ATTACHMENT 1

Equity Implementation Rationale

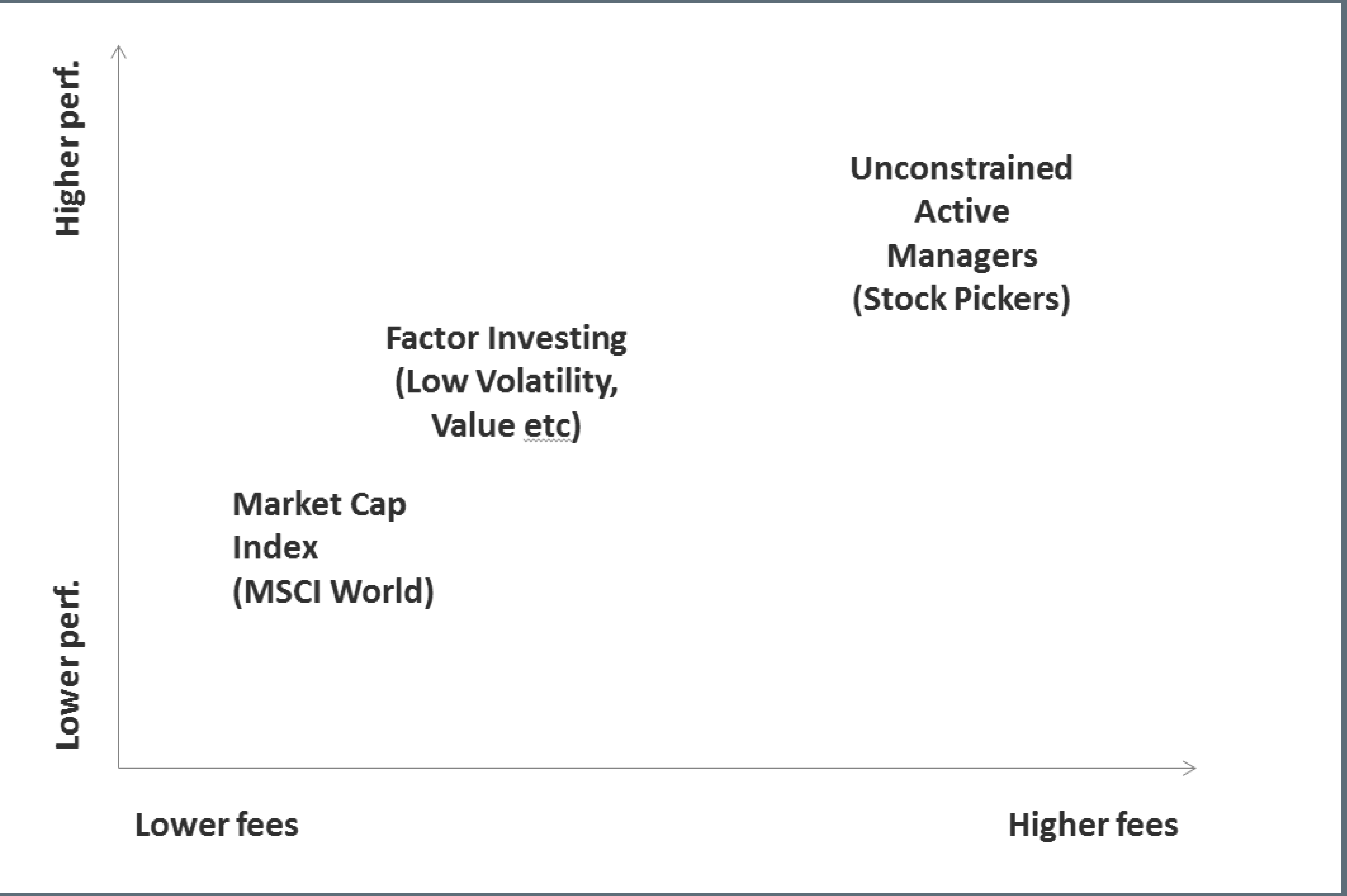
City of Toronto
(Investment Board)

March 2026

Equity Portfolio Options

What is most important to the Plan?

