REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Investment Plan Update

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 involve the security of property belonging to the City of Toronto and the Toronto Investment Board.

SUMMARY

This report presents an updated Investment Plan for the Toronto Investment Board's consideration and seeks authority for the Chief Financial Officer and Treasurer (CFO&T) to retain Aon to undertake an Asset Liability Management (ALM) Study in 2026.

In 2024, funds that were identified as excess liquidity in working capital were transferred to the Long-Term Fund for long-term investment. Since then, the City's liquidity profile and projected cash flow requirements have evolved significantly. This has been a result of changes in capital spending, decreases in anticipated Development Charge and Municipal Land Transfer Tax revenues, and the changes in timing and use of reserve funds to support the City's operating and capital requirements.

Accordingly, and as permitted under Section 6.3 of the Council-adopted Investment Policy, it is proposed that the Chief Financial Officer & Treasurer (CFO&T) segregate a portion of the Long-Term Fund into the Short-Term Fund portion of the Long-Term Fund (LTF-STF), which will be based on forecasted City liquidity requirements. The segregated LTF-STF would be invested in accordance with the Council-adopted Investment Policy pertaining to the Short-Term Fund and designated to meet anticipated City cash flow requirements.

This approach is consistent with the Flow of Funds procedures outlined in the Investment Policy and provides alignment between the City's evolving liquidity requirements and the investment of Long-Term Fund assets.

The proposed changes in this report are intended to enhance the City's liquidity management framework while maintaining the long-term investment strategy and strategic asset of the Long-Term Fund.

RECOMMENDATIONS

The Director, Capital Markets and Treasury recommends that:

1. The Toronto Investment Board approve the updated Investment Plan, as set out in Attachment 1.

2. The Toronto Investment Board authorize the Chief Financial Officer and Treasurer and designate appropriate staff, to transfer funds from the Long-Term Fund's Short-Term Fund (LTF-STF) to the City's Short-Term Fund, as required to support liquidity requirements, up to the lesser of $2.0 billion or the available balance within the LTF-STF.

3. The Toronto Investment Board authorize the Chief Financial Officer and Treasurer, and designate appropriate staff, to take the necessary actions to implement the Investment Plan and meet the City's liquidity requirements.

4. The Toronto Investment Board direct the Chief Financial Officer and Treasurer to provide quarterly updates to the Board on the City's liquidity requirements, utilization of the Short-Term Fund, and progress in implementing the Investment Plan.

5. The Toronto Investment Board authorize the Chief Financial Officer and Treasurer to negotiate and enter into a non-competitive agreement with Aon to undertake an Asset Liability Management Study of the Long-Term Fund.

6. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains information that involves the security of property belonging to the City or one of its agencies or corporations.

FINANCIAL IMPACT

Costs associated with the Asset Liability Management Study has been provisioned within the Toronto Investment Board approved 2026 operating budget. No additional budget authority is required.

DECISION HISTORY

At its meeting on July 8, 2020, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the

Toronto Investment Board on December 4, 2019. The Board approved an updated Investment Plan outlined in Attachment 1 to the report, which discloses the name of the external equity manager successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB7.4

At its meeting on December 4, 2019, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on September 25, 2019. The Board approved an updated Investment Plan outlined in Attachment 2 to the report, which discloses the names of the external equity managers successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.5

At its meeting on June 12, 2019, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on April 11, 2019. The board approved the updated Investment Plan outlined in Attachment 1 to the report, which discloses the names of the external fixed income managers successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB3.3

At its meeting on June 25, 2018, the Toronto Investment Board received a report and presentation from staff and the investment consultant regarding the selection of investment managers. The Board awarded the contracts for investment management services to the firms listed in Confidential Attachment 1 to the report.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB6.2

At its meeting held on April 5, 2018, the Toronto Investment Board approved their Investment Plan which included the asset categories and transition plan. The transition plan outlines that the Investment Consultant, in conjunction with City staff, will develop a list of investment managers for the Board's consideration.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB4.5

COMMENTS

Investment Plan Update

The Investment Policy establishes the strategic framework for the City's investment funds, including investment objectives, permitted investments, risk parameters and strategic asset allocation. The Investment Plan provides the implementation framework through which the Board's strategy is put into operation.

The current Investment Plan requires the Board to review and update the Plan at least once annually. Staff have reviewed the current Investment Plan and do not recommend changes to the strategic asset mix at this time. Instead, staff propose amendments to the Investment Plan to strengthen the operational liquidity framework supporting the Long-Term Fund.

Background and Evolving Liquidity Requirements

Since 2024, $2 billion of deemed excess liquidity was transferred to the Long-Term Fund from the City's Short Term Fund For long-term investment purposes, and more than $500 million in budgeted investment income contributions for operating was retained in the Long-Term Fund since 2018. Since that time, the City's cash flow requirements have evolved significantly due to changes in capital spending, anticipated decreases in Development Charge and Municipal Land Transfer Tax revenues, and the changes in timing and use of reserve funds to support operating and capital needs. As a result, working capital balances are projected to require additional funding over the forecast period to 2027.

