

## **City of Toronto Investment Report for the Year 2024**

**Date:** April 14, 2025

**To:** Executive Committee

**From:** Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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The purpose of this report is to provide the following information:

1. Performance of the Funds for the year 2024
2. General Market Update and Benchmark Performance
3. City of Toronto Investment Policy and Procedures

The City's General Group of Funds (General Fund) hold the working capital and amounts designated for the City's reserves and reserve funds. The General Fund is comprised of two pools of investments: (a) the Short Term Fund (liquidity funds managed internally), and (b) the Long Term Fund (funds not immediately required managed by the Toronto Investment Board). The General Fund had a book return of 5.4 per cent and generated \$597.6 million for the year ending December 31, 2024.

As a result of the pandemic, the General Fund has held a larger position in the Short Term Fund (STF) to enhance the liquidity and to generally lower the overall risk (risk management). On average, the Short Term Fund, including the short-term investments of the Long Term Fund (LTF), was about 59 per cent of the overall General Fund in first half of 2024 compared to 48 per cent from the pre-pandemic level in 2019. This higher weighting in the Short Term Fund provided significant protection, as well as increased returns as short-term rates moved higher in recent years.

Staff re-assessed the City's liquidity position in late 2023 and advised the Chief Financial Officer and Treasurer (CFO&T) that excess funds within the Short Term Fund were available for longer term investment. A plan was set for \$2 billion to be transferred from STF to the LTF in four quarterly installments during 2024. After the transfer STF including short term investments of the LTF was approximately 42 per cent of the total General Fund, returning to pre-pandemic liquidity level.

The City's Sinking Fund portfolio is separate from the General Fund and holds the investment funds for future debt repayments. For the year ending December 31, 2024, the Sinking Fund portfolio had a market return of 6.4 per cent and generated approximately \$176.1 million in total market return.

Since January 1, 2018, the City's long-term investments (Long Term Fund and Sinking Fund) have been managed by the Toronto Investment Board (Board) under a Council adopted Investment Policy which is based on the prudent investor standard. Investment portfolios of different asset classes have been progressively phased in to make use of the broader range of investments that have become available. Although, the potential for volatility in total returns over the short-term investment horizon still exist, the overall portfolio risk has been reduced through asset mix diversification. The overall risk-adjusted total returns over the long-term investment horizon are expected to be higher.

The Board currently provides oversight of four external fixed income managers, four external global equity managers and two real asset managers that invest the long-term investments. As at December 31, 2024, approximately 95 per cent of both the Sinking Fund and the Long Term Fund were managed by external investment managers. Both fixed income and equity investment asset classes are fully funded in accordance with the target asset mix in the Investment Policy with 70 per cent allocated to fixed income and 20 per cent to global equities. The Board completed contract negotiations with two real asset managers in the first half of 2024 with funding in the second half of the year. Adding real assets to the current investment portfolios will enhance the overall portfolios' risk-adjusted investment return and align with the Council approved policy target asset mix.

It is a legislative requirement that the Investment Policy be reviewed annually. Staff have reviewed the Investment Policy and no changes are recommended at this time given that policies have only been in place since 2018 and in that time we have experienced several years of volatility triggered by COVID-19 impacts. The City of Toronto Investment Policy can be reviewed in Attachment 1 of this report.

For the year 2023, all funds managed are compliant with the Investment Policy. The City's auditor, KPMG LLP, performed the Investment Policy compliance audit during the second half of 2024 and no issues were noted.

The Toronto Investment Board has contracted a third-party data provider in order to monitor and report on the high-level Environmental, Social, and Governance (ESG) attributes of the City's long-term investment portfolios on a quarterly basis. This investment fund-level ESG reporting process will complement the existing corporate-level ESG performance report. At the end of December 2024, the City's long-term investment portfolios score was "A" and is aligned with the selected market benchmark as depicted in the investment policy. The Carbon Intensity Score for both the LTF and the SF are below the benchmark, with the trend in this indicator showing steady improvement and moving lower each year.

## **RECOMMENDATIONS**

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The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

## FINANCIAL IMPACT

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From an operating budget perspective, when recognizing only realized gains and losses, the General Fund earned \$597.6 million, and will be allocated between the eligible reserve funds and operating budget in accordance with the Council-approved interest allocation to reserve funds policy after the year end when all the required data becomes available.

The Sinking Fund portfolio had a market return of 6.4 per cent and generated approximately \$176.1 million in total market return in the year 2024. These earnings are retained within the Sinking Funds and must be used for the purpose of retiring debenture debt at maturity.

