



## **REPORT FROM THE CHAIR and VICE-CHAIR ON ACTIVITIES FOR THE PERIOD ENDED SEPTEMBER 2021**

### **Purpose**

This report is intended to provide a summary of the activities and performance of the Municipal Finance Authority of British Columbia (“MFA”) for the period ended September 2021.

### **Governance**

Representation from every community in British Columbia is provided through 39 Members from 28 regional districts and a 10-member Board of Trustees.

In 2021, Meetings of the **Members** were held on March 25, 2021 (Annual General Meeting) and September 13, 2021 (Semi-Annual Meeting).

The **Board of Trustees** met with management four times during the period of June 1, 2021 to September 30, 2021 to review operating performance, access to the financial markets, administration, and other miscellaneous items.

In addition, the Board of Trustees held four meetings of the Investment Advisory Committee, which provides oversight for Pooled Investment Funds. The purposes of these meetings were to review reports and performance from MFA staff and external pooled investment fund manager Phillips, Hager & North, to update investment guidelines and program offerings, and to approve various documents relating to the new upcoming Diversified Multi-asset Class (“DMAC”) fund. PH&N reports to the Investment Advisory Committee quarterly on fund positioning and performance, investment management processes, and portfolio compliance.

Work is continuing on the development of the new Diversified Multi-Asset Class (“DMAC”) fund, suitable for BC local government long-term reserves (not needed for 10 years or longer). Introduction is still expected in January 2022.

Trustees and management also made presentations on behalf of MFA at various local government conferences throughout the year.

### **Results**

#### **Income from Operating Activities, Short-Term Debt Fund, and Retention Fund**

Operating results for the 1st half of 2021 show a net profit of \$1,613,130 which is favorable to budget by \$137,930. Revenues are unfavorable by \$51,515 which is primarily attributed to revenue from pooled investment financial service fees being lower than expected. Expenditures are favorable by \$189,445 which is mainly contributed to delayed office expenditures as staff continue to work from home as well as delayed timing for requests for sponsorship and education funds due to the ongoing pandemic.

Short-term Debt Fund profit had a favourable variance of \$653,786 given the slower reduction in commercial paper outstanding to mitigate refinancing risk given unpredictable capital markets while income earned on retained assets was modestly favourable to budget by \$57,518.

Overall, the Retention Fund for the 1st half of the year is favorable to budget by \$849,234 and has a balance of \$100.1 million as of June 30, 2021. The Retention Fund and the Debt Reserve Fund form the organization's capital base which supports MFA's AAA ratings, which is in accordance with MFA's Capital Adequacy Policy adopted by the Board of Trustees in September 2019. Capital adequacy of the Authority was reviewed by the Board of Trustees on May 11, 2021 and the levels held are consistent with the policy and framework in place and appropriate given the risks of the organization.

### **Borrowing and Lending**

#### **Triple A Credit Ratings**

MFA's AAA credit rating was reaffirmed by Moody's, Standard & Poor's (S&P), and Fitch Ratings in April 2021. This is the best attainable rating and allows MFA to access capital in the markets at the most favourable interest rates.

#### **Borrowing in the Capital Markets and Long-Term Lending**

On May 12th, 2021, MFA issued a new June 2026 debenture for \$475 million to fund refinancing requirements at a re-offer yield of 1.373%. The issue was 2x oversubscribed and well diversified between 34 investors. Concurrently, MFA reopened its 2.3% April 2031 debenture for \$500 million to fund new loan requirements for Metro Vancouver Regional District at a re-offer yield of 2.297%. The issue was 2x oversubscribed and well diversified between 24 investors. Although this is considered a dual tranche (2 separate bonds), collectively this is the largest 'tap' of the capital markets for MFA ever at one time (\$975 million in total).

On September 14th, 2021, MFA successfully completed its final bond issue of the year, raising \$350 million through the issuance of a new 20-year debenture (2.50% coupon due September 2041) to fund new loans requests at a yield of 2.507%. The issue was 2x oversubscribed and well diversified between 43 investors with 56% coming from international investors. MFA is hopeful the 20-year sector becomes a more regular issuance point for MFA alongside its traditional 5- and 10-year issues – continued issuance in this long-dated space is predicated on Member demand for amortizing loans over 20 years or longer and a desire to lock-in 20 years interest rates.

MFA continued to access the lowest long-term rates in Canada when compared to its Municipal peers.

#### **Commercial Paper Issuance and Short-Term Lending**

The Commercial Paper Program continues to provide low-cost short-term and equipment financing to clients. MFA's short-term lending rate is currently 0.94%.

MFA started to reduce its commercial paper in early 2021 and as of September 30, 2021, \$505 million was outstanding with the final \$5 million to be reduced in October. MFA will continue to monitor demand for short-term loans including revenue anticipation to determine when this decrease will need to be reversed. With "room" for short term

lending of approximately \$280 million currently, MFA does not anticipate a need to increase its commercial paper program for the balance of the year.

