

City of Toronto Investment Report for 2018 and the First Quarter of 2019 and Policy Update

Date: September 4, 2019

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The purpose of this report is to provide the following information:

1. Performance of the Funds – for the year of 2018 and for the first quarter of 2019
2. General Market Update and Benchmark Performance
3. Recommendations for Investment Policy Changes

The City's investment portfolio that holds the City's working capital and the amounts designated for the City's reserves and reserve funds earned \$156.5 million in 2018 and \$39.4 million in the first quarter of 2019 (2.7% and 3.0% annualized respectively).

The City's sinking funds portfolio that holds funds for future debt repayments earned \$54.1 million in 2018 and \$12.3 million in the first quarter of 2019 (3.2% and 3.1% annualized respectively).

Since January 1, 2018, the City's investments have been managed by the Toronto Investment Board under a new Council adopted Investment Policy which is based on the prudent investor standard.

This report also responds to Council direction to review and report on sections of the Investment Policy with regard to Environmental, Social, and Governance (ESG) factors and makes recommendations to enhance these sections.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve the following amendments to the City Council-approved Investment Policy (Policy) and adopt the amended Policy as set out in Attachment 1:
 - (a) the Investment Beliefs (Section 2.2) be enhanced to include recognition of Environment, Social and Governance (ESG) factors as material to risk/return outcomes;

(b) the Environmental, Social, and Governance Factors (Section 6.6) be strengthened by having investment managers consider the United Nations' 17 sustainable development goals which includes climate change: and

(c) Section 3.2 (b) (v) Investments in Pooled Funds, Mutual Funds, and other similar products be added to allow the Chief Financial Officer and Treasurer, at her discretion, to accept minor variations of the City's Investment Policy when compared to the standard terms in the policies of these funds.

2. City Council request the Toronto Investment Board and the Chief Financial Officer and Treasurer to develop a process to verify that external investment firms are in compliance with the terms of the Investment Policy governing ESG and that compliance with such process be reported to City Council semi-annually with the other information on investment returns and compliance with the policy.

FINANCIAL IMPACT

The City's General Group of Funds ("General Fund") earned \$156.5 million in 2018 and \$39.4 million in the first quarter of 2019. The investment activities in 2018 and the first quarter of 2019 were in compliance with the investment policies and goals adopted by City Council.

The 2018 earnings from the General Fund were allocated to the operating budget (\$109.4 million) and reserve funds (\$47.1 million) according to the Council approved interest allocation policy. The earnings for the first quarter of 2019 are in line with the forecasted income contribution to the 2019 Operating Budget.

The City's Sinking Funds portfolio earned \$54.1 million in 2018 and \$12.3 million in the first quarter of 2019. These earnings are retained within the Sinking Funds for the purpose of retiring debenture debt as it matures.

DECISION HISTORY

City Council adopted the New City of Toronto Investment Policy at their meetings on December 5 to 8, 2017

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.6>

City Council adopted the updated Investment Policy at their meetings on June 26 to 29, 2018 and passed a motion for staff to review the ESG sections with the focus on climate change after consultations with several stakeholders

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.16>

The Toronto Investment Board adopted a Board Decision at their meeting of May 11, 2019 with respect to the ESG sections of the Investment Policy

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB2.1>

COMMENTS

Working capital and the amounts designated for reserves and reserve funds are held for investment in the City's General Group of Funds ("General Fund"). The amounts necessary for working capital are held within the Short Term Fund and amounts being invested on a longer-term basis (amounts designated for reserves and reserve funds) are held within the Long Term Fund.

Given the specific purpose (debt retirement) of the Sinking Fund, it is managed separately from the General Group of Funds but adheres to the same primary objectives.

Up until the end of 2017, administration of City investments was managed by staff under investment regulations dating back prior to the City's amalgamation. Beginning January 1, 2018, new prudent investor rules took effect and the City began to transition to the new framework under the management of the Toronto Investment Board.

Attachment 3 provides a short background on these funds.

Earned Investment Income – 2018 and First Quarter of 2019

For the year of 2018 – General Fund

Investment earnings are composed of the annual earned interest income and capital gains/losses that are realized on the portfolio. The total earnings of \$156.5 million for the General Fund in 2018 were distributed to the City's operating budget (\$109.4 million) and to the City's reserve funds (\$47.1 million) as shown in the following table:

Table 1 - Allocation of Investment Earnings for the Year 2018

Investment Earnings (\$millions)	2018	2017	2016	2015	2014
1. Operating Budget	\$109.4	\$114.3	\$114.1	\$121.3	\$120.1
2. Reserve Funds	\$47.1	\$16.6	\$16.3	\$16.5	\$23.6
Total General Funds	\$156.5	\$130.9	\$130.4	\$137.8	\$143.7

The investment earnings of \$156.5 million in 2018 exceeded budget by \$1.4 million. This variance was mainly attributable to the transition phase of the portfolio. As a result, higher cash balances continued to accumulate and earn interest at rates higher than forecasted.

The table below shows the historical budget and actual investment earnings for the operating budget.

