



## Report of the General Manager and Chief Financial Officer

### 2022 Investment Update

#### Recommendation

The Board of Directors receive this report for information.

#### Summary

This report provides an update on Housing York Inc.'s (HYI's) 2022 investment activities.

#### Key Points:

- As of December 31, 2022, HYI's portfolio had a book value of \$37.9 million including \$11.5 million in cash on deposit
- HYI's portfolio generated \$812,273 in 2022 for a realized return of 2.13% (versus \$292,698 or 0.87% in 2021)
- HYI's portfolio outperformed its benchmarks
- All investments met the requirements of the Investment Policy approved by the Board of Directors in [November 2017](#)

#### Background

##### The Housing York Inc. Board approved the Investment Policy in November 2017

HYI's investments adhere to the approved Investment Policy which has the following objectives:

- Adherence to permitted investments
- Preservation of capital
- Maintaining liquidity
- Earning a competitive rate of return

HYI does not have the expertise to develop investment strategies and manage investment activities. The Region's Treasury Office manages the Region's surplus funds and financing needs, and acts as the investment manager for HYI. As the investment manager, they develop strategies that meet HYI's investments objectives, risk tolerance and cash flow needs. There is

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no cost to HYI for these services. HYI and the Treasury Office meet quarterly to review HYI's investments, market conditions and strategy.

An annual consolidated investment report is presented to inform the Board on securities held, maturities, investment returns, comparison to established benchmarks, market conditions, prevailing investment strategy and adherence to the Investment Policy.

**Bond yields rose to the highest levels in ten years due to higher inflation and geopolitical concerns**

2022 proved difficult for fixed-income investors as bond yields rose to levels not seen in over ten years due to higher inflation and geopolitical concerns. The unprecedented levels of fiscal stimulus used to combat the hardship many faced due to COVID-19 closures combined with supply chain bottlenecks, and the war in Ukraine led to higher levels of inflation not seen in over forty years.

Central banks worldwide began to hike interest rates to curb consumer spending to combat inflation. Accordingly, the Bank of Canada started hiking rates at an unprecedented speed, and by year-end, the overnight rate finished the year 400 basis points higher at 4.25%. As a result, bond yields have risen steadily in 2022, as illustrated in Figure 1.

**Figure 1**  
**Government of Canada 2- and 5-Year Bond Yields**  
**2022**



## Analysis

### Housing York Inc.'s 2022 investment strategy was to be defensive and maintain liquidity

During the COVID-19 crisis from 2020 through 2021, interest rates remained at historically low levels. Throughout this period the investment strategy for HYI's investment portfolio focused on protection of principal and maintaining adequate liquidity to cover all operational and capital requirements. The portfolio was kept purposely short term at an average term of approximately one year.

As interest rates started to climb, opportunities arose to purchase longer term securities to take advantage of these higher rates. Nine investment purchases were made during 2022 totalling \$18.8 million with maturities from 2025 to 2032. The average term of the investments increased from one year to approximately two years. The average credit rating of securities held is AA. Table 1 provides a breakdown of HYI's portfolio holdings.

**Table 1**  
**HYI Portfolio Holdings**  
**as of December 31, 2022**

Type	Buy Yield	Purchase Year	Maturity Year	Face Value (\$)	Book Value* (\$)	Market Value (\$)
Cash	4.70%			11,454,711	11,454,711	11,454,711
Bond	2.32%	2019	2023	1,000,000	1,007,045	987,170
Bond	1.34%	2021	2023	2,000,000	2,018,144	1,952,700
Bond	2.37%	2019	2024	1,000,000	1,009,352	980,280
Bond	1.17%	2021	2025	2,000,000	2,100,453	1,936,420
Bond	1.24%	2021	2025	2,000,000	2,177,563	1,994,760
Bond	3.38%	2022	2024	2,000,000	1,968,555	1,924,740
Bond	2.62%	2022	2026	1,000,000	959,271	927,600
Bond	3.75%	2022	2026	1,000,000	961,955	930,440
Bond	4.08%	2022	2030	2,300,000	2,003,724	2,021,056
Bond	3.32%	2022	2025	3,000,000	2,966,701	2,917,890
Bond	3.93%	2022	2026	2,000,000	1,911,002	1,860,880
Bond	3.42%	2022	2032	2,000,000	1,964,868	1,874,040
Bond	3.31%	2022	2027	2,000,000	1,941,935	1,901,800
Money Market	4.03%	2022	2023	3,500,000	3,476,966	3,475,080
Total				38,254,711	37,922,245	37,139,567

\*Note the book value includes the premium or discount paid to purchase the bond

Table 2 provides a summary of the target asset mix guidelines set in 2022 compared to the actual mix as of December 31, 2022.

