

Investing Benchmarks

Date: October 20, 2022
To: Board of Directors of the Toronto Atmospheric Fund
From: Vice President, Impact Investing

SUMMARY

As required for compliance with TAF's Statement of Investment Objectives & Principles (SIOP), benchmarks for each asset class are recommended for Board approval. The performance of TAF's investments are compared against these benchmarks on a regular basis.

RECOMMENDATIONS

The Vice President, Impact Investing recommends that the Toronto Atmospheric Board of Directors approve the benchmark for each asset class as set out in Attachment 1.

FINANCIAL IMPACT

None

DECISION HISTORY

At their meeting June 15 and 16, 2022, City Council adopted an amended Toronto Atmospheric Relationship Framework with the City, and approved an amended Statement of Investment Objectives and Principles of the Toronto Atmospheric Fund. (<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX33.8>)

TAF's Investment Committee met on October 4, 2022 and provided its recommendation on the appropriate benchmarks for each asset class.

COMMENTS

Section 6.3 of TAF's Statement of Investment Objectives and Principles (SIOP) establishes five asset classes: Cash, Fixed Income, Public Equities, Direct Investments, and Alternatives. Section 4.3 (a)(v) of the SIOP says the Investment Committee (IC) is to advise and seek approval of the Board for appropriate and recognized benchmarks for each asset class and for each external manager. Section 4.3(b) of the SIOP requires

the Direct Investing Committee (DC) to establish an appropriate compound benchmark for the direct asset class and advise the Board on Direct Investment including any conditions that are relevant in keeping with prudent investing.

Quarterly tracking of the investment performance of marketable securities (Fixed Income and Public Equities) focuses on absolute returns and compares portfolio performance of TAF's holdings against benchmarks established for the third-party managers. Performance of the Direct Investments and Private Equity holdings have been tracked on an absolute return basis as they are not valued on a mark-to-market basis.

While TAF does compare marketable securities performance to the relevant benchmarks, TAF does not set expectations for performance based on benchmarks; rather, we expect to maximize returns over the medium/long term through proper asset allocations, appropriate selection of third-party managers and direct investments and management of duration and other factors within an asset class.

For compliance with the new SIOP, TAF's third-party investment advisor provided the Investment Committee with recommendations for relevant, objective, internationally recognized and cost-effective benchmarks which are appropriate for each asset class, including for the marketable securities and the direct investments. The proposed benchmarks set out in Appendix 1 have been recommended by the Investment Committee.

In addition to tracking financial performance, it should be noted that TAF has other KPIs. Through our grants, programs and investments, we seek to mobilize financial capital for low-carbon solutions, help scale low-carbon solutions, and help achieve community benefits and equity. TAF has a well-developed methodology for tracking the first, and the others are relatively newer and emerging; these metrics are tracked annually for Direct Investments. Also, several third-party managers have robust methodologies for tracking a range of impacts and comparing their performance against market benchmarks. As an example, Generation benchmarks its portfolio against several ESG and Financial metrics including for carbon footprint measured as CO2 equivalent (tonnes) /\$m (revenues) and greenhouse gas as the imputed cost (% of revenues) validated by independent third party Trucost.

CONTACT

Kristian Knibutat, Vice President, Impact Investing, kknibutat@taf.ca

SIGNATURE

Kristian Knibutat
Vice President, Impact Investing

ATTACHMENTS

1. Benchmark for each asset class in TAF's SIOP

Attachment 1 – Benchmark for each asset class in TAF’s SIOP

Asset Class	Benchmark	Notes
Cash	Not applicable	Existing
Fixed Income	FTSE Canada Universe Index	Designed to track the performance of investment grade marketable government and corporate bonds outstanding in the Canadian market. This benchmark has been used by TAF for over 10 years.
Global Equities	MSCI World Index	A broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country. This benchmark has been used by TAF for over 10 years and is used by all third-party equities managers.
Direct Investments – Energy Savings Performance Agreements and debt investments	FTSE Canada Mid-Term Bond Index plus 2%	See description above. An additional 2% has been added to reflect different characteristics of the assets relative to the index. We do note that direct investments including ESPAs are recorded at cost in TAF’s financial statements.
Direct Investments – other enterprise financing	MSCI World Index	See description above. Selected on the basis that it reflects the returns that could be earned if funds invested in Direct Investment funds were invested in public equities. Note that Direct Investments are recorded at cost in TAF’s financial statements.
Alternatives – Private Equity Funds	MSCI World Index	See description above. Selected on the basis that it reflects the returns that could be earned if funds invested in Private Equities were invested in public equities. Note that PE Funds are recorded at cost in TAF’s financial statements.
Alternatives - Infrastructure	Public market benchmark to be determined when an investment is made.	