



REPORT FOR ACTION

New City of Toronto Investment Policy

Date: November 15, 2017
To: Executive Committee
From: Acting Chief Financial Officer
Wards: All

SUMMARY

This report recommends a revised Investment Policy for Council's consideration. The proposed Policy responds to amendments made by the Province through Ontario Regulation 360/15 ("the Regulation"), under the *City of Toronto Act, 2006* that allow the City to invest its general and sinking funds, according to the "Prudent Investor" standard. This standard commonly guides pension and endowment fund investing in Ontario and other jurisdictions. Under this standard, the City will have considerably greater flexibility in the types of investments that it can make but the City must, according to the new regulation, "exercise the care, skill, diligence and judgement that a prudent investor would exercise" in making these investments.

This authority will come into effect on January 1, 2018. Prior to that date, the City is required to complete the following two steps:

1. Establish an Investment Board (which was the subject of a report that was adopted by Council at its meeting held on March 28 & 29, 2017) to which Council delegates its investment powers, and
2. Approve an Investment Policy that will direct the Board's activities by establishing the City's requirements with respect to:
 - a. Return on Investment
 - b. Risk Tolerance
 - c. Liquidity

At its May 16, 2017 meeting, Executive Committee directed staff to consult with the Investment Board regarding the proposed Investment Policy prepared by staff.

Staff have considered changes recommended by the Board and incorporated them into a revised Policy that is attached to this report.

The Board is required by regulation to develop an Investment Plan and strategy to be used to implement the Investment Policy. Their Plan will define the methods and means that the Board will use to manage the City's investment portfolios within the parameters of the Policy.

RECOMMENDATIONS

The Acting Chief Financial Officer recommends that:

1. City Council approve the Statement of Investment Policies and Procedures attached as Attachment 1.

FINANCIAL IMPACT

It is anticipated that the greater breadth of potential investments available to the Investment Board will allow it to realize improved returns over the longer-term while also reducing overall portfolio risk.

However, as outlined in this report, there will be a transition period during which the investment portfolio will gradually make greater use of the broader range of investment opportunities that become available. Although portfolio risk will ultimately be reduced, the potential for volatility in short-term returns will still exist. Therefore, it is staff's expectation that implementation of the proposed Investment Policy will have a modest positive budget impact in the short term. Staff will report, as part of the 2018 Budget process, on expected budget income for 2018 and beyond.

The proposed Policy directs the Board to provide Council with a semi-annual report that provides information about the make-up and performance of the City's portfolio of investments as well as its compliance with the Policy.

DECISION HISTORY

City Council adopted the Investment Policy that currently governs its investment activities in 2016 and this Policy will be in place until January 1, 2018 when the new Investment Policy will come into effect.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.13>

At its meeting held on March 31, 2016, Council adopted the report "New Investment Regulations" which informed Council that the Province had approved amendments to Ontario Regulation 610/06, Financial Activities, under the *City of Toronto Act, 2006*, to provide a framework for the City to invest its funds according to the prudent investor standard.

The Deputy City Manager & Chief Financial Officer was requested to report back on:

- the overall objectives of the City's investment policy
- the qualifications for members of the investment board and
- a plan for how the City will prepare to have the investment board in place for January 1, 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX13.10>

At its meeting of March 28 & 29, 2017, Council adopted the report "Establishment of an Investment Board", which provided recommendations with respect to the creation of a City Investment Board as required according to Regulation 360/15.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX23.2>

At its meeting held on May 16, 2017, Executive Committee referred the staff report on the Revised City of Toronto Investment Policy to the Deputy City Manager & Chief Financial Officer with the request that he consult with the Investment Board on the draft Investment Policy prior to submitting the final Investment Policy for Council's consideration before January 1, 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX25.7>

At its meeting of October 2, 2017, Council appointed the Chair and members of the Investment Board.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.CC32.4>

At its inaugural meeting of November 13, 2017, the Investment Board adopted the following motions:

1. That the Chief Financial Officer report to the Executive Committee on any proposed changes to the asset mix arising from discussions of the Board.
2. That the Chief Financial Officer report to the Executive Committee in June 2018 on any further proposed amendments to the Policy, if necessary.

