AC2025-0384
Attachment 2

2024 Annual Investment Report

Corporate Planning & Financial Services

ISC: Unrestricted

Table of Contents

Introduction

This Annual Investment Report[1] provides a comprehensive overview of the performance of The City of Calgary's (The City) Consolidated Investment Portfolio in 2024, including key financial metrics, market analysis and insights into our sources of funds for investment, governance and investment strategy. The City strategically allocates assets across diverse investment opportunities to maximize returns while effectively managing risk. As part of maximizing returns, there is an increasing emphasis on generating income to meet the ongoing needs of Calgarians. Guided by thorough market analysis and prudent governance practices, our investment strategy is designed to adapt to evolving economic conditions while striving towards long-term financial sustainability.

We invite you to explore the following sections to learn more about how our investments support The City's mission to make life better every day for all Calgarians.

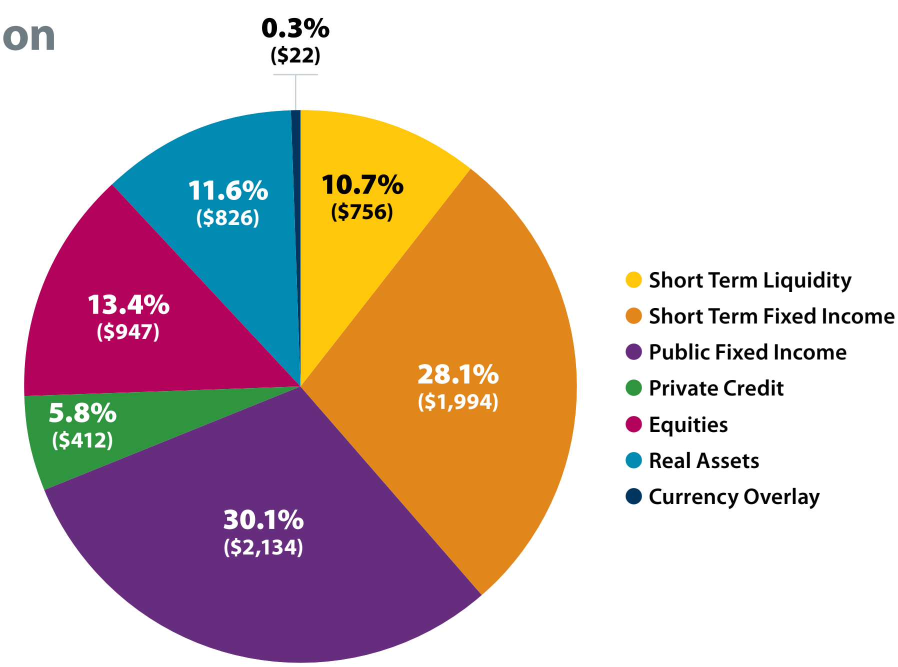
Headline results – 2024

Assets under management	Net assets[2]	Net return	Income available for distribution
$7,092 million	**$6,696 million**	**9.19%**	**$298 million**

Investment allocation

For the year ended Dec. 31, 2024

Per cent ($ millions)



1 All figures and returns within the Annual Investment Report are stated in Canadian dollars unless otherwise noted. Totals within tables and charts may not add due to rounding.

2 Excludes investments funded by commercial paper borrowings.

Capital markets review

2024 proved to be a positive year for most financial markets, supported by shifting monetary policies, technological advancements and evolving economic conditions. Public equity markets benefited from continued growth in artificial intelligence and corporate earnings strength, while fixed-income markets found stability as central banks reversed restrictive monetary policy.

Central banks remained at the center of financial market narratives in 2024, with their policy decisions shaping investor sentiment across asset classes. As inflation eased from its 2022 highs, the U.S. Federal Reserve (Fed) and the Bank of Canada (BoC) reduced interest rates by 1 per cent and 1.75 per cent, respectively, in 2024 to 4.5 per cent and 3.25 per cent, respectively, implementing gradual cuts to support economic stability.

Global equity markets had a strong 2024, with the MSCI All Country World Index up 28.2 per cent and the S&P 500 rising 36.4 per cent, driven by U.S. technology stocks. The "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) fuelled gains as investor enthusiasm for AI advancements remained strong. Over the past decade, these companies expanded their share of the S&P 500 Index to 33.5 per cent, reinforcing U.S. equities as a key driver of global markets.

Fixed income markets in 2024 were shaped by central bank rate cuts, leading to a general decline in bond yields. However, yields experienced short-term fluctuations as markets assessed inflation risks and the pace of monetary easing. Cash investments remained strong, with the FTSE Canada 91 Day T-bill Index returning 4.9 per cent, while the FTSE Canada Universe Bond Index posted a 4.2 per cent return, reflecting moderate bond market gains amid shifting economic conditions.

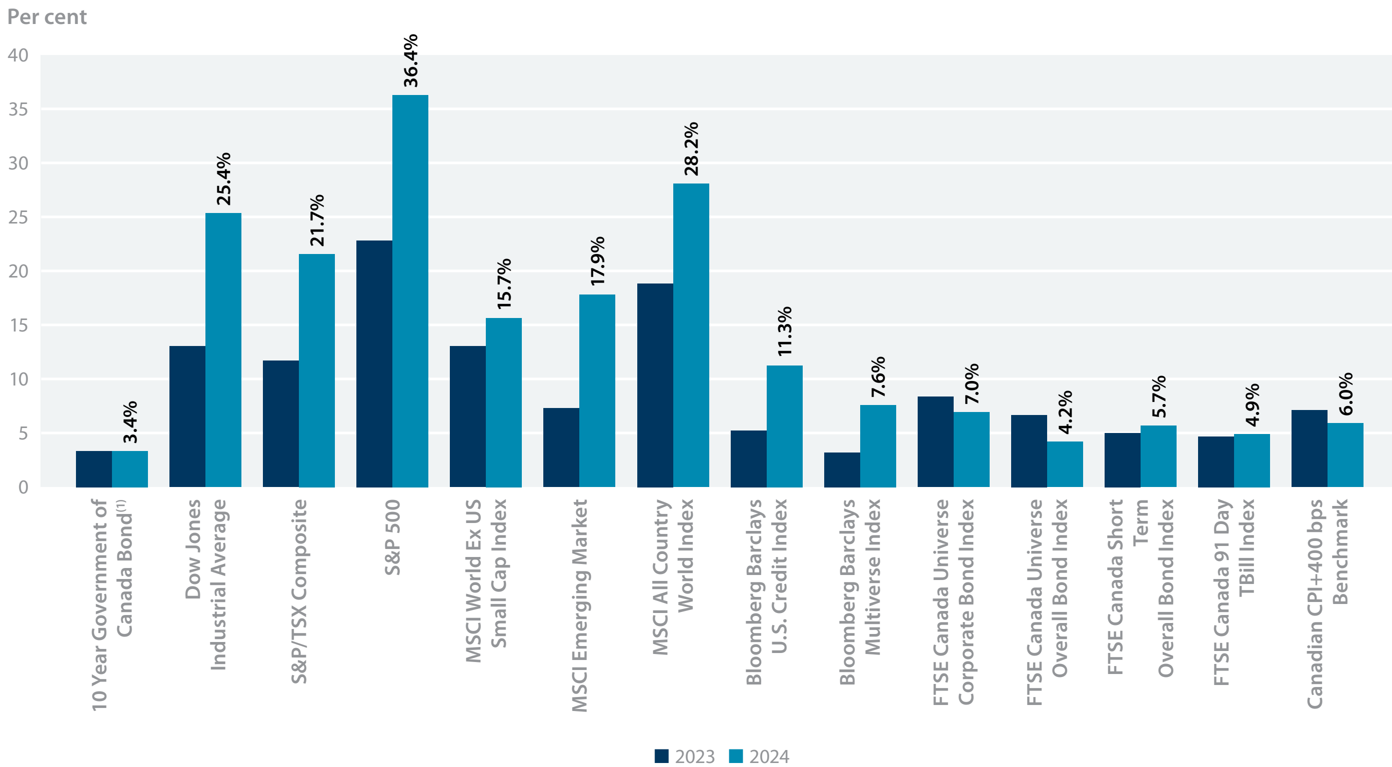
Crude oil prices (WTI, USD) remained relatively stable in 2024. Despite geopolitical risks in the Middle East, OPEC+ supply management and global economic uncertainty helped contain price fluctuations.

The Canadian dollar depreciated 7.7 per cent against the U.S. dollar, its sharpest drop since 2015, driven by significant monetary easing by the Bank of Canada and trade policy uncertainty.

As The City's Consolidated Investment Portfolio has evolved in recent years, it enabled The City to capitalize on favourable market conditions across a range of asset classes in 2024. A more detailed analysis of the contribution of each asset class to the overall consolidated return is provided in the investment performance and contribution to return sections of this report.

Sources: CC&L, PH&N, Bloomberg, APS bank, Bank of Canada

2024 Capital Markets Return



Source: State Street, eVestment, Government of Canada, Refinitiv

1 Average annual yield

Sources of investment capital

The City of Calgary invests funds from the following sources:

- **Reserves**
  Operating, capital and sustainment
- **Capital deposits**
  Off-site levies and government grants
- **General operations**
  Includes working capital
- **Funded employee benefit obligations (EBO)**
- **Other**
  Trusts and affiliated entities

Each source of funds has its own objectives, constraints, target asset mix and income allocation rules for that fund. The composition of the full Portfolio is determined by the aggregation of these individual policies according to the proportion that each source contributes.

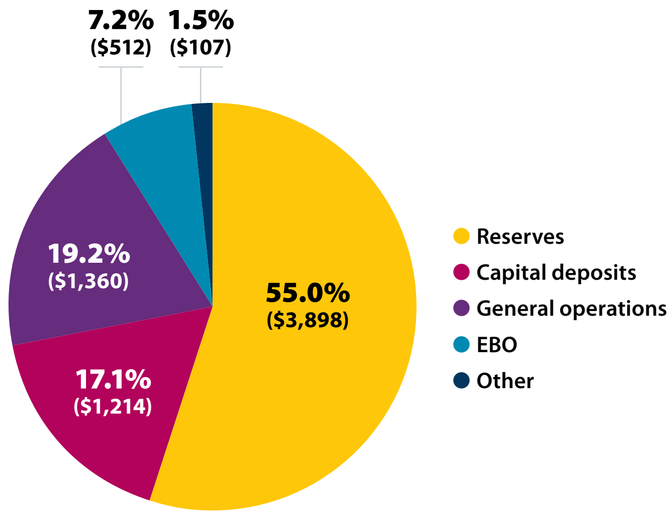
Growth in investments

The City's Consolidated Investment Portfolio has grown by $1,836 million since year end 2020. The increase is primarily driven by additions to sources of investments and investment returns.

Investment capital by source

As at Dec. 31, 2024

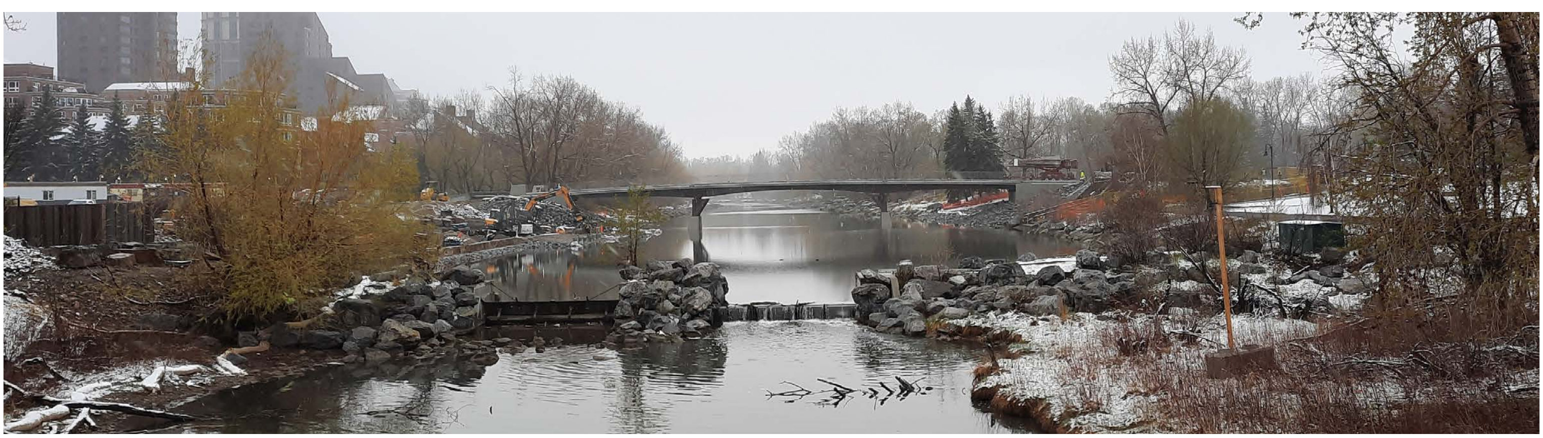
Per cent ($ millions)



Investment objectives of source capital

Source of Investment Capital	Capital Growth	Inflation Mitigation	Income Generation	Capital Preservation	Liquidity
Reserves	Intermediate	Primary	Primary	Intermediate	Intermediate
Capital deposits	Intermediate	Primary	Primary	Intermediate	Intermediate
General operations	Low-priority	Primary	Primary	Primary	Primary
EBO	Low-priority	Primary	Primary	Primary	Intermediate
Other	Low-priority	Intermediate	Primary	Intermediate	Intermediate

● Low-priority objective ● Intermediate objective ● Primary objective



ISC: Unrestricted

Investment objectives

The City of Calgary has three core investment objectives that drive all strategic investment decisions:

1. **Preservation of capital**
   a. Primary objective of the Consolidated Investment Portfolio

2. **Risk mitigation**
   a. Diversification of asset classes and security holdings by sector, geography and style
   b. Policy constraints and limits

3. **Investment returns**
   a. Maximization of returns, relative to risk
   b. Key considerations related to liquidity and investment time horizon requirements

Investment summary

Total assets under management (AUM)

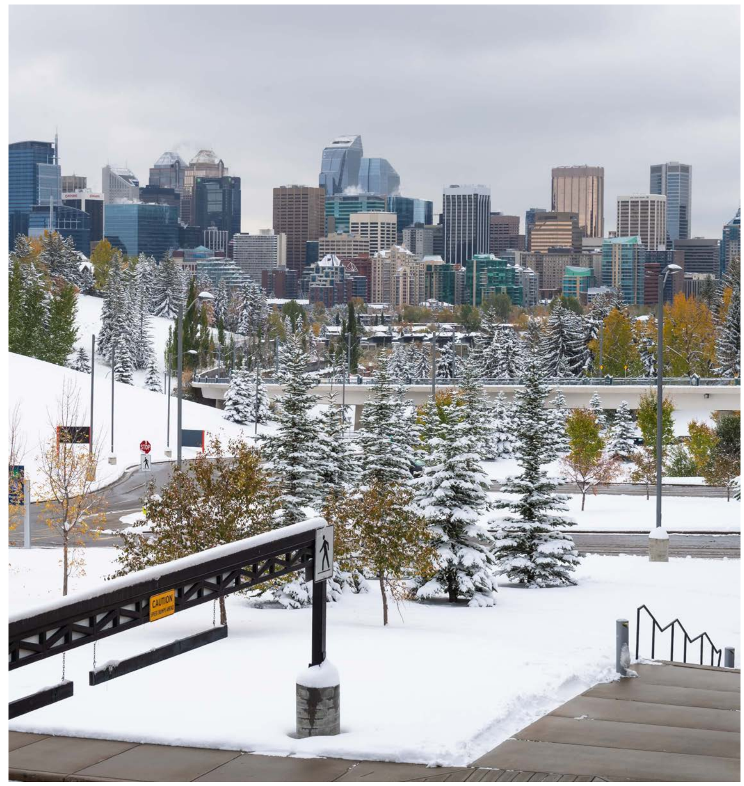
As at Dec. 31, 2024, the market value of The City's Consolidated Investment Portfolio was $7,092 million, an increase of $272 million on a year-over-year basis, predominantly due to increases in the market values of the externally managed portfolios. Significant resources were deployed into alternative investments, such as private credit, infrastructure and real estate, over the year, funded from the Short Term Liquidity program.

