



P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 12.2.2
Audit & Finance Standing Committee
January 21, 2020

TO: Chair and Members of Audit & Finance Standing Committee

- Original Signed -

SUBMITTED BY:

Jacques Dubé, Chief Administrative Officer

DATE: December 9, 2019

SUBJECT: Investment Activities – Quarter ending September 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 December 9th, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending September 30, 2019 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

Overall Results

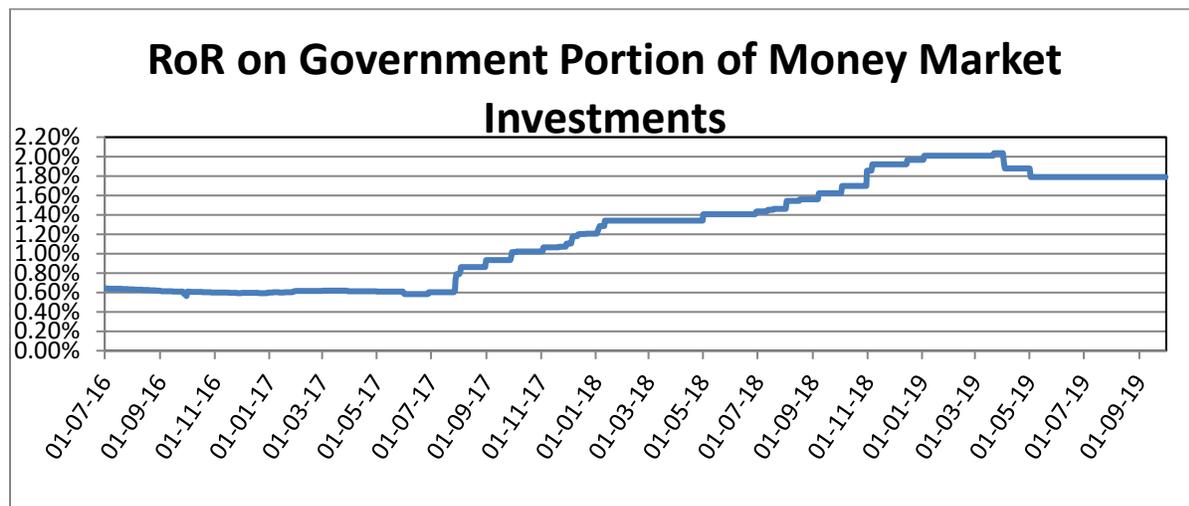
Operating fund investment income for the three months ending September 30, 2019 was \$1,112,484. The actual rate of return was 0.56% for the period.

