

2021 INVESTMENT COMMITTEE ANNUAL REPORT

Edmonton



BALANCED. RESPONSIBLE. DIVERSE.

The City of Edmonton has rigorous policies and procedures in place to maximize investment returns at a prudent level of overall risk.

These policies and procedures guide the City's Investment Committee in managing and building upon the City's financial assets to help sustain the quality of life of Edmontonians.

Over the past 10 years, these accomplishments have contributed over \$830 million of investment earnings and dividends to the City's budget, offsetting what would otherwise have required a six per cent increase in property taxes during this time.

Successful management of the City's investment portfolio – which comprises six funds – is one of the key factors in maintaining Edmonton's financial sustainability.

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INVESTMENT PHILOSOPHY

A prudent approach to investing municipal assets

The investment program plays an essential role in Edmonton's Financial Sustainability Plan, which addresses Edmonton's financial sustainability and the development of a long-range financial plan. Strong accountability and oversight matched with diversified expertise have allowed the program to provide considerable added value to the City of Edmonton over time.

Empirical evidence suggests the most important determinant of investment returns and risks is asset mix. As a result, the City establishes an asset allocation policy for each of its investment funds that is consistent with each fund's specific objectives, risk profile and investment time horizon.

Diversification is further enhanced within the various asset classes through the split between internal and external investment managers, resulting in a multi-asset, multi-manager investment framework.

Over time, diversification has been a key driver of the program's successful evolution, particularly in terms of expanding the depth of employed strategies and broadening the scope of investment opportunities. Different investment styles offer additional risk control, reduce the possibility of investment losses and ensure that fund objectives are met. Comparative advantages, such as liquidity, the ability to invest long term and a cost-effective investment program, allow the City

the opportunity to generate a significant incremental return over time. As an example, the City typically falls within the positive value-added and low-cost category in an annual survey of institutional investment managers worldwide.

Investment beliefs are the guiding principles used to determine the overall investment structure and strategy for the City's various funds. One of the main beliefs is that equities will outperform bonds to compensate for their higher risk over the long term. Although equity returns are expected to be greater than bonds over the long run, they are also more volatile. For this reason, equity investments are only suited for investment portfolios with longer-term (for example, more than five years) investment horizons. Accordingly, only the Ed Tel Endowment Fund and the Pension Fund have significant equity allocations (each has 60 per cent equity). Conversely, the investment funds with a lower tolerance for risk and shorter time horizons (for example, working capital funds) are not invested in equities and, therefore, are sheltered from the equity markets' higher volatility.

Finally, as part of an annual review process, a formal risk assessment of the City's investment program ensures risk mitigation strategies and controls are in place and consistent with industry best practices.



2021 OVERVIEW

Edmonton's investments had another successful year.

MARKETS ENDED 2021 ON A HIGH NOTE

Global equities delivered strong returns with a 24.1 per cent gain for the year. This performance is all the more impressive as it follows two years of double-digit gains. Not since 2004–2006 have global equities performed so well. Supportive fiscal and monetary policy in response to the pandemic and rebounding global growth contributed to the strength in capital markets during the year.

U.S. equities led the way as the strongest performer, returning 28.7 per cent for the year. This followed an impressive gain of over 18 per cent in 2020.

Canadian equities were close behind as they were up 25.1 per cent in 2021 – their best year since 2009. Similarly, oil prices surged 59 per cent as economies reopened, while the Canadian dollar was essentially flat versus the U.S. dollar, rising less than 1 per cent.

International equities earned a respectable 18.7 per cent; however, translating into Canadian dollars reduces this number.

Finally, Canadian fixed income securities (bonds) fell 2.5 per cent for the year. This was the worst year for bonds since 1994.

THE CITY'S INVESTMENTS CONTINUED THEIR STRONG PERFORMANCE

All of the City's investment funds matched or outperformed their benchmarks in 2021.

Performance ranged from -0.8 per cent (Short-Term Bond Fund) to 15 per cent (Pension Fund), depending on each fund's asset mix.

On a four-year basis, investment returns have been strong and all the City's funds exceeded their policy benchmarks. Over a longer-term 10-year basis, returns have been even better, with all of the funds continuing to outperform their benchmarks.

The City's largest fund, the Ed Tel Endowment Fund, paid \$41 million in dividends to the City and ended 2021 at its highest market value since inception.

KEY PROJECTS

New Real Estate Asset Class

In 2019, City Council approved a revision of the Investment Policy to include a new real estate asset class, diversifying investment funds further. In 2021, the Investment Committee continued to oversee implementation of the Investment Policy revision with the completion of the following work:

- a new trust structure was created at the City's custodian to include the real estate portfolio, and
- assets began to be transitioned to the new structure and will continue transitioning throughout 2022.

Updates to Terms of Reference

The City's Investment Committee Terms of Reference was updated to reflect the new Investment Policy C212E recently approved by City Council. The Risk Management Section was also updated to align with the Investment Policy.

