



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

**Item No.12.2.1**  
**Audit & Finance Standing Committee**  
**June 21, 2023**

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

**SUBMITTED BY:** **-ORIGINAL SIGNED-**  
\_\_\_\_\_  
Cathie O'Toole, Chief Administrative Officer

**DATE:** June 15, 2023

**SUBJECT:** **Investment Activities – Quarter ending March 31, 2023**

---

**ORIGIN**

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

**LEGISLATIVE AUTHORITY**

Section 121(1)(b) of the Halifax Regional Municipality Charter (the Charter) requires that funds be invested pursuant to an Investment Policy adopted by Council and approved by the Minister of Municipal Affairs (the Minister). Section 121(1)(c) of the Charter states funds must be invested pursuant to the Trustee Act. Where HRM has chosen to adopt an Investment Policy and the Minister has approved that Investment Policy, investment activities will be governed by that Investment Policy pursuant to Section 121(1)(b) of the Charter.

**RECOMMENDATION**

1. 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 as stated in Section A (Terms of Reference) of the *Investment Policy*. Following adoption and approval of the Policy, the activities of the Committee have shifted to a 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 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, used to validate portfolio diversification, is attached.

At the Investment Policy Advisory Committee meeting of June 5, 2023, the Committee reviewed the information provided by staff in the Treasurer's report to the Committee for the Quarter ending March 31, 2023 and accepted the report and the findings contained in the report that the investment activities reported complied with the Policy.

## **Overall Results**

Operating fund investment income for the three months ending March 31, 2023 totaled \$2,311,235 versus the updated forecast of \$2,350,000. The total investment income for the portfolio was \$7,088,578 including investment income for the operating fund, trusts, reserves, and related entities.

## **HRM Investment Activities**

As outlined in the *Investment Policy* and agreed by the Committee, the benchmark for portfolio performance is the *RBC Pooled Fund Survey* which reviews the performance of 26 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. It should be noted that these pooled funds do not feature significant bond holdings.

**RBC Pooled Fund Survey of Money Market Funds**

<b>Money Market Funds</b>	<b>3 Months (to Mar 31, 2023)</b>	<b>1 Year (to Mar 31, 2023)</b>
Average Return	1.14%	2.95%
5 <sup>th</sup> Percentile	1.26%	3.19%
1 <sup>st</sup> Quartile	1.18%	3.08%
Money Market Median	1.11%	2.99%
3 <sup>rd</sup> Quartile	1.09%	2.85%
95 <sup>th</sup> Percentile	1.06%	2.59%
<b>HRM Money Market</b>	<b>1.21%</b>	<b>3.34%</b>
<b>HRM Overall</b>	<b>0.99%</b>	<b>2.86%</b>

