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Item No. 13.2.1
Audit & Finance Standing Committee
November 15, 2023

TO: Chair and Members of Audit & Finance Standing Committee

-ORIGINAL SIGNED-

SUBMITTED BY:

Maggie MacDonald, Acting Chief Administrative Officer

DATE: September 11, 2023

SUBJECT: Investment Activities – Quarter ending June 30, 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 in a sinking fund, capital reserve fund, utility depreciation fund or other fund of the Municipality must be invested pursuant to an Investment Policy adopted by Council and approved by the Minister of Municipal Affairs (the “Minister”, previously the Minister of Service Nova Scotia and Municipal Relations).

Section 121(1)(c) of the *Charter* requires that funds in a sinking fund, capital reserve fund, utility depreciation fund or other fund of the Municipality must be invested in investments in which a trustee is permitted to invest 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 and Housing

(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 September 11, 2023, the Committee reviewed the information provided by staff in the Treasurer’s report to the Committee for the quarter ending June 30, 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 June 30, 2023 totaled \$4,276,759 versus a budgeted amount of \$3,500,000. The total investment income for the portfolio was \$9,601,065 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

Money Market Funds	3 Months (to Jun 30, 2023)	1 Year (to Jun 30, 2023)
Average Return	1.15%	3.89%
5 th Percentile	1.23%	4.13%
1 st Quartile	1.20%	4.07%
Money Market Median	1.14%	3.92%
3 rd Quartile	1.11%	3.77%
95 th Percentile	1.02%	3.60%
HRM Money Market	1.28%	4.25%
HRM Overall	1.10%	3.60%

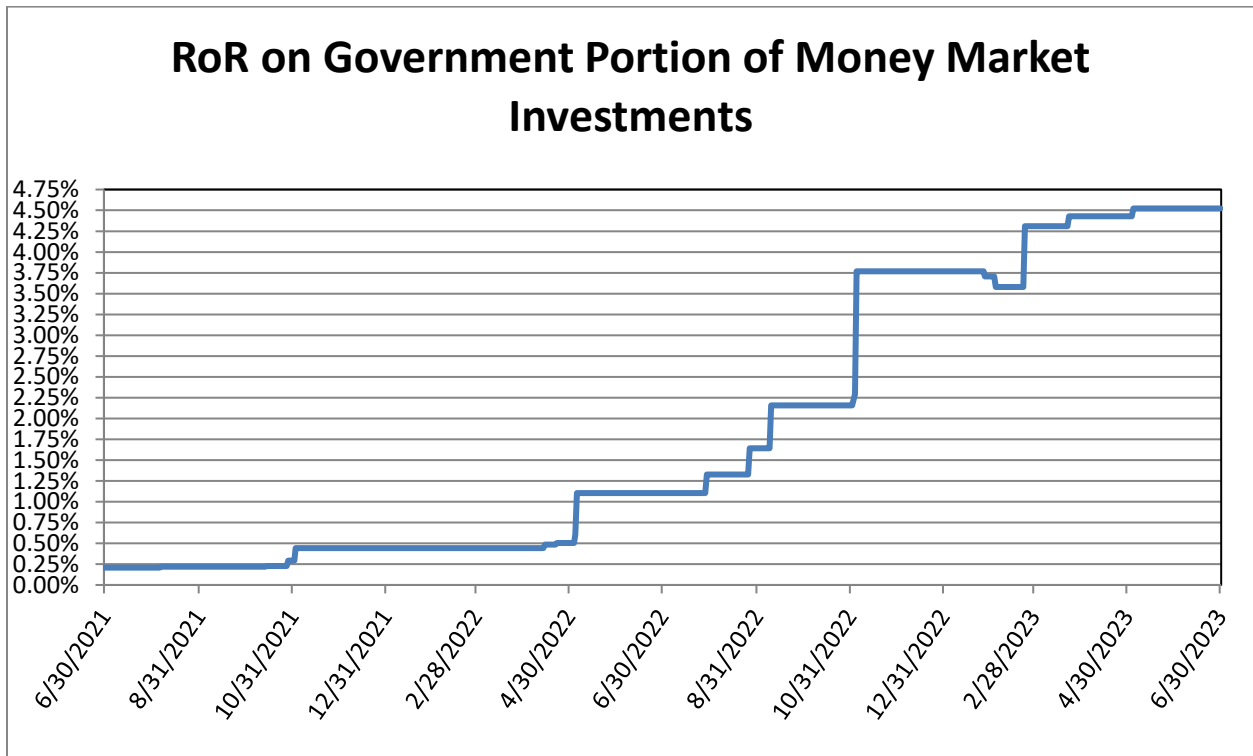
The money market portion of the portfolio, including the high interest investment accounts, exceeded the 5th percentile of the benchmark for both quarterly and annual performance as noted above. These returns are before any allowance for fees that could be paid for external management.

