

Toronto Atmospheric Fund Statement of Investment Objectives, Policies and Procedures

(City Council on December 14, 15 and 16, 1999, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends the adoption of the report (December 7, 1999) from the Chief Financial Officer and Treasurer subject to:

- (A) amending Recommendation No. (2) by adding thereto the following words, “to provide that the TAF Board can direct the City Chief Financial Officer and Treasurer on the investment of the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29 and”, after the words “Toronto Atmospheric Fund Act, 1999”, so that Recommendation No. (2) now reads as follows:**

“(2) the Ontario Legislature be requested to amend the Toronto Atmospheric Fund Act, 1992 to provide that the TAF Board can direct the City Chief Financial Officer and Treasurer on the investment of the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29 and to provide that the TAF Board can invest the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29, i.e., Policy B in the TAF report, which permits up to 50 percent of the portfolio to be invested in equities;”; and

- (B) adding thereto the following new Recommendation No. (6):**

“(6) that Council authorize the indemnification of the TAF Board (by the City) with respect to the standard of care set out in Section 27 of the Trustee Act and the City’s investment of the TAF funds;”, so that the Recommendations embodied in the aforementioned report now reads as follows:

“(1) Council direct the Chief Financial Officer and Treasurer to diversify the Toronto Atmospheric Fund’s portfolio to the extent permitted under the Trustee Act pending implementation of Recommendation No. (2) i.e, Policy A as contained in the report from the Executive Director, TAF dated November 23, 1999, entitled “TAF Board’s ‘Statement of Investment Objectives, Policies and Procedures” and continue to manage the short-term and fixed-income portions of TAF’s investment portfolio in accordance with TAF’s approved investment policy;

(2) the Ontario Legislature be requested to amend the Toronto Atmospheric Fund Act, 1992 to provide that the TAF Board can direct the City Chief Financial Officer and Treasurer on the investment of the TAF funds in the manner set out in the

new Trustee Act, Sections 27 to 29 and to provide that the TAF Board can invest the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29, i.e., Policy B in the TAF report, which permits up to 50 percent of the portfolio to be invested in equities;

- (3) TAF's Investment Committee consider this arrangement in conjunction with its annual investment review and report to the TAF Board;**
- (4) the Chief Financial Officer and Treasurer be represented on TAF's Investment Committee;**
- (5) the Chief Financial Officer and Treasurer be authorized to engage the services of an external funds manager to invest the equity portion of the portfolio; and**
- (6) that Council authorize the indemnification of the TAF Board (by the City) with respect to the standard of care set out in Section 27 of the Trustee Act and the City's investment of the TAF funds;"**

The Policy and Finance Committee submits the following report (December 7, 1999) from the Chief Financial Officer and Treasurer:

Purpose:

To review and comment on the TAF Board's report "Statement of Investment Objectives, Policies and Procedures" dated November 23, 1999.

Financial Implications and Impact Statement:

It is anticipated that the changes proposed to TAF's investment policies would result in future investment returns that would exceed the rate of inflation (consumer price index) by 3.00 percent as measured over a four year moving average horizon.

Recommendations:

It is recommended that:

- (1) Council direct the Chief Financial Officer and Treasurer to diversify the Toronto Atmospheric Fund's portfolio to the extent permitted under the *Trustee Act* pending implementation of Recommendation 2, i.e. Policy A as contained in the report from the Executive Director, TAF dated November 23, 1999 entitled "TAF Board's 'Statement of Investment Objectives, Policies and Procedures'" and continue to manage the short-term

and fixed- income portions of TAF's investment portfolio in accordance with TAF's approved investment policy;

- (2) the Ontario Legislature be requested to amend the *Toronto Atmospheric Fund Act, 1992*, to provide that the TAF Board can invest the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29, i.e. Policy B in the TAF report, which permits up to 50 percent of the portfolio to be invested in equities;
- (3) TAF's Investment Committee consider this arrangement in conjunction with its annual investment review and report to the TAF Board;
- (4) the Chief Financial Officer and Treasurer be represented on TAF's Investment Committee; and
- (5) the Chief Financial Officer and Treasurer be authorized to engage the services of an external funds manager to invest the equity portion of the portfolio.

