

Presentation to the City of Richmond

MFA's Diversified Multi-asset Class Fund

Peter Urbanc, CEO



Municipal Finance
Authority of BC

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Your Partners in Finance

| mfa.bc.ca

MFA Lines of Business



MFA Line of Business	Strategic Fit	Description	Market Positioning
Long-Term Financing	Core Business	MFA's core business activity is to provide long-term financing to local governments.	No competitors. By legislation, all long-term borrowing by municipalities and regional districts in British Columbia must be provided by MFA.
Short-Term Financing	Secondary revenue stream (non-core)	MFA provides optional short-term financing to local governments.	Low competition. MFA is able to offer highly competitive short-term lending rates to BC local governments.
Pooled Investment Products	Secondary revenue stream (non-core)	MFA provides optional investment products to local governments through its pooled fund offerings.	Highly competitive. However, MFA is able to provide local governments with broad exposure to different asset classes (vs. strict limitations set out in the Community Charter).

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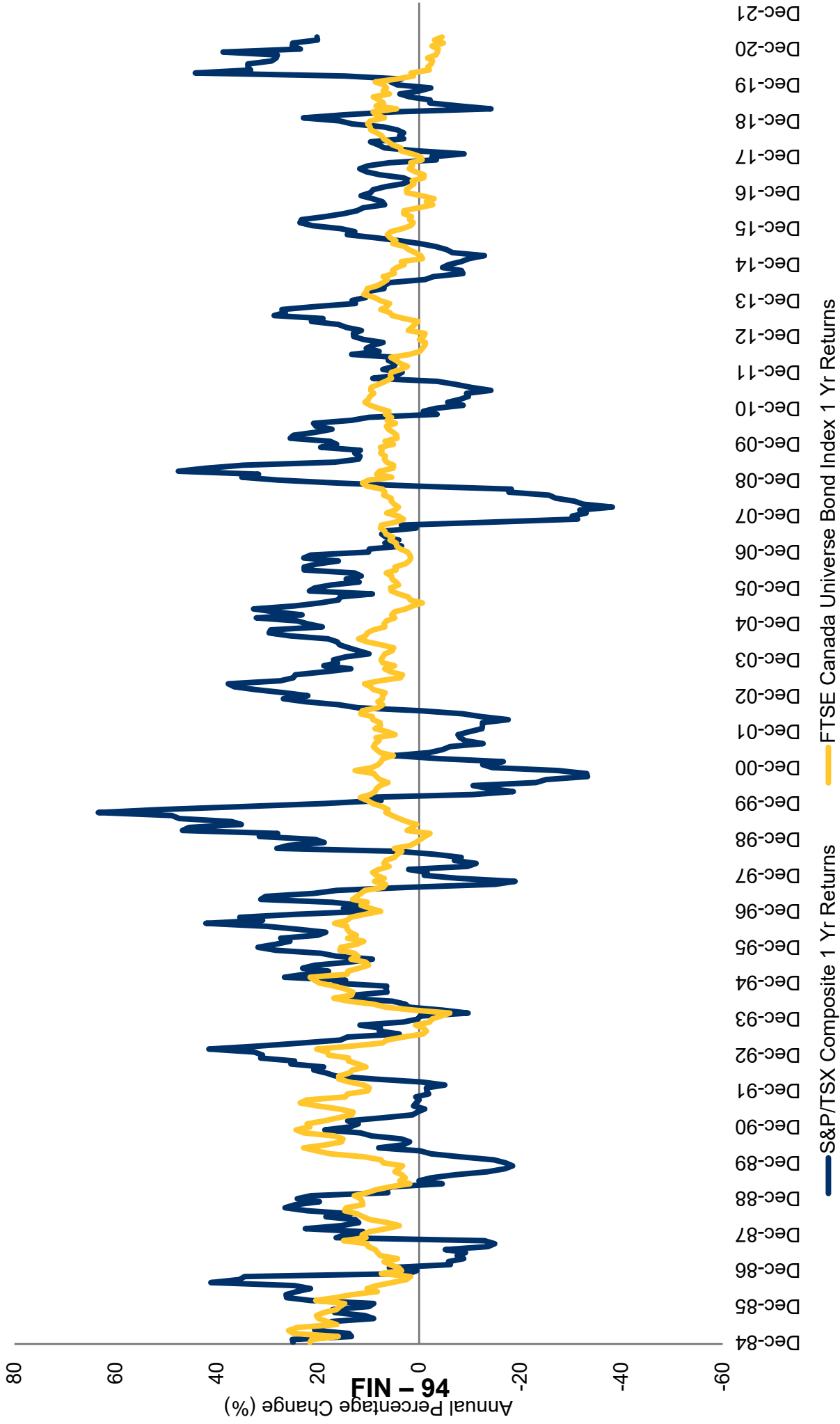
MFA is operating a \$10 billion financial institution with a small team of just 17 staff!

