

Investing and investments

ONPHA 2016

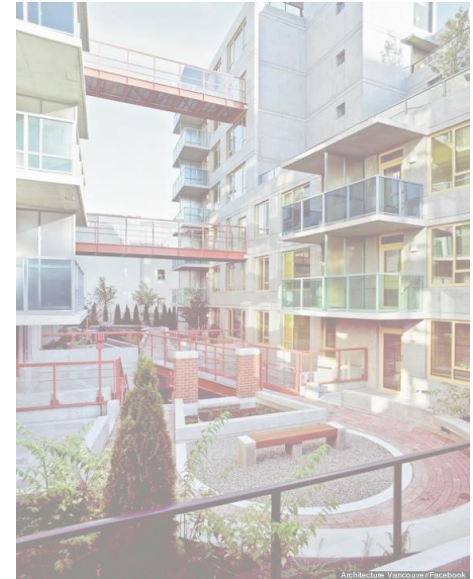


Investing

The act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit.

Why invest

- Boards / management have a duty to manage ALL assets
 - Real estate
 - Capital (reserves, operating, other)
- Duty requires assessment of future capital and other needs
 - Preservation of capital value
 - Capital strategies that balance risk and return



Fiduciary Responsibility

Prudent Person Rule

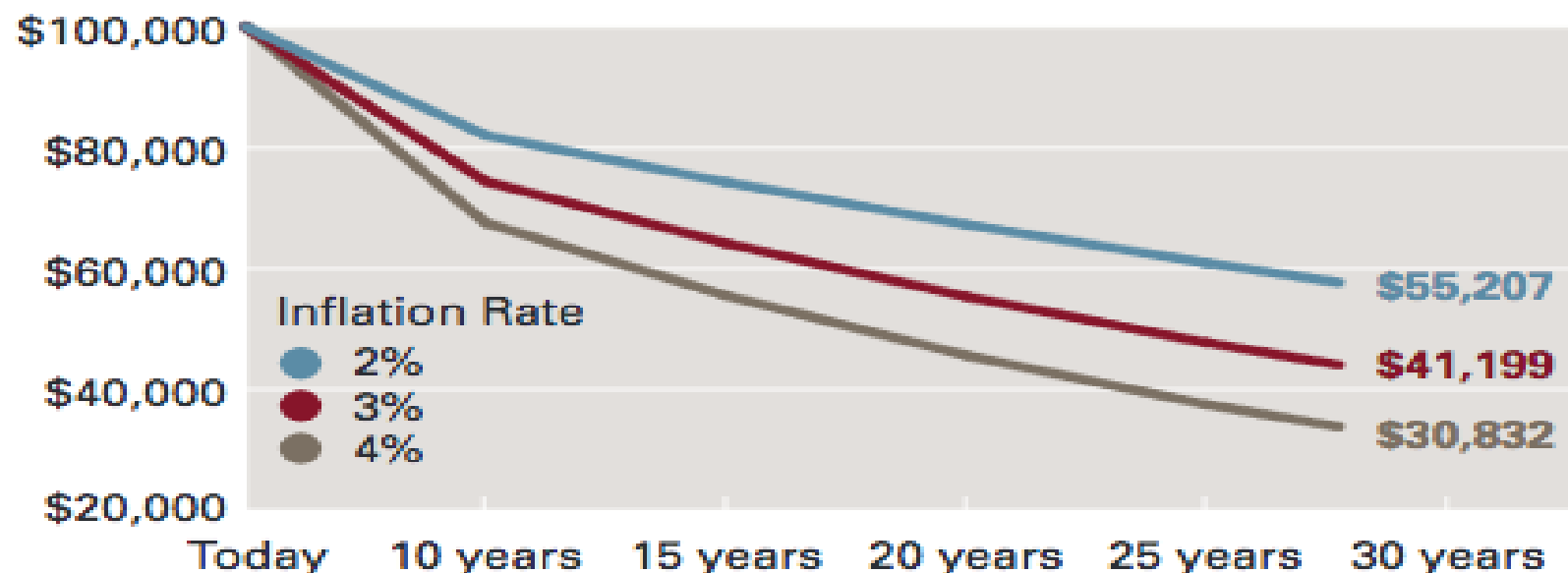
- *A standard that requires that a fiduciary entrusted with funds for investment may invest such funds only in Securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase.*

Historically known as the prudent or reasonable man rule, this standard does not mandate an individual to possess exceptional or uncanny investment skill. It requires only that a fiduciary exercise discretion and average intelligence in making investments that would be generally acceptable as sound.

CANADA INFLATION RATE



SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS CANADA



Figures were calculated based on hypothetical 2%, 3%, and 4% rates of inflation to show the effect of inflation over time; actual inflation rates may be more or less.
Source: CIBC Asset Management.



