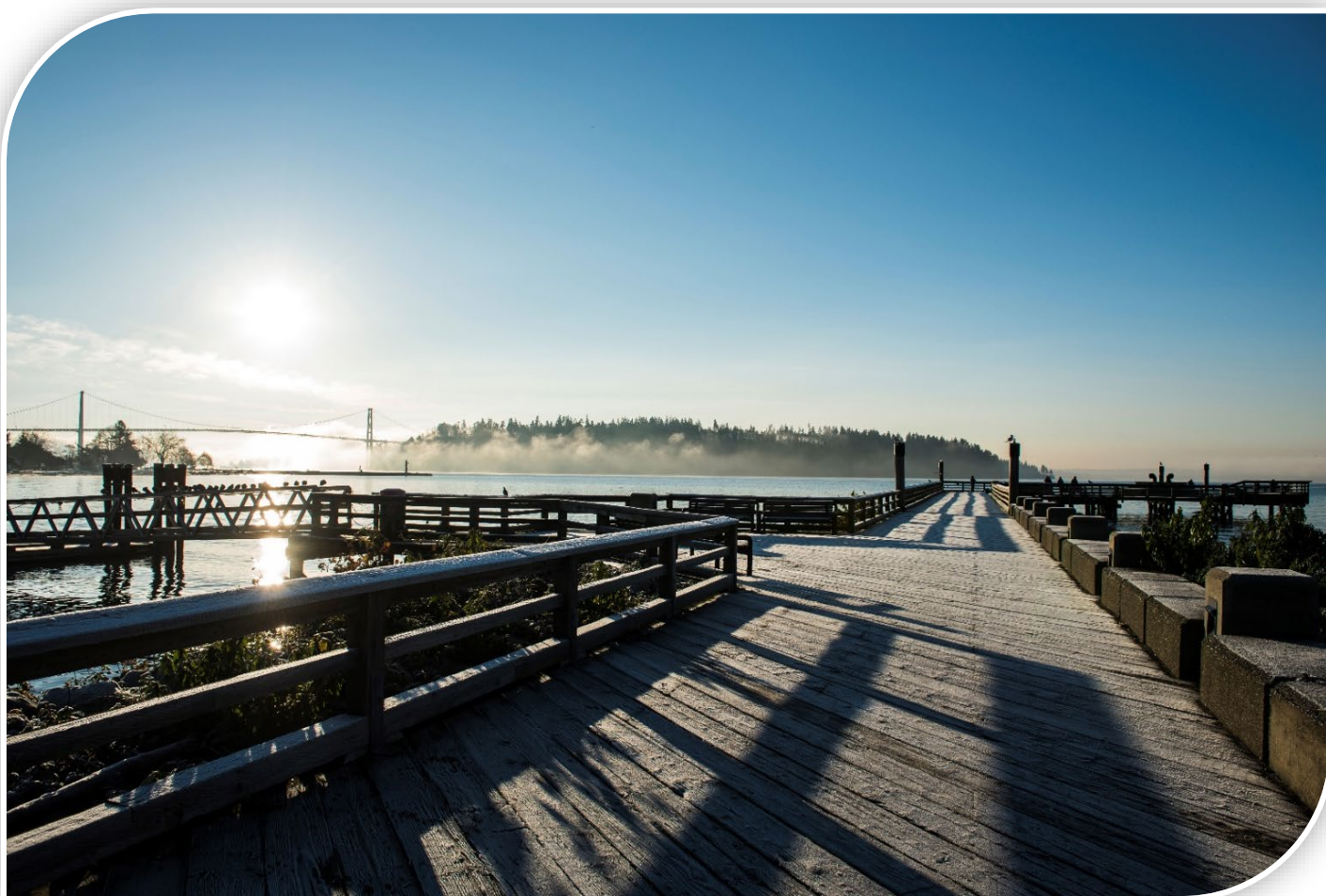


Q4 INVESTMENT REPORT

2018



February 20, 2019

westvancouver

DISTRICT OF WEST VANCOUVER 2018 Q4 INVESTMENT REPORT

1. PURPOSE

To report on investment returns pursuant to the requirements of Cash Management and Investment Policy 02-30-369 (Policy).