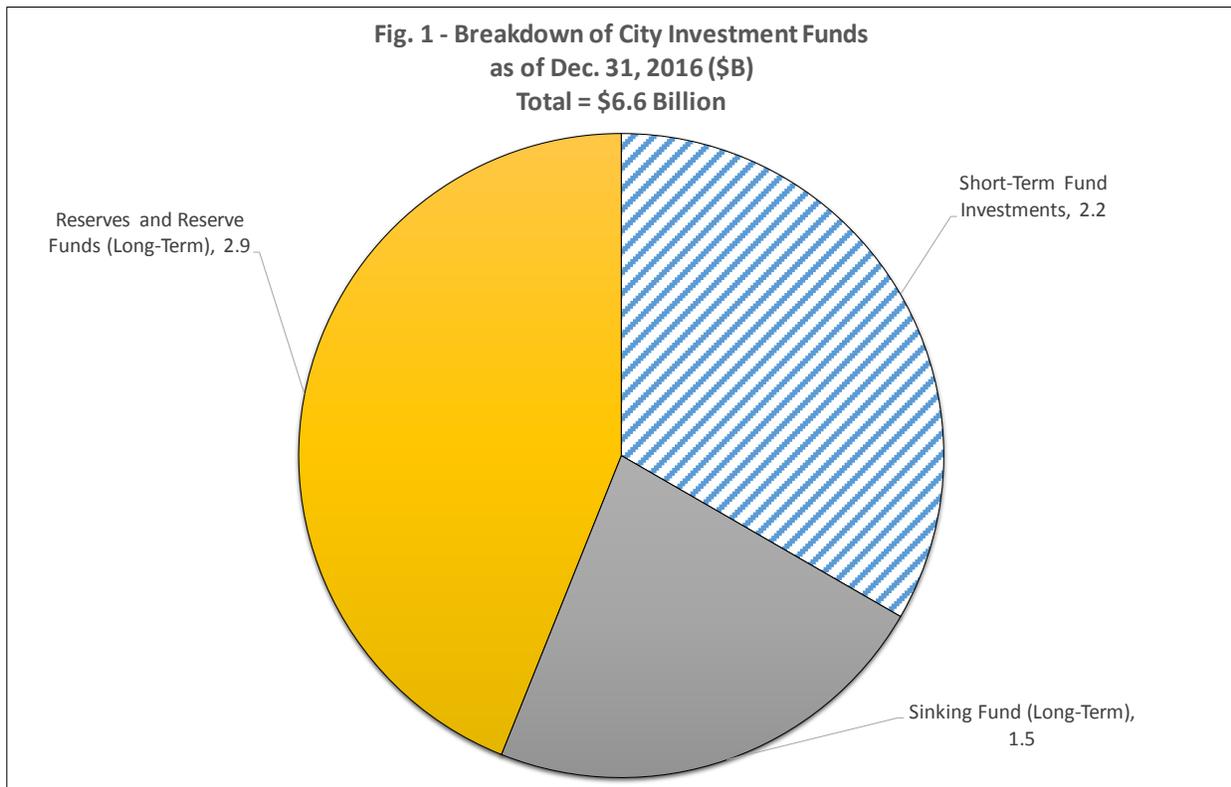
COMMENTS

The City's Investment Funds

Currently, City staff in the Corporate Finance Division carry out the following investment functions:

- Short-term cash flow management
- Long-Term investment of the Sinking Fund (in which amounts are accumulated for repayment of debenture principal)
- Long-Term investment of the amounts being held in Reserve and Reserve Funds for purposes such as:
 - Growth-related infrastructure expansion (funded partially by Development Charges and other fees and contributions paid by developers)
 - Land Acquisition
 - Replacement of City Vehicles
 - Employee benefits
 - Capital financing of infrastructure projects

As of Dec. 31, 2016, the total balance of the City's investment funds was \$6.6 billion. Of this amount, \$4.4 billion was invested on a long-term basis, with \$1.5 billion in the Sinking Fund and the balance, \$2.9 billion, in Reserves and Reserve Funds (the "Long-Term Fund").



Existing Regulations

The *Municipal Act* and more recently, the *City of Toronto Act, 2006* tightly prescribed the types of investments available to the City. Generally, Regulation 610/06 requires that the City make its long-term investments in Canadian debt instruments (primarily bonds).

