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HALIFAX
REGIONAL MUNICIPALITY

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Halifax Regional Council
June 26, 2007

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Cathie O'Toole, CGA, Acting Director of Finance

Derek Tynski, BA, CMA, Deputy Treasurer

DATE: June 19, 2007

SUBJECT: **Investment Activities - Quarter Ending March 31, 2007**

INFORMATION REPORT

ORIGIN

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

BACKGROUND

The Investment Policy calls for quarterly reporting by the Treasurer to Council and the Investment Policy Advisory Committee (the Committee). The report for the Quarter ending March 31, 2007 has been reviewed by the Committee.

DISCUSSION

HRM Investment Performance & Activities

HRM Short Term (Money Market Pool)

HRM Money Market investment performance is summarized below in comparison with the Mercer Investment Consulting Survey of Canadian Institutional Pooled Funds for periods ending March 31, 2007:

Money Market Funds	3 Months (to March 31, 2007)	1 Year (to March 31, 2007)
5th Percentile	1.09%	4.41%
1st Quartile	1.06%	4.28%
Mercer Median	1.05%	4.19%
3rd Quartile	1.02%	4.06%
95th Percentile	0.93%	3.82%
SC 91 Day T-Bills	1.04%	4.18%
HRM	**1.05%**	**4.08%**

Relative performance continued at the Median level for the Quarter with full year performance on the Median side of 3rd Quartile. The very high quality of the HRM Portfolio was also maintained.

During the Quarter there were 65 investments made at a cost of $191,000,000. The average term to maturity on these investments was 91 days. This is in stark contrast to the same Quarter last year when there were only 14 investments made at a cost of $45,500,000. The increased level of investment activity this year reflects the strategic approach of emphasizing rolling over shorter term investments to maximize the usage of the Financial Institution Sector Weight.

The total value of Money Market investments made since the adoption of the Investment Policy went over the $3,000,000,000 milestone during the Quarter.

Operating Fund investment income for the year ending March 31, 2007 was $3,353,000 versus a budget of $2,700,000. This amount is somewhat below the previous projection reported of $3,450,000 due to an adjustment to interest paid to Associations, Boards and Commissions. There is still the potential for further adjustments as year end accounting is concluded. The rate of return for the Money Market Pool was 4.08% versus a budgeted rate of 3.90% and a previous projection of 4.07%.

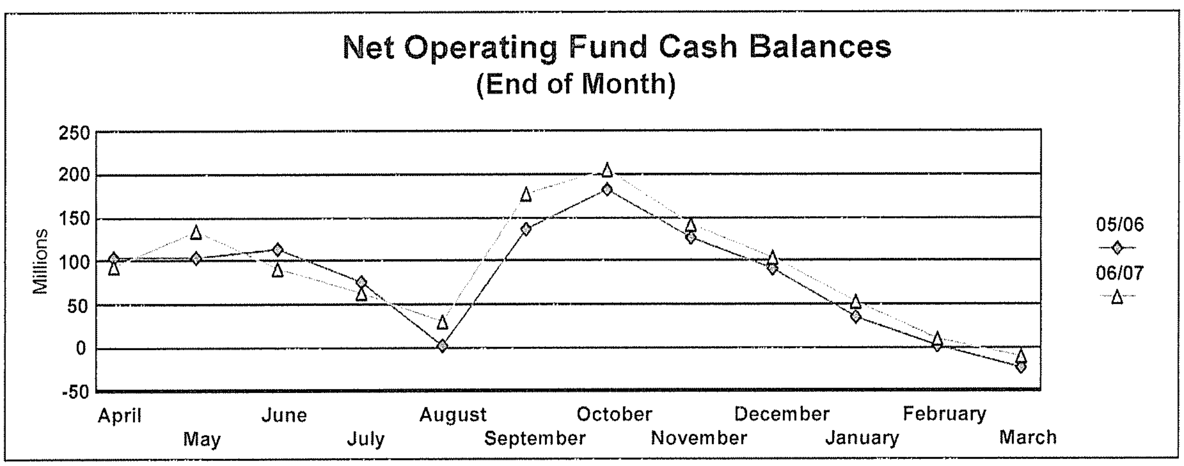
Investment Income for the Reserve Funds for the year ending March 31, 2007, including the Nova Scotia Promissory Notes, was $8,251,000 versus a previous projection of $8,190,000, again this is subject to year end adjustments.

HRM Short Term Bond Pool & Targeted Reserve Fund Investments

There were no Bond purchases made during the Quarter as yields available did not make this market segment attractive.

Cash Flows

Net Operating Fund Cash Balances remained above the previous year's levels during the Quarter. However, based on current information, this improvement was insufficient to fully fund the Reserves at March 31 after allowing for Outstanding Cheque Coverage. The funded ratio of the Reserves was 93% versus the 87% reported last year. The positive improvement appears attributable to an increase in Capital from receivables.



It should be noted in the Sector Weight Schedules that the minus shown in Royal Bank Effective Cash was not an actual overdraft of the bank account but rather represents a commitment of funds to cover outstanding cheques and the School Board payment due on the first business day of April.

Investment maturities coincided with the payment date to maintain a positive cash balance.

As discussed in previous reports, one of the provisions of the new banking contract was a reduction in the interest paid on cash on deposit. As a result staff are looking to minimize cash on deposit while respecting the Liquidity Objective. As an interim measure staff have adopted a $5,000,000 target maximum for average effective cash in the HRM consolidated bank accounts. Over time it is the intention of staff to rachet this amount down further as information flows improve, particularly with the participating Associations, Boards and Commissions and as the HRM electronic payment initiative matures to a more regular payment schedule. During the Quarter the average effective cash level was $3,898,000 well within the current target.

