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**Item No. 13.2.1**  
**Audit & Finance Standing Committee**  
**June 19, 2024**

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

**-ORIGINAL SIGNED-**

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

**DATE:** June 10, 2024

**SUBJECT:** Investment Activities – Quarter ending March 31, 2024

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**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, 2022 and 2023. Reviews of the Policy by the Committee in 2012, 2014, 2015, 2020 and 2021 did not result in any recommended changes.

## **DISCUSSION**

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

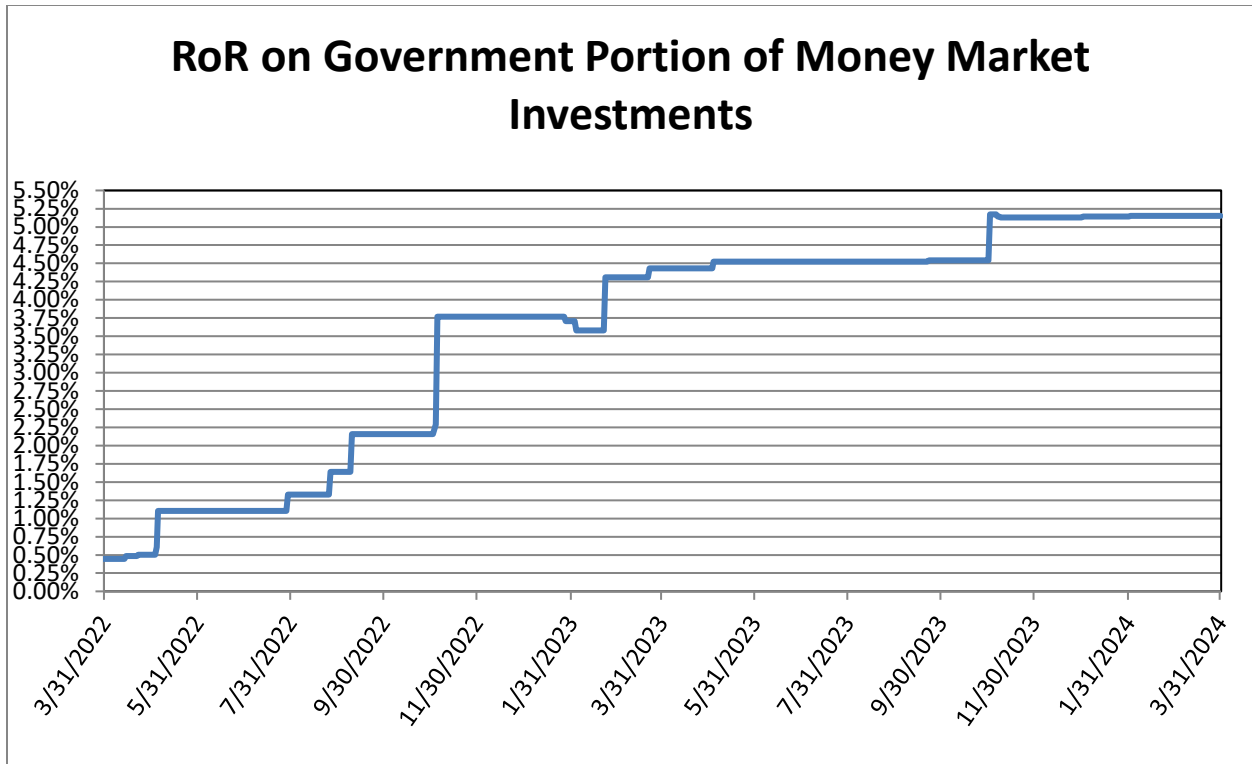
The Sector Weight schedule, used to validate portfolio diversification, is attached.

