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Item No. 10
Halifax Regional Council
November 8, 2022

TO: Mayor Savage Members of Halifax Regional Council

SUBMITTED BY: - Original Signed -
Councillor Paul Russell, Chair, Audit and Finance Standing Committee

DATE: October 31, 2022

SUBJECT: Investment Activities – Quarter ending June 30, 2022

INFORMATION REPORT

ORIGIN

October 19, 2022 meeting of the Audit and Finance Standing Committee, Item 12.2.2.

LEGISLATIVE AUTHORITY

Legislative Authority is outlined in the attached staff report dated September 23, 2022.

Administrative Order One, *Respecting the Procedures of the Council*, Audit and Finance Standing Committee Terms of Reference section 1:

1. (1) The purpose of the Audit and Finance Standing Committee is to provide advice to the Council on matters relating to audit and finance.
- (2) The other purposes of the Committee are to:
 - (a) fulfill the requirements as outlined in Section 48 of the HRM Charter; and
 - (b) assist the Council in meeting its responsibilities by ensuring the adequacy and effectiveness of financial reporting, risk management and internal controls.

BACKGROUND

The Audit and Finance Standing Committee received a staff recommendation report dated September 23, 2022 to consider the Halifax Regional Municipality's Investment Activities for the quarter ending June 30, 2022.

For further information refer to the attached staff report dated September 23, 2022.

DISCUSSION

The Audit and Finance Standing Committee considered the staff report dated September 23, 2022 and approved the recommendation to Halifax Regional Council as outlined in this report.

FINANCIAL IMPLICATIONS

Financial implications are outlined in the attached staff report dated September 23, 2022

RISK CONSIDERATION

Risk consideration is outlined in the attached staff report dated September 23, 2022

COMMUNITY ENGAGEMENT

Meetings of the Audit and Finance Standing Committee are open to public attendance and members of the public are invited to address the Standing Committee for up to five (5) minutes during the Public Participation portion of the meeting. Meetings are live webcast on Halifax.ca. The agenda, reports, video, and minutes of the Standing Committee are posted on Halifax.ca.

For further information on Community Engagement refer to the attached staff report dated September 23, 2022.

ENVIRONMENTAL IMPLICATIONS

Environmental implications are outlined in the staff report dated September 23, 2022

ATTACHMENTS

Attachment 1 – Staff recommendation report dated September 23, 2022.

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: Annie Sherry, Legislative Assistant, Municipal Clerk's Office 902.943.8741

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 September 12, 2022, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending June 30, 2022 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

Overall Results

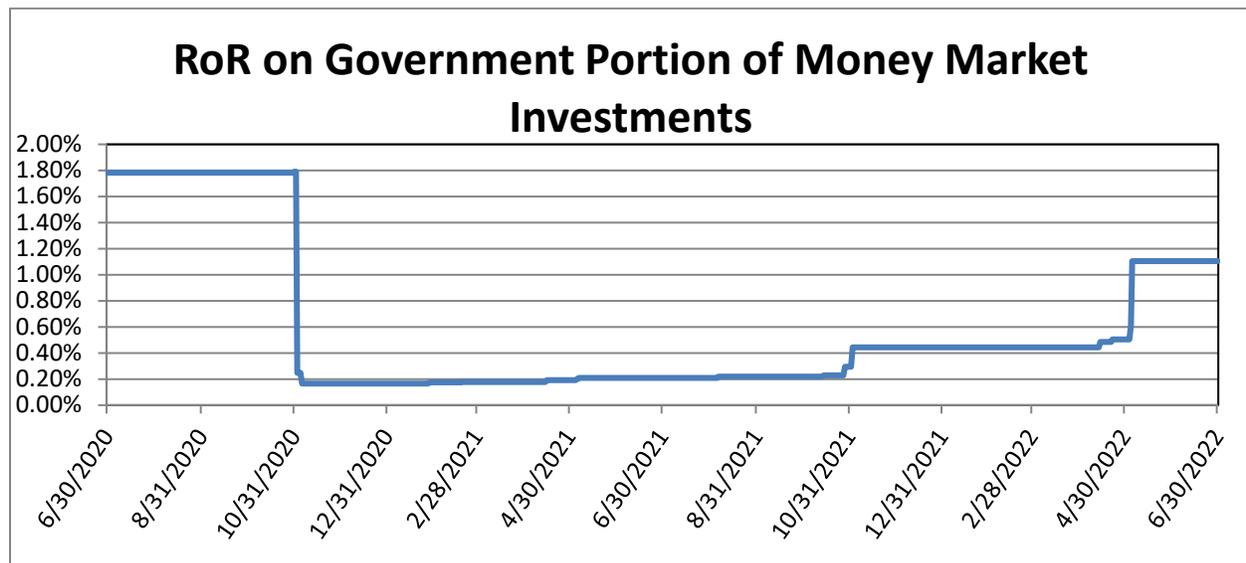
Operating fund investment income for the three months ending June 30, 2022 was \$1,097,123 versus the updated projection of \$1,000,000. Total investment income for the portfolio was \$3,035,882 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

