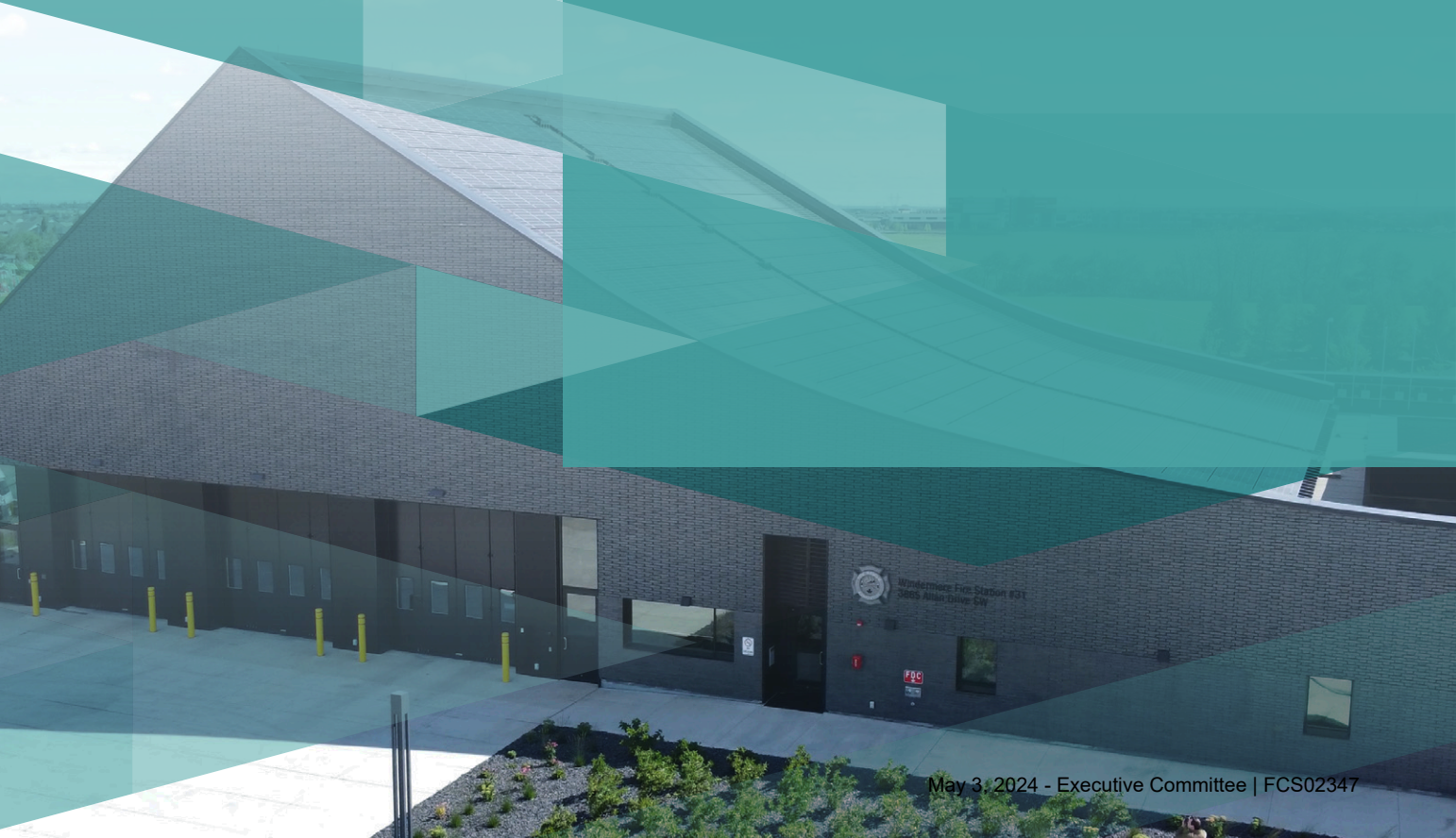


# INVESTMENT COMMITTEE ANNUAL REPORT 2023



**CITY OF EDMONTON**  
FOR THE YEAR ENDED  
DECEMBER 31, 2023



## **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 \$915 million of investment earnings and dividends to the City's budget.

