

Sinking Fund and Long Term Fund - Performance and Compliance Update for the Third Quarter of 2024

Date: November 25, 2024

To: Toronto Investment Board

From: 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 Sinking Fund and Long Term Fund performance for the third quarter of 2024.
2. Investment Policy and Plan Compliance check for the third quarter of 2024.

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 September 26, 2024, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2024:

[Agenda Item History - 2024.IB8.3 \(toronto.ca\)](#)

At its meeting on June 26 and 27, 2024, City Council adopted the report City of Toronto Investment Report for the Year 2023 which provided for a review of the Investment Policy:

[Agenda Item History - 2023.EX15.8 \(toronto.ca\)](#)

At its meeting on June 20, 2024, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2024:

[Agenda Item History - 2024.IB7.3 \(toronto.ca\)](#)

At its meeting on April 3, 2024, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the Fourth Quarter and Full Year 2023:

[Agenda Item History - 2024.IB6.2 \(toronto.ca\)](#)

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 September 30, 2024, is shown in Table 1 below:

Table 1 - Summary of Performance¹

	Q3	1 year	2 year	3 years	Since inception
Sinking Fund	5.4%	18.9%	9.8%	0.8%	1.9%
Benchmark	5.0%	17.9%	9.3%	1.7%	2.9%
Value added	0.4%	1.0%	0.5%	-0.9%	-1.0%
Long Term Fund	4.9%	17.2%	10.3%	2.6%	3.6%
Benchmark	4.4%	16.0%	9.6%	3.0%	4.0%
Value added	0.5%	1.2%	0.7%	-0.4%	-0.4%

¹ Attachment 1B - Toronto Investment Board - Performance Monitoring Report - Q3 2024 (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 Long Term Fund (LTF) and Sinking Fund (SF).

Compliance with 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 September 30, 2024, the monthly compliance reports prepared by the custodian (RBCIS), and compliance statements prepared by the investment managers have no issues or exceptions noted. These compliance reports are over 100 pages long, and should the Board wish to review this information, we will provide it to them on request. However, any exceptions noted in these compliance reports during the quarter will be provided to the Board for review.

The remainder of this report, along with Attachments 2 and 3, 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 September 30, 2024, assets under external investment managers were \$2.6 billion, and internally managed assets were \$235 million for a total of \$2.8 billion. During the quarter, \$80 million (representing 2.8 per cent of the overall fund) has been invested in real asset investments. Table 2 below provides a breakdown by investment manager.

Internally managed assets are cash and cash equivalents, which reflect the funds set aside for further investments to be made in real assets. 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 September 30, 2024

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance (\$ millions)
Fixed Income (Canadian)		70.0%	68.7%	\$1,925.4
Addenda	Canadian Fixed Income	35.0%	34.2%	\$958.7
Fiera Capital (Fixed Income)	Canadian Fixed Income	35.0%	34.5%	\$966.7
Equity		20.0%	20.2%	\$564.5
Fiera/Oakmark/Harris	Global Equity	3.3%	4.1%	\$114.1
Pier 21/CWorldWide	Global Equity	3.3%	4.4%	\$123.8
Fiera Capital	Global Equity	3.3%	3.6%	\$100.1
LGIM	Global Equity	10.0%	8.1%	\$226.5
Real Assets		10.0%	2.8%	\$80.0
UBS	Real Asset	10.0%	2.8%	\$80.0
Short Term Fund		0.0%	8.3%	\$236.0
Internally Managed	Cash	0.0%	8.3%	\$236.0
TOTAL		100.0%	100.0%	\$2,805.9

Flow of Funds - Sinking Fund

The Sinking Fund's sole purpose is to be used for the repayment of the City's public issued debentures and is required by legislation. In May 2024, \$300 million City of Toronto debt matured which was paid from the Sinking Fund. There were no debt maturities during the third quarter of 2024. The next debt maturity will be another \$300 million obligation in February 2025.

Attachment 3 provides more detailed information on City of Toronto debt maturities over the next few years in addition to the contributions to the Sinking Fund in 2024 and 2025. There is close to \$500 million total contributions to Sinking Fund in 2024 and

approximately \$509 million total contributions in 2025 at the time of this report. The amount of contributions in 2025 may increase as additional debt issues are completed in 2024. Sinking Fund contributions will be accumulated in the Sinking Fund Short Term Fund and will be distributed (re-balanced) according to the target asset mix guideline on a quarterly basis.

Following the debt repayment in 2024, two rebalancing rounds were completed in May and July 2024. A total of \$462 million was transferred to both fixed income managers (\$250.5 million in total) and global equity managers (\$211.5 million in total). The next round of rebalancing is scheduled for completion by November 2024, with \$60 million set to be allocated to fixed income managers.

