

An Investment Plan is a Good Investment



With many condominiums now reviewing their reserve fund study, it would be a good time to ensure that your condominium also has an investment plan in place. If not, your board may find itself offside with the Condominium Act.

According to Section 115 of the Act, condominiums that want to make investments in their reserve fund must have an up-to-date investment plan in place. Even investments in guaranteed investment certificates (GICs) require an investment plan.

"Some condominium boards look me straight in the eye and tell me that they don't have an investment plan in place," says Jon Juffs of GRG Building Consultants.

GRG is one of the preeminent Reserve Fund Study consultants in Ontario, having co-authored the CMHC course on Building Technology and Technical Audits.

"The other thing to consider," says Mr. Juffs, "is that just because the board has 'a plan' doesn't make it a good plan."

A good plan carefully considers projected cash flows from reserve fund contributions as well as investment interest, and ensures that the condo will have adequate cash available to meet expenses. Within the boundaries of a solid investment plan, there are usually excellent opportunities to maximize investment returns without compromising either safety or liquidity.

Another effective strategy is to match investment maturities to projected cash flows is a simple - but often-overlooked approach. On the other hand, it's also possible to be too conservative; new condominiums with few near-term projected expenses squander themselves thousands of dollars in interest by selecting investments with maturities that are needlessly short. Having liquidity to meet expenses may not necessarily mean holding thousands of dollars in cash; bonds

that trade in a secondary market can ensure that the condo retains the liquidity it needs.

Finally, it's worth noting that having a good investment plan in place isn't just about meeting regulatory requirements. Even minor improvements in reserve fund interest earned can have a dramatic long-term effect on the condo's financial health. After all, higher than expected interest from the investments means that directors may be able to slow the increases in condo fees to their owners.

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"Before investing any part of the money in the corporation's reserve fund accounts, the board shall develop an investment plan based on the anticipated cash requirements of the reserve fund as set out in the most recent reserve fund study."
~ Section 115.8, Condominium Act of Ontario

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