues to be positive as we note the three-month and one-year returns exceed the 5<sup>th</sup> percentile. These returns are before any allowance for fees that could be paid for external management. As demonstrated above, the investment bank accounts remain largely responsible for this relative performance.

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. To this end, 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)

The 90-day BA rate is selected to mimic the median duration of our operating cash in our investment accounts and the T-bill duration is selected based on the average duration of our current holding. The benchmark rates have been weighted based on the corresponding average weight in each sector over the quarter.

For the current period, the benchmark one-year T-bill return was 1.71% and the average 90-day BA return over the period was 1.87. The weighted average of money market investments was 26% and the investment accounts was 74%. As a result, the benchmark for the current quarter is 1.83%.

<b>Month</b>	<b>Average HISA Investment Balance*</b>	<b>Money Market Balance</b>	<b>Total investments</b>
October	\$ 236,488,277	\$ 124,354,666	\$ 360,842,943
November	\$ 392,319,311	\$ 115,540,590	\$ 507,859,901
December	\$ 410,422,556	\$ 121,541,416	\$ 531,963,972
	\$ 346,410,048	\$ 120,478,891	\$ 466,888,939
<b>Weighted Average</b>	<b>74%</b>	<b>26%</b>	
Benchmark rates	1.87%	1.71%	
	<b>1.83%</b>		

Our one-year rate of return of 2.29% compares favourably with this benchmark.

### **Operating Investment Income Projection – 2019/20**

The operating investment income projection has been established at \$4,100,000 for the 2019/20 fiscal year. The projected investment income for each quarter is outlined below:

(In Thousands)

<b>Quarter</b>	<b>Projected Quarter End Balance</b>	<b>Investment Income</b>	<b>Actual</b>	<b>Variance</b>
Apr – Jun	\$253,200	\$1,210	\$1,163	-3.9%
Jul – Sept	\$115,600	\$ 960	\$1,112	15.9%
Oct – Dec	\$238,950	\$1,210	\$1,209	-0.05%
	<b>YTD Projected</b>	<b>\$3,380</b>	<b>\$3,485</b>	<b>3.10%</b>

The key assumptions associated with this projection include the following:

1. Operating cash inflows and outflows will not vary significantly from last year
2. The rate of return will remain steady through the first two quarters
3. The Bank of Canada overnight rate will be cut by 25 bps in the third quarter

Our projection for the quarter ending March, 2020 has been updated to \$920,000 for an annual projection of \$4,300.

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

The Bank of Canada continues to maintain the overnight rate at 1.75% and guidance has not changed significantly since last quarter. However, the Bank noted a slowdown in the last quarter of 2019 and anticipates it will continue into early 2020. That said, moderate growth is projected for the latter part of 2020 and continue in 2021. Both household spending and business investment are anticipated to enjoy moderate expansion as fears about the global outlook have eased.

Since the Bank of Canada rate announcement on January 22<sup>nd</sup>, several factors have impacted the global economy. However, the forecast for a rate cut in the second quarter has not changed.

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

*“All things considered...it was Governing Council’s view that the balance of risks does not warrant lower interest rates at this time.”*

*~Stephen Poloz, Governor  
Bank of Canada*

*January 22, 2020*

### ***Outlook for Canada***

*“...indicators of the Canadian economy have turned decidedly mixed. The National Accounts data for the third quarter of 2019 showed a significant slowdown... We also received a string of disappointing readings related to the Canadian consumer. At the same time, third-quarter investment spending was surprisingly strong.”*

*~~Stephen Poloz, Governor  
Bank of Canada*

*January 22, 2020*

## **Outlook & Strategy**

We continue to monitor guidance with respect to the Bank of Canada’s overnight rate in the coming months.

We anticipate the investment bank accounts will continue to provide effective rates of return when compared to instruments with similar risk, even in a rate-cut environment. The dominant strategy is to maximize our returns by leveraging HISA accounts, keeping in mind that their liquidity adds a safety factor, while looking for opportunities in the government half of the portfolio. Staff is also looking at options to include more diversity in the portfolio with the aim of increasing return while minimizing risk.

## **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 was again in the 5<sup>th</sup> percentile for the quarter ending December 31<sup>st</sup>, 2019 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			US		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	5.5%	5.9%	5.6%	3.6%	3.5%	3.5%
Jobs Created / (Lost) ('000's)	(3.2)	(54.4)	27.3	185.0	261.0	147.0
Core Inflation Rate (year over year)	1.9%	2.2%	2.2%	1.8%	2.1%	2.3%

Date	Central Bank	Central Bank Action
Jan 9, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
Jan 30, 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
Mar 6, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
Mar 20, 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
Apr 24 <sup>th</sup> , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
May 1 <sup>st</sup> , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
May 29 <sup>th</sup> , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
June 29 <sup>th</sup> , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
July 10, 2019	Bank of Canada	Maintained overnight rate at 1.75%.
July 31, 2019	U.S. Federal Open Market Committee	Lowered target range to 2.0% - 2.25%
Sept 4 <sup>th</sup> , 2019	Bank of Canada	Maintained overnight rate at 1.75%
Sept 18 <sup>th</sup> , 2019	U.S. Federal Open Market Committee	Lowered target range to 1.75% - 2.0%
Oct 30, 2019	Bank of Canada	Maintained overnight rate at 1.75%
Oct. 30. 2019	U.S. Federal Open Market Committee	Lowered target range to 1.5% - 1.75%
Dec 4, 2019	Bank of Canada	Maintained overnight rate at 1.75%
Dec 11, 2019	U.S. Federal Open Market Committee	Maintained target range to 1.5% - 1.75%
Jan 22, 2020	Bank of Canada	Maintained overnight rate at 1.75%
Jan 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 1.5% - 1.75%