



**REPORT FROM THE CHAIR and VICE-CHAIR
ON ACTIVITIES FOR THE PERIOD ENDED SEPTEMBER 2022**

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 2022.

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 2022, Meetings of the **Members** were held on March 24, 2022 (Annual General Meeting) and September 13, 2022 (Semi-Annual Meeting).

The **Board of Trustees** met with management three times during the period of June 1, 2022 to September 30, 2022 to review operating performance, access to the financial markets, administration, and other miscellaneous items.

In addition, the Board of Trustees held one meeting 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 recently launched 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. The Committee received electronic updates as required in addition to formal meetings throughout 2022 - including quarterly reports on fund positioning and performance, investment management processes, and portfolio compliance.

An email newsletter was sent to all Members in May 2022, providing an update on MFA activity and financial results from the Chair and Vice-Chair. Trustees and management also made presentations on behalf of MFA at various local government conferences throughout the year.

2021 Census Results

Please note that the Annual General Meeting in March 2023 will see an increase in the numbers of Members representing the MFA, growing from 39 to 40.

Using the 2021 Census results and as outlined in the MFA Act, we have determined that Metro Vancouver Regional District is entitled to appoint one additional Member, for a total of eleven Members. In addition to this change, the Capital Regional District, the Central Okanagan Regional District, Fraser Valley Regional District, and the Squamish-Lillooet Regional District are each entitled to one additional vote, and the Metro Vancouver Regional District is entitled to three additional votes.

In regard to Member votes, the maximum number of votes per Member is five, and any greater number of votes requires another Director to be appointed as a Member. The number of votes must be divided as equally as possible among Members. The number of votes are relevant when a weighted vote occurs (election of the Board of Trustees, Vice-Chair, and approval of financial matters). The vote for Chair of the MFA is not weighted, but instead, each Member has one vote.

Details of the MVRD Member appointment requirements will be communicated by MFA in early November.

RESULTS

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

Operating results for the 1st half of 2022 show a net contribution from core operations of \$1.72 million which was favourable to budget by \$63,391. Revenues were unfavourable by \$172,851 which is primarily attributed to Financial Service Fees from pooled investment funds being lower than budgeted. Expenditures were favourable to budget by \$236,242 which is mainly attributed to: timing differences related to funds being requested for sponsorships and external education, and below budget IT, Systems Development & Website costs.

Short-term Debt Fund profit had an unfavourable variance of \$143,661. Margins on investing of surplus funds were lower throughout the quarter than budgeted as interest rates were lower and the cost of commercial paper increased quicker than budgeted. Further, a \$25 million increase to the CP program had been planned but has been postponed until Metro Vancouver joins the program.

Overall, the Retention Fund for the 1st half of the year is unfavourable to budget by \$11,880 and has a balance of \$105.8 million as of June 30, 2022. 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 the 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 10, 2022 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 2022. 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 18th, 2022, MFA issued a new June 2027 debenture for \$325 million to fund refinancing requirements at a re-offer yield of 3.385%. The issue was 1.8 times oversubscribed and well diversified between 36 investors however international demand was scarce given overall market volatility at time of issuance, driven by inflation and growth concerns.

On September 14th, 2022, MFA successfully raised \$345 million through the successful reopening of the 10-year April 2032 debenture. The order book was adequate (1.1 times oversubscribed) with 27 accounts participating, anchored by heavy bank treasury support and ~8% of orders from international investors (excluding US). 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 MFA clients. The short-term lending rate is currently 3.05%.

MFA intended on increasing commercial paper outstanding up from \$500 million to \$675 million in anticipation of Metro Vancouver Regional District accessing the short-term program in early fall 2022. This has been delayed until late 2022 or early 2023 as bylaw and contract administrative aspects are finalized. MFA continues to monitor demand for short-term loans across all other members to ensure the program remains right sized to meet their funding requirements.

MFA POOLED INVESTMENT FUNDS

Management met with the Pooled Investment Fund Advisory Committee (PFAC) three times this year to review the performance of existing funds as well as new products in development. Management will be working with PFAC, a group of senior local government staff involved in investments, as well as PH&N, Fund Managers, to enhance the current reporting for the DMAC Fund.

Total Member balances in MFA's pooled fund offerings as well as previous one-year results and current yields are found in the chart below. Pooled Investment Funds have increased over this July-to-July period by \$408 million. (July 2021 \$2,755 million, July 2022 \$3,163 million).

