



# Addenda Capital Impact Fixed Income Strategy ESG Disclosure Statement

In accordance with CFA Institute's Global ESG  
Disclosure Standards for Investment Products

March 31, 2023

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The purpose of this ESG Disclosure Statement is to explain how environmental, social, and governance (ESG) issues are considered within an investment product's objectives, investment process, and/or stewardship activities.

## Compliance Statement

This ESG Disclosure Statement for the period January 31, 2018, to March 31, 2023, complies with the disclosure requirements of the Global ESG Disclosure Standards for Investment Products. Additionally, Addenda Capital Inc. has complied with the requirements of the Global ESG Disclosure Standards for Investment Products related to the preparation and presentation of this ESG Disclosure Statement. The Global ESG Disclosure Standards for Investment Products are developed and maintained by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

## Summary

This ESG Disclosure Statement pertains to the Addenda Capital Impact Fixed Income Strategy.

ESG considerations play a role in several elements of the Impact Fixed Income Strategy, specifically when:

- Developing impact themes and focus areas criteria for the Strategy (see Themes and Focus Areas section for details)
- Determining if a potential investment meets the criteria for an impact investment<sup>1</sup> (see Portfolio-Level Allocation Targets for details)
- Analyzing investments and making investment decisions (see Systematic Consideration of Financially Material ESG Information in Investment Decisions for details)
- Monitoring and engaging with issuers (see Stewardship Activities for details)
- Determining if a potential issuer violates the Controversial Weapons Policy of Addenda Capital (see ESG Screening Criteria for details).

## Themes and Focus Areas

The Impact Fixed Income Strategy considers both the effects that ESG issues may have on the performance of investments, as well as the effects that investments may have on ESG outcomes. The effects on ESG outcomes specifically refers to investing in securities that provide positive measurable environmental and social impacts. The investment selection process is therefore strongly influenced by an investment's ability to address pressing social and environmental challenges in the following areas, which may change and evolve over time:

- Climate change – with a focus on renewable energy, low GHG emissions energy, clean transportation, and energy efficiency
- Community development – with a focus on credit unions and financial services co-operatives, development finance, affordable housing, and Indigenous economic opportunities
- Education – with a focus on universities, school boards
- Health and wellness – with a focus on hospitals and non-profit seniors housing.

These themes and focus areas, and the specific due diligence criteria to assess these investments, are developed by the Sustainable Investing team and ultimately reviewed and approved by Addenda's Sustainable Investment Committee, chaired by Addenda's President and CEO.

In addition, a wide range of ESG factors are considered when analyzing investments and assessing the risk profile of issuers because exposure to ESG risks and opportunities varies by issuance, issuer, and industry. (For more details, see Systematic Consideration of Financially Material ESG Information in Investment Decisions.)

<sup>1</sup> Addenda defines an impact investment as an investment made with the intention to achieve both competitive financial returns as well as positive social and/or environmental impact(s) that are measurable and reportable.

## Portfolio-Level Allocation Targets

The Impact Fixed Income Strategy aims to allocate all its assets to impact investments. Fixed income securities include debt, private placements, loans, commercial mortgages, and preferred shares focused mainly on Canada (30% foreign securities limit). From here on these will be referred to as “impact investments” or “securities”. However, to manage liquidity, maturities, coupon payments and risk, the Impact Fixed Income Strategy may make investments that are non-impact. Typically, these investments will be bonds and debentures issued or guaranteed by the Government of Canada, its agencies and Crown corporations, or any province of Canada, its agencies and corporations. The Impact Fixed Income Strategy limits these investments to no more than 20% of the portfolio’s market value.

