TORONTO

REPORT FOR ACTION

Sinking Fund and Long Term Fund - Performance and Compliance Update for the Second Quarter of 2022

Date: August 30, 2022
To: Toronto Investment Board
From: Randy LeClair, Director, Capital Markets
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 for the second quarter of 2022.

2. Investment Policy and Plan Compliance certificates and reports for the second quarter of 2022.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. Toronto Investment Board receive this report for information.

FINANCIAL IMPACT

There are no financial impacts on the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting on June 15, 2022, City Council adopted the report City of Toronto Investment Report for the Year 2021:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX33.6

At its meeting on June 23, 2022, the Toronto Investment Board adopted the report Sinking Fund and Long-Term Fund - Performance and Compliance Update for the first quarter of 2022:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.IB16.2

At its meeting on March 28, 2022, the Toronto Investment Board adopted the report Sinking Fund and Long-Term Fund - Performance and Compliance Update for the fourth quarter and full year of 2021:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.IB15.4

At its meeting of February 17, 2022, City Council adopted the 2022 Capital and Operating Budgets:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX21.2

At its meeting on December 15, 2021, City Council adopted the report City of Toronto Investment Report for the six months period ending June 30, 2021:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX28.4

At its meeting on December 13, 2021, the Toronto Investment Board adopted the report Sinking Fund and Long-Term Fund - Performance and Compliance Update for the Third Quarter of 2021:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB14.3

At its meeting of June 29, 2020, City Council adopted the Investment Policy Update:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX14.2

COMMENTS

Highlights

The performance of the Long Term Fund (LTF) and Sinking Fund (SF) as at June 30, 2022 is shown in Table 1 below:

Table 1 - Summary of Performance[1]

	Long Term Fund (LTF) - (%)	Sinking Fund (SF) - (%)
Q2 2022	-7.2%	-10.1%
Q1 2022	-7.6%	-9.9%
1 Year	-11.4%	-15.8%
2 Year (Annual)	-4.0%	-8.1%
Since Inception (January 7, 2019)	-0.5%	-3%

[1] Performance Review and Investment - June 30, 2022 (Aon) - Attachment 1B

Detailed market value performance information with benchmarks, attribution, and commentaries can be found in the reports prepared by the investment consultant (Aon) in Attachment 1A and 1B. These returns do not include cash and other short term holdings of the LTF and SF and reflect the performance of the external investment managers only.

Compliance to the Investment Policy is monitored daily and reported monthly. For the three months period ending June 30, 2022, the monthly compliance reports prepared by the Custodian (RBC), and compliance statements prepared by the four investment managers with segregated mandates are included in Attachment 4.

The remainder of this report along with Attachments 2, 3, and 5 provide further information regarding the funding, re-balancing, breakdown of holdings by investment manager, quarterly realized income, flow-of-funds, and other details.

Performance Overview and Cash Flows

Sinking Fund (SF)

Activities and Balances:
As of June 30, 2022, external investment managers held $1.5 billion of invested assets. Table 2, 3 and 4 below show the Sinking Fund balances and asset mix that are managed by the external investment managers as at June 30, 2022. Details on 2021 and 2022 funding to investment managers are included in Attachment 2. Attachment 3 (Tables A3-1 and A3-2) provides quarterly information on fund balances.

Table 2 - Balances in Market Value managed by Investment Managers ($millions)

Date	Fiera LDI	Addenda	Oakmark	Pier 21	Fiera CCF[5]	LGIM	Total
May 1, 2019 (initial funding)	$679.8	$679.9	-	-	-	-	$1,359.7
Dec. 31, 2019[1]	$498.7	$489.4	$62.2	$62.0	-	-	$1,112.3
Dec. 31, 2020[2]	$739.7	$745.6	$75.8	$86.1	$74.1	-	$1,721.3
Dec. 31, 2021[3]	$587.5	$580.3	$89.6	$101.9	$91.8	$252.1	$1,703.2
Mar. 31, 2022[4]	$528.2	$517.3	$84.2	$89.7	$81.8	$232.6	$1,533.8
Jun. 30, 2022	$527.1	$514.2	$74.4	$78.8	$73.0	$206.8	$1,474.3

[1]The decline in externally managed assets was due to the debt repayment in 2019.