2. CONTEXT

The Policy requires that investment returns be reported on a quarterly basis. This is the fourth report for 2018, addressing the status of the current investment portfolio and the investment environment in October – December 2018.

Regular cash demands as well as the District's conservative investment strategy require that we maintain a high degree of liquidity in our investment portfolio, including both short and long term investments. Our short term investments, those with terms of less than one year and the highest degree of liquidity, are used to meet our working capital requirements. Short term investments include Municipal Finance Authority of BC (MFA) Pooled High Interest Saving Accounts (with CIBC and National Bank of Canada), RBC cash account and MFA Money Market Fund.

Long term investments have terms of greater than one year. These investments are less liquid than our short term investments and are held both to manage the risk of interest rate fluctuations and for funding requirements in a long term perspective. Long term investments include MFA Intermediate Fund for investments from one to three years; MFA Bond Fund for investments of more than three years and Guaranteed Investment Certificates (GICs) for the term of 1 year or longer, issued by Canadian chartered banks that meet the District's risk management requirements.

3. INVESTMENT RESULTS

3.1 Summary

A summary of investment results for the period from October 1, 2018 to December 31, 2018 is presented below:

	MFA MONEY MARKET FUND	MFA BOND FUND	MFA INTERMEDIATE FUND	CIBC HIGH INTEREST SAVING	NATIONAL BANK HIGH INTEREST SAVING	SHORT TERM INVESTMENTS	TOTAL
Opening Balance (10/01/2018)	\$9,969	\$-	\$27,879	\$68,925,265	\$70,226,533	\$26,990,806	\$166,180,452
Transfers/Adjustments	\$-	\$-	\$-	\$-	\$-	-\$6,881,397	-\$6,881,397
	\$9,969	\$-	\$27,879	\$68,925,265	\$70,226,533	\$20,109,409	\$159,299,055
Interest Income	\$47	\$-	\$207	\$417,001	\$435,368	\$120,799	\$973,422
	\$47	\$-	\$207	\$417,001	\$435,368	\$120,799	\$973,422
Closing Balance (12/31/2018)	\$10,016	\$-	\$28,086	\$69,342,266	\$70,661,901	\$19,988,610	\$160,272,477
3 mths. non-annualized return ¹	0.47%	NA	0.74%	0.60%	0.62%	0.51%	
3 mths. non-annualized average ² return – short term investments	0.60%						

3.2 Comparison to Benchmarks

The benchmarks, defined in the District's Cash Management and Investment Guidelines 04-30-371, are set on the basis of MFA funds' performance objectives as follows:

- **Short term (working capital) investments:** performance objective (based on MFA Money Market Fund) = FTSE TMX Canada 30-Day Treasury Bill Index + 15 basis points, net of all expenses
 - Q4 Benchmark = 0.37%³ + 15 basis points = 0.52%
 - Q4 Actual (all short term investments) = 0.60%⁴
- **Long term investments:**
 - MFA Bond Fund: performance objective = FTSE TMX Canada Short Term Bond Index + 40 basis points, net of all expenses
 - Q4 Benchmark = 1.31%⁵ + 40 basis points = 1.71%
 - Q4 MFA Actual = NA (no investments)

¹ Average rate, reflecting inflow/outflow of capital within the period

² Average rate, reflecting inflow/outflow of capital within the period

³ 3 months non-annualized, as per MFA Pooled Investment Results report (December)

⁴ Based on average across all short term investments

⁵ 3 months non-annualized, as per MFA Pooled Investment Results report (December)

- MFA Intermediate Fund: performance objective = FTSE TMX 365-Day Treasury Bill Index + 30 basis points, net of all expenses
 - Q4 MFA Performance objective = 0.70%⁶ + 30 basis points = 1.00%
 - Q4 Actual (MFA Intermediate Fund) = 0.74%⁷
 - Benchmark missed by 26 basis points due to the underperformance of the MFA Intermediate Fund, which had very limited impact on the overall portfolio, given the low average balance in the account (\$28K in Q4)