These investments are safe, if held until maturity, but their market values are highly correlated and directly impacted by changes in interest rates. In addition, interest income on these debt instruments has been extremely low.

The City is currently prohibited by the Regulation from directly investing in other asset classes which could provide additional diversification and higher rates of return.

Prudent Investor Standard

Discussions with the Province had been ongoing since 2014 with the objective of providing the City with the opportunity to invest in a broader range of instruments in order to effectively manage risk while earning a higher rate of return in the longer-term on its investment portfolios and sinking funds.

The changes implemented through the Regulation reflect the Province's view that the City, as a mature order of government, can manage its own financial resources without prescriptive regulations. Under the new regulations, the City will be able to invest in accordance with the Prudent Investor standard that has been the guideline for pension and endowment fund investing for many years in Ontario and other jurisdictions.

This Regulation does, however, require that the City's long-term investments be made by an independent Investment Board. The creation of this Board was the subject of a separate report that was adopted by Council at its meeting held on March 28 & 29, 2017. The City's short-term investments for cash management will continue to be carried out by City Finance staff and will be unaffected by the new Regulation.

Under the Prudent Investor standard, the members of this Board will need to "exercise the care, skill, diligence and judgement that a prudent investor would exercise" in making investment decisions". According to the Regulation, the Board must also consider the following criteria in planning investments, in addition to any criteria that are relevant to the circumstances:

- General economic conditions
- The possible effect of inflation or deflation
- The role that each investment or course of action plays within the City's portfolio of investments
- The expected total return from income and preservation of capital (risk tolerance)

Definition of the Investment Policy

According to the Regulation, Council must adopt and maintain an Investment Policy that will direct the Board's investment activities and which includes the City's requirements with respect to the following:

- The City's objectives for return on investment and risk tolerance
- The City's need for liquidity including, for greater certainty, the City's anticipated needs for funds for planned projects and the City's operational needs to have funds available for unanticipated contingencies

Over the past year City Finance and Legal staff, together with consultants from Morneau Shepell Asset and Risk Management Ltd. ("MS ARM"), have considered the appropriate investment objectives and they have also sought useful examples for a well-structured policy through an extensive review of the investment policies established by:

- The City of Toronto's legacy (pre-OMERS) pension funds
- Other municipalities, such as the City of Edmonton, that operate under a similar Prudent Investor standard

Staff have also sought input from the three members of the existing Independent Investment Advisory Committee, which currently provides City Corporate Finance staff with advice on its investment activities.

The resulting Statement of Investment Policies and Procedures is attached to this report as Appendix 1.

Policy Objectives

The proposed policy establishes the City's overall investment objectives as being the following (see Section 2.1), in order of importance:

1. Safety of principal
2. Adequate liquidity
3. Sufficient diversification
4. Capital appreciation

Safety of Principal

The City's risk tolerance is primarily defined in the proposed Policy by assigning the highest priority to the preservation of capital in the investment portfolios. The proposed Policy also prescribes investment parameters and aspects of the investment process to ensure that preservation of capital is maintained.

Liquidity

Liquidity refers to the ease that a security can be converted into cash. Maintaining adequate liquidity ensures that funds are available for foreseeable, as well as unforeseen, capital and operating funding needs.

The City's liquidity needs are well defined for the Sinking Fund as the maturities for the City's outstanding debentures are known. However, there is greater uncertainty regarding future expenditure requirements for the Reserves and Reserve Funds.

In the proposed Policy the City's liquidity needs are articulated in the form of a 10-year portfolio investment horizon for the Long-Term Fund and 5-year investment horizon for the Sinking Fund. These investment horizons align with the estimated average term of the underlying liabilities for each of these funds.

Sufficient Diversification

As discussed above, one of the principal benefits of the new Regulation is that a broader range of available investment instruments will create the potential for building a well-diversified investment portfolio which is more resilient under adverse economic conditions.

In order to ensure that adequate diversification is realized, the Policy establishes maximum and minimum allocations within specific investment asset categories. It also establishes limits on maximum investments in a specific issuer, credit or geographic region.

