

# **IB2.1 Attachment 2**

## **ATTACHMENT 2**

**STATEMENT OF INVESTMENT POLICY AND PROCEDURES  
FOR THE  
THE CITY OF TORONTO INVESTMENT FUNDS**

## Contents

|                                                                                 |           |
|---------------------------------------------------------------------------------|-----------|
| <b>Section 1 – Overview .....</b>                                               | <b>1</b>  |
| 1.1 Purpose of Policy .....                                                     | 1         |
| 1.2 Governing Legislation .....                                                 | 1         |
| 1.3 Prudent Investor Standard .....                                             | 2         |
| 1.4 Overview of Portfolios.....                                                 | 2         |
| 1.5 Modifications to the Policy.....                                            | 4         |
| <b>Section 2 – Investments .....</b>                                            | <b>5</b>  |
| 2.1 Investment Objectives .....                                                 | 5         |
| 2.2 Investment Beliefs .....                                                    | 5         |
| 2.3 Investment Management .....                                                 | 6         |
| 2.4 Investment Assets .....                                                     | 6         |
| <b>Section 3 – Investment Constraints .....</b>                                 | <b>10</b> |
| 3.1 Eligible Investments .....                                                  | 10        |
| 3.2 Portfolio Diversification and Constraints .....                             | 11        |
| 3.3 Loans and Borrowing .....                                                   | 13        |
| <b>Section 4 – Roles and Responsibilities .....</b>                             | <b>14</b> |
| 4.1 Governance and Administration .....                                         | 14        |
| 4.2 CFO Responsibilities and Duties.....                                        | 14        |
| 4.3 City Staff Responsibilities and Duties .....                                | 14        |
| 4.4 Investment Board Responsibilities and Duties.....                           | 15        |
| 4.5 Investment Board Agents .....                                               | 16        |
| <b>Section 5 – Performance Monitoring and Management.....</b>                   | <b>19</b> |
| 5.1 Performance Review Criteria .....                                           | 19        |
| 5.2 Performance Measurement .....                                               | 19        |
| 5.3 Monitoring of Asset Mix.....                                                | 20        |
| 5.4 Dismissal of Investment Manager.....                                        | 20        |
| <b>Section 6 – Administrative Policies .....</b>                                | <b>21</b> |
| 6.1 Budgetary Requirements – Flow of Funds .....                                | 21        |
| 6.2 Sinking Funds – Flow of Funds.....                                          | 21        |
| 6.3 Overview of Inflows and Outflows of Funds .....                             | 21        |
| 6.4 Trust Group of Funds and other Externally Mandated and Restricted Funds.... | 22        |
| 6.5 Valuation of Investments.....                                               | 22        |
| 6.6 Environmental, Social, and Governance Factors (ESG).....                    | 22        |
| 6.7 Related Party Transactions.....                                             | 23        |
| 6.8 Voting Rights .....                                                         | 23        |
| 6.9 Policy Review .....                                                         | 23        |
| 6.10 Transition Portfolio – Initial Phase .....                                 | 24        |
| 6.11 Other Restricted Funds.....                                                | 24        |
| <b>Section 7– Monitoring, Reporting and Professional Conduct.....</b>           | <b>25</b> |

|                                           |           |
|-------------------------------------------|-----------|
| 7.1 Compliance Reporting .....            | 25        |
| 7.2 Semi-Annual Report to Council.....    | 26        |
| 7.3 Standards of Conduct.....             | 26        |
| <b>APPENDIX 1 .....</b>                   | <b>28</b> |
| <b>DEFINITIONS .....</b>                  | <b>28</b> |
| <b>APPENDIX 2 .....</b>                   | <b>31</b> |
| <b>Trust Group of Funds .....</b>         | <b>31</b> |
| 1.0 Internally Mandated Trust Funds:..... | 31        |
| 2.0 Externally Mandated Trust Funds:..... | 32        |
| 3.0 Externally Mandated Funds.....        | 34        |

---

## **Section 1 – Overview**

---

### **1.1 Purpose of Policy**

The purpose of this Policy is to guide the management of the investment assets comprised of the City's funds (the "Funds") toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

The Policy is developed by the Chief Financial Officer (CFO), with input from the Investment Board, and approved by City Council in order to:

- Define and assign responsibilities
- Establish a clear understanding of the investment goals and objectives of the City of Toronto's fund assets and risk tolerances;
- Offer guidance and limitations regarding the investment of fund assets and their underlying risks;
- Establish a basis of evaluating investment performance and the underlying risks; and
- Comply with applicable regulations.

At least annually, Council shall review the investment policy and update it, as necessary, as a result of the review. (O. Reg. 610/06, Section 47(4))

As part of the annual review of the investment policy, Council may request comments from the Investment Board. Following the Council's review of the investment policy, the Investment Board shall review the Investment Plan<sup>1</sup> and update it, as necessary, as a result of the review. (O. Reg. 610/06, Section 48(3))

The Investment Board, the CFO, and any Investment Manager or other agent or advisor providing services to the Investment Board in connection with the investment of the portfolio shall accept and strictly adhere to this Policy.

### **1.2 Governing Legislation**

In 2015 the Province of Ontario approved amendments to Ontario Regulation 610/06, Financial Activities (the "Regulation"), under the City of Toronto Act, 2006 (the "Act"), to provide a framework for the City to invest according to the Prudent Investor Standard (defined in Section 1.3 below). This standard is similar to that which governs trustees and pension fund administrators and creates a fiduciary responsibility.

These reforms enable the City to earn improved risk-adjusted rates of returns on its investments as it will no longer be restricted to a prescribed and limited list of eligible investments.

---

<sup>1</sup> Refer to Appendix 1 for Definitions of Investment Terms

The City must consider the following criteria in planning investments, in addition to any other criteria that are relevant to the circumstances (O. Reg. 610/06, Section 44(2)):

- a. General economic conditions.
- b. The possible effect of inflation or deflation.
- c. The role that each investment or course of action plays within the City's portfolio of investments.
- d. The expected total return from income and the appreciation of capital.
- e. Needs for liquidity, regularity of income and preservation or appreciation of capital.

This document sets out and addresses the specific requirements to be included in an investment policy including:

- a. The City's objectives for return on investment and risk tolerance.
- b. The City's need for liquidity including, for greater certainty, the City's anticipated needs for funds for planned projects and the City's needs to have funds available for unanticipated contingencies. (O. Reg. 610/06, Section 47(2))

This authority comes into effect on January 1, 2018.

### **1.3 Prudent Investor Standard**

- a) Investments shall be made with judgment 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.
- b) The standard to be used by investment officials shall be the "prudent person" standard as required by the Regulation, 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.
- c) The duty under the Regulation includes a duty to obtain the advice that a prudent investor would obtain under comparable circumstances. (O. Reg. 610/06, Section 44(4))

### **1.4 Overview of Portfolios**

The City has several portfolios (the "Portfolios") which represent funds required for specific purposes. A high level description of each of these portfolios and their characteristics is provided below:

a) Short Term Fund (STF)

- i) The STF is utilized to meet the daily cash flow requirements of the City.
- ii) Cash management is the main focus of this portfolio.
- iii) The interest income generated by the STF is an important contributor to the City's budgetary revenues.
- iv) The portfolio's investment horizon is less than 18 months. There is no risk tolerance for capital losses and the portfolio needs to be highly liquid. Consequently, high quality, short-term investments will be held in this portfolio.
- v) The STF will be managed by the CFO outside of the Investment Board as it consists of funds required by the City to meet its immediate cash-flow requirements.

b) Long Term Fund (LTF)

- i) The Long Term Fund will be used to meet the longer-term liabilities of Reserves and Reserve Funds, and other surplus funds not immediately required.
- ii) Balancing investment risk and expected investment return over the portfolio's average investment horizon is the main focus for this portfolio while careful considerations should be given to cash flow requirements up to 5 years.
- iii) The income generated by the LTF has a material impact on the City's budgetary revenues, as well as, a longer term impact on future years' budgets as the income generated by the portfolio reduces the contributions towards future liabilities. Investment earnings from this portfolio should, at a minimum, keep pace with inflation.
- iv) The portfolio investment horizon will be in line with the nature of the underlying liabilities, currently 10 years (approximately). The risk tolerance to capital losses is to be minimized while weighing the benefits of higher expected returns over a longer investment horizon. The portfolio can consist of liquid and illiquid assets based on future cash flow requirements. Consequently, an Asset Mix consisting of several permissible investments will be maintained for the portfolio.
- v) The LTF will be managed by the Investment Board.

c) Sinking Fund (SF)

- i) The SF allows for the orderly repayment of debt issued by the City.
- ii) Balancing investment risk and expected investment return over the portfolio's average investment horizon is the main focus for this portfolio while careful considerations should be given to cash flow requirements up to 5 years.

