

Environmental, Social, and Governance Reporting Update

Date: May 30, 2025

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 ESG Ratings Service provider. The agreement was in response to City Council's request to the Toronto Investment Board and the Chief Financial Officer and Treasurer 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). Benchmark index information is also provided for comparison.

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, 2025 were submitted to MSCI in May 2025. 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.

Discussions with Aon Solutions Canada (Aon) were held regarding ESG rating analysis and enhancements. As part of this review, separate discussions were held with the current third-party ESG information provider (MSCI) as the information is part of a service that is strictly confidential. During the meetings with MSCI, it was decided they could assist by ensuring one of their staff could attend Board meetings to respond to questions. The Director, Capital Markets recommends that the attendance of MSCI at Board meetings to be the most cost-effective solution while obtaining enhanced insights to the reports provided and responding to inquiries from the Board.

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 March 17, 2025, the Toronto Investment Board received an informational report (March 3, 2025) 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. A recommendation was adopted to investigate the fluctuations in the ESG score by involving the investment consultant (Aon) and to possibly provide further enhancements.

[Agenda Item History - 2025.IB10.5](#)

At its meeting on December 12, 2024, the Toronto Investment Board received an informational report (November 26, 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.

[Agenda Item History - 2024.IB9.3](#)

At its meeting on September 26, 2024, the Toronto Investment Board received an informational report (August 29, 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.IB8.7>

At its meeting on June 20, 2024, the Toronto Investment Board received an informational report (June 6, 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.IB7.6>

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 are working with MSCI to understand and interpret the data and the reporting. MSCI also provides individual reports on each externally managed

portfolio mandate. Although they are not attached to this report, they can be provided 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

Table 2 and Table 3 below provides highlights of the consolidated information for the LTF and the SF respectively.

Table 2 - Summary of the MSCI ESG Rating on the Long-Term Fund (LTF)

Scoring Metric	Portfolio (LTF)	Benchmark (Blended)	Comments
Overall Score	A	A	Within "Average" rating
ESG Rating	7.01	6.97	Within "Average" rating
Carbon Risk Score (T CO2E/\$M Sales)	139.6	158.4	11.9% less than benchmark Within "Moderate" range
Reputational Risk (Very Severe Controversy Exposure)	0.01%	0.03%	"Low" Reputational Risk
Governance Risk (Global Percentile)	Leaders 26.5% Laggards 3.2%	Leaders 16.0% Laggards 4.3%	Leaders are 10.5% greater than benchmark

Table 3 - Summary of the MSCI ESG Rating on the Sinking Fund (SF)

Scoring Metric	Portfolio (SF)	Benchmark (Blended)	Comments
Overall Score	A	A	Within "Average" rating
ESG Rating	7.09	6.97	Within "Average" rating
Carbon Risk Score (T CO2E/\$M Sales)	115.0	158.4	27.4% less than benchmark Within "Moderate" range
Reputational Risk (Very Severe Controversy Exposure)	0.00%	0.03%	"Very Low" Reputational Risk
Governance Risk (Global Percentile)	Leaders 14.1% Laggards 3.4%	Leaders 16.0% Laggards 4.3%	Leaders are 2.0% less than benchmark

These results were based on the LTF and SF portfolios as at March 31, 2025. While the MSCI information database is quite large, it does not cover all of the securities in the portfolios and the Market Value Coverage information on each metric is provided in the confidential attachments.

Since the last reporting, the blended benchmark Overall Score is currently rated "A". The portfolio Overall Score for the LTF and SF is currently rated "A" and within the "Average" rating.

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.

Table 4 and Table 5 below provides some highlights of the consolidated information for the LTF and the SF respectively.

Table 4 - Summary of the MSCI Carbon Portfolio Analytics on the Long-Term Fund (LTF)

Scoring Metric	Portfolio (LTF)	Benchmark (Blended)	Comments
Weight of Companies Owning Fossil Fuel Reserves	2.4%	2.3%	0.1% more than benchmark
Weight of Companies Offering Clean Technology Solutions	19.3%	15.2%	4.1% more than benchmark
Weighted Average Carbon Intensity Trend of Current Holdings (trend since 2015)	2015: 266.9 Current: 139.6 (Lower)	2015: 237.3 Current: 158.4 (Lower)	General improvement over time

Table 5 - Summary of the MSCI Carbon Portfolio Analytics on the Sinking Fund (SF)

Scoring Metric	Portfolio (SF)	Benchmark (Blended)	Comments
Weight of Companies Owning Fossil Fuel Reserves	1.8%	2.3%	0.5% less than benchmark
Weight of Companies Offering Clean Technology Solutions	26.0%	15.2%	10.8% more than benchmark
Weighted Average Carbon Intensity Trend of Current Holdings (trend since 2015)	2015: 203.5 Current: 115.0 (Lower)	2015: 237.3 Current: 158.4 (Lower)	General improvement over time

This second set of summary reports are prepared similarly to the MSCI ESG Ratings Report. As such, these results were based on the LTF and SF portfolios as at March 31, 2025. While the MSCI information database is quite large, it does not cover all the securities in the portfolios and the coverage information on each metric is provided in Confidential Attachments 1 to 4.

ESG Services Provided Aon Solutions Canada

Given the recent fluctuations in some of the ESG metrics from MSCI, the Director, Capital Markets recommended investigating additional ESG services provided by the Board's investment consultant Aon Solutions Canada Inc. ("Aon") at the last Board meeting. All the relevant information, along with the costs, was to be reported back to the Board.

Discussions with Aon were held regarding ESG rating analysis and enhancements. As part of this review, separate discussions were held with the current third-party ESG

information provider (MSCI) as the information is part of a service that is strictly confidential. During the meetings with MSCI, it was decided they could assist by ensuring one of their staff could attend Board meetings to respond to questions and to enhance the understanding of their reports. This service would be extended to the Board at no additional charge. The attendance of MSCI staff at Board meetings would be the most cost-effective solution while obtaining enhanced insights into the reports provided and responding to inquiries from the Board.

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