### **MFA Pooled Investment Funds**

The following chart provides total Member balances in MFA pooled fund offerings as well as recent returns. Since April, there has been a sharp increase in assets under management (AUM) of \$1.48 billion. Majority of growth can be attributed to an increase in high interest savings account participation with the introduction of MFA's third offering with Scotiabank.

As at	July 31, 2021	July 31, 2020	Change	1 Year Returns at July 31, 2021	
	\$ millions			Funds	Benchmark
Bond	653	554	99	0.73	0.37
Fossil Fuel Free Bond	149	73	76	0.74	0.37
Government Focused	313	269	44	0.34	0.19
Money Market	1,556	1,497	59	0.21	-0.04
Mortgage Fund	83	79	4	4,60	0.32
*Pooled High Interest Savings Account	2,523	1,324	1,199	N/A	N/A
AUM	5,277	3,796	1,481		

\* Current Rate on CIBC is .80% on the first \$20 million, .50% on the next \$20 million and .22% on the remainder. National Bank and Scotiabank are .72% and .75% respectively.

### **Diversified Multi-asset Class ("DMAC") Fund**

For the first time in its history, MFA will be introducing a multi-asset class fund in early 2022. MFA's current pooled fund offerings are all domestic Canadian fixed income pools (only investing in Canadian bonds, money market instruments and mortgages) that are most appropriate for short to medium term investment time horizons (overnight to 7 years). The DMAC fund will be professionally invested in a broad and diversified pool of global assets (including global stocks, bonds, mortgages and possibly other alternative asset types such as infrastructure or real estate) and will only be sold to Local Governments that have investment reserves that will not be needed for 10 years or longer. All local governments, regardless of size, will have access to the DMAC fund from its inception in early 2022. However, participation will require careful consideration and preparatory work at each Local Government - which may include re-writing of Investment Policies and a dialog between senior staff and Councils/Director boards so that all parties have a clear understanding of the potential risks and rewards of investing in the fund. In particular, the most important discussion topic will be an understanding that the DMAC fund will provide better expected returns in the long run but with higher volatility of results over shorter periods of time – thereby requiring a long-term commitment to putting money into the fund and not redeeming funds prematurely.

MFA and its Trustees have carefully considered the introduction of the DMAC fund. The existing investment universe of exclusively fixed-income options available to local governments in BC are not an effective tool for investing funds that are not needed for a decade or longer.

Expected returns on fixed income instruments (1% to 2% and even less for short-dated fixed income instruments) are currently lower than anticipated future inflation (1.5% to 3%). Several Provinces, such as Alberta, Ontario, Saskatchewan, and Nova Scotia, have recognized this deficiency and have introduced broader investment choices using the concept of Prudent Investor Rules over the years. Prudent investor rules allow for any asset class and type to be included in a portfolio as long as the portfolio is deemed suitable for the investor. As per the MFA and Trustee Acts in British Columbia, those Prudent Investor powers are already available to MFA Trustees in their capacity as fiduciaries of MFA pooled investment funds. The applicability of Prudent Investors to MFA pooled funds has been confirmed in late 2020 by both the Ministry of Municipal Affairs and Finance staff as well as supported through legal research.

Beginning in late 2020 and throughout 2021, MFA engaged parties within the local government ecosystem to educate them on the DMAC fund, and to signal and plan out the launch of the fund. In particular, MFA met with senior members of the Ministry of Municipal Affairs and Housing, Provincial Treasury, and with the Ministry of Finance's Risk Committee. MFA emphasized a DMAC fund would be intended for BC local governments who can demonstrate a long-term investment horizon for earmarked monies. The primary benefits of a Long-term Multi-asset Class Fund were discussed and included:

- Projected returns for long-term Canadian bonds expected to remain very low (below the inflation rate) thereby reducing the purchasing power of long-term local government reserves in the long run;
- A diversified equity/bond portfolio generally provides positive returns over the long term with less volatility than equity or bond only portfolios; and
- A global multi-asset class portfolio further enhances diversification and smooths inter-period return volatility.

More recently, beginning in May 2021, MFA have been conducting an RFP process to select an Outsourced Chief Investment Officer (O-CIO) and institutional asset manager(s) to manage the fund. Several rounds of that process have been completed in 2021 and MFA Trustees will be selecting a winning asset manager to manage the fund in the near future.

### **2021 UBCM Convention**

MFA was represented at the virtual UBCM conference, tradeshow, and Community Excellence Awards. MFA is a Platinum sponsor for UBCM, funding both the keynote speaker and the Community Excellence Awards and the category of "Excellence in Asset Management".

Submitted by:



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