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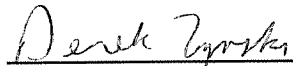
Halifax Regional Council  
June 26, 2007

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**



Bill Karsten, Co-Chair Investment Policy Advisory Committee



Derek Tynski, Co-Chair Investment Policy Advisory Committee

**DATE:** June 11, 2007

**SUBJECT:** Amendments to the Halifax Regional Municipality Investment Policy

### ORIGIN

Review of the Halifax Regional Municipality Investment Policy by the Investment Policy Advisory Committee

### RECOMMENDATION

It is recommended that:

1. Council approve the Halifax Regional Municipality Investment Policy as amended and attached as Appendix A.

## **BACKGROUND**

In April 2002 Regional Council approved the Halifax Regional Municipality Investment Policy (the Policy) as recommended by the Investment Policy Advisory Committee (the Committee) and staff. In accordance with Section 100 of the Municipal Government Act the Minister of Service Nova Scotia and Municipal Relations approved the Policy in May 2002.

In addition to the ongoing monitoring of investment activities by staff, the Policy also provides for the review of the Policy by the Committee. The Policy also calls for any changes to be recommended by the Chief Administrative Officer on the advice of the Treasurer.

In November 2005 Regional Council approved a number of amendments to the Policy as recommended by the Committee and staff. In keeping with the provisions of the Policy, which suggest periodic review, the Committee and staff have again reviewed the Policy and are recommending a number of amendments.

## **DISCUSSION**

In reviewing the Policy the Committee solicited input from staff that have been administering the Policy. The reports and discussions from the Quarterly meetings of the Committee as well as a review of Investment Policies from other Municipalities were also part of the Committee's deliberations. The amended Investment Policy is attached as Appendix A. Deletions to the Policy are underlined while additions are shown in bold text.

Overall the Committee is satisfied that the Policy Objectives are still relevant and provide the necessary framework for investment decision-making by staff. The six objectives of the Policy, stated in order of importance, are as follows:

1. Adherence to Legal Requirements
2. Preservation of Capital
3. Liquidity
4. Diversification of Investment Portfolio
5. Competitive Return on Investments
6. Regular Review of Performance

One area of particular interest to staff and the Committee was the Sector Weight constraints of the Policy. Sector Weights are the percentages of the portfolio that can be placed with various types of entities such as Financial Institutions, various levels of Government, etc. In comparing the HRM Sector Weights to those contained in the Investment Policies of other Municipalities with similar objectives it was found that the HRM Policy was quite conservative in effectively requiring that 75% of the Money Market portfolio be held in Government instruments. This has left only a 25% allocation for the higher yielding instruments of the very high quality Financial Institutions available

in Canada. The Table below provides a summary of the relevant Sector Weight guidelines of Investment Policies reviewed by the Committee.

| <b>Entity</b>     | <b>Minimum Government Sector Weight</b> |
|-------------------|---|
| HRM               | 75%                                     |
| Region of Halton  | 30%                                     |
| City of Ottawa    | 25%                                     |
| Region of Peel    | 20%                                     |
| City of Vancouver | 25%                                     |

The Committee and staff agreed that the Sector Weight for Non-Government entities should be raised to 50% from the current 25%. This would still be a relatively conservative weighting and very much in keeping with the Objectives of the Policy. The increase in weighting would provide for more exposure to the higher yielding Non-Government Sector and provide staff with additional flexibility in placing investments.

Because of the relatively small allocation to the Non-Government Sector previously in the Policy staff have focussed on the purchase of investment instruments of the "Big 5" Canadian Banks. These institutions offer a very high degree of security as they all currently carry an R-1 High credit rating on their short term obligations, the highest credit rating available. Appendix B provides a summary of relevant rating definitions. In addition, because of their prominence in the Canadian economy and the bank clearing system it is widely believed that should any of these Institutions experience financial difficulties that government assistance would in all likelihood be made available. In keeping with prudent diversification, the Policy limits exposure to any one Financial Institution to 10% of the portfolio. Staff and the Committee recommend that this limit should be maintained.

