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Item No. 12.2.1
Audit & Finance Standing Committee
Special Meeting
March 25, 2021

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: *-Original Signed-*

Jane Fraser, CFO / Director, Finance, Asset Management & ICT
-Original Signed-

Jacques Dubé, Chief Administrative Officer

DATE: March 8, 2021

SUBJECT: Investment Activities – Quarter ending December 31, 2020

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, 2019, and 2020. Reviews of the Policy by the Committee in 2012, 2014, 2015, and 2020 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 8, 2021, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending December 31, 2020 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 3 months ending December 31, 2020 was \$386,240 versus an original budget of \$187,500. The actual rate of return for the quarter was 0.19%.

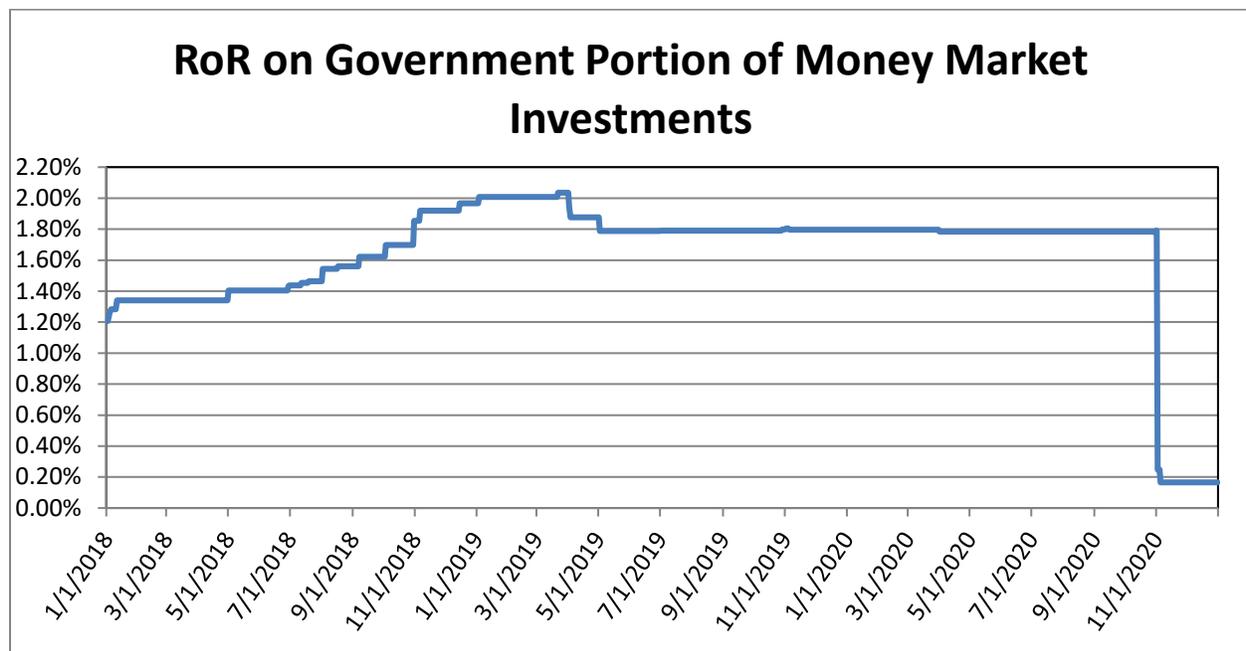
HRM Investment Activities

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

