



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

Item No.12.2.2
Audit & Finance Standing Committee
January 19, 2022

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: - Original Signed -
Jacques Dubé, Chief Administrative Officer

DATE: December 6, 2021

SUBJECT: Investment Activities – Quarter ending September 30, 2021

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 & 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, 2015, 2020 and 2021 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:

1. Diversification of Investment Portfolio
2. Regular Review of Performance
3. Risk Management Approach

The Sector Weight schedule is attached.

At the Investment Policy Advisory Committee meeting of December 6, 2021, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending September 30, 2021 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 September 30, 2021 was \$306,473 versus an original budget of \$187,500. The actual rate of return for the quarter was 0.16%. Total investment income for the portfolio was \$1,141,119 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

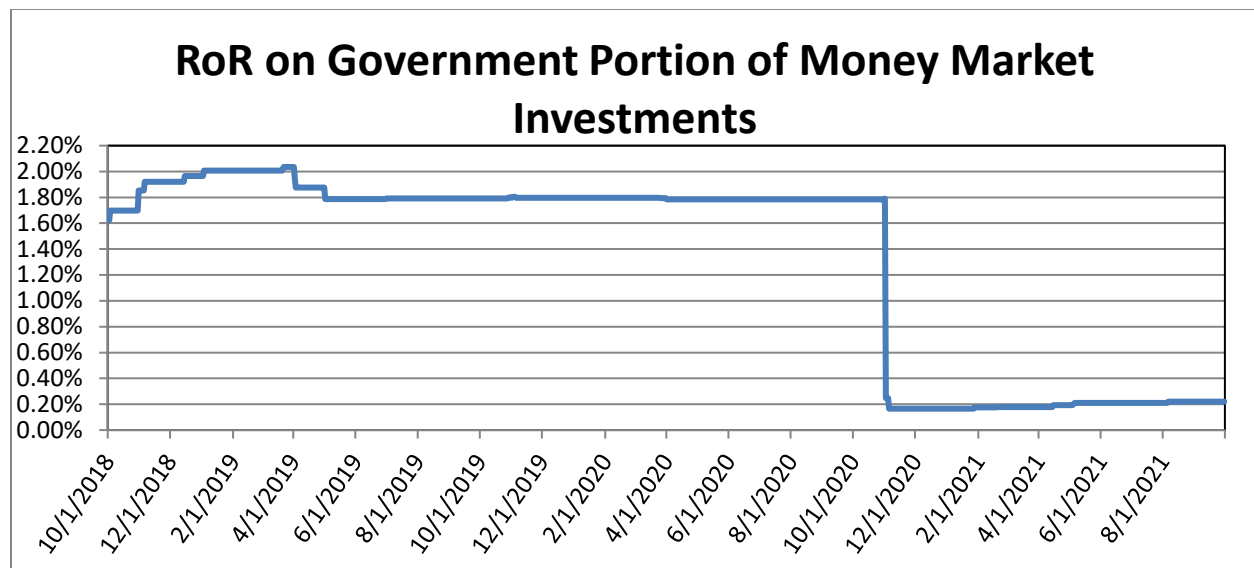
HRM Investment Activities

The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 24 pooled Canadian money market funds. These funds generally feature Canadian government short-term