Investing in DMAC: The Importance of Thinking Long Term

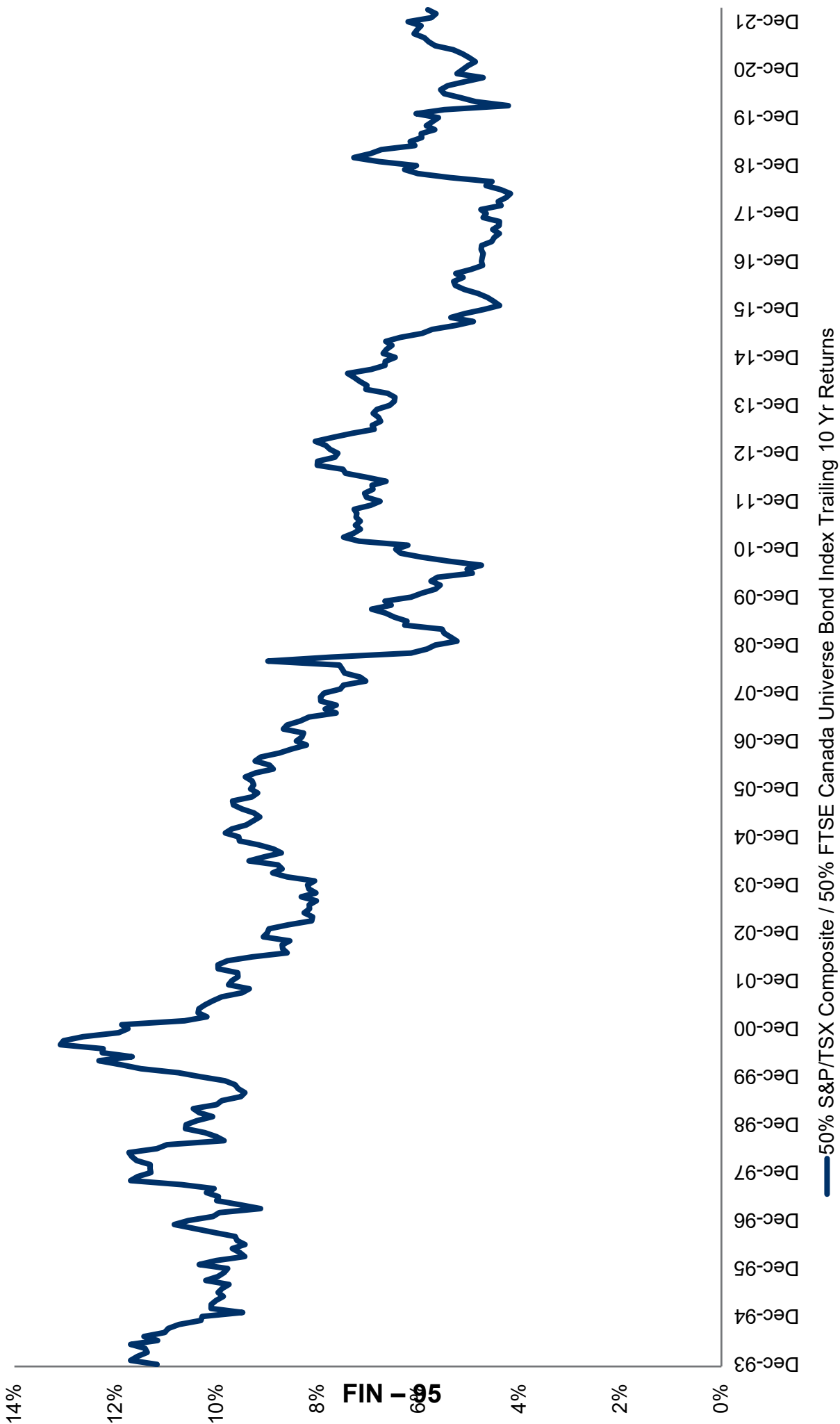


- MFA is offering a new investment vehicle intended for **long-term** investments by BC local governments (“LGs”): The Diversified Multi-asset Class pooled investment fund (“DMAC”)
- In order to support long-term capital growth and reduce certain risks, MFA endorses the ability for **well-suited** LGs to invest long-term reserves into a professionally-managed global portfolio of stocks, bonds and alternatives
- A multi-asset class portfolio can offer superior risk-adjusted returns and can **diversify a fixed-income only reserves portfolio - as long as the time horizon for the investment is truly long-term in nature**
- The DMAC is only suitable for the City of Richmond’s investments that are not needed for 10-years or longer – once the money is invested in the DMAC, the City should not expect to be able to redeem the investment early, unless an emergency were to present itself
- Investments are limited to 25% of the City of Richmond’s ‘Total Cash & Investments’

ROLLING 1-YEAR PERIODS



ROLLING 10-YEAR PERIODS



ESG integration and SRI: DMAC is a low carbon footprint fund

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RBC Global Asset Management
PH&N Institutional



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ALL Strategies in the DMAC are managed using ESG integration

Taking concrete actions for 20+ years



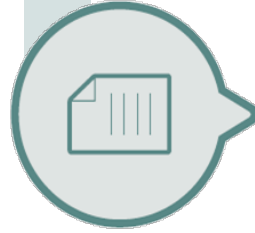
Fully integrated ESG (environmental, social & governance)

- **A+ grade on all assessed modules in 2020 - UN Principles of Responsible Investment (UN PRI)***
- Developed Approach to Climate Change



Active Stewardship

- **Founding member, former Chair CCGG (Canadian Coalition for Good Governance)**
- Climate Action 100+
- 30% Club Investor Group
- Proxy voting focus: Gender & CEO/Chair separation



Client-driven solutions and reporting

- **Long history of SRI & Fossil Fuel Free investment capabilities¹**
- Integrated ESG reporting for clients & consultants

¹ Began offering SRI strategies in 2002 and Fossil Fuel Free strategies in 2016.