## **Overall Results**

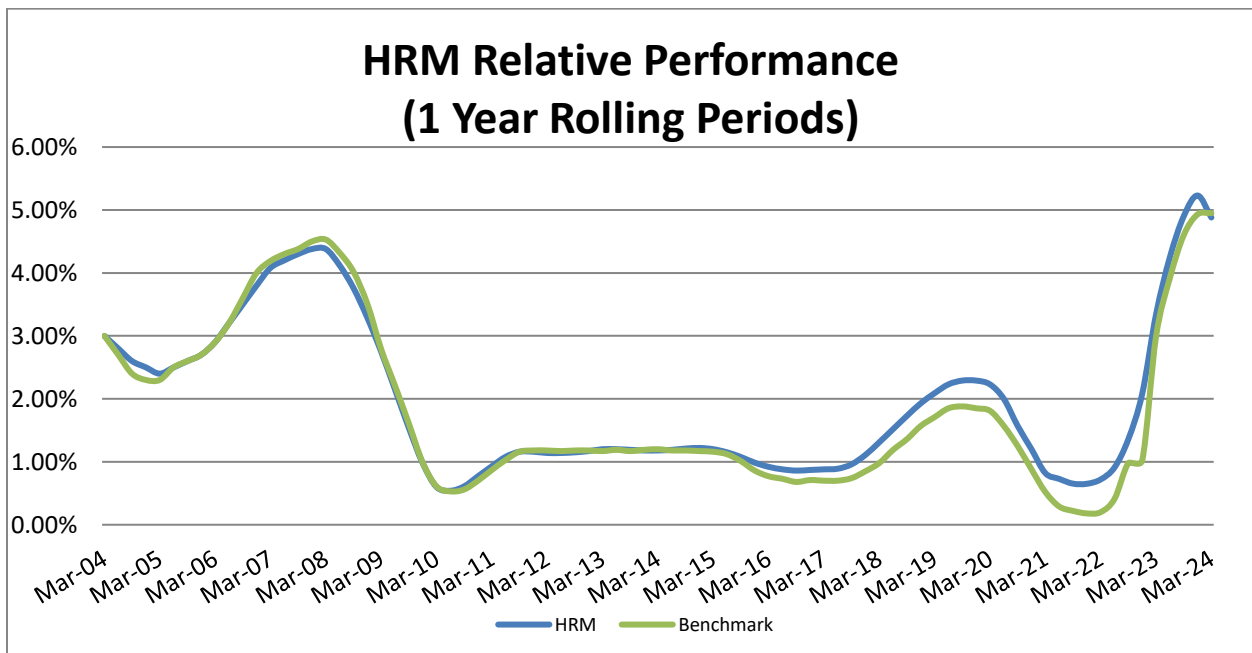
Operating fund investment income was \$4,613,892 for the three months ending March 31, 2024 versus a budgeted amount of \$2,400,000. The positive variance resulted from a higher rate of return than expected as well as higher cash balances over the reporting period. The portfolio investment income was \$10,837,153 including investment income for operating fund, trusts, reserves, and related entities. The actual rate of return for the quarter was 1.32% versus a projection of 1.18%. The rate of return for the 12 months ending March 31, 2024 met the projection at 4.88%.

The most recent update to HRM's *Investment Policy* set the benchmark for portfolio performance as "*the average yield of the three-month Canadian T-bill over the reporting period*". Prior to this period, the benchmark for portfolio performance was the median of the *RBC Pooled Fund Survey of Money Market Funds*. For the period of January 1<sup>st</sup>, 2024 to March 31<sup>st</sup>, 2024, the benchmark is set at 4.95% while the one-year return on the HRM portfolio is 4.88%. Staff notes this variance is due to the continued low-yield bond holdings during the period that continue to create a drag on returns. This bond was purchased in late 2021 when the average one-year T-bill yield was 0.63%, and is maturing in early June. Staff anticipates future returns will meet the benchmark.

The following graph depicts the increase in the return on money market instruments over the past two years.



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.



