

# TA10.10 Attachment 1



## Statement of Investment Objectives & Principles (SIOP)

Approved by City Council  
December 9, 2015

Amendments adopted by TAF Board on **October XX**, 2019 but not yet approved by Council  
are shown in 'track-change'

Amendments proposed for Board approval February 5, 2021  
are shown in 'track change' and highlighted



## STATEMENT OF INVESTMENT OBJECTIVES & PRINCIPLES

### SECTION 1: MANDATE

- 1.1 The Toronto Atmospheric Fund (“TAF”) is constituted under the Toronto Atmospheric Fund Act, 2005 (the “TAF Act”).
- 1.2 TAF was established by Toronto City 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. The objects of the Fund are:
  - “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;
  - To promote air quality improvement;
  - To promote public understanding of global warming and their implications for the urban environment;
  - To create and preserve carbon sinks;
  - To promote energy conservation and efficiency; and
  - 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.”
- 1.3 TAF’s assets (the “Fund”) include the City of Toronto endowment, the Province of Ontario endowment, the Government of Canada endowment, and any other funds duly received under the authority of the TAF Act and with Council approval.
- 1.4 TAF’s assets (the “Fund”) are to be managed in accordance with the Prudent Investor Standard Section 27 of the Ontario Trustee Act to ensure that TAF’s mandate can be carried out on an ongoing, continuing basis.

## SECTION 2: PURPOSE OF THE STATEMENT OF INVESTMENT OBJECTIVES ~~AND~~ & PRINCIPLES

- 2.1 The Statement of Investment Objectives & Principles (the “Statement”) has been recommended by TAF’s Investment Committee (the “Investment Committee”) and approved by TAF’s Board of Directors (the “Board”) as the guidelines required under the TAF Act for the investment of the money of the Fund that is not immediately required for the Fund’s projects, and to direct and ensure continued prudent and effective investment management of the Fund and its ongoing preservation and financial well-being pursuant to the TAF Act.
- 2.2 This Statement is subject to City Council’s approval and shall take effect once approved by City Council. As and from such date, this Statement shall supersede and replace all prior Statements of Investment Objectives ~~and~~ & Principles of TAF.
- 2.3 As it ~~may~~ will require several months to effectively transition the Fund from its current policy and asset mix, TAF will be considered to be in compliance with this statement if the Fund is in compliance within 12 months of City Council approval.

## SECTION 3: GOVERNANCE

- 3.1 In developing investment objectives and principles, TAF considers the City’s objectives as articulated in the Toronto Atmospheric Fund (TAF) – City of Toronto Relationship Framework, embraces the City’s objectives and indicates the weight given to them in guiding TAF’s investment activities and responds to other investment requirements, which City Council may direct, in the recognition that the City is ultimately responsible for TAF investments having entrusted the asset to TAF.
- 3.2 The Chief Financial Officer has contracted external investment managers on behalf of TAF. TAF’s Board is responsible for providing day-to-day instructions to the investment managers. TAF’s investments, managed by external investment managers, are guided by TAF’s Council-approved Statement of Investment Objectives ~~and~~ & Principles.
- 3.3 According to the TAF Act, Council may at its sole discretion delegate authority for investment management functions to the TAF Board consistent with investment guidelines as approved by Council. The duties of the Board in relation to investments of the Fund are as follows:
  - a.\* To appoint the members of the 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 TAF’s Statement of Investment Objectives ~~and~~

& Principles;

c. 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;

c. To secure FCM's approval of any Investment Policy that will be applied to the investment of the Government of Canada assets; and

d. To consider and, if appropriate, approve the Investment Committee's or the Direct Investment Subcommittee's recommendations for direct investment transactions which are consistent with TAF's mandate, and delegate the Committee to oversee implementation of the investments within specific risk/return boundaries.

