



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

Item No. 5
Halifax Regional Council
July 12, 2022

TO: Mayor Savage Members of Halifax Regional Council

SUBMITTED BY: **- Original Signed-**

Councillor Paul Russell, Chair, Audit and Finance Standing Committee

DATE: June 27, 2022

SUBJECT: **Investment Activities – Quarter ending March 31, 2022**

INFORMATION REPORT

ORIGIN

June 22, 2022 meeting of Audit and Finance Standing Committee, Item 12.2.1.

MOVED by Councillor Cleary, seconded by Councillor Deagle Gammon

THAT the Audit & Finance Standing Committee forward this report to Halifax Regional Council as an information item.

MOTION PUT AND PASSED.

LEGISLATIVE AUTHORITY

Legislative Authority is outlined in the attached staff report dated June 6, 2022.

Administrative Order One, *Respecting the Procedures of the Council*, Audit and Finance Standing Committee Terms of Reference:

- (1) The purpose of the Audit and Finance Standing Committee is to provide advice to the Council on matters relating to audit and finance.
- (2) The other purposes of the Committee are to:
 - (a) fulfill the requirements as outlined in Section 48 of the HRM Charter; and
 - (b) assist the Council in meeting its responsibilities by ensuring the adequacy and effectiveness of financial reporting, risk management and internal controls.

BACKGROUND

The Audit and Finance Standing Committee received a staff recommendation report dated June 6, 2022 to consider the Halifax Regional Municipality's Investment Activities for the quarter ending March 31, 2022.

For further information refer to the attached staff report dated June 6, 2022.

DISCUSSION

The Audit and Finance Standing Committee considered the staff report dated June 6, 2022 and approved the recommendation to Halifax Regional Council as outlined in this report.

FINANCIAL IMPLICATIONS

Financial implications are outlined in the attached staff report dated June 6, 2022.

RISK CONSIDERATION

Risk consideration is outlined in the attached staff report dated June 6, 2022.

COMMUNITY ENGAGEMENT

Meetings of the Audit and Finance Standing Committee are open to public attendance and members of the public are invited to address the Standing Committee for up to five (5) minutes during the Public Participation portion of the meeting. Meetings are live webcast on Halifax.ca. The agenda, reports, video, and minutes of the Standing Committee are posted on Halifax.ca.

For further information on Community Engagement refer to the attached staff report dated June 6, 2022.

ENVIRONMENTAL IMPLICATIONS

Environmental implications are outlined in the staff report dated June 6, 2022.

ATTACHMENTS

Attachment 1 – Staff recommendation report dated June 6, 2022.

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.

Report Prepared by: Annie Sherry, Legislative Assistant, Municipal Clerk's Office 902.943.8741.



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

Attachment 1
Item No. 12.2.1
Audit & Finance Standing Committee
June 22, 2022

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: - Original Signed-
Jacques Dubé, Chief Administrative Officer

DATE: June 6, 2022

SUBJECT: Investment Activities – Quarter ending March 31, 2022

ORIGIN

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

LEGISLATIVE AUTHORITY

Section 121(1) of the HRM Charter requires that funds be invested pursuant to an Investment Policy adopted by Council and approved by the Minister of Municipal Affairs (the Minister) or invested pursuant to the Trustee Act. Where HRM has chosen to adopt an Investment Policy, and the Minister has approved the Policy, investment activities are governed by this Policy.

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).

The mandate of 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 Investment Policy Advisory Committee (the Committee) were approved by Council and the Minister in 2005, 2007, 2008, 2010, 2017, and 2019. 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 is attached.