The overall results reflect the performance of the holdings in the bond portfolio which is not reflective of the benchmark funds. Therefore, the bonds are assessed separately below.

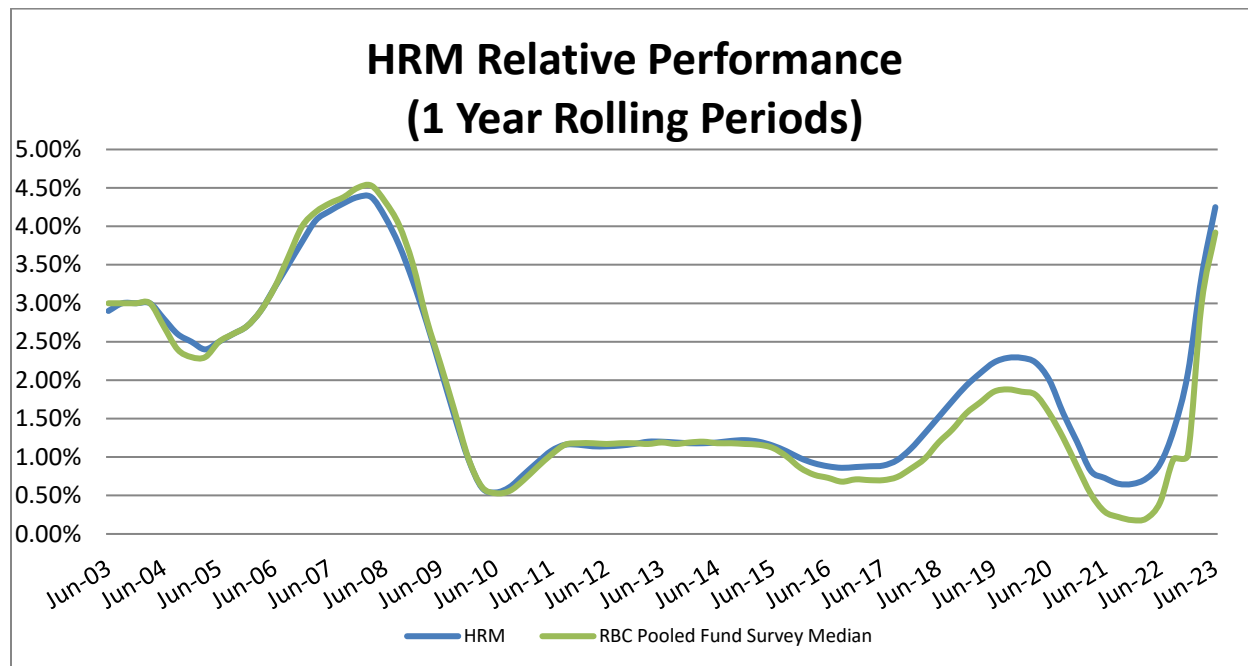
RBC Pooled Fund Survey of Short Term Bonds

Short Term Bond	3 Months (to June 30, 2023)	1 Year (to June 30, 2023)
Average Return	-0.33%	2.63%
5 th Percentile	0.65%	5.08%
1 st Quartile	-0.25%	2.71%
Median	-0.43%	2.30%
3 rd Quartile	-0.65%	2.06%
95 th Percentile	-0.78%	1.82%
HRM Bonds	0.29%	1.17%

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.

