

Item No. 9.5.2
Audit and Finance Standing Committee
January 17, 2014

TO: Chair and Members of Audit and Finance Standing Committee

Original Signed

SUBMITTED BY:

Councillor Outhit, Co-Chair Investment Policy Advisory Committee
Original Signed

Derek Tynski, Co-Chair Investment Policy Advisory Committee

DATE: January 2, 2013

SUBJECT: Amended Investment Policy

ORIGIN

The Halifax Regional Municipality Investment Policy requires that the Investment Policy Advisory Committee review the Policy annually.

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 Service Nova Scotia and Municipal Relations 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 and Finance Standing Committee recommend that Halifax Regional Council approve the amended Investment Policy attached as Appendix A.

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 (the Minister) on May 14, 2002. 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 and early 2012. A review of the Policy by the Committee in late 2012 did not result in any recommended changes.

DISCUSSION

In keeping with the annual review requirements of the Policy, the Committee discussed the appropriateness of amendments to the Policy at a number of meetings during 2013. This included a review of certain aspects of Investment Policies of a number of other Canadian municipalities. The Committee does not recommend any major changes to the risk profile of the Policy as a result of the 2013 review and continue to believe that the Policy provides appropriate guidance for the investment of Municipal funds in these uncertain financial market and economic times. However, some minor changes of a more cosmetic nature are recommended and discussed below. The Committee approved the Policy as amended at its December 6, 2013 meeting.

A new Sector Weight Schedule which reflects the total portfolio prior to the segregation of investments by Fund has been added. This serves to reinforce that risk exposure is being managed at the total portfolio level as well as by Fund. This also brings the Policy more in line with regular Quarterly reporting which has long included this Schedule.

The addition of this Schedule has resulted in a renumbering of the Sector Weight Schedules as well as the addition of some wording in the Total Portfolio Sector Weight Schedule and on page 2 of the Policy document. A new asterisk note in the Total Portfolio Sector Weight Schedule acknowledges the potential distortion in the Sector Weights in that Schedule that a growth in bond holdings in the Reserve Fund may create as this Fund may hold a much greater proportion of bonds than the Operating Fund. However, the credit quality exposure to individual names is as always managed at the total portfolio level. The notes at the bottom of each Sector Weight Schedule have also been reorganized to group asterisk notes together.

As a house keeping measure, on page 1 of the Policy the reference to four volunteer members of the public has been deleted as at times the number of volunteer members has exceeded this number.

FINANCIAL IMPLICATIONS

N/A

COMMUNITY ENGAGEMENT

The majority of members of this Committee (currently 4 of 6) are volunteers from the general public. The Committee reports to 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

N/A

ALTERNATIVES

N/A

ATTACHMENTS

Appendix A – Amended Halifax Regional Municipality Investment Policy

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Derek Tynski, Co-Chair, Investment Policy Advisory Committee, 490-6471

Appendix A



INVESTMENT POLICY

Approved by Regional Council: January 10, 2012
Approved by Minister of Service Nova Scotia and Municipal Relations: March 8, 2012

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A. TERMS OF REFERENCE

The Investment Policy Advisory Committee was created by Halifax Regional Municipality Council which is responsible for appointment of its members. Membership includes one member of Regional Council and one staff member who serve as Co-Chairs as well as volunteer members of the public. The volunteer members shall have a combination of finance and investment knowledge and relevant professional, business or educational experience.

The mandate of the Policy Committee includes establishing credit quality restrictions, recommending an appropriate set of guidelines, practices and procedures to guide the investment operations of the Halifax Regional Municipality (HRM), and monitoring same on an ongoing basis through periodic reports to Regional Council or any other body as directed by Regional Council.

