TORONTO

REPORT FOR ACTION

Sinking Fund and Long Term Fund - Performance and Compliance Update for the Second Quarter of 2023

Date: September 11, 2023
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 2023.

2. Investment Policy and Plan Compliance certificates and reports for the second quarter of 2023.

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 19, 2023, the Toronto Investment Board adopted the report Sinking Fund and Long-Term Fund - Performance and Compliance Update for the First Quarter of 2023:
[Agenda Item History - 2023.IB3.2 (toronto.ca)]

At its meeting on June 15, 2023, City Council adopted the report City of Toronto Investment Report for the Year 2022 which provided for a review of the Investment Policy:
[Agenda Item History - 2023.EX5.4 (toronto.ca)]

At its meeting on March 9, 2023, the Toronto Investment Board adopted the report Sinking Fund and Long-Term Fund - Performance and Compliance Update for the fourth quarter and full year 2022:
[Agenda Item History - 2023.IB2.2 (toronto.ca)]

At its meeting of February 15, 2023, City Council adopted the 2023 Capital and Operating Budgets:
[Agenda Item History - 2023.MPB4.1 (toronto.ca)]

COMMENTS

Highlights

The total performance of the Long Term Fund (LTF) and Sinking Fund (SF) as at June 30, 2023 is shown in Table 1 below:

Table 1 - Summary of Performance[1]

Period	Long Term Fund (LTF) - (%)	Sinking Fund (SF) - (%)
Q2 2023	0.1%	0.7%
1 Year	7.9%	8.7%
2 Year	-2.1%	-4.3%
3 Year	-0.1%	-2.9%
Since Inception (January 7, 2019)	1.6%	-0.2%

[1] Attachment 1B - Performance Review and Investment - June 30, 2023 (Aon)

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-month period ending June 30, 2023, 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, asset mix 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, 2023, external investment managers held $2.0 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, 2023. Details for 2021 to 2023 funding to investment managers are included in Attachment 2. Attachment 3 (Tables A3-1 and A3-2) provides quarterly information.

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
Dec. 31, 2022[4,6]	$665.4	$652.9	$80.5	$86.0	$80.6	$228.3	$1,793.7
Mar. 31, 2023	$725.0[7]	$711.7[7]	$89.3	$92.4	$87.6	$238.3	$1,944.3
Jun. 30, 2023	$725.8	$714.9	$91.1	$95.6	$89.9	$241.0	$1,958.3

[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 debenture maturity repayment.
[4] $51 million were transferred to each of Addenda and Fiera LDI on April 21, 2022 (Total $102 million).
[5] Fiera CCF (Contractual Common Fund) is also known as Fiera Global Focused Equity on Aon's report.
[6] $140.5 million were transferred to each of Addenda and Fiera LDI on July 27, 2022 (Total $281 million).
[7] $31.5 million were transferred to each of Addenda and Fiera LDI on Jan 31, 2023 (Total $63 million).

Table 3 - Historical Asset Mix of the Sinking Fund

Asset Class - Sectors	Policy Range	Policy Target	12/31/20	12/30/21	12/31/22	3/31/23	6/30/23
Segregated Short Term Fund (Internal)	0-100%	0.0%	20.0%	13.6%	14.7%	12.7%[5]	23.5%
Cash & Cash Equivalents (Investment Managers)	0-5%	0.0%	0.2%	0.5%	0.4%	1.0%	1.2%
Government of Canada & Guarantees	0-100%	30.0%	13.7%	13.2%	17.6%	18.2%	15.3%
Provincial (and Guarantees) & Municipal Bonds	0-100%	30.0%	40.6%	32.2%	32.1%	33.0%	28.4%
Corporate Bonds	0-60%	10.0%	14.5%	13.3%	12.6%	12.3%	11.4%
Global Equity Pooled Funds	0-30%	20.0%	11.0%[1]	27.2%[2]	22.6%	22.8%	20.2%
Real Assets	0-15%	10.0%	N/A	N/A	N/A	N/A	N/A
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[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.

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

[5] The fund was rebalanced in January 2023 by allocating $63 million in cash to fixed income, reducing cash balance to approximately 13%.

