Attachment 1A

Discussion Guide

2024 Q4

Prepared for: City of Toronto (Investment Board)

Prepared by: Aon Solutions Canada Inc.

17 March 2025

Agenda

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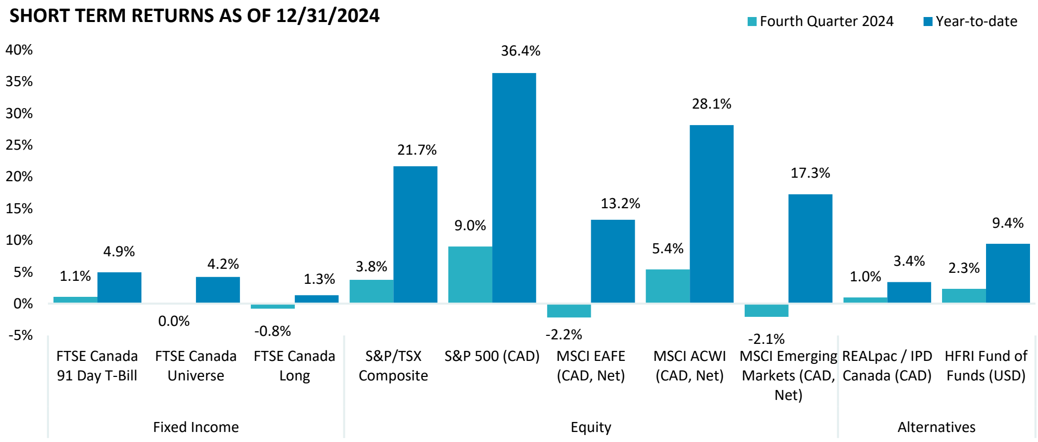
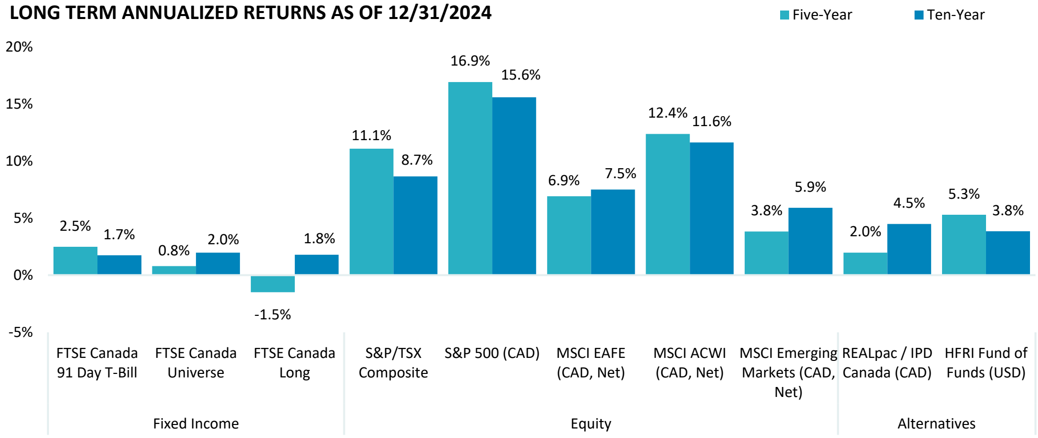
Markets Review

Capital Markets Overview



Sources: S&P, MSCI, IPD, FTSE. Unless it's otherwise stated, gross CAD returns are shown in this report.



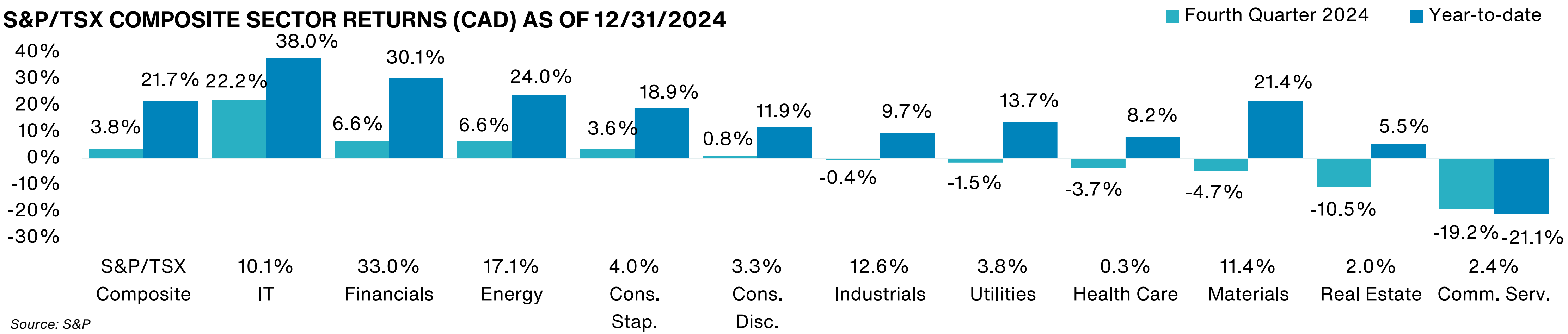
Sources: S&P, MSCI, IPD, FTSE. Unless it's otherwise stated, gross CAD returns are shown in this report.

- In Q4 2024, the global equity markets rose despite rebounding inflation, as the U.S. economy showed signs of strength. The S&P/TSX Composite Index reached its all-time high (breaching 25,800 levels) but fell from its peak after poor November jobs data and a concerning outlook by the Bank of Canada (BoC). Index heavyweights like Financials, Energy, and Information Technology contributed significantly to the positive quarterly returns. Following the U.S. Federal Reserve's (Fed) December meeting (which indicated lower-than-expected rate cuts for 2025), a sharp correction in U.S. markets led to the CBOE Volatility Index (VIX) rising to 27.6 before reverting to 17.4 and staying below its 20-year average of 19.1.
- In its December meeting, the BoC cut its benchmark interest rate by 0.5% to 3.25%, the fifth consecutive decrease since June 2024. BoC Governor Tiff Macklem emphasized a more gradual approach to monetary policy going forward. He also expressed concerns about the economic outlook, particularly regarding the potential tariffs on Canadian exports to the United States. Canada's headline inflation fell, as the consumer price index (CPI) increased by 1.8% year-on-year in December, lower than the previous month's 1.9% and in line with the economists' expectations. Core inflation, which excludes energy and food prices, rose by 1.8% year-on-year in December, higher than the previous month's 1.6%.
- At the December Federal Open Market Committee (FOMC) meeting, the U.S. Fed cut its benchmark interest rate by 0.25% to 4.25%-4.50%, marking a third consecutive rate cut decision. The latest Fed "dot plot," showed FOMC members projecting a reduction of only half a percentage point in interest rates for 2025 with the rate expected to decline to 3% beyond 2027.
- In its November meeting, the Bank of England (BoE) reduced its policy interest rate by 0.25% to 4.75%. The BoE has indicated a weakness in near-term activity indicators, projecting zero GDP growth for the fourth quarter of 2024, a revision from the previously anticipated growth of 0.3%.
- Over Q4 2024, the European Central Bank (ECB) reduced its policy interest rate twice by 0.25% each to 3.0%, marking total four rate cuts in 2024. The bank has also revised its economic growth projections downward from those made in September, now forecasting growth rates of 0.7% for 2024, 1.1% for 2025, and 1.4% for 2026.
- The Bank of Japan (BoJ) kept its benchmark interest rate unchanged at 0.25%.

