REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Review of the Passive Global Equity Mandate - Factoring Methodology

Date: March 6, 2026
To: Toronto Investment Board
From: Director, Capital Markets
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report involves the security of property belonging to the City of Toronto or one of its agencies or corporations.

SUMMARY

The current passive global equity mandate used in the City of Toronto's Long Term Fund (LTF) and the Sinking Fund (SF) uses a four-factor model to screen out certain undesirable equities. While this model has been adequate, there has been some recent drawbacks and underperformance versus established benchmarks.

The investment consultant (Aon) under their Aon Factoring Service (AFS) has been reviewing the factors in these current models and developing a new model they believe is an enhancement of the current mandate. Confidential Attachment 1 provides a presentation by AFS and a recommendation to transition to a new mandate that will strengthen long term outcomes.

Confidential Attachment 2 and Confidential Attachment 3 provides information on the specifics of the new mandate should the Toronto Investment Board (Board) adopt the recommendation from AFS to make this transition.

RECOMMENDATIONS

The Director, Capital Markets recommends that:

1. The Toronto Investment Board award the contract for investment management services to the firm set out in Confidential Attachment 2 to the report (March 6, 2026) and in accordance with the allocation of the transaction outlined in Confidential Attachment 3 to the report (March 6, 2026).

2. The Toronto Investment Board authorize the Chief Financial Officer and Treasurer, in consultation with the City Solicitor, to negotiate and execute an agreement with the firm selected as investment manager set out in Confidential Attachment 2 to the report (March 6, 2026), on terms satisfactory to City Solicitor and the Chief Financial Officer and Treasurer, and authorize the Chair or the Vice Chair of the Toronto Investment Board to execute such agreement on behalf of the Toronto Investment Board.

3. The Toronto Investment Board authorize the public release of name of the successful firm upon finalizing an agreement with the investment manager identified in Confidential Attachment 2 to the report (March 6, 2026).

4. The Toronto Investment Board direct that the confidential information contained in Confidential Attachment 1 to the report (March 6, 2026) and Confidential Attachment 3 to the report (March 6, 2026) 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 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 December 7, 2020, the Toronto Investment Board received a report (November 19, 2020) from the Director, Capital Markets called the Investment Manager Update which providing information on the final global equity manager mandate. In addition, the Investment Plan was updated and an additional attachment (Attachment 2) which was Aon Flash Report - Factor Service Changes 2019.

https://secure.toronto.ca/council/agenda-item.do?item=2020.IB10.3

At its meetings on April 5, 2018, the 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

Investment managers may be hired by the Board in accordance with section 51 of the prudent investor rules (Ontario Regulation 360/15). The Investment Board "may authorize an agent to exercise any of the Investment Board's functions to the same extent that a prudent investor, acting in accordance with ordinary investment practice, would authorize an agent to exercise any investment function."

Review of the Passive Global Equity Mandate - Factoring Methodology

On a basic level, individual investors have used some form of equity index funds for decades. They are a low-cost alternative that will hold all of the equities that reside in an index. The investment management companies have almost no active decisions to make and are considered "passive". The returns will track very closely to the reported return of the index (less the transaction cost).

However, as institutional investors have entered this passive index market, the need for a focused approach started to develop and evolve. For example, the need to exclude certain equities with undesirable qualities such as lack of market liquidity, or certain sectors with environmental or social impacts (e.g. tobacco, coal, defence contractors). Eventually "factor models" developed to assist with this passive approach. The idea was to remove these companies that may be a drag on the performance of the underlying index or benchmarks.

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The investment consultant (Aon) under their Aon Factoring Service (AFS) has been reviewing the factors in these current models and developing a new model they believe is an enhancement of the current mandate. Confidential Attachment 1 provides a presentation by AFS and a recommendation to transition to a new mandate that will strengthen long term outcomes.

It should be noted the mandate under consideration was also pre-screened to ensure they could agree to specific contracting criteria required by the City. These criteria include insurance requirements, standard of care, liability and indemnity provisions, disclosure requirements, taxation status, and the right to audit.

Although a sample of evaluation criteria is listed below, the methodology which includes the fee structure, and other items are being supplied to the Board in confidence and are proprietary to the investment consultant. In addition, this information may compromise the City's subsequent negotiations with the selected investment manager. A summary list of the selection criteria and due diligence will be reported back to the Board once discussions are finalized. Funding of this mandate is contained in Confidential Attachment 3 of this report. The Investment Plan will be updated and reported back following the successful completion of the changes described in Confidential Attachment 3.

The final evaluation criteria and interviews included, but were not limited to, these areas:

- Strong diversification;
- Attractive risk-return profile;
- Business Profile;
- Investment Staff;
- Investment Process (including ESG factors);
- Investment Risk;
- Operational Due Diligence;
- Performance Analysis;
- Terms and Conditions (including insurance, taxation, and fees);

Environmental, Social, and Governance Considerations

The level of consideration for Environment, Social and Governance (ESG) issues that investment managers incorporate in their investment process is also one of the key factors considered during the selection process. Confidential Attachment 1 addresses this item however further information will be collected when discussing the mandate with the investment manager identified in Confidential Attachment 2 and will be reported back to the Board when negotiations are completed.

Next Steps

The recommended list of investment managers is attached in Confidential Attachment 2 of this report for Board consideration and approval. The process for funding this new mandate is outlined in Confidential Attachment 3 for the Board's reference.

The Investment Plan (Section 2.05 Investment Management Structure) will be updated with the names of the recommended investment manager(s) listed in Confidential Attachment 2 if the Board approves the recommendation and once agreements with the recommended investment manager(s) are finalized.

CONTACT

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SIGNATURE

Randy LeClair
Director, Capital Markets

ATTACHMENTS

Confidential Attachment 1 - Presentation Aon Factor Service - Strategy Update
Confidential Attachment 2 - Award of New Mandate
Confidential Attachment 3 - Process for Funding the New Mandate