TORONTO

REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Real Assets Update

Date: November 29, 2021
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report involves the security of property belonging to the City of Toronto or one of its agencies or corporations.

SUMMARY

Aon, in its role as investment consultant to the Toronto Investment Board ("Board"), has completed an extensive search for investment managers (agents) in the Real Assets category outlined in the Board's Investment Plan.

The process, analysis, list of firms considered, and the recommended investment managers are provided in the confidential attachments. 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.

In addition to the work completed by the investment consultant, Capital Markets staff also interviewed the list of candidates contained in Confidential Attachment 2 and 3.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board award the contracts for investment management services to the firms in accordance with the allocation set out in Confidential Attachment 1, for a three year term with the option to extend for an additional two years, at the option of the Investment Board.

2. The Toronto Investment Board authorize the Chief Financial Officer & Treasurer, in consultation with the City Solicitor, to negotiate agreements with the firms selected as investment managers, on terms satisfactory to City Solicitor and the Chief Financial Officer & Treasurer, and authorize the Chair or the Vice Chair of the Investment Board to execute such agreements on behalf of the Investment Board.

3. The Toronto Investment Board authorize the public release of names of the successful firms upon finalizing an agreement with the investment managers identified in Confidential Attachment 1.

4. The Toronto Investment Board direct that the confidential information contained in Confidential Attachments 2 and 3 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

The contract will be funded within the Council approved budget and spending authorities of the Toronto Investment Board. Management fees associated with the recommended agents are in line with market rates.

DECISION HISTORY

At its meeting on September 9, 2021, the Toronto Investment Board was presented a short-list of potential Global Real Estate investment managers which was developed by the investment consultant. The Board was informed that interviews and evaluations of the short-listed investment managers would commence and that staff will report back to with a recommendation upon completion.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB13.4

At its meeting on June 2, 2021, the Toronto Investment Board requested the investment consultant, in consultation with City staff, to proceed with a manager search and evaluation for the Real Estate asset class within the guidelines of the Council-approved Investment Policy and report to the next meeting of the Toronto Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB12.5

At its meeting on July 8, 2020, the Toronto Investment Board received an informational report with a confidential attachment that provided a listing of possible investments in the Real Assets category.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB7.5

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

COMMENTS

Investment managers may be hired by the Board in accordance with section 51 of the prudent investor rules (Ontario Regulation 360/15). The Investment Board "may authorize an agent to exercise any of the Investment Board’s functions to the same extent that a prudent investor, acting in accordance with ordinary investment practice, would authorize an agent to exercise any investment function."

As part of this process to authorize "agents" (investment managers), and following a Request For Proposal process, the Board selected an experienced investment consultant (Aon) to complete a thorough search and make recommendations based on in-depth analysis. Aon is the Board's investment consultant.

Global Real Estate Investment Manager Search

At its meeting on June 2, 2021, the Board requested Aon, in consultation with City staff, to proceed with a manager search and evaluation for the Real Estate sub-category of the Real Asset category. At its meeting on September 9, 2021, the Board was presented a short-list of potential Global Real Estate investment manager candidates for consideration, which is attached as Confidential Attachment 2 of this report. The Board was also informed that interviews and evaluations of the short-listed candidates would commence and that staff would report back once that process was completed. Capital Markets staff and Aon have completed interviewing and evaluating the investment managers on the short-list. Staff ensured the requirements of the Council-approved Investment Policy along with the administrative and reporting needs for monitoring compliance to the policy were met by each prospective investment manager.

It should be noted the investment managers under consideration were also pre-screened to ensure they could agree to specific contracting criteria required by the City.

These criteria include insurance requirements, standard of care, liability and indemnity provisions, disclosure requirements, taxation status, and the right to audit.

Although a sample of evaluation criteria is listed below, the methodology which includes scoring, interview results, fee structure, and 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. A summary and detailed list of selection criteria, scorecards, and due diligence involved in the manager search is contained in Confidential Attachment 3 of this report. The analysis was conducted to match the requirements of the Investment Plan with the competencies of each investment manager.

The final evaluation criteria and interviews included, but were not limited to, these areas:

- Open-end core global real estate strategy;
- Strong diversification;
- Attractive risk-return properties;
- Business Profile;
- Investment Staff;
- Investment Process (including ESG factors);
- Investment Risk;
- Operational Due Diligence;
- Performance Analysis;
- Terms and Conditions (including insurance, taxation, and fees);

Environmental, Social, and Governance Considerations

The level of consideration for Environment, Social and Governance (ESG) issues that investment managers incorporate in their investment process was one of the factors considered during the selection process. In order to ensure ESG policies will be followed, all recommended investment managers in Confidential Attachment 1 are United Nations Principles for Responsible Investment (UNPRI) protocol signatories.

Next Steps

The recommended list of investment managers is attached in Confidential Attachment 1 of this report for Board consideration and approval. A longer list of all investment managers that were considered in this process is contained in Confidential Attachment 2 for the Board's reference.

The Investment Plan (Section 2.05 Investment Management Structure) will be updated with the names of the recommended investment manager(s) listed in Confidential Attachment 1 if the Board approves the recommendation and once agreements with the recommended investment manager(s) are finalized.

CONTACT

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1 - Recommended List of Investment Managers
Confidential Attachment 2 - Short-list of Global Real Estate Managers Considered
Confidential Attachment 3 - Global Real Estate Manager Search - Summary