B. INTRODUCTION

The Investment Policy of the Halifax Regional Municipality shall govern the investment of trust funds, reserve funds and surplus cash balances. Investments of the Halifax Regional Municipality Pension Plan are governed under a separate investment policy and are not addressed in this document. This Policy does not apply to loans permitted under the Municipal Government Act. Exceptions to this Policy shall be permitted from time to time upon approval by Regional Council and the Minister of Service Nova Scotia and Municipal Relations.

The Investment Policy seeks to preserve and grow Halifax Regional Municipality revenues to fund both Operating and Capital Expenditures while adhering to strict legal requirements. Fundamental objectives of the Policy are built upon both preservation of capital and cash flow liquidity commensurate with HRM's expenditure requirements. For greater clarity, the vast majority of HRM investments shall be short term in nature as they exist only to provide a funding source for Operating and Capital Expenditures.

For the purpose of this policy, trust funds are funds which result from trust agreements through which the Municipality is accountable to third parties for the use and disposition of trust assets. In general these trusts are perpetual in nature with the majority of the income derived from the trust assets being used for the purpose of the trust and the principal being preserved.

Reserve funds are special purpose funds established through Provincial regulation or by motion of the Halifax Regional Municipality Council. Cash requirements are dependent on

the purpose of the particular reserve fund. These requirements may be such that only a partial amount of a reserve may be expended in a given year which could allow for an investment time horizon spanning several years.

Surplus cash balances refer to the operating fund and capital fund. The operating fund pertains to the general operations of the Halifax Regional Municipality and the direct provision of services to its citizens. The investment time horizon for this fund would generally be short term in nature with some cash requirements daily while others are on bi-weekly and monthly cycles. The capital fund provides for expenditures on infrastructure and capital assets. Cash requirements would be driven by project expenditures that could span more than one year. Permanent funding of these project expenditures by cost sharing from other levels of government, debt, etc. may also be received over a number of years creating a requirement for bridge financing. This temporary financing is usually provided by operating fund cash flows and results in reduced liquidity and investment income for the operating fund.

Schedule A attached provides sector weights and investment quality restrictions for the portfolios anticipated above as well as for the total of all funds invested.

The Investment Policy of the Halifax Regional Municipality has been established on the basis of certain objectives which shall be adhered to in the investment of funds by or on behalf of the Halifax Regional Municipality.

The Policy Committee shall review the administration of the Investment Policy by the Halifax Regional Municipality staff responsible for on-going investment activities, as designated by the Treasurer. Such review shall focus on compliance with the specific investment objectives of the Policy and continued relevance of the Investment Policy itself. The Policy Committee shall submit reports to Regional Council or the body designated by Regional Council not less frequently than quarterly.

The Investment Policy shall be reviewed by the Policy Committee annually. Each annual review shall include the continued relevance of the Policy objectives as well as the strategies employed to meet the objectives in the context of evolving market conditions, experience in applying the Policy to actual decision making as well as the history of the Policy. In addition, staff periodically consult with other Municipalities with similar investment activities and bring to the Policy Committee best practices of these other Municipalities for consideration for inclusion in the HRM Investment Policy.

C. INVESTMENT OBJECTIVES

The three objectives of the Investment Policy, stated in order of priority of importance, are as follows:

1. PRESERVATION OF CAPITAL
2. LIQUIDITY
3. COMPETITIVE RETURN ON INVESTMENTS

To accomplish these objectives a number of strategies will be used. These strategies include, but are not limited to, portfolio diversification, regular review of performance and various risk management practices such as limitations on the percentage of the portfolio that can be invested in any one sector or entity as shown in the attached Sector Weight Schedules.

The Policy Committee shall review the Investment Policy and monitor the administration of the Investment Policy. Policy amendments, as necessary, shall be presented to Regional Council upon recommendation of the Chief Administrative Officer. The Policy Committee shall approve investment asset mix parameters, establish credit quality restrictions, and recommend an appropriate set of guidelines, practices and procedures for the investment of funds by the Halifax Regional Municipality.

