The Atmospheric Fund Asset Mix Review

Board of Directors Report

HUB

Risk & Insurance | Employee Benefits | Retirement & Private Wealth

Introduction & Purpose of This Review

The Board reviews TAF's asset mix at least once every five years; this update reflects revised 2026 capital market assumptions

Purpose & Scope

- The Board last reviewed the asset mix in 2021; this analysis updates capital market assumptions to 2026 and refines the Direct Investing assumptions to better reflect TAF's actual holdings.
- The Board is being informed of the ongoing work on asset allocation and the decisions the Investment Committee ultimately makes regarding whether the current policy mix remains appropriate or whether adjustments are warranted to meet TAF's future spending needs.

How the Simulation Works

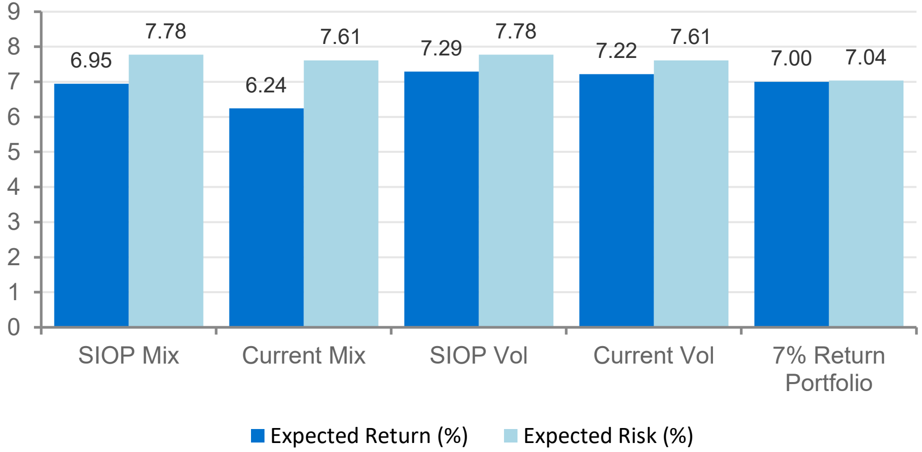
- Simulated market paths are generated using the forward-looking return, risk, and correlation assumptions, then summarized into percentile outcomes.
- Results exclude the impact of active management and fees, and a layer of conservatism is built into the assumptions to reflect risk during extreme markets.

Key Findings for the Board

- Both the Board's target mix (SIOP) and the Current Mix fall below optimal efficiency under the updated assumptions there is room to improve the risk-reward trade-off.
- At a potentially 7% annual distribution, portfolio values are expected to decline over time in real terms, an effect worsened by inflation.
- Additional asset classes considered including hedge funds and emerging market equities do not meaningfully improve outcomes. The greater opportunity lies in reallocating within TAF's existing asset classes.
- Following the analysis, the IC determined it will keep TAF's current asset mix but allow higher-than-target allocations to Infrastructure, PE Funds, and Direct Investments (raising Infrastructure/PE Funds to 14% and Direct Investments to 35%), funded by reducing cash and public equity, to boost expected returns without increasing risk.
- Implementation will proceed in phases: staff will first increase infrastructure toward the new 14% target, then scale it back as needed to fund the PE Fund allocation, while the overall implementation plan is still being finalized.

Efficient Frontier Analysis

Both the Board's target mix (SIOP) and the Current Mix sit below the optimal risk-reward expectation



Expected Return vs. Expected Risk by portfolio scenario

The SIOP Vol portfolio offers the same level of volatility as measured by standard deviation, as the SIOP Mix.

The Current Vol portfolio offers the same level of volatility as the Current Mix.

The 7% Return Portfolio is the mix expected to generate a nominal 7% return, on average. This portfolio return target has been used to assess the implications of drawing funds at a 7% rate without materially encroaching on current asset levels.

- The efficient frontier maps the highest achievable return for each level of risk; portfolios that fall below it represent an opportunity to improve results without taking on more risk.
- Under updated 2026 capital market assumptions, both the SIOP Mix (the Board's approved target allocation) and the Current Mix (as of Dec 31, 2025) fall below the efficient frontier.
- The maximum allowable exposure to Direct Investing was reduced from 60% to 30% in this update, producing a more realistic and achievable frontier than the 2021 review.

