

Report to Council



Date: March 17, 2025
To: Council
From: City Manager
Subject: Investment of Kelowna Funds 2024
Department: Financial Services

Recommendation:

THAT Council receives, for information, the Investment of Kelowna Funds for 2024 Report from the Treasury Supervisor as presented on March 17, 2025, in alignment with the Council’s strong financial management priority.

Purpose:

To receive information summarizing the City of Kelowna’s 2024 investment portfolio and an overview of the performance of the portfolio.

Background:

Economic Overview

In 2024, Canada's economy demonstrated resilience amid global uncertainties, achieving a "soft landing". Real Gross Domestic Product (GDP) increased by 1.5% in 2024 compared to 1.2% in 2023. Inflation steadily decreased to an average of 2.4% for 2024 compared with 3.9% in 2023.

The Bank of Canada implemented six policy interest rate reductions throughout 2024, lowering the rate from 5% on January 1 to 3.25% by December 31. This monetary easing strategy was designed to stimulate economic activity while ensuring inflation remained within the Bank’s target range.

Investment of Kelowna Funds

The City of Kelowna’s investment portfolio is designed to achieve a strategic balance among capital preservation, return on investment, and liquidity to meet the City’s financial obligations. Investment funds support both operating and capital programs while helping to mitigate the taxation impact on residents.

The Community Charter specifically states the type of investments the city can invest in. The following are authorized investments under the Community Charter:

- Securities and pooled funds of the Municipal Finance Authority
- Securities of or investments guaranteed by Canada or of a province,
- Securities of a municipality, regional district or greater board.
- Investments guaranteed by a chartered bank
- Deposits in savings institutions or non equity membership shares of a credit union
- Other investments specifically authorized under this or other acts

As of December 31, 2024, the City's investment portfolio had a market value of \$936.5 million, reflecting a decrease of \$13.9 million from the previous year. This decline was primarily driven by increased liquidity requirements to support accelerated capital delivery, partially offset by realized and unrealized gains.

The portfolio balance and asset allocation are outlined in the table below:

Asset Class	FMV 2023	%	FMV 2024	%	Change
Equity	\$ 121.0	13%	\$ 53.8	6%	-7%
Financial Institutions	\$ 488.2	51%	\$ 475.6	51%	0%
Managed Funds	\$ 279.6	29%	\$ 334.3	36%	7%
Provincial	\$ 61.5	6%	\$ 72.8	8%	2%
Grand Total	\$ 950.3	100%	\$ 936.5	100%	

(In Millions)

The 2024 investment strategy was informed by expectations that the Bank of Canada would continue reducing interest rates. A detailed cash flow analysis was conducted to optimize the reinvestment of proceeds, securing higher yields for extended durations while not impacting the liquidity needs of the City.

Duration	FMV 2023	%	FMV 2024	%	Change
Short Term Investments	\$ 297.5	31%	\$ 197.5	21%	-10%
Long Term Investments	\$ 493.5	52%	\$ 558.0	60%	8%
Endowment Fund	\$ 159.4	17%	\$ 181.0	19%	2%
Total Fund Value	\$ 950.3	100%	\$ 936.5	100%	

(In Millions)

Portfolio Performance

The total return on the investment portfolio distributions for 2024 was 4.32%, generating \$40.5 million in investment income.

Year	City of Kelowna Average Rate of Return
2020	1.89%
2021	1.67%
2022	2.49%
2023	3.90%
2024	4.32%

The City of Kelowna Investment Policy includes 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 as of December 31, 2024. These benchmarks are the CPI Index Average, the FTSE TMX Canada 91-Day T-Bill, the median money market return, the MFA Bond Fund, and the MFA Money Market Fund. In 2024, the City of Kelowna’s 4.32% average rate of return was greater than CPI Index Average and the FTSE TMX Canada 91-Day T-Bill but fell short of the MFA Bond Fund, the MFA Money Market Fund and the Median Money Market.

Benchmark	Rate	City of Kelowna Average Rate
CPI Index Average	2.40%	4.32%
FTSE TMX Canada 91-Day T-Bill	3.07%	
Median Money Market Return	4.56%	
MFA Bond Fund	5.33%	
MFA Money Market Fund	4.83%	

Legacy Endowment Fund

The City’s Legacy Endowment Fund was established using proceeds from the sale of the City’s Electrical Utility. The fund is structured into three distinct components: the Distributable Fund, the Stabilization Fund, and the Capital Fund. This strategic approach ensures long-term financial stability by balancing wealth accumulation with a guaranteed payout, securing sustainable funding for future community needs and fostering generational wealth. The Endowment Fund's investment strategy aligns with the overarching objective of the Legacy Fund—to incrementally grow its overall value while preserving its long-term financial sustainability.

The market value of the Endowment Fund increased by 13.6% in 2024. The fund achieved a 6% rate of return from income distributions, surpassing its annual target of 5%. The income generated was allocated as follows: 30% reinvested into the Capital Fund and 70% distributed to the Distributable Fund. The Stabilization Fund is fully funded at \$4 million, therefore no additional contributions were required.

Endowment Funds	2023 FMV	2024 FMV	Increase
Capital Fund	\$ 153.5	\$ 169.2	\$ 15.7
Stabilization Fund	\$ 4.0	\$ 4.0	\$ -
Distributable Fund	\$ 1.9	\$ 7.8	\$ 5.9
Total	\$ 159.4	\$ 181.0	\$ 21.6

(In Millions)

The Year Ahead

Liquidity management will be a top priority for Treasury as accelerated capital delivery increases in 2025. With declining interest rates, debt financing will become a more advantageous strategy for funding the City's capital needs, enabling existing investments to remain intact and continue generating optimal returns.

Initial forecasts projected a modest GDP growth of 1.8% for 2025, however due to the uncertainty of US tariffs and anticipated declines in population growth due to recent immigration policy changes, GDP may decrease by up to 4.5%.

Initial inflation rates projections indicated an average of 2.3% in 2025, slightly above the Bank's 2% target. However, US tariffs may increase inflation to 4%.

Further interest rate reductions are anticipated, with expectations of reaching 2% by the end of 2025 to bolster economic growth and maintain inflation.

Considerations applicable to this report:

Legal/Statutory Authority: BC Community Charter Section 183

Legal/Statutory Procedural Requirements:

The Treasury Supervisor 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](#)

Considerations not applicable to this report:

- Financial/Budgetary Considerations
- Consultation and Engagement
- Communications Comments

Submitted by: J Lawson CPA, CA, Treasury Supervisor

Approved for inclusion: J Sass, CPA, CA, General Manager, Corporate Services