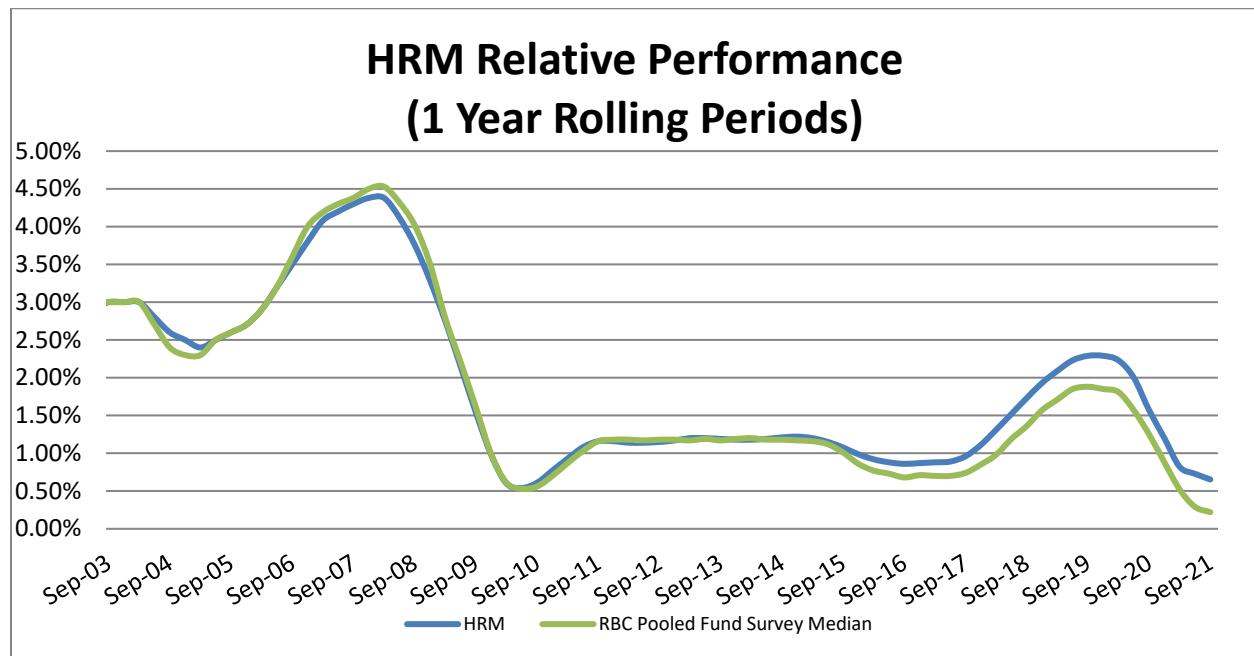
instruments as their primary holding. The duration of the instruments held vary based on current market conditions. Please see the table below with the results using this benchmark.

Money Market Funds	3 Months (to Sept 30, 2021)	1 Year (to Sept 30, 2021)
Average Return	0.05%	0.22%
5 th Percentile	0.09%	0.44%
1 st Quartile	0.06%	0.30%
Money Market Median	0.05%	0.22%
3 rd Quartile	0.03%	0.15%
95 th Percentile	(0.00%)	(0.07%)
HRM Overall	0.16%	0.33%

Overall performance continues to be positive as we note both the three-month and one-year return exceeds the 5th percentile and 1st quartile respectively. 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 benchmark median with fee savings also accruing to HRM.



During the quarter, there was one money market investment made, one investment maturity and five investments carried from the prior period with a total ending value of \$155,610,221, an average cost of \$31,122,044, and an original average term of 259 days. This compares to the same period last year when we carried three investments into the period with a total cost of \$47,855,866, average cost of \$15,951,955 and 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.