Upgrade to Treasury System

The treasury system for investments was upgraded to enable straight-through processing (STP) and electronic settlement of the City's money market investment transactions.

New Committee Appointment

After a previous external member's term concluded, a new member was appointed to the City's Investment Committee. As per the committee's Terms of Reference, external members can serve only two consecutive three-year terms on the Investment Committee; this ensures continued good governance of the City's financial assets.

WHAT'S AHEAD?

In a reversal from the prior year, financial markets began 2022 on a negative note. Investors are concerned by a number of factors, including geopolitical tensions, uncertainty regarding supply disruptions, inflation – which has hit a multi-decade high – and the future path of interest rates. These factors, along with the strong run in asset prices over the last number of years, suggest capital market returns will be more moderate in the years ahead.

Prudent risk management, maintaining diversification and adhering to investment fundamentals will continue to be critical cornerstones in achieving success.

In the upcoming year, the Investment Committee will oversee the following projects:

Major Cities Investment Regulation

The Major Cities Investment Regulation, which outlines the permitted investments for the cities of Edmonton, Calgary and Medicine Hat, is up for renewal in June 2022. As a result, work will be undertaken with the Government of Alberta to review the regulation and ensure it meets the City's ongoing investment requirements.

Fixed Income Investment Structure Review

The committee will oversee a review of the City's fixed income investment structure to identify areas where potential yield and diversification improvements can be made.

Update to Money Market Fund Mandate

The Investment Management Mandate of the internally managed Money Market Fund will be revised to reflect the fund's growth since the last revision and some additional market updates.

Implementation of Unlisted Infrastructure and Real Estate Strategies

As part of a multi-year project, the City continues to transition assets to unlisted infrastructure and real estate strategies as suitable investment opportunities arise.

CAPITAL MARKET PERFORMANCE

The rate of return for each City asset class is compared with the published total return of its corresponding broad-market index. These indices, weighted by the policy asset mix, are used to calculate the performance benchmark for each fund.

The City evaluates the investment performance of each fund using the following indices as points of reference:

Cash: FTSE Canada 91 Day Treasury Bill Index (91 Day T-Bills)

Short-Term Bonds: FTSE Canada Short Term Bond Index (FTSE Short-Term)

Bonds: FTSE Canada Universe Bond Index (FTSE Universe)

Canadian Equity: S&P/TSX Capped 10% Index (TSX)

Global Equity: Morgan Stanley Capital International Inc. World Index excluding Canada (MSCI World ex-Canada)

Emerging Market Equity: Morgan Stanley Capital International Inc. Emerging Markets Index (MSCI EM)

Infrastructure:

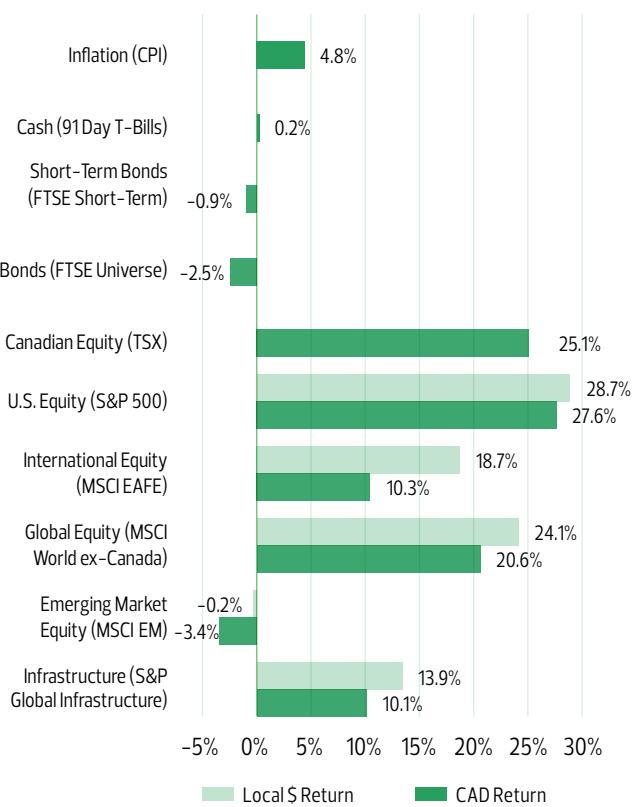
Unlisted – Consumer Price Index (CPI) + 4.5%

Listed – Standard & Poor's Global Infrastructure Index (S&P Global Infrastructure)

