



# TA13.9

## REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

### Deployment of the Ontario Endowment

**Date:** November 24, 2016

**To:** The Atmospheric Fund Board of Directors

**From:** Julia Langer, Chief Executive Office

#### **REASON FOR CONFIDENTIAL INFORMATION**

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This report involves the security of property belonging to the City or one of its agencies or corporations.

#### **SUMMARY**

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TAF has received a new \$17 million endowment from the Province of Ontario. TAF's current governance, operation policies and practices will guide the implementation of this new endowment. Specifically, TAF's current, and any subsequent Statement of Investment Principles & Objectives (SIOP) developed and recommended by TAF's Investment Committee, and approved by TAF's Board and Council, will apply to both the Toronto (TO) and Ontario (ON) endowments. The current and any subsequent Relationship Framework will similarly apply. To maintain accountability and traceability, separate fund accounting will be used, with separate investment accounts for each fund. However, the aim is to have integrated operation and reporting. TAF's Investment Committee is providing an outline of their deployment strategy for the Ontario endowment and recommends initial deployment of the funds into fixed income and hiring two additional money managers.

#### **RECOMMENDATION**

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The Chief Executive Officer recommends that the TAF Board of Directors:

1. Initially invest the Ontario endowment fund in Fixed Income with TAF's current manager (TDAM);
2. Adopt the recommendations in the confidential attachment;

3. TAF Board of Directors direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it involves the security of property belonging to the City or one of its agencies or corporations.
4. Direct the Investment Committee and third-party investment advisor, Proteus Performance Management, to guide and monitor the phased deployment of the Ontario endowment and alignment with the Toronto endowment, ensuring compliance with all relevant policies.
5. Direct Staff to support implementation of these recommendations in keeping with relevant policies and requirements.

## **BACKGROUND**

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The Investment Committee, at its meeting of November 17, 2016, approved a deployment strategy for the new \$17 million Ontario endowment, with consideration to compliance with TAF's Council-approved Statement of Investment Objectives & Principles (SIOP), market conditions, and phased alignment of the Toronto and Ontario endowments, while maintaining separate funds.

### **Fixed Income**

- Initially, full \$17M ON fund with the current fixed income manager (TDAM)
- The priority is to avoid downside risk in a changeable interest rate environment, therefore shorter maturity products.
- In 2017-Q2, explore other fixed income options which may have higher income levels, more interest rate protection, and stronger mandate alignment
- Over the course of 2017, draw down the Fixed Income and re-deploy into Public Equities and Direct Investments, holding 20% of the total endowment in the longer-term maturity fixed income products that provide higher yield.

### **Public Equities**

- Based on a formal search process, recommending hiring two firms (see Confidential Attachment). The key drivers of the decision were alignment with TAF's mandate and investment beliefs, demonstrated performance, diversification of approach (compared to existing managers), and geographic diversification (complementing existing managers).
- Maintain current managers – Generation and Green Chip – and use this opportunity to redeem current positions at a high point in the market and re-balance the currently overweight equities, making room for the Ontario funds.
- All (four) managers will have separate accounts for Toronto and Ontario funds.

### **Direct Investments**

- The same limit, transaction criteria and diversification guidelines apply to the Ontario funds, with a strong interest in projects outside of Toronto, eg: additional energy efficiency retrofits and Green Condo Loans.

- Aim for Direct Investments being 40-50% of the portfolios in 3 years
- Ensure that TAF has the account management capacity required to support origination, execution and management of transactions

## **Private Equities**

- No change to the limit or criteria.
- Consider opportunities as they arise.

## **DECISION HISTORY**

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At the request of TAF's Board of Directors, City Council approved TAF's Statement of Investment Objectives & Principles (SIOP) at its meeting of December 9, 2015 (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX10.10>). The SIOP sets out TAF's investment beliefs and policies, including the asset classes that may be held and the minimum/maximum of each.

At its meeting of December 3, 2010 (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.TA1.5>), on the recommendation of TAF's Investment Committee, the TAF Board of Directors approved hiring TD Asset Management to manage its Fixed Income. At its meeting of September 20, 2011 (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.TA5.8>), on the recommendation of TAF's Investment Committee, the TAF board of Directors approved hiring Generation Investment Management and Green Chip Capital to manage portions of its Public Equities portfolio.

## **CONTACT**

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## **SIGNATURE**

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Julia Langer  
Chief Executive Officer

## **ATTACHMENTS**

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1. Confidential Attachment 1