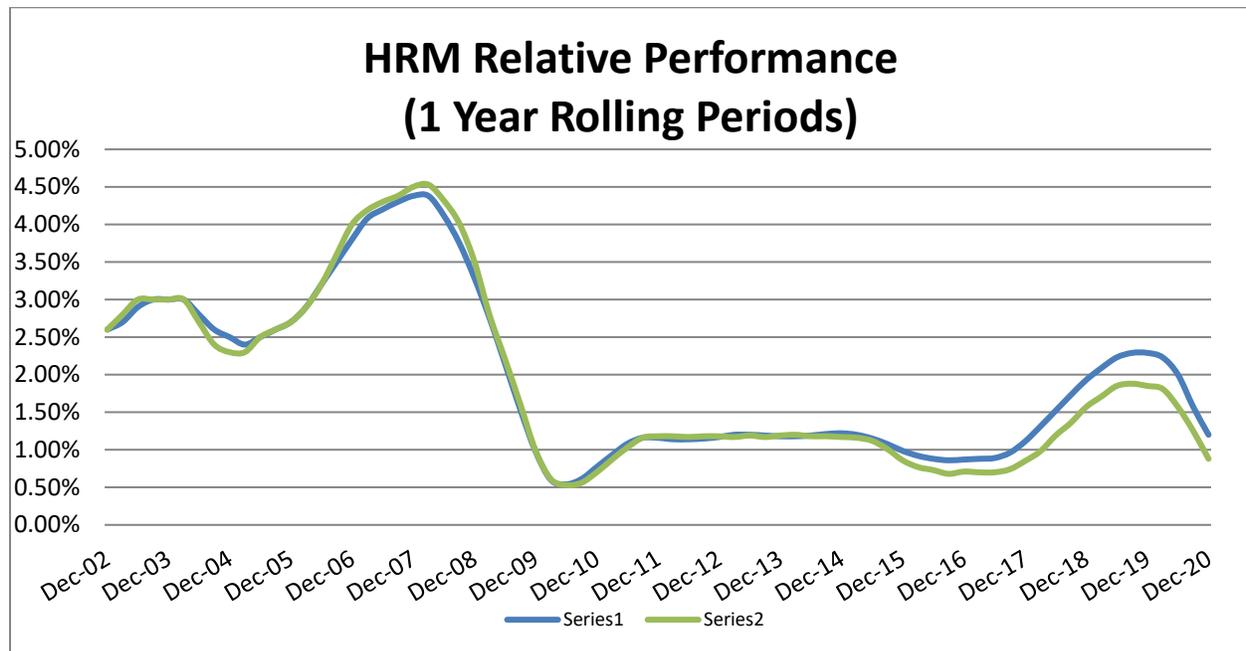
the Mercer Survey. We will be using this survey going forward. Please see the table below with the results using the RBC Survey

Money Market Funds	3 Months (to Dec 30, 2020)	1 Year (to Dec 30, 2020)
Average Return	0.08%	0.88%
5 th Percentile	0.15%	1.21%
1 st Quartile	0.10%	1.02%
Money Market Median	0.07%	0.88%
3 rd Quartile	0.05%	0.75%
95 th Percentile	0.03%	0.53%
HRM Overall	0.19%	1.20%

Relative performance continues to be positive as we note the three-month return for the quarter exceeds the 5th percentile. The one-year return exceeds the median. 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 in the period with a total value of \$231,759,860, an average cost of \$46,351,972, and original average term of 177 days. This compares to last year when there were three money market investments made with a total cost of \$47,855,866, an average cost of \$15,951,955 and an average term to maturity of 362 days. 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.