D. INVESTMENT POLICY

The Treasurer shall be responsible for administering the investment activities of the Halifax Regional Municipality in accordance with the Investment Policy. The Treasurer shall recommend to the Policy Committee investment asset mix parameters and credit quality restrictions and shall develop and maintain appropriate procedures and controls for recording, reporting, and monitoring investments to ensure that investments are made in accordance with the Investment Policy. The Treasurer shall monitor investment performance and prepare reports not less frequently than quarterly for the Policy Committee and Regional Council or the body designated by Regional Council on performance and adherence to the Investment Policy.

Investments by or on behalf of the Halifax Regional Municipality shall be made in accordance with the objectives as discussed below.

The Sector Weight Schedules attached to this Policy should be used and interpreted in the context of the objectives of the Policy.

1. PRESERVATION OF CAPITAL

Investment of public funds by or on behalf of the Halifax Regional Municipality shall be made in accordance with the objective of preserving and protecting the principal amount. Accordingly, all investment opportunities shall be evaluated on the basis of risk of loss or diminution of capital. Investments which are determined to be inconsistent with the objective of preserving and protecting the principal amount are prohibited.

In assessing the degree of risk of an investment decision, greater relevant importance shall be given to the objective of preservation of capital than to the extent to which an investment provides for maintenance of necessary liquidity or a competitive return.

Investments which have been subject to a downgrade in their credit rating below the minimum level required by the Policy shall be converted to cash within a reasonable period of time, given prevailing market conditions.

2. LIQUIDITY

Investment of public funds by or on behalf of the Halifax Regional Municipality shall be made in accordance with the objective of maintaining liquidity necessary in order to meet fluctuations in the cash flow requirements of the Halifax Regional Municipality.

The type and term of investments shall be determined by reviewing a forecast of the cash flow requirements of the Halifax Regional Municipality. The forecast of cash flow requirements will determine the proper proportion of investments that have terms to maturity which match the cash flow requirements of the Halifax Regional Municipality.

Approach: Staff of the Halifax Regional Municipality shall develop, not less frequently than monthly, forecasts of cash flow requirements based on revenue and expense projections.

Surplus and/or reserve funds not required for immediate or near-term expenses can be classified as follows:

- minimum cash balances
- temporary surpluses from operating funds
- longer term cash surpluses from reserve and trust funds

Investments: Efficient cash management results from a consideration of liquidity requirements and asset distribution within the parameters of preservation of capital, attainment of maximum return on investment, and diversification.

Funds not required for a specific short-term need can be invested in longer term securities; here, the most important consideration is the expectation of future interest rates and a reliable forecast of the timing of the need for these funds.

It is recognized that the Liquidity Objective may be satisfied by the sale of investments to selectively meet cash requirements as long as the sale does not result in a loss of capital.

3. COMPETITIVE RETURN ON INVESTMENTS

Investments by or on behalf of the Halifax Regional Municipality shall be made in accordance with the objective of obtaining a competitive return on investments and weighing investment alternatives within the constraints of the policy objectives and subject to regular performance review. In evaluating the return on investments, performance of investments shall be measured against the median rate of return on a one year rolling basis of a recognized Institutional Pooled Fund Survey of Money Market Funds as agreed by the Policy Committee with an allowance for average fees for this asset class.

An investment program can be implemented through in-house management where individual investments are placed by Halifax Regional Municipality staff or through the use of an external pooled fund vehicle whereby active management is delegated to an outside service provider. A combination of the above is also allowable.

In the context of in-house management competitive return also implies a bidding process for each investment to ensure that the best return available at a given time is selected under the constraints of Objectives 1 to 3.

In the context of the use of external management (i.e. pooled fund), competitive return implies the selection of a service provider based on historical performance, fee structure, stability of the organization, ability to satisfy the Investment Objectives and other aspects of the Investment Policy.

For a combined approach an optimal choice would be made based on the investment options available under the constraints of the Investment Policy.