Investing basics



Investing basics

- Asset classes
- Types of investments
- Mutual funds
- Asset sectors
- Compounding
- Risk
- Volatility
- Socially responsible investment / ESG



Main Asset Classes

Cash / cash
equivalents

- Bank deposits
- Money market instruments
- Guaranteed investment certificates

Bonds /
Fixed
income

- Debt issued by governments or corporations

Equities/
stocks

- Shares or share equivalents issued by corporations

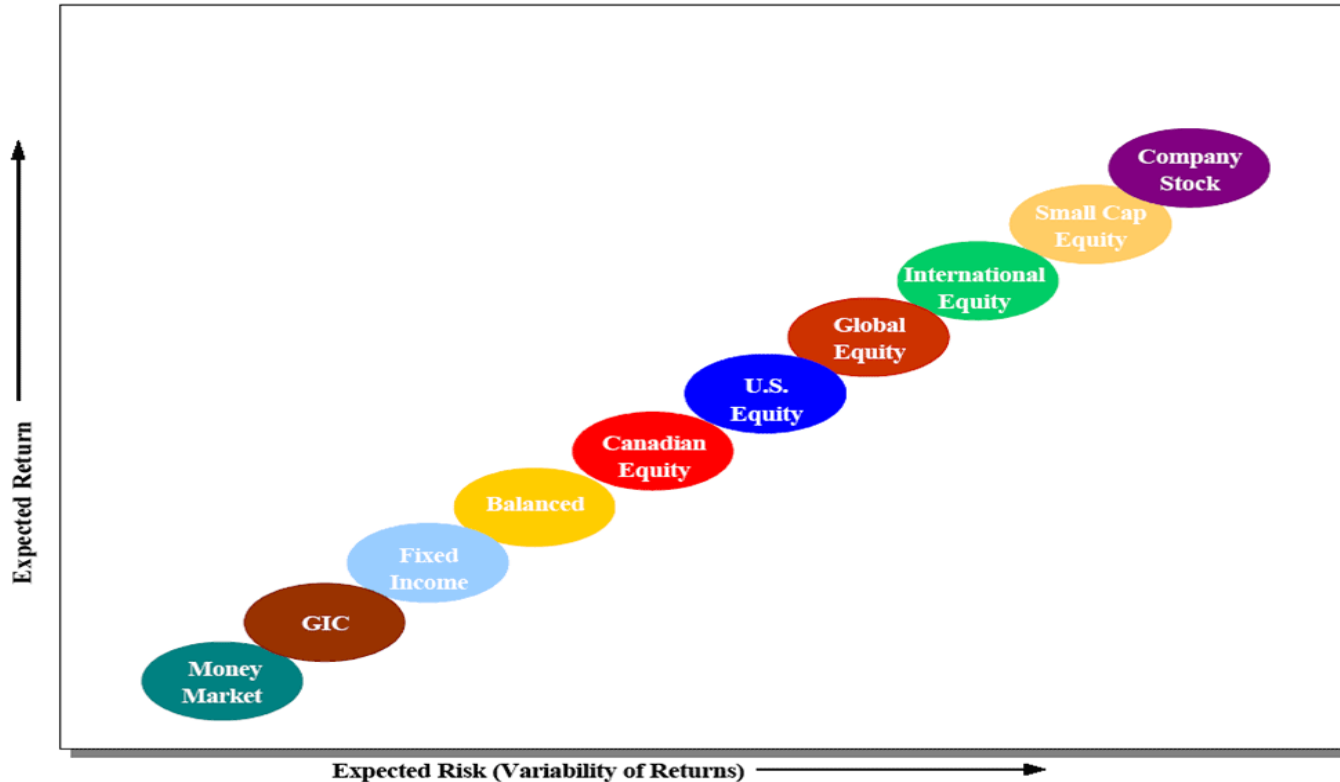
Alternatives

- Complex
- Limited regulations
- Limited Market

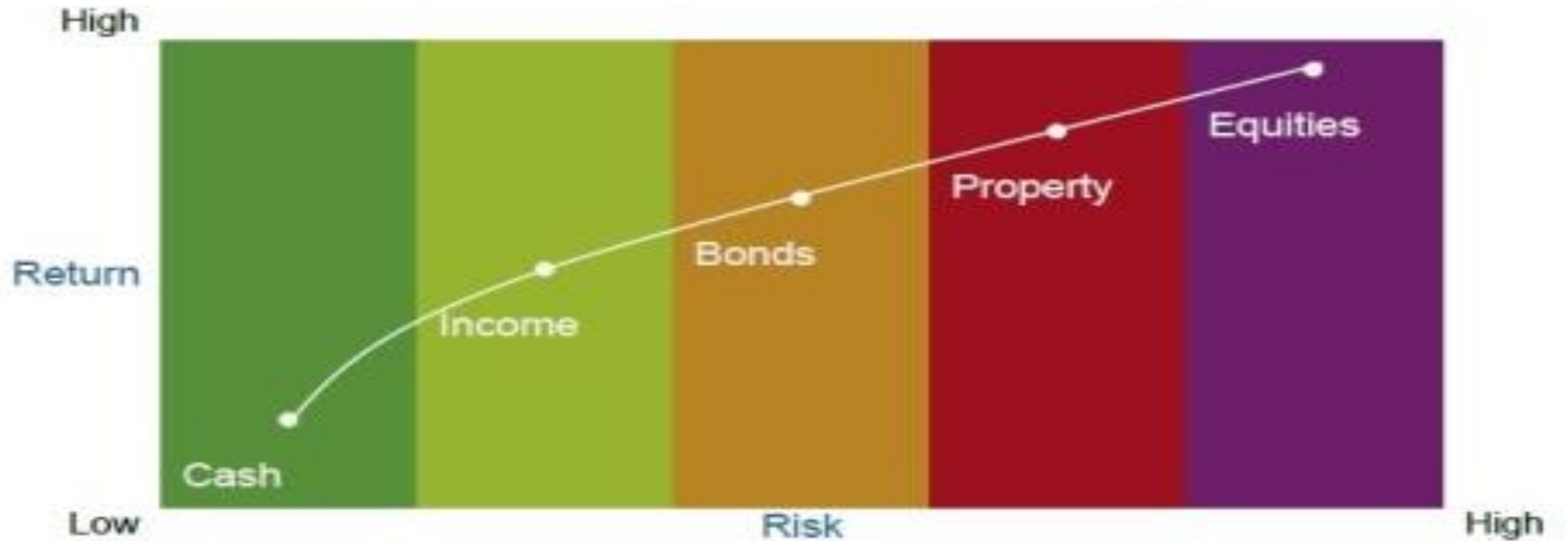
Asset classes – Risk and return

Investment Options

Expected Risk/Return Spectrum



Investment – Risk and return



Bonds (fixed income)

