

**REPORT TO HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, MARCH 03, 2021**

SUBJECT **Capital Region Housing Corporation Investment Portfolio Holdings and Performance Annual Update**

ISSUE SUMMARY

Provide an update on Capital Region Housing Corporation (CRHC) investments held and performance for the period ended December 31, 2020.

BACKGROUND

The CRHC invests operating, capital and reserve funds in accordance with the *Local Government Act*, *Community Charter* and the Investment Policy. The types and terms of investments purchased are evaluated conservatively on three fundamental objectives: safety of principal, liquidity, and return on investment.

The policy also provides the minimum ratings of investment vehicles that can be purchased. Currently, investments in chartered banks or savings institutions must have a risk rating of R-1 (mid) or higher for short-term and a rating of AA for long-term. Both ratings achieve a superior credit rating on all investments.

Investments are continuously monitored to ensure the appropriate strategy through known economic and financial conditions. The CRHC invests net working capital and replacement reserves in a mix of vehicles including high interest savings accounts (HISA), fixed term guaranteed investment certificates (GICs) and Municipal Finance Authority (MFA) investment funds. The placement or divestiture of investments are timed with the forecasted need.

Investments through 2020 have been made in alignment with Investment Policy. Although economic and market conditions were challenging, performance exceeded expectations for the year ended December 31, 2020, as described in the report.

