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Investment Governance Review

Report and Recommendations

City of Calgary
15 March 2024



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Section 1

Introduction

I. Objective

Mercer (Canada) Limited (**Mercer**) has been engaged by the City of Calgary (**City**) to conduct an extensive and in-depth review of the terms of reference and related governance structures and control processes currently in place for the Investment Advisory Committee (**IAC**).

The review was initiated to ensure that the IAC's terms of reference provide appropriate direction to the IAC, and to assess the governance and control processes in place in respect of the investment of City assets (**Assets**).

The review is also intended to evaluate the efficacy of existing investment governance in light of legal requirements and industry best practices. The review will ultimately culminate with the provision of recommendations, if applicable, for the overall governance of the investment of the Assets, as well as support the IAC in gaining a greater understanding as to how governance may need to evolve and change over time.

II. Format

This report (**Report**) contains Mercer's observations and recommendations with respect to the IAC and Asset investment governance, as determined in the governance documentation adopted by and for the City.

The discussion and recommendations contained in this Report are purposely addressed in separate sections. This is done to allow for greater context and background discussion to be presented as a foundation for the recommendations that are outlined in Section 7. The recommendations are set out separately to reflect a more concise presentation, as well as to ensure that the recommendations are not lost in the overall discussion of the relevant topics.

Section 2

Scope of Review

I. Process

The review process was divided into distinct phases, each of which has concluded in the observations and recommendations outlined in this Report. The phases are as follows:

Phase 1 - Preliminary and Initial Discussion: Mercer conducted an initial meeting with the City Investment Team (CIT), which supports the IAC, to ascertain the applicable phases of the governance review, and to define the scope of each phase;

Phase 2 – Document Review: Mercer reviewed a comprehensive set of documents within the limited scope of the review mandate. The documentation provided for this purpose is listed in Section 5 and Appendix B;

Phase 3 – Interviews: Mercer conducted individual interviews with six (6) members of the IAC to collect information and understand perspectives regarding the governance of the Assets as well as the role of the IAC within the overall investment governance structure. Interviews were not conducted with external providers as they do not typically have direct involvement with governance and decision-making. Interview participants are listed in Appendix A; and,

Phase 4 – Final Report: The Report outlines our findings and observations, key guiding principles for governance as set out legislation (if applicable), as well as recommendations for prospective investment governance.

Although the documentation requested and interview topics discussed in relation to the preparation of this Report pertain to a number of the bodies associated with investment governance including, but not limited to:

- City Council (**Council**);
- the Audit Committee (**Audit Committee**);
- the IAC;
- the CIT; and,
- external investment advisors,

the scope of this Report focusses on the operational roles and responsibilities of the IAC in relation to investment governance.

II. Out of Scope

Some of the recommendations outlined in this Report may require the approval of the Audit Committee or Council in order to be implemented. However, this Report is not intended to be a review

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of the overall governance hierarchy within the City organization, and does not examine the process or considerations that may be associated with amendments to Council policies or bylaws.

III. Legal Advice

Mercer is not a law firm. This Report has been prepared for information purposes only for the benefit of the City; it is not intended to constitute or replace legal advice or an exhaustive legal opinion. This Report is not subject to solicitor-client privilege.

Should the City require legal advice with respect to the content of this Report, it is suggested that appropriate legal counsel be consulted.

Section 3

Executive Summary

This Report examines the governance processes and procedures currently applicable to the IAC in relation to its oversight, management and investment of the Assets.

I. Purpose

The purpose of this Report is to detail observations and recommendations based on our assessment of the current Asset governance structure, and identify areas where:

- Best practices are reflected;
- Potential gaps exist; and
- Changes/improvements could be made.

II. Observations

During both the documentation review and interview phases of the review process, several key themes were identified:

- Adequacy and scope of documentation
- Fulfillment of fiduciary obligations
- Breadth of IAC knowledge and experience

The information gathering phase of this review demonstrated an awareness by the City delegates, the IAC and the CIT of the purpose of good governance, and an intention to ensure that the Assets are governed well and invested appropriately. The IAC, in particular, with support provided by the CIT, operates from a place of fiduciary awareness, and a desire to ensure that process and governance are consistently applied. Oversight and monitoring tasks are completed directly by the CIT with respect to both internally invested assets and those invested through external consultants/managers, as well by the IAC through the receipt of regular reporting and interaction with the CIT.

III. Recommendations

Overall, the governance and decision-making processes associated with the Assets are undertaken with a view to governance best practices and intentions; this review process has sought to identify those areas where gaps persist, if any, or where a need to provide additional clarity or understanding is recommended.

In that regard, set out in this Report are a number of recommendations that pertain to the specific areas identified above, as well as other subjects of note identified during the course of the review.

Summarized below, in no particular order of priority, are those recommendations that, in our view, are integral to Asset governance going forward:

- 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 Rule¹
- Update certain investment governance documents for purposes of clarity related to roles, responsibilities and expectations

Not all of the recommendations contained in this Report are listed above. However, while each of the identified recommendations is discussed in greater detail below, in our view, each has been included on this listing due to it being a fundamental component of good governance.

¹ The terms "Prudent Investor Rule" and "Prudent Person Rule" are both used in this Report due to their respective incorporation into relevant City investment governance documents and applicable legislation. They are equivalent terms used interchangeably, reflective of the same concept and applicable standard of care.

Section 4

Assumptions and Legal Foundation

Under Canadian common law, a party becomes a fiduciary when “acting pursuant to statute, agreement or unilateral undertaking, [it] has an obligation to act for the benefit of another and that obligation carries with it a discretionary power.”² A person acting in a fiduciary role is obliged to exercise a duty of skill and competence as well as a duty of trust, loyalty, and confidentiality with respect to the beneficiary.

I. Prudent Person Rule

The prudent person rule is a standard of care. It requires that individuals who are responsible for completing fiduciary tasks must exercise the care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another person.

II. Knowledge and Skill

In addition to the prudent person rule, persons with fiduciary responsibilities are required to use all relevant knowledge and skill that they possess or, by reason of their profession, business or calling, ought to possess. At an organizational level, this requirement is generally interpreted to mean that relevant responsibilities are delegated to persons or bodies beholden of applicable expertise.

III. Delegation

While fiduciary tasks may be delegated, responsibility for the completion of those tasks to the appropriate standard of care cannot. Where it is reasonable and prudent to do so, parties with legal fiduciary responsibility may delegate relevant tasks to persons or bodies that are better suited by virtue of knowledge or skill. Nevertheless, the delegator must arrange for the prudent and reasonable oversight of the person or body to whom the responsibility is delegated. As the delegator remains ultimately responsible for the completion of the fiduciary tasks, the related standard of care will generally also extend to the person or body to whom such a responsibility has been delegated.

² *Hodgkinson v. Simms*, [1994] 3 S.C.R. 377
Mercer

Section 5

Information Gathering

Phases 2 and 3 outlined in Section 2 comprise the information-gathering portions of the review process. For the purposes of this review, information-gathering comprised three distinct components:

1. Governance documents
2. Investment specific documents
3. Participant interviews

I. Document Review

The document review process entailed a detailed examination of legislation and governance materials deemed illustrative of the governance of Asset investment. It entailed an examination of documents related to the various bodies with the oversight of the Assets including, but not limited to:

- the Council;
- the Audit Committee;
- the IAC; and,
- CIT.