[2]Asset mix rebalancing: $145 million and 166 million were transferred to Fiera LDI and Addenda on September 8, 2020 respectively. $45 million was transferred to each of Addenda and Fiera, $15.5 million was transferred to Fiera Capital, and $8.5 million was transferred to Oakmark in December 2020.

[3] $210 million was transferred to LGIM on January 6, 2021; $170 million was transferred out of each of Fiera LDI and Addenda on Nov 29th, 2021 for sinking fund maturity payment.

[4] $51 million were transferred to each of Addenda and Fiera LDI fund on April 21, 2022

[5]Fiera CCF (Contractual Common Fund) is also known as Fiera Global Focused Equity on Aon's report

Table 3 - Historical Asset Mix of the Sinking Fund

Asset Class - Sectors	Policy Range	Policy Target	12/31/19	12/31/20	12/30/21	3/31/22	6/30/2022
Segregated Short Term Fund (Internal)	0-100%	0.0%	31.1%	20.0%	13.6%	16.4%[3]	24.6%[4]
Cash & Cash Equivalents (Investment Managers)	0-5%	0.0%	0.1%	0.2%	0.5%	0.3%	0.2%
Government of Canada & Guarantees	0-100%	30.0%	8.0%	13.7%	13.2%	12.5%	11.3%
Provincial (and Guarantees) & Municipal Bonds	0-100%	30.0%	36.4%	40.6%	32.2%	30.6%	28.6%
Corporate Bonds	0-60%	10.0%	16.9%	14.5%	13.3%	13.6%	13.2%
Global Equity Pooled Funds	0-30%	20.0%	7.5%	11.0%[1]	27.2%[2]	26.6%	22.1%
Real Assets	0-15%	10.0%	N/A	N/A	N/A	N/A	N/A
Total		100.0%	100.0%	100.0%	100%	100%	100%

[1] The increase was due to funding to a new investment manager, Fiera Capital CCF.

[2] The increase was due to funding to a new investment manager, Legal & General Investment Management.

[3] The fund was rebalanced in April 2022 by allocating $102 million in cash to fixed income and reduced equity allocation from 27% to 26%. Another round of rebalancing activities is planned as new money from sinking fund deposits accumulates.

[4] The Fund was rebalanced in July 2022 by allocating $281 million in cash to fixed income, reducing cash balance to approximately 10.6%.

Table 4 - Sinking Fund Asset Mix by Investment Managers as at June 30, 2022 (Market Value $ millions)

Asset Mix - Sectors	Internal	Fiera LDI	Addenda	Oakmark	Pier 21	Fiera CCF	LGIM	Total
Segregated Short Term Fund (Internal)	480.8	-	-	-	-	-		480.8 (24.6%)
Cash & Cash Equivalents (Investment Managers)	-	1.4	2.6	-	-	-	-	4.0 (0.2%)
Government of Canada & Guarantees	-	134.0	86.4	-	-	-	-	220.4 (11.3%)
Provincial (and Guarantees) & Municipal Bonds	-	284.5	274.5	-	-	-		559.0 (28.6%)
Corporate Bonds	-	107.2	150.7	-	-	-		257.9 (13.2%)
Global Equity Pooled Funds	-	-	-	74.4	78.8	73.0	206.8	433.0 (22.1%)
Total	480.8	527.1	514.2	74.4	78.8	73.0	206.8	1,955.1 (100.0%)

The total Sinking Fund balance (including segregated cash) at the end of the June 30, 2022 was $2.0 billion on a market value basis. This balance was comprised of 25 percent segregated short term fund (cash and equivalents), 53 percent fixed income, and 22 percent global equities. The fund asset mix was rebalanced in July 2022 by allocating $281 million in cash to fixed income and the remaining cash (10.6%) is set aside for the upcoming investment in real assets. As new money from sinking fund deposits accumulates, asset mix rebalancing activities are planned periodically to re-align towards the asset mix target.

Market Return Performance:

The externally managed Sinking Fund underperformed its market return benchmark by 120 basis points for the second quarter of 2022 and 270 basis points for the 12 months period ending June 30, 2022.

As shown in Table 5 below, the fixed income portion of the Sinking Fund underperformed the benchmark by 10 basis points for the second quarter of 2022 but flat to the benchmark for the 12 months period ending June 30, 2022. The global equity outperformed the benchmark by 150 basis points and 30 basis points for the second quarter of 2022 and for the 12 months period ending June 30, 2022 respectively.

