TA4.11

REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Direct Investments

Date: October 25, 2019
To: Toronto Atmospheric Fund Board of Directors
From: Vice President, Impact Investing

REASON FOR CONFIDENTIAL INFORMATION

This report involves the security of property belonging to the Toronto Atmospheric Fund.

The attachments to this report contain commercial and financial information, supplied in confidence to the Toronto Atmospheric Fund, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

Based on due diligence demonstrating the potential for appropriate risk-adjusted return and strong alignment with TAF's mandate, the Investment Committee is recommending four investments. The proposed investments are in compliance with the asset allocation range for Private (Pooled) Funds (maximum 5%) and Direct Investments (maximum 60%).

RECOMMENDATIONS

The Vice President, Impact Investing recommends that the Toronto Atmospheric Fund Board of Directors:

1. Approve an investment of up to $1,000,000 alongside active co-investors in a Private (Pooled) real estate Fund as set out in Confidential Attachment 1, with advances over time subject to the Fund meeting the Conditions Precedent recommended by the Investment Committee;
2. Approve a Direct Investment of up to $1,000,000 in a carbon utilization project as set out in Confidential Attachment 2;
3. Approve a Direct Investment of up to $2,000,000 in a renewable energy project, conditional on the Investment Committee's satisfaction with the final term sheet

and financial model (including the split returns to the developer and investors) and the capital structure, as set out in Confidential Attachment 3;

4. Approve a Direct Investment of up to $2,000,000 in take out financing for an institutional thermal heat recovery and supply system as set out in Confidential Attachment 4, conditional on the Investment Committee's satisfaction with the final term sheet (including the priority and allotment of return between the investors and the developer and financial models); final due diligence including qualified third-party reviews of the technologies and engineering; review of the senior debt financing and insurance agreements and contracts; understanding of the City of Toronto's approval; and evidence that all required permits are in place;
5. Direct staff to implement the investments as set out in Confidential Attachments 1, 2, 3 and 4, once any conditions are met, to the satisfaction of TAF's Solicitor; and
6. Direct that the confidential information contained in Confidential Attachments 1, 2, 3 and 4 remain confidential in their entirety, as they involve the security of the property of the Toronto Atmospheric Fund, and contain commercial and financial information, supplied in confidence to the Toronto Atmospheric Fund, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

FINANCIAL IMPACT

None.

DECISION HISTORY

At its meetings of October 17, 2019, the Investment Committee recommended that TAF's Board of Directors approve investments described in the Confidential Attachments. Each of these investment opportunities had been previously discussed during the process of due diligence and structuring.

BACKGROUND

All of these investments are structured as units in a Limited Partnership (LP). TAF has made LP investments in the past and they are a common and effective structure, with two variants:

- Where a General Partner (GP) establishes and manages a pool of investments on behalf of a variety of unit holders (LPs);
- Where a specific project is controlled and operated by a GP and investors (the LPs) invest in Limited Partnership Units specific to the project.

The investment referenced in Confidential Attachment 1 is of the first type (Private (Pooled) Fund), and the rest Direct Investments using the latter structure.

Section 6.3.2 (i) of the TAF/City of Toronto Relationship Framework requires Council approval for “The establishment, amendment or dissolution by TAF of subsidiary entities, agreements with other agents to perform parts of TAF’s mandate, and joint ventures and formal business partnerships involving a legal relationship or financial obligation”.

A GP/LP investment is not a “partnership” in the most common sense of the word. The GP/LP structure is designed to encourage investment by providing tax benefits to the “partners” in the fund or project; specifically, eligible losses may be used as a tax reduction against other income. There is no joint decision-making which would be indicative of a partnership.

The word “Limited” and the legal documentation of a GP/LP investment ensure that the nature of the “relationship” is strictly an investment. The LP unit holders have no governance or operational control, nor are they responsible or liable for the actions of the GP. In fact, LP unit holders must maintain an arms-length status and are not allowed to have anything to do with the operating of the fund or projects within the fund otherwise they jeopardize the legal shield.

The investments proposed do not create a subsidiary, an agreement with the entity to perform any part of TAF’s mandate, any financial obligation beyond the original amount of the commitment; a joint venture or any operating responsibilities, or a business partnership in the common use of the term.

The investments proposed are in compliance with the Asset Allocations specified in the Statement of Investment Objectives and Principles, Section 5.2. The Direct Investment maximum allocation is 60 per cent of the NAV or $29 million. Currently $8 million is invested and $10 million is committed for a total of 37 per cent. The four proposed investments would bring the total to $24 million for a total of 50 per cent.

CONTACT

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SIGNATURE

Tim Stoate
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ATTACHMENTS

Confidential Attachment #1
Confidential Attachment #2
Confidential Attachment #3
Confidential Attachment #4