Attachment
AC2018-0442

2017 Annual Investment Report

Description:

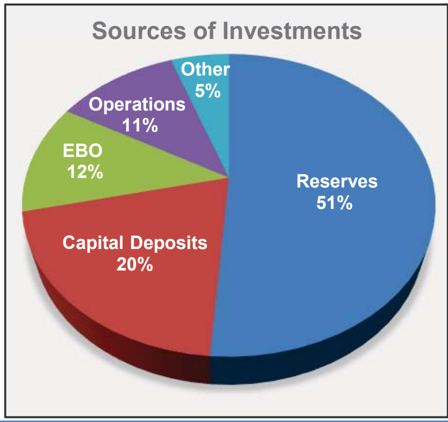
The City's investments consist of internally and externally managed portfolios. Internal portfolios are managed to provide shorter-term liquidity for City funds and as a result, are invested primarily in money market securities, term deposits and short-term bonds. Treasury also manages a forty-six million dollar short-term laddered bond portfolio specifically structured to fund the capital cash flow requirements of the recreation centres' construction project. Funds that are suitable for longer-term investment time horizons are allocated to the externally managed portfolios and invested in a diversified portfolio of bonds, equities, and private equity investments.

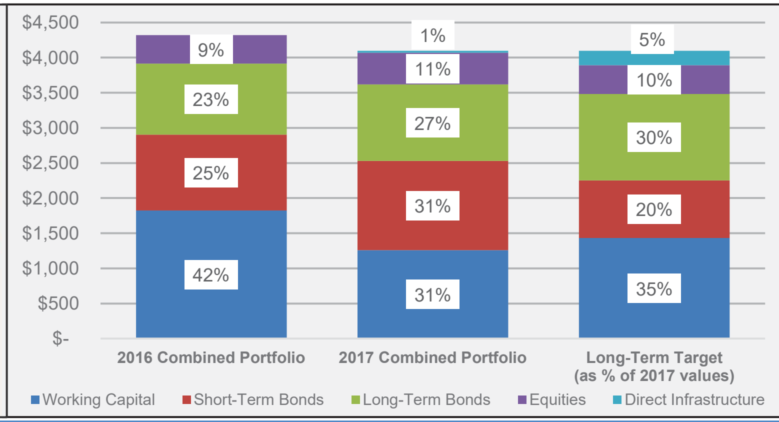
The City takes a prudent investment management approach to achieve its investment objectives. By acting as an engaged and responsible institutional investor, it is expected that The City can enhance the long-term sustainable risk-adjusted performance of its investment portfolios.

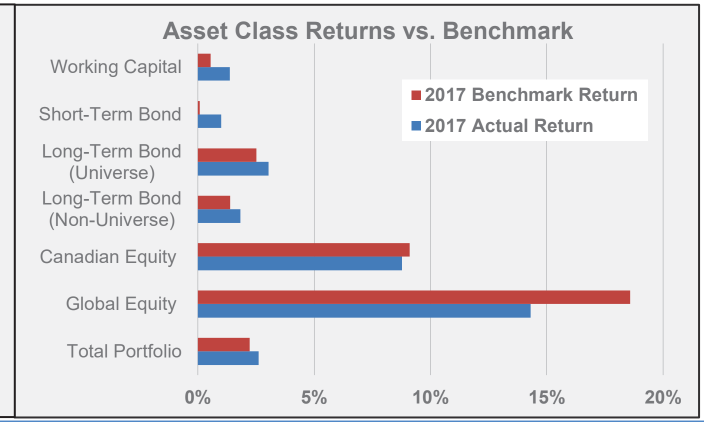
The City manages investment risk through a sound governance framework and a comprehensive Investment Policy. The Investment Policy incorporates the requirements of the Alberta Municipal Government Act and its investment regulations and establishes industry best practice guidelines and controls for the management of The City's investment portfolios. This includes defining investment objectives, appropriate diversification requirements, eligible asset classes and security instruments, investment strategies, and quality and quantity constraints. The Investment Advisory Committee (IAC) is an essential part of The City's governance. Their oversight ensures that investments are effectively managed in accordance with legislation and Council approved policies, and that it is consistent with industry best practice.

Customers: All City of Calgary Business Units and all Residents of the City of Calgary.

Key Partners: **Investment Advisory Committee** (IAC), **External Investment Managers** (Addenda Capital, Blackrock, Brookfield Investment Management, Connor Clark & Lunn Investment Management, Crestline Investors, Fidelity Investments Canada, Goldman Sachs Asset Management, Manulife Asset Management, Northleaf Capital Partners, Pavilion Advisory Group, Phillips Hager & North Investment Management, PIMCO, and TD Asset Management)







Story Behind the Numbers:

As at December 31, 2017 the market value of total assets under management at The City was $4.2 billion, down slightly from $4.4 billion in 2016. In 2017 the City of Calgary's total portfolio (including internally and externally managed portfolios), generated a total return of 2.6 per cent on a market value basis, which exceeded the portfolio's benchmark return of 2.2 per cent, and generated $126 million of investment income for The City.

