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Item No. 12.2.1 (a)
Audit & Finance Standing Committee
Special Meeting
January 19, 2021

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: *-Original Signed-*

Jacques Dubé, Chief Administrative Officer

-Original Signed-

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

DATE: March 2, 2020

SUBJECT: Investment Activities – Quarter ending December 31, 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 is attached.

At the Investment Policy Advisory Committee meeting of March 2, 2020, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending December 31, 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 December 31, 2019 was \$1,209,396. The actual rate of return was 0.56% for the period.

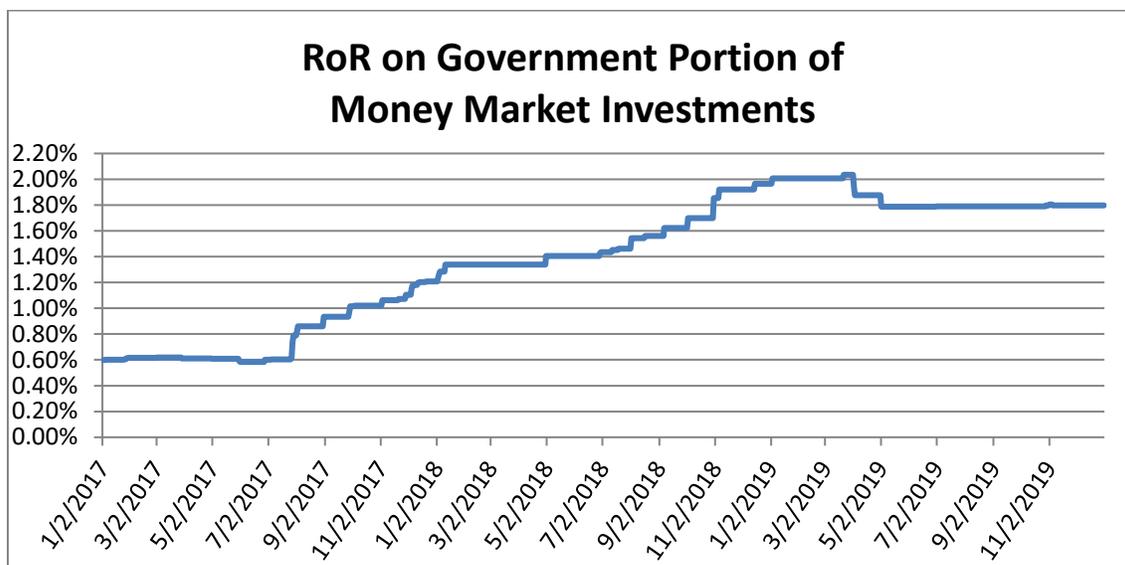
HRM Investment Activities

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

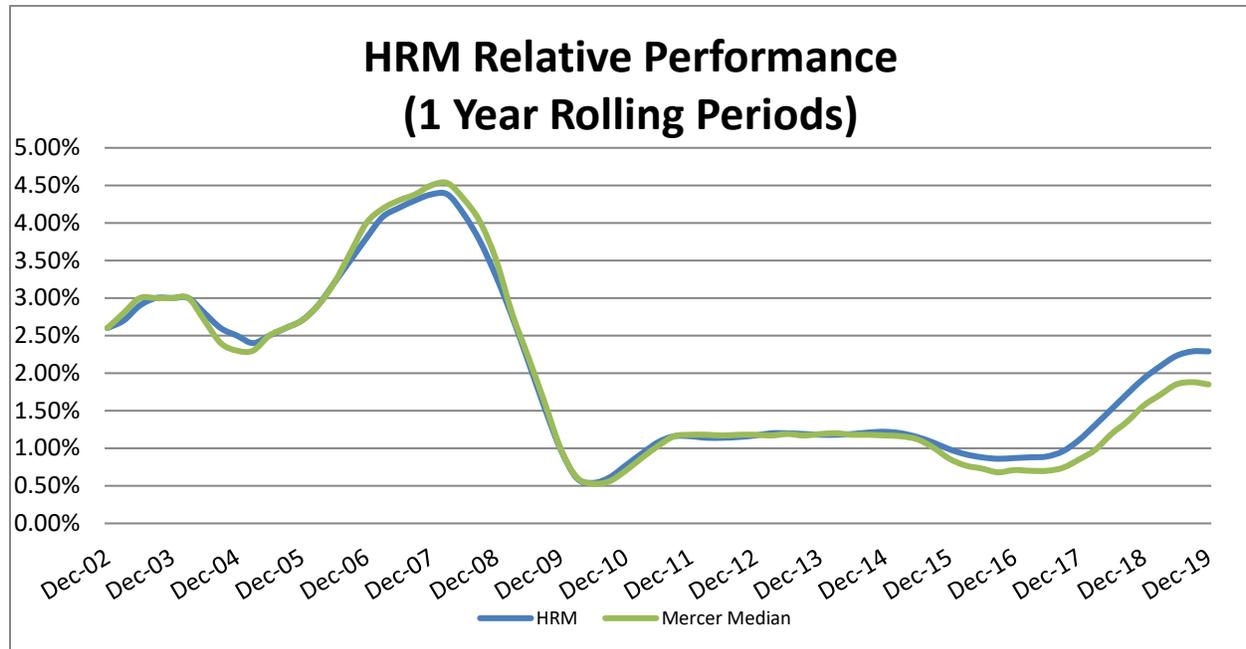
the Mercer Survey. We will be using this survey going forward. Please see the table below with the results using the RBC Survey

