Municipal Finance Authority of BC

Debt Management & Other Topics

Presentation to CRD Finance Committee
January 5th, 2022

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AGENDA

- Traditional Lending / Borrowing Model Overview

- Modernization of Debt Management Approach Necessary
  - Debt growth
  - Asset / liability mismatch
  - Refinancing concentration
  - Investor volatility

- Debt Management and Pricing Relative to Peers
  - Spreads indicate too much short-term debt
  - Considerably shorter issuance on average

- Member Impacts - What You Can Expect Moving Forward

- Update on MFA Pooled Funds

- DMAC Fund – Carbon Light approach

TRADITONAL BORROWING / LENDING MODEL OVERVIEW

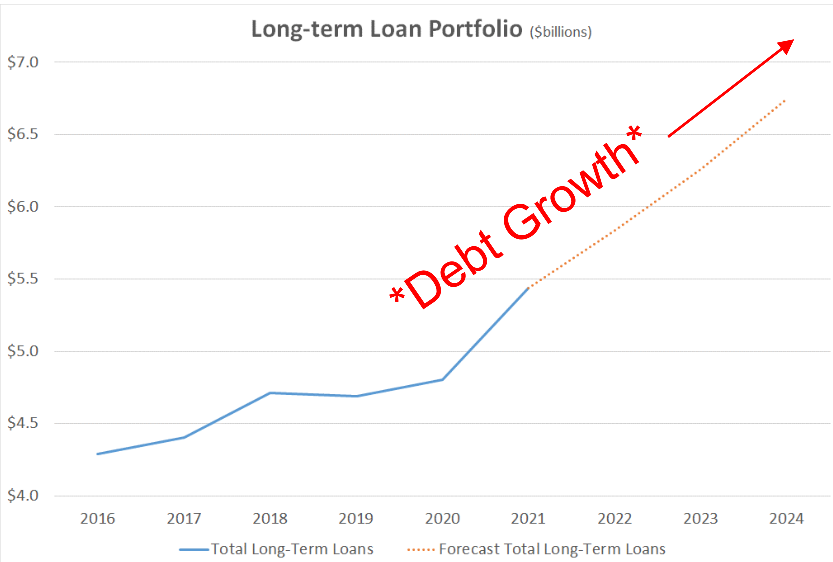
- New loans have traditionally been funded by issuing a marketable 10-year bullet bond, locking-in a fixed interest rate for MFA (and the Member) for the first ten years

- As clients may borrow for up to thirty years, loans longer than ten years have been typically refinanced every five years, following the initial ten-year period

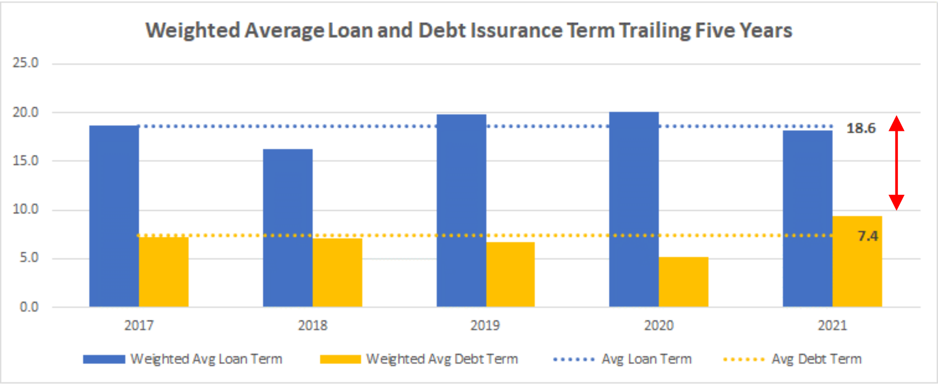
25-Year Amortizing Loan Example			
10-Year Bullet Debenture	5-Year Bullet Debenture	5-Year Bullet Debenture	5-Year Bullet Debenture

- Over the last few years MFA has been evaluating how best to finance each loan package based on several variables including:
  - Market conditions;
  - Loan requests received;
  - Steepness of the curve;
  - Investor interest; and
  - Prudent debt management practices such as balancing future refinancing risk

