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

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: - Original Signed -

Cathie O'Toole, Chief Administrative Officer

DATE: March 17, 2023

SUBJECT: Investment Activities – Quarter ending December 31, 2022

ORIGIN

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

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, Clauses 121 (1)(b)(c), as follows:

121 (1) Funds in a sinking fund, capital reserve fund, utility depreciation fund or other fund of the Municipality must be

(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*.

Administrative order One, the *Procedures of the Council Administrative Order*, Schedule 2, Audit & Finance Terms of Reference, as follows:

14. The following Committees shall be advisory committee to the Audit and Finance Standing Committee: ... Investment Policy Committee

RECOMMENDATION

It is recommended that the Audit and 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 Investment Policy Advisory Committee (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 Committee were approved by Council and the Minister in 2005, 2007, 2008, 2010, 2017, 2019 and 2022. Reviews of the Policy by the Committee in 2012, 2014, 2015, 2020 and 2021 did not result in any recommended changes.

DISCUSSION

The 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 Committee meeting of March 6, 2023, the Committee reviewed the information provided by staff in the Treasurer's report for the Quarter ending December 31, 2022 and accepts the report and the findings contained in the report that the investment activities reported comply with the Policy.

Overall Results

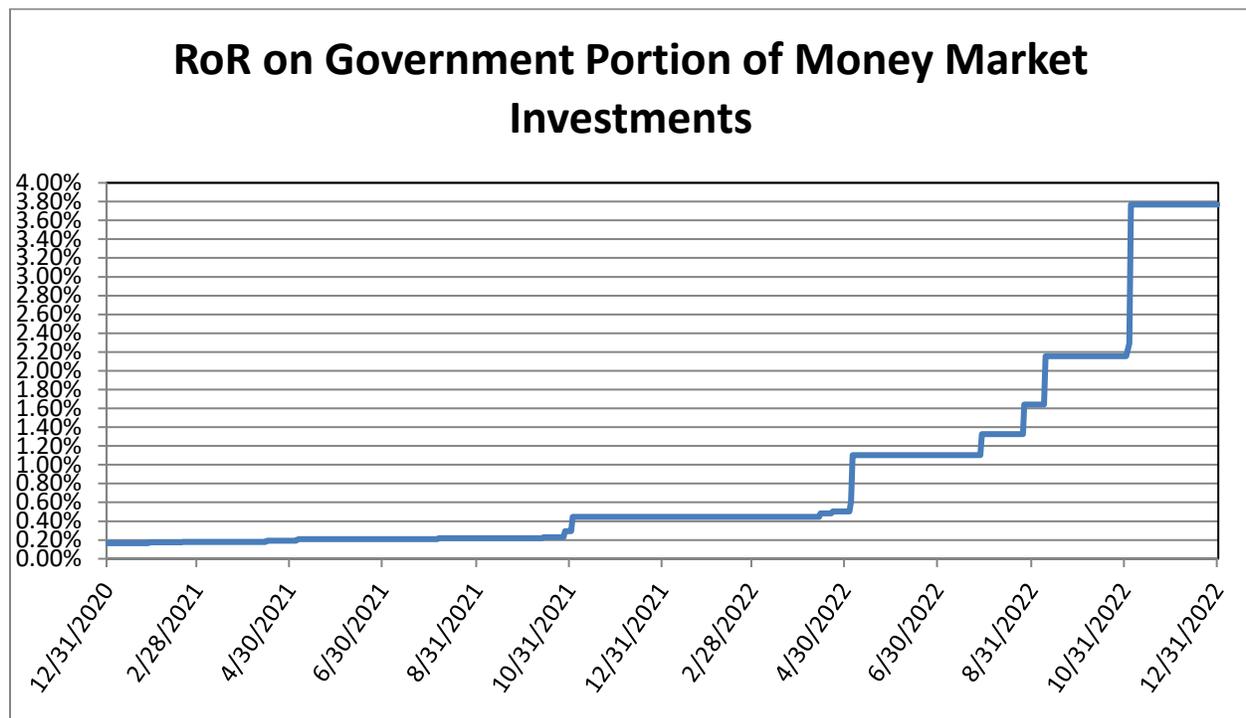
Operating fund investment income for the three months ending December 31, 2022, was \$2,451,803 versus the updated projection of \$2,420,000. The total investment income for the portfolio was \$7,051,624 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