Not all documents reviewed are subject to the commentary below. The full list of documents reviewed is attached at Appendix B.

A. Governance Observations

A summary of the key points gleaned from the documents is outlined below:

Document	Commentary
IAC Terms of Reference	<ul style="list-style-type: none"> • IAC composition is diverse, reflecting a spectrum of finance and investment knowledge both within the City organization and externally
Undated	<ul style="list-style-type: none"> • Up to three external IAC members are contemplated <ul style="list-style-type: none"> - Currently only two IAC members are external to the City organization • Qualifications listed for external IAC members are appropriate <ul style="list-style-type: none"> - No minimum years of experience detailed other than requiring a person who has “senior financial executive experience” • External members “generally” serve no more than two consecutive terms, but provision is written as a guideline rather than policy <ul style="list-style-type: none"> - This could allow for an external IAC member to serve for more than two terms if desired • No express mechanism to resign and be removed from IAC participation outlined

Document	Commentary
City Employee Code of Conduct December 2022	<ul style="list-style-type: none"> • Prioritizes ethical behaviour from all employees • Emphasizes the high standard of behaviour expected of City personnel, and desire to meet public expectations • Reminder of need to avoid conflicts of interest, and to act without influence from personal or other outside interests • Code sets expectations for internal IAC members and CIT • Does not apply to external providers / advisors • Is not investment or finance specific
Administration Policy: Conflict of Interest 01 June 2022	<ul style="list-style-type: none"> • General applicability to City personnel • Elected officials, and their office staff, are exempt from policy • Sets clear and reasonable expectations with respect to conduct as a City employee, including use of City assets • Does not apply to external providers / advisors • Is not investment or finance specific
Delegation of Authority 26 February 2016	<ul style="list-style-type: none"> • General delegation to General Managers, by the City Manager, to sign agreement, orders or other documents that primarily relate to Departments under their supervision • Supports delegation to CFO regarding investment policies and related actions
IAC Orientation June 2023	<ul style="list-style-type: none"> • Outlines employees and positions within CIT • Details which portions of the Assets are internally-managed versus externally-managed • Summary of asset mix • Substantive detail related to specific investments / managers • No review of IAC roles and responsibilities • No review of reporting hierarchy and/or expectations • No discussion of fiduciary standard of care
Ellement Investment Governance Presentation 13 September 2018	<ul style="list-style-type: none"> • Review of general governance principles • Not specific to public sector • Does not consider potential limitations or investment objectives of a municipality • No subsequent investment governance training noted
IAC Meeting Materials 10 January 2023	<ul style="list-style-type: none"> • Agenda reflects reliance for discussion items on CIT • Meeting attended by numerous individuals, the majority of whom are not IAC members

Document	Commentary
	<ul style="list-style-type: none"> - Two external IAC members in attendance • Minutes from prior meeting reflect reasoned and detailed discussions on key points <ul style="list-style-type: none"> - Expertise in investments clearly present and relevant to the discussion - Points raised by City Mangers reflective of City objectives and Council considerations - IAC members keenly aware of fiduciary obligations and considerations within context of discussions • Significant revisions to IAC and Asset governance documentation • Materials are detailed and informative
IAC Meeting Materials 28 September 2022	<ul style="list-style-type: none"> • Agenda reflects reliance for discussion items on CIT • Meeting attended by numerous individuals, the majority of whom are not IAC members <ul style="list-style-type: none"> - Three external members appointed, only one in attendance - Noted as last meeting for one of the external members • Minutes reflect consideration of Council questions applicable to investments • Materials are detailed and informative
IAC Meeting Materials 25 July 2022	<ul style="list-style-type: none"> • Agenda reflects reliance for discussion items on CIT • Meeting attended by numerous individuals, the majority of whom are not IAC members <ul style="list-style-type: none"> - Two external IAC members in attendance • Minutes note composition and support changes <ul style="list-style-type: none"> - Changes to CIT specifically noted - External member retiring; process for finding replacement discussed including who not to approach for purposes of avoiding conflicts of interest (i.e., asset managers) • Review of 2021 Annual Investment Report to Audit Committee <ul style="list-style-type: none"> - Detailed presentation reviewing investment classes and related returns - Resulting detailed discussion related to purpose of report and best means to present to Audit Committee to ensure understanding; consequent changes to report made and distributed • Materials are detailed and informative
IAC Meeting Materials 8 April 2022	<ul style="list-style-type: none"> • Agenda reflects reliance for discussion items on CIT • Meeting attended by numerous individuals, the majority of whom are not IAC members

Document	Commentary
	<ul style="list-style-type: none"> - Two external IAC members in attendance • Annual Investment Report to Audit Committee reviewed - Noted purpose is a summary of the asset mix, investment activity, asset class, investment manager performance and compliance information • Materials are detailed and informative
Audit Committee Bylaw 26 October 2020	<ul style="list-style-type: none"> • Broad mandate includes assisting Council in the fulfilment of responsibilities related to: City financial statements; governance, risk management and compliance; oversight of the external and City auditors; the Whistleblower program; and, additional matters as may be assigned - Oversight and decision-making related to the investment of City assets is not specifically contemplated • Council and public members are appointed for two-year terms - Current longest serving member is a public representative appointed in 2020 • Education opportunities are to be provided by the City, the City Auditor, the External Auditor “or through outside programs” to address identified gaps in knowledge
Audit Committee Agenda Package 15 June 2023	<ul style="list-style-type: none"> • Broad scope of topics • Received 2022 Annual Investment Report
Audit Committee Agenda Package 19 July 2023	<ul style="list-style-type: none"> • Broad scope of topics • Investments not discussed except in general reference to Risk Matrix review

B. Investment and Governance Policy Observations

The majority of the documentation provided by the City falls with each of the governance and investment categories. However, the Investment and Governance Policy³ falls within both spheres necessitating comment from both points of view:

Point of View / Focus	Commentary
Investment Observations	<ul style="list-style-type: none"> • Recommend including a definition of the Prudent Investor Rule as all portfolios are subject to it. This will help ensure that all parties involved in the investment process are following the same rules, and removes the potential for different interpretations of the rules.

³ Council Policy 2020-02 dated 15 June 2020
Mercer

Point of View / Focus	Commentary
	<ul style="list-style-type: none"> • Given the large role of the CIT in the investment management process, recommend adding the CIT under Roles and Responsibilities <ul style="list-style-type: none"> - High level description would be sufficient - Consider adding the term ‘Investment Team’ to the Definitions/Glossary schedule to avoid confusion as external investment managers have investment teams • Recommend making it clear who has the responsibility for approving the following: <ul style="list-style-type: none"> - Asset mix changes - Investment manager changes • Recommend adding the Compliance report to the list of required reports from the CIT <ul style="list-style-type: none"> - The compliance report would cover both internally managed funds and externally managed funds. - This is a very important report that the CFO and IAC rely on as part of their governance oversight.
<p>Governance Observations</p>	<ul style="list-style-type: none"> • Council policy, renders amendment or modification difficult • Joint delegation from Council to Administration and the City Chief Financial Officer (CFO) to execute on the policy • Audit Committee is not included as having a specific role in the governance of Asset investment despite being delegated certain key tasks (i.e., approval of the Annual Investment Report, presenting the Annual Investment Report to City Council, etc.) • As noted under Investment Observations, the term “Prudent Investor Rule” is not defined in the Policy or Glossary <ul style="list-style-type: none"> - Documentation assumes reference to be a common term with a single interpretation / understanding - Should be defined to ensure a common understanding and application at all levels of governance • CFA Institute Code of Ethics and City Code of Conduct apply to standard of care <ul style="list-style-type: none"> - Unclear if external providers are provided a copy of this Policy, or compliance with the CFA Code is confirmed on an annual or regular basis • Compliance with OSFI Securities Lending Guideline referenced <ul style="list-style-type: none"> - Confirm applicability to lending in municipality setting as Guideline drafted for financial institutions subject to the regulatory authority of OSFI • “Investment Team” is referenced throughout, but not defined