HRM Investment Activities

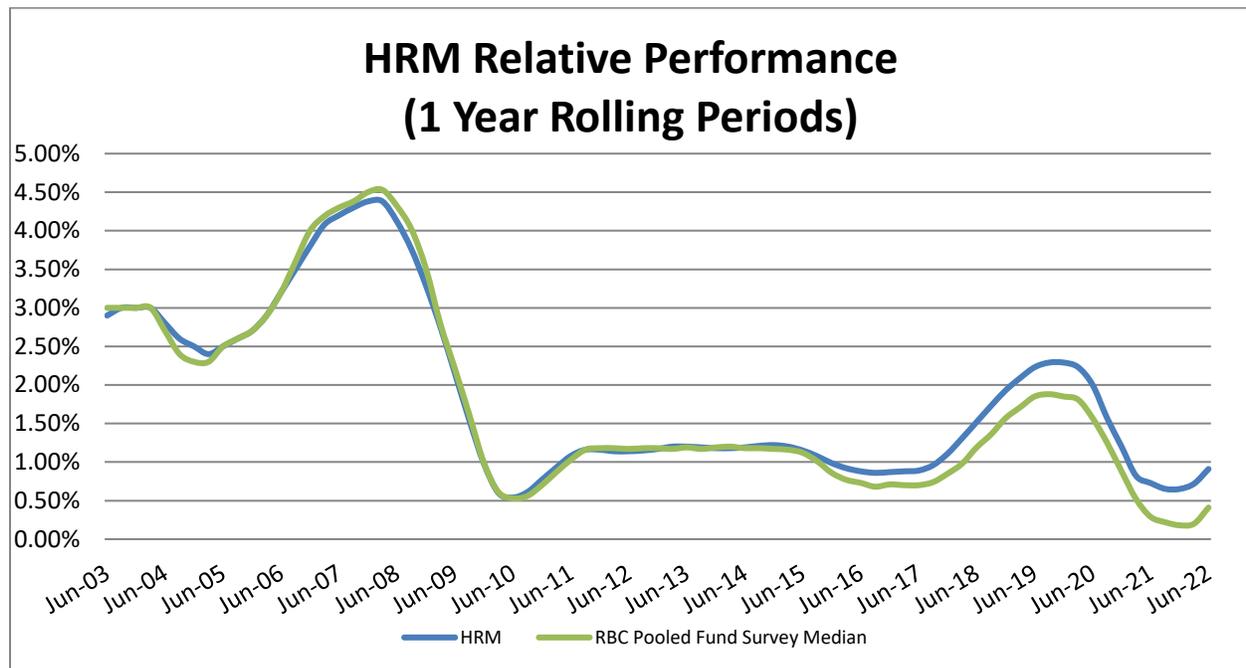
The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 25 pooled Canadian money market funds. These funds generally feature Canadian government short-term instruments as their primary holding. The duration of the instruments held vary based on current market conditions. Please see the table below with the results using this benchmark.