3.3 Cumulative results

A summary of 2018 investment results for the period from January 1, 2018 to December 31, 2018 is presented below:

	MFA MONEY MARKET FUND	MFA BOND FUND	MFA INTERMEDIATE FUND	CIBC HIGH INTEREST SAVING	NATIONAL BANK HIGH INTEREST SAVING	SHORT TERM INVESTMENTS	TOTAL
Opening Balance (01/01/2018)	\$9,853	\$55,587,622	\$27,561	\$80,235,369	\$-	\$183,688	\$136,044,092
Transfers/Adjustments	\$-	\$55,783,124	\$-	-\$12,500,000	\$70,000,000	\$19,622,931	\$21,339,807
	<u>\$9,853</u>	<u>-\$195,502</u>	<u>\$27,561</u>	<u>\$67,735,369</u>	<u>\$70,000,000</u>	<u>\$19,806,619</u>	<u>\$157,383,899</u>
Interest Income	\$163	\$195,502	\$525	\$1,606,898	\$661,901	\$423,590	\$2,888,578
	<u>\$163</u>	<u>\$195,502</u>	<u>\$525</u>	<u>\$1,606,898</u>	<u>\$661,901</u>	<u>\$423,590</u>	<u>\$2,888,578</u>
Closing Balance (12/31/2018)	\$10,016	\$-	\$28,086	\$69,342,266	\$70,661,901	\$19,988,610	\$160,272,477
1 yr. non-annualized return ⁸	1.64%	0.70%	1.89%	2.15%	1.87%	4.20%	
1 yr. non-annualized average ⁹ return – short term investments	2.24%						

- The largest share of the investment income, \$1.6M, was obtained from the MFA-CIBC HISA account, which provided consistently high yield on investments since the beginning of the year, with 2.46% annualized return rate, as of December 2018.
- The second highest source of the investment income is MFA-NBC HISA, resulting in \$0.7M in 2018 interest. This account had the highest annualized rate of return = 2.52%, as of December 2018. Lower interest income, as compared to the MFA-CIBC HISA, is explained by timing – this account became available at the end of Q2, so no interest was earned in Q1-2.

⁶ 3 months non-annualized, as per MFA Pooled Investment Results report (December)

⁷ 3 months non-annualized, as per MFA Pooled Investment Results report (December)

⁸ Average rate, reflecting inflow/outflow of capital within the period

⁹ Average rate, reflecting inflow/outflow of capital within the period

- The third account, by the amount of absolute interest earned in 2018, is the District's Cash account with RBC, which generated the interest income of \$0.4M. The amount of funds allocated to this account fluctuates, depending on the timing of the District's revenues, expenses and investments in other instruments.
- MFA Bond Fund yielded \$0.2M in 2018 interest income, but its return rate was consistently lower than the rate available through other investment vehicles, leading to the decision to divest from the Bond Fund at the end of Q2.

3.4 Market trends

The analysis of Q4 market trends and forward looking investment strategies for the period from October 1, 2018 to December 31, 2018 is presented in the monthly MFA reports attached as Appendix 1.

MFA of B.C. Pooled Investment Results¹ As of December 31, 2018

	1 Month Non-annualized %	3 Months Non-annualized %	Year-to-Date Non-annualized %	1 Year %	3 Years Annualized %	5 Years Annualized %	Since Inception Annualized % ²
MFA Money Market Fund	0.17	0.47	1.65	1.65	1.14	1.07	3.87
Custom Benchmark ³	0.12	0.37	1.15	1.15	0.65	0.62	3.60
MFA Intermediate Fund	0.36	0.74	1.90	1.90	1.27	1.31	3.50
FTSE Canada 365-Day Treasury Bill Index	0.38	0.70	1.62	1.62	0.63	0.70	3.11
MFA Bond Fund	0.82	1.22	1.76	1.76	1.14	1.81	5.86
FTSE Canada Short Term Overall Bond Index	0.85	1.31	1.71	1.71	0.80	1.53	5.58

¹Portfolio and benchmark performance is net of total fees and expenses of 15 basis points per annum (Money Market Fund) and 20 basis points per annum (Intermediate & Bond Fund).

