



STAFF REPORT ACTION REQUIRED

City of Toronto Investment Policy

Date:	January 16, 2009
To:	Executive Committee
From:	Acting Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2008\Internal Services\CF\Ec08032Cf - (AFS #8289)

SUMMARY

The purpose of this report is to recommend a revised Investment Policy for Council's approval. The revisions respond to changes in the Financial Activities Regulations under the City of Toronto Act, the Audit Recommendations Report from the Auditor-General's Office was considered at the November 4, 2008 Audit Committee meeting as well as the 2007 Investment Policy Compliance Report from Ernst & Young LLP. The Investment Advisory Committee and the Sinking Fund Committee have been involved in the development of the investment policy.

RECOMMENDATION

The Acting Deputy City Manager and Chief Financial Officer recommends that the City's Investment Policy, as attached to this report in Appendix A, be approved effective February 28, 2009.

Financial Impact

There is no financial impact resulting from this report.

DECISION HISTORY

The Investment Policy was previously approved by Council in January 1998 and updated in June 2004.

As a result of a recommendation from the Auditor General's Treasury Services review, the Investment Advisory Committee was formed in 2006. The investment policy incorporates comments from both the Auditor General's Treasury Services review and the Investment Advisory Committee. The Committee is comprised of four citizen

members who are appointed by Council and the chair who is the City's Deputy City Manager and Chief Financial Officer.

COMMENTS

The Capital Markets Section of the Corporate Finance Division is responsible for the prudent investment management of a number of investment portfolios. Each portfolio is specific in nature, mandate and legislative authority.

In accordance with the Council-approved investment policy, the Section manages the City's funds in a manner that provides the highest investment return consistent with the maximum security of principal and maintaining liquidity to meet the City's cash needs. This strategy is applied to managing the cash requirements of the City while conforming to the 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

Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the portfolios. The Corporate Finance division manages the exposure to interest rate risk through compliance with the established limits relating to the diversification of investment assets through the following measures:

- (a) Credit Rating Limitations

The policy restricts investments to highly rated fixed income securities. Equity investments are not allowed.

- (b) Issuer and Sector Exposure Limitation

The policy establishes individual issuer and sector limitations. By limiting the exposure to any one issuer or sector, overall credit and liquidity risk in a portfolio is reduced.

- (c) Term Limitations

Portfolio term structure limitations must be established to ensure that the portfolio can accommodate future cash requirements. Each portfolio has a term requirement that may be dictated by legislation or determined by the specific characteristics of the portfolio itself. Term

limitations have been established to restrict the term exposure for particular issuers.

2. Maintain Adequate Liquidity

Liquidity refers to the ease with which a security can be converted into cash. Maintaining adequate liquidity helps to ensure that excess funds are invested until they are needed and enables the City to meet all operating requirements that might be reasonably anticipated. The drawback to this policy is the inverse relationship between liquidity and return. The more liquid the security, generally, the lower the investment return.

3. Maximize Rate of Return while Conforming to Other Objectives

The objectives of safety of principal and maintenance of liquidity must not be compromised in order to maximize returns. Once the essential parameters governed by the first two objectives have been addressed, the Corporate Finance division then manages the portfolio in such a way to maximize the longer-term income flow of the portfolio.

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 constraint 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 manages eight investment portfolios as listed in the table below:

Portfolios	Book Value as at Nov 30, 2008 (millions)
Toronto General Fund	\$3,946.8
Sinking Fund	\$828.9
Trust Fund	\$63.6
The Municipality of Metropolitan Toronto Pension Plan (only the Money Market portion)	\$10.9
The Municipality of Metropolitan Toronto Police Benefit Fund (only the Money Market portion)	\$5.7
The City of Toronto Fire Department Superannuation and Benefit Fund (only the Money market portion)	\$0.0
The City of Toronto Civic Employees Pension and Benefit Fund (only the Money Market portion)	\$0.0
Long-Term Care Homes & Services	\$7.2

Since each portfolio has its specific objective, it is expected that variances in the annual investment returns between the individual portfolios will occur. The portfolio that is managed actively is the Toronto General Fund which is separated into two sub-funds (Bond fund and Money Market fund). As the Bond Fund is positioned towards funding

the City's future reserve and reserve fund requirements, a longer view of the market for the fund is required. The Money Market fund is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City's daily operations. Traditionally, the Bond Fund provides an opportunity to obtain higher investment yields, depending upon the interest rates term structure and macroeconomic environment.

The Toronto General Fund provides the total cash flow to meet the City's needs. The City manages the Toronto General Fund's exposure to interest rate fluctuations. 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 where there are opportunities to realize capital gains.

Audit Issues

The investment policy addresses issues and concerns that were noted in the Auditor General's Treasury Management Review considered by the Audit Committee at the meeting on November 4, 2008 and Ernst & Young's annual Investment Compliance audit.

Issues raised by the Audit Committee at its meeting on November 4, 2008 are addressed in the Investment Policy and Procedures:

- establishes clear guidelines as well as a formal process, timelines and protocols for identifying, communicating and acting upon policy exceptions to ensure City holdings are in compliance with investment policies;
- ensures that City holdings are reviewed regularly for such exceptions and evidence of such review will be documented;
- establishes clear roles and responsibilities of Capital Markets' staff and senior management and outlines the documentation and management approval requirements of any action related to policy exceptions;
- includes a policy dealing with technical trading which is defined as identifying transactions that take advantage of market inefficiencies by trading securities on a short-term basis;
- defines the duties, roles and functions of Capital Markets' staff and stipulates trader authority limits;
- includes a code of ethics and standards of practice statements specific to the Capital Markets area so as to provide guidance relating to personal trading, gifts, offerings, trader ethics and trader relationships with brokers and investment dealers, including disclosure requirements, using the Chartered Financial Analysts Society's ethics policy (the financial industry's standard) as a guide;

- sets limits on concentrations in volume and dollar amounts.

Issues arising from Ernst & Young's Investment Compliance Audit that are addressed in the Investment Policy and Procedures and not previously covered:

- ensure consistency in the asset classifications and the holding limits established in the internal Investment System and the Investment Policy.

Subsequent to the approval of the City of Toronto's Investment Policy, changes will be made to the Investment Procedure to reflect changes in the Policy. Staff will proceed with necessary changes in the database system and compliance reporting to reflect changes in the Policy and Procedures. Manual controls will be implemented in the meantime as necessary. The City of Toronto's investment policies and procedures will be continuously monitored to ensure that the Policy approved by Council are sufficient to achieve the objectives of the respective investment portfolios and 2007 compliance items.

On an annual basis, and more frequently if required, a comprehensive review is completed and recommended adjustments are incorporated into the City's Investment Policy and presented to Council for approval.

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SIGNATURE

Cam Weldon
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ATTACHMENTS

Appendix A – City of Toronto’s Investment Policy, 2009

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Appendix A

City of Toronto’s Investment Policy, 2009

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Appendices (on file)

A. CFA Institute Standards of Practice Handbook 9th edition

B. Investment Legislation and Regulations from the City of Toronto Act 2006

C. DEX Index – Index Return Calculation and Methodology

CITY OF TORONTO INVESTMENT POLICY

A. GENERAL

1. Introduction

1.1. Policy

It is the policy of the City to invest the City's funds in a manner which will provide the highest investment return consistent with the maximum security of principal, while meeting the cash requirements of the City and conforming to all legislation governing the investment of the City's monies.

1.2. Purpose of the Investment Policy

The purpose of this policy is to guide the management of the investment assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The investment policy is developed by the Deputy City Manager and Chief Financial Officer, reviewed by the Investment Advisory and Sinking Fund Committees of the City of Toronto and approved by the Toronto City Council in order to:

- Define and assign responsibilities
- Establish a clear understanding of the investment goals and objectives of the City of Toronto funds assets
- Offer guidance and limitations regarding the investment of funds assets
- Establish a basis of evaluating investment results
- Manage the funds assets according to industry best practices and applicable regulations.

The investment policy will be reviewed annually by the Investment Advisory and Sinking Fund Committees and investment staff.

1.3. Scope

This investment policy applies to all investments made on behalf of the City and its agencies, boards and commissions including, but not limited to, operating funds, reserves, reserve funds, sinking funds, trust funds, pension funds (internally managed component) and any new fund created by the City unless specifically exempted. It has been prepared with the objective of ensuring continued prudent and effective management of the City's investment activities.

1.4. Prudence

Investments shall be made with judgement and care - under the circumstances then prevailing - which persons of prudence, discretion and integrity exercise in the management of investments, considering the necessity of safety of capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall take all necessary actions to ensure the maximum performance of investments on a portfolio basis, subject to the prescribed risk parameters dictated by the investment policy.

