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**Item No. 12.2.1**  
**Audit & Finance Standing Committee**  
**October 16, 2019**

**TO:** Chair and Members of (Name of Community Council or Board)

**– Original signed by –**

**SUBMITTED BY:**

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Jacques Dubé, Chief Administrative Officer

**– Original signed by –**

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Jane Fraser, CFO / Director, Finance, Asset Management & ICT

**DATE:** September 9, 2019

**SUBJECT:** Investment Activities – Quarter ending June 30, 2019

**ORIGIN**

Quarterly report of investment performance and adherence to approved Investment Policy

**LEGISLATIVE AUTHORITY**

Section 121(1) of the HRM Charter requires that funds be invested pursuant to an Investment Policy adopted by Council and approved by the Minister of Municipal Affairs (the Minister) or invested pursuant to the Trustee Act. Where HRM has chosen to adopt an Investment Policy and the Minister has approved the Policy investment activities are governed by this Policy

**RECOMMENDATION**

It is recommended that the Audit and Finance Standing Committee forward this report to Halifax Regional Council as an information item

**BACKGROUND**

The Halifax Regional Municipality Investment Policy (the Policy) was adopted by Council April 23, 2002 and was approved by the Minister of Service Nova Scotia and Municipal Relations on May 14, 2002. This Ministerial position was later reorganized and now has the title the Minister of Municipal Affairs (the Minister).

The mandate of the Committee is to recommend an investment policy to Council as well as provide ongoing monitoring of investment activities. Following adoption and approval of the Policy, the activities of the Committee have shifted to the monitoring role as well as annual reviews of the Policy.

Amendments to the Policy, as recommended by the Investment Policy Advisory Committee (the Committee) were approved by Council and the Minister in 2005, 2007, 2008, 2010, 2017, and 2019. Reviews of the Policy by the Committee in 2012, 2014 and 2015 did not result in any recommended changes.

## **DISCUSSION**

The Investment Policy Advisory Committee is pleased to provide this report under the provisions of the Policy. The primary focus of this report will be to report on compliance with the objectives of the Policy.

The three objectives and three strategies of the Policy, stated in order of priority of importance, are as follows:

Objective:

1. Preservation of Capital
2. Liquidity
3. Competitive Return on Investments

Strategies:

4. Diversification of Investment Portfolio
5. Regular Review of Performance
6. Risk Management Approach

The Sector Weight schedule recommended under the 2019 Policy are attached.

At the Investment Policy Advisory Committee meeting of September 9<sup>th</sup>, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending June 30, 2019 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

## **Overall Results**

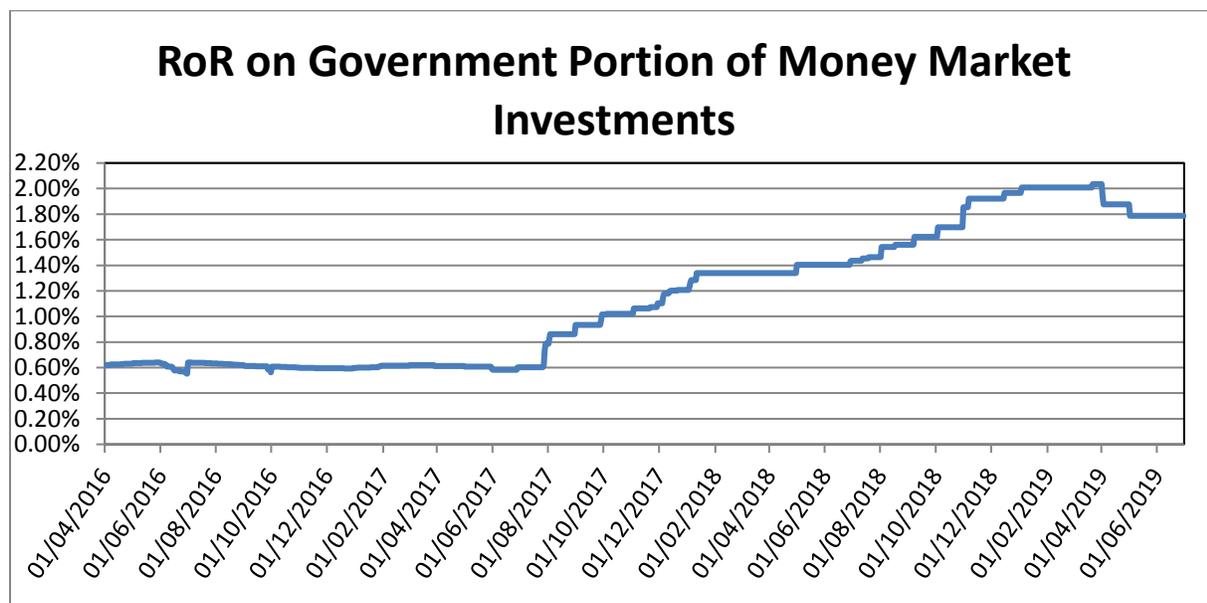
Operating fund investment income for the three months ending June 30, 2019 was \$1,162,917. The actual rate of return was 0.58% for the period.