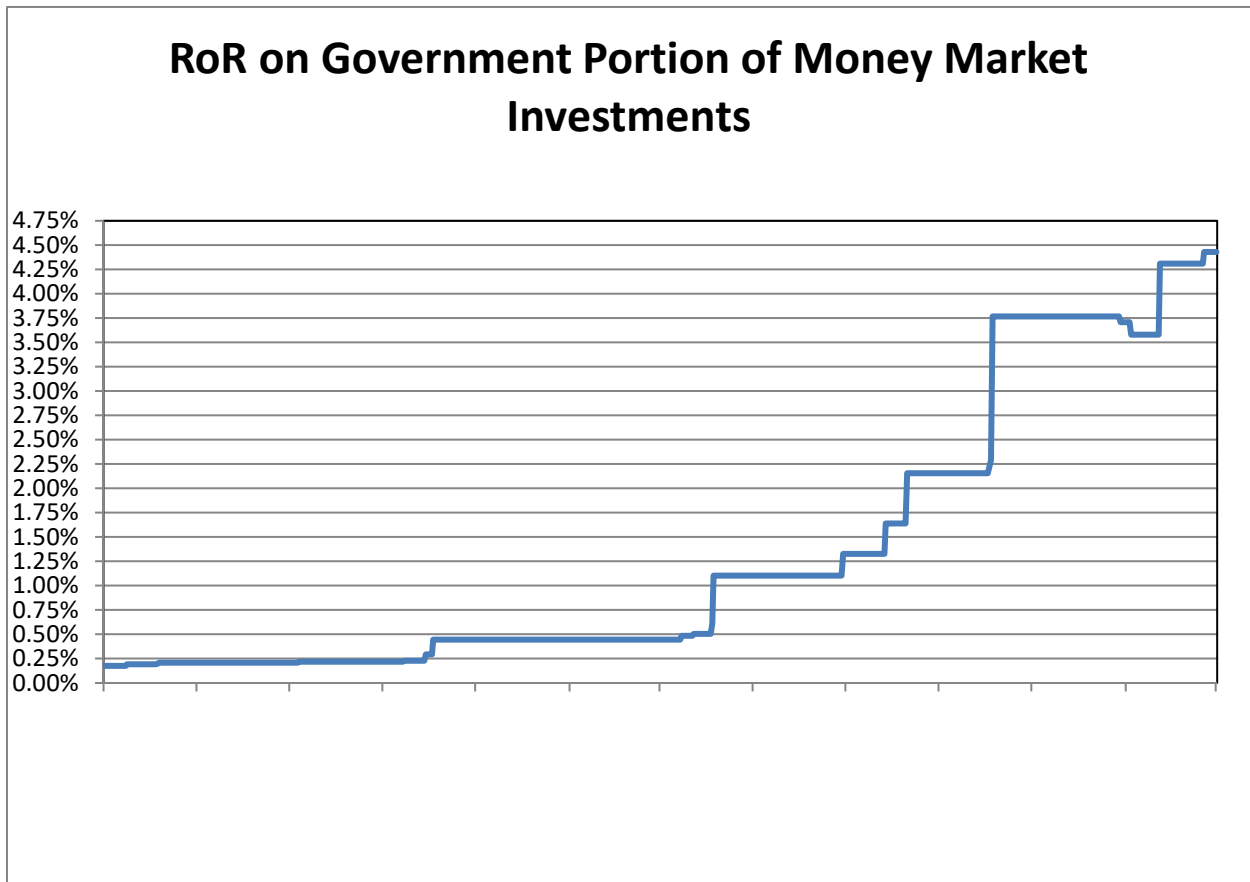
We note the rolling one-year return for the HRM overall portfolio exceeds the 3<sup>rd</sup> quartile when compared to money market fund performance. These returns are before any allowance for fees that could be paid for external management.

When we distinguish between the performance of HRM's money market investments and bond holdings, we find that the quarterly return on money market instruments is 1.21% with an annual return of 3.34% while the return on short-term bonds remains steady at 1.16% for the year. This rate of return exceeds the median found in the RBC Pooled Fund Survey for Short Term Bonds of 1.15% as noted below.