Capital Markets Overview

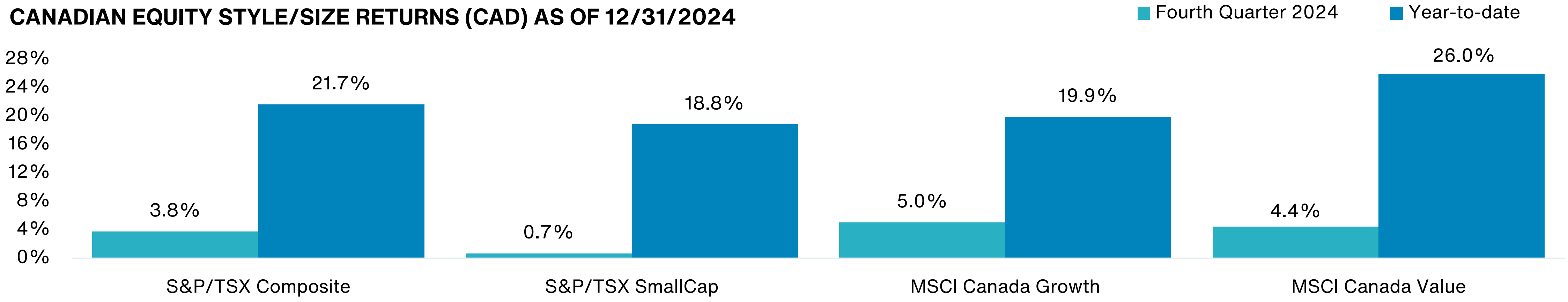
Canadian Equity

S&P/TSX COMPOSITE SECTOR RETURNS (CAD) AS OF 12/31/2024



Source: S&P

CANADIAN EQUITY STYLE/SIZE RETURNS (CAD) AS OF 12/31/2024

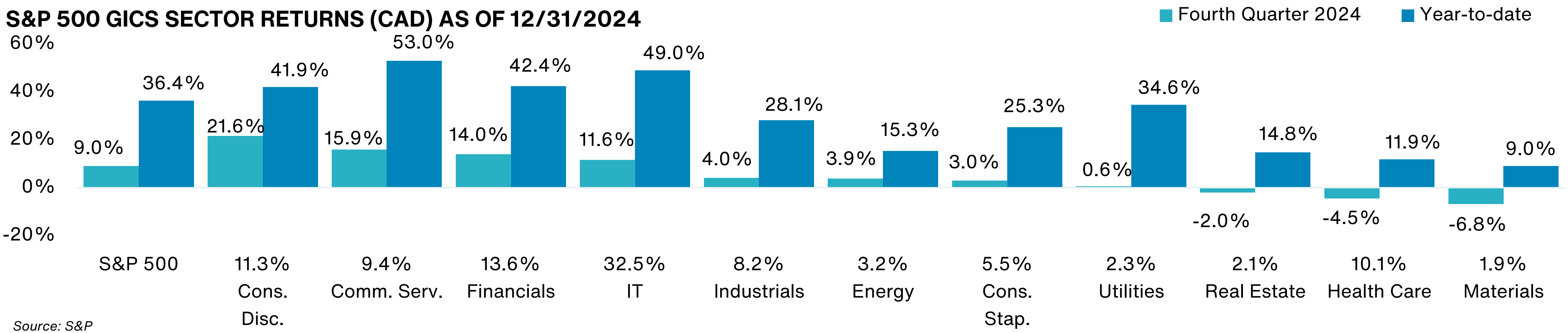


Source: S&P, MSCI

Capital Markets Overview

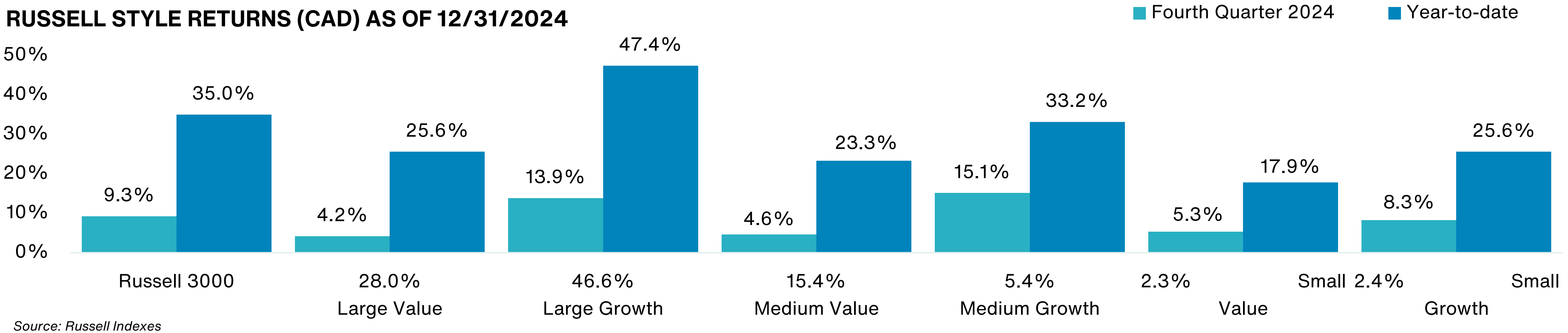
U.S. Equity

S&P 500 GICS SECTOR RETURNS (CAD) AS OF 12/31/2024



Source: S&P

RUSSELL STYLE RETURNS (CAD) AS OF 12/31/2024

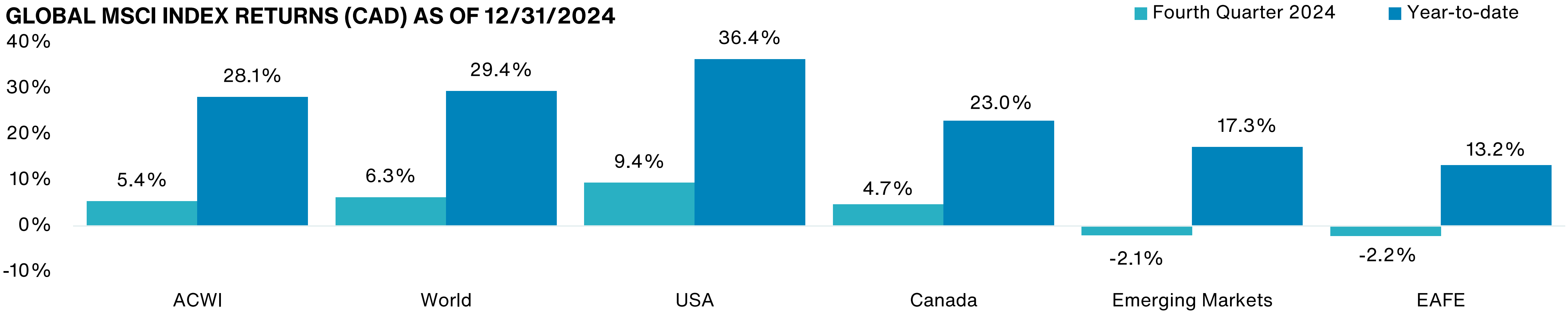


Source: Russell Indexes

Capital Markets Overview

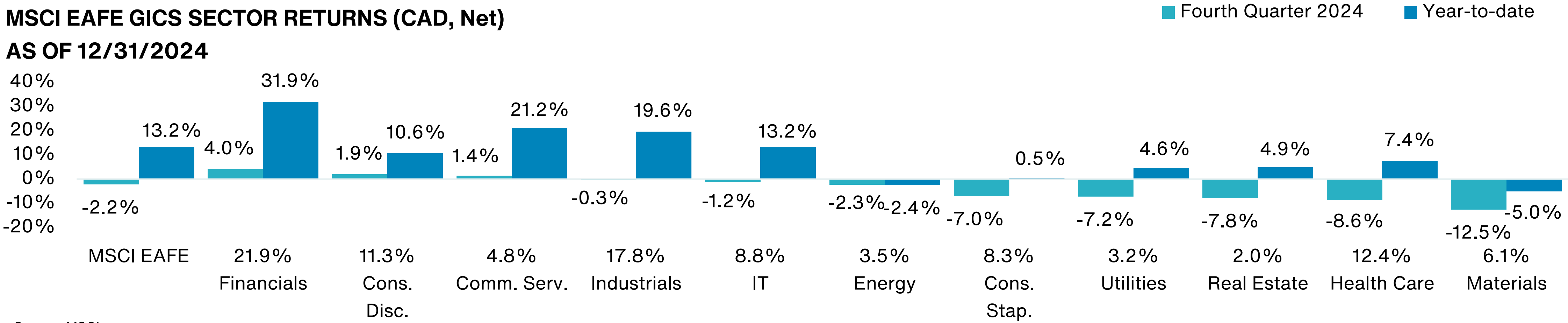
Global Equity

GLOBAL MSCI INDEX RETURNS (CAD) AS OF 12/31/2024



Source: MSCI. Gross returns shown for the MSCI Canada and USA indices, whilst net returns are shown for the other indices.

