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Item No. 12.2.2
Audit & Finance Standing Committee
April 20, 2022

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: **- Original Signed -**

Jacques Dubé, Chief Administrative Officer

DATE: March 7, 2022

SUBJECT: **Investment Activities – Quarter ending December 31, 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 March 7, 2022, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending December 31, 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 three months ending December 31, 2021 was \$539,952 versus the updated projection of \$375,000 (originally budgeted at \$187,500). The actual rate of return for the quarter was 0.19%. Total investment income for the portfolio was \$1,531,271 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

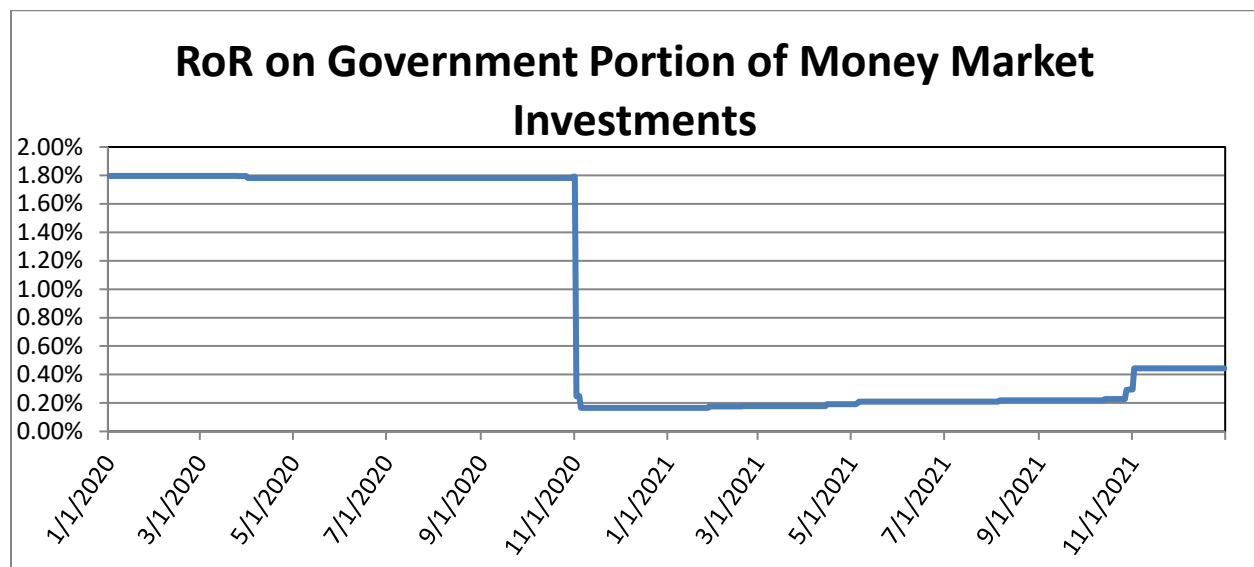
HRM Investment Activities

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

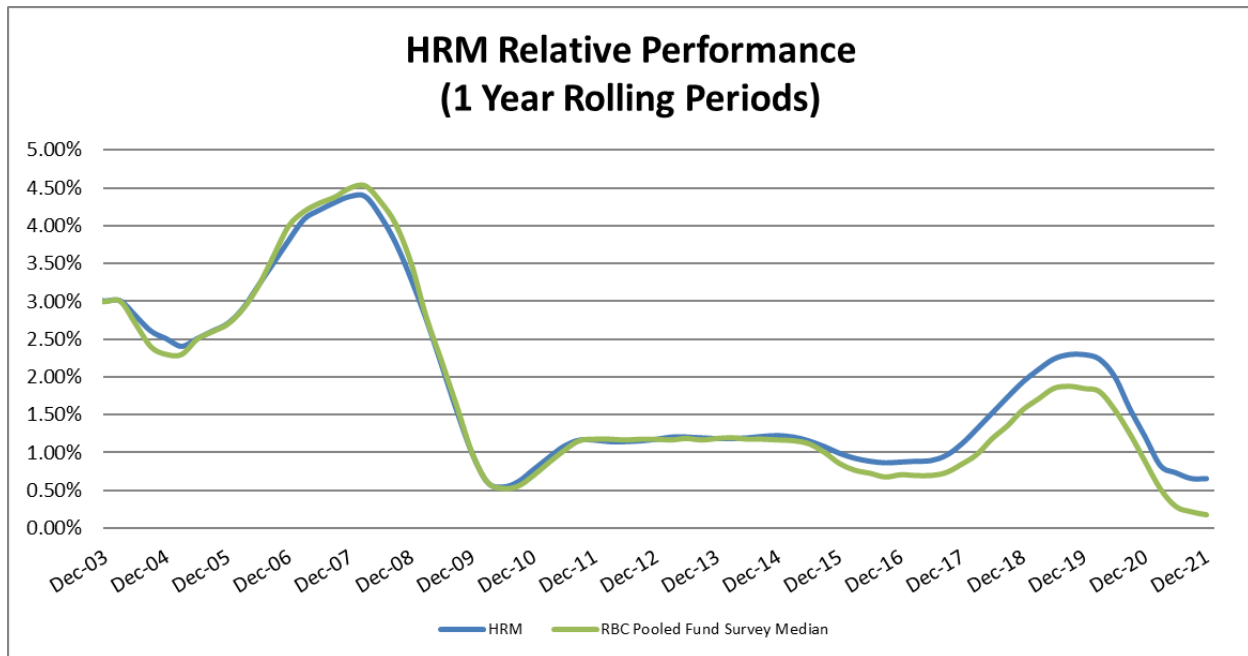
instruments as their primary holding. The duration of the instruments held vary based on current market conditions. Please see the table below with the results using this benchmark.

