
City of Kelowna

MEMORANDUM

Date: February 27, 2008
File No.: 1860-01
To: City Manager
From: Financial Systems and Investments Manager
Subject: Investment of City of Kelowna Surplus Funds for 2007

RECOMMENDATION:

THAT Council receive the attached 2007 Compliance and Benchmark Report for the City of Kelowna Investment Portfolio.

BACKGROUND:

As per Council Policy No. 316, Investment of City of Kelowna Surplus Funds, the 2007 Compliance and Benchmark Report is attached for information. As at December 31, 2007 the City of Kelowna Investment Portfolio had an average term to maturity of two and one-half years and the average investment quality rating of AAA.

In 2007 we witnessed the U.S. housing bubble burst which in turn caused the fall of asset backed commercial paper. The U.S. has thousands of banking institutions with varying lending policies whereas Canada has six major banking institutions that operate under similar and much more stringent lending policies. Canadians are therefore not as leveraged as their U.S. counterparts. In 2007, for the first time in Canadian history, Canada joined the "club" of countries such as Switzerland and Saudi Arabia who hold more assets abroad than assets in their own country. Canada now is showing the strongest public finances in the G-7.

Overall, the Canadian economy is likely to continue growing in 2008 but at a slower pace than in 2007. Our wide and uneven distribution of manufacturing plants and natural resources will lead to divergences in economic growth throughout the country, however continued growth in the western provinces including Kelowna will not reflect the norm across Canada.

Economists are projecting further rate cuts in 2008. Short term lending rates have fallen over the last quarter with the long term rate curve starting to return to normal by turning upward. In the summer of 2007 the City seized an opportunity to invest in a specialized short term invest fund by piggy-backing onto MFA investments where we saw returns of half to a full percentage point higher than we could have received on our own.



With these events and projections in mind, and while adhering to our investment policy, we will continue to ladder our investments straight out to 2018.

Considerations that were not applicable to this report:

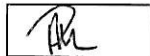
INTERNAL CIRCULATION TO:
LEGAL/STATUTORY AUTHORITY:
LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:
EXISTING POLICY:
FINANCIAL/BUDGETARY CONSIDERATIONS:
PERSONNEL IMPLICATIONS:
TECHNICAL REQUIREMENTS:
EXTERNAL AGENCY/PUBLIC COMMENTS:
ALTERNATE RECOMMENDATION:

Submitted by:



G. Davidson, Financial Systems and Investments Manager

Approved for inclusion



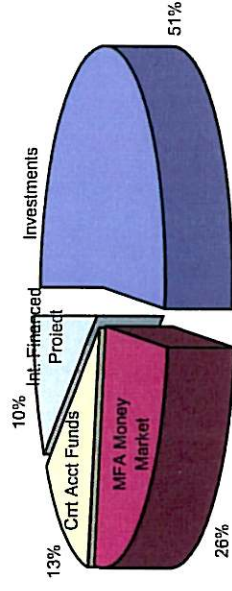
Director of Financial Services

Attachments

City of Kelowna Investment Portfolio Compliance and Benchmark Report As at December 31, 2007

(1) Current Investment Portfolio

Investments	111,347,805	51.4%
MFA Money Market	56,000,000	25.9%
Current Account Funds	28,248,446	13.0%
Internally Financed Projects	195,596,252	90.3%
Total	216,596,508	100.0%



(2) Final Maturity Time Frames

	0 - 1 Yr	1 - 5 Yrs	5 - 10 Yrs	Total
(Includes MFA Money Market and Current Bank Balance)	65,918,038	58,365,343	43,064,425	167,347,805
	39.4%	34.9%	25.7%	100.0%

Average Term to Maturity
Average Quality Rating

2 1/2 years
AAA

Policy Maximum
Policy Maximum

< 3 Years
min. of AA

(3) Issuer Class

	Canadas	Provincials	Municipals	Corporates	Total
(Exclusive of MFA Money Market and Current Bank Balance)	42,961,032	52,935,223	4,609,601	10,841,949	111,347,805
	38.6%	47.5%	4.1%	9.7%	100.0%
Policy Requirements	40%-60%	40%-60%	0%-10%	0%-10%	
Over / (Under)	Under	Pass	Pass	Pass	