Table 2 - Budget and Actual Investment Earnings for the Operating Budget

Investment Earnings allocated to the Operating Budget (\$millions)	2018	2017	2016	2015	2014
1. Operating Budget Investment Earnings	\$108.0	\$98.6	\$114.5	\$121.8	\$121.7
2. Actual Investment Earnings	\$109.4	\$114.3	\$114.1	\$121.3	\$120.1
Variance	\$1.4	\$15.7	\$-0.4	-\$0.5	-\$1.6

The distribution and historical investment earnings are summarized in the tables below:

Table 3 - Investment Portfolio Income for the Year 2018 (\$millions)

Portfolio	Average Fund Balance	Earned Income	Earned Return on Capital
1. Long Term Fund	\$2,819.3	\$93.8	3.3%
2. Short Term Fund	\$2,982.0	\$62.7	2.1%
Total General Funds	\$5,801.3	\$156.5	2.7%

The overall earned return on capital of 2.7% in 2018 was slightly higher than the 2.6% return realized in 2017.

For the year of 2018 – Sinking Fund

During 2018, the overall Sinking Fund portfolio of \$1.6 billion earned \$54.1 million. The overall earned return on capital of 3.2% was lower than the 3.8% return realized in 2017. This variance was mainly due to the longer than expected transition phase where the portfolio would move into equities and real assets. Cash proceeds from sinking fund contributions continued to accumulate and earn short-term interest rates until they could be deployed into other asset classes following contract negotiations with selected asset managers.

Earnings vary for each of the five separate Sinking Funds in relation to their respective balances and the average term to repayment of the underlying debentures. Sinking Funds are segregated so that the scheduled contributions plus reinvested earnings are dedicated to the repayment of debentures.

Table 4 – Sinking Fund Income for the Year 2018 (\$millions)

Portfolio	Average Fund Balance	Earned Income	Earned Return on Capital
Sinking Fund	\$1,681.6	\$54.1	3.2%

Earned Investment Income for the First Quarter of 2019

During the first quarter of 2019, staff continued to invest the Short Term Fund (STF). While agreements were being negotiated with external fund managers on the Long Term Fund and the Sinking Fund (SF), both funds continued to build cash and short-term holdings as well as maintaining existing bond holdings that were purchased under the previous eligible investment list.

As demonstrated in the table below, the General Fund, composed of both the Short Term fund and the Long Term Fund, earned \$39.4 which is a 3.0% annualized rate of return on capital for the first quarter of 2019. These actual earnings are \$6.8 million higher than the forecasted income contribution for the first quarter (forecasted \$32.6 million). The Sinking Fund earned \$123 million yielding 3.1% during the first quarter of 2019.

Table 5 - Earned Return on Capital for the First Quarter of 2019 (\$millions)

Portfolio	Average Fund Balance	Earned Income	Earned Return on Capital (annualized)
Total General Fund	\$5,373.2	39.4	3.0%
Short Term Fund	\$2,538.0	\$17.2	2.7%
Long Term Fund	\$2,835.2	\$22.2	3.2%
Total Sinking Funds	\$1,595.5	\$12.3	3.1%

Record of Transactions in City of Toronto Debentures

To comply 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. In 2018 and the first quarter of 2019, the City did not make any purchase or sale of its own securities.

General Market Update and Portfolio Market Return

The positive performance of global economic activity of 2018 continued into the first quarter of 2019. Economic data in Canada and the United States were particularly strong with unemployment rates near cycle lows. Growth, as measured by GDP, remained positive while inflation stayed within the acceptable range of most central banks.

Given this economic scenario, central bankers in both Canada and the United States started to move short-term interest rates higher. The Federal Open Market Committee (FOMC) in the U.S. increased short-term interest rates eight times since December 2016 for a total of 200 basis points (a basis point is 1/100th of a percent). The most

recent increase of 25 basis points occurred on December 19, 2018. Similarly, the Bank of Canada increased the overnight rate five times for a total of 125 basis points over the same time period with the most recent increase of 25 basis points on October 24, 2018.

Several central banks, including those in Canada and the United States, have indicated future increases to short-term interest rates were possible in 2019. However, the FOMC indicated some adjustments maybe required and signaled a move to lower rates in 2019. On July 31, 2019, the FOMC adjusted short-term rates lower by 25 basis points.

The increases to short-term interest rates have an impact on longer-term interest rates (yields) in the bond market. This results in negative returns in the bond market in the short term. Conversely, falling long-term interest rates are associated with positive total returns in the bond market. Recent actions and comments in 2019 from central bankers have indicated a move to lower rates and have provided for positive returns in the bond market.

Global equity markets had a choppy performance throughout 2018 with valuations considered high along with possible trade interruptions and higher interest rates in the background. This resulted in an overall negative performance to finish the year. However equity markets rebounded during the first quarter of 2019 with the talk of lower interest rates and possible resolution to some international trade talks.

