TORONTO ATMOSPHERIC FUND

STAFF REPORT
ACTION REQUIRED

Date:	September 9, 2014
To:	Toronto Atmospheric Fund Board of Directors
From:	Julia Langer
Re:	Statement of Investment Objectives & Principles (SIOP)

BACKGROUND

In November 2012, City Council amended TAF's Statement of Investment Objectives & Principles (SIOP) and provided a two year transition timeframe to achieve compliance with the new asset mix targets and management, specifically:

- Reduce public equities from 55% to 35% maximum;
- Increase direct investment maximum from 40% to 60%;
- Reduce fixed income minimum from 25% to 20% and transfer management to the City;
- Reduce private equities from 10% to 5% maximum;

As required in its Terms of Reference, the Investment Committee regularly reviews the SIOP to ensure it is clear, prudent and aligned with TAF's mandate and governance. The process was led by a Subcommittee (David Wai, Jane Ambachtsheer, Don Fraser) and supported by staff and Proteus Performance Management, TAF's third-party investment advisor.

The Subcommittee made several housekeeping suggestions to improve the document's clarity and maintains its concerns regarding the City assuming management of TAF's fixed income portfolio, although no recommendations were made regarding this matter.

Proteus presented asset mixes of comparable endowments as indicators of best practice. For instance, 13 university endowments between $10M and $30M in size were examined that typically hold (on average) 53% in equities, 32% in fixed income products and the rest in "alternatives" and cash. The Investment Committee agrees that this is a relevant "benchmark" asset mix for TAF.

Proteus also prepared a performance outlook study that models "expected" portfolio performance under various asset mix scenarios. Given current market conditions, particularly a low interest rate environment and extremely low (even negative) bond returns, performance is significantly better with at last half the portfolio in equities.

TAF's portfolio is currently somewhat overweight in its equities, caused primarily by the outstanding performance (36% return in 2013) of our two global equity portfolios (Generation, Greenchip). Direct Investments will be funded by selling the required amounts from the equities portfolio and such liquidations will bring TAF into compliance with the current SIOP targets, by Q4.

The portfolio's fixed income holdings are at the minimum and have not been topped up given the exceedingly low return expectations.

Direct Investments are significantly below the maximum at approximately 15%. While the pace of converting from Equities to Direct Investments is increasing as TAF completes ESPA retrofit financing transactions and our investment in a new energy efficiency financing company, it is neither prudent nor feasible to accelerate artificially as these must be undertaken in a prudent and controlled manner as quality investment opportunities are sourced by TAF and vetted/approved by TAF's Investment Committee.

Given the market outlook over the next several years, the best practices of comparable endowments against which TAF can be benchmarked, the current status of the portfolio, and the time and care required to move the portfolio towards Direct Investments, the Investment Committee is recommending that the most prudent approach is to extend the transition period to meet the 2012 SIOP by two years.

This 'status quo' strategy is supported by the CFO's Office. The housekeeping suggestions are not of an urgent nature. Given that Council will not be meeting until after the election, an administrative "bridge" will likely be required, possibly in in the form of a non-compliance report.

RECOMMENDATION

TAF's Board of Directors requests that the City's Chief Financial Officer extend by two years the transition period for implementing the amendments approved by Council of TAF's Statement of Investment Objectives & Principles (SIOP), and support TAF in ensuring appropriate accountability as this is implemented.

CONTACT

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