The City's internally managed short-term portfolios (including Trusts) posted an average return of 1.4 per cent. With interest rate increases through the year, Canadian short- and long-term bond portfolios generated respective returns of 1.0 per cent and 2.8 per cent. All fixed income portfolios exceeded their respective benchmark returns over each of the past five years.

The City's Global equity portfolio generated a 14.3 per cent return in 2017, and the Canadian equity portfolio returned 8.8 per cent. The City engages defensive equity portfolio strategies intended to outperform in weak equity markets by providing downside protection during market correction. Due to strong equity markets in 2017, both Global and Canadian equity asset classes underperformed their respective benchmarks of 18.6 per cent and 9.1 per cent.

What We Plan to Do:

In accordance with the Investment Policy, forward looking strategic direction is driven primarily by the below Investment Objectives:

- **Preservation of Capital:** Primary objective for total investment portfolio.
- **Risk Mitigation:** Diversification (asset class and security holdings by sectors, geography and style), policy constraints and limits.
- **Investment Returns:** Maximize returns relative to risk, liquidity and investment time horizon considerations.

Strategic direction is assessed on a continual basis in order to optimize risk-adjusted return through tactical total portfolio allocation, keeping the needs of our Customers at the forefront of decision making. The 2016 amendment to the Investment Policy provided additional opportunity to achieve increased investment income, while increasing diversification of the portfolio through the ongoing evaluation of new asset classes.

Treasury continues to evaluate asset mix against a long-term target intended to optimally allocate investments based on market factors, risk reduction, desired level of diversification, and time horizon of funds.

2017 Annual Investment Report

The City of Calgary

Chief Financial Officer's Department

Finance / Treasury

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I. CAPITAL MARKET REVIEW

For the global economy, 2017 proved to be an interesting year, characterized by political uncertainty, accelerating economic growth, and strong financial market performance.

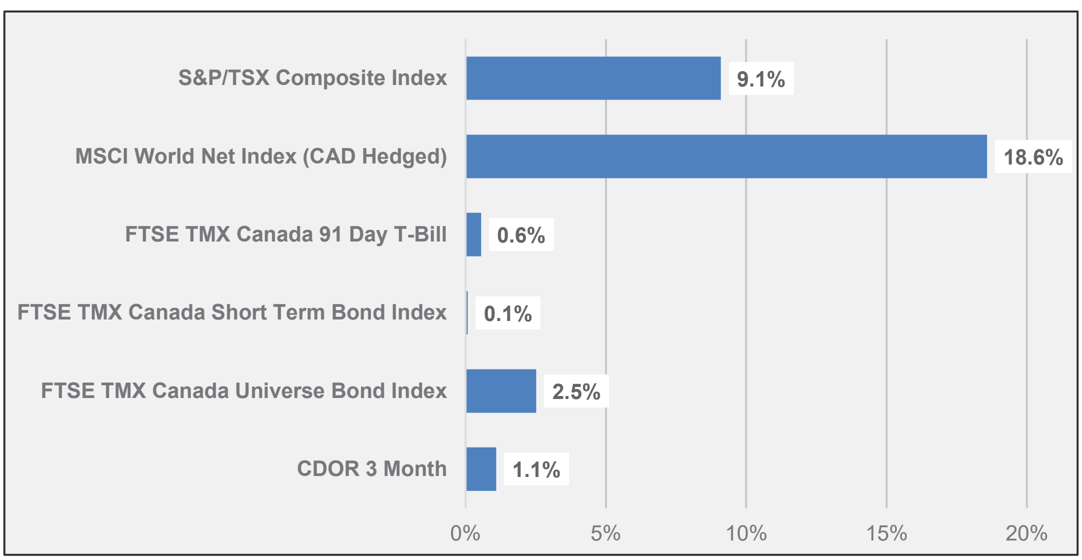
Equity markets exhibited strength throughout the year, continually pushing to record highs, with strong economic growth and improving earnings pushing valuations higher. The inauguration of President Trump gave investors high hopes for a pro-business climate with lower corporate taxes.

Strength in key economic indicators led to a growing Canadian economy in 2017. As highlighted in Exhibit 1, Canadian equities underperformed global equity markets, with the S&P/TSX returning nine per cent compared to the MSCI World Net Index which returned over eighteen per cent. Fixed income assets generated smaller, yet respectable returns in 2017. In addition, oil saw a moderate rebound with West Texas Intermediate (WTI) prices fluctuating throughout the year, hitting a low of $43.23 in June before beginning a steady rebound, closing at a three year high of $60.42 at year end.

Despite moderate inflation, the Bank of Canada increased borrowing costs for the first time since 2010, raising its benchmark overnight interest rate by 25 basis points (bps) to 0.75 per cent on July 12, 2017. The BOC unexpectedly raised the benchmark rate again by 25 bps to one per cent at the September meeting, with economic data coming in stronger than forecasted. The Bank of Canada views that growth is becoming more broadly-based and self-sustaining. Largely driven by rising Bank of Canada rates in Canadian bond markets, yields rose across most of the curve.

