
CITY OF KELOWNA

MEMORANDUM

Date: February 5, 2009
File No.: 1860-01
To: City Manager
From: Financial Systems & Investments Manager
Subject: Investment of City of Kelowna Funds for 2008
Report Prepared by: Genelle Davidson

RECOMMENDATION:

THAT Council receive the report of the Financial Systems and Investments Manager dated February 5, 2009 for information.

BACKGROUND:

As per Council Policy No. 316, Investment of City of Kelowna Surplus Funds, the 2008 Compliance and Benchmark Report is attached for information.

As at December 31, 2008 the City of Kelowna Investment Portfolio had an average term to maturity of three years and the average investment quality rating of AAA.

In 2008 we witnessed the aftermath of the 2007 burst of the US housing bubble; the fall of the Canadian Prime bank rate from 6% down to 3.5%; \$32 billion of Canadian investments in short term Asset Backed Commercial paper frozen; questionable rating agency practices; and finally a global collaboration to improve policy-makers ability to detect potential crisis before it occurs.

Despite the volatile investment markets, the City of Kelowna's Investment portfolio weathered the storm, and has satisfactorily met its benchmark targets.

In February, our last investment with the MFA pilot project will mature. The MFA has determined that the investment pilot project offered to 4 BC Municipalities, including Kelowna, will not be offered in 2009. The normalization of the yield curve, where long term rates are now higher than short term rates, and the relative disproportionate amount of staff time spent administering this program were determining factors to suspend this pilot program.

The City will continue to invest with the MFA, through the established investment vehicles, and will adhere to our investment policy in 2009 by continuing to balance the portfolio and invest out to the year 2019.



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:
COMMUNICATIONS CONSIDERATIONS:
ALTERNATE RECOMMENDATION:

Submitted by:



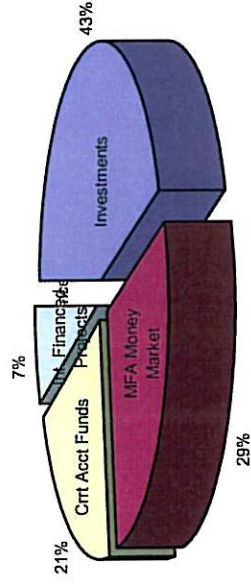
G. Davidson, Financial Systems & Investment Manager

Approved for Inclusion: *KG*
Director of Financial Services

City of Kelowna Investment Portfolio
Compliance and Benchmark Report
As at December 31, 2008

(1) Current Investment Portfolio

Investments	100,133,349	43.8%
MFA Money Market	65,552,937	28.7%
Current Account Funds	47,237,559	20.7%
Internally Financed Projects	212,923,846	93.2%
Total	15,538,051	6.8%
	<u>228,461,897</u>	<u>100.0%</u>



(2) Final Maturity Time Frames

	0 - 1 Yr	1 - 5 Yrs	5 - 10 Yrs	Total
(Includes MFA Money Market and Current Bank Balance)	117,958,562	39,291,162	55,674,122	212,923,846
	55.4%	18.5%	26.1%	100.0%

Average Term to Maturity
 Average Quality Rating

3 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)	43,665,059	35,784,187	6,247,006	14,437,097	100,133,349
	43.6%	35.7%	6.2%	14.4%	100.0%
Policy Requirements	40%-60%	30%-60%	0%-10%	0%-10%	
Over / (Under)	Pass	Pass	Pass	Over	

City of Kelowna Investment Portfolio
Compliance and Benchmark Report
As at December 31, 2008

(4) Individual Issuers

	Balance	Percentage	Policy Max.*	Variance
Province of British Columbia	10,933,943	10.9%	20.0%	(9.1%)
Province of Alberta	519,774	0.5%	20.0%	(19.5%)
Province of Saskatchewan	6,518,128	6.5%	20.0%	(13.5%)
Province of Manitoba	2,128,002	2.1%	20.0%	(17.9%)
Province of Ontario	9,251,219	9.2%	20.0%	(10.8%)
Province of Quebec	3,818,128	3.8%	20.0%	(16.2%)
Province of New Brunswick	2,103,884	2.1%	20.0%	(17.9%)
Province of Nova Scotia	511,109	0.5%	20.0%	(19.5%)
Total Provincials	35,784,187	35.7%	30%-60%	Pass
Government of Canada	43,665,059	43.6%	40%-60%	Pass
Municipal	6,247,006	6.2%	0%-10%	Pass
CIBC	1,923,316	1.9%	5.0%	(3.1%)
Bank of Montreal	8,555,526	8.5%	5.0%	3.5%
Bank of Nova Scotia	1,240,594	1.2%	5.0%	(3.8%)
Nat	1,782,279	1.8%	5.0%	(3.2%)
TD	935,382	0.9%	5.0%	(4.1%)
Royal Bank	-	0.0%	5.0%	(5.0%)
Total Corporates	14,437,097	14.4%	0%-10%	Over

* 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	5,721,866	2.5%	15.0%	(12.5%)	Work is on-going, no term to complete yet
Capital News Centre	8,604,775	3.8%	15.0%	(11.2%)	Term to 2020
Water Metering	976,613	0.4%	15.0%	(14.6%)	Term to 2011
Cemetery	171,199	0.1%	15.0%	(14.9%)	Term to 2010
Energy Efficiency Reserve	63,598	0.0%	15.0%	(15.0%)	Work is on-going, no term to complete yet
Total	15,538,051	6.8%	30.0%	(23.2%)	

* 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, 2008**

(6) Annualized BenchMark Comparisons	<u>1/1/2008</u>	<u>12/31/2008</u>	<u>Alloc. %</u>	<u>Rate of Return (Dec.31)</u>	<u>Avg RR</u>
Investments	109,906,925	100,133,349	43.83%	7.49%	4.00%
MFA Short Term Investment Fund	56,000,000	65,552,937	28.69%	3.02%	3.77%
Current Account Funds *	28,248,446	47,237,559	20.68%	1.89%	3.07%
Internally Financed Projects	21,000,256	15,538,051	6.80%	4.67%	4.67%
Total Investment Portfolio	215,155,628	228,461,897	100.00%	4.27%	3.88%

* Current Account - Tiered Rates / Entire Balance as of January 31, 2008
 Balance Tiers: Rate on Entire Balance: Average Royal Bank Prime Rate (RBP) = 3.645
 1. 0.00 - 0.00 0.000
 2. 0.00 - 10,499,999.99 1.745
 3. 10,500,000.00 and Over 1.895

December 31, 2008	<u>Annualized BenchMark</u>	<u>Factor</u>	<u>Objective</u>	<u>Variance</u>
Comparison to CPI	1.20%	1.50%	2.70%	1.18%
Comparison to DEX 91 Day T-Bill	3.18%	1.50%	4.68%	(0.80%)
Comparison to Money Market (Mercer)	3.51%	1.50%	5.01%	(1.13%)
Comparison to MFA Intermediate Fund	4.91%	0.00%	4.91%	(1.03%)
Comparison to MFA Money Market Fund	3.62%	0.00%	3.62%	0.26%