



Statement of Investment Objectives & Principles (SIOP)

DRAFT

Draft pending TAF Board and City Council approval



STATEMENT OF INVESTMENT OBJECTIVES & PRINCIPLES

Note to Readers: This document should be read in conjunction with the TAF Act, the Relationship Framework, and agreements governing TAF's endowments, as may be amended from time to time.

SECTION 1: DEFINITIONS:

"Alternative Investments" means investments described in Section 7 of this document, and does not include Direct Investments.

"Asset Mix (or Asset Allocation)" means the proportion in which assets are divided among various types of Direct and Non-Direct Investments.

"City Investment Objectives" means the primary objectives outlined in the current version of the City Investment Policy, as may be amended from time to time.

"City Investment Policy" means the current policy that informs the City's investments, as adopted by the Toronto Investment Board and City Council, and as may be amended from time to time.

"Chief Financial Officer and Treasurer" or "CFO" means the person currently holding the position of the Chief Financial Officer and Treasurer for the City of Toronto as appointed Treasurer under the *City of Toronto Act, 2006*, who is also the same person referred to as "City Treasurer" in the *Toronto Atmospheric Act, 2005*, or other applicable regulation or agreements governing the Toronto Atmospheric Fund.

"Direct Investments" means mandate-related investments of the Fund that are made through investment vehicles available in the market including, but not limited to, loans (including senior debt, subordinated, convertible and other debt, and warehousing), debentures, mortgages, performance contract financing, purchase order financing, options, securities (including limited partnerships (both project and pooled), preferred shares and equity in privately-held and publicly-traded businesses), and loan guarantees. Such investments may include additional benefits for example options, rights, warrants and carbon attributes.

"Federal Funding Agreement" means the agreement among the Federation of Canadian Municipalities, the Toronto Atmospheric Fund and the City of Toronto dated August 25, 2020, or as may be amended from time to time with agreement of the parties, that governs the federal contribution to TAF described therein.

"Invested Fund Monies" means money used by the Toronto Atmospheric Fund for Direct or Non-Direct Investments, and for the purposes of this document are distinct from Mandate Fund Monies.

"Investment Manager Mandate" means the investment guidelines and objectives provided by TAF to its external third-party investment managers through this Statement of Investment Objectives and Principles or other advice.

"Mandate" means the mandate of the Toronto Atmospheric Fund, as described in Section 2.5 of this document.

"Mandate Fund Monies" means money used to advance the mandate of the Toronto Atmospheric Fund, as described in Section 2.5 of this document, and for the purposes of this document are distinct from Investment Fund Monies.

"Prudent Investor Standard" means the modern conception of the Prudent Man Rule that requires a trustee to act prudently and with caution, discretion, loyalty and care but does not restrict the assets in which a trustee can invest. The Prudent Investor Standard makes use of Modern Portfolio Theory and applies the standard of prudence to the entire portfolio rather than to individual investments. It identifies the fiduciary's central consideration as the trade-off between risk and return as found in the CFA Institute Standards of Practice Handbook.

"Relationship Framework" or "RF" means the Toronto Atmospheric Fund Relationship Framework with City of Toronto, as may be amended from time to time.

"RF Investment Objectives" means the investment objectives in the Relationship Framework.

SECTION 2: THE TORONTO ATMOSPHERIC FUND AND ITS MANDATE

- 2.1 The Toronto Atmospheric Fund ("TAF") is constituted under the *Toronto Atmospheric Fund Act, 2005* (the "TAF Act") as a corporation without share capital and a local board of the City of Toronto (the "City").
- 2.2 TAF was established by Toronto City Council ("Council") in 1991 to provide an asset base for grants and loans to support local projects that help stabilize the concentration of greenhouse gases in the atmosphere and improve local air quality.
- 2.3 The assets controlled by TAF (the "Fund") include the following funds duly received under the authority of the TAF Act, subject to Council approval as may be amended from time to time:
 - a) City of Toronto endowment;
 - b) Province of Ontario endowment;
 - c) Government of Canada endowment, under the auspices of the

