

**REPORT TO THE FINANCE COMMITTEE
MEETING OF WEDNESDAY, MARCH 03, 2021**

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

ISSUE SUMMARY

Provide an update on Capital Regional District (CRD) investment holdings and performance for the period ended December 31, 2020.

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 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 be a risk rating of R-1 (low) or higher for short-term investment and A- for long-term. Both ratings indicate a superior credit rating on all investments.

Investments are continuously monitored to ensure the appropriate strategy through known economic and financial conditions. The CRD invests net working capital, operating reserves and capital 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

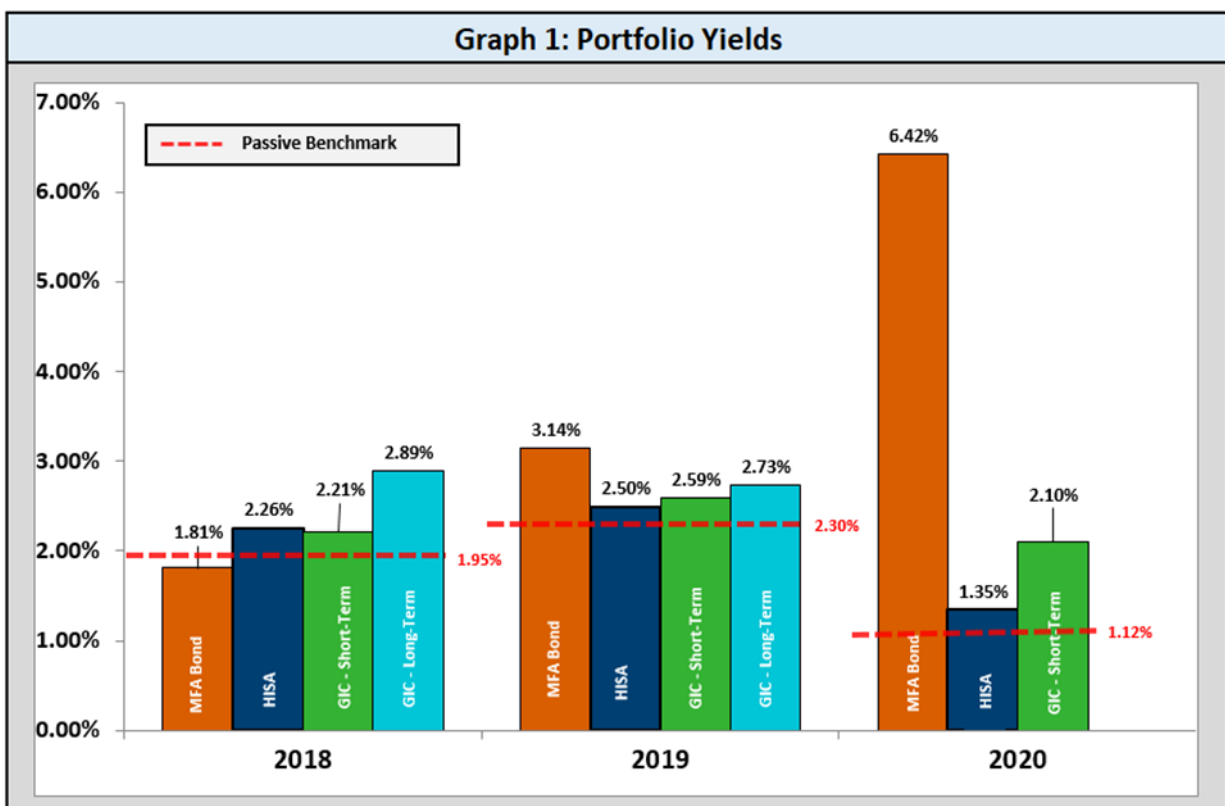
While Bank of Canada interest rates declined in 2020, higher cash reserves and active investment management drove higher income year over year. Liquidity requirements remained a key driver in the investment strategy through 2020, with major capital projects such as the Core Area Wastewater Treatment Project proceeding against a backdrop of collection uncertainty through COVID-19.

In 2020, capital projects drove higher cash outflows, with average monthly disbursements of approximately \$20 million. 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.

Historically, the investment strategy was driven by cash flow and alignment of investments maturing, often referred to as an investment ladder. The ladder approach, however, does not always result in optimum return of investments. Through the prioritizing of liquidity, rates are evaluated as a secondary measure within each maturity term.

To take advantage of rate premiums on short-term investments, cash was placed in facilities yielding optimum return while still meeting liquidity targets. Graph 1 below provides a detailed report on portfolio yields for 2020:



During 2020, short-term GIC investments returned 2.10% and short-term HISA returns returned 1.35%. 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. 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)

	2018		2019		2020	
Passive Income	1.9%	\$2.4M	2.3%	\$4.1M	1.1%	\$2.7M
Unrealized gain (loss)	(0.0%)	(\$0.3M)	0.1%	\$0.2M	0.5%	\$1.7M
Value-Add	0.2%	\$1.5M	0.3%	\$1.3M	0.8%	\$2.5M
Total	2.1%	\$3.6M	2.7%	\$5.6M	2.4%	\$6.9M

The total effective rate of return on investments during 2020 was 2.4%. Total investment income for 2020 was \$6.9 million, including unrealized gains on the MFA Bond Fund of \$1.7 million. The overall increase in investment income is due to higher cash reserves, strong 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 CRD held \$318.2 million invested in short-term and long-term investments, as outlined in Table 2 below.

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

Investments	Balance (\$millions)	% Share
Investments Short-Term (less than 2 years)		
Coast Capital Savings GIC	\$60.7	19.1%
Island Savings Credit Union GIC	30.5	9.7%
CIBC GIC	22.2	7.0%
Canada Western Bank GIC	18.6	5.8%
National Bank GIC	10.7	3.4%
MFABC CIBC High Interest Savings Account	3.6	1.1%
Scotia Bank High Interest Savings & Notice Plan Accounts	64.8	20.4%
BMO High Interest Savings Account	63.0	19.8%
Total Short-Term	274.1	86.2%
Investments Long-Term (more than 2 years)		
MFA Bond Fund	44.1	13.8%
Total Long-Term	44.1	13.8%
Total Investments	\$318.2	100%

As noted in Table 2 above, the portfolio was distributed between short-term and long-term investments by 86% and 14%, 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 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	\$85.3	26.8%
Operating Reserves	53.8	17.0%
Working Capital	179.1	56.3%
Total Investments:	\$318.2	100%

Continued construction of the Core Area Wastewater Treatment Plant required high levels of liquidity driving a higher short-term investment ratio. With the project completing in 2021, liquidity requirements will decrease resulting in an expected term balanced portfolio by year end. Operating reserves hold surpluses to fund natural fluctuations in operating results or unanticipated variances in operating expenditures. Working capital funds day-to-day obligations such as payroll, trade invoices and related operating expenditures.

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, 2020.

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.

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

ATTACHMENT(S)

Appendix A: Market Analysis