

## **City of Toronto Investment Report for the Year 2018 and the Six Month Period Ending June 30, 2019**

**Date:** November 27, 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 2018, and the first half of 2019
2. General Market Update and Benchmark Performance

The City's General Group of Funds (General Fund) 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 (2.7% rate of return);
- \$39.4 million in the first quarter of 2019 (3.0% annualized rate of return);
- \$122.5 million in the second quarter of 2019 (8.5% annualized rate of return);
- \$161.9 million earned year-to-date as at June 30, 2019 (5.8% annualized rate of return).

The City's Sinking Fund portfolio that holds funds for future debt repayments earned:

- \$54.1 million in 2018 (3.2% rate of return);
- \$12.3 million in the first quarter of 2019 (3.1% annualized rate of return);
- \$39.9 million in the second quarter of 2019 (9.4% annualized rate of return);
- \$52.2 million earned year-to-date as at June 30, 2019 (6.3% annualized rate of return).

Since January 1, 2018, the City's long-term investments have been managed by the Toronto Investment Board under a new Council adopted Investment Policy which is based on the prudent investor standard. As of May 1, 2019, seventy percent of the Sinking Fund and the Long Term Fund have been managed by four external fixed income managers selected by the Toronto Investment Board. As at June 30, 2019, agreements with the global equity fund managers were being negotiated, and the process of selecting real asset fund managers was on-going.

## RECOMMENDATIONS

---

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

## FINANCIAL IMPACT

---

The City's General Group of Funds ("General Fund") earned \$156.5 million in 2018, \$39.4 million in the first quarter of 2019, and \$122.5 million in the second quarter of 2019.

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 investment activities in 2018 and the first half of 2019 were in compliance with the investment policies and goals adopted by City Council. The earnings for the first half of 2019 have met the forecasted income contribution to the 2019 Operating Budget.

The City's Sinking Funds portfolio earned \$54.1 million in 2018, \$52.2 million in the first half of 2019. These earnings are retained within the Sinking Funds and must be used for the purpose of retiring debenture debt at maturity.

## DECISION HISTORY

---

At its meetings held on October 2 to 3, 2019, City Council considered amendments to the Investment Policy and passed a motion to refer items to the Chief Financial Officer related to additional improvements to the Investment Policy's ESG practices. Staff were asked to report back on the referred items to City Council at its meetings held on January 29 and 30, 2020.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX8.3>

City Council received for information the Investment Report for 2017 and the First Quarter of 2018 and adopted the updated Investment Policy at their meetings on June 26 to 29, 2018. 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>

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>

## 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 of the Sinking Fund (debt retirement), it is managed separately from the General Fund but adheres to the same primary investment beliefs and objectives. Attachment 1 provides a short background on the City's investment funds.

In November 2015, the province changed the City of Toronto Act, 2006 which replaced the prescribed list with what is known as the prudent investor standard. This change would remove the previous limitations and allow the City to be responsible for its own investment decisions as a prudent investor. The change did require the City to establish an independent local board that would have fiduciary duty over the City's funds not immediately required. This local board would also be able to hire agents (external investment managers) which would carry out the fiduciary duty of the board.

Although this new provincial regulation was announced in late 2015, the effective date for this new regulation was January 1, 2018. During this time the City had created the Toronto Investment Board ("Board") and appointed six independent members. In addition, City Council had approved a new Investment Policy that allowed for allocations to new asset classes which included global equities and real assets.

As at December 31, 2017, the City's investments were all managed internally by City staff and were limited to a prescribed list of eligible investments set by the province in the legislation. This prescribed list limited the City investments to primarily government bonds and some highly quality bonds of financial institutions.

During 2018, the Board chose eight external investment managers to manage the fixed income and global equity allocations as outlined in their Investment Plan. The new investment policy and plan, in conjunction with the investment consultant and investment managers, are expected to result in improved investment returns over the longer-term while also reducing overall portfolio risk.

There is a transition period before reaching the long-term target asset mix and realizing optimal long-term returns. During this time the investment portfolio will phase in greater use of the broader range of investments that become available. Although the portfolio risk will be reduced, the potential for volatility in short-term returns will still exist. The new target asset mix will have a modest positive budget impact in the short term.

