

SUSTAINABLE INVESTING REPORT

2023





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About this Report

Report Scope and Boundary

This report serves as Addenda Capital's annual sustainable investing disclosure and covers activities and performance during the 2023 calendar year (January 1, 2023 – December 31, 2023), unless stated otherwise. It provides updates on Addenda's sustainable investing practices and progress on our net-zero framework. All facts and figures are as of December 31, 2023, unless stated otherwise. Addenda Capital Inc. is referred to herein as "we", "our", "Addenda Capital", "Addenda" and the "company".

Reporting Frameworks

This report has been prepared with reference to recommendations from the International Financial Reporting Standards S2 Climate-related Disclosures (IFRS S2). A content index is appended for reference.

Currency

All dollar amounts are in Canadian currency, unless stated otherwise.

External Assurance

The performance data contained herein have not been externally verified. We will explore opportunities to verify our data going forward.

Please consider whether printing this report is necessary, as we strive to minimize paper usage for environmental sustainability.



Contact Us

We welcome questions and feedback on our report and initiatives. Please contact us by email at info@addenda-capital.com.



Land Acknowledgment

Addenda Capital acknowledges that our Montreal office is situated on the unceded land in the traditional territories of the Anishinaabe, Wendat, and Abénaki Nations. Our Toronto office sits on the traditional territory of many nations including the Mississaugas of the Credit, the Anishinaabe, the Chippewa, the Haudenosaunee and the Wendat peoples, and is now home to many diverse First Nations, Inuit and Métis peoples. Our Guelph office is situated on treaty land and home to the Anishinaabe and Haudenosaunee peoples, and the Attawandaron people are also part of the archaeological record. Our Regina office is situated on Treaty 4 lands, which are territories of the Nêhiyawak (Cree), Anihšīnāpēk (Saulteaux), Dakota, Lakota, and Nakoda, and homeland of the Métis Nation.

Our organization exists in communities from coast to coast to coast. We recognize that the many places where we live and work are home to past, present, and future First Nation, Métis, and Inuit peoples who have cared for this land since time immemorial. We acknowledge this rich history as part of our journey, support for, and ongoing commitment to Truth and Reconciliation in Canada. We honour and thank the traditional custodians of these lands and are grateful for the opportunity to gather and work here.

Right: Painting by Frank Polson, Algonquin Traditional Artist of Sacred Fire Productions, commissioned by Addenda



Letter from Our CEO

At Addenda Capital, we take pride in helping clients achieve their financial and sustainability objectives. We are more committed than ever to integrating environmental, social, and governance (ESG) factors into our decision-making and developing innovative solutions, along with active stewardship and engagement on pressing issues. Carrying out this work made for a busy year, and on behalf of our 179 employees, I am delighted to share this report detailing our progress.

The year 2023 was a pivotal one. While climate change felt extremely close to reaching critical tipping points, awareness surrounding diversity and other social issues continued to surge. Meanwhile, the International Sustainability Standards Board (ISSB) published its inaugural disclosure requirements, IFRS S1 and S2, and nations gathered at COP28 where a statement acknowledged the need to transition away from fossil fuels for the first time.

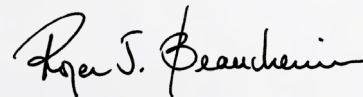
In light of these shifts, the role we play as an asset manager is a crucial one. Guided by authentic purpose and vision, we seek to achieve sustainable wealth creation in close partnership with our clients for a better future. Our vision aims to surpass client expectations by delivering sustainable, leading-edge investment solutions.

In 2023, our firm therefore continued devoting itself to making sustainable investing “business as usual”. We joined Nature Action 100, a group seeking to mobilize companies to mitigate nature and biodiversity loss. We celebrated the fifth anniversary of our Impact Fixed Income Pooled Fund, and became the first portfolio

manager worldwide to adopt the CFA Institute’s Global ESG Disclosure Standard for Investment Products in an impact-driven strategy. Finally, our Eco-Social Commercial Mortgages Pooled Fund continued to strengthen its focus on key issues, including affordable housing, a rising concern throughout the year. Within Addenda, we adopted the CFA Institute’s Diversity, Equity, and Inclusion Code for Investment Professionals and continued working on strengthening a culture of sustainability within the firm through our employee-led Corporate Sustainability Initiative.