- iii) The SF is comprised of several sub-funds. Each of these sub-funds has a different required rate of return. As debt is issued by the City, each specific issue is assigned to a sub-fund. The City will then make annual contributions to this sub-fund in order to have enough funds available when the debt matures. The annual contribution amount is based on the expected return of the sub-fund. Currently there are five sub-funds: 2%, 2.5%, 3.5%, 4.0%, and 5%. Investment earnings from this portfolio should, at a minimum, keep pace with the overall required rate of return of the sub-funds.
- iv) The various sub-funds of the SF are evaluated on a group basis when monitoring compliance with the Investment Policy, and not on an individual sub-fund basis.
- v) The portfolio investment horizon will be in line with the nature of the underlying liabilities, currently 5 years (approximately). The risk tolerance to capital losses is to be minimized while weighing the benefits of higher expected returns over a longer investment horizon. The portfolio can consist of liquid and illiquid assets based on future cash flow requirements. Consequently, an Asset Mix consisting of several permissible investments will be maintained for the portfolio.
- vi) The SF will be managed by the Investment Board.

## **1.5 Modifications to the Policy**

This Policy may be changed or modified at any time by action of the City Council.

## **Section 2 – Investments**

---

### **2.1 Investment Objectives**

The basic goal underlying the Policy is to ensure that the financial assets will be invested in a prudent manner and increase the likelihood that such assets will meet the obligations as they come due. The primary objectives are (in priority order):

- a) Safety of principal - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolios.
- b) Adequate liquidity – Investments shall be undertaken in a manner that takes into account the needs of periodic cash flows and reasonably anticipated budgetary requirements.
- c) Diversification – Investments should be sufficiently diversified as to:
  - i. avoid concentration in a specific issuer or credit and;
  - ii. avoid concentration in specific asset classes, markets, sectors and term to maturity in order reduce overall risk.
- d) Capital appreciation - Investments shall be made to earn realized or unrealized investment income, but not at the risk of significantly eroding the principal, with the objectives in priority order of:
  - i. meeting annual budgetary requirements for earnings
  - ii. maintaining portfolio term structure to support the City's long-term financial plan, and
  - iii. provide a return consistent with established benchmarks.
- e) Based on the investment objectives above, the assets will be invested in a mix of fixed income, equity, and real asset investments in order to balance volatility and returns. The target Asset Mix was developed by considering the possible effect of inflation, the expected return and risk of each proposed asset class and the City's need for liquidity, capital preservation and income.

### **2.2 Investment Beliefs**

This Investment Policy (the "Policy") was developed by keeping in mind some general investing principles, or "beliefs", as outlined below:

- (i) Consistency with the Prudent Investor Standard and Modern Portfolio Theory<sup>2</sup>;
- (ii) There is a relationship between risk and return – higher returns generally require taking higher risk;
- (iii) In the long term, equities will outperform bonds to compensate for their higher risk;
- (iv) The long-term Asset Mix<sup>3</sup> is the most important component of a portfolio's risk and return;

---

<sup>2</sup> Refer to Appendix 1 for Definitions of Investment Terms

<sup>3</sup> Refer to Appendix 1 for Definitions of Investment Terms



- (v) Risk control managed primarily through the diversification of Asset Mixes. Additional risk control is provided by restrictions to permitted investments, implementation strategies, and depth and breadth of the monitoring and controls;
- (vi) A passive management approach shall be considered where there is a belief that indexing is an efficient and cost effective means to gain exposure to an asset class. An active management approach may be used where a belief is held that a manager can add value above the indicative benchmark on an after fees basis and/or reduce the volatility of returns.
- (vii) Alternative strategies/asset classes may be appropriate and will be evaluated based on their liquidity, the management time needed to monitor the investment and the level of transparency;
- (viii) Market timing at the policy level is an inefficient strategy for consistently increasing returns;
- (ix) Trading should not be based on technical analysis alone; investment decisions should be supported by an array of key factors.
- (x) Although the City is a non-taxable entity, care should be exercised to minimize possible tax situations (e.g. foreign investments); and
- (xi) Ensure conformity to all legislation governing the investment of the City's monies.

### **2.3 Investment Management**

- a) Competent external professional Investment Managers shall be appointed by the Investment Board, and all Investment Managers shall enter into an agreement with the Investment Board requiring the Investment Manager to:
  - i. Comply with this Policy and the Investment Plan; and
  - ii. Provide monthly compliance reports to the Board and more comprehensive reports to the Investment Board at least quarterly.
- b) The Investment Board shall also make any investment manager changes, from time to time, as are deemed in the best interest of the fund.
- c) With each Investment Manager the Investment Board shall agree upon a set of guidelines within which the Investment Manager is expected to operate, including discretion limits, diversification and quality standards, and performance expectations.

### **2.4 Investment Assets**

#### **a) Asset Mix**

The investment objective is for the portfolio assets to meet the obligations set out in the section entitled Overview of the Portfolios (Section 1.4 of the Policy). The return of the portfolio assets will be determined largely by the policy Asset Mix, which is outlined below.

## b) Asset Mix Guidelines

The following Asset Mix guidelines have been established by the Policy.  
Except where noted, all assets will be Canadian denominated in Canadian dollars.

### Short Term Fund (STF) Asset Mix

| Asset Class <sup>(1)</sup>                                                                                                                          | Minimum  | Maximum    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------|
| Federal, Federal Guaranteed, and Supranational Bonds                                                                                                | 0        | 100        |
| Provincial, Provincial Guaranteed and Municipal Bonds                                                                                               | 0        | 100        |
| Obligations of trust companies and banks e.g. Bonds, Deposit Notes, Guaranteed Investment Contracts, Term Deposit, Banker Acceptances or equivalent | 0        | 100        |
| Asset-backed securities (AAA tranche only)                                                                                                          | 0        | 100        |
| Commercial Paper and Corporate Bonds                                                                                                                | 0        | 100        |
| <b>Total Fixed Income</b>                                                                                                                           | <b>0</b> | <b>100</b> |
| Cash & Demand Deposits                                                                                                                              | 0        | 100        |

(1) The term to maturity at purchase for the Short Term Fund should be no longer than 18 months.

### Long Term Fund (LTF) Asset Mix

| Asset Class                                            | Target Asset Mix | Minimum   | Maximum    |
|--------------------------------------------------------|------------------|-----------|------------|
| <b>Equity</b>                                          |                  |           |            |
| Global Equity                                          | 20               | 0         | 30         |
| <b>Total Equity</b>                                    | <b>20</b>        | <b>0</b>  | <b>30</b>  |
| <b>Fixed Income (Canadian)</b>                         |                  |           |            |
| Federal and Federal Guaranteed and Supranational Bonds | 30               | 0         | 100        |
| Provincial, Provincial Guaranteed and Municipal Bonds  | 30               | 0         | 100        |
| Corporate Bonds                                        | 10               | 0         | 60         |
| <b>Total Bonds</b>                                     | <b>70</b>        | <b>50</b> | <b>100</b> |
| <b>Real Assets</b>                                     |                  |           |            |
| Real Estate (Canadian Core) <sup>(1)</sup>             | 10               | 0         | 10         |
| Infrastructure (Global Core) <sup>(2)</sup>            | 0                | 0         | 5          |
| <b>Total Real Assets</b>                               | <b>10</b>        | <b>0</b>  | <b>15</b>  |
| Cash                                                   | 0                | 0         | 5          |

- (1) Refer to Definitions Section (Appendix 1)  
 (2) Infrastructure (Global Core), as defined in Appendix 1, will be added following the initial investment in Real Estate (Canadian Core)

### Sinking Fund Long Term Asset Mix

| Asset Class                                            | Target Asset Mix | Minimum   | Maximum    |
|--------------------------------------------------------|------------------|-----------|------------|
| <b>Equity</b>                                          |                  |           |            |
| Global Equity                                          | 20               | 0         | 30         |
| <b>Total Equity</b>                                    | <b>20</b>        | <b>0</b>  | <b>30</b>  |
| <b>Fixed Income (Canadian)</b>                         |                  |           |            |
| Federal and Federal Guaranteed and Supranational Bonds | 30               | 0         | 100        |
| Provincial, Provincial Guaranteed and Municipal Bonds  | 30               | 0         | 100        |
| Corporate Bonds                                        | 10               | 0         | 60         |
| <b>Total Bonds</b>                                     | <b>70</b>        | <b>50</b> | <b>100</b> |
| <b>Real Assets</b>                                     |                  |           |            |
| <b>Real Estate (Canadian Core)<sup>(1)</sup></b>       | <b>10</b>        | <b>0</b>  | <b>10</b>  |
| <b>Infrastructure (Global Core)<sup>(2)</sup></b>      | <b>0</b>         | <b>0</b>  | <b>5</b>   |
| <b>Total Real Assets</b>                               | <b>10</b>        | <b>0</b>  | <b>15</b>  |
| Cash                                                   | 0                | 0         | 5          |

- (1) Refer to Definitions Section (Appendix 1)  
 (2) Infrastructure (Global Core), as defined in Appendix 1, will be added following the initial investment in Real Estate (Canadian Core).

### c) Cash and Cash Equivalents

At the discretion of each Investment Manager, within the constraints prescribed by that manager's mandate Cash and Cash equivalents may be held from time to time on a short-term, temporary basis, or as defensive reserves within the portfolios for each asset class. For the purposes of this section such Cash and Cash Equivalents shall be included in that respective asset class.