Outstanding balances, performance and current yields of the Funds as of July 31, 2022:

Fund	Money Market	Government Focused	Bond Fund	FFF Bond Fund	Mortgage Fund	DMAC
Market value July 31, 2022 (millions)	\$1,382	\$323	\$762	\$155	\$202	\$339
Market value July 31, 2021 (millions)	\$1,556	\$313	\$653	\$149	\$84	N/A
1-year return*	0.56%	-0.82%	-3.52%	-3.69%	-3.64%	N/A
Benchmark*	0.29%	-0.52%	-4.19%	-4.19%	-4.24%	N/A
Current Yield**	2.81%	3.40%	4.14%	4.08%	5.12%	\$7.670%

*Portfolio and benchmark performance is net of total fees and expenses of 12.5 basis points per annum (Money Market Fund and Government Focused Ultra-Short Bond Fund), 20 basis points per annum (Bond Fund and Fossil Fuel Free Short-term Bond Fund), and 25 basis points per annum (Mortgage Fund), and 33 basis points per annum (DMAC Fund). ** Current Yield is calculated as the market weighted sum of the current yields in each portfolio. As of August 31, 2022, § Only covers the fixed income portion of the DMAC Portfolio.

You will note that many MFA funds continue to have had negative returns over the past year. When interest rates rise, bond prices fall – and interest rates have continued to rise. Staff continue educating local governments on realized versus unrealized gains and losses and discouraging selling of positions in the bond funds during these periods of negative performance.

Diversified Multi-asset Class (“DMAC”) Fund

The Diversified Multi-Asset Class Fund (“DMAC”) was successfully launched in January 2022, taking in 2 subscriptions (Burnaby \$350 ml and CRD \$15 ml) totalling \$365 million. Staff continue to work with other local governments as they complete the entrance requirements. As of the time of writing, the Fund continues to have the 2 original participants in the DMAC (Burnaby and CRD). MFA staff have delivered several presentations at Board and Council meetings to discuss the DMAC over the course of 2022 and continue to assist local government staff as they work on their long-term cash flows and update their Investment Policies. The financial and investment markets have been extremely challenging since the launch of the DMAC in January this year. As a result, returns have been negative (as much as less 12%, recently having recovered to about negative 9% in mid-August). However, the volatility and returns have been superior to most all individual single-market global bond or stock indices, which was by design as it is a highly diversified global pool investing in many markets and investment types.

Fossil Fuel Free Diversified Multi-asset Class Fund (“FFF DMAC”)

A small number of LGs in BC, prefer Fossil Fuel Free investing, whenever possible. Fossil Fuel Free investing is an investment approach that automatically excludes investment securities of entities directly involved in extraction, primary processing (petrochemicals) or distribution (pipelines and railways) of coal, oil, or natural gas. The City of Vancouver is unique among local governments in that it introduced a strict exclusionary policy with respect to investing in fossil fuel-related companies many years ago. No other local government in BC has such a strict exclusionary policy. As a result of this preference for FFF investing by some Members, in 2022 MFA Trustees had expressed an interest in examining the possibility of introducing a FFF version of the DMAC. The Province also agreed to allowing a second (FFF) DMAC fund at some point as per an agreement reached with the MFA ahead of launching the original DMAC.

MFA management recommended a timeline and approach to introducing the FFF DMAC Fund that was endorsed by Trustees on August 30th. Introduction is expected as early as the first or second quarter of 2023.

Pooled High Interest Savings Account Program

High Interest Saving Account Product	Current Rates	Oct 1, 2022 Deposit Balances	July 31, 2022 Deposit Balances
CIBC*	3.80%	\$951MM	\$1,059MM
National Bank	3.80%	\$615MM	\$540MM
Scotiabank	3.80%	\$761MM	\$758MM

* Rate is applicable to deposits on the first \$200 million, 3.22% on the remaining balances.

The rates on the Pooled High Interest Saving Account (“PHISA”) products continue to increase in step with the Bank of Canada (“BOC”) rate increases. There continues to be active support in MFA’s 3 account offerings, having a combined total of \$2.4B on deposit as of July 31st- up \$197 million from the beginning of the year. There has been an increase in interest as evidenced by the opening of 11 new accounts since the beginning of the year.

2022 UBCM Convention

MFA was represented at the UBCM convention, 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”.

SUMMARY / CONCLUSION

MFA's Annual General Meeting and Financial Forum event is set to take place in person in Victoria on March 29th and 30th, 2023. Keynote speakers and panels will be announced as they are confirmed. The MFA Team looks forward to meeting with new and returning Members in Victoria.

Submitted by:



Malcolm Brodie
Chair



Al Richmond
Vice-Chair