Toronto Investment Board

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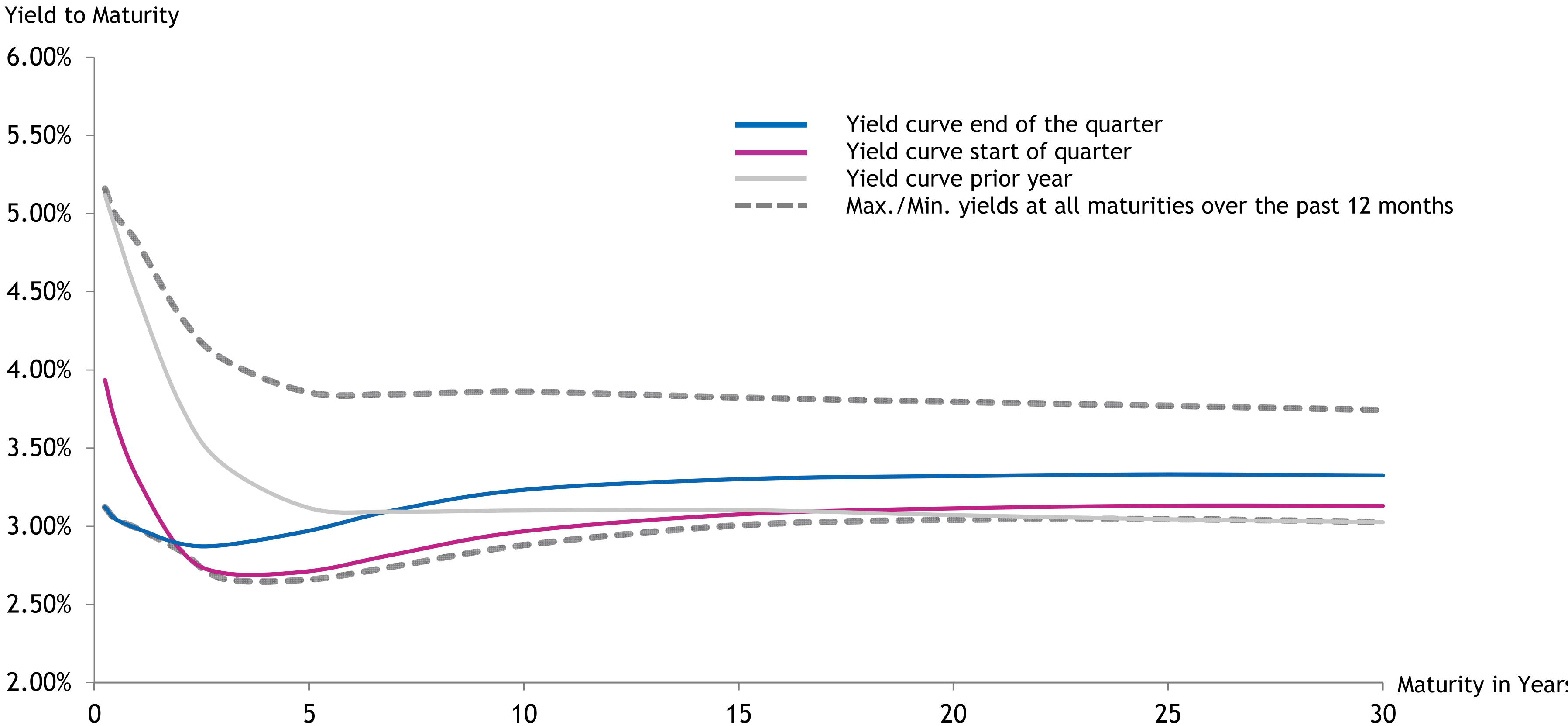
Market Review

