IB5.6

TORONTO

REPORT FOR ACTION

Real Assets Allocation Update

Date: November 15, 2019
To: Toronto Investment Board
From: Executive Director, Corporate Finance
Wards: All

SUMMARY

This report provides an update to the Toronto Investment Board ("Board") regarding the transition of the portfolio to the real assets category of the new asset mix established in the Council-approved Investment Policy (Attachment 1). Real assets will be included in both the Long Term Fund (LTF) and the Sinking Fund (SF). This category is comprised of two sub-categories: Real Estate and Infrastructure.

Aon has provided a memorandum entitled "Real Assets Roadmap" as an attachment to this report (Attachment 2).

This report also recommends that the Council-approved Investment Policy be amended to change the geographical scope of both Real Estate and Infrastructure investments to a "North American/Global Core" focus, from solely a "Canadian Core" and "Global Core" focus respectively.

RECOMMENDATIONS

The Executive Director, Corporate Finance recommends that:

1. The Toronto Investment Board request the Council-approved Investment Policy be amended to change the geographical scope of the both Real Estate and Infrastructure sub-categories to North American/Global Core (from Canadian Core and Global Core respectively).

FINANCIAL IMPACT

There are no financial impacts on the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting on November 13, 2018, the Toronto Investment Board requested the Executive Director, Corporate Finance and the Investment Consultant, Aon Hewitt take the necessary steps to implement City Council's Investment Policy in regards to Real Assets.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB8.3

At its meeting on September 6, 2018, the Toronto Investment Board directed staff to invest the 10 percent of the overall portfolio allocated to Real Assets in other liquid asset categories in order to maintain future flexibility to invest in Real Assets, provided the guidelines of the Council-approved Investment Policy are maintained.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB7.5

At its meeting on September 6, 2018, the Toronto Investment Board referred a presentation by Aon regarding Investing in Real Estate
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB7.4

At its meeting on June 25, 2018, the Toronto Investment Board adopted a report entitled Investing in Infrastructure - Examples for the Toronto Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB6.1

At its meeting on May 31, 2018, the Toronto Investment Board referred a report entitled Infrastructure Education and Portfolio Build-Out
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB5.3

COMMENTS

The Council-approved Investment Policy (Attachment 1) prescribes a 10% target allocation to Real Assets for both the Long Term Fund and the Sinking Fund. The Policy also sub-categorizes Real Assets into two parts: 1) Real Estate (Canadian Core) and 2) Infrastructure (Global Core). The allocation to Real Assets was originally included in the strategic asset mix due to its significant diversification properties and beneficial risk and return characteristics.

In a memo to the Board dated September 5, 2019, the investment consultant (Aon) recommended to consider Real Estate and Infrastructure investments in both core and open-ended funds with a North American/Global focus. The rationale for the investment consultant's recommendation are as follows:

- Attractive risk and return profile;
- No expiration cycle whereby assets would need to be sold and re-invested;
- Portfolio transparency (Can see current investments and a history of returns for the fund);
- Instant access to asset and vintage year diversification;
- Visibility into the current valuation of the fund's assets;
- Greater liquidity through ability to redeem;

- 2-3 strong Open-Ended funds currently available within the global infrastructure, global real estate, European real estate, and Asia real estate universe;
- Several strong funds available within US real estate;
- Queues are relatively long for infrastructure (12-18 months for initial investment) and real estate (9-12 months for initial investment); and
- By starting the process now, capital could conceivably begin being deployed in 2021 (allows for search, approval, contracting process, and queueing time.

In effect, the recommendation seeks to amend the Real Assets sub-categories of the Council-approved Investment Policy (Section 2.4 b – Asset Mix Guidelines) to read:

1) Real Estate (North American/Global Core); and
2) Infrastructure (North American/Global Core)

from the current wording that reads:

1) Real Estate (Canadian Core); and
2) Infrastructure (Global Core).

City staff agree with the investment consultant these changes could provide greater liquidity and transparency. In addition, widening the geographical scope of both of these sub-categories provides more options and flexibility to improve the risk and return profile.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 -- Council-approved Investment Policy (EX35.16)
Attachment 2 - Memorandum from Aon - Real Assets Roadmap