Looking ahead, we will support change through our advocacy, particularly with standard setters and policy makers, on important issues such as the Canadian green and transition finance taxonomy to facilitate capital allocation to net-zero aligned activities. We also recognize the complexities of social issues, such as human rights and Indigenous reconciliation, and are committed to improving our practices in these areas.

We are proud of what we accomplished in 2023 and hope to drive even greater progress alongside our employees, clients, and stakeholders in 2024.



Roger J. Beauchemin, CFA
President and Chief Executive Officer





2023 Highlights

In 2023, we achieved notable milestones and are enthusiastic about our momentum.

Leadership

- + Implemented all-staff ESG 101 onboarding training
- + Conducted net-zero training with the Transition Accelerator
- + Adopted the CFA Institute's Diversity, Equity, and Inclusion Code for Investment Professionals

Sustainable Investing

- + 10 years of a Sustainable Investing Policy with a significant update in 2023, including strengthening our commitments on climate change, human rights, Indigenous rights and reconciliation, and innovation
- + 5 years of the Fixed Income Impact Fund with a strong track record of financial returns alongside positive environmental and social outcomes
- + First portfolio manager worldwide to adopt the CFA Institute's Global ESG Disclosure Standards for Investment Products in an impact strategy

Stewardship

- + Publicly reported our Net Zero Asset Managers initiative commitment and targets
- + Continued to support our parent organization, a Net Zero Asset Owners Alliance member
- + Partnered with Electrifying Canada
- + Became a member of New Economy Canada and Nature Action 100



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Who We Are

Addenda is a privately owned investment management firm that looks after insurance, pension, private wealth, corporate, and foundation assets.

The majority of our shares are owned by the Co-operators and the remaining are held by our employees. Established by farmers to address their insurance needs when traditional options fell short, Co-operators embodies the cooperative ethos of supporting policyholders through all circumstances. This commitment to community remains integral to Co-operators' identity despite its growth to serve over a million clients nationwide. As an organization, we at Addenda stay true to embodying these principles.

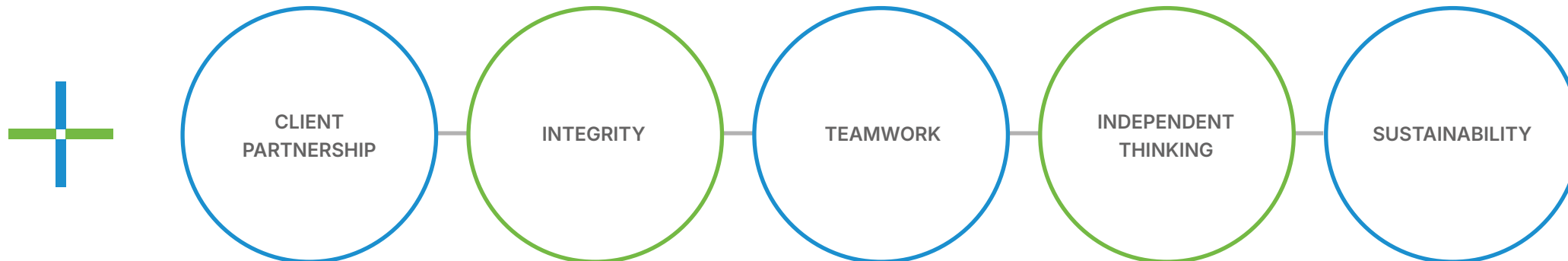
Now, Addenda is one of Canada's largest multi-asset investment firms, with over \$37 billion in total assets as at December 31,

2023. We actively manage a wide range of asset classes, including fixed income, equities and commercial mortgages, which can be modulated and combined to develop tailored investment solutions that meet the evolving needs of our clients. We have 179 employees working out of Montreal, Toronto, Guelph and Regina.

