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Item No. 12.2.1
Audit & Finance Standing Committee
January 19, 2023

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: - Original Signed -

Cathie O'Toole, Chief Administrative Officer

DATE: January 6, 2022

SUBJECT: Investment Activities – Quarter ending September 30, 2022

ORIGIN

Quarterly report of investment performance and adherence to approved Investment Policy.

LEGISLATIVE AUTHORITY

Subsection 121(1) of the Halifax Regional Municipality Charter (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. The Charter states:

- 121 (1) Funds in a sinking fund, capital reserve fund, utility depreciation fund or other fund of the Municipality must be
- (a) deposited in an interest-bearing account at a bank doing business in the Province;
 - (b) invested pursuant to an investment policy adopted by the Council and approved by the Minister; or
 - (c) invested in investments in which a trustee is permitted to invest pursuant to the *Trustee Act*.

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. The 2022 review resulted in slight changes and is currently pending Ministerial approval. 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 5, 2022, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending September 30, 2022 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

Overall Results

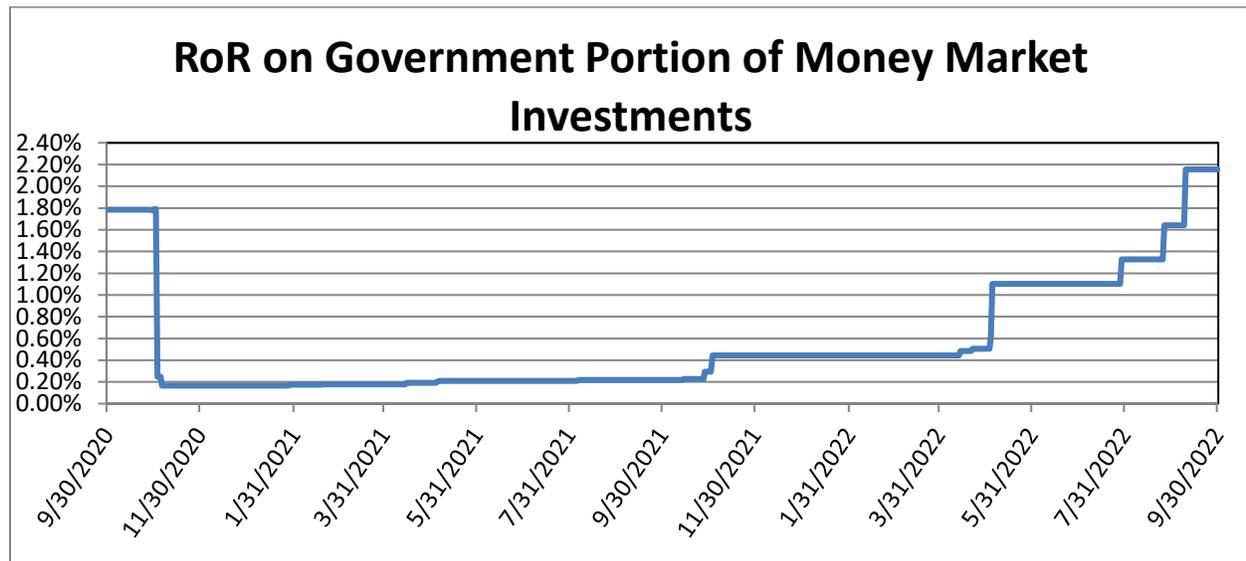
Operating fund investment income for the three months ending September 30, 2022, was \$1,201,189 versus the updated projection of \$1,230,000. Total investment income for the portfolio was \$4,534,844 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