Government of Canada Interest Rates in Q4 2024

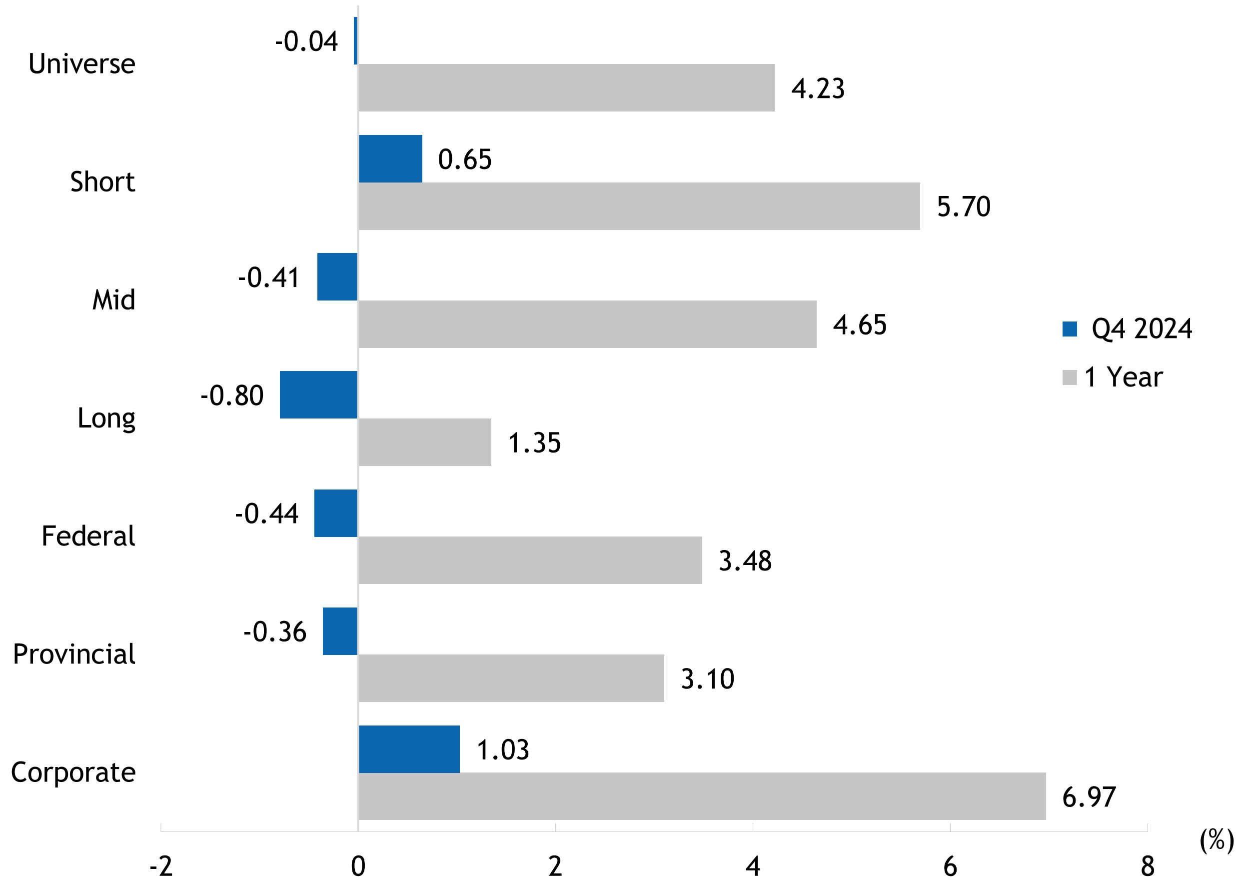


	CAN 3m	CAN 6m	CAN 1y	CAN 2y	CAN 3y	CAN 5y	CAN 7y	CAN 10y	CAN 15y	CAN 20y	CAN 25y	CAN 30y
2024-12-31	3.12%	3.05%	2.99%	2.89%	2.88%	2.97%	3.10%	3.23%	3.30%	3.32%	3.33%	3.32%
2024-09-30	3.94%	3.66%	3.31%	2.85%	2.70%	2.71%	2.82%	2.97%	3.08%	3.11%	3.13%	3.13%
2023-12-31	5.12%	4.90%	4.48%	3.78%	3.40%	3.12%	3.09%	3.10%	3.10%	3.07%	3.04%	3.03%