## **HRM Investment Activities**

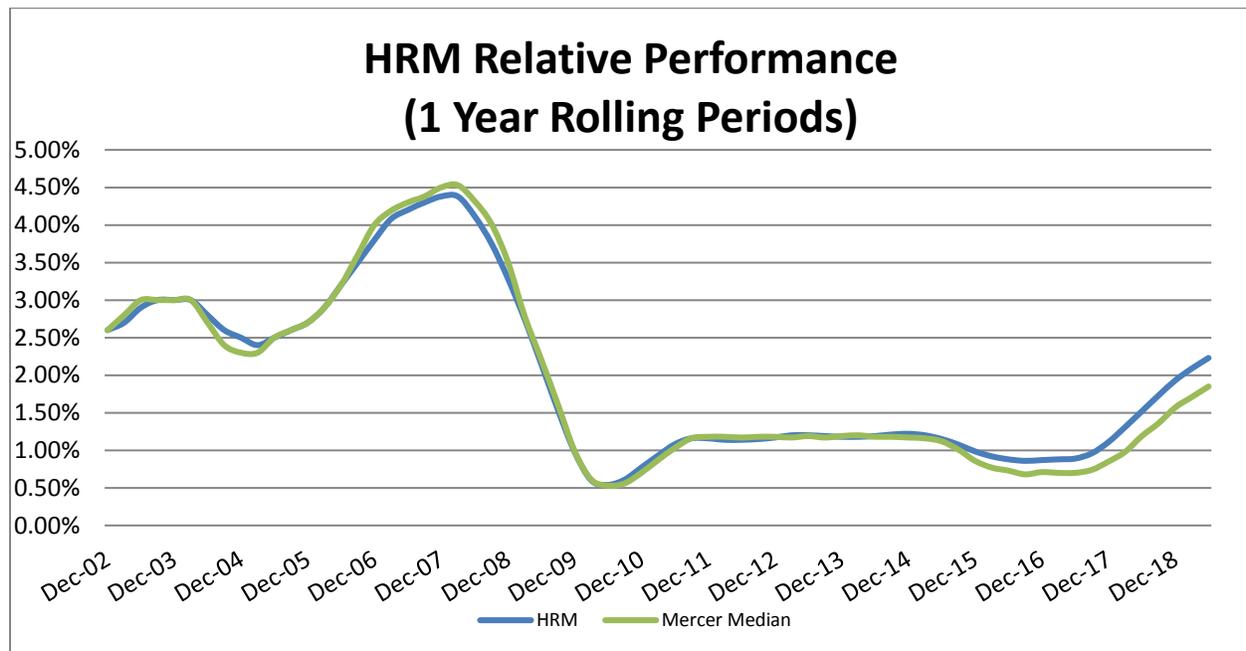
Mercer has discontinued its Investment Consulting Survey of Canadian Institutional Pooled Funds. HRM had been using this survey to compare returns with the industry. We have also been including the RBC Investor and Treasury Services Pooled Fund survey to the Investment Committee, which is very similar to the Mercer Survey. We will be using this survey going forward. Please see the table below with the results using the RBC Survey