**Table 2**  
**2022 Target Asset Mix**

Term	Min %	Max%	Target Mix %	Actual Mix %
< 1 Year	20%	80%	40-50%	47%
1 to 3 Years	0%	70%	20-30%	27%
3 to 5 Years	0%	50%	15-30%	15%
> 5 Years	0%	30%	10-20%	10%

**Housing York Inc.’s portfolio earned a realized return of \$812,273 or 2.13% in 2022**

In 2022, the HYI investment portfolio generated realized returns of \$812,273 (versus \$292,698 in 2021) on an average portfolio balance of \$38.3 million. This equates to a realized rate of return of 2.13% (versus 0.87% in 2021).

Realized returns include actual interest income, dividend earnings and realized capital gains resulting from the sale of securities. These returns are referred to as “realized” as they represent all cash income realized and are credited to HYI’s reserves and other accounts.

Another method of calculating investment performance is referred to as mark-to-market returns (also known as total returns). Mark-to-market investment returns include the same components as realized returns, but also consider any change in the market value of securities held from one period to the next.

This change in market value (due to the change in interest rates) is not realized in the form of cash income, but rather is potential gain or loss if all the investments being held are liquidated on the date of the calculation, which for the purpose of this report, was December 31, 2022.

As noted above, mark-to-market adjustments include the period over period change in the market value of the securities held in the portfolio. Bond prices are inversely related to interest rates. When interest rates rise, bond prices decrease and conversely when interest rates fall, bond prices increase. As indicated in Figure 1 above, in 2022 interest rates rose throughout the year and, as a result, bond values decreased which resulted in an unfavourable mark-to-market impact. After accounting for the impact of a decrease in mark-to-market value, total returns for 2022 equated to 0.15% (versus 0.79% for 2021). Table 3 below provides a summary comparison of the realized versus mark-to-market returns for the years 2021 and 2022.

**Table 3**  
**HYI Portfolio Comparison of Realized vs Mark-to-Market Returns**  
**2021 to 2022**

Year	Average Assets	Realized		Mark-to-Market		
		Income	Return	Adjustments	Income	Return
2022	38,250,414	812,273	2.13%	(754,840)	57,433	0.15%
2021	33,731,447	292,698	0.87%	(27,832)	264,866	0.79%

**Housing York Inc.’s portfolio outperformed its benchmarks**

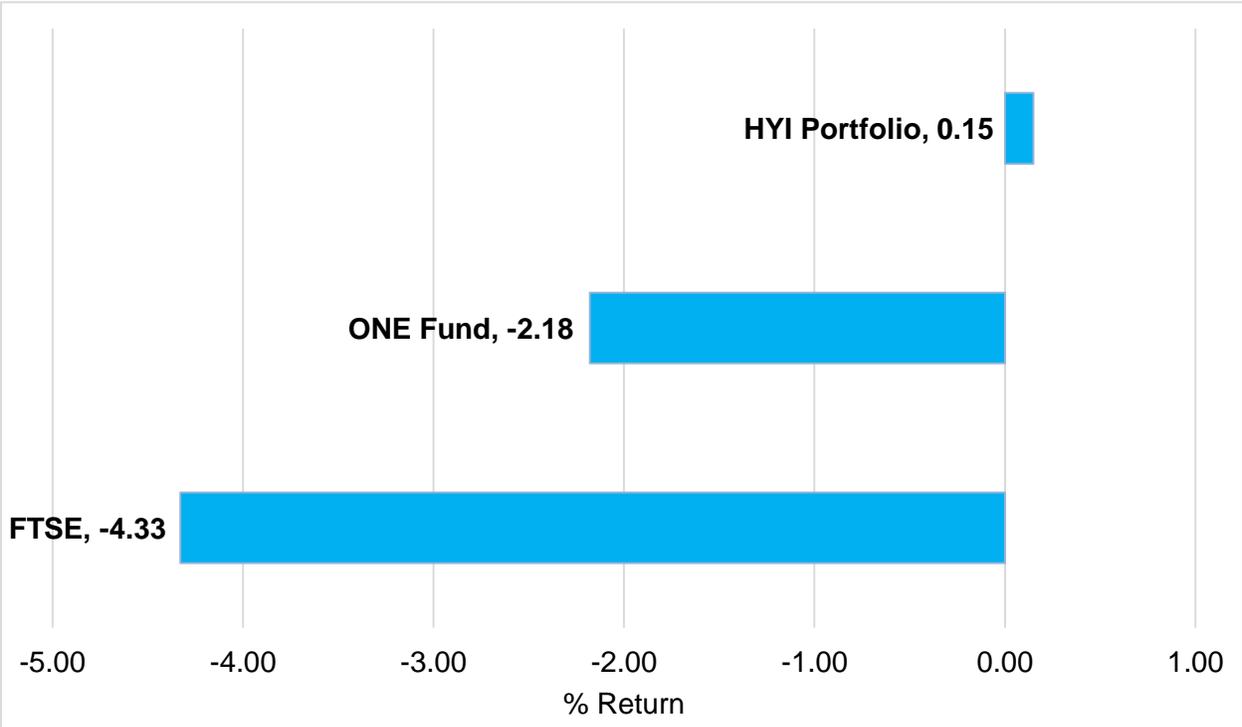
The investment performance of HYI’s portfolio is compared to two different types of benchmarks: a managed fund benchmark and an index fund benchmark. Both benchmarks are used by the Region and considered fair references, as they reflect the nature and scope of HYI’s investment policy.

