



**REPORT TO HOSPITALS AND HOUSING COMMITTEE  
MEETING OF WEDNESDAY, MAY 1, 2019**

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

**ISSUE**

Provide an update on Capital Regional Hospital District (CRHD) investments held and rates of return for the period ended December 31, 2018.

**BACKGROUND**

The CRHD invests operating, capital and reserve funds in accordance to 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 Capital Regional District, the CRHD and the Capital Region Housing Corporation. The types and terms of investments purchased are evaluated conservatively on four fundamental objectives: safety of principal, liquidity, responsible investing 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 be R-1 (low) or higher for short-term and a rating of A- for long-term. Both ratings achieve a superior market rating on all investments.

The Investment Policy provides criteria to ensure the capital is preserved and rate of return maximized while maintaining sufficient liquidity. Investments are continuously monitored to ensure the appropriate strategy through known economic and financial conditions.

The CRHD invests net working capital, primarily annual requisition raised for capital projects, in a mix of vehicles ranging from bank deposits to fixed term deposits. All funds in excess of immediate needs are invested to meet liquidity requirements.

The CRHD invests reserve funds in longer term Guaranteed Investment Certificates (GICs) as well as the Municipal Finance Authority (MFA) Intermediate Fund and MFA Bond Fund. The placement or divestiture of long-term funds are timed based on the anticipated need for these funds.

In addition, for 2018, all investment providers were encouraged to include options for socially responsible investment (SRI) and green investment. With no investments meeting the minimum 5% of maximum available yield in the market, there were no investments of this type offered or evaluated in 2018.

**Market Rate Recap – Applies to the CRD, CRHD, and CRHC**

As part of overall portfolio management, staff regularly monitor market trends through Bank of Canada interest rate announcements and reports, Government of Canada bond rates and other key metrics and through market commentary issued by banks and investment brokers. Additionally, the MFA provides regular market commentary on developments in offerings and based on outlook reports provided by Phillips, Hager & North Investment Management (PH&N).

In 2018, The Bank of Canada (BoC) raised its key overnight rate three times, influencing the prime rate and the rate offered on deposits with Royal Bank of Canada (RBC):

Date	Change	BoC Rate
Jan 2018	+ 0.25%	1.25%
Jul 2018	+ 0.25%	1.50%
Oct 2018	+ 0.25%	1.75%

In addition to the Bank of Canada overnight rates, investor expectations also influence the prevailing rates on investments in the market. Throughout 2018, investor expectations were for short-term rates to increase and longer term rates to remain steady. Rates of return on fixed term maturities between one and five years returned only marginal interest rate premiums for taking on more liquidity risk.

### **Investment Marketplace – Applies to the CRD, CRHD, and CRHC**

During 2018, high interest savings accounts (HISAs) became available through a limited number of institutions. A HISA operates like a regular bank deposit account except it pays an enhanced, institutional, rate of interest. In fact, the HISA rates offered throughout 2018 were competing with short-term fixed GIC products.

Canadian Imperial Bank of Commerce (CIBC): The Municipal Finance Authority of BC (MFABC) created a high interest savings account in partnership with CIBC in 2018. The purpose of this HISA is to provide BC local governments with additional deposit products at an interest rate which benefits from economies of scale. The interest rate paid on this account is based on the CIBC prime rate minus 1.49%. At December 31, 2018, the CIBC/MFABC HISA was yielding 2.46%.

Scotiabank: Scotiabank offers two HISAs. A regular HISA which acts like a normal deposit account and a Notice Plan, which requires 31 days' notice before funds can be withdrawn. The Notice Plan pays slightly higher interest than the HISA.

Overall, the CRHD 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 Statement and investment performance was in line with expectations for the year ended December 31, 2018, as described in the following sections of this report.

## **ALTERNATIVES**

### **Alternative 1**

That the Hospitals and Housing Committee recommend to the Capital Regional Hospital District Board:

That the Capital Regional Hospital District Investment Portfolio Holdings and Performance Annual Update be received for information.

### **Alternative 2**

That the report be referred back to staff for additional information.

## **FINANCIAL IMPLICATIONS**

At December 31, 2018, the CRHD held all \$45 million of investments in short-term vehicles. Investments with maturities less than two years are classified as short-term.

**Table 1: Investment and Bank Balances – as at Dec 31, 2018**

<b>Investments</b>	<b>Balance (\$millions)</b>	<b>% Share</b>
<b>Investments Short-Term (less than 2 years)</b>		
Bank of Montreal (< 1 year)	20.0	44.4%
Scotiabank Notice Plan	15.5	34.5%
Island Savings (< 1 year)	6.0	13.3%
CIBC/MFABC High Interest Savings Account	3.4	7.5%
MFA Money Market Fund	\$0.1	0.2%
<b>Total Investments:</b>	<b>\$45.0</b>	<b>100%</b>

