

# Reserve Fund Quarterly

January 12, 2024

*Our monthly bulletin for condo boards, property managers, and others involved with the management of residential and commercial condominium reserve funds*

## Fixed Income Rate Sheet

\*Decrease from last month  
\*Increase from last month  
\*No change from last month

High Interest Savings Account (can be used for operating account)	4.75%
High Interest Chequing Account (can write cheques/e-transfer)	5.00%**
1 Year GIC Cashable after 30 Days	4.35%

**\*\* 6 month promo rate\*\***

Guaranteed Investment Certificates (GIC) Opportunities					
	1 Year	2 Year	3 Year	4 Year	5 Year
Annual Pay	5.03%	4.62%	4.50%	4.40%	4.40%

Current Attractive Short Term Bankers Notes		
Issuer	Maturity Date	Yield to Maturity
Schedule 1 Bank	1 Month	5.03%
Schedule 1 Bank	2 Months	5.03%
Schedule 1 Bank	3 Months	5.03%

## Featured Structured Solution of the Month

*Condo boards must be more creative in today's ultra-low rate environment to earn a legitimate return on their reserve fund. Thankfully, there are structured products available, which offer principal protection, as well as equity market participation to help gain more meaningful returns in your reserve fund.*

### National Bank Autocallable Canadian Equity Flex GIC

This is an interesting structure of a market-linked GIC which offers potential 7%/year coupons. Based on a basket of 10 large Canadian stocks, on annual valuation dates if the underlying basket of stocks is at all positive the GIC is "called" away and the investor receives back their principal as well as a 7% coupon. If the basket is down, it would then go to the second annual valuation date where if the basket is at all positive, the GIC is called away with a 14% coupon (7% per year). If the basket is down on all seven annual valuation dates (the 7<sup>th</sup> would pay a 49% coupon if up), then the investor receives back their full principal with no interest. The likelihood is that such a GIC would be called away in one of the early years, but there is a chance that it is not. If it is not called, it is however not locked in. You can sell the GIC any time after year one at the prevailing market price (this is likely to be below the purchase price if the underlying basket of stocks is down). However, this liquidity can be seen as a benefit as it can trade up, or close to par, and the investor would ensure they are always able to hold until maturity in the worst case scenario, and the full principal is protected at maturity.

**Highlights:**

- 7-year term
- Based on ten Canadian blue chip stocks (BCE, BNS, CM, ENB, GWO, MFC, PPL, T, TD, TRP)
- 7%/year coupon when called (annual valuation date if basket of stocks is positive)
- Principal protected (at maturity) by National Bank and by CDIC (up to CDIC limit)

Overall, with rates where they currently are, condominium corporations are likely best off to lock in the current guaranteed rates for as long as their cash flow plan allows. Although the terms on market-linked GICs are very attractive, the opportunity cost of foregoing the currently high guaranteed rates are also high.

**For more detailed information on rates and other products/services offered to condo corporations, or to subscribe to *Reserve Fund Monthly*, please contact the writer.**

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