MSCI EAFE GICS SECTOR RETURNS (CAD, Net) AS OF 12/31/2024

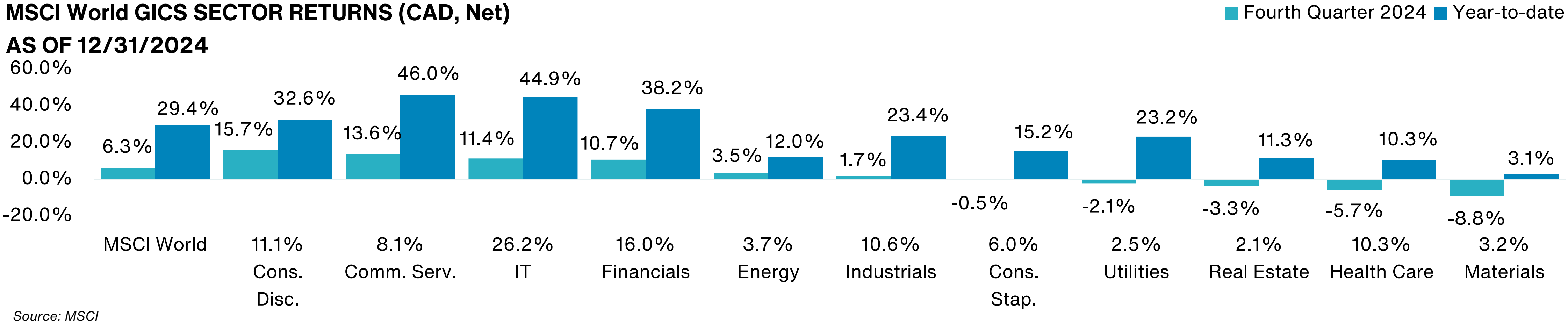


Source: MSCI

Capital Markets Overview

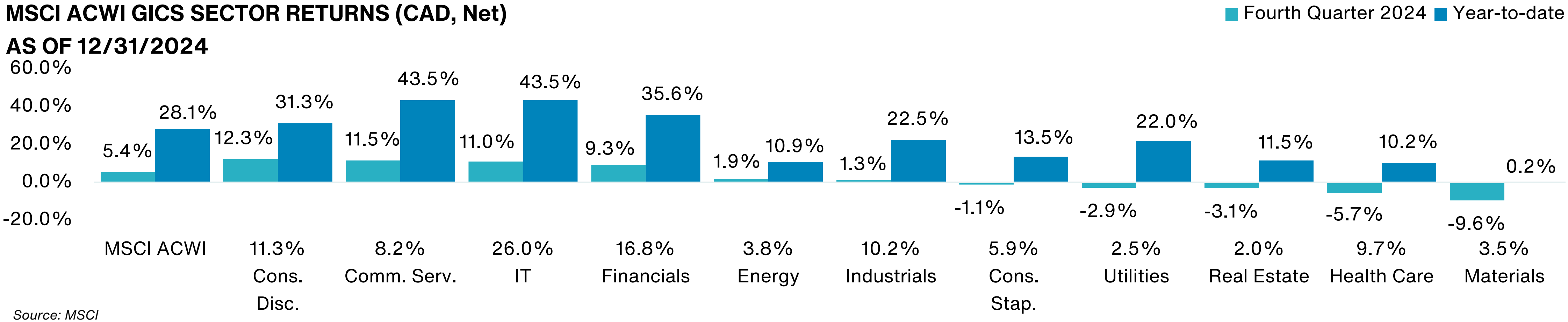
Global Equity

MSCI World GICS SECTOR RETURNS (CAD, Net)
AS OF 12/31/2024



Source: MSCI

MSCI ACWI GICS SECTOR RETURNS (CAD, Net)
AS OF 12/31/2024

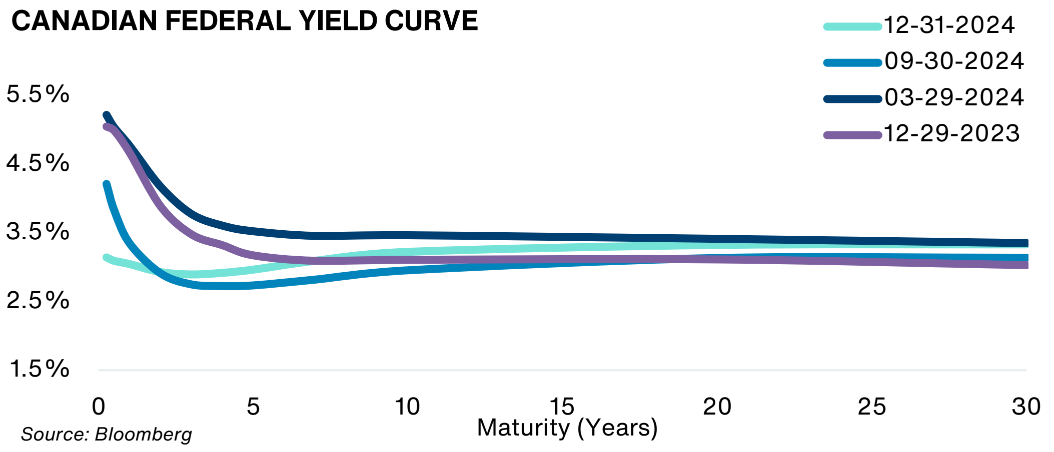


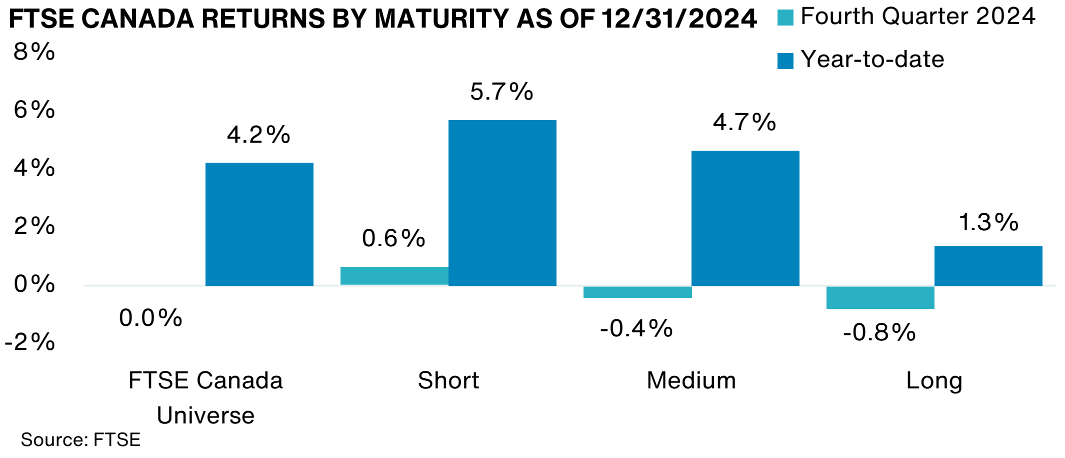
Source: MSCI

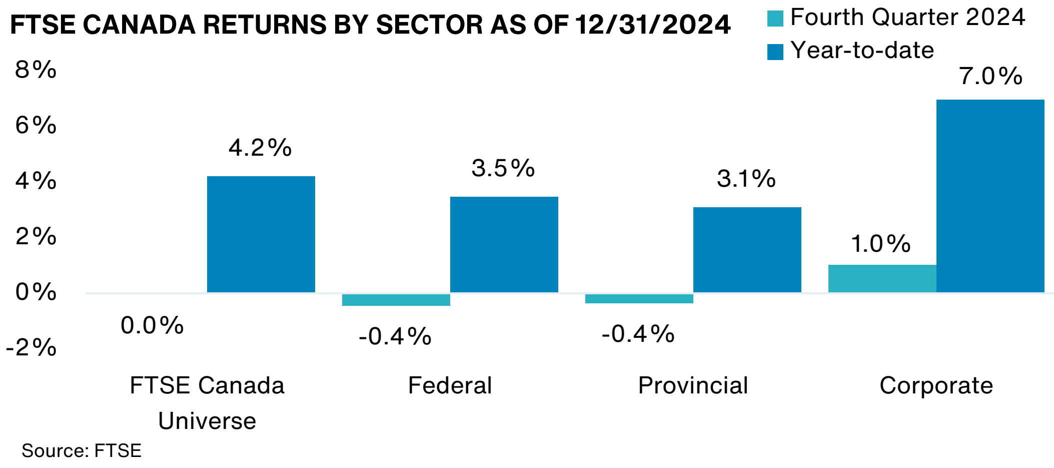
Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses.

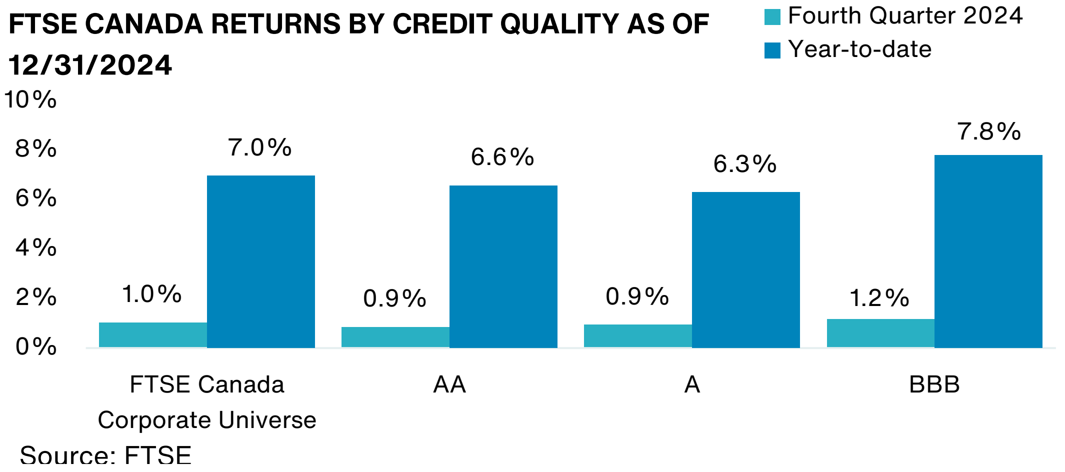
Capital Markets Overview

Fixed Income









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Performance Review

Executive Summary – Sinking Fund and Long-Term Fund

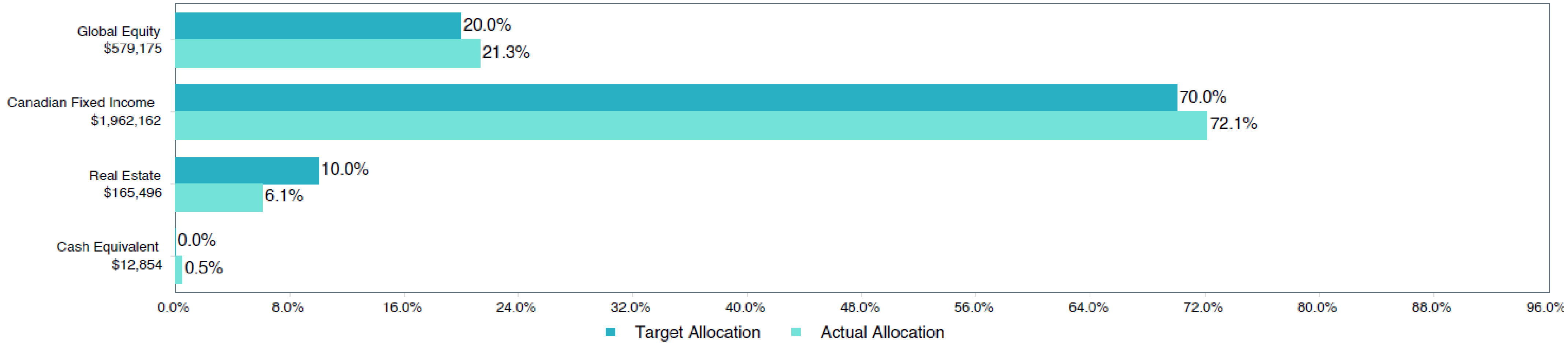
	Performance (%)			Market value ($000)	Fees (bps)	Objective Met	Action Required
	Quarter	1 Year	4 Year				
Sinking Fund Return	0.3	6.5	0.0	2,719,686	14.1	No	No
Sinking Fund Benchmark	0.6	7.3	0.7				
Value Added	-0.3	-0.9	-0.7				
Long Term Fund Return	0.9	9.1	2.2	6,155,999	16.2	No	No
Long Term Fund Benchmark	1.2	9.1	2.6				
Value Added	-0.3	0.0	-0.3				

