REPORT FOR ACTION

Investment Manager and Other Updates

Date: March 10, 2022
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

This report requests authority from the Toronto Investment Board ("Board") to close the Board's 5% sinking fund sub-account since it is no longer required given that none of the City's outstanding debentures use the 5% sinking fund sub-account.

There were staff changes within one of the Board's fixed income mandate investment managers, Connor, Clark, & Lunn ("CC&L"). One member of CC&L's Fixed Income team is retiring at the end of this quarter, and two team members were promoted. Details of these staff changes can be found in Attachment 1 to this report.

The procurement of an Environmental, Social, and Governance ("ESG") data service provider previously approved by the Board has been delayed due to an issue related to the City's vendor policy.

An update of the current funding status of Long-Term Fund ("LTF") and Sinking Fund ("SF") is provided in Attachment 2 to this report.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board authorize the Director, Capital Markets to close the 5% Sinking Fund sub-account with all investment managers, the custodian, and any banks where this account is no longer required.

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 December 13, 2021, the Toronto Investment Board awarded contracts for investment management services. The Board also authorized the Chief Financial Officer and 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 and Treasurer, and authorized the Chair or the Vice Chair of the Investment Board to execute such agreements on behalf of the Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB14.4

At its meeting on September 9, 2021, the Toronto Investment Board authorized the Director, Capital Markets, to initiate a non-competitive procurement to retain the recommended third-party information provider to provide metrics in the area of assessing Environmental, Social, and Governance performance which would facilitate a response to the City Council request to the Toronto Investment Board and the Chief Financial Officer and Treasurer to develop a process to monitor and report on whether or not external investment firms hired by the City are compliant with the terms of the Investment Policy with respect to Environmental, Social, and Governance factors.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB13.5

At its meeting on March 9, 2021, Toronto Investment Board adopted a report that updated the Investment Plan to update the performance benchmark for two investment managers. With regards to the Board's Investment Custodian, it was agreed that a competitive review of the investment custodian will be started at the end of 2021.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB11.3

At its meeting on December 7, 2020, the Toronto Investment Board adopted a report that updated the Investment Plan outlined in Attachment 1 to the report, which discloses the name of the external equity manager successfully contracted. With regards to the Board's Investment Custodian, the Director, Capital Markets would provide another update to the Board as soon as more information is obtained.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB10.3

At its meeting on October 7, 2020, the Toronto Investment Board 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 adopted a report that updated the 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 meetings on October 7, 2020, the Toronto Investment Board authorized the Director, Capital Markets to initiate a Request for Proposal (RFP) for a third-party information provider that could provide metrics in the area of assessing Environmental, Social, and Governance (ESG) performance.

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB9.5

At its meetings on June 29 and June 30, 2020, City Council approved the amendments to the City Council-approved Investment Policy related to ESG. City Council also requested the Toronto Investment Board and the Chief Financial Officer and Treasurer to develop an ESG process, to incorporate ESG factors into its investment decision making, and to consider and incorporate internationally-recognized best practices for ESG when considering any changes to the Investment Policy.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX14.2

COMMENTS

Closing of the 5% Sinking Fund Sub-Account

The City currently has five Sinking Fund sub-accounts, namely the 2%, 2.5%, 3.5%, 4%, and 5%. The purpose of the Sinking Fund sub-accounts are to grow funds (i.e. the cumulative periodic sinking fund contributions), at a specified target earnings rate, such that account will have enough cumulative contributions and interest to fully repay a debenture at its maturity. The target rate for a sinking fund normally matches the rate available in the market for what is viewed as a safe and liquid long-term investment – as this should be the type of investment needed to secure funds for debenture repayment at maturity.

The purpose of the 5% Sinking Fund sub-account is to earn an average target rate of 5%, and dates back to the mid-1970s when the 5% target rate was first used. Due to the low interest rate environment during the past decade, newly issued Sinking Fund debentures no longer used the 5% target rate since the average rate for a safe and liquid long-term investment can no longer earn 5%. Target rates in the 2% to 3.5% range are now used most often. The City's last debenture that used the 5% target rate was issued in July 2001 and matured in July 2021. Presently, no outstanding debentures use the 5% target rate and it is not expected that this account will be used in the near future. As such the 5% Sinking Fund sub-account is no longer needed and can be closed. The Director, Capital Markets requests authority from the Board to close the 5% Sinking Fund sub-account with all investment managers, the custodian, and banks that have this account.

Investment Manager Update - Staff Changes at Connor, Clark, & Lunn

Connor, Clark, & Lunn ("CC&L") is one of four fixed income investment managers mandated by the Board and they recently reported staff changes on their investment team. Details of these changes can be found in Attachment 1 of this report.

Notably, CC&L's head bond trader, Jane Justice, is retiring at the end of this quarter after a 30-year career at CC&L. Her leadership contributed to the growth of CC&L's Fixed Income team and business. She has put in place a talented team of bond traders to carry forward her legacy. Moreover, the role of Head of the CC&L Fixed Income team will now be assumed by David George. Going forward, Mr. George will take over all aspects of leadership on the team. Lastly, Brian Milne, formerly a Senior Credit Analyst for the team, has been promoted to the leadership team and is now an owner of their Fixed Income business.

Environmental, Social, and Governance ("ESG") Data Service Provider Update

The process to hire an ESG data service provider has taken longer than expected due unforeseen issues between City's procurement and the prospective vendor regarding the City's vendor policy. Capital Markets staff continue to collaborate with the City's procurement team and the prospective vendor to resolve these issues.

Current Asset Mix

Current Funding Status of Long-Term Fund ("LTF") and Sinking Fund ("SF") as at March 4, 2022 is shown in Attachment 2. This document shows the market value of the current allocation by asset category and also categorizes each of these by investment manager in each portfolio. This attachment also includes the available cash for each portfolio.

CONTACT

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SIGNATURE

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Director, Capital Markets

ATTACHMENTS

Attachment 1 - CC&L Investment Management Outlook - February 2022
Attachment 2 - Current Funding Status of the LTF and the SF