



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

**Item No. 12.2.1**  
**Audit & Finance Standing Committee**  
**June 22, 2022**

**TO:** Chair and Members of Audit & Finance Standing Committee

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

**DATE:** June 6, 2022

**SUBJECT:** Investment Activities – Quarter ending March 31, 2022

**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 June 6, 2022, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending March 31, 2022 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

## **Overall Results**

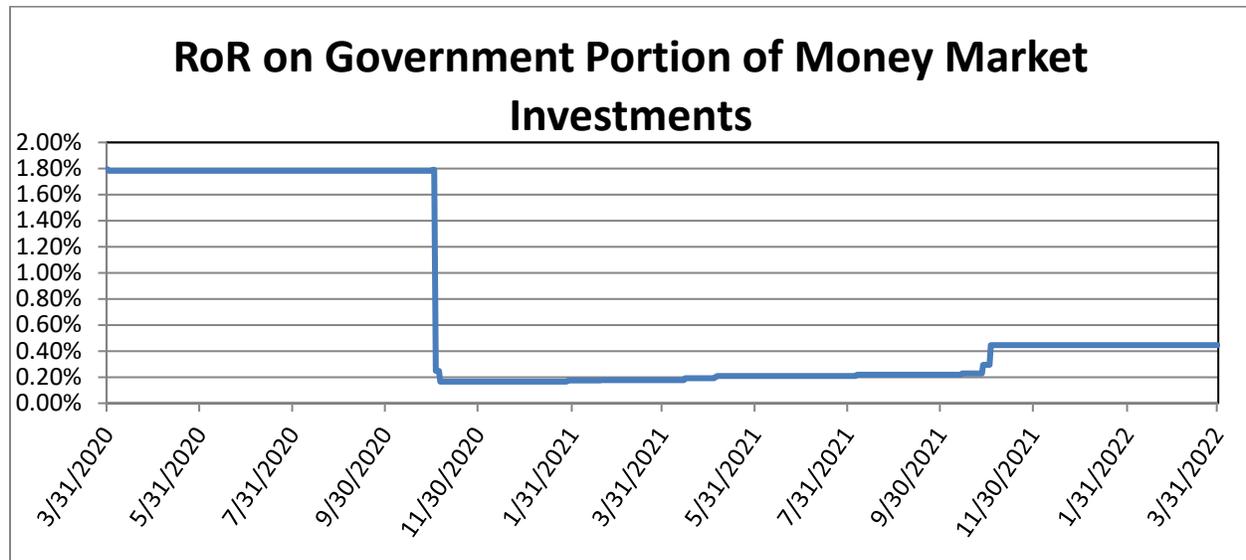
Operating fund investment income for the three months ending March 31, 2022 was \$378,727 versus the updated projection of \$375,000 (originally budgeted at \$187,500). Total investment income for the portfolio was \$1,469,304 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

## **HRM Investment Activities**

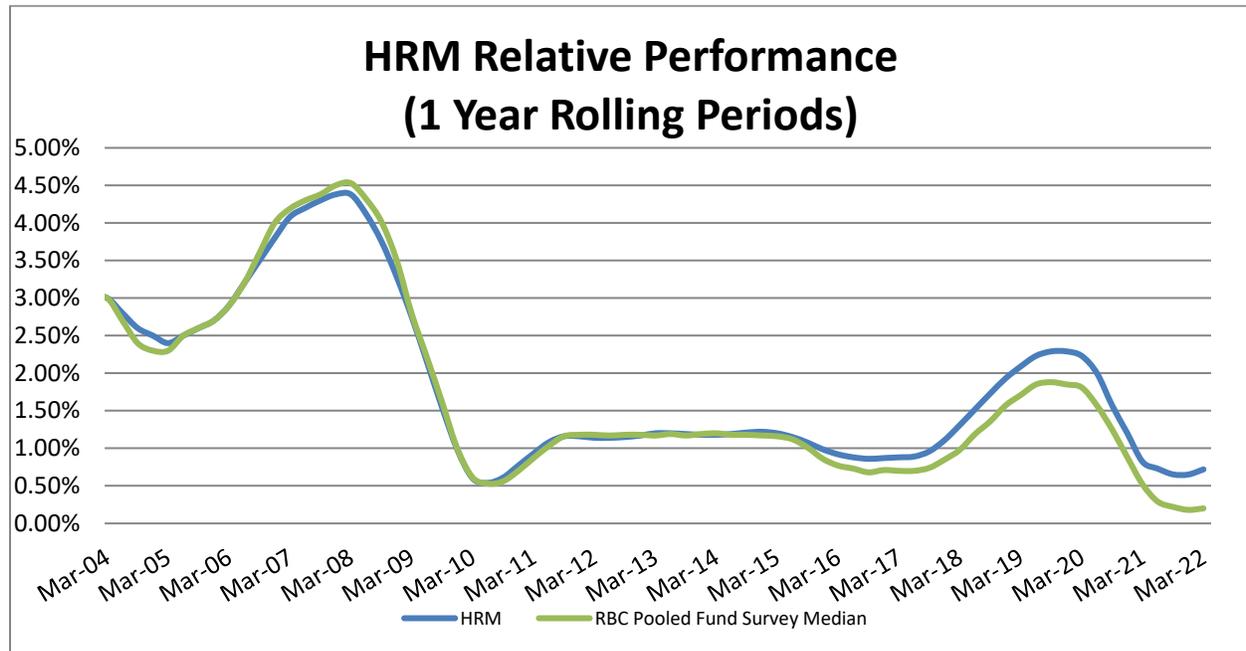
The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 24 pooled Canadian money market funds. These funds generally feature Canadian government short-term instruments as their primary holding. The duration of the instruments held vary based on current market conditions. Please see the table below with the results using this benchmark.

