



**STAFF REPORT
INFORMATION ONLY**

City of Toronto 2007 Investment Report

Date:	April 21, 2008
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2008\Internal Services\Cf\Ec08010Cf – et (AFS #5891)

SUMMARY

This report provides a review of the City of Toronto’s 2007 investment returns for all internally managed portfolios.

Financial Impact

Investment income earnings on the City’s general funds, sinking funds, pension funds and trust funds accrue to each of the respective portfolios under management. Unrestricted earnings are allocated to a corporate revenue account in the operating budget. The 2007 operating budget was exceeded by \$6.5 million.

In addition to the above income realization, the City’s general funds also outperformed investment industry bench marks as shown in the following chart which generated a combined \$6.78 million in market value appreciation performance:

Portfolio Group	Market Value Returns	Bench Mark Returns
General Fund Bond Fund	5.57%	5.37% Scotia Capital All Governments Index
General Fund - Money Market	4.56%	4.20% 30 Day Canada T-Bill

The City’s general funds have added approximately \$90 million in cumulative market value in excess of the established industry benchmarks since 1999.

DECISION HISTORY

The report is required to be presented to Council on an annual basis under Ontario Regulation 610/06 Financial Activities of the *City of Toronto Act, 2006*.

ISSUE BACKGROUND

The Capital Markets section of the Corporate Finance Division is responsible for the internal investment management of several City investment portfolios. In accordance with the Council-approved directive, the section manages the City's funds in a manner that provides the highest investment return consistent with the maximum security of principal. This strategy is applied in meeting the cash requirements of the City while conforming to all legislation governing the investment of City funds.

Management must incorporate both the legislative constraints and the risk profile of each portfolio. Investment policies and procedures approved by Council act as the governing guidelines for each of the individual portfolios under management.

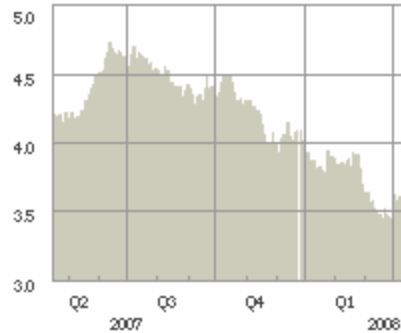
Although specific policy limits with respect to issuer names and credit quality limits vary between the portfolios, the primary objectives, in priority order, for all City investment activities are:

1. Ensure Safety of Principal
2. Maintain Adequate Liquidity, i.e. funds are available as cash when needed
3. Maximize Rate of Return while conforming to the other objectives