The managed fund benchmark is represented by the weighted composite returns of the ONE Investment Program’s Money Market, Bond, and Equity portfolios. Each of these funds is professionally managed by a different investment management firm selected and monitored by the ONE Investment Program. The 2022 return of the ONE Fund was -2.18% (versus -0.55% in 2021).

The index fund benchmark HYI measures its performance against is the Financial Times Stock Exchange (FTSE) Capital Markets Group. The 2022 return of the FTSE was -4.33% (versus -0.205 in 2021).

Figure 2 shows HYI’s 2022 total return compared to the FTSE and the ONE Fund. HYI’s total return exceeded the FTSE by 448 basis points and the ONE Fund by 233 basis points.

**Figure 2**  
**Total Return of HYI’s Portfolio vs Benchmarks**



\*Note the realized return for the HYI investment portfolio was 2.13% in 2022

## Housing York Inc.'s 2023 investment strategy is to extend the term of the portfolio as rates rise

Bond yields are expected to rise due to inflation concerns, reduction of monetary stimulus by the Bank of Canada and fiscal stimulus continuity. HYI's portfolio is well positioned to take advantage of rising rates.

The 2023 investment plan will focus on extending the term of the portfolio as yields rise. The target term will be extended to between 2.5 to 3.0 years. The 2023 asset mix has been updated to reflect this strategic focus. Table 4 provides a summary of the revised 2023 target asset mix.

**Table 4**  
**2022 Versus 2023 Target Asset Mix**

Term	2022 Target Mix %	2023 Target Mix %
< 1 Year	40-50%	30-40%
1 to 3 Years	20-30%	25-35%
3 to 5 Years	15-30%	20-30%
> 5 Years	10-20%	15-25%
Average Term	2.4 years	3.0 years

The impact of this change in the term target mix is expected to continue the improving investment return pattern experienced over the past two years since the inception of the investment program. Table 5 provides a year-over-year comparison of the investment program highlighting these improved results.

**Table 5**  
**HYI's Investment Program**  
**Year-Over-Year Comparison**

	2021	2022	2023 (estimate)
Portfolio Balance (\$millions)	\$36.2	\$37.9	\$36.0
Realized Return (%)	0.87%	2.13%	3.50%
Realized Return (\$)	\$ 292,698	\$ 812,273	\$ 1,260,000
Average Term in Years	1 year	2.2 years	2.5 - 3.0 years
Average Credit Quality	AA	AA	AA

### Local Impact

Returns generated on HYI's investments have no direct impact on local municipalities.

### Conclusion

In 2022, HYI's portfolio generated \$812,273 for a realized return of 2.13%. HYI's total return exceeded the FTSE and ONE Investment Program benchmarks by 448 basis points and 233 basis points, respectively.

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For more information on this report, please contact Michelle Willson, Director, Housing Finance and Chief Financial Officer, Housing York Inc. at 1-877-464-9675 ext. 76064. Accessible formats or communication supports are available upon request.



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May 30, 2023

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