Operationally it would be very difficult to fully take advantage of an increase in the Non-Government Sector to 50% while limiting investments to the "Big 5" Canadian Banks. Staff and the Committee agreed to a two tiered approach with the Big 5 Canadian Banks as Tier 1 with an individual maximum weighting of 10% and a total Tier 1 weighting of 50% and Tier 2 of very high quality Canadian entities with a maximum individual weighting of 5% and a total Tier 2 weighting of 25%. In total the combination of Tier 1 and Tier 2 investments cannot be greater than 50%.

The Committee agreed to the staff suggestion that the Tier 1 and Tier 2 names eligible for investment be listed in the Policy along with the Government entities. Additions to this list could only be made with the concurrence of the Committee. Any additional names must meet the credit quality restrictions of the Policy. The Tier 2 names are listed below and a brief description of each is included as Appendix C:

National Bank of Canada  
OMERS Realty Corporation  
CDP Financial Inc  
Ontario Infrastructure Projects Corporation  
Desjardins Group  
Caisse centrale Desjardins

With the exception of the National Bank of Canada which is rated R-1 Middle, all of these entities carry the R-1 High credit rating. They are all Canadian entities with a high degree of visibility in the Canadian economy. Over and above their individual financial size and strength, their regional prominence raises the likelihood that government assistance may be available in the unlikely event that it be required.

Staff and the Committee have also taken the opportunity of this review to make some further amendments to the Sector Weight Schedules which have the effect of raising the credit quality requirements. The minimum credit rating for a Money Market investment has been raised from R-1 Low to R-1 Middle. For Fixed Income investments the minimum credit quality has been raised from A- to AA. In addition the Financial Institution and Corporate Sectors have been eliminated from the Fixed Income category.

### **BUDGET IMPLICATIONS**

It is anticipated that additional Investment Income of \$50,000 per annum would be earned under the expanded Sector Weights recommended in the amended Investment Policy.

### **FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

### **ALTERNATIVES**

Council could reject any or all of the recommended changes to the Policy. However this is not recommended as the Committee believes the changes to be appropriate.

**Amendments to the Halifax Regional  
Municipality Investment Policy  
Regional Council**

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**June 26, 2007**

**ATTACHMENTS**

Appendix A - Amended Halifax Regional Municipality Investment Policy.

Appendix B - Dominion Bond Rating Service (DBRS) Rating Scale

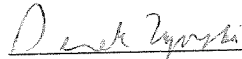
Appendix C - Tier 2 Investment Candidates

Appendix D - Staff report to Investment Policy Advisory Committee

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/agenda.html> then choose the appropriate 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

Report Approved by:



Derek Tynski, Co-Chair, Investment Policy Advisory Committee

490-6471

# HALIFAX

REGIONAL MUNICIPALITY

## INVESTMENT POLICY

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## A. TERMS OF REFERENCE

The Halifax Regional Municipality Council appointed the Investment Policy Advisory Committee in accordance with a recommendation contained in a report, dated March 24, 1998, submitted to Council by the Acting Chief Administrative Officer. On April 14, 1998, Halifax Regional Municipality Council unanimously resolved as follows:

1. An Investment Policy Advisory Committee be formed to recommend to Council an investment policy for the Halifax Regional Municipality and provide ongoing monitoring of investment activities.
2. That this Committee be comprised of one representative from the business community, one from the academic community, one member at large, one member of Council and one member of staff.

The composition of the Committee shall include volunteer members holding a combination of finance and investment knowledge and relevant professional, business or educational experience.

An Investment Policy Advisory Committee (the "Policy Committee") was established and members were appointed July 14, 1998.

The mandate of the Policy Committee, as recommended to Council, includes establishing credit quality restrictions, recommending an appropriate set of guidelines, practices and procedures to guide the investment operations of the Halifax Regional Municipality, and monitoring same on an ongoing basis through periodic reports to 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 Council and the Minister of Service Nova Scotia and Municipal Relations.

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. In general these requirements would be such that



only a partial amount of a reserve may be expended in a given year which would 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.

Schedule A attached provides sector weights and investment quality restrictions for the portfolios anticipated above.