Real Estate: Consumer Price Index (CPI) + 4.5%

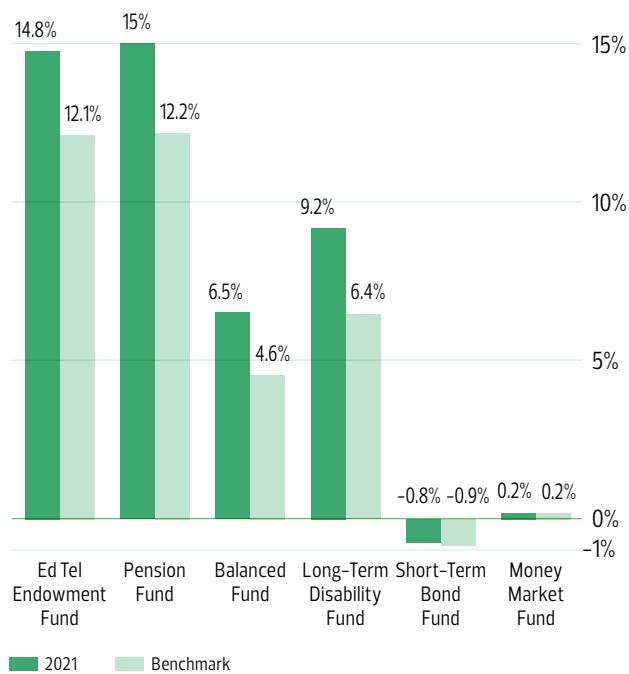
According to industry standards, investment performance returns are presented before deducting management fees.

2021 Capital Market Returns

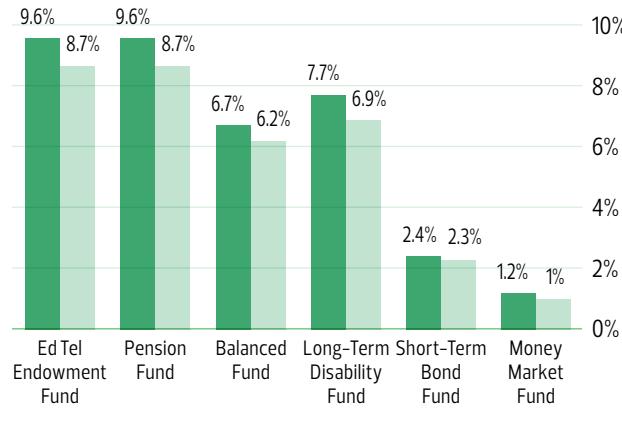


Local \$ Return represents returns expressed in the associated foreign currencies. CAD Return reflects the return converted to Canadian dollars.

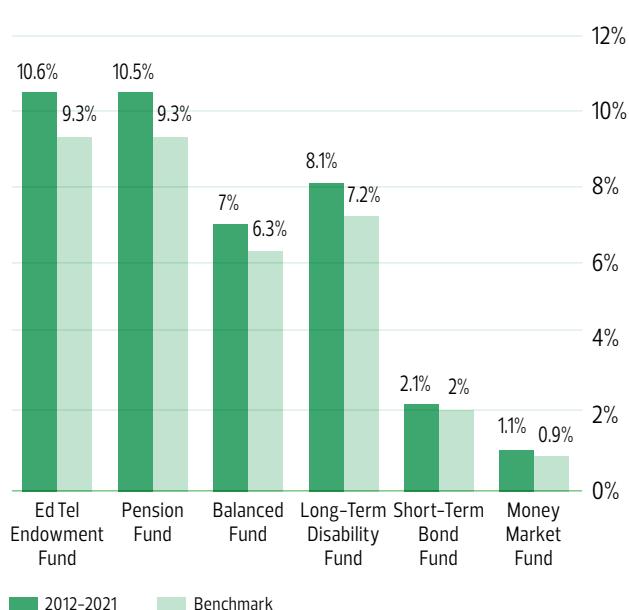
2021 Performance vs. Benchmark



Four-Year Performance vs. Benchmark (2018-2021)



Ten-Year Performance vs. Benchmark (2012-2021)



PORTFOLIO PERFORMANCE

INVESTMENT FUNDS

Ed Tel Endowment Fund | Pension Fund | Long-Term Disability Fund

RESERVES AND WORKING CAPITAL FUNDS

Money Market Fund | Short-Term Bond Fund | Balanced Fund

Investments within the reserves and working capital funds represent financial holdings of the corporation held for a specific purpose within the City's budget. The investment earnings from these funds are transferred to the City's capital budget annually.

ED TEL ENDOWMENT FUND

Fund Management

Multiple Investment Managers

Market Value

\$998 million (Dec. 31, 2021)

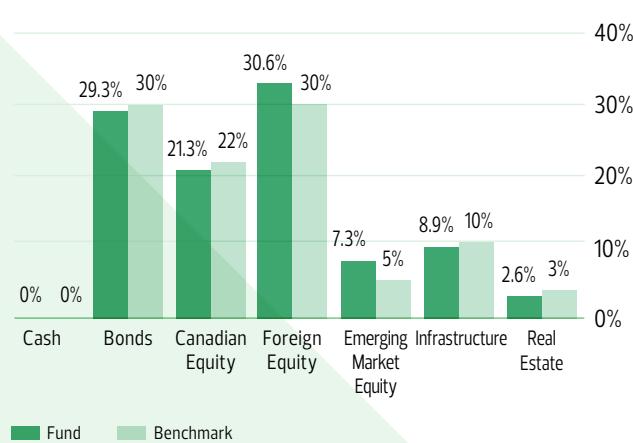
Performance (rate of return)

| | |
|--|--------|
| Over one year (2021) | +14.8% |
| Over four years (2018–2021, per annum) | +9.6% |
| Over ten years (2012–2021, per annum) | +10.6% |

Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +2.7% |
| Over four years (2018–2021, per annum) | +0.9% |
| Over ten years (2012–2021, per annum) | +1.3% |

Ed Tel Endowment Fund Asset Mix vs. Policy Mix

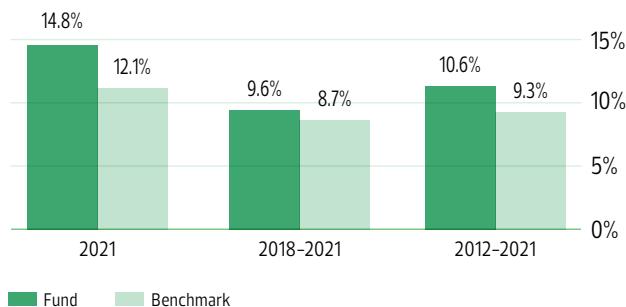


DESCRIPTION

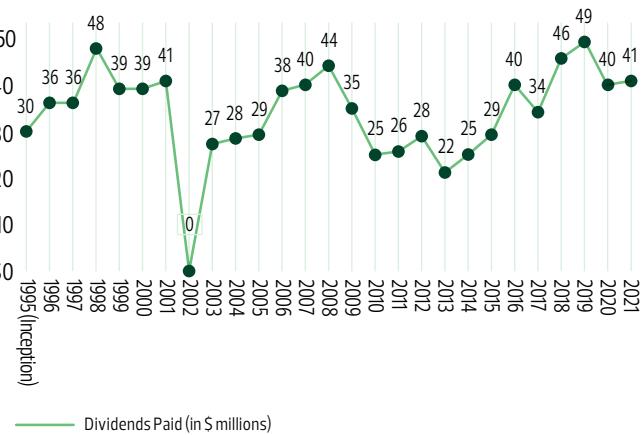
The objective of an endowment fund is to provide a source of income in perpetuity while ensuring the real purchasing power of the fund is maintained. The Ed Tel Endowment Fund was created in 1995 to hold the financial assets generated by the sale of Edmonton Telephones to TELUS Corporation. It is considered a financial legacy for future generations that delivers a stable, sustainable and growing dividend for the City.

The Ed Tel Endowment Fund paid a dividend of \$41 million in 2021 and ended the year at its highest market value since the establishment of the fund. The total dividend to be paid in 2022 is set at \$54 million, which comprises a regular dividend of \$43 million and a special dividend of \$11 million, as a result of the strong performance achieved by the fund over the preceding several years.

Ed Tel Endowment Fund Performance vs. Benchmark



Ed Tel Endowment Fund Annual Dividend Payments



SINCE 1995, THE ED TEL ENDOWMENT FUND HAS EARNED A COMPOUND ANNUAL RATE OF RETURN OF NINE PER CENT VERSUS THE BENCHMARK RETURN OF EIGHT PER CENT, GROWN ITS PRINCIPAL FROM \$465 MILLION TO \$998 MILLION AND PAID \$915 MILLION IN DIVIDENDS TO THE CITY.

ED TEL ENDOWMENT FUND BYLAW – KEY SUCCESS FEATURES

Inflation Indexing: To avoid erosion of real purchasing power, the City maintains the “Inflation Adjusted Principal” of the fund.

Spending Rate: The fund’s investment policy sets the portion of the fund paid out annually as dividends.

Smoothing Mechanism: This dividend calculation formula minimizes the effects of volatile investment returns and provides for a more stable and predictable annual dividend from the fund.

PENSION FUND

Fund Management

Multiple Investment Managers

Market Value

\$337 million (December 31, 2021)

Performance (rate of return)

| | |
|--|--------|
| Over one year (2021) | +15% |
| Over four years (2018–2021, per annum) | +9.6% |
| Over ten years (2012–2021, per annum) | +10.5% |

Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +2.8% |
| Over four years (2018–2021, per annum) | +0.9% |
| Over ten years (2012–2021, per annum) | +1.2% |

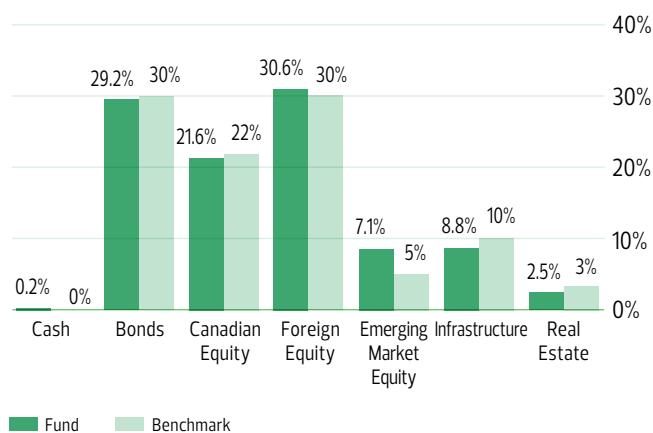
Description

The Pension Fund consists of the Firefighters' Supplementary Pension Plan, the Fire Chief and Deputy Fire Chiefs' Supplementary Pension Plan, and one closed pension plan with a small number of beneficiaries.

