TORONTO

REPORT FOR ACTION

Review of the Global Equity Mandates - Revisiting the Implementation Rationale

Date: March 1, 2026
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 Board in 2018 and in 2024.

More recently, the Board has questioned the need for "Active" global equity managers versus a broad approach on having "Passive only" mandates given the performance of active managers against their benchmarks. The investment consultant (Aon) has provided an update to their presentation from 2024 that provides a rationale for having a "balanced" approach to this decision (Attachment 1).

In addition, Aon has provided a research paper entitled "Passively Becoming Active" (Attachment 2) which provides a statistical information on recent performance of passive and active investment managers and their benchmarks.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. 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 September 26, 2024, the Toronto Investment Board received a report (August 30, 2024) from the Director, Capital Markets, on the Review of the Global Equity Mandates - Implementation Rationale and a presentation from the Board's investment consultant Aon. The presentation provided an overview of the investment rationale related to the Board's investment in the Equity asset class.
https://secure.toronto.ca/council/agenda-item.do?item=2024.IB8.2

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

More recently, the Board has questioned the need for "Active" global equity managers versus a broad approach on having "Passive only" mandates given the performance of active managers against their benchmarks. The investment consultant (Aon) has provided an update to their presentation from 2024 that provides a rationale for having a "balanced" approach to this decision (Attachment 1).

At the Board's meeting on June 20, 2024, the 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.

As a precursor to having the fund managers offer a formal presentation to the Board in 2026, 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.

- Passive investing into cap-weighted indices has surged due to low cost and broad market exposure. However rising concentration in those indices means many “passive” investors are unintentionally making large active bets.

- A small number of mega-cap stocks now represent a large share of major indices. This amplifies: (1) stock-specific risk (idiosyncratic events in a few companies) and (2) sector and country biases

- 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 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 - Equity Implementation Rationale (Aon) - March 2026
Attachment 2 - Passively Becoming Active Report (Aon)