Money Market Funds	3 Months (to Dec 31, 2019)	1 Year (to Dec 31, 2019)
5 th Percentile	0.49%	2.09%
1 st Quartile	0.46%	1.95%
Money Market Median	0.44%	1.85%
3 rd Quartile	0.42%	1.79%
95 th Percentile	0.39%	1.51%
Average Return	0.44%	1.85%
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 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. 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.

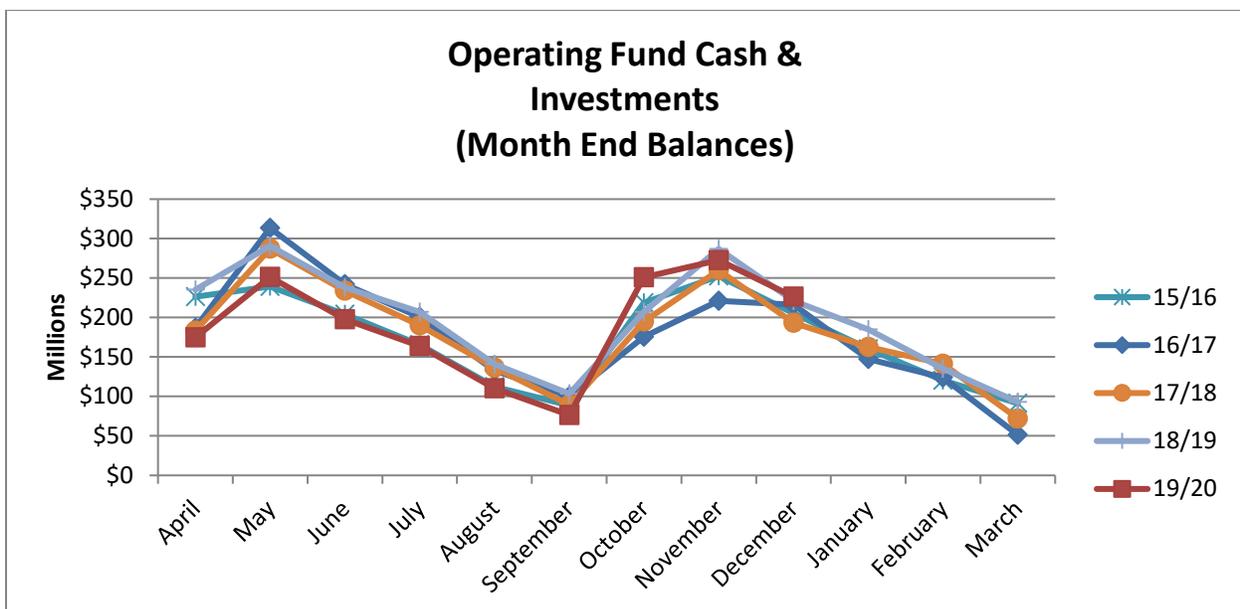
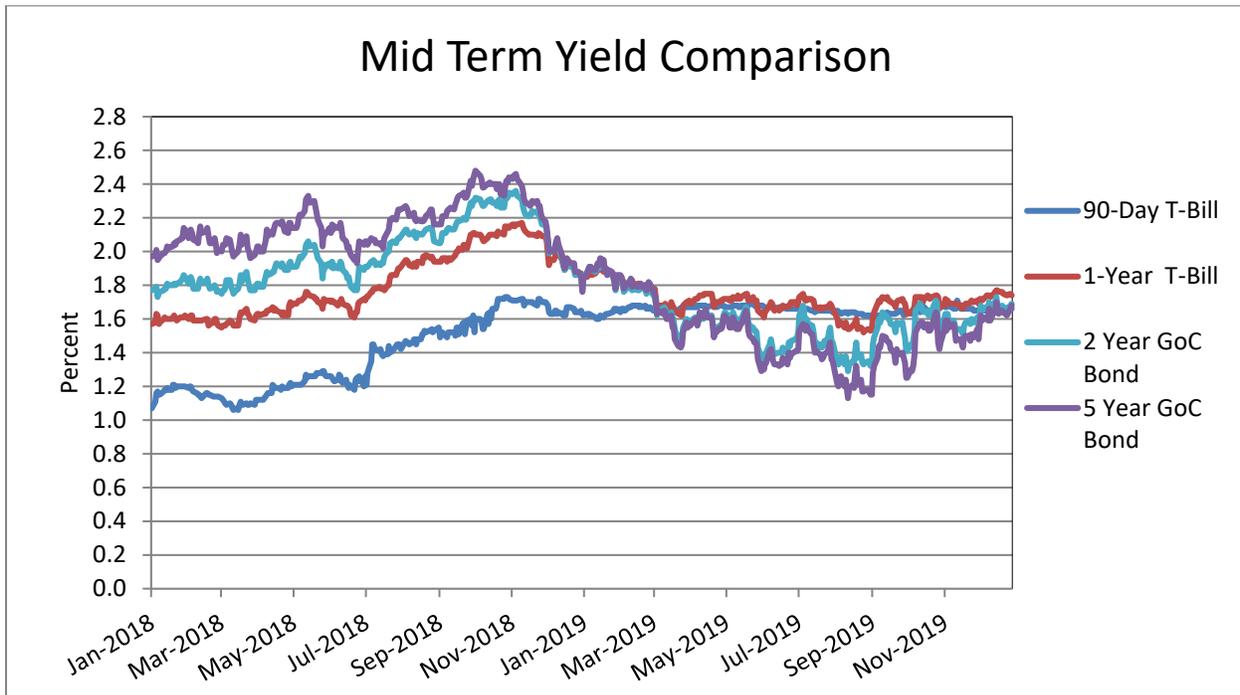
Funds held in the investment bank accounts, including term deposits, totaled \$372,055,640 at the end of the quarter. Incremental income for the investment accounts over BA's and BDN's, using a rate of 1.87% as the three-month proxy for the BA and BDN rates, was \$470,645 for the quarter. The income 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



Subsequent to End of Reporting Quarter

The Bank of Canada continues to maintain the overnight rate at 1.75%. Recently, the Bank noted a slowdown in the last quarter of 2019 and anticipates it will continue into early 2020. Moderate growth is projected for the latter part of 2020 and continue in 2021; however, a rate cut is anticipated in the coming months. 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 December 31st, 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 December 31, 2019 was \$1,209,396 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

Attachment 1 - Sector Weight Schedule @ December 31, 2019 (Schedule A)

Appendix A - Economic Statistics and Central Bank Actions

Appendix B - List of Eligible Investments

Appendix C - DBRS Rating Scale

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.