In June 2018, Council approved the establishment of the Investment Income Stabilization Reserve. The Investment Stabilization Reserve is established for the purpose of stabilizing 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.

## Earned Investment Income of General and Sinking Fund – 2018 and the Six Month Period Ending June 30, 2019

### For the year of 2018 - General Fund and Sinking 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 Gross Investment Earnings for the Year 2018

<b>Investment Earnings (\$ millions)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
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
<b>Total General Fund</b>	<b>\$156.5</b>	<b>\$130.9</b>	<b>\$130.4</b>	<b>\$137.8</b>	<b>\$143.7</b>
<b>Return on Capital</b>	<b>2.7%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.9%</b>

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

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

<b>Investment Earnings (Rate of Return) Allocated to the Operating Budget (\$ million)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
1. Actual Investment Earnings allocated to Operating Budget	\$109.4 (1.9%)	\$114.3 (2.2%)	\$114.1 (2.2%)	\$121.3 (2.4%)	\$120.1 (2.4%)
2. Budget Investment Earnings allocated to Operating Budget	\$108.0 (1.9%)	\$98.6 (1.9%)	\$114.5 (2.2%)	\$121.8 (2.4%)	\$121.7 (2.4%)
Variance	\$1.4 (0.0%)	\$15.7 (0.3%)	\$-0.4 (0.0%)	\$-0.5 (0.0%)	\$-1.6 (0.0%)

The investment earnings of \$156.5 million in 2018 exceeded budget by \$1.4 million. This variance was mainly due to higher than forecasted interest rates.

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

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

Portfolio	Average Fund Balance	Earned Income	Earned Return on Capital*
<b>Total General Fund</b>	<b>\$5,801.3</b>	<b>\$156.5</b>	<b>2.7%</b>
Short Term Fund	\$2,982.0	\$62.7	2.1%
Long Term Fund	\$2,819.3	\$93.8	3.3%
Sinking Fund	\$1,681.6	\$54.1	3.2%

\*Return on Capital represents return on fixed income investments.

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

During 2018, the overall Sinking Fund portfolio of \$1.7 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.

### **Earned Investment Income for the First Two Quarters of 2019**

During the first half of 2019, staff continued to manage the Short Term Fund to meet City's liquidity needs while maximizing investment return. The Toronto Investment Board ("Board") had selected, approved, and contracted four fixed income investment managers to invest the Long Term and Sinking Funds.

As of May 1, 2019, seventy percent of Long Term Fund and Sinking Fund have been transferred in-kind to these investment managers. Agreements with the global equity fund managers are near completion and the selection of real asset fund managers is on-going. Both funds continue to have larger cash holdings than the target asset mix in anticipation of the upcoming investments in equities and real assets. Negotiations and transition to these new managers continued in the second half of 2018 and 2019.

As demonstrated in Table 4 below, the General Fund, composed of both the Short Term fund and the Long Term Fund, and the Sinking Fund had average fund balances of \$5.7 billion and \$1.7 billion respectively during the first half of 2019. The General Fund

earned \$161.9 million (5.8% annualized rate of return on capital) during the first half of 2019. The Sinking Fund earned \$52.2 million (6.3% annualized rate of return on capital) during the first half of 2019.

Table 4 - Average Fund Balance and Earned Income for the First Half of 2019

Portfolio	Average Fund Balance (\$millions) YTD as at June 30, 2019	Earned Income (Annualized Return on Capital) YTD as at June 30, 2019
<b>Total General Fund</b>	<b>\$5,672.7</b>	<b>\$161.9 (5.8%)</b>
Short Term Fund	\$2,810.4	\$35.4 (2.5%)
Long Term Fund	\$2,862.3	\$126.5 (9.0%)*
<b>Sinking Fund</b>	<b>\$1,675.5</b>	<b>\$52.2 (6.3%)</b>

\*Return on Capital mainly represents return on fixed income investments managed by external investment managers.

Table 5 below shows that the investment income earned to date met the income contribution forecast for the operating budget. The higher than budgeted income from the Long Term Fund was due to one-time non-recurring realized capital gains from investment transactions made by the investment managers. The new fixed income investment managers transitioned the portfolio by selling many of the bonds transferred in-kind to them and purchasing new bonds to build a new portfolio, which they will be measured on after the transition period starting on July 1, 2019.

