



INTERNAL POLICY: Funds Policy

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

BACKGROUND

The City of Calgary Treasury oversees the investment of The City of Calgary's financial resources for ongoing operations or held in reserve to meet future commitments. The sources of the funds for investment are The General Fund, Reserve Accounts and Capital Deposits. The General Fund consists of the operating funds and Employee Benefit Obligations, which includes certain Pension Obligations, Funded Vacation and Overtime Liability and the Other Retirement Benefits Liability. The Reserve accounts are comprised of: Operating Reserves, Capital Reserves and Sustainment Reserves. Capital Deposits are funds held for projects to be completed in the future.

PURPOSE

This internal CFOD policy focuses exclusively on the Funds that The City invests. Each of the eight funds the City invests has its own objectives and purpose which subsequently determines the target asset mix and investment philosophy. The asset mix for each of the funds takes into consideration the following factors: liquidity needs, tolerances to loss of capital, investment horizon, and desired investment return.

INVESTMENT FUNDS

1. Operating Fund

1.1 Background

1.1.1 The Operating Fund is The City's cash balance and short-term liquidity source. The fund is invested to meet the cash flow requirements and the near-term liquidity needs of The City.

1.2 Purpose

1.2.1 Based on the cash requirements forecasted by Treasury, the fund will be invested to meet the day to day operating needs of The City, as well as maintain a level of liquidity to meet unexpected cash needs.

1.3 Objective

1.3.1 The objective of the Operating Fund's investments shall be to optimize the return while considering the listed constraints. Income generated by the Operating Fund investments should attempt to protect the purchasing power of the money invested and will need to attain a rate of return that should match inflation. This objective necessitates a target return equal to that of the Consumer Price Index (CPI).

1.4 Constraints

1.4.1 Liquidity – The fund is to be invested to meet the ongoing liquidity needs of The City. In addition to meeting the cash flow needs of The City the fund shall maintain a level of liquid marketable securities to manage unexpected cash flows.

1.4.2 Capital Preservation – Capital preservation is a priority for these invested funds as they have limited ability to absorb any loss of capital over the short-term.

1.5 Asset Mix

1.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	60%
Short-Term Fixed Income	40%

1.5.2 Asset Mix Review - The asset mix shall be reviewed at least annually and/or if there are significant changes to the expected cash flows of the fund. The asset mix will also be reviewed if there are changes in the actuarial assumptions and/or valuation of the liabilities.

- 1.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 1.6 **Income allocations** – Income for the Operating Fund will be distributed based on the target allocations listed in the Section 1.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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2. Employee Benefit Obligations

Unregistered and Registered Pension Obligations

2.1 Background

2.1.1 The City sets aside funds to offset liability of the benefits accrued by the members of the plans. The portion set aside for the registered liability is to offset the difference between the assets in the Pension Trusts and the accounting valuation used to determine the net present value of the liability. The amount set aside for the unregistered liability is the net present value of the accrued future benefits.

2.2 Purpose

2.2.1 The fund is designed to offset the growth in liability of the benefits accrued under the terms of the benefit plans.

2.3 Objectives

2.3.1 The Unregistered and Registered Pension Plan investments should match the liabilities of the Pension Plans. The liabilities have a component of inflation and growth as long-term drivers of the future value of the liability. A target return of CPI+2.0% will protect the funds from inflation while providing a modest level of growth to the portfolio to offset future growth of the liability.

2.4 Constraints

2.4.1 Liquidity – Maintain sufficient liquidity to meet the needs of the projected cash flows of the Unregistered and Registered Pension Obligations liabilities.

2.4.2 Time Horizon – The time horizon for the investments should match the time horizon of the liabilities which are long-term in nature.

2.5 Asset Mix

2.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	5%
Short-Term Fixed Income	15%
Canadian Universe Fixed Income	30%
Global Fixed Income	30%
Real Assets	10%
Equity	10%

2.5.2 Asset Mix Review - The asset mix shall be reviewed at least annually and if there are significant changes to the expected cash flows of the fund. The asset

mix will also be reviewed if there are changes in the actuarial assumptions and/or valuation of the liabilities.

2.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.

2.6 **Income allocations** – Income for the Unregistered and Registered Pension Obligations will be distributed based on the target allocations listed in the Section 2.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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3. Employee Benefit Obligations
Funded Vacation and Overtime Liability

3.1 Background

3.1.1 The City sets aside funds to offset liability of the vacation and overtime accrued by the Employees of The City.

3.2 Purpose

3.2.1 The fund is designed to offset the growth in liability of the vacation and overtime accrued.

3.3 Objectives

3.3.1 The objective of the Funded Vacation and Overtime Liability fund's investments will be to provide protection against the inflationary nature of the liability. A target of CPI + 2.5% will protect against inflation as well provide for anticipated growth in the underlying salaries and wages.