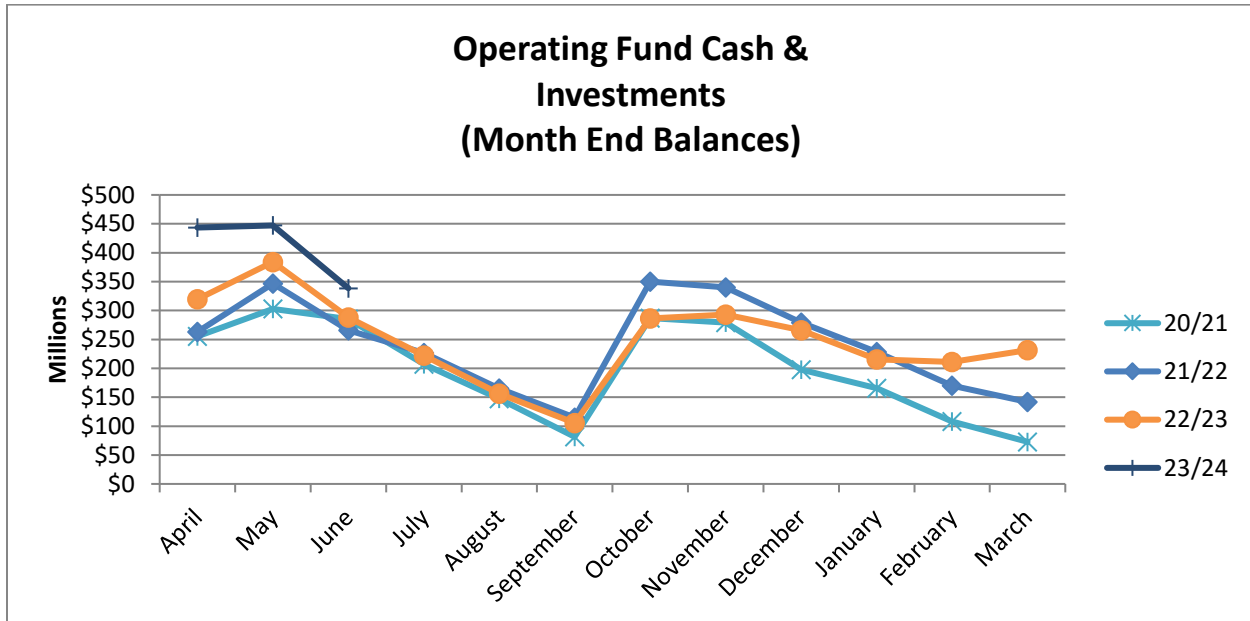


During the quarter, three money market investments were made and one investment was carried from the prior period for a total ending value of \$98,329,620, an average cost of \$24,582,405, and an original average term of 216 days. There were no investment maturities during the quarter. This compares to the same period last year when there were five investments held at the end of the period with a total cost of \$107,737,964, an average cost of \$21,547,593 and an average term to maturity of 270 days.

No additional provincial bond investments were made during the quarter. Two bonds matured late in the quarter and three bonds were carried from prior periods for an ending face value of \$118,600,000 and an original average term of two years. This compares to the same period last year when there were five investments held at the end of the period with a total face value of \$157,100,000 with an average term to maturity of two years.

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$621,614,278 at the end of the quarter. This balance represents all funds including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. The income from investment accounts provided a quarterly return of 1.29%, and an annualized return of 5.18%. Using 4.87% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$501,884 over BA's and BDN's.

