

Investment Policy RD-14-19 – 2024 Annual Update

BACKGROUNDER

Overview of Policy

As an overview, there are four main objectives of the Regional District's Investment Policy RD-14-19 (the "Policy"), in descending order of importance:

- Preservation of principal
- Liquidity
- Return on investment
- Socially responsible investing

Additionally, the Policy is designed with further restrictions that include competitive bids, authorized and suitable investments, portfolio allocation, diversification and safekeeping and custody.

These objectives and restrictions frame the management of the Regional District's investment portfolio (the "portfolio") that is overseen by Financial Services Administration.

Summary Market Commentary

CPI rose 2.6% on an annual basis in 2024, following an increase of 3.9% in 2023 and 6.8% in 2022. At the start of the year, the overnight rate sat at 5.0%, having increased from 4.25% at the end of 2023. There were a number of rate reductions announced during 2024, per the table below, bringing the rate as of December 2024 to 3.25%.

Date	Reduction	Overnight rate
June 2024	25 basis points	4.75%
July 2024	25 basis points	4.50%
September 2024	25 basis points	4.25%
October 2024	50 basis points	3.75%
December 2024	25 basis points	3.25%

The overnight rate impacts the prime rate that financial institutions use for lending but also the rates offered for investments in the pooled high interest savings account, term deposits/GICs, as well as the suite of Municipal Finance Authority of BC ("MFA") investments that are available to the Regional District to invest in.

Now halfway through 2025, further rate reductions of 25 basis points were announced in January 2025 and again in March 2025 bringing the current rate to 2.75%. The bank of Canada continues to monitor the economy closely to determine future adjustments. Interest rates are predicted to see another potential decrease prior to the end of the year. The projections expect further reductions to the overnight rate in 2026 and beyond to get back to a policy neutral rate for both inflation and the overnight rate.

2024 In Review

The Regional District started the year with the portfolio at December 31, 2023, comprised of the investments in Exhibit 1 and totaling \$84,900,558.

The 2024 year saw an overall increase in investment funds of \$7.3 million bringing the balance to \$92,240,147 as of December 31, 2024. This balance closely mirrors the balance of reserve funds which was \$89.2 million as of December 31, 2024. RDFFG endeavors to match investment funds with the anticipated timing of cash flows and the balance can fluctuate throughout the year. The net increases during the year is a result of savings for future reserve fund spending as well as investment earnings.

2024 Results

During 2024, despite the unique challenges presented by the expedient decrease in interest rates by the Bank of Canada, Financial Services Administration continued to work towards certain goals for the portfolio in alignment with the Policy.

These items included the continued diversification of the portfolio as shown by the composition of the portfolio in Exhibit 2 as at December 31, 2024 with eleven (11) unique investment products included in the portfolio. These eleven unique investment products reflect the addition of four year term GICs at December 31, 2024.

Throughout the year, the Regional District had GICs mature and worked to reinvest at the most beneficial rates at the time of renewal. The average interest rate earned on GICs held by the Regional District at December 31, 2023 was 5.09% and has decreased slightly to 5.05% as of December 31, 2024.

As mentioned above, at December 31, 2024, the portfolio consisted of the investments in Exhibit 2 totaling \$92,240,147 and was comprised of eleven (11) unique investment products. Short-term investments comprised 33.8% of the portfolio and long-term investments comprised 66.2% of the portfolio, which reflects a decrease in short-term investments over the previous year with more beneficial two, three and four year GIC rates.

For 2024, annual investment income totaled \$3,911,362, which reflected an average investment return of 4.70% for the year. This is up from 4.06% in 2023 as a result of locked in fixed income interest rates over the course of the 2024 calendar year and net returns on MFA investments.

Looking at Exhibit 3, the historical returns in terms of investment income and percentage return on investments are shown over the past 5 years. This Exhibit highlights improvements in both investment income and the percentage return on investments over the previous years when compared to 2020, along with showcasing the significant increase in both income and percentage return in a higher interest rate environment in 2023 and 2024.

Compliance with Policy

Turning to policy compliance for the year, based on the portfolio allocations and additional restrictions identified in the Policy, the Regional District was in compliance with the Policy from January 1, 2024 through to December 31, 2024.

Annual Review of Policy

The Policy continues to provide a guiding document for the management of the Regional District's investment portfolio.

The policy has been amended to reflect the following changes:

- Updated standard of care definition which reflects the 'prudent investor' standard instead of 'prudent person'. The prudent investor rule allows for more flexibility by focusing on the performance and risk of the entire portfolio, encouraging diversification and modern investment strategies as compared to acting as a caution individual person would.
- The addition of federal credit unions that are covered by the Canadian Deposit Insurance Corporation (CDIC).

