



Municipal Finance Authority of BC

REPORT FROM THE CHAIR and VICE-CHAIR ON ACTIVITIES FOR THE PERIOD ENDED SEPTEMBER 2024

PURPOSE

This report is intended to provide information on the performance and activities of the Municipal Finance Authority of British Columbia (“MFA”) subsequent to the last report presented to the Members at our Annual General Meeting (AGM) on March 27, 2024.

BACKGROUND

The following is a review of activities of the MFA in 2024 during the period of May 1st up to October 1st, with a focus on the activities of the past six months.

GOVERNANCE

Board of Trustee Meetings

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 September 17, 2024 (Semi-Annual Meeting), in conjunction with the UBCM Annual Convention.

The Board of Trustees met with management 3 times during the period of May 1, 2024 to October 1, 2024 to review operating performance, access to the financial markets, administration, and other miscellaneous items, as well as to provide oversight for MFA’s Pooled Investment Funds. 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. Trustees received electronic updates as required, in addition to formal meetings throughout 2024 - including quarterly reports on fund positioning and performance, investment management processes, and portfolio compliance.

Trustees and MFA staff made presentations on behalf of the MFA at various local government conferences during 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 12th, 2024, and by the Members at the Annual General Meeting on March 27th, 2024. The budgeted operating revenue is \$8.53 million, and expenditures are \$5.14 million for a projected annual operating

contribution of \$3.39 million. Short-term Debt Fund contribution and Income Earned on Retained Assets are budgeted at \$2.49 million and \$4.19 million, respectively. Budgeted total annual contribution to the Retention Fund is \$10.08 million with an expected ending Retention Fund balance of \$126.9 million for 2024.

Operating results for the 1st half of 2024 show a net contribution from core operations of \$1.48 million which was favourable to budget by \$424,487. Revenues were favourable by \$20,731 which is primarily attributed to Financial Service Fees from pooled investment funds being modestly higher than budgeted, offset by lower investment income. Expenditures (Total Governance plus Total Administrative expenses) were favourable to budget by \$403,757 which is mainly attributed to timing differences related to funds being requested for sponsorships and external education and lower spend to date for legal, salary and information technology costs.

Short-term Debt Fund had a favourable variance of \$158,431. This is due to higher revenue from greater outstanding short-term loans than budgeted, and fees related to the Commercial Paper program being lower than budgeted. This is slightly offset by lower investment income than budgeted due to a quicker than budgeted decreasing rate environment.

Earnings on the Retention Fund for the 1st half are favorable to budget by \$16,161. Overall, the Retention Fund has a balance of \$126.9 million as of June 30, 2024. The Retention Fund and the Debt Reserve Fund form the organization's capital base which supports MFA's AAA ratings 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 7, 2024. 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 all three major rating agencies (Moody's, Standard & Poor's (S&P), and Fitch Ratings) in June 2024, completing the rating agency efforts for the calendar year. AAA 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 April 2nd, 2024, we reopened the 4.05% December 2033 debenture for \$415 million to fund refinancing requirements at a re-offer yield of 4.388%. The issue was 1.4 times oversubscribed, well diversified between 45 investors, and received strong demand from foreign central banks. This bond now has \$650 million outstanding. On May 22nd, 2024, we reopened the 2.55% October 2029 debenture for \$695 million to fund refinancing requirements at a re-offer yield of 4.06%. The issue was 1.6 times oversubscribed, well diversified between 39 investors, and received strong demand from international accounts. This bond now has \$1.1 billion outstanding. On September 20th, 2024, we issued a new 3.75% December 2034 debenture for \$190 million to fund new loan requirements at a re-offer yield of 3.76%. The issue was 3.3 times oversubscribed, well distributed between 41 investors, and received strong demand domestically and internationally.

Commercial Paper Issuance and Short-term Lending

The Commercial Paper Program continues to provide low-cost short-term and equipment financing to MFA's clients. The short-term lending rate as of early September is 4.96%. We currently have \$600 million commercial paper outstanding that is funding \$277 million of loans with \$323 million available for incremental lending. We continue to monitor demand for short-term loans across members to ensure we remain right-sized to meet their funding requirements.

