



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

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

ISSUE

Provide an update on Capital Region Housing Corporation (CRHC) investments held and rates of return for the period ended December 31, 2018.

BACKGROUND

The CRHC 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 Capital Regional District (CRD), as well as the Capital Regional Hospital District (CRHD) and the CRHC. 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 followed by the CRD 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 CRHC invests net working capital, primarily rental revenues and capital funds raised for construction projects, in a mix of vehicles ranging from bank deposits to fixed term deposits.

The CRHC invests reserve funds in longer term Guaranteed Investment Certificates (GICs) and the Municipal Finance Authority (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 Analysis – Applies to the CRD, CRHD, 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 (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, 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. For example:

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 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 the report.

ALTERNATIVES

Alternative 1

That the Hospitals and Housing Committee recommend to the Capital Region Housing Corporation Board:

That the Capital Region Housing Corporation 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 CRHC held \$9.7 million invested in short-term and long-term investments, as outlined in Table 1 below.

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

Investments	Balance (\$millions)	% Share
Investments Short-Term (less than 2 years)		
CIBC/MFABC High Interest Savings Account	1.5	15.4%
MFA Money Market Fund	\$0.1	1.0%
Total Short-Term:	1.6	16.4%
Investments Long-Term (more than 2 years)		
MFA Bond Fund	8.1	83.6%
Total Long-Term:	8.1	83.6%
Total Investments:	\$9.7	100%

As noted in Table 1 above, the CRHC investment portfolio at December 31, 2018 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.

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

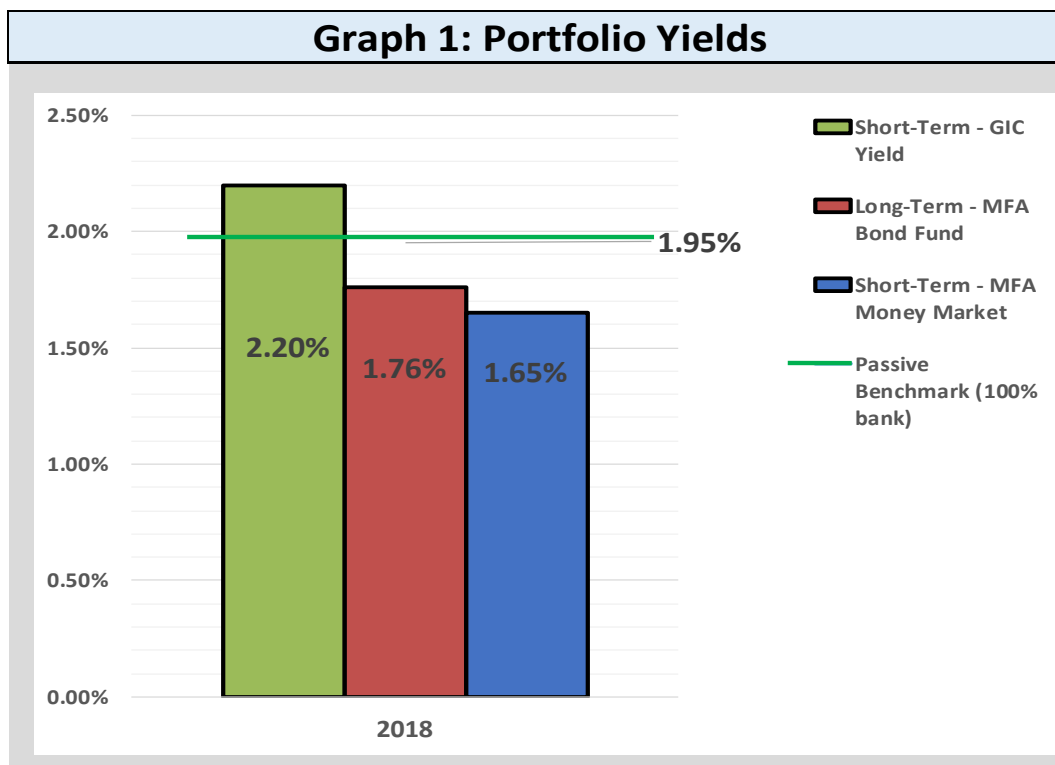
Investments	Balance (\$millions)	% Share
Capital Reserves	\$5.6	57.5%
Operating Reserves	4.1	42.5%
Working Capital	0.0	0.0%
Total Investments:	\$9.7	100%

Performance

While the Bank of Canada rate rose throughout 2018, most of the investment portfolio is long-term in nature and remains invested in the MFA. Any excess funds over net working capital under an active investment strategy were placed in higher yielding short-term products.

An active investment 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.

Graph 1 below provides a detailed report on the investment earnings and bank yields for 2018:



During 2018, the GIC investments held returned 2.20% while the MFA Money Market returned 1.65%. The MFA Bond Fund returned 1.76%, indicative of long-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: CRHC Investment Income 3-Year Trend (\$ Thousands)

	2016	2017	2018
Interest Income (*)	\$ 236.2	\$ 207.5	\$ 242.2
Effective Rate (IRR)	1.59%	0.65%	1.83%

(*) Excludes unrealized losses on MFA pooled funds

The total effective rate of return on investments, during 2018, was 1.83%. The return margin against the benchmark of a passive investment strategy was negative, reflecting lower long-term returns in the capital markets versus deposit rate market.

Although the CRHC deployed an active investment management strategy, the portfolio remains heavily weighted in the long-term bond fund which results in lower portfolio return in the short-term. Long-term term holdings of the bond fund are held until required and over the holding period expect to return from 3–5%.

Total interest income for 2018 was \$0.24 million, excluding unrealized losses on MFA pooled funds. The increase in income of \$0.04 million was primarily due market rate increases of approximately \$0.02 million and increases from an active investment management strategy of \$0.01 million.

CONCLUSION

Overall, the Capital Region Housing Corporation 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 Region Housing Corporation Board:

That the Capital Region Housing Corporation 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