



# CITY POLICY

**POLICY NUMBER: C212D**

**REFERENCE:**

City Council 2006 03 07  
City Council 2001 03 20  
City Council 1995 02 07  
Municipal Government Act, R.S.A. 2000,  
c. M-26 (as amended), Section 250  
Investment Regulation, A.R. 66/2000 (as amended)  
Major Cities Investment Regulation, A.R. 249/2000 (as amended)

**ADOPTED BY:**

City Council  
16 September 2009

**SUPERSEDES:**

C212C

**PREPARED BY:** Finance and Treasury Department

**DATE:** 3 July 2009

**TITLE: Investment**

**Policy Statement:**

The City of Edmonton will invest, or cause to be invested, funds under its control in permitted capital markets to maximize returns at a prudent level of risk.

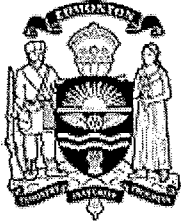
**The purpose of this policy is to:**

Establish a set of investment principles and guidelines giving consideration to the type of fund, its characteristics, investment return objectives, financial obligations, the objective of preservation of capital, liquidity, a prudent level of risk given the investment time horizon, while at the same time ensuring that the City of Edmonton's investments comply with statutory requirements.

1. Investment Objectives

- 1.1. Investments shall be consistent with Modern Portfolio Theory.
- 1.2. The Prudent Investor Rule shall apply to all funds.
- 1.3. Risk control is managed primarily through the diversification provided for in the Asset Allocation. Additional risk control is provided by the restrictions on the permitted investments, implementation strategies, and depth and breadth of the monitoring and controls.
- 1.4. Maximize investment returns at a prudent level of risk, considering an investment horizon consistent with the structure of the Fund's liabilities and the objectives of preservation of capital and liquidity.
- 1.5. Investment returns for the **Ed Tel Endowment Fund** will provide inflation indexing of the principal and the annual budgeted withdrawal (inflation is as per the Statistics Canada Canadian Consumer Price Index).
- 1.6. The **Sinking Fund** will provide for the due and timely payment of the principal and interest of the various debentures for which the fund is accumulating assets. If, at maturity, the funds are insufficient to make any payments of principal and interest of the respective debentures, the City shall cover such deficiency by increasing taxes.

This policy is subject to any specific provisions of the Municipal Government Act or other relevant legislation or Union Agreement.



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## 2. Reporting

An annual report to City Council will be provided by the City Manager. At a minimum, the report is to include the following information: fund status, market value, asset mix, investment performance, proxy voting, confirmation of policy and statutory compliance, and detail on the past year's accomplishments and the next year's planned activities.



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## 1. DEFINITIONS

- 1.1. Asset Allocation - Proportion in which assets are divided among various types of investments, such as equities, bonds or cash.
- 1.2. Balanced Fund – Funds include operating and capital reserves, deferred revenue accounts, and various other deposits of a trust nature.
- 1.3. Budgeted Annual Withdrawal – The inflation adjusted annual payment to the City from the **Ed Tel Endowment Fund**.
- 1.4. CFA Institute – A global, not-for-profit professional association that administers the Chartered Financial Analyst® (CFA®) and Certificate in Investment Performance Measurement (CIPM®) curricula and examination programs worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance reporting standards for the investment industry.
- 1.5. Ed Tel Endowment Fund – Proceeds received by the City from the sale of Edmonton Telephones.
- 1.6. Excess Earnings – Difference between the market value and the inflation adjusted principal as applicable to the **Ed Tel Endowment Fund**.
- 1.7. External Investment Managers - External third party investment managers serving the institutional fund industry. These managers have pooled funds in which an investor can purchase units, or separate segregated funds for each client.
- 1.8. Index - A public investment benchmark which is considered to be representative of a specific securities market (e.g. the S&P/TSX Composite Index, DEX 91 Day T-Bill Index, etc.). Performance benchmarks refer to total return indices in Canadian dollar terms.
- 1.9. Index Fund - A portfolio of securities designed to replicate the performance of an Index.
- 1.10. Internal Controls – Includes authorities, policies, procedures, separation and segregation of duties, compliance checks, performance measurement and attribution, custodian reports, safekeeping and the audit process.
- 1.11. Investment Policy - A formal statement approved by City Council which provides the basis upon which a fund or pool of funds is to be invested.



