TA4.10

REPORT FOR ACTION

Proposed Amendments to the Toronto Atmospheric Fund Statement of Investment Objectives and Principles

Date: October 25, 2019
To: Toronto Atmospheric Fund Board of Directors
From: Chief Executive Officer

SUMMARY

The Toronto Atmospheric Fund Statement of Investment Objectives and Principles (SIOP) and Investment Committee Terms of Reference stipulate that the Investment Committee is to review the SIOP at least once a year for continued alignment with TAF's mandate, best practices and prudent investor standards, and is responsible for formulating, and recommending for approval by the Board, any required changes to the SIOP. In addition to some housekeeping, amendments to the SIOP are proposed to reflect best practices for prudent investing and consideration of Environment, Social and Governance (ESG) factors, and to adjust the asset allocation range and description of asset classes to accommodate the Investment Committee's target portfolio (introduced in November 2018) including the risk/return, liquidity and diversification expectations. TAF's SIOP applies to all TAF's assets, ie: the Toronto and Ontario endowments. The SIOP requires both Board and Council approval.

RECOMMENDATIONS

The Investment Committee recommends that the Board of Directors:

1. Approve the amendments to the Statement of Investment Objectives and Principles.

2. Request that the Chief Financial Officer pursue Council approval for amendments to TAF's Statement of Objectives and Principles.

FINANCIAL IMPACT

None.

COMMENTS

See Attachment 1 for the specific amendments. In summary these include:

- Recognizing that TAF's assets include the City of Toronto and Province of Ontario endowments, and potentially other funds (such as the Federal endowment) which are duly received;

- Adding to the Governance section Board delegation to the Committee authority to provide oversee implementation of direct investments based on risk/reward criteria/limits;

- Refining the Investment Beliefs by replacing outdated “green” investing terminology with more robust language regarding ESG, climate risk and climate-positive opportunities and recognizing that more active voting and engagement can be of value for portfolio performance, TAF's mandate and as a good determinant of excellent managers;

- Amending the Fixed Income description to allow both traditional bonds and credit-driven products in order to generate yield in the current interest rate environment while protecting the capital and ensuring appropriate liquidity;

- Adding to the Public Equities description TAF's commitment to ESG and thematic investing;

- Refining the Direct Investment description to recognize that not all the revenues are loan repayments (for instance can include revenues from performance contracts, dividends and sales of shares) and clarify the characteristics of Direct Investments in order to facilitate due diligence;

- Re-framing Private (Pooled) Equities as Private Funds to reflect a wider range of third party managed private market investment funds but a narrower focus on investments which help in addressing climate change and air quality and avoid exposure to companies whose share value and/or viability may be at risk from climate change, as well as adjusting the Asset Allocation to a minimum of zero and maximum of 25%; the Target Porfolio allocation is 15%; and

- Removing the reference to Council approval required for investments above $2 million as this is specified in the TAF/City of Toronto Relationship Framework, but maintaining the prudent investment principle that no more than 10% of the asset should be in any one transaction; amendment of the RF is underway and options are being discussed, including that the $2 million threshold is out of synch TAF's increased asset value.

DECISION HISTORY

On May 11, 2010, City Council approved the Statement of Investment Objectives and Principles, replacing the Statement of Investment Policies and Procedures that was approved in 2007. This revised and renamed policy established a more integrated and mandate-oriented approach to investing TAF's assets, and explicitly defined the asset mix and investment ranges of the Fund.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2010.EX43.6

On November 27, 2012, City Council assumed the powers for the investment of TAF funds not immediately required for TAF's objects, attendant liabilities, and TAF Board by-laws and resolutions related to the assumed powers; delegated authority to the City Manager, Deputy City Manager and Chief Financial Officer, and TAF to revise TAF's investment objectives and principles; and granted authority to the Deputy City Manager and Chief Financial Officer, the City Treasurer and the Toronto Atmospheric Fund (TAF) board to implement the transition from the current to the new diversified asset mix and management responsibility for TAF funds effective as early as reasonably possible while minimizing penalties or losses, but no later than two years from adoption.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX25.1

On September 23, 2014, the TAF Board requested and amendment to City of Toronto By-law No. 226-2013 to give effect to an extension of two years for the transition period for implementing the above-mentioned By-Law, and authorize the City's Chief Financial Officer to assist the Toronto Atmospheric Fund in ensuring that the appropriate accountability measures are undertaken.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.TA20.8

On December 11, 2014, City Council approved the necessary amendment to City of Toronto By-law No. 226-2013 to give effect to an extension of one year for the transition period for implementing the By-Law, and request the Deputy City Manager and Chief Financial Officer to report back to the Executive Committee on June 30, 2015 on the implementation of the proposed amendments.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX1.11

At its meeting April 23, 2015, the TAF Board approved amendments to the SIOP, revising the asset mix, revising restrictions on cash holdings and allowing the ability to employ money market funds and/or pools, enhanced the guidance on investments of Fixed Income, ensuring diversification by restricting allocation to any one Direct Investment to not more than 10% of the portfolio, and re-instating TAF's delegated authority to invest and manage all TAF funds, including fixed income marketable securities and cash reserves.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.TA3.4

At its meeting December 9, 2015, City Council confirmed Approval of the amended SIOP, and confirmed that the TAF Board is delegated Authority to invest and manage all Toronto Atmospheric Fund funds including the portfolio's fixed income marketable securities and cash reserves.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX10.10

On November 1, 2018, the TAF Board received a report for information on the Target Portfolio, established by the Investment Committee. The majority of targets introduced in the Target Portfolio could be achieved within the bounds of the current SIOP.
https://www.toronto.ca/legdocs/mmis/2018/ta/bgrd/backgroundfile-120990.pdf

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS

Draft Statement of Investment Objectives & Principles, October 2019