| Money Market Funds          | 3 Months<br>(to Mar 31, 2022) | 1 Year<br>(to Mar 31, 2022) |
|-----------------------------|-------------------------------|-----------------------------|
| Average Return              | 0.07%                         | 0.20%                       |
| 5 <sup>th</sup> Percentile  | 0.14%                         | 0.39%                       |
| 1 <sup>st</sup> Quartile    | 0.09%                         | 0.27%                       |
| Money Market Median         | 0.07%                         | 0.20%                       |
| 3 <sup>rd</sup> Quartile    | 0.04%                         | 0.16%                       |
| 95 <sup>th</sup> Percentile | 0.01%                         | (0.03%)                     |
| <b>HRM Overall</b>          | <b>0.22%</b>                  | <b>0.72%</b>                |

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 no money market investments made as we carried six investments into the period with a total 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 three investments into the period with a total cost of \$178,776,780, average cost of \$59,592,260 and average term to maturity of 230 days.

No additional provincial bond investments were made, we carried forward five bond investments with a total face value of \$157,100,000, 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.

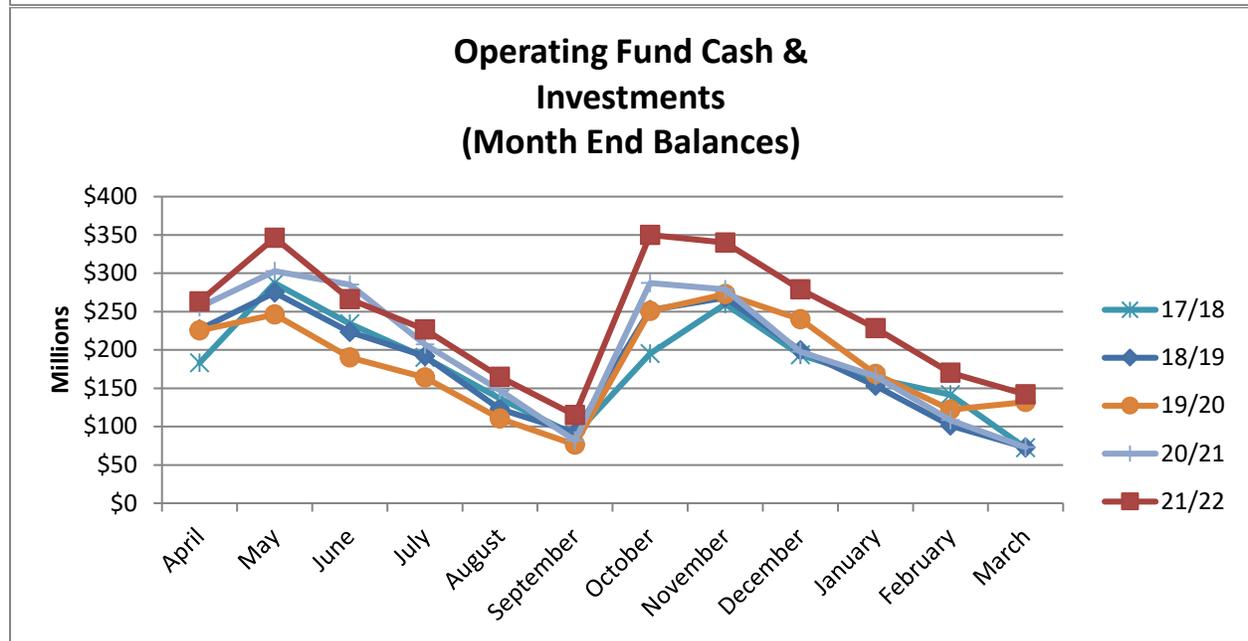
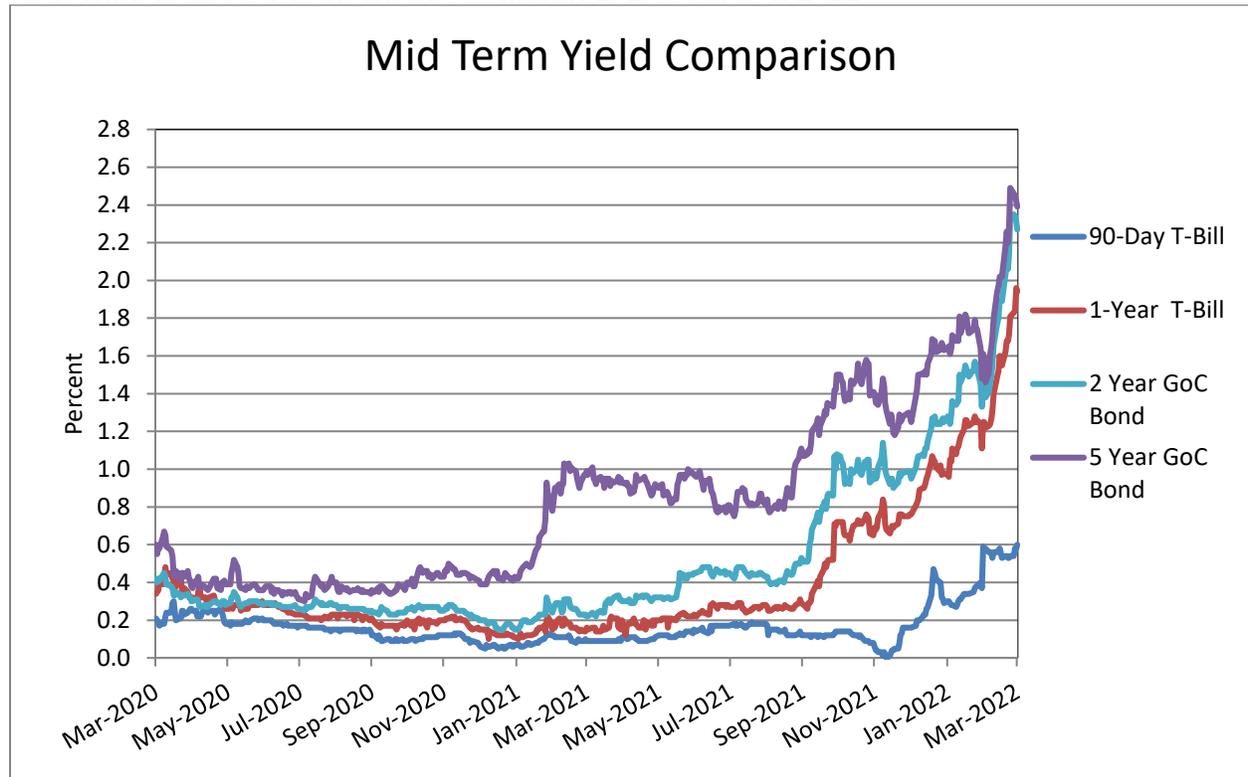
Funds held in the investment bank accounts, including term deposits, totaled \$331,659,372 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. Using 0.66% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$185,510 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.22%, and an annual return of 0.88%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,725,358 including a \$85,486 decrease during the reporting period. A decrease of \$122,424 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 \$2,887,742. The decreases are attributable to the rapidly changing interest rate landscape affecting the benchmark used, however, the cumulative effective of each policy change is still overwhelmingly positive.

HRM Short Term Bond Pool

The provincial bond portion of the portfolio did not change during the quarter, with total face value remaining at \$157,100,000. On the bonds held, the yields range from 0.99% to 1.37% with a weighted average yield of 1.18%. The term to maturity ranges from June 2023 to June 2024.

**Government Sector Performance – March 2020 to March 2022**



Subsequent to End of Reporting Quarter

The Bank of Canada announced a 50bps hike to the overnight rate on April 13, 2022, bringing the rate up to 1%. Another 50bps rate hike was announced on June 1<sup>st</sup>.

