REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Environmental, Social, and Governance Reporting Update

Date: June 4, 2023
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

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

SUMMARY

The Toronto Investment Board (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 (ESG) performance. This non-competitive procurement was recommended as the result of an unsuccessful invitational Request for Proposal (iRFP) in early 2021.

This procurement 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 external investment firms hired by the Board are compliant with the terms of the Investment Policy with respect to ESG factors.

The Board selected a vendor, and an alternate vendor, at its meeting in September 2021 to initiate the non-competitive procurement process. An agreement was reached and a three-year contract was signed the vendor in April 2023.

Since an agreement has been reached, it can be disclosed that the vendor is MSCI Inc. (MSCI) along with its subsidiary company MSCI ESG Research LLC. A general description of the ESG Ratings Service can be found in Attachment 1.

In addition, the agreement also includes the MSCI Carbon Portfolio Analytics reporting package that is part of MSCI's Climate Lab Enterprise. Carbon Portfolio Analytics reporting from MSCI ESG Research helps investors understand, measure and manage

carbon risk at the portfolio, sector, and company level. A brief overview of this tool can be found in Attachment 2.

Both of these MSCI products are provided on a managed service basis. This requires City staff to upload the portfolio information to MSCI via a secured portal and then MSCI will generate reports on each portfolio as well as on a consolidated basis for both the Long-Term Fund (LTF) and the Sinking Fund (SF). Comparison information against a benchmark index is also provided.

The information from MSCI is proprietary and confidential. There are a number of identifiable individual companies and governments in their detailed reports. The agreement with MSCI allows for the viewing and use of the information on a confidential basis by a limited number of City staff, the Board, and City Council. The contract does allow for the public use of general consolidated information on a limited basis.

The process to score the portfolios and generate reports via the MSCI system was initiated in May 2023, however final reports were not received until May 31, 2023 which is close to the deadline for this report. Staff are still reviewing the materials however some preliminary consolidated data is provided in this report as well as in Confidential Attachment 1 and Confidential Attachment 2.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1 and Confidential Attachment 2 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

There is no financial impact to the City's operating or capital budgets as a result of this report.

DECISION HISTORY

At its meetings on September 9, 2021, the Toronto Investment Board authorized the Director, Capital Markets to initiate a non-competitive procurement to retain a recommended third-party information provider identified in a confidential attachment and in the alternative, to retain the second recommended third-party information provider identified in the same attachment. The Board also authorized the Chair or Vice-Chair to execute the agreement with the recommended provider once negotiations were completed.
https://secure.toronto.ca/council/agenda-item.do?item=2021.IB13.5

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 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 ESG factors.
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

At its meeting on January 29, 2020, City Council referred Item CC14.4 to the Executive Committee for further consideration.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC14.4

At its meeting on December 4, 2019, the Toronto Investment Board received a report which provided a brief update on the changes to the Investment Policy regarding ESG. The board requested the Director, Capital Markets to report on the governance options as it pertains to the ESG factors and to review the various service providers of this data.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.3

At its meetings on October 2 and 3, 2019, City Council referred item EX8.3 to the Chief Financial Officer and Treasurer, and requested the Chief Financial Officer and Treasurer, in consultation with the Investment Board and the Toronto Atmospheric Fund, to report to the January 29 and 30, 2020 meeting of City Council on additional improvements to the investment policy regarding ESG.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX8.3

At its special meeting on May 10, 2019, the Toronto Investment Board received a report which requested changes to the Investment Policy regarding ESG. The board requested the Executive Director, Corporate Finance to include recommendations to enhance and update the Investment Policy with regard to ESG factors.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB2.1

COMMENTS

MSCI Inc. and MSCI ESG Research LLC

As outlined in the attachments, MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, they power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. They create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. In a report published in 2021 by consulting firm Willis Towers Watson, MSCI ESG Research's climate solutions are used by 17 of the top 20 world's largest Asset Managers.

An agreement between the Board and MSCI was completed and signed in April 2023. The term for this contracted service is three years and is renewable on an annual basis. The non-competitive procurement was recommended as the result of an unsuccessful invitational Request for Proposal (iRFP) in early 2021.

MSCI ESG Ratings

Attachment 1 provides an overview of the MSCI ESG Ratings. A summary of the points in this material:

- MSCI ESG Ratings uses a rules-based methodology designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks.

- ESG Rating of 8,500 companies (14,000 issuers, including subsidiaries) and more than 680,000 equity and fixed income securities globally (as of 2020).

- Key ESG Issue scores and weights combine to create an overall ESG rating (AAA – CCC) relative to industry peers. Ratings are subject to industry and market-led checks and formal committee review.

MSCI Carbon Portfolio Analytics

Carbon Portfolio Analytics reporting from MSCI ESG Research helps investors understand, measure and manage carbon risk at the portfolio, sector, and company level. A brief overview of this tool can be found in Attachment 2.

A summary of the points in this material:

- The MSCI Climate Risk Center in Zurich acts as the focal point for climate change risk analytics. It includes a team of more than 40 climate specialists dedicated to modeling, methodology and client support.

- Data that covers nearly 10,000 companies (15,000 including subsidiaries) and more than 95% of the global value of equity, fixed income, sovereign debt and real estate markets (as of 2022).

Preliminary Results - MSCI ESG Ratings

Confidential Attachment 1 provides a summary of the MSCI ESG Rating on the Long Term Fund (LTF) while Confidential Attachment 2 provides the ESG Rating on the Sinking Fund (SF). Staff are still working with MSCI to understand and interpret the data and the reporting.

Table 1 and Table 2 below provides some highlights of the consolidated information for the Long-Term Fund (LTF) and the Sinking Fund (SF) respectfully.

Table 1 - Summary of the MSCI ESG Rating on the Long-Term Fund (LTF)

Scoring Metric	**Portfolio (LTF)**	**Benchmark (Blended)**	**Comments**
Overall Score	AA	AA	N/A
ESG Rating	7.3	7.24	N/A
Carbon Risk Score	127.0	170.5	25.5% less than Benchmark
Reputational Risk	0.1	0.2	Low Reputational Risk
Governance Risk	Leaders - 32.2% Laggards - 3.0%	Leaders - 17.4% Laggards - 4.2%	Leaders are 14.8% greater than benchmark

Table 2 - Summary of the MSCI ESG Rating on the Sinking Fund (SF)

Scoring Metric	**Portfolio (LTF)**	**Benchmark (Blended)**	**Comments**
Overall Score	AA	AA	N/A
ESG Rating	7.45	7.26	N/A
Carbon Risk Score	87.2	166.5	47.6% less than Benchmark
Reputational Risk	0.1	0.2	Low Reputational Risk
Governance Risk	Leaders - 14.9% Laggards - 2.9%	Leaders - 16.0% Laggards - 4.1%	Leaders are 1.2% less than benchmark

These results were based on the LTF and SF portfolios as at December 31, 2022. While the MSCI information database is quite large, it does not cover all of the securities in the portfolios and the Market Value Coverage information on each metric is provided in the confidential report.

The Carbon Analytics Report is a detailed report which will be provided at a later date, following a City staff review of the information with MSCI.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 - MSCI ESG Ratings
Attachment 2 - MSCI Climate and Net-Zero Solutions
Confidential Attachment 1 - MSCI ESG Portfolio Summary Report - LTF
Confidential Attachment 2 - MSCI ESG Portfolio Summary Report - SF