



Council Policy

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Policy Owner: Chief Financial Officer's Department

1. POLICY STATEMENT

- 1.1 The City will invest, or cause to be invested, funds under its management in permitted capital markets and investments to achieve its designated investment objectives to preserve capital and maximize investment returns subject to an appropriate level of risk
- 1.2 The Investment Policy guides the investment management, strategies, and risk oversight, pertaining to the management of City financial assets.

2. PURPOSE

- 2.1 Establish a set of investment principles and guidelines giving consideration to the type of fund, its characteristics, return objectives, financial obligations, the objective of preservation of capital, liquidity, and a prudent level of risk given the investment time horizon.
- 2.2 Establishes practices and procedures to prudently invest public funds in compliance with the applicable legislation. Sets out eligible investments, strategies, constraints and compliance requirements to guide investment management and achieve The City's investment objectives. Prudent and responsible investment provides necessary financial resources and generates sustainable investment income in support of City operations.

3. APPLICABILITY

- 3.1 The policy pertains to all funds under management by The City including reserves, capital deposits, trusts, and working capital.
- 3.2 The *Investment Policy* should be read in conjunction with Council's *Investment Governance Policy* (CFO001) which sets out the governance framework and responsibility for the management of City investments. It establishes the role of the Investment Advisory Committee to provide investment oversight and ensure investments are effectively managed in accordance with legislation and Council Policy
- 3.2 The investment policy applies to:
 - (a) Members of Council and Committees
 - (b) CFO Department, Finance and Treasury



- (c) Investment Advisory Committee
- (d) External Portfolio Managers and Custodians

4. **LEGISLATIVE AUTHORITY**

- 4.1 Investments include all categories allowed in the *Municipal Government Act*, RSA 2000, c-M-26 (as amended) (“MGA”) Section 250 and its regulations i.e. *Investment Regulation*, AR 66/2000 (as amended) (“IR”) and the *Major Cities Investment Regulation*, AR 249/2000 (as amended) (“MCIR”).

5. **PROCEDURES**

5.1 **Investment Objectives**

- 5.1.1 The primary objectives of The City’s investment activities shall be the preservation of capital, risk mitigation and investment returns.
- (a) **Preservation of Capital:** Safety of principal is a primary objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
 - (b) **Risk Mitigation:** The City will manage risk by ensuring there is sufficient diversification among the assets in the portfolios. Additional risk control is provided by the constraints on the permitted investments.
 - (c) **Investment Returns:** The City shall seek to maximize the rate of return earned on each portfolio without compromising the other objectives and with giving consideration to each type of fund, its investment horizon, liquidity requirements and financial obligations.

5.2 **Scope**

- 5.2.1 **Funds:** The investment policy pertains to funds under management by The City of Calgary and encompasses:
- (a) **The City of Calgary General Fund:** Those monies received by The City from various sources and not immediately required for the payment of operating and/or capital expenditures.
 - (b) **The City of Calgary Reserve Funds:** Various monies held for future operating and capital expenditures.



- (c) **Capital Deposits:** Monies received for various capital projects from land developers (pursuant to development agreements or the *MGA*), and from other governments through grants and/or revenue sharing agreements.
- (d) **Trust Funds:** Those monies held under legal agreement, joint use with a third party and The City, and/or managed by specific request of a third party.

5.2.2 Portfolios: Four separate portfolios will be established to meet the investment objectives of The City of Calgary:

5.2.2.1 Working Capital / Short Term Portfolio

- (a) Investment Objectives: To generate current interest income while preserving capital and provide liquidity for the cash flow requirements of all City Funds.
- (b) Return Objective: To generate a competitive rate of return.
- (c) Investment Strategy: Investment in a diversified portfolio of money market securities and short term bonds with a maximum term to maturity of 2 years.

5.2.2.2 Short Term Fixed Income Investment Portfolio

- (a) Investment Objectives: To achieve a competitive rate of return while seeking to preserve capital, maintain low volatility and proper diversification.
- (b) Return Objective: To meet or exceed the Benchmark return over a Market Cycle.
- (c) Investment strategy: Investment in a diversified portfolio of short term fixed income securities with an average term to maturity of 3-5 years.

5.2.2.3 Long Term Fixed Income Investment Portfolio

- (a) Investment Objectives: To achieve a competitive rate of return from a longer term portfolio with moderate volatility.
- (b) Return Objective: To meet or exceed the Benchmark return over a Market Cycle.
- (c) Investment Strategy: Investment in a diversified portfolio of fixed income securities with an average term to maturity of 7 to 10 years.