HRM Investment Activities

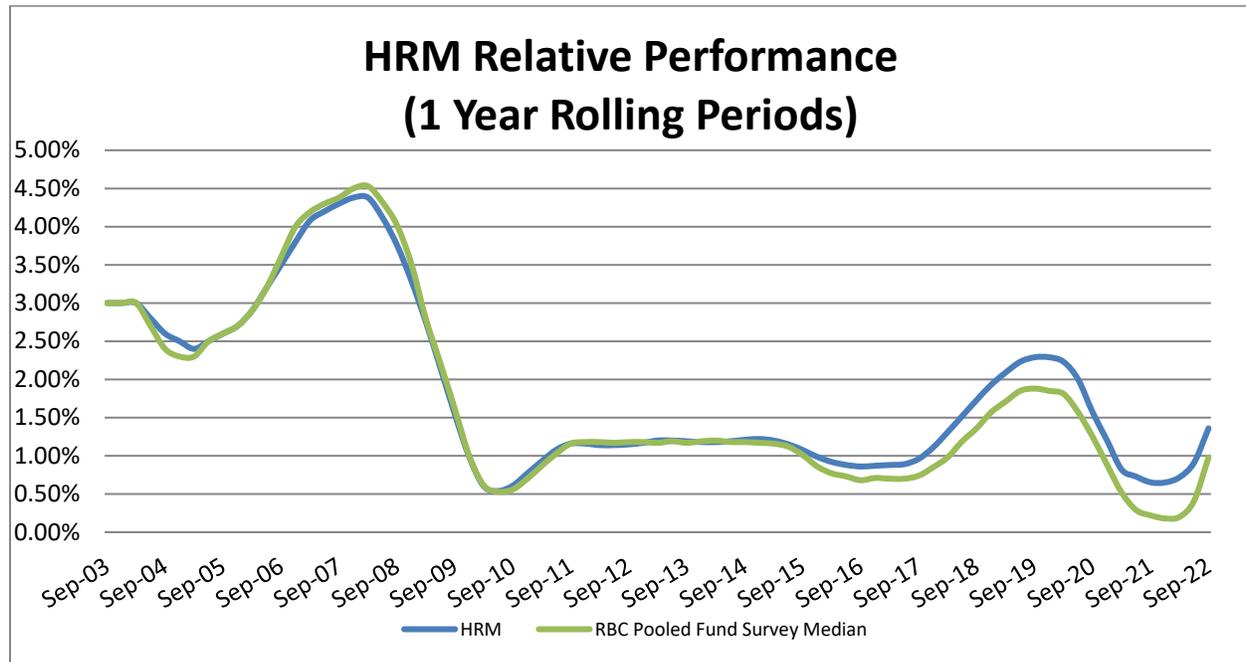
The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 25 pooled Canadian money market funds. These funds generally feature Canadian government short-term instruments as their primary holding. The duration of the instruments held vary based on current market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

Money Market Funds	3 Months (to Sep 30, 2022)	1 Year (to Sep 30, 2022)
Average Return	0.26%	0.62%
5 th Percentile	0.68%	1.19%
1 st Quartile	0.66%	1.08%
Money Market Median	0.62%	0.98%
3 rd Quartile	0.55%	0.89%
95 th Percentile	0.18%	0.24%
HRM Overall	0.61%	1.36%

Overall performance continues to be positive as we note the three-month return exceeds the average return 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.

