REPORT FOR ACTION

Review of the Global Equity Mandates - Implementation Rationale

Date: August 30, 2024
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

SUMMARY

The purpose of this report is to provide the Toronto Investment Board ("Board") with a review of the global equity mandates and explain the rationale underlying the selection of investment managers for this asset class.

A presentation by the investment consultant (Aon) provides background and decision making of the Toronto Investment Board (Board) in 2018.

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 June 20, 2024, the Toronto Investment Board received a report (June 3, 2024) from the Director, Capital Markets, on the Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2024.
https://secure.toronto.ca/council/agenda-item.do?item=2024.IB7.3

At its meetings on April 5, 2018, he Toronto Investment Board adopted the Investment Plan described in Attachment 1 to the report (March 20, 2018) from the Acting Executive Director, Corporate Finance with revision, deleting references to real assets in the Transition Plan and in the Investment Management Structure.
https://secure.toronto.ca/council/agenda-item.do?item=2018.IB4.5

COMMENTS

At the Board's meeting on June 20, 2024, the Toronto Investment Board received a report from the Director, Capital Markets, on the Sinking Fund and Long Term Fund - Performance and Compliance Update for the First Quarter of 2024. During the discussion of several of the global equity funds performance, a question was raised regarding the investment holdings composition of one of the investment managers, Legal & General Investment Management (LGIM). The Board was specifically interested in understanding the screening process (known as "Factoring"), or how a security might be included or excluded within the fund. There were also questions about other global equity mandates within this asset class.

To have a better understanding of the various mandates within the global equity asset class, city staff and the investment consultant (Aon) thought a review of the original analysis and decisions of the Board in 2018 may provide a starting point and perspective before getting into the specifics of each of the four mandates. In addition, it should be noted all four global equity investment managers are scheduled to give presentations to the Board in September and December.

As a precursor to having the fund manager offer a formal presentation to the Board, the investment consultant, Aon, agreed that a review the global equity mandates and an explanation of the implementation rationale underlying the selection of the investment managers would be appropriate at this time. The details of the review are contained in Attachment 1 of this report.

Key points from the review are summarized below.

- Middle-ground investment options on the fees-performance spectrum address the Board's investment needs. Factor Investing provides the possibility of generating alpha over a Passive investment but does not cost as much, and may offer greater diversification, versus unconstrained active investment management. Factor Investing also offers better downside performance versus Passive investment.

- Broader mandates and concentrated (high conviction) portfolios provide the best opportunity to add value from active management. High conviction managers generally have high tracking error; however, this can be mitigated through other portfolio construction measures.

- Multi-manager equity portfolios offer diversification. However, Factor investing may be preferable to having too many active mangers. Having fewer managers may reduce fees and provide an opportunity to direct greater funds to best performing managers.

- The current set up of the Board's equity portfolio consists of a diversified passive multi-factor Core position with three unconstrained global equity manager Satellite positions. Currently, 50% of the global equity mandate is allocated to the Core position, with the remaining allocation split equally among three unconstrained global equity manager Satellite positions.

The investment consultant, Aon, will provide further detail of the review through a prepared presentation to the Board.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Presentation from Aon - Equity Implementation Rationale