5.2.2.4 **Equity Investment Portfolio**

- (a) Investment Objectives: Long term capital appreciation and inflation protection. The portfolio will manage risk by maintaining appropriate geographic, sector and corporate diversification.
- (b) Return Objective: To meet or exceed the Benchmark return over a Market Cycle.
- (c) Investment Strategy: Investment in a diversified portfolio of equities.

5.3 **Standard of Care**

5.3.1 **Prudent Investing**

5.3.1.1 The Prudent Investor Rule shall prevail over all portfolios.

5.3.1.2 The Prudent Investor Rule requires that all investment managers:

- (a) Act in all matters with loyalty, impartiality and prudence.
- (b) Maintain overall portfolio risk at a reasonable level consistent with the risk/return trade-off.
- (c) Provide for the reasonable diversification of investments. An investment manager can invest in any allowable asset as long as it meets the requirements of prudent investing and considers the portfolio in its entirety.

5.3.2 **Ethics and Conflict of Interest**

5.3.2.1 The CFA Institute Code of Ethics and Standards of Professional Conduct (or equivalent) shall be expected to apply to all internal and external investment managers.

5.3.2.2 City employees managing the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program or impair their ability to make impartial investment decisions. Material interests in financial institutions with which they conduct business and any personal financial/investment positions that could be related to the performance of the City's investment portfolio shall be disclosed to the Chief Financial Officer.



5.3.3 Roles and Responsibilities

5.3.3.1 The Investment Governance Policy approved by Council sets out the detailed roles and responsibilities along with the reporting requirements of those parties involved in the investment process.

5.3.3.2 The following table identifies the parties involved and provides key responsibilities. For further details refer to the *Investment Governance Policy*.

Party	Key Responsibilities
(a) City Council	<ul style="list-style-type: none"> ▪ Approve the Investment Governance Policy and the Investment Policy (and amendments) ▪ Receive for information the Annual Investment Report through Audit Committee
(b) City Manager	<ul style="list-style-type: none"> ▪ Recommends Investment Governance Policy and Investment Policy to City Council (and applicable committees)
(c) Chief Financial Officer (CFO)	<ul style="list-style-type: none"> ▪ Chairs the Investment Advisory Committee and makes recommendations to The City Manager ▪ Reviews and approves relationships with external managers, custodians, performance measurement advisor and other service providers
(d) Investment Advisory Committee	<ul style="list-style-type: none"> ▪ Provide oversight and advice on the investment of the various City Funds
(e) City Treasurer	<ul style="list-style-type: none"> ▪ Guide development of the Investment Policy (and amendments) and provide these to the CFO and Investment Advisory Committee. ▪ Guide implementation of selected asset mix and investment implementation strategies.
(f) Deputy City Treasurer (Manager Treasury)	<ul style="list-style-type: none"> ▪ Implement the selected asset mix and investment mandate and report to The City Treasurer. ▪ Supervise all investment operations including ensuring appropriate guidance, staffing and training, equipment and technologies, policies, processes,

		procedures, management practices and controls are in place to invest, monitor, account, report and safeguard the City's funds.
(g)	External Managers	<ul style="list-style-type: none"> ▪ Manage funds under specific investment mandate for which they were engaged, complying with all guidelines and policies as identified in their engagement contracts. ▪ Provide regular reporting to The City. ▪ Provide information and guidance on topics as requested.
(h)	Internal Managers	<ul style="list-style-type: none"> ▪ Manage funds under specific investment mandate, complying with all guidelines, policies and procedures.
(i)	Custodian and Bankers	<ul style="list-style-type: none"> ▪ Account for safekeeping of marketable securities and cash belonging to The City. ▪ Provide reports on operations and results as appropriate and as required.

5.3.4 Authorized Financial Dealers and Institutions: A list of financial institutions authorized to provide investment services to the internal manager will be maintained.

5.4 Safekeeping and Custody: All investments, including those under external management, will be held by a third party custodian. The custodian shall provide monthly reporting for each account indicating all investment activity, book value of the holdings, month end market values, and income earned by the investments.

5.5 Permitted Investments

5.5.1 Permitted Investments: Permitted investments include all categories allowed in the MGA Section 250 and its regulations i.e. *IR* and *MCIR*.

5.5.2 Excluded Investments: Investments not allowed include, but are not limited to, investments in commodities, precious metals, collectibles, hedge funds, and real estate in the form of direct property ownership. In some situations, commodity futures contracts may be purchased to lock in a budgeted cost for that commodity.