1.5. Objective

The primary objectives in priority order of the City’s investment activities shall be:

(a) **Safety of Principal**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios. To obtain this objective, diversification is required among issuers of securities and the sectors of the economy to which they belong. In addition, the credit quality of investments shall be a key factor in their consideration as an eligible investment for the portfolios.

(b) **Liquidity**

The City’s investment portfolios will remain sufficiently liquid to enable the City to meet all operating and capital requirements that might be reasonably anticipated.

(c) **Return on Investment**

Investment portfolios shall be designed with the objective of attaining market rates of return as a minimum throughout budgetary and economic cycles consistent with the maximum security, taking into account the City’s investment risk constraints and cash flow characteristics of the portfolios.

1.6. Ethics and Conflicts of Interest

Investment officers of the City shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make important investment decisions. Investment officers shall disclose to the Deputy City Manager & CFO of the City any material financial interests in financial institutions that conduct business within Canada, and they shall further disclose any significant personal financial or investment positions that could be related to the performance of the portfolios. Standard of Professional Conduct Guidelines are laid out in Section 3.

1.7. Authorized and Suitable Investments

The City may invest in certain securities as set out by Ontario Regulation 438/97 to the City of Toronto Act 2006, as amended from time to time. A copy of this regulation, which prescribes the securities in which a municipality may invest, is attached to this policy. Investment of trust funds is regulated by The Trustee Act. However, in keeping with the primary objective of the City's investment policy, namely the preservation of capital, permissible investments have been restricted to those of high credit quality and reasonable liquidity. Consequently, investment officers are permitted to invest only in fixed income instruments of the following issuers:

- (i) Government of Canada and its guarantees.
- (ii) Short term (less than one year) obligations of Provinces of Canada and their guarantees that have a minimum credit rating of A-1(-) by Standard and Poor's (S&P), R-1(low) by Dominion Bond Rating Service (DBRS) and P-1 by Moody's.
- (iii) Long-term (greater than one year) obligations of Provinces of Canada and their guarantees which have a minimum credit rating of A- by S&P, A(low) by DBRS and A3 by Moody's.
- (iv) Canadian municipalities or collective Canadian municipalities which have a minimum credit rating of A- by S&P, A (low) by DBRS and A3 by Moody's.
- (v) Municipal investment pools, that being, the public sector group of funds of the Local Authority Services Limited and the CHUMS Financing Corporation.

- (vi) Canadian School Boards or Separate School Boards which have a minimum rating of AA - by S&P, AA (low) by DBRS and Aa3 by Moody's.
- (vii) Short term obligations of Schedule I Canadian chartered banks which have a minimum short term credit rating of A-1(-) by S&P, R-1(low) by DBRS and P-1 by Moody's and long term obligations of such banks which have a minimum long term credit rating of AA- by S&P, AA (low) by DBRS and Aa3 by Moody's.
- (viii) Short term obligations of Canadian trust companies which have a minimum short term credit rating of A-1 by S&P, R-1(mid) by DBRS and P-1 by Moody's and long term obligations of such trust companies which have a minimum long term credit rating of AA- by S&P, AA (low) by DBRS and Aa3 by Moody's.
- (ix) Short-term obligations of Schedule II Canadian chartered banks that have a minimum credit rating of A-1 by S&P, R-1(mid) by DBRS and P-1 by Moody's.
- (x) Asset-backed securities (ABS) which have a minimum short term credit rating of A-1(+) by S&P, R-1 (high) DBRS and P-1 by Moody's and long term obligations of such asset-backed securities which have a minimum long term credit rating of AAA by S&P, AAA (mid) by DBRS and Aaa by Moody's. Typically, the City prefers ABS issued by Schedule-1 chartered banks. ABS issued by Schedule-2 banks, retailers and auto loans should be evaluated on an individual basis with research indicating very strong collateral level (documentation required), along with written signoff (e.g. email) by both the Capital Markets Manager and Senior Investment Advisor prior to the transaction.
- (xi) Negotiable promissory notes or commercial paper of eligible issuers, other than asset-backed securities, maturing one year or less from the date of issue having a minimum credit rating of A-1 by S&P, R-1(mid) by DBRS and P-1 by Moody's.

The lowest rating shall govern in the case of split rated bonds.

1.8. Safekeeping and Custody

All security transactions entered into shall be conducted on a delivery against payment basis. Securities may be held by a third party custodian designated by the Deputy City Manager & CFO of the City and evidenced by safekeeping

receipts. The Deputy City Manager & CFO of the City may enter into a securities lending arrangement with the custodian.

1.9. Diversification

Investments will be diversified by issuer, by term and by the sector of the economy to which they belong.

1.10. Term¹ and Exposure² limits

Where appropriate, the duration of a portfolio's investments will usually match the expected duration of the portfolio's liabilities. The Deputy City Manager & CFO may deviate from this course of action by -0.5 to + 0.5 duration year³ if there is a reasonable basis to do so. Exposure and term limits set forth in Section 3.1 can be temporarily extended by 5% of the limits in accordance with the primary objectives stated in Section 1.5. Such over-limit should be documented and approved by two Capital Markets signing authorities as well as included in the Exception Report.

1.11. Audit

The Deputy City Manager & CFO of the City shall establish an annual process of independent review by the City's Auditor. This review will provide assurance of compliance with governing legislation and this investment policy.

1.12. Performance standards

The City establishes benchmarks as outlined in Section 2.11. The two sub-funds of the Toronto General Fund, which employ active investment strategy, are benchmarked against two comparable debt market indices as published by leading Canadian investment firms. The various sub-funds in the Sinking Fund, which employ a passive buy and hold strategy for debt retirement purposes, are measured against the actuarial⁴ rates of return as specified in the sinking fund by-laws of the underlying Sinking Fund Debentures.

¹ Term refers to the time to maturity of a security

² Exposure refers to the dollar amount of holdings in individual class investments as a percentage of the total fund.

³ Duration of a fixed income security or portfolio measures the sensitivity of the asset's price to interest rate movements, expressed as a number of years. Mathematically, duration is the weighted average of the time to each coupon and principal payment of a bond.

⁴ The "Actuarial" rate is not created by an actuary; it is simply the estimated required accounting rate of return for repayment based on the constant yield method of amortization.

1.13. Monitoring and Control

(a) Reporting:

The Deputy City Manager & CFO, in accordance with legislative requirements, will submit to Council an annual report on investment activity and returns. As well, the City shall provide bi-annually Exception Reports to the Investment Advisory Committee and Sinking Fund Committee respectively for review and approval.

(b) Delegation of Authority:

The Deputy City Manager & CFO of the City shall establish written procedures and policies for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy established by the Deputy City Manager & CFO of the City. The Capital Markets Manager and Senior Investment Advisor are responsible for the funding and investment management of the City's General Reserve Fund, Sinking Funds, Trust Funds and internal portions of externally managed funds. The City shall define trader authority limits, roles and responsibilities of Capital Markets position and corresponding signing authorities in the Investment Policy and Investment Procedures.

2. General Policy Guidelines

2.1. Identification and Grouping of Portfolios

The Corporate Finance Division (CFD) invests the funds of a number of separate portfolios.

Portfolios are grouped according to the source of the portfolio's investment policy and the credit risk of the group is managed rather than that of the individual portfolios. These groups are:

- (1) The City of Toronto General Group of Funds (include the cash assets of working capital, Reserves and Reserve Funds) that comprise all those over which the CFD exercises both management and policy control and whose assets are all in the City's name;
- (2) The Sinking Fund portfolios which are under the authority of the Sinking Fund Committee; CFD manages, on behalf of all the participants in the City's debentures, the City of Toronto sinking fund that is used to retire the City's sinking fund debt as it becomes due. The objectives, income requirements and liquidity requirements are very different from those of the City's other funds, and by legislation are required to be managed independently. Accordingly, the fund will be managed according to the Sinking Fund investment guidelines in Section 5.
- (3) The Trust Group of Funds that comprise those over which the CFD exercises both management and policy control but whose assets are not in the City's ownership; these funds are governed by a variety of agreements and in some cases by legislation. These portfolios comprise of the Trust Group of Funds and are managed under the Trust Group investment guidelines.
- (4) The portfolios that have externally mandated Investment Policies are:
 - The Municipality of Metropolitan Toronto Pension Plan
 - The Municipality of Metropolitan Toronto Police Benefit Fund
 - The City of Toronto Fire Department Superannuation and Benefit Fund
 - The City of Toronto Civic Employees Pension and Benefit Fund

These external policies may differ in some respects from the City's Investment Policies as a result of different governing legislation, cash flow requirements, or the specific liability characteristics of each fund.

- (5) The Toronto District School Board as discussed in section 7.

