REPORT FOR ACTION

Investment Manager Update

Date: November 19, 2020
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

This report provides an update on the actions taken with regards to the selection of investment managers since the last meeting of the Toronto Investment Board ("Board") on October 7, 2020. An updated Investment Plan, with the name of a new global equity investment manager, is included for review and adoption.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board adopt the updated Investment Plan as provided in Attachment 1 of this report.

FINANCIAL IMPACT

There is no financial impact to the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meeting on October 7, 2020, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on July 8, 2020. The Toronto Investment Board also requested the Director, Capital Markets to review the custodial agreement and report back with an update.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB9.3

At its meeting on July 8, 2020, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on December 4, 2019. The Board approved an updated Investment Plan outlined in Attachment 1 to the report, which discloses the name of the external equity manager successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB7.4

At its meeting on December 4, 2019, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on September 25, 2019. The Board approved an updated Investment Plan outlined in Attachment 2 to the report, which discloses the names of the external equity managers successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.5

At its meeting on June 12, 2019, the Toronto Investment Board received a report which provided a brief update on the actions taken by staff and the investment consultant (Aon) with regard to the selection of investment managers since the last meeting of the Toronto Investment Board on April 11, 2019. The board approved the updated Investment Plan outlined in Attachment 1 to the report, which discloses the names of the external fixed income managers successfully contracted.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB3.3

At its meeting on June 25, 2018, the Toronto Investment Board received a report and presentation from staff and the investment consultant regarding the selection of investment managers. The Board awarded the contracts for investment management services to the firms listed in Confidential Attachment 1 to the report.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB6.2

At its meeting held on April 5, 2018, the Toronto Investment Board approved their Investment Plan which included the asset categories and transition plan. The transition plan outlines that the Investment Consultant, in conjunction with City staff, will develop a list of investment managers for the Board's consideration.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB4.5

COMMENTS

Global Equity Mandate - Legal & General Investment Management

Negotiations and documentation with the final global equity manager was completed in November 2020 with the signing of subscription agreements, side letters, and other documents. A separate custodial account has been set-up for this manager. The mandate is ready to proceed with funding the account. The updated Investment Plan provided in Attachment 1 discloses the name of the new global equity manager Legal & General Investment Management (LGIM) along with any necessary updates to the transition plan.

LGIM is one of Europe's largest asset managers. Since the signing of the Paris Agreement in 2016 on climate change, the investment manager has been aggressive in pushing companies to improve their environmental practices, boost disclosures, and adopt meaningful emissions targets. If companies do not respond in a satisfactory way, LGIM has divested from companies in various discretionary funds. In cases where LGIM cannot divest, such as in index funds, it will vote against the board recommendations at the company's annual meeting.

The City's investment in LGIM also employs "smart beta" portfolio models developed by Scientific Beta, an organization which was founded by the École des Hautes Etudes Commerciales du Nord (EDHEC) Risk Institute, an academic institution recognized by industry as a leader in financial management research. Scientific Beta's multi-factor models seek to perform better, on a risk-adjusted basis, versus a simple market capitalization weighted index by applying factor investing principles while also integrating low carbon and ESG criteria.

Passive Global Equity Approach - Multi-Factor Models with ESG

Attachment 2 is a Flash Report from the Board's investment consultant (Aon) that outlines some of the features of this multi-factor based approach. Some of the highlights from the attachment point out this modelling will ensure:

- Incorporate meaningful exclusions targeting some of the core themes around responsible investing;
- It will primarily focus on the issue of climate change but also addresses a number of global social concerns;
- Reduce the weighted average carbon intensity of the solution by approximately 46% compared to a market-cap index;
- It will exclude coal companies. Coal is a key contributor to climate change, and current levels of coal consumption are not compatible with the achievement of the two-degree target set by the Intergovernmental Panel on Climate Change;
- Assets will be managed subject to LGIM's 'Climate Impact Pledge', a global engagement initiative to improve corporate climate performance.

With regard to social concerns, the attachment also points out these screens are also used in the model:

- Align the social aspects of the product design with the UN Global Compact. The United Nations Global Compact is a non-binding United Nations pact to encourage businesses worldwide to adopt sustainable and socially responsible policies;
- Exclude companies with involvement in controversial weapons (such as antipersonnel landmines or cluster munitions). The exclusion is a legal requirement in various European countries;
- Exclude manufacturers of tobacco products. Tobacco is a common restriction for responsible investors due to the inherent harm generated by the product;

- Exclude companies that violate the UN Global Compact. These are companies involved in serious violations of fundamental norms which have proven unresponsive or have failed to address their controversies over a reasonable time.

More information on LGIM's Climate Impact Pledge can be found here: https://www.lgim.com/uk/en/insights/our-thinking/esg-and-long-term-themes/climate-impact-pledge-tackling-the-climate-emergency/

More information on the UN Global Compact can be found here: https://www.unglobalcompact.org/

The investment allocation to LGIM represents 50 percent of the City's total equity allocation, which is 10 percent of the total allocation of the Long Term Fund and Sinking Fund. At the time of writing this report, documentation is in its final stage and a funding date in mid-December is being discussed. This will reduce cash in each of the Long Term Fund and the Sinking Fund by approximately $380 million and $208 million respectively once the final details are complete. The final date with updated amounts will be provided at the next Board meeting in 2021.

When this mandate is finalized, all fixed income and global equity mandates have been completed and funded. The Real Assets category is the remaining mandate to be fulfilled. The details of such will be discussed in another report to the Board titled "Real Assets Update".

Investment Plan

The updated Investment Plan has been provided by Aon in Attachment 1 discloses the names of the successfully contracted external Global Equity manager in accordance with the Board's direction.

Current Funding Status of Long-Term Fund (LTF) and Sinking Fund (SF)

Attachment 3 shows the Current Funding Status of the Long-Term Fund (LTF) and the Sinking Fund (SF) as at November 13, 2020 for the Board's reference. This document shows the market value of the current allocation by asset category and also breaks each of these by investment manager in each portfolio. This attachment also includes the available cash for each portfolio.

Investment Custodian Update

At its last meeting on October 7 2020, the Board requested the Director, Capital Markets to review the custodial agreement and report back with an update. Preliminary review of the agreement found that the overall "umbrella agreement" with RBC which included both banking and custodial services, would allow the City to use another investment custodial service without affecting the banking agreement. A further review of the agreement is underway. The Director, Capital Markets will provided another update to the Board as soon as more information is obtained.

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SIGNATURE

Randy LeClair
Director, Capital Markets

ATTACHMENTS

Attachment 1 - Investment Plan Update - November 18 2020
Attachment 2 - Aon Flash Report - Factor Service Changes 2019
Attachment 3 - Current Funding Status of the LTF and the SF as at November 13, 2020