

**REPORT TO THE FINANCE COMMITTEE  
MEETING OF WEDNESDAY, MARCH 02, 2022**

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

**ISSUE SUMMARY**

Provide an annual update on Capital Regional District (CRD) investment holdings and performance for the period ended December 31, 2021.

**BACKGROUND**

The CRD invests operating, capital, and reserve funds in accordance with the *Local Government Act*, *Community Charter*, and Board approved Investment Policy. 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 2021 have been made in alignment with the Board approved Investment Policy. Although economic and market conditions resulted in a low rate environment and drove uncertainty in the portfolio, performance exceeded expectations for the year ended December 31, 2021, as detailed in the report.

**IMPLICATIONS**

*Financial Implications*

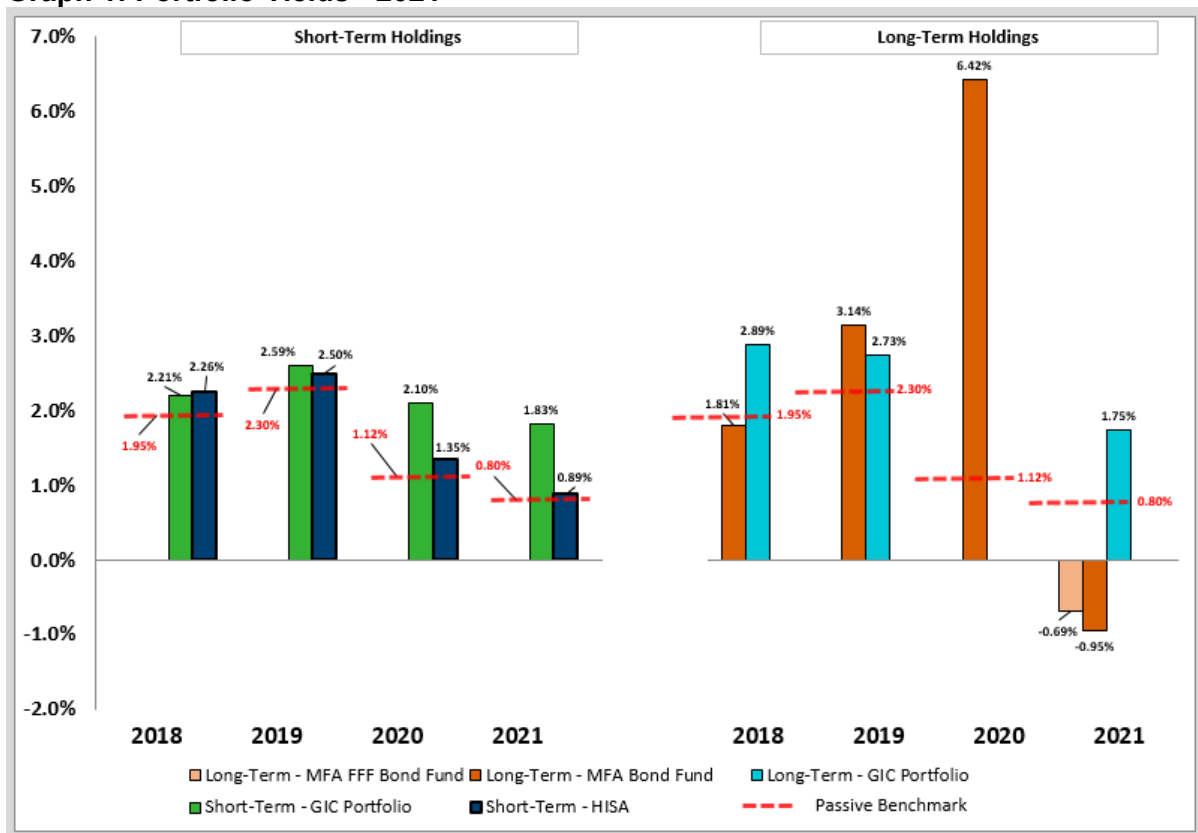
**Performance**

In comparison to 2020, 2021 returns were lower, driven by historically low rates attributed to Bank of Canada policies and the fixed income market. Returns in excess of benchmark were a result of active portfolio management and improvements in cashflow forecasting throughout the year.