Background:

At its meeting held on October 26, 1999, Council referred Clause 4 of Report No. 6 of the Audit Committee "Toronto Atmospheric Fund – Investment of Funds and Changes to the Trustee Act" to the Policy and Finance Committee. In response to this report, the TAF Board has submitted a report "Statement of Investment Objectives, Policies and Procedures" that is being considered by Policy and Finance Committee at its meeting to be held on December 7, 1999.

Comments:

In compliance with the *Toronto Atmospheric Fund Act 1992*, the Chief Financial Officer and Treasurer has managed the investments of TAF in accordance with the City's investment policy as approved by Council. The objectives continue to be the safety of principal and the maintenance of a high level of liquidity in order to provide TAF with the financial flexibility needed to achieve its goals as defined by its mandate. However, with an expanded role coupled with recent changes to the provincial Trustee Act compelling trustees of organizations to adopt prudent investment policies, it is viewed as appropriate that the TAF board adopt its own investment policy that would respond to these challenges.

As a corporation, TAF is not subject to the requirements of the *Municipal Act* and can utilize a wider range of investment vehicles such as equities that are currently not available to the City. In recognition of this opportunity to enhance the rate of return over a longer term, TAF formed an ad hoc Investment Sub-Committee to draft an investment policy that was approved by its Board on November 22, 1999. The Committee, chaired by Councillor Robert Davis, comprised of seven additional members that included Finance Department representation from Alan Shultz, Director of Accounting Services and Martin Willschick, Manager of Treasury Services.

The Chief Financial Officer and Treasurer endorses TAF's investment policy as contained in Schedule A of their November 23, 1999 report with an amendment requesting that the Finance

Department continue to manage the short-term and fixed income portions in accordance with TAF's asset mix and investment policies with an annual review to be undertaken by TAF's Investment Committee. The City does not currently have expertise or experience in the management of an in-house equity portfolio but is able to utilize and monitor an external funds manager on behalf of TAF.

The Finance Department manages approximately \$3 billion in short-term and fixed income securities and have achieved investment returns in 1998 that have exceeded established benchmarks and are forecasting similar performance for 1999. In addition, the City does not currently charge a management fee to its boards, agencies or commissions for providing portfolio management services. The Finance Department has the staff and resources that can provide a positive contribution to investment performance through the implementation of TAF's investment policies in the bond and money markets.

The City is considered to be an experienced and knowledgeable participant in global capital markets through its management of a \$3 billion portfolio. Given that two Finance Department staff were members of TAF's ad hoc Investment Committee, it is felt that the Chief Financial Officer and Treasurer should continue its contribution to TAF's ongoing investment management by being represented on the permanent Investment Committee that is being recommended in Schedule A of TAF's report. Feedback from the ad hoc committee regarding Finance Department's contribution was very positive and it is felt that a continuing relationship will benefit both parties.

Conclusions:

Without an approved investment policy, it is difficult for TAF to earn an appropriate rate on return on its investment portfolio. The Chief Financial Officer and Treasurer supports the TAF's Board "Statement of Investment Objectives, Polices and Procedures" and would recommend that the City continue to manage TAF's short-term and fixed income investments in accordance with this policy, reporting on an annual basis to the TAF Board. The Chief Financial Officer and Treasurer believes that representation on the TAF Investment Committee will provide an ongoing relationship that will assist TAF in achieving its investment objectives.

Contact:

Len Brittain, Director of Treasury and Financial Services 392-5380, fax 392-4555
Martin Willschick, Manager of Treasury Services 392-8072 , fax 392-4555

The Policy and Finance Committee also submits the following joint report (October 25, 1999) from the City Solicitor and the Chief Financial Officer and Treasurer:

Purpose:

To respond to a request from the Audit Committee on the investment of funds held for the Toronto Atmospheric Fund ("TAF") and recent changes to the Trustee Act.