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

Overall Results

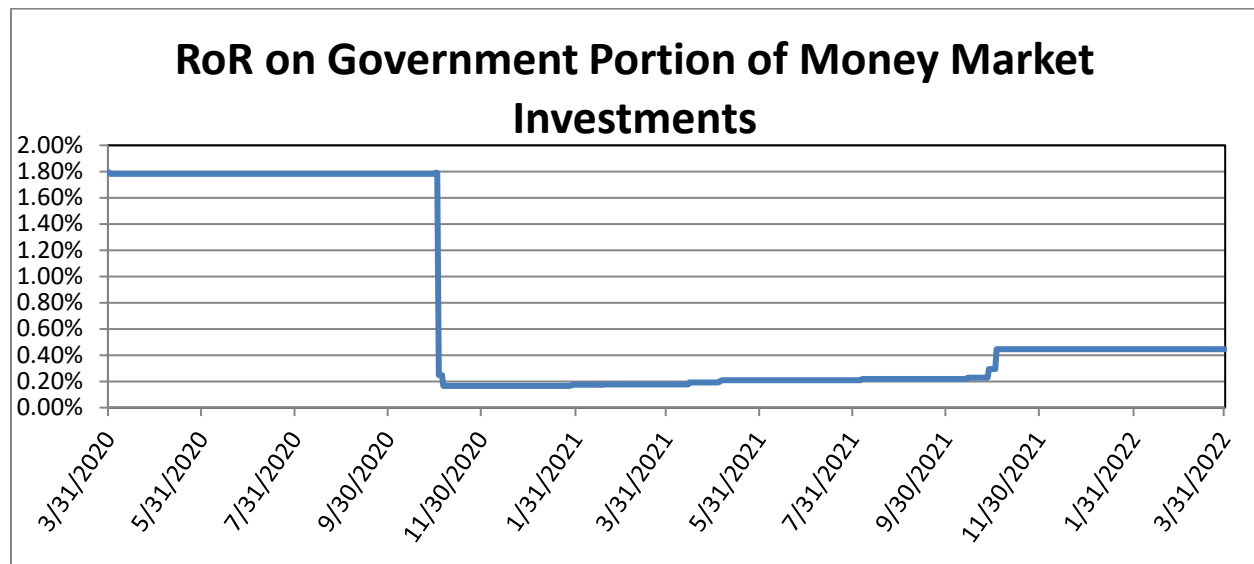
Operating fund investment income for the three months ending March 31, 2022 was \$378,727 versus the updated projection of \$375,000 (originally budgeted at \$187,500). Total investment income for the portfolio was \$1,469,304 which includes investment income for the operating fund, trusts and reserves, as well as related entities.

HRM Investment Activities

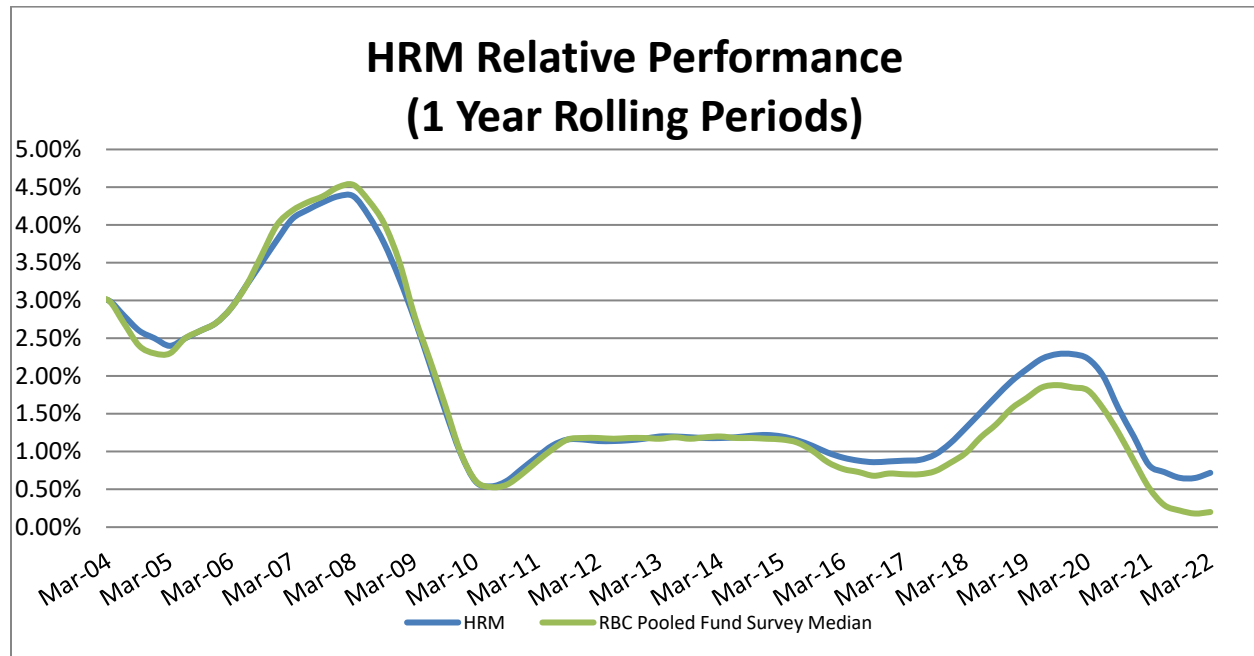
The benchmark for portfolio performance is the RBC Pooled Fund Survey that reviews the performance of 24 pooled Canadian money market funds. These funds generally feature Canadian government short-term instruments as their primary holding. The duration of the instruments held vary based on current market conditions. Please see the table below with the results using this benchmark.