2.2. Governing Legislation

The investments are directly or indirectly regulated by one or more of:

The investments are directly or indirectly regulated by one or more of:

- (1) Ontario Regulation 610/06 – Financial Activities under the *City of Toronto Act 2006*, Part VIII, Finances
 - permits investments in debt issued or guaranteed by the Government of Canada, Canadian provinces, municipalities and school boards, Schedule I and II banks, trust companies or credit unions and corporations of eligible status.
- (2) *The Trustee Act, R.S.O. 1990*, Sections 26 and 27
 - in investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments. 1998, c. 18, Schedule. B, s. 16 (1).
- (3) *Pension Benefits Act, R.S.O. 1990*, Section 62
 - allows for the investment in a wide range of asset classes including those authorized in *The Trustee Act, R.S.O. 1990*
- (4) *Education Act, R.S.O. 1990*, Section 241
 - allows for the investment in a wide range of asset classes including those authorized in *The Trustee Act, R.S.O. 1990*

2.3. Permitted Investments

The City of Toronto is permitted to invest only in fixed income instruments listed in Section 8.

2.4. Minimum Quality Restrictions

Within the investment restrictions for individual portfolios, all portfolios should hold a prudently diversified exposure to the intended market.

Quality Standards:

- The minimum weighted average fund quality is A+. There are also restrictions on the credit quality of each security, as listed in Section 8. When a security has fallen below the minimum required credit quality after it is purchased, it will fall into the exception list where more stringent monitoring will apply as stipulated in Section 8.
- For minimum quality standard purposes, the lowest rating shall govern in the case of split rated bonds

- Generally, all investments shall be reasonably liquid (i.e. in normal circumstances they should be capable of liquidation within one month).

Rating Agencies:

For the purposes of this Policy, the following rating agencies shall be considered to be “Recognized Bond Rating Agencies”:

- Standard and Poor’s;
- Moody’s Investors Services;
- Dominion Bond Rating Service.

2.5. Maximum Quantity and Term Restrictions

- Total Fund Level
The maximum quantity and term of securities from an issuer is measured as a percentage of the fund, as depicted in Section 8.
- Leveraging of the assets of the Funds is not permitted.

2.6. Management of Credit Exposure

Credit exposure is of primary importance and careful consideration has been given to its management.

This Policy contains a list of approved issuers that applies to all portfolios under the City’s administration, regardless of greater choices that may be available under operating legislation or external policy guidelines.

The primary factors for inclusion in the list are credit quality and liquidity. A secondary issue is the market volume of the issuer. Consequently, there may be some high credits that have been excluded from the list because they have a small and infrequent presence in the market.

Although the investment policy relies on ratings from various credit rating agencies, it is incumbent on investment staff to augment these ratings with other material. Investment staff is required to use judgement within the framework of the investment policy.

Percentage holdings for each group of funds have been assigned to individual issuers and to overall sectors. In this way the credit exposure to any issuer or sector is controlled and diversification is maintained.

Finally, term limits have been placed on investments for each portfolio within a group in order to conform to the portfolio’s specific governing legislation and in accordance with the investment goals of the portfolio.

2.7. Investment Management Style

It is the intention of the City of Toronto's portfolio manager to actively manage assets within the parameters of the respective statements of investment policies and goals. Such active management will take the form of changing the term structure of portfolios according to forecasts of interest rates, securities switches according to specific security analysis, or sector mix. Through this process the portfolio manager expects to be able to add value to the investment function.

Investment decisions are based on the integration of many key factors including the current market, economy and geopolitical landscapes, investor sentiment, fundamentals, technical analysis, relative value and the City's investment strategy. The relative importance of each factor in the decision making process varies over time. It should be noted that trading based on technical analysis alone is not encouraged; investment decisions should be supported by an array of key factors.

2.8. Roles and Responsibilities in Investment Functions

Responsibilities of the Investment Advisory Committee

The Investment Advisory Committee (the "Committee") was created by City Council based upon the following recommendation contained in the report "Investment Advisory Committee" as approved by Council at its meeting held in December 2007:

"Authority be granted to expand the mandate of the City of Toronto Sinking Fund Committee to include an advisory role regarding City-managed investment portfolios as well as providing advice to the Deputy City Manager and Chief Financial Officer on performance measurement and investment strategies."

The Committee shall function in accordance with the regulations as established by the City of Toronto that govern the operation of its Committees.

Composition of the Investment Advisory Committee

- The Committee is a technical rather than a community or politically representative body. Its members are appointed on the basis of their expertise and interest in investment, capital markets, economics and governance issues.

- The members of the City of Toronto's Sinking Fund Committee shall sit on the Investment Advisory Committee and serve their term of office concurrent with their appointment to the Sinking Fund Committee.
- The Committee shall elect a chair other than the DCM & CFO who currently serves as the chair of the Sinking Fund Committee.

Mandate of the Investment Advisory Committee

The Committee is responsible for providing its views and advice to the investment management of the City's investment portfolios in accordance with the Statement of Investment Policy as approved by City Council and shall carry out the functions listed below. The City's investments include money market and bond funds and do not include sinking funds or pension plans that are managed by other Committees.

The Committee shall:

- provide advice to the City's investment management in establishing policies related to investments by analyzing policy matters and making recommendations;
- review annually the continued appropriateness of the Statement of Investment Policy and recommend to the City's investment management any proposed modifications thereto;
- review external investment manager mandates as required;
- review the appointment and termination of external investment managers and advisors as required;
- review issues pertaining to the City's external investment custodians and other providers of investment related services as required;
- review the investment policy compliance audit;
- review, at least annually, the performance of the money market and bond funds;
- review, at least quarterly, the exception reports of the money market and bond funds;
- review the terms of reference of the Committee at least every two years and recommend any required changes to the DCM & CFO.
- meet at least twice during the City's fiscal year. It shall conduct an annual review of the Statement of Investment Policy as well as compliance with the Policy.
- report each year to City Council with respect to its activities and decisions as part of the annual investment report that is submitted to Council by the DCM & CFO.

Responsibilities of the Sinking Fund Committee

The Sinking Fund Committee is responsible for the sole control and management of sinking fund assets being accumulated for the redemption of debenture debt issued by the City of Toronto.

The Committee shall function in accordance with the regulations as established by the City of Toronto that govern the operation of its Committees.

Composition of the Sinking Fund Committee

- The Committee is a technical rather than a community or politically representative body. Its members are appointed on the basis of their expertise and interest in investment, capital markets, economics and governance issues.

The Committee consists of 5 members:

- 4 Citizen Members appointed by City Council
- Deputy City Manager and Chief Financial Officer

Mandate of the Sinking Fund Committee

The Committee shall:

- Establish investment policies and approve all purchases and sales of investments as well as the annual financial statements.
- Authorize all withdrawals from consolidated bank accounts.
- Determine necessity for reductions in levies and authorize necessary report to City Council.
- Recommend to Council dispositions of surplus funds in accordance with statutory requirements.

Main Responsibilities of Investment Staff

The Capital Markets Manager shall:

- Authorize investment transactions and exception reports.
- Oversee and manage all Capital Markets' staff.
- Oversee, develop and manage all the City's funding strategies and investment portfolios.

The Senior Investment Advisor shall:

- Manage the investment of the City's funding and investment portfolios.
- Develop the appropriate mix for all fixed income investments portfolios.
- Authorize investment transactions.
- Review compliance and exception reports.

The Senior Investment Analyst shall:

- Perform backup functions for daily investment of the money market fund and investment administration.
- Prepare compliance and exception reports.
- Be responsible for funds performance measurement, benchmarking and reporting.

The Financial Analyst shall:

- Be responsible for the daily investment of the City's short term (money market) fund in accordance with its Statement of Investment Policy and Guideline.
- Maintain the internal system (FIDM) for the City of Toronto Funds.

The Support Assistant shall:

- Perform investment administrative activities.

Responsibilities of the Custodian

The Custodian shall:

- Fulfil the regular duties required by law of a Custodian.
- Provide the City with monthly financial statement for City's funds.
- Fulfil contractual duties which have been agreed to by the Investment Committee and Sinking Fund Committee; and Monitor aggregate limits which have been placed on City's funds and which are set out in this Statement.

External Performance Measurement Organization

The performance measurement organization shall:

- Monitor the performance of the City of Toronto General Fund.
- Provide monthly reports on total performance of the fund.

2.9. Trader Authority Limits and Trade Authorization

The City of Toronto has conservative investment asset constraints. There are currently only two authorized traders – the Capital Markets Manager and Senior Investment Advisor who trade the General Fund and the Sinking Fund. The Financial Analyst trades the money market portion of the General Fund. The trader authority limits are set at the fund limits as depicted in Section 8. The approved list of signing authorities is included in the Investment Procedures.