The blended benchmark for the total fund is calculated based on the weighted average return of the target asset mix including real assets, the plan is currently transitioning towards the target asset mix and is not fully allocated at this point.

Attachment 3 (Table A3-3 and A3-4) provides a highlighted performance breakdown by each investment manager.

The investment consultant (Aon) has also provided a performance breakdown for the Sinking Fund in Attachment 1A and 1B.

Table 5 - Sinking Fund Market Return (%)[1]

As at June 30, 2022	Allocation	Performance (%)	
($ million)	**Market Value**	**Q2, 2022**	**1-year**
Total Sinking Fund	$1,474.3 (100%)	-10.1%	-15.8%
Blended Benchmark - Total Fund		-8.9%	-13.1%
Value Added - Total		**-1.2%**	**-2.7%**
Fixed Income	$1,041.3 (70.6%)	-9.6%	-16.9%
LDI Benchmark[2]		-9.5%	-16.9%
Value Added - Fixed Income		**-0.1%**	**0.0%**
Global Equity	$433.0 (29.4%)	-11.3%	-11.6%
Market Benchmark (MSCI ACWI)		-12.8%	-11.9%
Value Added - Equity		**1.5%**	**0.3%**

[1] Performance Review and Investment (Q2 2022 Performance) - Aon - Attachment 1B

[2] Liability Driven Investment (LDI) benchmark is customized based on the Sinking Fund liability

Sinking Fund - Book Return Performance:

On a book return basis (excluding unrealized gain and losses), the Sinking Fund earned -$5.4 million yielding a return of -0.6 percent during in the first half of 2022 as shown in Table 6 below.

Table 6 - Sinking Fund Earned Income ($millions)

Year	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital (Annualized)
June 30, 2022	**$1,944.0**[1]	**-$5.4**	**-0.6%**
2021	$2,172.8	$18.5	0.9%
2020	$1,648.0	$39.3	2.4%
2019	$1,713.8	$83.1	4.9%

[1] The lower average fund balance was due to $500M debt repayment at maturity in December 2021.

For historical quarterly earned income, please refer to Attachment 3 (Table A3-5).

Flow of Funds - Sinking Fund

There are no debt maturities in 2022. The next maturity will be in September 2023 for $300 million.

On the debt issuance side, the City of Toronto issued $900 million of long-term debentures in 2022 year to date as shown in Table 7 below.

Table 7 - 2022 YTD Sinking Fund Debenture Issuances ($millions)

Issuance Date (Settlement)	Maturity Date	Size ($ millions)
July 27, 2022	July 27, 2042	$235.0
June 1, 2022	June 1, 2052	$365.0
April 20, 2022	April 20, 2032	$300.0

Long Term Fund (LTF)

Activities and Balances:
As of June 30, 2022, external investment managers held $3.1 billion of invested assets for the Long Term Fund (LTF). There were no funding contributions or withdrawals for the LTF in the second quarter of 2022 (Attachment 2).

Table 8, 9 and 10 below show the balances and asset mix of the LTF managed by the six investment managers as at June 30, 2022. Attachment 3 contains quarterly balances of the LTF for 2021 (Table A3-6 and A3-7).

Table 8 - Balances in Market Value managed by Investment Managers ($millions)

Date	CC&L[3]	LW[3]	Oakmark	Pier 21	Fiera CCF	LGIM	Total
May 1, 2019	$1,050.2	$1,053.8	-	-	-	-	$2,104.0
Dec. 31, 2019	$1,242.8	$1,248.3	$122.2[1]	$122.8[1]	-	-	$2,736.1
Dec. 31, 2020	$1,362.0	$1,363.4	$131.9	$153.0	$129.1	$384.6[2]	$3,524.0
Dec. 31, 2021	$1,334.5	$1330.6	$156.0	$181.0	$160.0	$459.6	$3,621.7
June 30, 2022	$1,171.5	$1,176.1	$129.5	$139.9	$127.2	$377.1	$3,121.3

[1]$360 million cash ($120 million each) was transferred to the management of Oakmark, Pier 21 and Fiera CCF on Nov 1, 2019, Nov 1, 2019, and Feb 24, 2020 respectively

[2]$376 million cash was transferred to the management of LGIM on December 16, 2020

