



# 2021 TCFD Report

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## A Necessary Quest

We are faced with the greatest challenge of our lifetime, one that requires both individual efforts and global cooperation on a scale that is without precedent. Climate change is threatening irreversible damage in countless regions of our planet where people are confronted with crippling crises that seemed unthinkable just a few years ago. These events, whether natural disasters or more subtle changes to our environment, are of grave concern for Addenda, its clients and its employees.

As an asset manager, Addenda Capital believes it can — and should — play an active role to make a difference in the fight against permanent consequences from climate change. This report, our second since adopting the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, lays out the steps we have taken to materialize this purpose.

Since our initial report, we have made meaningful inroads on multiple fronts. For instance, we progressed our understanding of climate scenario analysis, working with third-party advisors on developing an in-house scenario in order to help manage climate risk and determine resilience. We pursued advocating on issues dear to us, such as transition finance taxonomy and ESG reporting. We launched what is one of the first climate transition funds in Canada. And in 2021, we proudly joined the Net Zero Asset Managers initiative.

This report documents the road we have travelled in the last two years, one of which saw COVID-19 upend lives and force new ways of doing things. For many, the pandemic highlighted the fragile nature of our world and reframed priorities. The drive for sustainability is a process that will take years to complete, from the



**Roger J. Beauchemin**

*President and Chief Executive Officer  
Addenda Capital*

moment we establish goals to the moment countries, communities and companies can claim carbon neutrality. This necessary quest is a priority for our board of directors, as we are sure it is to you.

Our mission is to create sustainable value while serving the needs of clients. But in doing so, we are committed to leaving behind a better world for future generations.

## Our Commitment to Climate Change

At Addenda, we understand the important role and responsibility we have as asset managers in leading sustainable investing. We strive to make investment decisions that incorporate climate considerations in delivering beneficial long-term investment outcomes, while also making a positive impact on our communities.

It is in support of this objective, in October 2021, that we joined the Net Zero Asset Managers (NZAM) initiative, a commitment supporting investing aligned with the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius.

As a leader in sustainable investing, we have a proven track record of incorporating climate considerations within our investment strategies and product offerings. Our commitment to the NZAM initiative further demonstrates our dedication to supporting the transition

to a low-carbon economy. We will continue to refine our climate strategy, targets, and roadmap in line with our NZAM commitment and provide transparent disclosure on our progress.

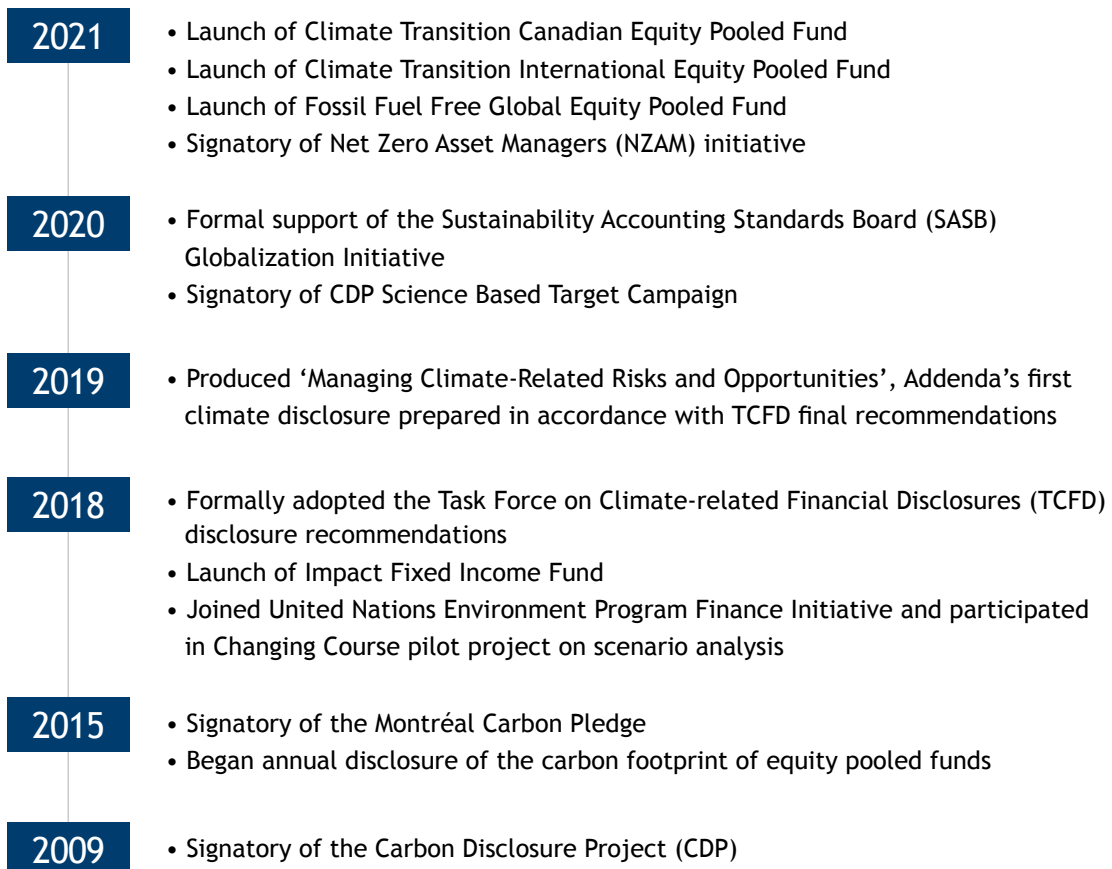
In producing our first climate report in 2019, we recognized the value that climate-related disclosures provide to improving financial market performance.