Assets under management

As at Dec. 31, 2024

$ millions

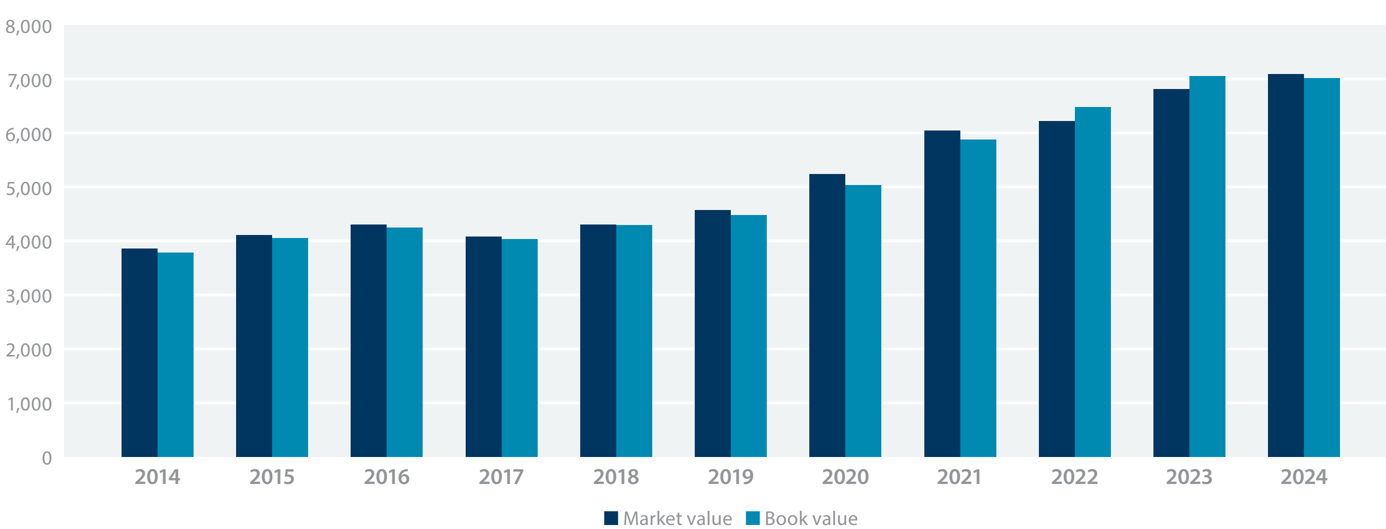
	Market value	Book value	Unrealized Gains/ (Losses)
Internal Management			
Short Term Liquidity	756.5	756.5	0.0
Short Term Fixed Income	507.5	500.7	6.9
External Management			
Short Term Fixed Income	1,486.8	1,489.3	(2.4)
Public Fixed Income (Canada)	1,122.4	1,134.9	(12.4)
Public Fixed Income (Global)	1,011.5	1,018.3	(6.7)
Private Credit	412.4	408.2	4.2
Equities	947.2	781.9	165.3
Real Assets	825.6	730.3	95.3
Currency Overlay	22.3	25.6	(3.3)
Total	**7,092.3**	**6,845.6**	**246.7**



Period-end asset under management (AUM)

As at Dec. 31, 2024

$ millions



Investment allocation

Portfolio summary

As at Dec. 31, 2024

	Market value ($ millions)	Allocation (%)
Short Term Liquidity	**756.5**	**10.7%**
Short Term Fixed Income	**1,994.3**	**28.1%**
Short Term Universe Bonds	1,336.5	18.8%
Canadian Commercial Mortgages	657.9	9.3%
Public Fixed Income	**2,134.0**	**30.1%**
Public Fixed Income (Canada)	1,122.4	15.8%
Public Fixed Income (Global)	1,011.5	14.3%
Private Credit[1]	**412.4**	**5.8%**
Equities	**947.2**	**13.4%**
Real Assets[2]	**825.6**	**11.6%**
Currency Overlay	**22.3**	**0.3%**

Source: State Street, The City of Calgary

Consolidated assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**6,820.3**
Net cash transfers	(317.2)
Portfolio gains and losses[3]	589.2
Closing net asset value – Dec. 31, 2024	**7,092.3**

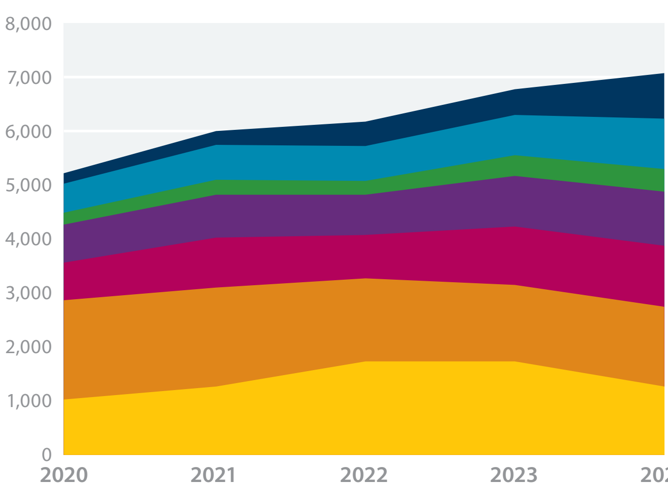
The strategic direction of the Consolidated Investment Portfolio changed in 2020 following the approval of the CP2020-02 Investment and Governance Policy. The direction was to reallocate short-term liquid assets to longer term higher yielding and higher returning assets.

The market value of the Consolidated Investment Portfolio has increased from $5,256 million at year-end 2020 to $7,092 million as of Dec. 31, 2024. During this time period the allocation to longer-term asset classes (excluding the Short Term Liquidity Portfolio) grew from 56 per cent to 75 per cent. The largest absolute allocation change was in the Public Fixed Income Portfolio, which has increased from a market value of $1,397 million to $2,134 million. The Private Credit Portfolio has risen from $238 million to $412 million and the Real Assets Portfolio has grown from $195 million to $826 million.

Looking forward, The City will continue to grow its exposure to longer-term asset classes through new and existing commitments, while continuing to closely monitor portfolio liquidity to fund operations and ongoing and near-term projects for The City.

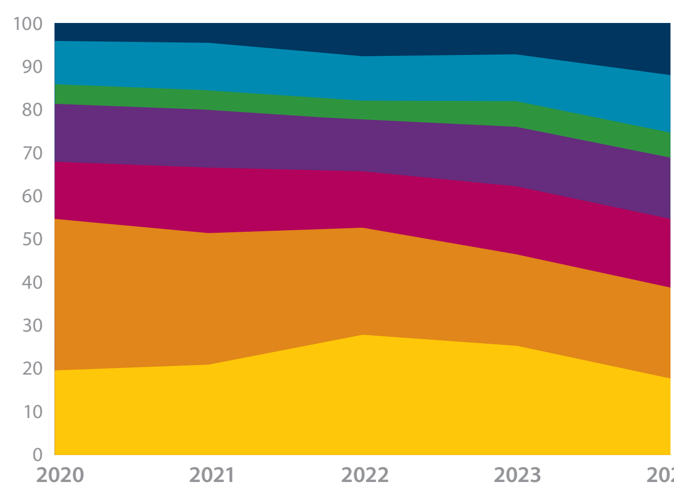
Market value

$ millions



Investment allocations

Portion of portfolio (per cent)



Short Term Liquidity · Short Term Fixed Income · Public Fixed Income (Canada) · Public Fixed Income (Global) · Private Credit · Equities · Real Assets

1 Private Credit AUM does not include committed capital not yet deployed ($218 million)

2 Real Assets AUM does not include committed capital not yet deployed ($90 million)

3 Includes realized/unrealized capital gains and losses, dividends and interest income

ISC: Unrestricted

Investment performance

Historical performance

Per cent net of fees

	Annualized Returns				Annual Returns				
	1 Year	3 Years	5 Years	ITD	2024	2023	2022	2021	2020
The City of Calgary Consolidated[1]	**9.19**	**3.41**	**3.76**	**3.31**	**9.19**	**7.61**	**(6.14)**	**2.06**	**6.53**
Benchmark	8.50	2.89	3.30	2.89	8.50	7.35	(6.46)	1.28	6.65
Value added	**0.69**	**0.52**	**0.46**	**0.42**	**0.69**	**0.26**	**0.32**	**0.79**	**(0.12)**
Short Term Liquidity[1]	**5.82**	**4.56**	**3.26**	**2.37**	**5.82**	**5.19**	**2.54**	**0.85**	**1.79**
Benchmark	4.92	3.81	2.48	1.63	4.92	4.71	1.82	0.17	0.86
Value added	**0.90**	**0.75**	**0.78**	**0.74**	**0.90**	**0.48**	**0.73**	**0.68**	**0.93**
Short Term Fixed Income	**5.89**	**2.48**	**2.66**	**2.48**	**5.89**	**5.63**	**(3.78)**	**0.00**	**5.93**
Benchmark	5.70	2.13	2.11	2.09	5.70	5.02	(4.05)	(0.93)	5.19
Value added	**0.19**	**0.35**	**0.55**	**0.39**	**0.19**	**0.61**	**0.26**	**0.94**	**0.75**
Public Fixed Income (Canada)	**4.53**	**(0.32)**	**1.20**	**2.57**	**4.53**	**6.88**	**(11.34)**	**(2.27)**	**9.64**
Benchmark	4.23	(0.60)	0.79	2.24	4.23	6.69	(11.69)	(2.54)	8.68
Value added	**0.30**	**0.28**	**0.41**	**0.33**	**0.30**	**0.19**	**0.34**	**0.27**	**0.96**
Public Fixed Income (Global)	**7.49**	**1.78**	**2.45**	**3.85**	**7.49**	**6.69**	**(8.06)**	**(0.34)**	**7.39**
Benchmark	7.23	0.21	0.82	2.27	7.23	3.82	(9.61)	(3.62)	7.38
Value added	**0.26**	**1.57**	**1.63**	**1.58**	**0.26**	**2.87**	**1.54**	**3.27**	**0.01**
Private Credit[2]	**11.16**	**5.95**	**5.97**	**5.83**	**11.16**	**7.83**	**(0.77)**	**3.26**	**8.81**
Benchmark	12.60	6.16	5.39	5.51	12.60	10.92	(4.14)	0.08	8.57
Value added	**(1.44)**	**(0.21)**	**0.58**	**0.32**	**(1.44)**	**(3.09)**	**3.36**	**3.18**	**0.23**
Equities	**27.04**	**7.71**	**8.22**	**9.25**	**27.04**	**17.23**	**(16.09)**	**12.07**	**5.98**
Benchmark	28.15	10.10	12.48	10.87	28.15	18.92	(12.43)	17.53	14.80
Value added	**(1.11)**	**(2.39)**	**(4.26)**	**(1.62)**	**(1.11)**	**(1.69)**	**(3.66)**	**(5.46)**	**(8.82)**
Real Assets[2]	**13.41**	**11.21**	**9.98**	**9.19**	**13.41**	**7.90**	**12.41**	**9.92**	**6.41**
Benchmark	5.96	6.45	6.03	6.93	5.96	5.05	8.37	10.43	1.28
Value added	**7.45**	**4.76**	**3.95**	**2.26**	**7.45**	**2.85**	**4.04**	**(0.51)**	**5.13**
Currency Overlay	**(1.11)**	**(0.42)**	**0.10**	**0.00**	**(1.11)**	**0.45**	**(0.58)**	**1.02**	**0.73**
Benchmark	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Value added	**(1.11)**	**(0.42)**	**0.10**	**0.00**	**(1.11)**	**0.45**	**(0.58)**	**1.02**	**0.73**

Source: State Street, The City of Calgary

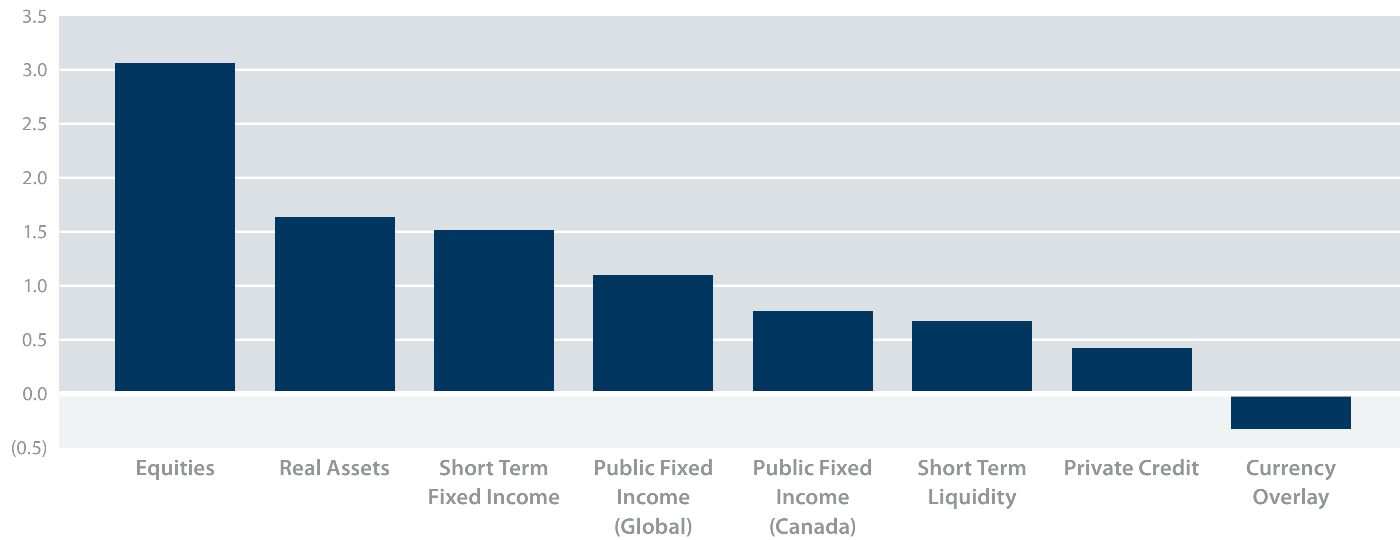
1 The City of Calgary's Consolidated and Short Term Liquidity Portfolio performance excludes High Interest Savings Accounts (HISA). The estimated 2024 return, including HISA, for the Consolidated Portfolio is 8.93 per cent against an estimated blended benchmark of 8.25 per cent. The estimated 2024 return, including HISA, for the Short Term Liquidity Portfolio is 5.53 per cent.