E. INVESTMENT STRATEGIES

I. Diversification of Investment Portfolio

Investment of public funds by or on behalf of the Halifax Regional Municipality shall be made in accordance with the objective of diversification of the investment portfolio in order to minimize risk and achieve optimal balance of risk and return.

The allocation and limitation of investments will be determined in accordance with the objective of diversification, using the following inter-related criteria:

- liquidity of investment
- credit rating of issuer
- maximum allocation by sector class (e.g. federal vs. provincial vs. municipal government issue / private sector)
- duration of investment (interest rate risk)

Foreign currency investments shall only be made to match foreign currency requirements to meet obligations payable in foreign currencies from time to time.

On the advice of the Treasurer, the Chief Administrative Officer shall recommend to Regional Council and or any body designated by Regional Council any changes to asset mix and the minimum credit rating criteria applicable to each investment type, class, and sector. Schedule A contains recommended sector weights and minimum credit rating criteria for investments by the Halifax Regional Municipality. Schedule B contains a list of categories of investments in which the Halifax Regional Municipality may invest. Schedule C contains a list of entities in which the Halifax Regional Municipality may invest. This list may be amended on the recommendation of the Treasurer and the

concurrence of the Policy Committee as long as any additions meet the credit quality restrictions of Schedule A.

HRM staff shall select investments based on the above criteria which shall be reviewed by the Policy Committee not less frequently than quarterly.

2. Regular Review of Performance

In order that a concise overview of the performance of investments may be gleaned by all stakeholders, all segments and the total investment portfolio shall operate within a sound system of regular measurement, reporting, review, and evaluation.

Performance of the portfolio shall be measured against appropriate external benchmarks as agreed to by the Policy Committee as well as the objectives of the Investment Policy taking into consideration the priority of each objective.

3. Risk Management Approach

As many of the aspects of the Investment Policy seek to address risk in its various forms, decisions that implement the Investment Policy must also be based on managing and balancing risks. Typical investment risks that can be managed are credit risk, liquidity risk and interest rate or market risk. It is also recognized that active management of risks does not guarantee particular outcomes.

There are also financial risks that are beyond the scope of this Investment Policy. For example, while Canadian Monetary Policy seeks a stable long term inflation rate of 2% which usually implies a short term interest rate structure above this inflation rate, there may be periods of time when interest rates may persist below the actual and desired rate of inflation. As a result the maintenance of a rate of return above the rate of inflation, although highly desirable, may not always be available given the constraints of the Investment Policy.

F. VALUATION OF INVESTMENTS

Investments in publicly traded securities shall be recorded, by the custodian, on a mark-to-market basis and shall be reported to the Treasurer not less frequently than monthly.

Investment in pooled funds comprising publicly traded securities shall be valued according to the unit values published at least weekly by the pooled fund manager.

If a market valuation of the investment is not readily available, then a fair value shall be determined by the Treasurer in accordance with generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor institute, as published in the Handbook of the Canadian Institute of Chartered

Accountants, or any successor publication. For each such non-traded investment, an estimate of fair value shall be supplied by the custodian no less frequently than monthly. In all cases, the methodology should be applied consistently over time.

Any Custodian acting on behalf of the Halifax Regional Municipality shall record the investments held by the Halifax Regional Municipality. The Custodian shall also record and receive any income from these investments as well as perform those other duties typically associated with a professional custodian.

G. CONFLICT OF INTEREST

A conflict of interest occurs when any interested person may benefit materially from knowledge of, participation in, or by virtue of an investment decision.

An "interested person" includes:

- any employee of the Halifax Regional Municipality who is managing in-house portfolios or is involved in the investment of funds by the Halifax Regional Municipality
- any member of the Policy Committee, and
- any person related to any of the foregoing

Should a conflict of interest occur, the person who has a conflict of interest or any person who becomes aware of a conflict of interest situation, shall immediately disclose the conflict to the Treasurer? Any such party shall abstain from decision making with respect to the area of conflict, and a written record of the conflict shall be maintained by the Treasurer.

