REPORT FOR INFORMATION

Chief Executive Officer's Report

Date: July 4, 2024
To: Board of Directors of the Toronto Atmospheric Fund
From: Chief Executive Officer

GOVERNANCE MATTERS

Risk Register

TAF's Risk Register has been updated to better reflect the relevant risks the organization might face including governance, programmatic, financial, operational, reputational, and political risks; see Attachment 1. Key modifications include:

- Reformulating risks with reference to the factors within TAF's control which TAF must be prepared to respond to; examples of each risk updated accordingly to help guide the post-hoc risk assessment and go-forward mitigation actions.
- Focusing on the risk posed by lack of appropriate staff capacity and removing the governance and fiduciary capacity (i.e., on Board and Committees) element which is seen as a lower risk given TAF's robust governance framework, resilient and effective Board and Committees, and robust Committee recruitment processes.
- Broadening the risk related to financial mismanagement to include the risk of financial fraud; examples and financial controls needed to mitigate both financial risks added to the register.
- Improving the risk rating by adding a "residual risk" analysis which involves re-rating each risk after accounting for the associated risk response actions.

Senior management's quarterly analysis, using the updated Risk Register, highlights the most notable risks for this period and our mitigation responses. There is no material non-compliance in respect of The Atmospheric Fund's (TAF) legislative, regulatory or contractual obligations of which I am aware.

- <u>Financial – A direct investment underperforms:</u> Several of TAF's Private Equity (PE) investments posted losses in valuation in 2023; these were reflected in the Audited Financial Statements and formally reflected in the fund's statements in April. This an annual snapshot whereas PE funds are designed to provide a return over the life of the investment term, generally 10+ years. It is expected that some portfolio companies in each PE fund will fail but be more than offset by gains on successful portfolio companies. Additionally, some of the losses are on paper and have not been crystalized as they are based on valuations and not ultimate sales of the portfolio companies. TAF has invested in nine PE funds; only two are fully drawn and these have yielded an estimated $700,000 of realized gains with a Multiple on Invested Capital of 1.6 and 3.9 respectively. PE funds are an important part of the Alternative Investment asset class within TAF's $100 million portfolio of investments which is intentionally constructed to provide an overall risk adjusted return, and the PE funds provide diversification and uncorrelated returns relative to other assets in the portfolio.

- Program – TAF is unprepared for external factors with a potential to affect its ability to advance the mandate. Political uncertainty and the associated uncertainty regarding the regulatory and financial environment is, to varying degrees, undermining commitment to advancing low carbon solutions. TAF will continue to demonstrate the business case and co-benefits associated with our priority initiatives -- of retrofits, EV adoption, efficient new construction, distributed electricity -- under a variety of economic scenarios. We will increasingly focus on municipal mechanisms and regional approaches as per our recently-approved Strategic Directions and continue to work in a non-partisan manner to promote adoption of robust climate policies and programs that can reduce GHG emissions in the Greater Toronto & Hamilton Area.

TO/TAF Governance

Development of a TAF Debt Policy, which is a requirement stemming from the updated TAF/City Relationship Framework, is underway, with City colleagues exploring the implications for the City's debt limits and appropriate oversight/approval process.

ON/TAF/TO Transfer Payment Agreement (TPA)

TAF provided the Ministry of Municipal Affairs and Housing (MMAH) with a report on the activities and outcomes supported by the Ontario endowment along with the Audited Financial Statements for 2023. To the best of my knowledge, this confirms that TAF is in compliance with the terms of the TPA.

FCM/TAF/TO Funding Agreement (FA)

Execution of the updated agreement, developed through a consultative process between FCM and the seven Low Carbon Cities Canada (LC3) centres and presented to TAF's Board and City, is in process.

STAFF AND OPERATIONAL MATTERS

Please join me in welcoming three new staff to the TAF team:

- Impact Investing Analyst David Manzo will be undertaking due diligence, monitoring and reporting on companies and technologies in TAF's pipeline of Direct Investment opportunities.
- Senior Grants Manager Sadia Khan will help set direction for TAF's grantmaking, promote the program and cultivate projects, undertake day-to-day management and support the Grants & Programs Committee.

- Technical Services Manager Robert Bon will be providing direction on the technical services offered by TAF's Retrofit Accelerator and undertaking oversight and evaluation of specific retrofit initiatives.