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





## INVESTMENT PHILOSOPHY

### A prudent approach to investing municipal assets.

The investment program plays an essential role in ensuring the City's financial sustainability and is instrumental in 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 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 fixed income (bonds) to compensate for their higher risk over the long term. This concept is known as the Equity Risk Premium. 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 50 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 are consistent with industry best practices.

## OVERVIEW

### Edmonton's investments posted strong returns for the year

#### CAPITAL MARKETS REBOUNDED IN 2023

In a reversal to the previous year, markets were up significantly in 2023. As inflation eased from extreme highs reached earlier in the year and investors began to consider that central banks were likely done with interest rate tightening. This provided support to financial assets in the latter half of the year.

U.S. equities were the best performer—up 26.3 per cent for the year—and ended 2023 just shy of an all-time high. The Canadian dollar rose slightly compared to the U.S. dollar (up 2.3 per cent for the year), which meant that returns were reduced once translated back into Canadian dollars.

Canadian equities returned a respectable 11.8 per cent. However, they lagged behind most other equity markets as the price of oil fell 11 per cent during the year.

Global equities were also up significantly for 2023, returning 23.5 per cent, while the performance of emerging markets, at 9.9 per cent, was negatively impacted by economic and political uncertainty.

Finally, Canadian bonds had a return of 6.7 per cent during 2023, offsetting some of the losses of the prior year.

#### THE CITY'S INVESTMENTS CONTINUE TO OUTPERFORM LONG-TERM

Performance ranged from 5.0 per cent (Money Market Fund) to 11.1 per cent (Ed Tel Endowment Fund), reflecting each fund's asset mix.

On a four-year basis, the City has generated strong positive returns and exceeded its policy benchmarks. Reviewing the results on a longer-term 10-year basis, all of the investment funds have continued to outperform their benchmarks, while maintaining their upward trend.

The City's largest fund, the Ed Tel Endowment Fund, paid \$45 million in dividends to the City in 2023 and ended the year at a market value of \$938 million.

#### KEY PROJECTS

##### Asset Allocation Studies

In 2023, an external third party conducted a comprehensive review of the Ed Tel Endowment Fund, the Pension Fund and the Long-Term Disability Fund. The results confirmed that each fund continues to have an appropriate asset mix in relation to its objectives, time horizon and risk tolerance. In addition, the asset allocation policy of the Ed Tel Endowment Fund supports the current 5% spending rate and ongoing dividend payout from the fund.

##### Fixed Income Investment Structure Implementation

Previously, a review of the City's fixed income investment structure was completed to identify areas where potential enhancements could be made. The analysis supported the addition of a new private debt investment mandate, which is expected to provide additional yield and diversification improvements beginning in 2024.



## OVERVIEW



**In a reversal to the previous year, markets were up significantly in 2023. As inflation eased from extreme highs reached earlier in the year and investors began to consider that central banks were likely done with interest rate tightening. This provided support to financial assets in the latter half of the year.**



## OVERVIEW

### WHAT'S AHEAD?

Investors will be focused on many of the themes that have driven economic conditions and, therefore, capital markets over the last number of years. Global growth and further certainty regarding inflation and interest rates should allow market volatility to stabilize.

Following best practice investment principles, such as diversification across asset classes, rebalancing between investment strategies and prudent risk management will be key elements for continued success.



## OVERVIEW

# WHAT'S AHEAD

The main focus in the upcoming year is to continue to strengthen the investment program. The Investment Committee will oversee the following projects:

### IMPLEMENTATION OF INFRASTRUCTURE AND REAL ESTATE STRATEGIES

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

### GLOBAL EQUITY MANAGER SEARCH

A search for an external investment firm to manage a global equity strategy will be conducted. This project is expected to be completed in the second half of 2024.

### NEW INVESTMENT COMMITTEE MEMBER APPOINTMENT

A new member will be recruited to the City's Investment Committee as an opening for an external member will be available. As per the committee's Terms of Reference, external members can only serve two consecutive three-year terms on the Investment Committee. The Investment Committee ensures good governance of the City's financial assets.