Similarly, the US Federal Reserve raised its target range for the federal funds rate three times through 2017, closing the year with a final increase by a quarter point to 1.50 per cent at the year end.

Exhibit 1: 2017 Capital Market Returns (CAD)



II. INVESTMENT OBJECTIVES

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

1. **Preservation of Capital**
    a. Primary objective for total investment portfolio

2. **Risk Mitigation**
    b. Diversification of asset class and security holdings by sectors, geography and style
    c. Policy constraints and limits

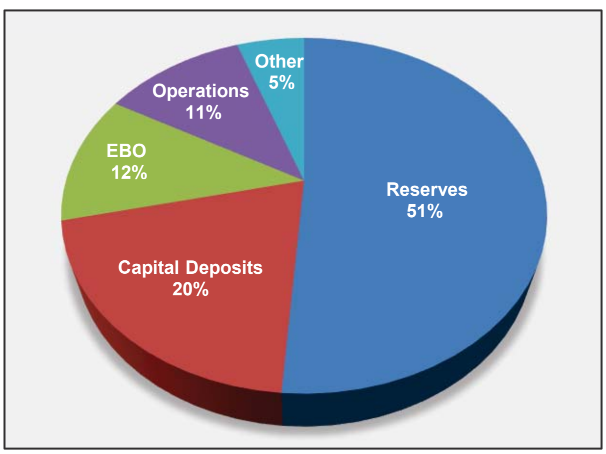
3. **Investment Returns**
    d. Maximization of returns, relative to risk
    e. Key considerations related to liquidity and investment time horizon requirements

III. SOURCES OF INVESTMENTS

As illustrated in Exhibit 2, The City of Calgary invests funds that stem from the following sources:

- **Reserves**: operating, capital and sustainment
- **Capital Deposits**: off-site levies and government grants
- **Funded Employee Benefit Obligations** (EBO)
- **General Operations**
- **Other**: trusts and affiliated entities

Exhibit 2: Sources of Investments



The above funds are invested in a diversified portfolio of financial assets consisting of money market securities, short- and long-term government and corporate bonds, global and Canadian equity investments, and direct infrastructure equity investments. The allocation of source funds is executed in accordance with the investment objectives of the City.

IV. INVESTMENT GOVERNANCE

The City's Investment Governance Policy (CFO001) articulates the governance framework for the management of City investments. It sets out the accountability, reporting, and disclosure requirements for all investment activity. The Governance Policy establishes the roles and responsibilities of Council, the Investment Advisory Committee (IAC), Administration, and investment managers regarding management of portfolio investments.

The IAC oversees The City's investment program to ensure that investments are effectively managed in accordance with legislation, Council-approved policies, and industry best practices. In 2016 the City completed a comprehensive investment strategy review which resulted in a new Investment Policy, approved by City Council in July, 2016. The review entailed a major examination of City funds and obligations including operating and capital requirements, capital deposits, and working capital, in order to fully understand characteristics including risk tolerance, time horizon, and liquidity requirements of these funds. The new policy provides an opportunity to diversify and gain exposure to additional asset classes and portfolio investments including global bonds, direct infrastructure, and active foreign currency management. This change in policy has the potential to increase sector and global diversification of assets to mitigate investment risks and increase risk-adjusted returns.

Environmental, Social, and Governance (ESG) Considerations

ESG refers to three keys factors in the investment process that can impact the financial value and sustainability of an investment in a company. These factors are environmental, social, and corporate governance.

Factoring good governance and sustainable business practices into the investment process is becoming common practice in the institutional investment industry. Studies of stock returns indicate a positive correlation between stock price performance and a company's rating on an ESG index. More recent studies show that as ESG factor screens become more prevalent in the industry, companies with poor governance do not attract wide scale investment and returns may suffer as a result.

Good governance takes many forms. It includes following local environmental regulations, labour and safety standards, as well as sound corporate board and executive management structures. An important component of ESG and sustainable investing is corporate engagement with company management. Institutional investors can exercise influence over companies by engaging in dialogue with them and taking an active role in proxy voting. Shareholders can use their influence and voting authority to modify a company's ESG practices to enhance long term value.

When The City of Calgary is selecting or reviewing an external investment manager, one important consideration is how these managers evaluate companies for good governance. Most City mandates include fundamental analysis where The City's managers meet directly with target company management to gain a thorough understanding of their structure and business practices. By partnering with like-minded investment managers, The City can ensure its corporate values are reflected in its investment holdings.

Risk Management and Compliance

The City manages investment risk through a sound governance framework and a comprehensive Investment Policy (CFO007). The Investment Policy defines investment objectives, appropriate diversification requirements, eligible asset classes and security instruments, investment strategies, and quality and quantity constraints.