*As part of the paid annual membership services, the PRI evaluates signatories' approaches to the Principles based on its assessment methodology. Once the responses are assessed, all indicator scores are aggregated and modules are assigned a performance band (from A+ down to E). Our firm's full transparency report as one of over 2,000 signatories can be found here: [RBC GAM PRI Transparency Report](#). Our firm's full private Assessment Report from the UNPRI is available upon request.

3 out of 8 of the DMAC strategies use a Fossil Fuel Free screen

Fossil fuel free exclusionary framework

	Fossil Fuel Free
No companies directly involved in extracting, processing or transporting coal, oil or natural gas	✓
No companies included in 'The Carbon Underground 200'*	✓
Excludes pipelines and railways	✓
Environmental, Social, Governance (ESG) integration	✓

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*The Carbon Underground 200™ identifies the top 100 coal and the top 100 oil and gas publicly-traded reserve holders globally, ranked by the potential carbon emissions content of their reported reserves.

The DMAC is a Socially Responsible Fund

A low carbon footprint fund with over 94% of assets meeting the FFF definition

Asset Class/Strategy	Target Exposure	FFF	FFF Content
Short Core Plus Bonds	15%	✗	~90%
Multi-Asset Global Credit	10%	✗	~90%
<u>Fixed Income</u>			
Canadian Equities	10%	✗	~70%
Canadian Low Volatility Equities	5%	✓	100%
Global Equities	24%	✓	100%
Global Low Volatility Equities	11%	✗	~90%
Emerging Market Equities	10%	✓	100%
<u>Equities</u>			
Core Real Estate	5%	✗	>90%
High Yield Mortgages	5%	✗	>90%
Infrastructure - Renewables	5%	✗	100%
<u>Alternatives</u>			
	<u>15%</u>		

- The Fund will align with a shared focus among BC's local governments on ESG and climate change considerations
- All components of the Fund will be managed under the UN's Principles for Responsible Investing and incorporate broad ESG considerations into the investment process
- DMAC is a low carbon fund with a significant portion of the asset classes employing a strict Fossil Fuel Free (FFF) screen. An estimated 94% of the underlying funds are currently invested in FFF entities - as defined by most local governments

