

2021 INVESTMENT MANAGEMENT REPORT

Presented by Geoff Waters
Chair of the City's
Investment Board

April 26, 2022



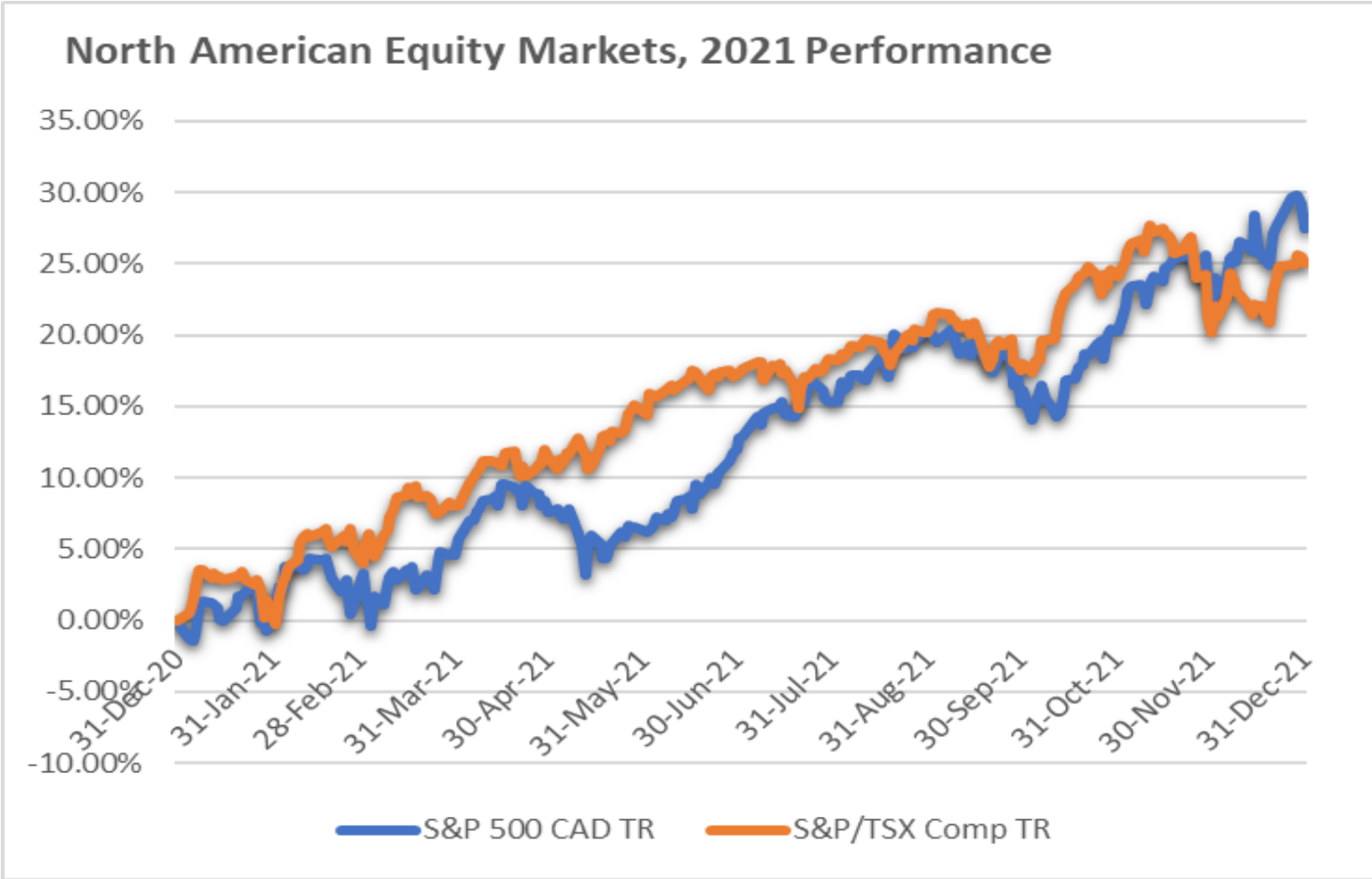
AGENDA

1. INVESTMENT COMMENTARY
2. PORTFOLIO PERFORMANCE
3. MARKET OUTLOOK
4. ESG

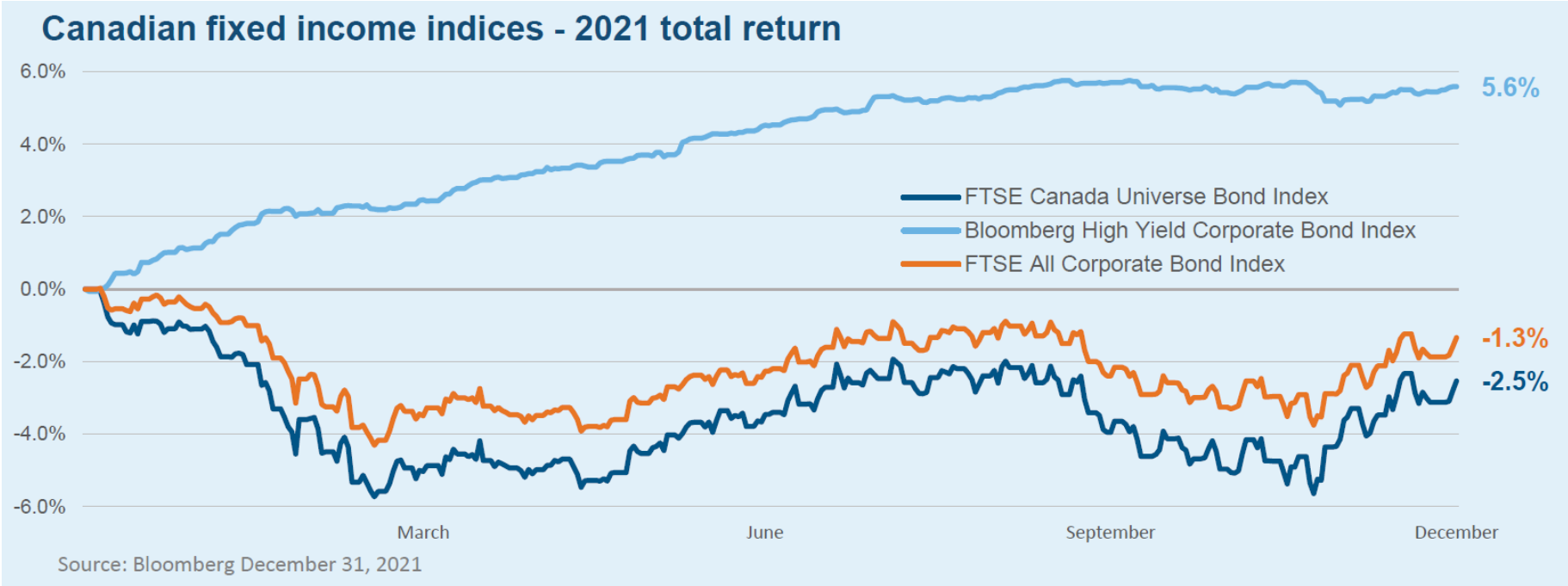
Year in Review

- ❑ Resurgence of consumer spending, easing of COVID-19 restrictions drove corporate profits higher; leading global stocks to new highs.
- ❑ Accelerating inflation, ongoing supply chain disruptions.
- ❑ More hawkish monetary policy stance by Bank of Canada and US Federal Reserve, leading to rising interest rates, flattening of the yield curve and putting downward pressure on bond prices.
- ❑ Surging commodity prices.

