

# Report to Council



**Date:** March 18, 2019  
**File:** 0255-01  
**To:** City Manager  
**From:** James Sexton, Financial Analyst  
**Subject:** Investment of Kelowna Funds for 2018

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## **Recommendation:**

THAT Council receives, for information, the Investment of Kelowna Funds for 2018 Report from the Financial Analyst as presented on March 18, 2019.

## **Purpose:**

To provide Council with information summarizing the City of Kelowna's 2018 investment portfolio and an overview of the performance of the portfolio as a whole.

## **Background:**

### Economic Review

The Bank of Canada overnight interest rate increased three times in 2018 to 1.75%. 2018 saw a slowing down in our national economy with less momentum going into the fourth quarter, which was echoed with the Bank of Canada continuing to maintain the overnight interest rate of 1.75% since October.

The Consumer Price Index (CPI) inflation rate for Canada increased from 1.9% in 2017 to 2.0% in 2018. The inflation rate is predicted to fluctuate in the coming months due to uncertainty, but is expected to remain close to the Bank of Canada's 2% target rate.

The current economic outlook for 2019 suggests that the slowdown in the global economy has been more pronounced and widespread than the Bank of Canada had forecast in January of this year. It now appears that the global economy will be weaker through the first half of 2019. The Bank of Canada does not expect to make any changes to the overnight interest rate until the second half of the year when we may see the impact from the resolution of trade conflicts.

## Investment of Kelowna Funds

The Investment Policy aligns with current best practices and ensures the continued commitment to provide an optimal blend of investment return and security. The City of Kelowna has a fund value of \$465.5 million as of Dec. 31, 2018. The funds are used toward the City's operating and capital programs and help offset taxation impact to residents. The portfolio is diversified into: 44% (\$204.4 million) long term investments, 55% (\$256.9 million) short term investments and 1% (\$4.2 million) internally financed projects.

Last year we saw the Investment portfolio grow with the amalgamation of the South East Kelowna Irrigation District on June 4, 2018 and the termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. The portfolio continues to be slightly overweight in its corporate holdings as the corporate bank debt offerings continue to provide the highest fixed income returns and are considered a strong financial investment. The portfolio constraints are in line with best practices and industry standards.

The City of Kelowna continues to utilize a laddered 10-year strategy and balanced approach for investment holdings and duration. The laddered strategy ensures that the bonds mature at a smooth and predictable rate, that yields are maximized and that investment income and maturing investments provide ongoing liquidity. This balanced approach results in the City having sufficient levels of income and funding available to meet the municipality's annual requirements.

## Portfolio Performance

As at Dec. 31, 2018 the City of Kelowna Investment Portfolio had a weighted average term to maturity of 4.4 years and an average investment quality rating of AAA. This represents the highest credit worthiness of corporate and government bonds.

The City has selected five market indicators as benchmarks to determine the investment portfolio's performance. The benchmarks are compared to the City's average rate of return earned on the entire investment portfolio. These benchmarks are the CPI Index Average, the FTSE TMX Canada 91-Day T-Bill, the median money market return, and the MFA Money Market and Intermediate Funds. In 2018, the City of Kelowna's 2.69% average rate of return was greater than performance indicators in each of these benchmarks.

## Legacy Fund

The Legacy Fund consists of City owned Fortis Inc. corporate shares purchased with the proceeds of the sale of the City's electrical utility, along with the proceeds received from the termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. in 2018. In 2013 the City of Kelowna purchased Fortis Inc. shares in the amount of \$55.0 million from the sale of the City's Electric Utility. To date, the city has used this investment to support capital projects such as the City's Dark Fibre Optic Network.

In 2018, the City reinvested dividends in the amount of \$3.2 million and sold shares in the amount of \$1.6 million to support City operations. As of Dec. 31, 2018, the Fortis investment has a book value of \$62.7 million and a current market value of \$85.9 million. The proceeds from the 2018 termination of the City's natural gas lease-in lease-out agreement with FortisBC Energy Inc. were also invested in 2018 in the

amount of \$26.9 million. The Legacy Fund is to be an investment fund that benefits the citizens of Kelowna in perpetuity.

The Year Ahead

2019 investment objectives include continued monitoring of the U.S. dollar and Canadian 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.

**Internal Circulation:**

Communications Consultant

**Legal/Statutory Procedural Requirements:**

The Financial Officer will provide Council with an annual report on the performance of the Investment of City of Kelowna Funds portfolio in the first quarter of the following year.

**Existing Policy:**

Council Policy Number 316

**Alternate Recommendation:**

**Considerations not applicable to this report:**

**Legal/Statutory Authority:**

**Financial/Budgetary Considerations:**

**Personnel Implications:**

**External Agency/Public Comments:**

**Communications Comments:**

**Alternate Recommendation:**

Submitted by:

J. Sexton, Financial Analyst

**Approved for inclusion:**



George King CPA CMA, Financial Planning Manager

cc: Genelle Davidson CPA CMA, Divisional Director Financial Services

**Attachments:**

Appendix A. Presentation to Council