Table 6 – Benchmark Total Returns (Market Value) – 2018 and Q1 2019

	2018 (%)	Q1 2019 (na ¹) (%)
FTSE Canada Universe Bond Index	1.4	3.9
S&P/TSX Composite	-8.9	13.3
S&P 500 (USD)	- 4.4	13.6
MSCI ACWI (Net)	-1.3	9.7

¹ – not annualized

2018 Portfolio Performance in Market Value

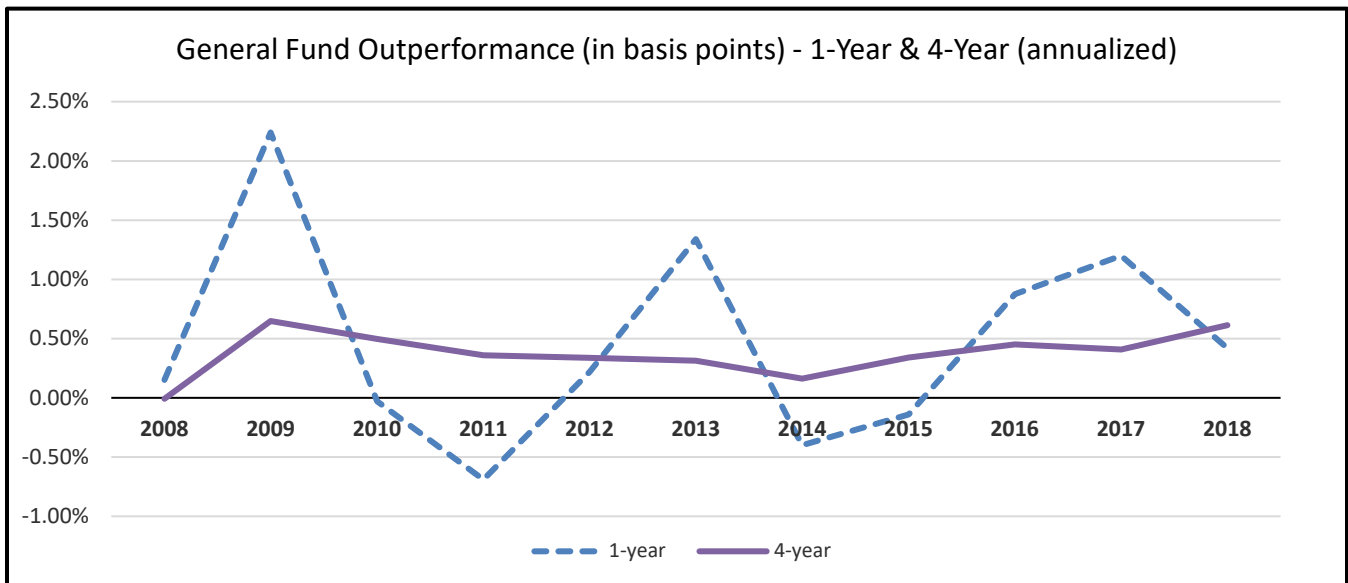
The market benchmarks for the City's Short Term Fund and Long Term Fund are FTSE Canada 30-day T-bill Index and FTSE Canada Universe Bond Index respectively. As shown in Table 7 below, the City's General Fund (Short Term Fund and Long Term Fund) has out-performed the weighted market benchmark by 0.42% in one-year return and 0.61% in the four-year return (annualized) at December 31, 2018.

Table 7 – General Fund Market Returns vs. Market Benchmarks (%) for 2018

	For the Year of 2018	
	1-Year Return	4-Year Return
Short Term Fund	2.10	1.45
Benchmark	1.30	0.74
Value-Added	0.80	0.71
Long Term Fund	1.42	2.59
Benchmark	1.41	2.08
Value-Added	0.01	0.51
Overall General Fund	1.77	2.01
Weighted Benchmark	1.35	1.39
Value-Added	0.42	0.61

Figure 1 below compares the City’s General Fund performance relative to the benchmark over the one-year and four-year investment horizons. As demonstrated below, one-year return shows the more volatility than the four-year annualized return.

Figure 1 – Value-Added over Benchmark: 1-Year and 4-Year (annualized)



The Sinking Fund underperformed its benchmark (FTSE Canada Mid-Term Overall Bond Index) by 0.11% for the one-year return (1.80% vs.1.91%), and 0.34% for the four-year return (1.98% vs 2.32%).

First Quarter of 2019 Portfolio Performance in Market Value

As shown in Table 8 below, the City's General Fund (Short Term Fund and Long Term Fund) has outperformed the weighted market benchmark by 0.74% in one-year annualized return and 0.85% in the four-year annualized return at March 31, 2019.

Table 8 – Annualized Market Returns vs. Market Benchmarks (%) for Q1-2019

	For the Q1 of 2019	
(Annualized Return %)	1-Year Return	4-Year Return
Short Term Fund	2.74	1.85
Benchmark	1.43	0.79
Value-Added	1.31	1.06
Long Term Fund	5.38	2.61
Benchmark	5.27	1.96
Value-Added	0.11	0.65
Overall General Fund	3.99	2.21
Weighted Benchmark	3.24	1.36
Value-Added	0.74	0.85

The Sinking Fund underperformed its benchmark by 1.23% for the one-year return (4.51% vs.5.74%), and 0.17% for the four-year return (2.03% vs 2.20%). As mentioned in the previous section, this is primarily due to the transition to the new external fund managers as the existing positions were held under the old regulations until contracts were negotiated. The benchmark will also be changing with the managers as the mandates will require a customized index that will more appropriately reflect the updated strategy (LDI - Liability Driven Investment) based on cash flows to fund future liabilities.

Compliance with the Investment Policy Guidelines

All the funds were within the Asset Mix requirements set out in the Council-approved Investment Policy in 2018 and in the first quarter of 2019. With regard to the Credit Rating Constraints, all the fund holdings are at a minimum of "A-" credit rating. The breakdown of each portfolio is shown in Attachment 2.

There were no exceptions to report for the year of 2018 and the first quarter of 2019.

