REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

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

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

REASON FOR CONFIDENTIAL INFORMATION

The confidential attachments to this report contain information that involves the security of property belonging to the City of Toronto and the Toronto Investment Board, including proprietary subscription-based information that is licensed for use and may not be publicly disseminated.

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 second quarter of 2026.

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

3. Supplementary comparative information for the Board’s real estate investments.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board adopt the INREV Global Real Estate Fund Index (GREFI), as presented in Confidential Attachment 2, as supplementary comparative information for purposes of reviewing the performance of the Board’s real estate investments.

2. The Toronto Investment Board direct that Confidential Attachments 1 and 2 remain confidential in their entirety, as they contain information that involves the security of property belonging to the City or one of its agencies or corporations.

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 meetings held on June 24 and 25, 2026 City Council adopted the report City of Toronto Investment Report for the Year 2025 which provided for a review of the Investment Policy:
Agenda Item History - 2026.EX32.6

At its meetings held on June 22, 2026, the Toronto Investment Board adopted the report Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2026:
Agenda Item History - 2026.IB16.2

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

COMMENTS

Highlights

Detailed market value performance information with benchmarks, attribution, and commentaries can be found in the reports prepared by the investment consultant (Aon) in Attachment 1 and Confidential Attachment 1. Confidential Attachment 1 contains proprietary subscription-based information that is licensed for use and may not be publicly disseminated. 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 June 30, 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 and 3, provides further information regarding funding, flow of funds and other detailed information.

Real Estate Comparative Information

At its previous meeting, the Board requested that Aon, the Board's investment consultant, review additional comparative information that could be used to provide further context when reviewing the performance of the Board's real estate investments.

Aon reviewed the INREV Global Real Estate Fund Index (GREFI) and the MSCI Global Property Fund Index and identified the INREV GREFI as providing broader market coverage and being more representative of the Board's real estate portfolio.

Staff recommend that the INREV GREFI be included in future performance reporting as supplementary comparative information only. The existing benchmark used to measure the performance of the Board's real estate investments remains unchanged. Aon's analysis is provided in Confidential Attachment 2.

Performance Overview and Cash Flows

Sinking Fund (SF)

Activities and Balances

As of June 30, 2026, assets under external investment managers were $3.2 billion, and internally managed assets were $161.3 million for a total of $3.4 billion. Table 1 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 has decreased since the last quarter due to the Sinking Fund maturity in June 2026. Further information on cashflows in the SF can be found in the Flow of Funds section below.

Table 1 - Breakdown of Sinking Fund by Investment Manager (Market Value) as at June 30, 2026

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**69.2%**	**$2,328.7**
Addenda	Canadian Fixed Income	35.0%	34.7%	$1,167.2
Fiera Capital (Fixed Income)	Canadian Fixed Income	35.0%	34.5%	$1,161.5
Equity		**20.0%**	**20.9%**	**$704.6**
Fiera/Oakmark/Harris	Global Equity	3.3%	4.1%	$138.4
Pier 21/CWorldWide	Global Equity	3.3%	4.3%	$144.2
Fiera Global Focused Equity	Global Equity	3.3%	3.7%	$126.7
LGIM	Global Equity	10.0%	8.8%	$295.3
Real Assets		**10.0%**	**5.1%**	**$169.1**
UBS GREF	Real Asset	2.5%	2.5%	$82.7
CBRE GAF	Real Asset	2.5%	2.6%	$86.4
Total Externally Managed				**$3,202.4**
Short Term Fund		**0.0%**	**4.8%**	**$161.3**
Internally Managed	Cash & Equiv.	0.0%	4.8%	$161.3
TOTAL		**100.0%**	**100.0%**	**$3,363.7**

Flow of Funds - Sinking Fund

The Sinking Fund's sole purpose is to provide for the repayment of the City's publicly issued debentures, as required by legislation. There was a debt maturity in June 2026 for $300 million. The next debt maturity will be in June 2027 of two debentures for $700 million in total.

