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## MEMORANDUM

TO: Investment Policy Advisory Committee  
FROM: Renée Towns, Deputy Treasurer  
DATE: December 2018  
SUBJECT: **2018 Investment Policy Review**

This memo outlines several items for consideration during the 2018 review of the HRM Investment Policy (the 'Policy'). These recommendations are based on best practices observed at other municipalities as well as operating procedures that, if put in place, would reduce administrative costs while maintaining HRM's investment policy objectives. Appendix A includes a summary of investment policy highlights from other municipalities.

**Recommendation #1:** Update the Policy to specify the portfolio will be rebalanced semi-annually.

The frequency of portfolio rebalancing and amount of funds allocated to operating funds are typically not formally documented in the investment policy, but rather are part of the standard operating procedures for municipalities. For clarity, it is the recommendation of staff to outline in the Policy that the portfolio will be rebalanced semi-annually to coincide with the semi-annual receipt of tax revenues. It is also understood that funds that are expected to be expended for operations prior to the next portfolio rebalance will be excluded from the calculation for the purpose of rebalancing and will be invested in an approved instrument that provides appropriate liquidity while maximizing the rate of return.

**Recommendation #2:** Assign counterparty percentage limits that align with other municipalities.

The HRM portfolio is cyclical in nature, reaching its highest points around the time tax revenues are received (April 30 and October 31) and currently fluctuates between \$300M and \$550M. The proposed percentage limits are the limits that would be applied at the time of the rebalancing, and align with limits in place at other municipalities across Canada. It is staff's recommendation to implement the following limits based on the counterparty's DBRS ratings:

***Provincial counterparties:***

R1-High or R-1 Mid: 25%

***Financial institutions:***

R1-High: 20% per issuer

R1-Mid: 15% per issuer

**Recommendation #3:** Consolidate the sector weight schedules.

The current policy has a Schedule for the total portfolio and one each for operating, capital, and reserves. In practice, the portfolio is managed on a global basis and any required allocations for operating, capital and reserve funds can be allocated internally as required. The schedules each mirror each other so it is logical to consolidate them.

The proposed changes to the investment policy will increase HRM's flexibility and cut down on administrative burden and costs while maintaining HRM's investment policy objectives of capital preservation, liquidity and obtaining a competitive rate of return without introducing additional risk to the portfolio. Staff look forward to discussing these recommendations with the Committee.

Renée Towns  
Deputy Treasurer

**Appendix A: Comparison of Investment Policies – Financial Institutions in Money Market Pool (or Equivalent)**

	Halifax Regional Municipality (Current Policy)	Halifax Regional Municipality (Proposed Policy)	Regional Municipality of Halton	City of Toronto	City of Ottawa	City of Winnipeg	City of Saskatoon	City of Vancouver	
<b>Schedule I Banks</b>									
	<i>Portfolio Limit</i>	50%	50%	50%	50%	R1-H 70%, R1-M 60%, R1-L 40%	50%	60%	40%
	<i>Individual Limits:</i>								
	<i>R1 High</i>	\$75M	20%	20%	25%	35%	\$100M	20%	\$100M
	<i>R1 Mid</i>	\$50M	15%	20%	25%	25%	\$75M	15%	\$100M
	<i>R1 Low</i>	Not permitted	Not permitted	5%	Not Permitted	15%	\$50M	10%	\$30M
<b>Schedule II Banks</b>									
	<i>Portfolio Limit</i>	Not permitted	Not permitted	5%	20%	R1-H 25%, R1-M 20%, R1-L 15%	25%	60%	40%
	<i>Individual Limits:</i>								
	<i>R1 High</i>	Not permitted	Not permitted	5%	15%	15%	\$50M	20%	\$40M
	<i>R1 Mid</i>	Not permitted	Not permitted	5%	15%	15%	\$25M	15%	\$20M
	<i>R1 Low</i>	Not permitted	Not permitted	Not permitted	Not permitted	10%	Not permitted	10%	\$10M
<b>Term restrictions for banks</b>	Fully secured and fully liquid bank products (eg GICs) permitted up to 5 years	Fully secured and fully liquid bank products (eg GICs) permitted up to 5 years	No term restrictions on the 6 major charter banks	Schedule 1 banks: 10 years	Schedule 1 banks: 10 years	Schedule 1 banks: 10 years	Not specified	Not specified	5 years