### d) Return Objective

Each of the portfolios is expected to achieve a return at least equal to a composite benchmark<sup>4</sup> measured over a moving four-year period. This assumes the portfolios are rebalanced frequently and made of passive investments in appropriate market indices based on the Asset Mix.

The decision to use active management will require an additional value added component that will be over and above the applicable benchmark. This additional

<sup>4</sup> Benchmarks appear in Section 5.2

return expectation will be outlined in the Investment Plan and agreed to by the Investment Manager that is retained for this specific purpose.

#### **e) Rebalancing**

The portfolio Asset Mix will be monitored on a frequent basis. Should the Asset Mix deviate outside the above ranges, corrective action will be taken to bring the Asset Mix back within the range as soon as practicable. Action may be taken to bring the Asset Mix closer to the Target Asset Mix at any time as outlined in the tables above. Real Assets are, by their nature, illiquid and may not be able to be rebalanced immediately; however, the objective remains to methodically move the allocations to within the investment policy ranges as soon as practicable.

To increase the likelihood that the Asset Mix remains within the prescribed minimum and maximum ranges the portfolios will generally be expected to be rebalanced when it reaches 90% of the maximum or 105% of the minimum prescribed limits. Cash inflows or outflows will be used to rebalance with new inflows being directed to asset classes that are closest to their minimum ranges and outflows being taken from asset classes that are closest to their maximum allocation. In the event cash inflows or outflows are not material enough to rebalance, the Asset Mix assets will generally be expected to be sold in a commercially reasonable manner from the asset class closest to the maximum allocation and reallocated to the asset class that is closest to the minimum and vice versa.

## **Section 3 – Investment Constraints**

---

### **3.1 Eligible Investments**

Subject to this Policy, the portfolios may be invested in any of the following instruments or assets. The assets may be obligations or securities of Canadian or non-Canadian entities.

#### **a) Equities**

- i) Publicly traded common or preferred equities,
- ii) Convertible debentures,
- iii) Rights and warrants for common or convertible preferred equities, and
- iv) Exchange traded index participation units, and
- v) Units in real estate trusts.

#### **b) Fixed Income**

- i) Bonds, debentures, notes or other debt instruments of federal, provincial, (including guarantees) and municipal governments and their agencies or government corporations,
- ii) Bonds, debentures, notes or other debt instruments of corporations,
- iii) Mortgages secured against Canadian real estate subject to the restriction of being guaranteed by CMHC (Canada Mortgage and Housing Corporation)
- iv) Guaranteed investment contracts or equivalent of insurance companies, trust companies, banks or other eligible issuers, or funds which invest primarily in such instruments;
- v) Term deposits or similar instruments of trust companies and banks;
- vi) Exchange traded index participation units;
- vii) Asset-backed securities, and
- viii) Mortgage-backed securities.

#### **c) Real Assets (Real Estate or Infrastructure)**

- i) Real assets or physical assets that include real estate and infrastructure, which offer income streams that typically rise with inflation.
- ii) For clarification, investments in securities of publicly traded real estate companies and publicly traded real estate investment funds (REITs) or infrastructure are considered Equity not Real Assets.

#### **d) Cash and Short Term Deposits**

- i) Cash and demand deposits,
- ii) Treasury bills issued by federal and provincial governments and their agencies,
- iii) Obligations of banks and trust companies, including bankers' acceptances,
- iv) Commercial paper, and
- v) Non-Canadian equity mandates may invest in short term securities of non-Canadian issuers.

## e) Derivatives

- i) Derivatives may not be used to create a net leveraged position for the portfolios, introduce uncovered positions, or to create exposures to investments that would otherwise be prohibited by this Policy.
- ii) The portfolios may directly or indirectly (e.g., through pooled funds) utilize derivatives only to:
  1. Create an Asset Mix position within the ranges and among the asset classes set out in this Policy,
  2. Adjust the duration of the fixed income portfolio,
  3. Replicate the investment performance of a recognized capital market index,
  4. Increase the portfolio current revenue by selling covered calls,
  5. Manage the currency exposure of a portfolio, or
  6. Reduce risk as part of a hedging strategy.

## 3.2 Portfolio Diversification and Constraints

### a) Short-Term Fund Constraints

| Issuer                                                                                 | Credit Exposure<br>Portfolio Limit % | (Maximum)<br>Limitation<br>(months) | Meet at least one of the following ratings for Long Term (LT)/ Short Term (ST) respectively |            |                |                |             |             |
|----------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------|------------|----------------|----------------|-------------|-------------|
|                                                                                        |                                      |                                     | S&P<br>S/T                                                                                  | S&P<br>L/T | Moody's<br>S/T | Moody's<br>L/T | DBRS<br>S/T | DBRS<br>L/T |
| <b>Federal Governments and Supranationals</b>                                          | 100                                  | 18                                  |                                                                                             |            |                |                |             |             |
| Government of Canada                                                                   |                                      |                                     | A+                                                                                          | A+         | A+             | A+             | A(high)     | A(High)     |
| Government of Canada Guarantees and Agencies                                           |                                      |                                     | A+                                                                                          | A+         | A+             | A(high)        | A(High)     |             |
| International Bank for Reconstruction and Development                                  |                                      |                                     |                                                                                             | AAA        | Aaa            |                | AAA         |             |
| Other Supranational Financial Institution                                              |                                      |                                     |                                                                                             | AAA        | Aaa            |                | AAA         |             |
| <b>Provincial Governments &amp; Guarantees &amp; Implicit Support</b>                  |                                      |                                     |                                                                                             |            |                |                |             |             |
|                                                                                        | 100                                  | 18                                  |                                                                                             |            |                |                |             |             |
| Provincial and Guarantees                                                              |                                      |                                     | A1+                                                                                         | AA -       | P1             | Aa3            | R1 H        | AA L        |
| Provincial and Guarantees                                                              |                                      |                                     | A1+                                                                                         | A-         | P1             | A3             | R1 M        | A L         |
| Ontario Infrastructure Projects Corp                                                   |                                      |                                     |                                                                                             | AA-        | Aa3            |                | AA L        |             |
| Ontario Universities and Colleges                                                      |                                      |                                     |                                                                                             | AA-        | Aa3            |                | AA L        |             |
| Ontario Hospitals                                                                      |                                      |                                     |                                                                                             | AA-        | Aa3            |                | AA L        |             |
| Canadian School Boards                                                                 |                                      |                                     |                                                                                             | AA-        | Aa3            |                | AA L        |             |
| <b>Canadian Municipalities &amp; Regions</b>                                           |                                      |                                     |                                                                                             |            |                |                |             |             |
|                                                                                        | 100                                  | 18                                  |                                                                                             |            |                |                |             |             |
| Municipalities & Regions                                                               |                                      |                                     | A1 +                                                                                        | A-         | P1             | A3             | R1 H        | A L         |
| BCMFA                                                                                  |                                      |                                     | A1 +                                                                                        | AA -       | P1             | Aa3            | R1 M        | AA L        |
| <b>Banks / Corporates</b>                                                              |                                      |                                     |                                                                                             |            |                |                |             |             |
|                                                                                        | 100                                  |                                     |                                                                                             |            |                |                |             |             |
| Schedule I Banks                                                                       |                                      | 18                                  | A1                                                                                          | A          | P1             | A2             | R1 Mid      | A           |
| Schedule II Banks                                                                      |                                      | 12                                  | A1                                                                                          | A          | P1             | A2             | R1 Mid      | A           |
| Trust Companies                                                                        |                                      | 18                                  |                                                                                             | A          |                | A2             |             | A           |
| Asset-backed Securities (Note 1)                                                       |                                      | 18                                  |                                                                                             | AAA        |                | Aaa            |             | AAA         |
| TransLink                                                                              |                                      | 18                                  |                                                                                             |            | A              | A2             |             | A           |
| bclMCRealtyCorp.                                                                       |                                      | 18                                  |                                                                                             |            | A              | A2             |             | A           |
| OMERS Administration Corporation and Subsidiaries with Unconditionally Guaranteed Debt |                                      | 18                                  |                                                                                             |            | A              | A2             |             | A           |
| Commercial Paper (Note 2)                                                              |                                      | 12                                  |                                                                                             | A1         |                | P1             |             | R1 Mid      |
|                                                                                        |                                      |                                     |                                                                                             |            |                |                |             |             |

Note 1: Preference is given to Schedule 1 bank sponsored ABS. For Schedule 2 banks, retailers and auto loans ABS, each transaction should be evaluated on an individual basis with supporting research documentation and written signoff (e.g. email) by the Capital Markets Manager.

Note 2: Short-term, unsecured debt issued in the form of promissory notes. Issuers of commercial paper consist of financial and non-financial

## **b) Long Term Fund and Sinking Fund Long Term Constraints**

### **i) Equity Portfolio Constraints**

1. All holdings shall be listed on a public exchange or convertible or exchangeable into such securities.
2. Holdings shall be diversified by company, region, industry, currency and country; however, consideration may be given to the relative sizes of economic activity and stock market capitalization.