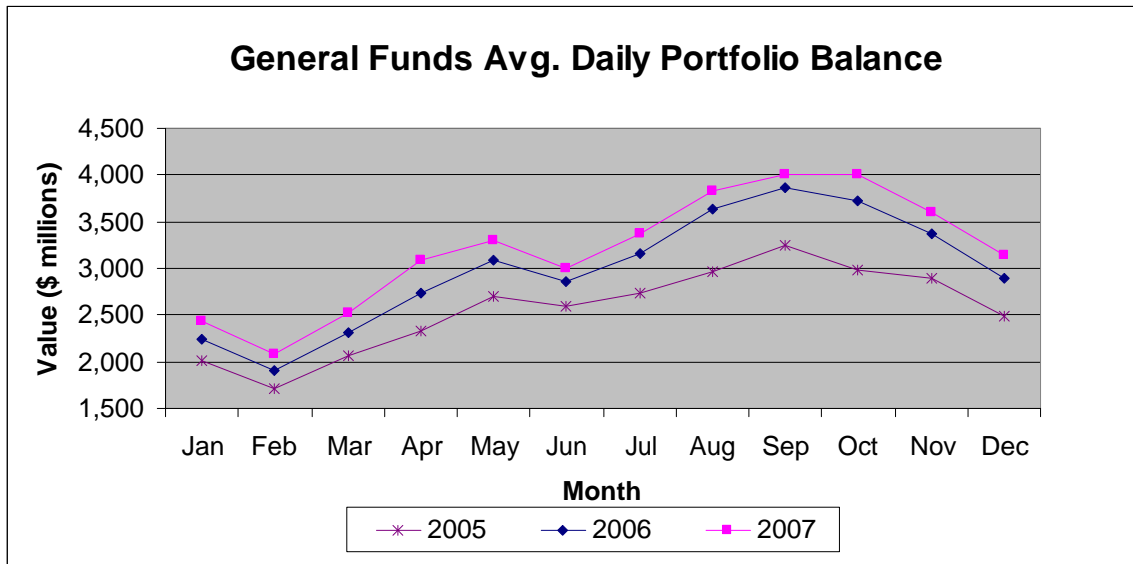
COMMENTS

The fixed-income markets endured a challenging year in 2007, given the increase in energy prices, a rapid rise in the value of the Canadian dollar as compared to the US dollar, the sub-prime mortgage crisis in the US and the frozen asset-backed commercial paper (ABCP) market as issued by third parties. It should be noted that the city has never held any of these investments since they were not contained in its investment policy. Actually, the City's portfolio of high grade bonds and money market securities benefited from a "flight-to-quality" as investors sought safety of principal by investing in government bonds and treasury bills, decreasing yields and increasing the market value of these securities. As of December 31, 2007, the bond portfolio holdings consisted of 81% in AAA/AA credit-rated securities and 19% in A credit-rated securities and no holdings in BBB or lower-rated investments, reflecting the continued high credit quality and liquidity of the City's portfolio.

10 year Gov't of Canada Bond Interest Rate



As at December 31, 2007 the average value of all City investments under internal management, excluding sinking funds, was \$3.126 billion. As shown in the following chart, the portfolio balance peaked at approximately \$4.0 billion in September/October 2007. As well, the average daily balances have increased over the past three years.



In 2007, the City's money market and bond investment portfolios generated income in the amount of \$166.2 million. On a consolidated basis, this amount represents a 5.45% annual return. The investment return is based on earned revenues, which is comprised of interest income, realized capital gains/losses and amortized premiums/discounts.

The 2007 distribution of investment earnings and their respective annual investment return is summarized in the following chart:

**Investment Portfolio Income
For the year 2007
(\$ 000's)**

Portfolio	Average Portfolio Book Value	Earned Income	Investment Return
Bond Fund	\$ 2,485,105	\$ 142,093	5.72%
Money Market	503,339	24,094	4.78%
Total General Funds	\$ 2,988,444	\$ 166,187	5.45%

The net income earnings of \$166,187 million were distributed to the City's operating budget (\$68.2 million) and to the City's reserve funds (\$98.0 million). The City manages several investment portfolios for which each has specific objectives. Two individual portfolios that are managed interactively are the Bond and Money Market Funds. The Bond Fund is positioned towards funding the City's future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations.

When combined, these portfolios provide the necessary diversification required in managing the City's total cash flow needs and the exposure to interest rate changes. Current revenues can be held in short term investments until such time when the movement to longer dated securities proves more suitable. Likewise, longer dated securities can be sold to meet short term expenditures if the opportunity to realize capital gains presents itself. Traditionally, the Bond Fund provides an opportunity to obtain higher investment yields.

Market Value Performance

Another measurement of portfolio performance is a comparison of the total market value return to an established industry index. The market value represents the price of the investments when buying or selling in the financial markets at a given point in time. The relevance of this comparison is dependent upon the similarities between the investment policies and objectives governing the management of the City's funds and that of the selected industry index.

