



City of Kelowna
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Council Policy

Investment of City of Kelowna Surplus Funds

APPROVED August 30, 2004

RESOLUTION: R375/10/04/26

REPLACING: R1039/08/11/24; R841/04/08/30

DATE OF LAST REVIEW: April 2010

The City of Kelowna's investment portfolio assets are approximately \$175 million including funds used for the financing of internal projects, at the date of adoption of this policy. Of this total, the City maintains sufficient short term liquid assets to enable it to meet its annual operating budget as required. Currently this is approximately \$66 million per annum but this is subject to change at any time. As a result of the uncertain nature of future expenses, the portfolio focuses on high quality, liquid securities.

The City delegates the management of the Fund to various agents including certain Officers of the City. The Officers of the City include:

- Director of Financial Services
- Systems and Reporting Manager ("The Manager")
- Financial Accounting Manager

The City, however, retains overall responsibility for the Fund.

Fund management responsibilities have been allocated as follows:

The City, through Council, will:

1. Adopt a Statement of Investment Policies and Procedures;
2. Provide the designated Officers with an estimate each year of the total amount that might be withdrawn from the portfolio in the coming year via the annual budgeting process;
3. Receive annual reports from the designated Officers on the performance of the portfolio in the first quarter of the following year;
4. Receive recommendations from the designated Officers concerning the continuing appropriateness of the Policy, and make policy changes as appropriate.

The designated Officers of the City will:

- make recommendations to City Council concerning the establishment of a Statement of Investment Policies and Procedures;
- calculate the rates of return on the entire Fund, based on book and market values;
- review the Policy at least annually and make recommendations to City Council for any changes considered appropriate;
- select investment dealers and institutions (the "Brokers") to assist the Manager in meeting performance objectives for the Fund;
- review the Fund's performance on a regular basis, and provide reports to the Audit Committee at least quarterly and to City Council at least annually; and
- be responsible for the delegation of any responsibility not specifically mentioned in this Policy.

The Manager will:

- select specific investments for investment by the Fund, recognizing the quality and diversification requirements established in this Policy, and subject to approved signing authority;
- ensure that the sum of all cash, the current account, money market securities, and coupon income expected from bonds in a year are sufficient to cover the disbursements expected to be paid from the Fund in that year;
- seek to maximize the investment return on the Fund, after ensuring that the foregoing liquidity, quality and diversification requirements have been satisfied;
- manage the securities held by the Fund in accordance with this Policy and applicable legislation.

The Manager and designated Officers of the City may from time to time engage consultants or other advisors to assist them in fulfilling their responsibilities.

The Broker(s) will:

- provide the Manager with 15 business days advance notice of upcoming maturities;
- provide the Manager with the credit quality rating of each security at the time of purchase,
- for securities held by the Fund that have been downgraded, provide the Manager with notice of the new quality rating within 30 days of the downgrade;
- provide the Manager with monthly, written reports of investment performance results;
- bring new investment opportunities to the attention of the Manager.
- provide custody of the Fund investments and maintain records of all transactions;
- provide the City with monthly portfolio statements of the Fund's holdings and of transactions over the period;
- report the rates of return on the Fund, based on book and market values to the Manager; and
- provide the Manager with written, quarterly confirmation of compliance with this Policy.

A. PERMITTED AND PROHIBITED INVESTMENTS

The following are the investments permitted in the Fund.

1. Eligible Securities as defined in Section 183 of the Community Charter, SBC, Chapter 26, 2003 as amended.
2. Investments in internally financed City of Kelowna projects are permitted.
3. All investments must be denominated in Canadian dollars

Investments in shares, warrants, or other equities, convertible debt securities, derivatives, swaps, options or futures are prohibited, and all investment categories that are not explicitly permitted are prohibited.

B. INVESTMENT PERFORMANCE OBJECTIVES

The City must maintain adequate liquid assets to meet ongoing annual operating expenses. The City also desires to preserve and enhance the "real" value of invested capital. That is, the City's Surplus Funds should earn a rate of return that is greater than the rate of inflation. A supplementary objective, taking into account the foregoing objectives, is to maximize the return of the total Fund.

Taking into account the above fund objectives and the structure and composition of the portfolio, the following are the investment performance objectives for the Fund:

- The primary performance objective for the entire Fund is to achieve a rate of return over moving three year periods of 1.5% over the Canada Consumer Price Index for All items, as listed on the "Benchmarks" page of the monthly fund review on www.globefund.com/
- The secondary performance objective for the entire Fund is to achieve performance of 1.5% over the return of the DEX91 Day TBill over three year moving periods, as listed in Mercer's quarterly survey of Canadian Institutional Pooled Funds and found on www.mercerhr.ca/
- The third performance objective for the entire Fund is to achieve performance of 1.5% over the median return of money market funds as described in Mercer's quarterly survey of Canadian Institutional Pooled Funds and found on www.mercerhr.ca/
- Additional performance objectives for the entire Fund are to achieve performance that matches or exceeds the Municipal Finance Authority of British Columbia (MFA) Intermediate Fund and Money Market Fund for the same time frame.