### **ii) Fixed Income Portfolio Constraints**

1. The government Fixed Income allocation will be invested in issues of the Government of Canada, any one of the provinces or municipality of Canada, (including guarantees, agencies, and corporations of these governments) "A" rated or above.
2. The corporate Fixed Income allocation will be diversified by company, regions, industry and country: however, consideration may be given to the relative size of the opportunity set in different countries. To ensure liquidity, the corporate Fixed Income allocation will maintain an overall average credit quality of at least "A-" with the underlying issues rated by a recognized agency or agencies.
3. No single issue may be below investment grade credit at the time of purchase.
4. Investment Managers of these assets shall have a policy on "split" credit ratings that is acceptable to the Investment Board.
5. Sector, term and duration diversifications will be considerations when building the fixed income portfolio.
6. No investment in a security issued or guaranteed by a school board or similar entity in Canada unless the money raised by issuing the security is to be used for school purposes (O. Reg. 610/06, Section 45)

### **iii) Real Asset Portfolio Constraints**

1. No direct holdings in real assets are permitted. Direct holdings would be defined as real asset investments where the Investment Board would negotiate directly with the seller of a property and would then be responsible for the on-going operation of the property.
2. The portfolio will invest core real assets and is generally unrestricted by industry, company, region and country. However, these investments should fall under the categories listed in (iii) and (iv) below and defined in Appendix 1 to this Policy.
3. Real Estate (Canadian Core)<sup>5</sup> assets will be limited to those in Canada only.
4. Infrastructure (Global Core)<sup>6</sup> assets may be in global locations and will only be included after an initial investment in Real Estate (Canadian Core) assets has been made.

---

<sup>5</sup> Refer to Appendix 1 for Definitions of Investment Terms

<sup>6</sup> Refer to Appendix 1 for Definitions of Investment Terms

#### **iv) Prohibited Investments**

The Investment Manager is prohibited from:

1. Purchasing Repurchase Agreements (Repos) or Reverse Repurchase Agreements (Reverse Repos),
2. Making direct investments in resource properties,
3. Making direct investments in mortgages, other than those permitted under 3.1 biii) of this Policy (CMHC-insured mortgages),
4. Making direct investments in venture capital financing,
5. Investing in companies for the purpose of managing them, and
6. Purchasing securities on margin or making short sales.

### **3.3 Loans and Borrowing**

#### **a) Securities Lending**

The Funds may enter into a securities lending agreement, via the Custodian only, on direct investments that are held during the transition phase (see Section 6.9 of this Policy). This is a continuation of the practice from the previous policy.

Pooled funds, and other investment funds, in which the Funds invests that are controlled by an Investment Manager, may engage in securities lending if their policies permit such an action.

#### **b) Borrowing**

In general, money shall not be borrowed on behalf of the Funds and the Funds' assets shall not be pledged or otherwise encumbered in respect thereof.



## **Section 4 – Roles and Responsibilities**

---

### **4.1 Governance and Administration**

City Council has overall responsibility for the investment of the portfolios as described in the preceding section. Pursuant to the Regulation, the City has delegated investment powers, duties and responsibilities over funds not immediately required by the City to the Investment Board. The CFO will have delegated responsibilities and authority over the STF as these funds are required for the City's immediate or daily cash flow requirements.

### **4.2 CFO Responsibilities and Duties**

**The CFO shall:**

- a) Develop and review investment policies for recommendation and approval by Council;
- b) Be a member of the Investment Board;
- c) Provide a statement, at least annually, that all investments are consistent with the Investment Policy and Investment Plan (O. Reg. 610/06, Section 49(2)(b));
- d) Report to Council any issues of non-compliance with any of the investment portfolios within 30 days of becoming aware of it (O. Reg. 610/06, Section 50);
- e) Invest the Short Term Fund (STF) in order to meet daily operational and liquidity needs;
- f) Invest the Trust Group of Funds and other Externally Mandated and Restricted Funds as outlined in Section 6.3; and
- g) Prepare a Semi-Annual Investment Report to Council

### **4.3 City Staff Responsibilities and Duties**

- a) **Corporate Finance (Capital Markets) Staff:**
  - Assist the CFO with executing investments for STF, Trust Group of Funds and Other Externally Mandated and Restricted Funds<sup>7</sup>;
  - Establish trader authority limits, roles and responsibilities of Capital Markets staff by position along with corresponding signing authorities
  - Assist the Investment Board with the execution of any part of the Investment Plan<sup>8</sup> for the LTF and SF as requested;
  - Provide various administrative support to the CFO in relation to the requests and resolutions of the Investment Board;
  - Provide Compliance Monitoring and Exception reporting<sup>9</sup>;
  - Support the CFO in preparing an Semi-Annual Investment Report to Council; and
  - Determine the expected rate of return for new Sinking Fund debentures and inform the Investment Board of which sub-fund will be used and the timing of transfers into the SF;

---

<sup>7</sup> For Trust Group of Funds and Other Externally Mandated and Restricted Funds, refer to Appendix 2

<sup>8</sup> Refer to Appendix 1 for Definitions of Investment Terms

<sup>9</sup> Details of the Compliance and Exception reporting can be found in Section 7

- Act as a liaison with the Financial Planning Division of City Finance for the preparation of Annual Budget and variance reports
- b) **Clerk's Office (Secretariat):**
- Provide administrative support to the Investment Board for scheduled meetings. These duties will include preparing the Agenda and meeting package, booking meeting rooms, and taking minutes of the meeting.
- c) **Legal Services:**
- Provide support to the Investment Board at scheduled meetings with regard to City policies, procedures, and the City of Toronto Act, 2006
  - Assist the Investment Board to obtain outside legal counsel with regards to matters requiring more specialized expertise.
- d) **Accounting Services:**
- Record and reconcile transactions for all investment funds
  - Make payments for various services required by the Investment Board and staff
  - Prepare audited financial statements as required, including separate financial statements for the SF

#### **4.4 Investment Board Responsibilities and Duties**

The primary responsibility of the Investment Board will be to manage and oversee the investments of the LTF as well as those assets in the SF.

The Regulation provides detailed information on the Investment Board (O. Reg. 610/06, Sections 46, 48, 49, and 51). A summary of these requirements include:

- a) The Investment Board shall adopt and maintain an Investment Plan (O. Reg. 610/06, Section 48);
- b) The Investment Board shall prepare and provide to Council, a semi-annual investment report (O. Reg. 610/06, Section 49);
- c) The Investment Board may authorize agents to exercise any of the Investment Board's functions (O. Reg. 610/06, Section 51). These agents may include, but not be limited to, any of the following:
  - Consultants to provide assistance with the Investment Plan, and manager search and performance evaluation;
  - Investment Managers;
  - Custodians; and
  - External legal counsel

Other requirements of the Investment Board include the following:

The Investment Board shall:

- d) Ensure compliance with the Council approved Investment Policy;
- e) Develop an investment philosophy that provides the framework for creating an Investment Plan to implement the Investment Policy;

- f) Allocate assets among Investment Managers;
- g) Monitor, on at least a quarterly basis, the portfolio Asset Mix and investment performance;
- h) Evaluate, on at least an annual basis, Investment Manager performance;
- i) Appoint/discharge Investment Managers and other agents;
- j) Supply Investment Managers with approved changes in Policy.
- k) Establish a set of guidelines within which each Investment Manager is expected to operate, including discretion limits, diversification and quality standards, and performance expectations
- l) Establish written procedures and policies for the operation of the City's LTF and SF consistent with this Investment Policy and which include explicit delegation of authority to agents responsible for investment transactions.
- m) Provide City staff with information to prepare the annual budget and quarterly variance reports, and monthly compliance reports as requested

#### **4.5 Investment Board Agents**

##### **Investment Managers<sup>10</sup>**

Investment Managers will provide the Investment Board the following information on an annual basis at a minimum, or more frequently as required by the Investment Board. This information shall include, but not be limited to, the following:

- a) Prepare and deliver performance evaluation reports.
- b) Meet with the Investment Board to discuss investment philosophy, investment strategy, past investment results and current economic outlook.
- c) Confirm compliance with this Policy and the Investment Board's Investment Plan on a monthly basis. If invested in Pooled Funds<sup>11</sup>, each Manager will provide a copy of the Manager's own investment policy for their specific Pooled Funds.
- d) Notify the Investment Board of any issues that may impact the investment of the portfolio assets (e.g. changes in ownership, professional staff, investment philosophy, and/or processes) within 30 days of the change.
- e) Invest the Funds' assets with the care, skill, prudence and diligence that a prudent portfolio manager would exercise in the investment of those assets.
- f) Assist the Investment Board with the analysis of the performance review criteria listed.

<sup>10</sup> Refer to Appendix 1 for Definitions of Investment Terms

<sup>11</sup> Refer to Appendix 1 for Definitions of Investment Terms

- g) Provide the Investment Board with at least thirty (30) days prior notice of any material changes to the investment objectives and policies of the specific funds managed, or any conflicts between this Policy and the investment objectives and policies of the specific funds managed. Although the Investment Manager has an obligation to notify the Investment Board, they may contact the appropriate City Staff and/or the Investment Consultant if this will expedite the notice.