3.4 Constraints

3.4.1 Liquidity – Maintain sufficient liquidity to meet the projected cash flows of the Funded Vacation and Overtime Liability liabilities.

3.4.2 Time Horizon – The time horizon of the liability is dependent on the accrual of benefits and the realization of benefits by employees. As benefits are continually accrued as well as being accessed there will be a continual balance in the account that will be of a long-term nature.

3.5 Asset Mix

3.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	0%
Short-Term Fixed Income	5%
Canadian Universe Fixed Income	32.5%
Global Fixed Income	32.5%
Real Assets	15%
Equity	15%

3.5.2 Asset Mix Review – the asset mix shall be review at least annually and/or if there are significant changes to the expected cash flows of the fund. The asset mix will also be reviewed if there are changes in the actuarial assumptions establishing the valuation of the liabilities.

- 3.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 3.6 **Income allocations** – Income for the Funded Vacation and Overtime Liability will be distributed based on the target allocations listed in the Section 3.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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4. Employee Benefit Obligations
Other Retirement Benefits Liability

4.1 Background

4.1.1 The City sets aside funds to offset the liability associated with post-retirement benefits The City pays on behalf of retired employees of The City.

4.2 Purpose

4.2.1 The fund is invested in such a manner to offset the growth in liability of the post-retirement benefits.

4.3 Objectives

4.3.1 The objective of the Other Retirement Benefits Liability fund's investments will be to provide protection against the inflationary nature of the liability. A target of CPI + 4.0% should protect against inflation and the associated costs.

4.4 Constraints

4.4.1 Liquidity – Maintain sufficient liquidity to meet the projected cash flows of the fund.

4.4.2 Time Horizon – The time horizon of the liability is dependent on the accrual of these benefits and the realization of the benefits by retirees.

4.5 Asset Mix

4.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	0%
Short-Term Fixed Income	0%
Canadian Universe Fixed Income	15.0%
Global Fixed Income	15.0%
Real Assets	20%
Equity	50%

4.5.2 Asset Mix Review – The asset mix shall be review at least annually and if there are significant changes to the expected cash flows of the fund. The asset mix will also be reviewed if there are changes in the actuarial assumptions underlying the valuation of the liabilities.

4.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.

- 4.6 **Income allocations** – Income for the Other Retirement Benefits Liability will be distributed based on the target allocations listed in the Section 4.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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5. Reserve Accounts
Operating Reserves

5.1 Background

5.1.1 The City sets aside money in 16 different Operating Reserves to fund the operations of certain programs The City has responsibility over. The expenses of these operating reserves fluctuate from year to year and may exceed the current allocation. The reserves are available to smooth cash flows to ensure stable program operation.

5.2 Purpose

5.2.1 The fund is invested in such a manner to offset the fluctuations in the cash flows resulting from the operations of the reserves over multiple years.

5.3 Objectives

5.3.1 The objective of the Operating Reserves fund's investments will be to provide protection the purchasing power of the reserve while providing the necessary liquidity to meet the needs of the reserves. A target of CPI + 2.25% will protect against inflation.

5.4 Constraints

- 5.4.1 Liquidity – Maintain sufficient liquidity to meet the projected cash flows of the fund.
- 5.4.2 Time Horizon – The time horizon of the fund is ongoing or until the specific reserve is no longer deemed necessary.

5.5 Asset Mix

5.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	5%
Short-Term Fixed Income	5%
Canadian Universe Fixed Income	32.5%
Global Fixed Income	32.5%
Real Assets	15%
Equity	10%

5.5.2 Asset mix review – The asset mix shall be reviewed at least on an annual basis and on an ad hoc basis if there are any significant changes to the fund. These changes may include but not be limited to changes in forecasted cash flows, investible assets, and/or the purpose of the reserve.

- 5.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 5.6 **Income allocations** – Income for the Reserves listed under Operating Reserves will be distributed to those Reserves that are allocated income based on the target allocations listed in the Section 5.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized

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6. Reserve Accounts
Capital Reserves

6.1 Background

6.1.1 The City sets aside funds in 17 different Capital Reserve accounts for future projects and/or cash flow smoothing. Each individual capital reserve will have its own specific need generally for capital projects but overall, there is a portion of the total funds that have a medium to long term time horizon.

6.2 Purpose

6.2.1 The fund should be invested in such a manner to provide liquidity to smooth cash flows as needed and retain the purchasing power of the reserves.

6.3 Objectives

6.3.1 The objective of the Capital Reserves fund's investments is to provide protection to the real value of the assets in the fund while providing the necessary liquidity to meet the needs of the reserves. A target of CPI + 3.0% will protect against inflation as well provide growth to offset the cost of providing the associated capital programs the reserves are intended to support.