Attachment 2 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. Total contributions are $537 million in 2026 and approximately $557 million in 2027 at the time of this report. 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.

During the first two quarters of 2026, the City issued three sinking fund debentures totalling $1.1 billion, as summarized in Table 2 below.

Table 2 - 2026 Sinking Fund Debenture Issues ($millions)

Issuance Settlement Date	Maturity Date	Size ($ millions)	Term
March 11, 2026	June 2, 2036	$350.0	10-year
April 17, 2026	March 11, 2055	$450.0	30-year
June 24, 2026	June 24, 2056	$300.0	30-year

Long Term Fund (LTF)

Activities and Balances

As of June 30, 2026, external investment managers held $6.7 billion of invested assets for the Long Term Fund (LTF). When cash balances are included, the LTF has a total balance of $6.9 billion on June 30, 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 June 30, 2026, for the cash and each of the external investment managers of the LTF is provided below in Table 3.

Table 3 - Breakdown of Long Term Fund by Investment Manager (Market Value) as at June 30, 2026

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Fixed Income (Canadian)		**70.0%**	**67.4%**	**$4,673.7**

Asset Class / Investment Manager	Investment Mandate	Target Mix %	Actual Mix %	Balance ($ millions)
Connor, Clark, & Lunn	Canadian Fixed Income	35.0%	33.6%	$2,328.3
Leith Wheeler	Canadian Fixed Income	35.0%	33.8%	$2,345.4
Equity		**20.0%**	**24.2%**	**$1,675.8**
Fiera/Oakmark/Harris	Global Equity	3.3%	3.7%	$258.4
Pier 21/CWorldWide	Global Equity	3.3%	4.1%	$285.3
Fiera Capital GEFF	Global Equity	3.3%	4.1%	$286.6
LGIM	Global Equity	10.0%	12.3%	$845.5
Real Assets		**10.0%**	**5.2%**	**$360.2**
UBS GREF	Real Asset	2.5%	2.5%	$175.8
CBRE GAF	Real Asset	2.5%	2.7%	$184.4
Total Externally Managed				**$6,709.7**
Short Term Fund		**0.0%**	**3.2%**	**$221.8**
Internally Managed	Cash & Equiv.	0.0%	3.2%	$221.8
TOTAL		**100.0%**	**100.0%**	**$6,931.5**

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 the LTF **budgeted for 2026** is approximately $227 million before expenses and may be drawn from the available investment funds for the operating budget as well as interest contribution to reserve funds. As of June 30, 2026, estimated earnings were approximately $96 million, resulting in a negative variance of $17 million for budget purposes.

Flow of Funds - Long Term Fund

Since November 2019, five transfers totalling $2.5 billion have been made from the Short Term Fund (STF) to the Long Term Fund (LTF), consisting of a $500 million transfer in 2019 and four $500 million transfers in 2024, as outlined in Attachment 3.

Given the City's current liquidity position and projected cash requirements, a transfer from the LTF to the STF is anticipated to be required by November 2026. Further details are provided in the TIB report titled Investment Plan Update. Staff will continue to monitor liquidity levels and advise the CFO&T 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 2026 with the Investment Report for the Year 2025. At this meeting, there were no recommendations to update or change the policy.

The City's auditor, KPMG LLP, completed the 2026 Investment Policy Compliance audit and reported that no issues were noted.

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 June 30, 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

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SIGNATURE

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Director, Capital Markets and Treasury

ATTACHMENTS

Attachment 1 - Toronto Investment Board - Aon Performance Review - Q2 2026
Attachment 2 - Flow of Funds
Attachment 3 - Historical Funding to Investment Managers (Contributions Withdrawals)
Confidential Attachment 1 - Toronto Investment Board - Aon Performance Analysis and Discussion Guide - Q2 2026
Confidential Attachment 2 - TIB - Secondary Benchmark for Real Estate