Money Market Funds	3 Months (to Jun 30, 2022)	1 Year (to Jun 30, 2022)
Average Return	0.24%	0.41%
5 th Percentile	0.30%	0.60%
1 st Quartile	0.29%	0.49%
Money Market Median	0.27%	0.41%
3 rd Quartile	0.21%	0.35%
95 th Percentile	0.16%	0.24%
HRM Overall	0.35%	0.91%

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 two money market investments made, three investment maturities and three investments carried from the prior period with a total ending value of \$107,737,964, an average cost of \$21,547,593, and an original average term of 270 days. This compares to the same period last year when we held five investments at the end of the period with a total cost of \$179,688,050, average cost of \$35,937,610 and average term to maturity of 264 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.

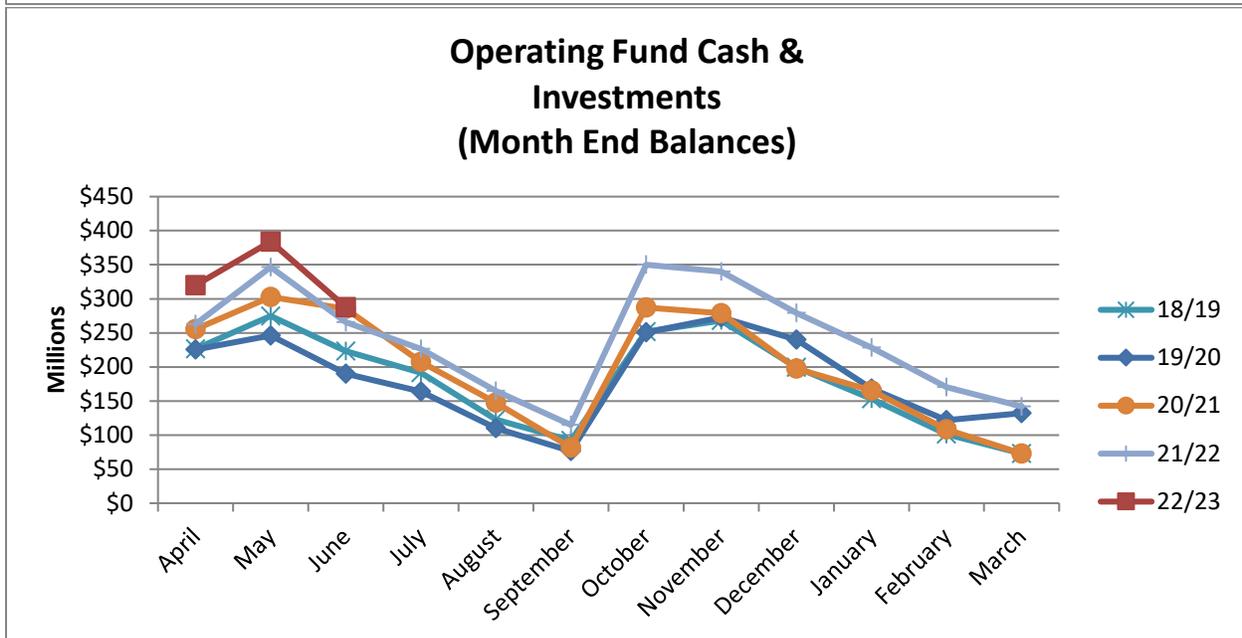
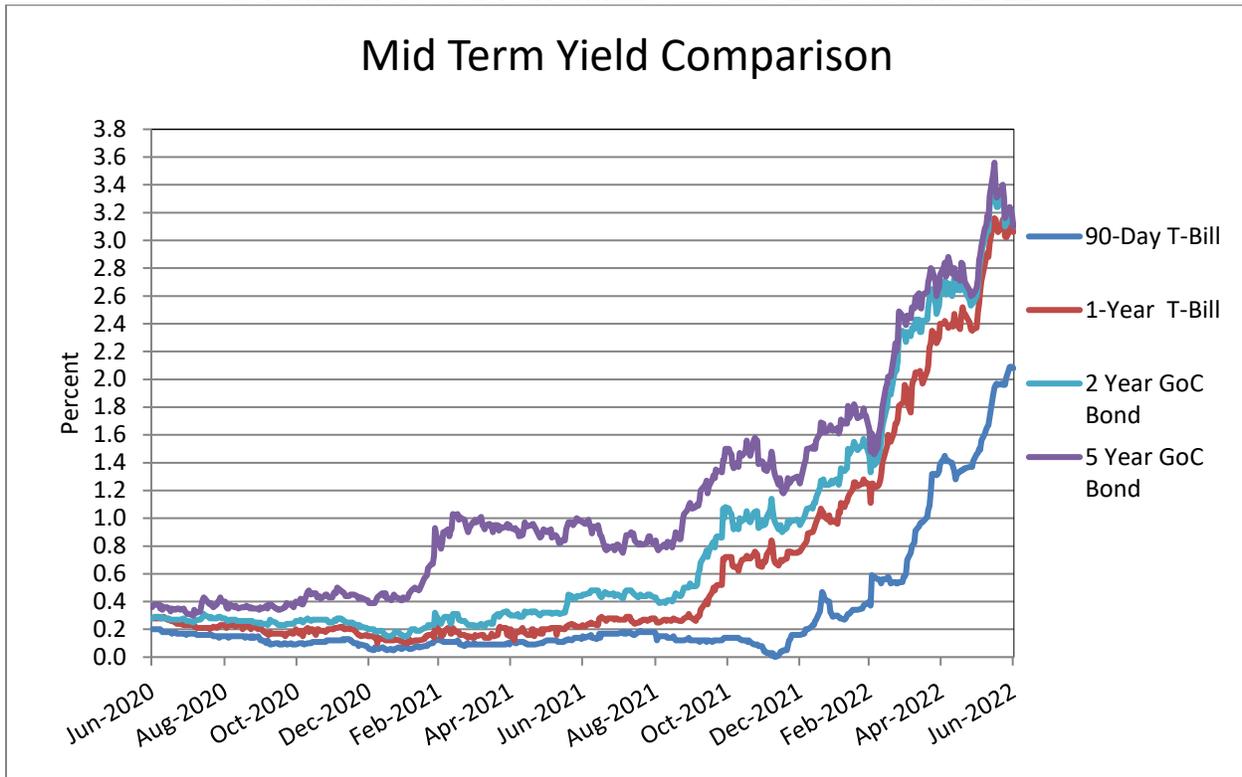
Funds held in the investment bank accounts, including term deposits and GICs, totaled \$594,327,478 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. Using 1.81% as the proxy for the BA and BDN average annual yield for the three months, incremental losses in the investment account was \$95,556 for the quarter below BA's and BDN's. The incremental loss for the quarter is attributable to the rapidly changing interest rate landscape increasing the average proxy rate for the quarter. This disproportionately affected the incremental income/loss calculation due to the higher cash balances earlier in the quarter, when interest rates were lower. Once interest rates stabilize, the investment accounts will begin to experience continued incremental income over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.41%, and an annual return of 1.01%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,302,193 including a \$423,165 decrease during the reporting period. A decrease of \$412,477 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 \$2,475,265. 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 – June 2020 to June 2022