Portfolio Asset Mixes and Frontier Analysis Results

Asset Class	SIOP Mix	SIOP Vol	Current Mix	Current Vol	7% Return
Cash Equivalents	5.0%	0.9%	2.7%	1.3%	3.2%
Fixed Income	20.0%	22.1%	32.7%	23.3%	26.6%
Direct Investing	30.0%	29.8%	14.7%	29.7%	29.6%
Public Equity	35.0%	28.1%	40.7%	26.7%	21.7%
Private Equity	4.5%	9.7%	3.4%	9.7%	9.6%
Infrastructure	5.5%	9.4%	5.8%	9.4%	9.3%
Expected Return	**6.95**	**7.29**	**6.24**	**7.22**	**7.00**
Expected Risk	**7.78**	**7.78**	**7.61**	**7.61**	**7.04**
Sharpe Ratio	**0.89**	**0.94**	**0.82**	**0.95**	**0.99**

- The efficient portfolios shown (SIOP Vol, Current Vol, 7% Return Portfolio) all improve on the Sharpe ratio, meaning better return for each unit of risk taken.
- SIOP Vol and Current Vol generate higher expected returns (7.29% and 7.22%) than the Board's target and current mixes for a similar level of risk, largely by maximizing Direct Investing to its 30% limit and increasing Private Equity and Infrastructure.
- The 7% Return portfolio is more conservative (7.04% risk) than the current mixes while still targeting a 7.00% return, primarily through a higher fixed income weighting.
- Across every scenario tested, the model favours little to no cash and maximizes Direct Investing exposure.

Forecasting Simulation Result — 7% Distribution

Projected portfolio value ($ thousands, nominal) at the 5-year horizon; starting value $102,565 as of Dec 31, 2025

Portfolio	75th	50th	25th	5th	1st
5 Year					
SIOP Mix	109,856	98,170	88,183	75,843	68,739
Current Mix	106,069	94,996	85,582	73,764	66,443
SIOP Vol	111,501	99,724	89,600	76,995	69,853
Current Vol	110,972	99,483	89,581	77,233	70,195
7% Return Portfolio	109,178	98,657	89,479	78,120	71,615

- At the median (50th percentile), portfolio values are expected to gradually decline over time under every mix tested, since a 7% distribution exceeds the average expected net return, by year 10, the SIOP Mix median value falls to roughly $94.6 million. This is based on a passive allocation and does not factor improvements through active management.
- The 1st percentile reflects a tail-risk scenario: under the SIOP Mix, a severe downturn could reduce the portfolio to roughly $68.7 million or lower within 5 years, and to $56.5 million or lower within 10 years.
- The efficient mixes (SIOP Vol, Current Vol, 7% Return Portfolio) preserve capital modestly better than the SIOP and Current Mixes at every percentile shown, and this advantage widens over the 10-year horizon.

Forecasting Simulation Result — Annualized Returns

Expected annualized return (%, nominal) at the 5-year horizon; most outcomes fall between the 25th and 75th percentile

Portfolio	75th	50th	25th	5th	1st
5 Year					
SIOP Mix	9.0%	6.7%	4.4%	1.2%	-0.9%
Current Mix	8.3%	5.9%	3.7%	0.7%	-1.3%
SIOP Vol	9.4%	7.0%	4.7%	1.5%	-0.6%
Current Vol	9.3%	7.0%	4.7%	1.6%	-0.5%
7% Return Portfolio	8.9%	6.8%	4.7%	1.8%	-0.1%

- At the median, the SIOP Mix is expected to return 6.7% annualized over 5 years (6.6% over 10 years), versus 5.9% (5.9% over 10 years) for the Current Mix, a meaningful, compounding gap.
- Downside scenarios remain material: at the 1st percentile, the SIOP Mix could see annualized losses of roughly -0.9% (or worse) over 5 years, a cumulative loss of about -4.4%, improving to a positive 1.2% annualized over 10 years.
- The efficient mixes (SIOP Vol, Current Vol, 7% Return Portfolio) improve expected returns at nearly every percentile without materially increasing downside risk, reinforcing the opportunity to enhance TAF's risk-adjusted outcomes.