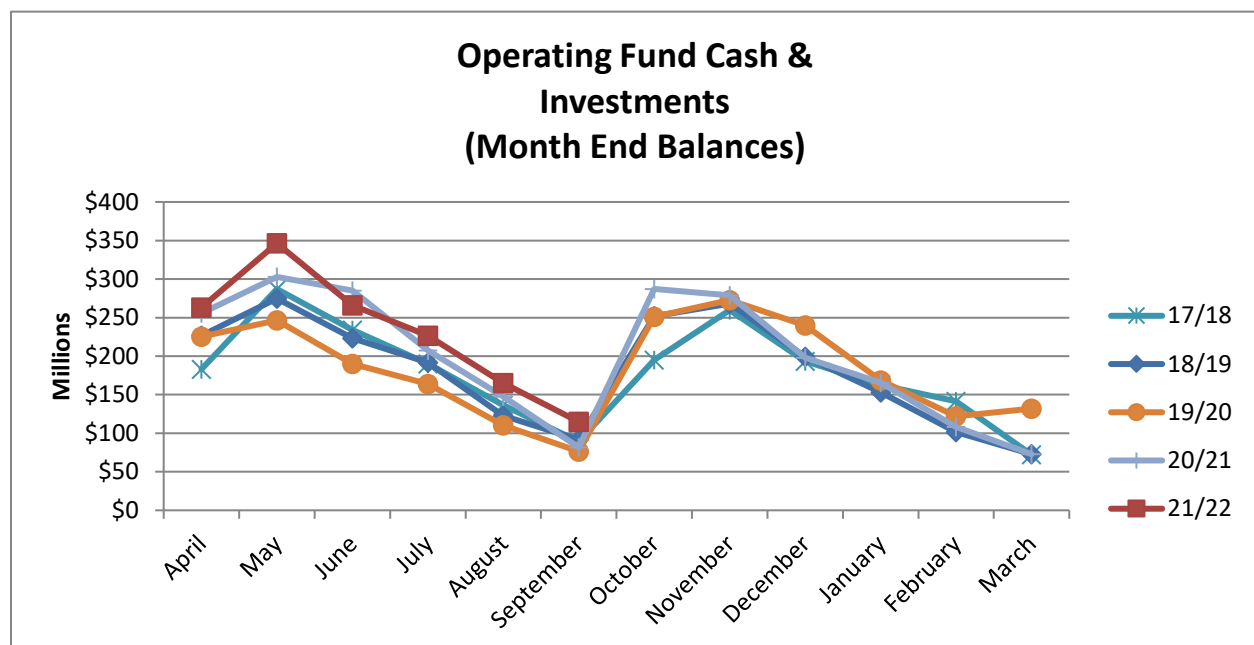
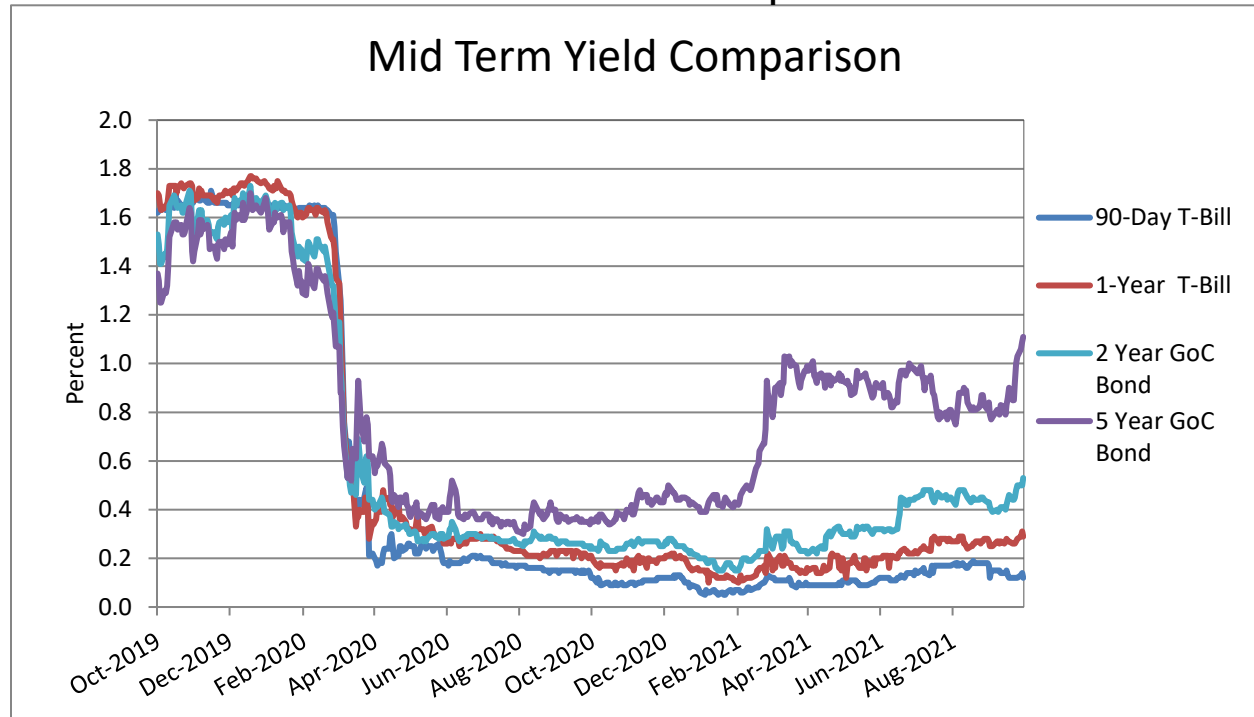
Funds held in the investment bank accounts, including term deposits, totaled \$513,366,741 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. Using 0.21% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$649,991 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.19%, and an annual return of 0.75%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,745,099 including a \$223,225 increase during the reporting period. An additional \$228,946 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$2,954,795.

