REPORT FOR ACTION

Investment Manager and Other Updates

Date: May 27, 2023
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.

There are some developments with two of the global equity funds provided by Fiera Capital Corporation ("Fiera"). The first change is relatively minor and involves updating the contracts involving the Oakmark Global Pooled Fund II ("Oakmark") global equity fund. The second change involves Fiera's decision to close the Fiera Global Equity Common Contractual Fund ("Fiera CCF"). These two items are explained in more detail in the report. It is recommended that the Chair or Vice Chair be authorized to sign documentation necessary to complete the Oakmark contracts while the options with the Fiera CCF will be brought back to the Board at a later date.

The process to hire an Environmental, Social, and Governance (ESG) data service provider has been completed and has been moved to a separate report.

An update of the current funding status of Long-Term Fund ("LTF") and Sinking Fund ("SF") is provided in Attachment 1 to this report for the Board's review.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. 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 Oakmark Global Pooled Fund II 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 March 16, 2022, the Toronto Investment Board received a report for information from the Director, Capital Markets with regards to various updates to the investment managers and other on-going negotiations.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB2.6

At its meeting on December 16, 2022, the Toronto Investment Board received a report for information from the Director, Capital Markets with regards to various updates to the investment managers and other on-going negotiations.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB1.3

At its meeting on September 23, 2022, the Toronto Investment Board received a report for information from the Director, Capital Markets with regards to various updates to the investment managers and other on-going negotiations.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.IB17.3

At its meeting on June 23, 2022, the Toronto Investment Board authorized 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.
https://secure.toronto.ca/council/agenda-item.do?item=2022.IB16.3

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 - Oakmark Global Pooled Fund II ("Oakmark")

The original contract and other documentation involving the Oakmark fund included Fiera along with another investment company called Natixis Investment Managers Canada LP ("Natixis") while the Investment Advisor for the fund is Harris Associates ("Harris"). Natixis is an American-French based asset management company with headquarters in Boston and Paris, and has decided to leave the Canadian market necessitating a change in the documentation.

Harris continues to be the Investment Advisor for the fund and essentially does all of the analysis and trades for the fund. The management fees will remain the same as under the previous agreement along with other terms and conditions. One minor variation is that the fees will now be taken directly from the fund instead of being paid after issuing an invoice. Fiera has agreed to provide a statement of the fees paid from the fund.

The updated documentation (side letter) has been reviewed by external legal counsel with only minor suggestions for changes. We expect a final version to be ready in the next few weeks and recommend the Chair or Vice Chair sign on behalf of the Board.

Fiera Capital - Fiera Capital Common Contractual Fund ("CCF")

The CCF fund was set up as a non-taxable offering for investors like the City of Toronto that are not a pension fund, endowment, or charity that are specifically named in legislation as a non-taxable entity. We were further advised not to co-mingle with these other entities as it may result in punitive charges from other investors should the City's funds be declared as taxable.

Initially, the CCF fund only had one additional investor other than the City of Toronto and Fiera was hopeful that other non-taxable investors would be attracted to the CCF fund over time. However, the other current investor has now decided to exit the fund which leaves the City of Toronto as the sole investor in the CCF fund. Fiera is concerned that a fund with a single investor will attract the attention of tax authorities and deem the fund as taxable. There are also additional fixed costs (other than management fees) which are usually spread across several investors which the City will have to pay on its own should the fund continue. Given this situation, Fiera has decided to close the fund.

The CCF fund continues to have StonePine Asset Management ("StonePine") as Sub-Advisor to the fund. StonePine also manages other similar global equity offerings for Fiera so other options using the same manager and strategy is under review by Aon. A recommendation and course of action will follow when the review is completed.

In the meantime, Fiera has agreed to pay any of the fixed costs that were covered by the other investor that exited the fund so the City will not be negatively affected.

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

The procurement of an ESG data service provider approved by the Board has now been completed. A separate report dealing with this item has been prepared.

Current Asset Mix and Rebalancing

Contributions totaling $63 million were received by the Sinking Fund (SF) in the first quarter of 2023. These funds were then transferred to the fixed income managers to re-balance the SF portfolio. Table 1 below details the transfers completed and made on January 27, 2023.

Table 1
Transfers to Rebalance Fund on January 27, 2022

From	To	Investment Manager	Amount	Purpose
Cash	Sinking Fund	Fiera (Fixed Income)	$31.5 million	Rebalancing
		Addenda (Fixed Income)	$31.5 million	Rebalancing

The Current Funding Status of Long-Term Fund ("LTF") and Sinking Fund ("SF") as at May 27, 2023 is shown in Attachment 1. 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 - Current Funding Status of the LTF and the SF