



**STAFF REPORT**  
**ACTION REQUIRED**

<b>Date:</b>	June 22, 2016
<b>To:</b>	Toronto Atmospheric Fund Investment Committee
<b>From:</b>	Richard Rysak, Director of Finance
<b>Re:</b>	Increase of TAF's Operating Line of Credit for Financial Flexibility

**SUMMARY**

---

It is recommended that TAF's operating line of credit (LOC) be increased from \$2M to \$4M, to be secured by the current endowment and the anticipated endowment from the Province of Ontario. This will provide operating flexibility and facilitate prudent investment decisions when TAF is transitioning to larger endowment fund.

**BACKGROUND**

---

Currently TAF has a \$2M LOC which is secured by TDAM fixed income portfolio valued at \$6.1M (end of 2016-Q1). Once the new endowment is received, the LOC security provided to the bank would become proportional to the endowment capital contributions: Toronto endowment NAV of \$28M and Ontario initial endowment of \$17M, therefore in 62:38 ratio. This security arrangement will require approval by the TAF Board and Province, which wishes to have approval over any borrowings against the Ontario endowment.

TAF's bank makes LOC available to TAF on an "as needed" basis. Thus the bank automatically deposits funds into TAF's account to cover overdrafts and then the bank repays itself automatically when TAF has a positive balance in its account. The LOC interest rate is Prime + 0.50% which currently translates to 3.20%.

It is TAF's practice to rebalance its investment portfolio quarterly by selling sufficient marketable investments to cover any LOC borrowings. During any operating quarter LOC borrowings are created by operational and direct investment needs to be funded by TAF during the most recent quarter. LOC provides a convenient quarter-to-quarter working capital flexibility for TAF and it does not create long-term debt by leveraging investment assets.

There are two key reasons for increasing TAF's LOC during fiscal 2016: (1) to support TAF's anticipated larger scale of financial operations; and (2) to facilitate prudent investment decisions when TAF is transitioning to larger endowment fund.

Specifically, it would be in TAF's financial interest to avoid having to sell marketable securities for short-term working capital purposes, only to become a buyer of securities in late 2016 when deploying the new endowment. While the strategy to deploy the new endowment funds is yet to be decided, a key consideration is that Generation's Global Equity Fund is now closed, so

selling Generation units is a “one-way street” and TAF would not be able to buy them back right away.

In addition, the financial flexibility of a larger LOC will be useful during the transition period to fund new direct investments where timing is difficult to determine, and where selling marketable securities with various notice periods (ranging from 3 days to once per quarter) to bridge cash shortfalls is not desirable. For example, TAF is committed to fund direct investments such as Toronto Community Housing Corp ESPA (\$3M with a \$1M external guarantee) and Four Winds York Condo #128 (\$1.5M). Only some of these upcoming commitments can be financed from expected inflows such as ongoing loan repayments (\$375K per annum), M5V Tower loan repayment (\$355K) and sale of ESPA transactions (\$1M). Thus if needed, short-term liquidity needs can be covered by the larger LOC and the LOC can be paid down quarterly from its marketable securities as per TAF’s ongoing practice.

## **RECOMMENDATION**

---

The Investment Committee recommends that TAF’s Board of Directors:

- a. approve increasing TAF’s operating line of credit to up to \$4M
- b. once the new endowment is in place, direct staff to seek approval for and establish security for the line of credit in proportion to the underlying endowment capital

## **CONTACT**

---

Richard Rysak, Director of Finance  
[rrysak@taf.ca](mailto:rrysak@taf.ca) 416-338-8103