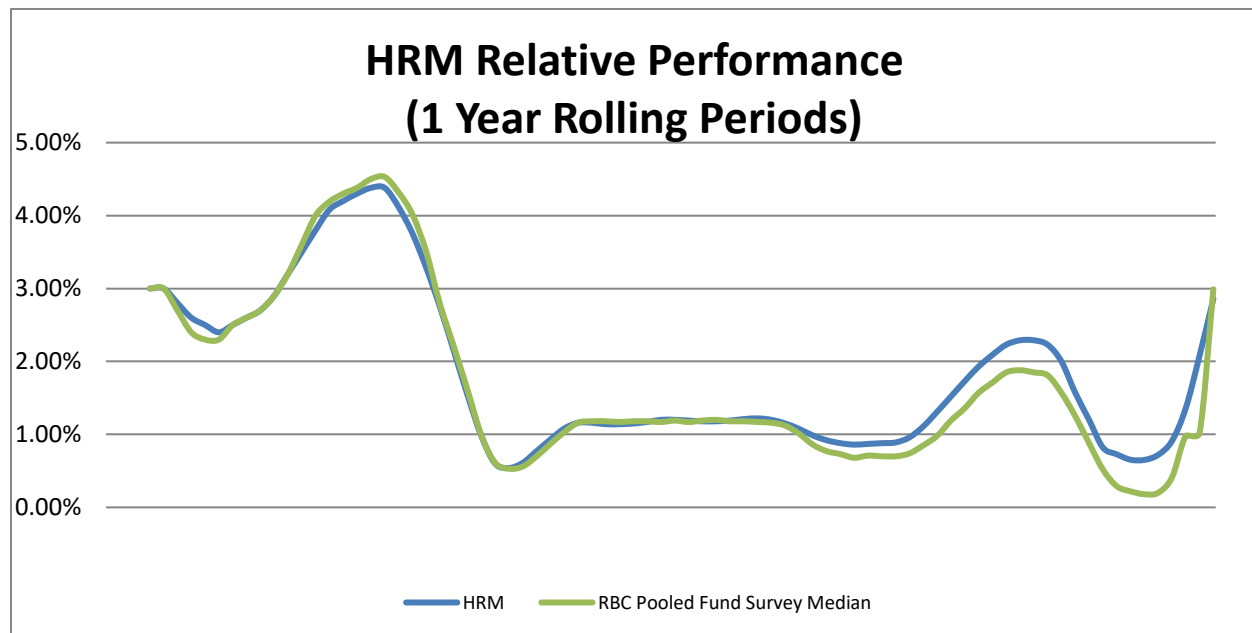
**RBC Pooled Fund Survey of Short Term Bonds**

<b>Short Term Bond</b>	<b>1 Year (to Mar 31, 2023)</b>
Average Return	1.26%
5 <sup>th</sup> Percentile	2.44%
1 <sup>st</sup> Quartile	1.31%
Median	1.15%
3 <sup>rd</sup> Quartile	1.05%
95 <sup>th</sup> Percentile	0.48%
<b>HRM Bonds</b>	<b>1.16%</b>

The following graph depicts the Rate of Return for the last two years on the Government Portion of Money Market Funds.



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.

