



**Municipal Finance  
Authority of BC**

## **Letter from the CEO**

November 5, 2021

Dear Member,

The Municipal Finance Authority of BC (“MFA”) is excited to announce the upcoming launch of a new Pooled Investment Fund designed specifically for long-term investing of funds not needed for 10 years or longer. The Diversified Multi-Asset Class Fund (the “DMAC” or the “Fund”), expected to launch in January 2022, will provide BC’s local governments with a broadly diversified investment option to prudently grow reserves that are earmarked for future infrastructure projects. After a rigorous RFP process, consultations with stakeholders, and subsequent work with the successful fund manager, the DMAC has been carefully designed to provide a low-cost / best-in-class investment pool available to all of BC’s local governments - regardless of the size of their community.

Phillips, Hager, & North (“PH&N”) will manage the new Fund according to investment beliefs and policies vetted and approved by a team of local government investment professionals and MFA’s Trustees. Central to those guiding principles is the notion of managing the Fund with a long-term view, with the aim of exceeding the core inflation rate by 3.5% annually, while minimizing expected volatility. Through a portfolio optimization exercise, the target global portfolio will include allocations to fixed income, equities, and alternative strategies - such as direct real estate investments. The Fund will be highly diversified, both geographically and by asset class/management style, to optimize forward-looking expected risk-adjusted returns. In addition, 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 Principles for Responsible Investing and incorporate broad ESG considerations into the investment process. In addition, a significant portion of the asset classes will employ a Fossil Fuel Free (FFF) screen. MFA’s Trustees decided to incorporate as many Fossil Fuel Free investing approaches as prudent - where employing such strategies would not be expected to materially detract from expected risk-adjusted returns. It should be noted that several of the asset classes and strategies that will be employed within the fund are not currently available in a FFF format. For example, most of the alternative strategies we considered, which have very beneficial risk reduction characteristics, are not offered in a FFF format.

Suitability of the Fund and a positive Member investment experience will be key concerns for the MFA as it onboards interested local governments. Although the Fund is available as an option to all of our clients for a portion of their overall investments, it will not be suitable for all local governments. Members will need to carefully determine whether long-term investment in the DMAC Fund is appropriate for their own circumstances. The MFA is available to discuss key considerations local government investors and Councils/Boards should understand prior to investing in the Fund. Of primary importance will be the designation of reserves as suitable for

long-term investment, a process that first begins with long-term cash flow/reserve analyses. Once reserves have been identified as long-term in nature this will need to be acknowledged as such by the Council or Board. We foresee selling the Fund prematurely or during a market correction – thereby crystalizing paper losses – as among the biggest risks to a successful investment experience for local governments. In order to minimize the risk of selling early, but also in order to accommodate asset classes such as Alternatives that cannot be quickly liquidated, investors in the Fund need to plan for the possibility of not being able to redeem funds quickly in unexpected situations. Under the vast majority of circumstances, we expect requests for redemptions will be honoured within a month. However, a lockup period for redemption requests of up to 3 years is a possibility under extreme scenarios. Undertaking a thorough and transparent process, which may require updating your existing Council or Board-approved Investment Policy and understanding the accounting impacts of the Fund on your financial statements, are some of the critical steps that a local governments will need to undertake prior to investing in the Fund.

MFA and PH&N are now available to discuss the new DMAC Fund with you and/or your Council/Board and have a variety of materials to assist in policy development or communications. As a starting point, please feel free to contact us to gain a better understanding of the Fund, investment limitations, and the processes we are suggesting. Further detail about the Fund will be available via GFOABC's newsletter and the Quarterly Investment Forum webinar in December. We look forward to hearing from you and are eager to continue playing a leading role in assisting BC's local governments manage their investment needs.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Urbanc", with a long horizontal flourish extending to the right.

Peter Urbanc, CEO  
Municipal Finance Authority of British Columbia

**250.383.1181 | [mfa.bc.ca](http://mfa.bc.ca)**