

2015 ANNUAL INVESTMENT REPORT

EXECUTIVE SUMMARY

The 2015 Annual Investment Report (see Attachment) provides an overview of investment activity, asset balances, and portfolio returns for 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 2015 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

City Funds are invested in a diversified portfolio of financial assets consisting of money market securities, short term and long term government and corporate bonds, and global and Canadian equity investments, to meet the investment objectives of City Funds. This includes return and liquidity requirements as well, to match funds with longer-term time horizons.

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 2015 investment activity, asset mix, asset class and investment manager performance, as well as compliance information to the Audit Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2015, the market value of The City's total investments under management increased from \$3.96 billion to \$4.37 billion as of December 31, 2015 and generated investment income of \$96.6 million during the year. The total portfolio return was 1.95% on a market value basis exceeding the portfolio's benchmark return of 1.11%. All asset class returns exceeded their respective benchmark performance in 2015.

City investments are managed by a combination of investment managers; internally by the Treasury division of the CFO's department and externally by eight specialty managers retained to manage 12 bond and equity portfolio mandates.

The City's internally managed portfolios are invested in fixed income assets with the majority of investments maturing in less than two years and returned 1.78% in 2015, while externally managed bond and equity returns totaled 2.2% for the year.

2015 was characterized by a period of slow global economic growth and low inflation that had a dampening effect on global interest rates. In response to the shock to the Canadian economy from the sharp decline in energy prices, the Bank of Canada cut its policy interest rate by 0.5% from an already low 1.0% to 0.5% which also contributed to the weaker Canadian dollar in 2015.

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Led by the decline in bond yields to near historical lows, short and long term bonds posted returns of 2.99% and 2.68% respectively. Unlike 2014, when equities posted double digit returns, global and Canadian equities returned 2.19% and -4.05% respectively in 2015, however both outperformed their perspective benchmarks. A \$50 million allocation to equities was advanced in Q4 2015 for asset mix rebalancing purposes.

Fiduciary oversight is guided by the Investment Governance Policy which sets out the governance framework and responsibility for investment of City Funds. This includes accountability, compliance, and disclosure requirements for investments. In 2015, the Investment Advisory Committee (IAC) met quarterly to oversee investment strategy, risk mitigation, and compliance as well as review investment managers and 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 2015, all investments were in compliance with internal policy and statutory requirements.

In 2015, Administration conducted an Investment Strategy and Asset Mix Review and examined all City Funds based on their investment objectives and risk profile, time horizon, and liquidity requirements. Further work overflowed into 2016. As a result, asset mix and investment initiatives to broaden the set of investments and diversification opportunities will be brought forth to the IAC for consideration in 2016.

Stakeholder Engagement, Research and Communication

The IAC provides oversight of City investments and monitors compliance with all applicable policies and regulations. The 2015 Annual Investment Report on investment holdings and performance was reviewed and approved by the IAC at its meeting on 2016 March 17.

Strategic Alignment

The management of The City's investment portfolios follows industry best practice and aligns with prudent stewardship of financial resources and sustainability of The City.

Social, Environmental, Economic (External)

Social

Prudent and responsible investment of The City's investments provides necessary financial resources and generates sustainable investment income in support of City operations and objectives.

Environmental

Prudent investment in companies and governments that follow environmental and social principles supports sustainable risk/return performance of City investments to meet City goals and objectives.

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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:

Total investment income earned in 2015 was \$96.6 million. Investment income directly impacts the growth of City reserves and the operating budget.

Current and Future Capital Budget:

The growth in investments provides financial viability and supports the current and future capital budgets.

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 strategy and regularly reviews the investment activity, compliance and risk mitigation practices of both internal and external managers to meet City's investment objectives

REASON FOR RECOMMENDATION:

As part of a sound governance practice, the Annual Investment Report provides the Audit Committee and Council with the reporting of The City's investment activity, asset class holdings, and performance during 2015 to meet investment objectives.

ATTACHMENT

2015 Annual Investment Report