With the completion of the Core Area Wastewater Treatment Project in 2021, total monthly CRD cashflow stabilized and became increasingly predictable. Additionally, continued improvements in reserve forecasting and long term financial planning enabled portfolio balancing into longer

term, higher potential return investments such as the Fossil Fuel Free Bond Fund (FFF), and the Mortgage Fund. Graph 1 below provides a summary on portfolio yields split by short and long term holdings.

**Graph 1: Portfolio Yields - 2021**



The passive benchmark represents the expected return from a liquid investment strategy without active management. Passive rates over the past 4 years were 1.95%, 2.30%, 1.12% and 0.80% respectively.

During 2021, short-term and long-term GIC investments returned 1.83% and 1.75%, respectively, and short-term HISA's returned a low of 0.89%. The MFA Bond Fund and the MFA Fossil-Fuel Free (FFF) Bond Fund returned (0.95%) and (0.69%) respectively due to the inverse relationship between interest rates and the long term bond yield. This is in contrast to the annual return in 2020 of 6.42% when interest rates dropped sharply due to coordinated monetary policy responses to the global pandemic. When evaluating performance of long term holdings, it is preferable to set a longer time horizon. Since 2014, the compounded annual return is 2.3%, resulting in approximately \$7 million in investment growth over this period.

Table 1 below summarizes the three-year trend on investment income. Realized income is distributed annually on a pro-rata basis to CRD services based on reserve balances and monies held in trust where applicable.

**Table 1: Investment Income 3-Year Trend (\$ Millions)**

	2019		2020		2021	
Passive Income	2.3%	\$4.1M	1.1%	\$2.7M	0.8%	\$2.1M
Unrealized gain (loss)	0.1%	\$0.2M	0.5%	\$1.7M	-0.4%	-\$1.6M
Active Management	0.3%	\$1.3M	0.8%	\$2.5M	0.6%	\$2.5M
<b>Total</b>	<b>2.7%</b>	<b>\$5.6M</b>	<b>2.4%</b>	<b>\$6.9M</b>	<b>1.0%</b>	<b>\$3.0M</b>

The total effective rate of return on investments during 2021 was 1.0% or 1.4% if unrealized losses in MFA pooled funds are excluded. Total investment income for 2021 was \$3.0 million including MFA pooled fund unrealized losses of -\$1.6 million. The overall decrease in annual investment income was due to historically low rates and losses in the MFA pooled funds. An active investment management strategy helped mitigate low yields and economic uncertainty through 2021.

### Portfolio Holdings

At December 31, 2021, the CRD held \$316.3 million in short-term and long-term investments, as detailed in Table 2 below.

**Table 2: Investment Holdings – as at Dec 31, 2021**

Investments	Balance (\$millions)	% Share
<b>Investments Short-Term (less than 2 years)</b>		
Scotia Bank High Interest Savings Account (Cash)	29.3	9.2%
Scotia Bank Notice Plan	41.0	13.0%
Various GICs (< 2 year)	55.9	17.7%
<b>Total Short-term:</b>	<b>126.2</b>	<b>39.9%</b>
<b>Investments Long-Term (more than 2 years)</b>		
MFA Short-Term Bond Fund	33.7	10.7%
MFA FFF Bond Fund (NEW)	29.9	9.4%
MFA Mortgage Fund (NEW) *	30.0	9.5%
Various GICs (> 2 year)	96.5	30.5%
<b>Total Long-term:</b>	<b>190.1</b>	<b>60.1%</b>
<b>Total Investments:</b>	<b>\$316.3</b>	<b>100%</b>

\*\$30 million committed for next mortgage fund intake, order placed but not yet called into the fund; \$30 million remains on deposit in Scotia Notice Plan until optioned by the MFA.

The portfolio was distributed between short-term and long-term investments in a 40/60 split. Investments with maturities or approaching maturities less than two years are classified as short-term. While the MFA Bond Fund is a liquid investment, investments placed in the fund are recommended for long term holdings only.

Construction of the Core Area Wastewater Treatment Plant historically required high levels of liquidity driving a higher short-term investment ratio. With the project complete in 2021, liquidity requirements decreased resulting in a portfolio aligned with cashflow requirements.

**CONCLUSION**

Overall, the Capital Regional District 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 exceeded expectations for the year ended December 31, 2021.

**RECOMMENDATION**

The Finance Committee recommends to the Capital Regional District Board:  
That the Capital Regional District Investment Portfolio Holdings and Annual Performance Update be received for information.

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Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

**ATTACHMENT(S)**

Appendix A: Market Analysis