Table 5 - Actual and Budget Gross Investment Earnings for the Operating Budget

Investment earnings (\$ millions) & Annualized Rate of Return	Actual YTD as at June 30, 2019	Budget 2019	% of full year budget
<b>Total General Fund</b>	<b>\$161.9 (5.8%)*</b>	<b>\$184.0 (3.2%)</b>	<b>88%</b>
Short Term Fund	\$35.4 (2.5%)	\$64.0 (2.2%)	55%
Long Term Fund	\$126.5 (9.0%)*	\$124.0 (4.3%)	102%
Allocation to Reserve Funds	-\$35.5 (forecast)	-\$71.0	50%

## General Market Update and Portfolio Market Return – 2018 and the Six Month Period Ending June 30, 2019

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. has increased short-term interest rates by 200 basis points. Similarly, the Bank of Canada has increased the overnight rate by 125 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 2018. However equity markets rebounded during the first six months of 2019 with the talk of lower interest rates and possible resolution to some international trade talks.

Table 6 below shows the total benchmark rate of returns in market value for 2018 and Q1 to Q2 of 2019.

Benchmark	Q2 2019	Q1 2019	2018 Full Year
FTSE Canada Universe Bond Index	2.5%	3.9%	1.4%
S&P/TSX Composite Index	2.6%	13.3%	- 8.9%
S&P 500 Index (\$US)	4.3%	13.6%	- 4.4%
MSCI ACWI (Net)	1.3%	9.7%	- 1.3%

## Market Performance of General Fund and Sinking Fund – 2018

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 the one-year return and 0.61% in the annualized four-year return as at December 31, 2018.

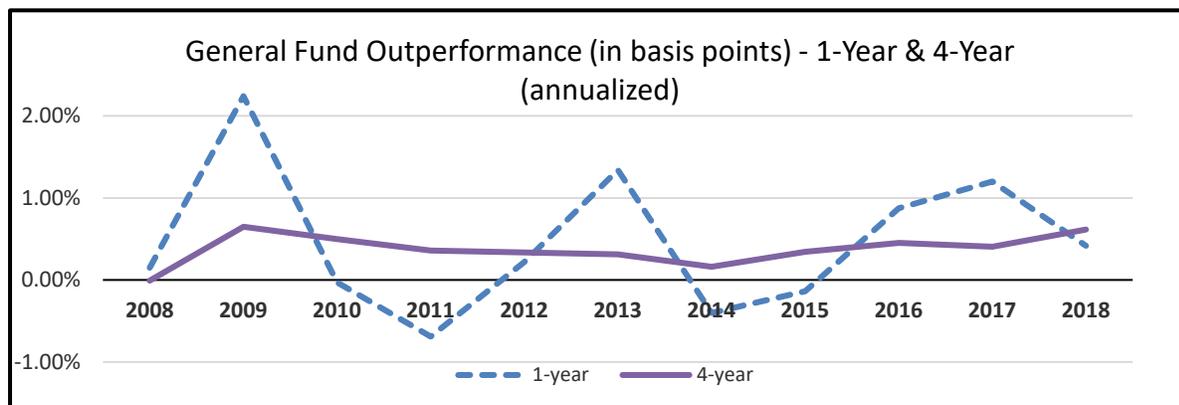
The global equity market had a negative return of 1.3% in 2018 (MSCI ACWI market index as the proxy). However, the City was not exposed to the equity market in 2018 due to continued agreements negotiation with the selected equity managers. The City has started to allocate funds to the equity managers in 2019.

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
<b>Value-Added</b>	<b>0.80</b>	<b>0.71</b>
Long Term Fund	1.42	2.59
Benchmark	1.41	2.08
<b>Value-Added</b>	<b>0.01</b>	<b>0.51</b>
Overall General Fund	1.77	2.01
Weighted Benchmark	1.35	1.39
<b>Value-Added</b>	<b>0.42</b>	<b>0.61</b>

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 was in a transitional period with large cash holdings and the balance in conservative fixed income securities under passive management. In anticipation of the transition to other asset classes, the Sinking Fund was building cash and short-term

holdings as well as keeping bond holdings that were purchased under the previous eligible investment list.