Our purpose is to achieve sustainable wealth creation in close partnership with our clients for a better future. Our vision is to surpass client expectations by delivering sustainable, leading-edge investment solutions.



Our Values



Culture of Sustainability

Sustainability aligns with our purpose, vision and values, and is embedded within our strategic plan. It is also core to our investment management activities because it is important to us, our employees, our clients and our stakeholders.

In 2021, we launched our Corporate Sustainability Initiative, which fosters employee-led activities to achieve the following objectives:

- + Anchoring sustainable behaviours and practices among employees
- + Fostering sustainable practices through collaboration
- + Promoting sustainability within our organization, our clients, our work and the market

Since its inception, the Corporate Sustainability Initiative Committee has launched a series of internal sustainability awareness and training activities, surveyed employees, and crafted a sustainability roadmap. In late 2022, the Committee developed a materiality assessment to identify sustainability issues perceived as priorities among Addenda employees. Top priorities included talent attraction and retention, climate impact, health and wellness, plastics and packaging, and corporate transparency. Additionally, in 2023, our actions focused on building an inventory of current practices

and tools to establish a baseline for future undertakings, creating stronger communication channels for initiatives across the organization, conducting training sessions focused on enhancing knowledge in corporate sustainability and health and wellness, and advancing roadmap initiatives related to sustainability issues.

The Initiative is led by the Corporate Sustainability Initiative Committee with representation from across the organization and is overseen by an Advisory Panel and the Executive Committee.

For more information about our corporate carbon footprint, please see the [Performance](#) section of this Report.

Building Our Capacity through Education

In addition to the Corporate Sustainability Initiative Committee's efforts, Addenda provides various training opportunities for our employees to build an understanding of sustainable investing. We work closely with our parent company, Co-operators, in developing and providing these trainings. Examples include: Carbon Footprint 101, ESG 101, Net-Zero 101, Impact Investing 101, Fundamentals of Diversity, Equity and Inclusivity, and Introduction to Indigenous History and Indigenous Realities. We have also built partnerships with third-party providers for external certifications, professional development and sustainability education programs for our employees.