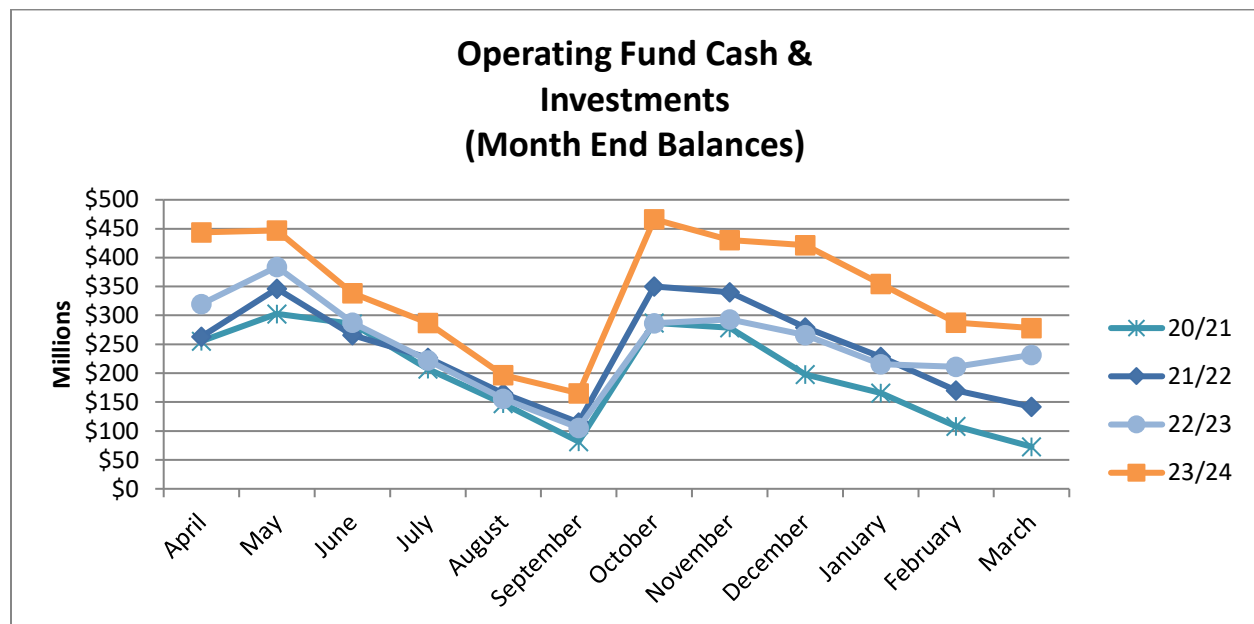
HRM Investment Activities

No money market investments were made during the quarter. However, eight investments were carried over from the prior period and one investment matured. At the end of the quarter, the total value of money market instruments at cost was \$176,548,991 with an average cost of \$25,221,284, and an original average term of 221 days. This compares to the same period last year when one investment was held at the end of the period at a cost of \$15,494,479 and an original term to maturity of 322 days.

No additional bond investments were made during the quarter, and there were no bond maturities. One bond carried over from prior periods with an ending face value of \$50,000,000 and an original term of three years. This compares to the same period last year when five bond investments were held at the end of the period with a total face value of \$157,100,000 and an average term to maturity of two years.

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$526,756,508 at the end of the quarter. This balance includes funds for related agencies such as Halifax Water, HRM reserve funds, and operating funds. The income from investment accounts provided a quarterly return of 1.43% for an annualized return of 5.71%. Using 5.10% as the proxy for the BA and BDN average annual yield for the quarter, the incremental income in the investment account was \$872,308 over BA's and BDN's.

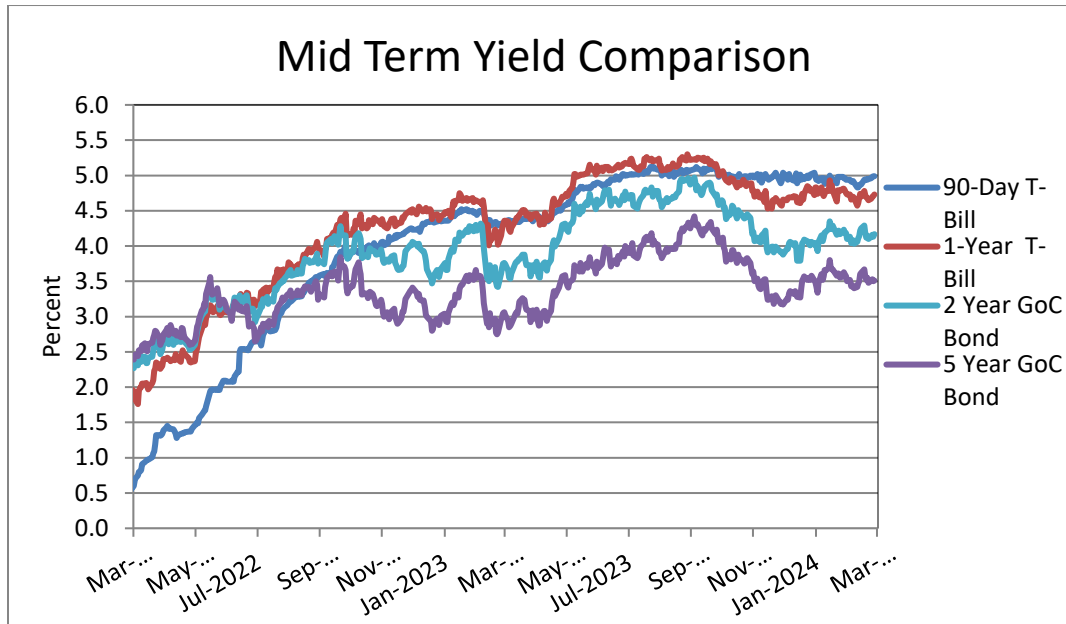
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$6,580,402 including a \$444,885 increase during the reporting period. An additional increase of \$553,932 was realized over the reporting period due to the 2019 investment policy change to exclude operational cash requirements from the sector weights, providing a cumulative impact since April 2019 of \$3,942,890.