Money Market Funds	3 Months (to Dec 31, 2021)	1 Year (to Dec 31, 2021)
Average Return	0.05%	0.20%
5 th Percentile	0.09%	0.38%
1 st Quartile	0.06%	0.25%
Money Market Median	0.05%	0.18%
3 rd Quartile	0.03%	0.14%
95 th Percentile	0.01%	(0.07%)
HRM Overall	0.19%	0.65%

Overall performance continues to be positive as we note the three-month and one-year return exceeds 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 benchmark median with fee savings also accruing to HRM.



During the quarter, there were four money market investments made, three investment maturities and two investments carried from the prior period with a total ending value of \$153,113,221, an average cost of \$25,518,870, and an original average term of 294 days. This compares to the same period last year when we carried five money market investments in the period with a total cost of \$231,759,860, average cost of \$46,351,972 and average term to maturity of 177 days.

In addition to money market investments there were also five provincial bond investment purchases made, with a total book cost of \$165,185,156, total face value of \$157,100,000, an average cost of \$33,037,031, and an original average term of 2 years. No bonds were held in the same period last year. 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.

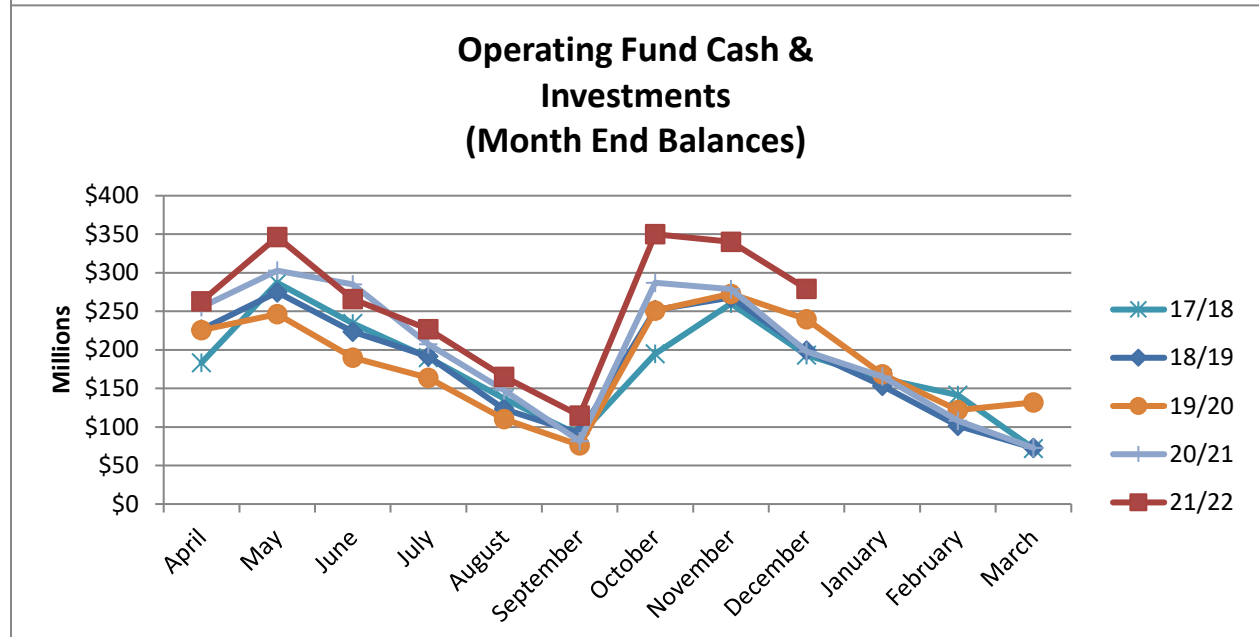
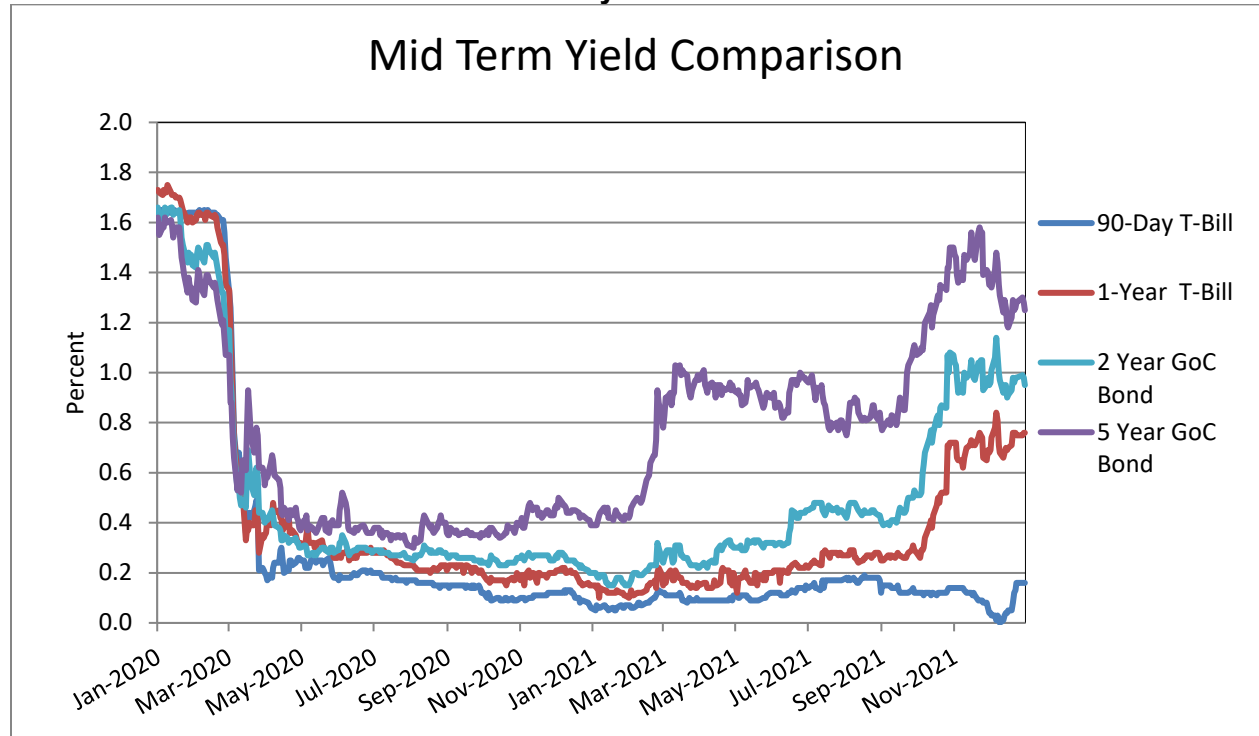
Funds held in the investment bank accounts, including term deposits, totaled \$464,799,566 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. Using 0.25% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$598,523 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 \$5,810,845 including a \$65,746 increase during the reporting period. An additional \$55,371 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 \$3,010,166.

HRM Short Term Bond Pool

During the quarter, there were five additions to the bond pool, bringing the total face value of the pool to \$157,100,000, with yields ranging from 0.99% to 1.37% with a weighted average yield of 1.26%. The term to maturity ranges from June 2023 to June 2024.

