



Making a difference...together

**REPORT TO THE FINANCE COMMITTEE
MEETING OF WEDNESDAY, MARCH 06, 2024**

**SUBJECT Capital Regional District Investment Portfolio Holdings and Performance
Annual Update**

ISSUE SUMMARY

To provide an annual update on Capital Regional District (CRD) investment holdings and performance for the period ended December 31, 2023.

BACKGROUND

The CRD invests operating, capital and reserve funds in accordance with the *Local Government Act, Community Charter* and Board approved Investment Policy (Appendix A). The Investment Policy applies to the investment activities for all funds maintained by the CRD, the Capital Region Housing Corporation (CRHC) and the Capital Regional Hospital District (CRHD). The types and terms of investments purchased are evaluated on four fundamental objectives: safety of principal, liquidity, responsible investing and return on investment in alignment with the policy.

The policy also provides minimum ratings of investment vehicles which can be purchased. Currently, investments in chartered banks or savings institutions must have a risk rating of R-1 (low) or higher for short-term investment and A- for long-term as published by major credit rating agencies. Both ratings indicate a superior credit rating on all investments.

Investments are continuously monitored to ensure the appropriate strategy through current and forecasted economic conditions. The CRD invests funds in a mix of products including High-Interest Savings Accounts (HISA), fixed term Guaranteed Investment Certificates (GICs) and Municipal Finance Authority (MFA) pooled funds. The placement or divestiture of investments are timed with forecasted cash requirements.

Investments through 2023 have been made in alignment with the Board approved Investment Policy. Although economic and market conditions drove fluctuations and uncertainty in the portfolio, performance exceeded the benchmark rate, as detailed in the report.

IMPLICATIONS

Financial Implications

Portfolio Holdings

As of December 31, 2023, the CRD investment portfolio totaled \$374.6 million. A detailed listing by investment type is included in Appendix C. Table 1 summarizes the distribution of the portfolio in short and long-term investments.

Table 1: CRD Investment Results – Summary as at December 31, 2023

Investments	Balance (\$millions)	% Share
Investments Short-Term (less than 2 years)	197.7	52.8%
Investments Long-Term (more than 2 years)	176.9	47.2%
Total Investments:	\$374.6	100%

As detailed in the Board approved Investment Policy, products with maturities less than two years are classified as short-term while those greater than two years are classified as long-term.

Performance

The total effective return on investments during 2023 was \$17.6 million or 4.8%, driven by higher interest rates in 2023 impacting returns on HISAs and GICs.

Table 2 summarizes investment income by driver for the last three years.

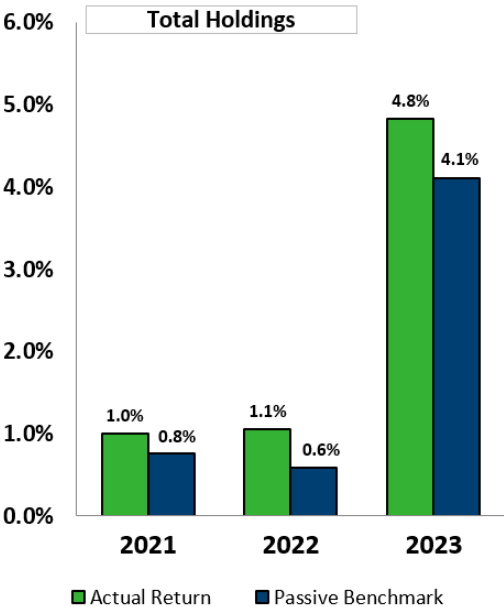
Table 2: Investment Income Three-Year Trend (\$ Millions)

	2021		2022		2023	
Passive Benchmark	0.8%	\$2.3	0.5%	\$2.0	4.1%	\$14.9
Active Management	0.2%	\$0.7	0.5%	\$1.6	0.7%	\$2.7
Total	1.0%	\$3.0	1.0%	\$3.6	4.8%	\$17.6

The passive benchmark approach, which reflects investment returns without active management, underwent a methodology update effective 2023. Previously, the passive income benchmark was calculated using an average of bank deposit rates through the year, weighted by cash flow timing. The new approach calculates the benchmark using weighted average holdings across investment categories (GICs, HISAs, and MFA pooled funds). This adjustment ensures a more accurate representation of portfolio holdings, accounting for differences in passive investment returns based on their respective category. Table 2 above reflects this new approach, restating the passive benchmark for 2021 and 2022.

Graph 1 provides a summary report on investment returns in 2023.

Graph 1: CRD Investment Results – 2023



In 2023, the Bank of Canada raised the overnight interest rate three more times from already elevated historic levels. Additional information can be found in Appendix B.

Strong cash flow forecasting and an active investment management strategy led to the rebalancing of the portfolio throughout the year to manage performance. Further details regarding investment holdings and performance can be found in Appendix C.

Socially Responsible Investing Alignment

Investments are considered in alignment with responsible investing objectives when identified as meeting the criteria defined by MFA in their ESG Framework (Appendix D). As of December 31, 2023, 26% of the long-term portfolio was invested in socially responsible investment products versus 25% in the prior year.

CONCLUSION

Overall, the CRD portfolio of investments reflects the four fundamental objectives of safety of principal, liquidity, responsible investing and return on investment. Investments have been made in keeping with requirements under the Investment Policy and investment performance generally exceeded expectations for the year ended December 31, 2023.

RECOMMENDATION

There is no recommendation. This report is for information only.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Sr. Mgr., Financial Services / Deputy CFO
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Ted Robbins, B. Sc., C. Tech., Chief Administrative Officer

ATTACHMENTS

- Appendix A: Investment Policy
- Appendix B: Market Analysis
- Appendix C: Investment Holdings and Performance
- Appendix D: Municipal Finance Authority’s Suite of Pooled Investment Products