5.5.3 Derivative Use: The use of derivatives (such as options, futures, swaps and forwards) is permitted in the investment portfolios and The City of Calgary operations to protect against losses (i.e. hedge) from changes in exchange rates, interest rates and market indices; and for non-hedging purposes, as a substitute for direct investment. Examples include but are not limited to foreign exchange hedging, forward rate agreements and specific commodity hedging contracts.



5.5.3.1 Sufficient assets or cash must be held to cover commitments due to the derivatives transactions.

5.5.3.2 Derivatives may only be used on a non-speculative and non-leveraged basis.

5.5.4 Repurchase Agreements and Reverse Repurchase Agreements: These transactions are permitted subject to the following:

- (a) The market value of the collateral provided by the counterparty must be equal to or exceed the principal amount of the transaction. Collateral will be marked to market no less than on a monthly basis.
- (b) The securities provided for collateralizations shall meet the credit criteria the City applies to its own investment approvals.
- (c) The counterparty must meet minimum credit rating requirements (see Quality of Fixed Income Investments)
- (d) Master Repurchase Agreement is in effect in which further details are specified.

5.5.5 Investment Limits and Constraints

5.5.5.1 Fixed Income Issuer Limits:

Issuer	Maximum % of Portfolio (market value)
(a) Individual Federal issuer (and guaranteed)	100%
(b) Individual Provincial issuers (and guaranteed) rated "A" or higher	50%
(c) Corporate and all other issuers	10%

5.5.5.2 Equity Issuer Limits:

Issuer	Maximum % of portfolio (market value)
(a) Common stock, preferred shares and/or other equity security of any one corporation	10%



5.5.5.3

Fixed Income Portfolio Constraints:

Cumulative/Aggregate Constraints	Maximum % of Portfolio (market value)
(a) Mortgages and mortgage-backed securities	20%
(b) Securities rated BBB- to BBB+	15%
(c) Non-Canadian issuers (CAD denominated)	20%
(d) Global foreign denominated issuers	20%
(e) Diversified fixed income pooled funds and/or portfolios that hold high yield, non-investment grade fixed income securities, are eligible investments provided the weighted average credit rating of the fund or portfolio is investment grade.	

5.5.5.4

Equity Portfolio Constraints

Cumulative/aggregate constraints	Maximum % of portfolio (market value)
(a) Market value of total City investments under management allocated to equities	10%
(b) Market value of total investments under management allocated to Canadian and/or Global infrastructure funds	5%
(c) Warrants and share rights in an equity portfolio	5%
(d) All equities shall trade on a major stock exchange or be part of a broadly diversified equity pool of which the majorities are equities traded on a major stock exchange.	
(e) Holdings shall be broadly diversified by sector and country, having regard for economic activity and stock market capitalization.	
(f) Infrastructure investments include both public and private funds including open and closed-ended funds.	
(g) Voting rights are delegated to the investment managers to be exercised in the best interest of The City, in accordance with the objectives of the Investment Policy.	



5.5.5.5 Foreign Currency Management\

Currency hedging constraints	
(a)	An active foreign currency management strategy will be utilized with the primary objective of managing currency risk and reducing return volatility from currency fluctuations in foreign denominated equity and bond portfolios.

5.5.6 Pooled Fund: Investment in pooled funds is permitted. The Guidelines for each pooled fund shall be reviewed to determine the appropriateness and consistency with City Investment Policy, upon which The City accepts the pool's guidelines. The investment manager will provide written notice to The City of any material changes to the pooled fund investment guidelines.

5.5.7 Derivatives: Portfolio managers are authorized to prudently utilize financial derivatives to manage / hedge interest rate, market, credit, and foreign currency risk exposures as well as for security replication, portfolio adjustment, and implementation purposes. Derivative use must be in accordance with the Prudent Investor Rule and can only be used on a non-speculative and non-leveraged basis.

5.6 Quality of Fixed Income Investments

5.6.1 Securities with a maturity date of one year or less must be rated by at least one of the rating agencies with a minimum of R-1 or BBB- or equivalent rating.

5.6.2 Securities with a maturity date of longer than one year must be rated by at least one of the rating agencies with a minimum of BBB- or equivalent rating.

5.6.3 Non-rated mortgages secured against Canadian real estate are permitted if they are first mortgages and part of a broadly diversified pool. (See Pooled Funds)

5.6.4 Unrated private debt investments (not rated by a credit rating agency) are eligible for investment provided they are rated as investment grade by the portfolio manager using the rating methodology of an approved credit rating agency.