HRM Short Term Bond Pool

As of September 30, 2021, the portfolio did not contain any bonds. The semi-annual portfolio rebalance occurred at the beginning of November 2021 and included bond purchases, which will be reported in the following quarterly report.

Government Sector Performance – October 2019 to September 2021



Subsequent to End of Reporting Quarter

The Bank of Canada continues to maintain the overnight rate at 25 bps; however, guidance has shifted once again, as they signal that the rate will not stay at its lower bound for as long as originally forecasted. The most recent report indicates that the target level of inflation of 2% should be reached in by late 2022 and a rate hike is expected as early as the second quarter of 2022.

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 0.25% until the second quarter of 2022, where it is expected to rise, up to 1.00% over the course of 2022.

There has been continued downward movement in the interest rates on the investment bank accounts and when compared to instruments with similar risk, we still enjoy higher overall returns. Therefore, the strategy remains to maximize returns by leveraging high interest savings accounts, keeping in mind that their liquidity adds a safety factor. We balance the portfolio with government sector instruments, primarily in the form of provincial Treasury Bills. This provides diversification of the portfolio while maintaining a suitable level of risk for the needs of Treasury.

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 5th percentile for the quarter ending September 30, 2021 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 September 30, 2021 was \$306,473 versus an original budget of \$187,500 due to higher cash flows than anticipated. As market conditions warranted, we have updated our annual income projection to \$1,500,000 for the fiscal year. The actual rate of return was 0.16% 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

No environmental implications were identified.

ALTERNATIVES

The Audit & Finance Standing Committee could choose not to approve the recommendation.

ATTACHMENTS

Attachment 1 - Sector Weight Schedule @ September 30, 2021 (Schedule A)

Attachment 2 - Economic Statistics and Central Bank Actions

Attachment 3 - List of Eligible Investments

Attachment 4 - 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.

Report Prepared by: Renée Towns, CPA, CGA, CTP, Director of Revenue, Treasurer, 902-293-7983