2 Returns for private assets are reported on a one-quarter lag; benchmark returns are current as of the reporting period.

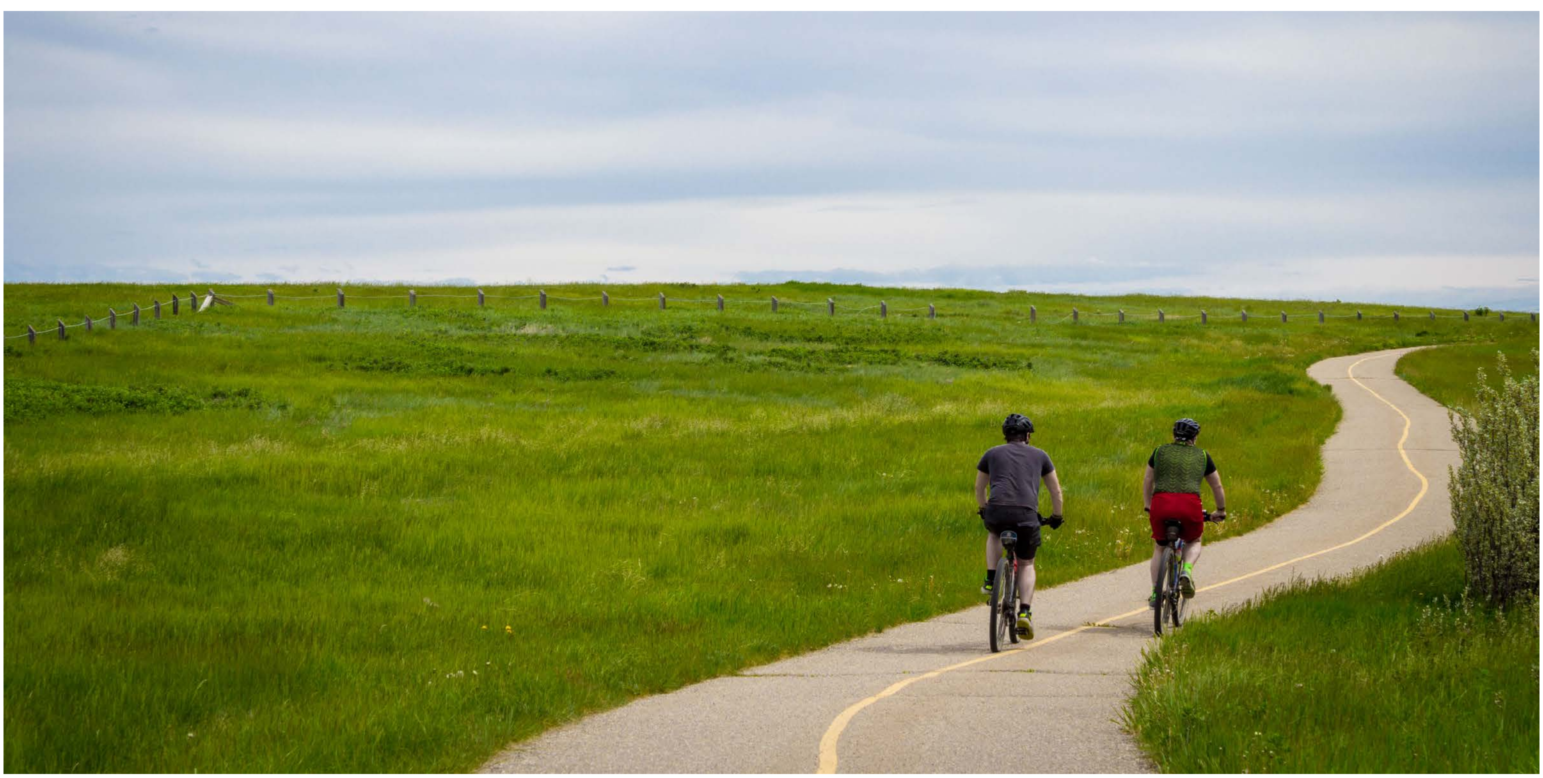
Contribution to return

Portfolio contribution to return – 2024

Per cent net of fees



- The City of Calgary's Consolidated Investment Portfolio return in 2024 was 9.19 per cent (8.93 per cent with HISAs).
- The largest contributor to The City's returns in 2024 was the Equities Portfolio. The Equities return was the highest of any of the asset classes within The City's asset mix, both in percentage and absolute terms. Real Assets also stood out for the size of its return relative to the Portfolio. These two asset classes, which made up a quarter of The City's invested assets, were responsible for slightly more than half of 2024's returns.
- In keeping with its size, the Public Fixed Income Portfolio also made significant contributions to The City's return. When the two components of the Public Fixed Income Portfolio are combined, its total contribution to return was 1.87 per cent, second only to Equities.

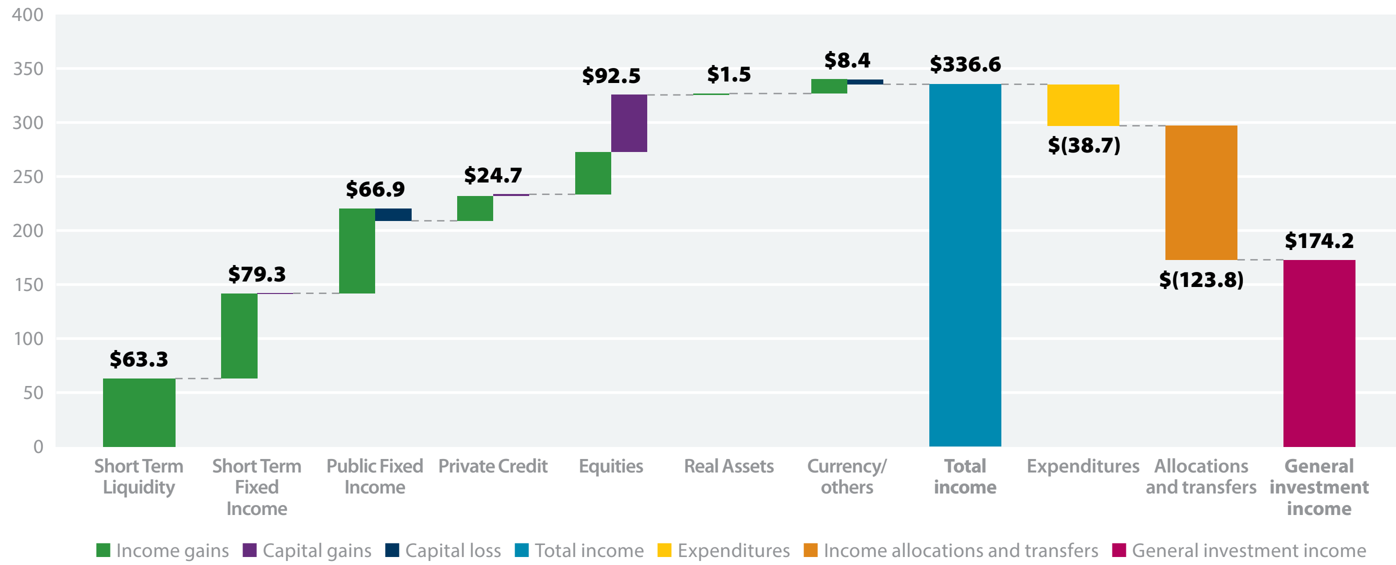


Investment income

Through Dec. 31, 2024, The City of Calgary's Consolidated Investment Portfolio generated $336.6 million of investment income before expenditures and allocations. Investment income varies from investment return because it is calculated based on interest, dividends and realized capital gains and losses. The majority of corporate total investment income earned in 2024 came from the Public and Short Term Fixed Income Portfolios, as well as the Equities Portfolio as realizations were captured in Q4 2024. Despite overall capital appreciation, minimal realized investment income was contributed by Real Assets in 2024.

Investment income breakdown

$ millions

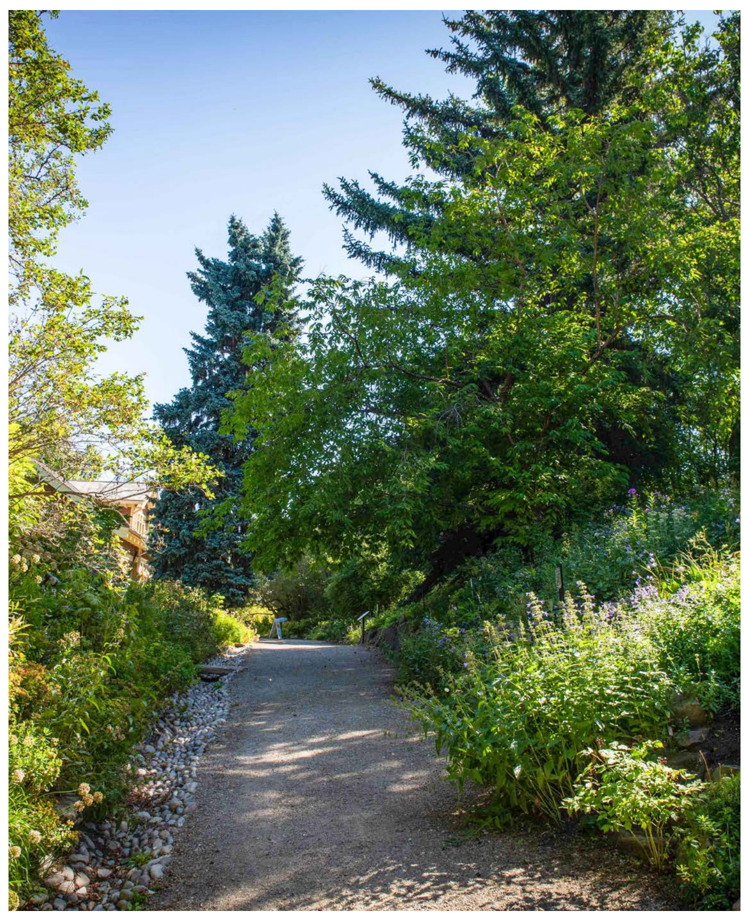


Investment income – budget vs. actual

As of Dec. 31, 2024

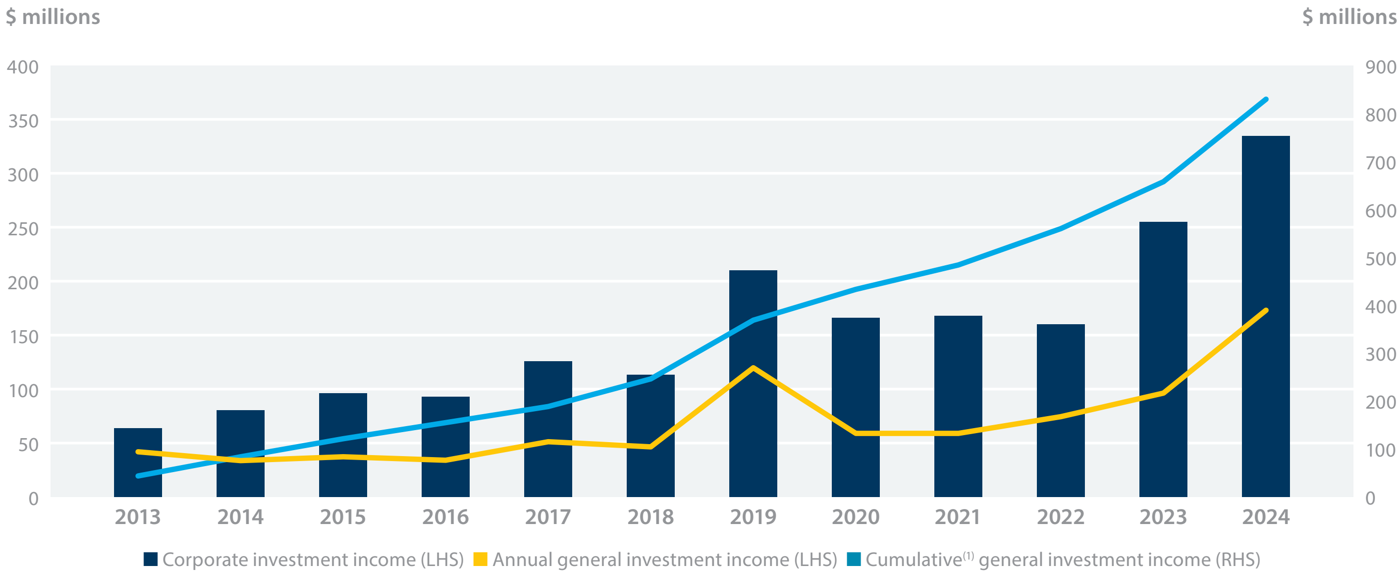
$ millions

	2024 Budget	2024 Actual	2023 Actual
Corporate total investment income	**160.3**	**336.6**	**255.4**
Expenditures (net of receivables)	23.4	38.7	33.9
Income available for distribution	**136.9**	**298.0**	**221.6**
Allocations to self-supporting business units and capital deposits	46.8	70.9	64.3
Transfers to reserves from operations	23.2	52.9	58.8
General investment income	**67.0**	**174.2**	**98.5**



Investment income (continued)

Investment income - historical



1 The City earned general investment income prior to January 1, 2013, but it is not included in this chart.

Asset Class Review

Short Term Liquidity

Investment objective

To generate investment income while preserving capital and providing liquidity for the cash flow requirements of all The City's funds.