Governance budget, alpha, fees?



Equity Portfolio Options

Conviction in Equity Investing

Aon believes using broad mandates and high conviction portfolios provides the best opportunity to add value from active management

This pertains both to the type of managers, global high conviction managers and the number of managers in client portfolios

Higher conviction managers generally have higher tracking error but not necessarily higher risk

- Portfolio construction has an impact on overall portfolio risk characteristics

To this end, we recommend the inclusion of broader mandates and more streamlined portfolios

Equity Portfolio Options

The Right Number of Managers			
	Investors often overestimate the diversification benefits of increasing the number of active investment managers. We believe improvements can be made to many multi-manager equity portfolios	Country/regional/style boxes may contribute to over-diversification	Global equity strategies are the most efficient portfolio building block to construct a sensibly diversified portfolio
	Factor investing may be preferable to having too many active managers	Investors of a sufficient size may reduce fees by reducing the number of managers	Investing in fewer managers can facilitate directing more assets to managers where the prospects for outperformance are greatest

Equity Portfolio Options

Reasons one should consider an allocation to Factor Investing	Outperformance potential and diversification benefits vs. a market cap passive index	Lower the cost of your overall equity portfolio • Passive multi factor allocations ~10-12 bps	Diversification of added value sources for a portfolio invested in unconstrained equity managers	Expect diversified multi-factor to outperform by 75 bps gross of fees vs. market cap passive index

Equity Portfolio Options

Potential Model Portfolios

Portfolio 1: Full Active

Active

- Global Equity 1
- Global Equity 2
- Global Equity 3
- Global Equity 4
- Global Equity 5

Portfolio 2: Active w/ Passive Diversified Multi-Factor

Active/Factor

- Global M-Factor
- Global Equity 1
- Global Equity 2
- Global Equity 3
- Global Equity 4

Portfolio 3: Passive Diversified Multi-Factor w/ Active

Active/Factor

- Global M-Factor
- Global Equity 1
- Global Equity 2
- Global Equity 3

Fees	60-70 bps	50-60bps	30-40bps
Alpha	~200bps	~175bps	~125bps

Equity Portfolio Options
Potential Options

1

Portfolio of 4-5 unconstrained global equity managers

- Higher fees, higher alpha potential, requires greater governance budget

2

Portfolio of unconstrained global equity managers and passive diversified multi-factor

- Slightly lower governance, slightly lower alpha potential, lower fees
- Suggest 35% allocation to passive multi-factor
- Equal weighting to four managers

3

Diversified multi-factor core with unconstrained global equity manager satellite positions

- Similar governance budget compared to option 2, slightly lowered alpha potential, fees lowered even more
- Suggest 50% allocation to passive multi-factor
- Equal weighting to three managers

Equity Portfolio Options

Implement an equity portfolio composed of:

One diversified passive multi-factor manager ‘core’ position (50% or ~$1,007.6 million*)

Three unconstrained global equity manager ‘satellite’ positions (16.67% or ~380 million* each)