As at December 31, 2024

Note: Yields are calculated using constant maturity par yields generated by the Addenda Capital yield curve algorithm. The estimated yield curves are based on FTSE Canada daily prices.
Sources: FTSE Canada, Addenda Capital

Canadian Bond Market Returns



As at December 31, 2024

Source: FTSE Canada

Portfolio Performance and Characteristics

Master Account Sinking Fund — Q4 2024 Returns

				Annualized Returns			
	Quarter	Year to Date	1 yr	2 yrs	3 yrs	4 yrs	Since Inception 2019-06-30
Master account Sinking Fund (%)	-0.33	2.53	2.53	6.05	-3.15	-3.18	-0.65
Benchmark Index (%) [1]	-0.93	1.78	1.78	5.08	-3.56	-3.74	-0.73
Added Value (bps)	**60**	**75**	**75**	**97**	**41**	**56**	**8**

	Annual Returns as of December 31				
	2024	2023	2022	2021	2020
Master account Sinking Fund (%)	2.53	9.68	-19.23	-3.25	9.36
Benchmark Index (%) [1]	1.78	8.49	-18.76	-4.29	11.84
Added Value (bps)	**75**	**119**	**-47**	**104**	**-248**

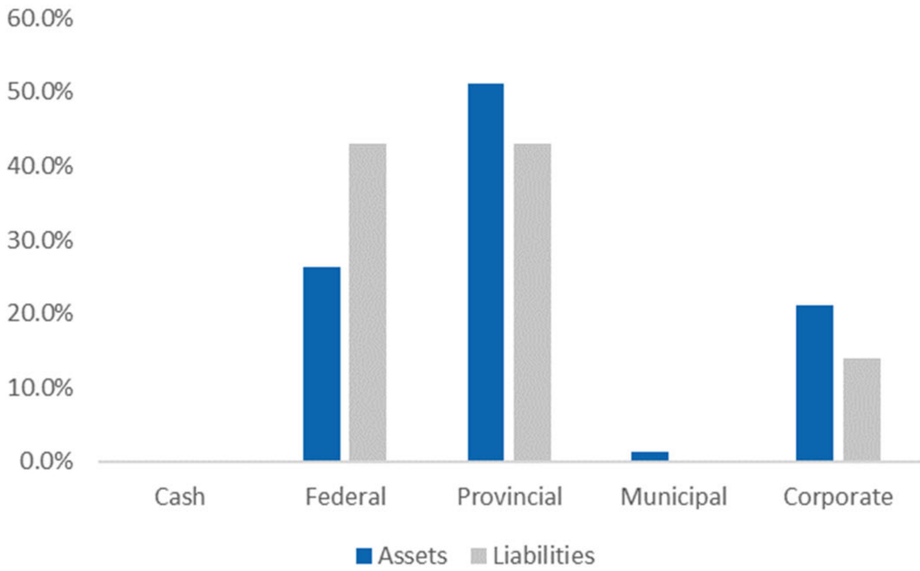
The portfolio's performance returns are calculated using the time-weighted rate of return methodology and represent total returns (including income, realized and non-realized gains and losses). The performance results exclude the portfolio's management and custodian fees. Valuations and rates of returns are computed and stated in the portfolio's base currency.
For the Addenda Pooled Funds, the investment performance is net of the Funds' administrative expenses (custodian, audit, and others). In addition, certain series are net of the Funds' management and performance fees, if applicable.