Funding Sources, Financial Implications and Impact Statement:

N/A

Recommendation:

It is recommended that if Council wishes to broaden the types of investments for the Toronto Atmospheric Fund that the City manages, then the Legislature of the Province of Ontario should be requested to make one or more of the amendments to the Toronto Atmospheric Fund Act, 1992 set out in the conclusion of this report.

Council Reference/Background/History:

The Audit Committee, at its meeting of September 27, 1999, considered the joint report of the City Auditor and the City Solicitor which addressed, in part, "the legal status of the Toronto Atmospheric Fund and its relationship with the City, particularly with respect to the Fund's \$24 million in assets and the City's obligations and abilities to make decisions respecting the Fund". Recommendation No. (6) of that report is that "the Toronto Atmospheric Fund Board obtain City Council approval for any proposed changes to the investment of TAF funds as well as for any requests to amend the Trustee Act in this regard;". The Audit Committee requested "the City Solicitor and the Chief Financial Officer and Treasurer to report further to Council, on October 26, 1999, on Recommendation No. (6) contained in the report (September 17, 1999) from the City Auditor and the City Solicitor, including any legislative amendments necessary to enact the TAF proposal respecting investment of funds".

Comments and/or Discussion and/or Justification:

Section 6 of the Toronto Atmospheric Fund Act, 1992 provides as follows:

- “6(1) The board of directors shall give the money of the Fund that is not immediately required for its objects to the treasurer of the City to hold in his or her care and custody.
- (2) The treasurer of the City shall establish and maintain a separate reserve fund for the money received from the board of directors.
- (3) The treasurer of the City may invest the money in the reserve fund in such securities as are authorized under the Trustee Act for trustees. The earnings derived from the investment of the money form part of the reserve fund.
- (4) At the request of the board of directors, the treasurer of the City shall transfer to the Fund from the reserve such money as the board of directors requires to carry out the objects of the Fund.”

The investments permitted under Section 26 of the Trustee Act (prior to its recent amendment) were government and municipal securities, first mortgages, Canada subsidy bonds, loan corporation debentures, trust corporation guaranteed investments, International Bank for

Reconstruction and Development instruments, bank instruments, and credit union term deposits. Under Section 27 of the Trustee Act there was a further ability to invest up to 35 percent of the TAF funds in other classes of investments, including corporate bonds and debentures, preferred and common shares, provided that the “investment is in other respects reasonable and proper” and in accordance with other parts of Section 27.

Section 16 of Schedule “B” to the Red Tape Reduction Act, 1998 was proclaimed in effect July 1, 1999. Section 16 contained certain amendments to the Trustee Act including the repeal of Sections 26 through 34 and the replacement of them. Those sections deal with eligible investments under the Trustee Act. In particular, Section 26 now provides:

“26. If a provision of another Act or the regulations under another Act authorizes money or other property to be invested in property in which a trustee is authorized to invest and the provision came into force before section 16 of Schedule B of the Red Tape Reduction Act, 1998, the provision shall be deemed to authorize investment in the property in which a trustee could invest immediately before the coming into force of section 16 of Schedule B of the Red Tape Reduction Act, 1998.”

There is some ambiguity in the new Sections 27 through 29 which replace the earlier provisions of the Trustee Act, which allowed for certain additional types of investments. Subsections 27(1), (2), (5) and (6), in particular, seem to be somewhat incongruous with the new Section 26, in that they deal with the standard of care which must be used by trustees when making investments, allow for the investment in any form of property in which a prudent investor might invest, set out a number of criteria in planning the investment of the trust property, and require diversification of the investments to meet requirements of the trust and general market conditions.

While it appears that the intent of the legislation was to set up two investment tracks, i.e. one falling under the previous investment restrictions, and the other allowing the freedom to invest in a wider range of investment vehicles, the repeal of former sections 27 to 34 of the Trustee Act make it unclear whether all of these former sections would still apply so the full effect of the deemed continuation of permitted investments under the new Section 26 is achieved.