Another factor to consider for the Sinking Fund is the new debt (debenture) issuance. In 2024, the City of Toronto plans to issue a total of \$1 billion sinking fund debentures. The first and second issuance of \$300M each were settled on May 15, 2024, and July 29, 2024 respectively. Details of the remaining debt issues for 2024 will be provided in the next report to the Board.

Table 3 - 2024 Sinking Fund Debenture Issues (\$millions)

Issuance Settlement Date	Maturity Date	Size (\$ millions)
May 15, 2024	May 15, 2054	\$300.0
July 29, 2024	July 29, 2034	\$300.0

Long Term Fund (LTF)

Activities and Balances

As of September 30, 2024, external investment managers held \$5.4 billion of invested assets for the Long Term Fund (LTF). When cash balances are included, the LTF has a total balance of \$5.8 billion on September 30, 2024. During the third quarter, \$170 million (representing 2.9 per cent) has been invested in real asset investments. Internally managed assets are cash and cash equivalents, which reflect the funds set aside for further investments in real assets.

A breakdown of the balances as of September 30, 2024, for the cash and each of the seven external investment managers of the LTF are provided below in Table 4.

**Table 4 - Breakdown of Long Term Fund by Investment Manager (Market Value)
as at September 30, 2024**

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance (\$ millions)
Fixed Income (Canadian)		70.0%	70.8%	\$4,119.7
Connor, Clark, & Lunn	Canadian Fixed Income	35.0%	35.2%	\$2,049.1
Leith Wheeler	Canadian Fixed Income	35.0%	35.6%	\$2,070.6
Equity		20.0%	19.7%	\$1,144.7
Fiera/Oakmark/Harris	Global Equity	3.3%	3.1%	\$181.1
Pier 21/CWorldWide	Global Equity	3.3%	3.7%	\$213.0
Fiera Capital CCF	Global Equity	3.3%	3.3%	\$194.9
LGIM	Global Equity	10.0%	9.6%	\$555.7
Real Assets		10.0%	2.9%	\$170.0
UBS		10.0%	2.9%	\$170.0
Short Term Fund		0.0%	6.6%	\$383.1
Internally Managed		0.0%	6.6%	\$383.1
TOTAL		100.0%	100.0%	\$5,817.5

Earned Income Requirement Update

The earned income performance only considers actual earned income from interest, dividends, capital gains/losses and other realized income. It does not include unrealized capital gains which are included in market value (total return) performance. The earned income methodology is calculated for accounting and budget purposes.

Currently, the City of Toronto's Accounting Services Division (ASD) is converting their accounting and reporting under Public Sector Accounting Standards (PSAS) 3450 to a "fair value" (FV) methodology. The earned income calculation is no longer required by the ASD and will no longer be reported. Instead, the ASD has adopted a process to focus on the market value of investments. This method aligns with the "total return" (market value) review that is used by the Board.

It should be noted that for budget purposes, the earned income performance is still used and monitored.

The estimated gross earned income from LTF budgeted for in 2024 budget is \$187 million after expenses and may be drawn from the available investment funds for operating budget purposes. As of September 30, 2024, estimated earned income totalled \$226 million, compared to a budgeted income of \$140 million for the same period.

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 STF is a liquidity pool of cash and cash equivalents managed by staff in the Capital Markets group and is used for operating purposes under the Chief Financial Officer and Treasurer (CFO&T). The \$500 million in 2019 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 continued to re-assess the City's liquidity position periodically and advise the CFO&T accordingly.

Staff continued to re-assess the City's liquidity position in late 2023 and advised the 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.

During the first six months of 2024, two transfers of \$500 million each were made from STF to the LTF, one in January and the other in April. These transfers were evenly distributed among the fixed income managers namely: Connor, Clark, and Lunn and Leith Wheeler, to facilitate the rebalancing of the LTF.

An additional third transfer of \$500 million was completed in July 2024. This total amount was split between two asset classes with \$356 million allocated to fixed income (split between Connor, Clark, and Lunn and Leith Wheeler), while the remaining \$144 million was directed to TIB Short Term Fund to achieve targeted asset mix and provide funding for the investment in real assets.

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 2024 with the Investment Report for the Year 2023. At this meeting, there were no

recommendations to update or change the policy. A copy of the current City of Toronto Statement of Investment Policy and Procedures was provided at the last Board meeting.

The City's auditors, KPMG LLP, has completed the annual investment policy compliance audit for 2023. The audit report had no issues to note.

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 September 30, 2024, the monthly compliance reports prepared by the custodian (RBCIS), and compliance statements prepared by the investment managers have no issues or exceptions noted. Detailed reports are available upon request and any noted issues or exceptions during the quarter will be reported directly to the Board at their next meeting.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1A - Discussion Guide - City of Toronto (Investment Board) - 2024 Q3
Attachment 1B - Quarterly Investment Review - City of Toronto (Toronto Investment Board) - 2024 Q3
Attachment 2 - Historical Funding to Investment Managers (Contributions Withdrawals)
Attachment 3 - Flow of Funds (Sinking Fund)