POOLED INVESTMENT FUNDS AND POOLED HIGH INTEREST SAVINGS ACCOUNTS

One-year returns and balances of the Funds as of June 28, 2024 are as follows:

Investment Funds					
	Balances*			Performance**	
	(\$CAD millions)			1-Year Total Return (%)	
	2024-06-28	2023-06-30	Change	as of	2024-06-30
				Fund	Benchmark
PHISAs	1,905	2,078	(173)	--	--
Money Market Fund	1,569	1,509	60	5.27	4.95
Gov't Focused Ultra-short Bond Fund	430	391	39	5.31	5.25
Short-term Bond Fund	861	805	56	5.41	5.41
FFF Short-term Bond Fund	229	203	26	5.30	5.41
Mortgage Fund	276	259	17	6.48	5.36
Diversified Multi-asset Class Fund	502	427	75	13.03	14.11
FFF Diversified Multi-asset Class Fund***	113	0	113	--	--
Total AUA	5,885	5,672	213		

*Fund balances as at end of Q2 2024 and 2023 sourced from CIBC Mellon's daily reporting.

**1-year total returns sourced from PH&N's June 2024 Monthly Performance Report.

***This Fund was inceptioned in November 2023 and has not reached a 1-year investment period yet.

Pooled High Interest Savings Account (PHISA) Program

Aggregate PHISA balances were \$1.9 billion (vs \$2.08 billion on June 30, 2023).

MFA staff continue to work with PHISA partners to obtain attractive terms to offer Clients. Effective May 1, 2024, National Bank of Canada (NBC) increased its rate by 5 basis points (0.05%). On June 6 and again on September 5, 2024, interest rates for all three bank PHISAs were lowered by 25 basis points (0.25%) at each occurrence in concert with the Bank of Canada rate cuts. As at October 1, 2024, the rate for National Bank PHISA was 4.90%, the rate for Scotiabank PHISA was 4.80%, and the rates for CIBC PHISA were 4.80% for the first \$200 million and 4.22% on balances in excess of \$200 million.

MFA staff have been actively promoting the benefits of our PHISA program with Clients, resulting in 13 new PHISA accounts opened year to date as at October 1, 2024.

Diversified Multi-asset Class Pooled Fund (“DMAC”)

MFA continues to discuss the merits of the DMAC Fund with clients who have long-term reserves and highlights the importance of estimating long-term cash flow when investment planning. A few additional local governments have completed the necessary undertakings, primarily long-term cash flow forecasting, investment policy adjustments, and socializing internally and with decision-makers to position themselves to invest in the Fund. Best practices call for an Investment Policy to be approved by Council, while discrete investment decisions are left to be managed by CFOs and their staff, in accordance with the Council-approved policy. There were \$136 million in new subscriptions into the Fund year-to-date to October 1, 2024, including \$96 million overall from two new participants.

As at the end of June 30, 2024, the DMAC’s market value was \$502 million, attributable to four investors, and the Fund experienced a total annual return of 13.03%. The DMAC Fund is progressing towards its target asset mix and at the end of Q2 was slightly underweight ‘Alternative Investments’ and modestly overweight ‘Fixed Income.’

Fossil Fuel Free Diversified Multi-asset Class Pooled Fund (“FFDMAC”)

The FFFDMAC was launched in September 2023, with \$42 million subscribed between two initial investors. Since then, there have been three more subscriptions totalling \$62M into the Fund, and the original two investors are the only local governments subscribed into the Fund as of October 1, 2024.

As of June 30, 2024, the FFFDMAC Fund experienced a total year to date return of 9.96%, and 15.2% since inception.

Mortgage Fund

After over a year-long wait, MFA management was pleased to call-in nearly \$25 million into the MFA Mortgage Fund at the end of June; this call included 3 new Participants into the Fund, bringing total number of Participants to 22. At the end of June 2024, approximately \$276 million was invested in the Fund. To second quarter-end 2024, the Fund’s Total Annual Return was 6.48%. MFA management regularly engages with PH&N’s mortgage fund managers to assess the environment and quality of their portfolios and remains pleased about its management and the opportunity the Mortgage Fund represents to Clients. As of October 1, 2024, there remains a queue of \$30.7 million in soft commitments to invest in the Fund, and we anticipate another call for capital into the Fund within the next six months.