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- 1.12. Long-Term Disability Fund - Funds set aside to provide benefits for the City of Edmonton long-term disability plans.
- 1.13. Modern Portfolio Theory – A theory of trust investment and portfolio management that looks more toward the portfolio as a whole and less toward the prudence of a single investment in the portfolio as found in the CFA Institute Standards of Practice Handbook.
- 1.14. Pension Funds – Funds set aside to provide pension benefits for specific City employees (excludes those funds administered by the Local Authorities Pension Plan and the Special Forces Pension Plan).
- 1.15. Proxy Voting - A legal transfer to another party of a shareholder's right to vote; allows shareholders that cannot attend such meetings, to participate nonetheless.
- 1.16. Prudent Investor Rule – Modern conception of the Prudent Man Rule that requires a trustee to act prudently and with caution, discretion, loyalty and care but does not restrict the assets in which a trustee can invest. The Prudent Investor Rule makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio rather than to individual investments. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the CFA Institute Standards of Practice Handbook.
- 1.17. Risk - The uncertainty of future investment returns.
- 1.18. Risk Tolerance - The financial ability to absorb a loss or withstand a short-to-medium-term value decline. Risk tolerance increases with the build up of retained earnings or a surplus of assets over liabilities.
- 1.19. Sinking Fund – This fund was established to fulfill a requirement of various public debenture issues wherein cash is to be regularly set aside for the redemption of the debentures.
- 1.20. Sinking Fund Required Contributions – (Annual **Sinking Fund** Requirement) The amount of capital to be set aside each year in a sinking fund as detailed on each debenture issue(s).
- 1.21. Sinking Fund Required Earnings – The investment earnings necessary such that the required contributions will grow to a value sufficient to repay the principal owing on all outstanding **Sinking Fund** debentures.
- 1.22. Sinking Fund Excess Earnings – Investment earnings in excess of the required earnings.



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- 1.23. Working Capital Funds – Funds received by the City from various sources and not immediately required for the payment of operating and capital expenditures. These include, but are not limited to, the Short Term Bond Fund and the Money Market Fund.

## 2. PROCEDURES

### 2.1. Investment Beliefs

- 2.1.1. The investment return on the Funds is a function of capital market returns, asset allocation, manager structure and individual managers.
- 2.1.2. There is a relationship between risk and return – higher returns generally require taking higher risk.
- 2.1.3. In the long-term, equities will outperform bonds to compensate for their higher risk.
- 2.1.4. The long-term asset mix is the most important component of a portfolio's risk and return.
- 2.1.5. Active management can add value, but with added costs and effort which must be assessed along with the passive alternative, whenever changes are made.
- 2.1.6. Alternative strategies/asset classes may be appropriate and will be evaluated based on their liquidity, the management time needed to monitor the investment and the level of transparency.
- 2.1.7. Market timing at the policy level is an inefficient strategy for consistently increasing returns.
- 2.1.8. Diversification of asset classes, implementation strategies, and security selection can improve the risk and return characteristics of the Funds.
- 2.1.9. Asset mix rebalancing generally adds value relative to buy and hold strategies.
- 2.1.10. Effective manager structure can improve the net returns and lower the risk of the Funds.

### 2.2. Permitted Investments

- 2.2.1. Permitted investments include all investment categories allowed under the Municipal Government Act and its regulations and the Employment Pension Plans Act and Regulation (Pension Benefits Standards Act).



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- 2.2.2. Fixed income credit quality rating requirements are as specified in the Municipal Government Act and its regulations. Securities held in the fund whose credit rating has been downgraded to a level below that required are to be sold within a reasonable period of time, given the then current market conditions.
- 2.2.3. The fixed income maximum is not more than 10% of the market value of the total fixed income portfolio in a single corporate issuer, not more than 20% of market value denominated in non-Canadian issuers or currencies and not more than 20% of market value in mortgages or mortgage backed securities.
- 2.2.4. Total equity maximum limit to any one company will be not more than 10% of the market value of the asset class (applies to the **Ed Tel Endowment Fund, Pension Funds, Balanced Fund and Long-Term Disability Fund** as the remaining funds do not participate in equities).
- 2.2.5. Publicly traded securities valuation will be monthly in accordance with the Canadian Institute of Chartered Accountants Handbook.
- 2.2.6. Securities lending is also permitted, so long as the collateral requirement conforms to the Securities Lending Guideline of the Office of the Superintendent of Financial Institutions (Canada).
- 2.2.7. Neither the internal or external investment managers may pledge or otherwise encumber in any way the assets of any fund, except to the extent required to cover temporary overdrafts that occur in the normal course of business.