Asset Allocation Compliance – Sinking Fund

Total Sinking Fund

Asset Allocation Compliance

As of 31 December 2024 ($000)



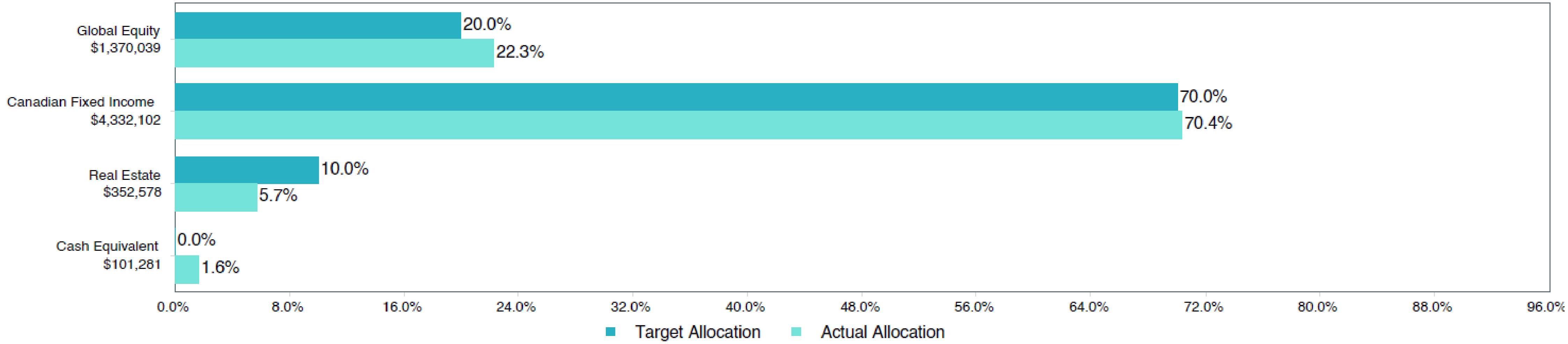
	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)	Within Range
Global Equity	579,175	21.3	20.0	1.3	0.0	30.0	Yes
Canadian Fixed Income	1,962,162	72.1	70.0	2.1	50.0	100.0	Yes
Real Estate	165,496	6.1	10.0	-3.9	0.0	15.0	Yes
Cash Equivalent	12,854	0.5	0.0	0.5	0.0	5.0	Yes
Total Fund	**2,719,686**	**100.0**	**100.0**	**0.0**			

Asset Allocation Compliance – Long Term Fund

Total Long Term Fund

Asset Allocation Compliance

As of 31 December 2024 ($000)



	Market Value ($000)	Market Value (%)	Target Allocation (%)	Differences (%)	Minimum Allocation (%)	Maximum Allocation (%)	Within Range
Global Equity	1,370,039	22.3	20.0	2.3	0.0	30.0	Yes
Canadian Fixed Income	4,332,102	70.4	70.0	0.4	50.0	100.0	Yes
Real Estate	352,578	5.7	10.0	-4.3	0.0	15.0	Yes
Cash Equivalent	101,281	1.6	0.0	1.6	0.0	5.0	Yes
Total Fund	**6,155,999**	**100.0**	**100.0**	**0.0**			

Strategy Performance

Strategy	Rating	Value Added (%) Quarter	SI*	Action Required
Addenda LDI	Buy	0.6	0.2	No
Fiera LDI	Buy	0.0	0.3	No
CC&L Core Fixed Income	Buy	0.1	0.6	No
Leith Wheeler Core Fixed Income	Buy	0.2	0.7	No
Pier 21 Global Equity	Buy	-4.2	-1.4	No
Oakmark Global Equity	Buy	-4.7	-5.0	No
Fiera Global Focused Equity	Buy	-1.5	-0.1	No
LGIM Multi-Factor Global Equity	Buy	-3.2	-3.4	No
UBS Global Real Estate	Buy	-0.5	-1.5	No
CBRE Global Alpha	Buy	-	-	No

*Since Inception Dates:
- Addenda LDI, Fiera LDI, CC&L Core Fixed Income, Leith Wheeler Core Fixed Income: 7/1/2019
- Pier 21 Global Equity, Oakmark Global Equity: 11/1/2019
- Fiera Global Focused Equity: 2/19/2020
- LGIM Multi-Factor Global Equity: 12/14/2020
- UBS Global Real Estate: 7/1/2024
- CBRE Global Alpha: 12/1/2024

Manager Updates

Addenda	• Benoit Durocher, Executive Vice President and Strategist, Fixed Income, announced that he will be retiring on March 31, 2025.	Integrated
CC&L	• No significant updates impacting City of Toronto	Integrated
Leith Wheeler	• No significant updates impacting City of Toronto	Integrated
Pier 21 (C. Worldwide)	• No significant updates impacting City of Toronto	Integrated
LGIM	• Eric Adler will join LGIM as the new CEO of the Asset Management division. Michelle Scrimgeour will be stepping down in December	Advanced
Fiera	• There were several personnel changes in Q3 2024, no significant updates impacting City of Toronto	Integrated
UBS	• Eric Byrne, currently the head of UBS Asset Management's Real Estate & Private Markets Multi-Manager business, will be leaving the firm to pursue other opportunities.	N/A
CBRE	• No significant updates impacting City of Toronto	N/A

ESG Rating Scale

The rating assesses the integration of financially material ESG risk factors into the investment decision-making process.

The ESG factor is assigned a rating and can be interpreted as follows.

Rating	Description
Advanced (A)	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated (I)	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited (L)	The fund management team has taken limited steps to address ESG considerations in the portfolio.
Not applicable (N/A)	ESG risks and considerations are not applicable to this strategy, for example, on the grounds of materiality or asset class relevance.

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Thought Leadership

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Thought Leadership Highlight

Navigating Today's Real Estate Market

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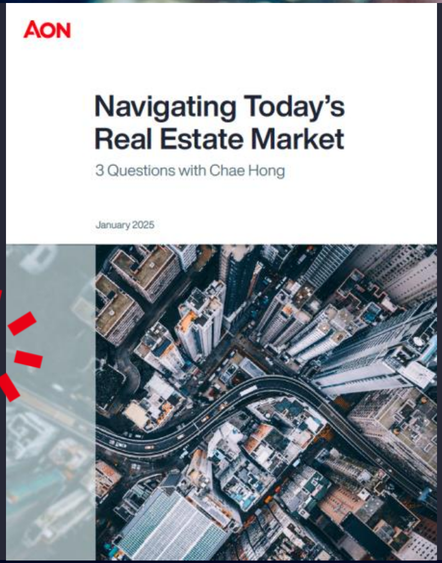
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Navigating Today's Real Estate Market

3 Questions with Chae Hong

January 2025

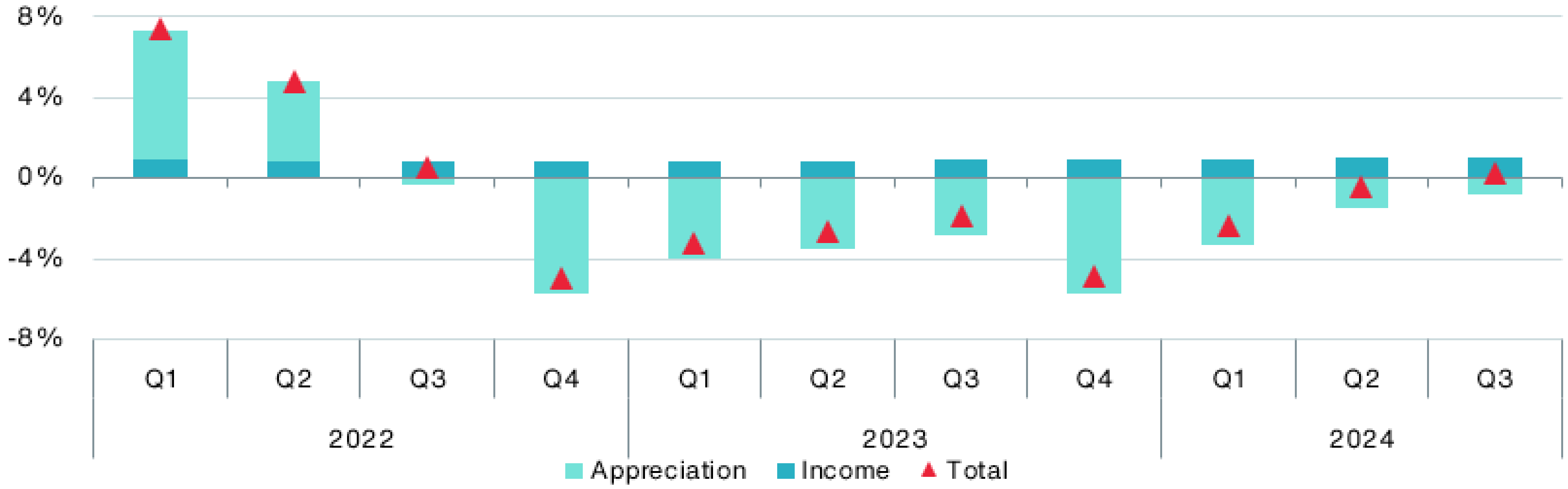
Navigating Today's Real Estate Market

Current Investment Landscape

The Landscape

- Global real estate markets have undergone a correction over the last several years.
- The primary driver of the correction comes from a tightening of monetary policy to control inflation through aggressive interest rate hikes.
- Core open-ended funds, which make up the majority of institutional real estate portfolios, saw valuation declines of 20-30% while redemption queues formed.
- Valuations are showing early signs that the market may have "bottomed out" (see chart).

