REPORT FOR ACTION

Investment Manager and Other Updates

Date: March 19, 2024
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.

Further to the announcement in early 2023 regarding the Fiera Capital Corporation ("Fiera") decision to close the Fiera Global Equity Common Contractual Fund ("Fiera CCF"), several options have now been proposed and considered. Currently, a single solution continues to be reviewed by the investment consultant, external legal and tax advisors along with City staff and is near completion. A recommendation and course of action will follow when the review is complete. Fiera will continue to cover all the fixed costs for Fiera Common Contractual Fund ("Fiera CCF") until the transition to the new solution is completed.

City staff have started the transfers between the Short-Term Fund (managed internally) and the Long-Term Fund (managed by the Board) as well as re-balancing of the Sinking Fund. A summary of the transfers are outlined in this 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.

Recent organization changes at Addenda Capital and Connor, Clark, and Lunn are provided in Attachment 2 and 3 respectively to this report.

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 the report (November 23, 2023) from the Director, Capital Markets, Office of the Chief Financial Officer and Treasurer for information.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB5.3

At its meeting on September 29, 2023, the Toronto Investment Board received the report (September 7, 2023) from the Director, Capital Markets, Office of the Chief Financial Officer and Treasurer for information.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB4.3

At its meeting on June 19, 2022, the Toronto Investment Board authorized 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.
https://secure.toronto.ca/council/agenda-item.do?item=2023.IB3.3

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

COMMENTS

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

The Fiera CCF 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 Fiera CCF only had one additional investor other than the City of Toronto but the other investor has exited the fund leaving the City of Toronto as the sole investor in the fund. Fiera and the City's tax advisor are concerned that a fund with a single investor will attract the attention of tax authorities and deem the fund as taxable. Several options were considered, and a single solution has been identified and is now under review by external legal and tax advisors along with City staff. A recommendation and course of action will follow when the review is complete. Fiera will continue to cover all the fixed costs for Fiera Common Contractual Fund ("Fiera CCF") until the transition to the new fund can be completed.

Flow of Funds - Sinking Fund (SF)

As mentioned in previous reports, the SF is a sole-purpose portfolio that is used to retire the City of Toronto's public debt issues. The SF receives regular contributions and withdrawals according to by-laws set up when a debt issue is established. The asset mix will fluctuate often, especially at times when there is a large payment required for a debt maturity. For example, repayment of the $300 million debt maturity in May 2024 will require approximately $250 million equity sale proceeds (with the remainder funded by cash holdings.).

Furthermore, as cash contributions are received over time, the SF will be re-balanced as necessary to maintain the target asset mix. A total of $300 million was transferred to both fixed income managers to re-balance the SF portfolio in October 2023. Table 1 below shows the details.

Table 1: Transfers to Rebalance the Sinking Fund in October 2023

Investment Manager	**Amount**	**Asset Type Transferred**	**Purpose**
Addenda (Fixed Income)	$150 million	Cash	Rebalancing
Fiera LDI (Fixed Income)	$150 million	Cash	Rebalancing

Another round of rebalancing is targeted towards the end of May 2024 with the cash contributions held in the SF. A total of $261 million will be transferred to two fixed income managers ($130.5 million) and four global equity managers ($130.5 million). Table 2 provides more information on the distribution of these funds.

Table 2: Proposed Transfers to Rebalance the Sinking Fund in May 2024 (Inflows)

Investment Manager	**Amount**	**Asset Type to Transfer**	**Purpose**
Addenda (Fixed Income)	$65.25 million	Cash	Rebalancing
Fiera LDI (Fixed Income)	$65.25 million	Cash	Rebalancing
Oakmark (Equities)	$21.75 million	Cash	Rebalancing
Pier21(Equities)	$21.75 million	Cash	Rebalancing
Fiera Capital (Equities)	$21.75 million	Cash	Rebalancing
LGIM (Equities)	$65.25 million	Cash	Rebalancing
Total	**$261 million**		

While these amounts will be placed into various sub-funds of the SF, they are offset by a larger withdrawal (approximately $250 million) in another sub-fund to meet a debt maturity. The details of this withdrawal will be provided at the next meeting of the Board.

Flow of Funds - Long-Term Fund (LTF)

The LTF is generally used to hold funds for long-term Reserves and Reserve Funds of the City with an estimated time horizon of approximately ten years. Regular transfers into the LTF were planned but halted in 2020 with the onset of the pandemic. Given the precarious nature of the situation, a larger-than-usual cash position was allowed to build to address any short-term needs during this crisis. Those liquidity funds are held in the Short-Term Fund (STF) and managed internally by the Capital Markets group under the direction of the Chief Financial Officer and Treasurer (CFO&T).

Given the recovery from the pandemic, City staff have re-established the transfers from the STF to the LTF. The first $500 million transfer was executed at the end of January 2024 to fixed income managers as detailed in Table 3.

Table 3: Transfers from STF to LTF in January 2024

From	To	Investment Manager	Amount	Purpose
STF	LTF	CC&L (Fixed Income)	$250 million	Investment
		Leith Wheeler (Fixed Income)	$250 million	Investment

The second transfer is targeted for late April 2024 in the amount of $500 million. An update with allocations will be provided at the next Board meeting. It is anticipated with the fixed income mandates now close to target; an allocation close to the target asset mix will be used to distribute the new inflow of funds.

Current Asset Mix

The Current Funding Status of Long-Term Fund (LTF) and Sinking Fund (SF) as at February 29, 2024 is shown in Attachment 1. This document shows the market value of the current allocation by asset category and categorizes each of these by investment manager in each portfolio. This attachment also includes the available cash for each portfolio.

As shown in Attachment 1, the fixed income weighting is still slightly below target but within range for both the LTF and the SF. Similarly, the global equity positions for both portfolios are slightly over their target weights.

Addenda Capital - Organization Changes

A client communication in Attachment 2 was received from Addenda Capital on February 6, 2024. It details several internal promotions at the firm including:

- Ian McKinnon promoted to Chief Investment Officer. In his new role, Ian also oversees the equity teams and continues to work collaboratively with his colleague of the Active Duration and Commercial Mortgage teams.
- John Stilo promoted to Vice President, Core Fixed Income. In this role, he leads the team responsible for portfolio optimization strategies for insurance mandates and retains his role within the Investment Solutions team.
- Charles Leblanc promoted to Chief Operating Officer. In addition to his current duties, Charles will take responsibility for the Finance function. He remains responsible for operations and data management, information technology and business continuity.

- Yanick Desnoyers, promoted to Chief Economic Strategist, taking the lead of the Economic team and reporting to the Chief Investment Officer.

Connor, Clark & Lunn (CC&L) - Organizational Changes

A client communication in Attachment 3 was received from CC&L on March 14, 2024 noting:

- TJ Sutter, CFA has been promoted to Co-Head of the fixed income team. TJ joined CC&L in February 2021, after 10 years with RBC Capital Markets where he was a Director and Regional Head of the Fixed Income, Currencies and Commodities Group.
- TJ will partner with David George in the Co-Head role for the next two years as David transitions towards his retirement. David's support over this period will allow for a seamless transition of roles and responsibilities ensuring that we are able to continue to successfully meet client investment objectives.

CONTACT

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SIGNATURE

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Director, Capital Markets

ATTACHMENTS

Attachment 1 - Current Funding Status of the LTF and the SF (February 29, 2024)
Attachment 2 - Client Communication from Addenda Capital (February 6, 2024)
Attachment 3 - Client Communication from Connor, Clark & Lunn (March 14, 2024)