

City of Toronto Investment Report for the Six Month Period Ending June 30, 2025

Date: November 3, 2025

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

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

1. Performance of the Funds for the six month period ending June 30, 2025
2. General Market Update and Benchmark Performance
3. Compliance to the Council adopted City of Toronto Investment Policy

The 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 1.7 per cent and generated \$179.0 million for the six months ending June 30, 2025.

During the first half of 2025, there was a larger than expected drawdown from Short Term Fund (STF). On average, the Short Term Fund, including the short-term investments of the Long Term Fund (LTF), was about 43 per cent of the overall General Fund compared to 48 per cent from the pre-pandemic level in 2019. Although this lower weight does not pose a liquidity concern, it will lower projected earnings from Short Term Fund in the near future.

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. Overall, \$2 billion was transferred from STF to the LTF in four quarterly installments during 2024.

The Sinking Fund (SF) portfolio is separate from the General Fund and holds the investment funds for future debt repayments. For the six months ending June 30, 2025, the Sinking Fund portfolio had a book return of 1.2 per cent and generated \$32.6 million in income.

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 June 30, 2025, approximately 94 per cent of the Sinking Fund and 97 per cent of 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 remaining 10 per cent is allocated to real assets of which approximately 5 per cent has been funded to two global real estate mandates. The final 5 per cent of the real asset category will be directed to global infrastructure mandates in the near future. Adding real assets to the current investment portfolios will enhance the overall portfolios' risk-adjusted investment return and complete the Council approved policy target asset mix.

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. This investment fund-level ESG reporting process will complement the existing corporate-level ESG performance report. At the end of June 2025, the City's ESG score on the LTF was "A" and SF score was "AA", both aligned or outperformed the selected market benchmark as depicted in the investment policy.

For the year 2024 and first six months of 2025, 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 2025 and no issues were noted.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council receive this report for information.

FINANCIAL IMPACT

From an operating budget perspective, when recognizing only realized gains and losses, the General Fund earned \$179.0 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.

When recognizing only realized gains and losses, the Sinking Fund portfolio earned \$32.6 million for the six month period ending June 30, 2025. These earnings are retained within the Sinking Funds and must be used for the purpose of retiring debenture debt at maturity.

DECISION HISTORY

At its meetings held on June 25 and 26, 2025 City Council received the report City of Toronto Investment Report for the Year 2024 from the Chief Financial Officer and Treasurer. This report provided the performance and compliance information and also provided for a review of the Investment Policy:

[Agenda Item History - 2025.EX24.9 \(toronto.ca\)](#)

At its meetings held on December 17 and 18, 2024 City Council received the report City of Toronto Investment Report for the Six Month Period Ending June 30, 2024 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.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.EX33.6>

COMMENTS

General Market Update for the Six Month Period Ending June 30, 2025

The first half of 2025 was characterized by significant developments in both fixed-income and equity markets, driven largely by economic data and central bank policy decisions. The Bank of Canada began its easing cycle in June 2024, reducing the overnight target rate from 5.00 percent to 4.75 percent and continuing with a series of 0.25 percent cuts to reach 2.75 percent by March 2025. The central bank maintained an economic data-dependent stance through early 2025 but signalled growing confidence that inflation was trending sustainably toward the 2.0 percent target.

The U.S. Federal Reserve joined the easing cycle in late 2024, delivering a cumulative 1.00 percent reduction in its policy rate. This reinforced the “soft-landing” narrative and extended the equity rally supported by technology-related capital investment and resilient earnings from large U.S. technology firms.

Falling short-term interest rates and moderating growth and inflation expectations pushed yields lower across the longer-term maturities, generating positive total returns across government, provincial, and investment-grade corporate bonds. The FTSE Canada Universe Bond Index returned 1.4 per cent for the first six months of 2025 and 6.1 per cent on a year-over-year basis to June 30, 2025.

Global equity markets also posted strong gains. The MSCI All Country World Index (ACWI) rose 4.7 per cent over the first half of 2025 and 16.4 per cent on a year-over-year basis to June 30, 2025 with most of these gains provided by a few large scale technology companies. Despite intermittent volatility around inflation data releases and central bank announcements, markets largely priced in a scenario of moderate growth and a reduced risk of recession.