C. INVESTMENT CONSTRAINTS

The primary constraints relate to maintaining the liquidity of the portfolio and safety of invested capital.

1. All securities held in the portfolio shall have a maturity of ten years or less, however it is understood that the majority of assets will be invested in securities with a maturity considerably shorter than this ten year maximum. Overall, the total portfolio shall have an average term to maturity of no greater than three years.
2. Overall, securities in the total portfolio shall have an average quality rating of at least AA.
3. The quality rating of any security will be established at the time of acquisition of the security. In the case where the security is rated by more than one of the three agencies listed, the lowest of the ratings will apply. Any securities acquired shall have a rating of at least “A” as defined by the following ratings agencies: Moody’s, S&P (Standard & Poor’s)/CBRS (Canadian Bond Rating Service) or DBRS (Dominion Bond Rating Service). A designated rating shall include all sub-classifications. For instance, an “A” rating by S&P/CBRS shall include “A-”, “A” and “A+”.
4. For guidance on the rating of short-term investments (including money market securities and fixed income investments that mature in less than one year) the deemed rating of any such security will be established, at the time of acquisition of the security of fund, as follows:

- a. “AAA” if the Eligible Security meets the following rating criteria from one of the following credit rating agencies: Moody’s, S&P/CBRS or DBRS.

S&P/CBRS A1+
 Moody’s P1(Aaa)
 DBRS R1 (High)

- b. “AA” if the Eligible Security meets the following rating criteria from one of the following credit rating agencies: Moody’s, S&P/CBRS or DBRS.

S&P/CBRS A1
 Moody’s P1 (Aa)
 DBRS R1 (Middle)

- c. “A” if the Eligible Security meets the following rating criteria from one of the following credit rating agencies: Moody’s, S&P/CBRS or DBRS.

S&P/CBRS A1
 Moody’s P1 (A)
 DBRS R1 (Low)

5. For guidance on the rating of cash, including the current account, the deemed rating will be “AAA”;
6. For guidance on the rating of term deposits issued by a Credit Union, the deemed rating will be “A”;
7. For guidance on the rating of term deposits issued by a bank, the deemed rating will be the rating on the bonds issued by that bank;
8. For guidance on the rating of the MFA (Municipal Finance Authority) Money Market Fund, the deemed rating will be “AAA”;
9. The portfolio’s investments in the bonds (fixed income investments maturing in one year or more) of any one issuer will be limited to an aggregate market value limit based on the rating of the security, as set out below:

Rating of Security	Government Securities	Other Securities
A	5% of portfolio	2% of portfolio
AA	10% of portfolio	5% of portfolio
AAA	No limit	10% of portfolio

D. INVESTMENT CONSTRAINTS (CON'T)

10. If any security receives a credit downgrade while it is held in the portfolio, then the Broker must notify the Manager in writing within 30 days of the downgrade.
11. If any security receives a credit downgrade while it is held in the portfolio, which has the effect of rendering the security an ineligible investment within the prescribed credit guidelines, then the Broker must notify the Manager in writing within 30 days of the downgrade. The Broker, in consultation with the Manager, shall use its best judgement to determine whether the rating is likely to be restored within a reasonable period of time.
 - If so, the Manager may authorize the Broker to retain the investment, and the Broker shall keep the Manager informed of its rating.
 - If not, the Manager shall take all reasonable steps to liquidate the investment in an orderly fashion with due regard to price and liquidity constraints.

E. DIVERSIFICATION

1. Bonds held by the Fund will be diversified by sector, as follows:

Sector	Range (%)
Government of Canadas	40 – 60
Provincials	30 – 60
Municipals	0 – 10
Corporates	0 – 10

2. The maximum exposure to bonds of a single province 20% of the total Fund in aggregate market value.
5. The maximum exposure to bonds of a single corporate entity is 5% of the total Fund in aggregate market value.
6. The maximum exposure for a single internally financed project is 15% of the total Fund in aggregate market value.
7. The maximum exposure for all internally financed projects is 30% of the total Fund in aggregate market value.

D. OTHER CONSTRAINTS

- 1) The Fund shall not borrow funds to acquire securities or otherwise deal in margin trading.
- 2) No investments will be made in instruments that provide for reduced rates to the investor based on increasing market rates.
- 3) All investments will be made in accordance with the Code of Ethics and Standards of Practice of the Association for Investment Management and Research (<http://www.aimr.org/standards/>).

REASON FOR POLICY

To ensure funds are invested such that disbursements and expenses can be met as required.

LEGISLATIVE AUTHORITY

Community Charter, SBC, Chapter 26, 2003, Sections 146, 149 and 183.

PROCEDURE FOR IMPLEMENTATION

As outlined in this policy.