Performance

For the year ended Dec. 31, 2024

Per cent net of fees

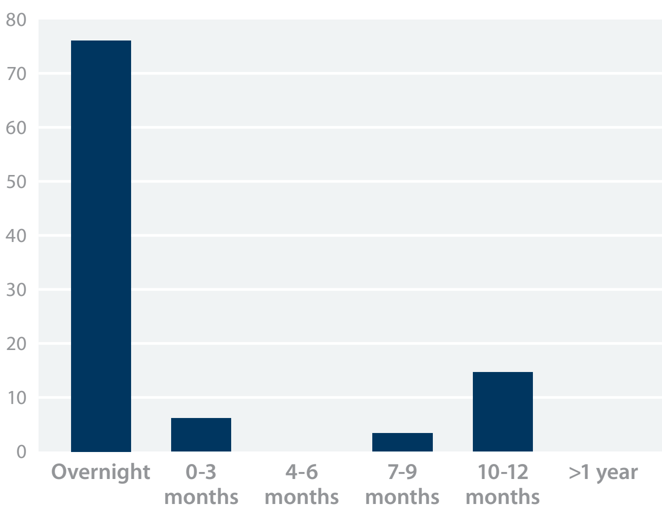
	Annualized returns[1]			
	1 Year	3 Years	5 Years	ITD
Short Term Liquidity	**5.82**	**4.56**	**3.26**	**2.37**
Benchmark	4.92	3.81	2.48	1.63
Value added	**0.90**	**0.75**	**0.78**	**0.74**

Benchmark: FTSE Canada 91 Day T-Bill Index

Portfolio maturities

As at Dec. 31, 2024

Per cent of Portfolio



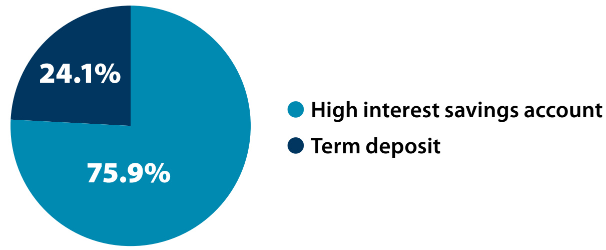
Assets under management

	$ millions
Term deposits and accrued interest	182.6
High interest savings account	573.9
Closing net asset value – Dec. 31, 2024[2]	**756.5**

Asset type

As at Dec. 31, 2024

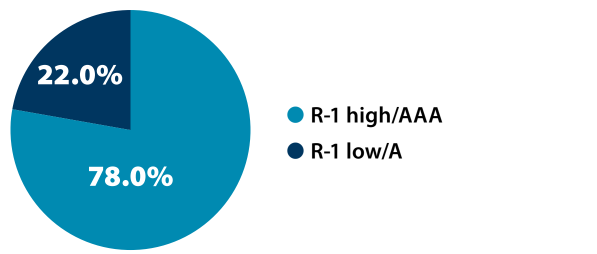
Per cent



Credit quality[3]

As at Dec. 31, 2024

Per cent



Investment highlights

The Short Term Liquidity Portfolio returned 5.82 per cent, exceeding its benchmark. Of note, the spread received by issuing commercial paper and investing in high interest savings accounts has widened to approximately 67 basis points (bps) compared to its historical average of 35 bps. This largely resulted from the closure of the Canadian Banker's Acceptance (BA) market in Q2 2024, increasing demand for commercial paper.

Positioning

In 2024, the Short Term Liquidity Portfolio primarily invested in high interest savings accounts, which made up about 76 per cent of the Portfolio. The remainder was invested in term deposits of terms up to one year. While the Portfolio can invest in other short-dated securities such as T-Bills, bank deposit notes, commercial paper and very short maturity corporate and government bonds, market conditions continue to favour staying in cash due to an inverted yield curve, a situation where shorter-term investments have higher yields than longer-term investments.

Throughout the course of 2024, the Bank of Canada lowered interest rates. The curve has begun to normalize; as the market continues to price in additional cuts, shorter-term yields have fallen more than longer-term yields.

1 Returns are for term deposits and near-maturity bonds only. The estimated return, including returns from HISAs, for 2024 is 5.53 per cent.

2 Total includes amounts funded by short-term commercial paper borrowings.

3 Term deposits only

Short Term Fixed Income

Investment objective and philosophy

To provide exposure to short-term Canadian fixed income securities and commercial mortgages, with an emphasis on capital preservation, income generation and attaining net returns that meet or exceed the Portfolio benchmark. Five out of the six mandates within the Short Term Fixed Income Portfolio are externally managed.

The City believes active management can enhance value by adjusting duration, strategically over- and under-weighting sectors and credit and selecting securities with strong potential. Additionally, The City aims to capture an illiquidity premium by investing in commercial mortgages, while maintaining sufficient liquidity through short-term fixed income securities to balance the less liquid mortgage component. The Portfolio is almost entirely allocated to investment-grade assets.

Performance

For the year ended Dec. 31, 2024

Per cent net of fees

	1 Year	3 Years	5 Years	ITD
Short Term Fixed Income	**5.89**	**2.48**	**2.66**	**2.48**
Benchmark	5.70	2.13	2.11	2.09
Value added	**0.19**	**0.35**	**0.55**	**0.39**

Benchmark: FTSE Canada Short Term Bond Index

Composition

As at Dec. 31, 2024

Mandate	AUM ($ millions)	Current yield (%)	Duration (years)
Short Term Universe Bonds	1,336.5	3.29%	2.7
Canadian Commercial Mortgages	657.9	4.69%	2.8
Short Term Fixed Income	**1,994.3**	**3.75%**	**2.7**

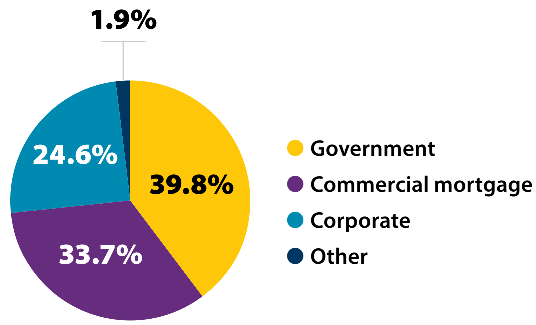
Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**1,921.0**
Net cash transfers	(27.7)
Portfolio gains and losses[1]	101.0
Closing net asset value – Dec. 31, 2024	**1,994.3**

Sector allocation

As at Dec. 31, 2024

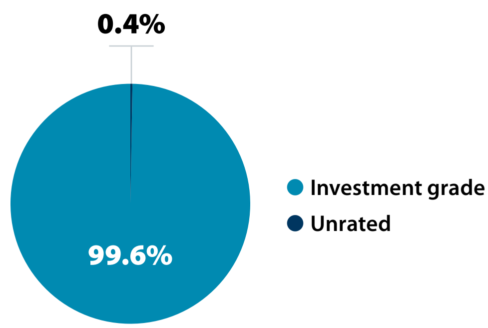
Per cent



Credit quality

As at Dec. 31, 2024

Per cent



1 Includes realized/unrealized capital gains and losses, dividends and interest income

Short Term Fixed Income (continued)

Short Term Universe Bonds

In the fourth quarter of 2024, fixed income markets faced rising bond yields despite monetary policy easing by central banks. The Bank of Canada cut its overnight rate by a cumulative 100 bps across two meetings, bringing it to 3.25 per cent. Similarly, the U.S. Federal Reserve lowered its target rate by 50 bps, though it signaled a more measured approach to further easing. Despite these rate cuts, bond yields moved higher, reflecting persistent concerns about inflation stickiness and uncertainty over the ability of central banks to achieve a "soft landing."

In Canada, two-year bond yields rose by 4 bps, while 10-year yields increased by 27 bps over the fourth quarter. In contrast, the U.S. saw a more pronounced movement, with two-year treasury yields rising 63 bps and 10-year yields climbing 77 bps. Credit spreads tightened during the fourth quarter, reflecting improving risk sentiment despite elevated volatility in broader markets.

The City's external managers generated a net return of 5.82 per cent in 2024, outpacing the Portfolio benchmark by 12 bps. This relative outperformance was driven by a combination of macro positioning, security selection and tactical portfolio adjustments. Managers maintained a cautious stance on corporate bonds due to expensive valuations while increasing exposure to domestic banks as loan growth stabilized and mortgage renewal risks declined.

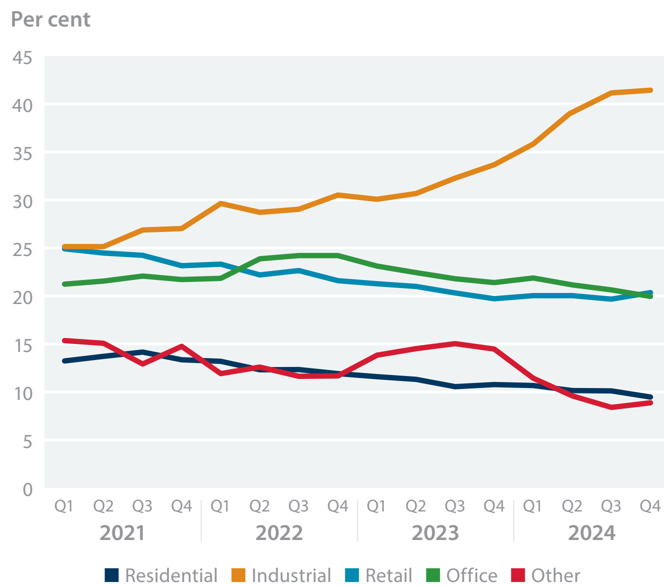
Canadian Commercial Mortgages

The Canadian commercial mortgage market in 2024 navigated a complex environment influenced by monetary policy shifts, sector-specific challenges and evolving investor sentiment. Despite the Bank of Canada's rate cuts, totalling 1.75 per cent, aimed at stimulating activity, transaction volumes declined year-over-year, reflecting ongoing price discovery issues and the residual impact of prior high interest rates. Sector dynamics remained uneven, with industrial assets maintaining stability due to continued logistics demand, while office properties struggled with elevated vacancies and lender caution. Multifamily housing remained a bright spot, particularly in Alberta, Quebec and Atlantic Canada, where new supply continued to emerge despite broader economic headwinds. As lenders prioritized quality underwriting and liquidity, selective investments in resilient sectors such as grocery-anchored retail and high-quality multifamily projects provided avenues for growth amid uncertainty.

The City's Canadian commercial mortgage investment managers managed an absolute net return of 6.48 per cent in 2024. This outperformed the benchmark by 79 bps in 2024 and has outpaced traditional short-term universe bond income returns over the last one-, three- and five-year periods. The three Canadian commercial mortgage managers share a cautious but opportunistic outlook on the market, positioning their portfolios to balance income generation with risk mitigation. All three emphasize the importance of high-quality underwriting, strong borrower profiles and liquidity management to navigate the ongoing uncertainty in commercial real estate. Their portfolios are heavily weighted toward industrial and multifamily assets, sectors that continue to benefit from strong rental fundamentals, while they remain underweight or highly selective in the office segment due to persistent vacancy concerns. With interest rates stabilizing, each manager is selectively deploying capital into new opportunities, focusing on term loans with attractive spreads while maintaining short to medium duration to optimize flexibility in a changing rate environment.

Commercial mortgage sector allocation

As at Dec. 31, 2024



Forward looking strategy

The City will continue to rely on its Short Term Fixed Income Portfolio to remain a stable source of yield and liquidity. The City is evaluating its overall asset allocation to identify potential opportunities for enhancing the yield of the Consolidated Portfolio. This may lead to strategic rebalancing from the Short Term Fixed Income Portfolio to other asset classes.

Public Fixed Income

Investment objective and philosophy

To provide exposure to longer term Canadian and Global public fixed income securities. To support the preservation of capital, the Portfolio will be largely composed of investment-grade holdings.

The City believes active management can enhance portfolio value by adjusting duration, strategically over- and under-weighting sectors and credit and selecting securities with strong potential. This Portfolio maintains a majority investment-grade allocation. Given the expected term structure of interest rates, it is anticipated to generate a higher yield than the Short Term Fixed Income Portfolio. Additionally, select Global fixed income investments may offer higher yields than Canadian counterparts and this Portfolio aims to capture that advantage.

Performance

For the year ended Dec. 31, 2024

Per cent net of fees

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Public Fixed Income (Canada)	**4.53**	**(0.32)**	**1.20**	**2.57**
Benchmark	4.23	(0.60)	0.79	2.24
Value added	**0.30**	**0.28**	**0.41**	**0.33**

Benchmark: FTSE Canada Universe Bond Index

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Public Fixed Income (Global)	**7.49**	**1.78**	**2.45**	**3.85**
Benchmark	7.23	0.21	0.82	2.27
Value added	**0.26**	**1.57**	**1.63**	**1.58**

Benchmark: Bloomberg Global Aggregate Index

Composition

As at Dec. 31, 2024

	AUM ($ millions)	Current yield (%)	Duration (years)
Public Fixed Income (Canada)	1,122.4	3.76%	7.3
Public Fixed Income (Global)	1,011.5	5.17%	5.4
Public Fixed Income	**2,134.0**	**4.43%**	**6.4**

1 Includes realized/unrealized capital gains and losses, dividends and interest income

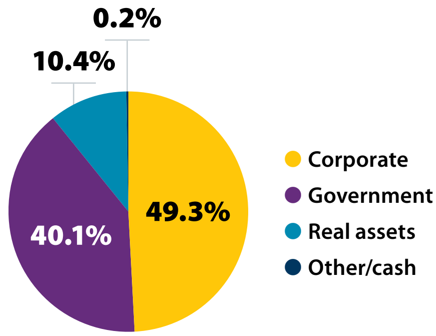
Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**2,016.4**
Net cash transfers	(6.1)
Portfolio gains and losses[1]	123.6
Closing net asset value – Dec. 31, 2024	**2,134.0**

Sector allocation

As at Dec. 31, 2024

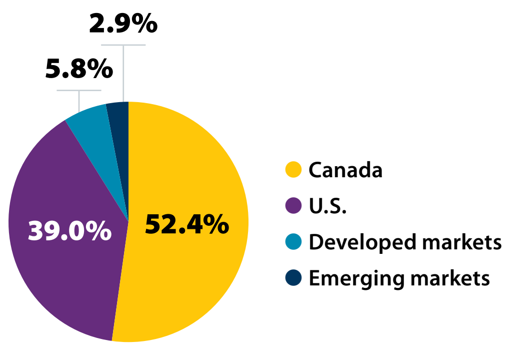
Per cent



Geographic allocation

As at Dec. 31, 2024

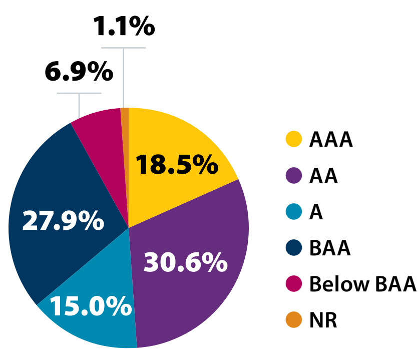
Per cent



Credit rating

As at Dec. 31, 2024

Per cent



ISC: Unrestricted

Public Fixed Income (continued)

Public Fixed Income (Canada)

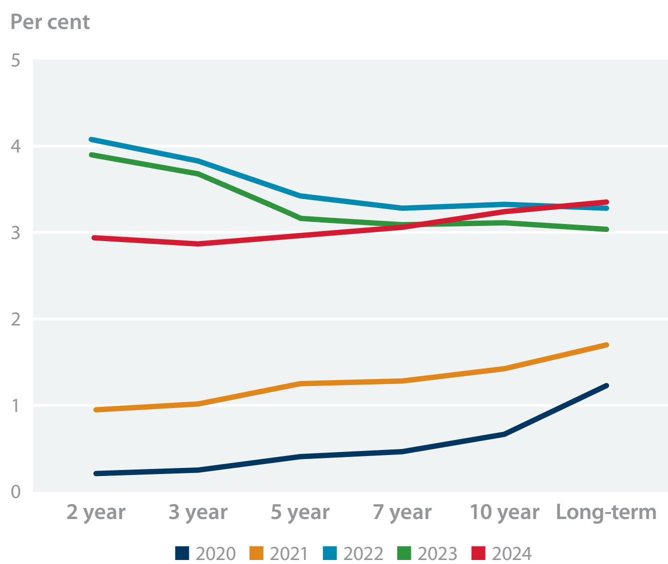
In 2024, the Canadian fixed income market was shaped by monetary easing, shifting yield curves and tightening credit spreads. The Bank of Canada cut its overnight rate by a total of 175 bps during the easing cycle, while the U.S. Federal Reserve reduced rates by 100 bps, though both signaled a more measured pace of cuts moving forward. Despite these reductions, longer term Canadian bond yields rose overall, particularly in the latter half of the year, as market participants re-calibrated expectations for future rate movements. Corporate and provincial spreads tightened meaningfully, supported by investor demand for elevated yields, strong corporate earnings and reduced issuance. As a result, credit markets ended the year strong, while the Canadian yield curve steepened following more than two years of inversion, reflecting normalization in bond markets.