## DECISION HISTORY

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At its meetings held on December 17 and 18, 2024 City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for the six month period ending June 2024.

[Agenda Item History - 2024.EX19.11 \(toronto.ca\)](#)

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 meetings held on December 13, 14, 15, 2023 City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for the six month period ending June 2023.

[Agenda Item History - 2023.EX10.7 \(toronto.ca\)](#)

At its meeting held on June 14, 2023 City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for year 2022.

[Agenda Item History - 2023.EX5.4 \(toronto.ca\)](#)

At its meetings held on June 15, 16, 2022 City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for year 2021.

[Agenda Item History - 2022.EX33.6](#)

At its meetings held on December 15, 16, 17, 2021 City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for the six month period ending June 30, 2021.

[Agenda Item History - 2021.EX28.4](#)

At its meetings held on July 17, 2021, City Council received the report from the Chief Financial Officer and Treasurer for information. This report provided the performance and compliance for the year 2020.

[Agenda Item History - 2021.EX25.6](#)

## **COMMENTS**

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### **General Market Update for 2024**

The year 2024 was marked by a meaningful shift in monetary policy, as the Bank of Canada continued its easing cycle in response to moderating inflation and slowing economic momentum. The Bank began the year with its policy rate at 5.00 per cent, but following its initial 25 basis point rate cut in June, it implemented additional cuts over the remainder of the year, bringing the overnight rate down to 3.25 per cent by December. Inflation continued to ease, with headline CPI declining to 2.4 per cent by year-end, down from 3.9 per cent in 2023. Meanwhile, economic growth remained modest, and the labour market began to soften, with a gradual rise in the unemployment rate indicating that restrictive policy settings had taken effect.

In fixed income markets, the continued decline in inflation and a clear shift in the interest rate outlook supported a rally in long-term bonds. The yield on 10-year Government of Canada bonds fell from approximately 3.60 per cent in July to 3.25 per cent in December, leading to price gains across all maturities. Short-term yields also moved lower in line with policy expectations. The FTSE Canada Universe Bond Index returned 4.2 per cent for the year.

Global equity markets posted strong gains throughout the year, as reflected by the MSCI All Country World Index (ACWI), which rose 28.7% over the twelve months ending December 31, 2024. Gains were broad-based, supported by easing monetary policy, improved investor sentiment, and a stable earnings backdrop across multiple regions. Stabilizing commodity prices and growing confidence in a soft landing further supported equity markets. The technology sector led the performance, while financials and industrials also saw gains. Despite periods of heightened volatility which stemmed from geopolitical events, inflation data releases and central bank meetings, investors remained optimistic about the global economic outlook.

### **Background on City of Toronto Investment Funds**

Working capital and the amounts designated for reserves and reserve funds along with other deferred revenues are held for investment in the City's General Group of Funds (General Fund). The General Fund is comprised of two sub-funds known as the Short Term Fund and the Long Term Fund. Given the specific purpose of the Sinking Fund (debt retirement), it is managed separately from the General Fund but adheres to the same primary investment beliefs and objectives. Attachment 2 provides a short background on the City's investment funds.

In November 2015, the province amended Ontario Regulation 360/15 the investment regulations under the City of Toronto Act, 2006 which replaced the prescribed list of

investments with what is known as the prudent investor standard. The prudent investor standard is not prescriptive and is used in situations where a trustee has fiduciary responsibility over funds that should be invested according to the beneficiaries' unique situation and to consider the risk and return profile of the entire portfolio rather than only of individual securities or asset classes. This change removed the previous investment limitations and allows the City to be responsible for its investment decisions as a prudent investor. The change required the City to establish an independent local board that would have fiduciary duty over the City's funds that were not immediately required. This local board can hire agents (external investment managers) which would carry out the fiduciary duty of the board.

Although this new provincial regulation was announced in late 2015, the effective date for this change was January 1, 2018. During this transition period the City created the Toronto Investment Board (Board) and appointed six independent members who have substantial knowledge and experience in the financial markets. In addition, City Council approved a new Investment Policy reflecting a target asset mix with 70 percent allocated to fixed income, 20 percent to global equities and 10 per cent to real assets to diversify the investment risk. Prior to the creation of the Board, the City's investments were all managed internally by City staff and were limited to a prescribed list of eligible investments set by the province in the legislation. This prescribed list limited the City investments to primarily government bonds and some high-quality bonds of financial institutions.

While the Board would be responsible for "funds not immediately required", internal staff continue to manage the Short Term Fund to meet City's liquidity needs while maximizing investment return in accordance to the regulation.

