TORONTO

STAFF REPORT
ACTION REQUIRED

Amendments to the Toronto Atmospheric Fund's Asset Mix

Date:	October 22, 2012
To:	Executive Committee
From:	City Manager
Wards:	City-wide
Ref. Number:	

SUMMARY

After further consideration and discussion between staff of the Toronto Atmospheric Fund (TAF) and the City, it was agreed to amend Recommendation 3 as contained in report EX23.10 "Environment and Energy Efficiency Functions", dated September 24, 2012, and deferred by Executive Committee at its meeting held on October 9, 2012 to its November 5, 2012 meeting. This amendment would allow TAF to retain a reduced portion of its marketable securities in equity investments and increase the portion of funds available for mandate-related direct investments (direct loans and financing for priority projects) as compared to the previous asset mix approved by City Council in May 2010.

RECOMMENDATIONS

The City Manager recommends that:

1. Recommendation 3 of the report (September 24, 2012) from the City Manager titled "Environment and Energy Efficiency Functions" be deleted and replaced as follows:

    3. City Council assume the powers for the investment of TAF funds not immediately required for TAF’s objects, attendant liabilities, and TAF Board by-laws and resolutions related to the assumed powers by:

        a. rescinding the delegation of certain powers to TAF and reinstating the authority of the City Treasurer to manage the investment of the TAF funds not immediately required for TAF’s objects, pertaining to the investment of fixed income marketable securities and cash reserves, under Subsections 8(4), 8(7) and 13(1) of the *Toronto Atmospheric Fund Act, 2005* (TAF Act), Section 145 of the *City of Toronto Act, 2006* (COTA) and Section 2 of O.Reg 589/06 under COTA, to be effective upon the enactment of the requisite by-law;

b. amending the Council-approved investment objectives and principles for TAF:

   i. to provide for the management by the City Treasurer of public market investments (fixed income marketable securities and cash reserves) of the TAF funds not immediately required for TAF's objects; and

   ii. to revise the diversified asset mix in TAF's Council-approved investment objectives and principles such that:

      (1) a maximum of 35% is available for Public Equities;
      (2) a minimum of 20% is held as Fixed Income which investment along with cash reserves will be managed by the City Treasurer utilizing the City's legislated investment powers and the City's investment strategies as provided for in Subsections 8(3), (4) and (7) of the TAF Act;
      (3) a maximum of 5% is available for Private Pooled Equities; and
      (4) a maximum of 60% is available for Private Direct Investments including senior debt, subordinated debt, mortgages, debentures, performance contract financing, purchase order financing, options, securities, loans and loan guarantees, and with prior Council approval required for any transaction above $2 million;

c. delegating to the City Manager, Deputy City Manager & Chief Financial Officer and TAF, authority to revise TAF's investment objectives and principles to give effect to the changes in Recommendations 3a and 3b; and

d. granting authority to the Deputy City Manager & Chief Financial Officer, the City Treasurer and the TAF board to implement the transition from the current to the new diversified asset mix and management responsibility for TAF funds effective as early as reasonably possible while minimizing penalties or losses, but no later than two years from adoption in order to give effect to Recommendation 3, and allowing any existing investments made under the 2010 TAF investment objectives to be deemed authorized and valid during the transition.

Financial Impact

The financial impact occurring from the adoption of the amended recommendation is difficult to quantify at this time, given flexibility for TAF to determine the actual investment of assets within the recommended asset mix. However, the annual savings to TAF will be less than set out in Report EX23.10 due to transferring only the management of fixed income investments to the City, with TAF retaining management of equity investments according to current arrangements which incur management fee expenses; the annual savings to TAF are estimated to be in the $50,000 range as opposed to approximately $140,000 if the City assumed management of all TAF funds.

ISSUES BACKGROUND

The report EX23.10 "Environment and Energy Efficiency Functions", dated September 24, 2012 was deferred for consideration by Executive Committee at its meeting held on October 9, 2012 to its November 5, 2012 meeting.

COMMENTS

Asset Mix

Toronto Atmospheric Fund – Current and Recommended Asset Mixes

	Equities	Fixed Income	Private Pooled Equity	Private Direct Investments (Mandate Related Loans)	Cash
Current Asset Mix approved by Council May 2010	20% min. 55% max.	25% min. 80% max.	0% min. 10% max.	0% min. 40% max.	0% min. 20% max.
EX23.10 Report Sept. 24, 2012	0% max.	20% min.	5% max.	75% max.	0% min.
Current Recommendation	**35% max.**	**20% min.**	**5% max.**	**60% max.**	**0% min.**

The recommended increase in the Private Direct Investments asset class is based upon evidence over the past five years that demonstrates that sustainable or socially-responsible investing performs as well or better than other types of traditional investments, and a body of research which indicates that it can actually improve risk-adjusted returns over the long-term when compared to the more traditional investment strategies.

Direct Investments are expected to generate risk-adjusted market rates of return and would be offered only once rigorous due diligence has been undertaken on the sponsoring organization. Each transaction will continue to be thoroughly vetted by TAF's Investment Committee to ensure the risk/reward ratio and transaction structure are viable, and TAF's capital remains within acceptable risk parameters including management, credit rating and position in the marketplace. Clients pay the associated legal costs related to a transaction, as is the customary practice.

TAF will also seek financing partners through the promotion, syndication and sale of investment opportunities in order to leverage its investments.

Implementation of the Recommended Asset Mix

It is recognized that increasing the proportion of Private Direct Investments in the portfolio is dependent upon identifying the appropriate transaction, the time and expertise to perform the due diligence, and the actual negotiation and closing of the transaction. Since these procedures require more time to complete than investing in the public equity or bond markets, a transition period of up to two years is recommended to provide TAF with the ability to achieve the asset mix with appropriate transactions while minimizing costs associated with shifting assets.

Required Amendments

The proposed amendments to Recommendation 3 in previous report EX23.10 of September 24, 2012 would allow TAF to retain a reduced portion of its marketable securities in equity investments and increase the portion of funds available for mandate-related direct investments (direct loans and financing for priority projects) as compared to the previous asset mix approved by City Council in May 2010. These amendments, spelled out below, have been consolidated in the Recommendation Section at the front of this report:

a. Recommendations 3.a and 3.b.i are amended by adding the words "fixed income" before the words "marketable investments";

b. Recommendation 3.b.ii is amended to revise the current diversified asset mix in TAF's Council-approved investment objectives and principles such that:

    (1) a maximum of 35% is available for Public Equities;

    (2) a minimum of 20% is held as Fixed Income which investment along with cash reserves will be managed by the City Treasurer utilizing the City's legislated investment powers and the City's investment strategies as provided for in Subsections 8(3), (4) and (7) of the TAF Act;

    (3) a maximum of 5% is available for Private Pooled Equities; and

(4) a maximum of 60% is available for Private Direct Investments including senior debt, subordinated debt, mortgages, debentures, performance contract financing, purchase order financing, options, securities, loans and loan guarantees, and with prior Council approval required for any transaction above $2 million; and

c. Recommendation 3.d is amended to clarify that the transition be effective as early as reasonably possible while minimizing penalties or losses and no later than two years from adoption.

In addition, there are some minor technical amendments required to properly accommodate the changes proposed above. These technical amendments are also reflected in the Recommendation Section at the front of this report.

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SIGNATURE

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