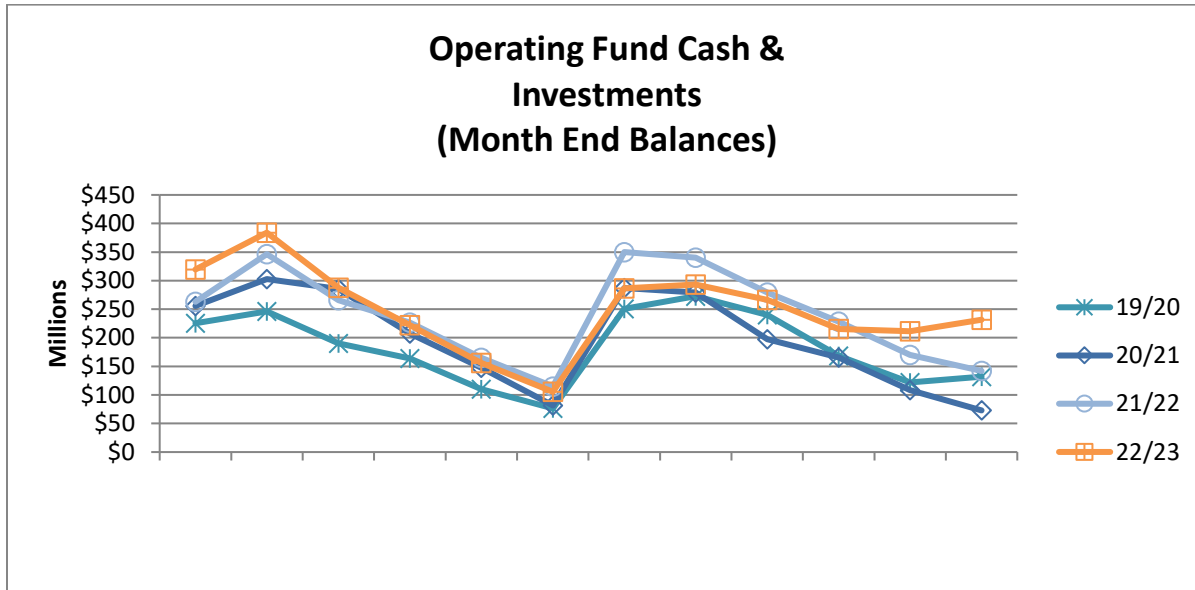


During the quarter, four money market investments matured with just one investment carried from the prior period with a value of \$15,494,479 and an original term of 322 days. There were no money market investments made during the quarter. This compares to the same period last year when we held six investments at the end of the period with a total cost of \$153,113,221, an average cost of \$25,518,870 and an average term to maturity of 294 days.

No additional provincial bond investments were made as 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 held in the same period last year.

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$537,574,807 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, and operating funds. Using 4.75% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$264,991 over BA's and BDN's. The income from our investment accounts provided a quarterly return of 1.24%, and an annualized return of 4.94%.

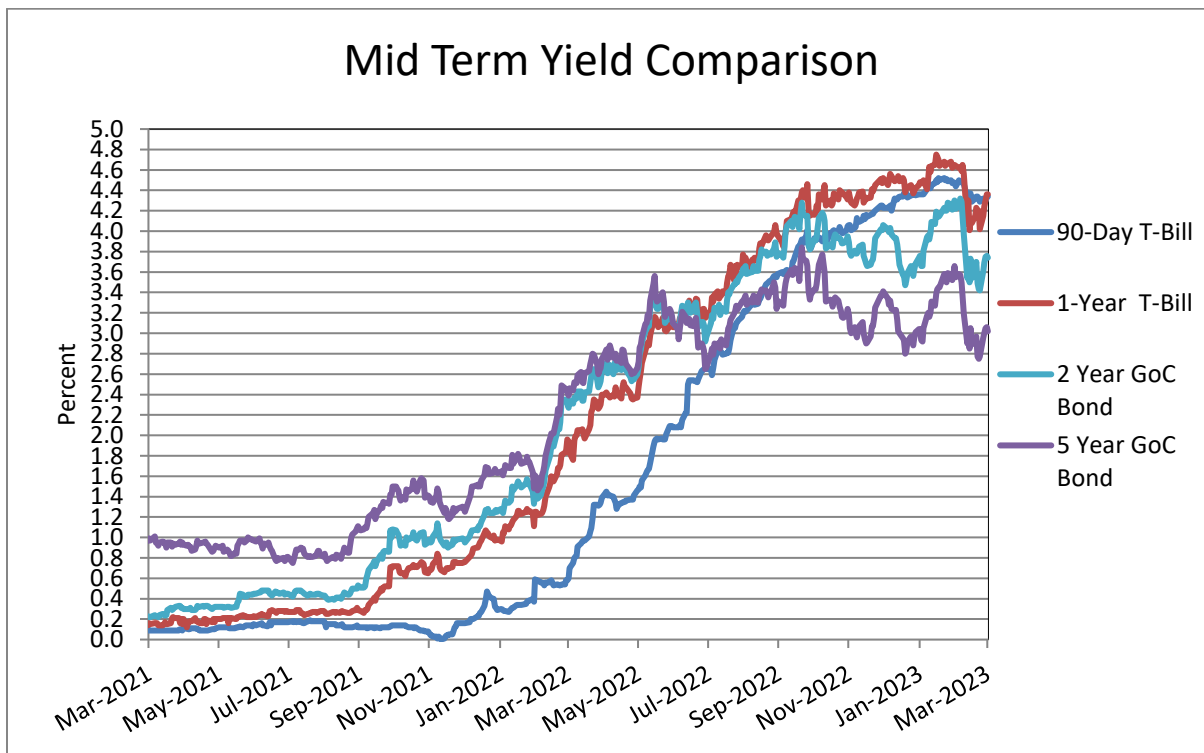
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,318,092 including a \$205,142 increase during the reporting period. An additional increase of \$248,734 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, providing a cumulative impact since April 2019 of \$2,473,051.



