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Item No.13.1.3
Audit & Finance Standing Committee
January 15, 2025

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: Cathie O'Toole, Chief Administrative Officer

DATE: December 18, 2024

SUBJECT: **Investment Activities – Quarter ending September 30, 2024**

ORIGIN

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

EXECUTIVE SUMMARY

For the quarter ending September 30, 2024, the operating fund investment was \$4,005,177, exceeding the budgeted amount of \$2,500,000 for the period, and provided an annual return of 5.24%. This compares favourably to the benchmark rate of 4.28%. There was no loss of capital and sufficient liquidity, therefore, staff maintains that the objectives of the Investment Policy have been met.

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).

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

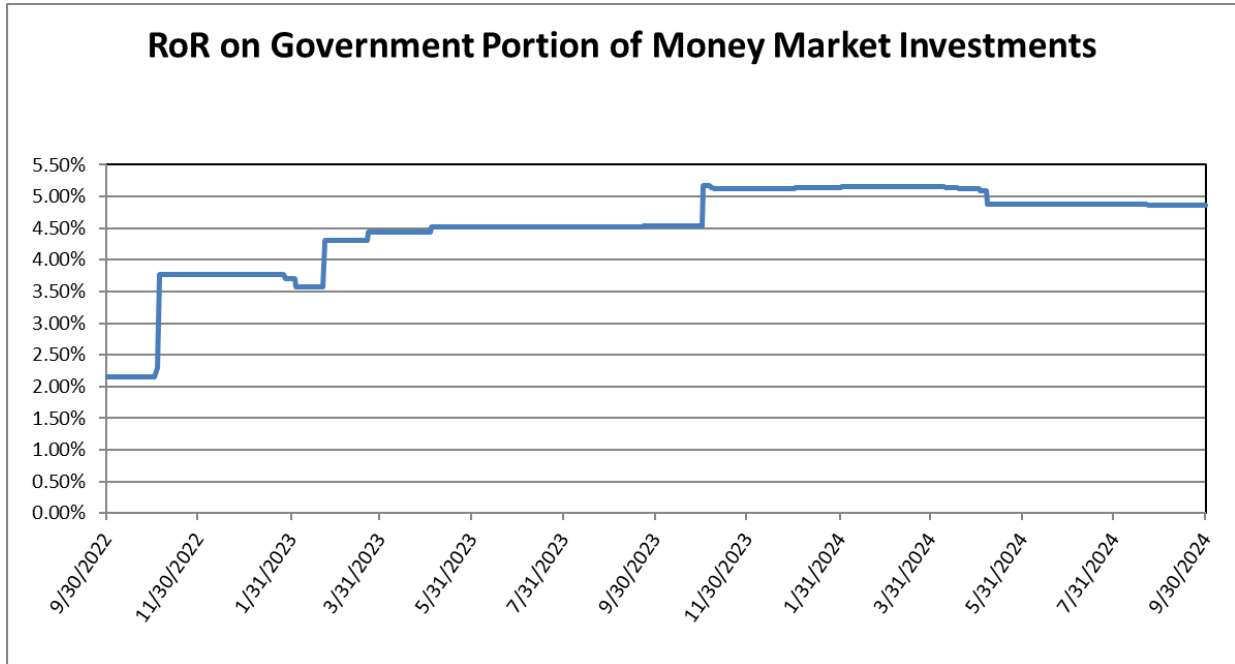
The Sector Weight schedule, used to validate portfolio diversification, is attached.

