



REGIONAL DISTRICT of Fraser-Fort George

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REPORT FOR CONSIDERATION

TO: Chair and Directors

FROM: Sarah White, General Manager of Financial Services

DATE: July 8, 2024

SUBJECT: Policy RD-14-19 Investment Policy – Annual Update
SUMMARY: Purpose: For Information

File No.: FIN 2.0

Attachments:

1. Backgrounder
2. Policy RD-14-19 Investment Policy

Previous Reports:

1. Item No. 10.2.1, September 2020
2. Item No. 11.2.3, April 2021
3. Item No. 11.2.2, April 2022
4. Item No. 11.2.3, July 2023

RECOMMENDATION(S):

THAT the report dated July 8, 2024 regarding “Policy RD-14-19 Investment Policy – Annual Update” be received for information.

ENTITLEMENT	HOW VOTE COUNTED
All 1 Director/1 vote	Majority

ISSUE(S):

In June 2019, the Board approved Policy RD-14-19 Investment Policy. This report is to provide an annual update to the Board in accordance with the requirement in the Policy.

The Backgrounder attached to this report contains further details regarding the annual update.

The information provided in the Backgrounder is based on information available as of June 30, 2024.

This report is for information only and the Board is not being asked to take any action at this time.

RELEVANT POLICIES:

1. *Local Government Act*, Section 237 (d)
 - investing funds, until required, in authorized investments (see Appendix “A” of Policy RD-14-19 for list of authorized investments)
2. *Community Charter*, Section 183
 - provides list of authorized investments
3. Policy RD-14-19 Investment Policy
 - framework for investment policy management.

STRATEGIC ALIGNMENT:

- Climate Action Economic Health Indigenous Relations Strong Communities
- None – Statutory or Routine Business

SERVICE RELEVANCE:

Financial Services is responsible for the management of investments held by all service areas of the Regional District.

FINANCIAL CONSIDERATION(S):

Investment income earned by the Regional District’s investment portfolio is attributed to the reserve balances that comprise the Regional District’s investment portfolio on a monthly basis.

OTHER CONSIDERATION(S):

N/A

DECISION OPTIONS:

1. Approve recommendation.

COMMENTS:

In accordance with Policy RD-14-19 Investment Policy, this report is being provided as an update on the Regional District’s investments.

Respectfully submitted,

“Sarah White”

Sarah White
General Manager of Financial Services

SW:bl

Investment Policy RD-14-19 – 2024 Annual Update

BACKGROUND

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 3.9% on an annual basis in 2023, following a 40-year high, increase of 6.8% in 2023 and 3.4% in 2021. At the start of the year, the overnight rate sat at 4.25%, having increased significantly from 0.25% to 4.25% throughout 2022. Rates increased twice more in 2023 ending the year at 5.00% as governments continued to respond to inflationary pressures in the Canadian economy.

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 2024, the Bank of Canada has dropped the overnight rate from 5.0% to 4.75% as of the end of June 2024. Interest rate projections showcase relatively stable rates for the remainder of 2024 with further reductions possible. The projections expect a gradual easing down of the overnight rate in 2025 and beyond to get back to a policy neutral rate for both inflation and the overnight rate.

2023 In Review

The Regional District started the year with the portfolio at December 31, 2022 being comprised of the investments in Exhibit 1 and totaling \$75,148,060.

2023 Results

During 2023, despite the unique challenges presented by the expedient rise 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, 2023 with ten (10) unique investment products included in the portfolio. These ten unique investment products reflect the addition of three year term GICs at December 31, 2023 as well as the addition of the MFA Diversified Multi Asset Class fund (DMAC). The DMAC fund was approved by the board for use in 2023 and is targeted for long term investments with a term to maturing that is greater than ten (10) years.

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, 2022 was 3.12% and has improved to 5.09% as of December 31, 2023.