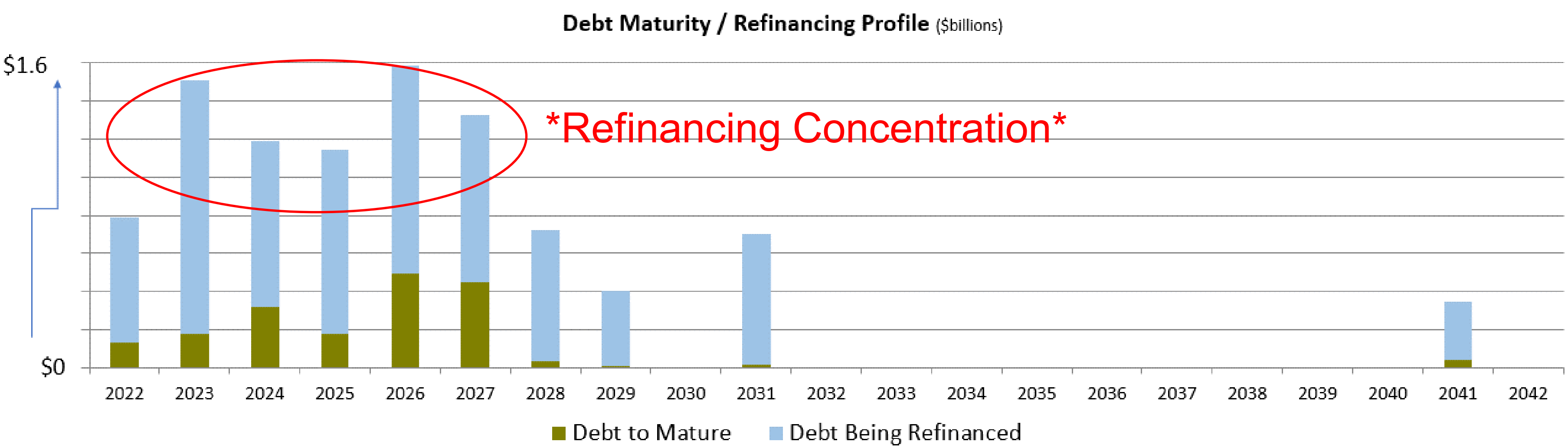
Historically overly flexible approach does not adequately manage risks in today's volatile market environment…