Point of View / Focus	Commentary
	<ul style="list-style-type: none"> - It is assumed this is in reference to the CIT, but should be clarified for purposes of certainty related to roles and responsibilities • Roles and responsibilities of IAC do not include meeting with the CIT similarly to external managers, yet alluded to in description of tasks • IAC reviews and advises on the IGP, Funds Policy and Portfolios Policy, including amendments, to the CFO <ul style="list-style-type: none"> - No approval authority delegated to the IAC • Role of City Manager listed solely as oversight of the CFO <ul style="list-style-type: none"> - This role, as written, is unrelated to the investment of the Assets and is generally completed by virtue of the City’s employment structure • Approval process for the Annual Investment Report is unclear <ul style="list-style-type: none"> - Clause 6.11(a)(ii) states that Council “receives” the Annual Investment report from the CFO through the Audit Committee; however, the definition of “Annual Investment Report” outlined in the Policy Glossary states that the report is “approved by Audit Committee and Council”

C. Investment Documentation Observations

The City investment policy documents are comprehensive and reflective of industry best practice. No material omissions were identified. In the review process, several areas were identified for improvement. It is generally recommended that some of the language be made clearer to avoid confusion. As turnover will occur on the IAC and CIT, it is important to have documents that can be well understood by any new individuals brought into the investment management process.

It is also recommended some enhanced reporting to the CFO and IAC be implemented. It was noted that the reporting for the internally managed strategies did not match the level of reporting for the externally managed strategies. The rules for monitoring and reporting should apply to both internally and externally managed strategies, as manager performance evaluation should apply to both internally and externally managed strategies.

A summary of the key points gleaned from the investment documentation is outlined below:

Document	Commentary
Investment Portfolios Policy 01 July 2023	<ul style="list-style-type: none"> • Approved by the IAC • Global fixed income securities are an allowed investment in the Short-Term Fixed Income Portfolio; however they are not part of the Target Asset Mix. Is the intent that it is part of Canada Short-Term Fixed Income? <ul style="list-style-type: none"> - To avoid confusion, recommend either adding it to the asset mix table, or including a comment on how global fixed income fits into the asset mix as an eligible investment.

Document	Commentary
	<ul style="list-style-type: none"> • Section 4, Table 4 – recommend providing definitions for Core and Non-Core equities as defined by the City. This will aid in the evaluation of the strategy and with compliance. • Recommend adding foreign currency risk to the list of risks in the Short-Term Fixed Income Portfolio section. <ul style="list-style-type: none"> - Global fixed income securities are allowed, which introduces foreign currency risk. • Foreign Currency <ul style="list-style-type: none"> - Consider if the Universe Fixed Income Portfolio benchmark should be hedged to CAD. It is not common to see fixed income benchmarks unhedged. - In Section 7.5, Foreign Currency Exposures, recommend better defining currency risk and how it is managed. • Section 7.4 Segregated Accounts <ul style="list-style-type: none"> - It is not clear why there would be a distinction between segregated accounts with an IMA and segregated accounts without an IMA. <ul style="list-style-type: none"> ○ Why would the City not have an IMA in place? ○ Why would the investment constraints be different? - Many of the investment restrictions are duplicated in other areas of the policy making it confusing to the reader. Suggest removing duplications and move these limits to the various sections to which they apply. • Real Asset investment description in Section 5.3 is real estate focused. As real assets include both real estate and infrastructure, recommend a description that covers both by referencing things like sector/subsector, geography, development stage (greenfield, brownfield), style (core, core-plus) and underlying source of revenue. • Section 6.4 External Management <ul style="list-style-type: none"> - Under Risk Management, recommend including the use of risk management systems by the investment manager. • Performance Measurement Periods <ul style="list-style-type: none"> - Recommend adding a performance evaluation period in which manager performance is evaluated. - It is industry best practice to evaluate an investment manager’s performance over a stated period. For example, suggested wording “performance will be measured over a 4-year rolling basis”. This measurement period is based on the client’s objectives. Typical measurement periods are 4 or 5 years. • Performance Objective – gross or net of fees <ul style="list-style-type: none"> - It is common practice to state whether performance evaluation is based on gross or net of fees. The policy is silent on this.

Document	Commentary
	<ul style="list-style-type: none"> - The annual and quarterly performance reports show performance on a net of fee basis.
<p>Funds Policy</p> <p>01 July 2020</p>	<ul style="list-style-type: none"> • Approved by the IAC • Section 2 – Portfolio Rebalancing <ul style="list-style-type: none"> - Recommend making it clear which group (presumably CIT) has responsibility for rebalancing and if they have some amount of discretion • Section 3.6 – Income Allocations <ul style="list-style-type: none"> - The process for addressing assets that are under their allocated weight is not clear. Recommend rewording to make this section clear to the reader.
<p>External Portfolio Update</p>	<ul style="list-style-type: none"> • Description of currency overlay mandate suggests the overlay is solely designed for alpha (i.e. versus a zero benchmark). This does not align with the descriptions of active currency risk management outlined in the Investment Portfolios Policy document. • As the Economic and Internal Portfolio Updates are very similar, there may be an opportunity to consolidate the two reports into one.
<p>Internal Portfolio Update</p>	<ul style="list-style-type: none"> • Recommend including data source for all charts. • As the Economic and Internal Portfolio Updates are very similar, there may be an opportunity to consolidate the two reports into one.
<p>Annual Investment Report & Quarterly Investment Reports</p>	<ul style="list-style-type: none"> • Report references Commercial Paper Program. The policy documents do not reference a Commercial Paper Program <ul style="list-style-type: none"> - Not clear on how this fits into the reporting on the City’s investment funds • Reporting standards for the City’s internally managed portfolios (Short Term Liquidity Portfolio and Short Term Internal Bond) should be the same as for external managers. The CFO and IAC should be evaluating the performance and compliance of all strategies. This will allow stakeholders to determine if any changes should be made as the decision to invest internally or externally is part of the governance process. We recommend the following reporting for the internally managed portfolios: <ul style="list-style-type: none"> - Separate reporting for each internally managed fund, not combined, to be able to evaluate performance of each strategy separately. - Performance benchmarks should be assigned and reported on for both internally managed portfolios: Short Term Liquidity Portfolio and Short Term Internal Bond portfolio (page 9 of the Annual report). - Contribution to Return chart should show the contribution from each internal portfolio, separately, not combined (page 10). - Compliance reporting (page 25) should also include the City’s internally managed portfolios. - Appendix I – Mandate Level Returns table should also include the City’s internally managed portfolios.

