REPORT FOR ACTION

Investment Manager and Other Updates

Date: September 8, 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.

With regard to Fiera Capital Corporation ("Fiera") and the closing of the Fiera Global Equity Common Contractual Fund ("Fiera CCF"), after several months of review by the investment consultant, external legal, tax advisors and City staff a decision has been reached to proceed with the in-kind transfer of the assets of the old fund to a new fund that has a Canadian pooled fund structure, which was determined to be the most efficient structural option from a tax, cost and scale perspective. The City's external legal advisor and the tax advisor have reviewed the documentation and transaction view that there are no risks prohibitive to the City entering into the transaction from a legal or tax perspective in the new fund. At the previous meeting of the Board, the Chair or Vice Chair were authorized to execute the necessary documentation to bring this transaction into effect. A Letter of Direction has been approved, signed and sent to Fiera to proceed with the transaction. Fiera is targeting the transfer to take place in mid-September, however, may take up to three months to effectively complete the transaction.

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. In addition, initial funding for a manager in the Real Assets category was completed. A summary of the transfers completed after June 30th 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 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 authorized, after review by the external legal counsel and tax advisor, 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.
https://secure.toronto.ca/council/agenda-item.do?item=2024.IB7.4

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 which are specifically named in legislation as a non-taxable entity. The City's tax advisor recommended to minimize co-mingling with these other non-taxable entities as it could result in punitive charges by other investors should the City's funds be declared as taxable under United States tax law. Initially, Fiera CCF had a total of two investors, including the City of Toronto. However, the other investor has exited, leaving the City of Toronto as the sole investor of 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. In addition, the fund was inefficient from a cost and scale perspective. After several months of legal review, the tax advisor recommended the best option would be to invest in a Canadian pooled fund structure. Fiera launched a new fund with this structure to achieve this. At the previous meeting of the Board, the Chair or Vice Chair were authorized to execute the necessary documentation to bring this recommendation into effect.

The new fund, like the old fund, both: (i) employ a concentrated global equity investment strategy; and (ii) have PineStone Asset Management appointed as sub-advisor to provide investment advisory and portfolio management services. Fiera states that the investment strategy of the new fund and the old fund are identical. To affect the investment into the new fund, the City executed a Letter of Direction whereby the City directed Fiera to transfer all securities currently in the old fund to the new fund through an in-kind transaction, with any residual cash being invested on the City's behalf into the new fund. In effect, the City's security holding exposure will not be affected by this transaction. Lastly, the Letter of Direction states that an investment by the City in the new fund will be pursuant to and in accordance with the Investment Management Agreement currently in place between the City and Fiera dated April 23, 2019.

The City's external legal advisor is of the view that there are no risks prohibitive to the City entering into the transaction. Furthermore, the City's tax advisor does not have any U.S. tax concerns with respect to the transaction or an investment in the new fund.

Fiera is targeting the transfer to take place in mid-September, however may take up to three months to effectively complete the transaction. 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 cash contributions are received over time, the SF is re-balanced as necessary to maintain the target asset mix. A total of $201 million was to re-balance Global Equity and Fixed Income portfolios in July 2024. Table 1 further details the allocation of these funds.

Further to the re-balancing, an additional $80 million was used to provide initial funding for the Real Asset category. Table 2 further details the allocation of these funds.

Table 1: Transfers to Rebalance the Sinking Fund in July 2024 (Inflows)

Investment Manager	**Date**	**Amount**	**Purpose**
Addenda (Fixed Income)	July 2024	$60 million	Rebalancing
Fiera LDI (Fixed Income)	July 2024	$60 million	Rebalancing
Fiera CCF (equities)	July 2024	$27 million	Rebalancing
Oakmark (Equities)	July 2024	$27 million	Rebalancing
Pier 21(Equities)	July 2024	$27 million	Rebalancing
Total		$201 million	

Table 2: SF Investments - Initial Funding of Real Asset (Global Real Estate) Mandate

Investment Manager	Amount	Asset Type Transferred	Purpose
UBS (Canada) GRE Fund (Real Assets)	$80 million	Cash (TIB STF)	Initial Funding

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. A total of $2 billion in transfers were planned for 2024 in four equal installments. In July 2024, the third installment of $500 million was transferred to the LTF, of which $356 million was for rebalancing and was set aside in the STF reserved for future investment in Real Assets in the LTF. Table 3 further details the allocation of these funds. The fourth transfer of $500 million is being planned for October 2024.

Table 3: Transfers from STF to LTF in July 2024

From	To	Investment Manager	Date	Amount	Purpose
STF	LTF	CC&L (Fixed Income)	July 2024	$178 million	Rebalancing
		Leith Wheeler (Fixed Income)	July 2024	$178 million	Rebalancing
		TIB STF (Money Market)	July 2024	$144 million	Future Investment - Real Assets
Total				$500 million	

Further to the transfers from the STF to the LTF, an additional $170 million available funds in the TIB STF was used to provide initial funding for the Real Asset category. Table 4 further details the allocation of these funds.

Table 4: LTF Investments - Initial Funding of Real Asset (Global Real Estate) Mandate

Investment Manager	Amount	Asset Type Transferred	Purpose
UBS (Canada) GRE Fund (Real Assets)	$170 million	Cash (TIB STF)	Initial Funding

Current Asset Mix

The Current Funding Status of Long-Term Fund (LTF) and Sinking Fund (SF) as at August 30, 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 (August 30, 2024)