### FUND AND INVESTMENT MANAGER MONITORING

The City's funds and investment managers are monitored on an ongoing basis in terms of returns and risks.

# 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 (91Day T-Bills)

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

Bonds: FTSE Canada Universe Bond Index (FTSE Universe)

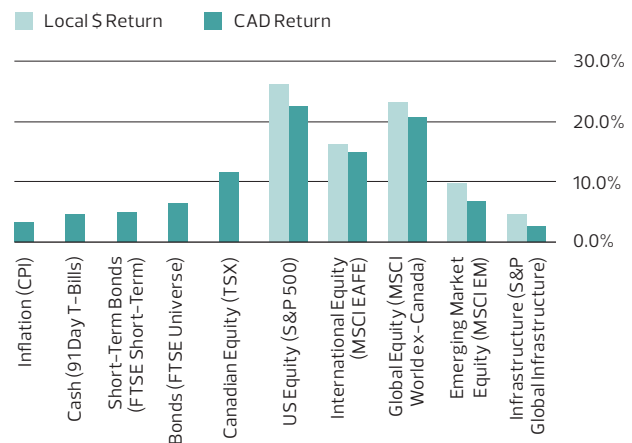
Canadian Equity: S&P/TSX Capped 10% Index (TSX)

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

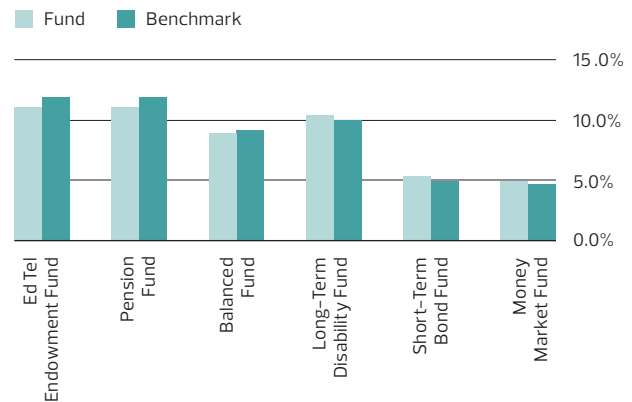
Emerging Market Equity: Morgan Stanley Capital International Inc. Emerging Markets Index (MSCIEM)

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

2023 Capital Market Returns



2023 Performance vs. Benchmark

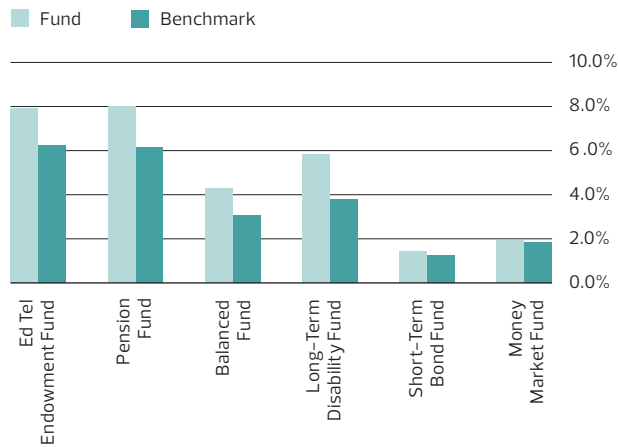




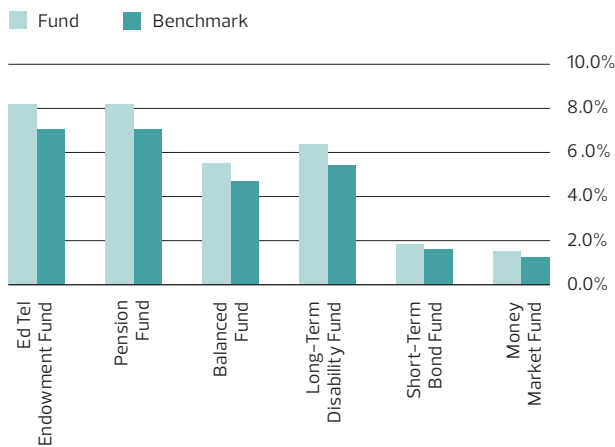
# CAPITAL MARKET PERFORMANCE

Following best practice investment principles, such as diversification across asset classes, rebalancing between investment strategies and prudent risk management will be key elements for continued success.