Overall Results

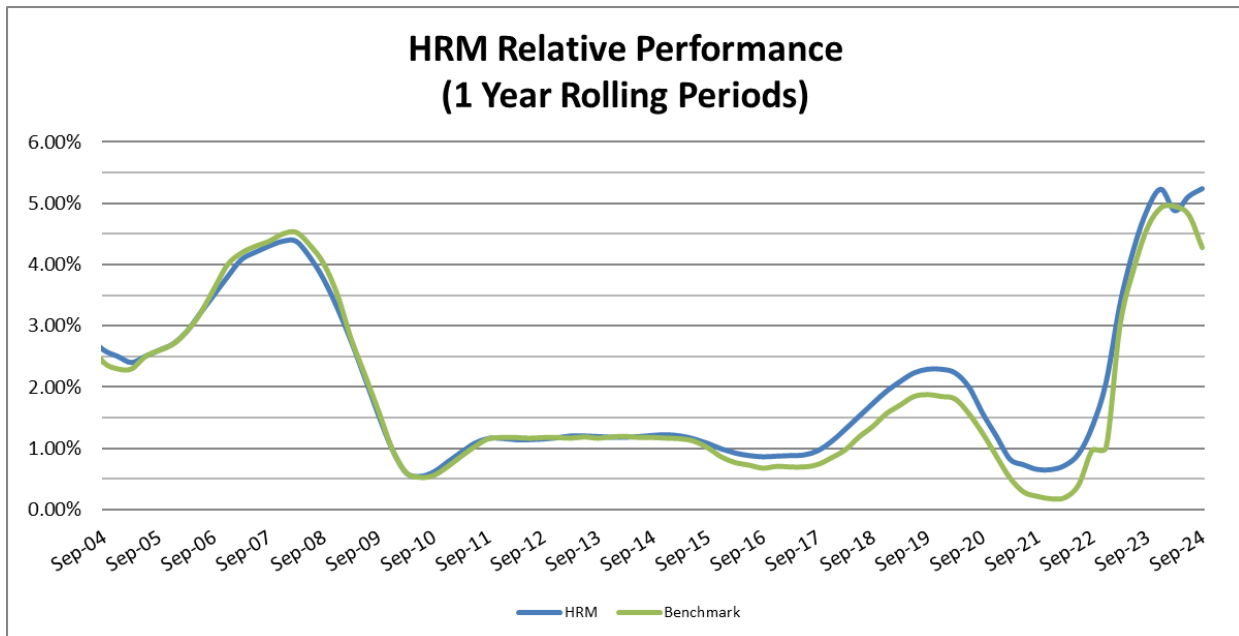
Operating fund investment income was \$4,005,177 for the three months ending September 30, 2024, versus a budgeted amount of \$2,500,000. The positive variance resulted from a higher rate of return than expected as well as higher cash balances over the reporting period. The portfolio investment income was \$10,389,469 including investment income for operating fund, trusts, reserves, and related entities. The actual rate of return for the quarter was 1.31% versus a projection of 1.18%. The rate of return for the 12 months ending September 30, 2024, met the projection at 5.24%.

As outlined in the Investment Policy and agreed by the Committee, the benchmark for portfolio performance is the average yield of the three-month Canadian T-bill over the reporting period. These investments primarily consist of Canadian government short-term instruments. It should be noted that this benchmark does not account for significant bond holdings. For the period of July 1st, 2024, to September 30th, 2024, the benchmark is set at 4.28% while the one-year return on the HRM portfolio is 5.24%. The rate of return objective of the Investment Policy has been met for this quarter.

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.