3.4 The Board delegates certain responsibilities with respect to overseeing the ongoing investment of the Fund to the Investment Committee. The Investment Committee is a standing committee of the Board and operates in accordance with its Terms of Reference. On behalf of the Board, the Investment Committee is responsible for:

a. Formulating, and recommending for approval by the Board, changes to the Statement of Investment Objectives ~~and~~ & Principles and the Mandates;

b. Reviewing the Statement of Investment Objectives ~~and~~ & Principles and the Mandates at least once per year for continued alignment with TAF's mandate;

c. 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;

d. Responsibility for recommending an asset allocation table to the Board, managing the asset mix within the allowable ranges, and taking steps to rebalance the asset allocation when it falls outside allowable ranges.

e. Advising the Board on the selection of the Manager(s), the Custodian, and any other agents or advisors that may be necessary to prudently manage the Fund;

fe. Communicating changes to the Statement of Investment Objectives ~~and~~ & Principles and Mandates to the Manager(s) and any other relevant parties;

gf. Establishing a Direct Investment Subcommittee to r~~R~~ecommend, via the Investment Committee or directly, ~~ing~~ individual direct investments, including financial partners, legal agreements and any other terms; and

h.g. • Recommending actions which TAF should pursue as an investor to influence policies and investment conditions in the interests TAF's mandate.

3.5 Any member of the Board or 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 4: INVESTMENT OBJECTIVES ~~AND~~ & PRINCIPLES**

4.1 The main objectives of management of the Fund are to:

- a. Ensure a rate of return sufficient to ensure that TAF can annually expend funds in a target range to be set by the TAF Board, and as market conditions warrant, to achieve its mandate for grants, special projects and related administrative activities;
- b. Accept a level of risk consistent with the 'prudent investor' approach as outlined in Sections 27-31 of the Trustee Act (Ontario); and
- c. Ensure adequate liquidity such that TAF's on-going financial requirements can be met in an orderly and timely fashion.

4.2 The following beliefs and principles are intended to guide TAF's investment of the Fund.

- a.) TAF's investment horizon is long-term, meaning at least 20 years. Asset management decisions should seek to maximize risk-adjusted return over the long-term, not over the short-term.
- b.) It is prudent to manage risk through diversification of uncorrelated asset classes.
- c.) ~~'Green' investing, including~~ Consideration of environmental, social and governance (ESG) factors, and more specifically climate risks and low-carbon opportunities, is expected to improve the risk/return profile of portfolios in the coming decades, and will allow TAF to use the full weight of its fund towards its mandate. Rather than simply prohibiting investments in companies whose policies and climate risk profiles may not be in accord with TAF's mandate, 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 stabilize the concentration of~~ greenhouse gas ~~emissions in the atmosphere~~, improves local air quality and generates offers-revenue-generation.

- 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 private (pooled) equities 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 and credit securities help to meet short term cash flow needs and help protect capital in the event of deflation, ~~or~~ global economic recession, and rising interest rate scenarios. Where practicable, preference should be given to investments ~~in green bonds~~ which offer the same characteristics ~~as traditional fixed income securities, where proceeds are earmarked for 'green' activities and are aligned~~ with TAF's mission.
- g.) TAF's growing competency, influence and differentiation is in direct investment. Financing will focus on ~~optimaximizing~~ risk-adjusted return, advancing greenhouse gas emission reductions and air quality improvement, and market transformation, and attracting and leveraging co-investors 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 private debt than other funds.
- h.) 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 stabilize 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 5: DIVERSIFICATION OF ASSET CLASSES

- 5.1 To maintain a diverse asset mix that minimizes risks and allows a prudent portfolio approach, the Fund's assets will be invested in a diversified portfolio of securities across generally uncorrelated asset classes. In developing 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 equities and

fixed income, private debt and equity investments, and cash within the asset allocation ranges specified in Section 5.2.

5.2 The following asset allocation table specifies the approved asset classes and the allowable range of investment for each asset class.~~desired asset mix and initial ranges of the Fund will be as follows:~~

	Min	Max
Cash & Equivalents	0%	20%
Fixed Income	20%	80%
Public Equities	15%	55%
Direct Investments (Private debt and other instruments))	0	60%
Private <del>Funds</del> <u>Pooled Equity</u>	0%	<u>25%</u>

5.3 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.