Pension Fund Performance vs. Benchmark



Pension Fund Asset Mix vs. Policy Mix



LONG-TERM DISABILITY FUND

Fund Management

Multiple Investment Managers

Market Value

\$175 million (December 31, 2021)

Performance (rate of return)

| | |
|--|-------|
| Over one year (2021) | +9.2% |
| Over four years (2018–2021, per annum) | +7.7% |
| Over ten years (2012–2021, per annum) | +8.1% |

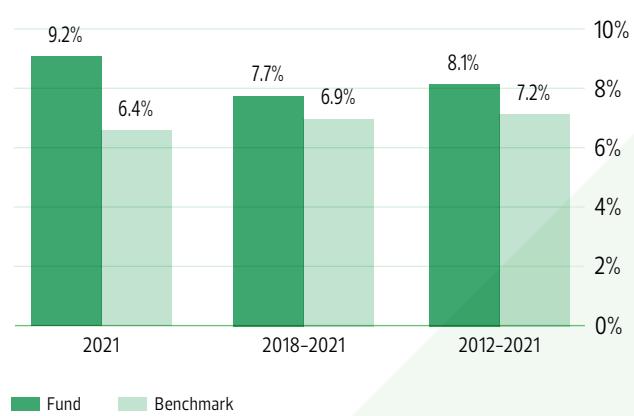
Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +2.8% |
| Over four years (2018–2021, per annum) | +0.8% |
| Over ten years (2012–2021, per annum) | +0.9% |

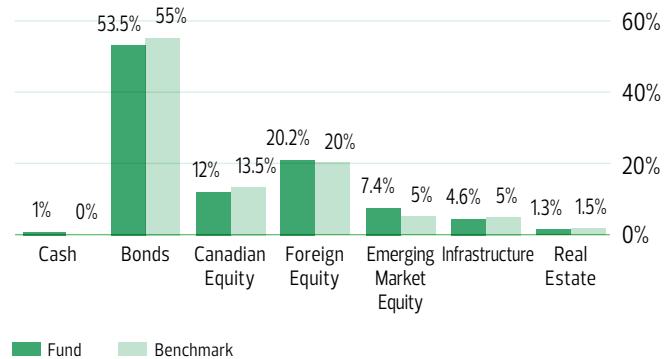
Description

The Long-Term Disability (LTD) Fund holds investments for six City of Edmonton long-term disability plans.

LTD Fund Performance vs. Benchmark



LTD Fund Asset Mix vs. Policy Mix



MONEY MARKET FUND

Fund Management

City of Edmonton Investment Management (internal)

Market Value

\$682 million (December 31, 2021)

The City's revenue streams are cyclical; the fund value peaks at over \$1 billion each July.

Performance (rate of return)

| | |
|--|-------|
| Over one year (2021) | +0.2% |
| Over four years (2018–2021, per annum) | +1.2% |
| Over ten years (2012–2021, per annum) | +1.1% |

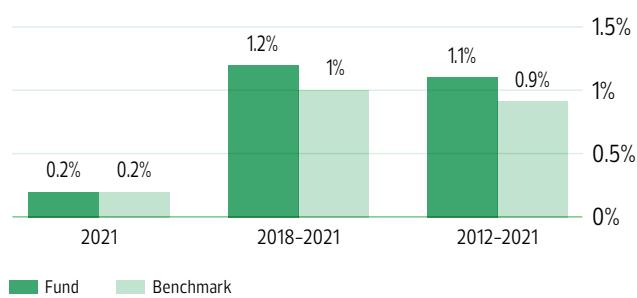
Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +0% |
| Over four years (2018–2021, per annum) | +0.2% |
| Over ten years (2012–2021, per annum) | +0.2% |

Description

The Money Market Fund absorbs the excess or shortfall in the daily operating requirements of the City. The fund ensures that sufficient cash and liquid assets are available to cover the City's short-term obligations. As such, the fund is solely invested in money market securities with a time horizon of one year or less, depending on the City's forecast of commitments.