As inflation continues to remain at levels higher than the target, economists expect continued rate hikes throughout 2022 to combat inflation. Current forecasts by economists put the overnight rate between 1.75% to 2.50% by the end 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 continue to increase over the course of 2022.

There has been 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 March 31, 2022 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 March 31, 2022 was \$378,727 versus the updated projection of \$375,000 (originally budgeted at \$187,500). As market conditions warranted, we had updated our annual income projection to \$1,500,000 for the fiscal year. The actual rate of return was 0.22% for the period and 0.72% for the year.

### **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 @ March 31, 2022 (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](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Aaron Khan, CPA, Deputy Treasurer, Revenue, Finance & Asset Management,  
902-943-0847

---

**Total Portfolio  
Sector Weights @ March 31, 2022**

|  | Category Status                               | Cumulative<br>Amount Invested<br>@ Book Value | Guideline Limit    | %           | Limit Available    | %           |
|--|---|---|--------------------|-------------|--------------------|-------------|
| <b>CASH &amp; EQUIVALENTS</b>                                      |   |   |                    |             |                    |             |
| <b>Federal Government &amp; its Guarantees</b>                     | <b>Open</b>                                   | <b>0</b>                                      | <b>617,964,160</b> | <b>100%</b> | <b>617,964,160</b> | <b>100%</b> |
| 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   |                    |             |                    |             |
| <b>Provincial Governments &amp; their Guarantees</b>               | <b>R-1 Mid or Greater</b>                     | <b>153,113,221</b>                            | <b>617,964,160</b> | <b>100%</b> | <b>299,665,782</b> | <b>48%</b>  |
| 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   |                    |             |                    |             |
| <b>Municipal Governments &amp; their Guarantees*</b>               | <b>R-1 Mid or Greater</b>                     | <b>0</b>                                      | <b>154,491,040</b> | <b>25%</b>  | <b>154,491,040</b> | <b>25%</b>  |
| Calgary (R-1 High)   | Open  | 0   | 61,796,416         | 10%         | 61,796,416         | 10%         |
| <b>Financial Institutions &amp; their Guarantees /Corporations</b> | <b>BA's Schedule A<br/>Canadian Banks R-1</b> | <b>299,659,372</b>                            | <b>592,482,080</b> | <b>50%</b>  | <b>292,822,708</b> | <b>47%</b>  |
| <b>Tier 1 - Financial Institutions &amp; their Guarantees</b>      | <b>Mid</b>                                    | <b>268,909,513</b>                            | <b>592,482,080</b> | <b>50%</b>  | <b>323,572,567</b> | <b>52%</b>  |
| Bank of Montreal (R-1 High)  | Open  | 99,981,903                                    |                    |             |                    |             |
| BMO - Instruments  |   | 0   |                    |             |                    |             |
| BMO - Account  |   | 99,981,903                                    |                    |             |                    |             |
| Bank of Nova Scotia (R-1 High)                                     | Open  | 49,873,693                                    |                    |             |                    |             |
| Bank of Nova Scotia Effective Cash                                 |   | 24,873,693                                    |                    |             |                    |             |
| Bank of Nova Scotia - Notice Account                               |   | 25,000,000                                    |                    |             |                    |             |
| Canadian Imperial Bank of Commerce (R-1 High)                      | Open  | 70,529,435                                    |                    |             |                    |             |
| CIBC - Instruments   |   | 0   |                    |             |                    |             |
| CIBC - Account   |   | 70,529,435                                    |                    |             |                    |             |
| Royal Bank (R-1 High)  | Open  | 23,524,191                                    |                    |             |                    |             |
| RBC - Instruments  |   | 0   |                    |             |                    |             |
| RBC IS   |   | 50  |                    |             |                    |             |
| RBC - Account  |   | 23,524,141                                    |                    |             |                    |             |
| Toronto Dominion (R-1 High)  | Open  | 25,000,292                                    |                    |             |                    |             |
| TD - Instruments   |   | 0   |                    |             |                    |             |
| TD - Account   |   | 25,000,292                                    |                    |             |                    |             |
| <b>Tier 2 - Financial Institutions &amp; Corporations</b>          | <b>R-1 Mid/High***</b>                        | <b>30,749,859</b>                             | <b>154,491,040</b> | <b>25%</b>  | <b>123,741,181</b> | <b>20%</b>  |