Subsequent to End of Reporting Quarter

The Bank of Canada announced a 100bps and a 75bps hike to the overnight rate on July 13th, 2022, and September 7th, 2022 respectively. These rate hikes brought up the overnight rate to 3.25%. As inflation continues to remain at levels higher than the target, the Bank of Canada initiated quantitative tightening April 2022, which has continued after the reporting period. Some economists continue to expect one more rate hike before the end of 2022 to combat the high inflation. Current forecasts by economists put the overnight rate between 3.25% to 3.50% 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 potentially continue to increase over the remainder 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 utilizing 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 June 30, 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 June 30, 2022 was \$1,097,123 versus the updated projection of \$1,000,000. The actual rate of return was 0.35% for the period.

The current projection for the fiscal year is \$6,640,000 compared to a budget of \$1,965,000 which results in a surplus of \$4,675,000.

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 (3 of 5) 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 @ June 30, 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 or by contacting the Office of the Municipal Clerk at 902.490.4210.

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

**ATTACHMENT 1
SCHEDULE A**

**Total Portfolio
Sector Weights @ June 30, 2022**

Category	Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	820,257,008	100%	820,257,008	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	107,737,964	820,257,008	100%	547,333,888	67%
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	34,493,200				
Quebec (R-1 Mid)	Open	73,244,764				
Quebec		73,244,764				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	205,064,252	25%	205,064,252	25%
Calgary (R-1 High)	Open	0	82,025,701	10%	82,025,701	10%
Financial Institutions & their Guarantees /Corporations	BA's Schedule A Canadian Banks R-1	547,327,478	693,628,504	50%	146,301,026	18%
Tier 1 - Financial Institutions & their Guarantees	Mid	421,366,781	693,628,504	50%	272,261,723	33%
Bank of Montreal (R-1 High)	Open	99,784,515				
BMO - Instruments		0				
BMO - Account		99,784,515				
Bank of Nova Scotia (R-1 High)	Open	75,136,927				
Bank of Nova Scotia Effective Cash		50,136,927				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	120,810,983				
CIBC - Instruments		20,000,000				
CIBC - Account		100,810,983				
Royal Bank (R-1 High)	Open	30,634,069				
RBC - Instruments		0				
RBC IS		50				
RBC - Account		30,634,019				
Toronto Dominion (R-1 High)	Open	95,000,287				
TD - Instruments		0				
TD - Account		95,000,287				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	125,960,697	205,064,252	25%	79,103,555	10%
National Bank of Canada (R-1 Mid)	Open	125,960,697				
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		655,065,442				
Federal Government & its Guarantees						
Money Market		0	820,257,008	100%	820,257,008	100%
Reserves - Bond Pool		0	820,257,008	100%	820,257,008	100%
Canada Mortgage & Housing Corp.		0				
Provincial Government & their Guarantees		0	820,257,008	100%	820,257,008	100%
Money Market		0	820,257,008	100%	820,257,008	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	820,257,008	100%	655,071,852	80%
Alberta		0	205,064,252	25%	205,064,252	25%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		72,917,106	205,064,252	25%	132,147,146	16%
Manitoba		5,633,650	205,064,252	25%	199,430,602	24%
New Brunswick		0	205,064,252	25%	205,064,252	25%
Nova Scotia		0				
Ontario		86,634,400	170,571,052	25%	83,936,652	10%
Quebec		0	131,819,488	25%	131,819,488	16%
Quebec		0	131,819,488	25%	131,819,488	16%
Financement Quebec		0	205,064,252	25%	205,064,252	25%
Hydro Quebec		0	205,064,252	25%	205,064,252	25%
Saskatchewan		0	205,064,252	25%	205,064,252	25%
Total Fixed		165,185,156				
Equities						
Bank of Montreal		6,410				
Total Equities		6,410				
Total Investments		820,257,008				
Interest Bearing Bank Accounts - O/S Cheque Coverage		47,000,000				
Total Investments and O/S Cheques Coverage		867,257,008				

Appendix A

Economic Statistics	Canada			United States		
	Apr	May	Jun	Apr	May	Jun
Unemployment Rate	5.2%	5.1%	4.9%	3.6%	3.6%	3.6%
Jobs Created / (Lost) ('000's)	15	40	(43)	368	386	398
Core Inflation Rate (year over year)	5.7%	6.1%	6.2%	6.2%	6.0%	5.9%

Date	Central Bank	Central Bank Action
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	Raised 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	Raised target range to 0.75% to 1.00%
June 1, 2022	Bank of Canada	Raised overnight rate to 1.50%
June 15, 2022	U.S. Federal Open Market Committee	Raised target range to 1.50% to 1.75%
July 13, 2022	Bank of Canada	Raised overnight rate to 2.50%
July 27, 2022	U.S. Federal Open Market Committee	Raised target range to 2.25% to 2.50%

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.