During 2018, the Board chose eight external investment managers to manage the fixed income (70 per cent) and global equity (20 per cent) allocations as outlined in their Investment Plan. The new investment policy and plan, in conjunction with the investment consultant and investment managers, are expected to result in improved investment returns over the longer-term while also reducing overall portfolio risk.

There was a transition period before reaching the long-term target asset mix and realizing optimal long-term returns. During this time the investment portfolio phased in greater use of a broader range of investments that became available. Although portfolio risk continues to be reduced, the potential for volatility in short-term returns still exists.

In June 2018, Council approved the creation of the Investment Income Stabilization Reserve. This reserve was established for the purpose of stabilizing investment income contributions to the operating budget by minimizing in-year variances. The reserve receives funds in years when investment income exceeds budget and funds are withdrawn in years when investment income is below budget.

During 2019, invested assets in both the Long Term Fund and the Sinking Fund were managed by four external fixed income investment managers (70 per cent) and two global equity pooled fund managers (7 per cent). The third global equity pooled fund manager was added in February 2020 for both the Long Term Fund and the Sinking Fund. The fourth and final global equity pooled fund manager was added in December

2020 and January 2021 for the Long Term Fund and the Sinking Fund respectively. Both fixed income and equity asset classes are fully funded in accordance with the target asset mix in the Investment Policy. Approximately 90 percent of the Long Term Fund and the Sinking Fund were managed by external investment managers selected by the Board by December 31, 2022.

The four fixed income investment managers are Connor, Clark & Lunn Investment Management (CC&L) and Leith Wheeler Investment Counsel Ltd (LW) for the Long Term Fund, as well as Fiera Capital (Fiera LDI) and Addenda Capital (Addenda) for the Sinking Fund.

The four global equity pooled fund managers are Oakmark Global Pooled Fund II (Oakmark), Pier 21 WorldWide Equity Pool (Pier 21), Fiera Capital Common Contractual Fund (Fiera CCF), and Legal & General Investment Management (LGIM) for both the Long Term Fund and the Sinking Fund. During 2024, due to several administrative factors, Fiera CCF was closed and the funds were transferred to the Fiera Global Equity Focused Pooled Fund (Fiera GEF). It is still has the same mandate and is managed by the same investment staff.

Two real estate fund managers are UBS and CBRE were funded in July and December 2024 respectively for both the Long Term Fund and the Sinking Fund. The remaining cash holdings are reserved for additional future investment in the Real asset category and upcoming debt repayments from the SF. The Board will continue to evaluate investment opportunities in real assets to fulfill the target asset mix.

## General Fund Total Return Performance for 2024

As shown in Table 1, the Short Term Fund (STF) has outperformed the benchmark by 20 basis points (0.2 per cent), the Long Term Fund (LTF) is at par with the benchmark and together the General Fund's performance has outperformed benchmark by 10 basis points (0.1 per cent). From a longer investment horizon perspective, the General Fund has outperformed the benchmark by 10 basis points (0.1 per cent) on a 4-year annualized return basis.

**Table 1 –Total Returns versus Market Benchmarks (%) for the General Fund<sup>1</sup> as at December 31, 2024**

	1 year (Year-over-Year)			4 year (annualized)		
	Short Term Funds <sup>2</sup>	Long Term Fund	General Fund <sup>3</sup>	Short Term Funds <sup>2</sup>	Long Term Fund	General Fund <sup>3</sup>
Portfolio Return (%)	4.9%	9.1%	6.7%	3.3%	2.2%	2.8%
Benchmark Return (%)	4.7%	9.1%	6.6%	2.8%	2.6%	2.7%

	<b>1 year (Year-over-Year)</b>			<b>4 year (annualized)</b>		
	Short Term Funds <sup>2</sup>	Long Term Fund	General Fund <sup>3</sup>	Short Term Funds <sup>2</sup>	Long Term Fund	General Fund <sup>3</sup>
Value Added (%)	0.2%	0.0%	0.1%	0.5%	-0.4%	0.1%

<sup>1</sup> Calculated from RBCIS Performance Analytics and Aon Performance Review

<sup>2</sup> Including cash portion of the Long Term Fund

<sup>3</sup> Weighted by Market value of the Short Term and Long Term funds

As demonstrated in Table 2, the General Fund, which is comprised of the Short Term Fund and the Long Term Fund, had an average total fund balance of \$11.1 billion for the year 2024. When excluding unrealized gains and losses from the total return, the General Fund earned \$597.6 million which we refer to as the "Earned Income". This equates to an annualized 5.4 per cent "Earned Return on Capital" during the year 2024.