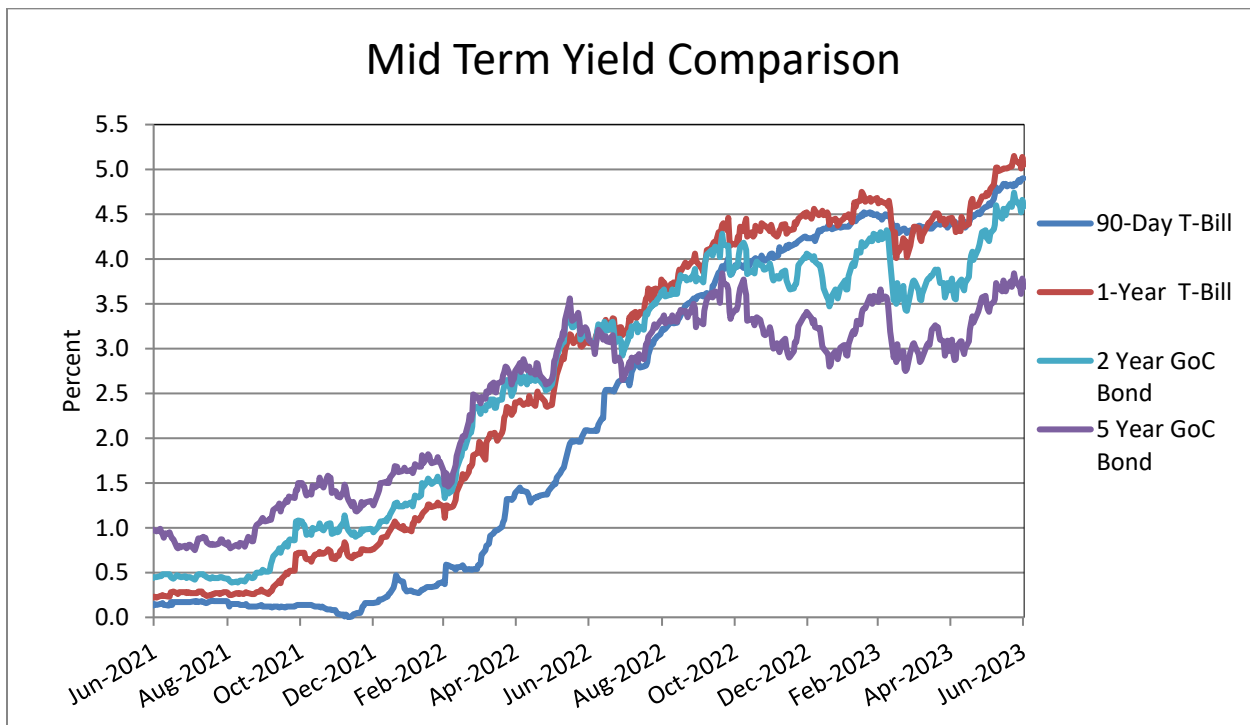
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,606,022 including a \$287,930 increase during the reporting period. An additional increase of \$300,312 was realized over the reporting period due to a 2019 change made to the investment policy that excludes operational cash requirements from the sector weights, providing a cumulative impact since April 2019 of \$2,773,362.



HRM Long Term Bond Pool

At the end of the quarter, the provincial bond segment of the portfolio had a face value of \$118,600,000 after two bonds matured during the quarter. Yields on the remaining bond holdings range from 1.11% to 1.37% with a weighted average yield of 1.24%. The bonds held at the end of the reporting period have maturity dates ranging from September 2023 to June 2024.

Government Sector Performance – June 2021 to June 2023



Subsequent to End of Reporting Quarter

On July 12th, the Bank of Canada (BoC) raised the overnight rate to 5%. During deliberations, the governing council noted that “*measures of core inflation had proven to be stubborn*”. The presence of strong demand and a limited labor market continues to generate inflationary pressures and consumer spending remains strong. The governing council also noted that the monetary policy was not sufficiently restrictive to slow demand and signaled future decisions will be made based on data.

The BoC continues to target 2% core inflation and the most recent releases of total CPI data indicates a dip in June. The July measure returned to 3.3% from 2.8% the previous month. The BoC’s second-quarter survey suggested a median perspective from senior economists who expect the bank to maintain its interest rate at 5% until the end of 2023.

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 for assessing ESG scores. Staff performed a counterparty review on July 11, 2023, revealing that ESG scores of all eligible counterparties were notably higher than the industry average. Throughout the review process, no significant upgrades or downgrades were identified for any of the listed counterparties.

Outlook & Strategy

Staff continue to monitor guidance with respect to the BoC’s overnight rate. Given current guidance, staff anticipate the investment bank accounts will continue to provide higher overall return when compared to instruments with similar risk. The strategy remains to maximize returns by investing short term surplus cash in high interest savings accounts, keeping in mind 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 for money market return exceeds the 5th percentile for the quarter ending June 30, 2023 before allowing for fees that could have been paid to an external management firm. Staff maintains that the rate of return objective of the Investment Policy has been met for the money market portfolio. Bond investments will continue to be held to maturity.

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 June 30, 2023, was \$4,276,759 versus a budgeted amount of \$3,500,000 which resulted in a surplus of \$776,759. The actual rate of return was 1.10% 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 (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 @ June 30, 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 or by contacting the Office of the Municipal Clerk at 902.490.4210.