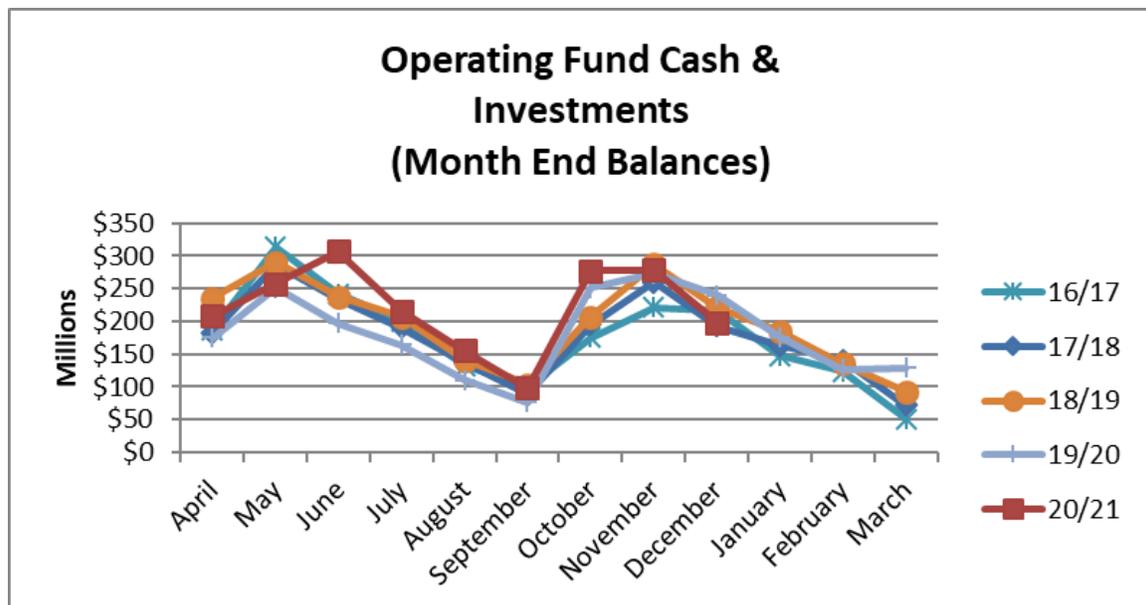
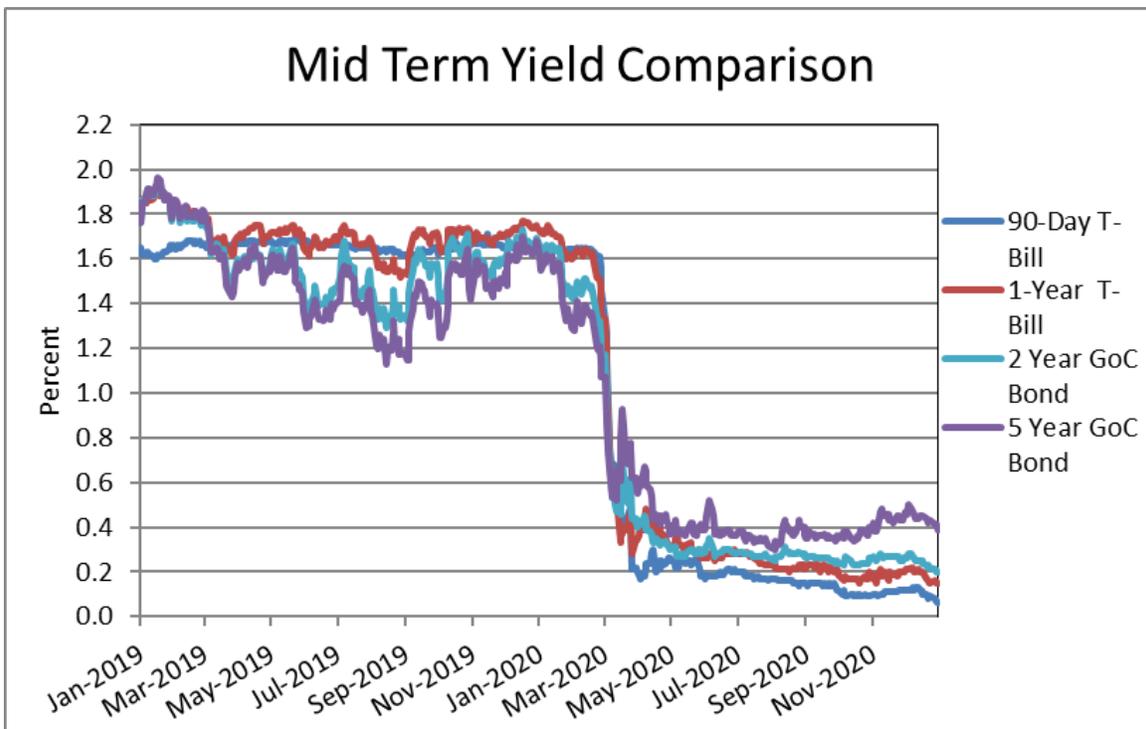
Funds held in the investment bank accounts, including term deposits, totaled \$384,046,834 at the end of the quarter. This balance represents all HRM funds for which we invest including Halifax Water and other related agencies, reserve funds, and operating funds. Using 0.24% as the proxy for the Banker's Acceptance (BA) and Bearer Deposit Notes (BDN) average annual yield for the three months, incremental income in the investment accounts was \$701,442 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.22%, annualized to 0.88%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,029,513 including a \$164,809 increase during the two quarters of the reporting period. An additional \$554,284 was realized over the reporting period 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 \$2,226,233.

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 2019 to December 2020



Subsequent to End of Reporting Quarter

The Bank of Canada continues to maintain the overnight rate at 25 basis points. Guidance remains consistent that the rate will remain at its current level until inflation reaches the target 2%, and that is projected to be in 2023.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. As noted, the current outlook indicates the rate will remain at its lower bound of 0.25% for the next two years.

The investment bank accounts provide effective rates of return when compared to instruments with similar risk, even in the current low-interest environment. The strategy remains to maximize returns by leveraging HISA accounts, keeping in mind that their liquidity adds a safety factor.

