

Halifax Regional Council  
April 23, 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

  
George McLellan, Chief Administrative Officer

DATE: April 17, 2002

SUBJECT: Investment Policy

### ORIGIN

At the June 5, 2001 meeting Halifax Regional Council adopted the Investment Policy as recommended by the Investment Policy Advisory Committee and staff. Section 100 of the MGA requires that the Minister, Service Nova Scotia and Municipal Affairs approve an Investment Policy once adopted by Council.

In addition to some changes requested by the Minister, staff also wish to amend the membership requirements for the Investment Policy Advisory Committee.

### RECOMMENDATION

It is recommended that:

1. Halifax Regional Municipality adopt the amended Halifax Regional Municipality Investment Policy as attached hereto.
2. The criteria for volunteer members of the Investment Policy Advisory Committee be amended to those individuals holding a combination of finance and investment knowledge and relevant professional, business or educational experience.

## BACKGROUND

The Investment Policy adopted by Council at the June 5, 2001 meeting was submitted to the Minister as per the provisions of the MGA. Service Nova Scotia and Municipal Relations staff have made a number of suggestions and recommendations regarding some of the wording and provisions of the Investment Policy. The Investment Policy Advisory Committee (the Committee) has reviewed this feedback and has made a number of changes to the Investment Policy. The changes are included in the Investment Policy attached and are **highlighted in bold italics** for ease of reference. Staff have reviewed the amended Investment Policy and are in agreement with the changes.

The Investment Policy Advisory Committee was established by Council in 1998 on the recommendation of staff. Membership of the Committee was to be drawn from Council, staff and volunteer members of the public. The exact wording of the membership recommendation is as follows:

“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 wording of that recommendation has proved to be unnecessarily restrictive with regards to the recruitment of volunteer members.

## DISCUSSION

### Policy Amendments

For the most part the feedback on the Investment Policy received from staff of Service Nova Scotia and Municipal Relations was very positive. However there were a number of suggestions to clarify certain points within the Policy as well as some more substantive recommendations, discussed below, concerning investments denominated in foreign currency, the percentage of investments with R1-Low and A- ratings and the quality of any equity investments.

- 1) The Investment Policy as originally recommended to Council by staff and the Committee contained a provision that investments denominated in foreign currency shall be limited to 10% of the portfolio. Concern was raised that potential foreign currency exposure constitutes a greater level of risk. It was suggested that investments denominated in foreign currency be limited to amounts needed to meet known foreign currency requirements. The Committee is in agreement with this change as it does not have a major impact on the objectives of the Policy which are summarized below:

- 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
- 2) With regards to money market and bond investments in entities rated R1 Low or A- respectively, it was suggested that there be a further restriction on the allowable percentage of investments bearing these ratings beyond that contained in the original Schedules of the Policy. The Committee concurs with this further restriction of investments in R1 Low or A- rated entities and is recommending amending the Policy to restrict these to a maximum of 20% of the portfolio. Again this change is consistent with the principles of the Policy.
- 3) The current Policy allows for investment in equities contained in the TSE 300 or the Standard & Poors 500 for up to 10% of certain portfolio segments. It was suggested that a further qualifying restriction be placed on potential equity investments. After consideration of this matter the Committee recommends amending the Policy to require that any entity in which an equity investment would be made, that its bond rating must be maintained at a minimum of A-.

Staff believe that the Investment Policy as originally presented to Council and as recommended for amendment here, provides a solid foundation on which to make investment decisions. The Investment Objectives indicated above offer guiding principles that serve both good and bad economic times.

### Committee Composition

With regards to the composition of the Investment Policy Advisory Committee, staff's intent in recommending the volunteer membership was to gain valuable input from members of the community with relevant backgrounds. This can be achieved through the knowledge and educational experiences of these members. Reference to representation from specific sub-sets of the community is unnecessary to meet this goal. For example, a volunteer member can contribute relevant educational experience without being a member of academia. Being overly restrictive can make it more difficult to attract volunteer members to the Committee. Staff are proposing the change in the wording of the Committee composition to reflect the importance of relevant knowledge and educational experiences over reference to specific communities.

### BUDGET IMPLICATIONS

The amendments recommended to the Investment Policy would not impose restrictions which would impact on the rate of return on investments.

### 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

Not make the changes recommended by the Investment Policy Advisory Committee and direct staff to enter into further discussions with the Minister, Service Nova Scotia and Municipal Relations. This is not recommended as staff feel the amendments are reasonable and consistent with the objectives of the Investment Policy.

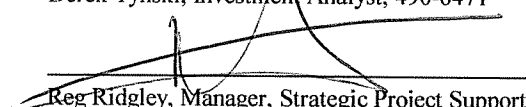
Maintain the original membership criteria for the Investment Policy Advisory Committee. It may not be possible to fill all of the volunteer positions on the Committee under these criteria.

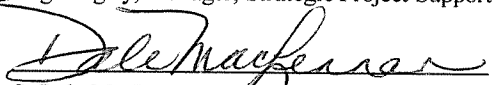
ATTACHMENTS

Amended Halifax Regional Municipality Investment Policy.

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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**HALIFAX REGIONAL MUNICIPALITY**

**INVESTMENT POLICY**

**INVESTMENT POLICY ADVISORY COMMITTEE**

March 27, 2002

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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 for [sic] 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.

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 policy shall be adhered to by the Halifax Regional Municipality in management of cash balances. 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.

**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.

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.

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:

- (liquid) 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)

*Investments denominated in foreign currency may be made provided that such investments are made in a manner consistent with the objective of maintaining liquidity necessary in order to meet foreign currency requirements from time to time.*

Approach: *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.

Investments: 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.

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.

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.

## Investment Policy Advisory Committee

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### SCHEDULE A (1)

#### Sector Weights - Operating Fund

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

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

\* Investment quality restrictions do not apply to loans to HRM related entities as permitted under the Municipal Government Act. However Maximum % of Portfolio Per Issuer restrictions do apply.

\*\* 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-*

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*.

## Investment Policy Advisory Committee

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### SCHEDULE A (2)

#### Sector Weights - Capital Fund

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

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

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\*\* 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-*.

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## Investment Policy Advisory Committee

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### SCHEDULE A (3)

#### Sector Weights - Reserves

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

\* Investment quality restrictions do not apply to loans to HRM related entities as permitted under the Municipal Government Act. However Maximum % of Portfolio Per Issuer restrictions do apply.

\*\* 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-*

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



## **Investment Policy Advisory Committee**

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

## Investment Policy Advisory Committee

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### SCHEDULE A (4)

#### Sector Weights - Trust Funds

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

\* Investment quality restrictions do not apply to loans to HRM related entities as permitted under the Municipal Government Act. However Maximum % of Portfolio Per Issuer restrictions do apply.

\*\* 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-*

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 Acceptance
- 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

\* This includes Promissory Notes for loans to Halifax Regional Municipality related entities as permitted under the Municipal Government Act.