- Issued by government or corporations
 - Government bonds generally very secure
- Fixed term (maturity)
- Fixed coupon (rate of return)
 - Interest payable over the course of the bond term (usually semi-annually)
- Principle (par value) can be paid over the term or at maturity

Example:

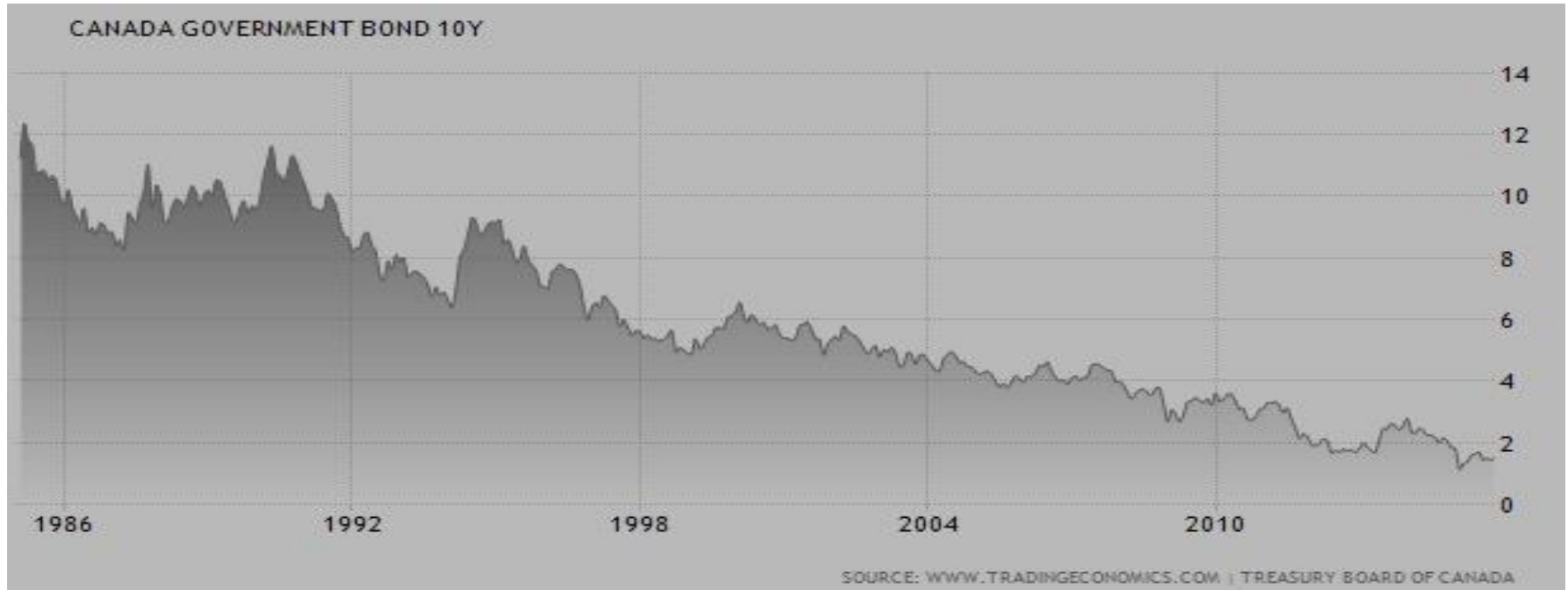
- \$1,000 bond (par value) @ 5% / 10 year term
- Interest earned $\$50 / \text{year} \times 10 \text{ years} = \500
- Par value at Year 10 - \$1,000



Bonds - risks

- Rate of return based on risk of bonds
 - Lower for government bonds
 - Higher for corporate bonds
 - Higher the longer the bond term
- Bonds are bought and sold (traded)
 - Can be held to maturity
 - Can be bought and sold before maturity
 - Value when sold before maturity may not be the same as the initial purchase price

