TAF The Atmospheric Fund

REPORT FOR INFORMATION

Chief Executive Officer's Report

Date: June 28, 2022
To: Board of Directors of the Toronto Atmospheric Fund
From: Chief Executive Officer

GOVERNANCE MATTERS

Risk Register

Notable risks for this period and our response include:

- Financial: There is a significant capital market downturn - A capital market downturn reduces TAF's financial resources and its associated capacity to invest in low carbon solutions. During Q1 and Q2 market declines have been experienced across most sectors, and the inter-related combination of inflation, pandemic-induced supply-chain disruptions, war in Ukraine, and deepening climate crisis are pointing to further challenges ahead. TAF's marketable securities portfolio performed better than benchmark, mainly due to defensive bond holdings and significant cash on hand. The latter, along with the Line of Credit, was used for operating expenses instead of redemption of any equities, but this option may not be sufficient in the next quarter. The overall response, as a long-term investor, is to hold the positions and continue the planned rebalancing towards Direct Investments, which have continued to perform as projected, and Alternatives.

- Operational – information technology disruption. TAF participated in the City's Disaster Recovery Program and will implement any recommendations. Internet speed and bandwidth continue to be a challenge at our Elizabeth Street office, despite upgrades made earlier this year, and limits our ability to effectively implement a hybrid return to the office.

Agreements

TO/TAF Agreements

Council approval of amendments to Governance Documents June 15 and 16, 2022 http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX33.8. See Item TA18.10 for proposed update of TAF By-law No.1.

ON/TAF/TO Transfer Payment Agreement (TPA)

To the best of my knowledge, this confirms that TAF is in compliance with the terms of the Transfer Payment Agreement, with the exception, as MMAH has been apprised, that submission of the Audited Financial Statements is behind schedule. A summary of financial information using the unaudited financial statements has been provided and will be updated if necessary.

FCM/TAF/TO Funding Agreement (FA)
FCM has been apprised that submission of the Audited Financial Statements and Project Audit is behind schedule, although unaudited information for the latter has been provided to facilitate the annual LC3 report.

STAFF & OPERATIONAL MATTERS

We're pleased to welcome three new TAF team members:

- Siddarth Chatpalliwar, Senior Grants Manager brings a wealth of experience in climate-focused grantmaking and has previously worked with large philanthropic foundations and international development agencies to engage stakeholders, develop innovative ideas and manage strategies to deliver sustainable growth and development.
- Patrick Ronan, Carbon and Co-benefits Quantification Analyst, is an Environmental Scientist with a PhD in Environmental Applied Science and Management. He he has worked in a variety of research, lab management, and teaching roles focused on environmental management and sustainability.
- Crystal Crawford, Office Coordinator, joins us with a background in administration, project co-ordination and has an entrepreneurial streak (check out Parktivism!). Crystal will provide critical support across TAF, to ensure smooth operations, responsiveness with external partners, Board and Committees, as well as additional responsibilities to support TAF's grants program.

Elli Shanen has been promoted from Building Environmental Researcher to Energy & IEQ Analyst. In this new role she will use her strong analytic and communication skills to lead and coordinate retrofit research, monitoring, and resident engagement initiatives, and will mentor the Building Environmental Researchers we are currently recruiting.

After an impressive 15 years of pioneering low-carbon impact investing, Tim Stoate has retired. We sincerely thank Tim for his energy and determination in generating financial returns and impact from the direct investment portfolio, for his development of innovative, market-opening financing structures including the ESPA which has positioned TAF as a leader in low-carbon impact investing, for his contributions to organizational growth and strategy, for building and mentoring a great team, and for building TAF's profile and reputation as an impact investor. All of this and more will be of value to TAF's impact and financial health for years to come. In true TAF style, the Quantification team did the final tally: Tim has invested over $9M in nearly 30 transactions generating important and stable revenues for TAF's operations along with over 6MT of carbon reduction potential. I learned so much from Tim, a self-declared 'recovering banker', over a dozen years working together including about deal-making, financial innovation and negotiation, and how we can and must use investment as a tool for climate action. No one is under any allusion that this is actually retirement – he's got too much energy for that and has a few things lined up – but will certainly give him more time for skiing all the places in the world that can be skied before climate change takes its toll, being an awesome grandfather, writing another financial/political thriller, and well-deserved down-time.

The search for our next VP of Impact Investing continues, led by a recruitment firm, and with the support of members of the HR and Investment Committees.

The Equity, Diversity & Inclusion (EDI) Working Group has sponsored several lunch & learn topics including Canada's Missing and Murdered Indigenous Women, Girls and Gender Diverse People; Environmental Justice and Racism; and Wage Equality.

