

Corporate Planning & Financial Services Report to
Audit Committee
2024 June 13

ISC: UNRESTRICTED
AC2024-0459

The City of Calgary Investment Governance Review Report

PURPOSE

The purpose of the report is to review the results of an Investment Governance Review completed by Mercer (Canada) Limited (Mercer).

PREVIOUS COUNCIL DIRECTION

The investment governance review was undertaken pursuant to discussions had during the review of the 2022 City of Calgary Annual Investment Report on 2023 April 19.

RECOMMENDATION:

That Audit Committee receive the Investment Governance Report and supporting documents for the corporate record.

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

The hallmark of a properly run and well executed investment program is its governance. Mercer's review concluded that The City takes governance seriously and has implemented necessary measures to ensure a robust governance structure. While the review also identified areas for improvement, The City is committed to addressing these recommendations promptly.

Governance practices evolve over time, and Mercer noted that The City exceeds best practices by recognizing the importance of regularly reviewing and adapting its governance to ensure continued adherence to industry standards. For there part in the governance process the Investment Advisory Committee (IAC) utilizes their expertise in providing me guidance and analysis to ensure a properly run and well executed investment program. As part of its commitment to a well-run city, The City prioritizes good governance as an essential component.

HIGHLIGHTS

The report by Mercer (Attach 1) indicates The City's governance structure and governance documents meets or exceeds the standards for good governance and best practice. Mercer highlights in the report:

- *The City investment policy documents are comprehensive and reflective of industry best practice.*
- *IAC composition is diverse, reflecting a spectrum of finance and investment knowledge both within the City organization and externally.*
- *... the City has already exceeded best practices in governance through recognizing that processes and procedures must evolve over time, and that modifying, where necessary, existing processes to better suit current circumstances is essential in maintaining good and effective governance practices.*
- *...the current governance structure adopted in relation to Asset investment is efficient and operating with optimal consideration of timely and germane information examined by experts in the field of institutional investing...*

Although the review was generally positive, Mercer did identify where improvements could be made in areas such as document clarity, more detailed role definition, and IAC education.

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DISCUSSION

The investment governance review undertaken by Mercer consisted of review of the current governance structure and whether it was sufficient to provide the necessary oversight for The City's assets invested in the capital markets. The report and recommendations generated were results of thorough review of legislation, governance and policy documents, minutes of investment meetings, and interviews conducted with members of the IAC.

Investment governance refers to the framework, processes, and practices that guide decision-making and oversight related to investment activities within an organization. It involves establishing clear objectives, implementing robust policies and procedures, and ensuring accountability and transparency in investment-related activities.

The report concludes that The City has established a robust framework of policies, procedures, and practices to ensure prudent, transparent, and accountable management of investment activities, ultimately aiming to maximize long-term returns while effectively managing risks.

Mercer's findings suggest there are no inadequacies in the governance structure, as they have noted that the governance processes and documentations that have been developed and updated as necessary can navigate the varied legislative landscape and public expectations with respect to the investment of The City's assets. Although the structure and documentation require no substantive changes Mercer's has suggested items that may improve investment governance are:

- Expansion of IAC membership to include a third external member.
- Develop a pool of potential candidates for external IAC appointments to ensure continuity.
- and ease of succession transitions without interruption to overall IAC activities
- Expand the breadth of topics covered during IAC on-boarding.
- Make continuing education opportunities available to IAC members.
- Establish a consistent and documented definition of the Prudent Investor Rule.
- Update certain investment governance documents for purposes of clarity related to roles, responsibilities, and expectations.

Administration is committed to implementing the suggested changes where they align with current legislative requirements and City policies and procedures.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken | <input type="checkbox"/> Dialogue with interested parties was undertaken |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

IMPLICATIONS

Social

Not Applicable

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Environmental

Not Applicable

Economic

Not Applicable

Service and Financial Implications

Other: Financial Integrity

Good governance is the hallmark of best practice in the investment management industry. An effective governance structure ensures proper oversight including that rigorous investment decision making processes, fulsome risk monitoring and mitigation, and robust financial controls are in place. The lack of good governance could put The City at risk both financially and reputationally.

RISK

An inadequate governance structure in its investment management can expose The City to a multitude of risks, potentially leading to financial losses, reputational damage, and legal liabilities. Key risks associated with inadequate governance include, but are not limited to, poor decision making, increased risk exposure, loss of stakeholder confidence, operational failures, financial underperformance, and missed opportunities.

The City's robust governance mechanisms are essential in mitigating these risks and safeguarding The City's financial health, reputation, and stakeholder trust.

ATTACHMENTS

1. Attachment 1 - Background and Previous Council Direction-AC2024-0459
2. Attachment 2 - Investment Governance Review-AC2024-0459
3. Attachment 3 - CFA Institute - Investment Governance for Fiduciaries-AC2024-0459
4. Attachment 4 – Governance Review Presentation-AC2024-0459

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male	Corporate Planning and Financial Services	Approve

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