All investment transactions for the City Funds, except for Sinking Fund, must be reviewed (and signed) by the trader and authorized by two of the Designated Officers, as depicted in the Deputy City Manager & CFO's approved "Signing Authorities – Capital Markets".

All investment transactions for the Sinking Fund must be reviewed (and signed) by the trader, and authorized by the Deputy City Manager & CFO, and two other Designated Officers. One Sinking Fund Committee member signs the tickets after the fact as depicted in the Deputy City Manager & CFO's approved "Signing Authorities – Capital Markets".

2.10. Compliance Reporting

Limit compliance reports for all investment funds are prepared daily and reviewed by the Capital Markets Manager or Senior Investment Advisor.

Exceptions, if any, will be noted via a quarterly report that shall state: reason(s) for the exception, type(s) of risk (term structure, % limit, credit quality, and issuers), dollar amount of the investment and duration of such exception period, mitigation action/plan. The Investment Exception Report provides a list of investment transactions that exceeds a particular threshold value or below the minimum required credit quality or outside of the approved issuer list, as established in the Investment Policy. Exceptions are determined at the time of purchase (trade date). As investments are normally available in round lots, for the purpose of computing any exception, amounts exceeding the established guideline by no more than .5% will be considered immaterial and need not be documented by an exception report.

Once an investment asset has fallen into the Exception Report, it will be monitored on an ongoing basis and progress in the risk mitigation plan will be tracked.

This quarterly report must be prepared by the Capital Markets staff, reviewed and authorized by the investment manager and subsequently be submitted to the Investment Advisory Committee and Sinking Fund Committee for review and approval, respectively.

2.11. Performance Measurement and Valuation

Various DEX Fixed Income Indices are used as performance benchmarks for City's funds.

General Fund (Money Market component)

- **Composition**

The DEX 30 day Treasury Bill Total Return Index.

- **Rationale**

Liquidity and cash management requirements suggest that the term of a considerable portion of investments for the General Fund, money market component, remain short. It is anticipated that the average term of the portfolio under a passive strategy would be approximately 30-90 days. However, there is a large degree of uncertainty with respect to the timing of cash flows that can subtract from investment performance.

The DEX 30 day Treasury Bill Total Return Index, which calculates the return on a portfolio of 30 day Canada Treasury Bills, rebalanced periodically, represents a suitable benchmark for the General Fund, money market component, in terms of duration, uncertainty of cash flows and the level of credit risk that is assumed by the portfolio. This benchmark is widely published, readily understood and universally accepted within the investment community.

- **Investment Policy Parameters**

Short term General Fund monies may be invested for a maximum term of one year, in those securities included in the City of Toronto Group Investment Policy guidelines. The actual term to maturity will be kept considerably shorter and will not exceed 182 days to ensure adequate liquidity, unless a strong market (significantly declining rates) is anticipated. Conversely, to ensure maximum liquidity, or during a weak market (significantly increasing rates) investments may be limited to the overnight market.

- **Objective**

It is anticipated that through active management of the General Fund, money market component, within the parameters of the City of Toronto's Investment Policies, the rate of return on this fund will exceed that of the benchmark portfolio over the long-term horizon.

- **Calculation and Methodology**

The calculation and Methodology used to measure portfolio performance are included in Appendix C.

General Fund (Bond component)

- **Composition**

The DEX All Governments Universe Bond Index provides a level for both the modified duration and an average term to maturity in years.

- **Rationale**

The necessary degree of liquidity for the City is provided by the money market component of the General Fund. The longer-term nature of further requirements from the Reserve Funds suggests that a significant portion of all funds be invested for a term of greater than one year at all times. These investments are represented in the benchmark portfolio by the DEX All Governments Universe Bond Index. This index is comprised of a basket of Canada, provincial and municipal bonds of short, mid and long terms.

- **Investment Policy Parameters**

Long-term General Fund monies may be invested for varying maximum terms by security as outlined in the City of Toronto's investment guidelines. On average, the duration of the entire portfolio will follow that of the DEX All Governments Universe Bond Index. The duration of this portfolio will be allowed to vary from that of the benchmark to account for differing views of future interest rates.

- **Objective**

It is anticipated that through management of this fund within the parameters of the City of Toronto's Investment Policies, the rate of return will meet or exceed that of the benchmark portfolio over the long-term horizon.

3. Standards of Professional Conduct Guidelines

3.1. City of Toronto Guidelines

In addition to the City of Toronto's Conflict of Interest guidelines, additional guidelines laid out below provide a specific and additional standard of care for individuals who are responsible for the investment portfolios. The City of Toronto uses CFA⁵ Institute Standards of Professional Conduct as minimum standards (See Appendix A). This policy applies to all Covered Persons as defined below.

A "Covered Person" is anyone with influence over, or access to information about, proposed Institutional Trades, trading strategies or holdings in public companies that could be used for personal benefit. This includes Individuals involved in recommending or making decisions on trades or who have access to systems containing trading information. It also includes those working with or in close proximity to persons involved in decision-making who regularly have the opportunity to see written information or hear discussions relating to trading. Members of the Investment Advisory Committee and Sinking Fund Committee, Director of the Corporate Finance Division and staff in the Capital Markets Section are considered as Covered Persons.

The Restrictions apply to trades in all personal brokerage accounts for which a Covered Person has trading authority, gives specific investment advice or directs trading ("Covered Accounts"). This would include accounts of family members or associates if the Covered Person influences trades in their accounts. It would exclude accounts:

- managed by a portfolio manager on a discretionary basis, or held in a blind trust;
- held in the Covered Person's name, alone or jointly with another, if the Covered Person does not have trading authority or influence trades made for the account; or
- in which only exempt trades are permitted (i.e. with a mutual fund dealer, a bank, or an insurance company).

⁵ Chartered Financial Analyst

3.2. Duty of Care – to Act Honestly and in Good Faith

Covered Persons owe a fiduciary duty to the Toronto General Fund and Sinking Fund respectively, which requires that they place the interests of the Fund ahead of their personal interests and not use their position with the City of Toronto for personal advantage. This prohibits Individuals from trading in their personal accounts using knowledge of anticipated Institutional Trading or portfolio information (i.e. front-running). It also prohibits receiving special treatment or investment opportunities for personal accounts not generally available to the public (e.g. gifts of IPO allocations) that are offered by a party seeking to do business with the City of Toronto or influence its investment decisions.

The Investment Advisory Committee and Sinking Fund Committee are entitled to full disclosure from its members and investment staff of all facts which might affect Investment Advisory Committee and Sinking Fund Committee decisions.

Covered Persons shall keep Investment Committee and Sinking Fund Committee matters confidential and disclose information regarding its affairs only in the necessary course of City business or as authorized.

A Covered Person should be guided by the general rule which is as follows:

If a Covered Person finds himself or herself in a conflict of interest or a situation where he or she believes that others might think that he or she has one, he or she must immediately advise the Investment Committee and Sinking Fund Committee, so that action can be taken to resolve the situation.

3.3. Trading with Inside Information

This information is “Inside Information” if it:

- is material (i.e. If known, would reasonably be expected to have a significant effect on the market price or value of the company’s securities, such as information about a reorganization, acquisition, financing, new business or product innovation, significant change in earnings or credit arrangements, or departure of a senior executive); and
 - has not been publicly disclosed (i.e. It has not been disseminated through a press release, regulatory filing or shareholder or open analyst meeting).
- Securities laws generally prohibit trading in securities using Inside Information, whether for the City of Toronto or in personal accounts. Covered Persons are also prohibited from disclosing Inside Information to others (“tipping”) except in the necessary course of business.

Individuals must not trade in securities of a company, or in related derivative securities,

- if they have Inside Information about the company, knowledge of the Fund's trading activities or trading intentions for their personal advantage, or
- where the trade provides a benefit to the Individual that is not generally available to public investors and the trading opportunity is given by a party doing or seeking to do business with the City of Toronto or influence its investment decisions.

The Capital Markets Section has a dual function of both debt issuance and investment management without firewall. Thus, the Covered Persons could be exposed to insider information of the City of Toronto debt. As such,

- as soon as the earlier of either 1) the new debt deal is reasonably certain (as at the time when the manager notifies the related parties) or 2) the person who is reasonably aware of the new debt deal, sale of the City of Toronto debt, on personal account and on behalf of the City of Toronto, is prohibited temporarily until the new issuance is announced to the public.
- Pre-ordering of the City of Toronto's new issue prior to the public announcement of such issue is not allowed.

3.4. Limited Investment Opportunities and Broker Preferences

The fiduciary obligations imposed on Covered Persons prevent them from receiving benefits due to their position with the City of Toronto in the form of limited investment opportunities or preferences from brokers. Covered Persons therefore must request an exception from the DCM & CFO before participating in treasury offerings of any equity security, whether made under a prospectus, by private placement, or in any secondary offering linked to a new or listed security, such as offerings of special warrants or sales from control blocks, and regardless of whether the Fund is buying securities in the offering. In the case of DCM & CFO, he/she must request an exception from the City Manager.