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 Council not less frequently than quarterly. The Investment Policy shall be reviewed by the Committee annually.

## C. INVESTMENT OBJECTIVES

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

1. ADHERENCE TO LEGAL REQUIREMENTS
2. PRESERVATION OF CAPITAL
3. LIQUIDITY
4. DIVERSIFICATION OF INVESTMENT PORTFOLIO
5. COMPETITIVE RETURN ON INVESTMENTS
6. REGULAR REVIEW OF PERFORMANCE

The Policy Committee shall review the Investment Policy and monitor the administration of the Investment Policy. Policy amendments, as necessary, shall be presented to 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 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. ADHERENCE TO LEGAL REQUIREMENTS

Investment of public funds by or on behalf of the Halifax Regional Municipality shall be made in accordance with all legal restrictions imposed by statute and any conditions prescribed by the terms of specific trusts in respect of property held by the Halifax Regional Municipality and its predecessor municipalities in trust. Investments shall be made in accordance with the provisions of the *Municipal Government Act* (Nova Scotia), the *Trustee Act* (Nova Scotia), and any other applicable legislation.

The Treasurer, with assistance from the Halifax Regional Municipality legal department as necessary, shall ensure that all investments are permitted in accordance with all applicable law and trust terms.

### 2. 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, 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, diversification of investment portfolio or a competitive return on investment.

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 current market conditions.

3. 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: Cash Management 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.

4. 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
- fixed income vs. equity investment
- credit rating of issuer

- maximum allocation by sector class (e.g. federal vs. provincial vs. municipal government issue / corporate bonds)
- 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 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 Cash Management staff shall select investments based on above criteria which shall be reviewed by the Policy Committee not less frequently than quarterly.

5. 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 rate of return of the “Mercer Investment Consulting Survey of Canadian Institutional Pooled Funds Money Market Median” with an allowance for average fees on this asset class as reported in the Survey on a one-year rolling basis.

There will be a number of investment options available at any given investment decision point. Subject to the constraints of Objectives 1 to 4 outlined above, the investment which yields the optimal return in the appropriate portfolio segment shall be chosen.

Competitive Return on Investment:

Will determine: Process for obtaining investment vehicles and making investment decision.

Definition: Return refers to both interest coupon and discount or premium on any given investment vehicle, depending upon the portfolio segment. In addition fees associated with a given transaction will also be taken into consideration when assessing competitive return.

Approach: 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 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 4.

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.

#### 6. 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 by staff based on time-weighted rates of return taking into account trade dates, and reviewed and evaluated against the Halifax Regional Municipality Investment Policy as well as against external benchmarks such as Canadian Money Market, Canadian Fixed Income, and Canadian Equity Indices, as appropriate.

#### E. 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.

#### F. 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 - Operating Fund

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

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

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

\*\*A maximum of 20% of this portfolio will be permitted in entities with a rating of R-1 Low or A-

**\*\* 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.**

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

## SCHEDULE A (2)

### Sector Weights - Capital Fund

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

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

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

\*\*A maximum of 20% of this portfolio will be permitted in entities with a rating of R-1 Low or A-

**\*\* 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.**

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.



**SCHEDULE A (3)**  
**Sector Weights - Reserves**

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

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

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

\*\* A maximum of 20% of this portfolio will be permitted in entities with a rating of R-1 Low or A-.

\*\*\* Entities in which equity investments are held must maintain a minimum bond rating of A-.

**\*\* 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.**

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

## SCHEDULE A (4)

### Sector Weights - Trust Funds

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

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

\*\* A maximum of 20% of this portfolio will be permitted in entities with a rating of R-1 Low or A-

\*\*\*\* Entities in which equity investments are held must maintain a minimum bond rating of A-

\*\* **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.**

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.

## 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**

#### **Municipal Governments & Their Guarantees:**

**The Municipality of Calgary & Its Guarantees  
The Municipality of Edmonton & 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  
Ontario Infrastructure Projects Corporation  
OMERS Realty Corporation**

RE: 10.2.1

## Appendix B

### 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.

RE: 10.2.1

## Appendix C

### Tier 2 Investment Candidates

#### National Bank of Canada

National Bank is the sixth largest Bank in Canada and so is one of the “Big Six Banks”. The Bank’s headquarters are located in Montreal and has 450 branches nationwide, most of which are located in Quebec. The Bank has 2.4 million customers and assets of \$137 billion. National Bank has a credit rating of R-1 Middle.

