

Mary Smith* is the Treasurer of a 250-unit condominium building in downtown Toronto. She has a full-time job and is well respected for her work in the business community and with non-profit organizations. Mary balances her schedule carefully to ensure that she meets her responsibilities to the condominium owners and the board.

Not long ago, she was asked about the investment performance on her condominium's reserve fund. "I honestly didn't know," she said. "I had to look. I knew that our property manager took care of actually investing our money."

Her property manager is diligent and hard working, but he also has numerous responsibilities that demand his time. After all, his firm takes care of everything from security to snow-removal, and from elevators to electricity. He did a capable job by investing the money in a high interest savings account at a Canadian chartered bank, but admitted that investments are not his firm's forte.

	Bank Account	Investment Portfolio
Rate	3%*	4%**
Current Reserve Fund Value	\$ 250,000	\$ 250,000
Per unit monthly reserve fund contribution	\$ 40.00	\$ 40.00
Value in 10 years	\$ 1,732,280	\$ 1,839,609
Difference		\$ 107,329

* Prime minus 2%; as of Jan. 15, 2006
 ** Government of Canada 10-year bond yield, as of Jan. 15, 2006

Mary realized that she needed to speak to an expert. "At first, I wasn't really aware that a financial advisor could be used to help our condo manage our reserve fund," Mary said. She also didn't realize the impact that better returns could have on the value of the fund (Exhibit 1).

Achieving a better return on the investments means that condo boards can slow the increases in fees to the owners. With constant pressure from owners to keep fees down, better investment performance can be a hidden gem for condo boards in battling rising costs.

	Posted Rate or Yield
5-year TD Bank GIC	2.85%
5-year Government of Quebec provincial bond	3.72%

* As of January 31, 2006

How does a condo achieve better investment performance? Section 115 of the Condominium Act of Ontario permits condos to invest their reserve funds in a list of "eligible securities", which includes federal and provincial bonds. These bonds are guaranteed by the government that issues them, and have yields that tend to be much higher than the GIC rates posted by the major banks (Exhibit 2). Unlike most GICs, bonds can also be easily sold in the open market if the condo has an unexpected need for its cash after the investment is purchased.

Great returns are not the only concern in reserve fund investing; in fact, they're not even the top priority. Safety and liquidity are far more important considerations. Nevertheless, Treasurers like Mary are beginning to see the value in speaking to a professional advisor about their condominium's investment performance. Or, as Mary put it, "it's definitely worth looking into."

* Name changed for anonymity

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