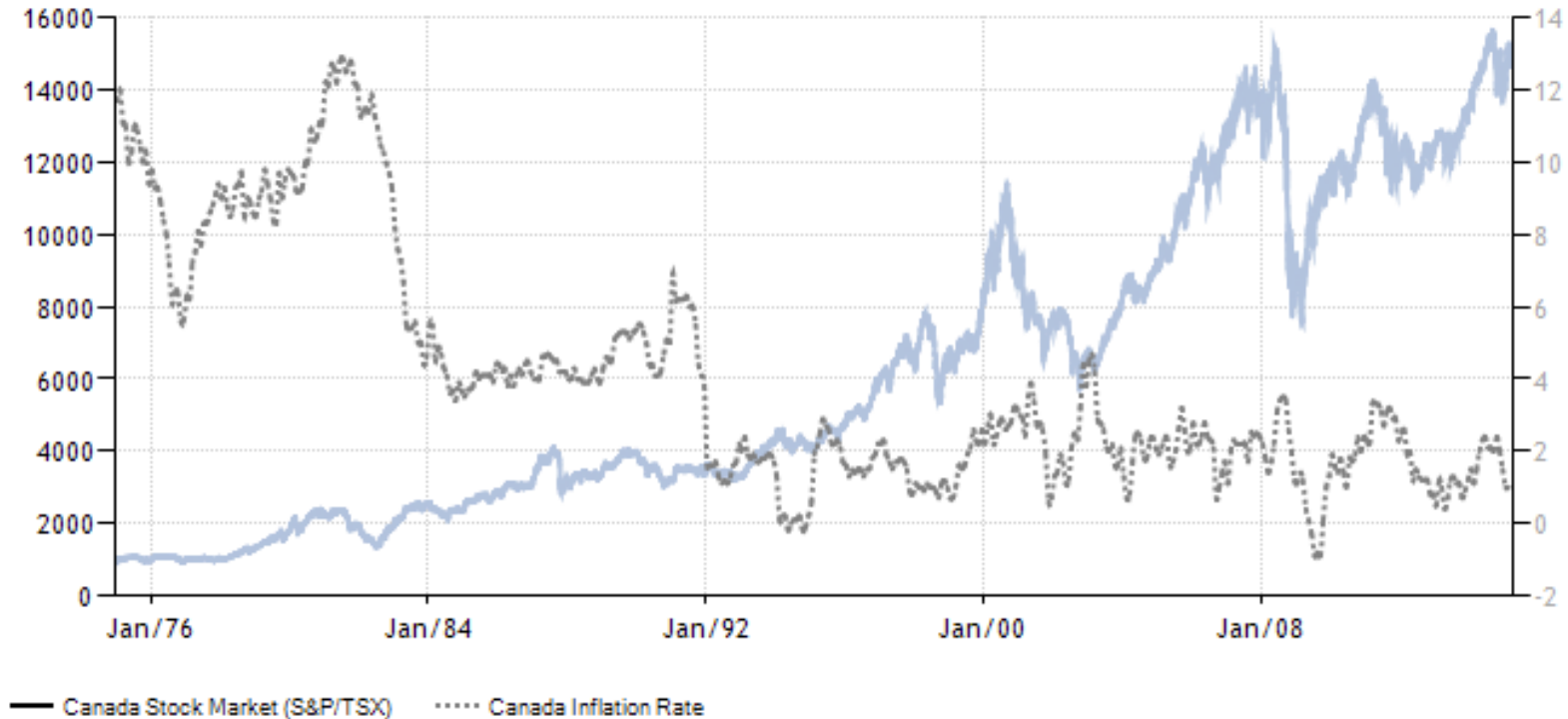
Bond performance



Stocks

- Stocks / equities
 - Own part of business (shareholder)
 - Claim on some of the company's assets and earnings
 - Part of company profits may be paid as a dividend to shareholders
- Amount of dividends varies from year to year
 - Based on company performance
 - Based on company need for cash (reinvestment, debt payment, etc.)
- Value of stock varies
 - Based on company performance
 - General market conditions
 - Other factors

Stocks – performance over time (TSX – SP/TSX)



Asset sectors

Materials

Telecommunication Services

Consumer Discretionary

Consumer Staples

Energy

Financial

Health Care

Industrials

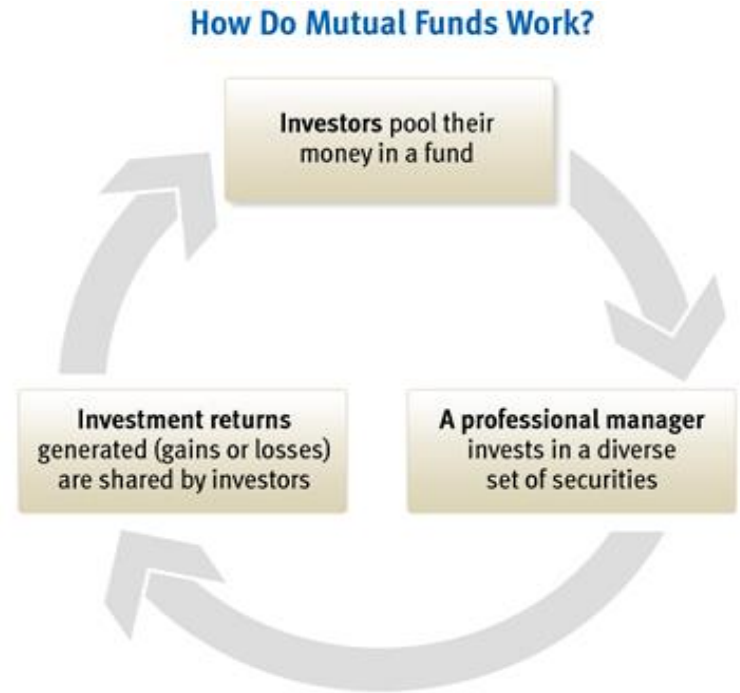
Information Technology

Utilities

- Method to categorize stocks
- Area of the economy in which businesses share the same or a related product or service
- Each sector has unique characteristics and risk profile