HRM Investment Activities

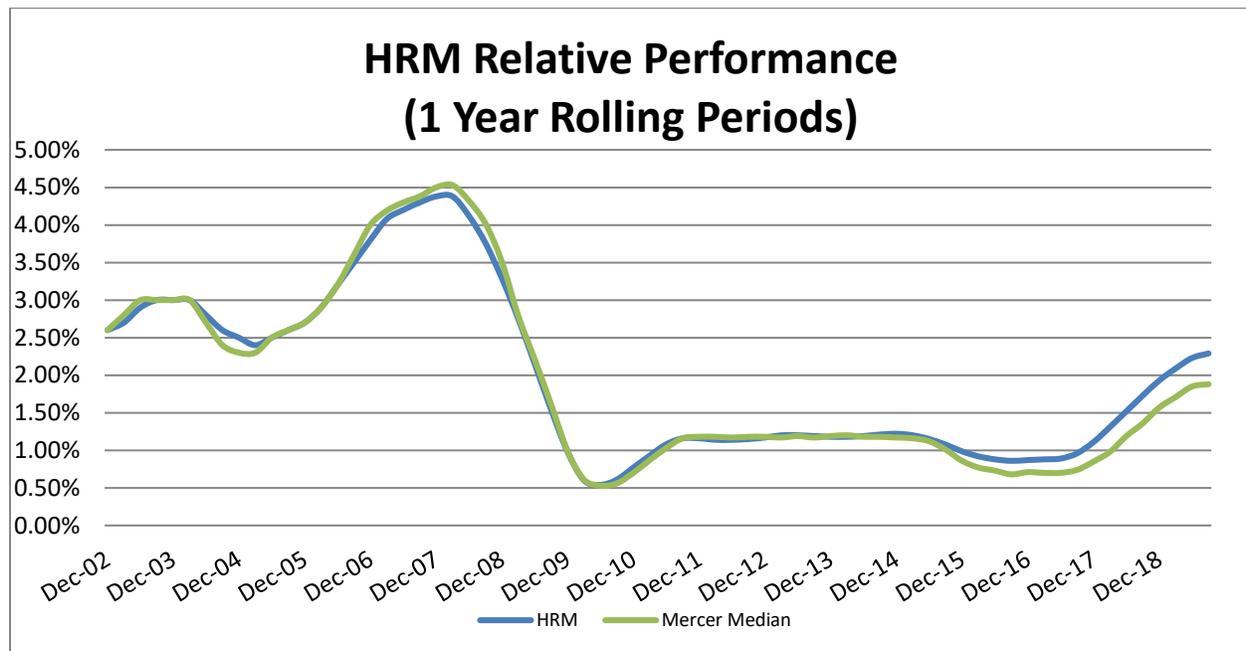
Mercer has discontinued its Investment Consulting Survey of Canadian Institutional Pooled Funds. HRM had been using this survey to compare returns with the industry. We have also been including the RBC Investor and Treasury Services Pooled Fund survey to the Investment Committee, which is very similar 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 Sept 30, 2019)	1 Year (to Sept 30, 2019)
5 th Percentile	0.51%	2.14%
1 st Quartile	0.47%	2.01%
Money Market Median	0.46%	1.88%
3 rd Quartile	0.44%	1.81%
95 th Percentile	0.37%	1.50%
Average Return	0.45%	1.87%
HRM Overall	0.56%	2.29%

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 no money market investments made. However, we carried existing investments into the quarter 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 2 investments were made at a total cost of \$20,209,259 with an average term of 153 days and average individual investment cost of \$10,104,629. There were no investments that matured during the quarter. 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.