HRM Investment Activities

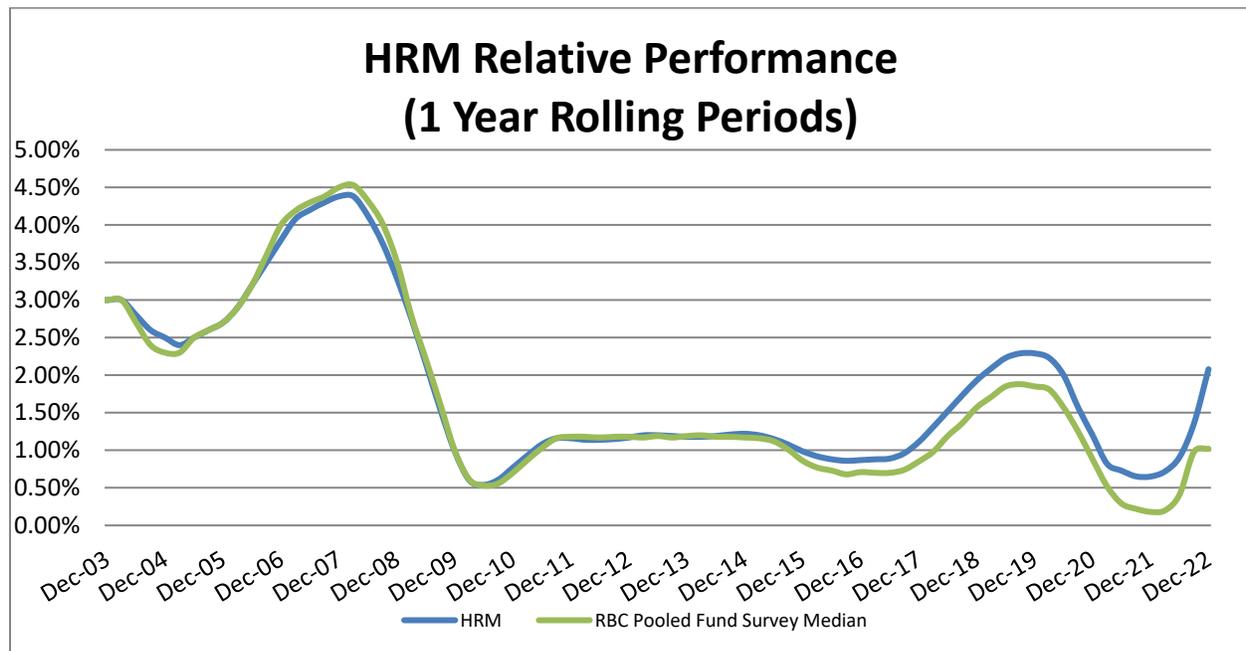
The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 25 pooled Canadian money market funds. These funds generally feature Canadian government short-term instruments as their primary holding. The duration of the instruments held vary based on current market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

Money Market Funds	3 Months (to Dec 31, 2022)	1 Year (to Dec 31, 2022)
Average Return	0.93%	1.87%
5 th Percentile	1.02%	2.09%
1 st Quartile	0.98%	2.03%
Money Market Median	0.93%	1.02%
3 rd Quartile	0.90%	0.96%
95 th Percentile	0.86%	0.60%
HRM Overall	0.90%	2.08%

Relative performance continues to be positive as we note the rolling one-year return exceeds the 1st quartile while the quarterly return meets the 3rd quartile. These returns are before any allowance for fees that could be paid for external management.



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.