The following table compares the market value performance of the City's General Fund Money Market and Bond portfolios to their respective benchmark indices as of February 29, 2008 in order to present the most recent markets returns that are generated by Royal Trust Dexia, the City's custodian, that were available when this report was prepared:

**Investment Portfolio
Market Value Performance
Feb. 29, 2008/Feb. 29, 2007
(000)**

Portfolio Group	Book Value Feb. 29/08	Market Value Feb. 29/08	Market Value Returns	Bench Mark Returns
General Fund Bond Fund	\$2,489,830	\$2,532,041	5.57%	5.37% Scotia Capital All Governments
General Fund - Money Market	\$124,981	\$ 125,254	4.56%	4.20% 30 Day T-Bill

The City's Bond Portfolio is measured against the Scotia Capital All Governments Index. As of February 29, 2008, the market value of the City's Bond Portfolio reflected a year-over-year return of 5.57% compared to the index return of 5.37%. In comparison to the benchmark index, based on the portfolio's average book value in 2007 of \$2.485 billion, the impact of a 20 basis point or .20% translates into an additional \$4.97 million in market value created by this portfolio. This is primarily attributed to management's active trading strategies of Federal and Provincial Government bonds.

The money market component of the General Fund produced a market value return as of February 29, 2008 of 4.56% compared to the Scotia Capital 30 Day Treasury Bill Index, which returned 4.20%. Based on an average book value in this portfolio of 503.3 million as of February 29, 2008, the out-performance of the benchmark by 36 basis points or .36% translates into an additional \$1.81 million in investment income generated by this portfolio. The total out-performance of the bond and money market portfolios contributed a total of \$6.78 million in excess of the City's investment performance benchmarks.

Record of Transactions in City of Toronto Debentures

In 2007, the City of Toronto purchased a principal value of \$34,665,000 of its own Securities in the secondary market and sold \$5,140,000 for a net purchase of \$29,525,000.

In compliance with Ontario Regulation 610/06 Financial Activities of the *City of Toronto Act, 2006*, the City maintains a record of each transaction in its own securities, including a statement of the date and the purchase or sale price of each security transaction. The details pertaining to the 2007 transactions are documented in the attached Appendix A.

Investment Policies

In developing investment policies and goals for funds under management, primary consideration must be given to the objectives of each portfolio. Although the rate of

return on assets is the principal measure of performance, the achievable rate of return is constrained by the parameters of the investment policy. This has important implications for performance measurement and, in particular, the choice of a suitable benchmark with which to compare the rate of return.

The City's investment policies and procedures are continuously monitored by staff and the Sinking Fund and Investment Advisory Committees to ensure that the guidelines approved by Council are sufficient to achieve the objectives of the respective investment portfolios. At least once annually, a comprehensive review is completed by the above Committees and appropriate adjustments are incorporated into the investment policies which are forwarded for Council for approval.

There are no policy changes being recommended in this report. Any amendments deemed necessary upon completion of this year's investment policy review will be forwarded for approval in a separate report from the Sinking Fund and Investment Advisory Committees.

CONTACT

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SIGNATURE

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ATTACHMENT

Appendix A – City of Toronto Debenture Purchases and Sales during 2007

Appendix A

City of Toronto Debenture Purchases and Sales during 2007

Purchases From Jan 01, 2007 To Dec 31, 2007

<u>Portfolio</u>	<u>Maturity</u>	<u>Coupon</u> %	<u>Principal</u> \$	<u>Price</u>
4%SF	28/07/2016	4.85	1,500,000	100.92
4%SF	28/07/2016	4.85	5,000,000	100.22
4%SF	28/07/2016	4.85	5,000,000	100.22
4%SF	27/09/2016	4.50	1,000,000	98.526
BOND Fund	28/07/2016	4.85	6,000,000	102.83
BOND Fund	28/10/2011	3.95	229,000	98.13
BOND Fund	21/05/2014	5.30	<u>15,936,000</u>	105.01
Total			<u>34,665,000</u>	

Sales From Jan 01, 2007 To Dec 31, 2007

<u>Portfolio</u>	<u>Maturity</u>	<u>Coupon</u> %	<u>Principal</u> \$	<u>Price</u>
4%SF	21/05/2014	5.30	1,600,000	103.82
Total				
BOND Fund	21/05/2014	5.30	<u>3,540,000</u>	104.77
Total			<u>5,140,000</u>	