Money Market Funds	3 Months (to Jun 30, 2019)	1 Year (to Jun 30, 2019)
5 <sup>th</sup> Percentile	0.53%	2.14%
1 <sup>st</sup> Quartile	0.50%	1.98%
Money Market Median	0.47%	1.85%
3 <sup>rd</sup> Quartile	0.44%	1.75%
95 <sup>th</sup> Percentile	0.36%	1.43%
Average Return	0.36%	1.84%
<b>HRM</b>	<b>0.58%</b>	<b>2.23%</b>

Relative performance continues to be positive; the 3 month and one-year returns exceed the 5th percentile. These returns are before any allowance for fees that could be paid for external management. The investment bank accounts continue to be largely responsible for this relative performance.



As shown in the graph below, over the longer term HRM investment performance closely matches the median with fee savings also accruing to HRM.



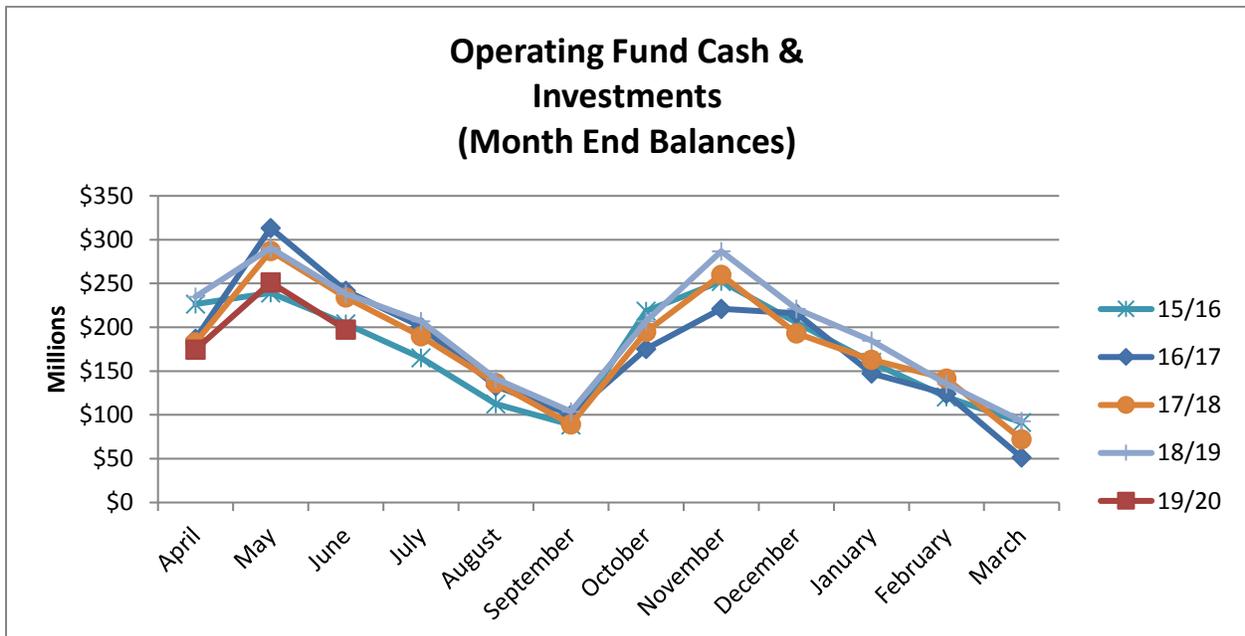
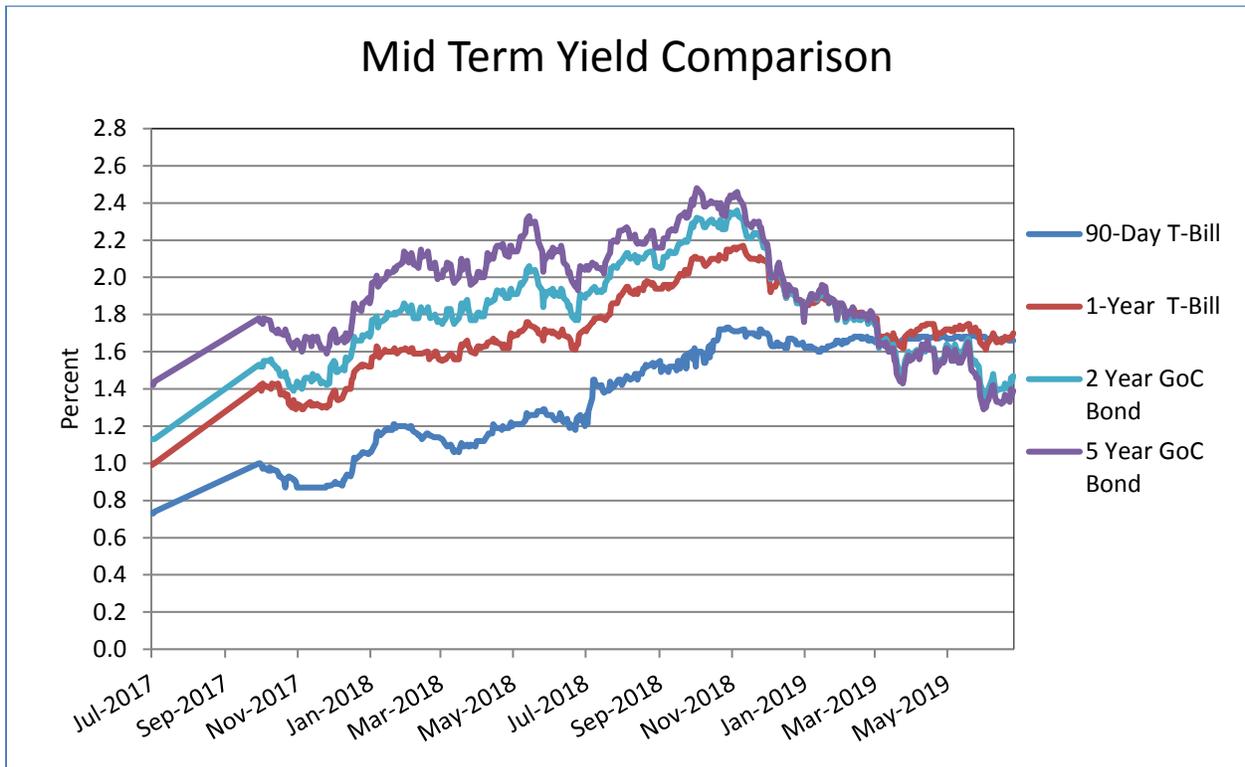
During the quarter, there were five money market investments made totaling \$127,712,600 with an average term to maturity of 290 days and an average cost of \$25,542,520. This compares to last year when 5 investments were made at a total cost of \$99,426,800 with an average term of 145 days and average individual investment cost of \$19,885,360. 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.