[1] Benchmark Index: Toronto Aggregate Liability Benchmark - See previous benchmark indices at the end of document

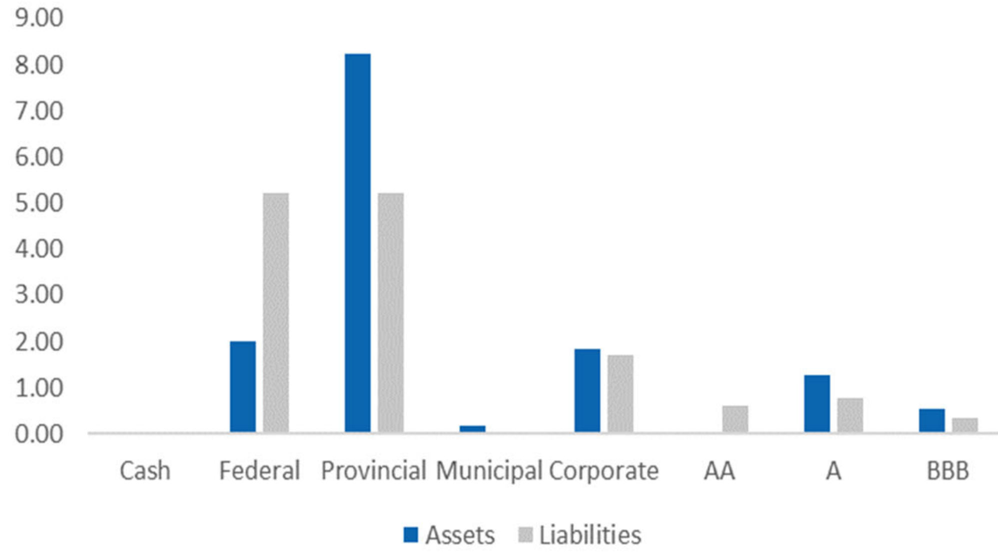
- Interest rates remained volatile through the year as markets grappled with policy adjustment expectations around growth and inflation developments and the onset of tariff uncertainties at the end of the year
- Outperformance in Q4 was primarily driven by the narrowing in credit spreads and the positive carry of the portfolio relative to the liability benchmark
- Full calendar year returns were positive primarily driven by credit factors

Portfolio Characteristics

Sector Weights



Sector Duration Contribution



Weights	Assets	Liabilities
Cash	0.2%	0.0%
Federal	26.3%	43.0%
Provincial	51.1%	43.0%
Municipal	1.3%	0.0%
Corporate	21.16%	14.00%

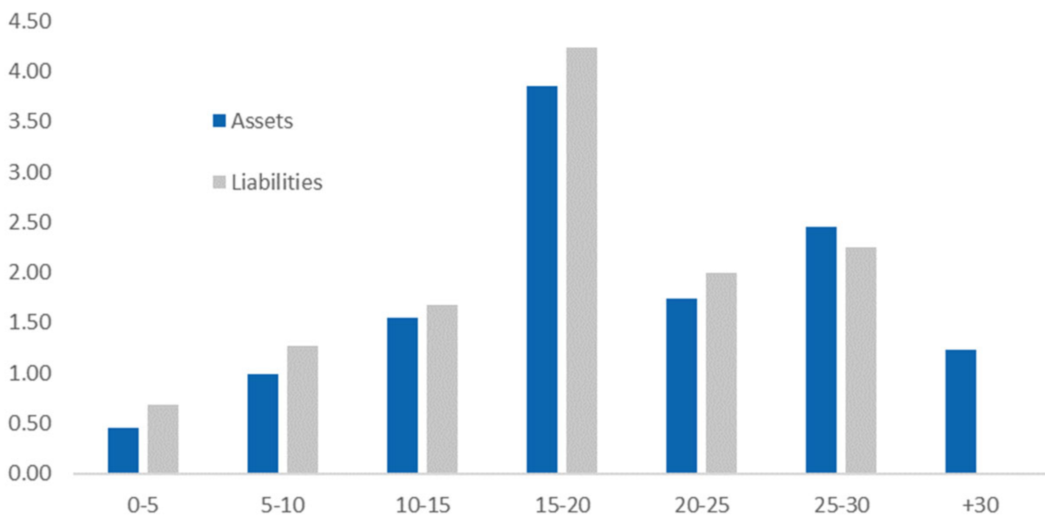
Duration Contribution	Assets (%)	Liabilities (%)
Cash	0.00	0.00
Federal	2.00	5.21
Provincial	8.23	5.21
Municipal	0.19	0.00
Corporate	1.84	1.69
AA	*0.02*	*0.59*
A	*1.27*	*0.76*
BBB	*0.55*	*0.34*
Total	**12.26**	**12.11**