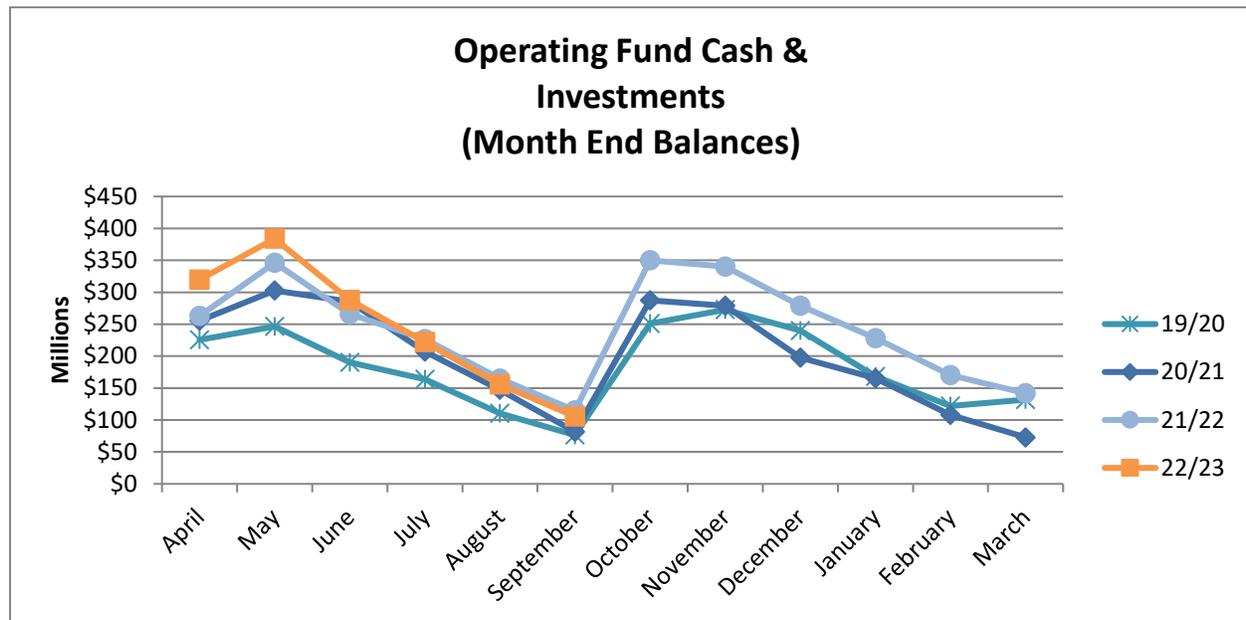


During the quarter, there were no money market investments made, three investment maturities and two investments carried from the prior period with a total ending value of \$34,493,200, an average cost of \$17,246,600, and an original average term of 237 days. This compares to the same period last year when we held five investments at the end of the period with a total cost of \$155,610,221, an average cost of \$31,122,044 and average term to maturity of 259 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 \$459,316,095 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 3.40% as the proxy for the BA and BDN average annual yield for the three months, incremental losses in the investment account were \$480,455 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 is due to the BAs and BDNs anticipating the higher rates which is reflected in the proxy, however, our investment accounts do not reflect the higher rates until the actual increase occurs. 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 0.74%, and an annualized return of 2.95%.

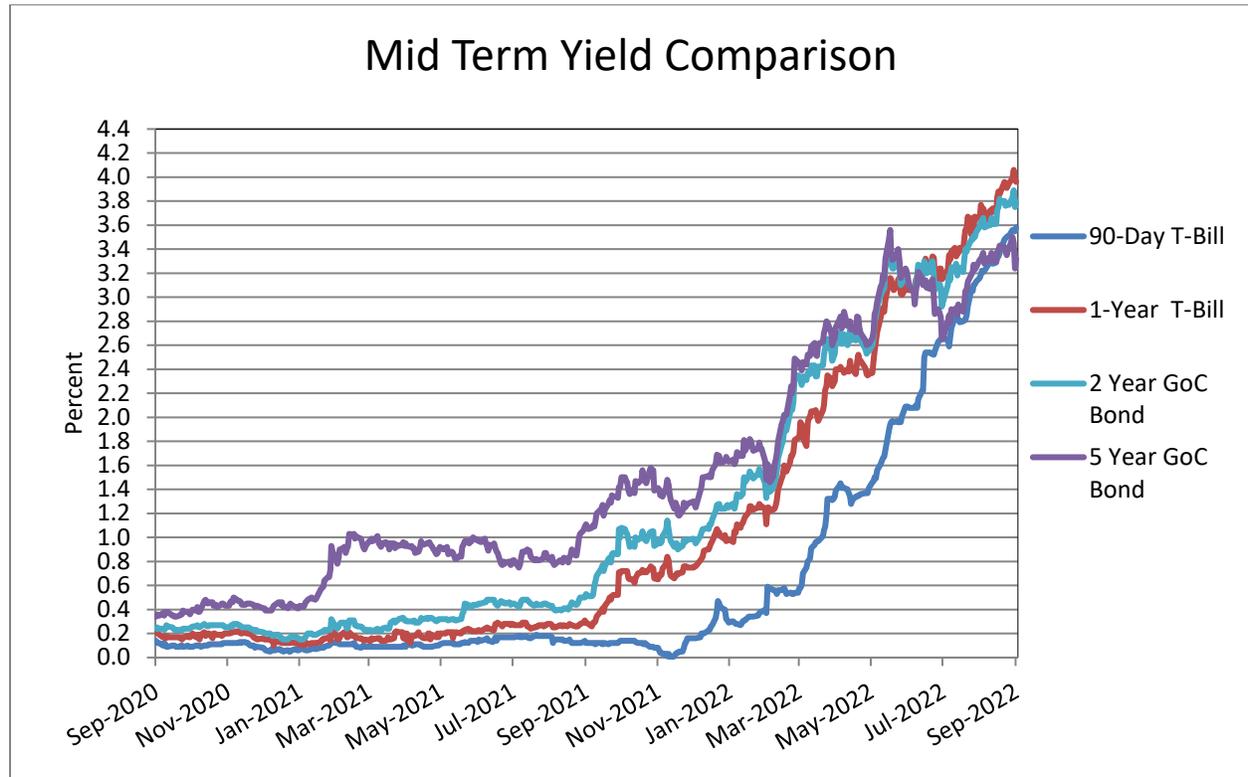
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,093,489 including a \$208,704 decrease during the reporting period. A decrease of \$230,658 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$2,244,607. The decreases are attributable to the rapidly changing interest rate landscape affecting the benchmark used with the same reasons outlined above (for the same reasons outlined above), however, the cumulative effective of each policy change is still overwhelmingly positive.