Both of The City's active managers managed to outperform the benchmark in 2024 by roughly 36 bps. This value-add was modestly offset by the index replication strategy, bringing the consolidated excess return for this portion of the portfolio to 30 bps.

In 2024, both active managers navigated a shifting fixed income landscape and maintained an underweight in Government of Canada bonds while overweighting corporate and provincial bonds, particularly in BBB-rated securities. Credit positioning was a key driver of performance, with strong contributions from spread tightening, though valuations remained stretched. One external manager benefited from macro positioning and quantitative factors while the other external manager's outperformance was driven by credit and liquidity strategies, though it faced some losses from duration and yield curve positioning. Both managers maintained a cautious outlook, focusing on high-quality assets amid ongoing economic and policy uncertainties.

Bank of Canada bond yields

As at Dec. 31, 2024



Source: Bank of Canada

Public Fixed Income (Global)

In 2024, the global bond market was shaped by shifting central bank policies, investor demand for higher yields and currency fluctuations. Despite widespread expectations for easing monetary policy, bond yields rose in many regions due to stronger-than-expected economic data, geopolitical uncertainty and fiscal sustainability concerns.

Corporate bonds outperformed sovereign bonds, with investment-grade credit seeing strong demand as spreads tightened, reflecting corporate resilience and investor preference for credit over duration risk. While sovereign bonds faced headwinds from rising government debt levels and fiscal expansion, opportunities emerged in corporate bonds, short- duration strategies and select credit sectors, positioning fixed income as a key portfolio diversifier heading into 2025.

Across The City's Global fixed income strategies, credit market positioning was a key driver of investment manager performance, with a broad preference for investment-grade corporate bonds over sovereign debt, particularly in sectors offering strong fundamentals. The Global strategies favoured high-barrier industries such as pipelines, housing and financials, while security selection within investment-grade credit added value. Yield curve management played a critical role, with some approaches benefiting from a shorter duration posture, while others made tactical adjustments based on market dislocations. Currency movements were also a significant factor, with foreign exchange volatility influencing returns, particularly in relation to the U.S. dollar. Each manager emphasized a cautious balance between risk and quality, with active liquidity and duration management to navigate an uncertain macroeconomic and geopolitical environment.

On a consolidated basis, the three active Global fixed income managers outperformed their collective benchmark in 2024 by 26 bps on a net of fee basis.

Forward looking strategy

The City is evaluating a transition from its existing segregated accounts to pooled funds with similar strategies to enhance operational efficiency. The City is also assessing pooled fund opportunities within its Public Fixed Income (Canada) holdings that offer broader risk exposures, with the objective of enhancing diversification and improving the overall risk-adjusted returns of the Public Fixed Income Portfolio.

Private Credit

Investment objective and philosophy

To provide exposure to private credit investments, with an emphasis on capital preservation, income generation, and providing net returns that meet or exceed the Private Credit benchmark.

The City believes that private credit investments offer a premium for their unique structure, complexity and illiquidity. Private credit may offer lower correlation of returns to other asset classes, has shown lower volatility versus traditional fixed income and offers stable current income.

Performance[1]

For the year ended Dec. 31, 2024

Per cent net of fees

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Private Credit	**11.16**	**5.95**	**5.97**	**5.83**
Benchmark	12.60	6.16	5.39	5.51
Value added	**(1.44)**	**(0.21)**	**0.58**	**0.32**

Benchmark: A blended benchmark using account-weighted sub-benchmarks (see Appendix 1 – Private Credit)

Composition

As at Dec. 31, 2024

	AUM ($ millions)	Current yield (%)	Duration (years)
Private Credit	**412.4**	**7.17**	**4.3**

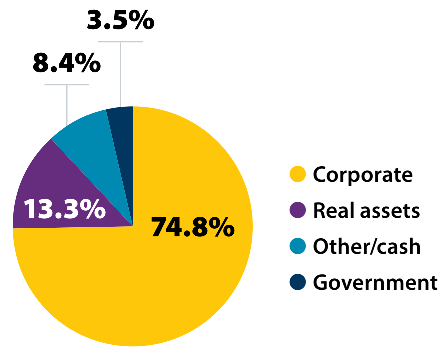
Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**377.3**
Net cash transfers	6.2
Portfolio gains and losses[2]	28.8
Closing net asset value – Dec. 31, 2024	**412.4**

Sector allocation

As at Dec. 31, 2024

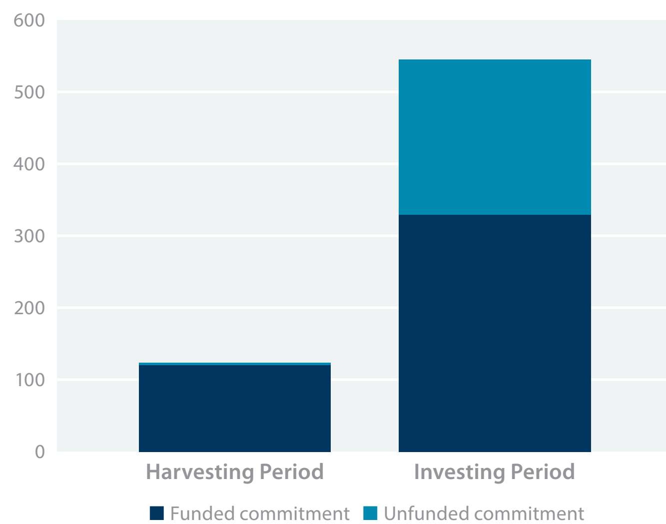
Per cent



Committed capital – Private Credit

As at Dec. 31, 2024

$ millions



1 Performance for all mandates in the Private Credit Portfolio is reported on a one-quarter lag, except for Sun Life PFIP, which is reported on a current-quarter basis.

2 Includes realized/unrealized capital gains and losses, dividends and interest income.

Market

The private credit market in 2024 has continued its growth trajectory across both the U.S. and Europe, driven by shifting macroeconomic conditions, evolving regulatory landscapes and increased investor demand for alternative fixed-income strategies. While each region has its own unique factors at play, common themes such as the retreat of traditional banks, heightened competition and robust deal flow have shaped the market's evolution. Additionally, the current interest rate environment has continued to influence private credit, with elevated base rates keeping yields on variable-rate loans attractive, though borrowers remain cautious about long-term financing costs.

Portfolio updates

The City's Private Credit Portfolio underperformed its blended benchmark by 144 bps in 2024. At year-end, approximately 45 per cent of the portfolio was allocated to an investment-grade strategy, which underperformed its benchmark by 94 bps. Additionally, one of the City's private credit managers experienced its first realized losses in 2024 related to loans originated during the COVID-19 pandemic; however, these losses are not considered indicative of broader systemic issues within the Portfolio. Lastly, part of the Portfolio's relative underperformance was driven by the City's infrastructure credit mandate, which, despite outperforming its target return profile since inception, lagged the broader U.S. leveraged loan market in 2024—a market that delivered a notably strong return of over 19 per cent.

Performance for most mandates within the Private Credit Portfolio is reported on a one-quarter lag, while benchmark returns are current as of the reporting period. Given the long-term nature of these assets, performance is best evaluated over longer time horizons.

Forward looking strategy

The City will continue expanding its allocations to private credit markets by fulfilling existing commitments and pursuing new investments to enhance diversification within its holdings.

Equities

Investment objective and philosophy

Investment in a diversified portfolio of global equity securities to achieve long-term capital appreciation, dividend income, to mitigate the effects of inflation and to provide a net return that meets or exceeds the equity benchmark over a market cycle.

The Equities Portfolio is managed using a total portfolio approach, with the benefits of active management being realized most effectively though investment in less efficient markets. Currently, two of the four mandates within the Equities Portfolio are index replication strategies, with the other two being actively managed by external managers.

Performance

For the year ended Dec. 31, 2024

Per cent net of fees

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Equities	**27.04**	**7.71**	**8.22**	**9.25**
Benchmark	28.15	10.10	12.48	10.87
Value added	**(1.11)**	**(2.39)**	**(4.26)**	**(1.62)**

Benchmark: MSCI All Country World Index (MSCI ACWI)

Composition

As at Dec. 31, 2024

	AUM ($ millions)	Current Yield (%)
Equities	**947.2**	**1.69%**

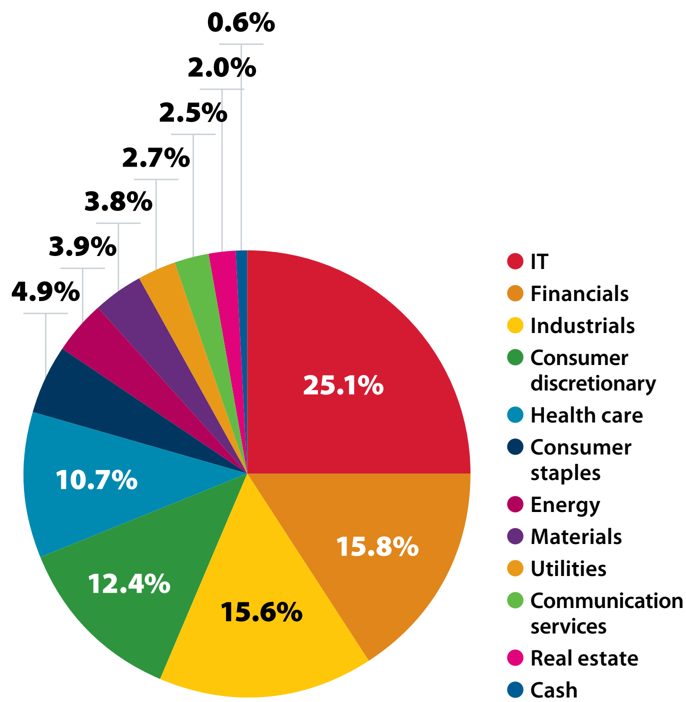
Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**750.9**
Net cash transfers	(7.2)
Portfolio gains and losses[(1)]	203.5
Closing net asset value – Dec. 31, 2024	**947.2**

Sector allocation

As at Dec. 31, 2024

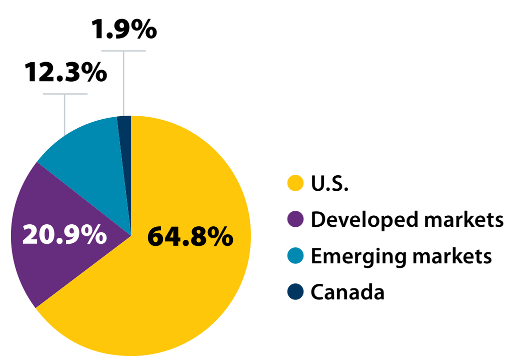
Per cent



Geographic allocation

As at Dec. 31, 2024

Per cent



1 Includes realized/unrealized capital gains and losses, dividends and interest income.

Equities (continued)

U.S. market

In 2024, U.S. public equities experienced significant developments driven by several key themes:

Technological advancements

The rapid progression of artificial intelligence (AI) and other technologies played a pivotal role in shaping market dynamics. Companies at the forefront of AI and tech innovation attracted substantial investor interest, influencing market performance.

Monetary policy shifts

The U.S. Fed adjusted its monetary policy stance during the year, impacting investor sentiment and equity valuations. These policy changes influenced market liquidity and the cost of capital, thereby affecting equity markets.

Political developments

The U.S. presidential election had a notable impact on market sentiment. The election outcome led to significant capital inflows into U.S. equity funds, reflecting investor optimism about potential policy shifts and economic prospects.

Market concentration

A considerable portion of market gains was driven by a select group of large-cap technology companies, especially the "Magnificent Seven." This concentration raised discussions about market breadth and the sustainability of such a narrow leadership.

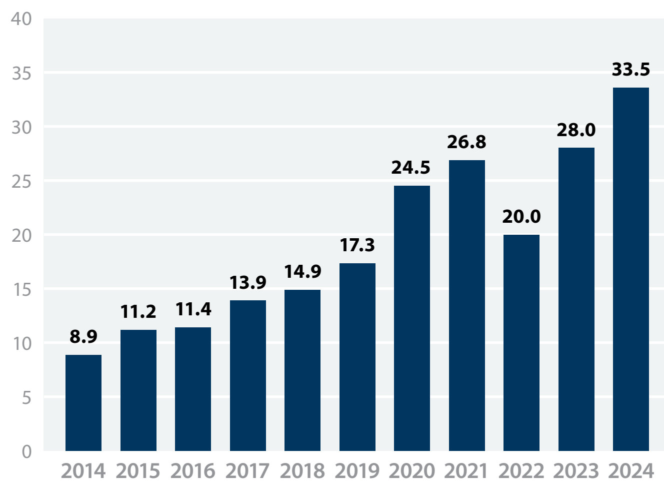
Investor sentiment

Psychological factors and the perception that there were no viable investment alternatives, contributed to sustained investment in equities. This sentiment helped maintain upward momentum in the market despite various economic uncertainties.

Collectively, these themes shaped the trajectory of U.S. public equities throughout 2024, reflecting a complex interplay of innovation, policy and investor behaviour.

Concentration in S&P 500

(Combined share of "Magnificent Seven")



Source: Bloomberg and S&P

Global market (ex-U.S.)

In 2024, global equities outside the United States experienced a range of developments influenced by several key themes:

Artificial intelligence (AI) expansion

The AI boom extended beyond U.S. borders, significantly impacting sectors such as robotics, industrials and automation in Europe and Japan. This expansion highlighted the global nature of AI adoption and its influence on various industries.

Asian market dynamics

Japan emerged as a top-performing market in the early part of the year, driven by corporate governance reforms and signs of economic revitalization. Conversely, China faced economic challenges, including consumer weakness and a slowdown in the real estate sector, leading to underperformance in its equity markets.

Market volatility

Global markets experienced significant volatility, with notable events such as a 12 per cent intraday decline in Japan's TOPIX Index on August 5—the largest since 1987. These fluctuations underscored the shifting dynamics and investor sensitivities in international markets.

Investment strategies

Investors increasingly turned to European stocks with substantial U.S. exposure, seeking to capitalize on the robust American market while benefiting from comparatively lower valuations in Europe. This strategy highlighted a pricing inefficiency and a tactical approach to global investment.

Collectively, these themes shaped the performance and investor strategies within global equities ex-U.S. throughout 2024.

Equities (continued)

Portfolio updates

Historically, the City's Equities Portfolio has underperformed primarily due to allocation decisions relative to its MSCI ACWI benchmark. Since 2020, the Portfolio maintained an overweight position in Emerging Markets compared to the benchmark. Over the past five years, Emerging Markets have consistently underperformed relative to developed markets, particularly the U.S.