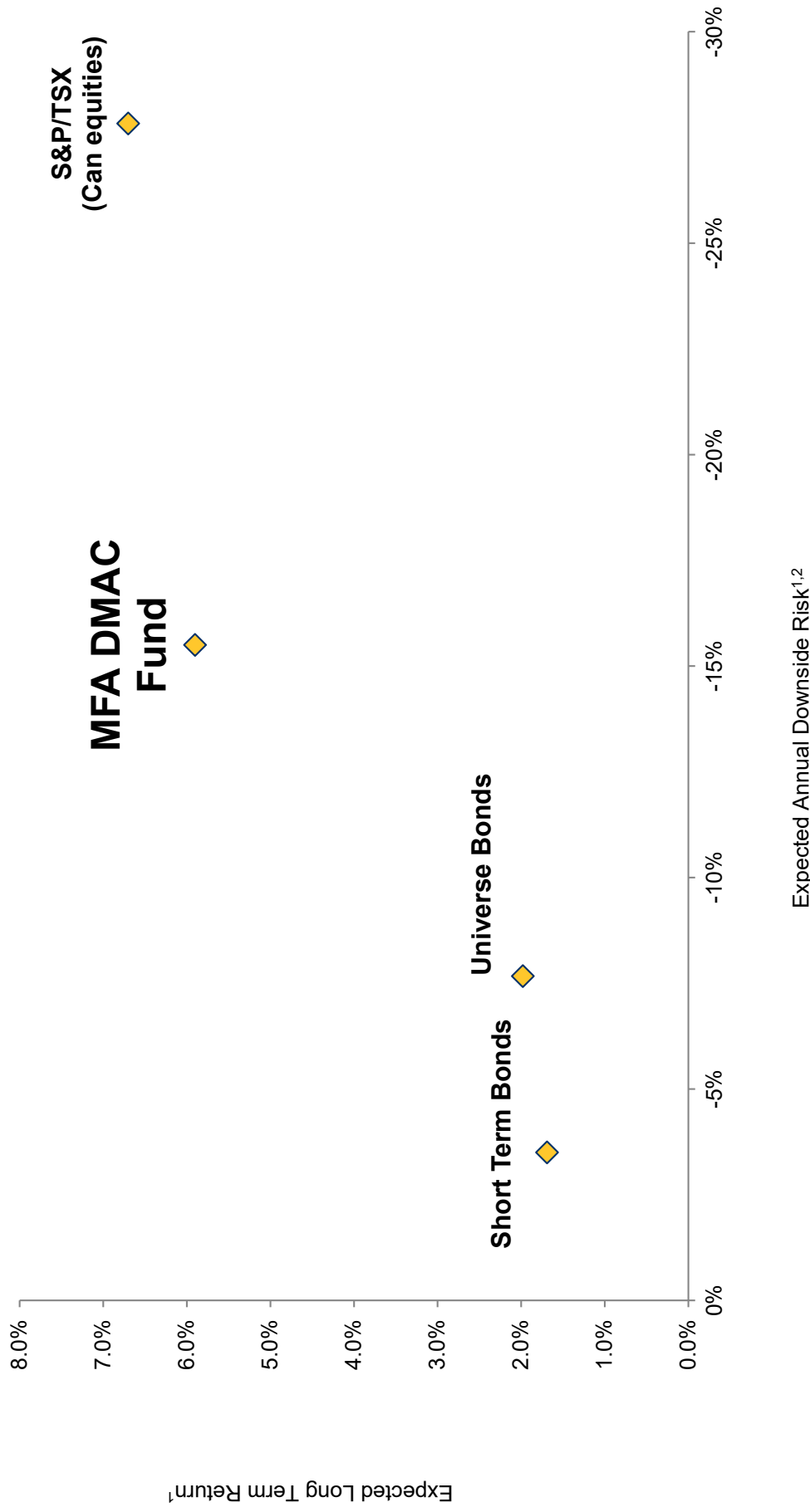


Other considerations



MFA Diversified Multi Asset Class Fund

Meaningful increase in expected return and risk vs short term bonds



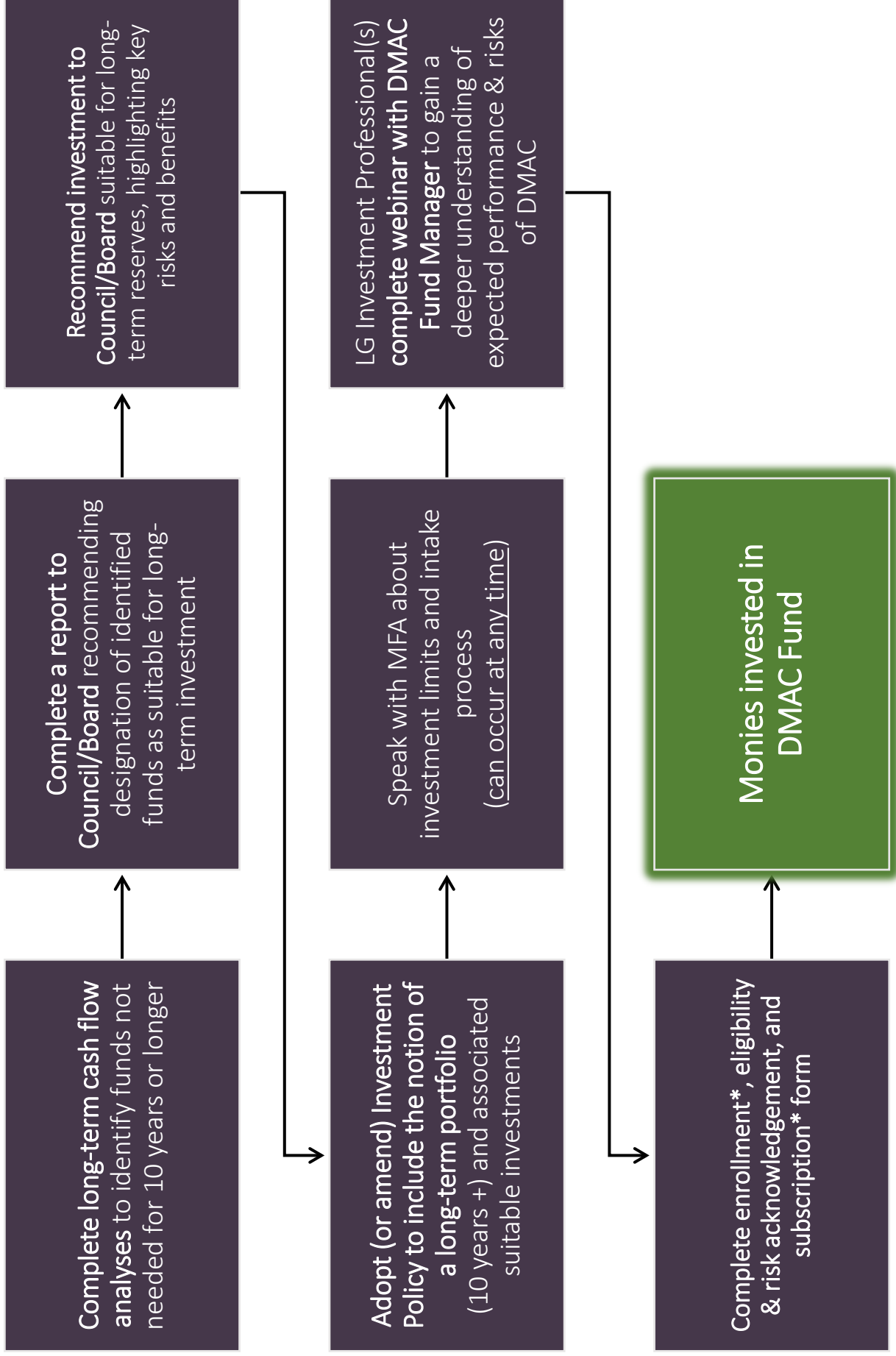
¹ Refer to appendix for modelling assumptions and disclosures. ² CVaR95 which represents the expected loss during the worst 5% of return outcomes. Representative Data Series: Short Term Bonds (FTSE Canada Short Term Overall Bond Index), Universe Bonds (FTSE Canada Universe Bond Index), S&P/TSX (S&P/TSX Composite Index). Hypothetical performance analyses are for illustrative purposes only and there is no guarantee that hypothetical returns or projections will be realized



What do I need to do in order to invest?



While each LG's process will vary, the following are strongly suggested:





In order to be eligible to invest in the DMAC Fund, a Board or Council-approved Investment Policy must be in place which allows for long-term investing. MFA is available to help adapt your Investment Policy to meet this requirement.

5.8 Long-term Portfolio (10 years+)

After first ensuring adequate short & mid-term liquidity, if [position assigned responsibility for financial administration, (i.e. Chief Financial Officer, etc.)] identifies monies not needed for 10 years or longer they may request [Council/Board] acknowledge those monies as “long-term: 10 years+” and suitable for investments with long investment horizons. If funds have been designated as “long-term: 10 years+” the [position assigned responsibility for financial administration, (i.e. Chief Financial Officer, etc.)] may invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

MFA constructs its *long-term* Pooled Investment Funds as a stand-alone Funds with appropriate diversification, risk and return characteristics for long-term investing requirements. As such, these Funds do not apply to concentration, credit or other investment policy limits described elsewhere in this Policy.