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 1 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 (which is now called the Fiera Capital Global Equity Focused Fund or Fiera GEFF), and Legal & General Investment Management (LGIM) for both the Long Term Fund and the Sinking Fund.

The remaining cash holdings are reserved for future investment in real assets and upcoming debt repayment. The Board has selected two real asset investment managers UBS and CBRE. UBS was funded in July 2024 and CBRE was funded in December 2024. The Board will continue to evaluate investment opportunities in real assets to fulfill the target asset mix.

General Fund Total Return Performance for six months period ending June 30, 2025

As shown in Table 1, for the six month period ending June 30, 2025, the Short Term Fund (STF) has outperformed the benchmark by 50 basis points (0.5 per cent), the Long Term Fund (LTF) has underperformed the benchmark by 70 basis points (0.7 per cent) and together the General Fund has underperformed the benchmark by 20 basis point (0.2 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 Fund¹ as at June 30, 2025

	YTD June 30, 2025			1 year (Year-over-Year)			4 year (annualized)		
	Short Term Funds ²	Long Term Fund	General Fund	Short Term Funds ²	Long Term Fund	General Fund	Short Term Funds ²	Long Term Fund	General Fund
Portfolio Return (%)	1.9%	1.7%	1.8%	3.7%	7.7%	5.8%	3.9%	2.7%	3.3%
Benchmark Return (%)	1.4%	2.4%	2.0%	3.6%	8.3%	6.1%	3.2%	3.2%	3.2%
Value Added (%)	0.5%	-0.7%	-0.2%	0.1%	-0.6%	-0.3%	0.7%	-0.5%	0.1%

¹Calculated from RBCIS Performance Analytics and Aon Performance Review

²Including cash portion of the Long Term Fund

³Weighted 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 \$10.2 billion for the six months period ended June 30, 2025. When excluding unrealized gains and losses from the total return, the General Fund earned \$179 million which we refer to as the "Earned Income". This equates to a 1.7 per cent "Earned Return on Capital" during six month period June 30, 2025.

Table 2 - Investment Portfolio for the six month period ending June 30, 2025 (\$ millions)

Portfolio	Average Fund Balance (Book Value)	Earned Income	Book Return on Capital (YTD)
1. Long Term Fund	\$6,088.7	\$100.0	1.6%
2. Short Term Fund	\$4,154.5	\$79.0	1.9%
Total General Funds	\$10,243.2	\$179.0	1.7%

Table 3 shows a breakdown in the attribution by earned income for the Long Term Fund for the first six months of 2025.

Table 3 - Earned Income Attribution for Long Term Fund - for the six month period ending June 30, 2025 (\$ millions)

Long Term Fund Earned Income for Six Months by Asset Class as at June 30, 2025 (\$ millions)	
Fixed Income	92.0
Global Equities	\$4.5
Short Term Investments	\$3.5
Total Earned Income	\$100.0

Table 4 provides the total earned income (excluding unrealized gains and losses) for six months period ending June 30, 2025 was \$50.1 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 2.

Table 4 - Actual and Budget Investment Earnings for the six month period ending June 30, 2025

Investment earnings (\$ millions & Annualized Rate of Return)	Actual	Budget (includes contribution to reserve funds)	Over/Under Budget
Total General Funds	\$179.0	\$128.9	\$50.1

Investment earnings (\$179.0 million) will be allocated between the eligible reserve funds and the 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.

During 2025, there was a higher than expected drawdown from Short Term Fund (STF) balance. On average, the Short Term Fund, including the short-term investments of the Long Term Fund (LTF), was about 43 per cent of the overall General Fund compared to 48 per cent from the pre-pandemic level in 2019. Although this lower weight does not pose a liquidity concern, it will lower projected earnings from Short Term Fund in the near future.

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. \$2 billion was transferred from STF to the LTF in four quarterly installments during 2024. Due to the lower than expected balances in the STF, there were no transfers to the LTF in the first half of 2025.