As mentioned above, at December 31, 2023, the portfolio consisted of the investments in Exhibit 2 totaling \$84,900,558 and was comprised of ten (10) unique investment products. Short-term investments comprised 45.8% of the portfolio

and long-term investments comprised 54.1% of the portfolio, which reflects a slight increase in long-term investments over the previous year with more beneficial two and three year GIC rates and investment in the new DMAC fund.

For 2023, annual investment income totaled \$3,303,337, which reflected an average investment return of 4.06% for the year. This is almost double the investment income from 2022 as a result of the rapid rise in fixed income interest rates over the course of the 2023 calendar year.

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 2019, along with showcasing the significant increase in both income and percentage return in a higher interest rate environment in 2023.

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, 2023 through to December 31, 2023.

Annual Review of Policy

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

The next policy review date will be during the year 2025.

2024 To Date

In 2024 to the end of June, Financial Services Administration has continued to monitor changing market conditions and has continued to renew fixed term GICs into future terms at higher 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, 2024 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 2024 and into 2025.

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, 2022

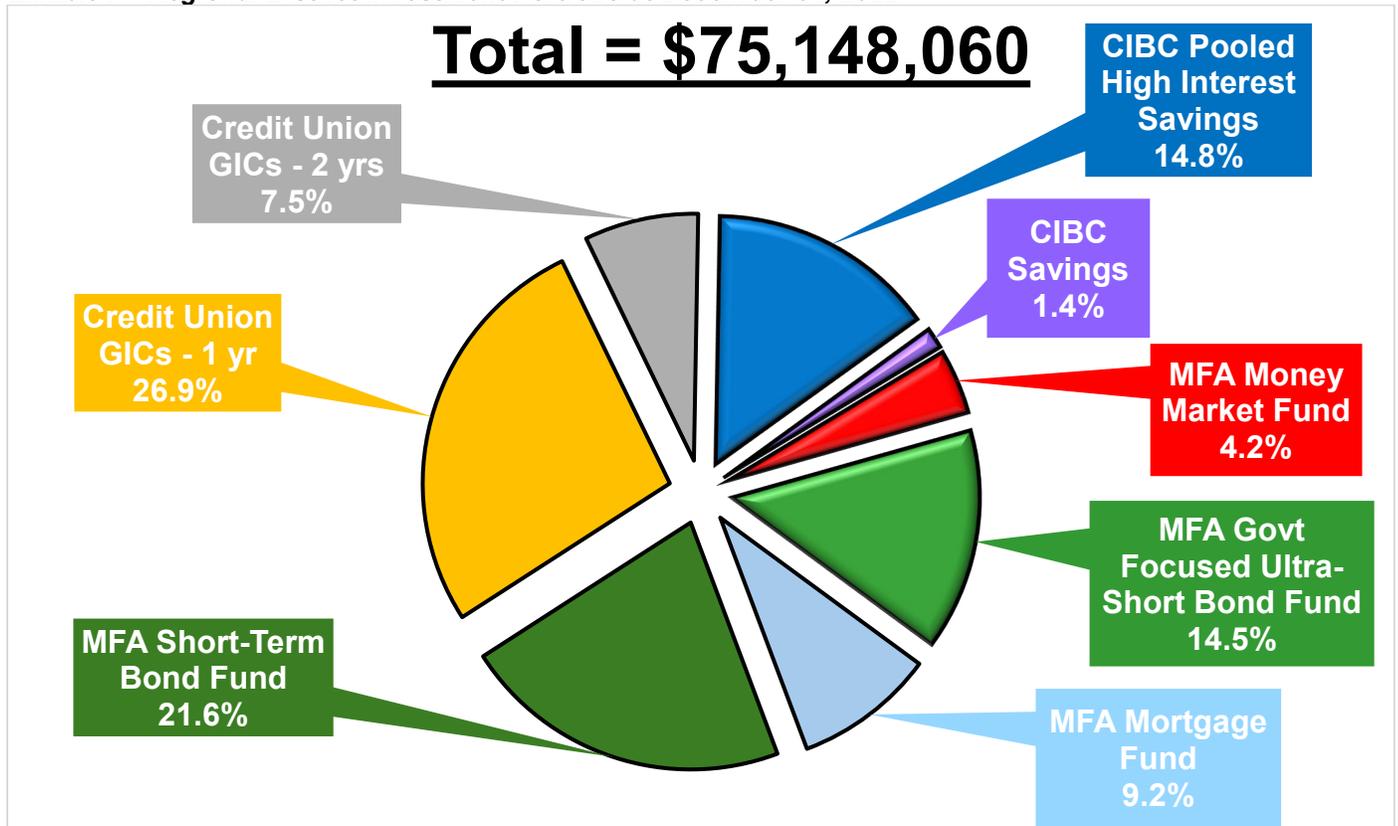
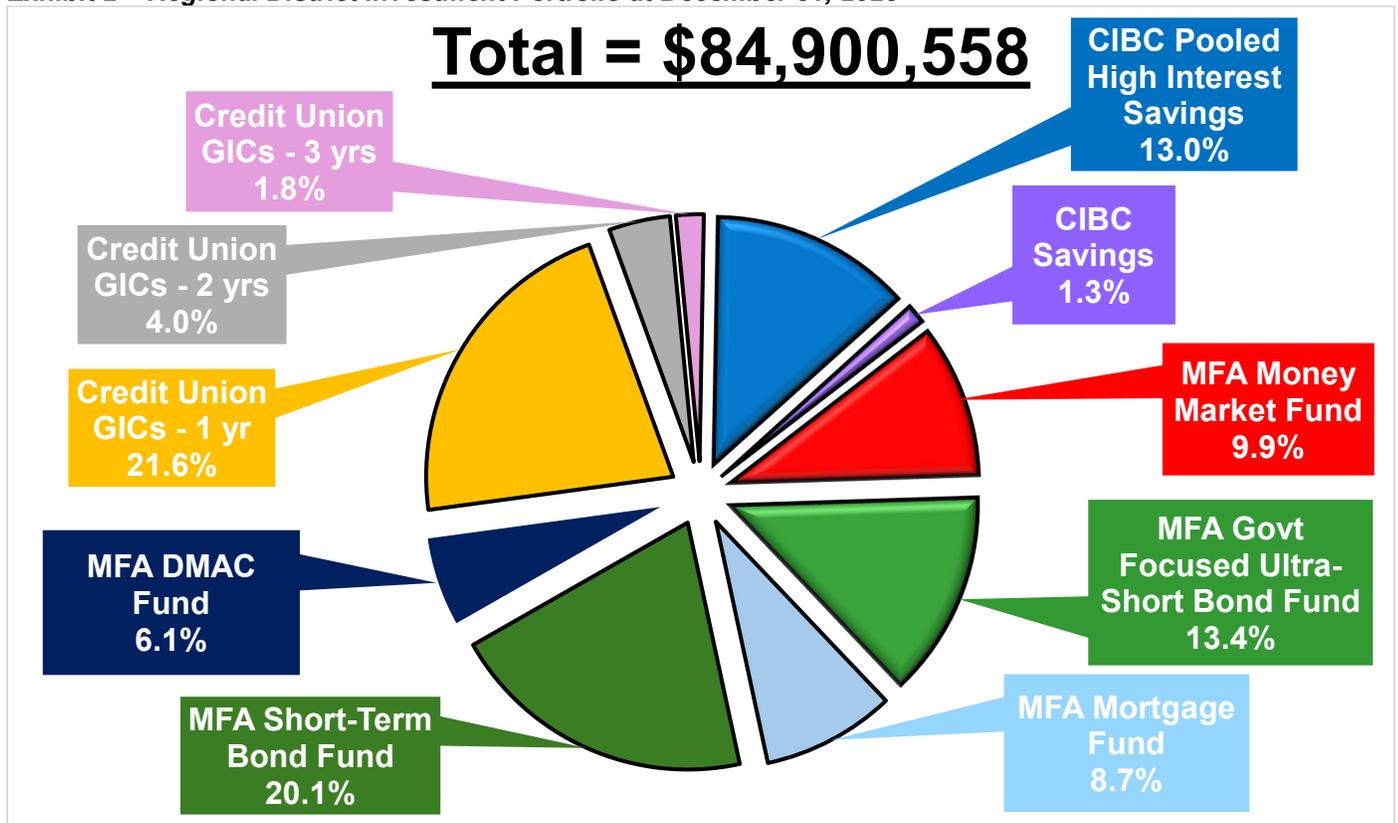


