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

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**SUBJECT** Capital Regional District and Capital Region Housing Corporation Investment Policy Updates

### **ISSUE SUMMARY**

Recommended updates to the Capital Regional District (CRD) and Capital Region Housing Corporation (CRHC) investment policies.

### **BACKGROUND**

The investment activity for both the CRD and the Capital Regional Hospital District (CRHD) is governed through the CRD Investment Policy, while the activity for the CRHC is governed through the CRHC Investment Policy. The CRD Investment Policy was originally approved by the CRD Board in September 2013 and amended in May 2017. The Capital Region Housing Corporation (CRHC) policy was approved by the CRHC Board in 1991 and amended in October 2013.

As a result of an evolving marketplace and continuous alignment to the corporate plan and corporate governance structures, a review to both investment policies was triggered and has resulted in a number of recommended updates, summarized as follows:

1. Alignment of corporate practice consistent with corporate structure (CRHC)
2. Alignment with Corporate Plan, Board Strategic Objectives and external markets
3. Refinement of diversification constraints and risk assessment practices

In order to align activities and practices across all three entities, a single policy is proposed to apply to the CRD, CRHD and CRHC. This results in the existing CRHC Investment Policy being superseded and all recommendations reflected as amendments to the existing CRD Investment Policy.

CRD investment activity is governed by Section 377 of the *Local Government Act*, which legislates that Section 183 of the *Community Charter* apply to regional districts and defines allowable investment options. Although the CRHC is not governed through these Acts, as a wholly owned subsidiary of the CRD, it is subject to the same governance standards; thus, application of similar investment policies is appropriate and has been the historical practice.

### **ALTERNATIVES**

#### *Alternative 1*

The Finance Committee recommends to the Capital Regional District Board:  
That the Capital Regional District Investment Policy, Amendment #2, be approved.

#### *Alternative 2*

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

## **IMPLICATIONS**

In 2020, a review of the investment policies was conducted to assess alignment and effectiveness of delivery. The review identified opportunities to address:

1. policy alignment across all three entities of CRD, CRHD and CRHC
2. Corporate Plan (including Board Strategic Plan Objectives) consideration
3. revisions to portfolio diversification limits

### **1. Alignment of All Three Entities**

Upon review, the principles and parameters contained in both policies were identified to be the same except for the minimum rating criteria. Combining to one policy will move the minimum rating criteria on investments from AA and R-1 (mid) to A (low) and R-1 (low). A rating of A (low) and R-1 (low) is considered satisfactory on a credit quality scale as measured by Dominion Bond Rating Service (DBRS) and is the current minimum within the existing CRD policy. Expanding the policy to all three legal entities is recommended to provide administrative consistency across all three entities and reflects a moderate to high level of investor prudence and risk mitigation.

### **2. Corporate Plan Direction**

The review of the policy identified an opportunity to better align corporate practice with the Corporate Plan and Board Strategic Objectives with respect to responsible investing options. Revisions to the policy would provide greater flexibility and access to new suitable products.

The recommendation is to extend the responsible investing parameters to allocate a percentage of the total portfolio investments that meet responsible investing criteria, either for social or green outcomes, and include reference that internal project investments also meet responsible investing objectives. Currently, if a responsible investing option offers the same liquidity, principal protection and return, the investment will continue to be considered an authorized and suitable investment. In practice, since 2017, the experience has been of limited product offerings and lower than acceptable rates, eliminating the responsible investments as suitable options.

To address the limitations, the review work included a sensitivity analysis to determine how much of the total portfolio could be invested in lower return products before the overall return target on the total portfolio would be negatively impacted. The results of the sensitivity analysis have been included in Appendix E. The overall return target for the total portfolio is set to preserve reserves and cash against inflation.

The result of the analysis was that up to 10% of the total portfolio could be invested at rates up to 1% lower than market before negatively impacting the target return. The recommendation is to include a 10% limit on lower return investments within the responsible investing parameter.

Differently, the CRHC will be excluded from holding lower return responsible investing products, due to the 'not-for-profit' nature of its business activities. As a provider of affordable housing, the CRHC already operates and invests within the social services sector.

Furthermore, the not-for-profit corporate structure and financial operation preclude the CRHC from accepting lower than market returns, ensuring mandate delivery.

Additionally, the CRD can increase investment in responsible options through internal projects. Many CRD services directly align with Socially Responsible Investment (SRI) outcomes as defined by the United Nations Principal of Responsible Investment Social Development Goals. Making internal projects an authorized and suitable investment is recommended.

### **3. Portfolio Diversification Constraints**

Portfolio diversification refers to the amount of money an investor has in a particular asset or institution. Diversification is an important strategy to mitigate return risk and principal. As an example, a GIC of an unrated institution has a higher risk of loss to principal than those in a rated chartered bank.

The investment policy, approved in 2017, contained a uniform 20% exposure limit to all financial institutions and a 10% limit per investment issue. The attached investment policy contains edits to remove the uniform 20% and 10% limits, in favour of limits tailored on the risk assessment by institution and by investment type. The updated investment policy contains a portfolio diversification constraint table as an Appendix, which will permit a more detailed approach to portfolio allocation and risk management.

Along with the above revisions, various other administrative updates and edits are covered in Appendix B in the Policy Amendment Concordance Table.

Once approved, investment transactions will be administered against the amended policy. The introduction of a revised portfolio diversification table will not require any immediate divestiture to ensure compliance, rather will guide activities in the future.

### **CONCLUSION**

In 2020, a review was undertaken of the current investment policies related to the Capital Regional District, the Capital Regional Hospital District, and the Capital Region Housing Corporation to assess for alignment and effectiveness. The updated policy seeks to align activities and practices across all three entities, update principles and parameters to improve investment options aligned with market and corporate and board objectives, and ensure legislative compliance. Once approved, investment transactions after the date of approval will be administered against the amended policy.

### **RECOMMENDATION**

The Finance Committee recommends to the Capital Regional District Board:  
That the Capital Regional District Investment Policy, Amendment #2, be approved.

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**ATTACHMENT(S)**

- Appendix A: Updated CRD Investment Policy
- Appendix B: Policy Revision Concordance Table
- Appendix C: 2017 CRD Investment Policy
- Appendix D: 2013 CRHC Investment Policy
- Appendix E: Example – Responsible Investment Rate Sensitivity Analysis