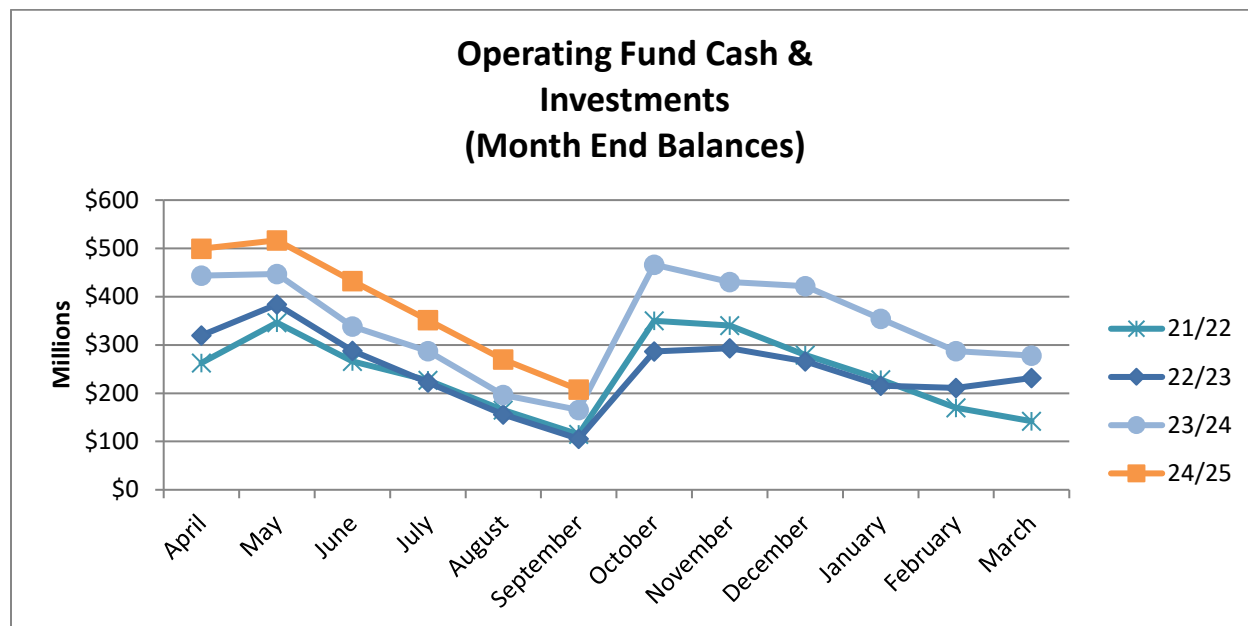
HRM Investment Activities

During the quarter, no new money market investments were made, with seven investments that were carried over from the prior period for a total ending value of \$130,339,656, an average cost of \$21,723,276, and an original average term of 306 days. This compares to the same period last year when Three investments were held at the end of the period at a cost of \$82,835,141 and an original term to maturity of 181 days.

One bond investment was carried over from the last quarter with a face value of \$35,000,000, and an original term of 271 days. This compares to the same period last year when two bond investment were held at the end of the period with a total face value of \$103,000,000 and an average term to maturity of two years.

Funds held in the investment bank accounts, including term deposits and GICs, totaled \$529,960,572 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 1.34% for an annualized return of 5.37%. With the cessation on Bankers' Acceptance Market at the end of June 2024, the proxy return was changed to the Canadian Overnight Repo Rate Average ("CORRA"). Using 4.56% as the proxy for the CORRA average annual yield for the quarter, the incremental income in the investment account was \$1,297,654 over CORRA.

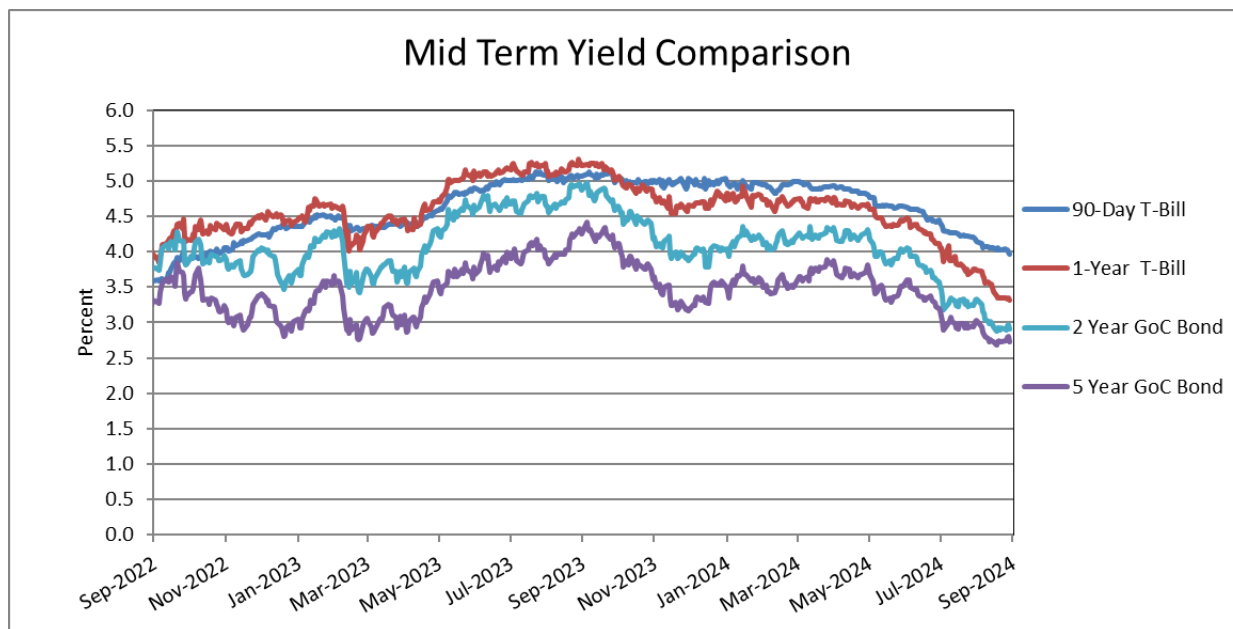
Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$7,865,621 including a \$603,430 increase during the reporting period. An additional increase of \$549,976 was realized over the reporting period due to the 2019 investment policy change to exclude operational cash requirements from the sector weights and the more recent investment policy change to increase the financial sector to 60% maximum of portfolio. The cumulative impact since April 2019 amounts to \$4,492,865. Future reports will only enumerate the impact of the modifications to the investment portfolio since the April 2019 change.



