INTERNAL POLICY
Investment Portfolios Policy

Policy Title:	**Investment Portfolios Policy**
Approved By:	**Investment Advisory Committee**
Effective Date:	**2020/07/01**
Department / BU:	**Chief Financial Officer's Department / Finance**

BACKGROUND

Administration has concluded that it would be best to separate the Investment Policy Statement into three documents: an Investment & Governance Council Policy, a CFOD Funds Policy, and a CFOD Investment Portfolios Policy. This will provide more clarity and make it easier to amend the policies in response to changing circumstances. This policy will be reviewed and amended on an annual basis once approved. It will also be possible to make changes outside of the annual review process if necessary.

PURPOSE

This internal CFOD policy focuses exclusively on the investment portfolios that City funds are invested in. There are six asset class portfolios and these are summarized in terms of their product description, mandates, benchmarks and portfolio constraints & limits. The investment portfolios are Short-Term Liquidity, Short-Term Fixed Income, Canadian Universe Fixed Income, Global Fixed Income, Equity, and Real Assets. The sources of funds described in the CFOD Funds Policy are invested in these investment portfolios. Appendix 1 contains lists of authorized investment dealers and City of Calgary authorized traders. Appendix 2 contains a list of current investment mandates and their associated individual benchmarks.

PORTFOLIOS

1. Short-Term Liquidity Portfolio

1.1 The Short-Term Liquidity Portfolio is internally managed by the Treasury division for The City of Calgary. The portfolio is more liquid and less volatile than other asset classes, which allows The City to efficiently manage its operating funds, and to provide sufficient cash to meet the day-to-day financial obligations of The City. The portfolio is invested in different sectors of the Canadian money market and short-term bond market. This includes, but is not limited to, guaranteed investment certificates (GICs), term deposits, bankers' acceptances, commercial paper, securitizations, treasury bills, bonds, fixed income pooled funds and exchange traded funds (ETFs), structured notes, callable bonds, etc.

1.2 **Investment Objectives**

(a) Preserve capital
(b) Provide liquidity
(c) Provide yield and produce returns that meet or exceed the relevant benchmark

1.3 **Investment Philosophy**

1.3.1 The portfolio should have low to moderate risk tolerance in order to maintain sufficient liquidity. Administration believes the portfolio can add value through security selection strategies, interest rate anticipation and duration positioning.

1.4 **Benchmark**

1.4.1 FTSE Canada 91-Day Treasury Bill Index

1.5 **Risk Management**

1.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Credit Risk: Risk that a security's value will change due to a rating downgrade, or default in the case of a distressed security. Risk is mitigated by adhering to credit quality standards and limits described below.

(b) Interest Rate Risk: Risk that a security's value will change due to a change in interest rates or the shape of the yield curve. Risk is minimized by purchasing shorter-duration investments and holding to maturity.

(c) Liquidity Risk: Risk that arises from the difficulty of selling an asset if a security cannot be sold quickly enough to prevent or minimize a loss. Securities are almost always held until maturity and significant cash balances are maintained in accounts with competitive interest rates.

(d) Spread Risk: Risk of a change in value of a security due to a change in the credit spreads in the market. Spreads are tighter for investment-grade and shorter-duration securities.

1.5.2 **Maturity Limits**

1.5.2.1 All Investments should have maturity dates of 5 years or less at the time of purchase. For the ETF portion of the internal portfolio an average duration of 5 years or less will be used on a fund by fund basis.

1.5.3 **Credit Quality Standards**

1.5.3.1 At the time of purchase, the investments must meet the following credit quality requirements:

(a) Short-term instruments including Commercial Paper and short-term debt must be rated R-1 (low) or higher (or equivalent) by a recognized credit rating agency. Securitization instruments must be rated R-1 (high).

(b) Bonds must be rated BBB- or higher by a recognized credit rating agency.

1.5.3.2 The CFO will be notified if an investment holding is downgraded to less than investment grade and will make a decision as to whether to hold the investment to maturity or sell it.

1.5.4 **Per-issuer Limit**

1.5.4.1 The portfolio may not be exposed to any issuer for more than 15% of its value at the time of purchase. This limit does not apply to direct obligations of the Government of Canada and its agencies or provincial governments and their agencies. It also does not apply to institutions that are guaranteed by these governments, such as Alberta credit unions.

1.5.4.2 Cash-in-bank balances are included in calculations of investment limits, but not subject to specific issuer limits.

