TORONTO

REPORT FOR ACTION

Review of Investment Management Model for the Sinking Fund

Date: September 4, 2026
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

This report seeks authority from the Toronto Investment Board to retain an independent external investment consultant to assess the suitability of implementing an Outsourced Chief Investment Officer ("OCIO") model for the investment management of the City's Sinking Fund and, if appropriate, to evaluate the implementation approaches best suited to the City's needs. Subject to the Board's approval of the consultant's recommendations, the selected consultant would also assist with the OCIO search and selection process.

An Outsourced Chief Investment Officer (OCIO) model is an arrangement under which some or all investment management functions, including asset allocation, investment manager selection, portfolio monitoring, and risk management, are delegated to an external investment firm under a defined mandate. Under such a model, the OCIO would work collaboratively with City staff and report regularly to the Toronto Investment Board, providing investment expertise, implementation support, performance reporting, and strategic advice while enabling staff and the Board to focus on governance, oversight, and strategic direction.

Staff believe it is appropriate to assess whether an OCIO approach could enhance the management of the Sinking Fund, given the significant amount of financial obligations supported by the fund and the City's existing governance measures. Under the current legislated structure, City staff cannot be delegated authority to act as investment portfolio managers, while the Toronto Investment Board is a directional board serving in an oversight and strategic capacity. The proposed review would evaluate the potential benefits, risks, costs, governance implications, and implementation considerations of an OCIO model relative to the current investment management structure, how an OCIO could support the Board's governance and oversight responsibilities, and the development of a process to continue to monitor performance.

Staff would report back to the Toronto Investment Board with the consultant's findings and recommendations, facilitate a presentation by the consultant, and seek direction on any recommended next steps.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board authorize the Chief Financial Officer and Treasurer to retain an independent external investment consultant, through the City's procurement process, to:

- assess the suitability of an Outsourced Chief Investment Officer ("OCIO") model for the management of the City's Sinking Fund;
- evaluate potential OCIO implementation options and governance considerations; and
- if warranted, support a subsequent OCIO search and selection process.

2. The Toronto Investment Board direct staff to report back to the Board with the consultant's findings and recommendations, including any recommended next steps with respect to an OCIO search and selection process.

FINANCIAL IMPACT

The costs associated with retaining an external investment consultant to undertake the review have been provisioned for within the Toronto Investment Board’s approved 2026 Operating Budget.

DECISION HISTORY

At its meeting held on April 5, 2018, the Toronto Investment Board adopted the Investment Plan for the City's Long-Term Fund and Sinking Fund. The Investment Plan established the framework for managing the City's investment portfolios and contemplated the use of external investment managers supported by the City's investment consultant.
Agenda Item History - 2018.IB4.5

COMMENTS

Sinking Fund

The City's Sinking Fund plays a critical role in supporting the repayment of the City's debenture obligations. When the City issues sinking fund debt, annual contributions are made to the Sinking Fund and invested over the term of the debt to earn interest, of which both in total, accumulated over the term, will meet the required debt principal repayment at maturity. The annual contribution is based on a sinking fund rate, which reflects the assumed average investment rate of return established when the debt is issued.

The City issues debt with varying maturities and the applicable sinking fund actuarial rate varies depending on the term of debt issued. As a result, the Sinking Fund comprises four investment pools, representing four separate target actuarial rates, associated with debt obligations that have different time horizons, contribution schedules and thus funding requirements. Effective management of these assets requires balancing investment return objectives with liquidity needs, risk management considerations and the timing of future debt repayments. The goal is to ensure sufficient assets are available to meet debt obligations as they mature while maximizing investment returns and generate surplus funds where possible.

Given the significance of the City's outstanding debenture obligations, the Sinking Fund is of particular importance to the City's financial sustainability and credit profile. Strong investment management practices can help reduce the long-term cost of debt financing to taxpayers, while prudent risk management is essential to ensure the City can meet its repayment obligations under a wide range of market conditions.

Current Investment Management Structure for the Sinking Fund

Under the current investment management structure, the Toronto Investment Board provides oversight of the Sinking Fund's investments, supported by advice from the City's investment consultant, while City staff are responsible for administration and implementation of the Board's directives, adherence to the Council-adopted Investment Policy and the Investment Plan. The investment program is further supported by external investment managers, the investment consultant, and the custodian.

While active management occurs at the investment manager level, the Sinking Fund is not actively managed at the total portfolio level. Consequently, portfolio-wide investment decisions, asset allocation adjustments, liquidity management, and implementation decisions across asset classes are not being actively considered by a single investment manager at the total portfolio level.

Under the City's current legislative and governance framework, the Toronto Investment Board acts as a directional board with oversight and strategic responsibilities, while City staff cannot be delegated discretionary authority to act as an "agent" (investment portfolio manager). As a result, there is a gap between active management within individual investment mandates and active management at the total portfolio level, where investment decisions require consideration of the interaction between asset classes, evolving market conditions, liquidity requirements, and the timing of future debt repayments. Given the Sinking Fund's purpose of funding significant future debenture maturities, a portfolio-level investment management function with a fiduciary duty could help further enhance the alignment of investment strategy, liquidity management, and risk oversight with the Fund's long-term obligations. This approach would support a better integrated decision-making process across the entire portfolio while ensuring sufficient assets are available to meet future debt repayment requirements.