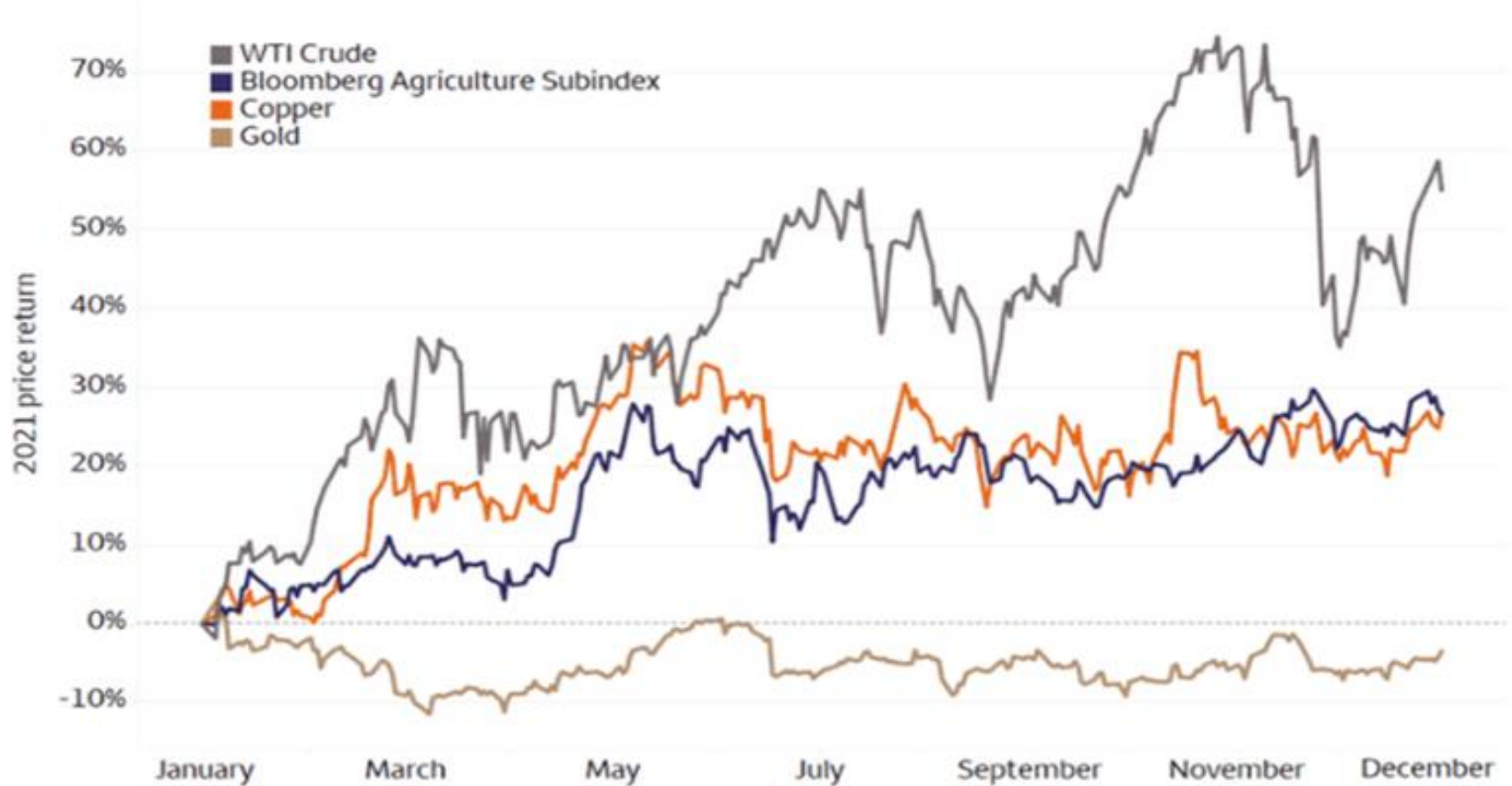
Strong Equity Market Performance



Bonds Underperformed Equities...