Capital Appreciation

The proposed policy emphasizes that the objectives of safety of principal and maintenance of liquidity must not be compromised in order to maximize returns.

The proposed Policy does, however, define performance goals for each of the portfolio asset classes based on common market benchmarks (see Section 5.2c in the Policy) in order to establish a basis for monitoring investment performance.

Evaluation of Alternative Asset Portfolios

In addition to setting out objectives, the proposed Policy also incorporates specific direction to the Board with respect to portfolio asset mix (see Section 2.4).

This has been provided in the Policy to help assure the successful realization of the City's objectives, risk tolerance, and also to facilitate the Board's investment activities.

MS ARM has carried out financial modelling based on a large number (2,000+) of potential economic and financial market scenarios over a 25-year time horizon to forecast returns and volatility for the City's current long-term investment asset mix and to determine potential alternative portfolio allocations for the Reserves and Reserve Funds (the "Long-Term Fund") that would provide the highest returns for a given level of risk (i.e. portfolios that would lie on the "efficient frontier").

As shown on Table 1, MS ARM's financial model indicated that the current asset mix would be sub-optimal as alternative portfolios could be created that would generate higher total returns with the same, or lower, level of risk.

Table 1 – Comparison of Portfolio Alternatives				
	Current City Asset Mix	Equivalent Risk Portfolio	Minimum Risk Portfolio	Recommended Portfolio
Bonds	100%	50%	71%	70%
Canadian Equity	0%	0%	0%	4%
US Equity	0%	12%	4%	10%
International Equity	0%	5%	1%	3%
Emerging Market Equity	0%	15%	4%	3%
Real Assets	0%	18%	20%	10%
Expected Return	1.9%	4.7%	3.3%	3.4%
Expected Volatility	7.0%	7.0%	5.4%	5.8%

* - A volatility of 7% on a portfolio with an Expected Return of 4% means that the future portfolio returns will be between -3% and 11% 2 out of 3 years.

These alternative portfolios would still have a large fixed income (bond) component but they would incorporate new asset classes that would improve long-term returns and also reduce volatility as these new asset classes exhibit relatively low correlation with the Canadian fixed-income securities currently held in the portfolio.

These additional asset classes include:

- conventional equities traded on public stock exchanges
- non-exchange-traded investments in real estate and infrastructure ("Real Assets")

Equities

MS ARM's model results indicate that the addition of an equity component will be most effective if it is focused on U.S., international and emerging market equities. These markets have much larger capitalization and are composed of a much more diverse range of companies and industries than the Toronto Stock Exchange. Therefore, the incorporation of these equities in the City's portfolio will result in the greatest diversification benefit.

For comparison purposes, Attachment 2 provides the equity allocations of the City's legacy (pre-OMERS) pension funds:

Real Assets

The financial modelling also indicated that the best risk-adjusted returns for the overall portfolio could be realized by allocating a substantial portion (up to 20%) of the City's long-term investment portfolio to Real Assets. This asset class is made up of investments in non-exchange-traded real estate and infrastructure projects. These investments generate relatively predictable, growing and low volatility cash flows that exhibit low correlation to equity and fixed income returns. Although investments can potentially be made in real estate and infrastructure through publicly listed securities, these types of investments fluctuate in value with general stock market trends and are not as effective in providing diversification benefits for the overall portfolio. Therefore, MS ARM's modelling indicated that lower volatility and higher returns in the long term could be achieved through alternative approaches such as pooled fund investments and limited partnerships.

Many of the largest Canadian pension funds, endowments and foundations have been dedicating growing portions of their investment portfolios to these types of investments in real assets.

Table 2 below provides a summary of the allocations that these funds have been making to this asset class.

Table 2 - Asset Allocations by Large Investment Funds to Real Assets				
	Total Net Investment Assets (\$B)	% Allocated to:		
		Real Estate	Infrastructure	Total
Ontario Municipal Employee Retirement System (OMERS – 2016 data)	86.4	14.6	17.0	31.6
Caisse De Depot (2015 data)	244.7	11.0	5.3	16.3
Ontario Teacher's Pension Plan (2016 data)	172.1	15.4	10.3	25.7

Generally, the largest allocations to this asset class have been made by entities with very large investment portfolios such as OMERS. These funds have been able to dedicate substantial staff resources to the seeking out, and due diligence review of, these types of investments. As a result, these funds have taken a leadership role in assembling partnerships for large-scale direct investments in real estate and infrastructure projects.