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 – March 2021 to March 2023**



Subsequent to End of Reporting Quarter

On April 12<sup>th</sup>, the Bank of Canada held its target for the overnight rate at 4.5%. While the Governing Council recognized inflation is easing, the Canadian labour market remains tight. That said, the prevailing sentiment during deliberations is that core inflation is on the projected path downward and more time is needed to determine if there is a need to raise interest rates further.

The Bank of Canada continues to target 2% core inflation and to signal willingness to raise the overnight rate further to achieve that target. The most recent release of Total CPI shows a modest increase from 4.3% in March to 4.4% in April. However, core inflation measures--the preferred measure of the Bank of Canada--continue to decline.

Environmental, Social, and Governance (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 continues with this reporting period. S&P Global was selected as the rating agency to determine ESG scores. Staff performed a counterparty review on March 10, 2023 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 current guidance, we anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk, but staff will look for higher return, instruments such as Guaranteed Investment Certificates in the Financial Institution half of the portfolio. The strategy remains to maximize returns by investing short term surplus cash 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 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 3<sup>rd</sup> quartile of the benchmark for the quarter ending March 31, 2023 before allowing for fees that could have been paid to an external management firm. The money market portfolio exceeded the 5<sup>th</sup> percentile of the benchmark, while separately, the short-term bond holdings exceeded the median of the bond benchmark. 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 seeks 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, 2023, was \$2,311,235 versus the updated forecast of \$2,350,000. The actual rate of return was 0.99% for the period.

The actual investment income for the fiscal year was \$7,061,400, compared to a budget of \$1,965,000, which resulted in a surplus of \$5,096,400.

### **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 (4 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 decline to approve the recommendation.

### **ATTACHMENTS**

Attachment 1 - Sector Weight Schedule @ March 31, 2023 (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: Vicki Robertson, CPA, Deputy Treasurer, Finance & Asset Management, 902-817-1479

