TORONTO

REPORT FOR ACTION

Sinking Fund and Long Term Fund - Performance and Compliance Update for the Fourth Quarter and Full Year 2023

Date: March 19, 2024
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 fourth quarter and full year of 2023.

2. Investment Policy and Plan Compliance check for the fourth quarter and full year 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 December 13, 2023, City Council adopted the report City of Toronto Investment Report for the Six Month Period Ending June 30, 2023, which included the performance and compliance of the Toronto Investment Board as well as other internally managed funds
[Agenda Item History - 2023.EX10.7 (toronto.ca)]

At its meeting on December 11, 2023, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the Third Quarter of 2023:
Agenda Item History - 2023.IB5.2 (toronto.ca)

At its meeting on September 29, 2023, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the Second Quarter of 2023:
Agenda Item History - 2023.IB4.2 (toronto.ca)

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)

COMMENTS

Highlights

The total performance of the Sinking Fund (SF) and Long Term Fund (LTF) as at December 31, 2023 is shown in Table 1 below:

Table 1 - Summary of Performance[1]

	Q4	1 year	2 year	3 years	Since inception
Sinking Fund	12.1%	11.0%	-3.9%	-2.1%	0.9%
Benchmark	10.5%	10.5%	-2.8%	-1.4%	1.9%
Value added	1.6%	0.5%	-1.1%	-0.7%	-1.0%
Long Term Fund	8.4%	9.3%	-1.5%	0.1%	2.4%
Benchmark	7.6%	9.4%	-0.5%	0.5%	2.9%
Value added	0.8%	-0.1%	-1.0%	-0.4%	-0.5%

1 Attachment 1B - Toronto Investment Board - Performance Monitoring Report - Q4 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 reflect the performance of the external investment managers only and do not include cash and other short term holdings of the LTF and SF.

Compliance to the Investment Policy is monitored daily and reported monthly by RBC Investor Services (RBCIS) to the staff in Capital Markets. For the three-month period ending December 31, 2023, the monthly compliance reports prepared by the custodian (RBCIS), and compliance statements prepared by the investment managers have no issues or exceptions noted. Previously this report to the Board contained an attachment with three months of compliance reports from RBCIS and the investment managers. The attachment exceeded 100 pages and contained no issues or exceptions to date. Moving forward, we will only provide compliance reports that contain notable issues or exceptions. However, should the Board wish to review this information, we will provide these reports on request.

The remainder of this report along with Attachments 2, 3, and 4 provide further information regarding the funding, flow-of-funds, and other detailed information.

Performance Overview and Cash Flows

Sinking Fund (SF)

Activities and Balances

As of December 31, 2023, assets under external investment managers was $2.2 billion. Internally managed assets was $350 million. Internally managed assets are cash and cash equivalents, which reflect the funds set aside for the upcoming investment in real assets (10 per cent) and upcoming repayment of a debt issue in May 2024. Further information on cashflows in the SF can be found in the Flow of Funds section below.

Table 2 - Breakdown of Sinking Fund by Investment Manager (market value) as at December 31, 2023

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**64.3%**	**1,614.4**
Addenda	Canadian Fixed Income	35.0%	32.0%	803.4
Fiera Capital (Fixed Income)	Canadian Fixed Income	35.0%	32.3%	811.0

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Equity		**20.0%**	**21.8%**	**546.6**
Fiera/Oakmark/Harris	Global Equity	3.3%	3.7%	92.8
Pier 21/CWorldWide	Global Equity	3.3%	4.1%	102.0
Fiera Capital	Global Equity	3.3%	3.7%	94.0
LGIM	Global Equity	10.0%	10.3%	257.8
Real Assets		**10.0%**	**-**	**-**
Cash		0.0%	0.0%	1.0
TIB Short Term Fund (Internally Managed)		0.0%	13.9%	348.8
TOTAL		**100.0%**	**100.0%**	**2,510.8**

The total Sinking Fund balance on a market value basis (including segregated cash) at the end of December 31, 2023, was $2.5 billion as noted in Table 2.

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 $22.7 million yielding a return of 3.8 percent in Q4 2023. For the full year 2023, the Sinking Fund earned $29.0 million yielding a return of 1.2% as shown in Table 3 below. (The 2023 figures are unaudited).

Table 3 - Sinking Fund Earned Income ($millions)

Year	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital (Annualized)
2023	**$2,465.4**	**$29.0**	**1.2%**
Q4 2023	$2,422.1	$22.7	3.8%
Q3 2023	$2,630.0	-$21.0	-3.2%
Q2 2023	$2,488.9	$12.8	2.1%

Year	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital (Annualized)
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%

Flow of Funds - Sinking Fund

During the fourth quarter of 2023, there was a rebalancing for 2% and 2.5% sub-fund sinking funds. A total of $300M was transferred to both fixed income managers (Addenda and Fiera LDI) in October 2023.

In 2024, there is a debt maturity of $300 million in May. An estimated value of $250 million of this repayment is expected to be funded by sale proceeds from the four global equity pooled funds, with the remaining $50 million is to be funded from cash holdings and future contributions. Attachment 3 provides more detailed information on debt maturities over the next few years in addition to the contributions to the SF in 2023 and forecasted 2024. There is close to $500 million coming into the SF during 2024.