Under Sections 8, 9, 10, 12, 13 and 15 of Schedule B of the Red Tape Reduction Act, 1998, the trustee investment provisions of the Law Society Act, the McMichael Canadian Art Collection Act, the Ontario Heritage Act, the Public Accountancy Act, the Public Guardian and Trustee Act, and the Science North Act, respectively, have been specifically amended to permit the wider range of investments permitted under the new Sections 27 to 29 of the Trustee Act (i.e. ...Sections 27 to 29 apply with necessary modifications to those investments). Given that those specific changes were made seems to support the view that the investment powers of the City under the Toronto Atmospheric Fund Act, 1992 have not been changed by the recent amendments to the Trustee Act. Counsel for the Office of the Public Guardian and Trustee has advised TAF of their position that the Section 26 amendments to the Trustee Act apply to the Toronto Atmospheric Fund Act, 1992 (i.e., to maintain the status quo).

TAF’s solicitor, Clifford Goldfarb (of the law firm Farano, Green) is of the view that the legislation should be interpreted to allow for investments from the list of the former Section 26,

provided that they are done in accordance with the new standard of care contained in and to the extent required under the new Section 27. He states that failure to invest as broadly as required would result in potential liability to the TAF Board of Directors. Currently the City Treasurer invests the TAF funds in accordance with the City's investment policy, which does not exploit the full range of potential investments under the Section 26 Trustee Act list of eligible investments. The City Treasurer has also not made its investment decisions respecting the TAF funds subject to TAF Board direction or approval, based on the wording of the Toronto Atmospheric Act, 1992. TAF's solicitor is concerned that the TAF Board, rather than the City, would be subject to potential liability if a claim were brought against TAF for not generating an adequate return on its investments to fund more projects, and believes that the City should indemnify TAF if the City takes the position that the City has been delegated the authority for investing TAF funds. Alternatively, he is of the view that the City should seek amendments to the Toronto Atmospheric Fund Act, 1992, which would clarify that the corporate power, authority and responsibility of the TAF Board [as set out in Section 23 of the Corporations Act, and particularly ss. 23(1)(t).to invest and deal with the money of the company not immediately required for its objects in such manner as may be determined..] has not been given to the City with respect to investment of the TAF funds under Section 6 of the Toronto Atmospheric Fund Act, 1992. It points to the tension between TAF's status as a statutory corporation, subject to certain Municipal Act (and Regulation) constraints.

If Council is of the view that it wishes to expand the scope of TAF's investment powers, or to allow TAF to hold the principal of the TAF grant (approximately \$24 million), so that it can be invested in more diverse instruments, or to provide that the TAF Board has authority to invest the TAF funds rather than the City Treasurer on behalf of the City, or to provide that the TAF Board has the authority to direct the City Treasurer on how the TAF funds are invested, the City could request that the Legislature amend the Toronto Atmospheric Fund Act, 1992, to give effect to any one or more of these propositions. It is our opinion that the investment power under the Toronto Atmospheric Fund Act, 1992 was never given to the TAF Board and is vested in the City, under the direction of the City Treasurer. However, in light of the issues raised by TAF's solicitor with respect to the recent amendments to the Trustee Act, the City could either seek clarification by way of legislative amendment or, alternatively, the City could provide the TAF Board with an indemnification with respect to the standard of care for investing set out in Section 27 of the Trustee Act for those TAF funds which the City invests on TAF's behalf.

In response to a memo dated March 12, 1999 from TAF's solicitor to the TAF Board on a proposed third party TAF investment portfolio manager, one of the City Treasurer's recommendations was that: "The Toronto Atmospheric Fund maintain its current relationship with the City of Toronto for the investing and managing of its present investment base." In the absence of an investment policy approved by Council for the TAF funds, the City Treasurer continues to invest the funds to maximize the rate of return within the parameters of safety of principle and maintaining a high degree of liquidity.

In the event that Council adopts the change set out in A(1) of the conclusion to this report, the TAF Board could be requested to develop an investment policy that defines their objectives regarding liquidity, performance and asset mix as well as their risk tolerance. That recommended investment policy would then be approved by Council so that the City Treasurer could invest the TAF funds in a manner that is consistent with the policy to achieve TAF's

investment objectives. If the policy includes investments in assets that are not currently being managed by the City such as equities or corporate bonds, the Treasurer will endeavour to identify an appropriate external fund manager in conjunction with the TAF Board and monitor and report on their performance on a quarterly basis, and the external fund manager's service fees would be deducted from the annual income available for TAF's use. The adoption of the change set out in A(1) below is the Treasurer's preference.