Interested persons involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

The Code of Ethics and Standards of Professional Conduct adopted by the Association of Investment Management and Research shall be expected to apply to external investment managers.

SCHEDULE A (1)

Sector Weights – Total Portfolio

	Maximum % of Portfolio Per Issuer	Maximum Allowable % of Portfolio Per Category	Minimum Rating Required*
<u>CASH & EQUIVALENTS</u> (Treasury Bills, Banker's Acceptance, etc. under one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	25****	100	R-1 Mid
Municipal Governments & their Guarantees	10	25	R-1Mid
Tier 1 Financial Institutions & their Guarantees	10	50**	R-1 Mid
Tier 2 Financial Institutions & Corporations	5	25**	R-1Mid / R-1High***
<u>FIXED</u> (Bonds, etc. over one year)		20*****	
Federal Government & its Guarantees	20	20	N/A
Provincial Governments & their Guarantees	10****	20	A
Municipal Governments & their Guarantees	5	10	AA

The Maximum % of Portfolio Per Issuer and Maximum % of Portfolio Per Category refer to maximums at the time of placing an investment.

Investments in this Schedule are subject to the terms and conditions of this Investment Policy.

Investments denominated in foreign currency shall be limited to foreign currency requirements.

Total Portfolio refers to all invested funds prior to allocation to individual Funds. Risk exposure, through Maximum % of Portfolio Per Issuer, is managed at the Total Portfolio level.

* Rating agency as determined by the Investment Policy Advisory Committee from time to time.

** The Total Maximum Allowable for Tier 1 Financial Institutions and their Guarantees and Tier 2 Financial Institutions and Corporations in total shall not exceed 50%.

*** Minimum rating for Tier 2 Financial Institutions is R-1 Mid while the minimum rating for Tier 1 Corporations is R-1 High.

**** The Total Maximum Allowable exposure for individual Provinces and their Guarantees shall not exceed 25%.

***** Maximum Allowable % of Portfolio for Fixed (Bonds, etc. over one year) may be greater than 20% for Reserve and Trust Funds which could result in a greater than 20% allocation to Fixed at the Total Portfolio level.

SCHEDULE A (2)

Sector Weights - Operating Fund

	Maximum % of Portfolio Per Issuer	Maximum Allowable % of Portfolio Per Category	Minimum Rating Required*
<u>CASH & EQUIVALENTS</u> (Treasury Bills, Banker's Acceptance, etc. under one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	25****	100	R-1 Mid
Municipal Governments & their Guarantees	10	25	R-1Mid
Tier 1 Financial Institutions & their Guarantees	10	50**	R-1 Mid
Tier 2 Financial Institutions & Corporations	5	25**	R-1Mid / R-1High***
<u>FIXED</u> (Bonds, etc. over one year)			
Federal Government & its Guarantees	20	20	N/A
Provincial Governments & their Guarantees	10****	20	A
Municipal Governments & their Guarantees	5	10	AA

The Maximum % of Portfolio Per Issuer and Maximum % of Portfolio Per Category refer to maximums at the time of placing an investment.

Investments in this Schedule are subject to the terms and conditions of this Investment Policy.

Investments denominated in foreign currency shall be limited to foreign currency requirements.

* Rating agency as determined by the Investment Policy Advisory Committee from time to time.

** The Total Maximum Allowable for Tier 1 Financial Institutions and their Guarantees and Tier 2 Financial Institutions and Corporations in total shall not exceed 50%.

*** Minimum rating for Tier 2 Financial Institutions is R-1 Mid while the minimum rating for Tier 1 Corporations is R-1 High.

