



Policy Title: Investment & Governance Policy
Policy Number: CP2020-02
Report Number: PFC2020-0561
Adopted by/Date: Council / 2020 June 15
Effective Date: 2020 June 15
Last Amended: N/A
Policy Owner: Chief Financial Officer's Department

1. POLICY STATEMENT

- 1.1 Prudent and responsible investment provides the resources to meet The City of Calgary's ("The City") financial obligations, protect the purchasing power of funds retained and potentially generate additional income in support of City operations.
- 1.2 The City will invest, directly or using external managers, funds under its management in permitted capital markets and investments to achieve its investment objectives. The Investment & Governance Policy guides the management, strategies, and risk oversight of The City's financial assets. The roles and responsibilities articulated in this policy provide direction and oversight of the investment management process. This oversight includes the formal establishment of an Investment Advisory Committee.

2. PURPOSE

- 2.1 The purpose of this Council policy is to:
- (a) Establish a governance framework to ensure accountability, transparency, and effective reporting;
 - (b) Define the roles and responsibilities of Council, Administration, the Investment Advisory Committee, investment managers, and service providers regarding the governance process and oversight of City investments;
 - (c) Provide a delegation of authority from Council to Administration and The Chief Financial Officer ("CFO") to oversee and execute The City's Investment & Governance Policy;
 - (d) Establish practices and procedures to ensure compliance with applicable legislation; and
 - (e) Establish a set of investment principles and guidelines for each fund considering its time horizon, return objectives, financial obligations, preservation of capital, liquidity requirements, and a prudent level of risk.
- 2.2 Investment Beliefs



- (a) The Strategic Asset Allocation sets the parameters that will determine the risk and return characteristics of a fund.
- (b) Investors should be compensated for taking on risk. While assuming financial risk may be necessary to achieve investment objectives, increased risk does not guarantee higher investment returns.
- (c) A longer-term investment horizon increases the ability to tolerate short-term market volatility.
- (d) Pricing efficiency varies among markets. Markets with information asymmetry can offer the potential for higher returns through active management.
- (e) Diversification across markets and asset classes can improve portfolio risk-return characteristics.
- (f) The City shall manage foreign exchange risk actively.
- (g) Investment constraints may reduce potential risk-adjusted return.
- (h) Costs should be appropriately managed as they have material impacts on investment returns.
- (i) Consideration of environmental, social, and governance (ESG) factors enable investors to better understand and mitigate risks.
- (j) Prudent investment management includes establishing successful relationships with like-minded partners who have beliefs that align with the City's core values. Qualitative analysis will be employed to assess current and prospective service providers to ensure this alignment and to prevent reputational risks to The City.

3. DEFINITIONS

- (a) "Annual Investment Report" means a report prepared by Administration on the performance and holdings of The City's investment portfolio. This report is approved by Audit Committee and Council.
- (b) "Capital Markets" means a composition of individual markets, each with their own characteristics, such as markets for short or long-term debt securities and publicly traded stocks.
- (c) "Collateral" means 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.
- (d) "Custodian" means an independent third party carrying legal responsibility for a customer's securities which includes administrative services as well as safekeeping.
- (e) "Derivative" means a wide array of financial products that are dependent for their value on (or *derived* 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.

- (f) “Investment Advisory Committee” means a Committee established to regularly review and provide advice and oversight regarding investment of funds in accordance with the investment policies to ensure investments are optimally managed. The IAC will consider, and endorse where appropriate, the adoption of the investment policies and reports recommended by the CFO.
- (g) “Liquidity” means the ability of an asset to be converted to cash quickly without significantly affecting the asset’s price.
- (h) “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.
- (i) “Strategic Asset Allocation” means a portfolio strategy that involves setting target allocations for various asset classes and rebalancing periodically. It seeks to match the objectives of the sources of funds with an appropriate mix of securities that are best able to achieve these objectives.
- (j) “Treasury Management System” means a software application that automates the process of managing an organization’s financial operations. It assists in the management of activities such as cash forecasting and investment management.

4. APPLICABILITY

- 4.1 This Council policy pertains to the following funds under management by The City: reserves, capital deposits, employee benefit obligations, trusts, and operating funds.
- 4.2 The Investment Policy applies to:
 - (a) Members of Council and Committees
 - (b) CFO Department, Finance
 - (c) Investment Advisory Committee
 - (d) External investment managers, custodians, and consultants

5. LEGISLATIVE AUTHORITY

- 5.1 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”).

6. PROCEDURES



6.1 Standard of Care

(a) Prudent Investing

- (a) The Prudent Investor Rule shall prevail over all portfolios.
- (b) The Prudent Investor Rule requires that all investment managers:
 - i. Act in all matters with loyalty, impartiality and prudence.
 - ii. Maintain overall portfolio risk at a reasonable level consistent with their risk/return objectives.
 - iii. Provide for the reasonable diversification of investments.