[3]Connor, Clark & Lunn Investment Management ("CC&L") and Leith Wheeler Investment Council ("LW")

Table 9 - Historical Asset Mix Long Term Fund

Asset Class - Sectors	Policy Range	Policy Target	12/31/20 (%)	12/31/21 (%)	6/30/22 (%)
Segregated Short Term Fund (Internal)*	0-100%	0.0%	9.3%	9.1%	10.6%
Cash & Cash Equivalents (Investment Managers)	0-5%	0.0%	0.3%	0.8%	1.5%
Government of Canada & Guarantees	0-100%	30.0%	8.6%	11.8%	14.3%
Provincial (and Guarantees) & Municipal Bonds	0-100%	30.0%	34.1%	29.8%	24.6%
Corporate Bonds	0-60%	10.0%	27.1%	24.5%	26.8%
Global Equity Pooled Funds	0-30%	20.0%	20.6%	24.0%	22.2%
Real Assets	0-15%	10.0%	N/A	N/A	N/A
Total		**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Total Segregated Short Term Fund includes cash and short-term investments that will be allocated to investment managers of the Long Term Fund.

Table 10 - Long Term Fund Asset Mix as at June 30, 2022
(Market Value $ millions)

Asset Mix - Sectors	Internal	CC&L	Leith Wheeler	Oakmark	Pier 21	Fiera CCF	LGIM	Total
Short Term Fund (Internally Managed)	368.8	-	-	-	-	-	-	368.8 (10.6%)
Cash & Cash Equivalents (Investment Managers)	-	49.9	4.5	-	-	-	-	54.4 (1.5%)
Government of Canada & Guarantees	-	305.0	195.1	-	-	-	-	500.1 (14.3%)
Provincial (and Guarantees) & Municipal Bonds	-	467.4	390.4	-	-	-	-	857.8 (24.6%)
Corporate Bonds	-	349.2	586.1	-	-	-	-	935.3 (26.8%)
Global Pooled Fund Equities	-	-	-	129.5	139.9	127.2	377.1	773.7 (22.2%)
Total	**368.8**	**1,171.5**	**1,176.1**	**129.5**	**139.9**	**127.2**	**377.1**	**3,490.1 (100.0%)**

The current outstanding cash balance (11% of the LTF) is primarily set aside for the upcoming investment in real assets. The total fund balance (including segregated short term fund) as at June 30, 2022 was $3.5 billion in market value. This balance is comprised of 12 percent in segregated short term fund and cash under the management of external investment managers, 66 percent in fixed income securities, and 22 percent in global equities.

Market Return Performance:

The total externally actively managed LTF underperformed its blended benchmark by 100 basis points for the second quarter of 2022 and 220 basis points for the 12 months period ending June 30, 2022.

As shown in Table 11 below, the fixed income portion of the Long Term Fund outperformed the benchmark by 10 basis points for the second quarter of 2022 and the 12 months period ending June 30, 2022. The global equity outperformed the benchmark by 150 basis points and 30 basis points for the second quarter of 2022 and for the 12 months period ending June 30, 2022 respectively.

The blended benchmark for the total fund is calculated based on the weighted average return of the target asset mix including real assets, the plan is currently transitioning towards the target asset mix and is not yet fully allocated at this point.

Further details on the performance for each investment manager and fund performance commentaries are prepared by the investment consultant (Aon) as included in Attachment 1A and 1B. Attachment 3 provides a summary of historical quarterly performance by investment managers (Table A3-8 and A3-9).

Table 11 - Market Return (%) for the Long Term Fund (Actively Managed)[1]

As at June 30, 2022	Allocation	Performance (%)	
($ million)	**Market Value**	**Q2, 2022**	**1-year**
Total Fund Size	$3,047.0 (100%)	-7.2%	-11.4%
Blended Benchmark - Total Fund		-6.2%	-9.2%
Value Added - Total		**-1.0%**	**-2.2%**
Fixed Income	$2,273.3 (74.6%)	-5.6%	-11.3%
Benchmark Return[2]		-5.7%	-11.4%
Value Added - Fixed Income		**0.1%**	**0.1%**
Global Equity	$773.7 (25.4%)	-11.3%	-11.6%
Benchmark Return[3]		-12.8%	-11.9%
Value Added - Equity		**1.5%**	**0.3%**