- d) Federation of Canadian Municipalities; and any other funds duly received under the authority of the TAF Act and with Council approval.
- 2.4 The Fund assets are either used immediately to advance TAF's mandate (the "Mandate Fund Monies") or invested (the "Invested Fund Monies").
- 2.5. Section 4 of the TAF Act sets out the following objects of TAF governing the use of the Mandate Fund Monies to advance TAF's mandate:
 - a) To promote global climate stabilization by the reduction of emissions of greenhouse gases and greenhouse gas precursors into the atmosphere through public education, scientific research and technology development;
 - b) To promote air quality improvement;
 - c) To promote public understanding of global warming and their implications for the urban environment;
 - d) To create and preserve carbon sinks;
 - e) To promote energy conservation and efficiency; and
 - f) To provide support and funding for projects related to energy efficiency, global climate stabilization and air quality improvement in cooperation with non-government organizations, governments, industries, corporations, official committees, neighbourhood organizations, universities and public and private schools.
- 2.6 The Invested Fund Monies are to be managed in accordance with this Statement of Investment Objectives & Principles, together with the RF Investment Objectives, the TAF Act, and the Prudent Investment Standard in sections 27 of the *Trustee Act*, to ensure that TAF's mandate can be carried out on an ongoing, basis.

SECTION 3: PURPOSE OF THE STATEMENT OF INVESTMENT OBJECTIVES AND PRINCIPLES

- 3.1 The purpose of this Statement of Investment Objectives & Principles (the "SIOP") is to guide TAF with investing the Invested Fund Monies in accordance with the TAF Act, the RF Investment Objectives, and other applicable laws and policies and to direct and ensure continued prudent and effective investment management, ongoing preservation and financial well-being.
- 3.2 The SIOP has been developed by TAF in consultation with City of Toronto staff, recommended by the Investment Committee of the TAF Board of Directors (the "Investment Committee"), approved by the TAF Board of Directors (the "Board"), and adopted by City Council.
- 3.3 As it may require several months to effectively transition the Fund from its current policy and asset mix, TAF will be considered to be in compliance with

the SIOP if the Fund is in compliance within 12 months of City Council approval.

SECTION 4: TAF INVESTMENT GOVERNANCE

- 4.1 According to the TAF Act, Council may at its sole discretion delegate authority for investment management functions to the Board, consistent with the RF Investment Objectives. Council has delegated to the Board the following duties in relation to investments of the Fund:
- a) To appoint the members of the Investment Committee and Direct Investment Committee who possess the necessary experience and credentials to fulfill its objectives and Terms of Reference;
 - b) To consider and, if appropriate, approve the Investment Committee's recommendations regarding the SIOP;
 - c) To secure FCM's approval of any Investment Policy that would be applied to the investment of the Government of Canada assets;
 - d) To consider and, if appropriate, approve the Investment Committee's recommendations regarding engaging and terminating the investment manager(s) ("the Manager(s)") and therefore their Mandates that will assist in the management of the Fund; and
 - e) To consider and, if appropriate, approve the Direct Investment Committee's recommendations regarding Direct Investments
- 4.2 The Board delegates to the Investment Committee and Direct Investment Committee certain responsibilities with respect to overseeing the ongoing investment of the Fund. The Investment Committee and Direct Investment Committee are standing committees of the Board and operate in accordance with their Terms of Reference.
- 4.3 On behalf of the Board,
- a) the Investment Committee is responsible for:
 - i. Reviewing the SIOP at least once per year for continued alignment with TAF's mandate and to ensure that the SIOP complies with the TAF Act, the Trustee Act, the RF, other applicable legislation or governing agreements, and the requirements of TAF endowment agreements including the Federal Funding Agreement
 - ii. Formulating, and recommending for approval by the Board, any changes to the SIOP in keeping with 4.4;
 - iii. Monitoring the progress and performance of the Manager(s) and other investments and providing quarterly reports to the Board on the performance of the total Fund and any other aspects of investment management that the Investment Committee deems appropriate or as requested by the Board;
 - iv. Recommending an asset allocation to the Board, managing the asset mix within the allowable ranges, and taking steps to rebalance the asset

- allocation when it falls outside of allowable ranges;
- v. Advising the Board on the selection of the Manager(s) and Investment Manager Mandates and any other agents or advisors that may be necessary to prudently manage the Fund;
- vi. Communicating changes to the SIOP and Mandate to the Manager(s) and any other relevant parties;
- vii. Establishing appropriate and recognized benchmarks for each asset class and for each external manager, and used to monitoring performance. Benchmarks must be acceptable to the City CFO; and
- viii. Recommending actions which TAF should pursue as an investor to influence policies and investment conditions in the interests TAF's mandate.

b) the Direct Investment Committee is responsible for:

- i. Advising the Board on Direct Investment including any conditions that are relevant and may be necessary in keeping with prudent investing;
- ii. Overseeing that the conditions of investment established by the Board are duly implemented before investments are advanced;
- iii. Monitoring and evaluating the progress and performance of Direct Investments and providing quarterly reports to the Board, via the Investment Committee;
- iv. Communicating changes to the SIOP and Mandate to any relevant third parties;
- v. Ensure that the SIOP is compliant with the requirements of the Federal Funding Agreement, no less frequently than annually;
- vi. Establishing an appropriate compound benchmark, that must be acceptable to the City CFO, for this asset class and monitoring performance against this; and
- vii. Recommending actions which TAF should pursue as an investor to influence policies and investment conditions in the interests of TAF's Mandate.

4.4. In developing and modifying this Statement of Investment Objectives & Principles, TAF will:

- a) Align with the City Investment Objectives where relevant and feasible;
- b) Ensure consistency with the TAF Act and Relationship Framework
- c) Operationalize TAF's mandate and strategic directions established by the TAF Board; and
- d) Respond to other investment requirements which City Council may direct.

4.5 Any Member of the Board or Investment Committee or Direct Investment Committee, any employee of TAF, any Investment Portfolio Manager or Custodian, the Investment Advisor, and/or any employees or agents retained by individuals or entities referenced above to provide services to TAF is subject to the

Municipal Conflict of Interest Act and cannot accept any fee, brokerage, commission, gift or other consideration for or on account of any investment, purchase, sale, payment or exchange made by or on behalf of the Fund, with the exception of contractually agreed management and performance fees to which the Manager, Custodian or Advisor are entitled to receive.

SECTION 5: INVESTMENT OBJECTIVES & PRINCIPLES

5.1 The following objectives guide TAF's management of the Fund:

- a) Ensure a sufficient rate of return giving regard to the risk profile;
- b) Allow TAF to expend funds in a target range, to be set by the TAF Board from time to time, to achieve its mandate for grants, programs and related administrative activities;
- c) Ensure preservation of capital;
- d) Achieve investment and portfolio-level risk appetite that is consistent with the prudent investor standard as outlined in Sections 27-31 of the Trustee Act (Ontario);
- e) Ensure adequate liquidity such that TAF's on-going financial requirements can be met in an orderly and timely fashion;
- f) Allow for a mandate-related impact while avoiding investments in activities that may contravene TAF's mandate; and
- g) Ensure that investments comply with City Council's policy direction for the investment of TAF assets, applicable legislation, relevant agreements and investment objectives.

5.2 The following principles guide TAF's investment of the Fund.

- a) Asset management decisions should seek to optimize risk-adjusted return over a term of at least 20 years, not over a shorter term.
- b) Investment risk should be managed prudently through means that include diversification of uncorrelated asset classes, investment maturities; avoiding investments of low quality as may be defined by credit ratings or other means; taking security for loans, etc.
- c) TAF will invest consistent with its Mandate, which means prioritizing consideration of environmental, social and governance (ESG) factors, particularly factors that advance climate action and low-carbon opportunities. TAF can serve its Mandate by investing as permitted under the Trustee Act, including selecting investment managers for all asset classes who integrate ESG beliefs and practices and directly investing in a way that helps reduce greenhouse gas emissions, improve local air quality and generates revenue.
- d) TAF's investments should yield two equally important results, namely sufficient risk-adjusted returns, and greenhouse gas reduction and air quality improvement.
- e) Publicly listed equity securities and alternative investments provide the opportunity to invest broadly in the industrial makeup of Canada and other

countries and have, historically, outperformed fixed income securities over the long term.

- f) Investment in ~~publicly traded~~, high quality fixed income securities or highly liquid, high quality fixed income pooled funds which help to protect capital and meet short term cash flow needs in the event of economic challenges such as deflation, recession, or various interest rate scenarios. Where practicable, preference should be given to investments that align with TAF's mandate.
- g) Financing via Direct Investment will focus on optimizing risk-adjusted return, advancing greenhouse gas emission reductions and air quality improvement, market transformation, and attracting and leveraging co-investor relationships and additional investment, including opportunities to generate fees. This intention to yield both risk-adjusted return and GHG reduction and air quality improvement results may entail a higher-than-average allocation to direct investments than other funds.
- h) To further advance TAF's Mandate- and ESG-related objectives and principles, TAF's shareholder actions as an investor can be used, in concert with our investment managers and like-minded investors, to influence companies in their portfolio and regulatory, policy and investment conditions to help advance a low-carbon economy and reduce the concentration of greenhouse gases in the atmosphere and improve local air quality. By requiring all investment managers to actively vote and engage with companies on material ESG issues related to climate risk and low-carbon opportunities, TAF can maximize the mandate-related impact of its investments.

