REPORT FOR ACTION

Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2026

Date: May 19, 2026
To: Toronto Investment Board
From: Interim Director, Capital Markets and Treasury
Wards: All

SUMMARY

As required by the City's Investment Policy, the purpose of this report is to provide the Toronto Investment Board (Board) with the following:

1. The Sinking Fund and Long Term Fund performance for the first quarter of 2026.

2. Investment Policy and Plan Compliance check for the first quarter of 2026.

RECOMMENDATIONS

The Director, Capital Markets and Treasury recommends that:

1. Toronto Investment Board receive this report for information.

FINANCIAL IMPACT

There are no financial impacts on the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting held on March 23, 2026, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the fourth quarter and full year of 2025:
Agenda Item History - 2026.IB15.4

At its meetings held on December 16 and 17, 2025 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 2025.
Agenda Item History - 2025.EX28.11

At its meetings held on December 12, 2025, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the Third Quarter of 2025:
Agenda Item History - 2025.IB14.2

At its meetings held on September 26, 2025, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the Second Quarter of 2025:
Agenda Item History - 2025.IB12.2

At its meetings held on June 24, 2025, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2025:
Agenda Item History - 2025.IB11.4

At its meetings held on June 25 and 26, 2025 City Council adopted the report City of Toronto Investment Report for the Year 2024 which provided for a review of the Investment Policy:
Agenda Item History - 2025.EX24.9

At its meetings held on March 17, 2025, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the fourth quarter and full year of 2024:
Agenda Item History - 2025.IB10.2

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)

COMMENTS

Highlights

The total performance of the Sinking Fund (SF) and Long Term Fund (LTF) as at March 31, 2026, is shown in Table 1 below:

Table 1 - Summary of Performance[1]

	Q1	1 year	2 years	3 years	Since inception
Sinking Fund	-0.3%	0.6%	4.2%	4.9%	1.9%
Benchmark	0.2%	2.5%	5.5%	5.7%	3.0%
Value added	-0.5%	-1.9%	-1.3%	-0.8%	-1.0%
Long Term Fund	-0.3%	2.6%	5.7%	6.1%	3.6%
Benchmark	0.2%	4.6%	6.8%	6.8%	4.2%
Value added	-0.4%	-2.0%	-1.1%	-0.7%	-0.6%

[1] Attachment 1B - Toronto Investment Board - Performance Monitoring Report - Q1 2026 (Aon)

Detailed market value performance information with benchmarks, attribution, and commentaries can be found in the reports prepared by the investment consultant (Aon) in Attachment 1A and 1B. These returns reflect the performance of the external investment managers only and do not include cash and other short term holdings of the Long Term Fund (LTF) and Sinking Fund (SF).

Compliance with the Investment Policy is monitored daily and reported monthly by RBC Investor Services (RBCIS) to the staff in Capital Markets. For the three-month period ending March 31, 2026, the monthly compliance reports prepared by the custodian (RBCIS) and compliance statements prepared by the investment managers have no issues or exceptions noted. These compliance reports are over 100 pages long, and should the Board wish to review this information, we will provide it to them on request. However, any exceptions noted in these compliance reports during the quarter will be provided to the Board for review.

The remainder of this report, along with Attachments 2, 3, and 4 provide further information regarding the funding, flow-of-funds, and other detailed information.

Performance Overview and Cash Flows

Sinking Fund (SF)

Activities and Balances

As of March 31, 2026, assets under external investment managers were $2.9 billion, and internally managed assets were $305.2 million for a total of $3.2 billion. Table 2 below provides a breakdown by investment manager. Internally managed assets are cash and cash equivalents, which reflect the funds set aside for further investments to be made in real assets. The cash balance is currently higher than usual due to the anticipated $300 million sinking fund repayment in June 2026. Further information on cashflows in the SF can be found in the Flow of Funds section below.

Table 2 - Breakdown of Sinking Fund by Investment Manager (Market Value) as at March 31, 2026

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**65.8%**	**$2,115.2**
Addenda	Canadian Fixed Income	35.0%	32.9%	$1,058.6
Fiera Capital (Fixed Income)	Canadian Fixed Income	35.0%	32.9%	$1,056.6
Equity		**20.0%**	**19.5%**	**$628.9**
Fiera/Oakmark/Harris	Global Equity	3.3%	3.9%	$125.8
Pier 21/CWorldWide	Global Equity	3.3%	4.1%	$130.6
Fiera Capital GEFF	Global Equity	3.3%	3.4%	$110.7
LGIM	Global Equity	10.0%	8.1%	$261.8
Real Assets		**10.0%**	**5.2%**	**$167.3**
UBS GREF	Real Asset	2.5%	2.6%	$82.4
CBRE GAF	Real Asset	2.5%	2.6%	$84.9
Short Term Fund		**0.0%**	**9.5%**	**$305.2**
Internally Managed	Cash & Equiv.	0.0%	9.5%	$305.2
TOTAL		**100.0%**	**100.0%**	**$3,216.6**

Flow of Funds - Sinking Fund

The Sinking Fund's sole purpose is for the repayment of the City's public issued debentures and is required by legislation. The next debt maturity will be a $300 million obligation in June 2026.

Attachment 3 provides more detailed information on City of Toronto debt maturities over the next few years in addition to the contributions to the Sinking Fund in 2026 and 2027. There is close to $537 million total contributions in 2026 and approximately $551 million total contribution in 2027 at the time of this report. The amount of contributions in 2027 will increase as additional debt issues are completed in 2026. Sinking Fund contributions will be accumulated in the Sinking Fund Short Term Fund and will be reviewed and distributed (re-balanced) as necessary according to the target asset mix guideline on a quarterly basis.