Table 4 - Sinking Fund Asset Mix by Investment Managers as at June 30, 2023 (Market Value $ millions)

Asset Mix - Sectors	Internal	Fiera LDI	Addenda	Oakmark	Pier 21	Fiera CCF	LGIM	Total
Segregated Short Term Fund (Internal)	600.4	-	-	-	-	-		600.4 (23.5%)
Cash & Cash Equivalents (Investment Managers)	-	8.3	22.6	-	-	-	-	30.9 (1.2%)
Government of Canada & Guarantees	-	226.1	164.6	-	-	-	-	390.7 (15.3%)
Provincial (and Guarantees) & Municipal Bonds	-	369.9	356.6	-	-	-	-	726.5 (28.4%)
Corporate Bonds	-	121.5	171.1	-	-	-		292.6 (11.4%)
Global Equity Pooled Funds	-	-	-	91.1	95.6	89.9	241.0	517.6 (20.2%)
Total	**600.4**	**725.8**	**714.9**	**91.1**	**95.6**	**89.9**	**241.0**	**2,558.7 (100.0%)**

The total Sinking Fund balance (including segregated cash) at the end of June 30, 2023, was $2.6 billion on a market value basis. This balance was comprised of 25 percent segregated short term fund (cash and equivalents), 55 percent fixed income, and 20 percent global equities.

The large cash balance reflects the funds set aside for the upcoming investment in real assets (10 percent) and the remaining cash is reserved for the upcoming debt repayment ($300 million) in September 2023. As contributions to the Sinking Fund accumulate, asset mix rebalancing activities are planned periodically to re-align towards the asset mix target. The next rebalancing activity is expected to be in Q4 2023.

Market Return Performance:

The externally managed Sinking Fund underperformed its market return benchmark by 30 basis points for the second quarter of 2023 but outperformed the benchmark by 80 basis points for the 12-month period ending June 30, 2023.

As shown in Table 5 below, the fixed income portion of the Sinking Fund outperformed the benchmark by 30 basis points for the second quarter of 2023 and outperformed 70 basis points for the 12-month period ending June 30, 2023. The global equity portion underperformed the benchmark by 200 and 70 basis points for the second quarter of 2023 and the 12-month period ending June 30, 2023 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, 2023	Allocation	Performance (%)	
($ million)	**Market Value**	**Q2, 2023**	**1-year**
Total Sinking Fund	$1,958.3 (100%)	0.7%	8.7%
Blended Benchmark - Total Fund[3]		1.0%	7.9%
Value Added - Total		**-0.3%**	**0.8%**
Fixed Income	$1,440.7 (73.6%)	0.3%	5.1%
LDI Benchmark[2]		0.0%	4.4%
Value Added - Fixed Income		**0.3%**	**0.7%**
Global Equity	$517.6 (26.4%)	2.0%	19.5%
Market Benchmark (MSCI ACWI)		4.0%	20.2%
Value Added - Equity		**-2.0%**	**-0.7%**

[1] Attachment 1B - Performance Review and Investment - June 30, 2023 (Aon)
[2] Liability Driven Investment (LDI) benchmark is customized based on the Sinking Fund liability
[3] Based on the weighted average return of the target asset mix including real assets

Sinking Fund - 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 included in the market value performance.
The book value methodology is currently being calculated for accounting and budget purposes.

On a book return basis, the Sinking Fund earned $12.8 million (unaudited) yielding a return of 2.1 percent in Q2 2023 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)
Q2 2023	**$2,488.9**	**$12.8**	**2.1%**
Q1 2023	$2,306.3	$14.5	2.5%
2022	$2,084.0	$18.9	0.9%
2021	$2,172.8	$18.5	0.9%
2020	$1,648.0	$39.3	2.4%
2019	$1,713.8	$83.1	4.9%

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

Flow of Funds - Sinking Fund

During the second quarter of 2023, there were no outflows from the Sinking Fund as there was no debt maturing. The next debt maturity will be in September 2023 for $300 million. In order to fund the $300 million repayment, $210 million will be drawn from maturities and sales of fixed income holdings that are under the management of each of the fixed income managers (Addenda and Fiera). The remaining $90M will be funded from cash holdings in the dedicated short term fund used for the SF.