Document	Commentary
	<ul style="list-style-type: none"> - Reporting standards for internally managed assets should be the same as for external managers. For the Short Term Fixed Income portfolio (page 14), the yield and duration are not provided for the Short Term Bonds (internal) portfolio, however are provided for the external managers. • The addition of manager universe comparisons in the performance tables (Appendix I – Mandate Level Returns) would provide additional insight in the evaluation of investment manager performance for Management and the IAC • Appendix I – Mandate Level Returns – are returns gross or net of fees? This should be stated to avoid confusion.

II. Participant Interviews

A. Process Overview

In conjunction with the document review process, a series of interviews were conducted with IAC members. The purpose of these interviews was to:

- Develop an appreciation of how the investment governance process operates in practice;
- Address questions arising from the document review process;
- Gather additional information and perspectives with respect to specific questions and concerns posed during the initial stages of this review; and
- Develop a broader understanding of the City organizational environment to better appreciate the integration and interaction between the IAC, Council and the Audit Committee as it pertains to the investment of the Assets.

In total, six interviews were conducted.

A dynamic interview process was followed whereby the questions for the interviewees were formulated with a view to the points noted above, as well as information collected from previous interviews.

Interview questions were provided to each interviewee prior to their interview. The same instructions and background in relation to the governance review were provided to all interviewees at the start of each meeting. Specifically, interviewees were informed that the questions and discussion topics were intended to guide the scope of the interview, but that the format of the discussion was to be open-ended in order to gather perspectives and information regarding the practical implications of the existing processes and procedures. This approach was purposely intended to develop a more complete understanding of the governance process, and the roles of decision-makers and their supporting entities (e.g., CIT, IAC) in that process.

In an effort to encourage open and candid responses, interview participants were assured that discussion content would remain anonymous.

B. Observations

Several key themes emerged during the interview process that were consistently expressed by interviewees. Such themes include, but are not limited to:

- Importance of investment expertise and objectivity
- Diversity of perspectives
- Composition of IAC
- Support from the CIT

The below chart summarizes the key points made in relation to the above-noted themes, as well as other matters that were articulated during the interviews.

Topic	Interview Commentary
IAC Membership	<ul style="list-style-type: none"> • Majority of IAC membership has less than four years of Committee tenure • Current range of knowledge and experience between internal and external IAC member is essential to well-rounded discussions • Varied levels of investment expertise result in discussions that consider issues and topics that are not always driven by the investment mandate (i.e., ensure City objectives are represented) • Inclusion of a third external member would be beneficial <ul style="list-style-type: none"> - Three external members previously participated and the breadth of expertise was invaluable
Governance Structure	<ul style="list-style-type: none"> • It is appropriate that Council approves the long-term investment strategy <ul style="list-style-type: none"> - There is no direct relationship between Council and the IAC • IAC unlikely to seek direction from Council as investments are not in its wheelhouse and not expected to be <ul style="list-style-type: none"> - City investments need to remain outside the political sphere • IAC is intended to be operational in nature, acting as an advisor to the City CFO <ul style="list-style-type: none"> - Reports annually to the Audit Committee in fulfillment of its oversight and monitoring obligations • Delegating approval authority to the CFO allows for timely, responsive and objective decision-making • No changes to the current governance structure were suggested by any interviewee
Expertise	<ul style="list-style-type: none"> • Technical understanding regarding investment risk is essential • External members are exceptional resources and key contributors to discussions • Diversity of backgrounds for external members results in meaningful and topical discussions • Due diligence and day-to-day operations are managed and overseen by the bodies most familiar with investment trends and risks

Topic	Interview Commentary
IAC Education	<ul style="list-style-type: none"> • Onboarding of new IAC members is efficient <ul style="list-style-type: none"> - Provides solid introduction to investments, City objectives and purpose of IAC - Not as thorough as it could be • No ongoing training for IAC members outside IAC meetings
City Investment Team	<ul style="list-style-type: none"> • CIT has depth that goes beyond an investment advisor <ul style="list-style-type: none"> - CIT is relied on by IAC to ensure timely and relevant information is brought to the attention of IAC • Heavy reliance on CIT for analytics <ul style="list-style-type: none"> - More than just advisors • Great reliance on senior members to ensure continuity • It is understood and accepted that turnover at the mid-career range is going to happen <ul style="list-style-type: none"> - City is unable to compete with private sector investment opportunities for compensation and career growth - Viewed as a “training ground” for private sector - Some concern raised related to succession planning
Prudent Investor Rule	<ul style="list-style-type: none"> • Some IAC members are well-versed in this rule, while others are not <ul style="list-style-type: none"> - One IAC member independently researched the “prudent investor rule” to better understand its application • IAC has not discussed or adopted a common meaning of the “prudent investor rule”

III. Legislative Authority

IAC responsibilities, and those delegated to other departments within the City framework, encompass a broad spectrum of governance, and mandates the priorities and objectives of the City, acting through the Council. These objectives include responsibility for ensuring City Assets are invested and re-invested to develop and maintain the sustainability and availability.

In conjunction with the information gathering process undertaken for the purposes of this Report, legislation applicable to the City and its investments were also examined, including the:

- *Municipal Government Act*, R.S.A. 2000, c. M-26 (**MGA**), Section 250
- *Municipal Investment Regulation*, A.R. 149/2022 (**MIR**), Section 7

These enactments, when read together, dictate the parameters within which Council, the Audit Committee and the IAC, collectively, are expected to invest the Assets. Of particular note is MIR, subsection 7(a) and, by definition, MGA, section 250. Combined, these sections require that in making investments in accordance with applicable legislation, at all times the City (and its delegated bodies) must be governed “by the prudent person rule as understood

generally by the investment community in Canada and Alberta...”. The term “prudent person rule” is not defined in either the MGA or the MIR.

Section 6

Observations and Discussion

The governance review process that was undertaken examined a variety of factors in determining which, if any, aspects of the current governance practices and procedures warrant comment or additional consideration. While the fundamental governance structure within the City is dictated by legislation and bylaws and is outside the scope of this Report, the manner in which that structure can perhaps be better utilized is open for comment. In that regard, the observations garnered from the document review and information provided by key participants in the governance of the Assets are set out below, in no specific order of importance.

I. Governance Structure

To lay the groundwork for the discussion and recommendations set out in this Report, a common understanding of the governance hierarchy applicable to the invest of City Assets is necessary.

Under the current governance structure, City Council is responsible for the long-term investment strategy through its approval of the Investment and Governance Policy (**IGP**). Although not directly acknowledged in the IGP, the Audit Committee, established through Bylaw 33M2020, has a broad mandate encompassing oversight and stewardship responsibilities related to City financial statements, the external auditor and governance, risk management and compliance. Specifically with respect to the Assets, the Audit Committee is also responsible for:

- Providing annual reporting to City Council on behalf of the CFO;
- Receiving annual reporting from the CFO; and,
- Receiving recommendations from the IAC.

The purpose of the IAC is discussed throughout this Report, but at a high level is advisory body comprised of external investment experts and City investment, governance and operational experts tasked with the oversight of Asset investment. The IAC has no direct interaction with City Council, but works closely with the CIT to support the CFO, and reports annually to the Audit Committee.

The IAC also works closely with the CIT which is responsible for, among other things:

- Monitoring and reporting on internally-invested Assets;
- Oversight of external investment consultants and managers;
- Monitoring externally-invested Assets; and,
- Supporting and advising the IAC and Audit Committee.

External investment consultants and managers are each responsible for the specific mandates and scope of services they have been engaged to provide with respect to the investment of a portion of the Assets.