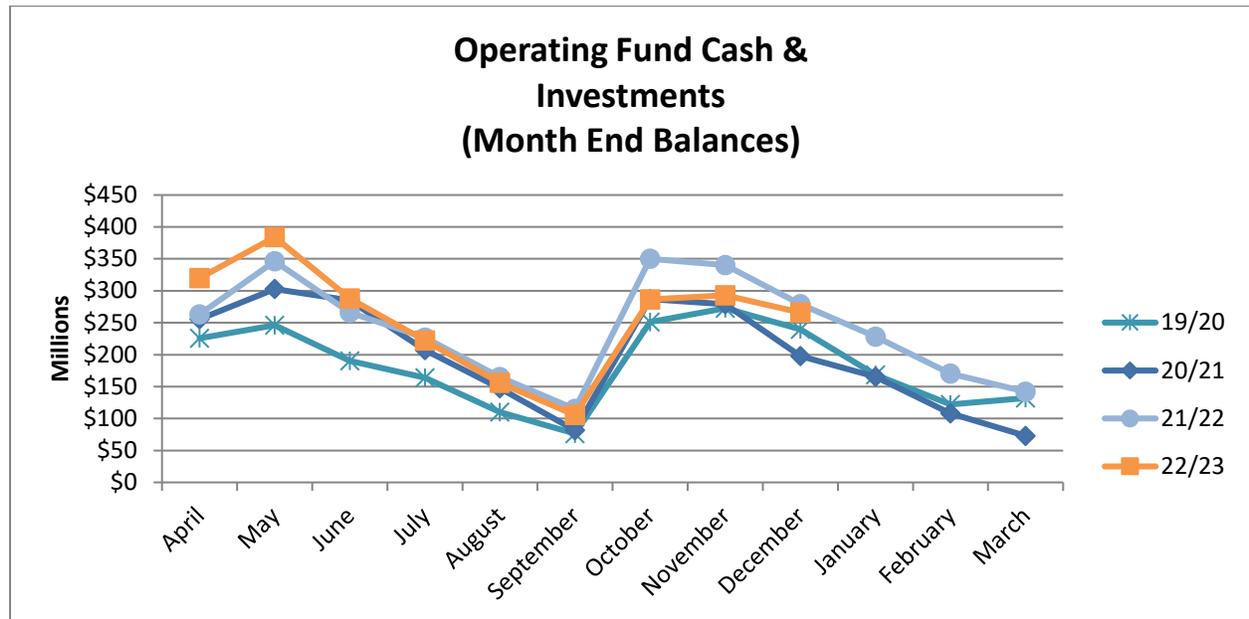


During the quarter, there were four money market investments made, one investment maturity and one investment carried from the prior period with a total ending value of \$93,942,969, an average cost of \$18,788,594, and an original average term of 186 days. This compares to the same period last year when we held six investments at the end of the period with a total cost of \$153,113,221, an average cost of \$25,518,870 and average term to maturity of 294 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 two years. All five bonds were purchased in the same period last year.

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$505,207,805 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 4.39% as the proxy for the BA and BDN average annual yield for the three months, the incremental income in the investment account was \$30,169 for the quarter over BA's and BDN's. Interest rates are beginning to stabilize, and as noted in previous quarters, the investment accounts have returned to providing incremental income over BA's and BDN's. The income from our investment accounts provided a quarterly return of 1.09%, and an annualized return of 4.36%.

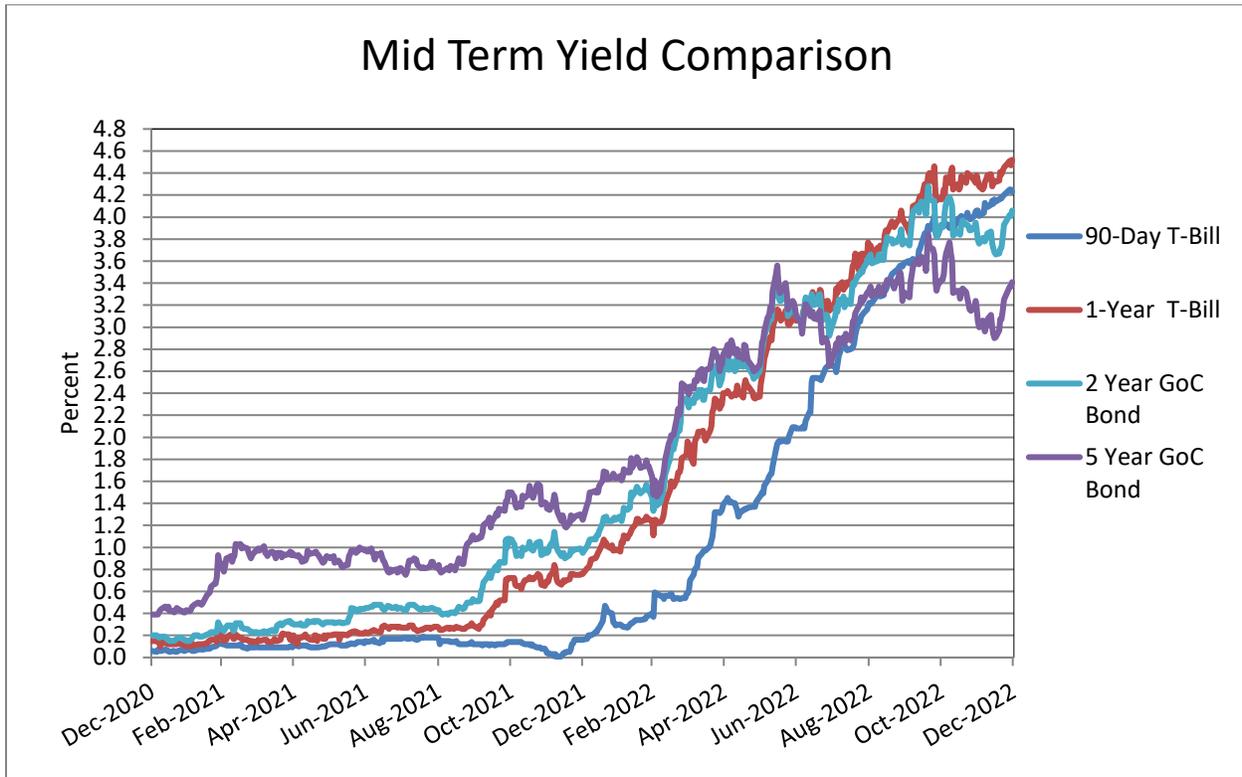
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,112,951 including a \$19,462 increase during the reporting period. An additional increase of \$13,898 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, for a cumulative impact since April 2019 of \$2,224,317.