On the debt issuance side in 2023, the City of Toronto issued $350 million of long-term debentures in May this year, and $335 in July as shown in Table 7 below.

Table 7 - 2023 YTD Sinking Fund Debenture Issuances ($millions)

Issuance Date (Settlement)	Maturity Date	Size ($ millions)
May 3, 2023	June 1, 2052	$350.0
July 11, 2023	July 11, 2033	$335.0

Long Term Fund (LTF)

Activities and Balances:

As of June 30, 2023, external investment managers held $3.4 billion of invested assets for the Long Term Fund (LTF). The LTF has a total balance of $3.7 billion (including cash balances). There were no funding contributions or withdrawals for the LTF in the second quarter of 2023 (Attachment 2).

Tables 8, 9 and 10 below show the balances and asset mix of the LTF managed by the six investment managers as at June 30, 2023. Attachment 3 contains quarterly balances of the LTF (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[1]	$384.6[2]	$3,524.0
Dec. 31, 2021	$1,334.5	$1,330.6	$156.0	$181.0	$160.0	$459.6	$3,621.7
Dec. 31, 2022	$1,182.6	$1,190.1	$140.2	$152.6	$140.5	$416.2	$3,222.2
Mar. 31, 2023	$1,223.1	$1,231.0	$155.5	$164.1	$152.6	$434.5	$3,360.8
June 30, 2023	$1,214.6	$1,228.1	$158.7	$169.7	$156.6	$439.4	$3,367.1

[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 Counsel ("LW") include both Active and Inactive sub-funds. As of June 30, 2023, CC&L no longer has an Inactive sub-fund.

Table 9 - Historical Asset Mix Long Term Fund

Asset Class - Sectors	Policy Range	Policy Target	12/31/20 (%)	12/31/21 (%)	12/31/22 (%)	3/31/23 (%)	6/30/23 (%)
Segregated Short Term Fund (Internal)*	0-100%	0.0%	9.3%	9.1%	10.4%	10.1%	10.2%
Cash & Cash Equivalents (Investment Managers)	0-5%	0.0%	0.3%	0.8%	1.0%	1.5%	0.9%
Government of Canada & Guarantees	0-100%	30.0%	8.6%	11.8%	15.5%	15.3%	14.5%
Provincial (and Guarantees) & Municipal Bonds	0-100%	30.0%	34.1%	29.8%	21.6%	21.6%	22.0%
Corporate Bonds	0-60%	10.0%	27.1%	24.5%	27.9%	27.2%	27.8%
Global Equity Pooled Funds	0-30%	20.0%	20.6%	24.0%	23.6%	24.3%	24.6%
Real Assets	0-15%	10.0%	N/A	N/A	N/A	N/A	N/A
Total		**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Segregated STF includes cash that will be allocated to investment managers of the LTF.

Table 10 - Long Term Fund Asset Mix as at June 30, 2023 (Market Value $million)

Asset Mix - Sectors	Internal	CC&L[1]	Leith Wheeler[1]	Oakmark	Pier 21	Fiera CCF	LGIM	Total
Short Term Fund (Internally Managed)	382.0	-	-	-	-	-	-	382.0 (10.2%)
Cash & Cash Equivalents (Investment Managers)	-	18.6	15.8	-	-	-	-	34.4 (0.9%)
Government of Canada & Guarantees	-	334.7	208.3	-	-	-	-	543.0 (14.5%)
Provincial (and Guarantees) & Municipal Bonds	-	495.8	328.3	-	-	-	-	824.1 (22.0%)
Corporate Bonds	-	365.5	675.7	-	-	-	-	1,041.2 (27.8%)
Global Pooled Fund Equities	-	-	-	158.7	169.7	156.6	439.4	924.4 (24.6%)
Total	**382.0**	**1,214.6**	**1,228.1**	**158.7**	**169.7**	**156.6**	**439.4**	**3,749.1 (100.0%)**

[1] Includes both Active and Inactive sub-funds

The current internally managed short term fund portion of the LTF (10.2 percent) 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 $3.7 billion in market value. This balance is comprised of 11 percent in segregated short term fund and cash under the management of external investment managers, 64 percent in fixed income securities, and 25 percent in global equities.