As Toronto's investment portfolio is considerably smaller, and its portfolio risk tolerance is low, the policy direction to the Board will be to undertake a gradual transition into this investment category through various investment structures such as pooled funds or partnerships with highly experienced investment funds, such as OMERS.

Portfolio Alternatives

As Table 1 indicates, MS ARM determined that the highest return for the current level of risk could be achieved through a portfolio with a 50% bond component, a 32% equity component, and an 18% allocation to real assets. According to MS ARM's model, this portfolio would improve the forecast return from 1.9%, with the current portfolio, to 4.7%. This represents a 147% increase in forecast returns in the long term.

Alternatively, the financial model indicated an optimal minimum volatility portfolio could be created that would have substantially lower risk than the current portfolio while still providing much higher forecast returns. This portfolio would incorporate a 71% allocation to bonds, a 9% allocation to equities and a 20% allocation to real assets. This portfolio is forecast to generate an expected return of 3.3%, which would still represent a 74% improvement over the current portfolio.

Portfolio Recommended by Staff

In accordance with the high priority assigned to capital preservation, staff have chosen to initially recommend a portfolio, shown in Table 3, that is similar to the minimum risk portfolio. This portfolio continues to allocate 70% of the assets to bonds.

In order to facilitate a careful transition into real asset investments, the proposed Policy initially sets a 10% target allocation for real asset investments and directs the Board to initially focus its investments within this category on Canadian commercial real estate. According to the financial modelling carried out by MS ARM, a focus on real estate will initially yield the greatest benefit to the overall portfolio in terms of expected long-term return and reduced volatility.

These commercial real estate investments are to be made in what are commonly described as "core", low-risk assets. Core assets are usually comprised of Class A buildings in highly desirable locations with long-term leases in place to high credit tenants. These types of real estate investments generally do not experience significant appreciation in value but rather provide stable, predictable cash flow with relatively low risk.

While core investments in commercial real estate are typically not as liquid as securities traded on an exchange, they are generally the most liquid form of real estate because they are generally stabilized, attractive, marketable assets.

As the fund's holdings in real assets grows, staff anticipate that the fund will begin a cautious transition into investments in mature, relatively low-risk, "core" infrastructure projects with stabilized cash flows. Some examples of the potential forms of infrastructure projects are:

- transportation assets including toll roads, bridges, tunnels, railroads, rapid transit links, seaports and airports
- communication assets, including radio and television towers, wireless communication towers, cable systems, and satellite networks; and
- regulated assets, including electricity transmission lines, gas and oil pipelines, water distribution systems, and wastewater collection and processing systems

Table 3 - Long Term Fund (LTF) and Sinking Fund (SF) Asset Mix			
Asset Class	Target Asset Mix	Minimum	Maximum
Equity			
Canadian Equity	4	0	6
US Equity	10	0	15
EAFE ⁽¹⁾ Equity	3	0	5
Emerging Equity	3	0	5
Total Equity	20	0	30
Fixed Income (Canadian)			
Federal and Federal Guaranteed and Supranational Bonds	30	0	100
Provincial, Provincial Guaranteed and Municipal Bonds	30	0	100
Corporate Bonds	10	0	60
Total Bonds	70	50	100
Real Assets			
Real Estate (Canadian Core) ⁽²⁾	10	0	10
Infrastructure (Global Core) ⁽³⁾	0	0	5
Total Real Assets	10	0	15
Cash	0	0	5

(1) Europe, Australasia Far East Asia

(2) Refer to Definitions Section (Attachment 1)

(3) Infrastructure (Global Core), as defined in Attachment 1, will be added following the initial investment in Real Estate (Canadian Core)

Amendments to the Recommended Portfolio Policy Arising from Consultation with the Investment Board

The proposed Policy attached to this report incorporates changes recommended by the Investment Board at its inaugural meeting on November 13, 2017.