Total Portfolio
Sector Weights @ September 30, 2021

SCHEDULE A

Category	Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	631,983,372	100%	631,983,372	100%
Federal Government	Open	0				
Business Development Bank	Open	0				
Canada Mortgage & Housing Corp.	Open	0				
Canadian Wheat Board	Open	0				
Export Development Canada	Open	0				
Farm Credit Corp	Open	0				
Provincial Governments & their Guarantees	R-1 Mid or Greater	155,610,221	631,983,372	100%	476,373,151	75%
Total Alberta (R-1 High)	Open	0				
Alberta (R-1 High)	Open	0				
Alberta Capital Finance Authority (R-1 High)	Open	0				
Alberta Treasury Branches (R-1 High)	Open	0				
British Columbia (R-1 High)	Open	24,977,250				
Manitoba (R-1 Mid)	Open	0				
New Brunswick (R-1 Mid)	Open	0				
Nova Scotia (R-1 Mid)	Open	0				
Ontario (R-1 Mid)	Open	104,776,800				
Quebec (R-1 Mid)	Open	25,856,171				
Quebec		25,856,171				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	157,995,843	25%	157,995,843	25%
Calgary (R-1 High)	Open	0	63,198,337	10%	63,198,337	10%
Financial Institutions & their Guarantees /Corporations		476,366,741	599,491,686	50%	123,124,945	19%
	BA's Schedule A					
	Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	375,934,869	599,491,686	50%	223,556,817	35%
Bank of Montreal (R-1 High)	Open	99,999,461				
BMO - Instruments		0				
BMO - Account		99,999,461				
Bank of Nova Scotia (R-1 High)	Open	82,241,670				
Bank of Nova Scotia Effective Cash		57,241,670				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	20,397,445				
CIBC - Instruments		0				
CIBC - Account		20,397,445				
Royal Bank (R-1 High)	Open	143,267,851				
RBC - Instruments		0				
RBC - Account		143,267,851				
Toronto Dominion (R-1 High)	Open	30,028,441				
TD - Instruments		0				
TD - Account		30,028,441				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	100,431,872	157,995,843	25%	57,563,971	9%
National Bank of Canada (R-1 Mid)	Open	100,431,872				
OMERS Realty Corporation (R-1 High)	Open	0				
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				
Total Cash and Equivalents		631,976,962				
Federal Government & its Guarantees						
Money Market		0	92,933,017	20%	92,933,017	20%
Reserves - Bond Pool		0	163,944,195	100%	163,944,195	100%
Canada Mortgage & Housing Corp.		0	163,944,195	100%	163,944,195	100%
Provincial Government & their Guarantees		0	92,933,017	20%	92,933,017	20%
Money Market		0	92,933,017	20%	60,144,178	13%
Alberta		0	46,466,508	10%	46,466,508	10%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	46,466,508	10%	46,466,508	10%
Manitoba		0	46,466,508	10%	46,466,508	10%
New Brunswick		0	46,466,508	10%	46,466,508	10%
Nova Scotia		0	46,466,508	10%	46,466,508	10%
Ontario		0	46,466,508	10%	46,466,508	10%
Quebec		0	46,466,508	10%	46,466,508	10%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	46,466,508	10%	46,466,508	10%
Bond Pool		0	32,788,839	20%	32,788,839	20%
Alberta		0	16,394,420	10%	16,394,420	10%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	16,394,420	10%	16,394,420	10%
Manitoba		0	16,394,420	10%	16,394,420	10%
New Brunswick		0	16,394,420	10%	16,394,420	10%
Nova Scotia		0				
Ontario		0	16,394,420	10%	16,394,420	10%
Quebec		0	16,394,420	10%	16,394,420	10%
Quebec		0	16,394,420	10%	16,394,420	10%
Financement Quebec		0	16,394,420	10%	16,394,420	10%
Hydro Quebec		0	16,394,420	10%	16,394,420	10%
Saskatchewan		0	16,394,420	10%	16,394,420	10%
Total Fixed		0	32,788,839	20%	32,788,839	20%
Equities						
Bank of Montreal		6,410				
Total Equities		6,410				
Total Investments		631,983,372				
Interest Bearing Bank Accounts - O/S Cheque Coverage		37,000,000				
Total Investments and O/S Cheques Coverage		668,983,372				

Attachment 2

Economic Statistics	Canada			United States		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	7.5%	7.1%	6.9%	5.4%	5.2%	4.8%
Jobs Created / (Lost) ('000's)	94	90	157	1,091	483	312
Core Inflation Rate (year over year)	3.3%	3.5%	3.7%	4.3%	4.0%	4.0%

Date	Central Bank	Central Bank Action
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%
Jan 27, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Mar 10, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Mar 17, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Apr 21, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Apr 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jun 9, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jun 16, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jul 14, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jul 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Sept 22, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Oct 27, 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.