It is noteworthy that the governance of the City Assets is complex, which necessitates a high level of knowledge and subject-matter expertise.

II. Observations

A. General

The IAC is keenly aware of its responsibilities and the tasks that have been delegated to it. IAC members, individually and as a committee, strive to ensure that the Assets are appropriately invested and realizing the best possible returns, and that investments are aligned with City philosophies and objectives. This is evidenced through the dedication of time and attention to detail required of a position on the IAC, as well as the length of tenure of several of the current members. While the IAC membership is not of the same experience and knowledge with respect to institutional investing, a consistent theme noted throughout this review is the common objective of IAC members of ensuring that the Assets are sustainable, managed appropriately and available for the purposes of fulfilling City objectives.

Despite the complexities of the City's governance structure, as it applies to the investment of the Assets, the documentation and information provided during the course of this review demonstrate a commitment to effective and consistent governance and administration. Substantial time and effort has been invested by the IAC in the establishment and maintenance of appropriate governance processes and documentation capable of navigating the varied legislative and public expectations that apply to the investment of the Assets.

The fiduciary responsibilities applicable to Asset investment are seriously undertaken by the City, acting through the Audit Committee, the IAC and the CFO, with recommendations and decisions being clearly made with a view to fulfilling those obligations to the best of their abilities. It is the varied extent of those abilities that must, however, be taken into consideration.

It is recognized that this investment governance review was done so with the specific intent of substantiating that relevant fiduciary obligations are being adequately carried out. In embarking on this review process, 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.

B. Disclaimer

The observations and discussion set out in this Section 6, and the recommendations outlined in Section 7, are based solely on the review of those documents (1) made available by the City; or, (2) that were located as part of public record. In the event actual governance practices do not mirror those set out in the documentation, kindly advise Mercer as that may impact the conclusions and recommendations discussed. However, this too would evidence the need to revisit current governance practices in order to ensure that policies and practices are fully aligned.

III. Fiduciary Obligations

The interview and document review findings outlined in Section 5 highlight several recurring areas for clarification in relation to the structure and operation of the IAC and investment governance:

- roles and responsibilities within the City investment governance hierarchy;
- on-boarding and education; and,
- overall structure and composition.

Each of these areas are discussed below.

A. Roles and Responsibilities

1. Governance Hierarchy

City Council and, commensurately, the Audit Committee are comprised of elected representatives with varied backgrounds and experiences. The Audit Committee also comprises several citizen representatives. None of the members of either City Council nor the Audit Committee are required to have a working knowledge of institutional investing or governance as a requirement for election or committee membership.

Based on the existing governance hierarchy, Council is responsible for approving the IGP which forms the long-term investment strategy for the City. This responsibility is clearly outlined in the IGP, and understood among the CFO, the IAC and CIT. The conclusions reached, and the feedback provided, through the information gathering process support Council as the appropriate level for approval of such a strategy. No information was reviewed that would refute that conclusion or support a recommendation for a change to this current level of approval.

While the Audit Committee receives annual reporting from the IAC, with respect to the Assets, there is no obligation on Audit Committee members to gain or expand their knowledge of institutional investing, and neither is there an onus on City Council or Audit Committee members to seek out educational opportunities on this topic. From a risk management perspective, placing the highest level of operational decision-making with the bodies that have the least experience and subject-matter expertise could be problematic from a fiduciary perspective, particularly where those bodies have already delegated a number of related tasks and responsibilities to other bodies with extensive expertise in the relevant areas (e.g., IAC, CFO).

The IAC does not have direct decision-making authority; however, it is comprised of individuals, both internal and external to the City organization, with a spectrum of relevant knowledge and expertise that is relied on for investment recommendations. External IAC members are closely vetted and recruited based on their recognized knowledge and expertise in the field of institutional investing and investment theory and strategy. Internal IAC members are chosen for a variety of reasons and bring a range of perspectives relative to investments, fiscal policy and the overall objectives of the City. As a Committee, the IAC is able to apply a combination of objective viewpoints and specialized knowledge in the

completion of the due diligence process, on behalf of the City, such that appropriate and fulsome consideration of pertinent issues is undertaken. This allows the IAC to develop and present well-reasoned recommendations for approval and implementation by the CFO (through delegated authority) and Council, as appropriate under the current governance framework.

Given the scope of the Assets, the public scrutiny associated with municipal investment decisions (and related returns) and the fiduciary obligations attached to those decisions, it would be atypical for a public entity to have its council or committee members directly involved with the administration and operational policy development of its asset investment. What is more common is for the elected officials and/or direct fiduciaries to maintain a hands-off approach through delegation to those with the expertise to maximize decision-making, and ensure that fiduciary tasks are appropriately completed to the applicable standard of care. Such an approach generally entails the receipt of annual (or more frequent) reporting, which is seen through the IGP and IAC Terms of Reference, and the retention of responsibility for overall oversight and material decision-making.

While Council, acting through the Audit Committee, maintains oversight with respect to the investment of the Assets, active and direct decision-making is neither necessary nor recommended. Further, it must be considered whether involvement with operational investment decision-making is the best use of the time and resources for either Council or the Audit Committee given the scope of their respective responsibilities and their relative skillsets.

Given the above commentary, 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 institution investing and the City organization. In our view, modifying the composition of the IAC to incorporate greater involvement from either the Audit Committee or City Council is not recommended.

2. Policy Approval

As noted above, Council is responsible for approving the IGP, and has delegated the remainder of its direct authority over Asset investment to various persons or bodies within the City organization. However, a discrepancy between delegated authority and the completion of similar related tasks was noted during the review.

The Background sections of both the Funds Policy and the Investment Portfolios Policy state the following:

Administration has concluded that it would be best to separate the Investment Policy Statement into three documents: and Investment & Governance Council Policy, as CFOD Funds Policy, and a CFOD Investment Portfolios Policy.

The policy information listed on both the Funds Policy and the Investment Portfolios Policy indicate that they were each approved by the IAC. However, this does not align with the authority delegated in the IGP.

The IGP details the roles and responsibilities of the various parties associated with Asset governance, and effectively operates as the delegation of Council's authority with respect to Asset governance. IGP, clause 6.11(c)(ii) states that the CFO "[a]pproves the CFOD Funds Policy and CFOD Investment Portfolios Policy and provides updates to the City Manager". Whereas clause 6.11(d)(iii) requires that the IAC "[r]eviews and advises on the Investment & Governance Policy, the Funds Policy and the Portfolios Policy (and amendments) to the CFO". Although the CFO is a member of the IAC, the authority delegated to that position does not transfer to the IAC by virtue of membership, and does not, therefore, ensure that the Funds Policy and the Investment Portfolios Policy were appropriately approved.

While it is within the authority of Council to modify the IGP for purposes of delegating policy approval to the IAC, for this purpose, it has not yet been done. In the absence of such an amendment to the IGP, the Funds Policy and the Investment Portfolios Policy should be formally approved by the CFO, per the IGP. If this is a situation where the approval was not accurately reflected on either of the policies and the CFO did, in fact, approve them, this too should then be updated on the policies to ensure they reflect the applicable delegated authority.