Despite the pandemic, we have since made significant progress in accelerating the integration of climate-related risks and opportunities within our strategic and operating practices. We are committed to transparent disclosure to our stakeholders, and this report continues the story of our journey in supporting the transition towards a low-carbon economy and acting as a steward for sustainable investing.

*“For Addenda, the decision to join this global financial movement was the next logical step in the efforts we have made so far to foster a better outlook for future generations. Not only does it reflect the values and concerns of our clients, but this initiative is, at its very core, the right thing to do if we want to have a shot at limiting the warming of our planet and its damaging consequences. We are stewards of our clients’ assets and are therefore committed to working with them to make the appropriate decisions.”*

*- Roger Beauchemin, President and Chief Executive Officer*

# Climate Milestones



## Our Role as Climate Advocates

We are committed to supporting the advancement of climate policy and integration within asset management practices. We actively advocate for enhanced climate-related reporting standardization through collaboration and contribution with a range of industry groups.

Our President and CEO, Roger Beauchemin, actively participates in multiple industry discussions on the challenges and opportunities of integrating climate considerations within asset management. Roger has been named a recipient of Canada's Clean50 Awards and, as a leader in the Finance category, has earned a Canada's Clean16 Award.

Group	Addenda Capital Advocacy
Canadian Investor Statement on Climate Change	<ul style="list-style-type: none"> <li>Initial signatory and member of the policy group whose work led to the statement, which was coordinated by the Responsible Investment Association (RIA).</li> </ul>
Climate Engagement Canada	<ul style="list-style-type: none"> <li>Founding member of this coalition aiming to encourage dialogue between the financial sector and companies to promote a just transition to a net zero economy.</li> </ul>
Responsible Investment Association	<ul style="list-style-type: none"> <li>Roger Beauchemin became Chair in 2021 and has been a board member since 2015. Delaney Greig is a member of the RIA Leadership Council.</li> </ul>
Ontario's Capital Markets Modernization Taskforce	<ul style="list-style-type: none"> <li>Promoting sustainable capital market reforms, including climate-related disclosure requirements aligning with prominent international standard setters.</li> <li>Formal discussions with Ontario Minister of Finance, Provincial Officials, and Senior Leaders at the OSC to encourage ESG disclosures and enhanced board diversity requirements as priorities for 2021-2022.</li> </ul>
CSA Group	<ul style="list-style-type: none"> <li>Member of the CSA Group's Technical Committee for Transition and Sustainable Finance.</li> <li>Significant contributor towards a Canadian 'Transition Finance Taxonomy'.</li> </ul>
International Financial Reporting Standards (IFRS) Foundation	<ul style="list-style-type: none"> <li>Provided feedback to the IFRS Foundation consultation on standardization of ESG reporting frameworks, which led to the recently announced creation of the International Sustainability Standards Board.</li> </ul>
Climate Action 100+	<ul style="list-style-type: none"> <li>Working with investors to drive clean energy transition and to achieve the goals of the Paris Agreement.</li> </ul>

## Our Progress

With 2,600 supporters globally<sup>1</sup>, the TCFD has been an integral framework for financial and non-financial firms to understand and disclose the financial risks and opportunities that climate change could pose to their business and strategy.

Since July 2018, we have been a strong advocate for the TCFD recommendations and continue to align our disclosure and management of risk and opportunities with the recommendations and related supplemental guidance.

TCFD Core Element	Progress	Performance Highlights	Upcoming Activities
<b>Governance</b>  <b>Board oversight:</b> Describe the board's oversight of climate-related risks and opportunities  <b>Management's role:</b> Describe management's role in assessing and managing climate-related risks and opportunities	Complete          Complete	Established climate-related Board-level responsibilities  Formalized the processes and frequency by which the Board is informed about climate-related issues  Formalized our governance structure across our Sustainable Investing Committee and investment teams	Consider potential climate-related metrics for inclusion in Executive and Portfolio Managers Compensation Plans
<b>Strategy</b>  <b>Identification of climate risks and opportunities:</b> Describe the climate-related opportunities the organization has identified over the short, medium, and long term  <b>Impact of climate risks and opportunities:</b> Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	In progress          In progress	Defined time frames for climate-related risks and opportunities  Rolled out formal climate risk and opportunity training for professionals  Expanded our climate offerings by adding three new equity pooled funds that focus on climate transition and fossil fuel exclusion  Evaluated climate risk impacts across our asset classes	

<sup>1</sup> [2021-TCFD-Status\\_Report.pdf \(bbhub.io\)](https://www.bbhuh.io/2021-TCFD-Status_Report.pdf)

## Our Progress

TCFD Core Element	Progress	Performance Highlights	Upcoming Activities
<b>Strategy</b>  <b>Resilience of strategy to climate risks:</b> Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios	In progress	Continued to build our in-house scenario analysis capabilities	
<b>Risk Management</b>  <b>Identification and assessment of climate risks and opportunities:</b> Describe the processes for identifying and assessing climate-related risks  <b>Management of climate risks:</b> Describe the organization’s processes for managing climate-related risks  <b>Integration of climate risks into overall risk management:</b> Disclose how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management	 In progress    In progress    In progress	 Developed a standardized ESG risk assessment tool that addresses climate for equity and corporate bond teams   Created processes and tools to advance our management of climate-related risks for each of our investment strategies  Enhanced our climate-related engagements with investee companies through our stewardship activities  Further integrated climate risk considerations into investment risk management and decision making	       Review Enterprise Risk Management framework so as to include climate-related risks



