TORONTO

REPORT FOR ACTION

Investment Manager and Other Updates

Date: June 7, 2022
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

This report provides the Toronto Investment Board ("Board") with an update regarding activities involving the investment managers and related parties. It includes changes to the investment manager mandates, contracts, and funding along with other related items.

Fiera Capital has provided notification (Attachment 1) of a proposed management structure change for the Fiera Capital Common Contractual Fund ("CCF Fund"), one of the Board's investment managers for the global equity mandate. The proposal seeks to eliminate Fiera Capital IoM Limited, the current investment manager of the CCF Fund, and replace them with Fiera Capital Corporation. The change essentially streamlines the framework by removing one entity from the management structure. Staff has retained external legal advice to review the documentation and provide an opinion on whether the proposed changes have legal, tax, or other implications on the Board's investment.

The procurement of an Environmental, Social, and Governance ("ESG") data service provider approved by the Board was delayed due to an issue related to the City's vendor policy. City staff and the prospective vendor have now resolved most of the issues. A legal review of the licensing agreement and contract is now being completed.

The Board is approaching the time when it will be fully invested, and other Request for Proposals (RFPs) should be completed, it is estimated that a review and RFP for a custodian for the Long-Term Fund and the Sinking Fund investment portfolios could take place in the first half of 2023.

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

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board, after review by external legal counsel, authorize the Chair or the Vice Chair of the Investment Board to execute amended agreements for the Fiera Capital Common Contractual Fund on behalf of the Investment Board.

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 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

Fiera Capital Common Contractual Fund ("CCF Fund")

Fiera Capital has sent notification via a letter dated May 24, 2022 about changes to the structure of the global equity fund mandated by the Board (Attachment 1).

The Fiera Capital Common Contractual Fund ("CCF Fund") is a platform used by Fiera Capital IOM Limited ("Fiera IoM"), one of four global equity investment managers hired by the Board. The CCF Fund is managed by Fiera Capital IOM Limited ("Fiera IoM"), a registered entity in the Isle of Man. The CCF Fund is also sub-managed by Fiera Capital Corporation ("FCC"), a Canadian entity. Due to a restructuring of Fiera's European business, Fiera seeks to de-register Fiera IoM as the investment manager and appoint FCC directly as investment manager of the CCF Fund; essentially streamlining the framework by eliminating one entity from the management structure. Staff has retained external legal advice provide an opinion on whether the proposed changes have legal, tax, or other implications on the Board's investment.

Other information provided by Fiera, as indicated in the letter in Attachment 1, is an opinion by their tax advisor (PwC) that this change will not affect the tax status of this fund. Part of the external legal review will include a review of this tax situation.

It is not anticipated there will be any issues with this change and are recommending the Board authorize either the Chair or Vice-Chair to execute any amended agreements upon completion of the external review.

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 policies and the prospective vendor. City staff and the prospective vendor have now arrived at a mutual understanding and the process is moving into the final stages, which includes a legal review of the licensing agreement and legal contract.

Investment Custodian Update

One of the issues with completing a review of the investment custodian services is not having all of the investment mandates completed. Currently the portfolios (LTF and SF) are approximately 90 percent invested however as the final mandates are near completion over the next few months, a review of the investment custodian provides better information of the overall costs for comparative purposes.

Also, recent Requests for Proposals (RFPs) for an ESG data provider as well as the Investment Consultant have competed for staff time and resources. Current RFPs under consideration should be completed by the end of 2022. It is estimated that a review and RFP for investment custodian services could take place in the first half of 2023.

Current Asset Mix

Current Funding Status of Long-Term Fund ("LTF") and Sinking Fund ("SF") as at May 31, 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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ATTACHMENTS

Attachment 1 - Letter from Fiera Capital - Notice of IM Change - May 24, 2022
Attachment 2 - Current Funding Status of the LTF and the SF