1.5.5 **Securities Lending**

1.5.5.1 The Funds may enter into securities lending agreements only via the Custodian.

TABLE 1: ISSUER & SECTOR LIMITS FOR SHORT-TERM LIQUIDITY PORTFOLIO

Sector		**Minimum Credit Rating**		**Maximum Credit Exposure**	
		Short-term	**Long-term**	**Per-issuer Limit**	**Per-sector Limit**
Federal Government (and guaranteed)		n/a	n/a	100%	100%
Provincial Government (and guaranteed)		R-1 high R-1 mid R-1 low	AAA AA low A low	50% 50% 25%	75%
Municipal Government		R-1 high R-1 mid R-1 low	AAA AA low A low	10% 10% 6%	20%
Financial Institutions	Schedule I Banks Schedule II Banks Credit Unions Trust Corporations	R-1 low R-1 low R-1 low R-1 low	A low A low A low A low	15% 6% 6% 6%	60% 20% 20% 20%
Securitizations		R-1 high	AAA	6%	25%
Corporate Issuers		R-1 low	BBB low	6%	25%
Cash		n/a	n/a	n/a	350 million

2. Short-Term Fixed Income Portfolio

2.1 This portfolio consists of shorter-term Canadian and Global fixed income securities and commercial mortgages. Duration must be within +/- 1.5 years of the specified benchmark. Some or all of the Canadian short-term bonds may be managed internally.

2.2 **Investment Objectives**

(a) To provide exposure to short-term Canadian and global fixed income securities and commercial mortgages
(b) Preservation of capital
(c) Provide yield and net returns that meet or exceed the relevant benchmark

2.3 **Investment Philosophy**

2.3.1 Administration believes that value can be added through active management. This portfolio will always be majority investment grade. Value will be added through adjusting duration, over- and under-weighting both sectors and credit more generally, and through security selection. An illiquidity premium can be captured through investing in commercial mortgages. Short-term fixed income securities will provide enough liquidity to compensate for the less liquid mortgage component of the portfolio.

2.4 **Benchmark**

2.4.1 FTSE Canada Short Term Overall Bond Index

2.5 **Risk Management**

2.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Credit Risk: Risk that a security's value will change due to a rating downgrade, or default in the case of a distressed security. Mitigated by adhering to credit quality standards described below.

(b) Interest Rate Risk: Risk that a security's value will change due to a change in interest rates or the shape of the yield curve. Risk is reduced by holding shorter-duration investments.

(c) Liquidity Risk: Risk that arises from the difficulty of selling an asset if a security cannot be sold quickly enough to prevent or minimize a loss. Liquid securities are held. The illiquidity of the commercial mortgage portfolio is compensated with an illiquidity premium and investments are in open-ended funds.

(d) Spread Risk: Risk of a change in value of a security due to a change in the credit spreads in the market. Spreads are tighter for investment-grade and shorter-duration securities.

2.5.2 Diversification will serve to reduce risk in the portfolio. The portfolio must be majority investment-grade. Not more than 10% of the market value of the fixed income component of an investment manager's portfolio may be invested in the debt of a single issuer other than the debt issues of, or fully, guaranteed by, the Government of Canada or any provincial government whose debt rating is "A" or higher. Not more than 50% of the market value of the fixed income component of an investment manager's portfolio may be invested in a single provincial issuer. Collateralized debt obligations and asset-backed securities must carry a rating of "AAA". Use of derivatives to alter portfolio characteristics, such as duration, is permitted. All counterparties for derivative products and repurchase agreements shall be rated no lower than "A-". In the event the rating of a security is downgraded below the minimum acceptable rating, no new investments may be made in that security, but existing investments will be retained or disposed of with CFO approval.

2.5.3 Internally-managed Canadian short-term bond portfolio must be 100% investment-grade and adhere to the other requirements specified above.

3. Canadian Universe Fixed Income Portfolio

3.1 This portfolio consists of longer-term Canadian fixed income securities. Investments in longer term securities will generally increase the portfolio yield. Fixed income securities include, but are not limited to, government bonds, investment-grade and high-yield corporate bonds, convertibles, preferred shares, and asset-backed securities. Duration must be within +/- 2 years of the specified benchmark.