B. Due Diligence

The concept of due diligence is central to risk management, risk mitigation and the fulfilment of fiduciary obligations. It equates with the level of judgement, care, prudence, determination and activity a person would reasonably be expected to undertake in making decisions related to the property of another. This may apply, for example, to actions taken, research conducted or the engagement of third party expertise where a decision-maker cannot reasonably be expected to have the knowledge and/or skills to consider pertinent questions or scenarios. In the context of institutional investing, the application of these concepts are directly related to the duties of prudence and diligence within the realm of fiduciary responsibility.

As discussed above, the IAC is responsible for the completion of the due diligence process in Asset investment decision-making. In conjunction with the CIT, the IAC:

- engages with third party advisors (e.g., investment consultants and managers);
- considers relevant questions;
- gathers applicable information; and
- makes recommendations based on fact and information.

When the IAC makes a recommendation based on the due diligence it has completed, the proposed course of action is strongly defensible if challenged, assuming the approved decision aligns with the conclusions resulting from the due diligence process. If the Audit Committee or Council make a decision based on a recommendation from the IAC, the decision is still founded on a reasoned basis that aligns with the fiduciary task assigned.

III. On-Boarding and Continuing Education

Neither the documents reviewed nor the comments shared during the interviews indicate that ongoing education opportunities are available for IAC members. Notwithstanding the individual professional expertise held by the external IAC members and several of the

internal members, ongoing education is essential in ensuring that Asset investment matters are approached using a common foundation of information and understanding.

It was further noted that topics such as, but not limited to, fiduciary obligations and the prudent person rule are not broached with IAC members during the on-boarding process or after. It is likely that individual IAC members have an understanding of how fiduciary obligations apply in the context of institutional investing based on their own personal and professional experiences, however, it is an important element of the on-boarding process to inform (and re-inform) individuals as to how those responsibilities relate to the IAC mandate and the tasks it has been delegated to perform.

IV. Prudent Person Rule

Subsection 7(a) of the *Municipal Investment Regulation* requires that, when investing the assets of a municipality, the “prudent person rule as understood generally by the investment community in Canada and Alberta” must be applied. The difficulty with this requirement is that while the prudent person rule is often discussed, and applied, through a discussion of legal requirements and fiduciary responsibilities, unless an individual operates within the context of the investment community, a single clear definition is not easy to ascertain. This is further complicated by the fact that the term is not defined in the MIR.

The IGP, adopted by Council effective June 15, 2020, applies the concept of prudence throughout its provisions. Of note, Subsection 6.1(a) details the standard of care that is to be applied with respect to the investment of the Assets and specifically states that “[t]he Prudent Investor Rule shall prevail over all portfolios”. As written, the term “Prudent Investor Rule” is applied with a sense of expectation and authority, yet it is not defined in the IGP and is notably absent from the IGP glossary.

For the external IAC members who are recognized as experts in the field of institutional investing, and those internal to the City organization who are exposed to investments on a daily basis, the concept of the prudent investor rule is a natural inclusion in the fabric of that industry. For those IAC members, however, who do not regularly operate in the domain of institutional investing, it is a phrase without true meaning. In the absence of a clear, accepted and communicated definition, the phrase “prudent investor rule” is open to interpretation and means that the IAC is not able to confirm that a single cohesive position or common understanding of the standard of care is being employed.

V. Documentation

Meeting documentation is intended to evidence that the due diligence process has been exercised in decision-making and act as a means of risk mitigation, particularly where decisions or recommendations are made within the scope of fiduciary considerations.

Meeting agendas and minutes were reviewed as part of the information gathering phases of this review through the provision of sample IAC meeting packages and Audit Committee meeting minutes.

A. Agenda

IAC meeting agendas are clearly set out, providing relevant materials for advance review to ensure appropriate preparation for committee discussions. They reflect a detailed and methodical approach to topics and issues ensuring that all relevant information is made available to the IAC for review and discussion.

It was noted that an annual activities calendar/agenda was not made available for review, and likely has not been developed. While many committees benefit from such structured approaches to their annual tasks, the specific mandate of the IAC does not truly warrant the need for such a document particularly when broad quarterly and annual agenda topics are identified in the IAC Terms of Reference.

B. Minutes

1. IAC Minutes

Meeting minutes are a record of the discussion and decisions that take place. While they are not intended to be a *verbatim* chronicle of the meeting, their purpose is not only to ensure the creation of historical documentation, but also to evidence that due diligence and prudence have been exercised in relation to the issues at hand. This is especially important where discussions related to topics that are fiduciary in nature.

The IAC Minutes reviewed in Section 5 are extremely thorough and provide a complete record of each IAC meeting thus evidencing:

- consistent adherence to the governance framework;
- diligent assessment of topics and issues;
- reasoned discussions inclusive of a variety of perspectives and the application of pertinent expertise; and,
- reliance on third-parties where appropriate.

The Minutes reviewed generally reflect the inclusion of the quarterly and annual (where applicable) agenda items required per the IAC Terms of Reference, with the possible exception of a robust self-evaluation process as one was not provided for purposes of this review.

2. Audit Committee Bylaw and Minutes

The Audit Committee is appointed for the purpose of supporting Council in the completion of specific audit, governance and compliance responsibilities, as well as “other matters” that may be assigned to it. Oversight and decision-making with respect to City Assets is not a task that has been specifically named for the Audit Committee, but rather falls within the scope of “other matters”.

Given the breadth of the Audit Committee responsibilities, as evidenced in review of sample meeting Minutes and the Audit Committee Bylaw, it is neither expected, nor reasonable, for Audit Committee members to have expertise or relevant experience in the field of institutional investing. Consequently, reliance on the IAC to oversee and provide reasoned

recommendations with respect to the investment of the Assets is an acceptable delegation of the assigned task.

C. Reporting Schedule

As noted in Section 5, reporting requirement for the CIT are not the same as those required for the external advisors. Further, no reporting schedule was included with the documents provided for review. Given the complexity of the City investment governance framework, it would be reasonable for the CIT to develop a robust reporting schedule for all parties associated with Asset investment to ensure that fulsome reporting is provided, and all parties are aware of reporting expectations.

VI. Structure and Composition

The IAC Terms of Reference provide broad information in relation to the objectives and responsibilities of the IAC; however, term durations for internal members, required skills (for internal members) and recruitment are not addressed.

A. Terms

The IAC Terms of Reference specify the general composition of the IAC including which individuals, from within the City organization, are required to, or otherwise may, participate on the committee. However, with the exception of the CFO (named as IAC Chair) and the City Treasurer, no other specific positions are named. While this does allow for flexibility in the IAC make-up, it provides little direction in identifying the skills and/or backgrounds that are considered beneficial to the overall IAC mandate. Further, no terms for participation are referenced for internal IAC members.

For those individuals who are required to participate on the IAC by virtue of their employment with the City, it would be counter-intuitive to include a term of membership. For those other participants from within the City, it is recognized that it takes time to acclimatize to the nuances of the IAC in order to gain sufficient comfort with the topics necessary to be an effective IAC member. Yet, while it is likely accepted that, for those internal IAC members who have volunteered to participate, resignation from the committee is an informal process, currently there is no stated mechanism for any IAC member (save those who are appointed by position) to provide notice to ensure a smooth transition in filling a vacancy.

B. Skills

The IAC Terms of Reference identify, at a high level, “experience in managing institutional investments and [a] solid understanding of investment finance and portfolio management” as external skills integral to the success of the IAC. No similar skillset is required for internal IAC members.