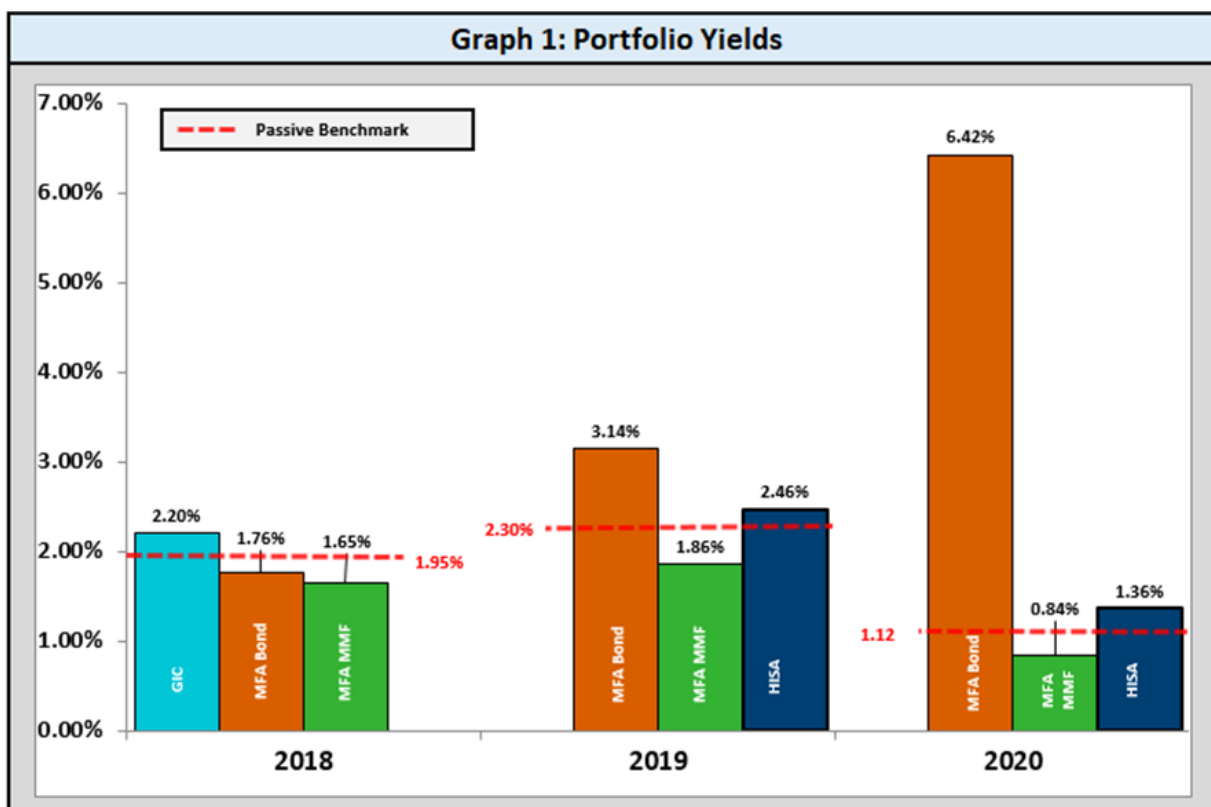
IMPLICATIONS

Financial Implications

Performance

While the Bank of Canada interest rates declined in 2020, most of the investment portfolio is long term in nature and remains invested in the MFA Bond Fund, mitigating short term market fluctuations. For short term investments, surplus net working capital is actively managed and placed in high yield products. An active investment strategy became increasingly important, driven by rate environment fluctuations and maturing cash flow management. This approach increases investment activity but helps to manage liquidity and interest rate risk.

Graph 1 below provides a detailed report on portfolio yields for 2020:



During 2020, the High Interest Savings Accounts earned 1.36% and the MFA Money Market returned 0.84%. The MFA Bond Fund posted a strong gain of 6.42% in 2020 due to the inverse relationship with falling prime interest rates. The passive benchmark represents a theoretical return experienced from a liquid hold strategy with no active management. Passive rates over the past 3 years were 1.95%, 2.30% and 1.12% respectively.

Table 1 below shows the three-year trend on investment income.

Table 1: CRHC Investment Income 3-Year Trend (\$ Thousands)

	2018		2019		2020	
Passive Income	1.6%	\$193.1K	2.3%	\$226.6K	1.1%	\$115.4K
Unrealized gain (loss)	(0.9%)	(\$56.8K)	0.5%	\$45.6K	3.5%	\$351.6K
Value-Add	0.8%	\$49.2K	0.2%	\$22.9K	1.0%	\$95.7K
Total	1.8%	\$183.4K	3.0%	\$295.0K	5.6%	\$562.7K

The total effective rate of return on investments during 2020 was 5.6%. Total investment income for 2020 was \$562.7 thousand, including unrealized gains on the MFA Bond Fund of \$351.6 thousand. The overall increase in investment income is driven by favourable returns on the MFA Bond fund and an active investment management strategy mitigating increased liquidity risk and uncertainty in 2020.

Portfolio Holdings

At December 31, 2020, the CRHC held \$10.6 million invested in short-term and long-term investments, as outlined in Table 2 below.

Table 2: Investments Holdings – as at Dec 31, 2020

Investments	Balance (\$millions)	% Share
Investments Short-Term (less than 2 years)		
CIBC/MFABC High Interest Savings Account	1.6	15%
MFA Money Market Fund	0.1	1%
Total Short-Term:	1.7	16%
Investments Long-Term (more than 2 years)		
MFA Bond Fund	8.9	84%
Total Long-Term:	8.9	84%
Total Investments:	\$10.6	100%

As noted in Table 2 above, the portfolio was distributed between short-term and long-term investments by 16% and 84%, respectively. Investments with maturities less than two years are classified as short-term. While the MFA Bond Fund is a liquid investment, investments placed in the Bond Fund are recommended for longer term holdings only.

Table 3: Cash and Reserves Invested – as at Dec 31, 2020 (unaudited)

Investments	Balance (\$millions)	% Share
Capital Reserves	5.2	49%
Operating Reserves	2.6	25%
Working Capital	2.8	26%
Total Investments:	\$10.6	100%

Capital reserves are primarily held for long-term capital replacement of building components resulting in a high proportion of long-term investments. Operating reserves hold surpluses to fund changes in operating results or unanticipated variances in expenditures. Working capital funds day-to-day obligations such as payroll, trade invoices and other related expenditures. As the CRHC builds reserves in anticipation asset replacement, capital reserves requiring investment in long-term investment holdings will also increase.

CONCLUSION

Overall, the Capital Region Housing Corporation portfolio of investments reflects the three fundamental objectives of safety of principal, liquidity, and return on investment. Investments have been made in keeping with requirements under the Investment Policy Statement and investment performance exceeded expectations for the year ended December 31, 2020.

RECOMMENDATION

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

That the Capital Region Housing Corporation Investment Portfolio Holdings and Performance Annual Update be received for information.

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ATTACHMENT(S):

Appendix A: Market Analysis