5.4. Currency hedging shall be at the direction of the Investment Committee which may permit currency hedging at a ratio from 0 to 100% on an asset class by asset class and/or portfolio level basis in order to manage Fund-level risk.

5.5. Prohibited Investments include funds and investments that are inconsistent with TAF's mandate to reduce carbon emissions.

## SECTION 6: OBJECTIVES AND CONSTRAINTS WITHIN EACH ASSET CLASS

### 6.1 Cash

The main consideration is liquidity and safety of principle. If invested, cash should be held in short-term, low risk instruments, ~~such as or equivalent to Government of Canada Treasury Bonds with a maturity of 90 days or less.~~

### 6.2 Public Fixed Income

Investments can consist of public ~~liquid~~ bonds and funds focused on investment

~~grade private credit-driven products. Safety of principle and liquidity are of primary consideration. The preservation of invested capital, yield and appropriate liquidity, after inflation, will be of primary consideration.~~

### 6.3 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 ~~highly~~-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.

### 6.4 Direct Investments

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. ~~This asset class was previously referred to as "Part B"~~ Investments can include (but would not be limited to) ~~loans~~, senior debt, subordinated debt, mortgages, debentures, performance contract financing, purchase order financing, options, securities, Limited Partnerships (~~both project and pooled~~), equity in privately held businesses, ~~loans~~ and loan guarantees.

As a guideline, no more than 10 percent of the Net Asset Value will be invested in any single transaction. ~~Some transactions may require Council approval in compliance with As per the TAF/City of Toronto Relationship Framework (2013), Council approval is required for any transaction above \$2 million.~~

Each transaction will be thoroughly vetted by the Investment Committee ~~or Direct Investment Subcommittee~~ to ~~optimize ensure~~ the risk/reward ratio, ~~and viability of the transaction structure, are viable, that TAF's capital remains within acceptable risk parameters,~~ and ~~alignment that projects fit~~ with TAF's ~~environmental and prudent investing mandate value proposition.~~

Acceptable investments would be characterized as:

- a) having a high-quality sponsoring organization, including its ~~beneficial owners and management,~~ business track-record, ~~credit rating~~ and position in the marketplace,

Formatted: Highlight



- b) demonstrating ~~reasonable provable or~~ conservatively estimated cash flows, consistent with business development parameters and based on appropriate pricing structures and margins,
- c) generating ~~monthly~~ payments, whether of principal and interest or other revenue streams appropriate to the structure of the investment;
- d) providing market rates of returns on the capital invested with consideration to both risk and mandate-related benefit, and
- e) having market transformation capacity or be market leading projects or organizations in keeping with TAF's mandate.

The Investment Committee also takes the following combination of elements into consideration to work towards a positive investment outcome:

- a) The mandate-related fit such that each project demonstrates significant present or future local greenhouse gas emission and/or smog precursor reductions, and/or projects with potential for transferability that would lead to climate change and air pollution solutions in other jurisdictions, and/or opportunity to acquire and/or retire emissions credits;
- b) The potential for innovation and market transformation, with emphasis on projects that cannot easily access commercial financial markets, or where other investors need additional encouragement and assurances to enter a market or investment, or that are difficult to finance through more traditional sources, and that contribute to projects that support TAF's mandates of stabilizing the concentration of greenhouse gases in the atmosphere, improving local air quality and accelerating solutions to climate change and air pollution; and
- c) The risk mitigation and prudence of diversification within this asset class.

Generally, ~~(and unless agreed to specifically by the Investment Committee),~~ associated legal costs related to a transaction are to be covered by the investee-borrower, 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.

The valuation methodology for accounting for these infrequently traded Direct Investments shall be at book or original value.

#### 6.5 Private Pooled Equities Funds

TAF will invest in ~~a pooled or~~ third party managed private market investment funds including portfolio of private equities which are comprised of companies-investments 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.

The valuation methodology for accounting these infrequently traded Private Funds shall be at book or original value or by third-party appraised value.