NFI-ODCE Fund Index Quarterly Returns (Gross)



The U.S. NFI-ODCE Index[1] reported a slightly positive return of 0.25% for Q3 2024, marking the first positive quarterly return in two years.

[1] The NFI-ODCE is a capitalization-weighted index that measures gross of fee, time-weighted returns. It was established on December 31, 1977. This index includes private real estate equity funds that adhere to specific criteria, such as maintaining leverage below 35%, having at least 75% of their investments in properties that are 75% or more leased, ensuring sector and geographic diversification, and investing at least 75% in core real estate sectors like office, industrial, apartment, and retail properties. Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees and expenses.

Navigating Today's Real Estate Market

Concerns in the Market

By Sector – Office

- Office properties are facing significant challenges with elevated vacancy rates due to the shift towards remote work.
- Lower-tier office spaces, such as Class B and C, are struggling with occupancy and may never be fully leased again, leading to a "zombie effect," while newer or recently renovated and highly amenitized office spaces are maintaining occupancy levels, indicating a market bifurcation based on quality.

By Geography – China

- China's issues are twofold: significant oversupply, especially residential, and geopolitical tensions.
- The headlines have primarily focused on residential overbuilding, but there is also oversupply in other property types, like industrial.
- Manufacturers are looking to diversify their inputs away from China to other locales, such as Vietnam, negatively affecting China's industrial market.

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Navigating Today's Real Estate Market

Opportunities for Investors

Non-Core Real Estate Strategies

Non-core, higher risk-return real estate strategies focus on distressed themes and market disruptions. These strategies offer better opportunities in the current environment.

Diversification Through Alternative Sectors

The rise of alternative real estate sectors provides greater diversification to institutional client portfolios. Examples include senior housing, student housing, and medical offices, which are seeing increased demand due demographic trends.

Portfolio Resilience

Investors are recommended to periodically evaluate their portfolios to ensure they remain resilient and aligned with their strategic objectives.

Aon's dedicated real estate manager research team has robust coverage of real estate managers and strategies. Reach out to your Aon consultant to learn more.

Thought Leadership Highlight

Approaches to Aon’s Responsible Investment Beliefs

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Aon Investments' Responsible Investment Beliefs for North America

November 2024

1 **Screening**

Divestment can provide a simple but potentially costly way to avoid exposure to investments that do not meet an asset owner's objectives, though it removes the ability to advocate for change through stewardship.

- While investors tend to make divestment decisions for values-based reasons, from an investment perspective, divestment is expected to reduce diversification and risk-adjusted returns.
- The magnitude or direction of the impact on returns will vary, depending on (i) divestment scope (i.e., excluding entire industries, countries or supply chains) and (ii) timing of divestment.
- If the goal is to change sentiment about the divested asset, and/or impact the cost of, or access to, capital for the divested asset, divestment is unlikely to accomplish those objectives. Divestment may simply transfer ownership to more misaligned investors, giving them more control than before.

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Approaches to Aon's Responsible Investment Beliefs

Each Approach has a Different Goal, Considerations and Implementation Options

Screening	Integration	Impact	Stewardship
Exclusion of or divestment from assets that may not be aligned to an investor's objectives, values or policies.	Systematic identification and analysis of ESG risks and opportunities to inform both asset valuations and selection, and improve long-term risk adjusted returns.	Seeking positive social and/or environmental outcomes through the portfolio. Impact outcomes are considered alongside sufficient financial returns.	Exercising ownership rights to preserve and enhance the long-term value of assets or, in some cases, to improve social or environmental outcomes.
Illustrative Examples			
Avoids or excludes certain geographies, industries or products. For example, tobacco, coal, or sanctioned regimes.	Assess the materiality of ESG data to identify under-appreciated financial risk and opportunity.	Contributes to solutions that intentionally address social and environmental outcomes, while delivering competitive market returns. Opportunities in sustainable growth themes, like carbon reduction, energy efficiency, etc.	Votes proxies, engages with management teams and boards of directors, and collaborates with other investors to achieve operational or performance improvements.
Considerations			
Aligns investments with investor beliefs and values and avoids exposures to misaligned investments. Removes the ability to advocate for change through stewardship. Expected to reduce diversification and risk-adjusted returns.	Examining material ESG factors gives investors more information to help assess a company's risk profile and return potential. Identifying financially material ESG factors is challenging. Naively using widely available ESG data is not expected to provide a competitive edge.	Impact investments do not necessarily result in concessionary returns and can be included in conventional portfolios or as stand-alone strategies. Investors should consider the wider change caused by their investment, trade-offs between contribution to impact versus other characteristics, flexibility across theme, geography and sector and how to monitor and measure the impact.	Exercising ownership rights can deliver tangible impact and help to protect and enhance long-term asset value. High cost of implementation (e.g., hiring a third-party firm to ensure independent proxy voting could be costly). Approach is limited to certain asset classes.
Actively or Passively Managed	**Actively Managed**	**Actively Managed**	**Actively or Passively Managed**

Ask your investment consultant how Aon can help you meet your Responsible Investment goals.

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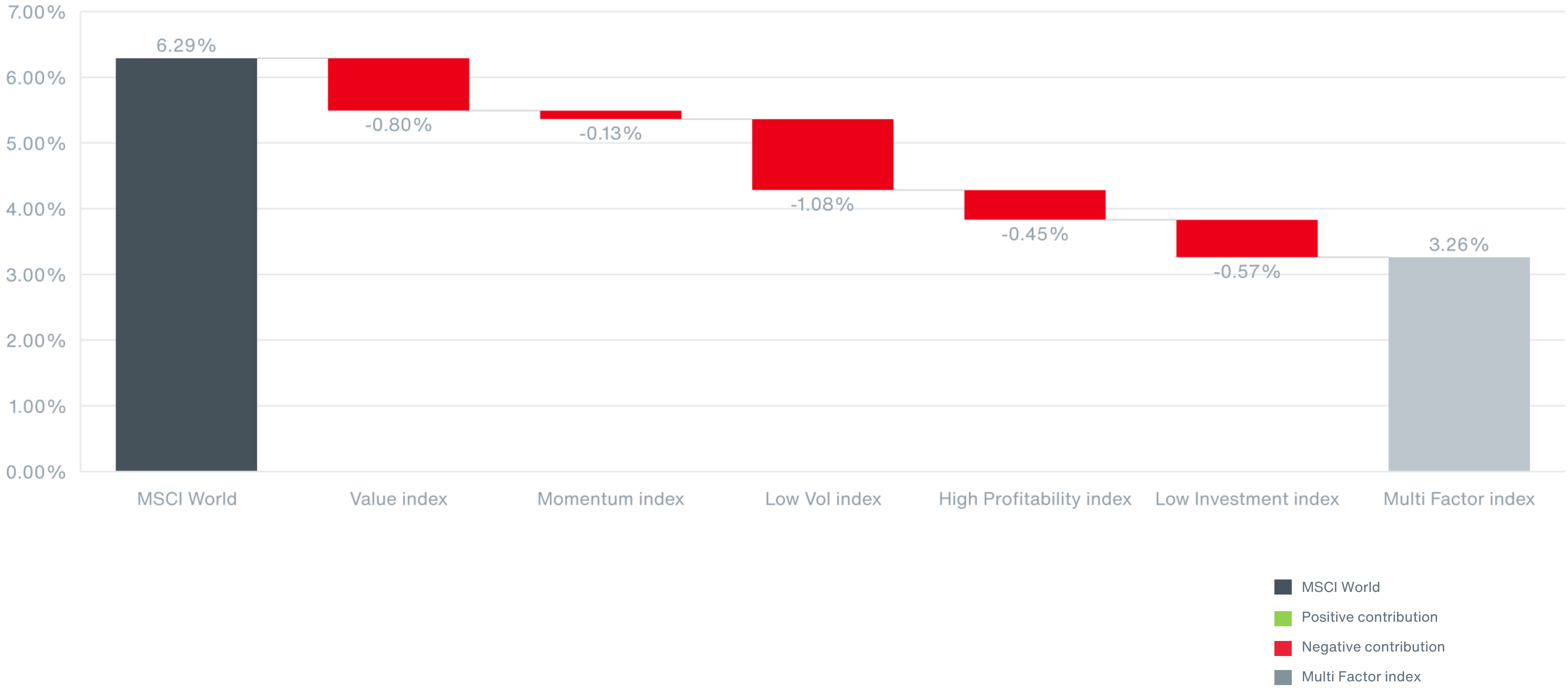
Appendix

