



**REPORT FROM THE CHAIR and VICE-CHAIR
ON ACTIVITIES FOR THE PERIOD ENDED SEPTEMBER 2023**

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 May 1, 2023, ending September 2023.

GOVERNANCE

Representation from every community in British Columbia is provided through 40 Members from 28 regional districts and our 10-member Board of Trustees.

The last meeting of our **Members** was held on March 30, 2023 (AGM) and September 19, 2023 (Semi-Annual Meeting).

The **Board of Trustees** met with Management four times during the period of May 1, 2023 to September 29, 2023 to review operating performance, access to the financial markets, administration, and other miscellaneous items. The Board of Trustees reviewed the second quarter performance of the pooled investment funds and received an update on the volumes and participation in the pooled high interest saving accounts. The Committee received electronic updates as required, in addition to formal meetings throughout 2023 - including quarterly reports on fund positioning and performance, investment management processes, and portfolio compliance.

An email newsletter was sent to all Members in May 2023, 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.

RESULTS

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

The annual budget was approved by the Board of Trustees on March 7th, 2023, and by the Members at the Annual General Meeting on March 30th, 2023. The budgeted operating revenue is \$8.80 million, and expenditures are \$4.56 million for a projected annual operating contribution of \$4.24 million. Short-term Debt Fund contribution and Income Earned on Retained Assets are budgeted at \$2.80 million and \$2.50 million, respectively. Budgeted total annual contribution to the Retention Fund is \$9.54 million with an expected ending Retention Fund balance of \$114.45 million for 2023.

MFA's operating results for the 1st half of 2023 show a net contribution from core operations of \$1.83 million which was favourable to budget by \$231,819. Revenues were unfavourable by \$22,088 which is primarily attributed to Financial Service Fees from pooled investment funds being modestly lower than budgeted. Expenditures (Total Governance plus Total Administrative expenses) were favourable to budget by \$253,908 which is mainly attributed to: timing differences related to funds being requested for sponsorships and external education, and lower than expected IT and computer equipment costs.

MFA's Short-term Debt Fund had a favourable variance of \$195,983. The investing margin on funds not yet loaned out was higher than the budgeted margin over the first two quarters. During an abrupt Bank of Canada hiking cycle, the investment rate increases at a quicker pace than the longer duration CP that MFA issues weekly to fund the lending program.

Earnings on the Retention Fund for the 1st half are favorable to budget by \$275,974. Overall, the Retention Fund has a balance of \$114.5 million as of June 30, 2023. The Retention Fund and the Debt Reserve Fund form the organization's capital base which supports MFA's AAA ratings in accordance with its 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 9, 2023. 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 2023. 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 August 22nd, 2023, MFA issued a new December 2028 debenture for \$400 million to fund refinancing requirements at a re-offer yield of 4.52%. The issue was 1.7 times oversubscribed, well diversified between 34 investors and received strong international demand from foreign central banks.

Fall borrowing plans were finalized once all loans to fund were reviewed by Trustees and approved by the Members at the Semi-annual Meeting on September 19th. MFA intends on reopening the existing December 2033 debenture to fund these new loans for an estimated \$120 million in the near term, which would bring the outstanding to \$235 million.

Commercial Paper Issuance and Short-Term Lending

The Commercial Paper Program continues to provide low-cost short-term and equipment financing to MFA clients. MFA's short-term lending rate is currently 5.55%.

The MFA currently has \$700 million commercial paper outstanding funding \$175 million in aggregate loans with the balance invested in high interest savings accounts. The high cash position is in anticipation of Metro Vancouver Regional District eventually accessing the short-term program as well as being positioned to respond to demand for short-term loans across all other members.

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 has been working with the PFAC, a group of senior local government staff involved in investments, as well as PH&N, Fund Managers, on the construction and eventual launch of the Fossil Fuel Free Diversified Multi-asset Class Fund (FFDMAC).

Pooled Investment Funds have increased over this June-to-June period by \$244 million. Below we provide total Member balances in MFA's pooled fund offerings as well as previous one-year results and current yields.

Pooled Investment Funds

One Year Performance and Current Yields of the Funds as of June 30, 2023:

As at	June 30, 2023	June 30, 2022	Change	1 Year Returns at June 30, 2022		1 Year Returns at June 30, 2023	
				Funds	Benchmark	Funds	Benchmark
Money Market	1,509	1,365	144	0.41%	0.19%	4.02%	3.55%
Government Focused	391	321	70	-1.01%	-0.78%	2.65%	2.90%
Bond Fund	805	752	53	-4.43%	-4.98%	2.00%	1.17%
Fossil Fuel Free Bond	203	153	50	-4.58%	-4.98%	1.81%	1.17%
Mortgage Fund	259	198	61	-4.76%	-5.03%	2.85%	1.12%
DMAC	427	328	99	N/A	N/A	8.87%	10.70%
Pooled High Interest Savings Account (PHISA)	2,078	2,311	(233)			N/A	N/A
AUM	5,672	5,428	244				

2022 was a challenging year for fixed income investors. The Bank of Canada increased its Policy Interest Rate 400 basis points during the year which caused the value of existing fixed income securities to fall. Fortunately, investors who hold fixed income investments to maturity would not realize mark-to-market losses. Staff spent a substantial amount of time educating Clients who were worried about paper losses (which only become realized if investments are sold).

While higher interest rates are painful for investors in the short-term, patient investors benefit from new larger coupons as investments mature and new securities are purchased. That effect is evident in the 1-year performance of MFA's fixed income pooled funds to June 30, 2023.