It is typical for multi-asset class Funds to exhibit volatile performance in the short-to-mid term, but with overall positive results over the long-run. Risks which cause performance fluctuation for multi-asset class funds include but are not limited to equity, interest rate, and credit risks. It is [name of local government]'s intent to hold long-term fixed income investments to maturity. It is the [name of local government]'s intent to hold perpetual long-term MFA Funds for 10 years or longer – in alignment with but redeemed prior to future obligations.

For the purposes of assessing performance of the long-term portfolio (10 years+), quarterly returns will be evaluated on a rolling three, four, and five-year basis versus a suitable benchmark.



Subscribing to the Fund

- Investors may decide to make a lump sum investment or ‘dollar-cost average’ into the Fund. Both strategies have merit. MFA and PH&N can help staff assess the pros and cons of both approaches. Subscriptions will be settled T+2.

Redeeming from the Fund

- Planning on how (or if) to redeem from the DMAC Fund in the future is recommended. While it may be unknown what exact course of action should be taken, ensuring internal dialogue takes place well before the initial recommended 10 year holding period lapses can inform the continued suitability of the investment. In many cases, the DMAC can be viewed as a permanent long-term component of a LGs portfolio – due to the continued need to save for future spending.

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- If monies must be redeemed, a methodical redemption plan can mitigate short-term investment value fluctuations.
- Redemptions will be settled T+30+3 (33 days)

Redemption Restriction

- The DMAC will invest in some “alternative” investments that are illiquid. Those assets typically necessitate imposition of a redemption waiting period of up to 3 years. However, in the case of emergency need for funds prior to the 10-year holding period, MFA and PH&N will consider the circumstances and will likely allow early redemptions - which must be structured in a way to not adversely impact other DMAC participants



Preservation of capital through **diversification** of investments into the broadest selection of asset categories possible, and picking the right **exposures** within those categories, **should be the main priority** for local government investors. If monies are not needed until well into the future, in the current market environment, maintaining purchasing power using short-dated bonds and/or deposits is not optimal – as inflation is higher than the expected returns on those investments.

Cash flow forecasting is critical to the analysis process which supports the ability and accuracy of matching investments with future requirements. A well-designed cash flow forecast can support a longer-term investment horizon and improve risk-adjusted returns.

MFA's DMAC Fund is professionally designed for LG reserves not needed for 10 years or longer **at very low cost (33 bps all-in annual fees)**. Among the biggest risks involved in buying the DMAC fund is the risk of a LG selling the Fund earlier than originally anticipated (and crystalizing losses during a downturn). **Managing expectations and educating all stakeholders on volatility will be key to limiting bad outcomes.** **Segregation or “earmarking” of suitable long-term reserves along with continuous education should limit divestment of holdings at inopportune times.** Whether due to accounting practices, or from the actual performance of the Fund, higher than normal volatility should be expected. While MFA cannot dictate how LGs manage their investment process and practices, MFA will require evidence of staff and council discourse about the potential short-term volatility of the DMAC Fund and the intent to hold on to it for the long term.

Investment best practices call for a **Council-approved Investment Policy** to guide risk tolerance and the **Objectives** of an investment portfolio. MFA has sample policies and expertise to assist in this area.

MFA Pooled Funds



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MFA's Suite of Pooled Investment Products



	FFF	ESG Integrated	ESG Integrated	FFF
	(3) Pooled High Interest Savings Accounts	Money Market Fund	Government Focused Ultra-short Bond Fund	
Key Features	<p>Best for soon needed funds.</p> <p>Balances favourable interest rates and liquidity.</p> <p>Monies held with Domestic Systemically Important Banks</p> <p>✓ <i>Favourable deposit rates negotiated by MFA</i></p> <p>✓ <i>Monthly Interest</i></p>	<p>This Fund is suited for Investors who must maintain adequate liquidity, while benefitting from asset diversification.</p> <p>This Fund holds a portfolio of very short-term securities, focused on high-quality corporates.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p> <p>✓ <i>Monthly distributions</i></p>	<p>The main objective of this Fund is to provide safety and liquidity.</p> <p>This Fund maintains a bias towards safe and favourable Federal and Provincial Securities, holdings may include up to 25% Big 6 Bank debt securities.</p> <p>Securities acquired for the Fund may have a maximum maturity of 2 years.</p> <p>This Fund does not invest in non-bank corporates.</p> <p>✓ <i>Monthly distributions</i></p>	
	<i>Suggested Investment Time Horizon</i>	0 – 12 months	0 – 24 months	0 – 24 months
	<i>Trailing 12-month Total Return * †</i>	N/A	0.31%	-0.85%
	<i>Current Yield †</i>	2.03 – 2.05% † \$	1.68%	3.23%
	<i>Total Annual Fees</i>	3 bps	12.5 bps	12.5 bps

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Management and composition of Funds subject to MFA's Pooled Investment Funds Investment Policies, Objectives, and Guidelines Agreement with Fund Manager(s). || Call MFA for details.