As at the year end of 2018, the Sinking Fund had a market return of 1.80% and an annualized four-year return of 1.98%. While the fund transition and investment manager agreement negotiation continued, the fund continued to build cash and short-term holdings as well as maintaining existing bond holdings that were purchased under the previous eligible investment list. The Investment Consultant is in the process of developing a customized benchmark index that will more appropriately reflect the updated strategy (LDI - Liability Driven Investment) based on cash flows to fund future liabilities.

### Market Performance of General Fund and Sinking Fund – First Half of 2019

Seventy percent of the Long Term Fund and Sinking Fund has been transitioned to external investment managers during the second quarter of 2019. The City has started to allocate funds to two equity managers during the third quarter of 2019. The rest of the fund is in various stages of agreement negotiation and manager selection.

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 0.59% in one-year annualized return and 0.66% in the four-year annualized return at June 30, 2019. The Long Term Fund had underperformed the market benchmark by 0.14% in the first half of 2019 because the fund is still under transition and has a higher balance in cash and short-term holdings for future investments in equities and real assets.

Table 8 – General Fund - Annualized Market Returns vs. Market Benchmarks (%)

(%)	Year-to-Date June 30, 2019	
Fund	1-Year Return (Annualized)	4-Year Return (Annualized)
Short Term Fund	2.20	2.40
Benchmark*	0.86	1.55
<b>Value-Added</b>	<b>1.34</b>	<b>0.85</b>
Long Term Fund	7.23	3.54
Benchmark*	7.37	3.08
<b>Value-Added</b>	<b>-0.14</b>	<b>0.65</b>
Overall General Fund	4.74	2.98
Weighted Benchmark*	4.14	2.32
<b>Value-Added</b>	<b>0.59</b>	<b>0.66</b>

\*FTSE Canada 30-day T-bill Index and FTSE Canada Universe Bond Index

As shown in Table 9 below, the Sinking Fund had an annualized market return of 5.96% during the first half of 2019. While investment manager agreement negotiation continued, the fund continued to build cash and short-term holdings for future investments in equities and real assets. After the transition period, the performance will be measured against a market benchmark that is customized based on outstanding sinking fund debentures.

Table 9 – Annualized Market Returns

Fund	Year-to-Date June 30, 2019	
	1-Year Return (Annualized)	4-Year Return (Annualized)
Sinking Fund	5.96	2.65

**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. Please see Attachment 2.

**Compliance with the Investment Policy Guidelines**

All the City's funds were within the Asset Mix requirements set out in the Council-approved Investment Policy in the year 2018 and the first half of 2019. The breakdown of each portfolio is shown in Attachment 3.

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

**CONTACT**

---

Betsy Yeung, Manager, Investments, Corporate Finance  
 Tel: 416-392-6302; E-mail: [Betsy.Yeung@toronto.ca](mailto:Betsy.Yeung@toronto.ca)

Randy LeClair, Director, Capital Markets, Corporate Finance  
 Tel: 416-397-4054; E-mail: [Randy.LeClair@toronto.ca](mailto:Randy.LeClair@toronto.ca)

## **SIGNATURE**

---

Heather Taylor  
Chief Financial Officer and Treasurer

## **ATTACHMENTS**

---

Attachment 1 - Background on the Funds  
Attachment 2 - Record of Transactions in City of Toronto Debentures  
Attachment 3 - Breakdown of the Portfolios by Sectors and by Credit Ratings

# Attachment 1

## 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 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 2

### Record of Transactions in City of Toronto Debentures

#### Purchases and Sales of City of Toronto Debentures in 2018 and First Half of 2019

##### Purchases

Portfolio	Settlement Date	Maturity Date	Coupon Rate	Principal	Price \$
Sinking Fund	14-Jun-19	26-Jul-21	3.80%	6,158,000.00	110.26