A skills matrix applicable to the IAC was not provided for review. While it may be concluded that such an assessment is not required given the narrow focus of the IAC, the creation of a skills matrix may still be a valuable exercise for ensuring that the well-rounded representation of view-points and perspectives remain a consistent presence on the committee.

C. Recruitment

It was consistently acknowledged during the interview process that the current composition of the IAC is well-balanced in its representation of viewpoints and diversity of knowledge. However, it was also regularly expressed that the IAC would benefit from maximizing its external membership. The IAC Terms of Reference currently contemplate the participation of up to three (3) external members.

It is understood that the IAC currently undertakes an informal recruitment process, as it relates to external members, for purposes of efficiency and timeliness. The consistent approach to recruitment discussed during the interviews indicated that external IAC members are identified by contemporaries on the IAC or through other reliable sources, and then approached based on their expertise, reputation and relative experience. Although this approach has resulted, to date, in the participation of highly qualified experts, it means that external IAC members are recruited from a relatively small number of prospects. To our knowledge, a pool of prospective candidates for external IAC membership is not maintained.

It is recognized that there are issues inherent in engaging in a wider recruitment process. Such obstacles may include, but are not limited to:

- **Adequacy of Applicants:** an adequate pool of qualified applicants may be difficult to amass. Not only will they need to have the skills and currency of knowledge necessary to be a contributing member of the IAC, but they must also have the available time to commit which may be more limited for individuals nearer to the beginning of their careers than to the end;
- **Fit:** recruiting IAC members based on past experience with current IAC members allows for an informal assessment of knowledge and experience, as well as a prospect's ability to work with others, prior to committing to bringing them on to the IAC. However, because the candidate pool is limited to those known to the individuals being consulted, it remains possible that other qualified candidates may be overlooked;
- **Conflicts of Interest:** many of the individuals who would most likely be ideal candidates for membership on the IAC, are also likely to be working for investment managers or consulting firms who do, or would like to, act in an advisory capacity to the City. While these individuals may be precluded from participating on the IAC based on City policies, it also means that membership with an ulterior motive is a realistic possibility and should be avoided thus further limiting the potential candidate pool; and,
- **Residency:** The City is a municipality located in Alberta. It is our understanding that not every external IAC member has been a resident of Calgary, yet there is no recollection of an external member with residency outside of the province.

For purposes of clarity, the adoption of a formal recruitment process is not an approach that is recommended for the IAC. It has been demonstrated throughout the information gathering process that the current recruitment process has, and continues, to work well in ensuring the participation of external members with a high level of relevant expertise. The within discussion is included for the purposes of developing a pool of potential candidates, as needed, to ensure the efficient succession of highly qualified external members.

VII. Advisory Resources

The City engages both internal and external investment consultants/managers to advise on the investment of the Assets. These groups provide direct support to the IAC in their deliberations of the issues before them, and in their development of recommendations related to Asset investment.

A. External Advisors

IAC meeting packages indicate that external investment consultants and/or managers regularly attend meetings for purposes of leading or participating in discussions related to topical investment issues and/or the presentation of investment returns. Quarterly investment reporting is provided prior to, and in, each IAC meeting and, as expressed during the interview process, outlines sufficient information with respect to that portion of the Assets under external management. While suggestions were provided with respect to the potential for streamlining external reporting, overall satisfaction was expressed with the type and level of reporting from external sources.

B. City Investment Team

As is evidenced throughout the documentation and in the interviews, the CIT is a key resource for the IAC. While one of the functions of the CIT is to monitor and advise on the performance of those Assets that are internally managed, the CIT is much more than just an advisor. Not only do CIT members actively participate in preparing for, and leading the discussion on, agenda items in each IAC meeting, but the CIT monitors and liaises with the external investment advisors, IAC members and others within the City organization to provide timely, accurate and fulsome information. Reliance on the CIT is, in fact, of such significance that it was suggested during one interview that the City could save consulting fees by bringing a greater portion of the Assets under the CIT umbrella. However, this comment was qualified by concern over CIT turnover.

Turnover within the CIT was conceded as inevitable during the interviews. It was openly acknowledged that the City seeks to hire “the best and the brightest” for the CIT, yet the City cannot compete with the private sector in terms of compensation and development opportunities. Because of this, keeping CIT members, particularly at the mid-range of their career trajectories, is difficult.

When queried whether regular turnover impacts the ability of the CIT to adequately support the IAC, responses noted significant reliance on senior members of the CIT to provide the continuity and historical knowledge that is key to consistent support. However, while the senior CIT members are tenured and well-versed in the operations of the IAC, the City and the investment strategies being employed, the regularity of the turnover poses a significant challenge to the development of historical knowledge and succession planning within the CIT.

Section 7

Recommendations

Sections 5 and 6 of this Report detail the findings and observations gathered through the document review and interview processes in collaboration with the IAC. In consideration of those findings, and recognizing potential legislative and political constraints, outlined below are Mercer's recommendations as they apply to the IAC and the governance of Asset investing.

The recommendations are grouped in accordance with the order of the discussion in Section 7, and are listed in no particular order of priority:

I. Fiduciary Obligations

Fiduciary tasks can be delegated, but ultimate responsibility for how they are carried out cannot. In the context of fiduciary obligations, delegating the completion of a fiduciary task to, or reliance on, a body that is recognized as having greater knowledge and experience in the relevant area is not only acceptable but the oft-endorsed best practice.

A. Decision-Making

The IAC is composed of engaged, experienced and knowledgeable individuals who, together, provide valuable insights in the consideration of investment topics. **It is recommended that:**

1. IAC membership be maintained in accordance with the composition set out in the IAC Terms of Reference; and,
2. The governance hierarchy currently employed with respect to Asset investment decision-making be maintained without modification.

B. Due Diligence

Risk mitigation is optimized where due diligence is undertaken from a position of knowledge and practical understanding. **It is recommended that** the IAC remain the primary body responsible for the operational oversight and due diligence processes related to the development of the institutional investing strategy and recommendations for operational decision-making as they relate to the Assets.

II. On-Board and Continuing Education

Current on-boarding practices focus largely on the IAC mandate and current asset classes, rather than the overall roles and responsibilities of the IAC. While many IAC members are knowledgeable and experienced with respect to institutional investing, a broad range of practical understanding exists on the committee. As a principle of good governance, substantive on-boarding and continuing education opportunities should be made available.

It is recommended that:

1. On-boarding sessions be conducted for new IAC members that not only provide an overview of investment profile, but also focusses on the roles and responsibilities of the IAC including, but not limited to: mandate and objectives; fiduciary responsibilities; governance and reporting; and, risk management and related controls applicable to the Assets.
2. Continuing education opportunities be made available to IAC members and other relevant stakeholders (i.e., Audit Committee), at least annually, on a variety of topics applicable to the IAC, including, but not limited to: institutional investing; City financial objectives and priorities; and, investment impact on City operations.

While external investment consultants and/or managers may be identified as relevant presenters, in this regard, it is recommended that other perspectives and viewpoints be considered to ensure a breadth of available education opportunities.

3. Relevant, external education opportunities be made available to IAC members, as each may deem appropriate. These would include, but are not limited to: seminars, conferences, workshops and networking sessions.
4. A budget be dedicated for the purposes of IAC education, subject to any limitations the City may deem appropriate (e.g., annual expense per IAC member; travel restrictions; number of opportunities per IAC member each year).

III. Prudent Person Rule

As discussed in Section 6, a common understanding of the prudent investor rule has not been established for purposes of the IAC.