HRM Long Term Bond Pool

At the end of the quarter, the provincial bond segment of the portfolio had a face value of \$50,000,000 reflecting bond maturities during the quarter. This compares to the same period last year when there were five bond investments with total face value of \$157,100,000. The yield on the final remaining bond is 1.37% with a maturity date of June 2, 2024.

**Government Sector Performance – March 2022 to March 2024**



Subsequent to End of Reporting Quarter

On June 5th, the Bank of Canada (BoC) lowered the overnight rate 25 bps to 4.75% representing the first decrease in more than four years. The rationale stated for this move is that the core inflation rate continues to ease while the bank still sees signs of economic growth. Governing Council still anticipates a steady return to the target 2% inflation and continued overnight rate cuts; however, it is also signalling further cuts may occur gradually as there is still inflation risk.

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 March 11, 2024, 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. Staff anticipate the investment bank accounts and GICs 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 one-year rate of return for the portfolio was 4.88% before allowing for fees that could have been paid to an external management firm versus the benchmark of 4.95%. 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, 2024, was \$4,613,892 versus a budgeted amount of \$2,400,000 which resulted in a surplus of \$2,213,892. The actual rate of return was 1.32% for the period.

The actual investment income for the fiscal year was \$16,838,000, compared to a budget of \$12,000,000, which resulted in a surplus of \$4,838,000.

### **RISK CONSIDERATION**

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

### **COMMUNITY ENGAGEMENT**

The Treasurer's Report of Investment Activities is distributed quarterly to the Investment Policy Advisory Committee (IPAC) members with IPAC meetings scheduled semi-annually to coincide with the receipt of property taxes. The majority of members of this Committee (4 of 6) are volunteers from the general public. The Committee reports to the Audit and Finance Committee of Council 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, 2024 (Schedule A)  
Appendix A - Economic Statistics and Central Bank Actions  
Appendix B - List of Eligible Investments  
Appendix C - DBRS Rating Scale

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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.

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**Total Portfolio  
Sector Weights @ March 31, 2024**