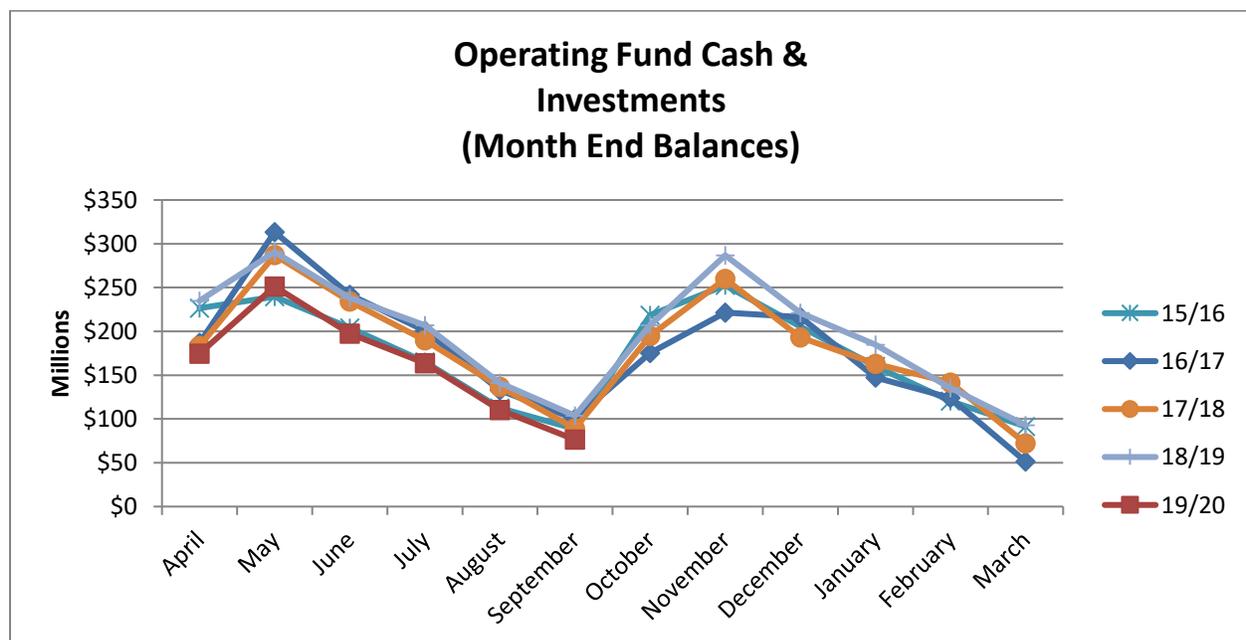
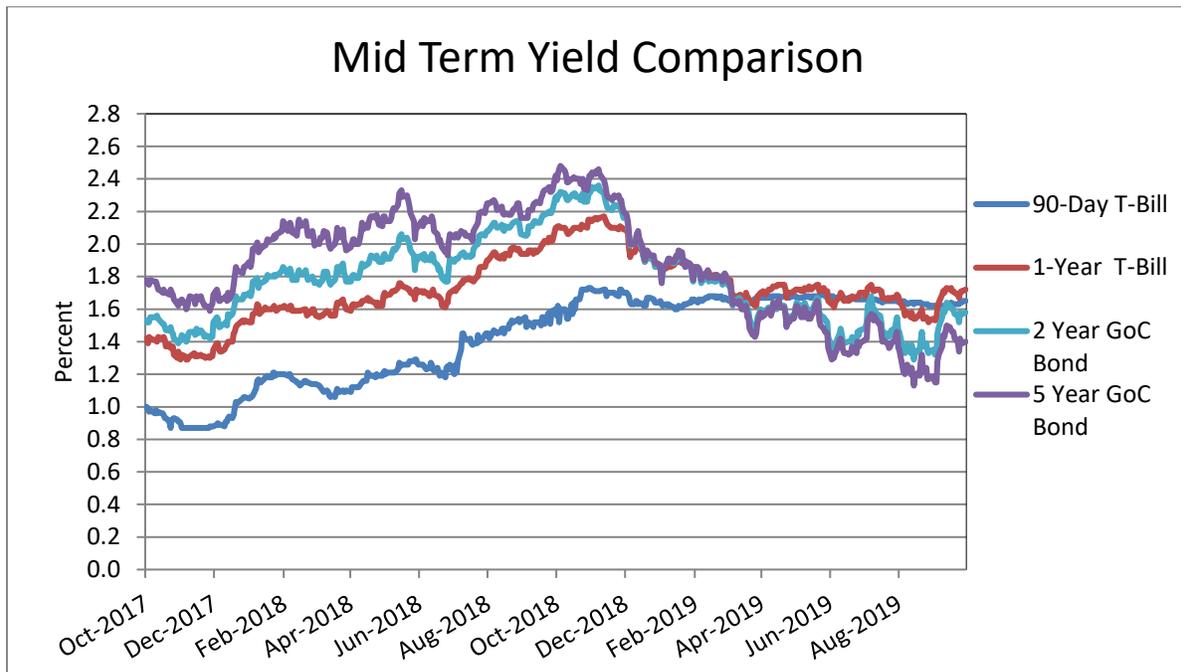
Funds held in the investment bank accounts, including term deposits, totaled \$204,974,889 at the end of the quarter, and an additional \$46,026,160 was held in current accounts. Incremental income for the investment accounts over BA's and BDN's, using a rate of 1.82% as the three-month proxy for the BA and BDN rates, was \$427,487 for the quarter. The income from our investment accounts to provide a quarterly return of 0.61%, and a 12 month return of 2.38%.

The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,909,506 including a \$160,211 increase during the quarter. An additional \$251,251 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 \$417,464.