## Our Progress

TCFD Core Element	Progress	Performance Highlights	Upcoming Activities
<b>Metrics and Targets</b>			
<b>Climate-related metrics:</b> Disclose the metrics used to assess climate-related risks and opportunities in line with the strategy and risk management process	In progress		Expand our climate-related metrics to reflect elements included in 2021 TCFD guidance
<b>Financed emissions:</b> Disclose Scope 1, 2, and 3 emissions and the related risks	In progress	Continued to measure and disclose our carbon footprint for our public equity portfolios	Expand our carbon footprint to include our corporate fixed income portfolios  Measure Scope 3 emissions, where material  Transition to PCAF portfolio emission calculation methodology
<b>Climate-related targets:</b> Disclose the targets used to manage climate-related risks and opportunities and performance against targets.	In progress	Joined the NZAM  Announced our commitment to net zero GHG emissions by 2050	Develop our net zero transition plan to deliver on our NZAM commitment  Announced our interim reduction targets for 2030



## Governance

At Addenda, we recognize that climate change and sustainability risks are complex and cross-functional. As such, we take a holistic approach to monitoring the climate resilience of our investment portfolios.

To execute on our climate goals and commitments, we have established a robust governance structure. Our Board of Directors provides oversight and stewardship of sustainability and climate issues, with support from our Sustainability Investing Committee, Sustainable Investing Team, and Investment Management Teams to execute on our climate targets.

### Board Oversight

The **Board of Directors** is responsible for overseeing, approving, and challenging the firm's climate strategy and ensuring alignment to the interests of our stakeholders. The Board has ultimate oversight and approval responsibility for:

- Climate-related targets supporting our NZAM commitment;
- Strategic decisions and related climate policies; and
- Climate-related disclosures.

At Addenda, climate is an integral part of our corporate strategy. As such, climate-related risks and opportunities are reviewed and integrated into the discussions at every Board meeting. As the head of the Sustainable Investing Committee, Addenda's President and CEO, Roger Beauchemin, serves as a Board member and conduit between the Board and management on climate-related performance. The Board receives annual updates from the Sustainable Investing Committee on performance against climate targets, and more frequently, where required.

### Climate Expertise and Capacity Building

Our Board of Directors are familiar with the climate considerations for asset managers and are committed to staying abreast on climate trends and industry evolution. In 2021, our Board of Directors received comprehensive climate change training from third-party advisors. The curriculum covered key topics including climate trends, risks and opportunities by asset class, regulatory trends, climate reporting developments and risk quantification.

#### *Board member climate expertise, training, and knowledge*

##### **Roger Beauchemin**

*President and CEO, Addenda Capital*

Became Chair of the Responsible Investment Association in 2021. He is a member of the Steering Committee of Climate Engagement Canada (CEC), a founding Advisory Board member of the Institute for Sustainable Finance, housed at Smith School of Business at Queen's University, and a recipient of Canada's Clean50 Awards.

##### **Rob Wesseling**

*President and Chief Executive Officer, The Co-operators Group Limited*

Mr. Wesseling is a member of the Insurance Development Forum's Steering Committee and serves as a member of the newly formed Sustainable Finance Action Council (SFAC). In 2020, the Co-operators successfully deployed over 20% of invested assets in impact investments, two years ahead of target.

##### **Karen Higgins**

*Executive Vice-President, Finance and Chief Financial Officer, The Co-operators Group Limited*

The Co-operators was the first Canadian insurer in 2021 to join the Net Zero Asset Owner Alliance, a group that calls for net-zero investment portfolios by 2050. Ms. Higgins is also a member of the Canadian Chapter of the CFO Leadership Network, launched by A4S (Accounting for Sustainability) with CPA Canada.



## Governance

### Remuneration

Our CEO compensation plan incorporates Addenda's UN PRI score to further incentivize the integration of responsible investing principles in the overall investment process. We are actively considering relevant climate-related performance metrics for broader inclusion across the Executive and Portfolio Managers Compensation Plans.

### Management Oversight and Functional Groups

The **Sustainable Investing Committee** is responsible for monitoring, approving, and overseeing the ongoing implementation and development of our sustainable investing strategies. The Committee reinforces climate integration in investing decision making and is responsible for approving approaches to address systemic climate concerns impacting investment portfolio performance. The Sustainable Investing Committee meets quarterly with the Sustainable Investing Team to discuss climate-related initiatives and priority setting.

#### **Sustainable Investing Committee**

**Roger Beauchemin**  
*President and Chief Executive Officer*

**Ian McKinnon**  
*Executive Vice-President, Core Fixed Income*

**Benoît Durocher**  
*Executive Vice-President and Chief Economic Strategist*

**Janick Boudreau**  
*Executive Vice-President, Business Development and Client Partnerships*

**Tyler M. McKinna**  
*Vice-President, Commercial Mortgages*

**Scott Knight**  
*Senior Portfolio Manager, Global Equities*

**TBA**  
*Vice-President, Sustainable Investing  
(Role has been filled, start date of 31 January, 2022)*

The **Sustainable Investing Team** is responsible for supporting the investment management teams in identifying and assessing climate-related risks and opportunities during the pre-screening and due diligence phase.

The team also supports with asset management in monitoring climate-related risks in existing portfolios. With support from the Sustainable Investing team, Addenda's culture and objective of sustainable investing is actively cultivated.

The Sustainable Investing Team provides investment teams with a bi-weekly presentation on climate change issues and developments that could impact their investment portfolios. Timely and decision-useful climate information is prepared through in-house global trend analysis and reputable external research.

The Sustainable Investing Team actively communicates with the Sustainable Investing Committee on an ongoing basis to share climate-related information and seek approvals for policy positions and collaborative initiatives.