3.2 Investment Objectives

(a) To provide exposure to longer-term Canadian fixed income securities
(b) Preservation of capital
(c) Provide higher yields and net returns that meet or exceed the relevant benchmark

3.3 Investment Philosophy

3.3.1 We believe that value can be added through active management. This portfolio will always be majority investment grade. Value will be added through adjusting duration, over- and under-weighting both sectors and credit more generally, and through security selection. This portfolio will generally provide a greater yield than the Short-Term Fixed Income Portfolio based on the expected term structure of interest rates.

3.4 Benchmark

3.4.1 FTSE Canada Universe Overall Bond Index

3.5 Risk Management

3.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Credit Risk: Risk that a security's value will change due to a rating downgrade, or default in the case of a distressed security. Mitigated by adhering to credit quality standards described below.

(b) Interest Rate Risk: Risk that a security's value will change due to a change in interest rates or the shape of the yield curve. Mitigated through actively managing duration and yield curve positioning.

(c) Liquidity Risk: Risk that arises from the difficulty of selling an asset if a security cannot be sold quickly enough to prevent or minimize a loss. Liquid, easily-marketable securities are held.

(d) Spread Risk: Risk of a change in value of a security due to a change in the credit spreads in the market. Spreads are tighter for investment-grade securities. Spread risk is actively managed by adjusting the portfolio's exposure to credit as well as the portfolio's average credit rating.

3.5.2 Diversification will serve to reduce risk in the portfolio. The portfolio must be majority investment-grade. Not more than 10% of the market value of the fixed income component of an investment manager's portfolio may be invested in the debt of a single issuer other than the debt issues of, or fully, guaranteed by, the Government of Canada or any provincial government whose debt rating is "A" or higher. Not more than 50% of the market value of the fixed income component of an investment manager's portfolio may be invested in a single provincial issuer. Collateralized debt obligations and asset-backed securities must carry a rating of "AAA". Use of derivatives to alter portfolio characteristics, such as duration, is permitted. All counterparties for derivative products and repurchase agreements shall be rated no lower than "A-". In the event the rating of a security is downgraded below the minimum acceptable rating, no new investments may be made in that security, but existing investments may be retained or disposed of with CFO approval.

4. Global Fixed Income Portfolio

4.1 This portfolio consists of Global fixed income securities and private market loans. Investments in longer term securities will generally increase the portfolio yield. Global fixed income investments will provide diversification and the potential for higher yields. Fixed income securities include, but are not limited to, government bonds, investment-grade and high-yield corporate bonds, convertibles, preferred shares, and asset-backed securities.

4.2 Investment Objectives

(a) To provide exposure to global fixed income securities and private credit
(b) Preservation of capital
(c) Provide higher yields and vary duration based on interest rate expectations
(d) Provide net returns that meet or exceed the relevant benchmark

4.3 Investment Philosophy

4.3.1 Administration believes that value can be added through active management. This portfolio will always be majority investment grade. Value will be added through adjusting duration, over- and under-weighting both sectors and credit more generally, and through security selection. This portfolio should generally provide a greater yield than the Short-Term Fixed Income Portfolio based on the expected term structure of interest rates. Some global fixed income yields have the potential to be higher than Canadian yields and this benefit should be realized in this portfolio. An illiquidity premium, usually higher than that on mortgages, can be realized through investment in private credit. Public fixed income securities will provide enough liquidity to compensate for the less liquid private credit component of the portfolio.

4.4 Benchmark

4.4.1 Bloomberg Barclays Global Aggregate Bond Index

4.5 Risk Management

4.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Credit Risk: Risk that a security’s value will change due to a rating downgrade, or default in the case of a distressed security. Mitigated through active credit management and by adhering to minimum credit quality standards.

(b) Interest Rate Risk: Risk that a security’s value will change due to a change in interest rates or the shape of the yield curve. Mitigated through actively managing duration and yield curve positioning. Certain funds may be permitted to have negative duration which will produce gains in a rising interest rate environment.

(c) Liquidity Risk: Risk that arises from the difficulty of selling an asset if a security cannot be sold quickly enough to prevent or minimize a loss. A variety of liquid securities are held, sufficient to offset the illiquidity from less liquid securities. Private credit illiquidity is compensated with an illiquidity premium.

(d) Spread Risk: Risk of a change in value of a security due to a change in the credit spreads in the market. Spreads are tighter for the investment-grade securities in the portfolio and spread risk is actively managed by adjusting the portfolio's exposure to credit and adjusting the portfolio's average credit rating. Strong covenants are maintained in the private credit portfolio.

(e) Country Risk: Political, legal and regulatory risk associated with investing in certain countries. This is mitigated by being selective in choosing which countries and instruments to invest in.