## 2.3. Risk Management

- 2.3.1. The overall level of fund risk or annual variance of the key financial metrics is primarily dependent upon the portfolio's long-term asset allocation and liability sensitivities. As per Section 2.5.14, an asset/liability study is conducted every three (3) to five (5) years in order to ensure that fund objectives are met with an appropriate level of risk.
- 2.3.2. Within the context of the specific mandate, risk control is managed through the diversification and liability matching provided for in the asset mix as well as through the underlying manager structure and implementation strategies (e.g. multiple managers with offsetting styles).
- 2.3.3. Investment managers are monitored and evaluated against both absolute and relative measures of risk. Investment mandates contain quality and diversification



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guidelines, as well as tolerance ranges which outline the level of acceptable tracking-error that the manager can exhibit versus the benchmark and over a variety of time intervals. Managers are monitored against their investment style and expected return patterns. In addition, the qualitative attributes of managers (organization, personnel, etc.) are also continuously monitored.

- 2.3.4. An overall assessment of the risks, both investment and operational, that the investment program is exposed to is done on an annual basis. This includes a review and evaluation of the risk controls and mitigation strategies that are utilized to manage the various risks to a suitable level.

## 2.4. Asset Allocation and Performance Measurements

- 2.4.1. The minimum investment performance reporting standards for the total fund and asset classes are to be CFA Institute compliant, calculated quarterly in market value terms, and measured on an annualized four year rolling basis.

- 2.4.2. The policy asset mix and asset mix ranges are based on market values. The asset mix policy weight and the asset mix range minimums and maximums for the **Ed Tel Endowment Fund** and **Pension Funds** are as follows:

Asset Class	Policy Asset Mix	Minimum	Maximum
<b>Fixed Income Total</b>	<b>30%</b>	<b>25%</b>	<b>35%</b>
Cash	0%	0%	4%
Bonds	30%	25%	35%
<b>Equity Total</b>	<b>60%</b>	<b>55%</b>	<b>65%</b>
Canadian Equity	25%	20%	30%
Foreign Equity (Ex. Emerging Markets)	30%	25%	35%
Emerging Market Equity	5%	0%	10%
<b>Inflation-Sensitive Total</b>	<b>10%</b>	<b>0%</b>	<b>15%</b>
Infrastructure	10%	0%	15%

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- 2.4.3. The performance benchmarks for the **Ed Tel Endowment Fund** and the **Pension Funds** are as follows:

Category	Performance Benchmarks
Bonds	DEX Universe Bond Index
Canadian Equity	S&P/TSX Capped 10% Index
Foreign Equity (Ex. Emerging Markets)	MSCI World Index Ex. Canada
Emerging Market Equity	MSCI Emerging Markets Index
Infrastructure	CPI + 5%
Total Fund (the asset class benchmark returns are applied to the target Asset Allocation)	30% DEX Universe Bond Index, 25% S&P/TSX Capped 10% Index, 30% MSCI World Index Ex. Canada, 5% MSCI Emerging Markets Index, 10% CPI + 5%

- 2.4.4. The purpose of the **Sinking Fund** leads to an asset allocation policy restricted to fixed income securities. Asset allocation between cash (money market) and bonds will be determined based on the investment objectives and the duration of the known liabilities.
- 2.4.5. The nature of the liabilities of the **Sinking Fund** requires a custom benchmark for assessing the performance of the fund manager(s). The custom benchmark will consist of a blending of the DEX Debt Market Indices such that the duration of the benchmark is equivalent to the duration of the liabilities. The indices used will be the DEX Universe, Long, Mid, Short, and 91 Day T-Bill Indices. The percentage weights of each of these Indices in the benchmark will be reviewed and adjusted at least quarterly due to changes in the duration of the liabilities and indices.





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2.4.6. The asset mix range minimums and maximums for the **Balanced Fund** are as follows:

Asset Class	Minimum	Maximum
<b>Fixed Income Total</b>	<b>30%</b>	<b>100%</b>
Cash	0%	20%
Bonds	30%	100%
<b>Equity Total</b>	<b>0%</b>	<b>60%</b>
Canadian Equity	0%	35%
Foreign Equity (Ex. Emerging Markets)	0%	35%
Emerging Market Equity	0%	5%
<b>Inflation-Sensitive Total</b>	<b>0%</b>	<b>10%</b>
Infrastructure	0%	10%

2.4.7. The performance benchmarks for the **Balanced Fund** are as follows:

Category	Performance Benchmarks
Bonds	DEX Universe Bond Index
Canadian Equity	S&P/TSX Capped 10% Index
Foreign Equity (Ex. Emerging Markets)	MSCI World Index Ex. Canada
Emerging Market Equity	MSCI Emerging Markets Index
Infrastructure	CPI + 5%