The City's primary risk management tool is diversification. Diversification is key at both the security and portfolio level. Investment managers apply rigorous 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 regions. Additionally, The City constructs a total portfolio of diverse strategies, asset classes, and investment manager styles. Portfolio diversification reduces the overall impact if performance from any one security, asset class, or investment manager underperforms.

When investing in the capital markets some risk is inevitable. 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 and that, on a risk-adjusted basis, The City is meeting its 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 assets. As well, 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.

The City also participates annually in an investment cost benchmarking service which is a global survey of investment management programs' costs. The City strives to keep costs low as compared to its peers as lower costs mean higher investment income to support residents' priorities. In the most recent survey, The City's costs were significantly lower than the average comparably-sized fund on an asset class equivalent basis.

Compliance statements from investment managers are received quarterly. During the year, all investments were in compliance with the Municipal Government Act and The City of Calgary Investment Policy.

V. SUMMARY OF INVESTMENTS

As at December 31, 2017 the market value of The City's total investment portfolio was $4.2 billion, down slightly from $4.4 billion in 2016 (Exhibit 3).

The City's investment structure consists of internally and externally managed portfolios. Internal portfolios are managed to provide shorter-term liquidity for City funds, and as such, are invested primarily in money market securities, term deposits and shorter-term bonds. In addition to the shorter-term Working Capital portfolio, Treasury also manages a forty-six million dollar short-term laddered bond portfolio, specifically structured to fund the capital cash flow requirements of the recreation centres' construction project.

Funds that are suitable for longer-term investment horizons are allocated to the externally managed Short-term Bond, Long-term Bond, Equity, and Direct Infrastructure portfolios.

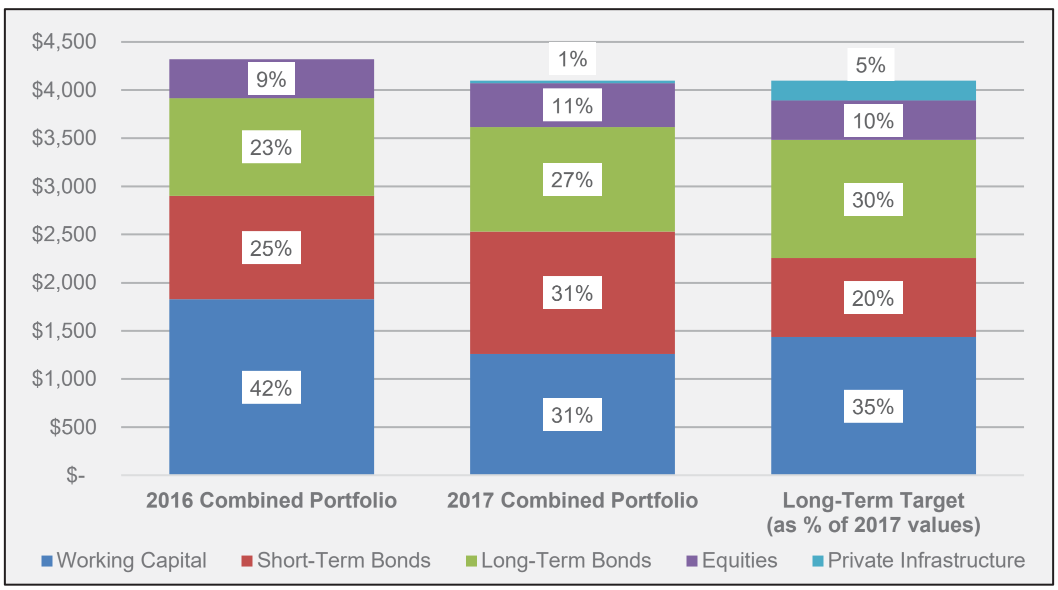
Exhibit 3: Investments Under Management

Market Value as at December 31, 2017 ($ 000,000s) *including cash & accrued Interest*	Working Capital	Short-Term Bonds	Long-Term Bonds	Equities	**Total 2017**	**Total 2016**
Internal Management					**1,393**	**2,071**
Working Capital	1,260				1,260	1,825
Bonds		46			46	160
Trust Investments	87				87	86
External Management					**2,791**	**2,336**
Bonds		1,223	1,088		2,311	1,931
Equities				452	452	405
Private Infrastructure				27	27	0
Total	**1,347**	**1,270**	**1,088**	**479**	**4,184**	**4,407**

Exhibit 4: Asset Mix

Asset Class	Current Allocation	Policy Mix Range	Long-Term Target
Working Capital	31%	30 - 50%	35%
Short-Term Bonds	31%	0 - 30%	20%
Long-Term Bonds	27%	25 - 40%	30%
Equities	11%	5 - 10%	10%
Private Infrastructure	1%	0 - 5%	5%
Total Portfolio	**100%**		**100%**

Exhibit 5: Asset Mix as at December 31, 2017



Note: Due to the decreasing size of the total portfolio, as well as strong performance in equity markets, allocation to Equities at December 31, 2017 exceeded the policy mix range and long-term target on a percentage basis. Due to the decreasing size of the total portfolio, allocation to Short-Term Bonds at December 31, 2017 exceeded the policy mix range and long term-target on a percentage basis. With implementation of the updated asset mix, portfolio allocations are currently in a period of transition. Funds allocated to Equities and Short-Term Bonds will be adjusted over time as part of normal rebalancing to re-align allocations on a percentage basis with the policy mix range and long-term targets.