Four-Year Performance vs. Benchmark (2020-23)



Ten-Year Performance vs. Benchmark (2014-23)



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



# 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

\$938 million (December 31, 2023)

### Performance (rate of return)

Over one year (2023)	+11.1%
Over four years (2020-2023, per annum)	+7.9%
Over ten years (2014-2023, per annum)	+8.3%

### Performance against Policy Benchmark

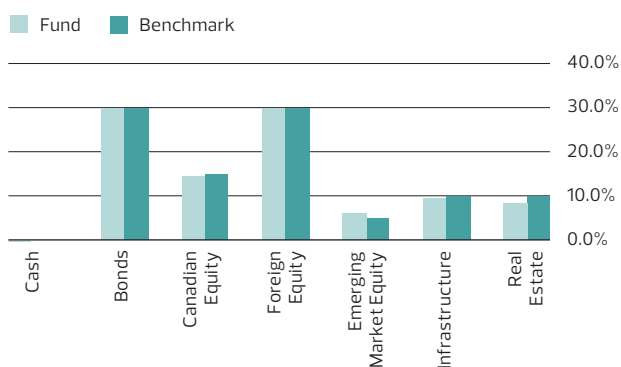
Over one year (2023)	- 0.9%
Over four years (2020-2023, per annum)	+1.7%
Over ten years (2014-2023, per annum)	+1.1%

## DESCRIPTION

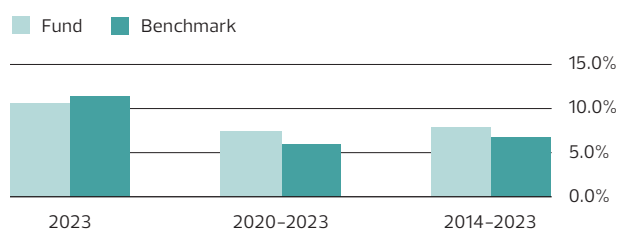
The objective of an endowment fund is to provide a source of income in perpetuity while ensuring the real purchasing power of the fund is maintained. The Ed Tel Endowment Fund was created in 1995 to hold the financial assets generated by the sale of Edmonton Telephones to TELUS Corporation. It is considered 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 \$45 million in 2023, as a result of the strong performance over the preceding number of years. The dividend is set at \$46 million and will be paid in 2024.

### Ed Tel Endowment Fund Asset Mix vs. Policy Mix



### Ed Tel Endowment Fund Performance vs. Benchmark





# PORTFOLIO PERFORMANCE

## ED TEL ENDOWMENT FUND BYLAW – KEY SUCCESS FEATURES

Since 1995, the Ed Tel Endowment Fund has earned a compound annual rate of return of 8.2 per cent versus the benchmark return of 7.2 per cent, grown its principal from \$465 million to \$938 million and paid over \$1 billion in dividends to the City.

## INFLATION INDEXING

To avoid erosion of real purchasing power, the City maintains the "Inflation Adjusted Principal" of the fund.