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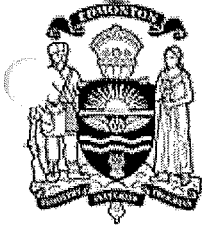
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- 2.4.8. The nature of **Working Capital Funds** leads to an asset allocation policy restricted to fixed income securities. Asset allocation between cash (money market) and bonds will be determined based on the investment objectives. There is no pre-determined policy asset mix for these Funds, due to the cyclical nature of revenue collections, changes to forecasted expenditures, both operating and capital, and the available opportunities in the fixed income market.
- 2.4.9. Where the **Working Capital Funds** objectives are consistent with recognized published indices, the standard index benchmarks shall be used. Where fund objectives warrant implementation strategies that are not comparable to market indices, performance shall be measured and then evaluated on an objective basis, using a customized benchmark, consistent with like or comparable funds.
- 2.4.10. The asset mix policy weight and the asset mix range minimums and maximums for the **Long-Term Disability Fund** are as follows:

Asset Class	Policy Asset Mix	Minimum	Maximum
<b>Fixed Income Total</b>	<b>55%</b>	<b>50%</b>	<b>60%</b>
Cash	0%	0%	4%
Bonds	55%	50%	60%
<b>Equity Total</b>	<b>40%</b>	<b>35%</b>	<b>45%</b>
Canadian Equity	15%	10%	20%
Foreign Equity (Ex. Emerging Markets)	20%	15%	25%
Emerging Market Equity	5%	0%	10%
<b>Inflation-Sensitive Total</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
Infrastructure	5%	0%	10%



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2.4.11. The performance benchmarks for the **Long-Term Disability Fund** are as follows:

Category	Performance Benchmarks
Bonds	DEX Universe Bond Index
Canadian Equity	S&P/TSX Capped 10% Index
Foreign Equity (Ex. Emerging Markets)	MSCI World Index Ex. Canada
Emerging Market Equity	MSCI Emerging Markets Index
Infrastructure	CPI + 5%
Total Fund (the asset class benchmark returns are applied to the target Asset Allocation)	55% DEX Universe Bond Index, 15% S&P/TSX Capped 10% Index, 20% MSCI World Index Ex. Canada, 5% MSCI Emerging Markets Index, 5% CPI + 5%

2.4.12. Performance relative to other funds with similar investment constraints will be monitored and evaluated at the asset class and total fund level. On an annualized four-year basis, the expectation would be that performance in each asset class and at the total fund level would rank in the top half of the respective peer universe.

2.4.13. For assets under active management, a premium above the performance benchmark is to be achieved. Premiums are to be based on industry standards and prevailing market conditions. These benchmarks will be incorporated into the individual investment manager mandates.

2.4.14. An asset mix study will be conducted every three (3) to five (5) years to ensure the asset mix continues to be appropriate given the Ed Tel Endowment Fund, Pension Funds and Long-Term Disability Fund financial objectives and capital market conditions.

2.4.15. The benchmark performance levels will be provided by an independent performance measurement service provider as per CFA Institute standards.



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## 2.5. Implementation Strategy

2.5.1. The implementation strategy alternatives may include active and passive management mandates, balanced fund managers, specialist fund managers, internal segregated or pooled funds and external segregated or pooled funds. Some diversification of investment style will be maintained where applicable.

## 2.6. Responsible Proxy Voting (applies to the **Ed Tel Endowment Fund, Pension Funds, Balanced Fund** and **Long-Term Disability Fund** as the remaining funds do not participate in equities).

2.6.1. Share ownership carries with it the right to vote for, to vote against or even to abstain from voting on proposals presented by both management and shareholders at annual general and special meetings.

2.6.2. On a best efforts basis, all proxies, for both active and passive mandates, will be voted in the following responsible manner:

- a) The proxy must be voted in the economic best interest of the beneficial owners of the fund.
- b) Proxy proposals are to be voted in a manner to encourage the achievement of the following social and political aims:
  - i) discourage the expansion of products which are harmful or destructive to human life;
  - ii) expansion of gender and racial equality;
  - iii) environmentally responsible business practices;
  - iv) progressive industrial relations with employees.

2.6.3. Responsible proxy voting may be implemented through external investment managers, internal staff, or an external proxy analysis and voting service. A record of all proxies received and voted must be maintained and reported annually.

## 2.7. Monitoring and Controls

2.7.1. Custody of the funds and securities will, in all instances, be held by a third party fund custodian.



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- 2.7.2. An investment reporting and compliance program will include monitoring and reporting on investment activity, performance and risk results and attribution. This will ensure compliance with the City's Investment Policy, all applicable statutes and regulations, and investment manager mandates.
- 2.7.3. Internal controls will be in place for investment processes and procedures. This will include formal delegations of authority for transacting and entering into contracts with external managers, transferring funds, the safekeeping of assets, and the segregation of duties.
- 2.7.4. External audits will be performed annually, including an assessment of investment effectiveness and risk management.