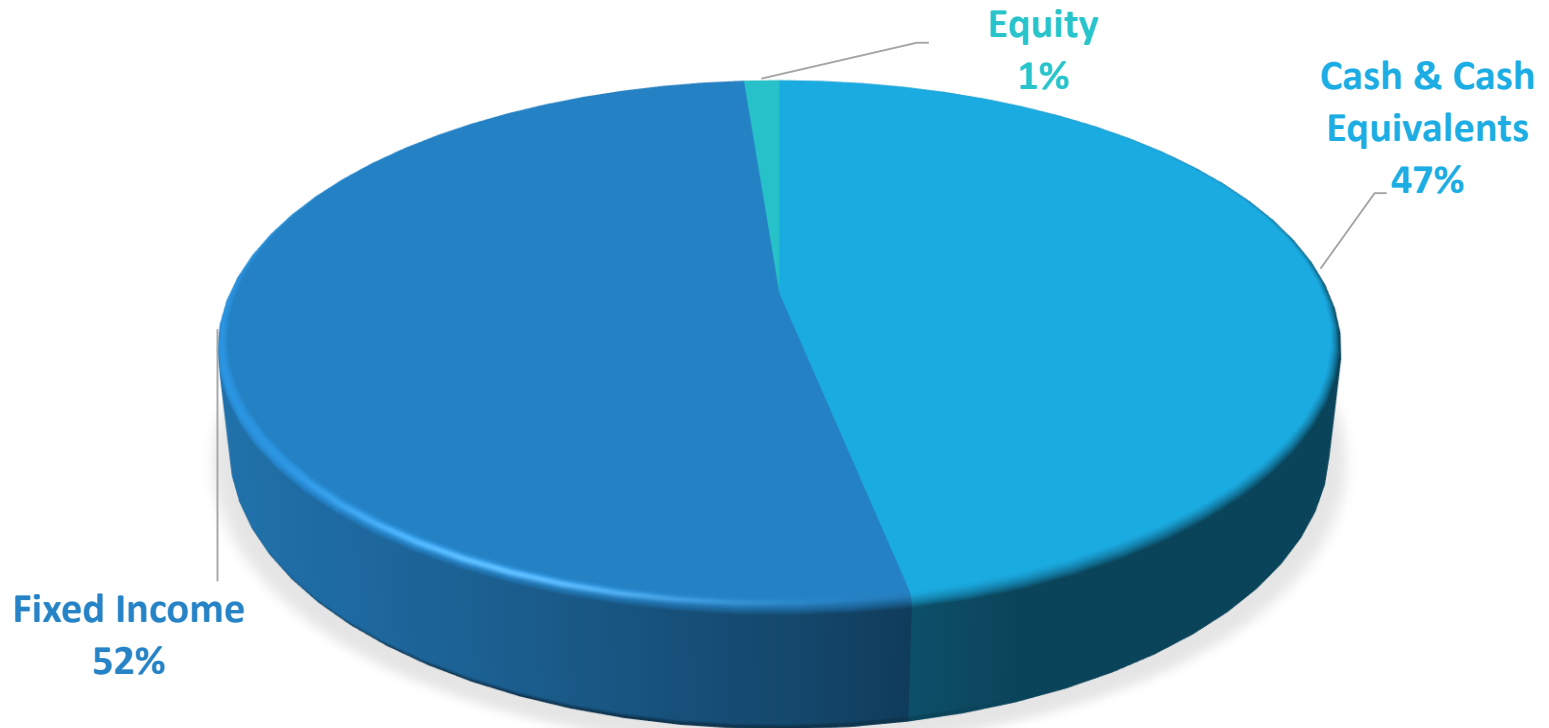
Rising Commodity Prices...Oil and Agriculture



Investment Performance

- ❑ Total income \$4.5 million
- ❑ Total Assets of \$267 million
- ❑ FY 2021 Total Return of 1.61%
- ❑ Investment portfolio comprised of 3 funds (Operating Fund, Capital Fund, Growth Fund).