Conclusions:

- A. If Council wishes to make changes to the manner in which the TAF funds are currently invested, Council can:
- (1) Direct the City Treasurer to diversify the TAF funds portfolio, to the extent permitted under the Trustee Act (i.e. what was permitted prior to the amendment of the Trustee Act); or,
 - (2) Request that the Ontario Legislature amend the Toronto Atmospheric Fund Act, 1992, to provide that the City Treasurer can invest the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29; or,
 - (3) Request that the Ontario Legislature amend the Toronto Atmospheric Fund Act, 1992, to provide that the TAF Board can invest the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29; or,
 - (4) Request that the Ontario Legislature amend the Toronto Atmospheric Fund Act, 1992, to provide that the TAF Board can direct the City Treasurer on the investment of the TAF funds in the manner set out in the new Trustee Act, Sections 27 to 29.

OR

- B. Council can direct the City Treasurer to maintain the status quo.
- C. If any one of Recommendations A(1), A(2) or B are adopted, Council may wish to either:
- (1) Authorize the indemnification of the TAF Board (by the City) with respect to the standard of care set out in Section 27 of the Trustee Act and the City's investment of the TAF funds; or
 - (2) Request that the Ontario Legislature amend the Toronto Atmospheric Fund Act, 1992, to exempt the TAF Board from the standard of care set out in Section 27 of the Trustee Act with respect to the investment of the TAF funds by the City.

Contact Names:

L. Searles-Kelly, Solicitor, 392-7240
Al Shultz, Director of Accounting Services, 397-5240

The Policy and Finance Committee also submits the following report (November 23, 1999) from the Executive Director, Toronto Atmospheric Fund (TAF):

Purpose:

The purpose of this report is to seek approval of a “Statement of Investment Objectives, Policies and Procedures” adopted by the TAF Board November 22, 1999 (Appendix A).

This item is related to the report co-authored by H.W.O. Doyle, City Solicitor, and Wanda Liczyk, Chief Financial Officer and Treasurer, dated October 25, entitled “Toronto Atmospheric Fund - Investment of Funds and Changes to the *Trustee Act* - Audit Committee Report No. 6, Clause 4”, recently referred back to the Committee by Council.

Funding Sources, Financial Implications and Impact Statement:

Council approval of TAF’s Statement would result in changes in the investment of TAF’s \$26 million assets that will lead, the TAF Board believes, to more prudent management of those assets. TAF would then aim to increase the real value of its assets while maintaining grants payout to the City and community groups at the rate of 4 - 5 percent annually. There will be a positive impact on the City’s initiatives to improve air quality and reduce greenhouse gas emissions, since more funds will likely be available over time to grant to the City, its agencies, board, and commissions. (In 1999, TAF devoted \$257,000.00 or 58 percent of its grants budget to projects undertaken by or in cooperation with the City, its ABCs, and the Toronto District School Boards.)

Recommendation:

It is recommended that City Council be requested to approve TAF’s “Statement of Investment Objectives, Policies and Procedures”.

Background:

The TAF is an agency of the City of Toronto with a \$26 million asset fund to support local initiatives, both undertaken by the City Corporation and community organizations, that will enable the city to reduce greenhouse gas emissions from 1990 levels by 20 percent by 2005. The fund originated in 1992 from proceeds derived from the sale of municipal property.

The TAF’s investment policies originated in 1993 in the former City of Toronto at a time when the TAF had no staff, and its Board met irregularly. At its inception, therefore, TAF depended on City staff to manage its investments.

Since then, the City has managed the TAF’s assets primarily with the dual aims of:

- (a) preserving safety of capital, and
- (b) maintaining liquidity.