SECTION 6: ASSET CLASS OVERVIEW

- 6.1 As part of a risk management strategy and allow a prudent portfolio approach, the Fund's assets will be invested in a diversified portfolio across generally uncorrelated asset classes. To develop the optimal allocation, consideration is given to a) liquidity needs and risks, b) capital impairment risk, and c) interest rate/inflation risk. The portfolio will be structured to reflect an appropriate balance between publicly traded securities (equities, fixed income, alternative), private debt and equity investments, and cash within the asset allocation ranges specified in Section 6.3.
- 6.2 A portfolio risk assessment should be undertaken at a minimum of every five years, and reported to the Board. This assessment can be requested more frequently by the Board.
- 6.3 The following Total Asset Allocation table specifies the approved asset classes and the allowable ranges for each asset class, along with a portfolio target.

TOTAL ASSET ALLOCATION

	Min	Max	Target
Cash & Equivalents	0%	20%	5%
Public Fixed Income	20%	80%	20%
Public Equities	15%	55%	35%
Alternative Investments	0%	15%	10%
Direct Investments	0	60%	30%
Total			100%

6.4 While purchase of an investment which would be out of compliance with the asset mix guideline will not be authorized, there may be circumstances when exceptions occur. Exceptions, if any, will be noted in the quarterly report to the Investment Committee and shall state the reason(s) for the exception, type(s) of risk (term structure, percentage limit, credit quality, and issuers), dollar amount of the investment, expected duration of the exception, and action plan to restore conformity. Amounts exceeding the established guideline by no more than 0.5% will be considered immaterial and need not be documented by an exception report.

6.5 The portfolio Asset Mix will be monitored on a frequent basis. Should the Asset Mix deviate outside the above ranges, corrective action will be taken to bring the Asset Mix back within the range as soon as practicable. Action may be taken at any time to bring the Asset Mix closer to the Target Asset Mix.

To increase the likelihood that the Asset Mix remains within the prescribed minimum and maximum ranges the portfolios will generally be expected to be rebalanced when it reaches 90% of the maximum or 105% of the minimum prescribed limits. Cash inflows or outflows will be used to rebalance with new inflows being directed to asset classes that are closest to their minimum ranges and outflows being taken from asset classes that are closest to their maximum allocation. In the event cash inflows or outflows are not material enough to rebalance, the Asset Mix assets will generally be expected to be sold in a commercially reasonable manner from the asset class closest to the maximum allocation and reallocated to the asset class that is closest to the minimum and vice versa.

SECTION 7: OBJECTIVES FOR EACH ASSET CLASS

7.1 Cash & Equivalents

The main consideration is liquidity and safety of principle. If invested, cash should be held in short-term, low risk instruments.

7.2 Public Fixed Income

Investments can consist of publicly traded bonds and funds focused on investment grade credit. The preservation of invested capital, yield and appropriate liquidity, will be of primary consideration.

7.3 Public Equities

Allowable securities will be any Limited Liability security that trades in a recognized senior Canadian or Global market or exchange or pooled funds that hold these securities.

Investment will be prioritized in a liquid portfolio of global equities which are comprised of companies which help stabilize the concentration of greenhouse gases in the atmosphere and improve local air quality and minimizes exposure to companies whose share value may be at risk from climate change or other ESG issues.

Investment managers will be selected with consideration given to their beliefs relating to ESG issues and TAF's mandate; their track-record of incorporating ESG factors into the investment management process, with particular emphasis on climate change mitigation; their practices and policies regarding voting using best practice fiduciary standards and guidelines and dialogue/engagement on ESG and climate-related issues.

7.4 Alternative Investments

Alternative investments are financial assets that do not fall into conventional investment categories such as stocks, bonds, and cash. Alternative investment assets, due to their complex nature, tend to be held by more sophisticated investors such as institutional investors or other accredited investors.

Alternative investments are usually less liquid and may involve strategies such as the use of margin, leverage, derivatives, and other techniques, can be used to improve the risk-adjusted performance of the overall portfolio. Examples of these kinds of investments are private (pooled) equity or venture capital funds, hedge funds, managed futures, and commodities. Real estate is also often classified as an alternative investment.

