

Memo



Date: April 28, 2011
File: 0255-01
To: City Manager
From: Genelle Davidson, Financial Systems & Reporting Manager
Subject: Investment of City of Kelowna Funds for 2010

Recommendation:

THAT Council receive the report from the Financial Systems & Reporting Manager dated April 28, 2011 for information.

Purpose:

To provide Council with information summarizing City of Kelowna's 2010 investment of surplus funds, activity, and performance.

Background:

As at December 31, 2010 the City of Kelowna Investment Portfolio had an average term to maturity of three years and the average investment quality rating of AAA.

The global economy is proceeding somewhat faster than the Bank of Canada had originally predicted despite the sovereign debt, bank balance sheet concerns in Europe and the ongoing financial debacle in the U.S. The Canadian economy is projected to show continued expansion in 2011 at 2.9%. Inflation however, continues to rise with projections boosting up to 3% by the end of the 2nd quarter and then leveling back down to 2% in 2012.

Canada's overall recovery has been stronger than other G7 members. By mid-2010 outputs had returned to pre-recession levels and all of the jobs that were lost had been regained. Last year's investment report made reference to a number of factors that set Canada up for recovery in 2010. Based on these favorable factors, the Bank of Canada has continued to set its monetary policy for overall Canadian conditions on a 2% inflation target. The 2010 inflation rate came in at 2.4% for the period December 2009 to December 2010 noting that there was a .4% rise in December mainly resulting from higher gasoline prices. Also, of interest is the rise in transportation and energy indexes for this period with gas prices rising 13% and energy (electricity and natural gas) prices increasing 10.5%. The Bank of Canada has continued to keep interest rates low which stimulate spending. Government and household spending have led the course however consumers have been spending by leveraging equity in their homes or other assets which therefore increases their debt load.

All Provincial economies grew in 2010 and are showing recovery from the widespread downturns in 2008 and 2009. In BC, GDP, employment, retail sales and housing starts have all returned to positive % change year over year.

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The City of Kelowna continues to utilize a laddered 10 year strategy and balanced approach with regard to investment holdings and duration. This strategy puts the City's money to work across the curve and the benefits of this approach will continue to accrue as ongoing maturities provide liquidity while overall yields can increase over time as maturing bonds are replaced with higher yielding new issues. This balanced approach results in the City having sufficient levels of income and funding available to meet the City's annual funding requirements.

In April of 2010 the City reallocated some investment monies from the MFA money market fund to other short term investment vehicles where we were able to secure higher returns. In June, Philips Hager North Investment Management sent out a briefing to all MFA subscribers explaining their views on recent and projected MFA investment returns. The briefing addressed specifics on fund content and investments as well as concerns regarding the low returns on all three funds in particular, the money market fund. The City continues to hold monies in the MFA Intermediate and Bond funds where returns have been steadily increasing throughout 2010.

2011 Investment objectives include tightening up the cash flow projections by increasing awareness of both inflow and outflows of cash amongst our internal stakeholders as well as seeking out and being open to outside investment opportunities and proposals that can increase the City's investment revenues while remaining within Council's investment policy.

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:

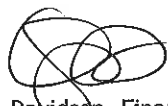
Technical Requirements:

External Agency/Public Comments:

Communications Considerations:

Alternate Recommendation:

Submitted by:



G. Davidson, Financial Systems & Reporting Manager

Approved for inclusion:

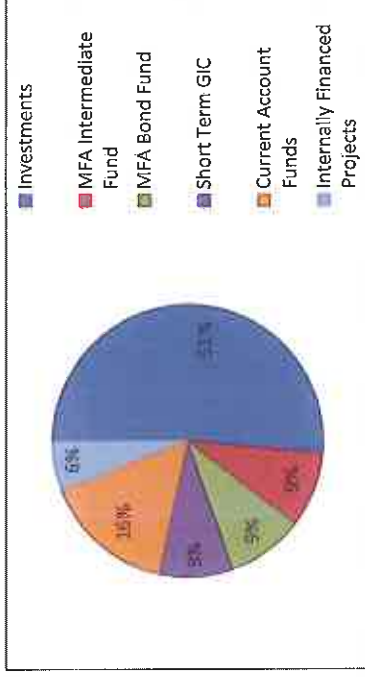


(Keith Grayston, Director, Financial Services)

City of Kelowna Investment Portfolio Compliance and Benchmark Report As at December 31, 2010

(1) Current Investment Portfolio

Investments	116,984,279	51.5%
MFA Intermediate Fund	20,226,215	8.9%
MFA Bond Fund	20,711,286	9.1%
Short Term GIC	20,031,610	8.8%
MFA Money Market	-	0.0%
Current Account Funds	35,793,323	15.8%
Internally Financed Projects	213,746,712	94.2%
	13,191,573	5.8%
Total	226,938,285	100.0%



