

City of Toronto Investment Report for the Year 2025

Date: June 1, 2026

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 year 2025
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 3.6 per cent and generated \$391.0 million for the year ending December 31, 2025.

The Short Term Fund, including the short-term investments of the Long Term Fund (LTF), was about 40 per cent of the overall General Fund by December 2025 compared to 48 per cent from the pre-pandemic level in 2019. This lower cash position was primarily due to an increased spending rate on capital projects. Staff will continue to monitor liquidity levels in 2026.

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, 2025, the Sinking Fund portfolio had a market return of 2.7 per cent and generated approximately \$85 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, 2025, 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 2024, 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.

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 2025, the City's long-term investment portfolios overall score was "AA" and is within the "Leader" category of the selected market benchmark as depicted in the investment policy. The Carbon Intensity Score for both the LTF and the SF are better than benchmark, with the trend in this indicator showing steady improvement over the years.

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 \$391.0 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.

The Sinking Fund portfolio had a market return of 2.7 per cent and generated approximately \$85 million in total market return in the year 2025. These earnings are retained within the Sinking Fund and must be used for the purpose of retiring debenture debt at maturity.

DECISION HISTORY

At its meeting held on December 16 and 17, 2025 City Council adopted the report City of Toronto Investment Report for the Six Month Period Ending June 30, 2025. This report provided the performance and compliance for the six month period ending June 2025.

[Agenda Item History - 2025.EX28.11](#)

At its meeting held on June 25 and 26, 2025 City Council adopted the report City of Toronto Investment Report for the Year 2024 which provided the performance and compliance for the year 2024.

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

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 \(toronto.ca\)](#)

COMMENTS

General Market Update for 2025

The year 2025 was marked by a continued shift in monetary policy, as the Bank of Canada advanced its easing cycle in response to moderating inflation and slowing economic activity. Over the course of the year, the Bank reduced its overnight policy rate from 3.25 per cent to 2.25 per cent. Inflation continued to ease toward the Bank's

target range, while economic growth remained modest and labour market conditions softened, reflecting the lagged effects of prior tightening.

In fixed income markets, the easing of monetary policy and moderating inflation contributed to generally lower yields and supported positive returns over the year. While yields experienced some volatility, short-term rates declined more steadily in line with policy rate cuts. The FTSE Canada Universe Bond Index returned 2.6 per cent for the year, driven primarily by income and modest price appreciation.

Global equity markets posted strong gains throughout the year, as reflected by the MSCI All Country World Index (ACWI), which rose 17.1 per cent over the twelve months ending December 31, 2025. Gains were broad-based, supported by easing monetary policy, resilient corporate earnings, and improving investor sentiment. As inflation moderated and financial conditions eased, confidence in a soft economic landing strengthened, supporting equity valuations. Market leadership broadened beyond large-cap technology, with increased participation from financials, industrials, and select non-U.S. markets. Despite periodic volatility driven by geopolitical developments and shifting central bank expectations, investor sentiment remained constructive amid continued economic resilience.

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 allowed 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 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). The new fund has the same mandate and is managed by the same investment staff.

Two real estate fund managers, 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 2025

As shown in Table 1, the Short Term Fund (STF) has outperformed the benchmark by 60 basis points (0.6 per cent), the Long Term Fund (LTF) has underperformed the benchmark by 130 basis points (1.3 per cent) and together the General Fund's performance has underperformed benchmark by 50 basis points (0.5 per cent). From a longer investment horizon perspective, the General Fund has underperformed the benchmark by 20 basis points (0.2 per cent) on a 4-year annualized return basis.

Table 1 –Total Returns versus Market Benchmarks (%) for the General Fund¹ as at December 31, 2025

	1 year (Year-over-Year)			4 year (annualized)		
	Short Term Funds ²	Long Term Fund	General Fund ³	Short Term Funds ²	Long Term Fund	General Fund ³
Portfolio Return (%)	3.3%	4.7%	4.1%	4.0%	2.6%	3.2%
Benchmark Return (%)	2.7%	6.0%	4.6%	3.5%	3.4%	3.4%
Value Added (%)	0.6%	-1.3%	-0.5%	0.5%	-0.8%	-0.2%

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 \$10.8 billion for the year 2025. When excluding unrealized gains and losses from the total return, the General Fund earned \$391.0 million which we refer to as the "Earned Income". This equates to an annualized 3.6 per cent "Earned Return on Capital" during the year 2025.

Table 2 - Investment Portfolio for the year ending December 31, 2025 (\$ millions)

Portfolio	Average Fund Balance (Book Value)	Earned Income	Earned Return on Capital
1. Long Term Fund	\$5,924.1	\$229.7	3.9%
2. Short Term Fund ¹	\$4,916.2	\$161.3	3.3%
Total General Funds	\$10,840.3	\$391.0	3.6%

¹ 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 2025.

Table 3 - Earned Income Attribution for Long Term Fund - for the year ending December 31, 2025 (\$ millions)

Long Term Fund Earned Income by Asset Class as at December 31, 2025 (\$ millions)	
Fixed Income	\$180.7
Global Equities	\$40.5
Real Assets	\$6.7
Cash and Equivalent	\$1.8
Total Earned Income	\$229.7

Table 4 provides the total earned income (excluding unrealized gains and losses) for the year 2025 was \$116.8 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 2025

Investment earnings (\$ millions & Annualized Rate of Return)	Actual	Budget (includes contribution to reserve funds)	Over/Under Budget
Total General Funds	\$391.0	\$274.2	\$116.8

Investment earnings (\$391.0 million) will be allocated between eligible interest earning reserve funds, Corporate Revenues within the operating budget and the Investment Income Stabilization Reserve.

The Short Term Fund, including the short-term investments of the Long Term Fund (LTF), was about 40 per cent of the overall General Fund by December 2025 compared to 48 per cent from the pre-pandemic level in 2019. This weighting in the Short Term Fund is projected to decrease further in 2026 given the anticipated cash needs. Staff will continue to monitor liquidity levels and will transfer funds from LTF to STF should it be required in 2026.

Sinking Fund Total Return Performance for the year 2025

The City's Sinking Fund portfolio, which holds the investment funds for future debt repayments, had underperformed the weighted market benchmark by 0.9 per cent based on annualized total return for the four year period ending December 31, 2025 as shown in Table 5. On a shorter-term basis, the fund had a total return of 2.7 per cent for the year 2025, falling behind the weighted market benchmark by 1.1 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 1.2 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 two real assets investment 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, 2025¹

	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
Portfolio Return (%)	3.2%	2.7%	2.7%	4.0%	0.3%	0.5%
Benchmark Return (%)	2.7%	3.9%	3.8%	3.5%	1.3%	1.4%
Value Added (%)	0.5%	-1.2%	-1.1%	0.5%	-1.0%	-0.9%

¹Calculated from RBCIS Performance Analytics and Aon Performance Review

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

Table 6 - As at December 31, 2025 - Duration for the Sinking Fund¹

	Fixed Income Duration (years)
Portfolio Duration	12.1
Liability Duration	12.0

¹From Aon Performance Review (Fixed Income)

New accounting standards (PSAB 3450) which came into affect in 2024 and were reported last year focusing 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.

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 is expected to be higher and sufficient to meet the debt repayments.

In February 2025, \$300 million City of Toronto debenture matured which was paid from the Sinking Fund. The next debt maturity will be another \$300 million obligation 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 2025. 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 2024. 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 2025, both the Long Term Fund and the Sinking Fund score was "AA" and is within "Leader" category of the selected market benchmark as depicted in the investment policy.

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 improve and is also outperformed 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

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

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