Exceptions may be given where the offering is for tax sheltering purposes (which does not include RRSP, RRIF and TFSA⁶) or where the Covered Person demonstrates that the offering is widely available to public investors.

It is the responsibility of the Covered Persons to maintain independence and objectivity so that City will have the benefit of their work and opinions unaffected by any potential conflict of interest or other circumstance adversely affecting their judgment. He/she should endeavour to avoid situations that could cause or be perceived to cause a loss of independence or objectivity in recommending investments or taking investment action. In addition, to avoid

⁶RRSP: Registered Retirement Savings Plan. RRIF: Registered Retirement Income Fund. TFSA: Tax-Free Savings Account.

the perception that Covered Persons are being given special personal treatment in exchange for favouring the business relationship of their broker with the City of Toronto, a Covered Person may not use the same individual broker for both personal and business trading purposes, or receive reduced fees or other perks that are not available to other clients.

3.5. Institutional Trades in Thinly Traded Securities

The market impact of Institutional Trading can be particularly significant in securities of public companies with small market capitalization. When a Covered Person recommends or authorizes an institutional trade in thinly traded securities that he/she also holds in a Covered Account, there may be a perceived conflict of interest if the Institutional Trading is likely to increase the value of the personal holding. Accordingly, in these situations the conflicted Covered Person must disclose details of his/her holdings to the DCM & CFO in writing at the time of the recommendation. In the case of DCM & CFO, he/she should disclose details of his/her holdings to the City Manager.

It follows that the Investment Committee and Sinking Fund Committee is entitled to full disclosure from its members and its agents of all facts which might affect Investment Committee and Sinking Fund Committee decisions or the impartiality of a member or agent participating the discussion or decision. Personal interests must not be brought into conflict with duties as a Covered Person. Further, it is expected that no Covered Person shall make any personal financial gain, direct or indirect, because of his or her position. This does not apply to compensation paid to City's employees and committee members.

3.6. Contracts and Transactions, Outside Employment, Directorship or Other Relationships

A Covered Person or his/her spouse or minor child who:

- Is a party to a material contract or material transaction (Note 1) or a proposed material contract or material transaction with respect to City's funds,
- Is a director or an officer of any entity that is a party to a material contract or material transaction or proposed material contract or material transaction with City's funds, or
- Has a material interest (Note 2) in any person/entity who is a party to a material contract or material transaction or proposed material contract or material transaction with City's funds.

must make any required disclosure to the Investment Advisory Committee and/or Sinking Fund Committee as they become aware that the proposed contract or transaction is to be considered.

A Covered Person or his/her spouse or minor child who:

- Is a director or officer of an entity which is under consideration for a contract/transaction, or
- Has a material interest in an entity or person which is under consideration for a contract/transaction,

shall provide a general notice to the Investment Advisory Committee and Sinking Fund Committee and the Deputy City Manager & CFO of the City to declare such potential conflict of interest. In the case of DCM & CFO, he/she must provide a general notice to the City Manager. When a Covered Person holds such position/interest, he/she may not participate in any consideration or decision making with respect to such material contracts or material transactions.

Note 1: “Material contract” is undefined but will include any contract in respect of investment counselling, custody, performance measurement, audit or any other services provided in respect to the supervision, management, safekeeping, accounting, reporting, investment or trading of City’s funds. “Material transaction” means any specific transaction or series of transactions including asset sales or purchases (other than sales or purchases of publicly traded securities), brought before the Investment Committee and Sinking Fund Committee in order for the Investment Committee and Sinking Fund Committee to make a recommendation to take a decision.

Note 2: “Material interest” is also not defined, but would include ownership (directly and indirectly) of 10% or more of the voting shares or 25% or more of the equity of an entity. Any lesser ownership or other circumstances which actually constitute a controlling role would also be a material interest in an entity. Other circumstances may be viewed as appropriate to disclose such as family and personal relationships with a party to a material contract with City’s funds or a material transaction.

The Investment Advisory Committee and Sinking Fund Committee delegate the selection of specific investments for purchase or sale with respect to City’s funds to the Capital Markets Manager and Senior Investment Advisor. When the Investment Advisory Committee and Sinking Fund Committee decides to give direction to the purchase or sale of a specific non-publicly traded security or specific publicly but thinly traded security, he/she must declare a conflict if he/she has a direct or indirect beneficial (including a spouse’s or minor child’s) interest in the same investment. Where a member declares such a conflict, he/she may elect not to discuss, review or vote on the matter, without giving reasons. He/she may discuss and vote on the matter, only with the unanimous approval of all other members with voting rights.

3.7. Related Party Transactions

With respect to City's funds, a related party is:

- A member of the Investment Committee and Sinking Fund Committee;
- An employee of the City;
- A spouse or minor child of any of the person identified above;
- A corporation or business organization controlled by any of the persons identified in the above.

City of Toronto may not enter into a contract or transaction with a related party unless the contract or transaction is both required for the operation and/or administration of City's funds and the terms of the transaction are not less favourable to City's than market terms and conditions.

B Details of Policy for Each Fund

4. City of Toronto General Fund

4.1. Description

The General Fund comprises money market investments that are used to fund the ongoing operations of the City and a bond portfolio that funds the longer-term liabilities of the City. The relative amounts held in each component (the asset allocation decision) will be established by the Capital Markets Manager on an ongoing basis. This analysis will take into consideration many factors including the current budget, longer-range plans and the outlook for financial markets.

4.2. Investment objectives

Money Market Component

▪ Purpose of the Portfolio

The money market component of the General Fund, consisting of all investments with a remaining term to maturity of less than one year, must meet the daily cash flow requirements of the City.

▪ Governing Legislation

The investment of all General Fund monies of the City of Toronto is governed by Ontario Regulation 610/06 to the City of Toronto Act 2006.

- **Income Requirements**

The interest income generated by the money market component is an important contributor to the City's budgetary revenues. As a result, maximizing investment income is a key objective of the fund's operations. However, the preservation of capital remains the primary objective of the City's Investment Policies.

- **Term Horizon**

The term structure of the money market component will be determined through analysis of short-term interest rates in conjunction with cash flow forecasts. The budget cycle of the City is one year in length and the majority of the portfolio will be consumed by the end of the fiscal year.

- **Liquidity Requirements**

The cash flow requirements of the City vary significantly on a seasonal basis and with a moderate degree of uncertainty which places a great deal of importance on liquidity. Therefore, the greater proportion of money market investments should be placed in marketable liquid securities to facilitate the funding of the City's current obligations.

- **Risk Tolerance**

The tolerance for risk is low due to the seasonal nature of the fund, its short-time horizon and the importance of the capital to the City's current day-to-day commitments. Consequently, the average term of the portfolio will not exceed 182 days.

- **Performance Benchmark**

Return of this portion of the General Fund will be compared to The DEX 30 day Treasury Bill Total Return Index.

Bond Market Component

- **Purpose of the Portfolio**

This portion of the portfolio will be used to meet the longer-term liabilities of Reserves and Reserve Funds.

- **Governing Legislation**

Ontario Regulation 610/06 to the *City of Toronto Act 2006* also governs the investment of these funds.

- **Income Requirements**

Investment income of this portfolio has a material impact on the current budget of the City, as well as, a significant effect on future years' budgets as the income generated by the fund reduces the contributions towards future liabilities.

- **Term Horizon**

Cash flow requirements of this portion of the portfolio are predominantly of a long-term nature as budgeted draws from the Reserve Funds will generally be met by the money market portion of the General Fund. The remaining liabilities have, for the most part, indefinite long-term time horizons.

- **Liquidity Requirements**

Immediate cash flow requirements of this portion of the fund are limited which reduces the need for liquidity and justifies a lengthy term horizon. However, to meet unanticipated draws from Reserves and Reserve Funds a significant portion of the fund will be held in marketable and liquid bonds.

- **Risk Tolerance**

The tolerance for risk is higher than the Money Market Fund due to the long-term nature of the liabilities of the portfolio and limited liquidity requirements. The need for income of this fund to keep pace with inflation and to meet or exceed actuarial assumptions about long-term investment returns also suggests that the interest rate risk tolerance of the fund must be relatively high.

Thus, this portion of the General Fund will be managed as a universe bond fund.

▪ **Performance Benchmark**

The returns of this portion of the General Fund will be compared to the DEX All Governments Universe Bond Index.