(f) Currency Risk: Risk associated with changes in the Canadian dollar relative to the currencies of investments. An external FX Overlay manager actively manages the foreign exchange exposures of The City's investment portfolio. Hedge ratios will usually be higher for the global fixed income portfolio.

4.5.2 Diversification will serve to reduce risk in the portfolio. The portfolio must be majority investment grade. Collateralized debt obligations and asset-backed securities must carry a rating of "AAA". Use of derivatives to alter portfolio characteristics, such as duration, is permitted. All counterparties for derivative products and repurchase agreements shall be rated no lower than "A-". In the event the rating of a security is downgraded below the minimum acceptable rating, no new investments may be made in that security, but existing investments may be retained or disposed of with CFO approval. Investments in closed-end funds must not exceed 50% of the market value of the portfolio to ensure adequate liquidity.

5. Equity Portfolio

5.1 This is a portfolio of global equity securities. Investments are made in developed and emerging market equities in a core-satellite portfolio structure. The core consists of US and international equities to provide the necessary diversification. Concentrated satellite mandates serve as alpha-drivers that are intended to significantly exceed the benchmark return over a market cycle.

5.2 Investment Objectives

(a) To provide exposure to global equity securities
(b) Capital appreciation, dividend income and inflation protection
(c) Provide a net return that meets or exceeds the relevant benchmark

5.3 Investment Philosophy

5.3.1 The core equity exposure will be achieved through efficient allocation to global equity markets, both developed and emerging. The benefits of active management are realized most effectively through investment in less efficient markets.

5.4 Benchmark

5.4.1 MSCI All Country Weighted Index

5.5 Risk Management

5.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Country Risk: Political, legal and regulatory risk associated with investing in certain countries. This is mitigated by being selective in choosing which countries and firms to invest in.

(b) Industry Sector Risk: Certain industries will vary in risk over time and some will be consistently riskier. Sector over- and under-weights will be adjusted over time and may be significantly different than benchmark in order to add value versus benchmark and peers.

(c) Currency Risk: Risk associated with changes in the Canadian dollar relative to the currencies of investments. An external FX Overlay manager actively manages the foreign exchange exposures of The City's investment portfolio. Hedge ratios will vary significantly over time depending on FX manager's views on different currencies.

(d) Liquidity Risk: Risk that arises from the difficulty of selling an asset if a security cannot be sold quickly enough to prevent or minimize a loss. The core equity portfolio will have sufficient liquidity to compensate for any lack of liquidity in the satellite equity portfolios.

5.5.2 Diversification will serve to reduce risk in the portfolio. Limit Frontier Markets exposure to less than 5% of equity investments. All counterparties for derivative products and repurchase agreements shall be rated no lower than “A-”.

6. Real Assets Portfolio

6.1 Real Asset investments include infrastructure and real estate equity. The purpose is to provide capital appreciation, growth of income and current income through stable, inflation-linked cash flows over the long-term.

Real Estate investments include, but are not limited to, direct real estate holdings, units in real estate pooled funds, and real estate securities including trust units and shares in real estate companies.

Infrastructure investments consist of tangible long-life assets with potential for strong cash flows and favourable risk-return characteristics. Infrastructure investments typically include physical assets that provide essential services such as utilities and transportation systems.

6.2 **Investment Objectives**

6.2.1 The portfolio is expected to generate above average risk-adjusted returns and to enhance the diversification of The City's overall investment portfolio due to its low correlation with traditional asset classes.

6.3 **Investment Philosophy**

6.3.1 Administration believes investors should be compensated for taking on additional investment risks over the long-term. Maintaining a well-diversified portfolio is the cornerstone of the investment management process. Real assets investments will be well-diversified by property type, property location, and property risk.

6.4 **Benchmark**

6.4.1 CPI + 400 bps for total Real Assets Portfolio

6.5 **Risk Management**

6.5.1 The portfolio is exposed to a number of risks including, but not limited to:

(a) Market Risk: The portfolio may experience losses due to factors that affect the overall performance of the financial market. Diversification will mitigate this.

(b) Liquidity Risk: The portfolio is directed largely to illiquid investments with a long time horizon. The City will also be subject to limitations and liquidity constraints should it wish to dispose of investments. This can be mitigated by managing allocation size.

(c) Currency Risk: The portfolio may be subject to the risk of currency fluctuations which impacts the value of any gains or losses for foreign investments. The exposure to foreign assets is prudent from a risk/return standpoint. Foreign Currency exposures are managed by The City's FX Overlay manager.