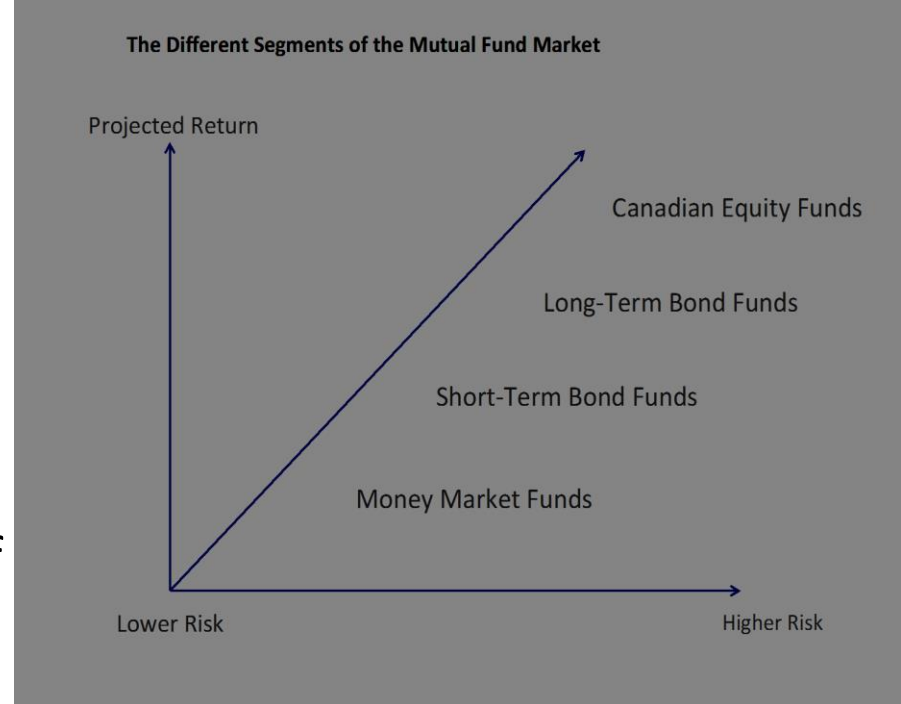
Mutual funds

- Pool of investments
- Investments selected by portfolio manager
- Each fund as a defined objective
- Retail mutual funds open to all investors




Mutual funds

- Variety of mutual funds
- Common types:
 - Fixed income funds
 - Short and longer term
 - Equity funds
 - Canadian
 - Foreign
 - Mixed
 - Balanced funds
 - Mix of fixed income and equities
- Provide exposure to a large array of securities with a single investment



Mutual funds

- Many funds accessible by all types of investors
 - Not limited by size of investment
 - Type of investor (retail or institutional)
- Advantages significant:
 - Professional management
 - Access to markets
 - Diversification
 - Costs
 - Liquidity (ability to cash in investments at any time for retail funds)
- Encasa Social Housing Investment Funds example of fully liquid retail mutual fund



More than \$1 trillion
is invested in mutual
funds in Canada

Mutual funds - costs

- Management Expense Ratio (MER)
 - The MER is the total of the management fee, operating expenses (or administration fee) and GST/HST
- Sales Commissions (load)
 - One time fee paid for the sale of units in a mutual fund
 - “No load” funds do not have sales commissions (e.g. Encasa SHI Funds)
 - Can be paid at time of purchase (front-end load) or at sale(back-end load)
- Short-term trading fees
 - Usually apply when investment is intended to be long term
 - Not charged by all funds

Mutual Fund Returns

- Value of a fund unit is expressed as the Net Asset Value (NAV)
 - Retail Mutual funds calculate this daily
- Returns are two parts
 - Capital gains (losses from sale of securities – bonds or stocks)
 - Distributions or earnings from the securities
- Value of unit rises / decreases with values of underlying securities (bonds and stocks)
- When earnings from fund units are re-invested in the funds, impact can be significant (compounding)

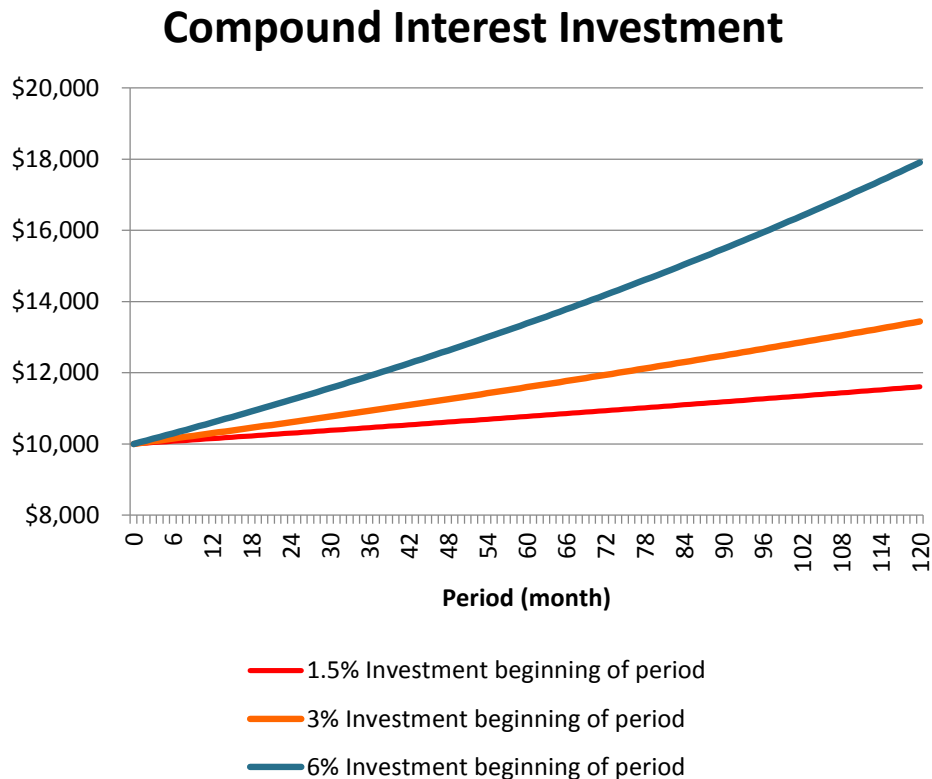
Exchange Traded Funds (ETF)