#### Custodians<sup>12</sup>

- a) All investments and assets of the portfolios shall be held by a custodian (the "Custodian"), and any of the Custodian's Sub-custodians or nominees. The City shall appoint a Custodian for all portfolio assets.
- b) If the portfolio assets are held in Canada by a Custodian or Sub-custodian, they must be one of the following<sup>13</sup>:
  - a. A bank listed in Schedule I, II, or III of the Bank Act (Canada)
  - b. A trust company that is incorporated under the laws of Canada or a jurisdiction and licensed or registered under the laws of Canada or a jurisdiction, and that has equity, as reported in its most recent audited financial statements, of not less than \$10,000,000;
  - c. a company that is incorporated under the laws of Canada or of a jurisdiction, and that is an affiliate of a bank or trust company referred to in paragraph 1 or 2, if either of the following applies:
    - (i) the company has equity, as reported in its most recent audited financial statements that have been made public, of not less than \$10,000,000;
    - (ii) the bank or trust company has assumed responsibility for all of the Custodial obligations of the company for that portfolio.
- c) If the portfolio assets are held outside Canada by a Sub-custodian, the Sub-custodian must be one of the following:
  - a. An entity listed in a previous section (2.6 (b));
  - b. An entity that:
    - i. is incorporated or organized under the laws of a country, or a political subdivision of a country, other than Canada,
    - ii. is regulated as a banking institution or trust company by the government, or an agency of the government, of the country under the laws of which it was incorporated or organized, or a political subdivision of that country, and
    - iii. has equity, as reported in its most recent audited financial statements, of not less than \$100,000,000;

---

<sup>12</sup> Refer to Appendix 1 for Definitions of Investment Terms

<sup>13</sup> Source: National Instrument 81-102

- d) Specifically, the Custodian shall:
1. Maintain safe custody of all portfolio assets;
  2. Perform duties of a Custodian that are required by law and in accordance with its agreement with the City;
  3. Execute the written instructions of the City and its appointed agents;
  4. Reconcile the holdings of each portfolio with the transactions of the relevant manager; and
  5. Provide the City with statements, at least quarterly, setting forth the holdings and transactions of each of the City's portfolios and a current list of institutions approved to borrow the City's securities.
- e) Custodian and Sub-Custodian agreements must provide the following:
- a. The location of portfolio assets,
  - b. Any appointment of a Sub-custodian,
  - c. The method of holding portfolio assets,
  - d. The standard of care and responsibility for loss, and
  - e. Requirements concerning review and compliance reports.

#### Investment Consultants<sup>14</sup>

The Investment Consultant's role and responsibilities shall include the following:

- a) Assist the CFO and the Investment Board with reviewing this Policy at least annually;
- b) Advise the Investment Board on developing and maintaining the Investment Plan. This may include advice with respect to asset mix policy, rebalancing policy, manager structure, and agent selection;
- c) Monitor investment performance and qualitative aspects of the LTF and SF assets and its Investment Managers, including verification and compliance with, and best practices regarding, any derivative strategies in each mandate, and recording to the Investment Board thereon;
- d) Investment performance shall be calculated and presented on both a gross and net basis. An annual review of Investment Manager fees will be presented by the Investment Consultant; and
- e) Meeting with the Investment Board at its request to discuss investment-related issues.

---

<sup>14</sup> Refer to Appendix 1 for Definitions of Investment Terms

## Section 5 – Performance Monitoring and Management

---

### 5.1 Performance Review Criteria

The Investment Board will review the performance of each Investment Manager and their respective funds (Pooled Funds or other) on a quarterly basis. A semi-annual consolidated report of all these results will be prepared for City Council. This review shall include:

- a) The measurement of market returns and a comparison to the returns of an appropriate index.
- b) The measurement of risk diversification compared to the diversification of a comparable index.
- c) An evaluation of each Investment Manager's adherence to the Funds' stated policies and guidelines or, in the case of Pooled Funds, adherence to the Pooled Fund's stated investment policies and guidelines.
- d) Any other pertinent information that may explain the performance of the Investment Manager or current capital market conditions.

### 5.2 Performance Measurement

- a) For purposes of evaluating the performance of the Investment Managers, all market rates of return are evaluated over moving four-year periods with returns being calculated on a quarterly basis. Return objectives include realized gains or losses and changes in unrealized capital gains or losses plus income from all sources.
- b) Market returns will be calculated on a time-weighted basis, before investment fees, and compared to the investment objectives described below. For instruments such as index funds that are intended to track a market index passively, a four-year tracking error limit will be used to assess manager performance.
- c) The performance benchmarks for the LTF, STF and the SF are as follows:

| Asset Class                | Benchmark <sup>(1)</sup>          |
|----------------------------|-----------------------------------|
| Short-Term                 | FTSE TMX 30-day T-bill Index      |
| Canadian Equity            | S&P/TSX Composite Index           |
| US Equity                  | S&P 500 (CAD)                     |
| EAFE <sup>(1)</sup> Equity | MSCI EAFE (Net) (CAD)             |
| Emerging Equity            | MSCI Emerging Markets Index (CAD) |
| Global Equity              | MSCI ACWI <sup>(2)</sup> (CAD)    |

|             |                                     |
|-------------|-------------------------------------|
| Bonds       | FTSE TMX Canada Universe Bond Index |
| Real Assets | Canadian CPI + 5%                   |

(1) EAFE is Europe, Australasia, and Far East Asia

(2) ACWI is All Country World Index

- d) Upon adoption of an Investment Plan, the Investment Board can customize the weight of each index in the benchmark and choose more relevant sub-indices of the above indices for performance benchmarking. Also, the nature of liabilities of the Sinking Fund requires a custom benchmark for assessing the performance of the Investment Manager(s). The weights of each of these indices in the benchmark will be reviewed and adjusted at least quarterly due to changes in the duration of the liabilities and indices.

### 5.3 Monitoring of Asset Mix

The Investment Board will monitor the asset mix quarterly (at a minimum), or more frequently, to ensure that the mix is within the guidelines established in this Policy. Section 2.4 (e) of this Policy outlines the rebalancing process. It is expected that the Asset Mix would normally be rebalanced to the target mix.

### 5.4 Dismissal of Investment Manager

A decision to terminate the services of an Investment Manager may be based on, but are not limited to, one or more of the following factors:

- a) Performance results below the stated performance objectives over a reasonable time period.
- b) Changes in personnel, firm structure, fees, ownership and/or investment style or approach which might adversely affect the potential return and/or risk level of the portfolio.
- c) Failure to adhere to the stated investment guidelines.
- d) Any material reputational or solvency event, as determined by the City.
- e) Changes in the investment manager structure of the overall Funds.

## **Section 6 – Administrative Policies**

---

### **6.1 Budgetary Requirements – Flow of Funds**

- a) On an annual basis, as part of the City's budget process, the Investment Board will be notified as to the amount required for operational needs. This amount will be transferred from the LTF to the STF in a series of periodic payments through the year, or as a lump sum as determined by the CFO.
- b) The SF may not be used for regular or special transfers. However, after careful consideration and review by the City's Auditor, there may be excess funds over the requirement needed to retire the debt in a specific SF sub-fund. These excess funds can be used, upon the determination of the CFO, for the repayment of principal and interest of any other SF sub-fund, and then for the payment of any capital expenditure of the City. The excess funds cannot be used for operating purposes (249(2) of the Act).

### **6.2 Sinking Funds – Flow of Funds**

- a) A schedule of contributions to the SF from the STF will be provided by the CFO to the Investment Board on an annual basis.
- b) A schedule of debt maturity amounts and their dates will also be provided to the Investment Board on an annual basis. Transfers from the SF to funds managed by the CFO should be made well in advance of the maturity date in order for the payment to be processed accordingly. At the Investment Board's discretion, this transfer may be made up to 12 months prior to the maturity date.

### **6.3 Overview of Inflows and Outflows of Funds**

- a) The STF captures revenues received by City during the year which are largely comprised of taxes and bond issuances. Any amount deemed surplus by the CFO in the STF would be redirected to the LTF. The amount required in the STF will be based on an annual forecast. Occasionally, shortfalls can be funded from transfers from the LTF, as per Section 6.1(b), a Line of Credit or issuing Promissory Notes.
- b) Annually the Long Term Fund may receive the surplus flow from the Short Term Fund. The Long Term Fund transfers bond coupons, dividends and realized gains from the sale of assets (largely from roll-down maturities) all held within the Long Term Fund. Additionally, if required there may be an annual transfer to the Short Term Fund to meet anticipated operational expenditures
- c) The Sinking Fund contributions are determined by the issuance amount, the maturity as well as the interest rate in the calculations of the contribution annuity and are derived from property taxes levied in amounts sufficient to meet such requirements. In addition to the contributions the Sinking Fund will receive inflows from bond coupons, dividends and realized gains from the sale of assets (largely from roll-down maturities) all held within the Sinking Fund.



Surplus can be transferred to another Sinking Fund or out of a Sinking Fund with Council's approval under the CFO recommendation.

#### **6.4 Trust Group of Funds and other Externally Mandated and Restricted Funds**

The City of Toronto also has agreements with a number of internally mandated and externally mandated trust funds as outlined in Appendix 2. In addition, there are externally mandated funds (e.g. money market portion of the City pre-OMERS pensions). The responsibility and management of these funds shall rest with the CFO and is not delegated to the Investment Board as these funds are not City funds.