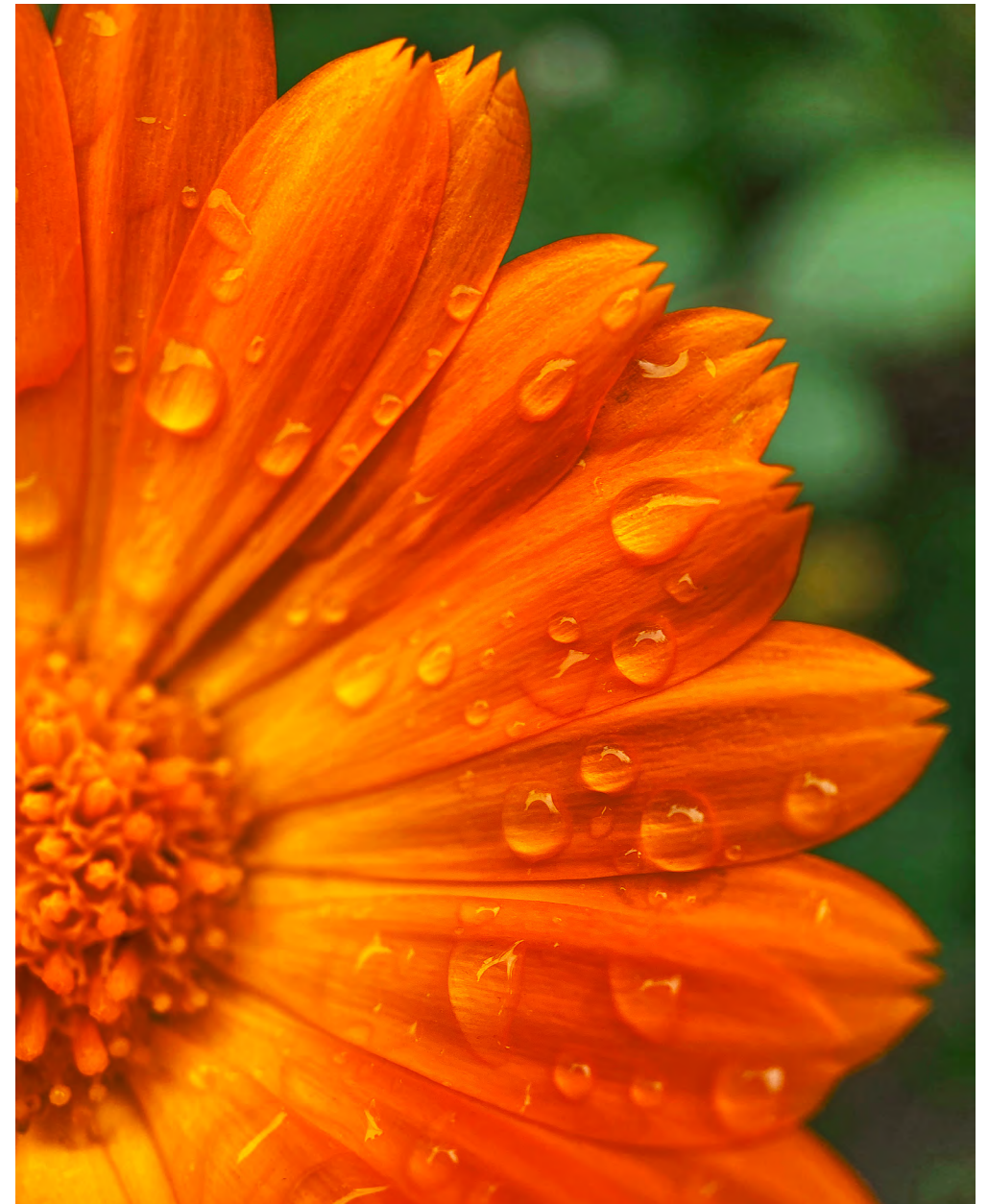
Diversity, Equity and Inclusion

At Addenda, every person counts. We position people at the heart of our strategy by recognizing the unique value of every individual. We embrace our diversity and value the contributions of each individual and those with whom we collaborate. Diversity, equity and inclusion (DEI) informs the way we do business and is a driving force behind the evolution of our organization.

Our approach to DEI includes:

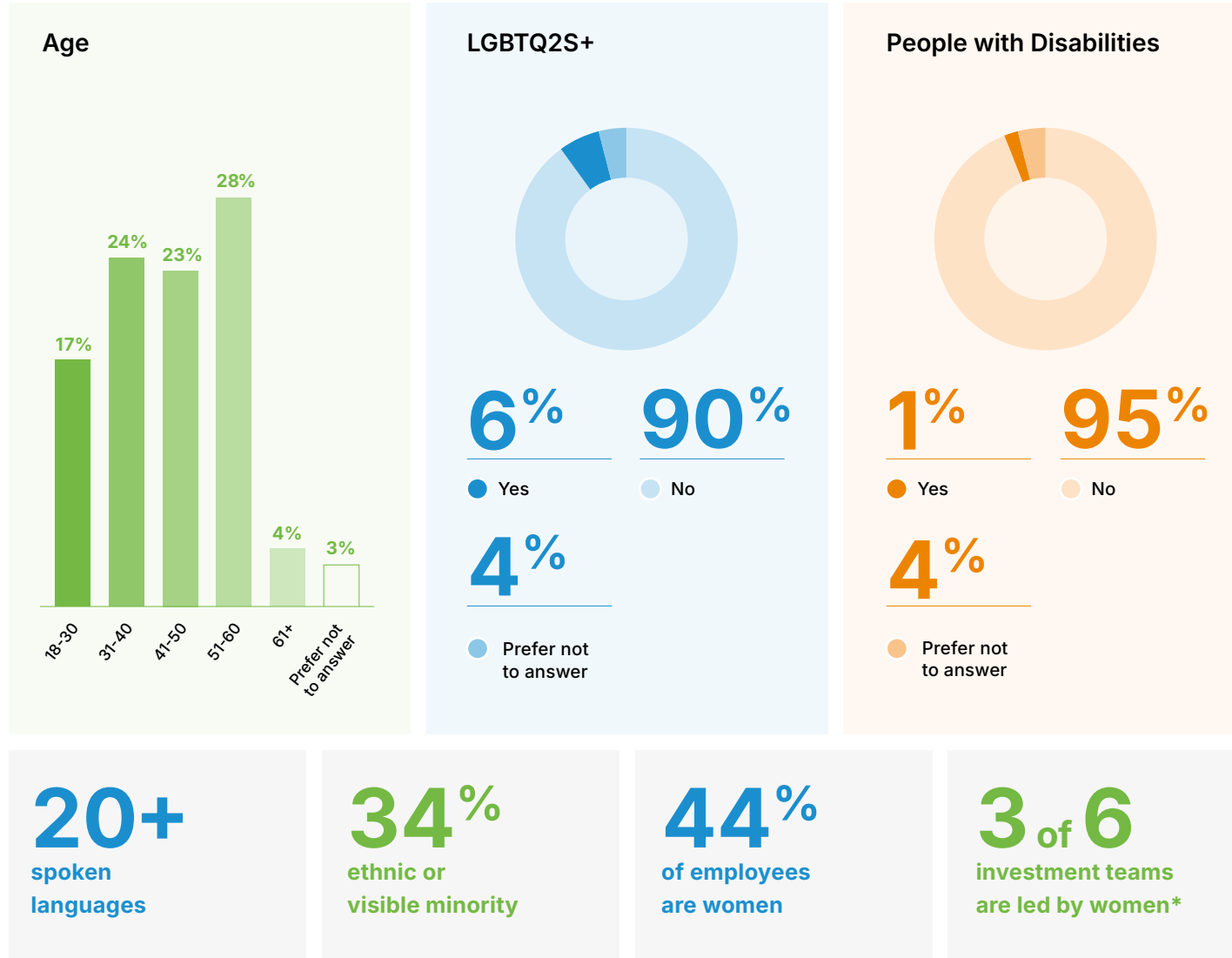
- + Adopting relevant policies and codes, such as the CFA Institute's [Diversity, Equity, and Inclusion Code](#)
- + Promoting and maintaining a respectful and harmonious work environment
- + Issuing a voluntary self-identification questionnaire annually for all Addenda offices
- + Conducting an internal pay equity process for all positions within the organization
- + Auditing our talent management practices with an external firm
- + Training for employees on the fundamentals of DEI
 - Including Indigenous education and reconciliation training for our Human Resources and Sustainable Investing teams
- + Advocating for DEI best practices by:
 - Submitting [comments](#) to the Canadian Securities Administrators' consultation in support of board and executive-level diversity-related disclosures
 - Being a founding signatory to the [Responsible Investment Association's Canadian Investor Statement on Diversity and Inclusion](#)
 - Signing on to the [Investor Statement to support the United Nations Women's Empowerment Principles](#)

This approach enables us to better understand and integrate our clients' needs, a responsibility shared by all team members.





2023 Employee Self-Identification Questionnaire



* Includes the Sustainable Investing team



Indigenous Reconciliation

We are guided by Co-operators' Reconciliation Strategy and are committed to a journey of learning and evolving on integrating economic reconciliation into our investment and stewardship activities. Our approach involves facilitating internal and external trainings, partnering with First Nations, Inuit and Métis communities and organizations and embedding an Indigenous lens into our stewardship activities, which has included engaging with several companies on the development of reconciliation action plans.