We are also delighted to have three interns adding capacity over the summer months:
- Communications Specialist Nashita Raias is working to build TAF's Greater Toronto and Hamilton Area (GTHA) network by updating and building our contact lists.
- Impact Investing Junior Analyst Farrah Chan is supporting due diligence on investment opportunities.
- Research & Innovation Junior Analyst Mitan Mzouri is undertaking research and analysis to quantify carbon emissions and energy use across the GTHA.

STRATEGIC PROGRAMS

Accelerating Retrofits (including TAF's Retrofit Accelerator)
Construction is about to begin on the deep retrofit Toronto Community Housing Corporation's (TCHC) Sparroway complex including installation of cold climate heat pumps, new energy-recovery ventilation systems, LED lighting, and water conservation measures. The heat pumps will provide highly efficient heating and add cooling to help mitigate the effects of extreme heat events for residents. To celebrate the start of construction, share information, and answer resident questions, TAF, Building Up, Turner Construction and TCHC co-hosted a fun and well-attended community event on June 20th complete with barbecue, DJ, face painting for the kids, and great questions from and conversations with residents.

With conference season in full swing, TAF was on two high-profile panels this year: on air-to-water heat pump retrofits at Canada Green Building Council's (CaGBC) Building Lasting Change conference and on Retrofit Accelerators (facilitated by NRCan) at Retrofit Canada Conference in Vancouver. Both were great opportunities to build awareness and demand for retrofits, and provided great networking and collaboration opportunities for the team.

Our prequalification of prefabricated panel suppliers has been completed and includes two companies and three panel types. This multi-year effort with TCHC, the Region of Durham and WSP (as technical advisors) provides a better understanding of the players in the region and sends a signal to the market about the growing demand for retrofit materials and business. The response to the prequalification was limited but not unexpected which highlights the need for further market development in this space; a report on the process, findings and lessons learned will be published in July.

Electrification of Transportation
TAF's EV Station Fund continues to support the rollout of electric vehicle (EV) charging infrastructure across the GTHA by providing rebates for up to 50% of project installation costs. The $5M in funding from Natural Resources Canada's Zero-Emissions Vehicle Infrastructure Program (ZEVIP) has been fully allocated and will result in the installation of 883 chargers by fall 2024, including 779 in 53 multi-family buildings which were identified as a priority use case for the program.

Building on TAF's learnings from the EV Station Fund, we continue to pursue solutions to rapidly scale up EV charging for the roughly 1/3 of Canadians who live in multi-family buildings including via a recommended grant (see Item TA7.7) to champion the need for public investment in comprehensive EV-ready retrofits. TAF is also engaging with local utilities and the Ontario Energy Board to highlight the local distribution network and wider electricity grid benefits of promoting a comprehensive approach to EV charging in multi-family buildings compared to an incremental approach. Finally, we are exploring a financing solution that would cover the upfront cost of such retrofits and generate a payback as more residents begin to access home charging.

Decarbonizing the Grid

TAF is working closely with our consultant, Dunsky Energy + Climate Advisors to design a distributed solar and storage program for the GTHA. Initial phases of this work consisted of a scan of relevant models from other jurisdictions, a landscape analysis of the current ecosystem in the GTHA, and the development of program models for further consideration. More details are provided in a separate update (see Item TA7.3).

We continue to be involved in several initiatives to both modernize local grids in support of widespread electrification efforts and support scaling non-emitting electricity supply across the province. This includes recent engagements on utility-scale procurements and corporate power purchase agreement for non-emitting electricity projects, integration of distributed energy resources (DERs) within utility planning, and long-term plans for regional electricity grids (see Climate Policy below).

Climate Policy

The Town of Caledon is the latest GTHA municipality to adopt a Green Development Standard (GDS). TAF provided a grant to support its development, engaged with municipal staff and participated in the stakeholder consultation process, and met with all Councillors in the lead up to the vote. The Policy team is also engaged in the process for updating Town of Whitby's GDS and in the early stages of GDS development by the Municipalities of Oakville, Hamilton and Clarington.

TAF is participating in the Integrated Regional Resource Planning process for the Toronto Central region that the Independent Electricity System Operators (IESO) is undertaking with Toronto Hydro, with a focus on maximizing inclusion of DERs and other non-wires solutions and reducing its reliance on gas-fired generation at the Portlands Energy Centre over the next decade. This work draws on our analysis of clean energy options for decarbonizing the electricity grid and understanding of the value of DERs for addressing Toronto's electricity constraints and needs as heating and transportation is shifts from fossil fuels to electricity.