#### **6.5 Valuation of Investments**

- a) Investments in Pooled Funds comprising publicly traded securities shall be valued according to the unit values published daily by the Investment Manager. Other investments shall be valued at their market value when that is available from regular public trading.
- b) If a market valuation of an investment is not available, then a fair value shall be supplied by the Investment Manager to the Custodian no less frequently than quarterly. For each such investment, an estimate of such fair value shall be supplied by an appropriate third party at each year end. The estimation methodology should be applied consistently over time.

#### **6.6 Environmental, Social, and Governance Factors (ESG)**

The City of Toronto believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long term financial performance.

Corporations should account for their behaviour and its implications for the creation of value. The City supports the view that companies should maintain policies and procedures with respect to Environmental, Social, and Governance (ESG) issues that materially affect long term shareholder value.

The City encourages the adoption of high standards of behaviour as a means to maximize long term shareholder value.

The Investment Board should incorporate ESG factors into its investment decision-making through its due diligence processes when choosing Investment Managers. As such, when a prospective investment manager is assessed, or an existing Investment Manager is reviewed, the Investment Board will consider the Investment Manager's ESG policies. The approach to ESG integration in the investment process will, however, vary both between and within asset classes based upon a number of factors, including the degree of control exercised by the Investment Board, contractual restrictions and the nature of the investment.

The City has chosen to monitor the developments of ESG factors and will reconsider its approach as and when appropriate to do so.

## **6.7 Related Party Transactions**

A Related Party is defined as an affiliate of an enterprise.

An affiliate is a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise. This means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise.

In general, the City of Toronto, is prohibited from entering into a transaction with or investing or lending Funds' assets to a "related party".

Investments in Pooled Funds, or other investment funds, managed by a third party (Investment Manager) shall be excluded from this section.

The Funds may continue to hold City of Toronto debentures as part of the Transition Portfolio (Section 6.10), or until maturity if purchased prior to January 1, 2018.

The direct investment in Toronto Hydro, prior to January 1, 2018, shall be permitted and included as part of the LTF. Specific details of this investment shall be approved by Council and the Investment Board shall adhere to all terms and conditions as directed. More specifically, the Investment Board will be prohibited from selling these shares. It should be viewed as a separate restricted standalone investment.

This investment should not be included in calculations regarding asset mix/allocations or other constraints of the overall Funds.

## **6.8 Voting Rights**

The Investment Managers shall normally assume the responsibility of exercising voting rights acquired through Funds' investments. The Investment Manager should report to the Investment Board on an annual basis its voting policies.

## **6.9 Policy Review**

This Policy shall be reviewed and affirmed in full at least annually, but otherwise whenever a major change is apparent or necessary. Such review may be caused by:

- a) A fundamental change in the design of the Funds.
- b) Significant revisions to the expected long term trade-off between risk and reward on key asset classes, dependent upon basic economic/political/social factors.
- c) Major change in the budgetary requirements or liquidity needs.
- d) A significant shift in the financial risk tolerance of the City.

- e) Shortcomings of the Policy that emerge in its practical operation or significant modifications that are recommended to the Investment Board by an investment manager or external consultant.
- f) Changes in statutory requirements.
- g) Any other event that may result in a major change to the Policy.

#### **6.10 Transition Portfolio – Initial Phase**

The current portfolio of individual fixed income securities shall generally be expected to remain in place during the initial two years. This initial phase is required to allow the Investment Board to properly assess current market conditions, work with the Investment Consultant, and carefully select Investment Managers.

During this initial phase, the Investment Board will be able to invest excess coupon and maturities in accordance with this policy. A listing of these cashflows will be provided to the Investment Board at least three months before the start of the calendar year.

#### **6.11 Other Restricted Funds**

##### **a) Collateral Account – Insurance Services (approximately \$70 million)**

The City of Toronto has posted collateral in the form of Government of Canada bonds for insurance services. The bonds are held by ACE (Chubb Insurance) while the income is directed back to the City's STF. Currently this collateral amount is approximately \$70 million and matures in 2018. The investment activity for this collateral account is governed by the Amended and Restated Collateral Security Agreement (December 30, 2014) and it will continued to be managed by the CFO. It is anticipated that this collateral in the form of bonds will be maintained for several years.

##### **b) Bi-Centennial Certificate of Deposit (\$2 million)**

There is a \$2 million CIBC certificate of deposit for Bi-Centennial celebration (purchased in 1984 with a 2034 maturity) that is segregated. A Reserve Fund has been established to hold this investment and it may not be sold.

## **Section 7– Monitoring, Reporting and Professional Conduct**

---

### **7.1 Compliance Reporting**

#### **City Staff-Managed Funds**

Reports shall be prepared daily by Capital Markets staff which set out the position of each investment relative to various criteria and limit values. Some of the important limits and criteria are:

- Proportion of overall fund value
- Credit quality
- Investment term
- Inclusion on the approved issuer list

The Capital Markets Staff will be responsible for reviewing the daily investment exposures to ensure all City managed funds are in compliance and logged daily.

Exceptions, if any, should be noted in an Investment Exception 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
- duration of such exception period
- mitigation action/plan.

Exceptions are determined at the time of purchase (settlement 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.

The Exception report shall be reviewed and authorized by two Capital Markets signing authorities.

Capital Market Staff should consolidate the exception report for all internally and externally managed funds with segregated details by fund. This consolidated report should be submitted to the CFO for review and approval on a monthly basis.

If the exception, in the CFO's opinion, represents a material inconsistency with the Policy, the CFO shall report the inconsistency to Council within 30 days after becoming aware of it.

#### **Funds Managed by the Investment Board**

The process for Compliance Reporting shall be similar to the one described above except that the Exception reports for the funds managed by the Investment Board shall be prepared by the delegated agent and submitted to Capital Market Staff and Investment Board members monthly.

## **7.2 Semi-Annual Report to Council**

As required by the Regulation, the Investment Board will provide to Council a semi-annual report (O. Reg. 610/06, Section 49(1)).

The report should include:

- A statement about the performance for the portfolio of investments of the City during the period covered by the report;
- A statement by the CFO as to whether or not, in his or her opinion, all investments are consistent with the Investment Policy and the Investment Plan; and
- Other information that Council may require or that, in the opinion of the CFO should be included.

Additional information that may be included, but not limited to, are as follows:

- Asset Mix, Sector, Term, and other compliance related items
- Performance by individual asset category
- Performance of major capital markets and current environment
- Review of economic conditions and major indicators (e.g. inflation)
- Comparative performance of major capital markets
- Overall Funds performance and attribution analysis
- Performance by individual Investment Managers
- Peer group comparison of Investment Managers
- Investment Manager performance versus benchmark
- Investment Manager updates – (e.g. product changes, staff changes)
- Review of Investment Manager Fees

This semi-annual report will be provided to Council via the CFO which will also consolidate and provide the information on the performance of the STF and its compliance to this Policy.

## **7.3 Standards of Conduct**

Individuals who are responsible for the City's investment portfolios shall follow the City of Toronto's Conflict of Interest guidelines and they shall also comply with the relevant sections of the CFA Institute's Code of Ethics and Standards of Professional Conduct.

These guidelines and standards shall apply specifically to:

- Members of the Investment Board
- The CFO
- Executive Director of the Corporate Finance Division
- staff in the Capital Markets Section

It shall also apply to 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

The Standards of Conduct apply prohibitions in the following principal areas (amongst others):

- using knowledge of the City's investment activities for personal gain
- receiving gifts, preferential treatment or other benefits from brokers and other private parties that participate or will potentially participate in the City's investment process

The Investment Board will also be subject to the City's Code of Conduct for Local Boards. This Code sets out requirements with respect to gifts and benefits, confidential information, use of City and board resources, election campaign work, improper use of influence and conduct guidelines related to employment, meetings, interactions with staff, and lobbyists.

In addition, it is incumbent on any party who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest to comply with the requirements of the ***Municipal Conflict of Interest Act (R.S.O. 1990)***.

All parties involved in the investment of the City's funds shall provide a signed acknowledgement that they have read the Investment Policy

## APPENDIX 1

### DEFINITIONS

---

1. Asset Mix (or Asset Allocation) – Proportion in which assets are divided among various types of investments such as equities, bonds, or cash.
2. CFA Institute – a global, not-for-profit professional association that administers the Chartered Financial Analyst (CFA) and the Certificate in Investment Performance Measurement (CIPM) curricula and examination programs worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance reporting standards for the investment industry.
3. Custodian and Sub-Custodian - is a specialized financial institution that is responsible for safeguarding a firm's or individual's financial assets and is not engaged in "traditional" commercial or consumer/retail banking such as mortgage or personal lending, branch banking, personal accounts, (ATMs) and so forth. Global custodians will safe keep assets for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks ("sub-custodian" or "agent banks") with which they contract to be in their "global network" in each market to hold accounts for their respective clients. Assets held in such a manner are typically owned by larger institutional firms with a considerable amount of investments such as banks, insurance companies, mutual funds, and pension funds.
4. Chief Financial Officer (CFO) - the Chief Financial Officer (CFO) is currently appointed Treasurer under the City of Toronto Act, 2006.
5. Index – A public investment benchmark which is considered to be representative of a specific securities market (e.g. the S&P/TSX Composite Index, the FTSE/TMX 91 Day T-bill Index, etc.). Performance benchmarks refer to total return indices in Canadian dollar terms.
6. Index Fund – a portfolio of securities designated to replicate the performance of an index.
7. Infrastructure (Global Core) – are real assets which are usually defined by high barriers to entry, economies of scale, inelastic demand, long life duration, and inflation sensitivity. "Core" infrastructure assets are regulated assets with low economic exposure and steady income streams. Examples include: toll roads, pipelines, airports, and electrical power plants.
8. Internal Controls – Includes authorities, policies, procedures, separation and segregation of duties, compliance checks, performance measurement and attribution, custodian reports, safekeeping and the audit process.
9. Investment Board - is defined in O.Reg 360/15 section 46(2) and is a City board to which the City has given the control and management of investments by delegating to the board the City's powers to make such investments and the City's duties under

section 44 of the Regulation. Members of this board may not be an officer or employee of the City, nor be a member of Council. The exception is that one member may be the treasurer.