Similarly, rapidly increased interest rates in 2022 significantly affected the performance of MFA's Mortgage Fund last year. The Fund, as at June 30, 2023 offered a 'current yield' of 5.80% - an attractive level of anticipated income. The Fund Manager remains confident in the credit quality of the investments in the Mortgage Fund.

Later in this report, the performance of the DMAC Fund is detailed; however, at a high-level, MFA staff was pleased with the performance of the Fund through a very challenging 2022 for both bonds and stocks - as well as its performance year to date in 2023 as the equity markets have recovered (2023 has still been challenging for bonds of course, as interest rates have continued to rise).

Pooled High Interest Savings Account Program

High Interest Saving Account Product	Current Rates
CIBC*	5.55%
National Bank	5.55%
Scotiabank	5.55%

* Rate is applicable to deposits on the first \$200 million, 4.97% on the remainder

The rates on the Pooled High Interest Saving Account ("PHISA") products continue to increase in step with the Bank of Canada ("BOC") increases with the last change being 0.25% on July 12th. There continues to be active support in MFA's 3 account offerings, with twelve new PHISA accounts opened year to date and a combined total of over \$2.3B on deposit as of August 31st, up \$460 million from the beginning of the year.

Diversified Multi-asset Class Fund ("DMAC") Update

So far in 2023 the DMAC Fund has received 3 subscriptions totaling \$13M – 2 of those 3 subscriptions were from an existing unitholder who added to their position while the other was from a new investor in the Fund. To date, 4 local governments are invested with an overall market value of \$427 million. Staff continue their efforts to create awareness of the Fund and engage in conversations on the characteristics and potential fit of the Fund within a local governments' investment portfolio. As a reminder the DMAC fund is only appropriate for those local governments who have sufficient confidence in their cash flow forecasts, have expressly earmarked some reserves as long-term in nature

and understand that the benefit of higher long term returns only come with an understanding that short term volatility of returns must be effectively ignored.

To the end of July 2023, the DMAC Fund's current-year performance has been buoyed by strong equity markets – headlined by the Fund's Emerging Market and Canadian Equity strategies' year-to-date returns measuring 11.95% and 9.03% respectively. After a challenging 2022, the Fund's performance Since Inception is -0.29%.

Fossil Fuel Free Diversified Multi-asset Class Fund ("FFF DMAC") Update

Staff intend to accept initial investments in the FFFDMAC on September 19th, 2023. Challenges ensuring favourable tax-treatment of U.S. dividends from certain strategies in the Fund delayed initial launch. Those tax issues have been remedied and Staff is pleased investors in both the DMAC and FFFDMAC will earn incremental returns from a strategic structuring of how assets are held by those Funds.

Environmental, Social, and Governance Update

ESG can encompass a broad set of topics across its three dimensions of environment, social, and governance, and requires consideration within the context of MFA's business model, core activities, and industry sector to determine which topics are relevant and material to MFA's business, and in turn what is decision-useful to its strategy and that of MFA's stakeholders.

The initial focus of MFA's ESG program is to identify, assess, and manage the impacts to MFA's business on climate change. The focus of MFA's reporting will be to disclose any material climate-related financial risk to MFA's financial position, financial performance, or cash flows. The priority audience for this reporting is MFA's investors and will include engagement with this group, ratings agencies, and peers.

At present, MFA is not covered by any regulations requiring sustainability disclosures; however, beginning in 2024, federally regulated financial institutions, crown corporations, and large suppliers of the federal government in Canada will begin to be subject to such requirements. Furthermore, MFA's peers such as government-supported infrastructure banks in other jurisdictions are now, or imminently will be, subject to sustainability disclosure regulations. MFA competes with many of these entities for access to global capital and therefore must meet a similar level of transparency through consistent and comparable disclosure.

The plan for 2023/24 is that MFA will carry out internal and auditor discussions and data exploration exercises. This process will help in establishing MFA's readiness to begin rolling out investor-facing climate-related disclosures in alignment with the International Sustainability Standards and OSFI regulations which take effect for fiscal years 2024 and 2025. MFA believes this approach balances the urgency of meeting investor and rating agency expectations, with the intentionality and rigor that is characteristic of MFA's prudent and pragmatic approach to its capital market communications.

INVESTOR RELATIONS

Management continues to actively promote MFA's credit story to institutional investors around the world. Investor development meetings are done in various formats, including one-on-one teleconference calls, one-on-one meetings, and group presentations. Investor development is a critical component in differentiating MFA and achieving continuous access to the markets and the lowest cost of funds from among MFA's financial peers.

Outlined below are MFA's most important investor development events since the previous report:

2023 BMO Government, Reserve & Asset Managers Conference (May 2023)

MFA directors presented to a large group of institutional investors at the annual BMO Government, Reserve & Asset Managers Conference in Toronto.

National Bank Financial Annual Municipal Borrowers Conference (September 2023)

MFA CEO, Peter Urbanc, presented to a group of Canadian fixed income investors and representing MFA at this in-person conference in Montreal.

Bloomberg Canadian Finance Conference (November 2023)

MFA CEO, Peter Urbanc, will be making multiple presentations to investors as well as taking part in a municipal panel discussion at this in-person conference.

2023 UBCM Convention

MFA was represented at the UBCM convention, tradeshow, and Community Excellence Awards. MFA is a Gold 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 26th and 27th, 2024. 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