

# Memo



**Date:** April 13, 2010  
**File:** 0255-01  
**To:** City Manager  
**From:** Genelle Davidson, Financial Systems & Reporting Manager  
**Subject:** Investment of City of Kelowna Funds for 2009

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**Recommendation:**

THAT Council receive the report from the Financial Systems & Reporting Manager dated April 13, 2010 for information.

**Background:**

As per Council Policy No. 316, Investment of Kelowna Surplus Funds, the 2009 Compliance and Benchmark Report is attached for information.

As at December 31, 2009 the City of Kelowna Investment Portfolio had an average term to maturity of three years and the average investment quality rating of AAA.

Now that 2009 is complete and we have witnessed the aftermath of the 2008 financial meltdown it is important to take the time to review, reflect and reaffirm the foundation of our corporate investment portfolio.

It is somewhat unimaginable to consider where we stand today when just over one year ago the very functioning of the global financial system was threatened, causing a major crisis in the US, UK and most of Europe. The trigger of a global recession occurred and major banks were reacting extraordinarily to keep the global financial system afloat. Reflection on this crisis, considering the shock and severity of it, had deeply shaken business and household confidence. Consumers and businesses alike, postponed major purchases; companies downsized causing unemployment to rise; and banks curtailed common lending practices.

Now, as we go forward into 2010 there are increased signs that activity has begun to expand not only here in Canada but in the US and abroad. There are questions of the validity and perceived depth of what was commonly dubbed "the new great recession."

Credit can be given to the policy makers who acted quickly to ensure the placement and introduction of growth incentives such as tax credits, as well as the committed leadership from the Bank of Canada and our solid Canadian banking systems. Keeping interest rates low, in the short run, has improved consumer and corporate confidence, and price stability has given Canadians confidence that our money will retain its purchasing power.

Finally, having solid policy, whether it is on a global, Canadian, or City of Kelowna level, provides consistent and structurally sound guidelines to follow to ensure long term financial stability. The City of Kelowna continues to utilize a laddered 10 year approach to investment holdings and this has proven satisfactory to maintain sufficient levels of income and funding available to meet the City's 10 Year Capital Planning requirements.

In 2009 the prime rate started out at a high of 3% dropping seventy-five basis points to 2.25% effective April, and has held steady to present. This has meant a decline in the short term interest rates driving some of the City's investment diversification to more competitive financial institutions.

All of the economic reporting agencies are in agreement that the Bank of Canada will hold true to its word and begin raising interest rates effective the third quarter of 2010. Current indicators point to a seventy-five basis point increase by the end of the year. The yield curve has returned to a relatively normal state, rising as the term increases, however it is flattening-out after the mid-point range. The City will continue to capture most of the steepness of the

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however it is flattening-out after the mid-point range. The City will continue to capture most of the steepness of the yield curve by weighting our investments somewhat heavier on the front end. The laddering out to 10 years will continue in order to capture ongoing cash flow and potential increased interest rate returns as the bonds regularly mature and can be reinvested to create a rolling ten year period.

Success of the City of Kelowna's policy, and approach to management of the investment portfolio has been reaffirmed through the events of the past few tumultuous years, and I am pleased to present this summary report for your information.

**Existing Policy:**

Council Policy No. 316

**Considerations not applicable to this report:**

**Internal Circulation:**

**Legal/Statutory Authority:**

**Legal/statutory Procedural Requirements:**

**Financial/Budgetary Considerations:**

**Personnel Implications:**

**Technical Requirements:**

**External Agency/Public Comments:**

**Communications Considerations:**

**Alternate Recommendation:**

Submitted by:



G. Davidson, Financial Systems & Reporting Manager

Approved for inclusion:



(Keith Grayston, Director, Financial Services)

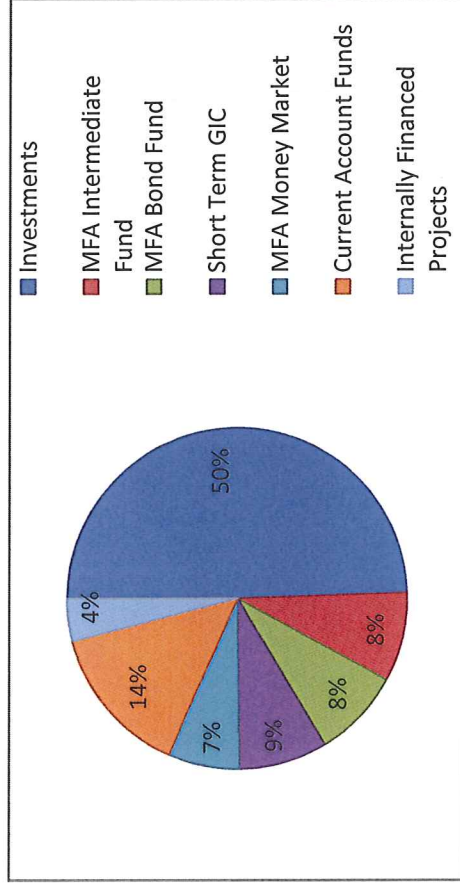
# City of Kelowna Investment Portfolio

## Compliance and Benchmark Report

### As at December 31, 2009

**(1) Current Investment Portfolio**

Investments	117,224,507	49.5%
MFA Intermediate Fund	19,993,926	8.4%
MFA Bond Fund	19,983,809	8.4%
Short Term GIC	20,003,000	8.4%
MFA Money Market	16,151,933	6.8%
Current Account Funds	34,036,456	14.4%
<b>Total</b>	<b>227,393,631</b>	<b>96.0%</b>
Internally Financed Projects	9,567,790	4.0%
<b>Total</b>	<b>236,961,421</b>	<b>100.0%</b>