Exhibit 2 – Regional District Investment Portfolio at December 31, 2023



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

Year	Investment Income	% Return
2019	\$ 1,042,681	1.93%
2020	\$ 1,202,003	1.88%
2021	\$ 968,781	1.39%
2022	\$ 1,838,080	2.41%
2023	\$ 3,303,337	4.06%
Average	\$ 1,670,976	2.33%



**REGIONAL DISTRICT
of Fraser-Fort George**

CORPORATE POLICY

No.: RD-14-19

Date Approved: June 20, 2019

Date Amended: July 20, 2023

Name: Investment Policy

Purpose:	To establish a framework for investment policy management and set out the responsibilities, policies and accountability associated with the management and administration of the Regional District's investments.
Authority:	Section 183 <i>Community Charter</i> Section 237 <i>Local Government Act</i>
Scope:	This policy applies to the management and administration of all cash operating funds, capital funds and reserve funds on deposit or invested in investment securities by the Regional District.

Definitions:

“diversification”	means	a risk management strategy that mixes a variety of investments within a portfolio.
“Financial Officer”	means	the General Manager of Financial Services as having been assigned the financial administration responsibilities under Section 237 of the <i>Local Government Act</i> by the Board under Officer Position Establishment Bylaw No. 3073, 2018.
“liquidity”	means	the degree to which an asset or investment can be quickly bought or sold in the market without affecting the asset's or investment's price.
“long-term investment” or “long term: 10 years+ investment”	means	an investment with a term to maturity that is greater than ten (10) years. i.e. <i>MFA diversified multi-asset class fund.</i>
“maturity”	means	for a deposit or investment, the date upon which the principal is returned to the investor.
“medium term investment”	means	an investment with a term to maturity that is greater than one (1) year and less than 10 years. i.e. <i>Guaranteed Investment Certificates (GICs - greater than one-year term), Municipal Finance Authority (MFA) bond fund, MFA mortgage fund.</i>
“maturity”	means	for a deposit or investment, the date upon which the principal is returned to the investor.
“principal”	means	the original sum devoted to an investment.

Expiry Date:

Review Date: Annually

“quotation”	means	an informal procurement process whereby a verbal or written commitment by a vendor to provide goods or services for a specified price/at a specified rate is obtained.
“Regional District”	means	the Regional District of Fraser-Fort George.
“short term investment”	means	an investment with a term to maturity that is one (1) year or less. <i>i.e. GICs (one-year term or less), chequing and savings accounts, MFA money market fund, MFA Government Focused Ultra Short Bond Fund.</i>
“socially responsible investing”	means	any investment strategy which seeks to consider both financial return and social good and is also known as sustainable, socially conscious or ethical investing.

Policy:

The Regional District will seek to invest funds in a manner that will provide the optimal blend of investment return and security while meeting the cash flow requirements of the Regional District and statutory requirements of the *Community Charter* and *Local Government Act*.

General:

Objectives: The investment of funds must reflect the primary objectives, in the following order of priority:

1. Preservation of Principal: investments shall be made to ensure preservation of principal within the portfolio, which is accomplished through placement of funds with creditworthy institutions and through portfolio diversification.
2. Liquidity: the investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating cash flow requirements.
3. Return on Investment: the investment portfolio shall be designed with the objective of maximizing market rate of return subject to the investment risk constraints and liquidity requirements of the Regional District.
4. Socially Responsible Investing: where possible, socially responsible investing (SRI) criteria will be applied to the selection of investments. The Regional District will consider SRI products that adhere to statutory requirements and meet the objectives laid out in this policy.