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Attachment 1

Total Portfolio Sector Weights @Dec 31, 2019

SCHEDULE A

Category	Status	Cumulative Amount Invested @ Book Value	% of Portfolio	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS							
Federal Government & its Guarantees	Open	0	0%	512,536,774	100%	512,536,774	100%
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	121,541,416	24%	512,536,774	100%	390,995,358	76%
Total Alberta (R-1 High)	Open	5,305,824	1%				
Alberta (R-1 High)	Open	5,305,824					
Alberta Capital Finance Authority (R-1 High)	Open	0					
Alberta Treasury Branches (R-1 High)	Open	0					
British Columbia (R-1 High)	Open	0	0%				
Manitoba (R-1 Mid)	Open	0	0%				
New Brunswick (R-1 Mid)	Open	0	0%				
Nova Scotia (R-1 Mid)	Open	0	0%				
Ontario (R-1 Mid)	Open	83,510,150	16%				
Quebec (R-1 Mid)	Open	32,725,442	6%				
Quebec		32,725,442					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan (R-1 High)	Open	0	0%				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	0%	128,134,193	25%	128,134,193	25%
Calgary (R-1 High)	Open	0	0%	51,253,677	10%	51,253,677	10%
Financial Institutions & their Guarantees /Corporations		390,988,948	76%	256,268,387	50%	-134,720,561	-26%
BA's Schedule A							
Canadian Banks R-1							
Tier 1 - Financial Institutions & their Guarantees	Mid	325,118,928	63%	256,268,387	50%	-68,850,541	-13%
Bank of Montreal (R-1 High)	Open	99,933,305	19%				
BMO - Instruments		0					
BMO - Account		99,933,305					
Bank of Nova Scotia (R-1 High)	Open	18,933,308	4%				
Bank of Nova Scotia Effective Cash		8,933,308					
Bank of Nova Scotia - Notice Account		10,000,000					
Canadian Imperial Bank of Commerce (R-1 High)	Open	100,767,035	20%				
CIBC - Instruments		0					
CIBC - Account		100,767,035					
Royal Bank (R-1 High)	Open	70,526,087	14%				
RBC - Instruments		0					
RBC - Account		70,526,087					
Toronto Dominion (R-1 High)	Open	34,959,193	7%				
TD - Instruments		0					
TD - Account		34,959,193					
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	65,870,019	13%	128,134,193	25%	62,264,174	12%
National Bank of Canada (R-1 Mid)	Open	65,870,019	13%				
OMERS Realty Corporation (R-1 High)	Open	0	0%				
CDP Financial Inc (R-1 High)	Open	0	0%				
Desjardins Total		0	0%				
Desjardins Group (R-1 High)	Open	0					
Caisse Centale Desjardins (R-1 High)	Open	0					
Total Cash and Equivalents		512,530,364	100%				
Federal Government & its Guarantees							
Money Market		0	0%	69,043,697	20%	69,043,697	20%
Reserves - Bond Pool		0	0%	163,944,195	100%	163,944,195	100%
Canada Mortgage & Housing Corp.		0	0%	163,944,195	100%	163,944,195	100%
Provincial Government & their Guarantees		0	0%	69,043,697	20%	69,043,697	20%
Money Market		0	0%	69,043,697	20%	36,254,858	11%
Alberta		0	0%	34,521,849	10%	34,521,849	10%
Alberta		0					
Alberta Capital Finance Authority		0					
Alberta Treasury Branches		0					
British Columbia		0	0%	34,521,849	10%	34,521,849	10%
Manitoba		0	0%	34,521,849	10%	34,521,849	10%
New Brunswick		0	0%	34,521,849	10%	34,521,849	10%
Nova Scotia		0	0%	34,521,849	10%	34,521,849	10%
Ontario		0	0%	34,521,849	10%	34,521,849	10%
Quebec		0	0%	34,521,849	10%	34,521,849	10%
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan		0	0%	34,521,849	10%	34,521,849	10%
Bond Pool		0	0%	32,788,839	20%	32,788,839	20%
Alberta		0	0%	16,394,420	10%	16,394,420	10%
Alberta		0					
Alberta Capital Finance Authority		0					
Alberta Treasury Branches		0					
British Columbia		0	0%	16,394,420	10%	16,394,420	10%
Manitoba		0	0%	16,394,420	10%	16,394,420	10%
New Brunswick		0	0%	16,394,420	10%	16,394,420	10%
Nova Scotia		0					
Ontario		0	0%	16,394,420	10%	16,394,420	10%
Quebec		0	0%	16,394,420	10%	16,394,420	10%
Quebec		0	0%	16,394,420	10%	16,394,420	10%
Financement Quebec		0	0%	16,394,420	10%	16,394,420	10%
Hydro Quebec		0	0%	16,394,420	10%	16,394,420	10%
Saskatchewan		0	0%	16,394,420	10%	16,394,420	10%
Total Fixed		0	0%	32,788,839	20%	32,788,839	20%
Equities							
Bank of Montreal		6,410					
Total Equities		6,410					
Total Investments		512,536,774					
Interest Bearing Bank Accounts - O/S Cheque Coverage		41,000,000	*				
Total Investments and O/S Cheques Coverage		553,536,774					

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 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%
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%

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

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.