

Report to Council



Date: April 25, 2016

File: 0255-01

To: City Manager

From: Jackie Dueck, Systems and Reporting Manager

Subject: Investment of City of Kelowna Funds for 2015

Report Prepared by: Liz Demer, Financial Analyst

Recommendation:

THAT Council receives, for information, the Report from the Systems and Reporting Manager dated April 25, 2016 with respect to the investment of City of Kelowna funds for 2015.

Purpose:

To provide Council with information summarizing the City of Kelowna's 2015 investment of surplus funds and performance of the portfolio.

Background:

Economic Review

2015 was a lethargic fiscal year for Canada with the Bank of Canada cutting interest rates by 0.25% in both January and July in an attempt to re-balance inflation to the Bank of Canada's 2% target rate. By reducing interest rates, the Bank of Canada is attempting to discourage saving and stimulate spending. Despite these efforts, the CPI inflation remained near the bottom of the Bank of Canada's target range at 1.1% for 2015.

Both oil prices and the Canadian dollar fell steadily through the third and fourth quarters of 2015, but had begun to recover in the first quarter of 2016. All major forecasts point towards a gradual recovery through the end of 2016. In January of 2016 the Financial Services Department adopted a U.S. dollar purchasing strategy designed to mitigate the exchange risk through regular planned U.S. currency purchases.

Investment of Surplus Funds

An updated Investment Policy was adopted by Council in 2015 to better align with current best practices and to ensure the continued commitment to provide an optimal blend of

investment return and security. This document recommitted to prior performance objectives and added portfolio constraints more 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 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 Municipalities annual requirements.

Portfolio Performance

As at December 31, 2015 the City of Kelowna Investment Portfolio had a weighted average term to maturity of four and a half years and an average investment quality rating of AA.

The City has selected 5 market indicators to use as a benchmark to determine whether the City's investment portfolio is performing. 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 2015 The City of Kelowna realized an average rate of return greater than the benchmarks in all 5 cases.

The Year Ahead

2016 investment objectives include continued monitoring of the 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 Number 316

Considerations not applicable to this report:

Internal Circulation:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Financial/Budgetary Considerations:

Personnel Implications:

External Agency/Public Comments:

Communications Comments:

Alternate Recommendation:

Submitted by:

J. Dueck, Systems and Reporting Manager

Approved for inclusion:



Genelle Davidson CPA CMA, Director Financial Services

Attachment:
2015 Investment Report

cc: Divisional Director, Corporate and Protective Services