Money Market Fund Performance vs. Benchmark



SHORT-TERM BOND FUND

Fund Management

City of Edmonton Investment Management (internal)

Market Value

\$342 million (December 31, 2021)

Performance (rate of return)

| | |
|--|-------|
| Over one year (2021) | -0.8% |
| Over four years (2018–2021, per annum) | +2.4% |
| Over ten years (2012–2021, per annum) | +2.1% |

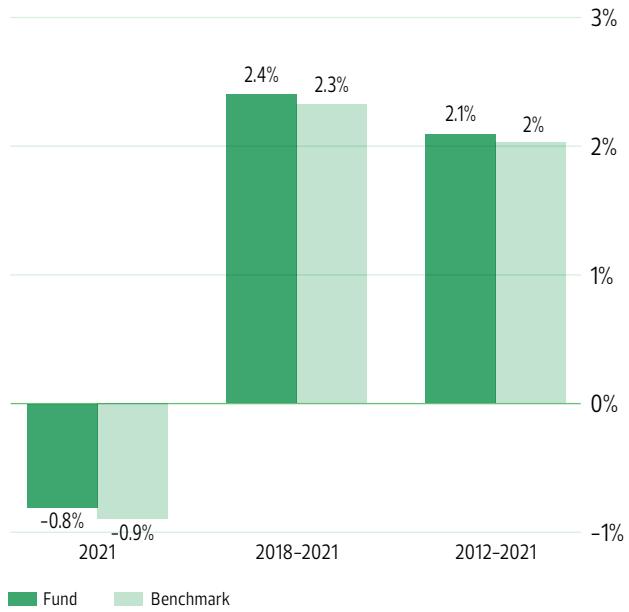
Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +0.1% |
| Over four years (2018–2021, per annum) | +0.1% |
| Over ten years (2012–2021, per annum) | +0.1% |

Description

The Short-Term Bond Fund provides an investment vehicle for working capital that is not currently needed to fund City operations but will be needed in less than five years. Therefore, the fund holds fixed-income securities with fewer than five years of an investment horizon.

Short-Term Bond Fund Performance vs. Benchmark



BALANCED FUND

Fund Management

Multiple Investment Managers

Market Value

\$889 million (December 31, 2021)

Performance (rate of return)

| | |
|--|-------|
| Over one year (2021) | +6.5% |
| Over four years (2018–2021, per annum) | +6.7% |
| Over ten years (2012–2021, per annum) | +7% |

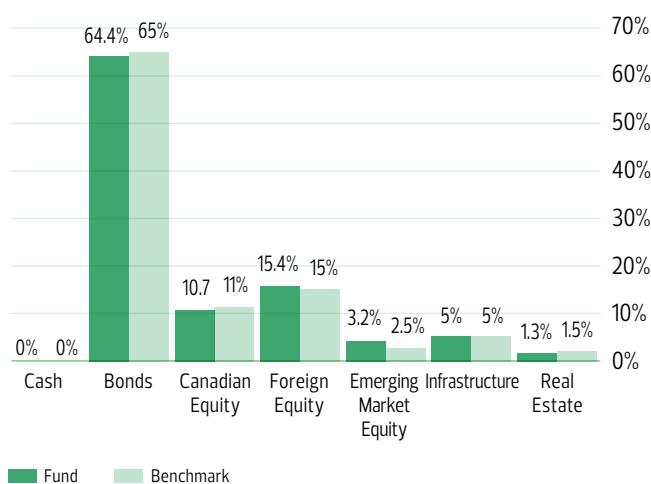
Performance against Policy Benchmark

| | |
|--|-------|
| Over one year (2021) | +1.9% |
| Over four years (2018–2021, per annum) | +0.5% |
| Over ten years (2012–2021, per annum) | +0.7% |

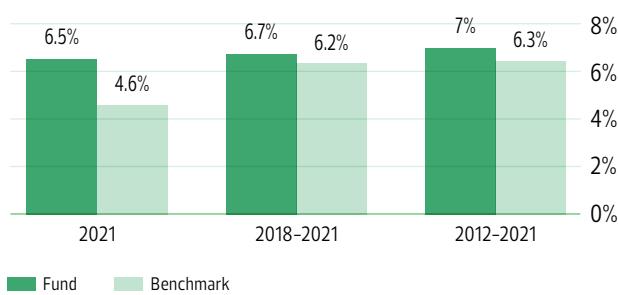
Description

The Balanced Fund has a time horizon of greater than five years and is a long-term investment vehicle for operating and capital reserve funds, deferred revenue accounts and other similar funds. Because it has a longer-term investment horizon, it has a risk tolerance that permits owning some equities. The mid-points of its policy asset mix ranges provide the performance benchmark when reporting the fund.

Balanced Fund Asset Mix vs. Policy Mix



Balanced Fund Performance vs. Benchmark



INVESTMENT BELIEFS

1. The investment return on the funds is a function of capital market returns, asset allocation, manager structure and individual managers.
2. There is a relationship between risk and return – higher returns generally require taking higher risks.
3. In the long term, equities will outperform bonds to compensate for their higher risk.
4. The long-term asset mix is the most important component of a portfolio's risk and return.
5. Active management can add value but comes with added costs and effort, which must be assessed along with the passive alternative whenever changes are made.
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.
7. Market timing at the policy level is an inefficient strategy for consistently increasing returns.
8. Diversification of asset classes, implementation strategies and security selection can improve the risk and return characteristics of the funds.
9. Asset mix rebalancing generally adds value relative to buy and hold strategies.
10. Effective manager structure can improve the net returns and lower the risk of the funds.

