

City Council**Notice of Motion**

MM39.2	ACTION			Ward: All
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Interim Amendment to Toronto Atmospheric Fund Statement of Investment Objectives and Principles - by Councillor Mike Layton, seconded by Councillor Shelley Carroll

** Notice of this Motion has been given.*

** This Motion is subject to referral to the Executive Committee. A two-thirds vote is required to waive referral.*

Recommendations

Councillor Mike Layton, seconded by Councillor Shelley Carroll, recommends that:

1. City Council approve the following amendments to the Toronto Atmospheric Fund's current Statement of Investment Objectives and Principles, as adopted by the Board of Directors of the Toronto Atmospheric Fund at its meeting of July 9, 2021:

a. in Section 5.2, replace the term "Private Pooled Equity" in the desired asset mix with the term "Alternative Investments" and assign an allocation range of 0 percent to 15 percent with a portfolio target of 10 percent;

b. in Section 6.5, change the title from "Private Pooled Equity" to "Alternative Investments" and replace the current content with the following text:

Alternative investments are financial assets that do not fall into conventional investment categories such as stocks, bonds, and cash. Alternative investment assets, due to their complex nature, tend to be held by more sophisticated investors such as institutional investors or other accredited investors.

Alternative investments are usually less liquid and may involve strategies such as the use of margin, leverage, derivatives, and other techniques, can be used to improve the risk-adjusted performance of the overall portfolio. Examples of these kinds of investments are private (pooled) equity or venture capital funds, hedge funds, managed futures, and commodities. Real estate is also often classified as an alternative investment.

Toronto Atmospheric Fund will continue to invest in third party managed private market investment funds which help in addressing climate change and air quality issues and avoid exposure to companies whose share value and/or viability may be at risk from climate change.

These Alternative investments are intended to provide diversification benefits for the overall portfolio along with solutions to manage certain risks (i.e. interest rate risk, inflation risk).; and

c. insert a new Section 7 entitled "Constraints and Prohibitions" that includes the following text:

7.1 Toronto Atmospheric Fund may invest in Financial Derivatives only under certain conditions, and for risk management purposes, namely:

a. Derivatives may not be used to create a net leveraged position for the portfolios, introduce uncovered positions, or to create exposures to investments that would otherwise be prohibited by this Policy.

b. The portfolios may directly or indirectly (e.g. through pooled funds) utilize derivatives only to:

i. Create an Asset Mix position within the ranges and among the asset classes set out in this Policy;

ii. Adjust the duration of the fixed income portfolio;

iii. Replicate the investment performance of a recognized capital market index;

iv. Increase the portfolio current revenue by selling covered calls;

v. Manage the currency exposure of a portfolio, or

vi. Reduce risk as part of a hedging strategy.

c. When investing in pooled funds, the pooled fund offering documents / investment policy will apply and the Investment Manager for any pooled fund must provide notification to Toronto Atmospheric Fund regarding any revisions to the fund's policies.

7.2 Prohibited Investments

a. Toronto Atmospheric Fund may not invest in companies for the purpose of managing them unless approved by Council.

b. Toronto Atmospheric Fund will not actively purchase securities on margin or making short sales.

c. Toronto Atmospheric Fund will not invest in funds and make investments that are inconsistent with Toronto Atmospheric Fund's mandate.

Summary

This Motion seeks Council approval of an interim amendment to the Toronto Atmospheric Fund's Statement of Investment Objectives and Principles.

Toronto Atmospheric Fund funds its climate action mandate through proceeds from the investment of its endowment and with external funding such as grants from charitable foundations or governments. Toronto Atmospheric Fund's endowment is made up of the City's initial \$23 million in funding, \$17 million from the Province of Ontario and \$40 million from the federal government and now totals approximately \$100 million. The Statement of Investment Objectives and Principles guides the investment of Toronto Atmospheric Fund funds to ensure prudent and efficient investment management, capital preservation and financial well-being.

The City and Toronto Atmospheric Fund are currently considering updates to the Statement of Investment Objectives and Principles, the City-Toronto Atmospheric Fund Relationship Framework and the Toronto Atmospheric Fund By-law to reflect the growth of Toronto Atmospheric Fund's endowment and the evolution of its capacity and activities. Amendments to these governance documents must be approved by City Council following recommendation from the Toronto Atmospheric Fund Board.

At its July 9, 2021 meeting, the Toronto Atmospheric Fund Board adopted amendments to the Statement of Investment Objectives and Principles and requested Council's approval via the Chief Financial Officer and Treasurer (TA13.4). The Chief Financial Officer and Treasurer is expected to report to Executive Committee and Council in 2022 on the amended Statement of Investment Objectives and Principles.

This Motion asks City Council to approve interim amendments to specific sections of the current Statement of Investment Objectives and Principles that were adopted by the Toronto Atmospheric Fund Board in July, which the Toronto Atmospheric Fund feels are time-sensitive and cannot wait until the full Statement of Investment Objectives and Principles is reviewed and brought to City Council. The requested Statement of Investment Objectives and Principles change would introduce an "alternative investments" class of assets into Toronto Atmospheric Fund's asset mix to replace and expand the current "private (pooled) equities" asset class, with a corresponding asset mix range and constraints.

I am presenting this as an urgent matter via a Members Motion at the request of the Toronto Atmospheric Fund Board and its Investment Committee to address anticipated risks associated with in the equity market and inflationary impact and a lack of options to protect Toronto Atmospheric Fund fund during this uncertain time.

The Chief Financial Officer and Treasurer has been consulted on this Motion. Under the Toronto Atmospheric Fund Act, the Chief Financial Officer and Treasurer's role is one of oversight of financial processes, while the Toronto Atmospheric Fund Board is responsible for making decisions regarding the management of the Toronto Atmospheric Fund and its investments, and is accountable for those decisions. Given that that the Toronto Atmospheric Fund is asking City Council to approve Statement of Investment Objectives and Principles amendments without the benefit of the Chief Financial Officer and Treasurer's report and recommendation, the Toronto Atmospheric Fund is willing to provide the Chief Financial Officer and Treasurer with appropriate written assurances that the Toronto Atmospheric Fund investment activities undertaken pursuant to this Motion will not introduce any new risk for the City until such time at the Chief Financial Officer and Treasurer reports to City Council on the Statement of Investment Objectives and Principles and related amendments to the Toronto Atmospheric Fund Relationship Framework and Bylaw are also brought to City Council.

Background Information (City Council)

Member Motion MM39.2