10. Investment Consultant - An institutional investment consultant provides investment advice to public and private companies, foundations and endowments looking for help with managing their money, or the money in their employees' retirement funds. They are used widely in Canada, the U.S., Europe and Australia. The profession started out helping corporations with their pension plans, which is why they are also referred to as "pension consultants". Their role has expanded beyond pension consulting, they are now known as "Institutional Investment Consultants". Due to the large number of Investment Managers, consultants are a necessary intermediary, providing an essential matching function. They match asset managers to their clients' investment needs. Since this is a consultant's area of expertise, they generally have screening methods and extensive contacts in the industry. Investment Consultants are often used in the due diligence process because some firms are either too small or lack the expertise to staff a department to search for Investment Managers. Even if it is a large sophisticated client, an Investment Consultant may be needed to provide an unbiased view in the decision making process.
11. Investment Managers – External third party investment managers serving the institutional fund industry. These managers have pooled funds in which an investor can purchase units, or separate segregated funds for each client. They are "agents" as defined in the new O.Reg 360/15.
12. Investment Plan – is defined in O.Reg 360/15 section 48(2) and is defined as the document that shall deal with how the Investment Board will invest the City's money and set out the Board's projections of the proportions of the City's portfolio of investments to be invested at the end of the year in each type of security selected by the Investment Board and may include other requirements.
13. Investment Policy – A formal statement approved by City Council which provides the basis upon which a fund or pool of funds is to be invested.
14. Modern Portfolio Theory – A theory of trust investment and portfolio management that looks more toward the portfolio as a whole and less toward the prudence of a single investment in the portfolio as found in the CFA Institute Standards of Practice Handbook.
15. Pooled Funds - has no legal definition under provincial securities legislation but generally refer to a unit trust established under a trust indenture, which is not required to have a prospectus, in which institutional, sophisticated or high net worth investors contribute funds, that are invested and managed by an Investment Manager. Pooled funds are used by various institutional investor types such as pension funds, endowments, and foundations. Funds are comingled with other institutional investors and have a structured lower fee schedule. They are similar to a "mutual fund" which are geared toward individual retail clients that have different fee structures.
16. Portfolios - represent funds that are grouped together and required for specific purposes. The City of Toronto funds are grouped into three main portfolios: Short Term Fund (STF), Long Term Fund (LTF), and the Sinking Fund (SF).



17. Proxy Voting – A legal transfer to another party of a shareholder's right to vote; allows shareholders that cannot attend meetings to participate.
18. Prudent Investor Standard – Modern conception of the Prudent Man Rule that requires a trustee to act prudently and with caution, discretion, loyalty and care but does not restrict the assets in which a trustee can invest. The Prudent Investor Standard makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio rather than to individual investments. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the CFA Institute Standards of Practice Handbook.
19. Real Estate (Canadian Core) - are considered to be the least risky because they often target stabilized, fully leased, secure investments in major core markets. These include properties with long term leases in place to high credit tenants and Class A buildings in highly desirable locations. These buildings are often well kept and require little to no improvements on behalf of the new owner. Therefore, these type of real estate investments generally do not experience significant appreciation in value but rather provide stable, predictable cash flow with relatively low risk. This type of investment suits investors who seek capital preservation and long hold periods, and often warrants low leverage acquisitions. While these types of investments may seem less attractive when compared to higher yielding commercial real estate opportunities, many investors view them as attractive investments for the level of risk they provide when compared to other investment opportunities in the marketplace such as corporate bonds and publicly traded equities. While core investments in commercial real estate are typically not as liquid as securities offered on an exchange, they are generally the most liquid assets when compared to value add and opportunistic projects because they are stabilized, attractive, marketable assets.
20. Risk – the uncertainty of future investment returns.
21. Risk Tolerance – The financial ability to absorb a loss or withstand a short-to-medium-term value decline. Risk tolerance increases with the build-up of retained earnings or surplus of assets over liabilities.
22. Sinking Fund – This fund was established to fulfil a requirement of various public debenture issues wherein cash is to be regularly set aside for the redemption of the debentures.
23. Sinking Fund Required Contributions – (Annual Sinking Fund Requirement) The amount of capital to be set aside each year in a sinking fund as detailed on each debenture issue and outlined in the city by-laws when the debenture is issued.
24. Sinking Fund Required Earnings – The investment earnings necessary such that the required contributions continue to grow to a value sufficient to repay the principal owing on all Sinking Fund debentures.
25. Sinking Fund Excess Earnings – Investment earnings in excess of the required earnings.

## APPENDIX 2

### Trust Group of Funds

---

The Trust Group of Funds that comprise those over which the Chief Financial Officer 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.

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

There are two categories of Trust Funds: Internally Mandated and Externally Mandated.

#### 1.0 Internally Mandated Trust Funds:

##### 1.1 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.

### **1.2 Other Trust Funds**

These trust funds include Hugh Clydesdale Trust Fund, Michael Sansone Trust, J.D. O'Connell Trust, Stevens Trust, Waterpark Place, the Bridge Fund, Rehabilitation Assistance Program, Contract Aftercare Programme, Sesquicentennial and Music Garden etc.

## **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. Music Garden Trust has a limit of 10 years.

## **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.

## **2.0 Externally Mandated Trust Funds:**

### **2.1. Long-Term Care Homes & Services Trust Fund**

## **Purpose of Portfolio**

The Long-Term Care Homes & Services (LTCHS) Trust fund portfolio is comprised of two pools of funds – donation funds, and the Residents' Interest Reserve Fund. The division's donation accounts include individual and corporate donations, and funds received through targeted fundraising events. Donation funds are primarily used to fund projects or to provide goods and services which are for the general benefit of the residents and not funded through the operating budget.

The Residents' Interest Reserve Fund (RIF) includes interest earned on individual resident trust funds that were not paid out to residents over a time period beginning prior to 1955. In 1987 a guideline was established for the fund, limiting annual spending to only about 90 per cent of the income earned in the year. This guideline was recently revised to include the wording "90 per cent of the interest earned in the previous year". There are no additional sources of revenue to the RIF.

The Residents' Interest Reserve Fund is used for the general benefit of the residents, and is not for the ordinary operation or maintenance of the home. Funds are used to enhance the quality of life of the residents' social, recreational and entertainment type activities. The Administrators of the Long-Term Care Homes & Services Trust Fund establish and control all the operating parameters of the investment portfolio, with the assistance of the City of Toronto, Capital Markets Section.

### **Governing Legislation**

The investment of the Long-Term Care Homes & Services (LTCHS) Trust fund portfolio is regulated by The Trustee Act.

### **Income Requirements**

The primary fiduciary responsibility of the Fund Administrators is to safeguard principal and meet liquidity requirements. Maximization of interest earnings, while desirable, is a secondary objective of the fund's management.

### **Term Horizon**

A portion of the fund is for the Residents' Interest Reserve Fund. The cash outflow for this portion of the fund is limited as only 90% of interest earnings may be spent each year. As market fluctuations generally increase with the term of the investment, it is prudent to limit exposure to a maximum 3 year term.

Whenever changes in cash flow requirements are foreseen LTCHS will inform the Chief Financial Officer.

### **Liquidity Requirements**

Although the administration maintains sufficient bank balances to cover most ongoing needs of the fund, extra liquidity should be provided by investing a smaller portion of the fund in highly liquid and marketable credits.

### **Permitted Investments**

More stringent guidelines have been established by the fund administrator than the governing legislations limiting eligible investment to debt instruments of the federal, provincial and municipal governments as well as schedule I and II banks. See Section 8.2 for Eligible issuers, and limits on issuer exposure and maximum term of maturity for this policy.

## **2.2 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.

### **3.0 Externally Mandated Funds**

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

- o The Municipality of Metropolitan Toronto Pension Plan
- o The Municipality of Metropolitan Toronto Police 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.