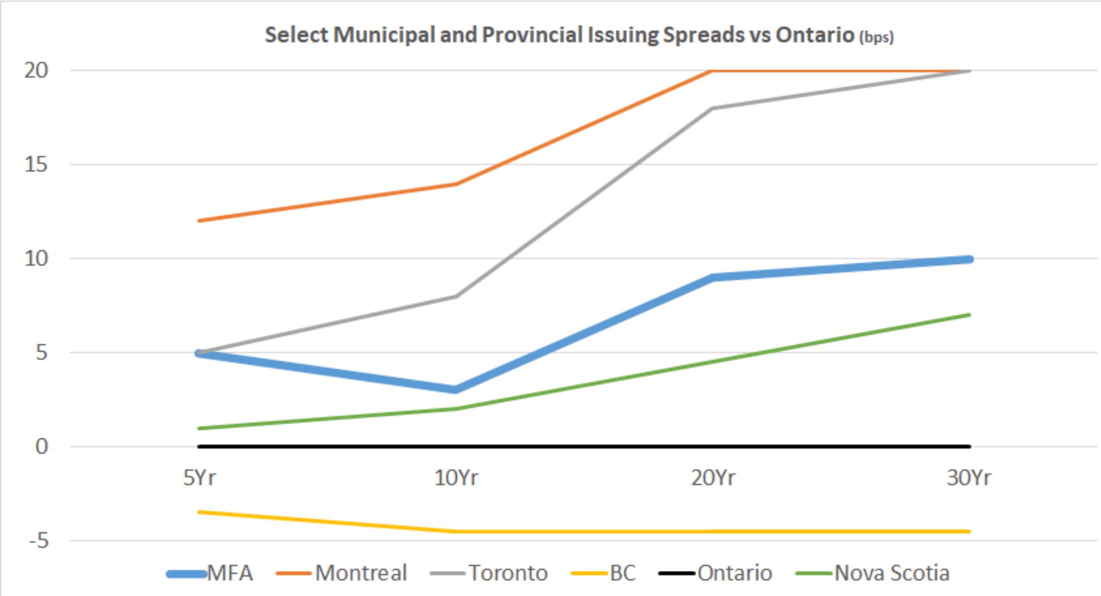
Investor Term Volatility



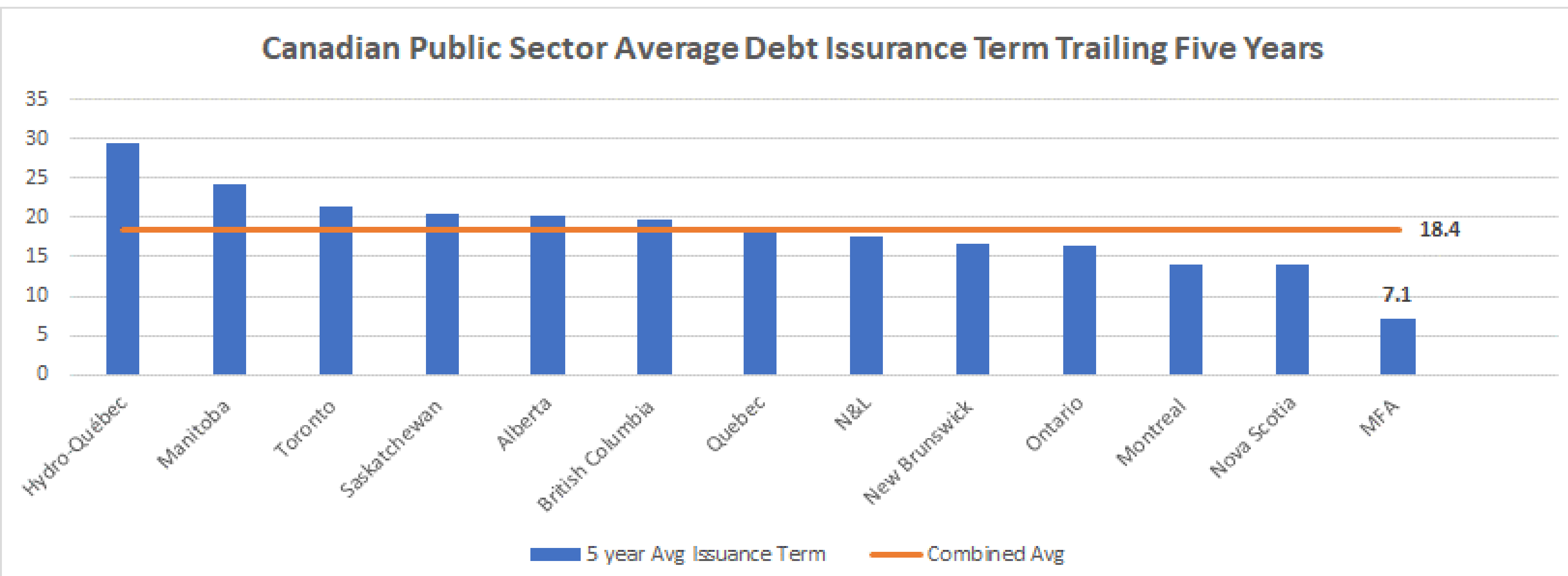
Asset / Liability Mismatch



DEBT MANAGEMENT & PRICING RELATIVE TO PEERS



* MFA's new issuance "curve" points to an over-abundance of shorter-dated debt. Adding 20 year issuance increases scarcity across the curve which will tighten pricing over all terms



- Members will continue to select the term in which they want to repay loans from MFA (5 to 30 year amortizing loans). The principal payment will reflect the length of the repayment term you select
- MFA decides what term (maturity) to access in the capital markets to best fund the loans - as it balances the various considerations and risks in managing its market debt portfolio and ensures reliable and lowest cost access to funds from the capital markets. It is impossible to perfectly align with all Member preferences / views
- Members should ensure information shared with the public and board allows flexibility to accommodate 5,10, 20 and 30 year locked-in financing periods
- Lending rates reflect borrowing rates so with a 20 year you can expect slightly higher interest cost on average with more rate certainty over the term
- If a 20-year bond is issued, early repayment before that time is not possible given back to back ‘contract’ with investors
- Stakeholder education on this topic is provided at the onset of the borrowing process directly between MFA and Finance staff. While we always welcome Board and/or Council discussions on any topic, this esoteric topic (borrowing/lending model) must remain an operational decision made by MFA’s senior finance professionals

MFA's Suite of Pooled Investment Products

	(3) Pooled High Interest Savings Accounts	Money Market Fund	Government Focused Ultra-short Bond Fund
Key Features	NATIONAL BANK OF CANADA CIBC Scotiabank ǁ Best for soon needed funds. Balances favourable interest rates and liquidity. Monies held with Domestic Systemically Important Banks ✓ *Favourable deposit rates negotiated by MFA* ✓ *Monthly Interest*	This Fund is suited for Investors who must maintain adequate liquidity, while benefitting from asset diversification. This Fund holds a portfolio of very short-term securities, focused on high-quality corporates. The Fund seeks a yield advantage through active market and credit analysis. ✓ *Monthly distributions*	The main objective of this Fund is to provide safety and liquidity. This Fund maintains a bias towards safe and favourable Federal and Provincial Securities, holdings may include up to 25% Big 6 Banks debt securities. Securities acquired for the Fund may have a maximum maturity of 2 years. This Fund does not invest in non-bank corporates. ✓ *Monthly distributions*
Suggested Investment Time Horizon	0 – 12 months	0 – 24 months	0 – 24 months
*Trailing 12-month Total Return * †*	N/A	0.285%	0.095%
YTM †	**0.72 – 0.80% ‡**	**0.30%**	**0.68%**
Total Annual Fees	3 bps	12.5 bps	12.5 bps