#### **Sustainable Investing Team**

**TBA**  
*Vice-President, Sustainable Investing  
(Role has been filled, start date of 31 January, 2022)*

**Delaney Greig**  
*Director, Sustainable Investing*

**Selby Xavier**  
*Principal, Private Market and Impact Investments*

**Gillian Davison**  
*Junior Analyst, Sustainable Investing*

The **Investment Management Teams** are responsible for portfolio performance and ongoing assessment of climate risks and opportunities within their managed portfolios. Climate practices are monitored in portfolio companies to protect our shareholder interests. Governance concerns in portfolio companies are highlighted and raised to the Sustainable Investing Team for consideration in determining climate-related proxy voting intentions and priorities for portfolio company engagement activities.

More information on our Sustainable Investing Team and Investment Management Teams' approaches to identifying, assessing, and managing climate-related risks can be found in the Risk Management section on page 20.



# Strategy

## Reaching Net Zero

In October 2021, Addenda joined a group of 220 global asset managers in committing to support the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C, and support investing aligned with this goal.

As part of our commitment, it is our ambition by 2030 to reach a proportion of 75% of our total assets that are managed in line with the attainment of net zero emissions by 2050 or sooner. Clients representing more

than half of our assets under management are either already currently aligned with these goals or are favourably disposed to them. We will work with our other clients and accompany them in order to reach 75% of AUM by 2030.

Development of our detailed targets and net zero transition plan in alignment with our NZAM commitment is currently underway. We will disclose these targets and plan in 2022 and provide details in our 2022 TCFD Report.

## The Net Zero Asset Managers Commitment

### A net zero emissions commitment requires:

- Interim targets for 2030, consistent with a fair share of the 50% global reduction in CO<sub>2</sub> identified as a requirement in the IPCC special report on global warming of 1.5°C
- Scope 1 and 2 portfolio emissions calculation and, to the extent possible, material portfolio Scope 3 emissions
- Achievement of real economy emissions reductions within the sectors and companies in which the firm invests
- If using offsets, investment in long-term carbon removal where there are no technologically and/or financially viable alternatives to eliminate emissions
- As required, creation of investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions

### Across all assets under management:

- Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity
- Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with the ambition for all AUM
- Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisors, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner
- Ensure any relevant direct and indirect policy advocacy undertaken is supportive of achieving global net zero emissions by 2050 or sooner
- Annually publish TCFD disclosures with a climate action plan and submit them to the Investor Agenda for review



# Strategy

## Investing in Climate Change Solutions

### Investing in Climate Change Solutions

At Addenda our strategy aims to address and mitigate climate-related risks, while also proactively identifying opportunities for investing in climate change solutions. We provide our clients with a suite of sustainable and impact solutions that support the transition to a low carbon economy including our Climate Transition Equity Fund, Fossil Fuel Free Global Equity Fund, and Impact Fixed Income Fund.

### Climate Transition Equity Funds

In 2021 we introduced our Climate Transition Equity pooled funds, which are available for our Canadian equity and International equity strategies. The funds focus on working with companies that share our interest in a resilient net-zero emissions society by 2050. Our transition funds' construction approach includes four steps:

1. Identifying a universe of qualified companies committed to and demonstrating support for climate transition
2. Actively managing a concentrated portfolio that has a carbon footprint limit
3. Strengthening our screening criteria and carbon footprint limit in phases
4. Engaging with portfolio companies to encourage performance on carbon goals

These funds focus on reducing emissions across all economic sectors, while also achieving compelling risk-adjusted investment returns.

### Fossil Fuel Free Global Equity Fund

Our Fossil Fuel Free Fund focuses on an approach that excludes high GHG emitting sectors. Specifically, the strategy excludes issuers that generate more than 10% of their sales from:

- Extracting, producing, refining, or transporting fossil fuels
- Providing equipment and services to companies involved in the above businesses
- Fossil fuel-fired electricity generation

### Impact Fixed Income Fund

Our Impact Fixed Income Fund represents our inaugural approach to ensuring Addenda delivers both financial returns and a positive impact to society. The fund consists of four broad themes: climate change, health and wellness, education, and community development. Each theme has at least two focus areas for the impact being targeted. The climate change-themed investments have been allocated across the three focus areas: renewable energy, clean transportation, and energy efficiency. When investing in these focus areas, we refer to widely accepted authorities or standards that classify the necessary transition-related features.

When considering an impact investment, we assess whether any potential adverse impacts on the Sustainable Development Goals (SDGs) outside of the impact theme could arise. Therefore, climate change considerations are also addressed within the other impact themes.



# Strategy

## Identifying our Climate-related Risks

As an asset manager for both institutional and retail clients, we recognize that investment time horizons are an important variable for consideration. Climate change adds one more layer of complexity to this approach. Climate-related risks will manifest over different time horizons due to the various sources of the risks. The scale of associated financial impacts will vary based on the level of exposure and vulnerability of the invested business. Table below provides a high-level view of different sources of climate change risks and how soon we expect to see the associated impacts.

Investments can be impacted by climate risks at both a macro- and micro-level. At the macro-level, climate risks can negatively impact economic growth and productivity capacity and disrupt aggregate demand and supply. At the sector level, climate risks could lead to fundamental changes in business models. At the micro-level, climate risks can cause business interruptions and direct damages to physical assets due to extreme weather events, and higher production costs due to resource shortages and rising carbon prices.