- Funds that track indexes like the NASDAQ-100 Index, S&P 500, Dow Jones, etc.
 - Started as market index funds
 - Now include many specialized funds
- When you buy shares of an ETF, you are buying shares of a portfolio that tracks the yield and return of its native index
- Low cost result of passive management
- Bought and sold like shares
 - Can have issues of liquidity

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Returns effect of compounding



- Earned interest / capital gains is re-invested
- When asset value increases, more interest is earned

Risk

- Risk is the probability that an investment's actual return will be different than expected
 - Can be measured and used to compare securities / funds

Different kinds of risk

- | | |
|------------|------------------|
| • Market | • Inflation |
| • Business | • Interest rates |
| • Currency | • Securities |
| • Credit | selection |

Risk mitigation

- Selection of investment products
 - Match risk tolerance of investor
- Diversification
 - Asset types
 - Asset classes
 - Sectors
 - Number of securities
 - Securities selection process
- Mutual funds offer risk mitigation by the way in which they are constructed
 - Diversified
 - Broad range of securities

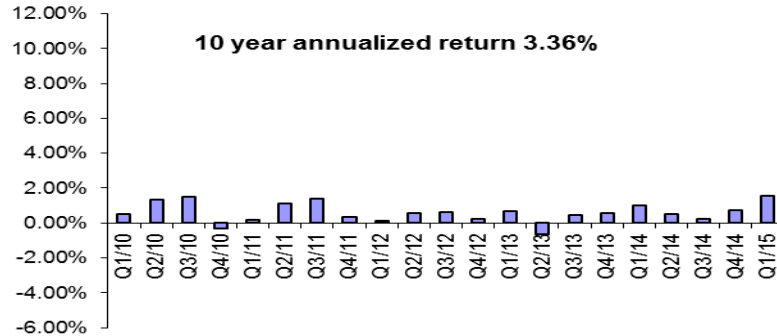
Volatility

- The rate at which the price of a security increases or decreases for a given set of returns.
 - Can be measured
- Investors must decide on tolerance for fluctuations in the value of their investments
 - By type of security selected
 - By type of fund chosen
- Fixed income tends to have less volatility than equities

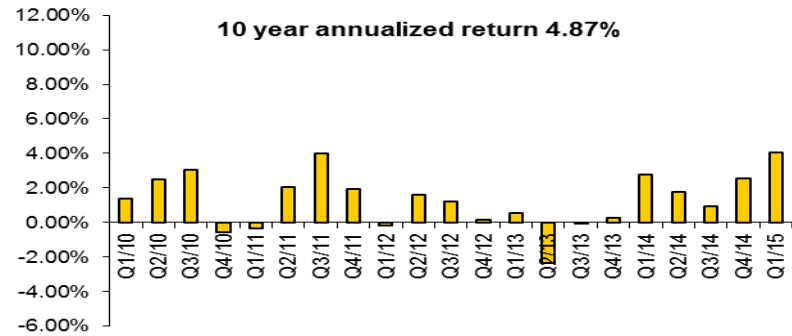
Historical Quarterly Investment Fund Returns

March 31, 2015

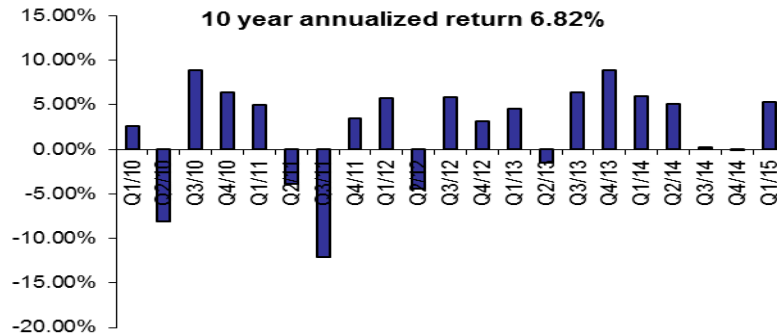
SH Canadian Short -Term Bond Fund



SH Canadian Bond Fund



SH Canadian Equity Fund



Rates of return and distributions are for Series A units of the Social Housing Investment Funds (Funds). The Funds offer different series, which are subject to different fees and expenses. The Management Fee for Series B is higher than for Series A, which could affect performance.