City of Kelowna Investment Portfolio
Compliance and Benchmark Report
As at December 31, 2007

(4) Individual Issuers

	Balance	Percentage	Policy Max.*	Variance
Province of British Columbia	11,379,186	10.2%	20.0%	(9.8%)
Province of Alberta	9,561,511	8.6%	20.0%	(11.4%)
Province of Saskatchewan	6,041,861	5.4%	20.0%	(14.6%)
Province of Manitoba	5,985,791	5.4%	20.0%	(14.6%)
Province of Ontario	15,096,579	13.6%	20.0%	(6.4%)
Province of Quebec	2,350,845	2.1%	20.0%	(17.9%)
Province of New Brunswick	1,010,565	0.9%	20.0%	(19.1%)
Province of Nova Scotia	1,508,885	1.4%	5.0%	(3.6%)
Total Provincials	52,935,223	47.5%	40%-60%	Pass
Government of Canada	42,961,032	38.6%	40%-60%	Under
Municipal	4,609,601	4.1%	0%-10%	Pass
CIBC	510,089	0.5%	5.0%	(4.5%)
Bank of Montreal	5,550,997	5.0%	5.0%	(0.0%)
Bank of Nova Scotia	1,675,891	1.5%	5.0%	(3.5%)
Nat	926,585	0.8%	5.0%	(4.2%)
Royal Bank	2,178,387	2.0%	5.0%	(3.0%)
Total Corporates	10,841,949	9.7%	0%-10%	Pass

* Holdings of Individual Provincial Issuer not to exceed 20% of Total Portfolio, exclusive of MFA Money Market and Current Account funds.
Holdings of Individual Corporate Issuer not to exceed 5% of Total Portfolio, exclusive of MFA Money Market and Current Account funds.

(5) Internally Financed Projects

	Balance	Percentage	Policy Max.*	Variance	Financing Term
Airport	9,614,832	5.1%	15.0%	(9.9%)	Work is on-going, no term to complete yet
Capital News Centre	9,330,032	5.0%	15.0%	(10.0%)	Term to 2020
Water Metering	1,604,171	0.9%	15.0%	(14.1%)	Term to 2011
Cemetery	451,221	0.2%	15.0%	(14.8%)	Term to 2010
Total	21,000,256	11.1%	30.0%	(18.9%)	

* Individual Internally Financed Projects not to exceed 15% of Total Portfolio, including of MFA Money Market and Current Account funds.
Total of all Internally Financed Projects not to exceed 30% of Total Portfolio, including of MFA Money Market and Current Account funds.

City of Kelowna Investment Portfolio
Compliance and Benchmark Report
As at December 31, 2007

(6) Annualized Benchmark Comparisons

	<u>1/1/2007</u>	<u>12/31/2007</u>	<u>Alloc. %</u>	<u>Rate of Return</u>	<u>Wtg Avg RR</u>
Investments	101,497,289	111,347,805	51.41%	3.84%	2.46%
MFA Short Term Investment Fund	34,987,755	56,000,000	25.85%	5.09%	1.24%
Current Account Funds *	37,554,772	28,248,446	13.04%	4.37%	0.63%
Internally Financed Projects	21,000,256	21,000,256	9.70%	5.87%	0.46%
Total Investment Portfolio	195,040,072	216,596,508	100.00%	4.79%	4.79%

* Current Account - Tiered Rates / Entire Balance as of December 31, 2007

Balance Tiers: Rate on Entire Balance: Average Royal Bank Prime Rate (RBP) = 6.000

1. 0.00 - 0.00 0.000

2. 0.00 - 10,499,999.99 RBP - 1.900

3. 10,500,000.00 and Over RBP - 1.750 4.250

December 31, 2007

	<u>Annualized Benchmark</u>	<u>Factor</u>	<u>Objective</u>	<u>Variance</u>
Comparison to CPI	1.50%	1.50%	3.00%	1.79%
Comparison to Scotia Capital 91 Day T-Bill	4.28%	1.50%	5.78%	(0.99%)
Comparison to Money Market Universe	4.50%	1.50%	6.00%	(1.21%)
Comparison to MFA Intermediate Fund	4.33%	0.00%	4.33%	0.46%
Comparison to MFA Money Market Fund	4.46%	0.00%	4.46%	0.33%