### Sources of Climate Risks

Climate Change Risks	Sources of Risks		When do we Expect to See the Impact
Physical Risks	Acute	Extreme weather events	Short-term
	Chronic	Shifts in climate patterns	Mid- to long-term
Transition Risks	Policy	Climate policies constraining carbon intensive activities (carbon tax) and supporting low-carbon activities (transition subsidies)	Short-term
	Legal	Climate regulations on products, services, and disclosures	Short-term
	Technology	Substitution of existing technologies with low-carbon options	Short- to mid-term
	Markets	Changing demand and supply patterns	Short- to mid-term
	Reputation	Changing consumer and stakeholder perceptions	Short- to mid-term



# Strategy

## Climate Risks Across our Asset Classes

### Public Equities

Climate risks can have direct impacts on the core business activities of a company as well as indirectly through its value chain. The global economy has fostered increasingly more complex supply chains, making them more exposed to physical climate risks.

With increasing global efforts to combat climate change, emission reduction efforts along a company's value chain are becoming increasingly important in our transition risk and opportunity assessments.

Climate Risks	Examples of Climate Risk Impacts	
	Core Activity	Supply chain
Physical	Physical assets and labour can be negatively impacted by physical risks, leading to lower productivity, lower revenue, and potentially uninsured losses.	Supply chains can be disrupted by both extreme weather events and climate shifts such as drought and sea level rise, leading to potential shortages of raw materials or disruptions to transportation logistics.
Transition	Cost of production can be higher due to increased carbon taxes on Scope 1 and 2 emissions, and access to and cost of capital can be adversely affected by insufficient transition strategies.	Cost of production can be higher due to increased carbon taxes on Scope 3 emissions (e.g. through carbon border adjustments), necessitating changes in sources of supply.



## Strategy

### Climate Risks Across our Asset Classes

#### Fixed Income

There are growing concerns that today's bond yields do not fully reflect the looming impact of climate change on both countries and companies. The global sovereign debt market has arguably lagged other asset classes

in integrating climate change considerations. Sovereign credit ratings could be downgraded in higher warming scenarios, impacting bond yields and values.

Climate Risks	Examples of Climate Risk Impacts	
	Corporate Bonds	Sovereign Bonds
Physical	Damaged physical capital has negative impact on asset value and cash flows, and subsequently, creditworthiness.	The increasing frequency and costs of extreme weather events lead to higher government spending on relief and restoration, which would affect government bond values.
Transition	With increasingly stringent climate policies, higher emissions lead to lower creditworthiness of companies.	The growing concern over climate change has many countries accelerating the transition to a low-carbon economy, which includes significant government financing and subsidies.





## Strategy

### Climate Risks Across our Asset Classes

#### Commercial Mortgages

The impacts of climate change on commercial buildings and the associated mortgage financing have become increasingly evident. Both physical and transition

risks could lead to higher price volatility and default rates, adversely affecting the valuation of commercial mortgages.

Climate Risks	Examples of Climate Risk Impacts	
	Short-term	Medium-term
Physical	Extreme weather events such as floods and hurricanes can cause significant damage to buildings, potentially increasing default rates in hard-hit areas.	Climate shifts such as sea level rise could impact the insurability of more exposed commercial properties along affected waterways.
Transition	Regulatory changes to address climate change can lead to increased operating costs and capital expenditures for energy efficiency improvements.	Shifts in market demand may force increased vacancy and reduced valuations of energy inefficient buildings, leading to negative impacts on mortgage cashflows and security.



## Strategy

### The Addenda approach

At Addenda, our investment approach marries a top-down and bottom-up approach to risk identification and assessment. We embed climate factors into our research and valuation processes and strive to understand and capture climate-related drivers of any mismatches between market prices and our valuations.

We are continuing to build our in-house scenario analysis capabilities, addressing the possibility of outcomes that fall between a Paris-aligned 1.5 degree scenario and higher-warming 'current policy' scenarios. Such 'mid-range' scenarios can entail increased concurrent levels of both transition and physical risks, rather than these risks being mutually exclusive. We have engaged a third-party advisor to assist with further advancing our scenario analysis capabilities, and delivering structured implementation training programs to all of our investment and client service professionals.

More information on how we integrate climate into our investment decision making can be found in our Risk Management section on page 20.

#### **Q&A with Addenda Capital**

Answered by

**Kim Chafee, CFA**

*Vice President and Co-Head, Canadian Equities*

#### **What is Sustainable Investing and how has this changed investment strategy since Addenda's Montréal Carbon Pledge in 2015?**

We define sustainable investing as an investing approach that integrates consideration of environmental, social and governance (ESG) matters into investment and stewardship activities, with the objective of enhancing long-term investment performance for our clients. This journey truly began in 2012, when we became a signatory of the Principles for Responsible Investing, supported by the United Nations. Only three years later, we signed the Montréal Carbon Pledge (MCP), after which we became the first investment firm in Canada to disclose the carbon footprint of all equity funds. The MCP marked a new chapter: it heightened awareness around emissions, reinforced our investment professionals' understanding of risk, and sharpened discussions with issuers. The MCP also helped shape the development of our Sustainable Investing policy. This in turn laid the groundwork for our discussions around climate transition, which ultimately led to the launch of our Climate Transition Funds and our joining the Net Zero Asset Managers Initiative.



## Strategy

### The Addenda Approach

(Continued)

#### **How does the Canadian Equity team identify and assess climate-related risks and opportunities?**

In the Canadian Equity team, sector specialist Portfolio Managers cover assigned sectors and the stocks within. Each Portfolio Manager is responsible for identifying material ESG issues, including climate-related risks and opportunities that affect the fundamentals of their assigned companies.