INFRASTRUCTURE INVESTMENTS

Infrastructure is defined as large-scale projects that provide essential services to society. Examples include toll roads, airports and utilities and may involve developing, operating and maintaining the asset.

The infrastructure asset class is a global market. Possible opportunities for investors are expected to continue expanding significantly in the coming years. Investments can be made either through unlisted (private) or listed (publicly traded) strategies.

ASSET ALLOCATION

The mix of asset classes in a fund is called the asset mix. For example, a fund could have an asset mix of 30 per cent bonds, 25 per cent Canadian equity, 30 per cent global equity, 5 per cent emerging market equity and 10 per cent infrastructure.

The asset mix reflects the investor's underlying goals and objectives for the fund in terms of risk and reward.

The policy asset mix is the long-term target asset mix of the fund, as stated in the Investment Policy. This allocation is structured to allow the fund to meet its stated investment objectives over time. Over shorter periods, the returns may fall short or exceed the investment objectives.

GOVERNANCE

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Established by the City Manager, the Investment Committee governs the investment of the City's financial assets and provides proper oversight of the City's investment efforts. Committee members bring investment and business expertise. Continual monitoring of the City's investment program – and implementing changes as necessary – ensures the funds are well-positioned and appropriately invested to meet their objectives. This approach also assures Edmontonians that the City's policies and procedures maximize investment returns at a prudent level of overall risk.

2021 INVESTMENT COMMITTEE MEMBERS

Stacey Padbury Chairperson

Deputy City Manager and Chief Financial Officer
City of Edmonton

Harmalkit Rai Secretary

Deputy City Treasurer and
Branch Manager, Financial Services
City of Edmonton

Greg Holubowich

Former President
Edmonton Fire Fighters' Union

Filip Ksiazkiewicz

Senior Portfolio Manager
TELUS Investment Management

Savvas Pallaris

Executive Vice-President,
Commercial Mortgages
Addenda Capital

Blake Walker

Former Manager Treasury and Deputy City Treasurer
City of Calgary

KEY RESPONSIBILITIES OF THE INVESTMENT COMMITTEE

- Review and recommend changes to the Investment Policy and Terms of Reference.
- Review investment strategies, capital market assumptions and manager structure.
- Monitor all reported investment activities for compliance with City policy and statutory requirements.
- Meet with external investment managers, performance measurement advisors and external auditors.
- Monitor investment performance versus established performance benchmarks.
- Assist the Chief Financial Officer in preparing an annual report on investment performance for recommendation to the City Manager and City Council.

KEY RESPONSIBILITIES OF CITY COUNCIL

Members of City Council, as senior governing fiduciaries, receive reports and recommendations from the City Manager and approve the Investment Policy, which establishes the following:

- investment objectives and beliefs,
- permitted investment categories and asset allocation,
- performance benchmarks and implementation strategies,
- proxy voting guidelines, and
- monitoring, controls and reporting requirements.

COMPLIANCE

As at December 31, 2021, the investment funds were in compliance with the City of Edmonton Investment Policy and all statutory requirements.

PROXY VOTING

The City's Investment Policy contains a commitment for the City of Edmonton to support social and ethical business practices through proxy voting – pursuant to the shareholder resolution process.

The City retains a proxy voting agent to vote the City's ballots for the companies in which the City owns shares. The voting service adheres to the City's guidelines by carefully analyzing each voting issue.

In 2021, the City of Edmonton exercised its shareholder rights and voted its proxies in accordance with the Investment Policy. In addition, the City's investment managers incorporate Environmental, Social and Governance (ESG) factors into their investment decision-making.

Furthermore, all of the managers are signatories of the UN Principles of Responsible Investment (PRI). The principles provide an industry-wide standard against which the manager can continue to assess itself and strive for best-in-class due diligence, investment monitoring and investor reporting.

MANAGEMENT STRATEGIES

The City's investment structure combines active and passive management strategies.

Active strategies are in place when the potential to exceed the return of the established benchmark by actively selecting securities is believed to be high:

- Active managers try to exceed performance benchmarks by investing in a subset of securities expected to outperform the broader benchmark index – basing the selection of securities on a specific theory or investment style.

Passive strategies are used in markets where active management generally has not outperformed the benchmark over time:

- Passive managers fully replicate a broad market index such as the TSX or S&P 500 (by buying securities in the same proportion), ensuring that returns are virtually the same as those of the published index. As a result, passive managers minimize the risk of underperformance and have little opportunity for outperformance, but their fees and expenses are significantly lower than those for active management.