In Q2 2024, The City fully redeemed its investment in an active Emerging Markets equity strategy, valued at approximately $97 million. This redemption aimed to correct the overweight position in Emerging Markets equities and was further justified by the strategy's continued underperformance relative to its benchmark. The proceeds from this redemption were reallocated into two index replication strategies. Approximately two-thirds of the capital was invested into a U.S. ETF with a value-oriented approach, while the remaining third was allocated to an Emerging Markets ETF. This reallocation was implemented to better align The City's Equities Portfolio with its benchmark. Index replication strategies were selected as an interim measure pending the completion of The City's ongoing portfolio construction review, which is detailed further in the forward looking strategy section.

Forward looking strategy

As The City moves into 2025, it continues to refine its Equities Portfolio through a portfolio construction exercise. The City plans to transition to a globally focused portfolio anchored by a unified global benchmark (MSCI ACWI). In this shift, The City will seek managers with the flexibility to dynamically adjust country and style allocations in response to evolving market conditions. Additionally, The City aims to incorporate strategies that offer differentiated sources of added value, aligning the Consolidated Portfolio with its long-term growth and risk objectives.

Real Assets

Investment objective and philosophy

Investment in infrastructure and real estate assets to help mitigate the effects of inflation and provide diversification in risk-seeking assets.

Real asset investments will be well-diversified by asset type, geography, revenue source, sector and risk profile, ensuring a balanced approach that spreads exposure and maximizes resilience across different market and economic conditions.

Performance[1]

For the year ended Dec. 31, 2024

Per cent net of fees

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Real Assets	**13.41**	**11.21**	**9.98**	**9.19**
Benchmark	5.96	6.45	6.03	6.93
Value added	**7.45**	**4.76**	**3.95**	**2.26**

Benchmark: Canadian CPI + 400 bps

Composition

As at December 31, 2024

	AUM ($ millions)	Current Yield (%)
Real Assets[2]	**825.6**	**4.74%**

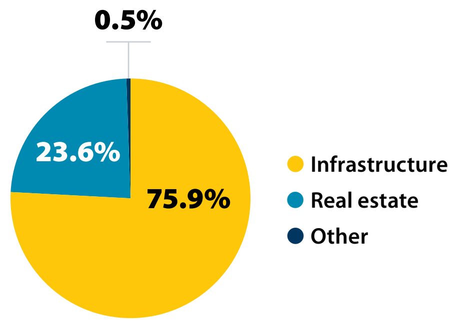
Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**474.7**
Net cash transfers	242.9
Portfolio gains and losses[3]	108.1
Closing net asset value – Dec. 31, 2024	**825.6**

Sector allocation

As at Dec. 31, 2024

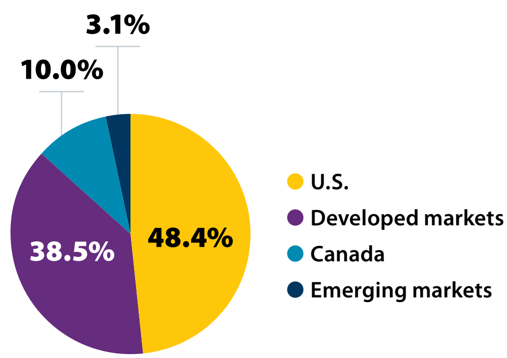
Per cent



Geographic allocation

As at Dec. 31, 2024

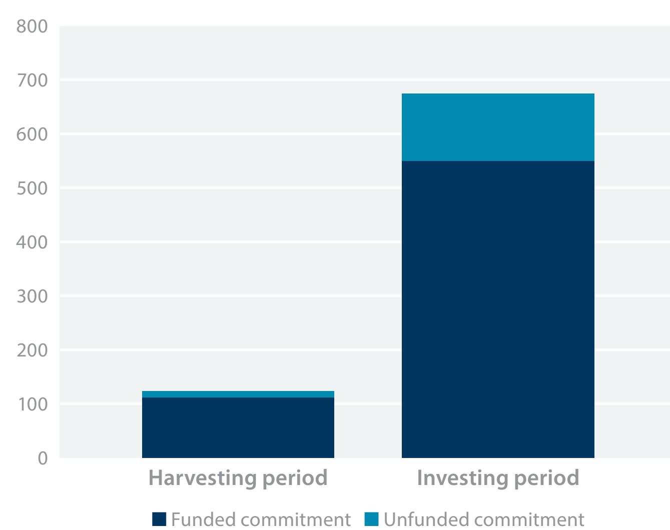
Per cent



Committed capital

As at Dec. 31, 2024

$ millions



1 Performance for all mandates in the Real Assets Portfolio is reported on a one-quarter lag, except for Brookfield DRA, which is reported on a current-quarter basis.

2 Not all mandates have provided Q4 2024 data. Current yields are based on the latest reporting available.

3 Includes realized/unrealized capital gains and losses, dividends and interest income.

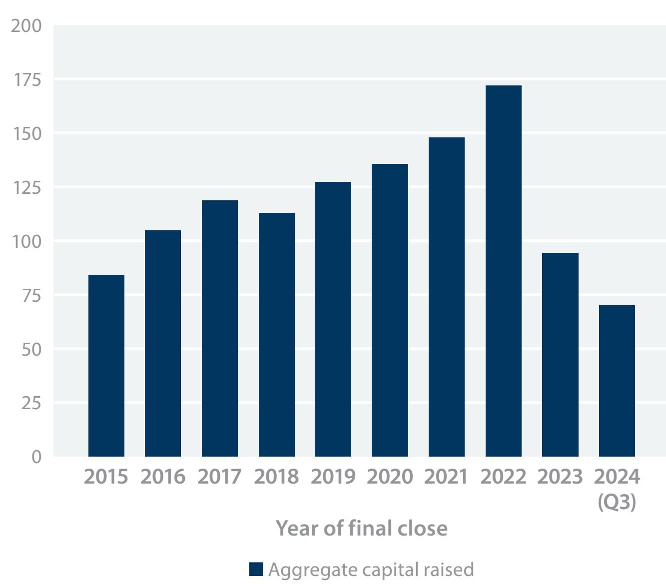
Real Assets (continued)

Infrastructure

In 2024, the global infrastructure sector navigated a challenging investment environment, shaped by rising borrowing costs, shifting policies and a slowdown in fundraising after years of rapid capital deployment. Total capital raised fell in 2024, marking the weakest fundraising year in a decade, as higher borrowing costs and geopolitical uncertainties led to delayed commitments and extended holding periods. Despite these headwinds, infrastructure remained a stable, inflation-hedged asset class, led by digital infrastructure which continues to attract strong investor interest. Demand for data centers surged due to AI and cloud computing growth, while the United Nations continues to view energy transition projects as central to global decarbonization efforts. Conversely, traditional energy and transportation assets faced challenges from regulatory uncertainty and elevated financing costs. North America and Europe continued to dominate infrastructure investment, though U.S. sentiment was tempered by political uncertainty. Looking ahead, infrastructure remains well-positioned as a defensive asset class, benefiting from trends in digitalization, decarbonization and essential services, despite persistent geopolitical and interest rate risks.

Private infrastructure capital raised

$ billions USD



Source: Preqin Ltd.

Real estate

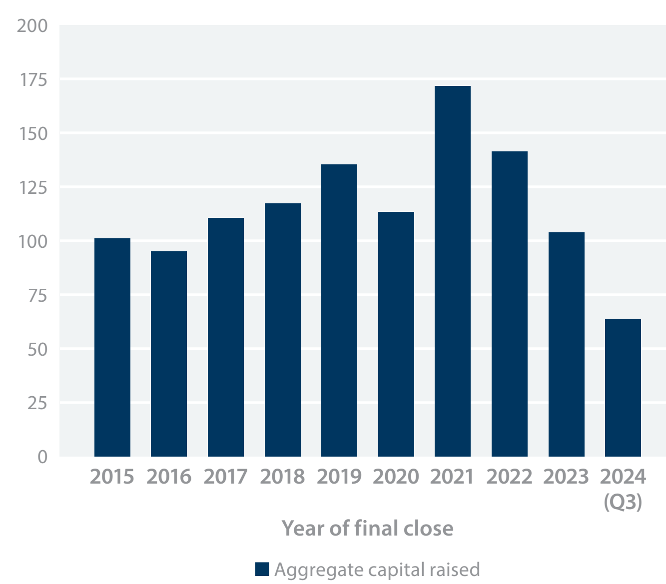
The global real estate market exhibited mixed performance across sectors in 2024, influenced by shifting economic conditions, evolving work patterns and demographic trends.

The residential sector, particularly multifamily housing, remained strong as investors favoured apartments and hotels, driving increased transaction volumes. Industrial and logistics properties also performed well, supported by the ongoing expansion of e-commerce and demand for supply chain solutions. However, the office sector continued to struggle due to persistent hybrid work models and elevated borrowing costs, leading to a decline in investment and transaction volumes. Retail real estate saw varied results, with prime locations maintaining demand while secondary areas faced higher vacancy rates. Regionally, North America showed resilience, with residential and industrial properties remaining strong, though office spaces lagged. Europe demonstrated signs of recovery, particularly in residential and hotel investments, while the office sector remained sluggish. In Asia-Pacific, most markets returned to pre-pandemic office attendance levels, with India leading demand and China showing caution. The industrial sector benefited from supply chain diversification and nearshoring trends.

Overall, real estate markets reflected a divergence in performance, with residential and industrial sectors thriving while office and certain retail segments faced ongoing

Private real estate capital raised

$ billions USD



Source: Preqin Ltd.

ISC: Unrestricted

Real Assets (continued)

Portfolio updates

The City funded its first two real estate investments in Q3 2024. As of its latest manager report, the mandate has achieved three consecutive quarters of positive performance after an extended period of markdowns. The mandate has remained resilient through a challenging period in real estate thanks to its ability to generate stable income, low portfolio leverage and limited exposure to development.

In November 2024, BlackRock announced write-downs associated with two key investments held within its Global Renewable Power Fund III (GRP III): Northvolt, a Swedish battery manufacturer, and SolarZero, a residential solar and storage platform based in New Zealand. These write-downs prompted an initial valuation review, which identified broader portfolio challenges, including revised market assumptions and concerns related to the business plans of certain portfolio companies.

Following this, a comprehensive portfolio review was undertaken in the fourth quarter. Updated valuations were informed by using a thorough underwriting process, incorporating current market dynamics and revised business plans. The review concluded that further write-downs are warranted. BlackRock also engaged directly with the management teams of each portfolio company to support ongoing evaluation and oversight. To further enhance oversight and strategic direction, BlackRock appointed senior executives from its Global Infrastructure Partners division to oversee the fund.

Prior to the disclosure of the GRP III write-downs, The City had made an additional commitment to Global Renewable Power Fund IV (GRP IV) in early Q3 2024. As of the publication date of The City's Annual Investment Report, GRP IV remains aligned with its target return expectations.

Finally, to improve diversification within its Real Assets Portfolio, The City reallocated its investment from a listed infrastructure strategy to a listed diversified real assets strategy. This shift aimed to broaden global exposure across a wider range of real assets sectors beyond infrastructure equities.

Performance for most mandates within the Real Assets Portfolio is reported on a one-quarter lag, while benchmark returns are current as of the reporting period. Given the long-term nature of these assets, performance is best evaluated over longer time horizons.

Forward looking strategy

The City will continue to allocate to existing infrastructure mandates through existing commitments. The City's Investment Team continues to develop its pipeline of potential real assets investments and intends to make additional allocations to the Real Assets Portfolio in 2025 and beyond.

Currency Overlay

Investment objective and philosophy

The Currency Overlay Portfolio is designed to provide an active strategy for reducing currency risk efficiently across the Consolidated Investment Portfolio. The currency manager reviews net foreign currency exposures for The City's Consolidated Investment Portfolio and at their discretion, implements a hedge between 0 per cent and 100 per cent for each underlying currency exposure.

The notional value managed by the currency manager is based on the foreign currency exposures of The City's underlying Portfolio, excluding all non-CAD exposures that represent less than 1 per cent of the Portfolio's Net Asset Value. All currency exposures for the Currency Overlay Portfolio are limited to currency exposures within the Consolidated Investment Portfolio.

Performance

For the year ended Dec. 31, 2024

Per cent net of fees

	Annualized returns			
	1 Year	3 Years	5 Years	ITD
Currency Overlay	**(1.11)**	**(0.42)**	**0.10**	**0.00**
Benchmark	0.00	0.00	0.00	0.00
Value added	**(1.11)**	**(0.42)**	**0.10**	**0.00**

Benchmark: Zero Benchmark (passive)

Assets under management

	$ millions
Opening net asset value – Jan. 1, 2024	**43.1**
Net cash transfers	0.0
Portfolio gains and losses[1]	(20.8)
Closing net asset value – Dec. 31, 2024	**22.3**

Investment highlights

In 2024, the fund's active Currency Overlay mandate detracted 44 bps from the Consolidated Investment Portfolio's return (111 bps relative to notional foreign exposure). Most of this detraction was driven by hedging activities related to the U.S. dollar, against which the Canadian dollar depreciated by 7.7 per cent over the year. Despite the negative absolute return, the mandate outperformed the previous 90 per cent passive hedge benchmark by 542 bps. This relative outperformance was primarily due to the manager's decision to maintain a lower hedge ratio throughout the year, allowing foreign-denominated assets to benefit from CAD weakness. Since inception, the mandate has recorded an annualized volatility of 1.19 per cent, compared to 4.90 per cent for the passive hedge benchmark.

Positioning

Active hedging was able to provide meaningful downside protection amid persistent Canadian dollar weakness in 2024. The manager's strategic decision to maintain minimal USD hedges was driven by the expectation of continued U.S. dollar strength. The USD remained the primary source of losses for those with passive hedges, particularly as the Fed's policy stance diverged from those of more dovish central banks. Meanwhile, the manager maintained higher hedge positions against the EUR and GBP, increasing their EUR hedge further in January 2025 as diverging growth prospects suggested more rate cuts in Europe. The Canadian dollar's underperformance, driven by protectionist trade policies and easing expectations, remains a core challenge, though there is potential for a turnaround later in 2025 as monetary policy shifts and domestic political stability improve.

Forward looking strategy

The evolving global economic landscape remains marked by divergence, policy uncertainty and shifting risk dynamics. The U.S. economy continues to show resilience, reducing recession risks for now, while the eurozone faces mounting economic headwinds that may require more aggressive monetary easing. The beginning of the Trump administration's second term has heightened financial market volatility, with trade tensions driving currency movements more than traditional macroeconomic fundamentals. Inflation expectations remain fluid, posing a key challenge for central banks, particularly the Fed, which could see its rate-cut trajectory shift depending on fiscal stimulus and labour market trends. The Canadian dollar's near-term trajectory will be dictated largely by trade disputes, where speculation and uncertainty outweigh clear policy direction, making short-term forecasting difficult.

However, beyond the immediate turbulence, potential policy-driven support for growth, coupled with political stability, could improve sentiment toward CAD. Positioning within the Portfolio continues to remain nimble, with a preference for a bullish USD bias in the near term while maintaining flexibility to adjust as global growth conditions evolve.