Investment Objectives and Policies

The primary objectives, in priority order, for all City investment activities continue to be:

- ensure the safety of principal
- maintain adequate liquidity
- meet annual budgetary requirements for earnings
- maximize long-term market rate of return that is consistent with the above risk management objectives.

The specific criteria and restrictions on investments that can be acquired for each of the City's investment funds are set out in the City of Toronto Investment Policy. An updated Investment Policy was adopted by Council in December 2017 that became effective on January 1, 2018. On an annual basis, and more frequently if required, a comprehensive review of the City's Investment Policy is completed.

Effective January 1, 2018, the Toronto Investment Board, established under subsection 46(2) of Ontario Regulation 610/06 under the City of Toronto Act, 2006, is responsible to oversee and manage the City's investments of funds not immediately required by the City pursuant to the prudent investment standard. City staff will continue to manage the Short Term Fund to maintain liquidity for daily working capital management.

Toronto Investment Board

The new investment regulations were filed in November 2015 and the City was given until January 1, 2018 to transition to the new standard. During this time a number of action items were implemented:

- Council established the Toronto Investment Board (the Board) in March 2017.
- Outreach to fill six independent seats on this new Board commenced immediately with the members appointed by Council in October 2017.
- The Board held its first two meetings in November 2017 and adopted an Interim Investment Plan.
- Council passed the new Investment Policy in December 2017.

In 2018, the Board held a total of six meetings with a number of action items considered and adopted:

- A contract was signed with an investment consultant (Aon) to develop an Investment Plan and conduct a manager search in February 2018
- Investment Plan was adopted by the Board at its meeting in April 2018
- Annual review of the Investment Policy and recommendations to City Council to amend the policy was adopted in May 2018

- Manager search and interviews were completed and the Board selected eight external investment managers (four fixed income and four global equity managers) in June 2018
- Personal Trading Policy was adopted by the Board after review by the Integrity Commissioner in November 2018

Although the Board selected eight external investment managers in June 2018, contracts were being reviewed and negotiated by staff through the second half of 2018. Terms were finalized with four of the fixed income managers in early 2019 and approximately 70 percent of the overall portfolio was transferred to these managers on May 1, 2019. Due to U.S. tax considerations contracts with the four global equity managers were delayed but are now near completion.

The Board held two meetings in the first half of 2019. On May 11, 2019 a Special Meeting of the Board was held to consider changes to the Investment Policy with regards to Environmental, Social, and Governance (ESG) issues with a focus on climate change. This item was a result of a motion adopted by City Council (Attachment 4) at their meetings held June 26 to 29, 2018 where the Investment Policy was reviewed and updated. During this meeting of the Board, several communications were received by various stakeholders and industry experts including TAF, Sustainalytics, Aon, and one Board member who could not be in attendance. The Board adopted a motion in regard to this matter (Attachment 5).

In addition to the information presented at the Toronto Investment Board on May 11, 2019, City staff also consulted several industry stakeholders and specialists as outlined in Table 9.

Table 9 – List of Industry Stakeholders Consulted

Organization	Name	Title
Responsible Investment Association	Mary Robinson*	Director of Research, Policy, & Collaboration
Sustainalytics	Gary Hawton	Senior Director, Client Relations, North America
The Atmospheric Fund	Julia Langer	Chief Executive Officer
Aon Hewitt	Brian White	Partner
WSIB/Payments Canada	Pamela Steer*	Chief Financial Officer
C40 Cities	Laura Jay / Friederike Hanisch	Deputy Regional Director for North America / Senior Manager, C40 Divest/Invest Forum, City Finance Programme

*Members of the Toronto Investment Board

Recommendations for Investment Policy Changes

The prudent investor regulations require that Council review its Investment Policy each year. The Investment Board has identified and now proposes some changes, for city Council's consideration, to the Investment Policy adopted by Council at its meeting on June 26 to 29, 2018.

The proposed changes comprise i) change the Investment Belief section (Section 2.2) to include recognition of Environment, Social and Governance (ESG) factors as material to risk/return outcomes; and ii) change the Environmental, Social, and Governance (ESG) Factors (Section 6.6) for investment managers to consider the United Nations' 17 Sustainable Development Goals (SDGs) which includes climate change. The recommendations do not change any of the basic principles, objectives, or overall portfolio risk profiles in the current Investment Policy, but are intended to highlight and focus the City of Toronto's commitment to sustainability and in particular climate change.

The updated Investment Policy is attached (Attachment 1) with the new additions in "**bold**".

Amendment Item 1. Change the Investment Belief section (Section 2.2) to include recognition of Environment, Social and Governance (ESG) factors as material to risk/return outcomes.

This item was identified by City Council in its motion to approve the Investment Policy (EX35.16) in June 2018. All stakeholders and staff agreed this was a positive change and would clarify and enhance the policy.

Investment Beliefs - Section 2.2 (vi) was added to read: **Environmental, Social, and Governance (ESG) factors are material to risk/return outcomes and must be considered and integrated in the investment approach.**

Amendment Item 2. Change the Environmental, Social, and Governance (ESG) Factors (Section 6.6) to be broad and consider the United Nations' 17 Sustainable Development Goals (SDGs) which includes climate change.