SciBeta Multifactor Benchmark Performance Attribution

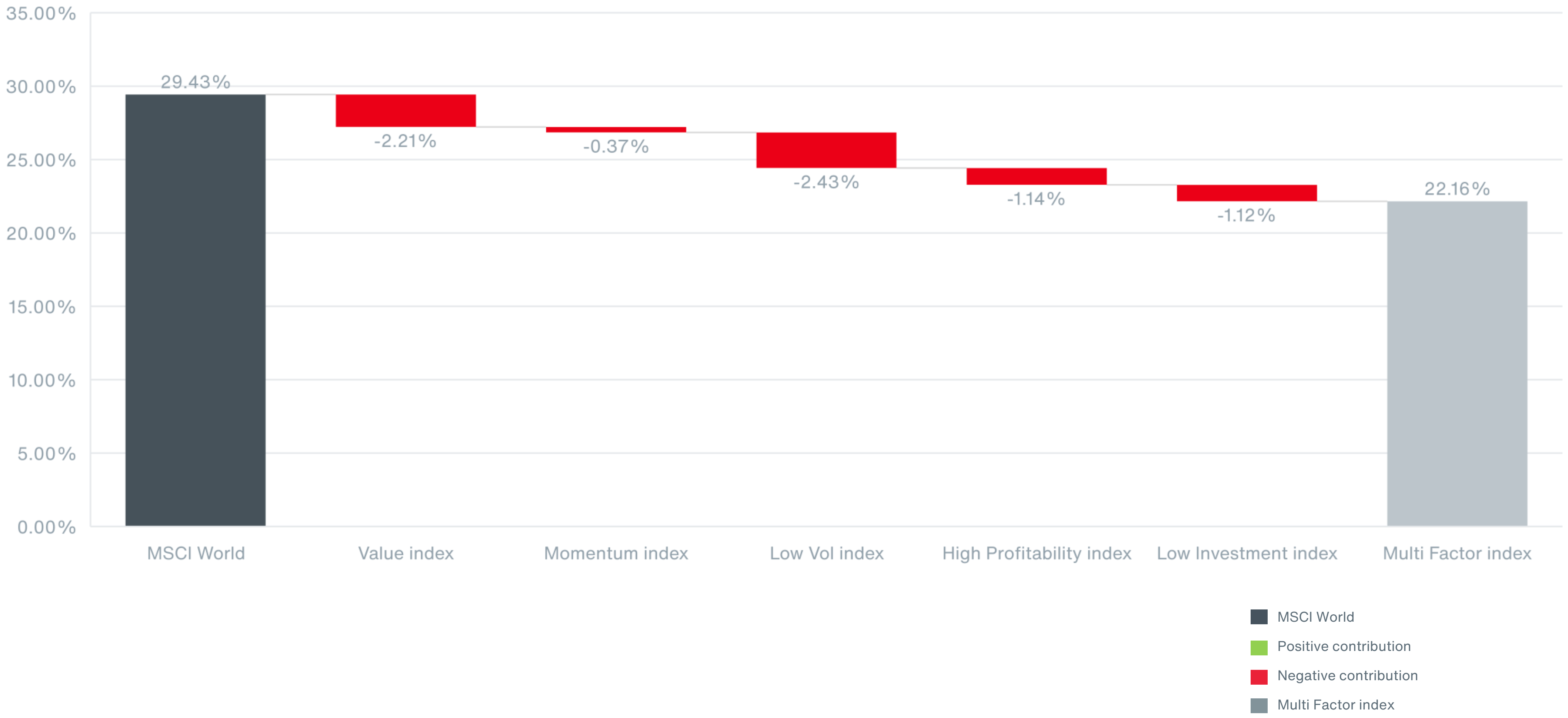
Performance attribution – Scibeta Multi-factor benchmark

1 Quarter – As of December 31, 2024



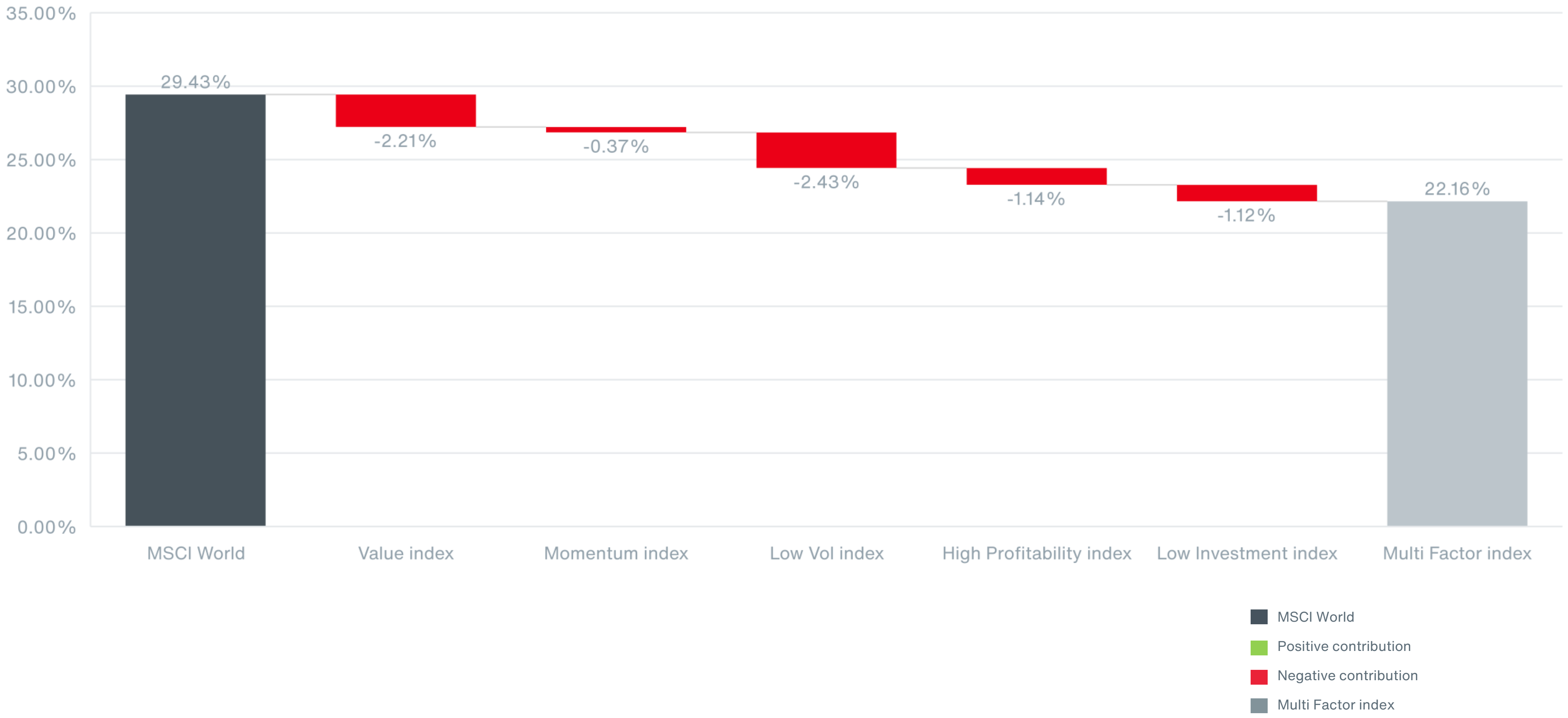
Performance attribution – Scibeta Multi-factor benchmark