STRATEGIC PROGRAMS

Accelerating Retrofits

Design of seven deep retrofits is underway or expected to begin this year. The most recent to begin is a four-storey TCHC building at 840 Eglinton Ave West which will be the most ambitious retrofit we've undertaken and the first to completely switch from gas to electric heat pumps, with an emission reduction projected at 85%. The aim is to establish a retrofit template that can be used to for similar buildings throughout TCHC's portfolio. TAF and TCHC partnered to secure $1.8 million from Natural Resources Canada for the project, which will allow us to transform one of TCHC's worst performing buildings into one that's ready for Toronto's 2040 net zero target. Residents will appreciate dramatically improved comfort and indoor air quality along with high-efficiency cooling—all with no increase in rent. A fun project kick-off was held on-site with tenants, TCHC staff, Councillor Mike Colle and a Toronto Star reporter.

TAF, directly and alongside LC3 and other colleagues, has been engaging with NRCAN on the design of the recently announced $200 million Deep Retrofit Accelerator Initiative for large buildings and the $33 million Green Neighbourhood Pilot Program which are both targeted at supporting the rapid scale-up of deep retrofits across Canada.

Electrification of transportation

In May 2022, TAF surveyed over 1,000 Toronto residents about their interest in electric vehicles (EVs) and EV charging. Here are the top-level findings:

- There's huge demand for EVs. 81% of respondents are likely or very likely to make their next car purchase electric.
- The EV wave is coming soon. 86% expect a member of their household to buy a car in the next 5 years.
- Charging needs to be convenient. 76% are only willing to walk up to five minutes from their home to charge their EV.
- On-street charging is essential to EV uptake. 67% would be more likely to buy an EV if on-street charging were available close by.

These results and a recommendation to establish a 2023 target for additional on-street charging installations were presented to Toronto's Environment and Infrastructure Committee (IEC). At its meeting of June 15, Toronto City Council adopted the IEC's recommendation and requested the Toronto Parking Authority to work with Transportation Services and Toronto Hydro to install a minimum of 50 additional on-street charging stations in 2023.

To date TAF's EV Station Fund has conditionally approved $1,535,000 for 28 applicants to install EV charging stations in the GTHA. Installation of some projects has begun and are expected to be completed this summer. There is a waiting list of 95 applicants with projects totalling $7,188,000, which is four times the total program funding from Natural Resources Canada (NRCAN). As the 2022 federal budget included an additional $XXX for EV charging, TAF has reached out to NRCAN regarding the potential to recapitalize EV Station Fund. In the meantime, we're documenting and profiling the experiences of funding recipients in order to address barriers and share lessons learned; for example, see this interview with the City of Burlington.

TAF is also exploring the development of new financing solutions intended to accelerate the rollout of EV charging in multi-unit residential buildings (MURBs) and the uptake of EVs in the vehicle-for-hire sector. We are working with expert stakeholders from the industry to validate the value of these solutions and inform their design.

Climate Policy

It has been an exciting 18 months for green development standards in the GTHA. The City of Brampton and City of Markham adopted updated requirements for new construction, both informed by the sustainability metrics working group supported through a TAF grant. That brings the total to seven municipalities --Toronto, Whitby, Ajax, Markham, Vaughan, Brampton, and Halton Hills -- with efficiency and other environmental requirements for new construction, and at least one more is anticipated prior to the municipal elections. TAF's policy team has engaged with local staff, stakeholders, community members, and councillors, which has resulted in strengthened standards in each case, and fostered valuable relationships that will support future municipal policy development toward net-zero.

In the context of forecasted increase of carbon emissions associated with Ontario's electricity system, TAF has provided input to the Ministry of Energy, the Ontario Energy Board (OEB) and the Independent Electricity System Operator (IESO) on multiple tracks in an effort to impact the province's developing electrification strategy and energy planning procurements.

In the lead-up to the provincial election, we provided a non-partisan briefing note to all the parties which outlined three key areas for urban climate action which could be used to inform the development of platforms; see this blog post which summarizes the brief.

Research & Innovation

TAF published a new report in May detailing the full lifecycle impact of fossil gas usage, accounting for fugitive methane that leaks into the atmosphere from extraction, fracking, pipelines, and distribution. It includes guidelines and emissions factors for policymakers, and was accompanied by a blog post that contextualized these findings within the broader policy landscape in Ontario and the risks of continued reliance and investment in fossil gas infrastructure.

Our Carbon & Co-Benefits Quantification team continues to support other LC3 Centres across Canada on a 'fee for service' basis as they ramp up their in-house quantification capabilities. This has included providing advice on assessment/quantification of projects and delivering a workshop summarising TAF's quantification process and learnings over the past decade.