Money Market Funds	3 Months (to Mar 31, 2022)	1 Year (to Mar 31, 2022)
Average Return	0.07%	0.20%
5 th Percentile	0.14%	0.39%
1 st Quartile	0.09%	0.27%
Money Market Median	0.07%	0.20%
3 rd Quartile	0.04%	0.16%
95 th Percentile	0.01%	(0.03%)
HRM Overall	0.22%	0.72%

Overall performance continues to be positive as we note the three-month and one-year return exceeds the 5th percentile. These returns are before any allowance for fees that could be paid for external management. The investment bank accounts continue to be largely responsible for this relative performance.



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 no money market investments made as we carried six investments into the period with a total value of \$153,113,221, an average cost of \$25,518,870, and an original average term of 294 days. This compares to the same period last year when we carried three investments into the period with a total cost of \$178,776,780, average cost of \$59,592,260 and average term to maturity of 230 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 2 years. No bonds were held in the same period last year. The predominant strategy continues to see HRM allocate funds to the investment bank accounts and rebalance the portfolio using government instruments to manage sector weights.

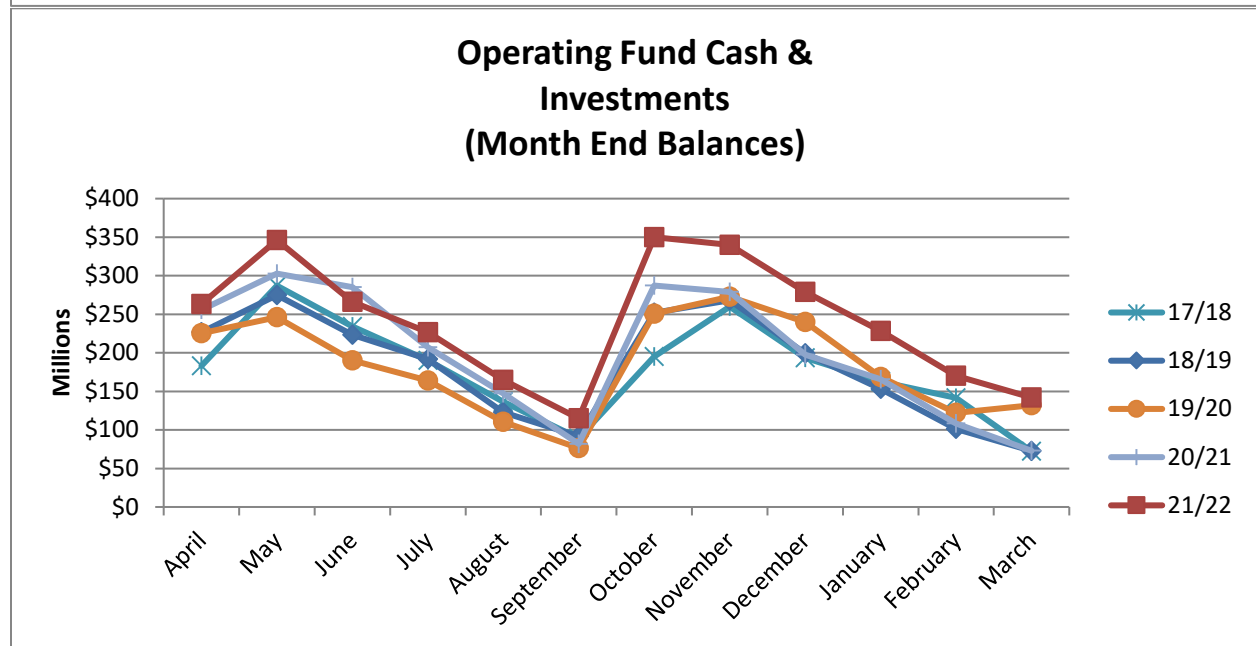
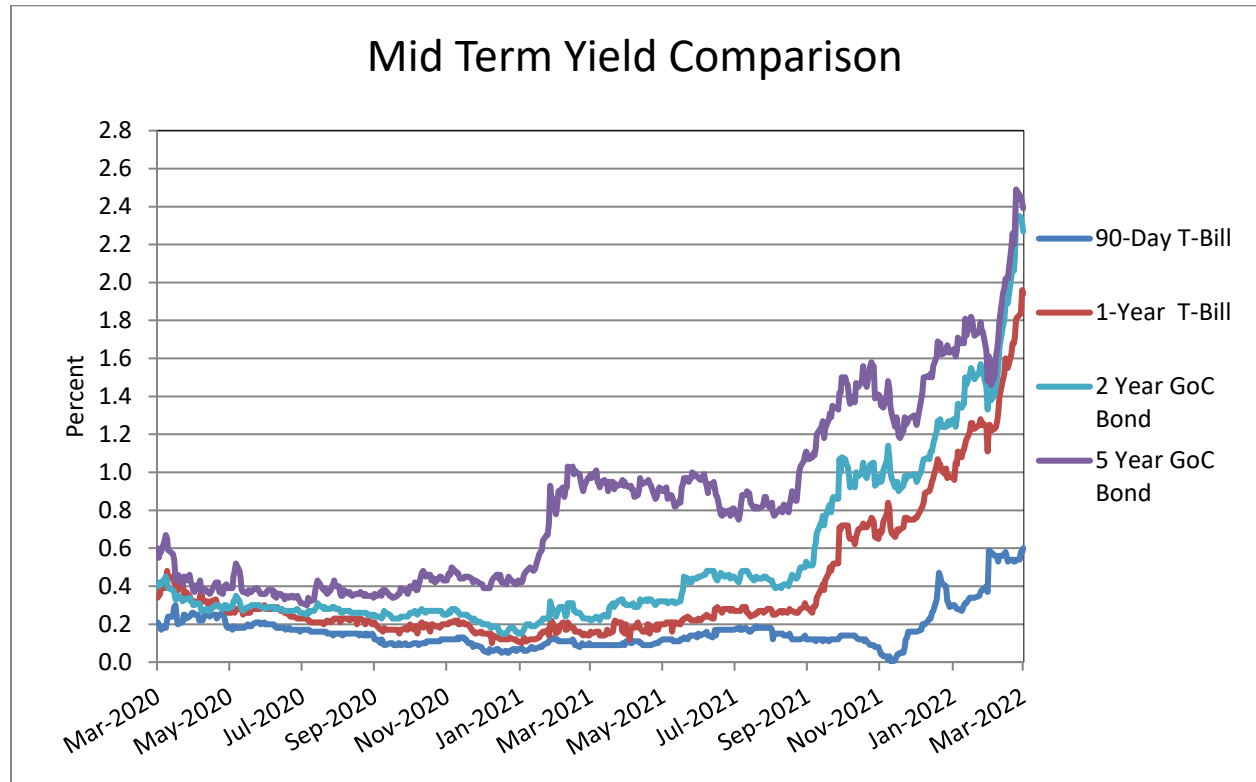
Funds held in the investment bank accounts, including term deposits, totaled \$331,659,372 at the end of the quarter. This balance represents all funds for which we invest including related agencies such as Halifax Water, HRM reserve funds, as well as operating funds. Using 0.66% as the proxy for the BA and BDN average annual yield for the three months, incremental income in the investment accounts was \$185,510 for the quarter over BA's and BDN's. The income from our investment accounts provided a quarterly return of 0.22%, and an annual return of 0.88%.

Cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$5,725,358 including a \$85,486 decrease during the reporting period. A decrease of \$122,424 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 \$2,887,742. The decreases are attributable to the rapidly changing interest rate landscape affecting the benchmark used, however, the cumulative effective of each policy change is still overwhelmingly positive.

HRM Short 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 2020 to March 2022



Subsequent to End of Reporting Quarter

The Bank of Canada announced a 50bps hike to the overnight rate on April 13, 2022, bringing the rate up to 1%. Another 50bps rate hike was announced on June 1st.

As inflation continues to remain at levels higher than the target, economists expect continued rate hikes throughout 2022 to combat inflation. Current forecasts by economists put the overnight rate between 1.75% to 2.50% by the end of 2022.

Outlook & Strategy

We continue to monitor guidance with respect to the Bank of Canada's overnight rate. As noted, the current outlook indicates the rate will continue to increase over the course of 2022.

There has been upward movement in the interest rates on the investment bank accounts and when compared to instruments with similar risk, we still enjoy higher overall returns. Therefore, the strategy remains to maximize returns by leveraging High Interest Savings Accounts, keeping in mind that their liquidity adds a safety factor. We balance the portfolio with government sector instruments, primarily 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 rate of return exceeded the 5th percentile for the quarter ending March 31, 2022 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 March 31, 2022 was \$378,727 versus the updated projection of \$375,000 (originally budgeted at \$187,500). As market conditions warranted, we had updated our annual income projection to \$1,500,000 for the fiscal year. The actual rate of return was 0.22% for the period and 0.72% for the year.

RISK CONSIDERATION

No risk considerations were identified.

COMMUNITY ENGAGEMENT

Investment activities are reported quarterly to the Investment Policy Advisory Committee. 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 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 not to approve the recommendation.

ATTACHMENTS

Attachment 1 - Sector Weight Schedule @ March 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.

Report Prepared by: Aaron Khan, CPA, Deputy Treasurer, Revenue, Finance & Asset Management,
902-943-0847