In addition, we incorporated Do No Significant Harm (DNSH) principles, including considerations of Indigenous community concerns in our Impact Fixed Income strategy. While we acknowledge the need for further action, we remain committed to advancing reconciliation efforts, supporting opportunities for Indigenous participation and economic benefits, and nurturing lasting partnerships.

Governance and Oversight

Maintaining strong governance practices is paramount in fulfilling responsibilities to our clients and stakeholders. We continue to refine our governance approach to effectively monitor and address sustainability and climate-related risks and opportunities as we move to a net-zero world. Figure 1 details our sustainable investing governance structure, which supports the achievement of our sustainability and climate commitments with accountability built through ownership and oversight by the Board.

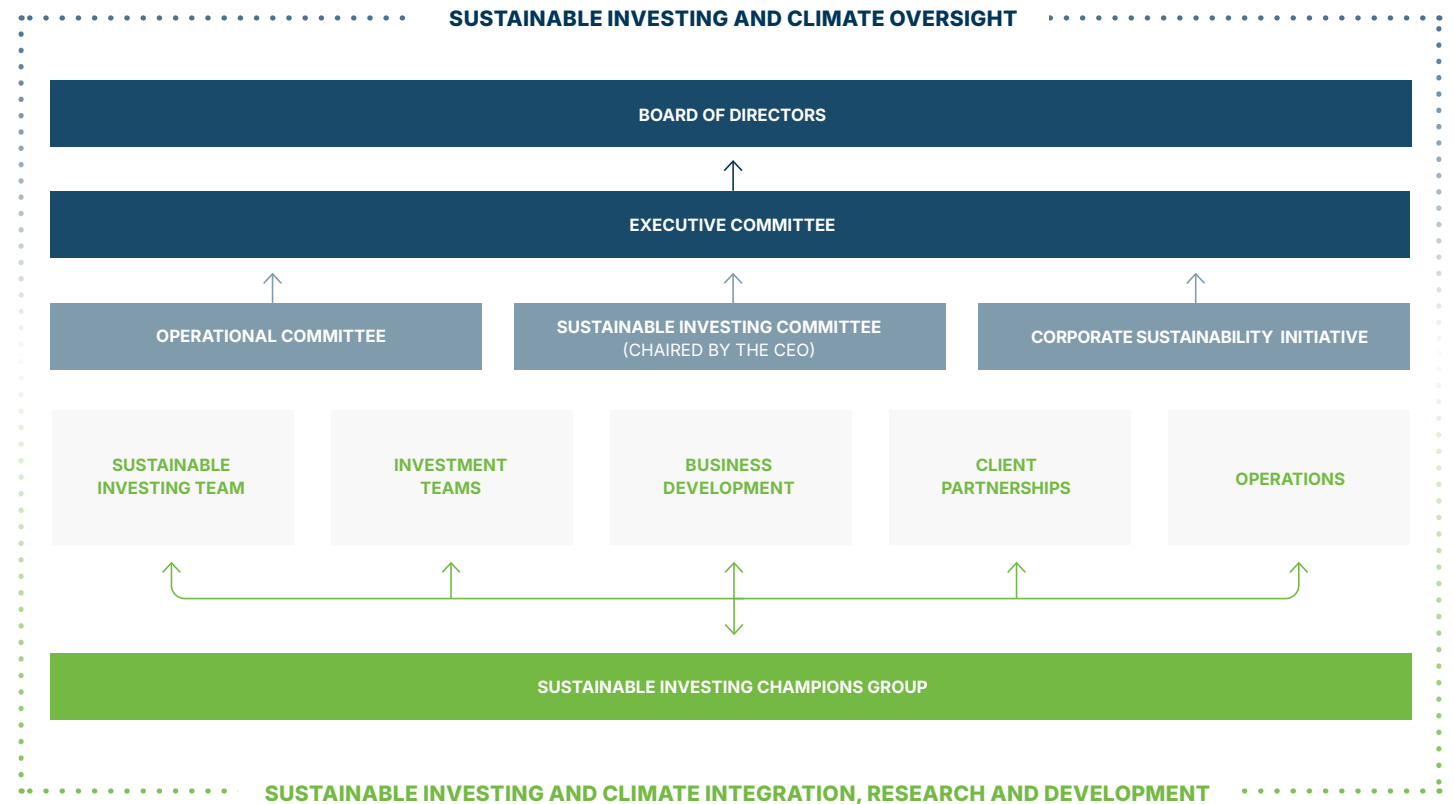
Board Oversight

The Board of Directors is responsible for overseeing, approving and challenging the firm’s climate and sustainable investing strategies, and ensuring alignment with stakeholder interests. The Board has ultimate oversight and responsibility for sustainability and climate-related activities, including climate strategy, major climate-related commitments such as the Net Zero Asset Managers (NZAM) initiative, and related climate policies. The Board regularly reviews Addenda’s Sustainable Investing Policy. Addenda’s President and CEO, Roger Beauchemin, serves as Chair of the Sustainable Investing Committee (SIC) and provides a direct line of contact to the Board on sustainability and climate-related matters.

Climate Expertise and Capacity Building

Our Board of Directors brings expertise on climate policy, food and agriculture, working with credit unions and communities, and knowledge of evolving trends in the industry. The Board is committed to staying up to date on rapidly evolving sustainability and climate trends that are relevant to the investment management industry. The Board receives regular updates from the Executive Committee on strategic developments and progress on climate and sustainable investing goals.

Figure 1: Sustainable Investing Governance Structure



Management Oversight