VI. INVESTMENT PERFORMANCE

As illustrated in Exhibit 6, The City of Calgary's total portfolio (including internally and externally managed portfolios), returned 2.6 per cent on a market value basis, compared to the benchmark return of 2.2 per cent and generated $126 million of investment income in 2017 (Exhibit 8).

The internally managed portfolios returned an average yield of 1.4 per cent in 2017, outperforming the benchmark of 0.6 per cent, and showing slight improvement over the 1.2 per cent return in 2016. The excess return achieved by the internal portfolio is largely attributable to intentional selection of a longer term to maturity, credit exposure, and the illiquidity premium received on the term deposits held.

Both Canadian long-term (Universe and Non-Universe bonds) and short-term bonds continued to outperform benchmarks in 2017 with long-term bonds returning 2.8 per cent and short-term bonds returning 1.0 per cent. The long-term bond portfolio achieved return greater than benchmark primarily as a result of security selection. The short-term bond portfolio outperformed benchmark through security selection, overweighting the provincial sector, and by capturing an illiquidity premium in the PH&N commercial mortgage portfolio. All bond portfolios have exceeded their performance benchmarks over all time horizons in the past five years as illustrated in Exhibit 7 below.

The City's Global equity portfolio generated returns of 14.3 per cent in 2017, and the Canadian equity portfolio returned 8.8 per cent. Both Global and Canadian equity asset classes underperformed their respective benchmarks of 18.6 per cent and 9.1 per cent in 2017. This relative underperformance against benchmark can be expected in very strong equity markets as The City's asset managers were more defensively positioned. The focus of a defensive equity portfolio strategy is on minimizing loss of principal rather than maximizing return. This conservative investment philosophy is expected to provide moderate returns in strong markets while protecting against significant loss during market downturns.

Exhibit 6: 2017 Asset Class Returns vs. Benchmark

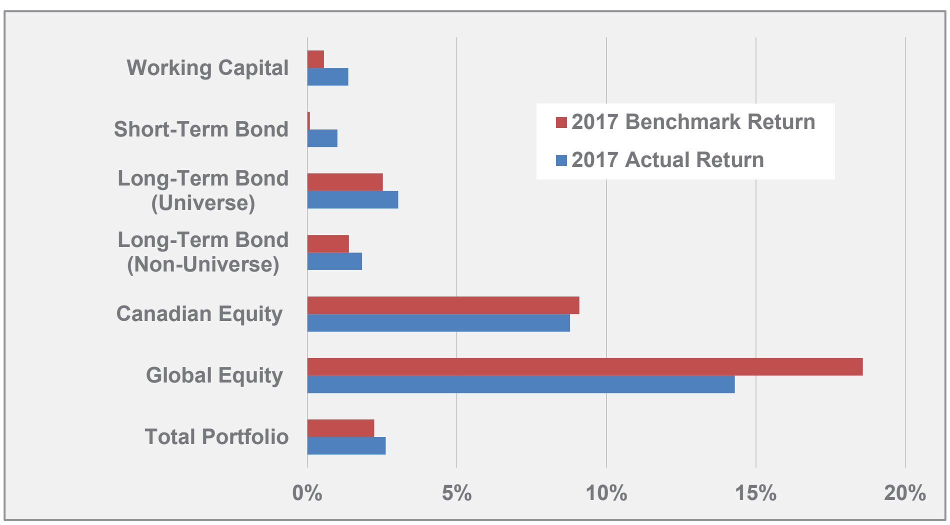


Exhibit 7: Historical Annualized Returns

Annualized Rates of Return As at December 31, 2017 (%)					
	1 Year	2 Years	3 Years	4 Years	5 Years
Working Capital Return [1]	1.4	1.3	1.5	1.5	1.4
Working Capital Benchmark	0.6	0.5	0.6	0.7	0.8
Short-term Bond Return	1.0	1.3	1.9	2.3	2.3
Short-term Bond Benchmark	0.7	0.9	1.4	1.8	1.8
Long-term Bond Return (Universe)	3.0	2.9	3.1	4.5	3.5
Long-term Bond Benchmark	2.5	2.1	2.6	4.1	3.0
Long-term Bond Return (Non-Universe)	1.8	1.7	1.6	1.8	-
Long-term Bond Benchmark	1.4	1.3	1.3	1.4	-
Canadian Equity Return	8.8	13.4	7.3	8.3	9.6
Canadian Equity Benchmark	9.1	14.9	6.6	7.6	8.6
Global Equity Return	14.3	11.4	8.2	9.1	12.9
Global Equity Benchmark	18.6	13.7	9.6	9.8	13.5
Total Portfolio Return	2.6	2.6	2.4	2.6	2.6
Total Portfolio Benchmark	2.2	2.1	1.8	2.0	2.1

