

Toronto Community
Housing Corporation
931 Yonge Street
Toronto, ON
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**Toronto
Community
Housing**

February 25, 2009

Audit Committee, Council Administrator
City of Toronto
100 Queen Street West
Toronto ON

Dear Ms. MacKenzie,

I am writing to you on behalf of Toronto Community Housing's Chief Executive Officer, Derek Ballantyne, to provide you with the information requested by the City of Toronto's Audit Committee on "how the current market conditions are affecting Toronto Community Housing's investments and impacting its operations."

Background

As part of the downloading of social housing to municipalities in 2000, the Ministry of Housing and Municipal Affairs loosened restrictive reserve investment guidelines and required social housing providers to establish investment reserve funds. Prior to this, housing providers could only invest their reserves in treasury bills, short-term money market type investments or in fully secured securities like GIC and Canada Savings Bonds.

In 1996, one of Toronto Community Housing's predecessor companies (Cityhome) developed a reserve investment strategy. After extensive discussion, the Ministry of Housing, granted Cityhome an exemption to the restrictive guidelines which allowed for the development of an investment program with a broad range of asset classes, including equity investments. Toronto Community Housing continued this approach as have Ontario's other two large municipal non-profit housing companies in Ottawa and Peel.

Toronto Community Housing Investment Program

Toronto Community Housing's investment program is guided by a board of director approved investment policy. The Toronto Community Housing Board delegated management of the investment program to its Investment Committee and supporting staff as described in the policy. The policy is very similar to ones used by pension and endowment funds with provisions to invest in various asset classes (bonds, Canadian and global equities, etc). The asset allocation model is developed with the assistance of outside investment consultants (currently Watson Wyatt Worldwide) using econometric modeling taking into consideration the overall investment objective in terms of returns and risk (volatility of the expected return).

Toronto Community Housing's investments are based on a moderate level of risk, similar to pension and endowment funds. The current asset allocation model has a 60/40 equity/bond ratio. The actual allocation at the end of 2008 was about 50/50. Due to the extreme market volatility, the investment portfolio was not rebalanced to the 60/40 asset allocation target. The program invested in various pooled funds including Canadian bond and equity, global equity and money market funds. Pooled funds are professionally managed similar to mutual funds but are only available to institutional investors.

Market Volatility

The world equity markets dropped significantly in 2008. The TSX Index and US S&P 500 fell by 33% and 21.5% respectively. At the start of 2008, Toronto Community Housing's investment portfolio was valued at about \$170 million. At the end of the year it was down to \$140 million, a 17% loss.

In the last twenty years, the equity market (TSE) has had several years with an annual decline in excess of 15%. Aside from 2008, the Toronto market also suffered a decline of more than 30% in 2001, the only other such occurrence in the period. However, in the last twenty years, all ten-year rolling returns of the Toronto market are *positive*. Even with the extreme volatilities in recent months, the average equity return for Toronto Community Housing for the last five years is still positive at more than 4%, slightly higher than the average for T-Bills for the same period. Toronto Community Housing's Investment Committee is currently reviewing the investment and will make its recommendation to the Board of Directors in March on the asset classes and the allocation model.

Most of the funds in the investment portfolio are capital and other reserves (to support community revitalization). Revenues from the investment portfolio are used for future capital projects and not tied to the day-to-day operations. Recent losses will not require additional operating funding from the City of Toronto. As required by PSAB and GAAP, Toronto Community reports the "market values" of its investments in the organization's annual financial statements. Toronto Community Housing has been using this "marked-to-market" approach to report investments since 2003.

Yours sincerely,



Keiko Nakamura
Chief Operating Officer and Acting CEO

Cc: Joseph Pennachelli, City Manager
Cam Weldon, Deputy City Manager and Chief Financial Officer