

2016 ANNUAL INVESTMENT REPORT

EXECUTIVE SUMMARY

The 2016 Annual Investment Report (see Attachment) provides an overview of investment activity, asset balances, and portfolio returns for City investments during the year. It also reports on compliance with investment policy and regulatory requirements, and risk management practices.

ADMINISTRATION RECOMMENDATION

That the Audit Committee recommends that Council receive the 2016 Annual Investment Report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Pursuant to The City of Calgary Investment Governance Policy (CFO001), Administration reports to Council annually, through the Audit Committee, regarding the investments of The City during the year.

BACKGROUND

City funds are invested in a diversified portfolio of financial assets consisting of money market securities, short term and long term government and corporate bonds, commercial mortgages, and global and Canadian equity investments, to meet the investment objectives of City funds. This includes return and liquidity requirements as well, to match funds with longer-term time horizons.

The Annual Investment Report is an integral component of The City's investment governance structure and risk oversight to ensure investments are optimally managed. This report provides a summary of 2016 investment activity, asset mix, asset class and investment manager performance, as well as compliance information to the Audit Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2016, the market value of The City's total cash and investments under management increased from \$4.37 billion to \$4.41 billion as of December 31, 2016, and generated realized investment income of \$94.0 million during the year. The total portfolio return was 2.59% on a market value basis exceeding the portfolio's benchmark return of 2.04%.

City investments are managed by a combination of investment managers; internally by the Treasury division of the CFO's department and externally by several specialty managers retained to manage bond and equity portfolio mandates.

The City's internally managed portfolios are invested in short term money market securities and bonds with the majority of investments maturing in less than two years and returned 1.19%, while externally managed bond and equity returns totaled 3.89% for the year.

Buoyed by a pickup in global economic growth and continued low interest rates, equity markets posted strong returns during the year. Unlike 2015, when equities posted very low and in some

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markets negative returns, global and Canadian equities returned a healthy 8.55% and 18.22%% respectively in 2016. With interest rates near historical lows, short and long term bonds posted returns of 1.68% and 2.37% respectively.

Fiduciary oversight is guided by the City's Investment Governance Policy which sets out the governance framework and responsibility for investment of City Funds. This includes accountability, compliance, and disclosure requirements for investments.

The Investment Advisory Committee (IAC) oversees The City's investment program, to ensure that investments are effectively managed in accordance with legislation and Council approved policy and is consistent with industry best practices. The IAC met quarterly to oversee investment strategy, risk mitigation, as well as review investment managers' performance and compliance. During 2016, all investments were in compliance with internal policy and statutory requirements.

In 2016, the IAC completed a comprehensive investment strategy review which resulted in a new Investment Policy approved by City Council in July, 2016. The review entailed a major examination of City Funds and obligations including operating and capital reserves, capital deposits, and working capital, in order to fully understand fund characteristics including risk tolerance, time horizon, and liquidity requirements of these funds. The new policy provides for new asset classes and portfolio investments including global bonds, infrastructure equity, and active foreign currency management, designed to increase risk-adjusted returns as well as enhance sector and global diversification. Administration is currently implementing these changes which are expected to be completed in the 2017-2018 timeframe.

Stakeholder Engagement, Research and Communication

The IAC provides oversight of City investments and monitors compliance with all applicable policies and regulations. The 2016 Annual Investment Report on investment holdings and performance was reviewed and approved by the IAC at its meeting on 2017 March 23.

Strategic Alignment

The management of The City's investment portfolios follows industry best practice and aligns with prudent stewardship of financial resources and sustainability of The City.

Social, Environmental, Economic (External)

Social

Prudent and responsible investment of The City's investments provides necessary financial resources and generates sustainable investment income in support of City operations and objectives.

Environmental

Prudent investment in companies and governments that follow environmental and social principles supports sustainable risk/return performance of City investments to meet City goals and objectives.

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Economic (External)

Financial and economic market conditions impact both investment income earned, as well as the market valuation of The City's investment portfolios.

Financial Capacity

Current and Future Operating Budget:

Total investment income earned in 2016 was \$94.0 million. Investment income directly impacts the growth of City reserves and the operating budget.

Current and Future Capital Budget:

The growth in investments provides financial viability and supports the current and future capital budgets of The City.

Risk Assessment

The City of Calgary mitigates risk within its investment portfolios through a sound governance structure, adherence to government regulations, and The City's Investment Policy. Investment managers retained by The City, manage risk by investing in quality investments and ensuring sufficient diversification among holdings in their portfolios. The IAC oversees investment strategy and regularly reviews the investment activity, compliance and risk mitigation practices of both internal and external managers to meet City's investment objectives

REASON FOR RECOMMENDATION:

As part of a sound governance practice, the Annual Investment Report provides the Audit Committee and Council with the reporting of The City's investment activity, asset class holdings, and performance during 2016 to meet investment objectives.

ATTACHMENT

2016 Annual Investment Report