While City staff are implementing a range of liquidity management measures to address these requirements, the projections indicate a need to reposition a portion of the Long-Term Fund to support the City's anticipated short term cash flow needs. A key objective is to ensure sufficient liquidity is available to meet operational requirements without requiring unplanned sales of long-term investments or disrupting the implementation of the Board's investment strategy.

Short-Term Fund within the Long-Term Fund

As permitted under the Flows of Funds section (Section 6.3) of the Council-approved Investment Policy, the proposed recommendations will permit the CFO&T to transfer up to $2 billion from the Long-Term Fund to support the City's working capital liquidity over a two-year period. Liquidity needs are expected to be front-loaded, with a majority of the funds anticipated to be needed between November 2026 and March 2027.

To facilitate this, up to $2 billion will be allocated to the existing Short-Term Fund within the Long-Term Fund (LTF-STF), which serves as the fund's liquidity and transition sleeve. The full implementation details is included in the updated Investment Plan in contained in Attachment 1 of this report. Note that under the Long-Term Fund structure, a portion of the fund is managed within the LTF-STF based on forecast liquidity requirements and funds earmarked for future transition into long-term investment assets.

Once the LTF-STF is funded, the CFO&T may then transfer funds from the LTF-STF to the City's Short-Term Fund (STF), to meet the City's liquidity needs, up to the lesser of $2 billion or the available balance within the LTF-STF. Under the proposed recommendations the CFO&T will provide quarterly updates to the Board at its meetings regarding liquidity requirements, utilization of the LTF-STF and implementation progress.

The proposed recommendations would result in the following Long Term Fund structure:

- A Stable Long-Term Fund of approximately $4.7 billion (based on current market values) and
- An LTF-STF with a capacity of up to $2 billion.

Assets allocated to the LTF-STF would be excluded from the calculation of the Long-Term Fund's strategic asset mix. This structure would allow the portion of the Long-Term Fund designated for near-term liquidity needs to be managed according to its shorter-term objectives, while the remaining Long-Term Fund assets continue to be managed in accordance with the Board's long-term investment strategy and strategic asset allocation.

The $2 billion amount represents the maximum transfer capacity rather than a required ongoing balance. The appropriate balance within the LTF-STF will vary over time and will be determined based on cash flow forecasts, portfolio liquidity considerations, and the findings of the Asset Liability Management (ALM) Study.

During the implementation period, which is expected to span approximately two years, portfolio asset mix exposures may temporarily deviate from the strategic target allocations outlined in the Investment Plan as the portfolio transition occurs. Asset mix limits will continue to be managed in accordance with the requirements of the Investment Policy.

Investment Plan Update

The proposed updated Investment Plan is attached as Attachment 1 to this report. The proposed amendments intend to:

- Incorporate liquidity implementation details, including the funding and transfer mechanisms to meet the deemed liquidity requirements.
- Update the transition plan to reflect the ongoing consultant-led reviews and studies, including:
  - Asset Liability Management (ALM) Study;
  - Global Equities Strategy and Manager Study (included as a separate report at this meeting); and
  - Investment Management of Sinking Funds Study (included as a separate report at this meeting).

The proposed updates are administrative and implementation-focused in nature and do not alter the strategic asset mix already established in the Investment Plan.

Asset Liability Management Study

Given the City's projected cash flow requirements have changed since the time it was determined that an ALM Study should be completed in 2027, discussions with Aon now indicate that it is beneficial to accelerate the ALM Study for the Long Term Fund to the fourth quarter of 2026.

The study will evaluate cash flow scenarios and assess the sustainability and appropriateness of the current investment strategy under a range of potential conditions. Potential outcomes may include revised asset mix recommendations, portfolio positioning or rebalancing recommendations, and proposed amendments to the Investment Policy and/or Investment Plan.

The accelerated study will provide the Board with an updated assessment of the relationship between the City's liabilities, cash flow requirements and Long-Term Fund investment strategy. The proposed scope and fee for the study is detailed in Confidential Attachment 1 to this report. After the study is complete, staff will report Aon's findings and include any recommended changes for the Board's consideration.

Relationship to Ongoing Investment Initiatives (Infrastructure and Global Equity Mandates)

The updated liquidity and Flow of Funds implementation plan will align asset allocation and funding decisions for the Infrastructure and Global Equities mandates with the findings of the ALM Study and Global Equities Strategy and Manager Study.

Future investment decisions will be assessed based on the Long-Term Fund assets available for long-term investment, after taking into account the City's liquidity needs. The proposed approach is not intended to change the strategic asset allocation of the Long-Term Fund. Rather, it aligns a portion of the Long-Term Fund with the City's anticipated shorter-term cash flow requirements.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Toronto Investment Board - Investment Plan – Long-Term and Sinking Fund Assets
Confidential Attachment 1 - Asset Liability Management Study - Engagement Letter