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 exceeded the median for the quarter ending December 31, 2020 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 investment income for the three months ending December 31, 2020 was \$386,240 versus an original budget of \$187,500 due to higher cash flows than anticipated. The actual rate of return was 0.19% 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, 2020 (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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**Total Portfolio
Sector Weights @ December 31, 2020**

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	% of Portfolio	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS							
Federal Government & its Guarantees	Open	0	0%	641,650,139	100%	641,650,139	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	231,759,860	36%	641,650,139	100%	409,890,279	64%
Total Alberta (R-1 High)	Open	12,994,280	2%				
Alberta (R-1 High)	Open	12,994,280					
Alberta Capital Finance Authority (R-1 High)	Open	0					
Alberta Treasury Branches (R-1 High)	Open	0					
British Columbia (R-1 High)	Open	41,966,820	7%				
Manitoba (R-1 Mid)	Open	39,988,800	6%				
New Brunswick (R-1 Mid)	Open	0	0%				
Nova Scotia (R-1 Mid)	Open	0	0%				
Ontario (R-1 Mid)	Open	136,809,960	21%				
Quebec (R-1 Mid)	Open	0	0%				
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan (R-1 High)	Open	0	0%				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	0%	160,412,535	25%	160,412,535	25%
Calgary (R-1 High)	Open			64,165,014	10%	64,165,014	10%
Financial Institutions & their Guarantees /Corporations		409,883,869	64%	457,825,070	50%	47,941,201	7%
	BA's Schedule A						
	Canadian Banks R-1						
Tier 1 - Financial Institutions & their Guarantees	Mid	409,738,860	64%	457,825,070	50%	48,086,210	7%
Bank of Montreal (R-1 High)	Open	99,905,793	16%				
BMO - Instruments		0					
BMO - Account		99,905,793					
Bank of Nova Scotia (R-1 High)	Open	25,837,035	4%				
Bank of Nova Scotia Effective Cash		15,837,035					
Bank of Nova Scotia - Notice Account		10,000,000					
Canadian Imperial Bank of Commerce (R-1 High)	Open	74,251,962	12%				
CIBC - Instruments		0					
CIBC - Account		74,251,962					
Royal Bank (R-1 High)	Open	119,516,129	19%				
RBC - Instruments		0					
RBC - Account		119,516,129					
Toronto Dominion (R-1 High)	Open	90,227,940	14%				
TD - Instruments		0					
TD - Account		90,227,940					
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	145,010	0%	160,412,535	25%	160,267,525	25%
National Bank of Canada (R-1 Mid)	Open	145,010	0%				
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		641,643,729	100%				
Federal Government & its Guarantees							
Money Market		0	0%	94,866,370	20%	94,866,370	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%	94,866,370	20%	94,866,370	20%
Money Market		0	0%	94,866,370	20%	62,077,531	13%
Alberta		0	0%	47,433,185	10%	47,433,185	10%
Alberta		0					
Alberta Capital Finance Authority		0					
Alberta Treasury Branches		0					
British Columbia		0	0%	47,433,185	10%	47,433,185	10%
Manitoba		0	0%	47,433,185	10%	47,433,185	10%
New Brunswick		0	0%	47,433,185	10%	47,433,185	10%
Nova Scotia		0	0%	47,433,185	10%	47,433,185	10%
Ontario		0	0%	47,433,185	10%	47,433,185	10%
Quebec		0	0%	47,433,185	10%	47,433,185	10%
Quebec		0					
Financement Quebec		0					
Hydro Quebec		0					
Saskatchewan		0	0%	47,433,185	10%	47,433,185	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		641,650,139					
Interest Bearing Bank Accounts - O/S Cheque Coverage		52,000,000	*				
Total Investments and O/S Cheques Coverage		693,650,139					

Appendix A

Economic Statistics	Canada			United States		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	8.9%	8.5%	8.6%	6.9%	6.7%	6.7%
Jobs Created / (Lost) ('000's)	83.6	62.0	(62.6)	680	264	(227)
Core Inflation Rate (year over year)	0.7%	1.0%	0.7%	0.1%	0.2%	0.2%

Date	Central Bank	Central Bank Action
Mar 3, 2020	U.S. Federal Open Market Committee	Lowered target range to 1.0% to 1.25%
Mar 4, 2020	Bank of Canada	Lowered overnight rate to 1.25%
Mar 13, 2020	Bank of Canada	Lowered overnight rate to .075%
Mar 15, 2020	U.S. Federal Open Market Committee	Lowered target range to 0.0% to 0.25%
Mar 27, 2020	Bank of Canada	Lowered overnight rate to 0.25%
Apr 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Apr 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
June 3, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Jun 10, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
July 15, 2020	Bank of Canada	Maintains overnight rate at 0.25%
July 29, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Oct 28, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Nov 5, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Dec 9, 2020	Bank of Canada	Maintains overnight rate at 0.25%
Dec 26, 2020	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jan 20, 2021	Bank of Canada	Maintains overnight rate at 0.25%

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.