As at December 31, 2024

Source: Addenda Capital

Risk Characteristics

Key Rate Durations



	Assets	Liabilities
Duration	12.26	12.11
Convexity	235.8	215.7
Average Term	14.3	12.3
Average Yield	3.97%	
Liability Internal Rate of Return		3.89%

Key Rate Durations	Assets	Liabilities
0-5	0.46	0.69
5-10	0.98	1.27
10-15	1.54	1.67
15-20	3.85	4.23
20-25	1.74	1.99
25-30	2.46	2.25
+30	1.22	0.00

As at December 31, 2024

Source: Addenda Capital

Risk Sensitivity Analysis

Scenario testing results

Scenario Description	Asset Performance	Liability Performance	Difference
Yield Curve Scenarios			
Parallel shift +50 bps	-6.09	-6.02	-0.07
Parallel shift -50 bps	6.67	6.58	0.09
Bull Steepening	2.69	2.66	0.03
Bear Steepening	-3.57	-3.53	-0.04
10yr Pivot Steepening	-1.34	-1.32	-0.02
10yr Pivot Flattening	1.41	1.39	0.02
Bull Flattening	3.87	3.81	0.05
Bear Flattening	-2.61	-2.58	-0.03
Credit Scenarios			
Provincial Spreads +25 bps	-2.14	-1.34	-0.80
Provincial Spreads -25 bps	2.24	1.36	0.87
Corporate Spreads +50 bps	-0.91	-0.87	-0.04
Corporate Spreads -50 bps	0.99	0.89	0.11
Corporate BBB Spreads +50 bps	-0.26	-0.18	-0.08
Credit Wider	-3.05	-2.20	-0.85
Credit Tighter	3.23	2.27	0.96

As of Feb 28, 2025

Source: Addenda Capital

Portfolio Activity Summary

- Duration of assets and liabilities were well matched throughout 2024
- $400M of notional value of new liabilities were added in Q4 and a total of $1.0B added for full year of 2024 ($332.2M for Addenda benchmark inclusion)
- Principal repayment of $105M relating to the $300M May 21/24 maturity was funded from other sinking fund asset classes
- $155.25M of sinking fund contributions were allocated over the course of the year
- The contributions along with the relief of the repayment obligation boosted the funded status of the fixed income portfolio to 45% vs 38.5% at YE 2023
- Corporate credit positioning was maintained in line with the liability benchmark sensitivities as spreads narrowed to tighter levels with less attractive valuation

Upcoming

- Feb 6, 2025, principal repayment for $300M is the only obligation this year and has been successfully funded
- Scheduled sinking fund contributions

Impact Positioning

Impact Investments Exposure in the Portfolio

Impact Themes and Categories	Market Value ($M)	Weight (%)
Climate Change	**232.3**	**23.56**
Renewable Energy	199.9	20.28
Clean Transportation	19.3	1.96
Low GHG Emissions Energy	9.7	0.98
Energy Efficiency	3.4	0.34
Community Development	**25.8**	**2.62**
Credit Unions and Financial Services Co-operatives	11.8	1.20
Affordable Housing	6.7	0.68
Indigenous Economic Opportunities	4.8	0.49
Development Finance	2.5	0.25
Health and Wellness	**3.3**	**0.34**
Hospitals	3.3	0.34
Education	**2.3**	**0.23**
Universities	2.3	0.23
Water	**0.3**	**0.03**
Freshwater	0.3	0.03
Total	**263.9**	**26.78**

As at December 31, 2024

Market Outlook

Outlook

Growth

- Economic growth driven by strong domestic demand challenges the large output gap narrative
- Continued strong income gains and high household savings balances support consumer spending in both Canada and the U.S.
- Labour markets post gains, but unemployment rate increases due to population growth and not job shedding
- Fiscal deficit projections remain high pointing to a contribution from government spending