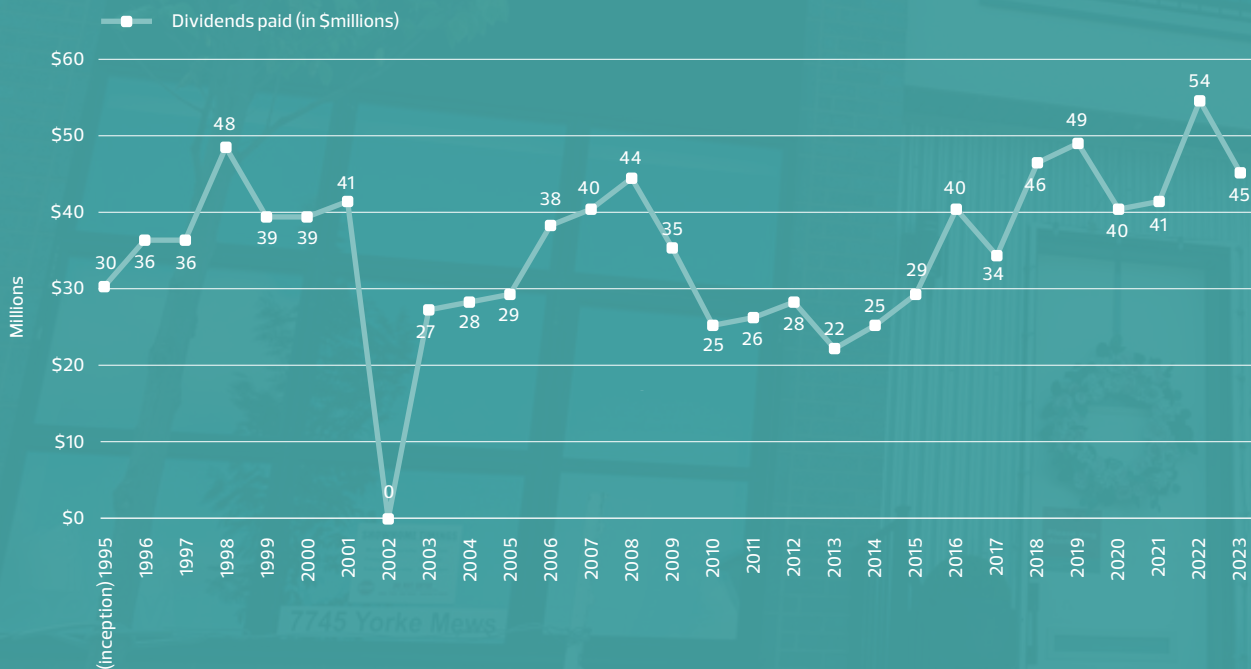
## SPENDING RATE

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.

Ed Tel Endowment Fund Annual Dividend Payments



# PORTFOLIO PERFORMANCE

## PENSION FUND

### FUND MANAGEMENT

Multiple Investment Managers

### MARKET VALUE

\$349 million (December 31, 2023).

#### Performance (rate of return)

Over one year (2023) +11.0%

Over four years (2020–2023, per annum) +8.0%

Over ten years (2014–2023, per annum) +8.3%

#### Performance against Policy Benchmark

Over one year (2023) – 1.0%

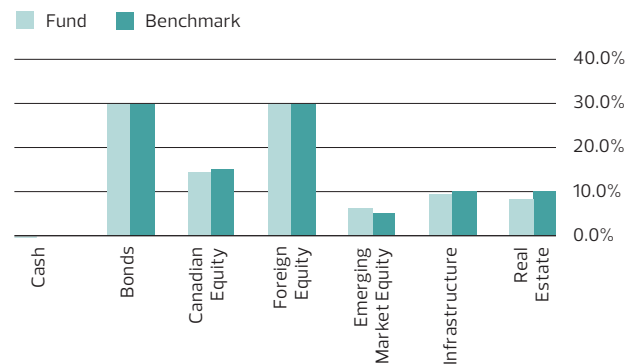
Over four years (2020–2023, per annum) +1.9%

Over ten years (2014–2023, per annum) +1.1%

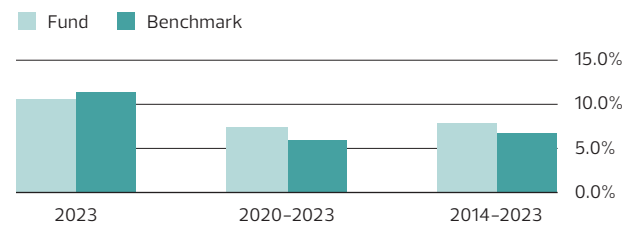
### DESCRIPTION

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 Asset Mix vs. Policy Mix



Pension Fund Performance vs. Benchmark



# PORTFOLIO PERFORMANCE

## LONG-TERM DISABILITY FUND

### FUND MANAGEMENT

Multiple Investment Managers

### MARKET VALUE

\$163 million (December 31, 2023)

