

# Report to Council



**Date:** April 10, 2017  
**File:** 0255-01  
**To:** City Manager  
**From:** Melanie Antunes, Acting Budget Supervisor  
**Subject:** Investment of City of Kelowna Funds for 2016

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## **Recommendation:**

THAT Council receives, for information, the Report from the Acting Budget Supervisor dated April 10, 2017 with respect to the investment of City of Kelowna funds for 2016.

## **Purpose:**

To provide Council with information summarizing the City of Kelowna's 2016 investment of surplus funds and performance of the portfolio.

## **Background:**

### Economic Review

2016 saw the Bank of Canada maintain the overnight interest rate at 0.50% in a continued attempt to re-balance inflation to the Bank of Canada's 2% target rate. By maintaining low interest rates, the Bank of Canada is attempting to discourage saving and stimulate spending. The CPI inflation increased from 1.1% in 2015 to 1.4% in 2016 and continued to rise in the first quarter of 2017.

The Canadian dollar rose in 2016 to close at \$0.76 U.S. at the end of December. Forecasts call for the loonie to lose this gain in 2017 if the NAFTA agreement is renegotiated or if oil prices drop. Oil prices saw an increase in 2016 from a January low of \$29.78 to a December high of \$52.62. Recent forecasts predict prices will remain at this level or drop in 2017 as production expands and oil supplies increase with the higher prices. With the strengthening of the US economy, interest rate divergence may also appear with rates increasing in the US and remaining the same in Canada, which could also lead to weakening of the Canadian dollar. In 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

The Investment Policy aligns with current best practices and ensures the continued commitment to provide an optimal blend of investment return and security. 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 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, 2016 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 AAA.

The City has selected 5 market indicators to use as a benchmark to determine how 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 2016, the City of Kelowna realized an average rate of return greater than the benchmarks in all 5 of these benchmarks.

### The Year Ahead

2017 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.

**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:**

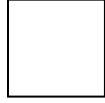
**Communications Comments:**

**Alternate Recommendation:**

**Submitted by:**

M. Antunes, Acting Budget Supervisor

**Approved for inclusion:**



Genelle Davidson CPA CMA, Divisional Director Financial Services