From: Pamela Steer
To: Toronto Investment Board
Cc: Randy LeClair
Subject: Comments on ESG item
Date: April 9, 2019 2:23:07 PM
Attachments: image001.png

Good afternoon,

In reviewing the materials for the meeting, I would like to provide my comments to you with respect in particular to the ESG discussion and materials provided to aid that discussion. I understand a potential outcome of this week's meeting will be a motion for the ED of Corporate Finance to incorporate in his upcoming report to City Council on ESG review.

I'm happy for you to pass along my comments to the other board members and I understand they may form part of the public record.

The materials were very helpful in summarizing the current state/practices of ESG in investment markets. I would like to comment on the City's motion from June 2018:

a. I agree that the ESG Section 6.6 should reflect responsible investment best practices. To that end, I would support reference to the UN's SDGs, which incorporate climate as one of the sustainable development goals. I don't believe that TIB should restrict itself to commentary on climate factors alone. I also believe the TIB should prefer investment managers who are signatories to the UN-PRI as well as demonstrating to TIB's satisfaction that they are following the principles in a documented fashion. Further, I would welcome reference from managers to the TCFD (Task force on climate-related financial disclosure) and their plans for compliance to TCFD. I note that there are recommendations and consideration ongoing in Europe to require TCFD, rather than continuing voluntary practices. Many major Canadian investment and pension funds are actively adopting both SDGs as well as TCFDs including BC Investments and the Caisse. The City of Vancouver is also quite active in this area.

   In terms of the exclusionary clause in paragraph a) in the City's motion, negative screens quickly become problematic from both an administrative and a fiduciary point of view. Negative screens are very difficult to adequately define and administer in practice. They quickly render many funds subject to non-investment due to their composition and could severely limit the TIB's ability to operate efficiently and maintain effective returns according to its fiduciary duty. Costs would also increase to ensure compliance. Rather, TIB must ensure that it retains investment managers who evaluate potential investments and apply appropriate risk premia to negative non-financial aspects of ESG factors. Poor ESG practices can lead to negative investment returns due to their risk profile. An example would be of an insurance company that continues to insure homes on a flood plain and permits residents to rebuild again and again on the same plot of land despite a many-fold increase in likelihood of flooding. Good ESG factor integration can lead to enhanced risk and return profiles for the investment portfolio.

b. I agree the investment beliefs should continue to include proper recognition of ESG factors as material to risk/return outcomes for the reasons cited above. I further believe that both the belief and section 6.6 should be monitored and updated on a regular basis as this area continues to evolve quickly in global investment markets.

c. I do not agree that a direct investment in Toronto as an asset class is appropriate for TIB. I believe that such a class falls outside the mandate of our Board and rightly sits within the budget of the City and its allocations. Further, such assets would likely belong to either the private equity, infrastructure or real estate classes. As our discussions in previous meetings demonstrate, with our nascent board, we are moving cautiously with such investments. There is no plan to incorporate private equity at all in the current context. Our participation with respect to the other two classes will likely be in the form of fund participation and not direct investment. Direct investment requires significant funding for internal staffing, controls and management of such investments. I would further be concerned about a potential loss of independence of the TIB should the City Council direct funding and investment to any particular project.

I hope these comments are helpful. Please let me know if you have any questions. I'm happy to discuss further by email or phone. I will endeavor to join the meeting in progress; however, it's looking unlikely at this time.

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Regards,

Pamela Steer, FCPA, FCA, CFA