**(2) Final Maturity Time Frames**

(Includes MFA Money Market, Bank and Short Term)

0 - 1 Yr	1 - 5 Yrs	5 - 10 Yrs	Total
74,815,764	85,064,926	67,512,941	227,393,631
32.9%	37.4%	29.7%	100.0%

Average Term to Maturity  
Average Quality Rating

3 years  
AAA

Policy Maximum  
Policy Maximum

< 3 Years  
min. of AA

**(3) Issuer Class**

(Exclusive of MFA, Bank, ST GIC)  
Policy Requirements

Canadas	Provincials	Municipals	Corporates	Total
52,680,903	38,931,076	8,049,496	17,563,031	117,224,507
44.9%	33.2%	6.9%	15.0%	100.0%
40%-60%	30%-60%	0%-10%	0%-10%	
Pass	Pass	Pass	Over	

Over / (Under)

**(4) Individual Issuers**

	Balance	Percentage	Policy Max.*	Variance
Province of British Columbia	8,617,607	7.4%	20.0%	(12.6%)
Province of Alberta	1,426,349	1.2%	20.0%	(18.8%)
Province of Saskatchewan	6,734,000	5.7%	20.0%	(14.3%)
Province of Manitoba	1,944,684	1.7%	20.0%	(18.3%)
Province of Ontario	13,543,081	11.6%	20.0%	(8.4%)
Province of Quebec	4,618,604	3.9%	20.0%	(16.1%)
Province of New Brunswick	2,046,752	1.7%	20.0%	(18.3%)
Province of Nova Scotia	-	0.0%	20.0%	(20.0%)
<b>Total Provincials</b>	<b>38,931,076</b>	<b>33.2%</b>	<b>30%-60%</b>	<b>Pass</b>
<b>Government of Canada</b>	<b>52,680,903</b>	<b>44.9%</b>	<b>40%-60%</b>	<b>Pass</b>
<b>Municipal</b>	<b>8,049,496</b>	<b>6.9%</b>	<b>0%-10%</b>	<b>Pass</b>
CIBC	2,113,200	1.8%	5.0%	(3.2%)
Bank of Montreal	7,907,999	6.7%	5.0%	1.7%
Bank of Nova Scotia	2,285,686	1.9%	5.0%	(3.1%)
National Bank	2,131,579	1.8%	5.0%	(3.2%)
Toronto Dominion	2,112,501	1.8%	5.0%	(3.2%)
Royal Bank	1,012,067	0.9%	5.0%	(4.1%)
<b>Total Corporates</b>	<b>17,563,031</b>	<b>15.0%</b>	<b>0%-10%</b>	<b>Over</b>

\* 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
Capital News Centre	8,266,288	3.5%	15.0%	(11.5%)	Term to 2022
Water Metering	634,764	0.3%	15.0%	(14.7%)	Term to 2011
Cemetery	243,921	0.1%	15.0%	(14.9%)	Term to 2011
Energy Efficiency Reserve	422,817	0.2%	15.0%	(14.8%)	Work is on-going, annual review
<b>Total</b>	<b>9,567,790</b>	<b>4.0%</b>	<b>30.0%</b>	<b>Pass</b>	

**(6) Annualized Benchmark Comparisons**

	<u>1/1/2009</u>	<u>12/31/2009</u>	<u>Alloc. %</u>	<u>2009 Average</u> <u>Rate of Return</u>
Investments	100,133,349	117,224,507	49.47%	3.59%
MFA Intermediate Fund	-	19,993,926	8.44%	-0.46%
MFA Bond Fund	-	19,983,809	8.43%	-1.23%
Short Term GIC	-	20,003,000	8.44%	2.24%
MFA Money Market	65,552,937	16,151,933	6.82%	1.08%
Current Account Funds	47,237,559	34,036,456	14.36%	0.69%
Total External Investments	212,923,845	227,393,631		2.11%
Internally Financed Projects	15,538,051	9,567,790	4.04%	
<b>Total Investment Portfolio</b>	<b>228,461,896</b>	<b>236,961,421</b>	<b>100.00%</b>	<b>3.60%</b>

\* Current Account - Tiered Rates / Entire Balance as of December 31, 2009

Balance Tiers: Rate on Entire Balance:

1. 0.00 - 0.00
2. 0.00 - 10,499,999.99
3. 10,500,000.00 and Over

Average Royal Bank Prime Rate (RBP) = 2.25

- RBP - 1.900      0.000  
RBP - 1.750      .35  
                         .50

**December 31, 2009**

	<u>BenchMark</u>	<u>Factor</u>	<u>Objective</u>	<u>Variance</u>
Comparison to CPI	1.30%	1.50%	2.80%	(0.69%)
Comparison to DEX 91 Day T-Bill	0.47%	1.50%	1.97%	0.14%
Comparison to Money Market (Mercer)	0.99%	1.50%	2.49%	(0.38%)
Comparison to MFA Intermediate Fund	3.76%	0.00%	3.76%	(1.65%)
Comparison to MFA Money Market Fund	1.08%	0.00%	1.08%	1.03%