

2013 ANNUAL INVESTMENT REPORT

EXECUTIVE SUMMARY

The 2013 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 2013 Annual Investment Report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2014 APRIL 17:

That the Administration Recommendation contained in Report AC2014-0313 be approved.

PREVIOUS COUNCIL DIRECTION / POLICY

Pursuant to The City of Calgary Investment Governance Policy (CFO001), Administration reports to Council annually, through the Audit Committee (AC2013-0348), 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 practice, to ensure investments are optimally managed. This report provides a summary of 2013 investment activity, asset mix, asset classes and investment manager performance, as well as compliance information to the Audit Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

As at 2013 December 31, the market value of The City's total investments was \$3,520 million and generated investment income of \$63.4 million during the year. The total portfolio return was 2.31% which exceeded the portfolio's benchmark return of 1.97%.

During 2013, Canadian equity and bond markets ended the year with very disparate performance results. Canadian equities, as measured by the S&P/TSX, returned almost 13.00% over the year, while the Canadian bond market's DEX Universe Bond Index returned -1.19%. Global equity market performance was especially stellar with global equities returning approximately 30% in Canadian dollar terms, during the year.

The City's equity portfolios participated in the market upswing and posted very strong returns as well, and outperformed their respective benchmarks. While fixed income returns were significantly lower than equities, The City's bond portfolios outperformed their benchmarks. Short term interest rates remained very low throughout 2013. The internally managed portfolio had an average yield of 1.32% in 2013 and provided gains over the 2012 yield of 1.27%. All City portfolios exceeded their performance benchmarks over the longer term three to five year periods as well.

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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. The policy establishes the Investment Advisory Committee (IAC) which consists of the CFO, City Treasurer, two additional members selected from senior administration at The City, and three external investment experts. In 2013, the IAC met quarterly to oversee investment strategy, risk mitigation and compliance as well as review investment performance.

City 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 portfolio is invested solely in fixed income assets with the majority of investments maturing in less than two years. As part of the internal portfolio, Treasury manages a \$250 million ladder bond portfolio specifically structured to fund the cash flow requirements of the construction of multiple recreation centres.

All investment managers must adhere to City Council's approved Investment Policy, which incorporates the requirements of the Municipal Government Act of Alberta and its regulations. During 2013, all investments were in compliance with internal policy and statutory requirements. Over the past year, administration continued to transition from short term working capital to longer term bond and equity investments, in order to improve 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 2013 Annual Investment Report on investment holdings and performance was reviewed and approved by the IAC at its meeting on 2014 March 25.

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.

Financial Capacity

Current and Future Operating Budget:

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Total investment income earned in 2013 was \$63.4 million. Investment income directly impacts the growth of City reserves and the operating budget through Program 858.

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 2013.

ATTACHMENT

2013 Annual Investment Report