Proposed Outsourced Chief Investment Officer Model

An Outsourced Chief Investment Officer ("OCIO") model involves delegating certain investment management and implementation responsibilities to an external provider within the investment objectives, risk parameters, and governance requirements established by the Toronto Investment Board.

Depending on the implementation model adopted, an OCIO may assume responsibility for activities such as an asset mix study, investment manager selection and monitoring, portfolio construction, asset allocation implementation, rebalancing, liquidity management, risk management, and performance reporting. The Toronto Investment Board would continue to retain responsibility for establishing the overall investment plan and setting parameters to implement the Council-adopted Investment Policy for the Sinking Fund.

Under the current structure, the City retains an investment consultant to provide independent advice and support to City staff and the Toronto Investment Board on matters such as investment policy, investment planning, asset allocation, manager selection, performance monitoring, and market developments. The investment consultant serves solely in an advisory capacity and does not have fiduciary responsibility for the Sinking Fund's assets. Nor does the consultant have a mandate to proactively monitor and advise on the overall investment management of the portfolio, including asset allocation adjustments, portfolio rebalancing, liquidity management, or other portfolio-level implementation decisions.

Responsibility for implementing investment decisions currently rests with the individual external investment managers within their respective mandates. However, overall portfolio-level management authority, accountability, and fiduciary responsibility for coordinating investment decisions across asset classes are not delegated to any single party. As a result, the Sinking Fund is not actively managed on a discretionary basis at the total portfolio level.

In contrast to the current structure noted in the prior section, an OCIO is typically engaged under a fiduciary mandate and may be delegated authority to make and implement investment decisions at the total portfolio level within Board-approved objectives, risk parameters, and investment policies. In addition to overseeing individual investment mandates, an OCIO can also provide integrated management of the entire portfolio by coordinating asset allocation, liquidity management, rebalancing activities, and funding strategies across asset classes. This distinction is particularly relevant for the Sinking Fund, where investment decisions should be considered in the context of the Fund's overall liquidity and debt maturity repayment objectives.

An OCIO model may provide the benefit of integrated portfolio-level oversight across all asset classes and sinking fund obligations. In particular, it could address the current absence of a delegated portfolio-level investment management function by providing discretionary authority, within Board-approved parameters, to make tactical asset allocation, portfolio rebalancing, and liquidity management decisions as market conditions and funding requirements evolve. This could enable more timely implementation of investment decisions, enhanced coordination of liquidity and cash flow management, and a more holistic approach to balancing risk, return, and funding requirements across the entire Sinking Fund portfolio.

The OCIO would work collaboratively with City staff and report regularly to the Toronto Investment Board, providing investment expertise, implementation support, performance reporting, and strategic advice while supporting the Board's governance and oversight responsibilities. Any delegated authority would remain subject to the Board's approved investment policies, reporting requirements, and performance monitoring framework.

Proposed Review

Staff propose retaining an independent external investment consultant to assess whether an OCIO model is suitable for the City's Sinking Fund. The review would consider the unique characteristics and requirements of the Sinking Fund, including its role in supporting the repayment of the City's debenture obligations, the varying maturity profiles of the underlying debt, liquidity requirements, and governance framework. The review would assess the potential benefits, risks, costs, governance implications, and implementation considerations of an OCIO model relative to the current investment management structure.

In particular, the review would evaluate whether an OCIO could enhance portfolio-level investment management, improve alignment of investment strategy with future debt repayment requirements, strengthen liquidity management and risk oversight, and support the Toronto Investment Board and the CFO in fulfilling their respective governance and oversight responsibilities. The review would also assess appropriate governance, accountability, reporting, and performance-monitoring frameworks for an OCIO arrangement, including the development of performance objectives, benchmarks, key performance indicators, service standards, reporting requirements, and review processes to enable the Board and staff to effectively evaluate the OCIO's ongoing performance and fulfillment of its mandate.

The consultant's review would provide the Board with an independent assessment to inform any future consideration of an OCIO model. The retention of a consultant to undertake the review does not commit the City or the Toronto Investment Board to implementing an OCIO model.

Should the Board determine that an OCIO model is appropriate, the consultant would also assist with the development and execution of an OCIO search and selection process, including preparing procurement documentation, establishing evaluation criteria, assessing proponents, conducting due diligence, and providing recommendations regarding the selection of an OCIO. The consultant would also assist in developing the governance, reporting, and performance measurement framework that would be used to monitor and evaluate the OCIO following appointment.

Following completion of the review, staff would report back to the Toronto Investment Board with the consultant's findings and recommendations, including any proposed governance and performance-monitoring framework for an OCIO arrangement, facilitate a presentation by the consultant, and seek direction on any recommended next steps. Any recommendation to proceed with an OCIO model would be brought forward to the Board for consideration and approval.

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SIGNATURE

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ATTACHMENTS