HRM Long Term Bond Pool

At the end of the quarter, the provincial bond segment of the portfolio had a face value of \$35,000,000. This compares to the same period last year when there were three bond investments with total face value of \$118,600,000. The yield on this bond is 4.68% with a maturity date of February 5, 2025.

Government Sector Performance – September 2022 to September 2024



Subsequent to End of Reporting Quarter

On October 23rd, 2024, the Bank of Canada (BoC) lowered the overnight rate by 50 basis points to 3.75%, totalling 125 basis points of cuts during its most recent easing cycle. The economy increased by 2% as indicated by GDP in the first half of the year with expected growth of 1.75% in the second half of the year. Inflation continues to slow and now resides in the middle of the BoC preferred band of 1 to 3%. With inflation now in check and to stimulate economic growth, the Governing Council expects future policy rate reductions assuming economic indicators remain in line with current expectations.

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 October 3, 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. Additionally, staff was able to complete the purchase of a green bond during the quarter at a similar yield to non-green bond investments.

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 5.11% before allowing for fees that could have been paid to an external management firm versus the benchmark of 4.82%. 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 September 30, 2024, was \$4,005,177 versus a budgeted amount of \$2,500,000 which resulted in a surplus of \$1,505,177. The actual rate of return was 1.31% for the period

RISK CONSIDERATION

No risk considerations were identified.

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 refuse to approve the recommendation.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, S.N.S. 2008, c. 39

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.

(2) Income arising from the investment of a fund is part of that fund unless the Council otherwise provides.

(3) The Council may pledge any investments to the credit of the capital reserve fund as collateral security for a borrowing for a capital purpose.

ATTACHMENTS

Attachment 1 - Sector Weight Schedule at September 30, 2024 (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, 2024