4.3. Targeted policy asset mix and rebalancing policy

The long-term strategic asset mix targets and ranges are as follows:

Sector Mix Target*	Minimum	Target	Maximum	Target average quality
Federal Bonds	22%	25%	28%	AAA
Provincial Bonds	36%	40%	44%	AA-
Municipal Bonds	13%	15%	17%	AA
Corporate Bonds	13%	15%	17%	A+
Asset-Backed Securities	0%	5%	6%	AAA
Total				AA range

*Approved issuers as described in Section 8

The policy asset mix is a guide for investment in the long term horizon. Implementation of the long-term strategic asset mix will be completed in a prudent manner subject to market conditions and investment opportunities.

The asset mix between money market/cash equivalent (< 1year maturity) and bonds (>1 year maturity) depends on the City's ongoing cash flow forecast.

Rebalancing of the portfolio shall be done at least quarterly to the extent possible depending on the market conditions. During periods of market distress when a more conservative strategy is deemed to be appropriate, such changes in the asset mix and rationale shall be documented.

5. City of Toronto Sinking Fund

5.1. Description

The Sinking Fund is the provision for repayment of debt issued. The various sub-funds (4%, 5% and 6%) of the Sinking Fund are evaluated on a group basis when monitoring compliance with maximum investment holding percentages by issuer limits included in the Investment Policy, and not on an individual sub-fund basis.

5.2. Investment objectives

Purpose of the Portfolio

To provide for the orderly retirement of the City's sinking fund debentures.

▪ Governing Legislation

Ontario Regulation 610/06 and the City of Toronto Act 2006 govern allowable investments for the Fund.

▪ Income Requirements

The portfolio is required to earn at least the actuarial⁷ rate of return of each sinking fund issue. These presently range from 4% to 6%. Sinking fund surpluses accrue proportionately to the participants in the associated debentures and are used to reduce contributions, or once further contributions are no longer required, are taken into current revenues. Under current legislation, deficits are required to be made up in the year of maturity by the City on behalf of all contributors.

▪ Term Horizon

The horizon of the portfolio is limited by legislation to the maturity date of the longest dated sinking fund debenture. Overall, the average duration and cash flow of the portfolio will closely match the average duration and cash flow of the underlying sinking fund debentures.

▪ Liquidity Requirements

The majority of the cash requirements of the portfolio are established with certainty by virtue of the maturity dates of the underlying sinking fund

⁷ The "Actuarial" rate is not created by an actuary; it is simply the estimated required rate of return for debt repayment.

debentures. Small amounts of cash are required from time to time for the payment of surpluses or expenses of the Fund. Likewise, the inflows into the Fund are also established at the time each sinking fund debenture is issued. These inflows may decrease over time if contributions are reduced by a portion of the earned surplus.

These considerations suggest that liquidity (apart from that required for maturities) is not a prime concern of the sinking funds. Accordingly, a high proportion of the fund may be held in relatively illiquid but consequently higher yielding investments.

▪ **Risk Tolerance**

The tolerance for risk is higher than the Toronto General Fund due to the long-term nature of the liability of the Sinking Fund and the limited liquidity requirements. The need for the income of the fund to meet or exceed actuarial assumptions also suggests that the interest rate risk tolerance of the fund is higher. Consequently, the duration and cash flow of fund should be commensurate with the duration and cash flow of the liabilities of the fund. The asset mix of the fund should be aligned to the required risk-adjusted rate of return for debt repayment.

▪ **Performance Benchmark**

The returns of the Sinking Fund will be compared to the actuarial (required) rates of the respective sinking fund portfolio.

5.3. Targeted policy asset mix and rebalancing policy

The long-term strategic asset mix targets and ranges are as follows:

Sector Mix Target	Minimum	Target	Maximum	Target average quality
Municipal Bonds	19%	22%	25%	AA
Provincial bonds	44%	49%	54%	AA-
Corporate Bonds	22%	25%	28%	A+
Asset-Backed Securities*	0%	4%	5%	AAA
Total				AA range

*Approved issuers as described in Section 8

The policy asset mix is a guide for investment to match the actuarial (required) rate of return for the various sinking funds in the long term horizon. Implementation of the long-term strategic asset mix will be completed in a prudent manner subject to market conditions and investment opportunities.

The current policy asset mix has taken into consideration of the current low-yielding market environment.

Rebalancing of the portfolio shall be done at least quarterly. Rebalancing will be done to the extent possible depending on the market conditions. During periods of market distress when more conservative strategy is deemed to be appropriate, such changes in the asset mix and rationale shall be documented

6. Trust Group of Funds

6.1. Keele Valley Post Site Closure Trust Fund

Purpose of the Portfolio

To fund the projected costs of all long term post closure services required to protect the environment at the Keele Valley Waste Disposal Site.

▪ Governing Legislation

The investment of the funds is governed by *The Trustee Act*. The funding of the portfolio and the uses of the funds are governed by an agreement between the City and the Minister of the Environment dated May 19, 1983.

▪ Income Requirements

Returns are important as they will have a significant effect on how much the City will need from future current revenues to rehabilitate the site. However, preservation of capital remains the primary objective.

▪ Term Horizon

These funds were established to rehabilitate the site after it closed. Currently there is no specified expiration date for these funds.

▪ Liquidity Requirements

A high proportion of the fund is held in liquid assets to ensure that any cash flow requirements will be met without compromise to the value of the securities held.

▪ Performance Measurement

No benchmark has been established at this time.

6.2. Other Trust Funds

- **Purpose of the Portfolio**

To invest funds designated for specific purposes such as scholarships and specific projects.

- **Governing Legislation**

The investment of the funds is governed by *The Trustee Act*. The uses of the funds are often also restricted by specific agreements between the City and various benefactors.

- **Income Requirements**

The majority of these trusts rely on the income generated by the invested assets to fund ongoing programs.

- **Term Horizon**

The majority of these trusts have an indefinite time horizon as the purpose of the trust is to fund specific items in perpetuity.

- **Liquidity Requirements**

The trusts require the income but not the principal of the investments to achieve their purposes. Accordingly liquidity is not a major concern when making investment decisions.

- **Performance Benchmark**

No benchmark has been established at this time.

6.3. Toronto District School Board (TDSB)

In terms of cash management, the City acts as a financial manager for the TDSB by investing funds collected by the City from property taxes and transfers from the Province on behalf of the Board. Additionally, formal requests for transfers from the TDSB are wired to fund their operating requirements. Investment income is credited to the account of the Board and accounting records of this financial activity track the flow of funding during the year. The City does not charge for these services.

6.4. Long-Term Care Homes & Services Trust Fund

- **Purpose of Portfolio**

Many residents of the City's Homes for the Aged have placed into the City's trust all of their cash resources and sources of revenue - pension cheques, dividends and interest payments, etc. Records are maintained by the trustees for each resident's share of the trust fund. The City charges each resident's account for room and board occupancy costs and monthly draws of the "comfort allowance" which the residents may spend as they wish on incidentals. Income of the fund is allocated to residents on the basis of the value of their specific account.

When a resident is transferred, released or dies, the balance of the account, after final City disbursements, is released to the resident or their estate. The Trustees of the Residents' Fund establish and control all the operating parameters of the investment portfolio, with the assistance of the City investment officers.

- **Governing Legislation**

The investment of Long-Term Care Homes & Services funds is regulated by *The Trustee Act*. However, more stringent guidelines have been established by the fund administrator limiting eligible investment to debt instruments of the Federal and Provincial governments and schedule I and II banks.

- **Income Requirements**

The primary fiduciary responsibility of the Trustees is to safeguard principal. Maximization of interest earnings, while desirable, is a secondary objective of the fund's management.

- **Term Horizon**

The term horizon of the total pool is indefinite as there is a constant renewal of funds from incoming residents. As market fluctuations generally increase with the term of the investment, it is prudent to manage the interest rates exposure by investing only in short term securities. Therefore, the fund administrators restrict the term of an investment to less than two years.

- **Liquidity Requirements**

Although the administration maintains sufficient bank balances to cover most ongoing needs of the fund, it is recommended that extra liquidity be provided

by investing the greater proportion of the fund in highly liquid and marketable credits.

- **Performance Measurement**

The rate of return of the fund shall be compared to the rate of return on the 91-day DEX Treasury Bill Index.

7. Externally Mandated Funds

The City of Toronto manages the money market portions of the following:

- The Municipality of Metropolitan Toronto Pension Plan
- The Municipality of Metropolitan Toronto Police Benefit Fund
- The Toronto Fire Department Superannuation and Benefit Fund
- The Toronto Civic Employees Pension and Benefit Fund

- **Purpose of the Portfolio**

To fund monthly payments to pensioners and any other unanticipated cash expenditures of the Plans.

- **Governing Legislation**

The *Pension Benefits Act* and the *Income Tax Act* govern the investments of the Plans. Investment policy is approved by the Board members of the respective Plans. Each Plan is a distinct and a separate fund with different investment committees and investment strategies.