Subsequent to End of Reporting Quarter

On April 4 Dominion Bond Rating Service (DBRS) raised the short term rating on Canadian Imperial Bank of Commerce to R-1 High from R-1 Mid putting it back on a par with the other Big 5 Canadian banks.

The Bank of Montreal raised its estimates of potential losses on commodities trading on May 17 to $680,000,000 from initial estimates of $350,000,000 to $450,000,000 announced April 27. While these losses have impacted the Bank's profits and share price there has been no hint by any rating agency, market analyst or regulator that these losses could in any way jeopardize their ability to meet their financial obligations. In fact, on May 18 the DBRS issued a press release confirming the Bank's R-1 High credit rating. The market has not added any risk premium to their short term instruments. We will continue to maintain Bank of Montreal as an active investment option but will also continue to follow this situation.

Higher than anticipated Core Inflation readings in Canada reported May 17 followed up with higher Retail Sales May 18 and a greater than anticipated increase in Canadian GDP growth reported May 31 has created speculation in the market that the Bank of Canada may raise rates as early as their July meeting. Canadian Bond yields also moved higher in June as part of a global trend to higher yields.

The purchase by China of a $3 billion stake in the U.S private equity firm The Blackstone Group has raised a few eyebrows. They are targeting a 9.9% non-voting stake to avoid a political backlash. While the size of the investment is insignificant in relation to foreign exchange reserves in excess of $1.2 trillion and growing, it is being seen as a more aggressive move than anticipated as they begin to diversify these holdings. This investment gives them even better access to what are seen as some of the brighter minds in the private equity realm. It also raises speculation that they will use some of this pool of capital to secure the natural resources they need to continue to grow. One fear is that as they diversify they will divert cash from their purchases of U.S. Treasury Bonds to an extent that yields will need to rise significantly to attract buyers to finance U.S. government deficits. This would have a negative affect on the U.S. economy and the troubled housing market in particular.

Outlook & Strategy

The positive outlook for the Canadian economy has solidified with the main downside risks coming from a more severe downturn than anticipated in the U.S. economy as a result of the strains in the housing market and the rise of the Canadian dollar versus the U.S. currency. The potential for Bank of Canada interest rate increases looks to be a near certainty in the short term. As a result there will be less emphasis on locking in yield to ensure that the budgeted rate of return will be achieved than when the interest rate risk outlook was more balanced. In this environment the average term to maturity of the Money Market Pool will generally be kept below 91 days. Term management does present some challenges as the contraction of the Portfolio to meet cash requirements can tend to increase the term, offsetting the natural impact of time on term contraction.

The Financial Institution Sector will be maintained near the maximum level to take advantage of the yield spread over government issues. Government Sector investments will be targeted to top-up the Financial Institution Sector as maturities occur and funds are consumed. In addition Government Sector investments will be made to match to cash requirements when available. We will also be looking for Provincial and Crown Corporation investments near the 6 month term when the spread over Government of Canada T-Bills and the level compared to shorter dated maturities is attractive. The one year term will also be considered but on a more limited basis.

As alluded to above, the recent increase in bond yields may result in some accumulation of bonds for the Short Term Bond Pool.

Policy Compliance

Adherence to Legal Requirements - There were no legal issues identified during the Quarter with respect to investments.

Preservation of Capital - There was no loss of capital during the Quarter and all investments were held to maturity.

Liquidity - No overdraft charges were incurred and sufficient cash was available to meet all requirements. The funded ratio of the Reserves, subject to year end adjustments, was 93% versus 87% reported last year.

Diversification of Investment Portfolio - Staff believe that the Diversification Objective of managing risk and return has been achieved.

Competitive Return on Investments - Although the rate of return was below median for the year ending March 31 on a before fee basis on an after estimated fee basis the rate of return would have exceeded the median level. As a result staff maintain that this Objective has been met.

Regular Review of Performance - Performance data continues to be reported to the Investment Policy Advisory Committee.

BUDGET IMPLICATIONS

N/A

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

N/A

ATTACHMENTS

Appendix A - Economic Statistics and Central Bank Actions
Sector Weight Schedules @ March 31, 2007 (Schedules A, B, C, D & E)

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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Appendix A

Economic Statistics

	Canada	US
Unemployment Rate	Jan 6.2% , Feb 6.1% , March 6.1%	Jan 4.6% , Feb 4.5% , March 4.4%
Jobs Created / (Lost) ('000's)	Jan 88.9 , Feb 14.2 , March 54.9	Jan 146 , Feb 90, March 177
CPI (year over year)	Jan 1.2% , Feb 2.0% , March 2.3%	Jan 2.1%, Feb 2.4% , March 2.8%
CPI-X (Core) (year over year)	Jan 2.1% , Feb 2.4%, March 2.3%	Jan 2.7% , Feb 2.7% , March 2.5%
GDP Q1	3.7%	0.6%

Central Bank Activities January 1 to March 31, 2007

- January 16 Bank of Canada Hold at 4.25%, Bias Neutral
- January 31 US Federal Open Market Committee Hold at 5.25%, Bias Neutral
- March 6 Bank of Canada Hold at 4.25%, Bias Neutral
- March 21 US Federal Open Market Committee Hold at 5.25%, Bias Neutral