Passively Becoming Active

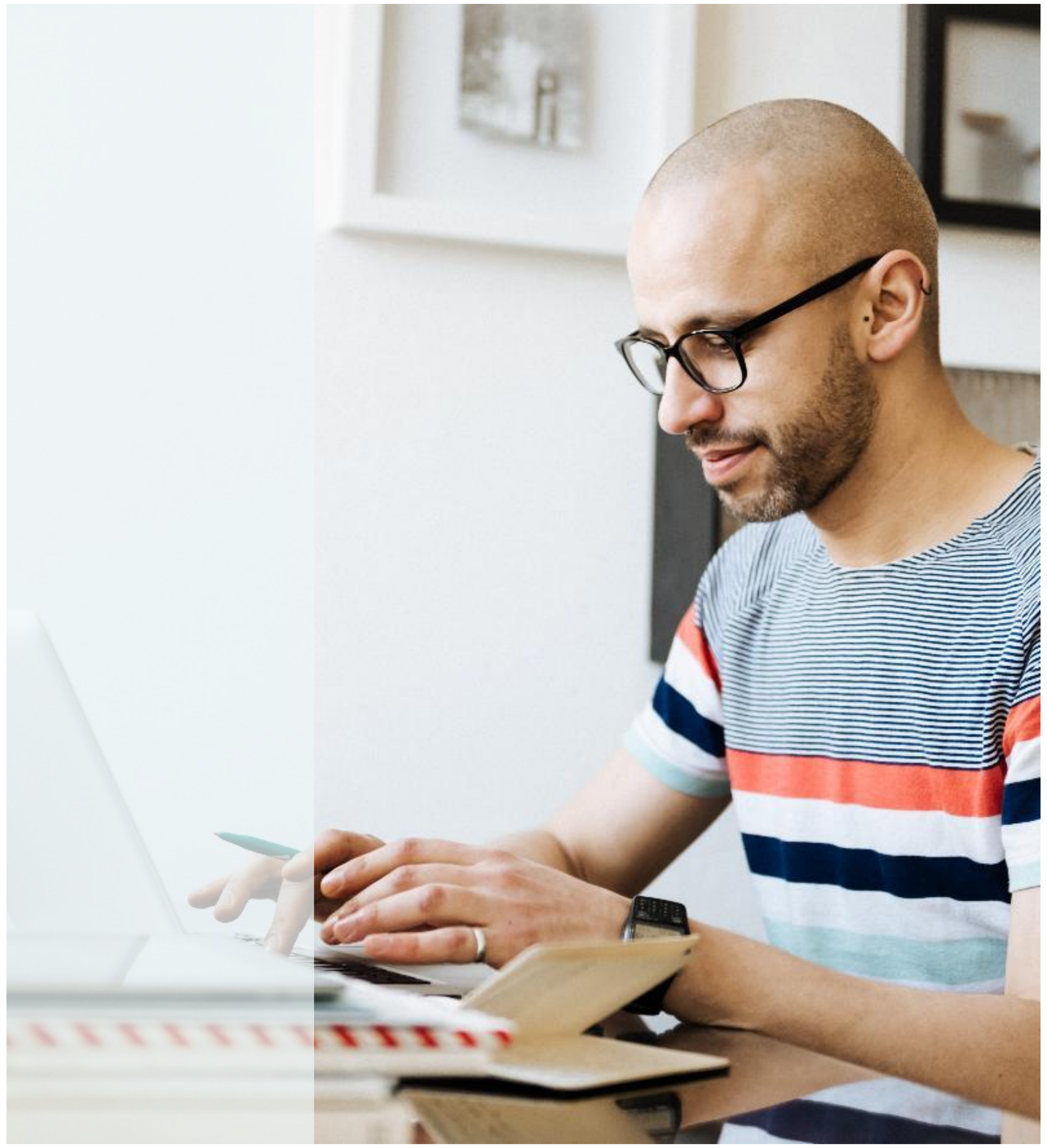
Key Takeaways

Passively Becoming Active

- Passive investing into cap-weighted indices has surged due to low cost and broad market exposure.
- But rising concentration in those indices means many “passive” investors are unintentionally making large active bets.

Objective:

Highlight concentration risks and outline how passive, factor, and active trategies can be combined more delibserately



What’s the Problem?
Growing Concentration Risk

- A small number of mega-cap stocks now represent a large share of major indices. This amplifies:
  - Stock-specific risk (idiosyncratic events in a few companies)
  - Sector and country biases

Result:

Investors tracking cap-weighted indices may carry more unintended, undiversified risk than their policy implies.