Funds held in the investment bank accounts, including term deposits, totaled \$362,052,060 by the end of the quarter. Using a rate of 1.86% as the three-month proxy for the BA and BDN rate, incremental income for the investment accounts over BA's and BDN's, was \$450,015 for the quarter. The income from our investments provided a quarterly return of 0.58%, and a 12 month return of 2.23%.

The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,749,294.87 including a \$180,613 increase during the quarter. An additional \$166,213 was realized over the quarter due to recent changes made to the investment policy that excludes operational cash requirements from the sector weights.

#### 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.



### Investment Policy Changes

As noted in the report from the previous quarter, we received ministerial approval for the proposed changes to the Investment Policy on April 24, 2019. The three significant changes to the policy are:

1. Re-balancing will be conducted semi-annually to coincide with cash inflows and will exclude operating cash requirements until the next re-balance
2. Increase counterparty limits for Provincial counterparties and Financial Institutions
3. Sector weight reporting will be consolidated for the total portfolio

The rebalancing that occurred in early May was done within the guidelines of the new Investment Policy.

### Subsequent to End of Reporting Quarter

There is some sentiment that the Bank of Canada may follow the US lead and cut the overnight lending rate in the coming months, but the Canadian economic indicators are generally pointing to steady growth belying the need for such a move. The Treasury team will continue to monitor.

### Outlook & Strategy

The investment bank accounts continue to provide effective rates of return when compared to instruments with similar risk. Specifically, these accounts are continuing to provide better returns than are available from BA's and government instruments.

### 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 5th percentile for the quarter ending June 30th, 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.

### **FINANCIAL IMPLICATIONS**

As discussed above, operating income for the three months ending June 30, 2019 was \$1,162,917 versus a budget of \$750,000. The actual rate of return was 0.58% for the period.

### **RISK CONSIDERATION**

There are no significant risks associated with the recommendations in this report.

### **COMMUNITY ENGAGEMENT**

Investment activities are reported quarterly to the Investment Policy Advisory Committee. The majority of members of this Committee (4 of 6) are volunteers from the general public. The Committee reports to the Audit and Finance Committee of Council quarterly on staff's compliance with the Investment Policy. In addition, the Committee conducts an annual review of the Investment Policy and makes recommendations for any changes considered appropriate.

### **ENVIRONMENTAL IMPLICATIONS**

N/A

### **ALTERNATIVES**

N/A

### **ATTACHMENTS**

Attachment 1 - Sector Weight Schedule @ June 30, 2019 (Schedule A)  
Appendix A - Economic Statistics and Central Bank Actions  
Appendix B - List of Eligible Investments  
Appendix C - DBRS Rating Scale

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A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Appendix A

Economic Statistics	Canada			US		
	Apr	May	Jun	Apr	May	Jun
Unemployment Rate	5.7%	5.4%	5.5%	3.6%	3.6%	3.7%
Jobs Created / (Lost) ('000's)	106.5	27.7	-2.2	216.0	72	224
Core Inflation Rate (year over year)	2.0%	2.4%	2.0%	2%	2.1%	2%

Date	Central Bank	Central Bank Action
Aug 1, 2018	U.S. Federal Open Market Committee	Maintained target range at 1.75%-2.00%.
Sept 5, 2018	Bank of Canada	Maintained overnight rate at 1.50%.
Sept 26, 2018	U.S. Federal Open Market Committee	Raised target range to 2.00%-2.25%.
Oct 24, 2018	Bank of Canada	Raised overnight rate to 1.75%.
Nov 8, 2018	U.S. Federal Open Market Committee	Maintained target range of 2.00%-2.25%.
Dec 5, 2018	Bank of Canada	Maintained overnight rate at 1.75%.
Dec 19, 2018	U.S. Federal Open Market Committee	Raised target range to 2.25% - 2.5%
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%

Appendix B

List of Eligible Investments

The Government of Canada & Its Guarantees:

Federal Government  
Business Development Bank  
Canada Mortgage & Housing Corporation  
Canadian Wheat Board  
Export Development Canada  
Farm Credit Corporation

Provincial Governments & Their Guarantees:

The Province of Alberta & Its Guarantees  
The Province of British Columbia & Its Guarantees  
The Province of Manitoba & Its Guarantees  
The Province of New Brunswick & Its Guarantees  
The Province of Ontario & Its Guarantees  
The Province of Quebec & Its Guarantees  
The Province of Saskatchewan & Its Guarantees  
The Province of Nova Scotia

Municipal Governments & Their Guarantees:

The Municipality of Calgary & Its Guarantees

Financial Institutions & Their Guarantees (Tier 1):

The Bank of Montreal & Its Guarantees  
The Bank of Nova Scotia & Its Guarantees  
Canadian Imperial Bank of Commerce & Its Guarantees  
Royal Bank of Canada & Its Guarantees  
Toronto Dominion Bank & Its Guarantees

Financial Institutions & Corporations (Tier 2):

Desjardins Group  
Caisse Centrale Desjardins  
CDP Financial Inc.  
National Bank of Canada  
OMERS Finance Trust