Statutory Limitations: Investments shall be made in accordance with Section 183 of the *Community Charter* (see Authorized and Suitable Investments below for additional information and stipulations).

Standard of Care: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs.

Staff responsible for investing shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.

Authority to Invest:

Statutory authority to invest funds on behalf of the Regional District is granted to the Financial Officer under Section 237(d) of the *Local Government Act*.

Competitive Bids:

The Regional District shall solicit competitive verbal quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that, from time to time, offerings of value may require immediate action. Under such circumstances, the requirement to obtain competitive verbal quotations may be waived, provided that value can be substantiated by market data information services.

Authorized and Suitable Investments:

Money held by the Regional District may be invested or reinvested according to Section 183 of the *Community Charter* (see Appendix "A" of this policy) subject to the following additional conditions:

- a. Investments in credit union deposits must be covered by the *Financial Institution Act* of the Province of British Columbia which provides unlimited deposit insurance protection on all deposits in British Columbia credit unions.
- b. Investments shall be held in the name of the Regional District.
- c. Investments in any one security issue shall not exceed 10% of that security issue.
- d. Investments with any one financial institution shall not exceed **15%** of the Regional District's overall investment portfolio. Due to market fluctuations, maximum percentages may be exceeded at a point in time. Securities need not be liquidated to rebalance the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
- e. After first ensuring adequate short & mid-term liquidity, if the General Manager of Financial Services identifies monies not needed for 10 years or longer they may request Board acknowledge those monies as "long-term: 10 years+" and suitable for investments with long investment horizons. If funds have been designated as "long-term: 10 years+" the General Manager of Financial Services may invest those monies in:
 - Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
 - Section 183 investments with a minimum long-term credit rating of A-.

Long term: 10 years+ investments are limited to a maximum of 10% of the Regional District's overall investment portfolio.

- f. The percentage limits specified in items c. and d. do not apply to investments made in securities of the Government of Canada, the Province of British Columbia, the Municipal Finance Authority of British Columbia or pooled investment funds under Section 16 of the *Municipal Finance Authority Act*.

Cash Flow Requirements: To the extent possible, the Regional District shall endeavour to match the duration of its investments with anticipated cash flow requirements. However, because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds to meet ongoing operating obligations.

Portfolio Allocation: The Regional District's investment portfolio will be allocated to a combination of short-term and long-term investments in accordance with anticipated cash flow requirements and diversification considerations.

The Regional District's allocations will be dynamic to respond to changing market conditions while meeting the requirements in other sections of the Policy.

Diversification: The Regional District will diversify its investment portfolio by security type, maturity and institution, taking into consideration the impact on return on investment.

Safekeeping and Custody: All security transactions entered into by the Regional District shall be conducted on a delivery versus payment basis. The Financial Officer must be satisfied that physical possession of the security is in the Regional District's possession or held by a custodial service.

Reporting: The Financial Officer will report to the Board annually on the Regional District's investment portfolio and performance. The report will identify summary information on investment holdings and performance, along with any deviations from this policy.

Review of Policy: This policy will be reviewed annually by the Financial Officer to ensure congruence with changing activities and objectives of the Regional District, market conditions, technology, evolving regulatory standards and industry best practices.

APPENDIX "A"

Statutorily Authorized Investments or Re-Investments

- a) Securities of the Municipal Finance Authority;
- b) Pooled investment funds under section 16 of the *Municipal Finance Authority Act*;
- c) Securities of Canada or of a province;
- d) Securities guaranteed for principal and interest by Canada or by a province;
- e) Securities of a municipality, regional district or greater board;
- f) Investments guaranteed by a chartered bank;
- g) Deposits in a savings institution, or non-equity or membership shares of a credit union;
- h) Other investments specifically authorized under this or another Act.