## Approved Issuers for City of Toronto Trust Group of Funds

| Issuer (Note 1)                                                       | Sector / Credit Exposure |                    | (Maximum) Sector Term Limitation (Years) | Meet at least one of the following ratings for Long Term (LT)/ Short Term (ST) respectively |         |             |             |          |          |
|-----------------------------------------------------------------------|--------------------------|--------------------|------------------------------------------|---------------------------------------------------------------------------------------------|---------|-------------|-------------|----------|----------|
|                                                                       | Portfolio Limit %        | Individual Limit % |                                          | S&P S/T                                                                                     | S&P L/T | Moody's S/T | Moody's L/T | DBRS S/T | DBRS L/T |
| <b>Federal Government</b>                                             | 100                      |                    |                                          |                                                                                             |         |             |             |          |          |
| <b>Government of Canada</b>                                           |                          | 100                |                                          | A+                                                                                          | A+      | A+          | A+          | A(high)  | A(High)  |
| <b>Government of Canada Guarantees and Agencies</b>                   |                          | 50                 |                                          | A+                                                                                          | A+      | A+          | A+          | A(high)  | A(High)  |
| <b>Provincial Governments &amp; Guarantees &amp; Implicit Support</b> | 100                      |                    |                                          |                                                                                             |         |             |             |          |          |
| Provincial and Guarantees                                             |                          | 50                 |                                          | A1+                                                                                         | AA -    | P1          | Aa3         | R1 H     | AA L     |
| Provincial and Guarantees                                             |                          | 15                 |                                          | A1+                                                                                         | A-      | P1          | A3          | R1 M     | A L      |
| <b>Municipalities</b>                                                 |                          |                    |                                          |                                                                                             |         |             |             |          |          |
| Toronto                                                               |                          | 50                 |                                          |                                                                                             |         |             |             |          |          |
| <b>Banks and Government-related entities</b>                          |                          |                    |                                          |                                                                                             |         |             |             |          |          |
| Schedule I Banks                                                      | 100                      | 100                | 10                                       | A1                                                                                          | A       | P1          | A2          | R1 Mid   | A        |
| Schedule II Banks                                                     | 100                      | 50                 | 1                                        | A1                                                                                          | n/a     | P1          | n/a         | R1 Mid   | n/a      |

Note 1: The Maximum Term for any investment executed for the Music Garden Trust is 10 years.

Note 2: This policy applies to the following Trust Accounts - Hugh Clydesdale Trust Fund, Machael Sansone Trust, J. D. O'Connell Trust, Stevens Trust, Waterpark Place, The Bridge Fund, Rehabilitation Assistance Program, Contract Aftercare Programme (CAP) and Music Garden.

The former City of Toronto Council approved investment (a Term Deposit maturing in 2034 @ 9.622%) for the "Sesquicentennial/Bicentennial Project" supercedes this policy

## Approved Issuers for Long-Term Care Homes

| Issuer                                         | Max. % | Term Limit | Meet at least one of the following ratings for Long Term (LT)/ Short Term (ST) respectively |        |            |            |         |         |
|------------------------------------------------|--------|------------|---------------------------------------------------------------------------------------------|--------|------------|------------|---------|---------|
|                                                |        |            | S&P ST                                                                                      | S&P LT | Moody's ST | Moody's LT | DBRS ST | DBRS LT |
| <b>Federal Government &amp; Guarantee</b>      | 100    | 3          | <b>Federal Ratings shown for comparative purposes only</b>                                  |        |            |            |         |         |
|                                                |        |            | A1+                                                                                         | AAA    | P1         | Aaa        | R1 H    | AAA     |
| <b>Provincial Governments &amp; Guarantees</b> |        |            | <b>for Provincials &gt; or equal to AA- max 100%; less than AA- 50%</b>                     |        |            |            |         |         |
|                                                | 100    | 3          | A1+                                                                                         | AA -   | P1         | Aa3        | R1 H    | AA L    |
|                                                | 50     | 3          | A1+                                                                                         | A      | P1         | A          | R1 M    | A       |
| <b>Municipalities</b>                          |        |            |                                                                                             |        |            |            |         |         |
| <b>Toronto</b>                                 | 100    | 3          | A1 +                                                                                        | AA -   | P1         | Aa3        | R1 H    | AA -    |
|                                                | 50     | 3          | A1+                                                                                         | A      | P1         | A          | R1 M    | A       |
| <b>Other Municipalities &amp; Regions</b>      | 100    | 3          | A1 +                                                                                        | AAA    | P1         | Aaa        | R1 H    | AAA     |
|                                                | 50     | 3          | A1 +                                                                                        | A+     | P1         | A+         | R1 M    | A+      |
| <b>Banks</b>                                   |        |            |                                                                                             |        |            |            |         |         |
| <b>Schedule I Banks:</b>                       | 100    | 3          | A1                                                                                          | A      | P1         | A2         | R1 M    | A       |
| <b>Schedule II Banks</b>                       | 50     | 6 mths     | A1                                                                                          | n/a    | P1         | n/a        | R1      | n/a     |
| <b>Total Banks</b>                             | 100    |            |                                                                                             |        |            |            |         |         |

## Approved Issuers for Externally Managed Funds - The Metropolitan Toronto Pension Plan \*

| Issuer                                                                                                                                                                                                                                                                                                        | Sector / Credit Exposure |                    | (Maximum)<br>Sector Term Limitation (Years) | Meet at least one of the following ratings for Long Term (LT)/ Short Term (ST) respectively |        |           |           |         |         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------|---------------------------------------------|---------------------------------------------------------------------------------------------|--------|-----------|-----------|---------|---------|
|                                                                                                                                                                                                                                                                                                               | Portfolio Limit %        | Individual Limit % |                                             | S&P ST                                                                                      | S&P LT | Moodys ST | Moodys LT | DBRS ST | DBRS LT |
| Federal Government                                                                                                                                                                                                                                                                                            | 100                      |                    |                                             |                                                                                             |        |           |           |         |         |
| Government of Canada Guarantees and Agencies                                                                                                                                                                                                                                                                  | 100                      |                    | 1                                           | A+                                                                                          | A+     | A+        | A+        | A(high) | A(High) |
| Provincial Governments & Guarantees & Implicit Support                                                                                                                                                                                                                                                        | 100                      |                    |                                             |                                                                                             |        |           |           |         |         |
| Provincial and Guarantees                                                                                                                                                                                                                                                                                     | 100                      |                    | 1                                           | A1+                                                                                         | n/a    | P1        | n/a       | R1 L    | n/a     |
| Banks                                                                                                                                                                                                                                                                                                         | 100                      |                    |                                             |                                                                                             |        |           |           |         |         |
| Schedule I Banks:                                                                                                                                                                                                                                                                                             | 100                      |                    | 1                                           | A1+                                                                                         | n/a    | P1        | n/a       | R1 L    | n/a     |
|                                                                                                                                                                                                                                                                                                               |                          |                    |                                             |                                                                                             |        |           |           |         |         |
| * Note<br>These limits and ratings criteria as established and adopted by "The Board of Trustees of The Metropolitan Toronto Pension Plan". The Board has delegated to the Chief Financial Officer for the City of Toronto, for investment, the 'liquid assets' kept on hand to pay monthly pension benefits. |                          |                    |                                             |                                                                                             |        |           |           |         |         |

## Approved Issuers for Externally Managed Funds - The Metropolitan Toronto Police Benefit Fund \*

| Issuer                                                                                                                                                                                                                                                                                                               | Sector / Credit Exposure |                       | (Maximum)<br>Sector Term<br>Limitation<br>(Years) | Meet at least one of the following ratings for Long Term (LT)/ Short Term (ST) respectively |           |              |              |            |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------|---------------------------------------------------|---------------------------------------------------------------------------------------------|-----------|--------------|--------------|------------|------------|
|                                                                                                                                                                                                                                                                                                                      | Portfolio<br>Limit %     | Individual<br>Limit % |                                                   | S&P<br>ST                                                                                   | S&P<br>LT | Moodys<br>ST | Moodys<br>LT | DBRS<br>ST | DBRS<br>LT |
| Federal Government                                                                                                                                                                                                                                                                                                   | 100                      |                       |                                                   |                                                                                             |           |              |              |            |            |
| Government of Canada Guarantees and Agencies                                                                                                                                                                                                                                                                         | 100                      |                       | 1                                                 |                                                                                             |           |              |              |            |            |
| Provincial Governments & Guarantees & Implicit Support                                                                                                                                                                                                                                                               | 100                      |                       |                                                   |                                                                                             |           |              |              |            |            |
| Provincial and Guarantees                                                                                                                                                                                                                                                                                            | 100                      |                       | 1                                                 | A1+                                                                                         | n/a       | P1           | n/a          | R1 L       | n/a        |
| Banks                                                                                                                                                                                                                                                                                                                | 100                      |                       |                                                   |                                                                                             |           |              |              |            |            |
| Schedule I Banks:                                                                                                                                                                                                                                                                                                    | 100                      |                       | 1                                                 | A1+                                                                                         | n/a       | P1           | n/a          | R1 L       | n/a        |
| * Note<br>These limits and ratings criteria as established and adopted by "The Board of Trustees of The Metropolitan Toronto Police Benefit Fund". The Board has delegated to the Chief Financial Officer for the City of Toronto, for investment, the 'liquid assets' kept on hand to pay monthly pension benefits. |                          |                       |                                                   |                                                                                             |           |              |              |            |            |