The Board supported the Target Asset Mix established in the Policy that was prepared by staff for the May 16, 2017 Executive Committee meeting. However, the Board recommended that they be given additional flexibility with the maximum and minimum percentages of the portfolio held at any one time within a number of asset categories. Staff have considered the recommended changes and support the changes shown below in Table 4.

Table 4 – Amendments to Asset Mix Constraints Recommended by the Investment Board and Supported by Staff		
Category	Change	Rationale
Federal and Federal Guaranteed and Supranational Bonds	Minimum lowered from 10% to 0%	In extreme case of negative interest rates seen elsewhere in the world, Board would like option to have zero weight in bonds
Provincial, Provincial Guaranteed and Municipal Bonds	Minimum lowered from 10% to 0%	In extreme case of negative interest rates seen elsewhere in the world, Board would like option to have zero weight in bonds
Total Bonds	Minimum lowered from 60 to 50% and Maximum raised from 80% to 100%	Minimum lowered to correspond to reduced minimums for Federal and Provincial bonds above, Maximum raised as the current portfolio has this weighting and it may be several months before the portfolio will be rebalanced
Cash	Maximum raised from 0% to 5%	There will always be some cash in the portfolio as cash is received from interest, dividends and bond maturities

In addition to the changes shown in Table 4, the Board also proposed that the maximum weighting for the Infrastructure category be increased from 5% to 10% and the maximum weighting for the overall Real Assets category be increased from 15% to 20%. Staff recommend that the original weightings proposed by staff for these categories be retained in order to establish a gradual transition into these assets. However, these weightings will be revisited by staff in the second quarter of 2018 in consultation with the Board. In accordance with the motion adopted by the Board, the

Chief Financial Officer will report to Council in June 2018 if further amendments to the Investment Policy are necessary.

Potential Future Portfolio Changes

Once a solid performance record for the portfolio has been established, Council may choose to transition the portfolio towards an asset mix that has a volatility level that is slightly less conservative and closer to the level of the current portfolio. As shown in Table 1, a future portfolio can be created, with a greater allocation to equities and a smaller allocation in bonds, that is forecast to generate higher returns.

Risk Management Measures

Constraints on Investments

In addition to establishing portfolio asset class allocations, the proposed Policy also incorporates constraints on each of the asset classes as an additional means of risk management (see Section 3.0). Eligible forms of investments are, for instance, defined along with objectives for suitable diversification of holdings within each asset category.

For example, the Policy requires that all equity holdings shall be listed on a public exchange, or convertible or exchangeable into such securities, and that these holdings shall be diversified by company, region, industry, currency and country.

The Policy also indicates that diversification across international markets shall take into account the relative scale of economic activity and capitalization of these markets.

Reporting Requirements

The Policy also sets out requirements for the reporting of exceptions (see Section 7.1) in which investments have been made which do not comply with the constraints discussed above.

Such exceptions may occur if, for instance, a company's financial circumstances change and this causes the credit rating for the company's bonds to fall below "investment grade".

These exceptions will be reported monthly to the Chief Financial Officer. The Chief Financial Officer will be required to report the inconsistency to Council within 30 days after becoming aware of it.

The Chief Financial Officer will also submit to Council a consolidated semi-annual report (see Section 7.2) on investment activity and returns for the funds managed by the Board as well as the funds managed by City staff. The report shall incorporate:

- A semi-annual report from the Investment Board that will include (but will not be limited to) the following information with respect to the City funds managed by the Board:
 - Compliance with the Policy
 - Overall Funds performance and attribution analysis
 - Performance by individual asset category
 - Performance of individual Investment Managers
 - Peer group comparison of Investment Managers
 - Investment Manager performance versus benchmarks
 - Investment Manager updates – (e.g. product changes, staff changes)
 - Review of Investment Manager Fees
 - Performance of major capital markets and current environment
 - Review of economic conditions and major indicators (e.g. inflation)
 - Comparative performance of major capital markets
- A semi-annual report from City staff that provides similar information with respect to the short-term investment funds managed by City staff
- A statement by the Chief Financial Officer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the City;
- Other information that Council may require or that, in the opinion of the Chief Financial Officer should be included.