TAF will continue to invest in third party managed private market investment funds which help in addressing climate change and air quality issues and avoid exposure to companies whose share value and/or viability may be at risk from climate change.

These Alternative investments are intended to provide diversification benefits for the overall portfolio along with solutions to manage certain risks (i.e. interest rate risk, inflation risk)

7.5 Direct Investments

Direct Investments are defined in Section 1.

TAF will provide capital to for-profit and not-for-profit organizations in a manner that complies with applicable legislation and any relevant and applicable aspects of City Council's investment and governance policies.

Investment will be in accordance with a Direct Investment Strategy recommended by the Direct Investment Committee and approved by the Board that includes: the investment focus and priorities, the investment process and considerations, , and diversification within the asset class. .

As a guideline, no more than 10 percent of the Net Asset Value will be invested in any single transaction. Some Direct Investments may require Council approval in compliance with the TAF/City of Toronto Relationship Framework.

Prior to the preparation of a recommendation for Board approval of a proposed Direct Investment, the Investment Committee and/or Direct Investment Committee will be provided with the following information, including:

- (a) the nature, amount and terms of the transaction
- (b) the estimated potential for present and future local (GTHA) greenhouse gas emission and/or smog precursor reductions, and potential for transferability that would lead to climate change and air pollution solutions in other jurisdictions;
- (c) the existence and nature of any co-investors, the proposed source(s) and uses of funds for the transaction , and whether approval for all source(s) have been or will be capable of being met;
- (d) the current and expected viability of the investee, including its business track record, position in the marketplace, and the quality of its management, beneficial owners and investors, as relevant;
- (e) the risk-to-reward proposition including (i) the expected revenue streams or payments (as appropriate to the nature of the investment, including the opportunity to acquire and/or retire emissions credits;), (ii) the extent to which the risk-to-reward proposition is based on reasonable factors and conservative methods (iii) what relationship the risk-to-reward bears to market rates of return and (iv) how risks of financial loss or mandate failure are proposed to be handled or borne (risk mitigation);
- (f) how the expected results of the investment align with TAF's mandates, the prudent investor standard, GHG reduction impact, and the potential for innovation and market transformation;
- (g) the diversification within the Direct Investment asset class;
- (h) demonstrate the need for TAF investment with emphasis on investees that cannot easily access commercial financial markets, where TAF can mobilize other capital, and initiatives that are difficult to finance through more traditional sources;
- (i) any further information relevant to a prudent decision regarding the proposed investment; and
- (j) TAF staff's recommendation.

Generally, and unless the Investment Committee or Board is provided sufficient reason to support a contrary recommendation, the legal costs related to a transaction are to be covered by the investee, as is customary practice.

TAF will seek financing partners and syndication and sale of investment opportunities in order to leverage its investments to the maximum extent possible in order to make its asset available for subsequent investment.

7.6 Valuation Methodology

- a) The valuation methodology for cash and marketable securities will be [at market value and](#) consistent with current industry standards
- b) The valuation methodology for infrequently traded Direct Investments and Private Funds shall be at book value.
- c) Both a) and b) will be consistent with current accounting standards that apply to the investment.

SECTION 8: CONSTRAINTS AND PROHIBITIONS

8.1 TAF may invest in Financial Derivatives only under certain conditions, and for risk management purposes, namely:

- a) Derivatives may not be used to create a net leveraged position for the portfolios, introduce uncovered positions, or to create exposures to investments that would otherwise be prohibited by this Policy.
- b) The portfolios may directly or indirectly (e.g., through pooled funds) utilize derivatives only to:
 - i) Create an Asset Mix position within the ranges and among the asset classes set out in this Policy,
 - ii) Adjust the duration of the fixed income portfolio,
 - iii) Replicate the investment performance of a recognized capital market index,
 - iv) Increase the portfolio current revenue by selling covered calls,
 - v) Manage the currency exposure of a portfolio, or
 - vi) Reduce risk as part of a hedging strategy.
- c) When investing in pooled funds, the pooled fund offering documents/investment policy will apply and the Investment Manager for any pooled fund must provide notification to TAF regarding any revisions to the fund's policies.

8.2 Prohibited Investments

The following investments are prohibited:

- a) TAF may not invest in companies for the purpose of managing them unless approved by Council.

- b) TAF will not actively purchase securities on margin or making short sales.
- c) TAF will not invest in funds and make investments that are inconsistent with TAF's mandate.

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