#### OMERS Realty Corporation

Ontario Municipal Employees Retirement System (OMERS) provides pension services to 372,000 members and 900 employers in Ontario. Some of the groups it covers are Municipal workers, Firefighters, Police, and School Board Staff. It is one of Canada’s largest pension plans and has over \$48 billion in assets that generate the income necessary to pay pensions. About 70% of pension costs are paid for by investment returns. OMERS Realty Corporation is a wholly owned subsidiary of OMERS. OMERS Realty Corporation’s R-1 High rating reflects an unconditional guarantee provided by OMERS.

#### CDP Financial Inc

CDP Financial is a wholly owned subsidiary of the Caisse de depot et placement du Quebec, which manages the funds of the Quebec Pension Plan. The Caisse guarantees the full payment of principal and interest of CDP Financial. The Caisse has a very large and unencumbered portfolio (\$143 billion in assets) and has a strong liquidity position. The Caisse is currently Canada’s largest institutional investor and has an R-1 High credit rating.

#### Ontario Infrastructure Projects Corporation

Ontario Infrastructure Projects Corporation is a crown corporation which looks after the renewal of the Province’s hospitals, courthouses, roads, bridges, water systems, and other public assets. Ontario Infrastructure provides Ontario municipalities, universities and other public bodies with access to affordable loans to build and renew local public infrastructure. Ontario Infrastructure Projects Corporation was recently upgraded to a rating of R-1 High on its Commercial Paper. According to the DBRS the rating increase was primarily due to the recent revisions to the loan program. Also according to DBRS Ontario Infrastructure is in a strong financial position due to its large unrestricted reserve fund of \$1.1 billion equaling its \$1.1 billion loan portfolio and its ability to intercept provincial grants to potential defaulting entities.

#### Desjardins Group

Desjardins Group is the sixth largest financial institution in Canada with assets over \$135 billion. With over 572 branches, the network includes approximately 20 companies in such fields as insurance, brokerage and wealth management. Together, they constitute a major economic force that provides individuals and businesses with a broad range of financial services.

## Appendix C (con't)

Caisse centrale Desjardins is a cooperative institution, owned by the Fédération des caisses Desjardins du Québec. Caisse centrale Desjardins acts as the financial agent and Treasurer for the Desjardins Group and, as such, represents the Fédération and the caisses within the Canadian payments system. On behalf of the Group, Caisse centrale guarantees and assumes the clearing for banking instruments with the Bank of Canada and for securities negotiated in Canada with the Canadian Depository System. As treasurer, Caisse centrale Desjardins is also responsible for meeting the liquidity needs of the Group, as well as increasing and diversifying its sources of funds on national and international markets. It is supported in these efforts by a high level of capitalization and excellent credit ratings. The Desjardins Group and the Caisse centrale Desjardins have R-1 High credit ratings.



PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

**Investment Policy Advisory Committee  
June 4, 2007**

**TO:** Chair and Members of the Investment Policy Advisory Committee

**SUBMITTED BY:**

A handwritten signature in black ink, appearing to read "Dan English", written over a horizontal line.

Dan English, Chief Administrative Officer

A handwritten signature in black ink, appearing to read "Geri Kaiser", written over a horizontal line.

Geri Kaiser, Deputy Chief Administrative Officer

**DATE:** June 2, 2007

**SUBJECT:** **Amendments to the Halifax Regional Municipality Investment Policy**

**ORIGIN**

Recommendations of the Investment Policy Advisory Committee

**RECOMMENDATION**

It is recommended that:

1. the Investment Policy Advisory Committee approve the amended Halifax Regional Municipality Investment Policy.



**BACKGROUND**

In April 2002 Regional Council approved the Halifax Regional Municipality Investment Policy (the Policy) as recommended by the Investment Policy Advisory Committee (the Committee) and staff. In accordance with Section 100 of the Municipal Government Act the Minister of Service Nova Scotia and Municipal Relations approved the Policy in May 2002.