**** The Total Maximum Allowable exposure for individual Provinces and their Guarantees shall not exceed 25%.

SCHEDULE A (3)

Sector Weights - Capital Fund

	Maximum % of Portfolio Per Issuer	Maximum Allowable % of Portfolio Per Category	Minimum Rating Required*
<u>CASH & EQUIVALENTS</u> (Treasury Bills, Banker's Acceptance, etc. under one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	25****	100	R-1 Mid
Municipal Governments & their Guarantees	10	25	R-1 Mid
Tier 1 Financial Institutions & their Guarantees	10	50**	R-1 Mid
Tier 2 Financial Institutions & Corporations	5	25**	R-1Mid / R-1High***
 <u>FIXED</u> (Bonds, etc. over one year)			
Federal Government & its Guarantees	20	20	N/A
Provincial Governments & their Guarantees	10****	20	A
Municipal Governments & their Guarantees	5	10	AA

The Maximum % of Portfolio Per Issuer and Maximum % of Portfolio Per Category refer to maximums at the time of placing an investment.

Investments in this Schedule are subject to the terms and conditions of this Investment Policy.

Investments denominated in foreign currency shall be limited to foreign currency requirements.

* Rating agency as determined by the Investment Policy Advisory Committee from time to time.

** The Total Maximum Allowable for Tier 1 Financial Institutions and their Guarantees and Tier 2 Financial Institutions and Corporations in total shall not exceed 50%.

*** Minimum rating for Tier 2 Financial Institutions is R-1 Mid while the minimum rating for Tier 1 Corporations is R-1 High.

**** The Total Maximum Allowable exposure for individual Provinces and their Guarantees shall not exceed 25%.

SCHEDULE A (4)
Sector Weights - Reserves

	Maximum % of Portfolio Per Issuer	Maximum Allowable % of Portfolio Per Category	Minimum Rating Required*
<u>CASH & EQUIVALENTS</u> (Treasury Bills, Banker's Acceptance, etc. under one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	25****	100	R-1 Mid
Municipal Governments & their Guarantees	10	25	R-1 Mid
Tier 1 Financial Institutions & their Guarantees	10	50**	R-1 Mid
Tier 2 Financial Institutions & Corporations	5	25**	R-1Mid / R-1High***
 <u>FIXED</u> (Bonds, etc. over one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	10****	50	A
Municipal Governments & their Guarantees	5	25	AA

The Maximum % of Portfolio Per Issuer and Maximum % of Portfolio Per Category refer to maximums at the time of placing an investment.

Investments in this Schedule are subject to the terms and conditions of this Investment Policy.

Investments denominated in foreign currency shall be limited to foreign currency requirements.

* Rating agency as determined by the Investment Policy Advisory Committee from time to time.

** The Total Maximum Allowable for Tier 1 Financial Institutions and their Guarantees and Tier 2 Financial Institutions and Corporations in total shall not exceed 50%.

*** Minimum rating for Tier 2 Financial Institutions is R-1 Mid while the minimum rating for Tier 1 Corporations is R-1 High.

**** The Total Maximum Allowable exposure for individual Provinces and their Guarantees shall not exceed 25%.

SCHEDULE A (5)

Sector Weights - Trust Funds

	Maximum % of Portfolio Per Issuer	Maximum Allowable % of Portfolio Per Category	Minimum Rating Required*
<u>CASH & EQUIVALENTS</u> (Treasury Bills, Banker's Acceptance, etc. under one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	25****	100	R-1 Mid
Municipal Governments & their Guarantees	10	25	R-1 Mid
Tier 1 Financial Institutions & their Guarantees	10	50 **	R-1 Mid
Tier 2 Financial Institutions & Corporations	5	25 **	R-1Mid / R-1High***
 <u>FIXED</u> (Bonds, etc. over one year)			
Federal Government & its Guarantees	100	100	N/A
Provincial Governments & their Guarantees	10****	100	A
Municipal Governments & their Guarantees	5	25	AA
<u>EQUITIES</u>			
TSE 300 or S&P 500***	2	10	

The Maximum % of Portfolio Per Issuer and Maximum % of Portfolio Per Category refer to maximums at the time of placing an investment.