An additional paragraph was added to the Environmental, Social, and Governance (ESG) Factors – Section 6.6 to read:

These ESG factors should focus on all of the 17 Sustainable Development Goals (SDGs) identified by the United Nations which include, but are not limited to, climate change, gender equality, and poverty reduction.

City Council also requested staff to "improve Section 6.6 Environment, Social and Governance Factors to reflect current responsible investment best practices, excluding fossil fuels from the portfolio, and actively investing in clean energy and climate solutions".

This item was more difficult to gain a consensus on with stakeholders. Several industry experts argued exclusionary policies were not the current best practice in responsible investing and are difficult to work with for practical purposes. Given the set-up of the Toronto Investment Board and the need to hire external managers, one industry stakeholder with a long history of over 25 years in sustainable investing indicated the number of firms with a track record longer than five years that could provide an actively managed product in clean energy and climate solutions is severely limited and in the area of three firms. In other words, there is not a lot of choice.

The Toronto Investment Board adopted a more holistic approach that included all of the United Nations 17 Sustainable Development Goals (SDGs) (Attachment 6 and 7) which includes several specific items related to climate change: affordable and clean energy (Goal 7), sustainable cities and communities (Goal 11), and climate action (Goal 13).

The 17 sustainable development goals (SDGs) are:

- Goal 1: No Poverty
- Goal 2: Zero Hunger
- Goal 3: Good Health and Well-being
- Goal 4: Quality Education
- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation and Infrastructure
- Goal 10: Reduced Inequality
- Goal 11: Sustainable Cities and Communities
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Action
- Goal 14: Life Below Water
- Goal 15: Life on Land
- Goal 16: Peace and Justice Strong Institutions
- Goal 17: Partnerships to achieve the Goal

It should also be noted the Toronto Investment Board has selected external investment managers that are all United Nations Principles for Responsible Investment (UNPRI) signatories. It is a difficult process to become a signatory as well as maintaining this status. Becoming an UNPRI signatory requires an investment manager to abide by six principles:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

Possible New Asset Class – Direct Investment in the local economy in Toronto

The third part of the motion from City Council was "adding an asset class for Direct Investment with a focus on investments that would benefit and enhance the local economy in Toronto".

The Toronto Investment Board responded to this by adopting the following motion: "Exclude direct investing in Toronto's economy as a separate asset class in the Investment Policy, as it falls outside the Toronto Investment Board's mandate, responsibilities, and resources and these types of investments are direct policy decisions for City Council through its Budget Process"

Staff agree with the points of the Toronto Investment Board. The Board is a directional one with no dedicated staff to review proposals and award funds for direct investments. This is a highly specialized area of investing known as Private Equity & Debt that requires trained and dedicated staff. Investment consultants working with City staff on the initial investment policy recommended to avoid this area as it is not an asset class a prudent investor would use in the initial stages. City Council does have the ability to direct funds through the Operating and Capital Budgets to benefit and enhance the local economy.

Environmental, Social, and Governance (ESG) Managers and Portfolio Evaluation

Although all of the selected external investment managers are UNPRI signatories, City staff is recommending all of the portfolios be reviewed on a continuing basis in order to ensure compliance with the evolving ESG standards. It is recommended that City Council direct the Toronto Investment Board along with the Chief Financial Officer and Treasurer to develop a process that ensures that the investment managers are in compliance with the ESG terms of the city's Investment Policy.

Similar to credit ratings, there are several independent third party services that provide these reviews and ratings on individual companies. All of the external investment managers subscribe to one or several of these services. It will be a matter for the Toronto Investment Board along with City staff to determine which of these services is best to use and to develop a process to collect the information. A change in the Investment Policy is anticipated once the process and standard is developed.

Environmental, Social, and Governance (ESG) - Next Steps

The Toronto Investment Board highlighted ESG as one area of investments that is evolving and requested staff to continue to monitor and bring forward updates to this section of the Investment Policy as and when appropriate for City Council's consideration.

City staff also met separately with one Toronto Investment Board member (Mary Robinson) who is the Director of Research, Policy, and Collaboration for the Responsible Investment Association (RIA). The RIA is Canada's industry association for responsible investment. RIA members believe that the integration of environmental, social and governance (ESG) factors into the selection and management of investments can provide superior risk adjusted returns and positive societal impact. The RIA has over 100 organizational members representing asset managers, asset owners and service providers such as Sustainalytics, CIBC, RBC Asset Management, Addenda which are founding members. The RIA hosts a number of educational and networking events for their members to promote and learn about responsible investment.

As far as monitoring current trends and keeping up-to-date, it would be beneficial for the City to become a member of the RIA. There are currently no other municipalities in the RIA. The City of Toronto would be the first municipality to demonstrate commitment to and leadership in Responsible Investing (RI). City staff are in the process of completing a membership application at the time of writing this report.

Housekeeping Item to Clarify the Use of Pooled Funds, Mutual Funds, and other Similar Funds

Pooled funds, mutual funds, and other similar funds are funds that are created to attract a number of institutional and retail investors. The City of Toronto is permitted to use these funds under the new prudent investor regulations. The Toronto Investment Board has selected to use pooled funds for the global equity allocation as they provide lower cost, ease of use, liquidity, and ease of administration. The current City of Toronto Investment Policy does allow for the use of these funds.

