

Report to Council



Date: March 14, 2012
File: 0255-01
To: City Manager
From: Genelle Davidson, Financial Systems & Reporting Manager
Subject: Investment of City of Kelowna Funds for 2011

Recommendation:

THAT Council receives, for information, the Report from the Financial Systems & Reporting Manager dated March 14, 2012 with respect to the investment of City of Kelowna funds for 2011.

Purpose:

To provide Council with information summarizing City of Kelowna's 2011 investment of surplus funds, activity, and performance.

Background:

As at December 31, 2011 the City of Kelowna Investment Portfolio had an average term to maturity of three years and the average investment quality rating of AAA.

In 2011 the outlook for the global economy deteriorated and uncertainty increased. Since 2007 we have witnessed significant failures in the worldwide financial system that has been caused by a number of factors. There is little doubt that the debt super cycle, as recently dubbed by Mark Carney, Governor for the Bank of Canada, has manifested itself in many ways in different countries. History also shows us that recessions involving financial crisis tend to be deeper and have long recoveries. Canada is holding up reasonably well and this is supported by the flight to quality that has seen the demand for Canadian government bonds increase and the dollar be recognized as one of the best currencies around today.

The City of Kelowna continues to utilize a laddered 10 year strategy and balanced approach for investment holdings and duration. This strategy puts the City's money to work across the curve and the benefits will accrue as ongoing maturities provide liquidity and overall yields 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.

Investment interest rates for short term and 10 year terms are back to those experienced in the late '30's and early 40's with the spread between the terms being only a few basis points. The largest move in the yield curve in 2011 took place in the 5-10 year range of the curve where these rates saw a drop in excess of 1.1%. The credit union wholesale short term rates

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have been the most competitive through 2011 and that is where the City has continued to hold laddered term monies.

The City capitalized on the high demand for quality Canadian debt in August and again in December by selling some of the portfolios highly sought after government bonds. These sales provided an extraordinary gain of over \$800,000 and subsequently increased the overall rate of return for the 2011 portfolio. Before selling these bonds, the portfolio was carefully reviewed to ensure that it maintains its strong mix of quality positions for the years in which the bonds were sold. The portfolio continues to be slightly overweight in its corporate holdings and this is due to the higher returns being offered on Canadian bank debt. Three internally financed projects were completed in 2011: land acquisition, water meter management, and cemetery capital.

2012 Investment objectives include continued monitoring of economic climate in order to safeguard and accurately position financial assets, and seeking investment opportunities 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:

Financial/Budgetary Considerations:

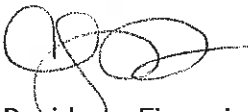
Personnel Implications:

External Agency/Public Comments:

Communications Comments:

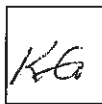
Alternate Recommendation:

Submitted by:



G. Davidson, Financial Systems & Reporting Manager

Approved for inclusion:

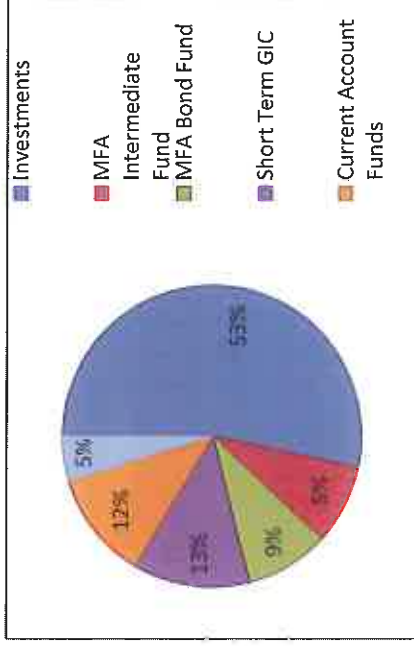


Keith Grayston, Director, Financial Services

City of Kelowna Investment Portfolio Compliance and Benchmark Report As at December 31, 2011

(1) Current Investment Portfolio

Investments	127,480,957	53.3%
MFA Intermediate Fund	20,569,408	8.6%
MFA Bond Fund	21,485,672	9.0%
Short Term GIC	30,155,005	12.6%
MFA Money Market	-	0.0%
Current Account Funds	27,837,151	11.6%
Internally Financed Projects	227,528,193	95.2%
Total	11,478,673	4.8%
	239,006,866	100.0%



(2) Final Maturity Time Frames

	0 - 1 Yr	1 - 5 Yrs	5 - 10 Yrs	Total
	66,605,529	96,628,470	64,294,194	227,528,193
(Includes Bank and Short Term)	29.3%	42.5%	28.3%	100.0%