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**Total Portfolio
Sector Weights @ June 30, 2023**

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	970,610,042	100%	970,610,042	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	98,329,620	970,610,042	100%	872,280,422	90%
Total Alberta (R-1 High)	Open	0	242,652,511	25%	242,652,511	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	242,652,511	25%	169,735,405	17%
Manitoba (R-1 Mid)	Open	0	242,652,511	25%	242,652,511	25%
New Brunswick (R-1 Mid)	Open	0	242,652,511	25%	242,652,511	25%
Nova Scotia (R-1 Mid)	Open	0	242,652,511	25%	242,652,511	25%
Ontario (R-1 Mid)	Open	82,835,141	242,652,511	25%	107,133,370	11%
Quebec (R-1 Mid)	Open	15,494,479	242,652,511	25%	227,158,032	23%
Quebec		15,494,479				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0	242,652,511	25%	242,652,511	25%
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	242,652,511	25%	242,652,511	25%
Calgary (R-1 High)	Open		97,061,004	10%	97,061,004	10%
Financial Institutions & their Guarantees /Corporations		601,614,278	708,009,478		106,395,200	
	BA's Schedule A Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	580,813,889				
Bank of Montreal (R-1 High)	Open	149,316,302	194,122,008	20%	44,805,707	5%
BMO - Instruments		0				
BMO - Account		149,316,302				
Bank of Nova Scotia (R-1 High)	Open	14,226,282	194,122,008	20%	179,895,727	19%
Bank of Nova Scotia Effective Cash		14,226,282				
Bank of Nova Scotia - Notice Account		0				
Canadian Imperial Bank of Commerce (R-1 High)	Open	135,730,754	194,122,008	20%	58,391,254	6%
CIBC - Instruments		120,173,287				
CIBC - Account		15,557,468				
Royal Bank (R-1 High)	Open	133,540,371	194,122,008	20%	60,581,638	6%
RBC - Instruments		0				
RBC IS		26				
RBC - Account		133,540,345				
Toronto Dominion (R-1 High)	Open	148,000,181	194,122,008	20%	46,121,827	5%
TD - Instruments		148,000,000				
TD - Account		181				
		0				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	20,800,389				
National Bank of Canada (R-1 Mid)	Open	20,800,389	145,591,506	15%	124,791,118	13%
National - Instruments		0				
National - Account		20,800,389				
OMERS Realty Corporation (R-1 High)	Open	0	145,591,506	15%	145,591,506	15%
CDP Financial Inc (R-1 High)	Open	0	145,591,506	15%	145,591,506	15%
Desjardins Total		0	145,591,506	15%	145,591,506	15%
Desjardins Group (R-1 High)	Open	0				
Caisse Centale Desjardins (R-1 High)	Open	0				
		0				
Total Cash and Equivalents		699,943,898				
Federal Government & its Guarantees						
Money Market		0	194,122,008	100%	194,122,008	20%
Reserves - Bond Pool		0	194,122,008	100%	194,122,008	20%
Provincial Government & their Guarantees		0	194,122,008	20%	194,122,008	20%
Money Market		0	194,122,008	20%	194,122,008	20%
Alberta		0	194,122,008	20%	194,122,008	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	194,122,008	20%	121,204,902	12%
Manitoba		0	194,122,008	20%	194,122,008	20%
New Brunswick		0	194,122,008	20%	194,122,008	20%
Nova Scotia		0	194,122,008	20%	194,122,008	20%
Ontario		0	194,122,008	20%	58,602,867	6%
Quebec		0	194,122,008	20%	178,627,529	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	194,122,008	20%	194,122,008	20%
Reserves - Bond Pool		125,601,106	194,122,008	20%	68,520,902	7%
Alberta		0	194,122,008	20%	194,122,008	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		72,917,106	194,122,008	20%	121,204,902	12%
Manitoba		0	194,122,008	20%	194,122,008	20%
New Brunswick		0	194,122,008	20%	194,122,008	20%
Nova Scotia		0	194,122,008	20%	194,122,008	20%
Ontario		52,684,000	194,122,008	20%	58,602,867	6%
Quebec		0	194,122,008	20%	178,627,529	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	194,122,008	20%	194,122,008	20%
Total Fixed		125,601,106				
Equities						
Bank of Montreal						
Total Equities		6,410				
Total Investments		825,551,414				
Interest Bearing Bank Accounts - O/S Cheque Coverage		20,000,000 *				
Total Investments and O/S Cheques Coverage		845,551,414				

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
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%
June 7, 2023	Bank of Canada	Raised overnight rate to 4.75%
June 14, 2023	U.S. Federal Open Market Committee	Maintained target range to 5.00% to 5.25%
July 12, 2023	Bank of Canada	Raised overnight rate to 5.00%
July 26, 2023	U.S. Federal Open Market Committee	Raised target range to 5.25% to 5.50%

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):

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.