**ATTACHMENT 1  
(SCHEDULE A)**

	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>1,037,400,453</b>	<b>100%</b>	<b>1,037,400,453</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>176,548,991</b>	<b>1,037,400,453</b>	<b>100%</b>	<b>860,851,462</b>	<b>83%</b>
Total Alberta (R-1 High)	Open	0	259,350,113	25%	259,350,113	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	5,254,470	259,350,113	25%	254,095,643	24%
Manitoba (R-1 Mid)	Open	0	259,350,113	25%	259,350,113	25%
New Brunswick (R-1 Mid)	Open	0	259,350,113	25%	259,350,113	25%
Nova Scotia (R-1 Mid)	Open	0	259,350,113	25%	259,350,113	25%
Ontario (R-1 Mid)	Open	88,973,331	259,350,113	25%	117,692,783	11%
Quebec (R-1 Mid)	Open	82,321,191	259,350,113	25%	177,028,922	17%
Quebec		82,321,191				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0	259,350,113	25%	259,350,113	25%
<b>Municipal Governments &amp; their Guarantees*</b>	<b>R-1 Mid or Greater</b>	<b>0</b>	<b>259,350,113</b>	<b>25%</b>	<b>259,350,113</b>	<b>25%</b>
Calgary (R-1 High)	Open	0	103,740,045	10%	103,740,045	10%
<b>Financial Institutions &amp; their Guarantees /Corporations</b>		<b>486,756,508</b>	<b>719,997,285</b>		<b>233,240,777</b>	
	<b>BA's Schedule A Canadian Banks R-1</b>					
<b>Tier 1 - Financial Institutions &amp; their Guarantees</b>	<b>Mid</b>	<b>478,151,964</b>				
Bank of Montreal (R-1 High)	Open	196,764,682	207,480,091	20%	10,715,409	1%
BMO - Instruments		0				
BMO - Account		196,764,682				
Bank of Nova Scotia (R-1 High)	Open	14,472,533	207,480,091	20%	193,007,558	19%
Bank of Nova Scotia Effective Cash		14,472,533				
Bank of Nova Scotia - Notice Account		0				
Canadian Imperial Bank of Commerce (R-1 High)	Open	157,513,010	207,480,091	20%	49,967,081	5%
CIBC - Instruments		140,000,000				
CIBC - Account		17,513,010				
Royal Bank (R-1 High)	Open	63,264,771	207,480,091	20%	144,215,320	14%
RBC - Instruments		0				
RBC IS		26				
RBC - Account		63,264,745				
Toronto Dominion (R-1 High)	Open	46,136,969	207,480,091	20%	161,343,121	16%
TD - Instruments		46,132,400				
TD - Account		4,569				
		0				
<b>Tier 2 - Financial Institutions &amp; Corporations</b>	<b>R-1 Mid/High***</b>	<b>8,604,543</b>				
National Bank of Canada (R-1 Mid)	Open	8,604,543	155,610,068	15%	147,005,525	14%
National - Instruments		0				
National - Account		8,604,543				
<b>Total Cash and Equivalents</b>		<b>663,305,499</b>				
<b>Federal Government &amp; its Guarantees</b>						
<b>Money Market</b>		<b>0</b>	<b>207,480,091</b>	<b>100%</b>	<b>207,480,091</b>	<b>20%</b>
<b>Reserves - Bond Pool</b>		<b>0</b>	<b>207,480,091</b>	<b>100%</b>	<b>207,480,091</b>	<b>20%</b>
<b>Provincial Government &amp; their Guarantees</b>		<b>0</b>	<b>207,480,091</b>	<b>20%</b>	<b>207,480,091</b>	<b>20%</b>
<b>Money Market</b>		<b>0</b>	<b>207,480,091</b>	<b>20%</b>	<b>207,480,091</b>	<b>20%</b>
Alberta		0	207,480,091	20%	207,480,091	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	207,480,091	20%	202,225,621	19%
Manitoba		0	207,480,091	20%	207,480,091	20%
New Brunswick		0	207,480,091	20%	207,480,091	20%
Nova Scotia		0	207,480,091	20%	207,480,091	20%
Ontario		0	207,480,091	20%	65,822,760	6%
Quebec		0	207,480,091	20%	125,158,900	12%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	207,480,091	20%	207,480,091	20%
<b>Reserves - Bond Pool</b>		<b>52,684,000</b>	<b>207,480,091</b>	<b>20%</b>	<b>154,796,091</b>	<b>15%</b>
Alberta		0	207,480,091	20%	207,480,091	20%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	207,480,091	20%	202,225,621	19%
Manitoba		0	207,480,091	20%	207,480,091	20%
New Brunswick		0	207,480,091	20%	207,480,091	20%
Nova Scotia		0	207,480,091	20%	207,480,091	20%
Ontario		52,684,000	207,480,091	20%	65,822,760	6%
Quebec		0	207,480,091	20%	125,158,900	12%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	207,480,091	20%	207,480,091	20%
<b>Total Fixed</b>		<b>52,684,000</b>				
<b>Equities</b>						
Total Equities		<b>6,410</b>				
Total Investments		715,995,909				
Interest Bearing Bank Accounts - O/S Cheque Coverage		40,000,000 *				
<b>Total Investments and O/S Cheques Coverage</b>		<b>755,995,909</b>				



## Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	5.7%	5.8%	6.1%	3.7%	3.9%	3.8%
Jobs Created / (Lost) ('000's)	37	41	(2)	256	236	315
Core Inflation Rate (year over year)	2.9%	2.8%	2.9%	3.1%	3.2%	3.5%

Date	Central Bank	Central Bank Action
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%
Sep 6, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Sep 20, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Oct 25, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Nov 1, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Dec 6, 2023	Bank of Canada	Maintained overnight rate at 5.00%
Dec 13, 2023	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Jan 24, 2024	Bank of Canada	Maintained overnight rate at 5.00%
Jan 31, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Mar 6, 2024	Bank of Canada	Maintained overnight rate at 5.00%
Mar 20, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Apr 10, 2024	Bank of Canada	Maintained overnight rate at 5.00%
May 1, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
June 5, 2024	Bank of Canada	Lowered overnight rate 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 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.