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Attachment 2

MEMORANDUM

TO: City of Toronto/Toronto Investment Board

FROM: Brian White

DATE: November 15, 2019

SUBJECT: Real Assets Roadmap

This memo provides a roadmap for filling the allocation to real assets as per the SIPP.

Introduction

The current SIPP allows for a maximum 10% allocation to real assets, defined as a mix of direct real estate and direct infrastructure. This allocation was originally modelled and included in the strategic asset mix due to its significant diversification properties and beneficial risk and return metrics.

Our recommendation for the Toronto Investment Board ("TIB") is to consider investments in both core, open-ended direct real estate and infrastructure with a North American / global focus. The rationale for beginning with open-ended funds is as follows:

- Attractive risk/return profile;
- No expiration cycle whereby assets would need to be sold and re-invested;
- Portfolio transparency – no 'blind pool' risk. Can see current investments and a history of returns for the fund in which the Board would invest;
- Instant access to asset and vintage year diversification (assets already in place);
- 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. There are 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 and contracting processes, as well as time to move through the queue).

Process and Timelines

If TIB approves moving forward with infrastructure and real estate searches (open-end, core, global focus) today, Aon can work with City Staff to conduct searches, manager interviews/due diligence and potentially bring recommendations to TIB for the April 6, 2020 meeting. Contracting could then be conducted in the second and third quarter of 2020.

This timing would allow for initial capital to be deployed in late 2020 to late 2021 but will vary depending on contracting and investment.

Recommendation

Allow City Staff to work with Aon to conduct searches for real assets managers with a goal to provide recommendations to TIB for the April 6, 2020 meeting.

We recommend conducting the searches with a goal of funding the full 10% allocation to real assets via open-end, core, globally focused vehicles. While an even split will be targeted, this may be subject to change depending on the opportunities available.