In 1997, the TAF Board added a third objective, namely, to maintain the value of the asset fund in line with the Canadian Consumer Price Index (CPI), which was endorsed by the former City of Toronto Council. Presently, the TAF's assets are invested as follows:

Principal Asset Type	Average Amount	Portfolio Yield	Share
	Cash	nominal	nominal
Fixed Income			
Short-term	\$15,363,000	4.77 percent	60 percent
Bonds and coupons	\$2,350,000	5.92 percent	9 percent
Loans			
City	\$7,913,729	8.76 percent	30 percent
Community	\$100,000	8.4 percent	0.4 percent
Equities	\$0	0 percent	0 percent
Total	\$25,726,729	100 percent	

Several developments have compelled the TAF Board to re-examine the present investment policy:

- (1) Since amalgamation, the TAF has been given a new mandate by Council:
 - (a) to finance projects throughout the new city;
 - (b) to increase funding of City projects.
- (2) At the same time its mandate has expanded, TAF's financial status has deteriorated due in part to:
 - (a) a long-term decline in short-term interest rates, impacting 60 percent of TAF's assets;
 - (b) an increase in inflation to 2.6 percent in 1999, eroding the real value of TAF's assets over time.
- (3) Amendments to the Provincial *Trustee Act* (which took effect July, 1999) place more responsibility on the trustees of organizations such as TAF to adopt prudent investment policies. Hence, TAF's Board of Directors:
 - (a) is now expected to take a professional approach to managing assets, such as retaining an investment advisor to provide carefully documented investment recommendations to the Board.
 - (b) may be responsible for lost income that might have been earned through more creative investment choices;

As a result, at its May 14, 1999 meeting, the TAF Board of Directors re-examined its investment policies and adopted the strategy recommendations contained in the joint report from Mr. Philip Jessup, Executive Director, TAF, and Mr. Alan Shultz, Director of Accounting Services, City of Toronto, as follows:

- (a) adopt an investment strategy that permits an annual payout equivalent to 4-5 percent of its capital base, aiming to average 4.5 percent;
- (b) adopt a long-term investment strategy that seeks to increase the real value of TAF's assets (net of inflation);
- (c) adopt multiple and complementary investment managers, whose selection criteria would include their approach to ethical investing, as an option to single source fiduciary management, in order to lower the risk of asset diversification and to encourage competition in performance;
- (d) develop a new program-related investment vehicle, such as the energy performance contract, to replace loans for energy efficiency retrofits in order to earn a higher rate of return;
- (e) establish an *ad hoc* committee of the Board, composed of TAF's Treasurer, another Board member, the Executive Director, a representative from the Auditor's Office, and one or two private investment specialists; and
- (f) require the *ad hoc* committee to review options of diversifying TAF's assets (other than single source management) including, among others, ethical criteria, and report back to the Board in September, 1999.

The TAF Board henceforth established the *Ad Hoc* Investment Committee at its meeting October 29, 1999 in order to suggest specific objectives and policies to the TAF Board to implement the above-mentioned strategies. The Committee, chaired by Councillor Rob Davis, includes the following members:

- (1) Councillor Robert Davis, Chair, City of Toronto, TAF Board member;
- (2) Donald M. Cooper, Chair, Queens University Investment Committee
- (3) Marion Fraser, Director of Marketing, Enbridge Consumers Gas, TAF Board member;
- (4) Philip Jessup, Executive Director, Toronto Atmospheric Fund;
- (5) Alan C. Shultz, Director of Accounting Services, City of Toronto, Finance, TAF Board member;
- (6) Terry S. Vaughan, Manager Financial Analysis, Access Capital Corp.;
- (7) Martin Willschick, Manager of Treasury Services, City of Toronto, Finance; and

(8) Robert C. Wong, Deputy ChairThe Glen Ardith-Fraser Corp.

The Committee held meetings November 4 and 18, 1999. A sub-committee formed to develop asset mix guidelines and quantitative criteria for benchmarking performance.