[1] *Includes Recreation Centre bonds & Trusts*

Exhibit 8: Investment Income Allocation

Program 858 Investment Income ($ '000s) as at December 31, 2017	
Investment Income before Allocations (Gross)	125,590
Allocations from Program 858 to Other Self Supporting Business Units and Capital Deposits	(40,186)
Investment Income before Allocations to Reserves	85,403
Transfers to Reserves from Operations	(27,231)
Investment Income after Allocations	58,173
Expenditures (net of receivables)	(6,971)
Net Income from Program 858	51,202

Performance Measurement Benchmarks

The investment performance of all funds is reported to the Chief Financial Officer and the Investment Advisory Committee on a quarterly basis, and presented annually to the Audit Committee of The City. Investment benchmarks are used for comparison purposes to assess the actual performance of The City's investment managers versus their respective performance benchmarks. Investment managers are expected to generate higher returns than the benchmark measure over a business cycle.

Working Capital / Short-term Portfolio

Manager: The City of Calgary, Treasury Division

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

The portfolio is invested in a combination of corporate and bank paper, term deposits, and short-term government and corporate bonds with the majority of investments maturing in less than two years. In addition to the Working Capital Portfolio, Treasury also manages a forty-six million dollar laddered bond portfolio structured to fund the cash flow requirements of the recreation centres' construction project.

Working Capital Short-term Portfolio Annualized Rates of Return

As at December 31, 2017 (%)					
	1 Year	2 Years	3 Years	4 Years	5 Years
Working Capital Portfolio [1]	1.4	1.3	1.5	1.5	1.4
FTSE TMX Canada T-bill 91 day Index	0.6	0.5	0.6	0.7	0.8

[1] Includes Recreation Centre bonds & Trusts

Short-term Bond Portfolio

Managers: Addenda Capital
BlackRock
Connor Clark & Lunn
Crestline Investors
Goldman Sachs Asset Management
Phillips, Hager & North

Mandate: Investment in a diversified portfolio of short-term fixed income securities with an average term to maturity of three to five years.

The total dollar value allocated to the Short-term Bond portfolio mandate, distributed across the six managers, was $1.2 billion in 2017. The portfolio is invested in a combination of government and corporate bonds, and commercial mortgages.

The portfolio generated a one year return of 1.0 per cent in 2017, outperforming its benchmark of 0.7 per cent. On a combined basis, the portfolio exceeded the return of the benchmark over all periods reviewed.

In 2017 four new managers were added to the Short-term Bond portfolio mandate in order to increase geographic diversification, gain additional exposure to commercial mortgages, and increase exposure to unconstrained bonds in order to provide capital preservation as interest rates increase, while maintaining a good return profile.

Short-term Bond Annualized Rates of Return

As at December 31, 2017 (%) [2]					
	1 Year	2 Years	3 Years	4 Years	5 Years
City of Calgary	1.0	1.3	1.9	2.3	2.3
Short-term bond benchmark[3]	0.7	0.9	1.4	1.8	1.8

[2] Return and Benchmark rates exclude Addenda Capital and Crestline Investors. At December 31, 2017 performance data was not available due to insufficient historical investment performance for Crestline Investors and Addenda Capital as mandates were not funded until December 28, 2017 and November 30, 2017 respectively.

[3] Short-term bond benchmark is blended with FTSE TMX Canada Short-term Overall Bond Index, CDOR+450 bps Benchmark, and ICE BofAML US Treasury Bills 0-3 Months Index.

Long-term Bond Portfolio

Managers: BlackRock
Connor Clark & Lunn
Manulife
Phillips, Hager & North
PIMCO

Mandate: Investment in a diversified portfolio of fixed income securities with an average term to maturity of seven to ten years.

The total dollar value allocated to the Long-term Bond portfolio mandate, distributed across the four managers, was $1.1 billion in 2017.

The Long-term Universe, and Non-Universe Bond portfolios generated one year returns of 3.0 per cent and 1.8 per cent respectively in 2017. Each strategy outperformed its respective benchmark of 2.5 per cent and 1.4 per cent. The long-term Universe and Non-Universe Bond portfolio returns exceeded the return of the benchmark over all periods reviewed.

In 2017, following an asset mix review, funds were reallocated among managers in the Long-term Bond portfolio. In addition, two complementary managers were added to the Long-term Bond portfolio mandate.