Overall Asset Allocation

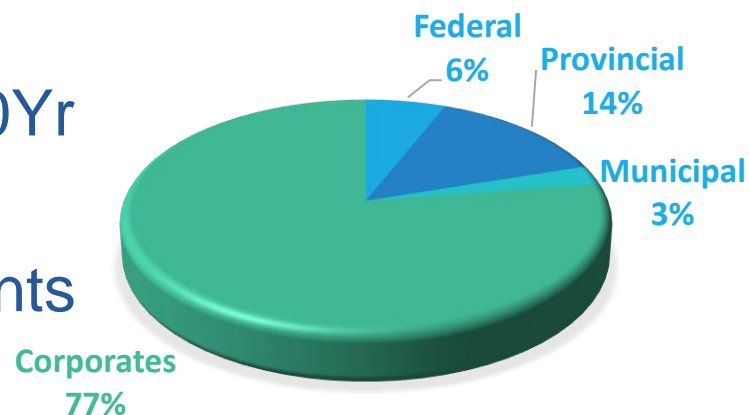


Operating Fund

- ❑ Consisting of money market investments
- ❑ Returned \$1.68 million on assets of \$161 million
- ❑ FY2021 return of 1.05% compared to the 90-day Canada T-Bill benchmark return of 0.20%.
- ❑ Outperformance of 85 basis points despite low interest rate environment.
- ❑ Allocation remains high as the portfolio gradually aligns with the Prudent Investor IPS allocation.

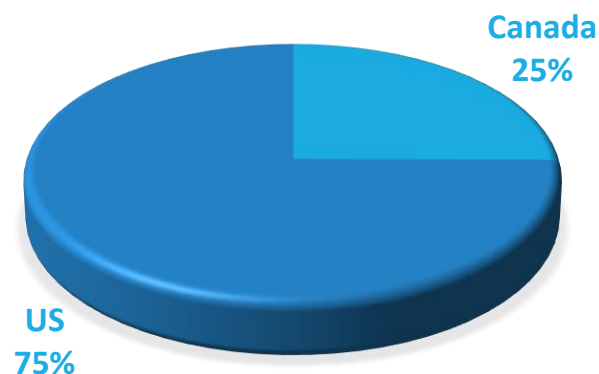
Capital Fund

- ❑ Fixed income securities.
- ❑ Total assets of \$118 million.
- ❑ Benchmark: Canada Aggregate 1-10Yr Bond Index
- ❑ Total return of 2.24%, 634 basis points over Benchmark return of -4.1%.
- ❑ Higher allocation to corporates; lower duration and higher coupon bonds vs. the benchmark.



Growth Fund

- ❑ Equity investments
- ❑ Total assets of \$5 million, not fully representing the new target mix under the Prudent Investor IPS.
- ❑ Benchmark: Composites of S&P/TSX and S&P500
- ❑ Total return of 39.2%, 760 basis points higher than benchmark return of 31.6%
- ❑ Driven by a tactical tilt to US equities and the tailwind from a stronger USD vs CAD.



Market Outlook

- ❑ Inflation concerns
- ❑ Aggressive move by Central Banks
- ❑ Geo-political concerns remain.

ESG Integration

- ❑ Council adopted motion 21-G-113 requesting that staff in the Finance Department and the Investment Board investigate the feasibility of adopting a Responsible Investment Screening Process for the City's Investment Portfolio using a structure of environmental, social and governance (ESG) factors and report back to the Finance and Corporate Services Committee in 2022.
- ❑ As a result, the report is seeking the adoption of an ESG Integration framework as developed by the CFA Institute.

ESG Integration

- ❑ Traditional financial information and ESG information are embedded in the security selection and portfolio construction process.
- ❑ All companies, sectors, and/or countries in the investment universe can be bought and sold.
- ❑ Focus on lowering risk and enhancing returns
- ❑ ESG integration and exclusionary screening are not the same.
- ❑ ESG integration does not mean:
 - ❖ Prohibiting investment in some sectors, countries, and companies.
 - ❖ Portfolio returns are sacrificed to perform ESG integration techniques.
 - ❖ Immaterial ESG factors that affect investment decisions and traditional financial factors are ignored; or
 - ❖ Major changes to investment process are not necessary.

CFA Institute: Principles for Responsible Investment (PRI)

- ❑ Developed by CFA Institute, a globally recognised Investment Management organization
- ❑ ESG Integration technique, designed to be holistic and flexible
- ❑ Uses various ESG techniques specific to each firm, every firm is unique; founded on the principle that one criteria is not necessarily good for all.
- ❑ As the City's Investment process develops, more factors and techniques can be adopted into the process.

