TORONTO

REPORT FOR ACTION

Investment Manager and Other Updates

Date: June 4, 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. Final documentation will be available in the next few weeks and staff are recommending the Board authorize the Chair or Vice Chair execute the necessary documentation once the external review is completed.

City staff continue to transfer funds from the Short-Term Fund (managed internally) and into the Long-Term Fund (managed by the Board) as well as re-balancing of the Sinking Fund. A summary of the transfers is 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.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board, after review by the external legal counsel and tax advisor, authorize the Chair or the Vice Chair of the Investment Board to execute the necessary documentation for the Fiera Capital Common Contractual Fund 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 April 3, 2024, the Toronto Investment Board received the report (March 19, 2024) from the Director, Capital Markets, Office of the Chief Financial Officer and Treasurer for information.
https://secure.toronto.ca/council/agenda-item.do?item=2024.IB6.3

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.

Fiera Capital has advised the final documentation, which will include a Letter of Direction, will be provided in the next few weeks. Staff are recommending the Board authorize the Chair or Vice Chair to execute the necessary documentation after a review by the external legal and tax advisor are 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. In preparation of the upcoming $300 million City of Toronto bond maturity in May 2024, $270.5 million of this repayment was funded by sale proceeds from the four global equity pooled funds and the remainder ($29.5 million) from cash holdings.

Table 1: Transfers for repayment of Sinking Fund debt in May 2024 (Outflows)

Investment Manager	**Amount**	**Asset Type Transferred**	**Purpose**
Pier21 (Equities)	$42.8 million	Cash	Debt Repayment
Fiera Capital (Equities)	$56.5 million	Cash	Debt Repayment
Oakmark (Equities)	$37.3 million	Cash	Debt Repayment
LGIM (Equities)	$133.9 million	Cash	Debt Repayment
Total	**$270.5 million**		

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.

Another round of rebalancing occurred in May 2024 with the cash contributions held in the SF with a total of $261 million 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. The next round of rebalancing is targeted for July 2024.

Table 2: 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)	$21.70 million	Cash	Rebalancing
Pier21(Equities)	$21.70 million	Cash	Rebalancing
Fiera Capital (Equities)	$21.70 million	Cash	Rebalancing
LGIM (Equities)	$65.25 million	Cash	Rebalancing
Total	**$260.85 million**		

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.

The second $500 million transfer was completed in April 2024 and mirrored the first transfer in January (also shown in Table 3). The next round of transfer is targeted to be $500 million in early July 2024 and will be distributed according to the target asset mix guidelines of the Investment Policy and Investment Plan.

Table 3: Transfers from STF to LTF in January 2024 and April 2024

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

Current Asset Mix

The Current Funding Status of Long-Term Fund (LTF) and Sinking Fund (SF) as at May 31, 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. All asset class weights are within the limits on the Council-approved Investment Policy.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Current Funding Status of the LTF and the SF (May 31, 2024)