Investments in this Schedule are subject to the terms and conditions of this Investment Policy.

Investments denominated in foreign currency shall be limited to foreign currency requirements.

* Rating agency as determined by the Investment Policy Advisory Committee from time to time.

** The Total Maximum Allowable for Tier 1 Financial Institutions and their Guarantees and Tier 2 Financial Institutions and Corporations in total shall not exceed 50%.

*** Minimum rating for Tier 2 Financial Institutions is R-1 Mid while the minimum rating for Tier 1 Corporations is R-1 High.

**** The Total Maximum Allowable exposure for individual Provinces and their Guarantees shall not exceed 25%.

SCHEDULE B

Eligible List of Investments

Investments by or on behalf of the Halifax Regional Municipality shall be made in accordance with the Investment Policy. The Halifax Regional Municipality may invest in the following asset categories:

- Banker's Acceptances
- Bearer Deposit Notes
- Canadian Treasury Bills
- Commercial Paper
- Municipal Promissory Notes
- Bank Subsidiary Paper
- Provincial Treasury Bills
- Term Deposits
- Guaranteed Investment Certificates
- CMHC Mortgage Backed Securities
- Federal, Provincial, Municipal Bonds and Debentures
- Corporate Bonds and Debentures
- Equities

Any obligations unconditionally guaranteed by the federal government of Canada
Any obligations unconditionally guaranteed by a provincial government of Canada

SCHEDULE C
Eligible List of Investment Entities

Investments by or on behalf of the Halifax Regional Municipality shall be made in accordance with the Investment Policy. The Halifax Regional Municipality may invest in the following entities:

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 & Its Guarantees

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 Realty Corporation

Appendix A

Definitions

Risk The quantifiable likelihood of loss or less-than-expected returns. Examples: currency risk, inflation risk, principal risk, country risk, economic risk, mortgage risk, liquidity risk, market risk, opportunity risk, income risk, interest rate risk, prepayment risk, credit risk, unsystematic risk, call risk, business risk, counterparty risk, purchasing-power risk, event risk.

Principal Risk The risk of losing the amount invested due to bankruptcy or default. There is always the possibility that through some set of circumstances, invested money will decrease or completely disappear. In this case, principal is lost, not just profits.

Liquidity Risk The risk that arises from the difficulty of selling an asset. An investment may sometimes need to be sold quickly. Unfortunately, an insufficient secondary market may prevent the liquidation or limit the funds that can be generated from the asset. Some assets are highly liquid and have low liquidity risk (such as stock of a publicly traded company), while other assets are highly illiquid and have high liquidity risk (such as a house).

Furthermore, in the context of the HRM Investment Policy, Liquidity Risk also refers to the risk of not having sufficient funds available to meet financial obligations as they come due.

Market Risk Risk which is common to an entire class of assets or liabilities. The value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market. Asset allocation and diversification can protect against market risk because different portions of the market tend to underperform at different times.

Interest Rate Risk The possibility of a reduction in the value of a security, especially a bond, resulting from a rise in interest rates. This risk can be reduced by diversifying the durations of the fixed-income investments that are held at a given time.

Preservation of Capital A conservative investment strategy characterized by a desire to avoid risk of loss.

Liquidity The ability of an asset to be converted into cash quickly and without any price discount.

Banker's Acceptance A short-term credit investment which is created by a non-financial firm and whose payment is guaranteed by a bank. Often used in importing and exporting, and as a money market fund investment.

Treasury Bill A negotiable debt obligation issued by a government and backed by its full faith and credit, having a maturity of one year or less.

Promissory Note A document signed by a borrower promising to repay a loan under agreed-upon terms. also called note.

(Most of the definitions are from InvestorWords.com with some modifications to make them more relevant to the Investment Policy)