5.6.5 Approved credit rating agencies referred to in above sections are:

- (a) DBRS
- (b) Standard & Poors (S&P)
- (c) Moodys

5.6.6 In the event the rating of a security is downgraded below the minimum acceptable rating, no new investments may be made in that security, but



existing investments may be retained or disposed of at the discretion of the Manager Treasury with the approval of the CFO, giving full consideration to market conditions at the time and the liquidity/price level of the security.

5.6.7 Other

5.6.7.1 Collateralized debt obligations and asset-backed securities must carry a rating of 'AAA'. Investment in non-bank sponsored asset-backed commercial paper is not permitted.

5.6.7.2 All counterparties for derivative products and repurchase agreements shall be rated no less than R-1 low and/or A. The counterparty's exposure for its derivative transactions will be included in the maximum market value exposure limit allowed for that issuer.

5.7 Loans and Borrowing

5.7.1 The lending of securities through each portfolio's custodian is permitted, provided that the collateral requirements meet or exceed the standards of the Securities Lending Guidelines of the Office of the Superintendent of Financial Institutions (OSFI).

5.7.2 The assets of any portfolio may not be pledged, hypothecated or otherwise encumbered in any way, except as noted above and to the extent that temporary overdrafts occur in the normal course of business or for standard margining purposes in respect of derivative transactions.

5.8 Performance and Reporting

5.8.1 Benchmarks: The following market benchmarks are generally accepted measures for various asset classes for relative performance assessment purposes. However, specialty mandates may require a customized benchmark. In these cases the use of an equivalent, alternate benchmark should be used.

Asset Category	Performance Benchmarks
(a) Working Capital	Customized blend of FTSE TMX 91- Day T-bill Index, FTSE TMX 365 Day T-bill Index and/or FTSE TMX Canada Short Term Bond Index*
(b) Short term-Fixed Income	FTSE TMX Canada Short Term Bond Index
(c) Long Term-Fixed Income	FTSE TMX Canada Universe Bond Index
(d) Equities- Canadian	S&P/TSX Composite Index
(e) Equities-Global	Morgan Stanley Capital International (MSCI) World Canadian dollars

*Depending on investment strategy and weightings at the time, the benchmark will be a blended benchmark consisting of applicable indices such as FTSE TMX 91- Day T-bill, FTSE TMX 365-Day T-bill Index and/or Short Term Bond Index.

5.8.2 Performance Standards: Qualitative and quantitative factors used to assess investment managers' performance include:

- (a) Consistent underperformance or over performance of benchmark returns;
- (b) Changes in manager's investment style/philosophy;
- (c) Turnover of key personnel;
- (d) Material changes in assets under management, ownership, business plans or advent of material litigation.

5.8.3 Reporting Requirements:

5.8.3.1 External investment managers are required to:

- (a) Provide monthly transaction reports and market values.
- (b) Provide quarterly statements and analysis.
- (c) Attend at least one Investment Advisory Committee meeting per annum at the request of the Committee.

5.8.3.2 Internal investment managers are required to:

- (a) Provide quarterly and annual investment reports.

5.8.4 Valuation of Securities

5.8.4.1 Publicly traded securities will be valued monthly in accordance with the CICA Handbook (Canadian Institute of Chartered Accountants) requirements.

5.8.4.2 Investments in pooled funds shall be valued according to the unit values published by the pooled fund manager.

5.8.4.3 If a public market price is not available for an asset then the investment manager(s) shall determine a fair value. A suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate.

5.8.5 Compliance: Each investment manager is required to complete and sign a compliance report each quarter. The compliance report should state whether or not the portfolio was in compliance with this policy during the quarter and explain any non-compliance and remedy actions, if applicable.



5.8.6 Investment Policy Review: This policy must be formally reviewed by the Investment Advisory Committee at least once in every calendar year.

5.9 Endowment and Other City-Sponsored Funds

5.9.1 Certain funds sponsored by The City of Calgary are subject to the general terms of this Investment Policy in accordance with the terms of the governing agreements.

5.9.2 These funds are under the control of the Board of Directors of each entity.

5.9.3 As these funds are long term in nature, Council has approved the use of equities in these portfolios up to a maximum of 50% of the total portfolio market value.