Passively Becoming Active

Key Takeaways

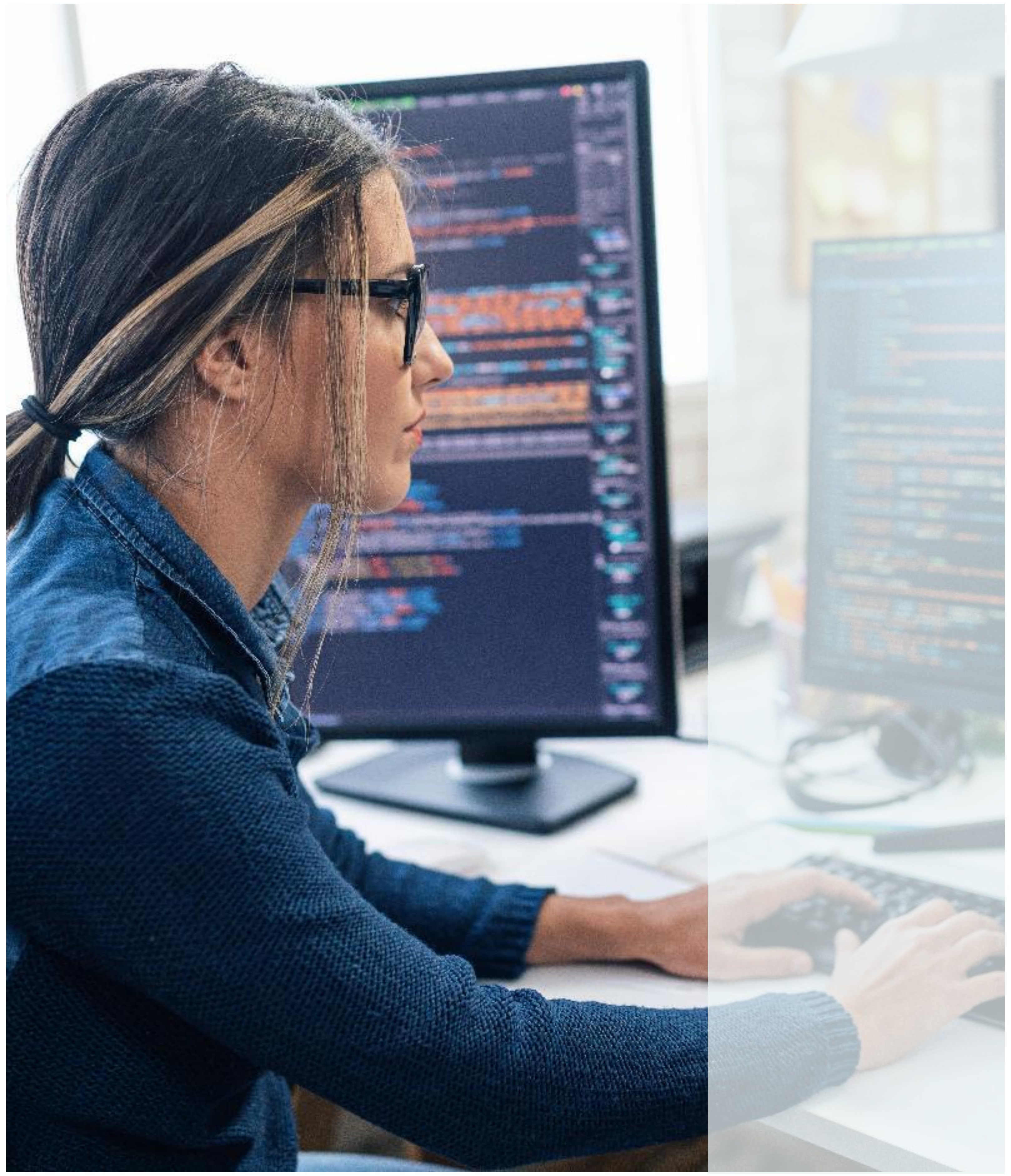
Mitigating Risks: Role of Factor and Active

Active management

- Seeks to outperform benchmarks via security selection and dynamic risk management
- Can deliberately underweight crowded, overvalued area
- Potentially better suited to a multi-polar, more volatile world

Factor investing

- Rules-based exposure to rewarded characteristics (value, quality, etc.)
- Often lower cost than traditional active
- Offers a systematic way to diversify away from pure cap-weight concentration



Key Takeaways for Institutional Investors

- Recognize that "purely passive" exposure in today's indices embeds large active tilts. Consider a balanced equity structure:
  - Core passive for cost-effective market beta
  - Complementary factor strategies to shape risk premia
  - Targeted active managers to navigate concentrations and exploit inefficiencies

Stay vigilant and adaptable: Regularly review index concentration, portfolio exposures, and the role of each sleeve in the overall equity program.

About Aon

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