

2014 ANNUAL INVESTMENT REPORT

EXECUTIVE SUMMARY

The 2014 Annual Investment Report (see Attachment) provides an overview of investment activity, asset balances, and portfolio returns on City investments during the year. It also reports on compliance with investment policy and regulatory requirements, and risk mitigation practices.

ADMINISTRATION RECOMMENDATION

That the Audit Committee recommends that Council receive the 2014 Annual Investment Report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2015 APRIL 23:

That Council receive the 2014 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 of Calgary.

BACKGROUND

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 2014 investment activity, asset mix, asset classes and investment manager performance, as well as compliance information to the Audit Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The market value of The City's total investments under management increased from \$3.52 billion to \$3.96 billion as of December 31, 2014 and generated investment income of \$81 million during the year. The total portfolio return was 3.33% exceeding the portfolio's benchmark return of 3.05%.

Investments are managed by a combination of investment managers; internally by the Treasury division of the CFO's department and externally by specialty managers retained to manage bond and equity portfolios. The internal portfolios are invested in fixed income assets with the majority of investments maturing in less than two years. All asset classes exceeded their respective benchmark performance in 2014.

2014 ANNUAL INVESTMENT REPORT

In Canada, short term interest rates remained very low with The Bank of Canada maintaining its overnight interest rate at 1% throughout the year. While bond yields increased in 2013 and early 2014 on prospects of stronger U.S. economic growth, they surprisingly dropped sharply in the second half of 2014. Led by the decline in bond yields back to near historical lows, short and long term bonds posted returns of 3.66% and 7.15% respectively.

Although equity market performance was not as strong as in 2013, Canadian equities posted solid returns of 11.31% in 2014 and global equities returned 11.65% in Canadian dollar terms, both outperforming their perspective benchmarks. A \$50 million allocation to global infrastructure equities was made during the year that was advanced in early 2015.

Investment oversight is guided by the Investment Governance Policy which defines the governance of The City's investments pertaining to accountability, reporting, and disclosure requirements. In 2014, the Investment Advisory Committee met quarterly to oversee investment strategy, risk mitigation and compliance as well as review investment performance.

All investment managers are required to adhere to City Council's approved Investment Policy, which incorporates the requirements of the Municipal Government Act of Alberta and its regulations. During 2014, investments were in compliance with internal policy and statutory requirements.

Administration continues to transition from the working capital portfolio to longer term bond and equity portfolios, in order to enhance alignment with future cash flows as well as expected returns.

Stakeholder Engagement, Research and Communication

The IAC provides oversight of City investments and monitors compliance with all applicable policies and regulations. The 2014 Annual Investment Report on investment holdings and performance was reviewed and approved by the IAC at its meeting on 2015 March 16.

Strategic Alignment

The management of The City investment portfolio aligns with the direction of the Long Range Financial Plan to support financial sustainability of The City.

Social, Environmental, Economic (External)

Social

Prudent and responsible investment of The City's investments generates investment income in support of City operations and objectives.

Environmental

Prudent management of The City investments generates income in support of City operations that have environmental benefits.

Economic (External)

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

2014 ANNUAL INVESTMENT REPORT

Financial Capacity

Current and Future Operating Budget:

Total investment income earned in 2014 was \$81.4 million. Investment income directly impacts the growth of City reserves and the operating budget.

Current and Future Capital Budget:

There is no impact on the current or future capital budget.

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 through investing in quality investment grade securities and ensuring sufficient diversification among holdings in the portfolio. The IAC oversees investment activity and regularly reviews the investment activity, compliance and risk mitigation practices of both internal and external managers.

REASON FOR RECOMMENDATION:

As part of sound governance practice, the Annual Investment Report provides Audit Committee and Council with an assessment of The City's investment activity, asset class holdings and manager performance during 2014.

ATTACHMENT

2014 Annual Investment Report