These funds have developed generic investment policies that appeal to large number of investors, however may differ slightly from the City's Investment Policy. For example, the City's policy does not allow margin, borrowing, or other types of leverage, however many of these funds allow for some short term borrowing for liquidity purposes (i.e. large redemption, market disruption, settlement issue, etc.). This is a normal and prudent business practice for all of these funds but may be considered by some as a variation of the City's policy.

Similarly, other individual securities are either not mentioned in the City's policy (e.g. American Depository Receipts (ADRs)) or are mentioned (Repurchase and Reverse Repurchase Agreements) however may be used by these types of funds in the normal course of business.

In order to use these types of funds, it will be necessary to accept these minor variations in policies so that documentation may be completed.

It is recommended that City Council give the Chief Financial Officer and Treasurer the authority to accept these minor variations at her discretion.

Amendment Item 3. Add Section 3.2 (b) (v) Investments in Pooled Funds, Mutual Funds, and other similar products to allow the Chief Financial Officer and Treasurer, at her discretion, to accept minor variations of the City's Investment Policy when compared to the standard terms in the policies of these funds.

Section 3.2 will read as:

Investments in Pooled Funds, Mutual Funds, and other similar products

Given these funds are created to be used by multiple investors and have pre-established policies that do not align exactly with the provisions of this policy, the Chief Financial Officer and Treasurer will have discretion to accept the terms of the fund if such terms are minor variations to this policy.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Attachment 1 – Statement of Investment Policy and Procedures
Attachment 2 – Breakdown of the Portfolios by Sectors and by Credit Ratings
Attachment 3 – Background on the Funds
Attachment 4 – Council Decision on EX35.16
Attachment 5 – Toronto Investment Board Decision IB2.1
Attachment 6 – United Nations 17 Sustainable Development Goals (SDGs)
Attachment 7 – View of SDG System – Interlinked Goals

Attachment 1

Under Separate Cover

Attachment 2

Breakdown of the Portfolios by Sectors (Excluding Cash) - 2018

As of December 31, 2018

	Short Term Fund (\$ million)	Short Term Fund	Long Term Fund (\$ million)	Long Term Fund	Sinking Fund (\$ million)	Sinking Fund
Government of Canada & Guarantees	0	0	75	3%	0	0%
Provinces & Guarantees	0	0	926	44%	1,034	77%
Municipal Bonds (including School Boards)	0	0	864	41%	275	21%
Corporate Bonds*	800	100%	258	12%	28	2%
Total	800	100%	2,123	100%	1,337	100%

*Schedule 1 banks Senior Deposit Notes, GIC and "AAA" Asset Back Securities

Breakdown of the Portfolios by Credit Ratings (Excluding Cash) - 2018

As of December 31, 2018

	Short Term Fund (%)	Long Term Fund (%)	Sinking Funds (%)
AAA/AA	100%	100%	100%
A	0%	0%	0%
BBB	0%	0%	0%
Total	100%	100%	100%

Breakdown of the Portfolios by Sectors (Excluding Cash) – Q1 2019

As of March 31, 2019

	Short Term Fund (\$ million)	Short Term Fund	Long Term Fund (\$ million)	Long Term Fund	Sinking Fund (\$ million)	Sinking Fund
Government of Canada & Guarantees	0	0	75	3%	0	0%
Provinces & Guarantees	0	0	923	44%	1,028	77%
Municipal Bonds (including School Boards)	0	0	863	41%	274	21%
Corporate Bonds*	979	100%	253	12%	28	2%
Total	979	100%	2,114	100%	1,330	100%

*Schedule 1 banks Senior Deposit Notes, GIC and "AAA" Asset Back Securities

Breakdown of the Portfolios by Credit Ratings (Excluding Cash) - 2019

As of March 31, 2019

	Short Term Fund (%)	Long Term Fund (%)*	Sinking Funds (%)
AAA/AA	100%	100%	100%
A	0%	0%	0%
BBB	0%	0%	0%
Total	100%	100%	100%

Attachment 3

Background on the Funds

Sources of Investment Funds

Sources of investment funds managed by staff include working capital for cash management purposes as well as reserves and reserve funds.

Working Capital (Short Term Fund)

The City retains necessary funds on hand to provide bridge financing between the time when expenditures, such as staff payroll and construction contractor payments, are required and the time when major cash inflows, such as tax and water payments and debenture issuance proceeds, are received. These funds are typically available for investment over short periods (typically less than a year) and are invested in the Money Market Portfolio.

Reserves and Reserve Funds (Long Term Fund)

Reserves and reserve funds have been established by the City to address the following types of long-term expenditure needs:

- Growth-related infrastructure expansion (funded by Development Charges paid by developers)
- Land acquisition
- Replacement of City vehicles
- Capital financing
- Unanticipated City and ABC's operating budget shortfalls
- Employee benefits

The majority of the amounts designated for these reserves and reserve funds are not required in the short term and can be invested over a longer term (greater than one year) in order to improve investment returns.

Sinking Funds

The City of Toronto established the Sinking Fund under the City of Toronto Act, 2006. The sole purpose of this money is to be used for debt repayment.

Debt can only be issued for long-term capital projects approved by City Council and cannot be issued to fund operating budget items. Each new debenture issue is completed in either a 10, 20, or 30 year term to maturity with an accompanying by-law that provides a schedule of payments (contributions) to the Sinking Fund. There is an assumed rate of investment return that is built in to the schedule of payments on each issue. Higher assumed rates of investment return would result in lower contributions. The opposite would be true for lower assumed rates of return.