---



**Total Portfolio  
Sector Weights @ March 31, 2023**

	Category Status	Cumulative Amount Invested @ 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>865,198,157</b>	<b>100%</b>	<b>865,198,157</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>15,494,479</b>	<b>865,198,157</b>	<b>100%</b>	<b>849,703,678</b>	<b>98%</b>
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	0	216,299,539	25%	129,665,139	15%
Quebec (R-1 Mid)	Open	15,494,479	216,299,539	25%	200,805,060	23%
Quebec		15,494,479				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0	216,299,539	25%	216,299,539	25%
<b>Municipal Governments &amp; their Guarantees*</b>	<b>R-1 Mid or Greater</b>	<b>0</b>	<b>216,299,539</b>	<b>25%</b>	<b>216,299,539</b>	<b>25%</b>
Calgary (R-1 High)	Open	0	86,519,816	10%	86,519,816	10%
<b>Financial Institutions &amp; their Guarantees /Corporations</b>	<b>BA's Schedule A Canadian Banks R-1</b>	<b>483,574,807</b>	<b>618,416,097</b>		<b>134,841,290</b>	
<b>Tier 1 - Financial Institutions &amp; their Guarantees</b>	<b>Mid</b>	<b>396,842,022</b>				
Bank of Montreal (R-1 High)	Open	148,955,314	173,039,631	20%	24,084,317	3%
BMO - Instruments		0				
BMO - Account		148,955,314				
Bank of Nova Scotia (R-1 High)	Open	29,107,702	173,039,631	20%	143,931,929	17%
Bank of Nova Scotia Effective Cash		4,107,702				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	63,255,265	173,039,631	20%	109,784,367	13%
CIBC - Instruments		20,173,287				
CIBC - Account		43,081,978				
Royal Bank (R-1 High)	Open	82,279,110	173,039,631	20%	90,760,521	10%
RBC - Instruments		0				
RBC IS		194				
RBC - Account		82,278,917				
Toronto Dominion (R-1 High)	Open	73,244,631	173,039,631	20%	99,795,000	12%
TD - Instruments		0				
TD - Account		73,244,631				
		0				
<b>Tier 2 - Financial Institutions &amp; Corporations</b>	<b>R-1 Mid/High***</b>	<b>86,732,785</b>				
National Bank of Canada (R-1 Mid)	Open	86,732,785	129,779,724	15%	43,046,938	5%
National - Instruments		0				
National - Account		86,732,785				
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	Open	0	129,779,724	15%	129,779,724	15%
Desjardins Group (R-1 High)	Open	0				
Caisse Centale Desjardins (R-1 High)	Open	0				
<b>Total Cash and Equivalents</b>		<b>499,069,286</b>				
<b>Federal Government &amp; its Guarantees</b>						
<b>Money Market</b>		<b>0</b>	<b>173,039,631</b>	<b>100%</b>	<b>173,039,631</b>	<b>20%</b>
<b>Reserves - Bond Pool</b>		<b>0</b>	<b>173,039,631</b>	<b>100%</b>	<b>173,039,631</b>	<b>20%</b>
<b>Provincial Government &amp; their Guarantees</b>		<b>0</b>	<b>173,039,631</b>	<b>20%</b>	<b>173,039,631</b>	<b>20%</b>
<b>Money Market</b>		<b>0</b>	<b>173,039,631</b>	<b>20%</b>	<b>173,039,631</b>	<b>20%</b>
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%	86,405,231	10%
Quebec		0	173,039,631	20%	157,545,152	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	173,039,631	20%	173,039,631	20%
<b>Reserves - Bond Pool</b>		<b>165,185,156</b>	<b>173,039,631</b>	<b>20%</b>	<b>7,854,475</b>	<b>1%</b>
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%	86,405,231	10%
Quebec		0	173,039,631	20%	157,545,152	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	173,039,631	20%	173,039,631	20%
<b>Total Fixed</b>		<b>165,185,156</b>				
Equities						
Bank of Montreal						
Total Equities		<b>6,410</b>				
Total Investments		664,260,852				
Interest Bearing Bank Accounts - O/S Cheque Coverage		54,000,000 *				
<b>Total Investments and O/S Cheques Coverage</b>		<b>718,260,852</b>				

## Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	5.0%	5.0%	5.0%	3.4%	3.6%	3.5%
Jobs Created / (Lost) ('000's)	150	22	35	472	326	236
Core Inflation Rate (year over year)	5.9%	5.2%	4.3%	6.4%	6.0%	5.0%

Date	Central Bank	Central Bank Action
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%
March 8, 2023	Bank of Canada	Maintained overnight rate at 4.50%
March 22, 2023	U.S. Federal Open Market Committee	Raised target range to 4.75% to 5.00%
April 12, 2023	Bank of Canada	Maintained overnight rate at 4.50%
May 3, 2023	U.S. Federal Open Market Committee	Raised target range to 5.00% to 5.25%

List of Eligible Investments

The Government of Canada & Its Guarantees:

Federal Government

Business Development Bank

Canada Mortgage & Housing Corporation

Canadian Wheat Board

Export Development Canada

Farm Credit Corporation

Provincial Governments & Their Guarantees:

The Province of Alberta & Its Guarantees

The Province of British Columbia & Its Guarantees

The Province of Manitoba & Its Guarantees

The Province of New Brunswick & Its Guarantees

The Province of Ontario & Its Guarantees

The Province of Quebec & Its Guarantees

The Province of Saskatchewan & Its Guarantees

The Province of Nova Scotia

Municipal Governments & Their Guarantees:

The Municipality of Calgary & Its Guarantees

Financial Institutions & Their Guarantees (Tier 1):

The Bank of Montreal & Its Guarantees

The Bank of Nova Scotia & Its Guarantees

Canadian Imperial Bank of Commerce & Its Guarantees

Royal Bank of Canada & Its Guarantees

Toronto Dominion Bank & Its Guarantees

Financial Institutions & Corporations (Tier 2):

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 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.