(d) Valuation Risk: Private market investments can be difficult to value accurately. Fair market value estimates may be significantly different than the value the asset is later sold for. Reputable independent appraisers are generally used to avoid biased assessments of fair market value.

6.5.2 Restricted from investing in infrastructure assets owned or funded by The City of Calgary. Calgary Real Estate exposure limited to no more than 15% of The City's Real Estate Equity allocation.

Appendix 1: Authorized Dealers & Traders

TABLE 1: AUTHORIZED INVESTMENT DEALERS

Bank of Montreal	HSBC
Beacon Securities	National Bank
BNP Paribas	Raymond James
Canaccord Genuity	RBC Capital Markets
Casgrain & Company Limited	Scotia Capital
CIBC World Markets	TD Securities

TABLE 2: AUTHORIZED INDIVIDUALS

The following Treasury officials are authorized to buy and sell (execute transactions) securities on behalf of The City's internally managed portfolios (list of named individuals to be kept separately):

Senior Treasury Analyst 1 Senior Treasury Analyst 1 Portfolio Manager 1 Portfolio Manager 2 Senior Investment Leader
Alternates, vacation relief & backup, etc.: Deputy City Treasurer

Appendix 2: Investment Mandates & Benchmarks*

Investment Mandates

1. **Short-Term Fixed Income Portfolio**
   a. Connor, Clark & Lunn (CC&L) Short-Term Bonds
   b. Phillips, Hager & North (PH&N) Short-Term Bonds
   c. PH&N Canadian Commercial Mortgages
   d. Addenda Canadian Commercial Mortgages
   e. Sun Life Canadian Commercial Mortgages

2. **Canadian Universe Fixed Income Portfolio**
   a. CC&L Canadian Universe Bonds
   b. PH&N Canadian Universe Bonds
   c. BlackRock Canadian Universe Bonds (indexed)

3. **Global Fixed Income Portfolio**
   a. PIMCO US Investment-Grade Credit
   b. Manulife Strategic Income Pooled Fund
   c. BlackRock Fixed Income Global Opportunities (FIGO)
   d. Crestline U.S Specialty Lending Fund II (US private credit)
   e. EQT Mid-Market Credit II (European private credit)
   f. Sun Life Private Fixed Income Plus (North American private credit)

4. **Equity Portfolio:**
   a. CC&L International Equity
   b. Vanguard US Equity (VOO ETF)
   c. Ashmore Emerging Markets Equity
   d. TDAM Low Volatility Global Equity

5. **Real Assets Portfolio:**
   a. Northleaf Infrastructure Capital Partners II LP &
   Northleaf Stampede Infrastructure Partners LP
   b. Brookfield Global Listed Infrastructure Canadian Pooled Fund

Mandate Benchmarks

1. FTSE Canada Short Term Overall Bond Index for all Canadian Short-Term Fixed Income and Commercial Mortgage mandates
2. FTSE Canada Universe Overall Bond Index for all Canadian Universe Fixed Income mandates
3. Bloomberg Barclays U.S. Credit Index for US Investment-Grade Credit
4. Bloomberg Barclays Multiverse Index for Manulife
5. Bloomberg Barclays Global Aggregate Bond Index for BlackRock FIGO
6. S&P LSTA Leveraged Loan Index + 4% for Crestline

7. S&P European Leveraged Loan Index + 2% for EQT
8. FTSE Canada Universe Corporate Bond Index for Sun Life
9. MSCI ACWI ex-US for International Equity
10. S&P 500 for U.S. Equity
11. MSCI EM for Emerging Markets Equity
12. MSCI World Small Cap for Global Small Cap Equity
13. MSCI World for Global Low Vol. Equity
14. Canadian CPI + 450 bps for Direct Infrastructure
15. MSCI World hedged Canada Net Index for Global Listed Infrastructure
16. Benchmarks for Real Assets investment mandates shall be determined through discussion between the Investment Team and the external managers and established at the start of any new alternative investment strategy

* The above investment mandates and mandate benchmarks are for information only. Mandates may change during the course of the year but this policy will generally only be updated annually.

APPROVALS

Aaron Brown Treasury Manager & Deputy City Treasurer	Day, Month, Year
Gillian Skeates, Acting City Treasurer & Director of Finance	Day, Month, Year
Carla Male Chief Financial Officer	Day, Month, Year