CLIMATE AND SUSTAINABILITY (ESG)

Since the last update to Members in at the Annual General Meeting in March, MFA continues to take preparatory actions for integrating climate and sustainability into its governance, strategy, risk management, impact measurement, and reporting. MFA has established three ESG Program objectives to guide its work. They are:

1. To reduce the negative impact of MFA operations on the environment and society
2. To manage material risk to MFA core business and thereby retain access to the lowest attainable cost of capital for our members
3. To pursue opportunities for transformative and material impact with local governments through MFA's core lending and investing activities

ESG can encompass a very 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 MFA is taking a phased approach to its ESG program development and disclosures led by a workplan that is **investor-focused, risk-centred, and has a climate-first priority**. The initial focus of MFA's ESG program is to identify, assess, manage and disclose the impacts to MFA's business from a changing climate, and the impacts of MFA's lending and investing activities on climate change.

These workplan priorities and attributes are being driven by the demands of global investors which necessitate globally accepted sustainability disclosure standards and corresponding regulation (jurisdictional or sectoral). Investors are seeking greater transparency, consistency and comparability in the development and disclosure of non-financial information and a more fulsome and credible picture when evaluating the climate and other sustainability risk inherent to their investments.

In June 2023, globally accepted sustainability disclosure standards were published by the IFRS to complement their globally accepted accounting standards upon which the MFA's financial statements are prepared. These climate and sustainability standards are effective for annual reporting periods beginning on or after January 1, 2024.

While MFA is not presently required by any regulation to comply with these standards, we do compete for access to global capital. We are continuously engaging with MFA's bondholders, investor intermediaries and rating agencies to understand their evolving expectations related to climate risk and impact reporting. We have determined it is in the MFA and its members' best interest to keep pace with regulated peers by providing existing and prospective bondholders with consistent, comparable and transparent disclosure of the MFA's climate-related risks, impacts and opportunities. The MFA Act protects MFA and its members from default risk through joint and several liability and direct taxation authority thus we believe the actual financial risk to be low. That said, we welcome the annual exercise of assessing future potential

financial risk from the impacts of climate change and other sustainability issues which are undeniably placing pressure on the infrastructure and financial health of local governments.

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 its peers.

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

BMO Annual Government, Reserve & Asset Managers Conference – May

MFA CEO, Peter Urbanc attended the BMO Government Finance Conference in Toronto in early May. This annual conference is among the most effective/useful we attend every year as many bond investors from all around the world participate and we can efficiently engage in useful dialog over the three-day period. We had the opportunity to present to a group of over one hundred investors and had several one-on-one meetings with those who wished to speak to us about MFA in more detail.

Global Infrastructure Bank Annual Symposium & Investor Meetings – May

MFA CEO, Peter Urbanc, and CFO, Matthew O'Rae, joined a group of Canadian dollar institutional investors in Frankfurt and Cologne, Germany in mid-May before attending a conference of international peer public sector funding agencies in Copenhagen, Denmark. The international event was in its first year in 2023 but has proven to be a great opportunity to build relationships and share and learn about best practices from the other 10 global municipal infrastructure bank CEOs and CFOs who attend.

Western Canada Investor Meetings - June

MFA CEO, Peter Urbanc, and CFO, Matthew O'Rae, met with 13 investors in Winnipeg, Calgary, and Edmonton that wanted a detailed credit refresh on MFA, both from investors who currently participate, or are thinking about participating, in MFA's program.

National Bank Financial Annual Municipal and Local Government Authorities Borrowers Conference – September

MFA CEO, Peter Urbanc presented to a group of Canadian fixed income investors and representing MFA at the National Bank Financial Conference in Montreal.

Bloomberg Annual Canadian Finance Conference - October

MFA CEO, Peter Urbanc, and CFO, Matthew O'Rae, will be making multiple presentations to global fixed income investors and representing MFA at this in-person conference in New York.

2024 UBCM Convention

As a major sponsor, MFA was represented at the UBCM conference, trade show, and Community Excellence Awards, as well as the Provincial Community-to-Community (C2C) Forum and the Community Energy Association's annual awards. Peter Urbanc, Betsy Yeung, Allison Ashcroft, Nicole Gervais, and Lauren Kerr attended these events and the UBCM trade show to connect with Members during the week.

MFA is an annual and major sponsor for UBCM, funding both the keynote speaker and the Community Excellence Awards. As usual, there is an opportunity for Chair Malcolm Brodie to share remarks about the MFA prior to the keynote address. Vice Chair Al Richmond presented awards at the Community Excellence Awards in 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 April 23 and 24 at the Hotel Grand Pacific. Speakers 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