| National Bank of Canada (R-1 Mid)                                  | Open  | 30,749,859                                    |                    |             |                    |             |
| 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   |                    |             |                    |             |
| <b>Total Cash and Equivalents</b>                                  |   | <b>452,772,594</b>                            |                    |             |                    |             |
| <b>Federal Government &amp; its Guarantees</b>                     |   |   |                    |             |                    |             |
| <b>Money Market</b>  |   | <b>0</b>                                      | <b>617,964,160</b> | <b>100%</b> | <b>617,964,160</b> | <b>100%</b> |
| <b>Reserves - Bond Pool</b>  |   | <b>0</b>                                      | <b>617,964,160</b> | <b>100%</b> | <b>617,964,160</b> | <b>100%</b> |
| Canada Mortgage & Housing Corp.                                    |   | 0   |                    |             |                    |             |
| <b>Provincial Government &amp; their Guarantees</b>                |   | <b>0</b>                                      | <b>617,964,160</b> | <b>100%</b> | <b>617,964,160</b> | <b>100%</b> |
| <b>Money Market</b>  |   | <b>0</b>                                      | <b>617,964,160</b> | <b>100%</b> | <b>617,964,160</b> | <b>100%</b> |
| 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   |                    |             |                    |             |
| <b>Bond Pool</b>   |   | <b>165,185,156</b>                            | <b>617,964,160</b> | <b>100%</b> | <b>452,779,004</b> | <b>73%</b>  |
| Alberta  |   | 0   | 154,491,040        | 25%         | 154,491,040        | 25%         |
| Alberta  |   | 0   |                    |             |                    |             |
| Alberta Capital Finance Authority                                  |   | 0   |                    |             |                    |             |
| Alberta Treasury Branches  |   | 0   |                    |             |                    |             |
| British Columbia   |   | 72,917,106                                    | 154,491,040        | 25%         | 81,573,934         | 13%         |
| Manitoba   |   | 5,633,650                                     | 154,491,040        | 25%         | 148,857,390        | 24%         |
| New Brunswick  |   | 0   | 154,491,040        | 25%         | 154,491,040        | 25%         |
| Nova Scotia  |   | 0   |                    |             |                    |             |
| Ontario  |   | 86,634,400                                    | 124,565,740        | 25%         | 37,931,340         | 6%          |
| Quebec   |   | 0   | 31,303,119         | 25%         | 31,303,119         | 5%          |
| Quebec   |   | 0   | 31,303,119         | 25%         | 31,303,119         | 5%          |
| Financement Quebec   |   | 0   | 154,491,040        | 25%         | 154,491,040        | 25%         |
| Hydro Quebec   |   | 0   | 154,491,040        | 25%         | 154,491,040        | 25%         |
| Saskatchewan   |   | 0   | 154,491,040        | 25%         | 154,491,040        | 25%         |
| <b>Total Fixed</b>   |   | <b>165,185,156</b>                            |                    |             |                    |             |
| <b>Equities</b>  |   |   |                    |             |                    |             |
| Bank of Montreal   |   | 6,410   |                    |             |                    |             |
| <b>Total Equities</b>  |   | <b>6,410</b>                                  |                    |             |                    |             |
| <b>Total Investments</b>   |   | <b>617,964,160</b>                            |                    |             |                    |             |
| <b>Interest Bearing Bank Accounts - O/S Cheque Coverage</b>        |   | <b>32,000,000</b>                             |                    |             |                    |             |
| <b>Total Investments and O/S Cheques Coverage</b>                  |   | <b>649,964,160</b>                            |                    |             |                    |             |

## Appendix A

| Economic Statistics                  | Canada |      |      | United States |      |      |
|--------------------------------------|--------|------|------|---------------|------|------|
|                                      | Jan    | Feb  | Mar  | Jan           | Feb  | Mar  |
| Unemployment Rate                    | 6.5%   | 5.5% | 5.3% | 4.0%          | 3.8% | 3.6% |
| Jobs Created / (Lost) ('000's)       | (200)  | 337  | 73   | 504           | 714  | 428  |
| Core Inflation Rate (year over year) | 4.3%   | 4.8% | 5.5% | 6.0%          | 6.4% | 6.5% |

| Date          | Central Bank                       | Central Bank Action                       |
|---------------|------------------------------------|---|
| 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%  |
| Mar 2, 2022   | Bank of Canada                     | Raised overnight rate to 0.50%            |
| Mar 16, 2022  | U.S. Federal Open Market Committee | Maintained target range to 0.25% to 0.50% |
| Apr 13, 2022  | Bank of Canada                     | Raised overnight rate to 1.00%            |
| May 4, 2022   | U.S. Federal Open Market Committee | Maintained target range to 0.75% to 1.00% |

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.