Together with Addenda's Board, the Executive Committee oversees the firm's strategic direction, as well as our sustainability and climate change ambitions. The SIC is responsible for Addenda's approach to sustainability and climate, as well as our day-to-day sustainable investing activities, including making key strategic recommendations to the Executive Committee. It comprises members of Addenda's senior management team and is responsible for monitoring, approving and overseeing the advancement of Addenda's sustainable investing activities. For more details on the SIC, please visit our [website](#).

The SIC also oversees our Stewardship, Proxy Voting, and Controversial Weapons policies, as well as other important internal guidelines related to sustainable investing and sustainability-themed strategies. It regularly reviews and approves changes to these policies. Additionally, the Committee monitors our public sustainability and net-zero commitments, including collaborative initiatives, evolution of our impact themes and processes, and government and industry submissions. For alignment, the Committee meets with the Sustainable Investing Team at least quarterly to discuss sustainability and climate-related matters and set priorities.

Remuneration

We have made significant strides in integrating sustainability criteria into executive and employee compensation structures. This initiative commenced with the CEO in 2019, expanded to include the entire executive committee in 2021, and encompassed all employees by 2023. Presently, employee compensation packages may incorporate some or all of the following sustainability factors depending on their role and responsibilities:

- + Employee turnover rate
- + Employee engagement
- + Governance and strategy
- + ESG integration and internal systems
- + Advance climate scenarios and net-zero plan
- + Corporate sustainability
- + Activism and resilience
- + Promotion of sustainable markets and stewardship
- + Shared services, leadership and organizational growth

Implementation and Support

Sustainable Investing Team

The Sustainable Investing Team consistently communicates with the SIC to share insights and provide guidance on policy positions and other initiatives. It also leads Addenda's sustainability and climate engagement and stewardship efforts in close collaboration with the Investment Management Teams. In addition, they help execute Addenda's sustainable investing and climate policies within our [proxy voting guidelines](#).

The Sustainable Investing Team conducts analysis and decisions related to Addenda's sustainability-oriented strategies, such as qualifying securities as impact or climate-transition aligned. They also provide strategic recommendations to various other teams and committees across the organization.