- **Income Requirements**

The primary objective of the portfolios is to make scheduled payments. The bulk of investment income in the Plans is anticipated to stem from investments in other asset classes managed by other managers. Investment returns of the Funds are, for the most part, derived from other asset classes that include equities, bonds and mortgages, both domestic and foreign.

- **Term Horizon**

The time horizon of the money market component of the funds is less than one year. Investment maturity dates will be matched to meet pension obligations. Funds are regularly drawn from other asset classes into the money market portfolio for the payment of pensions.

- **Liquidity Requirements**

Liquidity is extremely important as funds must be available on a timely basis to meet monthly payouts to pensioners. Consequently, the assets of the fund shall be invested in highly liquid and marketable securities.

- **Performance Measurement**

The function of the City is to simply invest funds until the payment date, which leaves no opportunity to actively manage the funds' assets. Accordingly, there will be no comparison of performance to market indices.

C Details of Policy Limits

8. Approved List of Issuers and corresponding term and exposure limits

Although the governing legislation for some of the portfolios under management allows for investment in a wide range of instruments, investments will be restricted to Canadian dollar fixed income instruments of approved issuers in the following sectors:

Sector	Minimum Rating*	
	Short-Term	Long-Term
Government of Canada	None	None
Federal Guarantees	None	None
Provincial	R-1(low)	A(low)
Provincial Guarantees	R-1(low)	A(low)
City of Toronto	A(low)	A(low)
Other Canadian Municipalities	A(low)	A(low)
Canadian School Boards	AA(low)	AA(low)
Schedule I Banks	R-1(low)	AA(low)
Trust Companies	R-1(mid)	AA(low)
Schedule II Banks	R-1(mid)	Not Allowed
Asset-backed Securities	R-1(high)	AAA
Commercial Paper	R-1(mid)	Not Allowed

* Ratings based on DBRS rating scale – comparable S&P and Moody's ratings apply. See details in Section 8.1 below.

8.1. Outline of Investment Portfolio Limits For Each of The Sectors

Government of Canada and Guarantees

As Government of Canada securities carry the highest level of security and liquidity available to investors in Canada, no limit has been placed on these securities.

Although federal guarantees carry the full backing of the Federal Government, they may not carry the same level of liquidity. Therefore, limits have been established within this investment group for each specific issuer.

Provincial and Guarantees

Provincial debt forms one of the largest pools of highly liquid investment grade securities available to the Canadian investor. However, there are significant differences in the quality of the debt of one province compared to another. Provincial limits are established based on the liquidity and credit rating of each province's debt. The minimum credit rating for money market instruments is A-1(low) by S&P, P-1 by Moody's and R-1(low) by DBRS. The minimum credit rating for investments of longer than one year is A- by S&P, A3 by Moody's and A(low) by DBRS. The Province of Ontario is accorded the largest dollar limit due to the size of its economy, population and overall liquidity of its issues. The Provinces of Alberta and British Columbia are also assigned substantial limits due to their superior credit rating. The permissible term for investment in their debt is the longest allowable under the governing investment policy.

Debt of the Provinces of Manitoba, New Brunswick, Prince Edward Island, Quebec and Saskatchewan, although of high quality, are of lesser credit quality and do not have the same depth and liquidity of the former three provinces. Hence, these provinces are assigned lower limits within the investment groups.

Debt of the Provinces of Newfoundland and Nova Scotia are of investment grade, but do not have as firm or diversified an economic base as the larger provinces, nor do they have the size of population. Consequently, these provinces are assigned even lower percentage or term limits.

Guarantees are included within the overall provincial exposure limits. However, due to lesser liquidity, they are assigned, in most instances, a lower limit relative to the respective Provincial guarantor.

City of Toronto

City of Toronto debt carries a high level of safety and credit rating. Furthermore, it has been the practice of the City to support such debt in the secondary market. No limit has been placed upon the City of Toronto debt in the Sinking Fund. For other

funds (excluding the Sinking Fund), the minimum credit rating required is A- by S&P, A3 by Moody's and A(low) by DBRS.

Other Canadian Municipalities

Ontario regional municipal debt is generally of very high credit quality and has reasonable liquidity, especially for the more populous regions. Limits placed upon the regional governments within the Province of Ontario are based upon an assessment of each region's relative credit rating and liquidity. The minimum credit rating required is A- by S&P, A3 by Moody's and A(low) by DBRS.

Debt issued by the British Columbia Municipal Finance Authority (which is not guaranteed by the Province of British Columbia) reflects higher limits than other municipal debt issuers due to its high credit rating, high market volume and superior liquidity.

Although the credit quality of municipal debt is generally high, liquidity tends to lessen dramatically outside that of the major cities and regional governments. For some portfolios this lack of liquidity is not so important (e.g. the City of Toronto Sinking Fund) and is more than compensated for by the increased yield compared to federal and provincial debt of a similar term. However, liquidity is of great importance to the other portfolios, and hence it is recommended that limitations be placed on municipal debt, including the requirement of a minimum credit rating of A- by S&P, A3 by Moody's and A(low) by DBRS.

School Boards and Separate School Boards

The credit quality of School Board debt is generally high but liquidity is significantly less than that of Canadian municipalities. This lessened liquidity is reflected by higher yields when compared to municipal debt. Consequently, School Board debt has been restricted to that bearing a minimum credit rating of AA- by S&P, Aa3 by Moody's and AA(low) by DBRS, with reduced limits for this group as a whole when compared to municipal debt.

Schedule I Banks

The minimum credit rating required for money market instruments is A-1(low) by S&P, P-1 by Moody's and R-1(low) by DBRS. The minimum credit rating for investments of greater than one year is AA- by S&P, Aa3 by Moody's and AA(low) by DBRS. The five major Schedule I Banks have been assigned substantial limits in all groups due to their relative high credit ratings and liquidity. Investments in the debt of National Bank of Canada is rated lower than the five major Schedule I Banks and therefore so is the exposure to this issuer.

Schedule II Banks

Investing in the debt of Schedule II Banks offers the opportunity to marginally increase investment returns compared to investing in similar debt of Schedule I Banks, yet at the same time maintaining or even increasing the credit quality of the portfolio. However, the liquidity of Schedule II Bank debt is less than that of Schedule I Banks, particularly for debt with terms greater than 3 months.

Asset-backed Securities

Asset-backed securities, called ABS, are bonds or notes backed by financial assets. Typically these assets consist of credit card receivables and auto loans. ABS differ from most other kinds of bonds in that their creditworthiness (which is at the triple-A level for more than 90% of outstanding issues) derives from sources other than the paying ability of the originator of the underlying assets. Financial institutions that originate loans, including banks, credit card providers, auto finance companies and consumer finance companies, convert their loans into marketable securities through a process known as securitization. The loan originators are commonly referred to as the issuers of ABS, but in fact they are the sponsors, not the direct issuers, of these securities. The securities, which are sold to investors by the investment banks that underwrite them, are "credit-enhanced" with features that offer additional financial protection. As a result, the ABS-issuing trust's ability to pay interest and principal remains intact even if the sponsor encountered financial difficulties.

Going forward, preference will be given to Sch-1 bank ABS (Credit Card/Line of Credit receivables or Mortgages with Government of Canada guarantee). For Sch-2 bank ABS, retailers and auto loans should be evaluated on an individual basis with research indicating very strong/excellent collateral level (documentation required), along with written signoff (e.g. email) by both the Capital Markets Manager and Senior Investment Advisor prior to the transaction.

Commercial Paper

Commercial paper is short-term, unsecured debt issued in the form of promissory notes. Issuers of commercial paper consist of financial and non-financial firms. Commercial Paper conforms to the credit rating and term-to-maturity restrictions contained in the Municipal Investment Regulations, are subject to the restriction of not exceeding 5% of the total money market and bond portfolios. It is the practice of the City of Toronto to only invest in banks' commercial paper.

Collateral Loans - Not Permitted

Collateral Loans are loans made to a dealer, usually overnight, which are used by the dealer to finance its inventory. The loans are called collateral loans because the dealer uses his/her inventory to secure the loan. Lending funds in this manner is often

advantageous to the lender with respect to rates and flexibility. However, legal staff is concerned that these may not be eligible investments under the current legislation as they may be considered as a loan to a dealer, not an investment in an eligible security. Accordingly, Collateral Loans are not permitted under this investment policy. Overnight financing must be accomplished by investing in an eligible security or a term deposit of a chartered Canadian bank.

New Issuers

In addition to the approved issuers and corresponding term and exposure limits listed in Section 8.2, there will be rating changes, name changes and new issuers over time that fit the approval criteria listed here in Section 8.1. In that case, DCM & CFO has the authority to make amendments to the Schedules of Approved Issuers, Term Limits and Exposure Limits in Section 8.2 in between Council approvals that are consistent with the criteria in Section 8.1. These amendments will be included in the annual Investment Report for Council.