**Table 2: Cash and Reserves Invested – as at Dec 31, 2018**

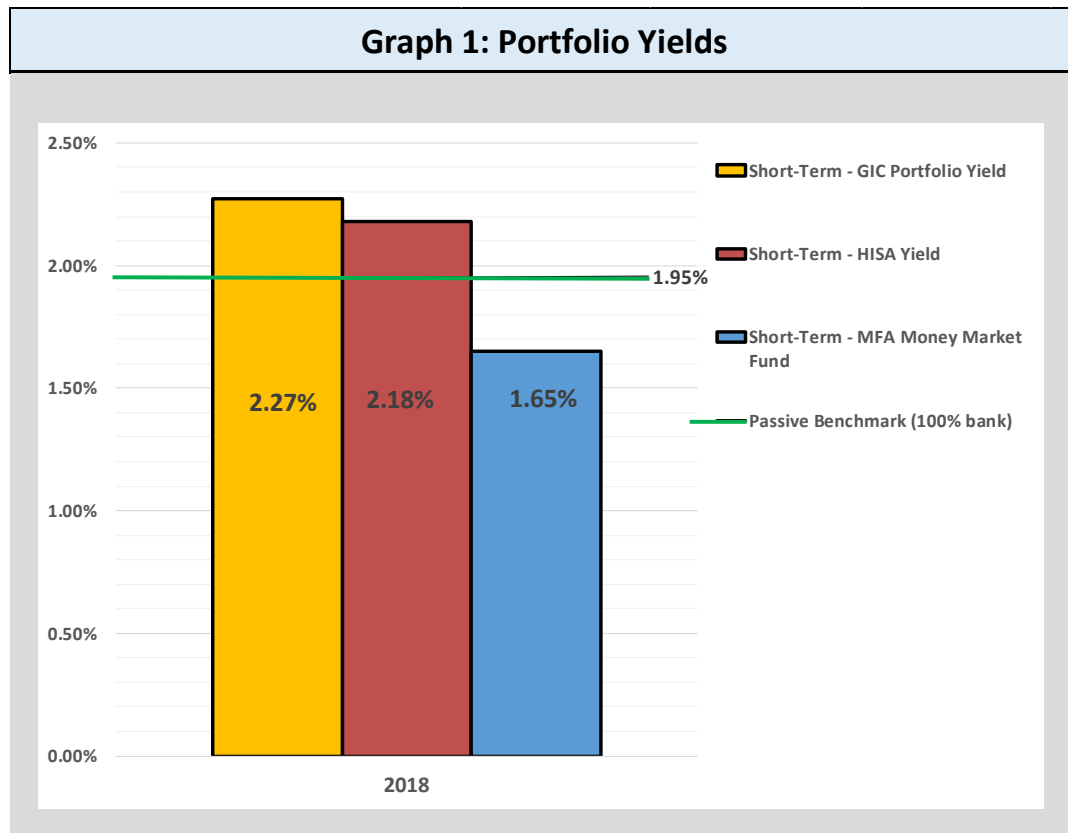
<b>Investments</b>	<b>Balance (\$millions)</b>	<b>% Share</b>
Land Development Reserve Fund	\$5.9	13.2%
Capital and Loan Fund	4.1	9.2%
Hospital District Act Section 20(3) Reserve	3.6	8.0%
Working Capital	31.3	30.5%
<b>Total Investments:</b>	<b>\$45.0</b>	<b>100%</b>

## **Performance**

While the Bank of Canada rate rose throughout 2018, liquidity requirements remained a top driver in the investment management strategy. Continued construction of the Summit Project and grants activity similar to that in 2017 resulted in all investments remaining short-term.

An active investment management strategy considers the rate environment as well as maturity, driving the turnover of investments to take advantage of the prevailing rate environment. This approach increases investment activity but helps to reduce liquidity risk and interest rate risk.

To take advantage of rate premiums being paid on short-term investments, cash was placed in facilities yielding optimum interest while still meeting liquidity targets. Graph 1 below provides a detailed report on the investment earnings and bank yields for 2018:



During 2018, the GIC investments returned 2.27%, with the HISA deposits yielding 2.18%. The MFA Money Market Fund returned 1.65%, indicative of short-term rates prevailing on marketable securities.

A passive benchmark has been included in the table above. This benchmark assumes funds are deposited at the beginning of the year with one hundred percent allocated to the RBC bank account. The benchmark calculation assumes no funds movement throughout the year. This passive benchmark represents the theoretical return experienced from a deposit and hold strategy with no active management strategy and no flows of funds in or out of the accounts during the year.

Table 3 below shows the three year trend on investment interest income (excludes bank account interest). Interest income is distributed annually on a pro-rata basis to reserve accounts and monies held in trust if applicable.

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

	2016	2017	2018
Interest Income (*)	\$ 0.001	\$ 0.885	\$ 1.181
Effective Rate	0.80%	1.63%	2.22%

(\*) Excludes unrealized losses on MFA pooled funds

The total effective rate of return on investments, during 2018, was 2.22%. The return margin against the benchmark of a passive investment management strategy was 0.27%, which is approximately \$0.15 million of total investment income.

Total interest income for 2018 was \$1.18 million, an increase of \$0.30 million. The increase over 2017 is attributable to an approximate \$0.15 million from active investment strategy, \$0.09 million from rate increases, and an overall increase in cash invested contributed the remaining \$0.06 million.

## **CONCLUSION**

Overall, the Capital Regional Hospital 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 Statement and investment performance was in line with expectations for the year ended December 31, 2018.

## **RECOMMENDATION**

That the Hospitals and Housing Committee recommend to the Capital Regional Hospital District Board:

That the Capital Regional Hospital District Investment Portfolio Holdings and Performance Annual Update be received for information.

Submitted by:	Rianna Lachance, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

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Appendix 1: Investment Policy