YTD – As of December 31, 2024



Performance attribution – Scibeta Multi-factor benchmark

1 Year – As of December 31, 2024



Performance attribution – Scibeta Multi-factor benchmark

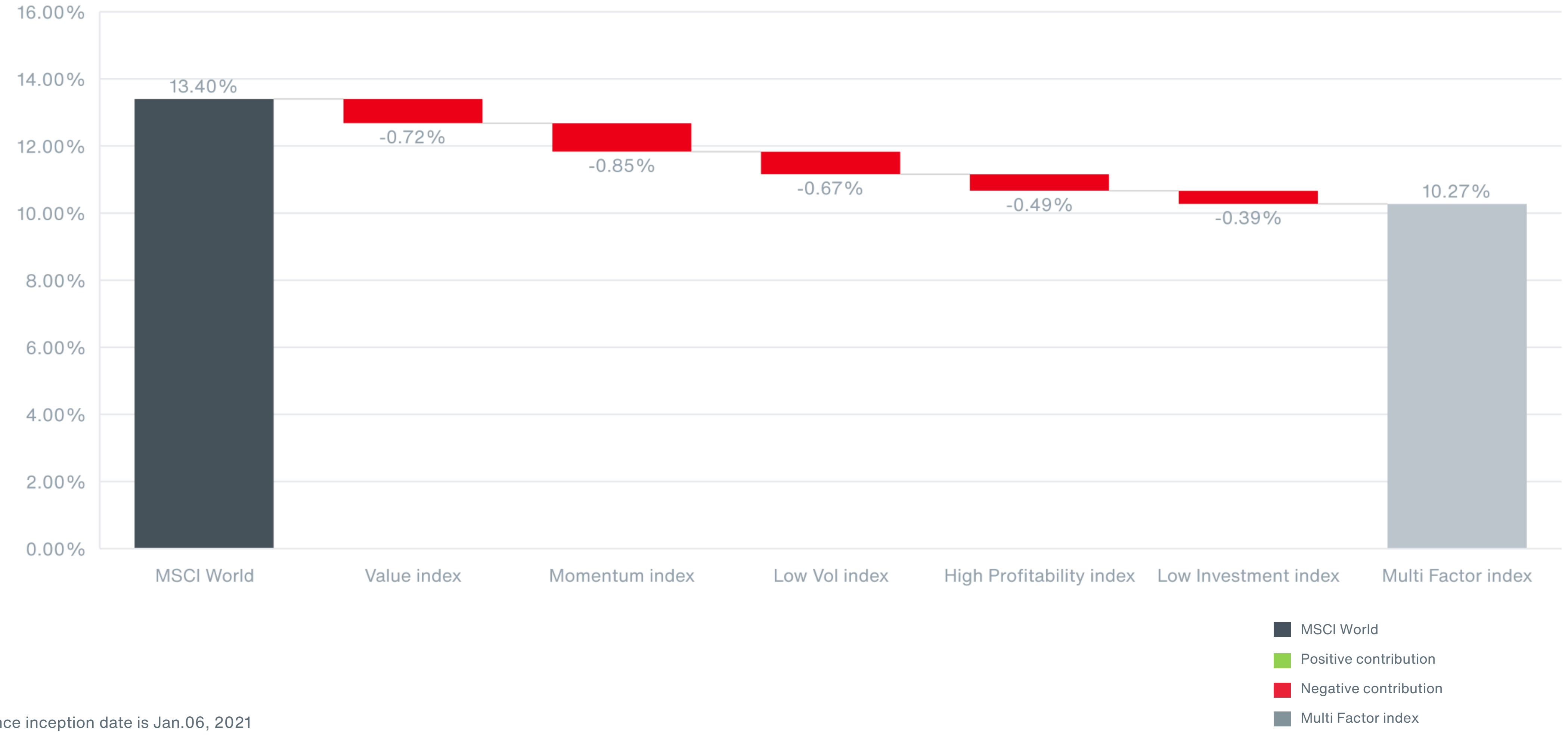
2 Year – As of December 31, 2024

Performance attribution – Scibeta Multi-factor benchmark

3 Year – As of December 31, 2024

Performance attribution – Scibeta Multi-factor benchmark

Since Inception* – As of December 31, 2024



- The since inception date is Jan.06, 2021

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Appendix

Asset Allocation Views

Further information.
Watch the Investment Outlook video.

Three Key Issues for Q1 2025

1: Could benign macro conditions in the U.S. deteriorate?

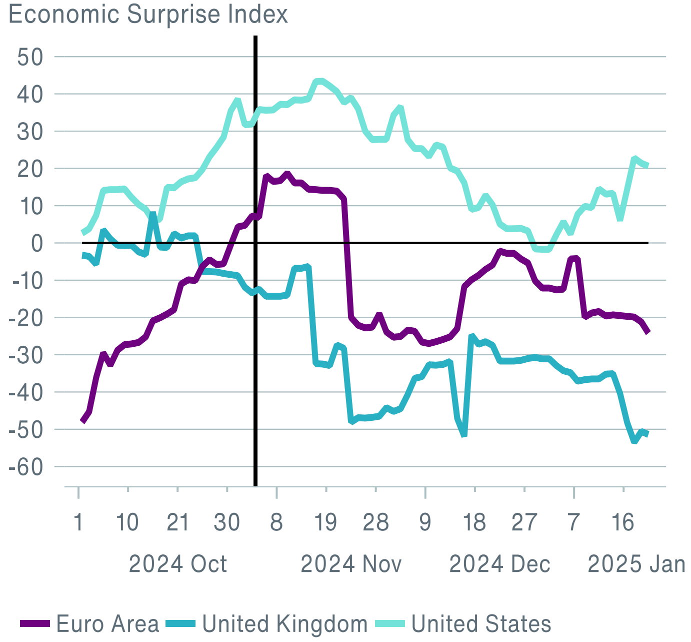
The U.S. economy has managed to grow rapidly over the last four years whilst other developed markets such as the UK and Germany have been weak. Germany, due to the gas price shocks, has effectively been in recession since mid-2023. Some commentators have panicked that the U.S. could stagnate too, but expectations for growth have consistently improved year after year. Consensus estimates for U.S. GDP have risen to 2.1% for 2025, but we think estimates could rise further still. As the chart shows, the U.S. economy has been beating economist estimates for a range of growth indicators, from business surveys through to the labor market. Europe has managed to disappoint already low expectations. As far as markets are concerned, they are likely to be able to brush off weakness in northern Europe and even a moribund China (official growth of 5% last year is high relative to the rest of the world, but slow versus the pre-pandemic period and youth unemployment has risen sharply).

Our base case is that U.S. growth will be 2.5% GDP growth. That said, the risks to our forecast are tilted to the downside. We think U.S. tariff rises will be used as a bargaining chip rather than lead to a full-blown trade war, but we cannot rule out the risk of one occurring. Furthermore, any large-scale repatriation of undocumented migrant workers could be disruptive to the economy, although we suspect this is unlikely.

In our view, growth is not the main macro risk. Core PCE inflation is at 2.8% and is projected to be 2.5% over 2025 in the Bloomberg survey of economists: a level which is inconsistent with the Fed's longer-term inflation objectives, so they wouldn't be able to respond with large rate cuts in such a scenario. Above trend growth suggests that monetary policy isn't particularly restrictive and the room for rate cuts is limited. The back-up in yields over the last few months will have a cooling effect but if markets remain buoyant, a pause in the rate cutting cycle is warranted. If the Fed does continue to cut, we think inflationary pressures could come to the forefront of market concerns again.

U.S. economy remains strong

U.S. economic data continues to beat economist expectations, although by a smaller margin since the election. The UK and Europe remain weak.



Source: Bloomberg, Citigroup, Aon

Three Key Issues for Q1 2025

2: The Term Premium

Global developed market yields have risen significantly since September. Some of the move higher is driven by expectations that short-term policy rates will be higher than previously expected, but most is being attributed to rises in the "term premium".

Term premia represent the expected additional return that bonds are anticipated to earn over cash (or short-term treasury bills). For a ten-year zero-coupon bond, the expected term premium would be the difference between the yield and the expected average short-term rate. The expected average cash rate is not known, and various different estimates can give radically different estimates of the term premium. The New York Fed's model for the 10y was negative as recently as October but is now 58 bps. We estimate that the average Fed Funds rate over the next 10 years is 4% with a zero-coupon rate of around 4.8%, which makes the term premium around 80 bps.

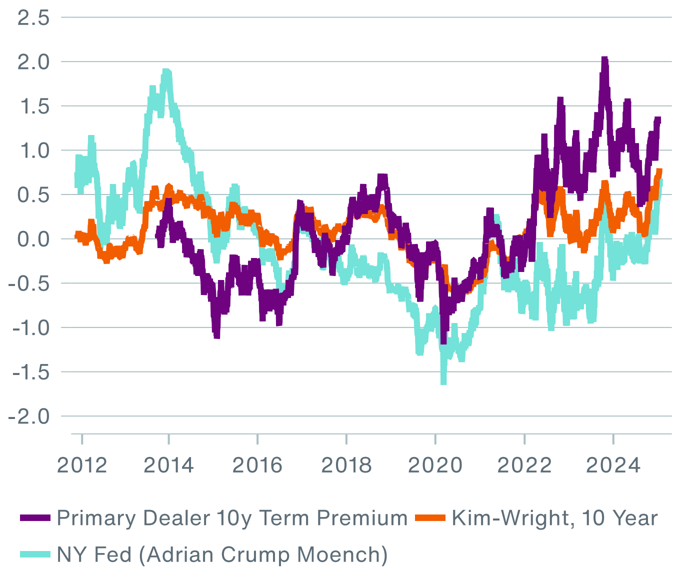
A greater supply of bonds shifts term premia for three main reasons:

- the marginal investor changes from a liability driven investor who might be happy to accept zero, to one who has competing assets.
- higher fiscal deficits stimulate activity and raise inflation dangers which creates more interest rate uncertainty and bond volatility.
- as inflation concerns drive markets, bond returns become positively correlated with equity returns reducing their diversification benefits.

We think 80 bps is an attractive level for USD-focused liability driven investors, notwithstanding that the equilibrium term premium has probably risen.

Measures of U.S. 10-year "Term Premia" Rise

The term-premium has risen according to several different measures.