Research & Innovation

The 2024 edition of Ontario's Electricity Emissions Factors and Guidelines was published with updated factors and methodology as well as recommendations regarding data availability and access. A record-setting 100+ participants attended the webinar (recording available at link above) to hear the TAF team present the approach and respond to questions, and there will be additional presentations for specific stakeholder groups.

The carbon emission reduction potential of seven Expressions of Interest, two grant applications and several direct investment opportunities was evaluated in the past quarter. The R&I team has also completed data gathering for the 2023 GTHA carbon emissions inventory, including data on energy poverty and representation of priority populations that will be used in this year's analysis.

Leveraging TAF's expertise and drawing on case studies from each of the LC3 centres, TAF and our LC3 colleagues are working together to improve quantification knowledge, skills and procedures. For instance, the GHG reduction potential is quantified for most grant applications but some, such as those focused on capacity building, can only be estimated and the methodology needs to be revised to address this. We also supported the development of a survey to profile the processes and resources each of the centres use when quantifying projects and programs and the responses will inform our own and the network's quantification metrics and methodologies.

Communications & Campaigns

Communications and campaign activities and results are shared within the Focus Area updates above which included the launch of the 2024 Electricity Emissions Factor guidelines, the community event launching the Sparroway retrofit, as well as foundational work to advance Toronto's Buildings Performance Standard. The team developed an op-ed, co-authored with the Registered Nurses Association of Ontario and Canadian Physicians for the Environment on why an EV mandate is so important for both health and climate which was carried by The Hill Times, and also announced TAF's investment a 300 MW wind project with CC&L.

Impact Investing

Advances have been made to the two Alternative investments (infrastructure funds) approved last year and an investment in the Private Equity (PE) fund Cycle H2O (formerly Bleu Impact, also in the Alternatives asset class, that was approved in 2021 was closed and advanced. An initial search for other private PE funds that are well aligned with TAF's mandate has been completed with the aim of making two or three new commitments that will help bring the portfolio to the target allocation of 10% for this asset class. The aim is to also have the new Fixed Income investments approved earlier this year closed and advanced in Q3. Completion of these investments and shifts will bring the total portfolio closer to the asset class allocation targets and in line with the manager concentration limits established by the Investment Committee.

The direct investment market remains slow; it is challenging securing lead investors and deals are taking longer to close. Due diligence is underway on one new direct investment opportunity and new deal terms are being formulated to support the success of one of our existing direct investments. The pipeline includes four prioritized prospects which focus on innovative financial models aligned with TAF's annual plan and longer-term strategic directions.

Grants, including summary of completed Grants

The Grants and Programs Committee's recommendations from the second grants intake of 2024 are included in Item TA7.7. Expressions of Interest for the third intake are due August 9, 2024.

A summary of the one recently completed grant is provided below.

YWCA Hamilton – Passive House Affordable Housing Project

$70,000 over 24 months, approved in July 2019

The goal of this project was to demonstrate the energy efficiency and savings in operating costs that could be achieved in a pre-cast midrise affordable housing project, and to disseminate relevant information that would encourage and assist others in adopting a similar approach in the development of affordable housing projects of this nature. YWCA Hamilton developed a 50-unit, six storey affordable rental housing project (the Putnam YWCA). It was designed according to Passive House Design principles to achieve an extremely high level of energy efficiency and sustainability while supporting the needs of the women and children living in the affordable housing complex. The Putnam YWCA has earned several awards, including an Ontario Concrete Award in 2021, a Canada Clean50 Top Project in 2022, and a Canadian Green Building Award in 2023. While staff turnover and capacity constraints delayed some of the knowledge dissemination activities, the grantee ultimately showcased the successful construction of the Putnam YWCA through building tours, earned media, and presentations at several fora (e.g., the Hamilton Roundtable for Poverty Reduction, the Building Show in Toronto, a webinar organized by Clean Air Partnership). TAF also profiled the affordable housing project in a blog and will continue to promote the learnings from YWCA's recently completed project webpage in an effort to motivate other housing providers and developers to replicate this success.

CONTACT

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SIGNATURE

Julia Langer
Chief Executive Officer

ATTACHMENTS

1. Risk Register – 2024 Updates