SCHEDULE A

	Category Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	1,029,390,172	100%	1,029,390,172	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	130,339,656	1,029,390,172	100%	899,050,516	87%
Total Alberta (R-1 High)	Open	46,445,480	257,347,543	25%	210,902,063	20%
Alberta (R-1 High)	Open	46,445,480				
Alberta Capital Finance Authority (R-1 High)	Open	0				
Alberta Treasury Branches (R-1 High)	Open	0				
British Columbia (R-1 High)	Open	61,245,858	257,347,543	25%	196,101,685	19%
Manitoba (R-1 Mid)	Open	0	257,347,543	25%	257,347,543	25%
New Brunswick (R-1 Mid)	Open	0	257,347,543	25%	257,347,543	25%
Nova Scotia (R-1 Mid)	Open	0	257,347,543	25%	257,347,543	25%
Ontario (R-1 Mid)	Open	0	257,347,543	25%	222,860,293	22%
Quebec (R-1 Mid)	Open	22,648,318	257,347,543	25%	234,699,225	23%
Quebec		22,648,318				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0	257,347,543	25%	257,347,543	25%
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	257,347,543	25%	257,347,543	25%
Calgary (R-1 High)	Open	0	102,939,017	10%	102,939,017	10%
Financial Institutions & their Guarantees /Corporations		477,960,572	785,682,903		307,722,331	
	BA's Schedule A					
	Canadian Banks R-1					
Tier 1 - Financial Institutions & their Guarantees	Mid	456,827,361				
Bank of Montreal (R-1 High)	Open	197,249,099	205,878,034	20%	8,628,936	1%
BMO - Instruments		0				
BMO - Account		197,249,099				
Bank of Nova Scotia (R-1 High)	Open	39,676,720	205,878,034	20%	166,201,314	16%
Bank of Nova Scotia Effective Cash		-323,280				
Bank of Nova Scotia - Notice Account		40,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	150,676,392	205,878,034	20%	55,201,642	5%
CIBC - Instruments		40,000,000				
CIBC - Account		110,676,392				
Royal Bank (R-1 High)	Open	44,224,940	205,878,034	20%	161,653,094	16%
RBC - Instruments		30,000,000				
RBC IS		0				
RBC - Account		14,224,940				
Toronto Dominion (R-1 High)	Open	25,000,210	205,878,034	20%	180,877,824	18%
TD - Instruments		25,000,000				
TD - Account		210				
		0				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	21,133,211				
National Bank of Canada (R-1 Mid)	Open	21,133,161	154,408,526	15%	133,275,365	13%
National - Instruments		0				
National - Account		21,133,161				
Custodian Account (Northern Trust)		50				
Total Cash and Equivalents		608,300,228				
Federal Government & its Guarantees						
Money Market		0	205,878,034	100%	205,878,034	20%
Reserves - Bond Pool		0	205,878,034	100%	205,878,034	20%
Provincial Government & their Guarantees		0	205,878,034	20%	205,878,034	20%
Money Market		0	205,878,034	20%	205,878,034	20%
Alberta		0	205,878,034	20%	159,432,554	15%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	205,878,034	20%	144,632,176	14%
Manitoba		0	205,878,034	20%	205,878,034	20%
New Brunswick		0	205,878,034	20%	205,878,034	20%
Nova Scotia		0	205,878,034	20%	205,878,034	20%
Ontario		0	205,878,034	20%	171,390,784	17%
Quebec		0	205,878,034	20%	183,229,716	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	205,878,034	20%	205,878,034	20%
Reserves - Bond Pool		34,487,250	205,878,034	20%	171,390,784	17%
Alberta		0	205,878,034	20%	159,432,554	15%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0	205,878,034	20%	144,632,176	14%
Manitoba		0	205,878,034	20%	205,878,034	20%
New Brunswick		0	205,878,034	20%	205,878,034	20%
Nova Scotia		0	205,878,034	20%	205,878,034	20%
Ontario		34,487,250	205,878,034	20%	171,390,784	17%
Quebec		0	205,878,034	20%	183,229,716	18%
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0	205,878,034	20%	205,878,034	20%
Total Fixed		34,487,250				
Equities						
Total Equities		6,410				
Total Investments		642,793,888				
Interest Bearing Bank Accounts - O/S Cheque Coverage		52,000,000 *				
Total Investments and O/S Cheques Coverage		694,793,888				

Appendix A

Economic Statistics	Canada			United States		
	Jul	Aug	Sep	Jul	Aug	Sep
Unemployment Rate	6.4%	6.6%	6.5%	4.3%	4.2%	4.1%
Jobs Created / (Lost) ('000's)	(3)	22.1	46.7	144	78	223
Core Inflation Rate (year over year)	2.5%	2.0%	1.6%	2.9%	2.5%	2.4%

Date	Central Bank	Central Bank Action
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%
June 12, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
July 24, 2024	Bank of Canada	Lowered overnight rate to 4.50%
July 31, 2024	U.S. Federal Open Market Committee	Maintained target range at 5.25% to 5.50%
Sep 4, 2024	Bank of Canada	Lowered overnight rate to 4.25%
Sept 18, 2024	U.S. Federal Open Market Committee	Lowered target range to 4.75% to 5.00%
Oct 23, 2024	Bank of Canada	Lowered overnight rate to 3.75%
Nov 7, 2024	U.S. Federal Open Market Committee	Lowered target range 4.5% 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.