#### Performance (rate of return)

Over one year (2023) +10.5%

Over four years (2020–2023, per annum) +5.8%

Over ten years (2014–2023, per annum) +6.5%

#### Performance against Policy Benchmark

Over one year (2023) +0.4%

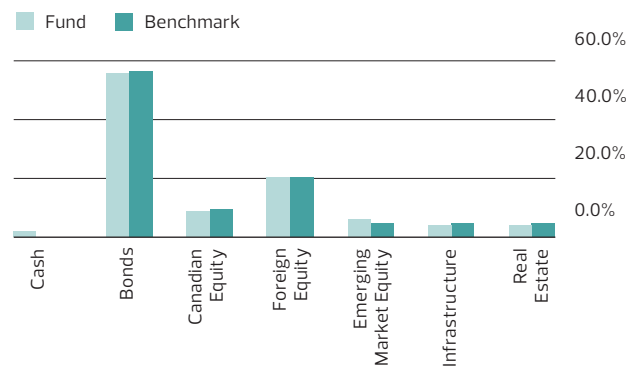
Over four years (2020–2023, per annum) +2.0%

Over ten years (2014–2023, per annum) +1.0%

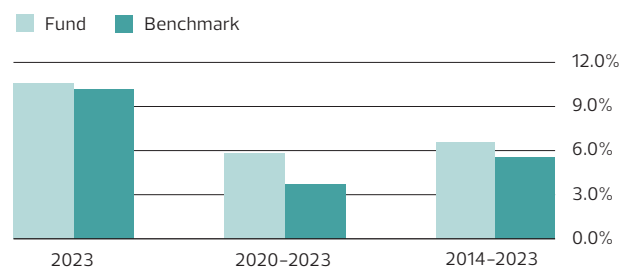
### DESCRIPTION

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

LTD Fund Asset Mix vs. Policy Mix



LTD Fund Performance vs. Benchmark





# PORTFOLIO PERFORMANCE

## MONEY MARKET FUND

### FUND MANAGEMENT

City of Edmonton Investment Management (internal)

### MARKET VALUE

\$589 million (December 31, 2023)

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

#### Performance (rate of return)

Over one year (2023)	+5.0%
Over four years (2020–2023, per annum)	+2.0%
Over ten years (2014–2023, per annum)	+1.6%

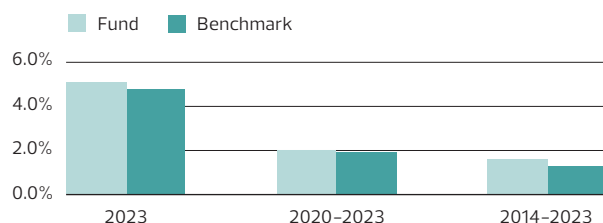
#### Performance against Policy Benchmark

Over one year (2023)	+0.3%
Over four years (2020–2023, per annum)	+0.1%
Over ten years (2014–2023, per annum)	+0.3%

### 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

\$347 million (December 31, 2023)

#### Performance (rate of return)

Over one year (2023)	+5.4%
Over four years (2020–2023, per annum)	+1.5%
Over ten years (2014–2023, per annum)	+1.9%

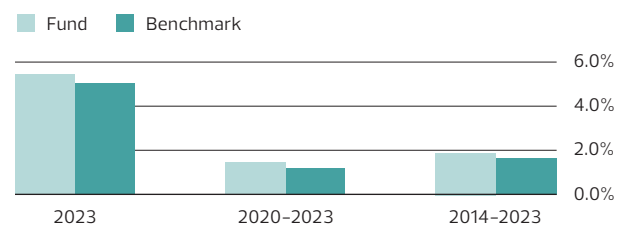
#### Performance against Policy Benchmark

Over one year (2023)	+0.4%
Over four years (2020–2023, per annum)	+0.2%
Over ten years (2014–2023, per annum)	+0.2%

### 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 Fund Performance vs. Benchmark



# PORTFOLIO PERFORMANCE

## BALANCED FUND

### FUND MANAGEMENT

Multiple Investment Managers

### MARKET VALUE

\$890 million (December 31, 2023)