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 – December 2020 to December 2022



Subsequent to End of Reporting Quarter

On January 25th, the Bank of Canada set the overnight rate to 4.5%, a 25 basis points increase, continuing the trend over the past year. In making this decision, deliberations indicate the Governing Council recognized that the 3rd quarter GDP was stronger than expected, the Canadian labour market remains tight, and the re-opening of China's economy provides uncertainty as a sharp increase in demand could once again create inflationary pressures.

The Bank of Canada is still seeking to maintain low, stable inflation as its primary objective and a target inflation of 2%. The data indicates the CPI is trending downward, retreating from a high of 8.1% to 6.3% in December. The Bank has signalled a pause in the overnight rate at current level to allow time for the policy changes to be fully realized, and the bar to further rate increases is now higher. However, should risks to the economy materialize resulting in higher inflation, the Bank of Canada will act.

ESG Monitoring & Reporting

As proposed by the Committee and approved by Council, Staff has incorporated ESG ratings of each counterparty in the financial institution component of the municipal portfolio. The monitoring process begins with this reporting period. S&P Global was selected as the rating agency to determine ESG scores. Staff performed a counterparty review on December 9, 2022 and determined that all eligible counterparties' ESG scores were well above the industry average. No major upgrades or downgrades were noted in the review process for any of the listed counterparties.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. Given the guidance, we anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk. Therefore, the strategy remains to maximize returns by investing in High Interest Savings Accounts, keeping in mind that their liquidity adds a safety factor.

We continue to balance the portfolio with government sector instruments 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 rolling one-year rate of return exceeds 1st quartile of the benchmark for the quarter ending December 31, 2022 while the quarterly return meets the 3rd quartile, 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, 2022, was \$2,451,803 versus the updated forecast of \$2,420,000. The actual rate of return was 0.90% for the period.

RISK CONSIDERATION

There are no significant risks associated with the recommendations in this report.

COMMUNITY ENGAGEMENT

Investment activities are reported quarterly to the Investment Policy Advisory Committee. The majority of members of this Committee (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 @ December 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 or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Total Portfolio
Sector Weights @ December 31, 2022