Long-term Bond Annualized Rates of Return

As at December 31, 2017 (%)					
Universe Bonds	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
City of Calgary	3.0	2.9	3.1	4.5	3.5
FTSE TMX Canada Bond Universe Index	2.5	2.1	2.6	4.1	3.0

As at December 31, 2017 (%) *mandate started in May 2013*					
Non-Universe Bonds (PIMCO)	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
City of Calgary	1.8	1.7	1.6	1.8	-
CDOR 3 month + 30 bps	1.4	1.3	1.3	1.4	-

As at December 31, 2017 (%) *mandate started in April 2017*					
Bonds (Manulife)	**Since Inception**	**2 Years**	**3 Years**	**4 Years**	**5 Years**
City of Calgary	3.2	-	-	-	-
Bloomberg Barclays Capital Multiverse Index Unhedged ($CAD)	-1.2	-	-	-	-

Canadian Equity Portfolio

Managers: Fidelity Investments Canada
Pavilion Advisory Group
TD Asset Management

Mandate: Investment in in a diversified portfolio of large capitalized Canadian equities to achieve long-term capital appreciation and inflation protection.

The total dollar value allocated to the Canadian Equity portfolio mandate, distributed across the three managers, was $213 million in 2017.

Canadian Equities generated a one year return of 8.8 per cent, underperforming its benchmark of 9.1 per cent.

Canadian Equity Annualized Rates of Return

As at December 31, 2017 (%)					
	1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**
City of Calgary	8.8	13.4	7.3	8.3	9.6
S&P/TSX Composite Index	9.1	14.9	6.6	7.6	8.6

Global Equity Portfolio

Managers: Brookfield Investment Management
Fidelity Investments Canada
TD Asset Management

Mandate: Investment in a diversified portfolio of large capitalized international equities located in developed markets to achieve long-term capital appreciation and inflation protection.

The total dollar value allocated to the Global Equity portfolio mandate, distributed across the three managers, was $239 million in 2017.

Global equity markets had very strong performance in 2017. The global equity market as measured by the MSCI World Index benchmark generated a return of 18.6 per cent during the year. The City's Global Equity portfolio returned 14.3 per cent, underperforming the benchmark during the year.

Global Equity Annualized Rates of Return

As at December 31, 2017 (%)					
	1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**
City of Calgary	14.3	11.4	8.2	9.1	12.9
MSCI World Index (hedged to $CAD)	18.6	13.7	9.6	9.8	13.5

Direct Infrastructure Equity Portfolio

Managers: Northleaf Capital Partners (Northleaf)

Mandate: Investment in core infrastructure assets to provide inflation protection and diversification in our risk seeking assets.

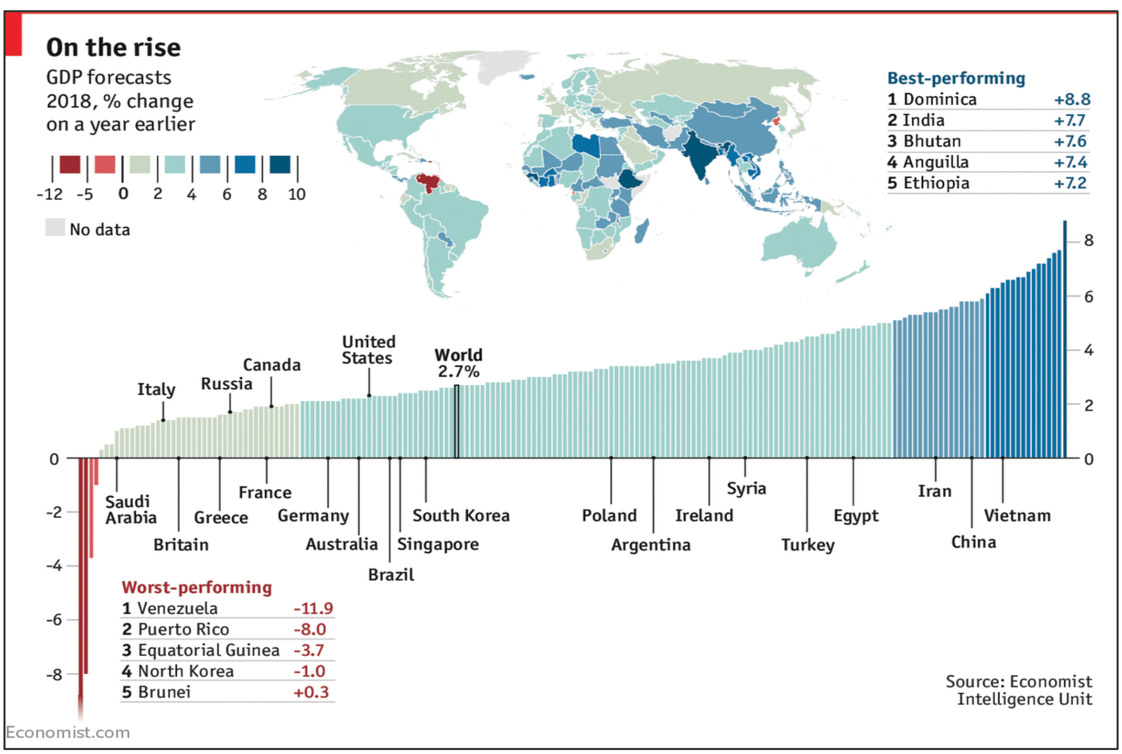
In 2017 Northleaf was retained as a core position in infrastructure assets due to their strong track record and conservative investment philosophy.