#### Performance (rate of return)

Over one year (2023)	+9.0%
Over four years (2020–2023, per annum)	+4.3%
Over ten years (2014–2023, per annum)	+5.6%

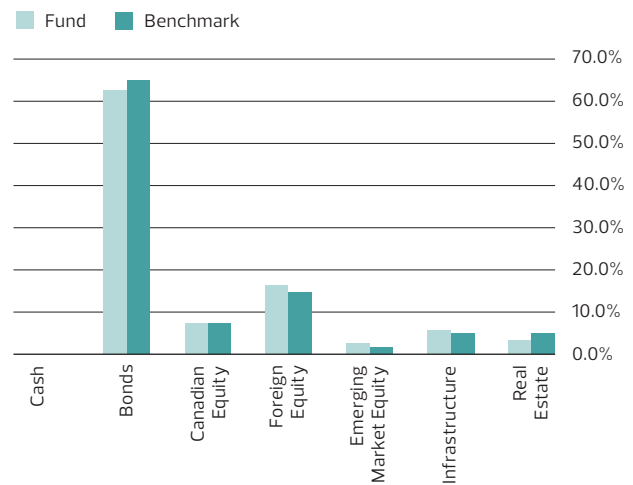
#### Performance against Policy Benchmark

Over one year (2023)	-0.3%
Over four years (2020–2023, per annum)	+1.2%
Over ten years (2014–2023, per annum)	+0.8%

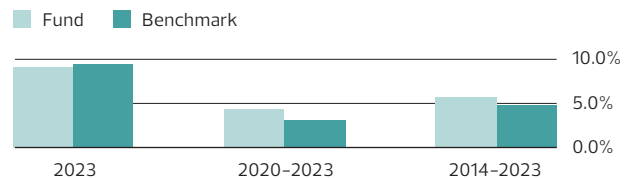
### DESCRIPTION

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



## PORTFOLIO PERFORMANCE

### 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, 50 per cent equities and 20 per cent private investments.

The asset allocation reflects the investor's risk and reward objectives for the fund.

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.

### PRIVATE INVESTMENTS

Infrastructure and real estate are defined as large-scale projects that provide essential services to society. These investments may involve developing, operating and maintaining the asset.

Opportunities for investors are expected to continue expanding significantly in the coming years. These asset classes are available on a global scale and investments can be made either through unlisted (private) or listed (publicly-traded) strategies.



## PORTFOLIO PERFORMANCE



The policy asset mix is the long-term target asset mix of the fund, as stated in the Investment Policy.

# ASSET ALLOCATION

### 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.

## GOVERNANCE

**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.

### 2023 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

**Filip Ksiazkiewicz**  
Senior Portfolio Manager  
TELUS Investment Management

**Jai Parihar**  
Former President and CEO  
UBC IMANT

**Mary Persson**  
Deputy Minister of Infrastructure  
Government of Alberta

**Greg Rehman**  
President  
Edmonton Fire Fighters' Union

**M. 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.

## GOVERNANCE

### 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 of December 31, 2023, the investment funds were in compliance with the City of Edmonton Investment Policy and all statutory requirements.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

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. This service adheres to the City's guidelines by carefully analyzing each voting issue.

In 2023, 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 ESG factors into their investment decision-making.

Furthermore, all of the managers are signatories of the UN Principles of Responsible Investment. 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.



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



# MANAGEMENT STRATEGIES

## 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.

## 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

ACM Advisors  
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

ClearBridge Investments (listed)  
Northleaf Capital Partners (unlisted)

### Real Estate

WTW PLC

### 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 over \$15 million in savings over the last 10 years.



## MANAGEMENT STRATEGIES



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 over \$15 million in savings over the last 10 years.

# INVESTMENT COMMITTEE ANNUAL REPORT 2023

City of Edmonton, Alberta, Canada  
for the year ended December 31, 2023  
[edmonton.ca/investments](https://edmonton.ca/investments)

The logo for the City of Edmonton, featuring the word "Edmonton" in a white, sans-serif font on a dark blue rectangular background.