Appendix C

**Dominion Bond Rating Service (DBRS) Rating Scale**

**R-1 (high)**

Short-term debt rated R-1 (high) is of the highest credit quality, and indicates an entity possessing unquestioned ability to repay current liabilities as they fall due. Entities rated in this category normally maintain strong liquidity positions, conservative debt levels, and profitability that is both stable and above average. Companies achieving an R-1 (high) rating are normally leaders in structurally sound industry segments with proven track records, sustainable positive future results, and no substantial qualifying negative factors. Given the extremely tough definition DBRS has established for an R-1 (high), few entities are strong enough to achieve this rating.

**R-1 (middle)**

Short-term debt rated R-1 (middle) is of superior credit quality and, in most cases, ratings in this category differ from R-1 (high) credits by only a small degree. Given the extremely tough definition DBRS has established for the R-1 (high) category, entities rated R-1 (middle) are also considered strong credits, and typically exemplify above average strength in key areas of consideration for the timely repayment of short-term liabilities.

**R-1 (low)**

Short-term debt rated R-1 (low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

**Total Portfolio  
Sector Weights @ June 30, 2019**

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	%	Guideline Limit	%	Limit Available	%
<b>CASH &amp; EQUIVALENTS</b>							
<b>Federal Government &amp; its Guarantees</b>	<b>Open</b>	<b>0</b>	<b>0%</b>	<b>286,897,926</b>	<b>100%</b>	<b>286,897,926</b>	<b>60%</b>
Federal Government	Open	0	0%				
Business Development Bank	Open	0	0%				
Canada Mortgage & Housing Corp.	Open	0	0%				
Canadian Wheat Board	Open	0	0%				
Export Development Canada	Open	0	0%				
Farm Credit Corp	Open	0	0%				
<b>Provincial Governments &amp; their Guarantees</b>	<b>R-1 Mid or Greater</b>	<b>127,712,600</b>	<b>23%</b>	<b>286,897,926</b>	<b>100%</b>	<b>159,185,326</b>	<b>25%</b>
Total Alberta (R-1 High)	Open	0	0%	139,224,482	25%	139,224,481	25%
Alberta	Open	0					
Alberta Capital Finance Authority	Open	0					
Alberta Treasury Branches	Open	0					
British Columbia (R-1 High)	Open	34,698,650	6%	139,224,482	25%	104,525,832	19%
Manitoba (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
New Brunswick (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Nova Scotia (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Ontario (R-1 Mid)	Open	73,685,550	13%	139,224,482	25%	65,538,931	14%
Total Quebec (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	29%
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan (R-1 High)	Open	19,328,400	3%	139,224,482	25%	119,896,082	25%
<b>Municipal Governments &amp; their Guarantees*</b>	<b>R-1 Mid or Greater</b>	<b>0</b>	<b>0%</b>	<b>120,531,701</b>	<b>25%</b>	<b>120,531,701</b>	<b>25%</b>
Calgary (R-1 High)	Open		0%	55,689,793	10%	55,689,793	12%
<b>Financial Institutions &amp; their Guarantees /Corporations</b>		<b>354,414,205</b>		<b>413,448,963</b>		<b>59,034,758</b>	
	<b>BA's Schedule A Canadian Banks R-1</b>						
<b>Tier 1 - Financial Institutions &amp; their Guarantees</b>	<b>Mid</b>	<b>276,392,440</b>					
Bank of Montreal (R-1 High)	Open	84,300,648	15%	111,379,585	20%	27,078,937	5%
BMO - Instruments		0					