(b) Ethics and Conflict of Interest

- (a) 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.
- (b) City employees managing the investment process shall abide by the City's Code of Conduct and Conflict of Interest Policy.

6.2 **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, market values, and income earned by the investments.

6.3 **Pooled Fund:** Investment in pooled funds is permitted. The Guidelines for each pooled fund shall be reviewed to determine appropriateness and consistency with Investment Policies, 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.

6.4 **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. Use of derivatives must be in accordance with the Prudent Investor Rule.

6.5 Loans and Borrowing

- (a) The lending of securities through the 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").
- (b) Assets may not be pledged, hypothecated or otherwise encumbered in any way, except as noted Section 5.5 (a) and to the extent that temporary overdrafts occur in the normal course of business or for standard margining purposes in respect of



derivative transactions.

6.6 Reporting Requirements

- (a) External investment managers are shall be required to:
 - (a) Provide monthly transaction reports and market values to administration;
 - (b) Provide quarterly statements and analysis to administration; and
 - (c) Attend an Investment Advisory Committee meeting when requested by administration.
- (b) Investment Team is required to:
 - (a) Provide quarterly and annual investment reports to IAC; and
 - (b) Provide annual investment reports to Audit Committee/

6.7 Valuation of Securities

- (a) Publicly traded securities will be valued at month-end in accordance with prevailing accounting standards.
- (b) Investments in pooled funds shall be valued according to the unit values published by the pooled fund manager.
- (c) 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.

6.8 **Compliance:** Ongoing compliance with the Investment & Governance Policy shall be monitored by the Deputy City Treasurer and reported quarterly to the City Treasurer, CFO and Investment Advisory Committee. Reporting will confirm compliance with key statute and investment policy provisions for all investments as directed by the Chief Financial Officer (CFO). Each investment manager is required to complete and sign a compliance report each quarter. The compliance report should state whether the portfolio followed this policy or the relevant pooled fund guidelines during the quarter and explain any non-compliance and remedy actions, if applicable. Compliance of the internally-managed Short-Term Liquidity Portfolio will be monitored through The City's treasury management system.

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

6.10 **Governance Structure:** The governance structure of The City's investment management consists of Council, City Manager, Chief Financial Officer, Investment Advisory Committee, City



Treasurer & Deputy City Treasurer

6.11 Roles and Responsibilities

- (a) City Council:
 - i. Approves The City's Investment & Governance Policy;
 - ii. Receives the Annual Investment Report from the CFO through Audit Committee;
 - iii. Delegates authority to create and execute Investment & Governance Policy to Administration; and
 - iv. Delegates authority to create, review and revise CFOD Funds and Investment Portfolios Policies to Administration.

- (b) City Manager:
 - i. Oversees the work of the Chief Financial Officer

- (c) Chief Financial Officer:
 - i. Reviews and recommends The City's Investment & Governance Policy for Council approval;
 - ii. Approves the CFOD Funds Policy and CFOD Investment Portfolios Policy and provides updates to the City Manager;
 - iii. Chairs the Investment Advisory Committee and/or may appoint a suitable delegate or replacement;
 - iv. Approves the Terms of Reference for Investment Advisory Committee;
 - v. Guides overall strategy implementation, and ensures annual review of all Investment Policies;
 - vi. Provides the Annual Investment Report to Audit Committee and Council;
 - vii. Monitors the effectiveness of the investment policies and recommends changes when determined necessary;
 - viii. Provides reports to the City Manager regarding City investments;
 - ix. May be called upon to approve or reject decisions or transactions not specifically described in the investment policies; and
 - x. Accountable for investment performance.

- (d) Investment Advisory Committee (IAC):
 - i. Provides advice and oversight of City investments including the investment structure, implementation strategies, monitoring of performance, and compliance;
 - ii. Reviews and recommends the Annual Investment Report to City



SCHEDULE 1 – Definitions/Glossary

Term	Description
Annual Investment Report	A report prepared by Administration on the performance and holdings of The City's investment portfolio. This report is approved by Audit Committee and Council.
Capital Markets	Composed of individual markets, each with their own characteristics, such as markets for short or long-term debt securities and publicly traded stocks.
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.
Custodian	Independent third party carrying legal responsibility for a customer's securities which includes administrative services as well as safekeeping.
Derivative	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.
Investment Advisory Committee	Committee established to regularly review and provide advice and oversight regarding investment of funds in accordance with the investment policies to ensure investments are optimally managed. The IAC will consider, and endorse where appropriate, the adoption of the investment policies and reports recommended by the CFO.
Liquidity	The ability of an asset to be converted to cash quickly without significantly affecting the asset's price.
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.
Strategic Asset Allocation	A portfolio strategy that involves setting target allocations for various asset classes and rebalancing periodically. It seeks to match the objectives of the sources of funds with an appropriate mix of securities that are best able to achieve these objectives.



**Treasury
Management
System**

A software application that automates the process of managing an organization's financial operations. It assists in the management of activities such as cash forecasting and investment management.