[1] From Aon Report - Performance Review and Investment (Q2 2022 Performance). In addition, there is $74.3 million under passive management in transition to active management over time.
[2] FTSE Canada Universe Bond Index
[3] Both LGIM and Fiera CCF use the MSCI World Index as the performance benchmark because they do not invest in emerging markets that are included in the MSCI ACWI Index. The Long Term Fund global equity composite, as an aggregate, is still benchmarked against the MSCI ACWI Index

The fixed income portion of the LTF is under the management of Connor, Clark & Lunn Investment Management (CC&L) and Leith Wheeler Investment Counsel Ltd (LW). Both managers have separated their portfolios into an Active sub-fund and an Inactive sub-fund. The proceeds from sales or maturities in the Inactive sub-funds have been reinvested and moved to the Active sub-fund. The remaining Inactive sub-fund balances are now just under 4 percent and 2 percent of the assets under the management of LW and CCL respectively. The managers are only measured and compensated for the Active sub-funds. The Inactive sub-fund holds the inherited illiquid bonds (mostly municipal bonds). The manager will continue to progressively incorporate the Inactive sub-fund into the Active sub-fund either through bond maturities or liquidation when market conditions are appropriate.

Book Return Performance:

The book return performance only considers actual earned income from interest, dividends, capital gains/losses and other realized income. It does not include any unrealized capital gains which are taken into account for market value performance. The book value methodology is currently being calculated for accounting and budget purposes however will eventually be phased out.

On a book return basis, investment managers earned -$62.6 million in the LTF yielding a return of -3.3 percent in the first half of 2022 as shown in Table 12 below. Quarterly earned income can be found in Attachment 3 (Table A3-10).

Table 12 - Long Term Fund Earned Income ($millions)

Year	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital
June 30, 2022	**$3,711.8**	**-$62.6**	**-3.3%**
2021	$3,695.7	$69.3	1.9%
2020	$3,592.4	$147.6	4.1%
2019	$2,986.1	$187.9	6.3%

Earned Income Requirement Update

As of June 30, 2022, the LTF earned -$62.6 million (unaudited) year to date, the targeted investment income contribution to the City's operating budget during first two quarters is $46.1 million. A portion of the 2022 gross investment income from the LTF, if any, will be allocated to the City's Reserve Funds and the operating budget after deducting the Board expenses in accordance to the City's policy. Allocations will be finalized in 2022 after actual results are tabulated and confirmed by the Accounting Services Division.

For the Long Term Fund, the estimated earned investment income contribution budgeted for the City's 2022 operating plan is $94 million.

Flow of Funds - Long Term Fund

As reported in December 2019, $500 million of deemed excess liquidity was transferred to the LTF on November 1, 2019 from the Short Term Fund. The $500 million was allocated as per asset mix outlined in the Board approved Investment Plan.

In 2020, $496 million an internal transfer was completed within the LTF to fund new equity managers: Fiera Capital ($120 million) and LGIM ($376 million).

There was an additional $500 million of projected excess available for transfer from the Short Term Fund to the LTF planned for April 2020. However, due to the current pandemic situation, this amount is no longer considered as excess liquidity and, as a result, was not transferred to the LTF. Staff will continue to re-assess the City's liquidity position and advise accordingly.

Investment Policy and Plan Compliance

According to provincial regulations, the Investment Policy must be reviewed by City Council at least annually. Council received and adopted the Investment Policy in June 2022 with the 2021 annual performance report. There were no recommendations to update or change the policy at that time. Previous to this, Council reviewed and adopted the Investment Policy on December 2021 and June 29, 2020.

In addition, KPMG has performed the annual investment policy compliance audit for the year ended December 31, 2021, no exceptions were noted.

All investments in the Sinking Fund and Long Term Fund are consistent with the Investment Policy and the Investment Plan for the first half of 2022 as of June 30, 2022 (Attachment 4).

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1A - Toronto Investment Board - Discussion Guide Q2 2022 (Aon)
Attachment 1B - Performance Review and Investment - June 30, 2022 (Aon)
Attachment 2 - Historical Funding to Investment Managers (Contributions/Withdrawals)
Attachment 3 - 2021-2022 Quarterly Fund Information
Attachment 4 - Compliance Certificates and Reports (April 2022 - June 2022)
Attachment 5 - Flow of Funds (Sinking Fund)