

BACKGROUND

The HRM Investment Policy calls for quarterly reporting by the Treasurer to Council and the Investment Policy Advisory Committee (the Investment Committee). The report for the quarter ending June 30, 2018 has been reviewed by the Investment Committee. A report from the Investment Committee on compliance with the HRM Investment Policy has also been sent to the Audit and Finance Standing Committee meeting of September 5, 2018.

DISCUSSION

Overall Results

Operating fund investment income for the three months ending June 30, 2018 was on projection at \$884,000. The actual rate of return matched the projected rate and was 0.44% for the period.

HRM Investment Activities

Mercer has discontinued its Investment Consulting Survey of Canadian Institutional Pooled Funds. HRM had been using this survey to compare returns with the industry. We have also been including the RBC Investor and Treasury Services Pooled Fund survey to the Investment Committee, which is very similar to the Mercer Survey. We will be using this survey going forward. Please see the table below with the results using the RBC Survey.

Money Market Funds	3 Months (to Jun 30, 2018)	1 Year (to Jun 30, 2018)
5 th Percentile	0.45%	1.43%
1 st Quartile	0.40%	1.33%
Money Market Median	0.37%	1.19%
3 rd Quartile	0.35%	1.09%
95 th Percentile	0.29%	0.89%
HRM	0.44%	1.52%

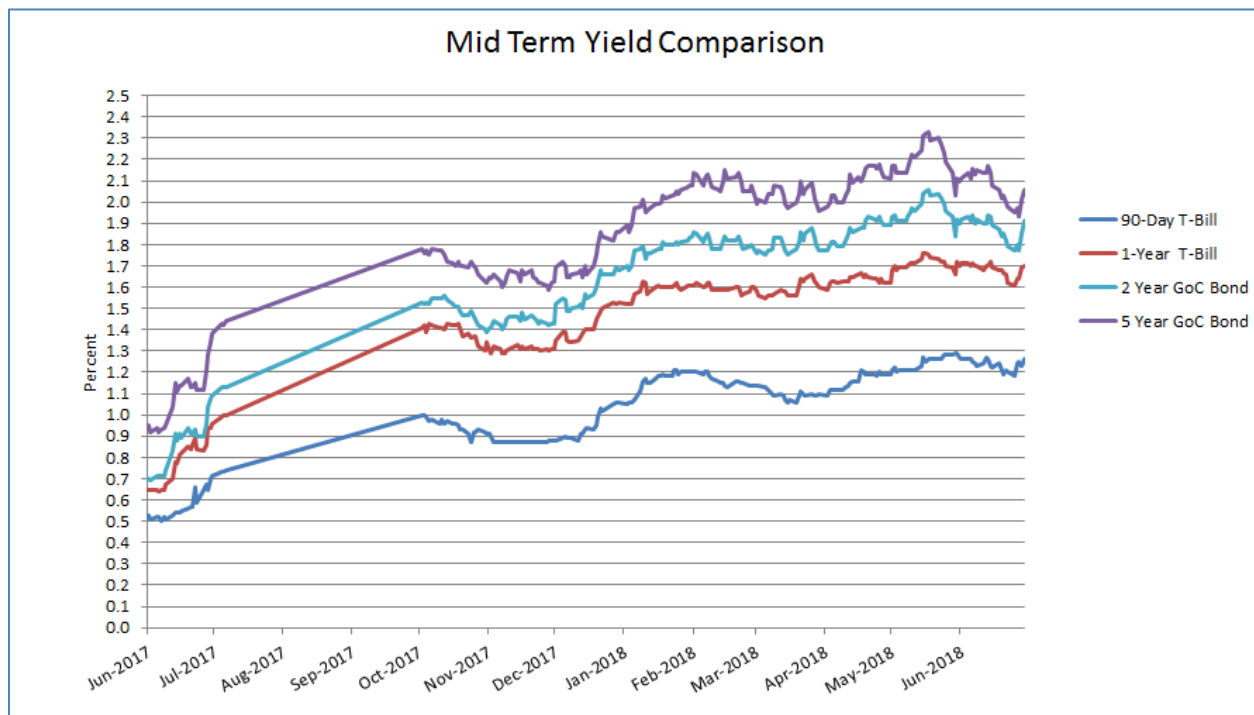
Relative performance was again quite positive; the 3 month returns were over the 1st quartile while one year returns were above the 5th percentile. These returns are before any allowance for fees that could be paid for external management. The investment bank accounts continue to be largely responsible for this relative performance.

Funds held in the investment bank accounts, including term deposits, totaled \$304,993,272 by the end of the quarter. Incremental income over BA's and BDN's, using a rate of 1.58% as a proxy for the BA and BDN rates, was \$177,724 for the quarter.

The cumulative incremental gross investment income from the 2007 policy change that expanded the non-government sector weight was \$3,134,592 or a \$178,201 increase during the quarter.