**Table 2 - Investment Portfolio for the year ending December 31, 2024 (\$ millions)**

Portfolio	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital
1. Long Term Fund	\$4,660.8	\$284.8	6.1%
2. Short Term Fund <sup>1</sup>	\$6,402.8	\$312.8	4.9%
Total General Funds	\$11,063.6	\$597.6	5.4%

<sup>1</sup> Including cash portion of the Long Term Fund

Table 3 shows a breakdown in the attribution by earned income for the Long Term Fund for the year 2024.

**Table 3 - Earned Income Attribution for Long Term Fund - for the year ending December 31, 2024 (\$ millions)**

Long Term Fund Earned Income for Six Months by Asset Class as at December 31, 2024 (\$ millions)	
Fixed Income	\$245.8
Global Equities	\$36.4
Cash and Equivalent	\$2.6
<b>Total Earned Income</b>	<b>\$284.8</b>

Table 4 provides the total earned income (excluding unrealized gains and losses) for the year 2024 was \$342.0 million higher than the budgeted income contribution to the operating budget. It should be noted that performance measured by earned income is for the accounting and budget purposes only while the total return (market value) reflects the current value of the portfolio. Historical allocation of gross investment earnings is shown in Attachment 3.

**Table 4 - Actual and Budget Investment Earnings for the year 2024**

<b>Investment earnings (\$ millions &amp; Annualized Rate of Return)</b>	<b>Actual</b>	<b>Budget (includes contribution to reserve funds)</b>	<b>Over/Under Budget</b>
Total General Funds	\$597.6	\$255.6	\$342.0

Investment earnings (\$597.6 million) will be allocated between eligible interest earning reserve funds, Corporate Revenues within the operating budget and the Investment Income Stabilization Reserve.

In addition, the City's Short Term Fund that mainly holds City's working capital is currently at a higher level to ensure sufficient liquidity during the pandemic at the cost of some investment returns. On average, the Short Term Fund, including the short-term investments of the long term fund, was about 59 percent of the overall General Fund in the first six months of 2024 compared to 48 per cent from the pre-pandemic level in 2019.

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. A total of \$2 billion was transferred from STF to the LTF in four quarterly installments during 2024. After the transfer STF including short term investments of the LTF was approximately 42 per cent of the total General Fund, returning to pre-pandemic liquidity level.

### **Sinking Fund Total Return Performance for the year 2024**

The City's Sinking Fund portfolio, which holds the investment funds for future debt repayments, had underperformed the weighted market benchmark by 0.5 per cent based on annualized total return for the four year period ending December 31, 2024 as shown in Table 5. On a shorter-term basis, the fund had a total return of 6.4 per cent for the year 2024, falling behind the weighted market benchmark by 0.6 per cent (also shown in Table 5).

The blended benchmark for the total sinking fund is calculated based on the weighted average market 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. Excluding the cash set aside for the upcoming investment in real assets, the externally managed invested assets (long term fund portion of the sinking fund) underperformed the weighted market benchmark by 0.8 per cent for the 1-year period.



The Board had selected and entered into agreements with two fixed income investment managers and four global equity pooled fund managers to invest the Sinking Fund. The investment managers use a customized benchmark index that more appropriately reflects the updated fixed income strategy (LDI - Liability Driven Investment) based on the required cash flows to fund future liabilities.

Liability Driven Investment (LDI) is very different than the active strategy used for the Long Term Fund. With the LDI strategy, an investment manager focuses on the debt repayment (liability) and match the asset purchases to those maturity dates. This is similar to how insurance companies and pension funds manage their risk.

Table 6 shows the duration of the invested assets closely matches the duration of the liabilities in the Sinking Fund. Bond duration is measurement of interest rate risk. It is a way of measuring how much bond prices are likely to change if and when interest rates move. By matching the duration of the assets and liabilities, investment managers can substantially manage the interest rate risk in the portfolio. In effect, the external managers are working to "immunize" the portfolio to ensure the fund with have cash available when the obligation comes due.