Management and composition of Funds subject to MFA's Pooled Investment Funds Investment Policies, Objectives, and Guidelines Agreement with Fund Manager(s). ǁ Call MFA for details.
* Trailing 12-month Total Return equal to change in NAV value plus distributions over the past 365 days to Nov.30, 2021; past performance does not guarantee future performance. † Gross Return before fees. ‡ Net of Fees.
FFF refers to Fossil Fuel Free defined here as (1) Funds which exclude investments issued by companies directly involved in extracting, processing, or transporting coal, oil or natural gas; and (2) Savings Accounts offered by financial institutions.
ESG integrated refers to Funds which are managed by signatories to the UN's Principles of Responsible Investment.

MFA’s Suite of Pooled Investment Products

	ESG Integrated Short-term Bond Fund	ESG Integrated, FFF Fossil Fuel Free Short-term Bond Fund	ESG Integrated Pooled Mortgage Fund	ESG Integrated, Carbon Light Diversified Multi-asset Class Fund
Key Features	Designed for Investors with a 2 to 5 year investment horizon as the Fund maintains a longer duration versus the MM and Ultra-short Funds. This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities. The Fund seeks a yield advantage through active market and credit analysis. ✓ *Monthly distributions*	This Fund is benchmarked against the same index as the ST Bond Fund, however screens-out companies involved in the extraction, processing and transportation of coal, oil, and natural gas. Designed for Investors with a 2 to 5 year investment horizon. This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities. The Fund seeks a yield advantage through active market and credit analysis.	This Fund is designed to provide asset class diversification for local government investment portfolios. Best suited for cash not needed for 3+ years. The Fund invests in high-quality 1st mortgages on Canadian income producing commercial properties – such as retail, multi-residential, office and industrial. ✓ *Minimum 1.25x CF coverage* ✓ *Maximum 75% Loan-to-value*	Designed to invest capital over the long-term and grow at a rate that exceeds inflation by 3.5%, while minimizing risk through asset class selection and diversification. The Fund will be broadly invested in Fixed Income, Equities, and Alternative investments. ✓ *Preserve long-term purchasing power* ✓ *Alternative Investments at very attractive pricing.* ✓ *Gain exposure to professionally managed growth assets.*
Suggested Investment Time Horizon	2 – 5 years	2 – 5 years	3 years + (redemption restrictions may apply)	10 years + (redemption restrictions may apply)
*Trailing 12-month Total Return * †*	-0.68%	-0.77%	1.35%	N/A
YTM †	**1.44%**	**1.42%**	**2.31%**	**5.90% §**
Total Annual Fees	20 bps	20 bps	25 bps	33 bps

Management and composition of Funds subject to MFA’s Pooled Investment Funds Investment Policies, Objectives, and Guidelines Agreement with Fund Manager(s). § estimated.
* Trailing 12-month Total Return equal to change in NAV value plus distributions over the past 365 days to Nov.30, 2021; past performance does not guarantee future performance. † Gross Return before fees.
FFF refers to Fossil Fuel Free defined here as (1) Funds which exclude investments issued by companies directly involved in extracting, processing, or transporting coal, oil or natural gas; and (2) Savings Accounts offered by financial institutions.
ESG integrated refers to Funds which are managed by signatories to the UN’s Principles of Responsible Investment. “Carbon Light” refers to strategies which minimize a portfolio’s carbon impact including up to ~40% FFF.

The DMAC is Socially Responsible Fund – a low carbon footprint fund

Asset Class/Strategy	Target Exposure	FFF	FFF Content
Fixed Income			
Short Core Plus Bonds	15%	×	~90%
Multi-asset Global Credit	10%	×	~90%
Equities			
Canadian Equities	10%	×	~70%
Canadian Low Volatility Equities	5%	✓	100%
Global Equities	24%	✓	100%
Global Low Volatility Equities	11%	×	~90%
Emerging Market Equities	10%	✓	100%
Alternatives			
Core Real Estate	5%	×	~90%
High Yield Mortgages	5%	×	~90%
Infrastructure – Renewables	5%	×	100%

- The Fund aligns with a shared focus among BC’s local governments on ESG and climate change considerations.
- All components of the Fund will be managed under the UN’s Principles for Responsible Investing and incorporate broad ESG considerations into the investment process.
- DMAC will be a low carbon fund with a significant portion of the asset classes employing a strict Fossil Fuel Free (FFF) screen. An estimated 94% of the underlying funds are currently invested in FFF entities – as defined by most local governments

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