Inflation

- Currency weakness drives higher import prices
- Wage inflation remains elevated in Canada and contributes to higher services inflation
- Immigration policy changes will reduce labour supply and may add pressure to wages
- Goods prices have driven the majority of CPI deceleration but risk an uptick from base year effects
- Productivity gains in the US provide relief to inflation pressures (unit labour costs below 2%), while negative productivity in Canada will contribute to higher inflation

Policy

- Policy makers in Canada and the U.S. remain biased toward easing with concerns of undershooting inflation targets
- Stable growth along with inflation uncertainty reduces the urgency for material rate decreases
- With inflation moderating from its highs, central bank policy will shift focus to economic growth
- Balance sheet reductions will likely taper as banks move closer to a change in policy direction

Risks

- Proposed tariffs and deportation policies drive inflation pressures in the U.S. but risk of recession on both sides of the border
- Retaliatory tariffs by Canada result in increased price pressures for consumers
- Delayed easing by the Fed maintains high real rates hurting economic growth and undershooting the inflation target
- *BoC eases too fast while still facing inflationary growth and wage pressure resulting in reflation risks*

Strategic Positioning

Duration

- Risks to inflation in Canada remain tilted to the upside and the neutral policy rate may prove to be higher than market expectations resulting in less policy easing
- Path will be uneven as central banks' reaction function to inflation uncertainty will be to delay rate cuts
- Duration positioning will be opportunistic driven by observed valuations

Yield Curve

- Short term yields remain linked to monetary policy moves but will stabilize as strong wage gains, solid domestic demand and stronger inflation dynamics mean the bank is already closer to its terminal rate
- Inflation uncertainty, along with higher fiscal deficits will re-introduce the need for term premium keeping long rates elevated

Sector Selection

- We remain cautiously constructive on credit risk in the absence of a recession
- Spreads have tightened to levels where current valuations limit the amount of future compression
- Expect some modest widening in both provincial and corporate credit as current spreads are fully reflective of the strong fundamentals

Security Selection

- Economic backdrop supports stable credit markets
- Emphasis on strong credit fundamentals and fair valuation
- Maintain allocations to defensive issuers

Appendix

Master Account Sinking Fund — Portfolio Performance

City of Toronto - Master account Sinking Fund
Account Number: A1327
Currency: CAD

Summary of Performance Results
For the periods ending January 31, 2025

City of Toronto - Master account Sinking Fund

				ANNUALIZED RETURNS					
	1 month	Quarter to date	Year to date	1 yr	2 yrs	3 yrs	4 yrs	5 yrs	Start (2019-06-30)
A1327	1.36%	1.36%	1.36%	6.82%	4.42%	-0.68%	-2.21%	-1.37%	-0.40%
Benchmark Index *	1.41%	1.41%	1.41%	6.14%	3.49%	-1.17%	-2.76%	-1.47%	-0.47%
Added Value	-5	-5	-5	68	93	49	55	10	7

	ANNUAL RETURNS AS OF DECEMBER 31								
	2024	2023	2022	2021	2020	2019	2018	2017	2016
A1327	2.53%	9.68%	-19.23%	-3.25%	9.36%	-	-	-	-
Benchmark Index *	1.78%	8.49%	-18.76%	-4.29%	11.84%	-	-	-	-
Added Value	75	119	-47	104	-248	-	-	-	-