The rates of return published are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the mutual fund or returns on investment in the mutual fund

Responsible investing - SRI

- Socially Responsible investment
 - Investment in securities that have positive social or environmental values
- Most often achieved by excluding securities
 - That do not meet agreed principles
 - That are issued by companies whose products or actions considered harmful to individuals and / or communities
 - Common exclusions are:
 - Alcohol, Tobacco, Arms manufacture, poor environmental records, poor labour and child labour practices, gambling, pornography
- Most SRI policies allow for some excluded content (e.g. limit on % of income from excluded businesses)

Responsible - ESG

- Builds on goals of SRI
 - Selection of securities based on Environmental, Social and Governance criteria
 - Uses a combination of screens and risk assessment
 - Often includes active shareholder engagement where criteria not met by company
- Can be more flexible than fixed screens
 - Broader assessment than many SRI approaches
 - Allow inclusion of securities of companies that may have one characteristic that needs improvements but on balance meet overall rating

Asset allocation (Investment strategy)

- Asset allocation is based on:
 - Investment goals (capital requirements)
 - Liquidity requirements
 - Timing of requirements
 - Investor knowledge
 - Risk tolerance
- An ideal asset allocation would match specific financial instruments with the timing of liabilities
 - Short-term funds (1-5 years) would be cash equivalents and shorter duration bonds
 - Bond funds (4-10 years) for the mid-term horizon include government and corporate bonds
 - Longer term funds (8 years +) would consist of a highly diversified portfolio of equities

Managing investments

- Based on an investment strategy
- Should be reviewed annually
 - Review capital needs
 - Review investment strategy to ensure capital requirements being met
 - Rebalance allocation of assets

Who is Encasa?

- Encasa Financial Inc. is a registered Investment Fund Manager, created to manage the investment of pooled capital reserves of non-profit and co-operative housing providers.
 - Regulated entity
 - Funds offered by prospectus
 - Professional management
 - Owned by four housing organizations



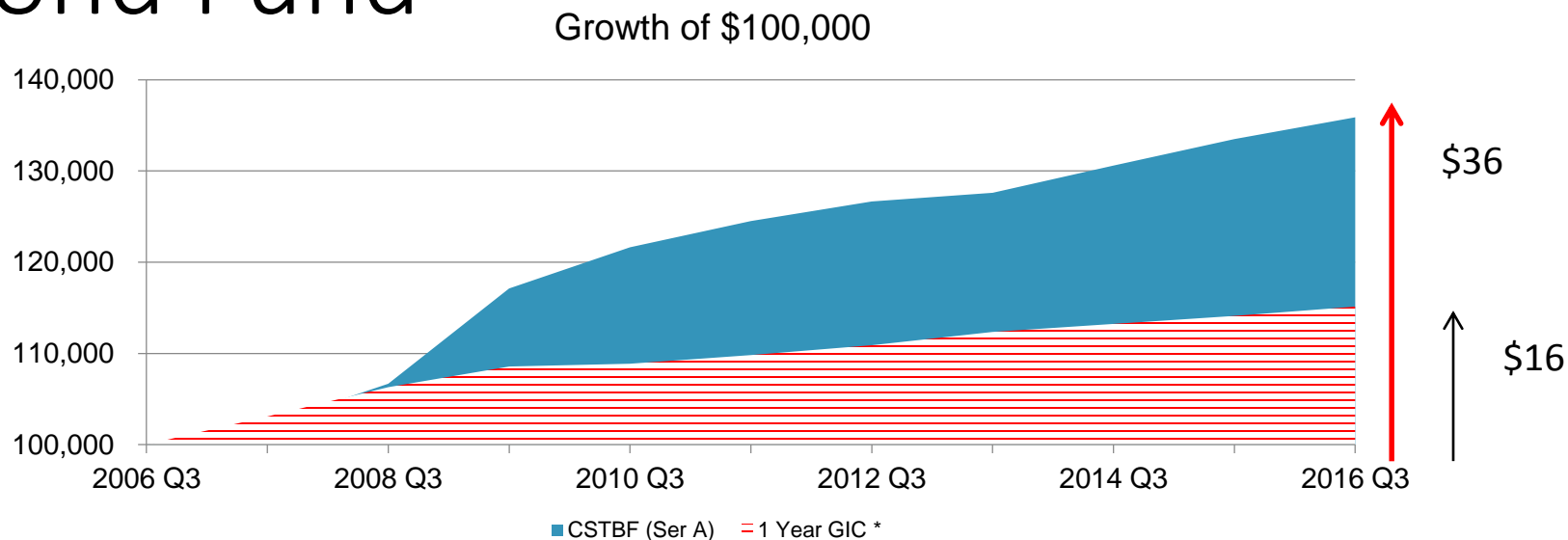
Co-operative Housing
Federation of Canada