6.4 Constraints

6.4.1 Liquidity – Maintain sufficient liquidity to meet the projected cash flows of the fund and projected cash flows for major projects that are being funded through the reserves.

6.4.2 Time Horizon – The time horizon of the fund is dependent on the project or program the reserve is intended to support. Some of the programs are continual nature and some are project specific. The aggregate time horizon of the capital reserve fund is long -term in nature.

6.5 Asset Mix

6.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	5%
Short-Term Fixed Income	5%
Canadian Universe Fixed Income	22.5%
Global Fixed Income	22.5%
Real Assets	20%
Equity	25%

6.5.2 Asset Mix Review – The asset mix shall be reviewed at least annually and/or on an ad hoc basis if there are any significant changes to the fund. These changes

may include but not be limited to changes to forecasted cash flows, investible assets, and/or the purpose of the reserves.

- 6.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 6.6 **Income allocations** – Income for the Reserves listed under Capital Reserves will be distributed to those Reserves that are allocated income based on the target allocations listed in the Section 6.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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7. Reserve Accounts

Sustainment Reserves

7.1 Background

7.1.1 The Sustainment Reserves are made up of 14 different reserves. They are a combination of Operating and Capital Reserves.

7.2 Purpose

7.2.1 The fund will be invested to meet the liquidity requirements while earning a rate of return to provide income to protect the capital against inflation.

7.3 Objectives

7.3.1 The objective of the Sustainment Reserves fund's investments is to provide protection to the real value of the assets in the fund while providing the necessary liquidity to meet the needs of the reserves. A target of CPI + 2.5% will protect against inflation as well provide growth to offset the cost of providing the associated operating and capital programs.

7.4 Constraints

7.4.1 Liquidity – Sufficient liquidity shall be maintained given the projected cash flows of the fund.

7.4.2 Time Horizon – The time horizon of the fund is ongoing, recognizing that a specific reserve may be added or no longer deemed necessary.

7.5 Asset Mix

7.5.1 Asset Mix Table

Asset Class	Target
Short-Term Liquidity	5%
Short-Term Fixed Income	5%
Canadian Universe Fixed Income	30%
Global Fixed Income	30%
Real Assets	15%
Equity	15%

7.5.2 Asset Mix Review – The asset mix shall be reviewed at least annually and/or on an ad hoc basis if there are any significant changes to the fund. These changes may include but not be limited to changes to forecasted cash flows, investible assets, and/or the purpose of the reserves.

- 7.5.3 Rebalancing – Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 7.6 **Income allocations** – Income for the Reserves listed under Sustainment Reserves will be distributed to those Reserves that are allocated income based on the target allocations listed in the Section 7.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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8. Capital Deposits

8.1 Background

8.1.1 The Capital Deposits are deposits usually for specific projects which include grants from other levels of government and monies from held from developers to fulfil certain requirements of the development.

8.2 Purpose

8.2.1 The fund is invested to allow for liquidity to meet the cash flow needs of the projects and to repay deposits on completion of developments.

8.3 Objectives

8.3.1 The objective of the Capital Deposits fund's investments is to provide protection to the real value of the assets in the fund while providing the necessary liquidity to meet the needs of the deposits. A target of CPI + 3.25 % will protect against inflation as well provide growth to offset the increase in the projected outflows from the fund.

8.4 Constraints

8.4.1 Liquidity – Sufficient liquidity shall be maintained given the projected cash flows of the capital projects and deposit returns.

8.4.2 Time Horizon – The time horizon of the fund is dependent on the project or timeframe of the specific project deposits. The continual nature of deposits being made and disbursed creates a balance that is continual in nature and creates a long-term horizon for the fund.

8.5 Asset Mix

8.5.1 Asset Mix Table

<u>Asset Class</u>	<u>Target</u>
Short-Term Liquidity	0.0%
Short-Term Fixed Income	5.0%
Canadian Universe Fixed Income	25.0%
Global Fixed Income	25.0%
Real Assets	15.0%
Equity	30.0%

8.5.2 Asset Mix Review – The asset mix shall be reviewed at least annually and/or on an ad hoc basis if there are any significant changes to the fund. These changes may include but not be limited to changes to forecasted cash flows, investible assets, and/or the purpose of the deposits.

- 8.5.3 Rebalancing - Rebalancing shall be redone quarterly or if there is a significant deviation from the target that puts the allocation to certain asset classes outside the range.
- 8.6 **Income allocations** – Income for the Capital Deposits listed will be distributed to those Capital Deposits eligible for income allocation based on the target allocations listed in the Section 8.5.1- Asset Mix Table. Income such as interest, dividends and cash flows are allocated as it is received by the portfolios the funds are invested in. Income generated from gain on the capital invested is allocated when the gains are realized.

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