REPORT FOR ACTION

Sinking Fund and Long Term Fund - Q1 Performance and Compliance Update

Date: May 29, 2019
To: Toronto Investment Board
From: Executive Director, Corporate Finance
Wards: All

SUMMARY

As required by the City's Investment Policy, the purpose of this report is to provide the Toronto Investment Board ("Board") with the following:

1. The performance of the Sinking Fund and Long Term Fund in the first quarter of 2019.

2. Investment Policy and Plan Compliance reports for the first quarter of 2019.

RECOMMENDATIONS

The Executive Director, Corporate Finance recommends that:

1. Toronto Investment Board receive this report for information.

FINANCIAL IMPACT

There is no financial impact to the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting of April 11, 2019, the Toronto Investment Board adopted a report called the Sinking Fund and Long Term Fund - Portfolio Update which contained similar information for the full year 2018:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB1.3

At its meeting of March 7, 2019, City Council adopted the 2019 Capital and Operating Budgets:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX2.5

At its meeting of June 28, 2018, City Council adopted the report City of Toronto Investment Policy for 2017 and the First Quarter of 2018 and Policy Update, which set the guidelines for investment of the Sinking Fund and Long Term Fund:

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

At its meeting of April 5, 2018, the Toronto Investment Board adopted an Investment Plan:

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB4.5

In 2008, the City adopted a new Investment Earnings Policy that prioritizes the order of allocation of investment earnings:

https://www.toronto.ca/legdocs/mmis/2008/ex/bgrd/backgroundfile-10354.pdf

COMMENTS

Performance Overview and Cash Flows

Sinking Fund (SF)

The Sinking Fund continued in a transitional period with large cash holdings and the balance in conservative fixed income securities under passive management. The cash holdings are held in a segregated Short Term sub-fund specifically for the Sinking Fund.

During the first quarter of 2019, the Sinking Fund of $1.6 billion earned $12.3 million yielding 3.1%, as shown in the table follow:

Table 1- Sinking Fund Income ($millions)

Year	Average Fund Balance	Earned Income	Earned Return on Capital
2019 - Q1	$1,595.5	$12.3	3.1%
2018	$1,681.6	$54.1	3.2%

In anticipation of the transition to other asset classes, the Sinking Fund was building cash and short-term holdings as well as keeping bond holdings that were purchased under the previous eligible investment list. The average fund balance for the first quarter of 2019 was $1.6 billion.

On a market return basis, the SF underperformed its benchmark (FTSE TMX Canada Mid Term Overall Bond Index) by 123 basis points for the one-year return (4.51% vs.

5.74%), and 17 basis points for the average four-year return (2.03% vs. 2.20%). This benchmark will be replaced when the portfolio is transitioned to the external fund managers.

Long Term Fund (LTF)

Similar to the SF, the LTF is also in transition and has large cash holdings with the balance in fixed income securities under passive management.

Table 2 – Long Term Fund Income ($millions)

Year	Average Fund Balance	Earned Income	Earned Return on Capital
2019 - Q1	$2,835.2	$22.2	3.2%
2018	$2,819.3	$93.8	3.3%

In anticipation of the transition to other asset classes during the first quarter of 2019, the LTF continued to build cash and short-term holdings as well as keeping bond holdings that were purchased under the previous eligible investment list. The first quarter of 2019 average balance of $2.8 billion is comprised of 25% cash and 75% bonds. The cash holdings are mainly held in a segregated Short Term Fund.

On a market return basis, the LTF outperformed its benchmark (FTSE TMX Canada Universe Bond Index) by 11 basis points for one-year return (5.38% vs. 5.27%) and 65 basis points for the average four-year return (2.61% vs. 1.96%).

Update for 2019

The amount of forecasted earned investment income from the LTF required by the operating budget for 2019 is estimated at $120.0 million (equivalent to approximately 3.7% rate of earned return net of Board expense). Table 3 shows the remaining investment income required for the remainder of 2019.

Table 3 – Long Term Fund Investment Income allocation ($millions)

Required Income for 2019	Q1 Earned	Remaining 2019 Requirement
$120.0	$22.2	$97.8

Investment Policy and Plan Compliance

All investments in the Sinking Fund and Long Term Fund are consistent with the Investment Policy and the Investment Plan for the first three months of 2019 (Attachment 1).

CONTACT

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SIGNATURE

Joe Farag
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ATTACHMENTS

Attachment 1 - Compliance Reports (January - March 2019)