* Trailing 12-month Total Return equal to change in NAV value plus distributions over the past 365 days to May 31, 2022; past performance does not guarantee future performance.

† Before fees, yields as at June 27, 2022. ‡ Net of fees and expenses. § rates as of June 2, 2022.

FFF refers to Fossil Fuel Free defined here as (1) Funds which exclude investments issued by companies directly involved in extracting, processing, or transporting coal, oil or natural gas; and (2) Savings Accounts offered by financial institutions.

ESG integrated refers to Funds which are managed by signatories to the UN's Principles of Responsible Investment.

MFA's Suite of Pooled Investment Products



	Short-term Bond Fund	Fossil Fuel Free Short-term Bond Fund	Pooled Mortgage Fund	Diversified Multi-asset Class Fund
Key Features	<p>Designed for investors with a 2 to 5 year investment horizon as the Fund maintains a longer duration versus the MM and Ultra-short Funds.</p> <p>This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p> <p>✓ <i>Monthly distributions</i></p>	<p>This Fund is benchmarked against the same index as the ST Bond Fund, however screens-out companies involved in the extraction, processing and transportation of coal, oil, and natural gas.</p> <p>Designed for investors with a 2 to 5 year investment horizon.</p> <p>This Fund provides instant diversification through a broad asset mix of high-quality government and corporate securities.</p> <p>The Fund seeks a yield advantage through active market and credit analysis.</p>	<p>This Fund is designed to provide asset diversification for local government investment portfolios. Best suited for cash not needed for 3+ years.</p> <p>The Fund invests in high-quality 1st mortgages on Canadian income producing commercial properties – such as retail, multi-residential, office and industrial.</p> <p>✓ <i>Minimum 1.25x CF coverage</i></p> <p>✓ <i>Maximum 75% Loan-to-value</i></p>	<p>Designed to invest capital over the long-term and grow at a rate that exceeds inflation by 3.5%, while minimizing risk through asset class selection and diversification.</p> <p>The Fund will be broadly invested in Fixed Income, Equities, and Alternative investments.</p> <p>✓ <i>Preserve long-term purchasing power</i></p> <p>✓ <i>Alternative Investments at very attractive pricing.</i></p> <p>✓ <i>Gain exposure to professionally managed growth assets.</i></p>
Suggested Investment Time Horizon	2 – 5 years	2 – 5 years	3 years + (redemption restrictions may apply)	10 years + (redemption restrictions may apply)
Trailing 12-month Total Return * †	-3.91%	-4.04%	-3.41%	N/A
Current Yield †	3.72%	3.69%	4.70%	3.5% to 5.60% ◊
Total Annual Fees	20 bps	20 bps	25 bps	33 bps

Management and composition of Funds subject to MFA's Pooled Investment Funds Investment Policies, Objectives, and Guidelines Agreement with Fund Manager(s).

* Trailing 12-month Total Return equal to change in NAV value plus distributions over the past 365 days to May 31, 2022; past performance does not guarantee future performance. † Before fees, yields as at June 27, 2022. ‡ Net of fees and expenses.

◊ Approximate current dividend, interest or rental yields.

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ESG integrated refers to Funds which are managed by signatories to the UN's Principles of Responsible Investment. "Carbon Light" refers to strategies which minimize a portfolio's carbon impact including up to ~40% FFF.



Total Return (%)	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since Inception ²
MFA DMAC Fund¹	-0.73	-4.41	-	-	-	-	-6.20
<i>MFA DMAC Fund Custom Benchmark³</i>	-0.33	-3.49	-	-	-	-	-4.83
<i>Difference</i>	-0.40	-0.92	-	-	-	-	-1.37

¹ Total return less than 1 year is not annualized. Portfolio and benchmark performance is net of annualized fee and expenses of 33 basis points per annum.