The Committee's recommendations were deliberated, amended, and then adopted by the TAF Board of Directors on November 18, 1999 at a special meeting called for this purpose. The Board's new "Statement of Investment Objectives, Policies and Procedures" is attached as Appendix A. The following is a summary:

TAF Investment Objectives:

- (1) invest in a prudent manner to optimize long term total returns at a moderate level of risk that permits TAF to make grants at an annual level comparable with private foundations and allows TAF's real asset value to grow over time;
- (2) make mandate-related investments that leverage a portion of TAF's assets with private capital so as to increase the amount of "turnkey" financing available to the City and community to reduce greenhouse gas emissions locally; and
- (3) achieve total rate of returns that matches or exceeds benchmarks set by the TAF Board in consultation with its Investment Committee.

TAF Investment Policies:

- (1) to achieve a total rate of return on a moving 4-year basis that exceeds the rate of the Consumer Price Index by 3 percent over the same period;
- (2) to achieve a total rate of return that permits average annual grants payout inclusive of administration on a moving 4-year basis in the range of 4-5 percent per annum, such payout to be determined by the Board at the beginning of each fiscal year in consultation with its Investment Committee;
- (3) to make investments that are in keeping with the spirit and mandate of the TAF and the sustainable energy path the City is seeking to pursue;
- (4) to maintain a diverse asset mix that minimizes risks and allows a prudent portfolio approach (see Appendix A, page 3-4, for recommended criteria and benchmarks); and
- (5) to develop and maintain a portion of the portfolio in structured financing that combines TAF assets with private capital in a high leveraged ratio for financing long-term initiatives that help TAF further its mandate (financing criteria to come later).

TAF Investment Procedures:

- (1) the TAF Board establish a permanent Investment Committee to oversee implementation of the above policies and to monitor the performance of City and outside managers in accordance with the investment policy. Its primary responsibilities:
 - (i) to advise the TAF Board on hiring competent, experienced outside investment advisors to implement its investment objectives and policies;
 - (ii) to review quarterly compliance reports from the investment advisors to measure their performance in relation to benchmarks; and
 - (iii) to review annually investment policy, including grant payout targets for the coming year, and advise the TAF Board accordingly.
- (2) the TAF Board develop and implement a structured financing initiative to combine a portion of TAF's assets with private capital for the purposes of enhancing lending for City and related initiatives that help achieve TAF's mandate; and
- (3) the TAF Board develop generic ethical screening criteria to guide investments by the managers.

Discussion:

While the present investment policy entails no risks, it is not necessarily the most prudent one for TAF. Since its inception, total return performance of the TAF's assets has averaged about 4 percent annually, compared with:

9 percent - 13 percent for selected index funds (see Appendix B), and

8 percent - 16 percent for selected university endowments of to TAF's (see Appendix C).

At this current performance, TAF is encountering difficulty carrying out its new mandate.

For instance, in order to simply maintain real asset value at pace with the CPI, revenue has been diverted from grant expenditures to assets as an "inflation adjuster". Therefore, TAF's grants have declined from \$958,387.00 in 1997 to \$446,500.00 in 1999. With 1999 inflation (CPI) rising substantially to 2.6 percent, grants would decline further to \$334,790.00 in 2000 if TAF's investment policies remain in *status quo*, even with Council's recent reinstatement of interest payments to TAF on its Street and Lane Lighting Loan. (See Appendix D.)

Hence, the present investment policy appears outdated. While TAF needs monthly income for grants and administrative expenses, it does not require the high degree of asset liquidity that the City may need to respond to weather emergencies, etc. The high degree of liquidity of the asset fund—60 percent of the investments are 2-month bills—carries an opportunity cost due to the declining rate of return of this asset component. For purposes of comparison, for instance, if the TAF assets had been invested in a balanced portfolio performing at a median level, the TAF's assets would be worth \$17 million more today (see Appendix E).

The TAF now has the capacity to manage and monitor investments. New board members have been appointed by Council in 1999 that have substantial business and investment experience, including Councillor Davis. Furthermore, the new Executive Director of TAF, Philip Jessup, has 10 years experience managing a foundation with assets of similar size. In addition, the TAF Board will soon consider amending its by-laws so that non-Board members can sit on permanent committees of the Board. This will allow TAF to recruit individuals with investment management expertise to advise the Board.