Category	Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	865,198,157	100%	865,198,157	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	93,942,969	865,198,157	100%	771,255,188	89%
Total Alberta (R-1 High)	Open	0	216,299,539	25%	216,299,539	25%
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	216,299,539	25%	143,382,433	17%
Manitoba (R-1 Mid)	Open	0	216,299,539	25%	216,299,539	25%
New Brunswick (R-1 Mid)	Open	0	216,299,539	25%	216,299,539	25%
Nova Scotia (R-1 Mid)	Open	0	216,299,539	25%	216,299,539	25%
Ontario (R-1 Mid)	Open	19,639,000	216,299,539	25%	110,026,139	13%
Quebec (R-1 Mid)	Open	55,111,679	216,299,539	25%	161,187,860	19%
Quebec		55,111,679				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	19,192,290	216,299,539	25%	197,107,249	23%
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	216,299,539	25%	216,299,539	25%
Calgary (R-1 High)	Open	0	86,519,816	10%	86,519,816	10%
Financial Institutions & their Guarantees /Corporations		473,207,805	618,416,097		145,208,292	
	BA's Schedule A					
	Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	372,471,329				
Bank of Montreal (R-1 High)	Open	99,546,550	173,039,631	20%	73,493,082	8%
BMO - Instruments		0				
BMO - Account		99,546,550				
Bank of Nova Scotia (R-1 High)	Open	39,095,341	173,039,631	20%	133,944,290	15%
Bank of Nova Scotia Effective Cash		14,095,341				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	72,551,667	173,039,631	20%	100,487,964	12%
CIBC - Instruments		20,173,287				
CIBC - Account		52,378,381				
Royal Bank (R-1 High)	Open	81,032,921	173,039,631	20%	92,006,711	11%
RBC - Instruments		0				
RBC IS		2,715				
RBC - Account		81,030,206				
Toronto Dominion (R-1 High)	Open	80,244,850	173,039,631	20%	92,794,781	11%
TD - Instruments		0				
TD - Account		80,244,850				
		0				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	100,736,476				
National Bank of Canada (R-1 Mid)	Open	100,736,476	129,779,724	15%	29,043,247	3%
National - Instruments		0				
National - Account		100,736,476				
OMERS Realty Corporation (R-1 High)	Open	0	129,779,724	15%	129,779,724	15%
CDP Financial Inc (R-1 High)	Open	0	129,779,724	15%	129,779,724	15%
Desjardins Total		0	129,779,724	15%	129,779,724	15%
Desjardins Group (R-1 High)	Open	0				
Caisse Centale Desjardins (R-1 High)	Open	0				
		0				
Total Cash and Equivalents		567,150,774				
Federal Government & its Guarantees						
Money Market		0	173,039,631	100%	173,039,631	20%
Reserves - Bond Pool		0	173,039,631	100%	173,039,631	20%
Provincial Government & their Guarantees		0	173,039,631	20%	173,039,631	20%
Money Market		0	173,039,631	20%	173,039,631	20%
Alberta		0	173,039,631	20%	173,039,631	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	173,039,631	20%	100,122,525	12%
Manitoba		0	173,039,631	20%	167,405,981	19%
New Brunswick		0	173,039,631	20%	173,039,631	20%
Nova Scotia		0	173,039,631	20%	173,039,631	20%
Ontario		0	173,039,631	20%	66,766,231	8%
Quebec		0	173,039,631	20%	117,927,952	14%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	173,039,631	20%	153,847,341	18%
Reserves - Bond Pool		165,185,156	173,039,631	20%	7,854,475	1%
Alberta		0	173,039,631	20%	173,039,631	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		72,917,106	173,039,631	20%	100,122,525	12%
Manitoba		5,633,650	173,039,631	20%	167,405,981	19%
New Brunswick		0	173,039,631	20%	173,039,631	20%
Nova Scotia		0	173,039,631	20%	173,039,631	20%
Ontario		86,634,400	173,039,631	20%	66,766,231	8%
Quebec		0	173,039,631	20%	117,927,952	14%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	173,039,631	20%	153,847,341	18%
Total Fixed		165,185,156				
Equities						
Bank of Montreal						
Total Equities		6,410				
Total Investments		732,342,340				
Interest Bearing Bank Accounts - O/S Cheque Coverage		32,000,000 *				
Total Investments and O/S Cheques Coverage		764,342,340				

Appendix A

Economic Statistics	Canada			United States		
	Oct	Nov	Dec	Oct	Nov	Dec
Unemployment Rate	5.2%	5.1%	5.5%	3.7%	3.6%	3.5%
Jobs Created / (Lost) ('000's)	108	10	104	263	256	223
Core Inflation Rate (year over year)	6.9%	6.8%	6.3%	7.7%	7.1%	6.5%

Date	Central Bank	Central Bank Action
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%
Dec 7, 2022	Bank of Canada	Raised overnight rate to 4.25%
Dec 14, 2022	U.S. Federal Open Market Committee	Raised target range to 4.25% to 4.50%
Jan 25, 2023	Bank of Canada	Raised overnight rate to 4.50%
Feb 1, 2023	U.S. Federal Open Market Committee	Raised target range to 4.50% to 4.75%

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):

National Bank of Canada

Dominion Bond Rating Service (DBRS) Rating Scale

R-1 (high)

Short-term debt rated R-1 (high) is of the highest credit 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.