An investment must meet Addenda’s criteria to qualify as an impact investment within the Impact Fixed Income Strategy, namely:

### A) For green, social, or sustainability-labelled bonds:

- The issuer must disclose its internal governance structure for project evaluation and selection and for tracking the use of issuance proceeds.
- The issuer must have clear and science-based eligibility criteria (defined by global frameworks and standards wherever possible) for projects to be funded by the issuance proceeds. The issuer must use a substantial portion of the issuance proceeds to address pressing social and environmental challenges in the areas of climate change, community development, education, and/or health and wellness.
- The issuer must have an adequate governance process to track and report on the use of issuance proceeds.
- The issuer is assessed on whether a credible second-party opinion was provided and on its green/impact/sustainable financing framework.

### B) For non-green, non-social, or non-sustainability-labelled securities:

- The issuer or borrower must use a substantial portion of the issuance proceeds, or their core business must be aligned to address pressing social and environmental challenges in the areas of climate change, community development, education, and/or health and wellness.
- The issuer must also report measurable environmental or social impact outcomes related to the issuance or from their core business.

The percentage allocation to impact investments is reported to clients quarterly in a compliance certificate. In addition, at least one, and ideally all, positive environmental or social impacts will be measured and reported for each impact investment in the strategy at least annually. Addenda also provides an Annual Impact Report which outlines the performance, portfolio characteristics, and outcomes by theme and focus areas.

## Systematic Consideration of Financially Material ESG Information in Investment Decisions

Within the investment process for the Impact Fixed Income Strategy, research is undertaken to identify financially material ESG factors. Material ESG factors are analyzed and the resulting insights inform investment decisions.

The materiality of ESG information is assessed using a combination of tools, industry standards, and professional judgment. One input to the process is the Sustainability Accounting Board (SASB) Standards, which identify the subset of environmental, social and governance issues most relevant to the financial performance and enterprise value of 77 industries (see <https://www.sasb.org/standards/> for more information). Other ESG data sources, such as CDP, MSCI, ISS, company and issuer websites, may be used to uncover ESG risks and opportunities.

After material ESG factors have been identified, research is undertaken to assess an issuer’s exposure to those factors and the extent to which the issuer is appropriately managing ESG risks and opportunities. ESG analysis is combined with other types of research to generate insights into whether an issuer can meet its financial obligations and insights about the overall credit/risk profile of issuer. Ultimately, ESG analysis may influence buy/hold/sell decisions as well as whether to increase or decrease monitoring or to inform engagement plans.

The process described above does not apply to money market instruments and some government issuances. For some asset classes and securities, the lack of data precludes an analysis of material ESG risks and opportunities.

## Stewardship Activities

Addenda Capital's primary stewardship activities for fixed income include:

- Engaging issuers – individually as well as alongside other investors and stakeholders when appropriate – to protect and enhance the long-term value of investments for our clients, including but not limited to meeting with management or representatives, making requests for information, and recommending action; and
- Engaging standard-setting bodies which drive improvements in sustainability practices, disclosure and reporting within the sustainability and green bond market. This is primarily done by contributing to the development of market sustainability principles or standards, or advising and reviewing their development.

For more information about these and other types of stewardship activities, please see the Stewardship Policy and Promoting Sustainable Financial Markets webpage, which can be found on the Addenda Capital website.

The focus of monitoring and issuer engagements can vary by issuer and change over time. If an ESG issue can negatively affect the long-term performance and sustainable success of an issuer, then that ESG issue may be part of the monitoring program for the issuer and target for engagement. Addenda Capital believes that the physical and transition risks (and opportunities) of climate change have the potential to impact the long-term performance of many companies. Addenda Capital seeks to address some of these risks by researching them and through memberships in collaborative climate engagement initiatives.

Achieving the objectives of the Impact Fixed Income Strategy requires an adequate supply of impact investments. Addenda Capital engages and advises standard-setting organizations to develop, maintain, and improve standards of practice for green, social or sustainable bond issuances. Addenda Capital engages with issuers to encourage adopting these practices to influence more issuers to meet and pass the impact criteria and ultimately drive real world positive social and environmental impacts.