INTERNAL FUND MANAGEMENT

The fee savings from managing a portion of the City's financial assets in-house are approximately \$1.5 million a year. This approach has resulted in more than \$15 million in savings over the last 10 years.

INVESTMENT MANAGERS

The Ed Tel Endowment Fund, Pension Fund, Long-Term Disability Fund and Balanced Fund share the same investment managers.

Canadian Equity

QV Investors
TD Asset Management (passive)
Triasima Portfolio Management

Canadian Fixed Income

City of Edmonton Investment Management (internal)

Global Fixed Income

Ninety One PLC

Global Equity

Arrowstreet Capital
Spouting Rock Asset Management

Emerging Market Equity

Arrowstreet Capital

U.S. Equity

TD Asset Management (passive)

International Equity

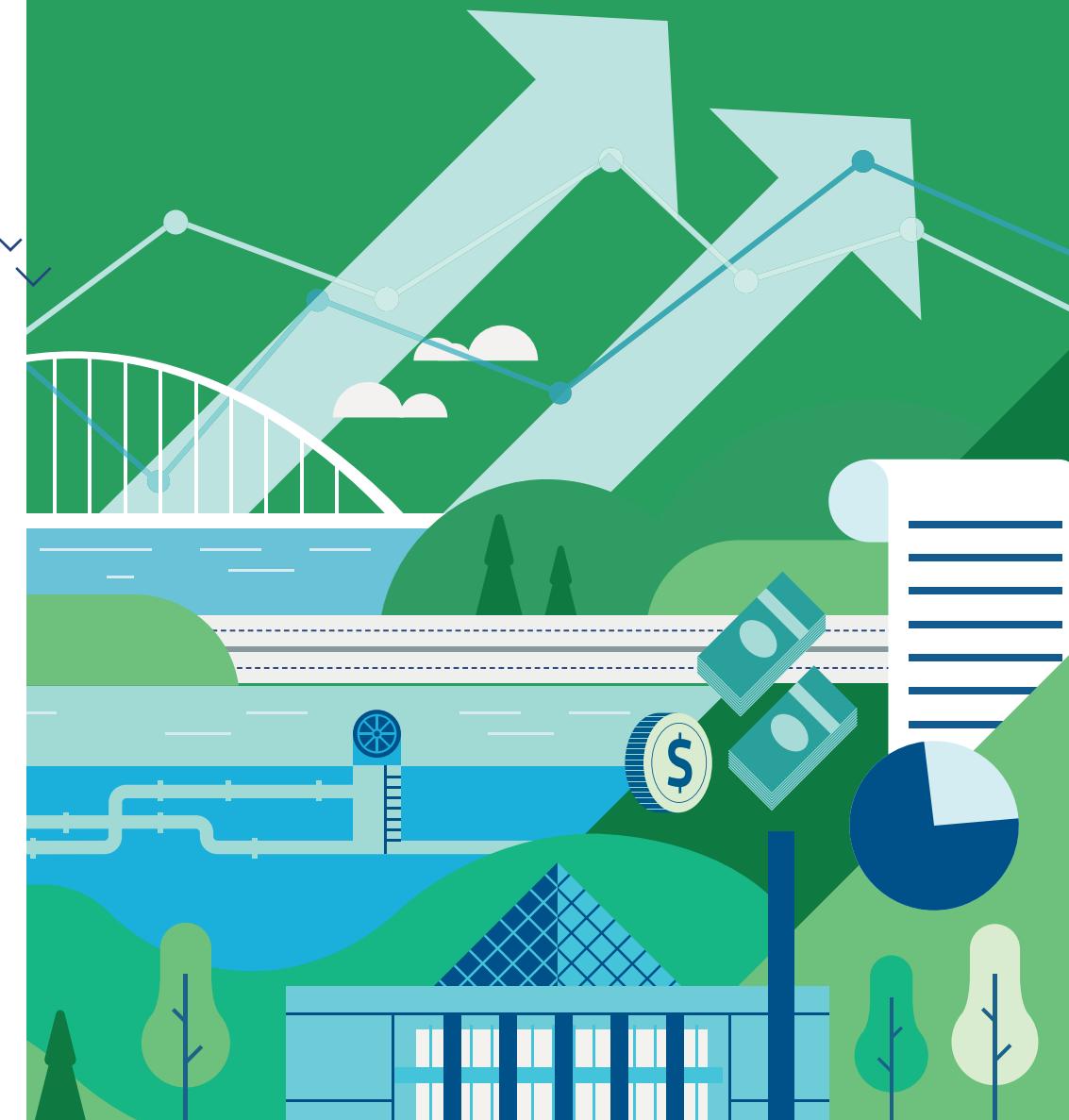
Fidelity Institutional Asset Management

Infrastructure

Northleaf Capital Partners (unlisted)
RARE Infrastructure (listed)

Real Estate

Willis Towers Watson (WTW)



EDMONTON.CA/INVESTMENTS