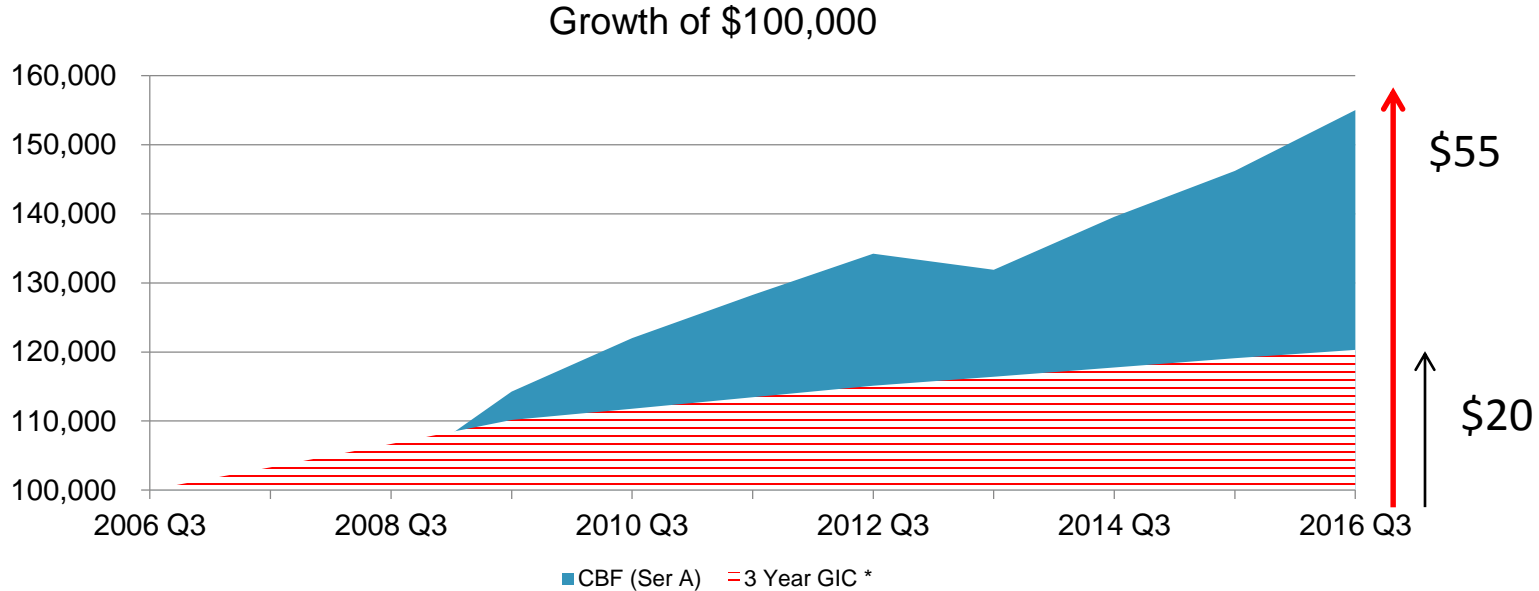
What do we do?

- We manage three investment funds, which comprise the Social Housing Investment Program:
 - Social Housing Canadian Short-term Bond Fund
 - Social Housing Canadian Bond Fund
 - Social Housing Canadian Equity Fund
- Funds designed to meet providers' needs over time
 - A choice of funds to meet a range of investment needs
 - Growth of investments over time
 - Support in making investment decisions
 - Low management expense ratio

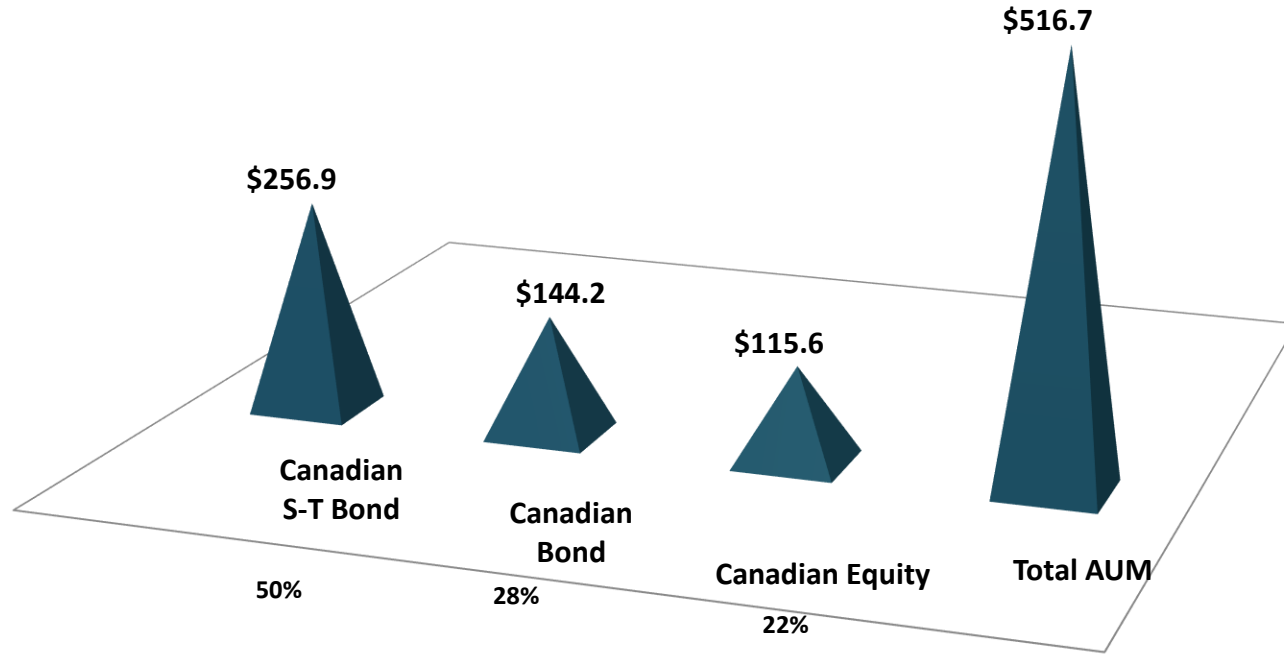
Growth of Canadian Short Term Bond Fund



Growth of Canadian Bond Fund



Assets under management (AUM)



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