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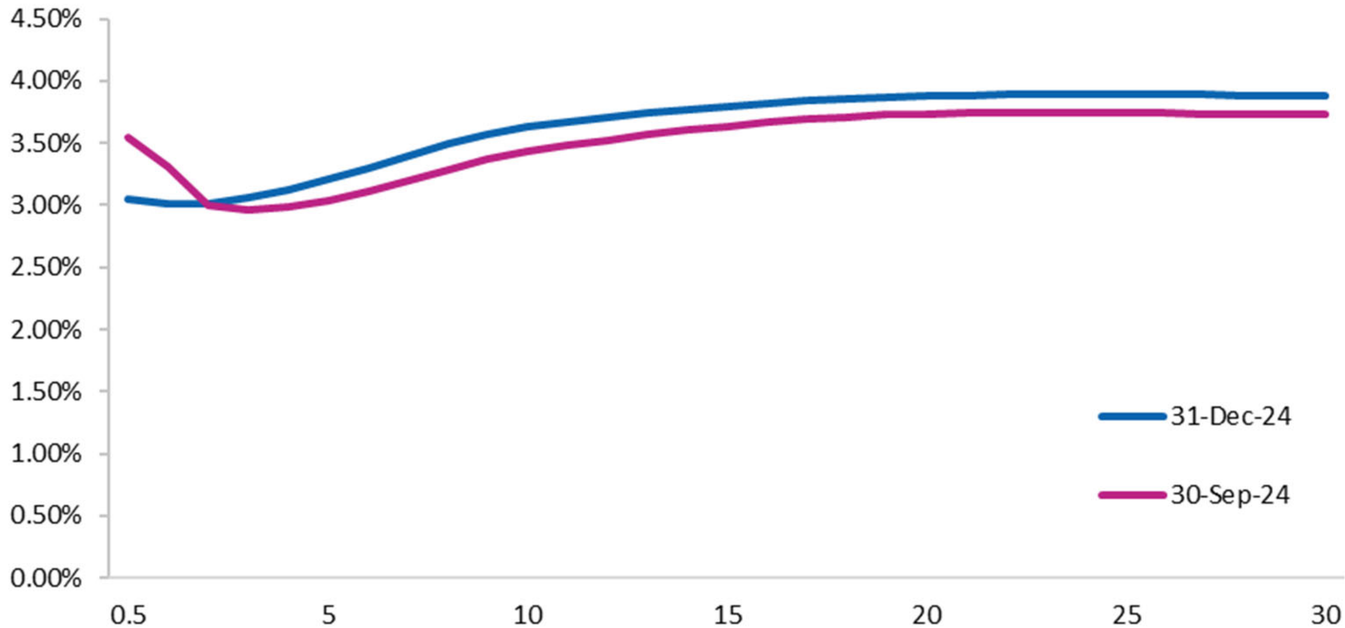
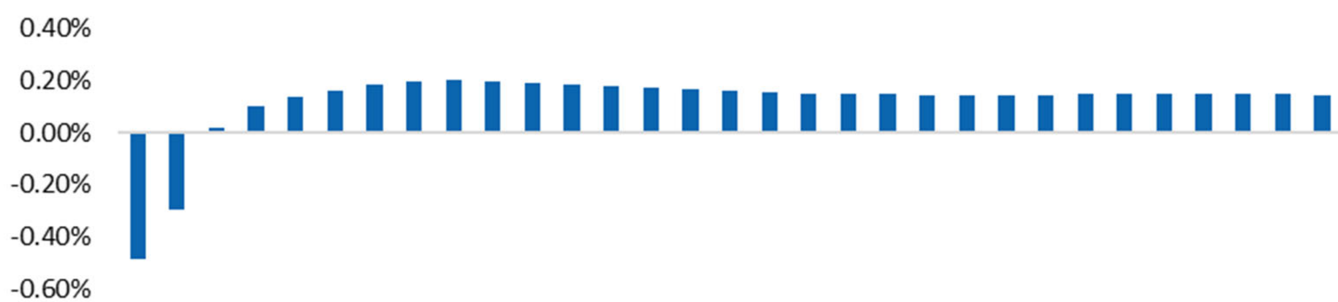
* Benchmark Index : Toronto Aggregate Liability Benchmark

As of January 31, 2025

Liability Discount Curve*





As at December 31, 2024

*Discount Curve Composition 43% Federal, 43% Provincial, 14% Corporate

Source: Addenda Capital

Disclaimer

FTSE Canada

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Unless otherwise specified, assets are presented in Canadian dollars.