Communications & Campaigns

As in-person events begin to return, TAF's expertise has been in high demand. At the Retrofit Canada Conference, I delivered the keynote address emphasizing what we've learned about taking retrofits from demonstration to scale and Bryan Purcell was on a panel about developing the energiesprong model in Canada, plus we facilitated a plennary presentation by Toronto Community Housing about how they are integrating deep retrofits into their portfolio-wide capital plan. I was on a panel at the Private Markets conference about how to decarbonize portfolios and tag-teamed with the CEO of Hamilton Community Enterprises about the opportunities for using waste heat at the Innovation Corridor Summitt. Tracy Haynes and Nicole Leite presented at the Foundations & Endowments Investment Summit about impact investing strategies.

Recognizing that some challenges related to Ontario's electricity system come from existing narratives, assumptions and and expectations, TAF has been exploring public attitudes – concerns and hopes & dreams -- about the system. Working with a communications firm, we have engaged members of five distinct communities in conversations about problems and solutions to assess potential narrative frames and identify partners who can help co-create efforts to advance change. The resulting report has provided us with valuable insights to inform the next phase of this work.

Impact Investing

Following legal review of agreements, facilitated by highly responsive investees, the capital is fully deployed for the two investments approved in the first quarter. This represents an increase of 21.6% in direct investment capital, bringing the Direct Investment total to 8.8% of the portfolio (up from 7.3%), noting that the target is 30%. Two more transactions are undergoing due diligence and are likely to be presented to the Direct Investment Committee by the end of Q3.

A settlement has been reached to the satisfaction of TAF and the counterparty of an investment that has been challenging for several years. Several lessons have been learned including the need to exclude underperformance clauses in certain contract situations to allow energy assets to be blended to achieve greater energy savings, and the value of a 'security deposit' to manage equipment failures and related disputes.

Our work to support the LC3 Centres in their impact investing journeys has wrapped up and feedback from the LC3 Centres, Federation of Canadian Municipalities (FCM) and our consultant partner has been excellent. The task is now to identify which of the collaborative investing approaches to put into practice, for instance sharing specific roles/functions (eg: lead on due diligence) and costs. Consideration is also being given to the mechanics and governance, for instance whether can be on an 'opt-in / out' basis, confidentiality provisions, and approval requirements. Implementation is not contemplated until 2023, although some bi-lateral initiatives may emerge this year.

Grants, including summary of completed Grants

The grants program is open for applications, with Expressions of Interest due July 8 and proposals due August 24. Grant recommendations will be presented to the TAF Board at its fall meeting.

Efficiency Canada – Energy Efficiency Policy: Leading the Advocacy Charge
$290,000 over 29 months, approved in July 2019
The objective of this multi-year grant was to support engagement related to development the development of critical energy efficiency policies. Efficiency Canada advocated for greater accountability for building codes by engaging with decision-makers at the provincial and federal levels. They conducted a detailed analysis of the building code development policy system and highlighted the role of net-zero new buildings in achieving Canada's net-zero objectives by 2050. Efficiency Canada's direct citizen mobilization through the #eerecovery campaign saw Canadians send more than 500 letters to MPs calling for aggressive investment in energy efficiency as part of Canada's economic recovery. Their extensive communications activities also highlighted the impact of better building codes to key constituencies and advocated for a national net-zero emissions code. Efficiency Canada collaborated with experts to propose a realistic timeline for development and adoption of a net-zero emissions code. Among the key outcomes of this approach was an acceleration of the expected delivery date for the national retrofit code, moved up from the originally announced 2030 deadline to 2024.

Clean Air Partnership – Electric Vehicle Charging Infrastructure Costing Study and Consultation
$122,000 over 12 months, approved in November 2020
The objective of this grant was to support the development of "EV-Ready" requirements for new construction, especially in multi-unit residential buildings (MURBs) where lack of access to EV charging is a barrier to EV adoption. The Clean Air Partnership (CAP) engaged with developers and local governments in the GTHA to develop EV-Ready requirements for residential parking in new developments. To advance this work, CAP conducted a study to identify the requirements and best practices for integrating EV-ready infrastructure in buildings and examined the costs of implementing EV-ready parking requirements. The findings of the study were reviewed by CAP's multi-stakeholder project advisory group which included representation from relevant subject matter experts in the private non-profit and public sectors. The results were shared with municipal staff, real estate developers, architects, engineers, and home builders in the GTHA. The study was a critical driver for the City of Toronto's November 2021 decision to introduce 100% EV-Ready requirements. It was also used to inform policy submissions to several other GTHA municipalities promoting the inclusion of EV-ready

residential parking requirements in their forthcoming Green Development Standards. Ajax accepted this feedback and is planning to require that 50% of parking spaces in new developments be EV Ready.

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SIGNATURE

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