Source: Bloomberg, NY Fed, Federal Reserve, Macrobond, Aon

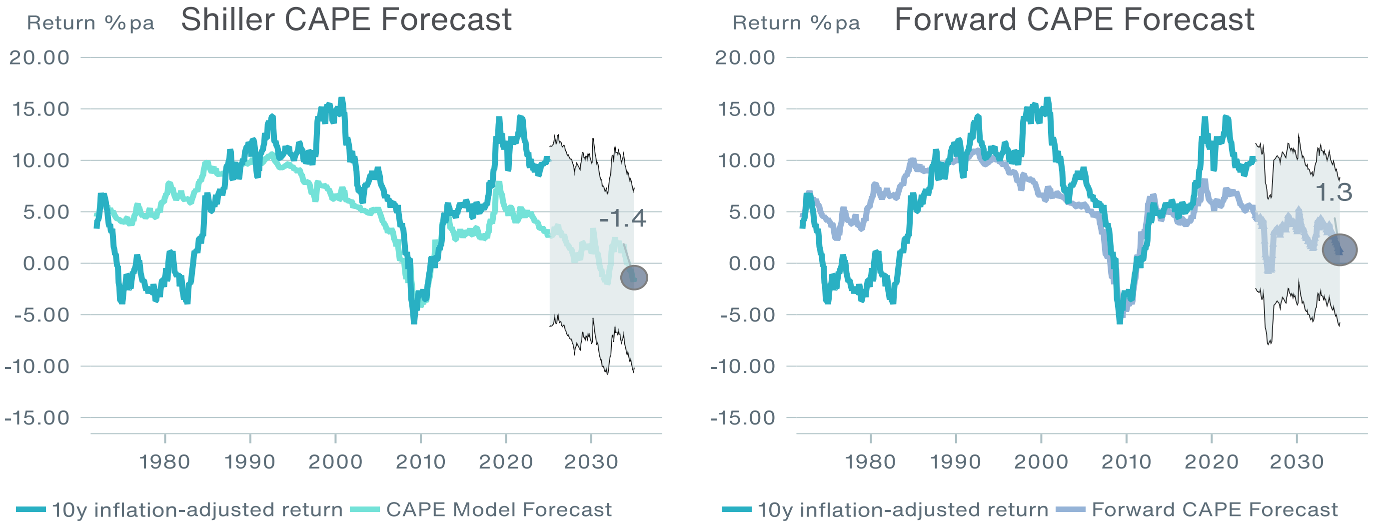
Three Key Issues for Q1 2025

3: Is there a "bubble" in the stock market?

The cyclically adjusted price-earnings (CAPE) ratio, as popularised by Prof. Shiller of Yale University, has reached 37x. This is not far short of the 44x at the end of 1999 and above the 33x reached in September 1929. Does this mean there is a "bubble" in the overall market? If Shiller's CAPE were foolproof then it might be true as these elevated levels imply a "forecast" of 10-year returns at -1.4% real (inflation-adjusted) or +0.9% nominal, not as bad as in 1999 but still not attractive. However, as the left chart shows, over the last 35 years CAPE has tended to significantly underestimate actual returns.

Other permutations of CAPE are less pessimistic. One approach is to statistically project EPS over the next 10 years to create a "forward CAPE". This is at less extreme levels (29x vs 43.5x in 1999) and has a central forecast of real returns of +1.3% or +3.6% nominal. There is also a wide confidence interval, and the model gives a 5% chance that returns could be above 7.3% real, 9.6% nominal. The EPS estimates used in forward CAPE are lower than the EPS growth estimates of analysts. If analysts are right about profits, this suggests that nominal returns are likely to be in the higher range of the 90% confidence interval, and probably not dissimilar to the 6.9% nominal we assume for U.S. equities in our Capital Market Assumptions: an approach which discounts free cashflows to derive the equilibrium return.

CAPE ratios have tended to forecast lower than realised returns over the last 35 years



Source: Macrobond, Aon. Shaded areas represent 90% confidence intervals. For Shiller's ratio this suggests only a 5% chance that 10-year annualised real (inflation-adjusted) return will be above 7.3% (or around 9.6% nominal).

However, we do think CAPE ratios highlight risks in the global equity market and the need for diversification in return generating assets.

CAPE ratios are also sometimes used to rationalise tilts away from the U.S. market. However, we believe that the CAPE for one market is not comparable to another market. A market with much faster earnings per share growth will have a higher equilibrium CAPE. U.S. companies have been and look likely to remain better performing, with most AI-related companies U.S. based. We're therefore cautious about underweighting the U.S. market.

How Should Portfolios be Positioned vs. Benchmarks?

With minimal dislocations in markets, now is not the time to deviate significantly from benchmarks. However, we think liquid alternatives offer better risk-adjusted returns than traditional equity and credit exposures.

Return

We suggest tilting equity exposures into higher-returning alternatives such as Insurance Linked Securities (ILS). Their low correlation to equities helps diversify equity risk, but we expect to give similar returns at a medium-term horizon. Although asset-backed securities (ABS) have outperformed, we think that they remain attractive as they have similar levels of carry but with lower levels of credit spread duration, so they will be less hit if we see spread widening.

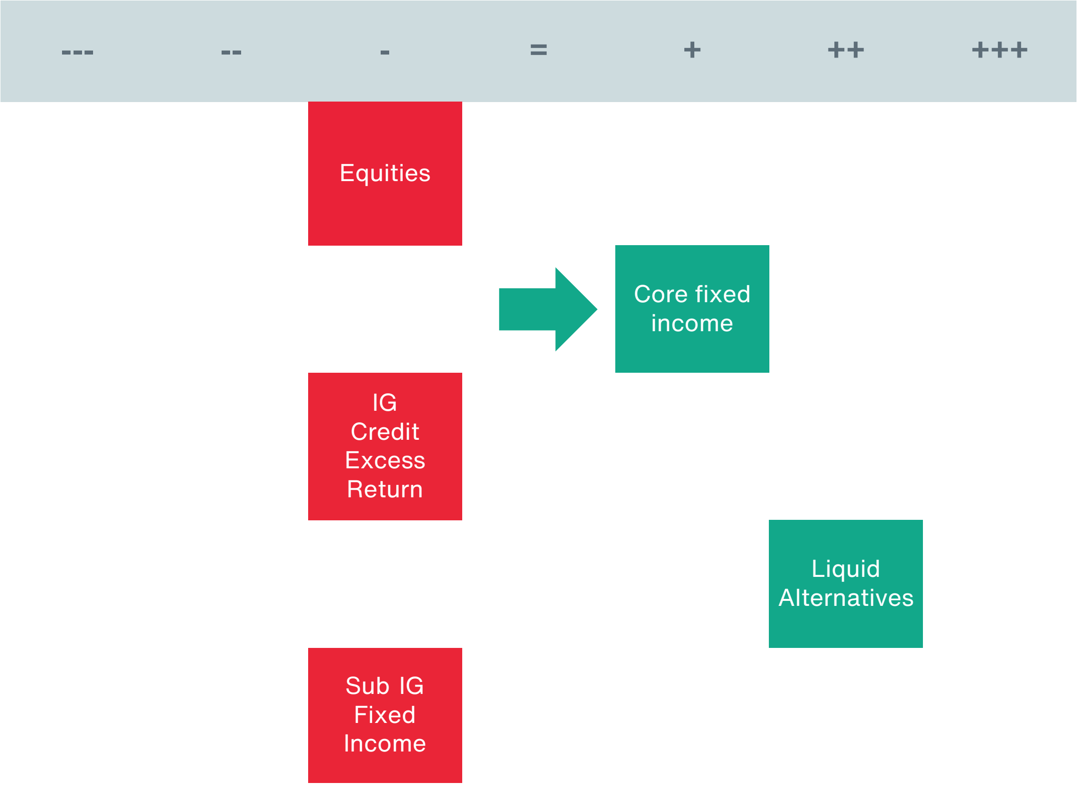
Volatility

We think the excess return available on both equities and traditional credit is poor at the moment and therefore suggest running slightly less risk than target, especially as this can be done without reducing expected returns by tilting into alternatives.

Duration

We expect yields to be volatile. We think that there is relative value in parts of the curve but would keep overall duration close to target. We anticipate that there may be some great opportunities to add duration over the next couple of months.

Global Cross Asset Heat Map



Keep equity allocations close to benchmark. Focus rebalancing towards liquid alternatives

Expectations of strong earnings and solid growth in the U.S. mean the equity rally may continue to run in 2025. However, the high valuations highlight the need for diversification, and we suggest targeting any rebalancing from additional returns towards liquid alternatives to build resilience into portfolios.

Yields are likely to remain choppy though higher term premia are making government bonds more attractive

To the extent that elevated fiscal deficits are priced into government bonds, the higher term premia makes an attractive entry point for liability-driven investors.

Spreads are tight in traditional IG – we continue to prefer more carry and lower spread duration in IG Securitized Credit

Spreads are not sufficiently attractive to compensate for unexpected shocks and potentially weaker economic conditions at longer horizons. And we continue to believe there is more value outside of the traditional credit spectrum.

Liquid alternatives such as insurance linked securities offer better prospective returns than return-seeking fixed income

Insurance linked securities offer steady uncorrelated returns with lower volatility than traditional risk assets. We continue to like opportunities in diversifying hedge funds to build resilience into portfolios.

Relative Asset Class Views*

Regional views

---	--	-	=	+	++	+++
			USA			
			Canada			
			EAFE			
				Emerging		

Core Fixed Income

---	--	-	=	+	++	+++
			Federal			
		Corporate				
			Provincial			

Alternatives

				Alternative Risk Premia		
						Insurance linked securities Diversifying hedge funds
		Return seeking hedge funds				

Factor views

---	--	-	=	+	++	+++
		Low Vol.				
			Quality			
				Value		
			Growth			

Credit

---	--	-	=	+	++	+++
			USD EMD			
			Local EMD			
		Bank Loans				
				IG Securitized		
		US High Yield				

*Asset class views are relative to others within the asset class and not relative to other asset types. There should be no read-across from equities to credit, for example.

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