Market Return Performance:

The total externally actively managed LTF underperformed its blended benchmark by 50 basis points for the second quarter of 2023 and outperformed by 100 basis points for the 12-month period ending June 30, 2023.

As shown in Table 11 below, the fixed income portion of the LTF outperformed the benchmark by 20 and 90 basis points for the second quarter of 2023 and the 12-month period respectively ending June 30, 2023. Global equity underperformed the benchmark by 200 basis points for the second quarter of 2023 and underperformed the benchmark by 70 basis points for the 12-month period ending June 30, 2023.

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, 2023	Allocation	Performance (%)	
($ million)	**Market Value**	**Q2, 2023**	**1-year**
Total Fund Size[1]	$3,349.7 (100%)	0.1%	7.9%
Blended Benchmark - Total Fund[4]		0.6%	6.9%
Value Added - Total		**-0.5%**	**1.0%**
Fixed Income	$2,425.3 (72.4%)	-0.5%	4.0%
Benchmark Return[2]		-0.7%	3.1%
Value Added - Fixed Income		**0.2%**	**0.9%**
Global Equity	$924.4 (27.6%)	2.0%	19.5%
Benchmark Return[3]		4.0%	20.2%
Value Added - Equity		**-2.0%**	**-0.7%**

[1] Attachment 1B - Performance Review and Investment - June 30, 2023. Excludes Inactive sub-fund. Also there is $39.7 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.
[4] Based on the weighted average return of the target asset mix including real assets

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. Comparing to a year ago, the remaining Inactive sub-fund balances are now reduced to approximately 0.5 percent ($17.4 million) from 2.1 percent ($74.3 million) of the assets under management of LW and CCL. As of June 30, 2023, CC&L no longer has an inactive sub-fund, the remaining $17.4M is from LW. The managers are only measured and compensated for the Active sub-funds. The Inactive sub-fund holds the inherited illiquid bonds (mostly municipal bonds). LW 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 included in market value performance.
The book value methodology is currently being calculated for accounting and budget purposes.

On a book return basis, investment managers earned $10.0 million in the LTF yielding a return of 1.1 percent in Q2 2023 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
Q2 2023	**$3,686.2**	**$10.0**	**1.1%**
Q1 2023	$3,652.8	$17.2	1.9%
2022	$3,682.0	-$85.5	-2.3%
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, 2023, the LTF earned $27.2 million (unaudited) year to date as compared to the budgeted $120.8 million.

Investment income from the LTF and City's internally managed Short Term Fund will be first allocated to the Board expenses, then contributed to the City's reserve funds, and lastly spent on the City's operating plan. The estimated amount of required earned investment income contribution from the LTF to the City's operating plan for 2023 is $109.6 million. Any contribution shortfall from the LTF can be supplemented by the income generated from the Short Term Fund.

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

Due to the pandemic since 2020 and the recent ongoing funding uncertainties from the other level of governments, the City has been holding onto a higher level of working capital balance. Staff will continue to re-assess the City's liquidity position periodically and advise accordingly if there is any deemed excess liquidity to be transferred to the LTF.

Investment Policy and Plan Compliance

According to provincial regulations, the Investment Policy must be reviewed by City Council at least annually. Council last received the Investment Policy in June 2023 with the Investment Report for the Year 2022. At this meeting, there were no recommendations to update or change the policy. Attachment 6 provides the current City of Toronto Statement of Investment Policy and Procedures.

The annual Investment Policy audit by The City's auditor, KPMG LLP, is currently underway.

All investments in the Sinking Fund and Long Term Fund are consistent and in compliance with the Investment Policy and the Investment Plan for the second quarter as of June 30, 2023 (Attachment 4).

CONTACT

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SIGNATURE

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Director, Capital Markets

ATTACHMENTS

Attachment 1A - Toronto Investment Board - Discussion Guide - Q2 2023 (Aon)
Attachment 1B - Performance Monitoring Report - Q2 2023 (Aon)
Attachment 2 - Historical Funding to Investment Managers (Contributions Withdrawals)
Attachment 3 - 2023 Quarterly Fund Information
Attachment 4 - Compliance Certificates and Reports (April 2023 - June 2023)
Attachment 5 - Flow of Funds (Sinking Fund)
Attachment 6 - City of Toronto Statement of Investment Policy and Procedures