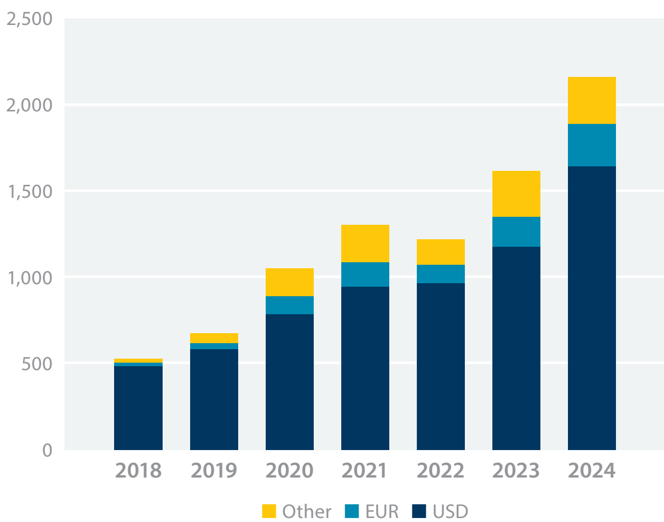
1 Includes realized/unrealized capital gains and losses, dividends and interest income.

Currency Overlay (continued)

Foreign currency exposures

As at year end, since inception (February 2018)

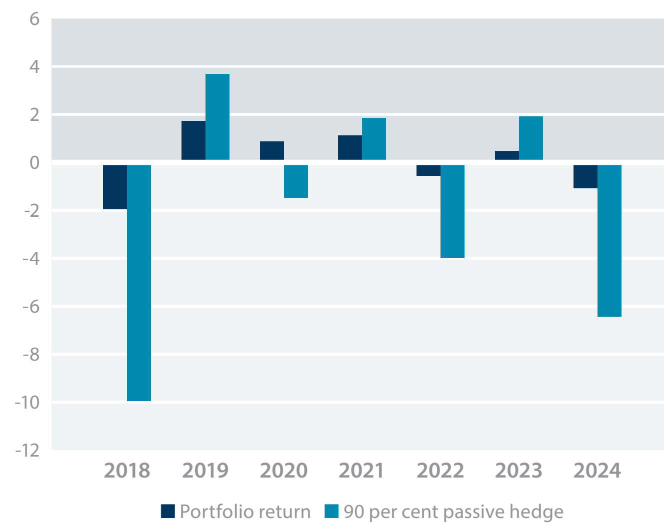
($ millions)



Historical performance

As at year end, since inception (February 2018)

Portfolio Return (per cent)

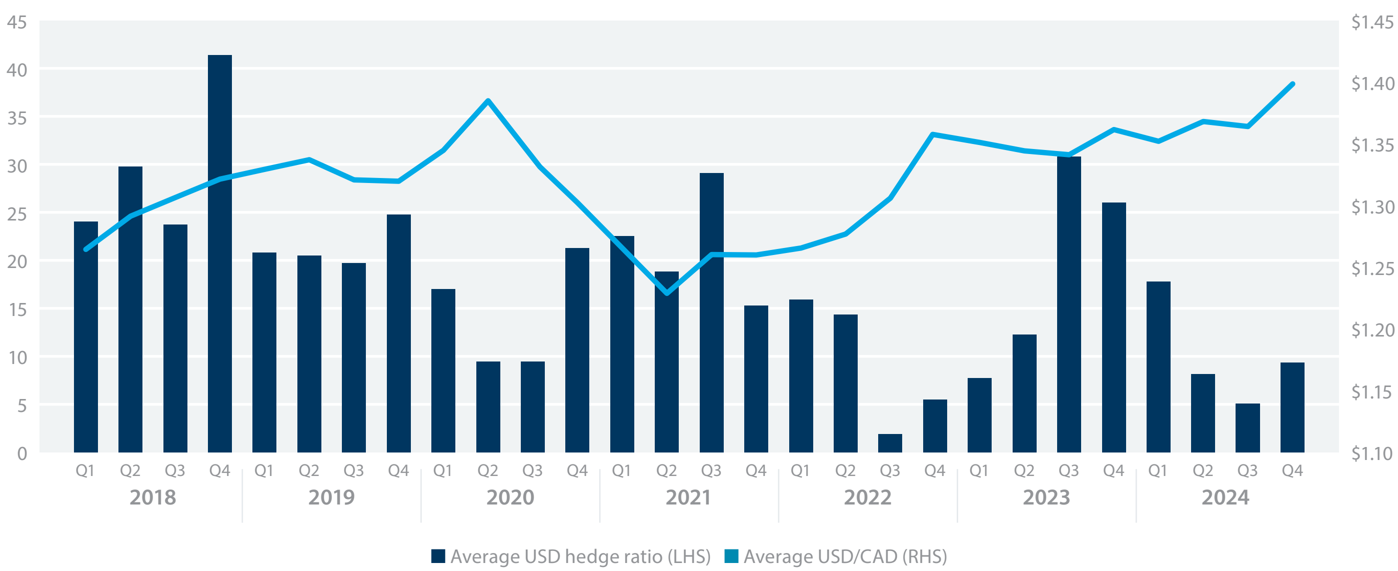


Average USD hedge ratio

For each quarter, since inception (February 2018)

Average USD Hedge Ratio (per cent)

USD/CAD



ISC: Unrestricted

2025 Economic and capital market outlook

The International Monetary Fund (IMF) projects global economic growth to hold steady at 3.3 per cent in 2025, supported by robust U.S. economic activity, moderate fiscal tightening and easing inflationary pressures. Several key themes in 2025 could shape the trajectory of global growth:

- Resilient expansion in major economies despite fiscal tightening
- Further easing of inflationary pressures, though risks remain from trade disruptions
- Monetary policy divergence as central banks adjust to varying inflation dynamics
- Heightened uncertainty in trade policy, particularly in response to U.S. tariff measures

While shifting trade policies may reconfigure global trade and financial conditions, the IMF forecasts that the global economy will remain on a stable growth path thanks to falling inflation and gradually normalizing financial conditions. Global inflation is projected to decline to 4.2 per cent in 2025, helped by easing supply constraints and stabilizing labour markets. However, risks remain from trade disruptions and commodity price volatility. Monetary policy adjustments will be key to maintaining stability and managing inflation dynamics.

According to the Bank of Canada, Canadian economic growth is expected to strengthen in 2025, driven by monetary policy easing, rising household spending, and government stimulus. However, slower population growth may act as a structural headwind to longer-term economic expansion. Inflation is expected to remain near the 2 per cent target, with core measures gradually easing as shelter costs decline.

Volatility and uncertainty emerging in early 2025, particularly in response to newly-introduced tariff measures, has added a layer of caution to the economic outlook. These developments reflect the fluid nature of current trade policy and the potential for shifts in direction by U.S. policymakers. Ongoing geopolitical tensions and evolving trade dynamics may continue to influence investor sentiment, global trade activity, and broader economic conditions. Consequently, economic forecasts may require adjustment as these trends develop, underscoring the importance of maintaining flexibility and adaptability through the remainder of the year.

The City's diversified investments aim to strengthen resilience and support long-term growth and stability within the investment program.

Per cent change, YoY	2023 (Actual)	2024 (Estimate)	2025 (Projected)	2026 (Projected)
Gross Domestic Product (GDP)				
Global	3.3	3.2	3.3	3.3
Euro area	0.4	0.8	1.0	1.4
Emerging economies	4.4	4.2	4.2	4.3
Canada	1.5	1.3	2.0	2.0
United States	2.9	2.8	2.7	2.1
China	5.2	4.8	4.6	4.5
The Consumer Price Index (CPI)				
Global	6.7	5.7	4.2	3.5
Canada	3.9	2.4	2.3	2.1
Advanced economies	4.6	2.6	2.1	2.0
Emerging economies	8.1	7.8	5.6	4.5

Source: International Monetary Fund (IMF), Bank of Canada

Investment governance

The City's Investment & Governance Policy (CP2020-02) (IGP) articulates the governance framework for the management of City investments. It sets out the accountability, reporting and disclosure requirements for all investment activity. This policy establishes the roles and responsibilities of Council, the Investment Advisory Committee (IAC), Administration and external investment managers regarding the management of portfolio investments.

Council approves The City's IGP, receives the Annual Investment Report through the Audit Committee and delegates authority to manage investment-related policies to Administration. The IAC advises the CFO on The City's investment program to ensure that investments are effectively managed in accordance with The City objectives, City risk tolerances, legislation, Council-approved policies and industry best practices.

In 2020, The City completed a comprehensive investment strategy review which resulted in a new approach to how the investments were managed. The review entailed a major examination of City funds and obligations including operating and capital requirements, capital deposits and short-term liquidity to fully understand the characteristics, including risk tolerance, time horizon and liquidity requirements of these funds. Rather than a top-down structure managed through one overarching document, a new structure was approved to split the processes into areas that clearly defined the purpose, objectives and responsibilities.

The structure change necessitated a new IGP, approved by Council in June 2020, which outlines the parameters in how the investments are managed. In addition to the new IGP, two additional policies were created to facilitate the management of the investment program.

The Funds Policy was established to create the interface between the Investment Team and the sources of capital they invest. This policy identifies the objectives, risk tolerances, asset mixes and other requirements for each source of funds under management.

The Investment Portfolios Policy provides the parameters in how the Investment Team interacts with the capital markets. The policy details on how each asset class Portfolio is constructed and managed.

The revised investment structure has the potential to increase risk-adjusted returns, increase diversification, reduce liquidity drag and deliver the benefits to The City of Calgary's citizens. For more details of the investment program governing documents, please refer to **Appendix 3**.

In 2023, The City of Calgary engaged an external consultant to conduct a comprehensive investment governance review, aimed at identifying potential areas for enhancement. The final report was presented to both the IAC and Audit Committee in 2024 and The City's Investment Team has carefully reviewed the recommendations. As part of its commitment to continuous improvement, The City's Investment Team has implemented selected changes to further strengthen investment governance and portfolio management. The revised investment policies will be submitted to the Audit Committee for approval in 2025, at which point they will supersede existing policies.

Investment governance (continued)

Risk management

The City manages investment risk through a sound governance framework and comprehensive investment policies. These policies define investment objectives, risk tolerances, appropriate diversification requirements, eligible asset classes, eligible security instruments, investment strategies and quality and quantity constraints.

The City's primary risk management tool is effective governance of the investment program created by the approved policies. Risk is also mitigated through strategic implementation of the policies ensuring diversification at both the asset type, security and Portfolio level. The City constructs a total Portfolio of diverse strategies, asset classes and investment manager styles. A prudently diversified portfolio should reduce the overall impact if performance from any one security, asset class or investment manager underperforms. The Investment Team applies rigorous scrutiny and due diligence when selecting investment managers to invest The City's funds. The Investment Team continually monitors investment managers ensuring they are applying thorough investment analysis and practices to select securities and construct portfolios that are diversified among security types, maturity dates, issuers, industry sectors and geographically by country and region.

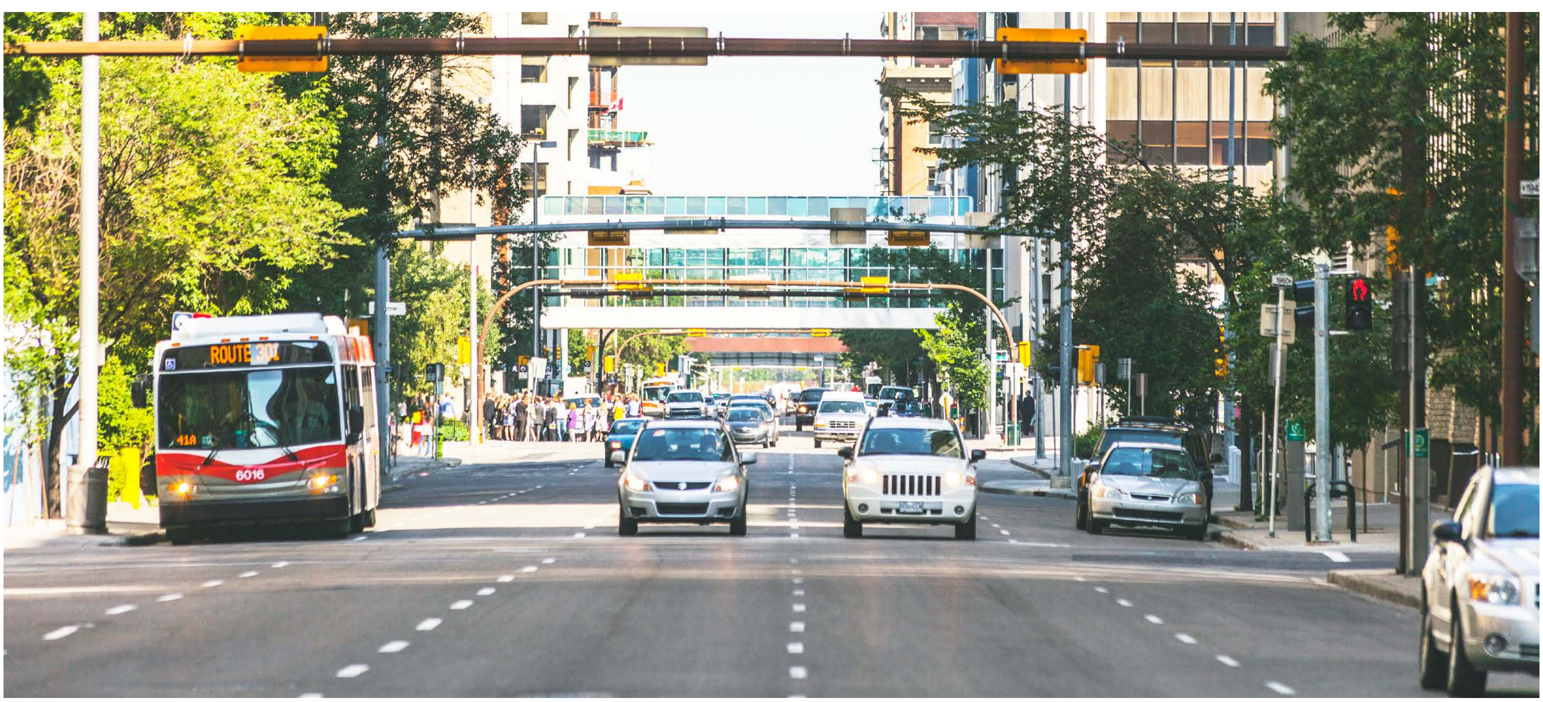
When investing in the capital markets, some risk is inevitable, even with a prudently diversified portfolio. This includes liquidity, market, credit and interest rate risk from inflation and rising interest rates. The key is to identify and understand the risks being accepted. The City monitors advanced risk metrics at both the manager and total Portfolio level to ensure that the level of risk taken is in line with The City's risk tolerance while still meeting The City's investment objectives.

The City's investments are held electronically at a securities custodian. One control the custodian provides is independent, third-party settling and reporting of all trades which protects The City's investable assets. The custodian provides independent verification of all accounting information and security holdings. The City also receives third-party performance measurement and reporting. Return performance reported by The City's investment managers is verified and compared against both market benchmarks and peers which allows The City to effectively evaluate manager performance.