(2) Final Maturity Time Frames

	0 - 1 Yr	1 - 5 Yrs	5 -10 Yrs	Total
	58,447,852	87,515,231	67,783,630	213,746,712
(Includes Bank and Short Term)	27.3%	40.9%	31.7%	100.0%

Average Term to Maturity
Average Quality Rating

3
AAA
Policy Maximum
Policy Maximum
< 3 Years
min. of AA

(3) Issuer Class

	Canadas	Provincials	Municipals	Corporates	Total
	52,481,961	40,444,015	8,230,700	15,827,602	116,984,279
(Exclusive of MFA, Bank, ST GIC)	44.9%	34.6%	7.0%	13.5%	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, 2010

(4) Individual Issuers

	Balance	Percentage	Policy Max.*	Variance
Province of British Columbia	6,574,185	5.6%	20.0%	(14.4%)
Province of Alberta	961,991	0.8%	20.0%	(19.2%)
Province of Saskatchewan	4,597,263	3.9%	20.0%	(16.1%)
Province of Manitoba	1,009,664	0.9%	20.0%	(19.1%)
Province of Ontario	14,869,743	12.7%	20.0%	(7.3%)
Province of Quebec	5,547,646	4.7%	20.0%	(15.3%)
Province of New Brunswick	2,129,261	1.8%	20.0%	(18.2%)
Province of Nova Scotia	3,415,862	2.9%	20.0%	(17.1%)
Prince Edward Island	681,900	0.6%	20.0%	(19.4%)
Province of Newfoundland	656,500	0.6%	20.0%	(19.4%)
Total Provincials	40,444,015	34.0%	30%-60%	Pass
Government of Canada	52,481,961	44.9%	40%-60%	Pass
Municipal	8,230,700	7.0%	0%-10%	Pass
CIBC	2,130,748	1.8%	5.0%	(3.2%)
Bank of Montreal	7,153,693	6.1%	5.0%	1.1%
Bank of Nova Scotia	1,252,424	1.1%	5.0%	(3.9%)
Nat	2,147,199	1.8%	5.0%	(3.2%)
TD	2,133,622	1.8%	5.0%	(3.2%)
Royal Bank	1,009,917	0.9%	5.0%	(4.1%)
Total Corporates	15,827,602	13.5%	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
Energy Efficiency Reserve (R011)	436,246	0.2%	15.0%	(14.8%)	Repayment 50k year
Land for Protective Services (R818)	3,763,004	1.7%	15.0%	(13.3%)	Repayment 504k year
Land Acquisition (R177)	719,831	0.3%	15.0%	(14.7%)	Repayment 150k year
Mission Park (R178)	7,926,186	3.5%	15.0%	(11.5%)	Term to 2020
Water Management (Meters R179)	272,523	0.1%	15.0%	(14.9%)	Term to 2011
Cemetery (R180)	73,783	0.0%	15.0%	(15.0%)	Term to 2011
Total	13,191,573	3.6%	30.0%	(24.2%)	

* Individual Internally Financed Projects not to exceed 15% 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, 2010

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

(6) Annualized Benchmark Comparisons				December Rate of Return	2010 Average Rate of Return
	1/1/2010	12/31/2010	Alloc. %		
Investments	117,224,507	116,984,279	51.55%	3.52%	3.67%
MFA Intermediate Fund	19,993,926	20,226,215	8.91%	1.18%	1.15%
MFA Bond Fund	19,983,809	20,711,286	9.13%	1.72%	3.52%
Short Term GIC	20,003,000	20,031,610	8.83%	1.64%	1.32%
MFA Money Market	16,151,933	0	0.00%	0.00%	0.41%
Current Account Funds	34,036,456	35,793,323	15.77%	1.25%	0.84%
Total External Investments	227,393,631	213,746,712		2.64%	2.68%
Internally Financed Projects	9,567,790	13,191,573	5.81%	1.00%	0.58%
Total Investment Portfolio	236,961,421	226,938,285	100.00%		

* Current Account - Tiered Rates / Entire Balance as of December 31, 2010

Balance Tiers: Rate on Entire Balance:

1. 0.00 - 0.00	Average Royal Bank Prime Rate (RBP) =	3.00
2. 0.00 - 10,499,999.99		0.00%
3. 10,500,000.00 and Over	RBP - 1.900	1.10
	RBP - 1.750	1.25

December 31, 2010

	Annualized BenchMark	% Over BenchMark	Objective	Variance
Comparison to CPI	2.40%	1.50%	3.90%	(1.22%)
Comparison to DEX 91 Day T-Bill	0.54%	1.50%	2.04%	0.64%
Comparison to Money Market (Mercer)	0.70%	1.50%	2.20%	0.48%
Comparison to MFA Intermediate Fund	1.15%	0.00%	1.15%	1.53%
Comparison to MFA Money Market Fund	0.61%	0.00%	0.61%	2.07%