BMO - Account		84,300,648					
Bank of Nova Scotia (R-1 High)	Open	24,015,198	4%	111,379,585	20%	87,364,387	16%
Bank of Nova Scotia - Effective Cash		14,015,198					
Bank of Nova Scotia - Notice Account		10,000,000					
Canadian Imperial Bank of Commerce (R-1 High)	Open	103,557,585	19%	111,379,585	20%	7,822,000	1%
CIBC - Instruments		0					
CIBC - Account		103,557,585					
Royal Bank (R-1 High)	Open	15,245,801	3%	111,379,585	20%	96,133,784	17%
RBC - Instruments		0					
RBC - Account		15,245,801					
Toronto Dominion (R-1 High)	Open	49,273,207	9%	111,379,585	20%	62,106,378	11%
TD - Instruments		0					
TD - Account		49,273,207					
<b>Tier 2 - Financial Institutions &amp; Corporations</b>	<b>R-1 Mid/High***</b>	<b>78,021,764</b>					
National Bank of Canada (R-1 Mid)	Open	78,021,764	14%	83,534,689	15%	5,512,924	1%
National - Instruments		0	0%	83,534,689	15%	83,534,689	15%
National - Account		77,921,569	14%	83,534,689	15%	5,613,119	1%
OMERS Finance Trust (R-1 High)	Open	0	0%	83,534,689	15%	83,534,689	15%
CDP Financial Inc (R-1 High)	Open	0					
Desjardins Total		0					
Desjardins Group (R-1 High)	Open	0					
Caisse Centale Desjardins (R-1 High)	Open	0					
<b>Total Cash and Equivalents</b>		<b>482,126,805</b>	<b>23%</b>				
<b>Fixed (Bonds, etc. over one year)</b>							
<b>Federal Government &amp; its Guarantees</b>							
<b>Money Market</b>		<b>0</b>	<b>0%</b>	<b>556,897,926</b>	<b>100%</b>	<b>556,897,926</b>	<b>100%</b>
<b>Reserves - Bond Pool</b>		<b>0</b>	<b>0%</b>	<b>556,897,926</b>	<b>100%</b>	<b>417,673,445</b>	<b>75%</b>
Canada Mortgage & Housing Corp.		0	0%	556,897,926	100%	556,897,926	100%
<b>Provincial Gov'ts &amp; Guarantees</b>							
<b>Money Market</b>		<b>0</b>					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,481	25%
Alberta Capital Finance Authority		0	0%	139,224,482	25%	139,224,482	25%
Alberta Treasury Branches		0	0%	139,224,482	25%	139,224,482	25%
British Columbia (AA High)		0	0%	139,224,482	25%	104,525,832	19%
Manitoba (A High)		0	0%	139,224,482	25%	139,224,482	25%
New Brunswick (A High)		0	0%	139,224,482	25%	139,224,482	25%
Nova Scotia (A High)		0	0%	139,224,482	25%	139,224,482	25%
Ontario (AA Low)		0	0%	139,224,482	25%	65,538,931	12%
Quebec (A High)		0	0%	139,224,482	25%	139,224,482	25%
Quebec		0	0%	139,224,482	25%	139,224,482	25%
Financement Quebec		0	0%	139,224,482	25%	139,224,482	25%
Hydro Quebec		0	0%	139,224,482	25%	139,224,482	25%
Saskatchewan (AA)		0	0%	139,224,482	25%	119,896,082	22%
<b>Reserves - Bond Pool</b>		<b>0</b>					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,481	25%
Alberta Capital Finance Authority		0	0%	139,224,482	25%	139,224,482	25%
Alberta Treasury Branches		0	0%	139,224,482	25%	139,224,482	25%
British Columbia (AA High)		0	0%	139,224,482	25%	104,525,832	19%
Manitoba (A High)		0	0%	139,224,482	25%	139,224,482	25%
New Brunswick (A High)		0	0%	139,224,482	25%	139,224,482	25%
Nova Scotia (A High)		0	0%	139,224,482	25%	139,224,482	25%
Ontario (AA Low)		0	0%	139,224,482	25%	65,538,931	12%
Quebec (A High)		0	0%	139,224,482	25%	139,224,482	25%
Quebec		0	0%	139,224,482	25%	139,224,482	25%
Financement Quebec		0	0%	139,224,482	25%	139,224,482	25%
Total Investments		482,126,805					
Interest Bearing Bank Accounts - O/S Cheque Coverage		17,000,000	*				
<b>Total Investments and O/S Cheques Coverage</b>		<b>499,126,805</b>					