

Alternative Investment Request

Date: April 13, 2023
To: Board of Directors of the Toronto Atmospheric Fund
From: Vice President, Impact Investing

REASON FOR CONFIDENTIAL INFORMATION

The Confidential Attachment to this report contains commercial and financial information, supplied in confidence to the Toronto Atmospheric Fund, which, if disclosed, could reasonably be expected to significantly prejudice the competitive position, or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

On the recommendation of the Investment Committee, the Vice President Impact Investing recommends an investment in two Infrastructure Funds. These investments will diversify TAF's portfolio in keeping with the asset allocation targets in the Statement of Investment Objectives and Principles (SIOP) and provide risk-adjusted returns and mandate-related impact.

RECOMMENDATIONS

The Vice President, Impact Investing recommends that the Board of Directors of the Toronto Atmospheric Fund:

1. Approve a total investment of \$5,750,000 in two Alternative Investment Infrastructure Funds as detailed in Confidential Attachment 1.
2. Adopt the Consumer Price Index (CPI) plus 4% as the appropriate benchmark to assess the performance of the Infrastructure Funds within TAF's Alternative Investments asset class.
3. Direct staff to implement the investment transactions subject to the satisfaction of TAF's Solicitor and execution by the City Chief Financial Officer.
4. Instruct the City Clerk to make public the name of the Infrastructure Fund Managers and their funds and amount of the investment commitments following the close of each proposed investment transaction, and direct that the balance of Confidential Attachment 1 remain confidential as is contains commercial and financial information, supplied in confidence to the Toronto Atmospheric Fund

which, if disclosed, could reasonably be expected to significantly prejudice the competitive position, or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

FINANCIAL IMPACT

There is no financial impact to the City resulting from the adoption of the recommendations in this report.

DECISION HISTORY

On March 27, 2023, the Investment Committee directed the Vice President Impact Investing to recommend that TAF's Board of Directors approve a total investment of \$5.75 million in two Alternative Investment Infrastructure Funds, detailed in Confidential Attachment 1.

At the meeting held June 15 and 16, 2022, City Council approved an amended Statement of Investment Objectives and Principles (SIOP) of the Toronto Atmospheric Fund, providing the Alternative Investments asset class definition and the opportunity for TAF to invest in Infrastructure Funds under this asset class.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX33.8>

COMMENTS

In 2022, after the SIOP was amended to include the Alternative Investments asset class, TAF's third party investment advisor HUB/Proteus Performance Management was directed to conduct a search for an open ended, mid-market, infrastructure fund. This aims to diversify the portfolio with an allocation to assets that have low correlation to equities, attractive risk-adjusted returns and income yield, the potential ability to hedge against inflation, and mandate-related impact.

An Alternative Investments Subcommittee (the Subcommittee) was formed to support the search. After an extensive search using TAF's requirements HUB/Proteus initially identified four (4) prospective Fund Managers for the Subcommittee to consider. The Subcommittee presented to TAF's Investment Committee with two options which were developed after a process consisting of shortlisting prospective funds; undertaking fund manager interviews; then completing a comparative evaluation across ten (10) selection criteria and six (6) additional metrics aligned with TAF's investment strategy and impact focus.

TAF's Investment Committee unanimously recommended investment in two funds which embeds additional diversification in TAF's portfolio and also helps to mitigate against any differential between the funds' cash yields in the early years of TAF's investments. Details on the recommended fund managers are included in Confidential Attachment 1.

The Subcommittee and the Investment Committee acknowledged a \$5.75 million total commitment to the two infrastructure funds will result in an asset allocation slightly above TAF's target allocation percentage. However it is noted that that TAF does not value direct investments or private equity fund assets at market values which means the Net Asset Value is moderately understated. Both the Subcommittee and Investment Committee members were satisfied with the investment recommendation given the asset allocation will remain well below the maximum.

Section 6.3 of the SIOP establishes five asset classes: Cash, Fixed Income, Public Equities, Direct Investments, and Alternative Investments. Section 4.3 (a)(v) of the SIOP states the Investment Committee (IC) is to advise and seek approval of the Board for appropriate and recognized benchmarks for each asset class and for each external fund manager. The performance of TAF's investment assets is compared against these benchmarks on a regular basis. No internationally recognized benchmark is available for infrastructure funds. As such, consideration was given to the benchmark suggested by each prospective Infrastructure Fund Manager. The Consumer Price Index (CPI) plus 4% was determined by the IC and HUB/Proteus as the most appropriate benchmark since it is cost effective, objective, and relevant to both recommended Infrastructure Fund investments detailed in Confidential Attachment 1.

Article 5.1.2 of TAF's Relationship Framework with the City of Toronto notes that under the TAF Act, the City's Chief Financial Officer (CFO) is the custodian and has oversight of the TAF funds. The approval of the CFO is necessary for TAF to enter into a contract with a new investment manager.

CONTACT

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1: Alternative Investments