TORONTO

REPORT FOR ACTION

Real Assets Update

Date: March 16, 2024
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

The purpose of this report is to update the Toronto Investment Board ("Board") on the progress to date regarding the hiring of external investment managers in the Real Assets category.

RECOMMENDATIONS

The Director, Capital Markets recommends that the Toronto Investment Board receive this report for information.

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 11, 2023, the Toronto Investment Board received a report (November 24, 2023) from the Director, Capital Markets, on the progress to date regarding the hiring of external investment managers in the Real Assets category.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB5.4

At its meeting on September 29, 2023, the Toronto Investment Board received a report with confidential attachments (September 15, 2023) from the Director, Capital Markets, on the progress to date regarding the hiring of external investment managers in the Real Assets category.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB4.4

At its meeting on June 19, 2023, the Toronto Investment Board received a report (May 25, 2023) from theDirector, Capital Markets, on the progress to date regarding the hiring of external investment managers in the Real Assets category.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB3.4

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 was presented a short-list of potential Global Real Estate investment managers which was developed by the investment consultant. The Board was informed that interviews and evaluations of the short-listed investment managers would commence and that staff will report back to with a recommendation upon completion.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB13.4

At its meeting on June 2, 2021, the Toronto Investment Board requested the investment consultant, in consultation with City staff, to proceed with a manager search and evaluation for the Real Estate asset class within the guidelines of the Council-approved Investment Policy and report to the next meeting of the Toronto Investment Board.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.IB12.5

At its meeting on July 8, 2020, the Toronto Investment Board received an informational report with a confidential attachment that provided a listing of possible investments in the Real Assets category.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.IB7.5

At its meeting on December 4, 2019, the Toronto Investment Board received a memorandum from the investment consultant entitled "Real Assets Roadmap" which outlined the rationale to consider Real Estate and Infrastructure investments in both core and open-ended funds with a North American/Global focus. The Board also adopted a report which recommended the Investment Policy be amended to change the geographical scope of the both Real Estate and Infrastructure sub-categories to North American/Global Core (from Canadian Core and Global Core respectively).
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.IB5.6

At its meeting on November 13, 2018, the Toronto Investment Board requested the Executive Director, Corporate Finance and the Investment Consultant, Aon Hewitt, take the necessary steps to implement City Council's Investment Policy in regards to Real Assets.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB8.3

At its meeting on September 6, 2018, the Toronto Investment Board directed staff to invest the 10 percent of the overall portfolio allocated to Real Assets in other liquid asset categories in order to maintain future flexibility to invest in Real Assets, provided the guidelines of the Council-approved Investment Policy are maintained. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.IB7.5

COMMENTS

The hiring of investment managers in the Real Assets category as selected by the Board is nearing completion. The majority of information has been received and reviewed and the process is approaching the final contract signing stage.

The final documents for one of the managers may be delivered by the date of the Board meeting (April 3, 2024). The Director, Capital Markets will provide a verbal update on the progress to date at the meeting.

Regarding the allocation to each of the real estate managers, we will provide funds from each of the LTF and SF current cash positions and will be in accordance with the Investment Plan (Attachment 1) as adopted by the Board in 2020. As indicated in the Investment Plan, the Real Estate allocation target is five per cent with a maximum of ten per cent. Given the Board has chosen two managers, the target allocation will be split in half (2.5 per cent to each manager) however may exceed this target to accommodate future cashflows. Funding for the mandates will most likely take place during the current year 2024.

A review of the current cash positions in the LTF and SF by the Capital Markets staff has been completed. In addition, a forecast of the balances which included the future cash transfers from the STF to the LTF, as well as the contributions and the debt maturities for the SF were considered when developing a plan for the initial funding for these two mandates as outlined in Table 1 below. While these amounts will slightly exceed the target, they are within the maximum allowed by the Investment Policy and Investment Plan. As well, there is currently cash available to fund these mandates.

Table 1: Initial Funding Amounts for the Real Estate Investment Managers

City of Toronto Fund	**Manager 1 (in millions, CAD)**	**Manager 2 (in millions, CAD)**
Long-Term Fund (LTF)	$170	$170
Sinking Fund – 2% Sub Fund	$80	$80
Total Investment in Real Estate	**$250**	**$250**

The Investment Plan, along with the names of each manager, will be updated after final documents are signed.

CONTACT

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SIGNATURE

Randy LeClair
Director, Capital Markets

ATTACHMENTS

Attachment 1 - Investment Plan - November 18, 2020