Another factor to consider for the Sinking Fund is the new debt (debenture) issuance. In the first quarter of 2026, the City of Toronto issued a $350 million 10-year sinking fund debenture on March 11, 2026 and a $450 million 30-year sinking fund debenture on April 17, 2026.

Table 3 - 2026 Sinking Fund Debenture Issues ($millions)

Issuance Settlement Date	Maturity Date	Size ($ millions)
March 11, 2026	June 2, 2036	$350.0
April 17, 2026	March 11, 2055	$450.0

Long Term Fund (LTF)

Activities and Balances

As of March 31, 2026, external investment managers held $6.4 billion of invested assets for the Long Term Fund (LTF). When cash balances are included, the LTF has a total balance of $6.6 billion on March 31, 2026. Internally managed assets are cash and cash equivalents, which reflect the funds set aside for further investments in real assets.

A breakdown of the balances as of March 31, 2026, for the cash and each of the external investment managers of the LTF are provided below in Table 4.

Table 4 - Breakdown of Long Term Fund by Investment Manager (Market Value) as at March 31, 2026

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**68.9%**	**$4,576.1**
Connor, Clark, & Lunn	Canadian Fixed Income	35.0%	34.3%	$2,279.2
Leith Wheeler	Canadian Fixed Income	35.0%	34.6%	$2,296.9
Equity		**20.0%**	**22.5%**	**$1,493.2**
Fiera/Oakmark/Harris	Global Equity	3.3%	3.5%	$234.8
Pier 21/CWorldWide	Global Equity	3.3%	3.9%	$258.4
Fiera Capital GEFF	Global Equity	3.3%	3.8%	$250.5
LGIM	Global Equity	10.0%	11.3%	$749.5
Real Assets		**10.0%**	**5.3%**	**$356.4**
UBS GREF	Real Asset	2.5%	2.6%	$175.0
CBRE GAF	Real Asset	2.5%	2.7%	$181.4
Short Term Fund		**0.0%**	**3.3%**	**$220.1**
Internally Managed	Cash & Equiv.	0.0%	3.3%	$220.1
TOTAL		**100.0%**	**100.0%**	**$6,645.8**

Earned Income Requirement Update

The earned income performance only considers actual earned income from interest, dividends, capital gains/losses and other realized income. It does not include unrealized capital gains which are included in market value (total return) performance. The earned income methodology is calculated for budget purposes.

The City of Toronto's Accounting Services Division (ASD) has converted their accounting and reporting under Public Sector Accounting Standards (PSAS) 3450 to a "fair value" (FV) methodology. The earned income calculation is no longer required by the ASD and will no longer be reported. Instead, the ASD has adopted a process to focus on the market value of investments. This method aligns with the "total return" (market value) review that is used by the Board.

It should be noted that for budget purposes, the earned income performance is still used and monitored.

The estimated gross earned income from LTF budgeted for in 2026 budget is approximately $227 million before expenses and may be drawn from the available investment funds for operating budget as well as interest contribution to reserve funds. As of March 31, 2026, estimated earned was approximately $43 million and show a negative variance of $14 million for budget purposes.

Flow of Funds - Long Term Fund

As reported in December 2019, $500 million of deemed excess liquidity was transferred to the LTF on November 1, 2019, from the Short Term Fund (STF). The STF is a liquidity pool of cash and cash equivalents managed by staff in the Capital Markets group and is used for operating purposes under the Chief Financial Officer and Treasurer (CFO&T). The $500 million in 2019 was allocated as per asset mix outlined in the Board approved Investment Plan.

There was an additional $500 million of projected excess available for transfer from the STF to the LTF planned for April 2020. However, due to the pandemic situation, this amount was no longer considered as excess liquidity and, as a result, was not transferred to the LTF. Staff continued to re-assess the City's liquidity position periodically and advise the CFO&T accordingly.

A total of $2 billion was transferred from STF to the LTF in four quarterly installments during 2024. The proceeds from the transfer were used to re-balance the asset mix toward the targets outlined in the Council-adopted Investment Policy as well as partially fund the new investments in real assets.

Given the City’s current liquidity position and projected cash requirement, a transfer from LTF to STF is anticipated to be required by December 2026, or earlier if necessary. Staff will continue to assess and monitor liquidity levels and will advise the CFO&T in Q3 2026 regarding the required transfer amount and timing.

Investment Policy and Plan Compliance

According to provincial regulations, the Investment Policy must be reviewed by City Council at least annually. Council last received the Investment Policy in June 2025 with the Investment Report for the Year 2024. At this meeting, there were no recommendations to update or change the policy.

The City's auditor, KPMG LLP, completed the Investment Policy Compliance audit for 2024 during 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.

Compliance to the Investment Policy is monitored daily and reported monthly by RBC Investor Services (RBCIS) to the staff in Capital Markets. For the three-month period ending March 31, 2026, the monthly compliance reports prepared by the custodian (RBCIS) and compliance statements prepared by the investment managers have no issues or exceptions noted. Detailed reports are available upon request and any noted issues or exceptions during the quarter will be reported directly to the Board at their next meeting.

CONTACT

Flaminio Carelli, Interim Director, Capital Markets and Treasury
Tel: 416-392-6302; Email: Flaminio.Carelli@toronto.ca

SIGNATURE

Flaminio Carelli
Interim Director, Capital Markets and Treasury

ATTACHMENTS

Attachment 1A - Toronto Investment Board - Discussion Guide (Aon) - Q1 2026
Attachment 1B - Toronto Investment Board - Performance Monitoring Report - Q1 2026
Attachment 2 - Historical Funding to Investment Managers (Contributions Withdrawals)
Attachment 3 - Flow of Funds (Sinking Fund)
Attachment 4 - City of Toronto Statement of Investment Policy and Procedures