Climate-related risks are identified and evaluated as part of our comprehensive fundamental analysis of companies and industries. Consideration of climate-related risks is part of the broad risk-reward analysis that we conduct on each potential investment. Portfolio Managers obtain information on climate-related risks and opportunities from corporate disclosures, industry reports, third-party research firms, brokers and dealers. Collaboration with other Addenda teams, including the Sustainable Investing team, is active and ongoing. Financially material ESG risks including climate change are closely monitored, and we engage with portfolio company management teams to understand and encourage actions to mitigate those risks.

Our Climate Transition funds are managed to a maximum portfolio carbon level, and companies must meet eligibility criteria around transitioning. We initially screen for individual company eligibility and emissions levels and then construct the portfolio accordingly.

#### **What are the biggest challenges when measuring portfolio company climate performance?**

There continues to be a general lack of sufficient and comparable climate disclosures from portfolio companies, reflecting inconsistencies in data sources and reporting methodologies being used.



## Risk Management

### Climate Risk Integration into Investment Processes

At Addenda, we are aware of the material risks climate change can pose to the financial performance of our investments, including for portfolio companies that are not embarking on a low-carbon transition. As such, embedding climate risks into our investment risk processes has become a fundamental part of our investment governance. By prioritizing climate risk factors, we improve the resilience of our investment portfolio over the long-term.

Primary responsibility for climate risk management and assessment is placed on our portfolio managers, who are best positioned to understand the material climate-related risks and opportunities within their investment portfolios. Our portfolio managers have implemented identification, assessment, and management processes at the research and due diligence stages for new investments, and as part of ongoing asset management for existing investments. To support climate analysis, sophisticated tools and practices have been developed to help portfolio managers assess and manage both physical and transition risks. These tools are used in conjunction with our Sustainable Investing Team, who are responsible for assisting portfolio managers with the identification and management of climate-related issues and trends.

#### Sustainable Investing Team

The Sustainable Investing Team supports our portfolio managers during research, due diligence, and review processes by:

- Providing summaries of companies' climate-related information benchmarked against the TCFD recommendations, including emissions and target data;
- Leading engagement efforts with portfolio companies on topics including climate risk and emissions reduction;
- Producing and distributing industry reports and papers to investment teams on emerging best practices, and associated global and Canadian initiatives, for climate risk management by institutional asset managers and owners
- Conducting more in-depth company specific reviews, when requested by investment teams.

#### Our Investment Teams' Climate Risk Practices

Our investment teams have developed practices to support the integration of climate physical and transition risk assessment and management throughout the investment lifecycle. These practices have been integrated into investment decision making to support the mitigation of investment risks and our overall risk exposure.

***"In 2021, the Sustainable Investing Team prepared a paper on net-zero best practices for our investment professionals, which included how to evaluate emission reduction targets and understand the use of offsets."***



# Risk Management

## Company Risk Assessment and Management

Our investment teams integrate the evaluation of climate risks into overall company risk assessments during the buy and hold period of investments. During this process, our investment teams obtain climate related information from third-party climate data providers, review company climate disclosures, and/or engage with companies directly to gain a deeper understanding of the company's exposure to climate-related risks and opportunities.

To further assist our portfolio managers' integration of climate risks, we have developed a standardized tool to allow portfolio managers to identify key ESG issues in all sectors within our equities and fixed income portfolios. The tool is based on the SASB standards and supports the assessment of the materiality and magnitude of ESG issues both at the sector and issuer level. During these assessments, climate change is always included. Key metrics assessed include: GHG emissions, energy use, reduction targets, exposure

to renewable energy vs. fossil fuels, capital expenditures to green vs. brown activities, and emissions intensity relative to peers.

Our commercial mortgage team uses Swiss Re's CatNet tool to assist in the identification of physical risks across its portfolio. The tool assists in identifying extreme weather exposures based on the geographic locations of our borrowers. To accept the borrower's climate risk profile and help mitigate related credit risk, portfolio managers ensure the borrower has adequate insurance coverage for its identified exposures.

The purpose of these assessments is to allow our investment teams to gain an informed view of a portfolio company's climate risk management practices relative to its peers, and how potentially material climate issues are integrated into its management decision making.

Information on our portfolio company engagement and proxy voting practices are further described in our Active Ownership section on page 23.

## Climate-related Risk Practices

	Public Equities	Commercial Mortgages	Fixed Income
<b>Company Risk Assessment and Management</b>			
Climate Data	•	•	•
SASB+ Tool	•		•
CatNet®		•	
<b>Portfolio Management</b>			
CatNet®		•	
Climate Sector Analysis			•
Carbon Footprint	•		
Climate Scenario Analysis	•	•	•



# Risk Management

## Portfolio Management

**Public equities:** For the past seven years, we have been calculating the carbon footprint of our public equities to assist in monitoring our exposure to climate transition risks. Our investment teams use this data to manage their investment strategies and risk exposures.

We have implemented various initiatives to assist in lowering our transition risk exposure and pursuing climate transition opportunities, such as the development of our Fossil Fuel Free Global Equity Pooled Fund and Climate Transition Equity Pooled Funds in our international and Canadian equity portfolios.

**Corporate bonds:** Our corporate bond team considers climate-related risks when evaluating sector allocation within their portfolios. For example, when making sector investment decisions, teams may assess how different maturities of securities could be impacted by climate risks.

**Commercial mortgages:** Our commercial mortgages team continues to use the CatNet to monitor their portfolios' exposures to physical climate risks, such as earthquakes, floods, lightning strikes, windstorms, wildfires, and volcanoes, which in turn helps to understand the portfolio's overall financial risk exposure.



# Risk Management

## Active Ownership

### Engagement

As asset managers, we view engagement with investee companies as a critical step in assessing the material climate risks posed by our investments. Our stewardship activities apply to engagement with holdings on thematic climate-related concerns and improvements and are performed on an ongoing basis, where risks are identified.