At maturity, the contributions plus the earnings should pay the full amount (par value) of the debenture. Any shortfall would require an additional payment by the City. Surpluses are kept within the Sinking Fund unless otherwise approved by Council to offset any potential future deficits.

Attachment 4

City Council Decision on Item EX35.16, City of Toronto Investment Report for 2017 and the First Quarter of 2018 and Policy Update (Considered at the City Council Meeting on June 26-29, 2018)

City Council Decision City Council on June 26, 27, 28 and 29, 2018, adopted the following:

1. City Council approve the following amendments to the City Council-approved Investment Policy (Policy) and adopt the amended Policy set out in Attachment 2 to the report (June 5, 2018) from the Interim Chief Financial Officer:
 - a. the Asset Mix for Equities for Long Term Fund and Sinking Fund be adjusted by combining all four equity categories into one category called "Global Equity" with a Targeted Asset Mix of 20-percent with a range from a Minimum of 0-percent to a Maximum of 30-percent;
 - b. the MSCI All-Country World Index be included as a benchmark to measure the performance of the equity portfolio in its entirety for the Long Term Fund and Sinking Fund;
 - c. the benchmark for the Fixed Income component of the Sinking Fund be changed to "Customized" based on the "Liability Driven Investments" approach;
 - d. the average credit rating of the fixed income portfolio for the Long Term Fund and Sinking Fund be lowered from "A" to "A-" (or equivalent) to be equal to the fixed income benchmark (Financial Times Securities Exchange (FTSE) TMX Universe Canada Bond Index);
 - e. the Asset Mix for the Trust Fund be adjusted by increasing the Maximum weight of Schedule 1 Bank from 50 percent to 100 percent which aligns with the current limit in the Investment Policy for the City's Short Term Fund; and
 - f. the minimum credit rating requirements of the Schedule 1 Banks for the Trust Funds be lowered from "AA-" to "A" (or equivalent) to be the same as the requirements for the City's Short Term Fund.
2. City Council establish a corporate reserve account named the Investment Stabilization Reserve in Schedule 3 - Stabilization Reserves of City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds ("Chapter 227"), the purpose of which is to stabilize investment income contributions to the operating budget by minimizing in-year variances through receiving funds in years when investment income is in excess of the amount expected in the operating budget and withdrawing funds in years when investment income is below budget, with criteria as set out in Attachment 5 to the report (June 5, 2018) from the Interim Chief Financial Officer.

3. City Council request the Executive Director, Corporate Finance to report to the Executive Committee in the first quarter of 2019, in consultation with the Toronto Investment Board, the Chief Executive Officer and Board of The Atmospheric Fund, the C40 Cities Climate Change Leadership Group and relevant industry stakeholders, on possible amendments to the Statement of Investment Policy and Procedures that would:

a. improve Section 6.6 Environment, Social and Governance Factors to reflect current responsible investment best practices, excluding fossil fuels from the portfolio, and actively investing in clean energy and climate solutions;

b. enhance Section 2.2 Investment Beliefs including recognition of Environment, Social and Governance factors as material to risk/return outcomes; and

c. add an asset class for Direct Investment with a focus on investments that would benefit and enhance the local economy in Toronto.

4. City Council further advise the Toronto Investment Board of the request in Part 3 above and of Council's intent to review the investment policy as it relates to fossil fuel investments, climate risk and climate solutions.

Background Information (Committee)

(June 5, 2018) Report and Attachments 1, 3, 4, 5 from the Interim Chief Financial Officer on City of Toronto Investment Report for 2017 and the First Quarter of 2018 and Policy Update (<http://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-116241.pdf>)

Attachment 2 - Statement of Investment Policy and Procedures (<http://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-116242.pdf>)

Motions (City Council) 1 - Motion to Amend Item (Additional) moved by Councillor Mary Margaret McMahon (Carried)

That:

1. City Council request the Executive Director, Corporate Finance to report to Executive Committee in the first quarter of 2019, in consultation with the Toronto Investment Board, the Chief Executive Officer and Board of The Atmospheric Fund, the C40 Cities Climate Change Leadership Group and relevant industry stakeholders, on possible amendments to the Statement of Investment Policy and Procedures that would:

a. improve Section 6.6 Environment, Social and Governance Factors to reflect current responsible investment best practices, excluding fossil fuels from the portfolio, and actively investing in clean energy and climate solutions;

b. enhance Section 2.2 Investment Beliefs including recognition of Environment, Social and Governance factors as material to risk/return outcomes; and

c. adding an asset class for Direct Investment with a focus on investments that would benefit and enhance the local economy in Toronto.

2. City Council further advise the Toronto Investment Board of the above request and of Council's intent to review the investment policy as it relates to fossil fuel investments, climate risk and climate solutions.