HRM Long 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 – September 2020 to September 2022



Subsequent to End of Reporting Quarter

The Bank of Canada announced a 50bps hike to the overnight rate on both October 26, 2022, and December 7, 2022, which brought up the overnight rate to 4.25%. As inflation continues to remain at levels higher than the target, the Bank of Canada initiated quantitative tightening in April 2022, which has continued after the reporting period. Rate hikes will potentially continue to combat high inflation, however, current forecasts by economists having the overnight rate stabilize at 4.25% moving into 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 potentially continue to increase over the next few months.

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 average return of the benchmark for the quarter ending September 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 September 30, 2022, was \$1,201,189 versus the updated forecast of \$1,230,000. The actual rate of return was 0.61% for the period.

The current projection for the fiscal year is \$5,930,000, compared to a budget of \$1,965,000, which results in a surplus of \$3,965,000.

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 to not approve the recommendation.

ATTACHMENTS

- Attachment 1 - Sector Weight Schedule @ September 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.

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Total Portfolio
Sector Weights @ September 30, 2022

Category Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS					
Federal Government & its Guarantees	Open	0	904,866,238	100%	904,866,238 100%
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	34,493,200	904,866,238	100%	870,373,038 96%
Total Alberta (R-1 High)	Open	0	-	25%	0 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	226,216,559	25%	153,299,453 17%
Manitoba (R-1 Mid)	Open	0	226,216,559	25%	220,582,909 24%
New Brunswick (R-1 Mid)	Open	0	226,216,559	25%	226,216,559 25%
Nova Scotia (R-1 Mid)	Open	0	226,216,559	25%	226,216,559 25%
Ontario (R-1 Mid)	Open	34,493,200	226,216,559	25%	70,595,759 8%
Quebec (R-1 Mid)	Open	0	226,216,559	25%	226,216,559 25%
Quebec		0			
Financement Quebec		0			
Hydro Quebec		0			
Saskatchewan (R-1 High)	Open	0	226,216,559	25%	226,216,559 25%
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	226,216,559	25%	226,216,559 25%
Calgary (R-1 High)	Open		90,486,624	10%	90,486,624 10%
Financial Institutions & their Guarantees /Corporations		408,316,095	637,507,288		229,191,193
BA's Schedule A					
Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	321,551,465			
Bank of Montreal (R-1 High)	Open	99,968,718	180,973,248	20%	81,004,530 9%
BMO - Instruments		0			
BMO - Account		99,968,718			
Bank of Nova Scotia (R-1 High)	Open	68,968,297	180,973,248	20%	112,004,950 12%
Bank of Nova Scotia Effective Cash		43,968,297			
Bank of Nova Scotia - Notice Account		25,000,000			
Canadian Imperial Bank of Commerce (R-1 High)	Open	111,627,297	180,973,248	20%	69,345,951 8%
CIBC - Instruments		20,173,287			
CIBC - Account		91,454,010			
Royal Bank (R-1 High)	Open	20,857,736	180,973,248	20%	160,115,511 18%
RBC - Instruments		0			
RBC IS		3,675			
RBC - Account		20,854,061			
Toronto Dominion (R-1 High)	Open	20,129,417	180,973,248	20%	160,843,831 18%