As at December 31, 2017, performance data was not available for Northleaf Capital Partners. Due to the early life cycle stage of these funds, there is currently insufficient data to provide an exact measure of return.

VII. CAPITAL MARKET OUTLOOK

The global economy is currently experiencing a period of synchronized global growth, with the International Monetary Fund forecasting a 3.9 per cent growth rate for 2018 and 2019. Exhibit 9 depicts forecasted national growth rates and indicates that only four economies are expected to contract in the current year. Monetary policy remains expansionary throughout much of the world with the Bank of Japan and the European Central Bank (ECB) continuing their quantitative easing programs. Japan is expected to maintain its policy for the foreseeable future while the ECB is expected to begin tapering at some point in 2018. The US Federal Reserve has already discontinued its quantitative easing and will reduce the size of its balance sheet. Both the US and Canada are proceeding on a path to higher interest rates, with the US Federal Reserve expected to raise short-term rates four times and the Bank of Canada expected to do so twice.

Exhibit 9: World Economic Growth Projections



The Canadian economy is forecasted to expand by 1.8 per cent in 2018 after posting 3.0 per cent growth in 2017. The oil price and Canadian dollar are expected to remain stable. The Bank of Canada raised rates by 0.25 per cent in January 2018 but will likely take a cautious approach going forward with future moves being data dependent. Recent changes to mortgage rules combined with increasing borrowing rates have begun to bring the housing market under control. The outlook for equities is positive with profit growth expected to top ten per cent and attractive dividend rates offered by many companies. Many sectors are approaching overvaluation and this can increase volatility. High-yield spreads have been widening in recent months and this is likely to be followed by investment grade corporates as investors shift to government bonds. NAFTA renegotiations are continuing with the risk that the agreement could be abandoned by the United States. Most experts believe that this is unlikely given support for the agreement in Congress but it would have the potential to cause a twenty per cent shock to the value of the Canadian dollar and would likely be accompanied by a significant drop in equity prices and a spike in bond yields.

The United States is well positioned to experience one of the longest economic expansions in its history and growth is forecasted to accelerate to more than 2.5 per cent in 2018. The combination of full employment and household debt levels the lowest they have been in a decade should result in increased wages and consumer spending. The recent tax cut will likely only have a small impact as much of the stimulatory effect will be offset by the withdrawal of monetary stimulus. The tax break on repatriated profits will likely have only a minimal effect on growth as many companies will use the funds for share buybacks rather than capital investment. Corporate profit growth will continue to support equity valuations and the S&P 500 is expected to see gains of more than ten per cent. The yield curve is expected to flatten further as the US Federal Reserve raises short-term rates and inflation expectations remain low. Corporate bonds are likely to be more attractive than government bonds.

The outlook for Asian economic growth is positive with India and China leading the way. Asian equities are expected to perform well but fall short of 2017 performance. A number of countries such as China, South Korea and Indonesia have enacted important structural reforms and should reap the benefits throughout the new year and the years to follow. China has enacted reforms to increase transparency in the financial sector, South Korea is planning to reform the chaebols (large family-owned conglomerates) and Indonesia has obtained an investment-grade credit rating by cutting subsidies and making it easier to open businesses. Japan is continuing its combination of monetary and fiscal stimulus and has seen its export sector benefit from the weaker yen. The combination of strong growth and economic reforms is also expected to produce competitive fixed income returns in much of Asia though Japanese yields remain exceptionally low due to quantitative easing.

The Eurozone is experiencing its fastest growth in a decade and is expected to maintain the pace in the coming year. Equity valuations are expensive and there may be limited room for further gains in the short-term. If inflation was to increase unexpectedly it could lead to a spike in bond yields and an equity market correction. The United Kingdom has been performing better than expected but significant uncertainty remains regarding Brexit. Fixed income yields continue to be extremely low throughout much of Europe as a result of negative interest rates and the ECB’s quantitative easing.

Synchronized global growth is expected to continue and should produce solid equity and fixed income returns in most of the world. Valuations are stretched but the forecasted economic growth should continue to support them. A significant pick-up in inflation remains a risk to many countries’ economies and capital markets but inflation expectations remain subdued.

VIII. INVESTMENT ADVISORY COMMITTEE MEMBERS

Internal Members *(as of December 31, 2017)*

- Eric Sawyer (Chair), MBA - Chief Financial Officer
- Brad Stevens, J.D., MBA, ICD.D - Deputy City Manager
- Kurt Hanson, MSW, RSW - General Manager
- Carla Male, CPA, CA - City Treasurer and Director of Finance

External Members *(as of December 31, 2017)*

- Vern Malcolm, MBA, CFA - *BDC,* Director of Growth and Transition Capital
- Sandy McPherson, CFA - *The City of Edmonton*, Chief Investment Officer
- Dr. Michael Robinson, MBA, Ph.D., CFA, ICD.D - *Haskayne School of Business*, Associate Professor of Entrepreneurial Finance