²Inception dates: Money Market Fund – May 1, 1989; Intermediate Fund – March 30, 1994; Bond Fund – May 1, 1989

³Represents custom benchmark: changed from FTSE Canada 91-day T-Bill Index to FTSE Canada 30-day T-Bill Index effective Jan. 1, 2013

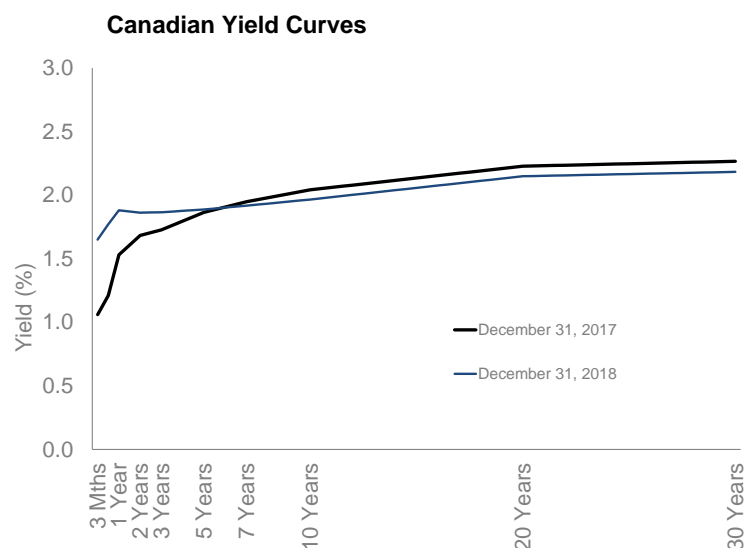
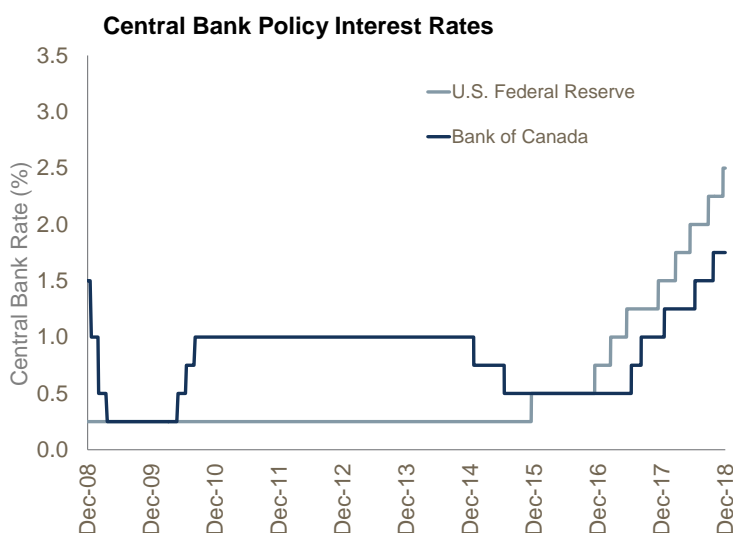
Market Developments

Market Interest Rates

	October 31, 2018	November 30, 2018	December 31, 2018
3 Month T-bills	1.74%	1.70%	1.77%
2 Year Gov't of Canada Bonds	2.33%	2.16%	1.86%
5 Year Gov't of Canada Bonds	2.43%	2.21%	1.89%
30 Year Gov't of Canada Bonds	2.53%	2.40%	2.18%

Negative sentiment continued to permeate the market as a result of concerns over global economic prospects.

Consequently, Government of Canada bond yields continued the downtrend established in the previous month, with yields reaching their lows on the last day of December. In response to the market turmoil, the Bank of Canada's (BoC) Stephen Poloz stated that future monetary policy actions will be dependent on a wide variety of factors, such as the effects of higher interest rates on consumption and housing; global trade policy developments; the persistence of the oil price shock; the evolution of business investment; and the BoC's assessment of the economy's capacity. Overall, Government of Canada yields decreased by approximately 30 basis points in the front end and 21 basis points in the back end of the yield curve during the month.