After the debt repayment in 2024, another round of rebalancing is planned for the end of May. A total of $261 million will be transferred to both fixed income managers ($130.5 million) and global equity managers ($130.5 million).

Another factor to consider for the SF are the new debt (debenture) issues. In 2023, the City of Toronto issued a total of $1 billion sinking fund debentures, as shown in Table 4 below. A similar amount is planned for 2024.

Table 4 - 2023 Sinking Fund Debenture Issues ($millions)

Issuance Settlement Date	Maturity Date	Size ($ millions)
May 3, 2023	June 1, 2052	$350.0
July 11, 2023	July 11, 2033	$335.0
October 3, 2023	December 14, 2042	$100.0
December 4, 2023	July 27, 2042	$215.0

Long Term Fund (LTF)

Activities and Balances:

As of December 31, 2023, external investment managers held $3.5 billion of invested assets for the Long Term Fund (LTF). When cash balances are included, the LTF has a total balance of $3.9 billion at year end 2023. There were no funding contributions or withdrawals for the LTF in 2023 (Attachment 2).

A breakdown of the balances as of December 31, 2023 for the cash and each of the six external investment managers of the LTF are provided below in Table 5.

Table 5 - Breakdown of Long Term Fund by Investment Manager (market value) as at December 31, 2023

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**65.0%**	**2,547.2**
Connor, Clark, & Lunn	Canadian Fixed Income	35.0%	32.3%	1,266.3
Leith Wheeler	Canadian Fixed Income	35.0%	32.7%	1,280.9
Equity		**20.0%**	**24.9%**	**976.6**
Fiera/Oakmark/Harris	Global Equity	3.3%	4.1%	161.6
Pier 21/CWorldWide	Global Equity	3.3%	4.6%	181.1
Fiera Capital CCF	Global Equity	3.3%	4.2%	163.9
LGIM	Global Equity	10.0%	12.0%	470.0
Real Assets		**10.0%**	**-**	**-**
Cash		0.0%	0.1%	1.7
TIB Short Term Fund (Internally Managed)		0.0%	10.0%	391.1
TOTAL		**100.0%**	**100.0%**	**3,916.6**

The purpose of the internally managed short term fund portion of the LTF (approximately 10.0 per cent) is primarily to set aside funds for the upcoming investment in real assets.

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 $24.0 million in the LTF yielding a return of 2.6 percent in the final three months of 2023, and on a year-to-date basis they earned $66.9 million, yielding a return of 1.8 percent in 2023 as shown in Table 6 below.

Table 6 - Long Term Fund Earned Income ($millions)

Year	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital
2023	**$3,675.2**	**$66.9**	**1.8%**
Q4 2023	$3,683.4	$24.0	2.6%
Q3 2023	$3,678.4	$15.7	1.7%
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 December 31, 2023, the LTF earned $66.9 million (unaudited) year to date. The estimated gross investment income from LTF budgeted for in the 2023 budget was $109.6 million.

The earnings generated by the LTF is combined with the earnings of the internally managed liquidity pool known as the Short Term Fund (STF). The combined earnings of both the STF and the LTF, after Board expenses and other adjustments, exceeded the budget requirement for 2023. A report to City Council showing the results for the full year 2023 will be completed and reviewed in mid-2024.

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 (STF). The $500 million was allocated as per asset mix outlined in the Board approved Investment Plan.

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

Staff continued to re-assess the City's liquidity position in late 2023 and advised the Chief Financial Officer and Treasurer (CFO&T) there are excess funds available for longer term investment. At that time a plan for a total of $2 billion is to be transferred from STF to the LTF in four quarterly installments during 2024. The CFO&T maintains the right to halt these transfers if circumstances change and there are insufficient amounts to meet the liquidity needs of the City.

The first transfer from the STF to the LTF was executed at of the end of January 2024. The $500 million was transferred to fixed income managers Connor, Clark, and Lunn ($250 million) and Leith Wheeler ($250 million) and allowed the fixed income weighting to come back in line with the targeted asset mix. A second transfer is expected in late April in the amount of $500 million and will be distributed according to the target asset mix guidelines of the Investment Policy and Investment Plan.

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 4 provides the current City of Toronto Statement of Investment Policy and Procedures.

The City's auditor, KPMG LLP, performed the Investment Policy audit for 2022 during the second half of 2023 and no issues were noted. Another audit will be completed in the second half of 2024 for 2023.

Compliance to the Investment Policy is monitored daily and reported monthly by RBC Investor Services (RBCIS) to the staff in Capital Markets. For the three-month period ending December 31, 2023, the monthly compliance reports prepared by the custodian (RBCIS), and compliance statements prepared by the investment managers have no issues or exceptions noted. Previously this report to the Board contained an attachment with three months of compliance reports from RBCIS and the investment managers.

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CONTACT

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SIGNATURE

Randy LeClair
Director, Capital Markets and Treasury

ATTACHMENTS

Attachment 1A - Discussion Guide - City of Toronto (Investment Board) - 2023 Q4
Attachment 1B - Toronto Investment Board - Performance Monitoring Report - Q4 2023
Attachment 2 - Historical Funding to Investment Managers (Contributions Withdrawals)
Attachment 3 - Flow of Funds (Sinking Fund)
Attachment 4 - City of Toronto Statement of Investment Policy and Procedures