It is recommended that:

1. A clear definition of the “Prudent Investor Rule” be developed by the IAC and incorporated into the IGP and other documentation relevant to the governance of Asset investment.
2. Orientation to the “Prudent Investor Rule”, as developed by the IAC, be socialized as part of the on-boarding process to ensure a common and foundational understanding of the concept and the expectations related to it.

IV. Reporting Schedule

Overall, the documentation relied on, and developed by, the IAC and other bodies associated with Asset governance are thorough, easy to follow and complete. However, **it is recommended that** a reporting schedule be developed to ensure that all investment advisory documentation is consistent (be it internally or externally provided), and that all parties, at all levels of the governance hierarchy, are aware of the frequency and level of reporting required.

V. Structure and Composition

The below recommendations relate specifically to IAC self-governance.

A. Terms

The IAC currently does not employ limits on the length a voluntary internal IAC member may serve, or reflect a process by which any member (except for those appointed by virtue of their employment position) may resign.

It is recommended that:

1. Terms be considered for voluntary internal IAC members to ensure a rotation of relevant knowledge and experience through IAC membership.
2. Alternatively, incorporate a formal process for resignation for external and voluntary internal IAC members to ensure sufficient time for succession thus supporting the continued optimal operation of the IAC.

B. Skills

The skills, expertise and breadth of knowledge required for the effective operation of the IAC should be assessed and reviewed in light of the committee's current roles and responsibilities.

It is recommended that:

1. The IAC undertake an assessment of all skills and expertise that may be relevant to the oversight of Asset investment taking into consideration not only expertise in institutional investing, but also, for example, risk management, governance and City operations.
2. A skills matrix be developed to aid in the identification of potential candidates for internal and external recruitment purposes.
3. In accordance with principles of good governance, the IAC undertake, and document, an annual self-evaluation process reviewing such areas as, but not limited to: member engagement; meeting preparedness; strategic priorities; and, effectiveness of communication.

C. Recruitment

The current practice of informally approaching peers for external IAC membership has its advantages, but it results in a small pool of candidates who tend to be of similar career stage and background.

It is recommended that:

1. The IAC engage the CIT to develop a pool of potential candidates for external IAC membership based on a variety of factors including, but not limited to: background; expertise in institutional investing; career stage; and, breadth of knowledge as compared with current external members.
2. Assess whether industry organizations, such as the CFA Society, are willing and/or able to advertise available external IAC positions, subject to limitations imposed by City committee recruitment processes.

3. Assess whether recruitment from private sector consultant firms, investment managers, etc. would constitute an inherent conflict of interest, and, if possible, connect with a senior consultants for purposes of identifying potential candidates.

VI. Advisory Resources

A. External Advisors

Reliance on external investment consultants and/or managers provides a spectrum of investment philosophies and strategies from which the IAC, and the City by turn, have benefitted.

It is recommended that:

1. Clear reporting processes and expectations are communicated, reducing or eliminating any extraneous information that may be identified by the IAC.
2. External advisors invited to present at an IAC meeting be requested to provide an summary or overview of the intended discussion for inclusion in the meeting package to ensure that all IAC members attend with an understanding of the materials and the purpose of the discussion.

B. City Investment Team

The CIT engages in a partnership with the IAC beyond just that of an advisor; however, its future effectiveness may be hindered by regular turnover and its impact on succession planning. While it is recognized that this is a City employment matter, and not one the IAC is responsible for, or has influence over, **it is recommended that:**

1. Where possible, the IAC expand reliance on members of the CIT beyond senior leaders in an effort to increase exposure to the complexities of Asset investment and related development opportunities.
2. The IAC support succession planning within the CIT where possible.

VII. Investment Documents

A. General

The City investment policy documents are comprehensive and reflective of industry best practice. Specific recommendations have been provided in Section 5. At a summary level, **it is recommended that:**

1. Language be made clearer and remove duplication in policy documents to avoid confusion.
2. Define roles and responsibilities clearly, specifically for the CIT and in respect of approval of the asset mix and investment manager changes.

B. Investment and Governance Policy

Although many of the recommendations specific to the IGP are outlined in Part B, Section 5, **it is recommended that:**

1. The Investment and Governance Policy be revised to more clearly articulate and incorporate the roles and responsibilities of the Audit Committee and the CIT within the Asset investment governance structure.
2. Subject to Council agreement, Investment and Governance Policy clause 6.11(d)(iii) be revised to delegate approval authority with respect to the Funds Policy and the Portfolios Policy to the IAC.

This Report, along with all observations, recommendations and appendices, has been prepared for the exclusive use of the City of Calgary, and is based on documentation specific to, and provided by, the City of Calgary. This Report is intended for internal use only, and should not be copied or distributed to third parties without the express consent of Mercer (Canada) Limited.

Should any of the included commentary require elaboration or explanation, we would be happy to provide such upon request.

Mercer thanks the City of Calgary for the opportunity to be part of the review process and the preparation of this Report.

Prepared 15 March 2024 by:



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Principal / Senior Legal Consultant



Gayle McDade
Principal

Appendix A

Interview Participants

The below listing details the name and role of each interviewee as they were at the time of their respective interviews.

Name	Role/Position	IAC Membership
Katie Black	City General Manager – Community Services	Internal
Michael Thompson	City General Manager – Infrastructure Services	Internal
Carla Male	City Chief Financial Officer	Internal / IAC Chair
Les Trocher	Deputy Chief Financial Officer	Internal
Ian Bourne	Expert in institutional investing	External
Thomas Holloway	Associate Professor, Haskayne School of Business, University of Calgary	External

Appendix B

Documents Reviewed

Document Name	Date Executed / Adopted
2022 Annual Investment Report	Undated
2022 Q3 Investment Report	Undated
Administration Policy: Conflict of Interest	01 June 2022
Audit Committee Bylaw 33M2020	26 October 2020
Audit Committee Agenda Package	15 June 2023
Audit Committee Agenda Package	19 July 2023
City of Calgary Organization Chart	Undated
City of Calgary Reserves and Long-Term Liabilities: Balances 2022	September 2023
City Employee Code of Conduct	December 2022
Delegation of Authority per Bylaws 43M99 and 8M2001	26 February 2016
Economic & Portfolio Update (IAC)	10 January 2023
Economic & Internal Portfolio Update (IAC)	10 January 2023
External Portfolio Update (IAC)	10 January 2023
Funds Policy	01 July 2020
Funds Policy	01 April 2022
Investment Advisory Committee Terms of Reference	Undated
Investment Advisory Committee Orientation	June 2023
Investment Advisory Committee Meeting Materials	10 January 2023
Investment Advisory Committee Meeting Materials	28 September 2022
Investment Advisory Committee Meeting Materials	25 July 2022
Investment Advisory Committee Meeting Materials	8 April 2022
Investment Advisory Committee Terms of Reference	Undated
Investment Advisory Committee Orientation	June 2023
Investment Advisory Report – Q3 2022	10 January 2023
Investment and Governance Policy – Draft	Undated
Investment and Governance Policy	15 June 2020
Investment Governance Presentation (Ellement Consulting Group)	13 September 2018
Investment Portfolios Policy	01 July 2020
<i>Municipal Government Act, R.S.A. 2000, c. M-26</i>	
<i>Municipal Investment Regulation, A.R. 149/2022</i>	



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