² Inception date: January 19, 2022

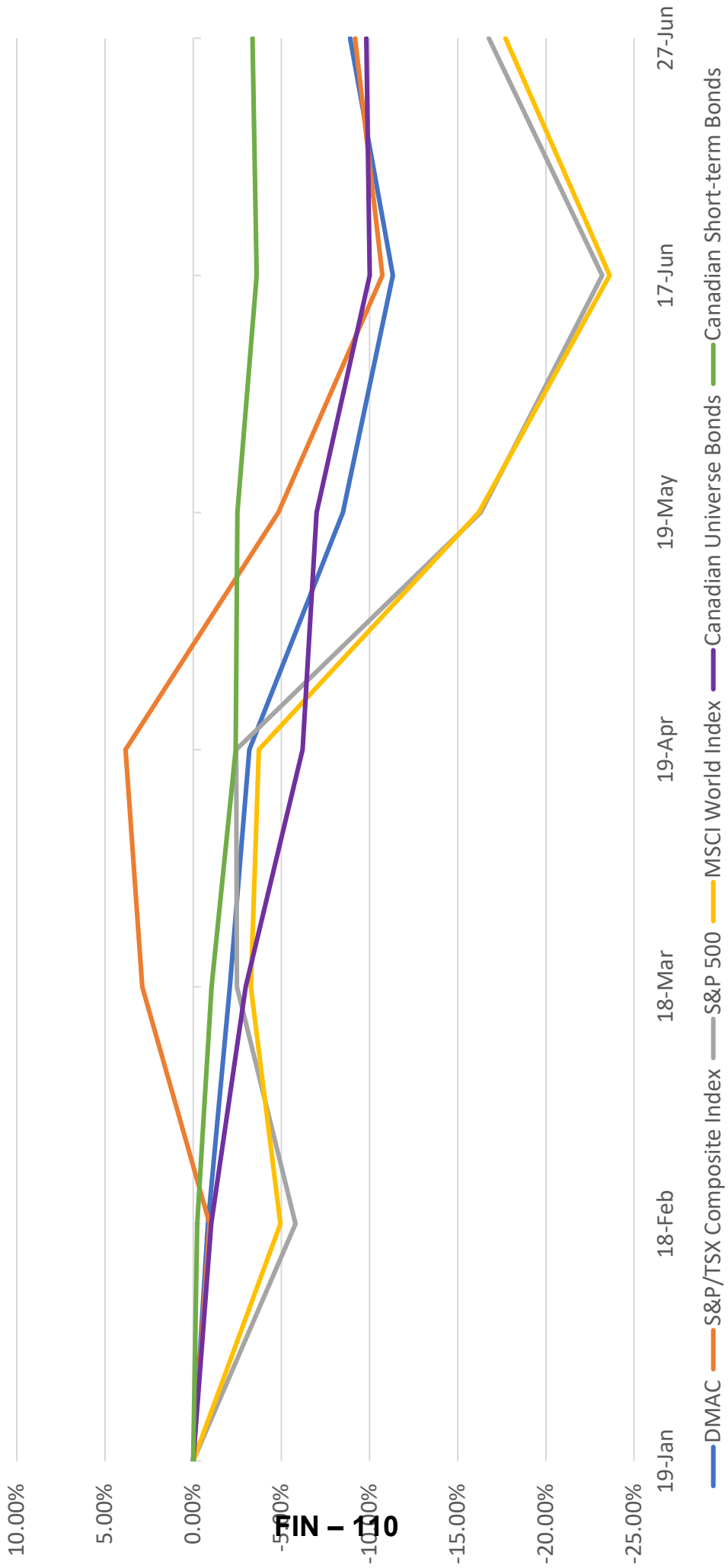
³ MFA DMAC Fund Custom Benchmark: 2% FTSE Canada 30 Day T-Bill Index, 15% FTSE Canada Short Term Overall Bond Index, 16% FTSE Canada 91 Day T-Bill Index, 17% S&P/TSX Capped Composite Total Return Index, 35% MSCI World Total Return Net Index (CAD), 12% MSCI Emerging Markets Total Return Net Index, 3% Canadian CPI (Non-Seasonally Adjusted) 1-month lag

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During May, the MFA DMAC fund returned -0.73%. Note the fund is currently in transition while we build up the fund’s sector allocations to the target asset mix. As such, relative performance at the headline DMAC fund level is not as relevant or indicative of manager skill during this interim period.



Select Security/Index Performance
Jan.19-22 to Jun.27-22
(Monthly; \$CAD adjusted)





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