**Table 5 - Total Return versus Market Benchmark (%) for the Sinking Fund for the year ending December 31, 2024<sup>1</sup>**

	1 year (Year-over-Year)			4 year (annualized)		
	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund <sup>2</sup>	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund <sup>2</sup>
Portfolio Return (%)	5.3%	6.5%	6.4%	3.4%	0.0%	0.4%
Benchmark Return (%)	4.7%	7.3%	7.0%	2.8%	0.7%	0.9%
Value Added (%)	0.6%	-0.8%	-0.6%	0.6%	-0.7%	-0.5%

<sup>1</sup>Calculated from RBCIS Performance Analytics and Aon Performance Review

<sup>2</sup> Weighted by market value of the Short Term and Long Term Funds

**Table 6 - As at December 31, 2024 - Duration for the Sinking Fund<sup>1</sup>**

	Fixed Income Duration (years)
Portfolio Duration	12.2
Liability Duration	12.2

<sup>1</sup>From Aon Performance Review (Fixed Income)

New accounting standards (PSAB 3450) which came into affect and were reported last year now focus on the market value (total) returns which include the unrealized gains and losses for the City's investment portfolios. While there is still a need to provide an "earned income" return for the General Fund that excludes the unrealized portion of the market return, it has limited use for a single-purpose portfolio that makes one or two payments per year like the Sinking Fund. Although the earned income amounts and return is presented below, this section will not be provided in the future.

When excluding the unrealized market gains and losses, the Sinking Fund portfolio earned book return of 5.9 per cent (\$157.1 million) for the twelve month period ending December 31, 2024 on a book income basis as shown in Table 7. These funds will be used to pay the City's long-term debt obligations at maturity and the shorter term performance volatility should not affect the longer term purpose of these funds.

**Table 7 - Sinking Fund Book Return as at December 31, 2024 (\$ millions)**

Portfolio	Average Weighted Capital Balance	Earned Income	Earned Return on Capital (annualized)
Sinking Funds	\$2,651	\$157.1	5.9%

The investment portfolios have progressively phased into greater use of the broader range of investments that became available. Although the overall portfolio risk has been reduced through asset mix diversification, the potential for volatility in total return over the short-term investment horizon still exists while the risk-adjusted total return over the long-term investment horizon are expected to be higher and sufficient to meet the debt repayments.

The Sinking Fund made a \$300 million payment for a debenture maturity in May 2024. The next maturity and payment from the Sinking Fund was made in February 2025 in the amount of \$300 million. An additional payment of \$300 million will be required in June 2026.

## **Record of Transactions in City of Toronto Debentures**

To comply with Ontario Regulation 610/06 Financial Activities of the City of Toronto Act, 2006, the City maintains a record of each transaction in its own securities, including a statement of the date and the purchase or sale price of each security transaction. A listing of these transactions is found in Attachment 4.

## **Compliance with the Investment Policy Guidelines**

All the City's funds were within the Asset Mix requirements set out in the Council-approved Investment Policy for the year 2024. The breakdown of each portfolio is shown in Attachment 5.

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

## **Reporting on Environmental, Social, and Governance (ESG) Performance**

When reviewing the update to the Investment Policy in June 2020, City Council requested the Chief Financial Officer and Treasurer, and the Toronto Investment Board to consider and incorporate internationally-recognized best practices for Environmental, Social and Governance.

The Toronto Investment Board has contracted a third-party data provider (MSCI) in order to monitor and report on the high-level Environmental, Social, and Governance (ESG) attributes of the City's long-term investment portfolios. This investment fund-level ESG reporting process will complement the existing corporate-level ESG performance report. While the third-party information database is quite large, it does not cover all of the securities in the portfolios.

At the end of December 2024, the City's long-term investment portfolio's score was "A" and is aligned with the selected market benchmark as depicted in the investment policy. This score has moved between the "AA" (Leader) and "A" (Average) score throughout 2024.

In addition to an overall ESG score, detailed information is also provided by the Carbon Portfolio Analytics Report which focuses on environmental issues and more specifically measures the average weighted carbon intensity within each externally managed portfolio mandate. The Weighted Average Carbon Intensity Trend for both portfolios continues to move lower and is also below the benchmark index.

Highlighted metrics for the ESG Ratings Score as well as the Carbon Portfolio Analytics for both the Long Term Fund and the Sinking Fund are provided in Attachment 6.

## **CONTACT**

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## **SIGNATURE**

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Stephen Conforti  
Chief Financial Officer and Treasurer

## **ATTACHMENTS**

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- Attachment 1 - City of Toronto Statement of Investment Policy and Procedures
- Attachment 2 - Background on the Funds
- Attachment 3 - Historical Allocation of Gross Investment Earnings
- Attachment 4 - Record of Transactions in City of Toronto Debentures
- Attachment 5 - Breakdown of the Portfolios by Sectors and by Credit Ratings
- Attachment 6 - ESG Metric Highlights on the Long Term Fund and Sinking Fund