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 – October 2017 to September 2019



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 September 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 September 30, 2019 was \$1,112,484 versus a budget of \$750,000 due to higher cash flows than anticipated. The actual rate of return was 0.56% 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

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

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Vicki Robertson, CPA, CGA, Deputy Treasurer, 902-817-1479

Appendix A

Economic Statistics	Canada			US		
	Jul	Aug	Sept	Jul	Aug	Sept
Unemployment Rate	5.7%	5.7%	5.5%	3.7%	3.7%	3.5%
Jobs Created / (Lost) ('000's)	(24.2)	81.1	53.7	166.0	219.0	180.0
Core Inflation Rate (year over year)	2.0%	1.9%	1.9%	1.8%	1.7%	1.7%

Date	Central Bank	Central Bank Action
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 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
May 1 st , 2019	U.S. Federal Open Market Committee	Maintained target range to 2.25% - 2.5%
May 29 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%.
June 29 th , 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 th , 2019	Bank of Canada	Maintained overnight rate at 1.75%
Sept 18 th , 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%

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 @ September 30, 2019

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	%	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS							
Federal Government & its Guarantees	Open	0	0%	286,897,926	100%	286,897,926	80%
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%				
Provincial Governments & their Guarantees	R-1 Mid or Greater	127,712,600	23%	286,897,926	100%	159,185,326	25%
Total Alberta (R-1 High)	Open	0	0%	139,224,482	25%	139,224,482	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	39%
New Brunswick (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	39%
Nova Scotia (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	39%
Ontario (R-1 Mid)	Open	73,685,550	13%	139,224,482	25%	65,538,932	18%
Total Quebec (R-1 Mid)	Open	0	0%	139,224,482	25%	139,224,482	39%
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan (R-1 High)	Open	19,328,400	3%	139,224,482	25%	119,896,082	33%
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	0%	89,839,620	25%	89,839,620	25%
Calgary (R-1 High)	Open		0%	55,689,793	10%	55,689,793	15%
Financial Institutions & their Guarantees /Corporations		231,645,880		413,448,963		181,803,083	
	BA's Schedule A						
	Canadian Banks R-1						
Tier 1 - Financial Institutions & their Guarantees	Mid	173,146,076					
Bank of Montreal (R-1 High)	Open	10,648,636	2%	111,379,585	20%	100,730,949	18%
BMO - Instruments		0					
BMO - Account		10,648,636					
Bank of Nova Scotia (R-1 High)	Open	26,670,992	5%	111,379,585	20%	84,708,593	15%
Bank of Nova Scotia - Effective Cash		16,670,992					
Bank of Nova Scotia - Notice Account		10,000,000					
Canadian Imperial Bank of Commerce (R-1 High)	Open	76,196,220	14%	111,379,585	20%	35,183,365	6%
CIBC - Instruments		0					
CIBC - Account		76,196,220					
Royal Bank (R-1 High)	Open	10,357,020	2%	111,379,585	20%	101,022,565	18%
RBC - Instruments		0					
RBC - Account		10,357,020					
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					
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	58,499,805					
National Bank of Canada (R-1 Mid)	Open	58,499,805	11%	83,534,689	15%	25,034,884	4%
National - Instruments		0	0%	83,534,689	15%	83,534,689	15%
National - Account		58,399,610	10%	83,534,689	15%	25,135,079	5%
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					
		359,358,480	23%				
Total Cash and Equivalents							
<u>Fixed (Bonds, etc. over one year)</u>							
Federal Government & its Guarantees							
Money Market			0%	556,897,926	100%	556,897,926	100%
Reserves - Bond Pool		0	0%	556,897,926	100%	417,673,445	75%
Canada Mortgage & Housing Corp.		0	0%	556,897,926	100%	556,897,926	100%
Provincial Gov'ts & Guarantees							
Money Market		0					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,482	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%	65,538,932	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%
Reserves - Bond Pool		0					
Alberta (AAA)		0	0%	139,224,482	25%	139,224,482	25%
Alberta		0	0%	139,224,482	25%	139,224,482	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%	65,538,932	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		359,358,480					
Interest Bearing Bank Accounts - O/S Cheque Coverage		23,000,000	*				
Total Investments and O/S Cheques Coverage		382,358,480					