

PROPOSED INVESTMENT PRACTICES

Methodology to Determine Target Asset Allocation:

- The Asset Mix Subcommittee is responsible for recommending the Target Asset Allocation (the “Target Portfolio”).
- The Target Portfolio provides a strategic asset mix target over a medium to longer-term horizon.
- The Subcommittee will be made up of members of the Investment Committee and may include additional experts appointed by the Investment Committee.
- The Subcommittee will be supported by third-party investment advisor.
- The investment advisor will:
 - present a set of return, risk, and correlation assumptions (on a 7-10 year forecast horizon) for current and potential asset classes;
 - perform a forward-looking asset mix analysis;
 - secure input from the Subcommittee; and
 - present forecasted risk/return metrics for potential portfolios.
- The Subcommittee will use this analysis in developing an appropriate asset mix table and Target Portfolio, as well as any guidance on implementation, to recommend to the Investment Committee.
- The Target Asset Allocation will be adopted by the Investment Committee and conveyed to Board for information.

Benchmarking of Assets:

- TAF will work with its external managers and investment advisor to set appropriate benchmarks to evaluate performance. The financial performance benchmarks will be relevant to their asset class, investment style and objectives. These benchmarks will be used in the quarterly reports to monitor performance. In addition, TAF expects its managers to monitor the environmental impact using appropriate methodologies and benchmarks, which are to be established in the mandates.
- For TAF’s Direct Investments, a composite benchmark is utilized that is based on the mid-term Canadian bond market return plus a specified risk premium which considers the added diversification, credit and liquidity risk of the Direct Investments. This benchmark will be used annually to monitor performance. TAF also monitors the environmental impact (GHG reduction potential) of all Direct Investments.

Expected Portfolio Return:

- In determining return requirements, TAF will consider the long term operational, program and growth requirements for the organization.
- The return expectation for Direct Investments is generally risk-adjusted, with specific pricing established on a case-by-case basis.
- For annual budgeting purposes, projected return will be based on the advice of third-party investment advisor and Investment Committee considering market conditions, the current and target portfolio, and other relevant factors.
- Return in excess of the annual project return may be internally restricted in the Stabilization Fund, or if that is at its maximum, be retained and build capital or used for Board-approved expenses.

Maximum Allocation to Single Issuer:

- TAF holds units in pooled funds, therefore does not have any mechanism to set this parameter.
- In the context of hiring any external manager, their policy and practice to establishing and maintaining this parameter will be considered to ensure that TAF is comfortable with the outcome, and this would be established in their mandate(s).