Government Sector Performance – January 2020 to December 2021



Subsequent to End of Reporting Quarter

The Bank of Canada continues to maintain the overnight rate at 25 bps; however, guidance has shifted and they are now signaling that the rate will not stay at its lower bound for as long as originally forecasted. The most recent report indicates that the inflation rate should decline to 3% by the end of 2022, above the target level of 2%. A rate hike is expected next quarter, with economists estimating a 0.25% to 0.50% hike.

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 increase by at least 0.25% next quarter and is expected to rise to 1.00% over the course of 2022.

There has been some upward 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 and provincial bonds. 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 December 31, 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 fund investment income for the three months ending December 31, 2021 was \$539,952 versus the updated projection of \$375,000 (originally budgeted at \$187,500). 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 0.19% for the period.

RISK CONSIDERATION

No risk considerations were identified.

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 @ December 31, 2021 (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, 2021**

ATTACHMENT 1 SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	735,104,355	100%	735,104,355	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	153,113,221	735,104,355	100%	416,805,978	57%
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	0				
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	29,925,300				
Quebec (R-1 Mid)	Open	123,187,921				
Quebec		123,187,921				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	183,776,089	25%	183,776,089	25%
Calgary (R-1 High)	Open	0	73,510,436	10%	73,510,436	10%
Financial Institutions & their Guarantees /Corporations		416,799,568	651,052,178	50%	234,252,610	32%
	BA's Schedule A					
	Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	346,178,970	651,052,178	50%	304,873,208	41%
Bank of Montreal (R-1 High)	Open	99,906,078				
BMO - Instruments		0				
BMO - Account		99,906,078				
Bank of Nova Scotia (R-1 High)	Open	34,307,946				
Bank of Nova Scotia Effective Cash		9,307,946				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	70,422,281				
CIBC - Instruments		0				
CIBC - Account		70,422,281				
Royal Bank (R-1 High)	Open	23,475,689				
RBC - Instruments		0				
RBC IS		50				
RBC - Account		23,475,639				
Toronto Dominion (R-1 High)	Open	118,066,976				
TD - Instruments		0				
TD - Account		118,066,976				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	70,620,598	183,776,089	25%	113,155,491	15%
National Bank of Canada (R-1 Mid)	Open	70,620,598				
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		569,912,789				
Federal Government & its Guarantees		0	735,104,355	100%	735,104,355	100%
Money Market		0	735,104,355	100%	735,104,355	100%
Reserves - Bond Pool		0	735,104,355	100%	735,104,355	100%
Canada Mortgage & Housing Corp.		0				
Provincial Government & their Guarantees		0	735,104,355	100%	735,104,355	100%
Money Market		0	735,104,355	100%	735,104,355	100%
Alberta		0				
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0				
Manitoba		0				
New Brunswick		0				
Nova Scotia		0				
Ontario		0				
Quebec		0				
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0				
Bond Pool		165,185,156	735,104,355	100%	569,919,199	78%
Alberta		0	183,776,089	25%	183,776,089	25%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		72,917,106	183,776,089	25%	110,858,983	15%
Manitoba		5,633,650	183,776,089	25%	178,142,439	24%
New Brunswick		0	183,776,089	25%	183,776,089	25%
Nova Scotia		0				
Ontario		86,634,400	153,850,789	25%	67,216,389	9%
Quebec		0	60,588,168	25%	60,588,168	8%
Quebec		0	60,588,168	25%	60,588,168	8%
Financement Quebec		0	183,776,089	25%	183,776,089	25%
Hydro Quebec		0	183,776,089	25%	183,776,089	25%
Saskatchewan		0	183,776,089	25%	183,776,089	25%
Total Fixed		165,185,156				
Equities						
Bank of Montreal		6,410				
Total Equities		6,410				
Total Investments		735,104,355				
Interest Bearing Bank Accounts - O/S Cheque Coverage		48,000,000				
Total Investments and O/S Cheques Coverage		783,104,355				

Appendix A

Economic Statistics	Canada			United States		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	6.7%	6.0%	6.0%	4.6%	4.2%	3.9%
Jobs Created / (Lost) ('000's)	31	154	79	677	647	510
Core Inflation Rate (year over year)	3.8%	3.6%	4.0%	4.6%	4.9%	5.5%

Date	Central Bank	Central Bank Action
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%
Dec 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Dec 15, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jan 26, 2022	Bank of Canada	Maintains overnight rate at 0.25%
Jan 26, 2022	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 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.