Expense management

The management of The City's Consolidated Investment Portfolio results in expenses, including costs for banking and treasury services, technology systems, internal staff costs, interest expenses related to borrowing, transaction costs and external investment management fees. Total investment management expenditures were approximately $38.7 million in 2024, an increase from $33.9 million in 2023. This increase largely reflects the growth of The City's commercial paper program and associated interest expenses, which, despite higher borrowing costs, has generated additional net income that more than offsets those costs.

The City participates in the CEM Benchmarking survey, which compares investment costs across funds. In 2023, the City's externally managed investment costs were 39.9 bps—18.6 bps lower than the Canadian median among surveyed funds. However, the City's asset mix differs significantly from that of other participants. The 2024 CEM Benchmarking data will be available in Q4 2025.



Responsible investing and compliance

Responsible investing (RI) considerations

Responsible investing (RI) has been referred to as sustainable investment and can potentially lead to better financial returns while having positive impacts both socially and environmentally. Three key pillars of RI include:

Environmental, social and governance (ESG) integration	Value alignment	Overall impact of investments

The City's Investment Team recognizes RI as an important aspect of ongoing manager due diligence. As part of this approach, the team will continue to assess how RI considerations are incorporated within asset allocation and manager selection processes. This may include evaluating managers' ESG practices, refining due diligence frameworks and exploring ways to enhance RI-related disclosures within existing investment policies.

Environmental, social and governance (ESG) considerations

Environmental, social and governance factors are key considerations in the investment process, influencing both financial value and long-term sustainability. These factors—environmental impact, social responsibility and corporate governance—help assess risks and opportunities within an investment.

Integrating good governance and sustainable business practices into investment decisions has become common practice in institutional investing. While studies have historically indicated a positive correlation between strong ESG ratings and stock performance, the landscape is constantly evolving. As ESG considerations become more widespread, companies with weak governance may still face challenges in attracting long-term investors. However, market dynamics and regulatory shifts are leading some investors to take a more targeted approach, focusing on ESG factors that have clear financial materiality rather than broad sustainability objectives.

Good governance encompasses multiple dimensions, including compliance with environmental regulations, adherence to labour and safety standards and the presence of effective corporate board structures. A critical aspect of ESG and sustainable investing is engagement with company leadership. Institutional investors can influence corporate practices through active dialogue and proxy voting, using their shareholder rights to advocate for governance improvements and risk management strategies that support long-term value creation.

The City of Calgary incorporates ESG considerations when selecting and monitoring external investment managers. Beyond evaluating how ESG factors influence investment decisions, The City also assesses how managers integrate ESG principles into their own business operations. Many of The City's investment mandates involve fundamental analysis, where managers engage directly with companies to understand their governance structures and business practices. By partnering with investment managers who apply a pragmatic approach to ESG—focusing on material risks and opportunities—The City ensures its Consolidated Investment Portfolio reflects both RI principles and long-term financial objectives.

Compliance

Compliance statements from investment managers are received quarterly, except for a few private funds which only provide compliance statements annually. Compliance statements are verified and maintained by Treasury. During the year, all investments complied with the *Municipal Government Act*, the Major Cities Investment Regulation and The City of Calgary's investment policies. See **Appendix 4** for current compliance status from investment managers.

Definitions/glossary

Basis points

Basis points (bps) represent 1/100th of one per cent.

Benchmark

A standard against which the performance of an investment manager can be measured. Generally, broad market stock and bond indexes are used for this purpose.

Consolidated Investment Portfolio

All internally- and externally-managed financial investments held by The City.

ETF

An Exchange-Traded Fund (ETF) is a pooled investment vehicle that trades on stock exchanges like a stock, typically tracking an index, sector, commodity or asset class while offering liquidity, diversification and lower fees compared to mutual funds.

Diversification

A risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and result in lower price volatility than individual investments found within the portfolio.

Diversification strives to smooth risk events specific to a given issuer, sector or geography in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold if the securities in the portfolio are not perfectly correlated.

Duration

Measures the sensitivity of the full price of a bond (including accrued interest) to a change in interest rates.

Harvesting period

Follows the investing period and focuses on realizing value from investments through exits or liquidity events. This period continues until capital and profits are fully returned to investors.

Investment managers

Those firms or individuals appointed by the Chief Financial Officer for the investment of each fund's assets. Includes both internal and external managers.

Investing period

The timeframe during which the fund actively deploys capital into new investments. This phase typically occurs early in the fund's life and lasts for several years.

Market value

The price at which a security is trading in the open market.

PRI

The Principles for Responsible Investment (PRI) is an independent organization advocating on behalf of responsible investment. They seek to understand the investment implications of ESG factors and work to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

Rate of return

The gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments include any income received from the security, plus realized and unrealized capital gains.

Risk-adjusted return

A standardized measure of investment return based on an adjustment for the level of risk involved in generating that return.

Appendix 1: Performance measurement benchmarks

The investment performance of all funds is reported to the Investment Advisory Committee on a quarterly basis and presented annually to The City's Audit Committee. Investment benchmarks[1] are used for comparison purposes to assess the actual performance of The City's investment managers versus their respective performance benchmarks. Active investment managers are expected to generate higher returns (net of fees) than the benchmark measure over a business cycle.

Short Term Fixed Income

- FTSE Canada Short Term Bond Index (Addenda, Connor, Clark & Lunn (CC&L), Phillips, Hager & North (PH&N), Internal short term bonds, Sun Life)

Public Fixed Income

- FTSE Canada Universe Bond Index (BlackRock, PH&N, CC&L)
- Bloomberg U.S. Credit Index (PIMCO)
- Bloomberg Capital Multiverse Index (Manulife)
- Bloomberg Global Aggregate Bond Index (BlackRock)

Private Credit

- FTSE Canada Universe Corporate Bond Index (Sun Life)
- MorningStar U.S. Leveraged Loan Index + 200 bps (Crestline, Brookfield)
- MorningStar European Leveraged Loan Index + 200 bps (Bridgepoint)

Equities

- MSCI All Country World Index ex-U.S. Index (CC&L)
- S&P 500 Total Return Index (Vanguard U.S. ETF)
- MSCI World Small Cap Index (Wasatch)
- Blended 67.5 per cent MSCI U.S. Value and 32.5 per cent MSCI Emerging Markets (Equity ETFs)

Real Assets

- Consumer Price Index (CPI) + 400 bps (Northleaf, BlackRock, CBRE)
- Blended 50 per cent FTSE Global Core Infrastructure 50/50 Index and 50 per cent FTSE EPRA NAREIT Developed Index (Brookfield)

1 Please refer to **Appendix 2** for the disclaimer of the benchmarks

Appendix 2: Disclaimer

© 2024 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Source: Bloomberg Index Services Limited. BLOOMBERG® and the indices referenced herein (the “Indices” and each such index, an “Index”) are service marks of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”) and/ or one or more third-party providers (each such provider, a “Third-Party Provider,”) and have been licensed for use for certain purposes to THE CITY OF CALGARY (the “Licensee”). To the extent a Third-Party Provider contributes intellectual property in connection with the Index, such third-party products, company names and logos are trademarks or service marks and remain the property, of such Third-Party Provider. Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg’s licensors, including a Third-Party Provider, approves or endorses this material or guarantees the accuracy or completeness of any information herein or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither Bloomberg nor Bloomberg’s licensors, including a Third-Party Provider, shall have any liability or responsibility for injury or damages arising in connection therewith.

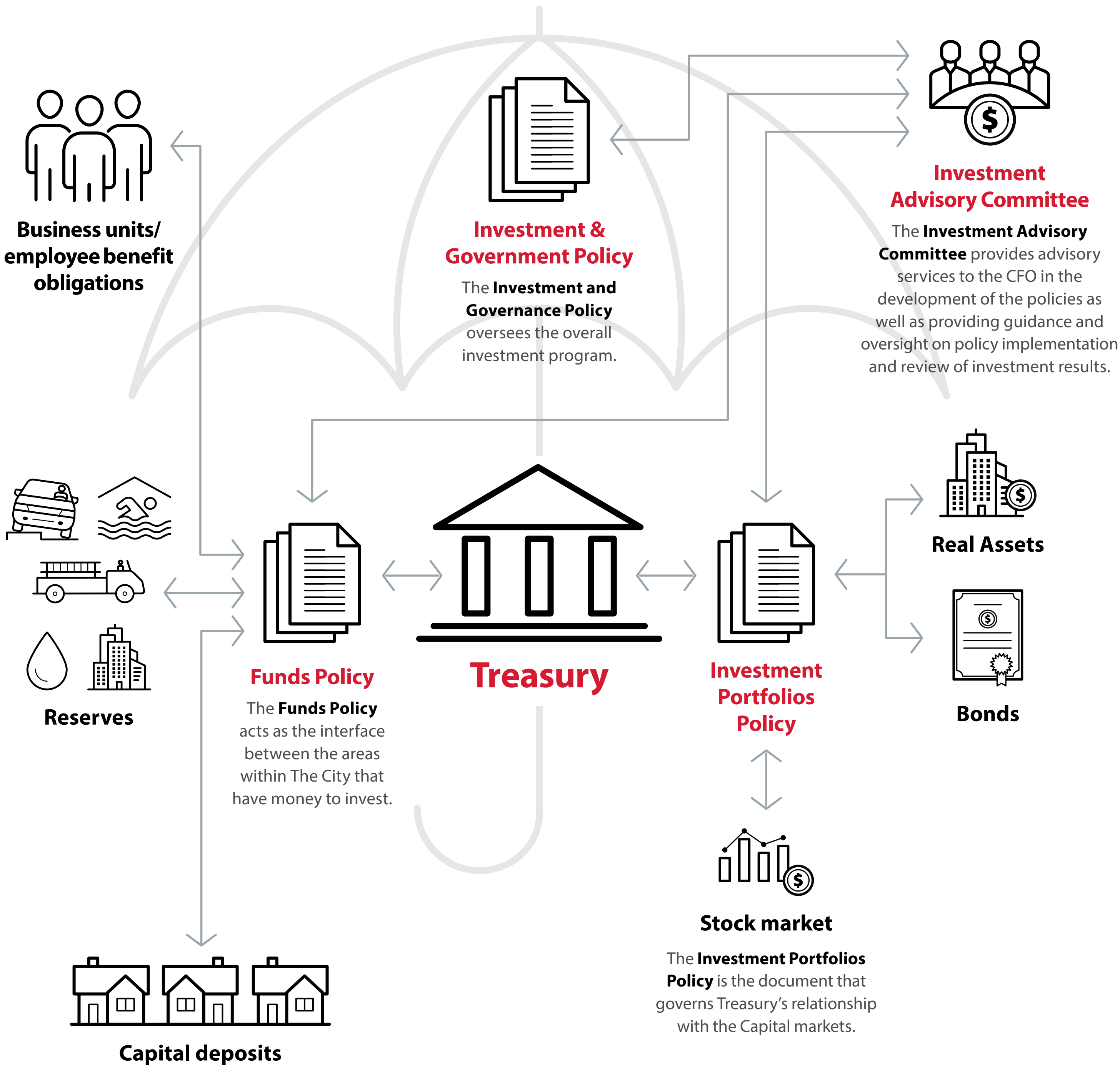
The S&P 500 Total Return Index (“Index”) and associated data are a product of S&P Dow Jones Indices LLC, its affiliates and/ or their licensors and has been licensed for use by THE CITY OF CALGARY. © 2024 S&P Dow Jones Indices LLC, its affiliates and/or their licensors. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC’s indices please visit **www.spdji.com**. S&P® is a registered trademark of Standard & Poor’s Financial Services LLC (“SPFS”) and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”). Neither S&P Dow Jones Indices LLC, SPFS, Dow Jones, their affiliates nor their licensors (“S&P DJI”) make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and S&P DJI shall have no liability for any errors, omissions or interruptions of any index or the data included therein.

Source: London Stock Exchange Group plc and its group undertakings (collectively, the “LSE Group”). © LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. “FTSE®”“Russell®”, “FTSE Russell®”, “FTSE4Good®”, “ICB®”, “Mergent®, The Yield Book®,” is/are a trademark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company’s express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties or originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (**www.msci.com**).

Appendix 3: Investment program governing documents

The diagram shows the documents utilized in The City of Calgary's investment program and their relationship amongst themselves and how they interact with interested parties.



Appendix 4: Mandate-level responsible investing and compliance

Portfolio manager/mandate	In compliance?	PRI signatory	PRI rating
Short Term Fixed Income			
Short Term Universe Bonds			
PH&N Short Term	Yes	✔	★★★★★
CC&L Short Term	Yes	✔	★★★★☆
Canadian Commercial Mortgages			
PH&N Mortgage	Yes	✔	★★★★★
Addenda Mortgage	Yes	✔	★★★★☆
Sun Life Mortgage	Yes	✔	★★★★☆
Public Fixed Income			
Public Fixed Income (Canada)			
PH&N Universe	Yes	✔	★★★★★
CC&L Universe	Yes	✔	★★★★☆
BlackRock Universe	Yes	✔	★★★★☆
Public Fixed Income (Global)			
Pimco	Yes	✔	★★★★★
Manulife	Yes	✔	★★★★☆
BlackRock FIGO	Yes	✔	★★★★☆
Private Credit			
Sun Life PFIP	Yes	✔	★★★★☆
Bridgepoint BDL II	Yes	✔	★★★★★
Crestline SLF II	Yes	✔	★★★★☆
Crestline SLF III	Yes	✔	★★★★☆
Brookfield BID III	Yes	✔	★★★★★
Bridgepoint BDL III	Yes	✔	★★★★★
Crestline DLF IV	Yes	✔	★★★★☆
Equities			
Vanguard S&P 500 ETF	n/a	✔	★★★★☆
CC&L International	Yes	✔	★★★★☆
Wasatch	Yes	✔	★★★★☆
Equity ETFs	n/a	✔	★★★★☆
Real Assets			
Northleaf NICP II NSIP	Yes	✔	★★★★★
CBRE GIF	Yes	✔	★★★★★
Northleaf NICP III	Yes	✔	★★★★★
BlackRock GRP III	Yes[1]	✔	★★★★★
CBRE Global Alpha	Yes	✔	★★★★★
Brookfield Diversified Real Assets	Yes	✔	★★★★★
BlackRock GRP IV	Yes[1]	✔	★★★★★
Currency Overlay			
BNP Paribas	Yes	✔	★★★★★

1 As of Q3 2024. Data for Q4 not yet available.

Appendix 5: Investment Advisory Committee (IAC) members

Among other roles and responsibilities shown in the IGP, the Investment Advisory Committee provides advice and risk oversight on The City's investments including the investment structure, implementation strategies, monitoring of performance and compliance.

Internal members

(As at Dec. 31, 2024)

- Les Tochor, CPA, CA – CFO & Committee Chair
- Aaron Brown, CFA, MBA – Acting City Treasurer & Director of Finance
- Katie Black, MSW – General Manager, Community Services
- Michael Thompson, P.Eng., MBA – General Manager, Infrastructure Services

External members

(As at Dec. 31, 2024)

- Brittany Jones, CAIA – Director of Investment Strategy, Government of Alberta
- Thomas Holloway, CFA – Associate Professor at the Haskayne School of Business (U of C)
- Ian Bourne, B.Comm, ICD.D – Corporate Director