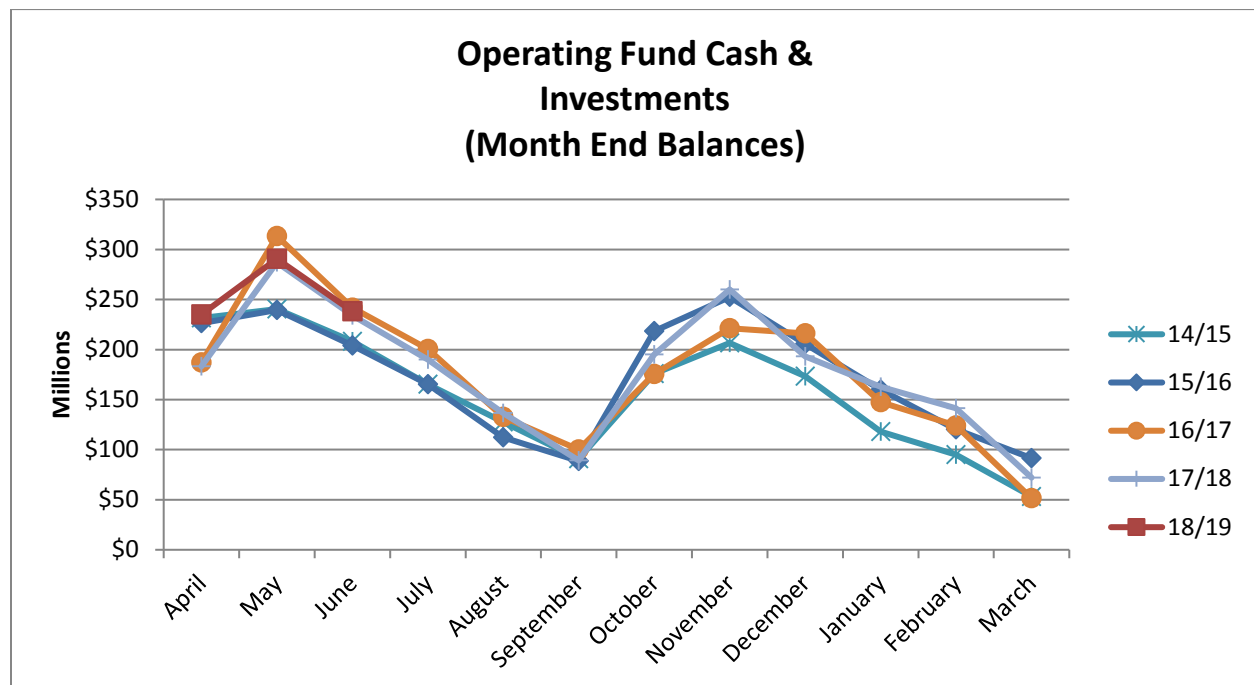
HRM Short Term Bond Pool

There were 8 maturities in the bond pool during the quarter. At the end of the quarter the bond pool consisted of \$2,000,000 of bonds with a simple average yield of 2.58%. The bonds mature in December 2018. Staff will continue to look for opportunities to add to the bond portfolio.



Cash Flows

Cash available for operating is \$3,000,000 higher than the previous year.



Subsequent to End of Reporting Quarter

On July 11, 2018 the Bank of Canada raised its target for the overnight rate from 1.25% to 1.50%. The Federal Open Market Committee maintained its target range for the federal funds rate at 1.75%-2.00%.

Outlook & Strategy

The investment bank accounts, which are for the most part linked to the commercial bank prime rates, are continuing to provide better returns than are available from BA's and government instruments.

The dominant strategy will again be to maximize returns from the investment bank accounts, keeping in mind that their liquidity adds a safety factor, while looking for opportunities in the government half of the portfolio.

Policy Compliance

Objectives:

Preservation of Capital - There was no loss of capital during the quarter.

Liquidity – Overdraft charges were not incurred and sufficient cash was available to meet all requirements. The funded ratio of the reserves at quarter end was 100%.

Competitive Return on Investments - The rate of return was above the 1st quartile for the quarter ending June 30, 2018 before allowing for fees that could have been paid to an external management firm. As a result, staff maintains that the rate of return objective of the Investment Policy has been met.

Strategies:

Diversification of Investment Portfolio - Staff believe that diversification has been adequately maintained under the constraints of the Policy.

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

Risk Management Approach – In implementing investment decisions staff seek a balance between the objectives of the Policy and the risks inherent in markets to look to achieve an optimal rate of return.

FINANCIAL IMPLICATIONS

As discussed above, operating income for the three months ending June 30, 2018 was on projection at \$884,000. The actual rate of return matched the projected rate and was 0.44% for the period.

RISK CONSIDERATIONS

There are no significant risks associated with the recommendations in this report.

COMMUNITY ENGAGEMENT

Investment activities are reported quarterly to the Investment Policy Advisory Committee. The majority of members of this Committee (4 of 6) are volunteers from the general public. The Committee reports to the Audit and Finance Committee of Council quarterly on staff's compliance with the Investment Policy. In addition, the Committee conducts an annual review of the Investment Policy and makes recommendations for any changes considered appropriate.

ENVIRONMENTAL IMPLICATIONS

N/A

ALTERNATIVES

N/A

ATTACHMENTS

Sector Weight Schedules at June 30, 2018 (Schedules A, B, C, D & E)

Appendix A - Economic Statistics and Central Bank Actions

Appendix B - List of Eligible Investments

Appendix C - DBRS Rating Scale

A copy of this report can be obtained online at www.halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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