The TAF Board and its Ad Hoc Investment Committee adopted a cautious approach in formulating the quantitative guidelines for asset mix, criteria, and benchmarking, primarily because—unlike a university endowment—there are unlikely to be further contributions to the TAF’s assets in the future. The Board believes, therefore, it is incumbent on it to conserve the present asset pool.

Therefore, key investment guidelines (see Appendix A, page 3-4, for recommended criteria and benchmarks); proposed by the “Statement of Investment Objectives, Policies and Procedures” are:

- (i) a diverse asset mix that minimizes risks and allows a prudent portfolio approach;
- (ii) limiting exposure to any single issuer of bonds or equities,
- (iii) limiting exposure to municipal, corporate and provincial bonds;
- (iv) spreading of equity exposure across 10 of the TSE’s 12 industry sub-groups;
- (v) no investments in United States or other foreign securities; and
- (vi) use of a 4-year moving averages to measure performance.

Along with TAF’s “Statement of Investment Objectives, Policies and Procedures”, the Committee will also be considering the aforementioned report, “Toronto Atmospheric Fund - Investment of Funds and Changes to the *Trustee Act* - Audit Committee Report No. 6, Clause 4”, recently referred back to the Committee by Council. While amendment of the *Toronto Atmospheric Fund Act* is not necessary for TAF to carry out much of the “Statement of Investment Objectives, Policies and Procedures”, there would be significant benefits were such amendment made. TAF would be able:

- (a) to increase the corporate equity and bond component of its asset mix above 35 percent;
- (b) to broaden the selection of assets that qualify for investment, thereby enhancing TAF’s ability to attract a high quality investment advisor to manage its assets;
- (c) to increase total return on investment performance by 1 - 2 percent annually; and
- (d) to reduce the investment management costs associated with complying with the older *Trustee Act* provisions.

For instance, under the *Trustee Act* provisions that currently apply, TAF cannot make investments in a pool or mutual fund. Investments are strictly limited to certain “blue chip” companies. The major disadvantage is that such limitations will discourage investment advisors from working with the TAF, as well as increase investment management costs.

If TAF’s “Statement of Investment Objectives, Policies and Procedures” is approved by Council, TAF envisions dividing its assets into several components to be managed by separate, but complementary investment advisors. All or part of the non-equity component would likely continue to be managed by the City of Toronto. The balance containing equities would be managed by one or two other investment advisors, to be selected through the City’s normal procurement process.

Conclusion:

Under its present investment policies, TAF is encountering difficulty carrying out its new mandate given to it by Council. The TAF should take steps to manage its investments to better achieve its mandate as well as meet requirements of the *Trustee Act*. Council approval and TAF’s implementation of the “Statement of Investment Objectives, Policies and Procedures” will enable TAF to prudently follow this course.

Contact Names:

Councillor Rob Davis, Chair, TAF’s, *Ad Hoc* Investment Committee, Tel.: 397-9261.

Philip Jessup Executive Director, TAF 392-0271.

The Policy and Finance Committee reports, for the information of Council, having also had before it a communication (November 3, 1999) from the City Clerk advising that City Council on October 26 and 27, 1999, adopted, as amended, Clause No. 4 of Report No. 6 of The Audit Committee, headed “Toronto Atmospheric Fund” and referred the joint report dated October 25, 1999, from the City Solicitor and the Chief Financial Officer and Treasurer, to the Policy and Finance Committee, with a request that the lawyer for the Toronto Atmospheric Fund and Councillors Rob Davis and Jack Layton be advised when this matter is to be considered by the Committee.

The following persons appeared before the Policy and Finance Committee in connection with the foregoing matter:

- Councillor Rob Davis, York - Eglinton; and
 - Mr. Clifford Goldfarb, Legal Counsel, Toronto Atmospheric Fund; and submitted presentation material entitled “Proposed TAF Investment Objectives and Policies”.
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(A copy of the Board's new "Statement of Investment Objectives, Policies and Procedures" referred to and attached as Appendix A to the report (November 23, 1999) from the Executive Director, TAF, was forwarded to all Members of Council with the December 7, 1999, agenda of the Policy and Finance Committee and a copy thereof is also on file in the office of the City Clerk.)