Sinking Fund Total Return Performance for six months period ending June 30, 2025

The City's Sinking Fund portfolio, which holds the investment funds for future debt repayments, had underperformed the weighted market benchmark by 0.8 per cent based on annualized total return for the four year period ending June 30, 2025 as shown in Table 6. On a shorter-term basis, the fund had a total return of 0.8 per cent for the six months ending June 30, 2025, falling behind the weighted market benchmark by 0.5 per cent (also shown in Table 6).

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 0.6 per cent for the 1-year period.

The Board had selected and entered into agreements with two fixed income investment managers, four global equity pooled fund managers, and recently mandated two real estate investment managers to invest the Sinking Fund assets. 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 5 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 will have cash available when the obligation comes due.

In addition, the Sinking Fund receives regular contributions throughout the year in accordance with the regulations and by-laws when debt is issued. In a rising rate environment as in 2022 and 2023, these cash contributions are invested at higher yields which is beneficial to the fund.

Table 5 - As at June 30, 2025 - Duration for the Sinking Fund¹

	Fixed Income Duration (years)
Portfolio Duration	12.5
Liability Duration	12.6

¹Calculated from Aon Performance Review (Fixed Income), weight by market value of each investment manager

Table 6 - Total Return versus Market Benchmark (%) for the Sinking Fund for the six month period ending June 30, 2025

	YTD June 30, 2025			1 year (Year-over-Year)			4 year (annualized)		
	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²
Portfolio Return (%)	1.7%	0.7%	0.8%	4.2%	6.4%	6.2%	3.8%	0.7%	0.9%
Benchmark Return (%)	1.4%	1.3%	1.3%	3.6%	7.0%	6.8%	3.2%	1.6%	1.7%

	YTD June 30, 2025			1 year (Year-over-Year)			4 year (annualized)		
	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²	Short Term Sinking Funds	Long Term Sinking Fund	Total Sinking Fund ²
Value Added (%)	0.3%	-0.7%	-0.5%	0.6%	-0.6%	-0.6%	0.6%	-0.9%	-0.8%

¹Calculated from RBCIS Performance Analytics and Aon Performance Review

²Weighted by market value of the Short Term and Long Term Funds

When excluding the unrealized market gains and losses, the Sinking Fund portfolio earned book return of 0.8 per cent (\$32.6 million) for the six month period ending June 30, 2025 on a book income basis as shown in Table 7. The asset mix attribution of the earned income is listed on Table 8. 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 for the six month period ending June 30, 2025

Portfolio	Average Weighted Capital Balance (Book Value)	Earned Income	Book Return on Capital (YTD)
Sinking Fund	\$2,749.5	\$32.6	1.2%

Table 8 - Earned Income Attribution for Sinking Fund for the six month period ending June 30, 2025 (\$millions)

Sinking Fund Earned Income by Asset Class as at June 30, 2025 (\$ millions)	
Fixed Income	\$27.8
Global Equities	\$2.2
Short Term Investments	\$2.6
Total Earned Income	\$32.6

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.

Following a debt repayment in February 2025 of \$300 million, the additional inflows of \$186 million and \$150 million were used to re-balance of the Sinking Fund which were completed in May and July 2025 respectively.

Another factor to consider for the Sinking Fund is the new debt (debenture) issuance. In the first quarter of 2025, the City of Toronto issued a \$450 million 30-year sinking fund debenture. In the second quarter of 2025, the City issued a \$350 million 30-year sinking fund debenture. In the third quarter of 2025, the City issued a \$200 million 10-year sinking fund debenture. Last public debt issues in 2025 is planned in the fourth quarter of 2025.

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 3.

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 first six months of 2025. The breakdown of each portfolio is shown in Attachment 4.

There were no compliance exceptions to report for the six months ending June 30, 2025.

The City's auditors, KPMG LLP, has performed the annual investment policy compliance audit procedures for 2024 in the second half of 2025 and reported that no issues were noted. The next audit, covering 2025, will be conducted in the second half of 2026.

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 in order to monitor and report on the high-level Environmental, Social, and Governance (ESG) attributes of the City's long-term investment portfolio. This investment fund-level ESG reporting process will complement the existing corporate-level ESG performance report.

At the end of June 2025, the City's long-term fund score was "A" and sinking fund score was "AA", both aligned or outperformed the selected market benchmark as depicted in the investment policy.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

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