While the Annual Impact Fixed Income Report highlights positive impacts within our core themes along with SDG alignment, it does not focus on stewardship; we do report to our clients on our firm-wide stewardship activities across all our asset classes via the following:

- Addenda Capital webpage describing our engagement work at the systems level promoting sustainable financial markets
- Quarterly reporting to clients of stewardship activity highlights
- Sustainable and Climate Investing Client Reports which include details on stewardship activities
- Annual Impact Fixed Income Report case studies

## ESG Screening Criteria

The Impact Fixed Income Strategy is subject to the Addenda Capital Controversial Weapons Policy. This policy states that Addenda Capital will not knowingly invest in the securities issued by an entity that manufactures controversial weapons. The policy defines controversial weapons as those weapons prohibited under international humanitarian law<sup>2</sup>, including biological weapons, chemical weapons, weapons with non-detectable fragments, incendiary weapons, blinding lasers, land mines and related devices, and cluster munitions. Addenda Capital, with the support of third-party expertise, maintains and annually updates a list of companies that are likely to be manufacturing one or more controversial weapons. The controversial weapons screen is performed at the beginning of the investment process. For more information, please see the Controversial Weapons Policy, which can be found on the Addenda Capital website.

## Sources and Types of ESG Information

The Impact Fixed Income Strategy uses ESG information as input to:

- Determine if a potential investment meets the criteria for an impact investment (see Portfolio-Level Allocation Targets for details)
- Provide investment analysis and investment decisions (see Systematic Consideration of Financially Material ESG Information in Investment Decisions for details)
- Monitor and direct engagement activities (see Stewardship Activities for details)
- Determine if a potential issuer violates the Controversial Weapons Policy of Addenda Capital (see ESG Screening Criteria for details).

<sup>2</sup> See the Controversial Weapons Policy for the full list of conventions and protocols.

The ESG information used to qualify an impact investment is often sourced from an issuer’s “green or sustainable bond framework,” which typically outlines how the issuer intends to use the proceeds from a bond to advance specific environmental or social objectives as well as the frequency and form of progress reporting to investors.

Other ESG information that may be used for ESG screening, investment analysis and decision-making, and monitoring and engagement includes:

- ESG research and analysis from MSCI
- ESG data aggregated by Bloomberg
- Corporate governance research from Institutional Shareholder Services
- Research produced by sell-side brokers and dealers
- Information and data from the Global Reporting Initiative (GRI)
- ESG research and materiality assessments from the Sustainable Accounting Standards Board (SASB)
- Climate data from CDP
- Company or issuer information (e.g., websites, from engagement meetings)
- Independent research produced by academic researchers, research institutes, and non-profits.

Addenda Capital recognizes there are inherent risks and limitations to using ESG information as an input to the investment process and stewardship activities including:

- Inconsistent availability – certain ESG information may be available for some investments but not others
- Poor quality – ESG information may be inaccurate or outdated
- Low comparability – ESG information from diverse sources may not be comparable due to differences in measurement methodologies and time periods

These risks and limitations cannot be totally avoided, but Addenda Capital attempts to mitigate these risks and limitations through:

- Due diligence – We assess the strength of governance frameworks and commitments to track and report on positive environmental and social outcomes. We regularly engage issuers before they come to market.
- Third-party verification – When available, we analyze third-party verification documents, scrutinizing the depth and quality of the research and analysis in these documents. Third-party verifiers may have inherent financial dependencies on the issuer.
- Industry Standards – We draw upon global standards of best practices, such as the International Capital Market Association’s Green Bond Principles (ICMA GBP) and Climate Bond Initiative’s Sector Standards, when available, for qualifying key activities of bonds as aligned with the global Paris Agreement. We also track developments in advancing best practices in impact, including those of the Impact Management Project practices and criteria guidelines. We strive to follow global best practices developed by technical, scientific and industry experts within our core themes and focus areas, and recognize that these evolve over time.

For additional information, please contact:



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