

Environmental, Social, and Governance Reporting Update

Date: June 6, 2024

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) engaged MSCI Inc. (MSCI) and its subsidiary MSCI ESG Research LLC as its Environmental, Social and Governance (ESG) Ratings service provider. The agreement was in response to City Council's request to the Toronto Investment Board (Board) and the Chief Financial Officer and Treasurer (CFO&T) to monitor and report on the performance of the external investment firms hired by the Board with respect to ESG factors according to the Investment Policy.

In addition, the agreement includes the MSCI Carbon Portfolio Analytics reporting package that is part of MSCI's Climate Lab Enterprise, a comprehensive set of climate data and analytics. Carbon Portfolio Analytics reporting from MSCI ESG Research helps investors understand, measure and manage carbon risk at the portfolio, sector and company level.

Both MSCI products are being provided on a managed service basis whereby City staff provide portfolio information to MSCI via secured channels and MSCI generate reports on a portfolio and consolidated basis for the Long-Term Fund (LTF) and Sinking Fund (SF).

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.

Portfolio holdings as at March 31, 2024 were submitted to MSCI in May 2024. Results were received as at the date of this report. Summary data is provided in this report as well as in Confidential Attachments 1, 2, 3 and 4.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1, Confidential Attachment 2, Confidential Attachment 3, and Confidential Attachment 4 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 meeting on April 3, 2024, the Toronto Investment Board received an informational report (March 16, 2024) with four confidential attachments that provided a scoring of the Long-Term Fund and the Sinking Fund on ESG metrics as well as Carbon Portfolio Analytics.

<https://secure.toronto.ca/council/agenda-item.do?item=2024.IB6.5>

At its meeting on December 11, 2023, the Toronto Investment Board received an informational report (November 24, 2023) with four confidential attachments that provided a scoring of the Long-Term Fund and the Sinking Fund on ESG metrics as well as Carbon Portfolio Analytics.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.IB5.5>

At its meeting on September 29, 2023, the Toronto Investment Board received an informational report (September 11, 2023) with four confidential attachments that provided a scoring of the Long-Term Fund and the Sinking Fund on ESG metrics as well as Carbon Portfolio Analytics.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.IB4.5>

At its meeting on June 19, 2023, the Toronto Investment Board received an informational report (June 4, 2023) with two confidential attachments that provided a

scoring of the Long-Term Fund and the Sinking Fund on ESG metrics.
<https://secure.toronto.ca/council/agenda-item.do?item=2023.IB3.5>

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 (November 15, 2019) 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 (March 28, 2019) 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 ESG Ratings - Results

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 continue to work with MSCI to understand and interpret the data and reporting. MSCI also provides individual reports on each externally managed portfolio mandate. Although they are not attached to this report, they can be provided to the Board as necessary.

The MSCI ESG Ratings provide metrics in several areas which are combined for the ESG Rating number which then convert to an Overall Score. The Overall Score scale is presented in Table 1 below:

Table 1 - MSCI Overall Scoring Scale

LEADER	AAA
	AA
AVERAGE	A
	BBB
	BB
LAGGARD	B
	CCC

The overall score in both portfolios (LTF and SF) remain the Leader (AA) category.

MSCI Carbon Portfolio Analytics Report - Results

The Carbon Portfolio Analytics Report provides a detailed analysis focused on environmental issues and more specifically measures the average weighted carbon intensity within each externally managed portfolio mandate. Two summary reports for the LTF and the SF are attached to this report.

MSCI ESG Research defines portfolio weighted average carbon intensity as a measure of a portfolio's exposure to carbon related potential market and regulatory risks and is computed as the sum product of the portfolio companies' carbon intensities and weights. More information on the metrics is included in the appendix of each confidential attachment.

Confidential Attachment 3 provides a summary of the MSCI Carbon Portfolio Analytics Report on the LTF while Confidential Attachment 4 provides the Carbon Portfolio Analytics Report on the SF. Staff continue to work with MSCI to understand and interpret the data and the reporting.

CONTACT

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SIGNATURE

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Director, Capital Markets

ATTACHMENTS

Confidential Attachment 1 - MSCI ESG Portfolio Summary Report - LTF
Confidential Attachment 2 - MSCI ESG Portfolio Summary Report - SF
Confidential Attachment 3 - MSCI Carbon Portfolio Analytics Report - LTF
Confidential Attachment 4 - MSCI Carbon Portfolio Analytics Report - SF