Therefore, administration is recommending the proposed changes to the Policy. The next policy review date will be during the year 2026.

2025 To Date

In 2025 to the end of June, Financial Services Administration has continued to monitor changing market conditions and has continued to renew fixed term GICs into investments with favorable interest rates. As the bank of Canada begins to decrease the overnight rate, we are seeing lower long-term yields for GICs, however the returns are still higher than we have seen prior to 2022. Financial Services Administration awaits the opportunity at August 1, 2025 to invest the annual requisition amounts to ensure they meet the principles in the Policy and allow for the necessary cash flow to fund operations through the rest of 2025 and into 2026.

Conclusion

With the RD-14-19 Investment Policy in place, the Regional District has the tools necessary to manage the portfolio in the unique interest rate environments that governments and markets continue to present. This is all while making sure that the Regional District's investment portfolio will continue to be monitored in compliance with the Policy to ensure that the main objectives are fulfilled.

BACKGROUNDER EXHIBITS

Exhibit 1 – Regional District Investment Portfolio at December 31, 2023

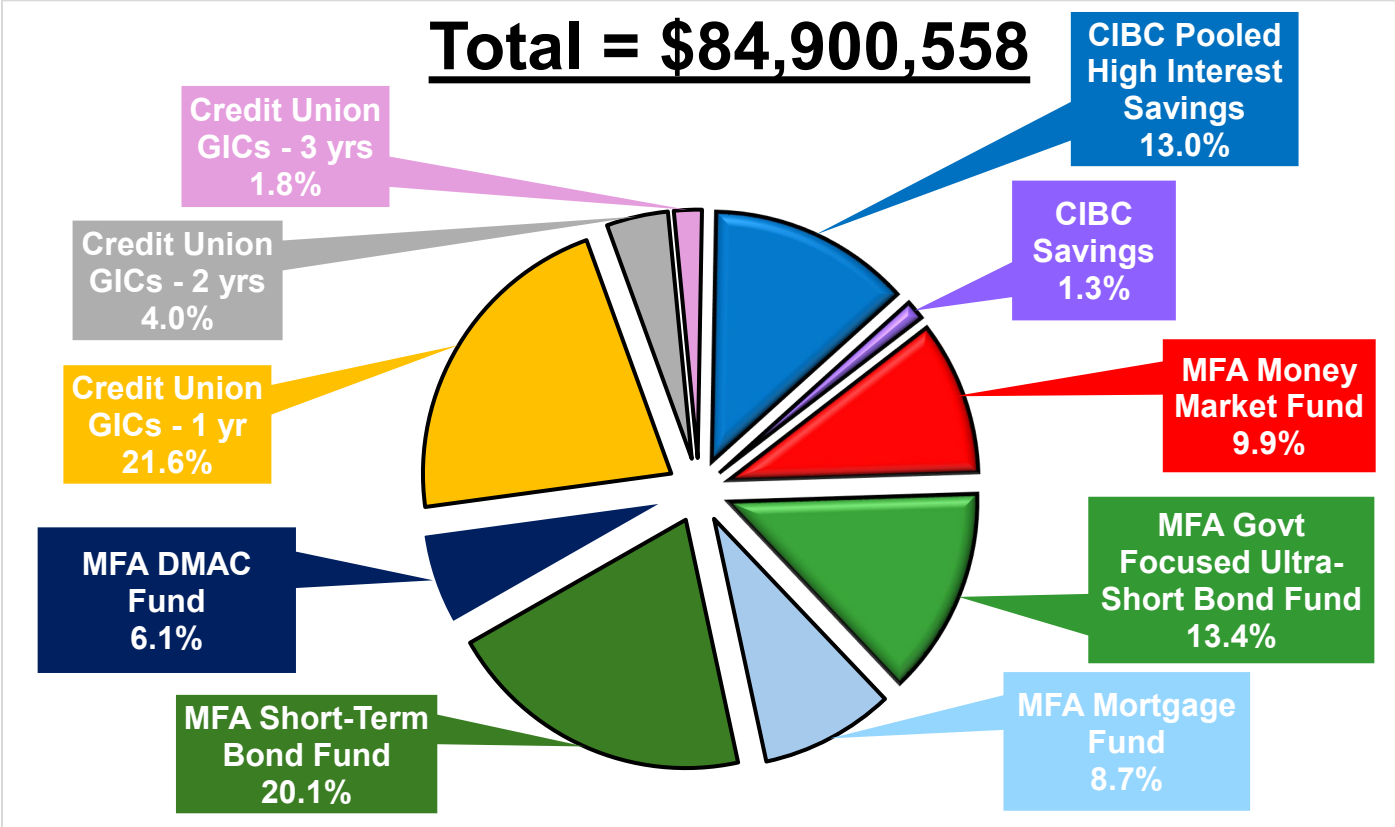
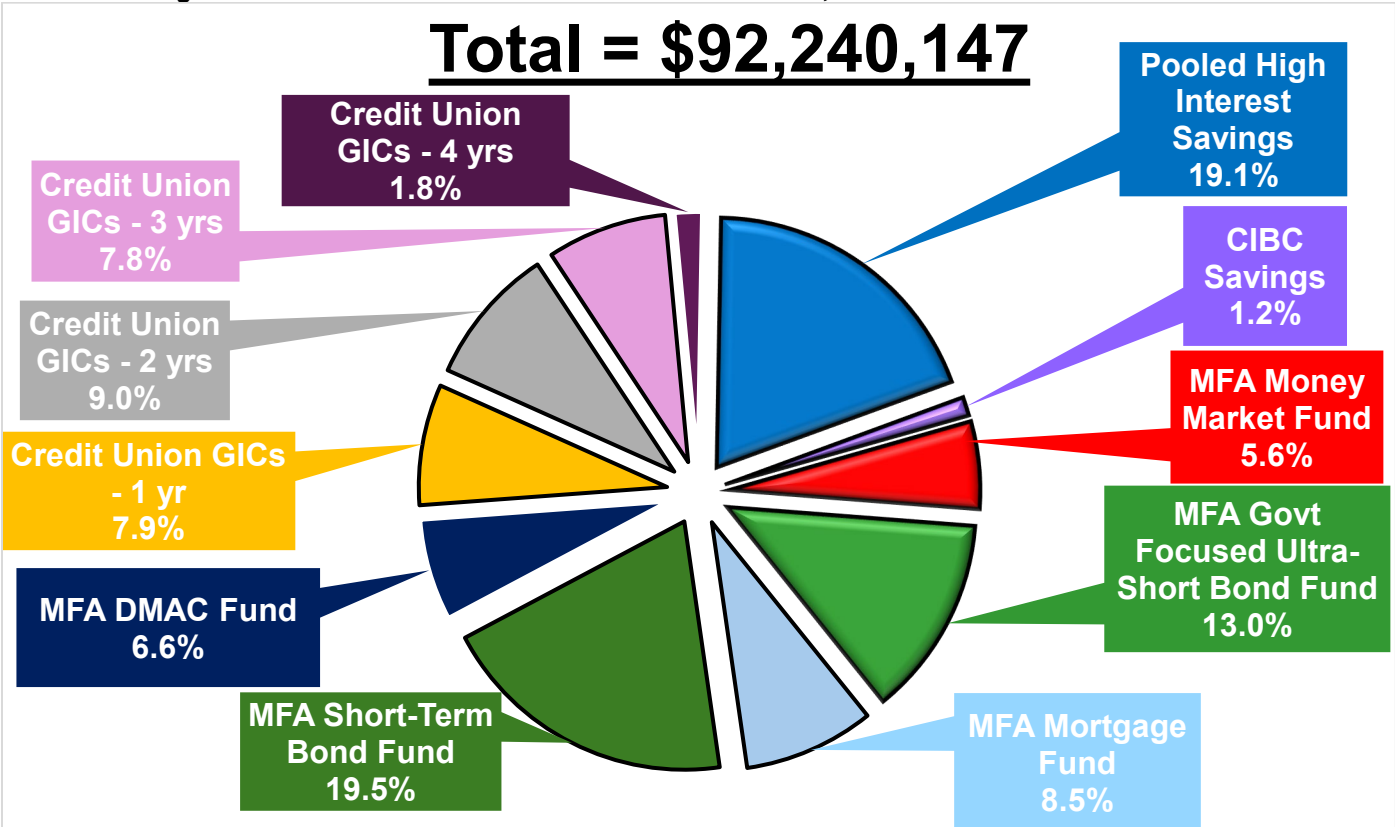


Exhibit 2 – Regional District Investment Portfolio at December 31, 2024



BACKGROUNDER EXHIBITS (cont'd)***Exhibit 3 - Investment Returns – 5 Year Historical***

Year	Investment Income	% Return
2020	\$ 1,202,003	1.88%
2021	\$ 968,781	1.39%
2022	\$ 1,838,080	2.41%
2023	\$ 3,303,337	4.06%
2024	\$ 3,911,362	4.70%
Average	\$ 2,244,713	2.89%