TAF The Atmospheric Fund

REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

Asset Mix Review

Date: June 29, 2026
To: Board of Directors of the Toronto Atmospheric Fund
From: Vice President, Impact Investing

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report contains commercial information supplied in confidence to the Toronto Atmospheric Fund which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

SUMMARY

TAF's Statement of Investment Objectives and Principles (SIOP) requires regular assessment to ensure that TAF's portfolio remains aligned with its investment objectives, risk tolerance, and long-term financial sustainability. The Investment Committee (IC) is responsible for overseeing this work, including conducting an annual review of the SIOP for continued alignment, monitoring asset mix and performance relative to benchmarks, and reporting to the Board.

Additionally, Section 6.2 of the SIOP states "a portfolio risk assessment should be undertaken at a minimum of every five years and reported to the Board." A portfolio risk assessment has been completed, led by HUB International (HUB), TAF's investment advisor, with support from TAF staff and in consultation with the IC.

This report provides an overview of conclusions of the portfolio risk assessment, with a particular focus on the asset mix. Ryan Kuruliak, SVP & Practice Leader, Investment Consulting at HUB will present highlights of the assessment and be available to address questions during the meeting.

RECOMMENDATIONS

The Vice President, Impact Investing recommends that the Board of Directors of the Toronto Atmospheric Fund:

1. Receive the report for information.

2. Direct that the confidential information contained in Confidential Attachment 1 remain confidential in its entirety, as it contains commercial information supplied in confidence to the Toronto Atmospheric Fund, which, if disclosed, could reasonably be expected to prejudice significantly the competitive position or interfere significantly with the contractual or other negotiations of a person, group of persons, or organization.

FINANCIAL IMPACT

There is no financial impact to the City of Toronto resulting from the adoption of the recommendations in this report.

DECISION HISTORY

On May 28, 2026, the TAF Investment Committee received a report on the portfolio risk assessment and asset mix review, prepared by HUB. The Committee endorsed the outcomes of the report, being:

i) The addition of Emerging Market Equity or Diversified Hedge Funds do not materially improve results relative to the current asset classes being used.
ii) The ranges for each asset class as set out in the current SIOP can continue to achieve appropriate risk-adjusted returns.
iii) To maximize returns without increasing volatility (risk), the portions of the portfolio invested in the Alternative Investments – Infrastructure; Alternative Investments – Private Equity Funds; and Direct Investments asset classes can be retained above the targets as set out in the current SIOP.

On March 12, 2026, the TAF Investment Committee received for information a progress report on TAF's portfolio risk assessment, specifically outlining an asset mix analysis, prepared by HUB. Staff were directed to rerun the analysis, to:

i) Revise the assumptions for the Direct Investments asset class to better reflect the type of investments TAF makes.
ii) Retain conservatism in return and correlation assumptions, limiting downside risk where higher market correlation is typical during extreme events.
iii) Add scenarios for Emerging Market Equity and Diversified Hedge Funds.

On November 3, 2022, the TAF Board of Directors approved the benchmark for each asset class, as required by the Statement of Investment Objectives and Principles (https://secure.toronto.ca/council/agenda-item.do?item=2022.TA20.10).

On June 15 and 16, 2022, City Council approved amendments to TAF's Statement of Investment Objectives and Principles (https://secure.toronto.ca/council/agenda-item.do?item=2022.MM39.2). These amendments were adopted by the TAF Board of Directors on July 9, 2021, with Council's approval requested via the Chief Financial Officer and Treasurer (https://secure.toronto.ca/council/agenda-item.do?item=2022.MM39.2).

COMMENTS

This report has been prepared for the Board to support its oversight of TAF's investment strategy and long-term financial sustainability.

The outcomes of the portfolio risk assessment identified a gap in the expected return between the current SIOP asset mix and the modelled asset mix. The modelled asset mix, which optimizes risk-return, had the same level of volatility (risk) as the current SIOP asset mix yet had a 34 bps higher expected return.

Results more aligned with the modelled asset mix, increasing the expected return of TAF's portfolio without introducing additional volatility (risk), can be achieved within the established ranges of the current SIOP. Staff will focus on increasing the Alternative Investments asset class allocation to 14% of the portfolio. This is within the acceptable SIOP range of 0% to 15% yet, represents an increase of 4% over the 10% target. At the same time, Staff will also seek to increase the Direct Investments asset class allocation to 35%. This is also within the acceptable SIOP range of 0% to 60% but, represents an increase of 5% over the 30% target. The reallocation within the portfolio will be funded through a reduction in Cash and Public Equity asset allocations.

The IC has reviewed HUB's analysis on two separate occasions, endorsing the outcomes presented at the meeting held on May 28, 2026. The IC will continue to oversee the TAF's investment portfolio, including alignment with the SIOP and ongoing monitoring of the asset mix, to ensure TAF's investment portfolio will yield sufficient risk-adjusted returns over a long, at least 20-year, horizon.

CONTACT

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SIGNATURE

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ATTACHMENTS

Confidential Attachment 1 – HUB Report: Toronto Atmospheric Fund Asset Mix Review