##### Sales

Portfolio	Settlement Date	Maturity Date	Coupon Rate	Principal	Price \$
Sinking Fund	14-May-19	06-Feb-25	2.45%	3,600,000.00	100.604
Sinking Fund	24-May-19	06-Feb-25	2.45%	1,100,000.00	100.700
Sinking Fund	13-Jun-19	26-Jul-21	2.45%	6,158,000.00	102.092
Sinking Fund	17-Jun-19	06-Feb-25	2.45%	1,500,000.00	102.09
Sinking Fund	17-Jun-19	10-Jun-41	4.70%	2,400,000.00	130.53
Sinking Fund	24-Jun-19	01-Jun-40	5.20%	800,000.00	138.85
Sinking Fund	24-Jun-19	10-Jun-41	4.70%	11,742,000.00	131.64
Sinking Fund	27-Jun-19	01-Jun-40	5.20%	9,600,000.00	138.37
Sinking Fund	27-Jun-19	01-Jun-40	5.20%	3,400,000.00	138.30
Sinking Fund	28-Jun-19	01-Jun-40	5.20%	9,400,000.00	137.50
Long Term Fund	06-May-19	10-Mar-44	4.15%	20,000,000.00	117.02
Long Term Fund	07-May-19	07-Jun-27	2.40%	16,500,000.00	98.34
Long Term Fund	09-May-19	29-Sep-23	3.90%	1,000,000.00	107.35
Long Term Fund	09-May-19	10-Mar-44	4.15%	10,000,000.00	118.33
Long Term Fund	10-May-19	01-Jun-40	5.20%	5,000,000.00	132.73

Portfolio	Settlement Date	Maturity Date	Coupon Rate	Principal	Price \$
Long Term Fund	10-May-19	13-Dec-42	3.80%	4,500,000.00	112.11
Long Term Fund	13-May-19	06-Dec-21	3.50%	7,000,000.00	103.96
Long Term Fund	14-May-19	21-May-24	3.40%	3,500,000.00	105.57
Long Term Fund	14-May-19	28-Apr-35	2.95%	4,625,000.00	99.83
Long Term Fund	07-Jun-19	01-Jun-40	5.20%	10,000,000.00	136.98
Long Term Fund	13-Jun-19	26-Jul-21	6.80%	10,550,000.00	110.30
Long Term Fund	27-Jun-19	26-Jul-21	6.80%	10,550,000.00	110.29
Long Term Fund	27-Jun-19	06-Dec-21	3.50%	7,000,000.00	104.21
Long Term Fund	27-Jun-19	29-Sep-23	3.90%	1,000,000.00	108.27
Long Term Fund	27-Jun-19	21-May-24	3.40%	3,500,000.00	106.84
Long Term Fund	28-Jun-19	28-Apr-35	2.95%	4,625,000.00	103.22
Long Term Fund	28-Jun-19	13-Dec-42	3.80%	4,500,000.00	117.01
				<b>173,550,000.00</b>	

## Attachment 3

### Breakdown of the Portfolios by Sectors and by Credit Ratings

#### Breakdown of the Portfolios by Sectors

As of December 31, 2018

	Short Term Fund (\$ million)	Short Term Fund	Long Term Fund (\$ million)	Long Term Fund	Sinking Fund (\$ million)	Sinking Fund
Cash and High interest deposits	2,365	75%	699	25%	270	17%
Government of Canada & Guarantees	0	0%	75	3%	0	0%
Provinces & Guarantees	0	0%	926	33%	1,034	64%
Municipal Bonds (including School Boards)	0	0%	864	30%	275	17%
Corporate Bonds*	800	25%	258	9%	28	2%
Total	3,165	100%	2,822	100%	1,607	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

As of June 30, 2019

	Short Term Fund (\$ million)	Short Term Fund	Long Term Fund (\$ million)	Long Term Fund	Sinking Fund (\$ million)	Sinking Fund
Cash and High interest deposits	1,539	61%	754	26%	529	28%
Government of Canada & Guarantees	0	0%	362	13%	128	7%
Provinces & Guarantees	0	0%	649	22%	741	39%
Municipal Bonds (including School Boards)	0	0%	406	14%	192	11%
Corporate Bonds*	979	39%	708	25%	283	15%
Total	2,518	100%	2,879	100%	1,873	100%

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

## Breakdown of the Portfolios by Credit Ratings (Excluding Cash) - Q2 2019

As of June 30, 2019

	Short Term Fund (%)	Long Term Fund (%)	Sinking Funds (%)
AAA/AA	100%	58%	41%
A	0%	34%	55%
BBB	0%	9%	4%
Total	100%	100%	100%