REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Real Assets Update

Date: June 24, 2020
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

This report involves the security of property belonging to the City or one of its agencies or corporations.

SUMMARY

The purpose of this report is to update the Toronto Investment Board ("Board") on the progress to date regarding the search for external investment managers for the Real Estate portion of the Real Assets category.

At its December 2019 meeting, the Board requested that 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). That amendment to the Investment Policy has not yet been adopted by City Council at the time of writing this report.

The process, analysis, and the list of firms considered are provided in the confidential attachment. These documents are confidential as they contain commercial and financial information supplied by the investment consultant to the Board in confidence, which if disclosed could reasonably be expected to prejudice significantly the competitive position or other negotiations the Board may have in selecting the investment managers.

It is recommended that staff, subject to the Council-approved Investment Policy being adopted to include North American/Global Core Real Estate investment manager mandates, proceed with interviews of the investment managers included in Confidential Attachment 1 and report back to the Board the staff recommendations for the Real Estate category.

RECOMMENDATIONS

The Director, Capital Markets recommends that subject to changes to the Council-approved Investment Policy to allow Global/North American Core Real Estate mandates:

1. The Toronto Investment Board receive the report prepared by the investment consultant (Aon) contained in Confidential Attachment 1 for information;

2. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains information that involves the security of property belonging to the City or one of its agencies or corporations.

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 December 4, 2019, the Toronto Investment Board received a memorandum from the investment consultant entitled "Real Assets Roadmap" which outlined the rationale to consider Real Estate and Infrastructure investments in both core and open-ended funds with a North American/Global focus. The Board also adopted a report which recommended the 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).
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.6

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 held April 5, 2018, the Toronto Investment Board approved their Investment Plan which included the asset categories and transition plan to several investment managers. Investment Managers for the Toronto Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB4.5

At its meeting held March 28 & 29, 2017, City Council established the Toronto Investment Board and approved an interim budget that included the hiring of Investment Managers (Agents) Report from the City Manager and the Deputy City Manager and Chief Financial Officer on Establishment of an Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX23.2

The new investing regulations for the City of Toronto (O.Reg 360/15) permits the use of agents (investment managers) as outlined in a report from Deputy City Manager and Chief Financial Officer to City Council on March 31, 2016.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX13.10

Attachment 2 - Ontario Regulation 360/15 made under the City of Toronto Act, 2006 Amending O.Reg. 610/06 (Financial Activities)
https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-90744.pdf

COMMENTS

As outlined in the Investment Policy and Investment Plan, the overall target for the Real Asset category in the Asset Mix is 10 percent of both the Long-Term Fund (LTF) and the Sinking Fund (SF). It is comprised of two sub-categories, Real Estate and Infrastructure. The Real Estate portion would be allocated before the Infrastructure portion was allocated.

At its December 2019 meeting, the Board requested that 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). That amendment to the Investment Policy has not yet been adopted by City Council at the time of writing this report.

At this stage, the investment consultant (Aon) has completed an initial search for Real Estate investment managers using a similar evaluation criteria used in previous searches for fixed income and global equity investment managers. The final evaluation criteria included, but are not limited to, these areas:

- Business Profile;
- Investment Staff;
- Investment Process (including ESG factors);
- Investment Risk;
- Operational Due Diligence;
- Performance Analysis; and
- Terms and Conditions (including insurance, taxation, and fees).

A review and analysis was conducted to match the needs identified by the Board in the Investment Plan with the styles and competencies of each investment manager. A short list of potential investment managers was developed thereafter and is provided in Confidential Attachment 1 of this report.

Although some of the evaluation criteria is listed above, the methodology which includes several factors, including fee structure, among other items are being supplied to the Board in confidence and are proprietary to the investment consultant. In addition, this information may compromise the City's subsequent negotiations with the selected investment managers.

As a next step, City staff, with Aon as its advisor, will interview the short-listed group of investment manager candidates. Staff will also ensure the requirements of the Council-approved Investment Policy, including the administrative, reporting, and compliance monitoring needs outlined in the Policy, are met by each prospective investment manager.

Once the interviews are completed, the staff will report back to the Board with its recommendations at its next meeting.

CONTACT

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1 - Global Real Estate Manager Search