In addition to the ongoing monitoring of investment activities, the Policy also calls for the review of the Policy by the Committee. Any changes to the Policy are to be recommended by the Chief Administrative Officer on the advice of the Treasurer.

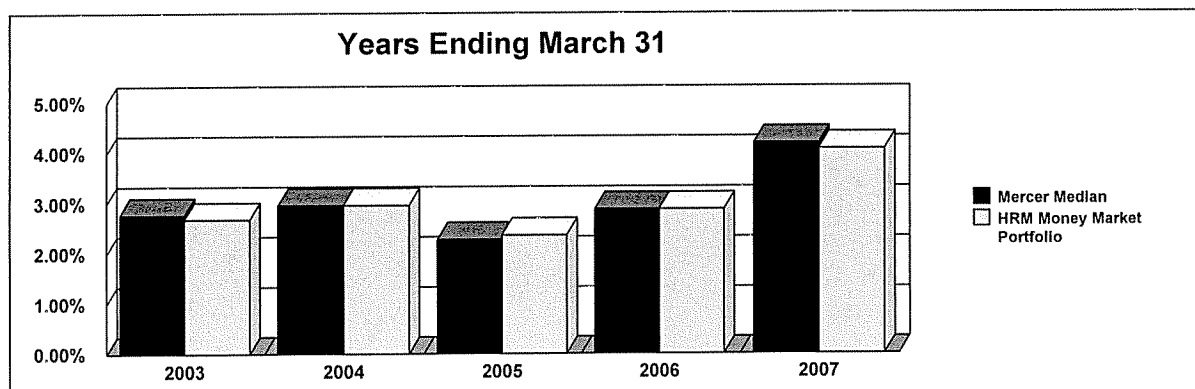
In November 2005 Regional Council approved a number of amendments to the Policy as recommended by the Committee and staff. As a result of the periodic review of the Policy by the Committee and staff a number of amendments to the Policy have been recommended by the Committee.

**DISCUSSION**

The Treasurer’s designate has reviewed the proposed changes to the Policy and recommends that they be adopted. The specific changes are outlined in a separate report to Regional Council from the Committee. In staff’s view the proposed changes will allow greater flexibility for investment operations while respecting the Objectives of the Policy. Theses changes represent a natural evolution of the Policy.

Under the guidance of the Policy staff have made investments well in excess of \$3 billion since its inception in 2002. All investments have matured as scheduled with no loss of principal or anticipated income.

As has been indicated in the Quarterly reports to Council, investment performance has been competitive with that available from external Institutional Investment Management firms. The graph below compares HRM Short Term (Money Market) investment performance with the median of the relevant Mercer Investment Consulting Survey of Canadian Institutional Pooled Funds:



By operating an 'in-house' investment program staff have saved the fees that would have been paid to an external party. Fee savings are estimated to have been between \$1.1 million and \$2.7 million in total since staff began making investments under the guidance of the Policy. In addition, staff maintain absolute control over the quality of the HRM investment portfolio.

The Committee fulfills an important role by monitoring the investment activities conducted by staff and providing Quarterly reports to Council. The input of the Committee on investment matters is highly valued. Staff want to thank the members of the Committee who have volunteered their time, knowledge and experience to help make this program a success.

Staff look forward to continuing to work with the Committee in managing the investment activities of the Municipality.

**BUDGET IMPLICATIONS**

It is anticipated that additional Investment Income of \$50,000 per annum would be earned under the expanded Sector Weights recommended in the amended Investment Policy.

**FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

**ALTERNATIVES**

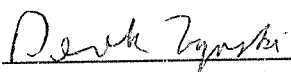
Council could reject any or all of the recommended changes to the Policy. This is not recommended as staff are in agreement with these changes.

**ATTACHMENTS**

None.

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

Report Prepared by:   
Derek Tynski, BA, CMA, Deputy Treasurer (490-6471)

Report Approved by:   
Cathie O'Toole, CGA, A/ Director of Finance & Treasurer (490-6308)

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