Link to additional information:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.16>

Attachment 5

Investment Board Decision on Item IB2.1, Investment Policy - Environmental, Social, and Governance Review (Considered at the Toronto Investment Board Meeting on May 10, 2019)

Board Decision (May 10, 2019):

The Toronto Investment Board:

1. Requested the Executive Director, Corporate Finance, to incorporate the following comments in the Executive Director's upcoming report to City Council on the Investment Policy - Environmental, Social, and Governance Factors Review:

- a. Include Environmental, Social, and Governance factors as material to risk/return outcomes in Section 2.2 (Investment Beliefs) of the Investment Policy;
- b. Ensure that the focus of Section 6.6 (Environmental, Social, and Governance Factors) of the Investment Policy is all-inclusive and considers the United Nations' 17 sustainable development goals which includes climate change;
- c. Exclude direct investing in Toronto's economy as a separate asset class in the Investment Policy, as it is falls outside the Toronto Investment Board's mandate, responsibilities, and resources and these types of investments are direct policy decisions for City Council through its Budget Process;
- d. Maintain the current Section 6.6 (Environmental, Social, and Governance Factors) of the Investment Policy at this time and request Corporate Finance staff to monitor and update it regularly to reflect evolving Environmental, Social, and Governance principles that are aligned with the mandate of this Policy; and
- e. Ensure the policy recommendations support and advance the City's commitment towards carbon reduction targets.

Decision Advice and Other Information

Julia Langer, Chief Executive Officer, The Atmospheric Fund and Hyewon Kong, Member, Investment Committee, The Atmospheric Fund gave a presentation on City of Toronto Investment Policy: Embracing Best Practices, Minimizing Downside Climate Risk, and Maximizing Upside Value from Climate Solutions.

Brian White, Partner, Aon Hewitt gave a presentation on Key Considerations for Responsible Investment.

Attachment 6



Attachment 7

View of the SDG system: Interlinked Goals

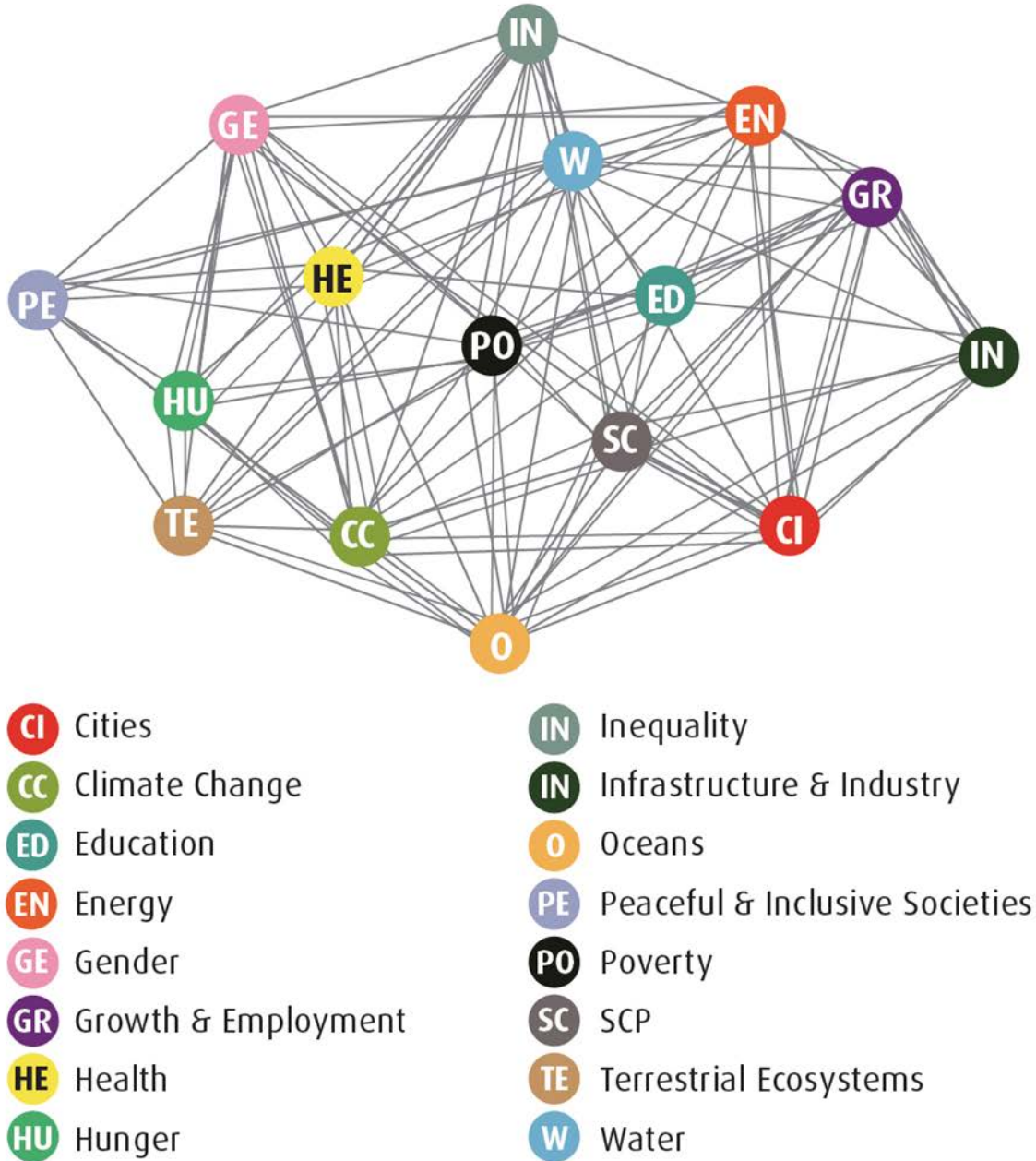


Figure 2: UN 2015 Global Sustainable Development Report