8.2. Schedules of approved issuers, term limits and exposure limits

SCHEDULE 8.2.1 CITY OF TORONTO INVESTMENT POLICY AS AT FEB 28, 2009 APPROVED ISSUERS FOR INTERNAL MANDATED FUNDS												
Issuer	Credit Rating Short Term			Credit Rating Long Term			Toronto Group General Funds Sinking Funds Trust Funds					
	S&P	Moody's	DBRS	DBRS	Moody's	S&P	Max. %	Term Limit	Max. %	Term Limit	Max. %	Term Limit
Federal Government and Guarantees:	A-1+	P-1	R-1H	AAA	Aa1	AAA	100	40	100	30	100	30
Canada Mortgage Housing Corp.							15	30	10	30	50	30
Canada Housing Trust							15	30	10	30	50	30
Canadian Wheat Board							15	30	10	30	50	30
Export Development Corp.							15	30	10	30	50	30
Farm Credit Corp.							15	30	10	30	50	30
Business Development Corp.							15	30	10	30	50	30
Total Federal Government							100		100	30	100	30
Provincial Governments and Guarantees:												
Alberta:	A-1+	P-1	R-1H	AAA	Aaa	AAA	20	30	20	30	50	20
Alberta Capital Finance Authority/			R-1H	AAA	Aaa	AAA	10	30	10	30		
Alberta Municipal Financing												
Alberta Treasury Branch	-	P-1	R-1H	AAA	Aaa	AAA	10	30	10	30		
British Columbia:	A-1+	P-1	R-1	AAH	Aaa	AAA	20	30	20	30	50	20
British Columbia Hydro	-	P-1	R-1H	-	-	-	10	30	10	30		
Manitoba:	A-1+	-	R-1H	AH	Aa1	AA	10	30	5	20		
Manitoba Hydro	-	P-1	R-1	AH	-	-	5	20	3	10		
New Brunswick:	A-1+	-	R-1	AH	Aa1	AA-	10	30	5	20		
New Brunswick Muni. Fin. Corp.	-	-	R-1	AH	A1	AA-	5	20	5	20		
New Foundland:	A-1	-	R-1L	A	Aa2	A	10	20	5	10		
Newfoundland Muni. Fin. Corp.	-	-	R-1L	A	A3	A-	5	10	5	5	10	
Newfoundland Labrador Hydro	-	-	R-1L	A	WR	A	5	10	5	5	10	
Nova Scotia:	A-1+	-	R-1L	A	A3	A	10	20	5	10		
Nova Scotia Munic. Fin. Corp.	-	-	R-1L	A	-	-	5	10	5	10		
Ontario:	A-1+	P-1	R-1H	AA	Aa1	AA	30	30	25	30	50	20
Hydro One (formerly Ontario Hydro)	A-1	P-1	WR	AH	Aa3	A+	30	30	25	30		
Prince Edward Island	A-1	P-1	WR	AL	Aa2	A	10	30	5	20		
Quebec:	A-1+	P-1	R-1L	AH	Aa2	A+	10	30	10	20		
Hydro Quebec	WR	P-1	R-1	WR	Aa2	A+	5	20	10	20		
Societe Quebec	-	-	-	-	-	-	3	20	3	20		
Financement Quebec	A-1+	P-1	-	-	Aa2	AA-	5	20	10	20		
Saskatchewan	A-1+	-	R-1	AAL	Aa1	AA	10	30	5	20		
Total Provincial Government							100		100		100	20
City of Toronto	A-1+	P-1	-	AA	Aa1	AA	30	20	100	30	50	20
Canadian Regions/Municipalities												
Canadian Regions/Municipalities	-		-	AA-	Aa3	AA-	10	20	10	20		
(Rated AA- or higher)												
Canadian Regions/Municipalities	-		-	A-	A3	A-	5	20	5	10		
(Rated A- or higher)												
British Columbia Muni. Fin. Authority	A-1+	P-1	-	AAA	Aaa	AAA	20	30	10	30		
Total Municipal Government							50		60			

Issuer	Credit Rating Short Term			Credit Rating Long Term			Toronto Group General Funds		Sinking Funds		Trust Funds	
	S&P	Moody's	DBRS	DBRS	Moody's	S&P	Max. %	Term Limit	Max. %	Term Limit	Max. %	Term Limit
Canadian School Boards:	-		-	AA-	Aa2	AA-	5	20	5	20	-	-
Rated AA- or Higher												
Schedule I Banks:												
Bank of Montreal	A-1	P-1	R-1H	AA	Aa1	A+	25	10	15	10		
Bank of Nova Scotia	A-1+	P-1	R-1H	AA	Aa1	AA-	25	10	15	10		
CIBC	A-1	P-1	R-1H	AA	Aa2	A+	25	10	15	10		
National Bank	A-1	P-1	R-1	AAL	Aa2	A	25	5	15	1		
Royal Bank	A-1+	P-1	R-1H	AA	Aaa	AA-	25	10	15	10		
Toronto Dominion/Canada Trust	A-1+	P-1	R-1H	AA	Aaa	AA-	25	10	15	10		
Total Schedule I Banks							60		50		100	
Schedule II Banks:												
Deutsche Bank	A-1+	P-1	-	-	Aa3	-	25	1	15	1	50	1
Hong Kong Bank of Canada	A-1+	P-1	R-1H	AA	-	A+	25	1	15	1	50	1
Total Schedule II Banks:							40	1	20	1	100	1
Asset-Backed Securities:												
AAA-Rated Only				AAA	Aaa	AAA	5	10	15	10		
Commercial Paper	A-1+		R-1 L				5	1				

This is an evolving list as there will be name changes and new issuers over time that fit the Section 3.1 approval criteria

Ratings indicated in the table above are as at Nov 20/08.

WR - withdrawn. H - High, L - Low

(1) Term is in years unless denoted in months

(2) Policy Limits apply to all internally managed pension fund assets. These portfolios include:

- The Municipality of Metropolitan Toronto Pension Plan
- The Police Benefit Fund
- The City of Toronto Fire Department Superannuation and Benefit Fund
- The Civic Employees Pension and Benefit Fund

Schedule 8.2.2 provides the same details for all externally mandated funds

Issuer	Credit Ratings						Percentage Limits and Term Limits (1)			
	Short Term			Long Term			Pension Funds		Homes for the Aged	
	S&P	Moody's	DBRS	DBRS	Moody's	S&P	Max. %	Term Limit	Max. %	Term Limit
Federal Government	A-1+		R-1 (High)	AAA	Aa1	AAA	100	1	100	2
Total Government: Federal							100	1	100	2
Total Provincial Government	—		—	—	—	—	—	—	—	—
City of Toronto	A-1+	P-1	-	AA	Aa1	AA				
Ontario Regions/Municipalities										
Other Canadian Municipalities (AA- or Higher)	—		—	AA-	Aa3	AA-				
Other Canadian Municipalities (A- or Higher)	—		—	A-	A3	A-				
Total Municipal Government										
Canadian School Boards (AA- or Higher)	—		—	AA-	Aa2	AA-				
Schedule I Banks:										
Bank of Montreal	A-1	P-1	R-1H	AA	Aa1	A+	100	1	100	2
Bank of Nova Scotia	A-1+	P-1	R-1H	AA	Aa1	AA-	100	1	100	2
CIBC	A-1	P-1	R-1H	AA	Aa2	A+	100	1	100	2
National Bank	A-1	P-1	R-1	AAL	Aa2	A	100	6 mths.	100	6 mths.
Royal Bank	A-1+	P-1	R-1H	AA	Aaa	AA-	100	1	100	2
Toronto Dominion / Canada Trust	A-1+	P-1	R-1H	AA	Aaa	AA-	100	1	100	2
Total Schedule I Banks							100		100	
Schedule II Banks:										
Deutsche Bank	A-1+	P-1	-	-	Aa3	-	100	6 mths.	100	6 mths.
HongKong Bank	A-1+	P-1	R-1H	AA	-	A+	100	6 mths.	100	6 mths.
Total Schedule II Banks							100	6 mths.	100	6 mths.

Ratings indicated in the table above are as at Nov 20/08.

WR - withdrawn. H - High, L - Low

(1) Term is in years unless denoted in months.

(2) Policy limits apply to all internally managed pension fund assets. These portfolios include:

- (i) The Municipality of Metropolitan Toronto Pension Plan;
- (ii) The Police Benefit Fund;
- (iii) The City of Toronto Fire Department Superannuation and Benefit Fund; and
- (iv) The Civic Employees Pension and Benefit Fund