Standards of Conduct

The Investment Board will be subject to the City's Code of Conduct for Local Boards and its activities will fall within the jurisdiction of the City's Integrity Commissioner (see Section 7.3). The Code of Conduct for Local Boards sets out requirements with respect to gifts and benefits, improper use of influence, and conduct guidelines related to employment, meetings, interactions with staff and lobbyists.

However, the Investment Board will be managing a large portfolio of investments on behalf of the City and, given these fiduciary responsibilities, the Code of Conduct for Local Boards may not be adequate. At its March 28, 2017 meeting, as part of its consideration of the staff report on the Establishment of an Investment Board, Council adopted a staff recommendation that the Integrity Commissioner review the Code of Conduct for Local Boards within the context of the mandate and responsibilities of the Investment Board and report back with any amendments as may be required.

The Policy also confirms that the CFA Institute's Code of Ethics and Standards of Professional Conduct will apply to all parties involved with the investing of the City's funds. The Standards of Conduct apply prohibitions in the following principal areas (amongst others):

- using knowledge of the City's investment activities for personal gain
- receiving gifts, preferential treatment or other benefits from brokers and other private parties that participate or will potentially participate in the City's investment process

In addition, it is incumbent on any party who believes that he/she may have a conflict of interest, or who is aware of any conflict of interest to comply with the requirements of the *Municipal Conflict of Interest Act*.

Administrative Policies

Agents of the Investment Board

The Investment Board will be allowed to contract internal and external parties to assist them with the execution of their fiduciary duties (see Section 4.4, 4.5). These include investment managers, custodians, consulting services, and legal services.

The Policy outlines guidelines for engaging investment managers along with criteria for performance review and measurement (see Section 5.2). There is also a section that deals with the procedure for the dismissal of an investment manager (see Section 5.4)

Use of a Custodian

Currently, a Custodian is retained by the City to safeguard its financial assets. A Custodian will be selected and appointed as of January 1, 2018 to continue in its role and provide quarterly statements setting out, among other things, the City's holdings.

Transition Portfolio – Initial Phase

The current portfolio of individual fixed income securities shall generally be expected to remain in place during the initial two years (see Section 6.10). This initial phase is required to allow the Investment Board to properly assess current market conditions, work with the Investment Consultant, and carefully select Investment Managers.

During this initial phase, the Investment Board will, however, be able to take advantage of the broader range of investment tools provided in this policy for the investment of any amounts generated through coupon payments and maturities which are in excess of the requirements of the Short-Term Fund.

Environmental, Social and Governance (ESG) Considerations

Ethical investing is important to public sector investment funds and to many private sector investment pools as well. The City reviewed the ESG policies and statements of several public sector pension plans. Section 6.6 of the Investment Policy sets out the proposed ESG statement as follows:

"The City of Toronto believes that well-managed companies are those that demonstrate high ethical and environmental standards and respect for their employees, human rights, and the communities in which they do business, and that these actions contribute to long term financial performance.

Corporations should account for their behaviour and its implications on the creation of value. The City supports the view that companies should maintain policies and procedures with respect to Environmental, Social, and Governance (ESG) issues that materially affect long term shareholder value.

The City encourages the adoption of high standards of behaviour as a means to maximize long term shareholder value.

The Policy directs the Investment Board to incorporate ESG factors into its investment decision-making through its due diligence processes when choosing Investment Managers. As such, when a prospective investment manager is assessed, or an existing Investment Manager is reviewed, the Investment Board will consider the Investment Manager's ESG policies.

The City has chosen to monitor the developments of ESG factors and will reconsider its approach as and when appropriate to do so."

The proposed ESG policy for the statement is consistent with the approach taken by the major public sector pension plans in Ontario.

Summary

The purpose of this policy is to provide the Investment Board with City risk tolerances and related requirements to guide the management of the City's financial assets to achieve specific objectives. It is intended to be a working document that will be utilized by the Investment Board to develop its investment plan and strategies.

It is anticipated that the greater breadth of potential investments available to the Investment Board will allow it to significantly improve upon the returns currently being realized on the City's investment portfolio while reducing the City's risk exposure.

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SIGNATURE

Joe Farag
Acting Chief Financial Officer

ATTACHMENTS

Attachment 1: The Statement of Investment Policies and Procedures

Attachment 2: Equity Investment Components of Legacy City of Toronto Pension Funds