**Total Portfolio
Sector Weights @ March 31, 2022**

	Category Status	Cumulative Amount Invested @ Book Value	Guideline Limit	%	Limit Available	%
CASH & EQUIVALENTS						
Federal Government & its Guarantees	Open	0	617,964,160	100%	617,964,160	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	153,113,221	617,964,160	100%	299,665,782	48%
Total Alberta (R-1 High)	Open	0				
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				
Manitoba (R-1 Mid)	Open	0				
New Brunswick (R-1 Mid)	Open	0				
Nova Scotia (R-1 Mid)	Open	0				
Ontario (R-1 Mid)	Open	29,925,300				
Quebec (R-1 Mid)	Open	123,187,921				
Quebec		123,187,921				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan (R-1 High)	Open	0				
Municipal Governments & their Guarantees*	R-1 Mid or Greater	0	154,491,040	25%	154,491,040	25%
Calgary (R-1 High)	Open	0	61,796,416	10%	61,796,416	10%
Financial Institutions & their Guarantees /Corporations	BA's Schedule A Canadian Banks R-1	299,659,372	592,482,080	50%	292,822,708	47%
Tier 1 - Financial Institutions & their Guarantees	Mid	268,909,513	592,482,080	50%	323,572,567	52%
Bank of Montreal (R-1 High)	Open	99,981,903				
BMO - Instruments		0				
BMO - Account		99,981,903				
Bank of Nova Scotia (R-1 High)	Open	49,873,693				
Bank of Nova Scotia Effective Cash		24,873,693				
Bank of Nova Scotia - Notice Account		25,000,000				
Canadian Imperial Bank of Commerce (R-1 High)	Open	70,529,435				
CIBC - Instruments		0				
CIBC - Account		70,529,435				
Royal Bank (R-1 High)	Open	23,524,191				
RBC - Instruments		0				
RBC IS		50				
RBC - Account		23,524,141				
Toronto Dominion (R-1 High)	Open	25,000,292				
TD - Instruments		0				
TD - Account		25,000,292				
Tier 2 - Financial Institutions & Corporations	R-1 Mid/High***	30,749,859	154,491,040	25%	123,741,181	20%
National Bank of Canada (R-1 Mid)	Open	30,749,859				
OMERS Realty Corporation (R-1 High)	Open	0				
CDP Financial Inc (R-1 High)	Open	0				
Desjardins Total		0				
Desjardins Group (R-1 High)	Open	0				
Caisse Centale Desjardins (R-1 High)	Open	0				
Total Cash and Equivalents		452,772,594				
Federal Government & its Guarantees						
Money Market		0	617,964,160	100%	617,964,160	100%
Reserves - Bond Pool		0	617,964,160	100%	617,964,160	100%
Canada Mortgage & Housing Corp.		0				
Provincial Government & their Guarantees		0	617,964,160	100%	617,964,160	100%
Money Market		0	617,964,160	100%	617,964,160	100%
Alberta		0				
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		0				
Manitoba		0				
New Brunswick		0				
Nova Scotia		0				
Ontario		0				
Quebec		0				
Quebec		0				
Financement Quebec		0				
Hydro Quebec		0				
Saskatchewan		0				
Bond Pool		165,185,156	617,964,160	100%	452,779,004	73%
Alberta		0	154,491,040	25%	154,491,040	25%
Alberta		0				
Alberta Capital Finance Authority		0				
Alberta Treasury Branches		0				
British Columbia		72,917,106	154,491,040	25%	81,573,934	13%
Manitoba		5,633,650	154,491,040	25%	148,857,390	24%
New Brunswick		0	154,491,040	25%	154,491,040	25%
Nova Scotia		0				
Ontario		86,634,400	124,565,740	25%	37,931,340	6%
Quebec		0	31,303,119	25%	31,303,119	5%
Quebec		0	31,303,119	25%	31,303,119	5%
Financement Quebec		0	154,491,040	25%	154,491,040	25%
Hydro Quebec		0	154,491,040	25%	154,491,040	25%
Saskatchewan		0	154,491,040	25%	154,491,040	25%
Total Fixed		165,185,156				
Equities						
Bank of Montreal		6,410				
Total Equities		6,410				
Total Investments		617,964,160				
Interest Bearing Bank Accounts - O/S Cheque Coverage		32,000,000				
Total Investments and O/S Cheques Coverage		649,964,160				

Appendix A

Economic Statistics	Canada			United States		
	Jan	Feb	Mar	Jan	Feb	Mar
Unemployment Rate	6.5%	5.5%	5.3%	4.0%	3.8%	3.6%
Jobs Created / (Lost) ('000's)	(200)	337	73	504	714	428
Core Inflation Rate (year over year)	4.3%	4.8%	5.5%	6.0%	6.4%	6.5%

Date	Central Bank	Central Bank Action
Apr 21, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Apr 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jun 9, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jun 16, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Jul 14, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Jul 28, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Sept 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Sept 22, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
Oct 27, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Dec 8, 2021	Bank of Canada	Maintains overnight rate at 0.25%
Dec 15, 2021	U.S. Federal Open Market Committee	Maintained target range to 0.0% to 0.25%
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	Maintained 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	Maintained target range to 0.75% to 1.00%

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):

Desjardins Group
Caisse Centrale Desjardins
CDP Financial Inc.
National Bank of Canada
OMERS Finance Trust

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.