5.9.4 An Investment Policy for each Fund should be proposed by the Board of Directors, and must be approved by Council.

6. SCHEDULE(S)

(a) Schedule A – Definitions/Glossary

7. AMENDMENT(S)

Date of Council Decision	Report/By-Law	Description
1995 December 18	FB95-89	Changed Use of Derivative Financial Products
1996 April 22	AC96-16 FB96-31	Multiple amendments
2006 July 24	FCS2006-31	Multiple amendments
2008 January 14	FCS2007-44,	Multiple amendments
2009 May 06	FCS2009-24	Multiple amendments
2010		Policy number change from FCS009 to CFO007 due to department reorganization
2012 February 27	PFC2012-17	Multiple amendments
2013 May 27	PFC2013-0356	Multiple amendments
2016 July 25	PFC2016-0614	Multiple amendments



8. **REVIEWS(S)**

Date of Policy Owner's Review	Description
n/a	



SCHEDULE A Definitions/ Glossary

Term	Description
Asset Backed Securities	A financial instrument backed by a loan, lease or receivables. For investors, asset backed securities are an alternative to investing in corporate debt. This category is also known as securitized assets and asset-backed commercial paper (ABCP).
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.
Capital Markets	Composed of individual markets, each with their own characteristics, such as markets for short or long term debt securities, commercial paper and publicly traded stock markets.
Collateral	Securities such as bonds, shares, insurance policies or other valuable property that are pledged against a loan. If the borrower fails to repay the loan the creditor can sell the collateral assets to recover the funds.
Counter party	The financial institution that guarantees the payment of principal or income payment stream underlying a derivatives transaction.
Custodian	Independent third party carrying legal responsibility for a customer's securities which includes administrative services as well as safekeeping.
Dealer	A firm licensed to buy or sell marketable securities to corporations, institutional investors and individuals.
Derivative Products	The term <i>derivatives</i> refers to a wide array of financial products that are dependent for their value on (or <i>derived</i> from) an underlying financial instrument (e.g. stocks, bonds, or foreign currencies), a commodity or an index representing values of groups of such instruments or assets. Some of the most commonly used derivatives are swaps, options, futures and forward agreements.
Diversification	<p>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 any individual investment found within the portfolio.</p> <p>Diversification strives to smooth unsystematic risk events 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 only if the securities in the portfolio are not perfectly correlated.</p>



Term	Description
Duration	A measure of the price sensitivity of a bond to an interest rate change. Duration is measured in years and is a weighted average of the present value of all the cash flows expected from a bond.
Endowment Fund	A fund usually established through donations or third party funding, created to provide income for a long-term ongoing purpose. Such funds are usually held in perpetuity and no encroachment on capital is allowed.
Equity	A stock or any other security representing ownership interest. The asset class includes common stock, preferred shares, income trusts, convertible debentures, partially paid shares and warrants or rights.
Hypothecated	To pledge property or goods as security for a debt without surrendering ownership.
Infrastructure Investments	Investments in Canadian or global businesses that focus on a variety of public sponsored and private quality core infrastructure assets such as toll roads, airports, utilities, renewable energy, communications, and transportation and healthcare facilities.
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.
Leverage	The use of various financial instruments or borrowed capital, such as margin, to increase the potential returns of an investment.
Liquidity	The ability of an asset to be converted to cash quickly without affecting the asset's price.
Market Cycle	The recurring and fluctuating levels of economic activity that an economy experiences over a long period of time. Most (but not all) market cycles last between 3 and 5 years.
Market Value	The price at which a security is trading in the open market.
Master Repurchase Agreement	An agreement between a dealer and a client which substantiates that the securities the client receives under a repurchase agreement are the property of the client in the event of a dealer failure.
Money Market	A wholesale financial market specializing in low risk, highly liquid instruments with term to maturity generally less than one year.
Portfolio	Collection of assets held by an investor.



Term	Description
Prudent investor Rule	The prudent Investor rule has evolved from the standard prudent Man rule in that it encompasses modern portfolio theory (MPT). MPT dictates that trustees consider a portfolio in its entirety and not by individual investment alone in order to mitigate the portfolio's overall risk.
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 are considered to be any income received from the security, plus realized and unrealized capital gains.
Repurchase Agreements	Are classified as a money market instrument. The agreement refers to the purchase of securities with the agreement to sell them at a pre-determined higher price at a specific future date. The difference between the purchase and sale prices is considered to be interest (or income) earned by the investor.
Securities	Include: bonds, debentures, Treasury bills, commercial paper, repurchase agreements, mortgages, promissory notes, coupons, residuals, asset backed securities, common stock, preferred shares, convertible debentures, warrants, rights, that are privately or publicly traded on an exchange.