TD - Instruments		0			
TD - Account		20,129,417			
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	86,764,631			
National Bank of Canada (R-1 Mid)	Open	86,764,631	135,729,936	15%	48,965,305 5%
National - Instruments		0			
National - Account		86,764,631			
OMERS Realty Corporation (R-1 High)	Open	0	135,729,936	15%	135,729,936 15%
CDP Financial Inc (R-1 High)	Open	0	135,729,936	15%	135,729,936 15%
Desjardins Total		0	135,729,936	15%	135,729,936 15%
Desjardins Group (R-1 High)	Open	0			
Caisse Centale Desjardins (R-1 High)	Open	0			
Total Cash and Equivalents		442,809,295			
Federal Government & its Guarantees					
Money Market		0	904,866,238	100%	904,866,238 100%
Reserves - Bond Pool		0	904,866,238	100%	904,866,238 100%
Canada Mortgage & Housing Corp.		0			
Provincial Government & their Guarantees		34,493,200	904,866,238	100%	870,373,038 96%
Money Market		34,493,200	904,866,238	100%	870,373,038 96%
Alberta		0	226,216,559	25%	226,216,559 25%
Alberta		0			
Alberta Capital Finance Authority		0			
Alberta Treasury Branches		0			
British Columbia		0	226,216,559	25%	153,299,453 17%
Manitoba		0	226,216,559	25%	220,582,909 24%
New Brunswick		0	226,216,559	25%	226,216,559 25%
Nova Scotia		0	226,216,559	25%	226,216,559 25%
Ontario		34,493,200	226,216,559	25%	105,088,959 12%
Quebec		0	226,216,559	25%	226,216,559 25%
Quebec		0			
Financement Quebec		0			
Hydro Quebec		0			
Saskatchewan		0	226,216,559	25%	226,216,559 25%
Bond Pool		165,185,156	180,973,248	20%	15,788,092 2%
Alberta		0	226,216,559	25%	226,216,559 25%
Alberta		0			
Alberta Capital Finance Authority		0			
Alberta Treasury Branches		0			
British Columbia		72,917,106	226,216,559	25%	153,299,453 17%
Manitoba		5,633,650	226,216,559	25%	220,582,909 24%
New Brunswick		0	226,216,559	25%	226,216,559 25%
Nova Scotia		0			
Ontario		86,634,400	226,216,559	25%	105,088,959 12%
Quebec		0	226,216,559	25%	226,216,559 25%
Quebec		0			
Financement Quebec		0			
Hydro Quebec		0			
Saskatchewan		0	226,216,559	25%	226,216,559 25%
Total Fixed		165,185,156			
Equities					
Bank of Montreal		6,410			
Total Equities		6,410			
Total Investments		608,000,861			
Interest Bearing Bank Accounts - O/S Cheque Coverage		51,000,000 *			
Total Investments and O/S Cheques Coverage		659,000,861			

Appendix A

Economic Statistics	Canada			United States		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	4.9%	5.4%	5.2%	3.5%	3.7%	3.5%
Jobs Created / (Lost) ('000's)	(31)	(40)	21	537	292	315
Core Inflation Rate (year over year)	7.6%	7.0%	6.9%	8.5%	8.3%	8.2%

Date	Central Bank	Central Bank Action
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%
Jun 1, 2022	Bank of Canada	Raised overnight rate to 1.50%
Jun 15, 2022	U.S. Federal Open Market Committee	Raised target range to 1.50% to 1.75%
Jul 13, 2022	Bank of Canada	Raised overnight rate to 2.50%
Jul 27, 2022	U.S. Federal Open Market Committee	Raised target range to 2.25% to 2.50%
Sept 7, 2022	Bank of Canada	Raised overnight rate to 3.25%
Sept 21, 2022	U.S. Federal Open Market Committee	Raised target range to 3.00% to 3.25%
Oct 26, 2022	Bank of Canada	Raised overnight rate to 3.75%
Nov 2, 2022	U.S. Federal Open Market Committee	Raised target range to 3.75% to 4.00%

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.