Average Term to Maturity
Average Quality Rating

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AAA

Policy Maximum
Policy Maximum

< 3 Years
min. of AA

(3) Issuer Class

	Canadas	Provincials	Municipals	Corporates	Total
	53,460,715	48,958,462	9,042,866	16,018,913	127,480,957
(Exclusive of MFA, Bank, ST GIC)	41.9%	38.4%	7.1%	12.6%	100.0%
Policy Requirements	40%-60%	30%-60%	0%-10%	0%-10%	
Over / (Under)	Pass	Pass	Pass	Over	

(4) Individual Issuers

	Balance	Percentage	Policy Max.*	Variance
Province of British Columbia	7,744,575	6.1%	20.0%	(13.9%)
Province of Alberta	1,017,978	0.8%	20.0%	(19.2%)
Province of Saskatchewan	4,797,091	3.8%	20.0%	(16.2%)
Province of Manitoba	1,009,994	0.8%	20.0%	(19.2%)
Province of Ontario	16,091,067	12.6%	20.0%	(7.4%)
Province of Quebec	6,224,872	4.9%	20.0%	(15.1%)
Province of New Brunswick	3,959,251	3.1%	20.0%	(16.9%)
Province of Nova Scotia	5,464,041	4.3%	20.0%	(15.7%)
Prince Edward Island	1,289,238	1.0%	20.0%	(19.0%)
Province of Newfoundland	1,360,355	1.1%	20.0%	(18.9%)
Total Provincials	48,958,462	37.3%	30%-60%	Pass
Government of Canada	53,460,715	41.9%	40%-60%	Pass
Municipal	9,042,866	7.1%	0%-10%	Pass
CIBC	1,160,465	0.9%	5.0%	(4.1%)
Bank of Montreal	7,173,411	5.6%	5.0%	0.6%
Bank of Nova Scotia	1,310,904	1.0%	5.0%	(4.0%)
Nat	2,142,602	1.7%	5.0%	(3.3%)
TD	3,171,856	2.5%	5.0%	(2.5%)
Royal Bank	1,059,674	0.8%	5.0%	(4.2%)
Total Corporates	16,018,913	12.6%	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
Carbon Energy Fund (R011)	286,483	0.1%	15.0%	(14.9%)	Repayment 50k year
Land for Protective Services (R818)	3,762,952	1.6%	15.0%	(13.4%)	Repayment 504k year
Mission Park (R178)	7,429,238	3.1%	15.0%	(11.9%)	Term to 2020
Total	11,478,673	3.1%	30.0%	(25.2%)	

* 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.

(6) Annualized Benchmark Comparisons			
	<u>1/1/2011</u>	<u>12/31/2011</u>	<u>Alloc. %</u>
Investments	116,984,279	127,480,957	53.34%
MFA Intermediate Fund	20,226,215	20,569,408	8.61%
MFA Bond Fund	20,711,286	21,485,672	8.99%
Short Term GIC	20,031,610	30,155,005	12.62%
MFA Money Market	0	0	0.00%
Current Account Funds	35,793,323	27,837,151	11.65%
Total External Investments	213,746,712	227,528,193	
Internally Financed Projects	13,191,573	11,478,673	4.80%
Total Investment Portfolio	226,938,285	239,006,866	100.00%

	<u>December Rate of Return</u>	<u>2011 Average Rate of Return</u>
	9.36%	4.52%
	1.37%	1.67%
	5.12%	3.64%
	1.65%	1.70%
	0.00%	0.00%
	1.25%	1.25%
	5.82%	3.23%
	1.00%	1.00%

* Current Account - Tiered Rates / Entire Balance as of December 31, 2011
 Balance Tiers: Rate on Entire Balance: Average Royal Bank Prime Rate (RBP) = 3.00

- 0.00 - 10,499,999.99 RBP - 1.900
- 10,500,000.00 and Over RBP - 1.750

	<u>Annualized BenchMark</u>	<u>% Over BenchMark</u>
December 31, 2011	2.50%	1.50%
Comparison to CPI	1.00%	1.50%
Comparison to DEX 91 Day T-Bill	1.18%	1.50%
Comparison to Money Market (Mercer)	1.70%	0.00%
Comparison to MFA Intermediate Fund	1.03%	0.00%
Comparison to MFA Money Market Fund		

	<u>Objective</u>	<u>Variance</u>
	4.00%	(0.77%)
	2.50%	0.73%
	2.68%	0.55%
	1.70%	1.53%
	1.03%	2.20%