**Stewardship Engagement Activities by SIC Sector<sup>1</sup>**

(#)

■ Extractives and Minerals Processing	11
■ Food and Beverage	8
■ Infrastructure	6
■ Financials	5
■ Transportation	5
■ Chemicals	3
■ Resource Transformation	1



**Stewardship Engagement Activities by Climate-related Engagement Topic<sup>2</sup>**

(%)

■ Climate Targets	31
■ Climate Disclosure	25
■ Climate Risk Management	14
■ Climate Governance	8
■ Climate Strategy	8
■ Climate Scenario Analysis	7
■ GHG Emission Reduction	7

<sup>1</sup> Engagement activity covers the period between January 1, 2019 and June 30, 2021.

<sup>2</sup> Engagement activity covers the period between January 1, 2019 and June 30, 2021. Engagements frequently cover multiple climate-related topics.



# Risk Management

## Active Ownership – Case Studies

### Case Study 1 – Chemicals

Teams involved: Sustainable Investing and International Equity teams

Issues Raised to Management	Company Progress
The Addenda team has encouraged the company to set science-based targets that extend beyond the current intensity reduction target, moving to an absolute emissions reduction target.	The company is looking at climate neutrality over its full product lifecycle and working on a science-based target, in conjunction with the Science Based Targets initiative (SBTi).
The Addenda team has encouraged setting water consumption targets and reduction plans, given the company's green hydrogen production.	The company is currently mapping the water stress of its operations and is factoring water impact into the development of new technologies.

### Case Study 2 – Extractives and Minerals Processing

Teams involved: Sustainable Investing, Canadian Equity, and Corporate Bond teams

Issues Raised to Management	Company Progress
The Addenda team has encouraged disclosure in line with leading global standards and frameworks, such as the TCFD and SASB.	The company has developed their inaugural Sustainability Report, using the SASB standards and TCFD recommendations as guiding principles.
The Addenda team has encouraged developing and disclosing reduction targets.	The company is currently developing GHG emissions reduction targets and is assessing measures to reduce their operational GHG emissions. The company has committed to public disclosure of these targets by the end of 2021. The company now considers emissions when making capital allocation decisions.





# Risk Management

## Proxy Voting

At Addenda, we exercise our rights as shareholders to promote the adoption of better climate practices within portfolio companies. We view the identification, mitigation, and management of environmental risks as integral

components when evaluating a company's overall risk exposure. We have published our position on a variety of climate-related practices in our Proxy Voting Policy and vote in accordance with our policy. These include:

Topic	Addenda Position
Disclosure of Environmental Risks and Management Practices	<ul style="list-style-type: none"><li>• Support reasonable requests for increased disclosure of risks and management practices related to or arising from environmental issues.</li></ul>
Standards and Business Practices	<ul style="list-style-type: none"><li>• Support adherence to internationally recognized norms and conventions and the adoption of policies and practices regarding environmental issues that are likely to reduce portfolio risk.</li></ul>
Climate Change	<ul style="list-style-type: none"><li>• Support reasonable requests for increased public disclosure of risks related to climate change and management practices intended to address those risks.</li><li>• Support requests to adopt cost-effective GHG reduction targets and programs.</li><li>• Support requests for corporate strategies and business plans that are consistent with limiting the global temperature rise to 2°C above pre-industrial levels.</li><li>• Support requests to end lobbying against (or otherwise obstructing) policies supportive of limiting the global temperature rise to 2°C above pre-industrial levels.</li></ul>
Environmental Expertise on Boards	<ul style="list-style-type: none"><li>• Support the nomination of directors with environmental expertise to boards of companies, in industries with significant environmental issues associated with their operations.</li></ul>
Board Oversight of Environmental Risks and Opportunities	<ul style="list-style-type: none"><li>• Oppose the chair of the board if there is no evidence of board oversight of environmental risks.</li></ul>
Executive Compensation Design	<ul style="list-style-type: none"><li>• Support linking executive compensation to reasonable measures of performance on environmental issues that are likely to enhance long-term corporate financial performance in addition to traditional evaluation measures.</li></ul>

Our full position on shareholder voting can be found in our [Proxy Voting Policy](#).