Market Outlook

The BoC met in early December and kept its policy rate unchanged at 1.75%. Capital market volatility and a general risk-off tone had investors on edge to begin the month, with uncertainty over the BoC's policy rate outlook building prior to the meeting. While the new USMCA trade deal was supportive of the BoC continuing to increase its policy rate, falling oil prices and weaker-than-expected economic data more than offset any near-term market optimism from the new trade deal. As a result, the statement accompanying the BoC's decision struck a cautious tone, citing the sharp decline in oil prices as a larger source of continuing weakness than previously expected. Market anticipation of future rate hikes have since disappeared with no increases now expected in 2019. With this in mind, we believe the BoC is likely to pause for some time in order to evaluate the impact of higher interest rates on the economic growth profile.

The U.S. Federal Reserve (Fed) raised the federal funds rate by 0.25% in December to a target range of 2.25% to 2.50%. In its statement, the Fed signalled a slower pace to rate hikes in the coming year, acknowledging that "some crosscurrents have emerged" since mid-September. Market participants have subsequently adjusted expectations for future Fed rate hikes, with ongoing trade uncertainty and worry of slowing global growth erasing anticipation of any rate hikes in 2019. However, it is worth noting that FOMC median projections include two rate hikes in 2019, pointing to the possibility that the policy rate will continue to move higher in 2019.

Current Strategy

The Money Market Fund remains focused on building a high quality yield advantage. As such, the Money Market Fund remains fully invested in high-quality corporate money market instruments given their attractive risk-adjusted incremental yield over similar-term government securities. Similarly, the Money Market Fund also maintains an allocation to longer-dated corporate money market securities, which results in a longer-than-benchmark average maturity profile.

The Intermediate and Bond Funds also both favour high quality yield enhancement strategies. The Intermediate Fund maintains a maximum allocation to corporate securities, with the government allocation invested entirely in provincial securities given their attractive yield advantage relative to federal government securities. Similarly, while the Bond Fund continues to have a more defensive risk budget, it maintains a bias towards government agency and corporate credit, rather than federal bonds. The incremental yield gained from these holdings should provide a helpful tailwind to performance.

Structure – As a Percentage of Total Portfolio								
Money Market Fund			Intermediate Fund			Bond Fund		
Term (Days)	Position	Change	Term (Days)	Position	Change	Term (Years)	Position	Change
< 30	52.4%	16.4%	< 180	11.7%	4.3%	< 1.0	10.1%	-3.4%
31 - 60	15.7%	-12.6%	181 - 365	36.7%	6.7%	1.0 - 2.5	41.6%	11.1%
61 - 90	12.2%	0.1%	366 +	51.6%	-11.0%	2.5 - 4.0	25.0%	-0.7%
91- 120	2.9%	-2.9%				4.0 - 5.5	20.0%	-7.9%
121 +	16.8%	-0.9%				5.5 - 7.0	3.4%	1.0%
Government	0.0%	0.0%	Government	30.2%	0.0%	Government	49.95%	2.0%
Corporate	100.0%	0.0%	Corporate	69.8%	0.0%	Corporate	42.31%	0.0%
						Mortgages/MBS	6.73%	-0.1%
						Net Cash	1.01%	-1.9%
Average term	47 days	-11 days	Average term	1.1 yrs	-0.1 yrs	Average term	2.8 yrs	+0.0 yrs
Average yield*	2.02%	0.09%	Average yield*	2.12%	-0.17%	Average yield*	2.22%	-0.16%
Total size	\$1,106.4 mil	-\$58.4 mil	Total size	\$265.1 mil	-\$6.3 mil	Total size	\$544.5 mil	\$1.7 mil

*Average yield information is referenced net of total fees and expenses of 15 basis points per annum (Money Market Fund) and 20 basis points per annum (Intermediate & Bond Fund).