## Risk Management

### Our Climate Voting Results

#### Proxy Voting Snapshot

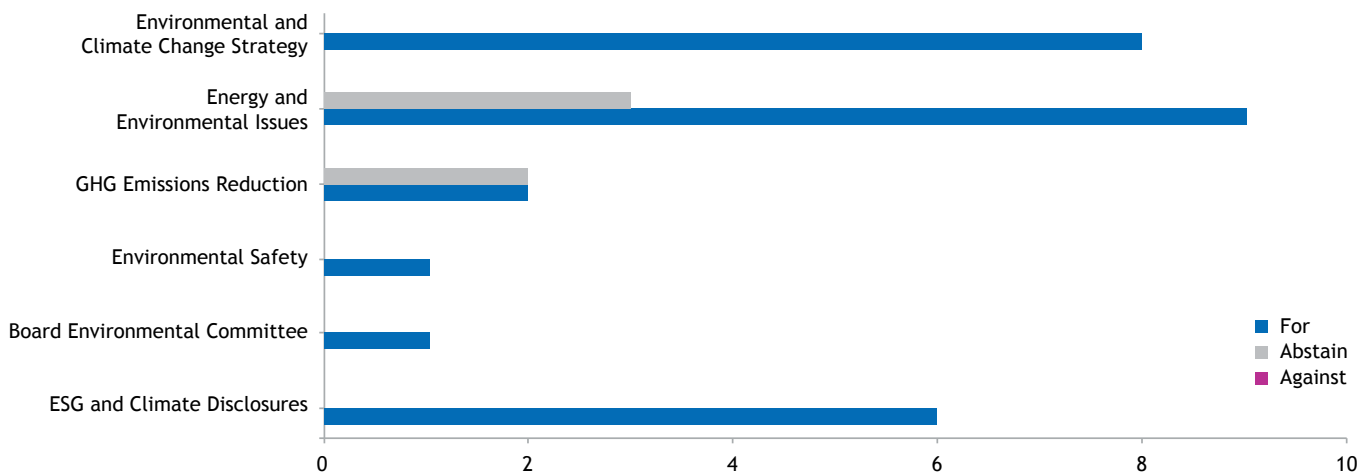
Votes in Favor **27**

Votes Abstain **5**

Votes Against **0**

Our commitment to supporting proposals that promote greater transparency and performance on climate-related practices is exhibited in our proxy voting decisions. We voted in support of 85% of climate-related shareholder proposals, which were focused on a wide range of issues such as climate strategy approval, GHG emission reduction targets, and climate change related disclosures. Abstentions occur when we agree with the spirit but not the specifics of a proposal.

#### Proxy Voting Results by Type<sup>1</sup>



Source: Addenda Capital

<sup>1</sup> Proxy voting results cover the period between January 1, 2019 and June 30, 2021.



## Metrics and Targets

Measuring our climate-related performance is critical to understanding the direct and indirect impacts of our investment activity and portfolio company operations. At Addenda, we have been measuring our portfolio carbon footprint since 2015 as a signatory of the Montréal Carbon Pledge.

As we advance our role in supporting the transition to a low carbon economy, we have committed to reach net zero emissions by 2050 in our investment portfolio.

The figures on the right show the carbon footprints of our equity portfolios over time. The footprints have generally seen a downward trend and are lower than the benchmarks used by our teams. However, since portfolios are managed by different teams using different investment processes, comparisons between portfolios require caution and should allow for the fact that teams' specific strategies may play an important role in the final result.

### Scope

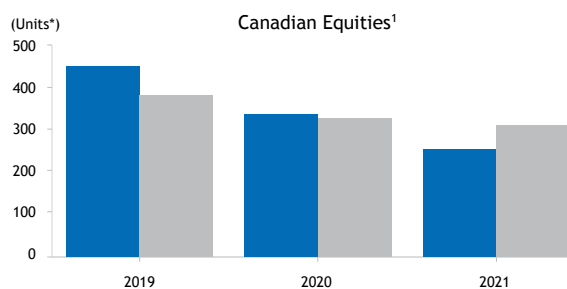
Our portfolio carbon footprint accounts for Scope 1 (direct GHG emissions) and Scope 2 (GHG from acquired electricity, steam, heat, and cooling) for our public equity investments. We primarily rely on company disclosures, and where unavailable, use proxy data. We are currently evaluating methods to measure the carbon footprint of our fixed income investments and Scope 3 emissions, where material. We will disclose our performance in future reporting cycles.

### Methodology

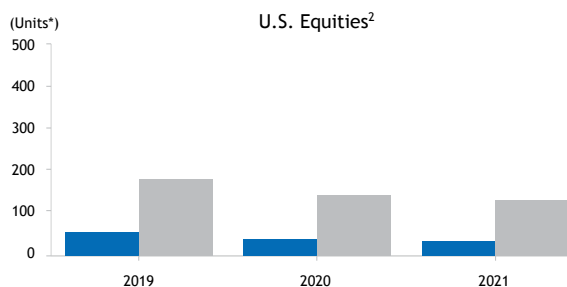
The Greenhouse Gas (GHG) Protocol methodology has been used to calculate our financed emissions since 2015. To align with Addenda's advocacy for enhanced climate-related reporting standardization, we plan to transition our methodology to the Partnership for Carbon Accounting Financials (PCAF) approach. PCAF provides methods to measure financed emissions across a diverse range of asset classes and is now considered a global standard within the financial industry.

### Addenda Portfolio Carbon Footprint

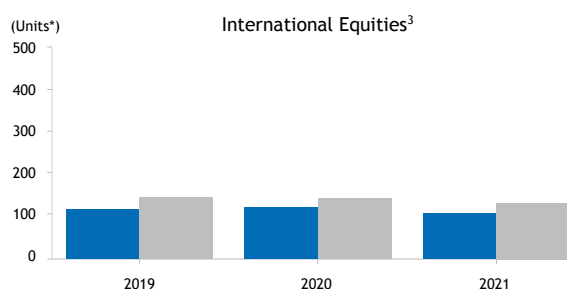
■ Portfolio ■ Benchmark



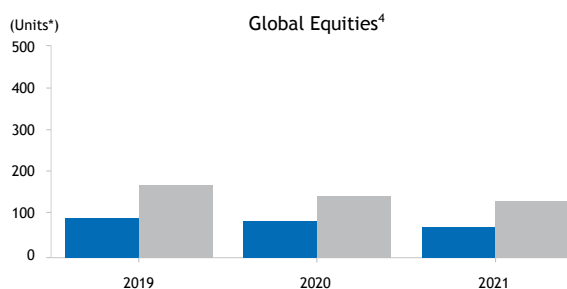
<sup>1</sup> S&P TSX



<sup>2</sup> S&P 500



<sup>3</sup> MSCI EAFE



<sup>4</sup> MSCI World

\*Weighted average t CO<sub>2</sub>-eq/\$M revenues

Portfolio carbon footprints cover the period between January 1, 2019 and June 30, 2021.



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