Addenda holds a Sustainable Investing Champions monthly meeting, a working group where members from each Investment Management Team, Client Partnership, Operations and Compliance share their latest findings and updates on improving ESG and climate analytics. The Sustainable Investing Team also shares the latest news and best practice trends.

Investment Teams

Responsibility for ESG integration into investment decision making is distributed to each team per their asset class responsibilities. Each Investment Management Team determines material ESG factors and includes them in their investment process, and when relevant, in their corporate engagements. They are also responsible for broader portfolio performance and ongoing assessment of sustainability and climate-related risks and opportunities in existing portfolios, supported by the Sustainable Investing Team.





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Approach to Sustainable Investing

We define sustainable investing as an approach that integrates ESG matters into investment and stewardship activities to enhance long-term investment performance for our clients.

Our approach also includes developing innovative investment products and solutions related to impact, climate change and the United Nations Sustainable Development Goals (SDGs), which coupled with our stewardship activities, aim to provide both financial and positive sustainability outcomes. In addition to our sustainable investing solutions, we offer our clients with segregated accounts the ability to develop custom portfolios with sustainable investments most suitable to their needs and goals. Stewardship is a core component of our effort to enhance long-term investment performance and positive sustainability outcomes.

We actively work with public policy and standard setters to promote sustainable financial markets, engage with investee entities and exercise proxy voting rights. These efforts are integrated to promote the sustainability of the economy, society, and investment performance. Please refer to the [Stewardship](#) section for more details.

Our investing approach is grounded in scientific, evidence-based research and collaboration with our clients to craft investment strategies that harmonize their financial objectives with their sustainability goals. By integrating sustainable investing practices, including an evaluation of ESG factors, we not only gain insights into a broader spectrum of sustainability and climate-related risks and opportunities but also tailor solutions that align with our clients' values.

Figure 2: Addenda Capital's Approach to Sustainable Investing



Sustainable Wealth Creation in Partnership with our Clients for a Better Future

In 2011, Addenda embraced the concept of sustainable investing that encompassed promoting sustainable financial markets, integrating the consideration of ESG factors into investment decisions, and active stewardship through proxy voting and engagement. Our long history and approach have helped us progress toward our goal of helping our clients achieve their sustainability and climate goals, such as net-zero emissions targets.

We work with our parent, Co-operators, on meeting their ambitious impact and climate commitments through our sustainable investing solutions. These commitments include investing 50% of their invested assets in either impact or climate transition investments by 2026, and increasing that proportion to 60% by 2030.¹ Addenda is a Net Zero Asset Manager (NZAM) serving Co-operators as a Net Zero Asset Owner Alliance (NZAOA) member and is committed to being at the forefront of climate transition best practices and discussions globally. Our portfolios for segregated accounts and sustainable investing solutions, such as the Climate Transition Equity Pooled Funds, the Impact Fixed Income Pooled Fund, the Eco-Social Commercial Mortgages Pooled Fund and the Fossil Fuel Free Global Equity Pooled Fund, along with other fund strategies and asset owners partnerships provide our clients with opportunities to make impactful progress.

Principles

We embrace our Canadian roots, including the diverse languages, peoples, and voices. We acknowledge that continued economic success happens within planetary boundaries where climate, biodiversity and natural systems are stable and resilient. Addenda is therefore committed to be at the forefront of providing innovative, sustainable investing solutions to help make the world better, healthier, and more prosperous for all. The following principles therefore guide our approach to sustainable investing:

- + Good sustainable investing policies, practices, and performance will help us fulfill our duty to protect and enhance the long-term value of investments for our clients
- + Our approach strives to be science-based and draws on global best practice frameworks related to governance, climate change, biodiversity, and natural capital management
- + We acknowledge there is an urgent need to accelerate the transition toward global net-zero emissions
- + Our approach strives to adhere to the United Nations Universal Declaration of Human Rights² and the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP)³ and we are committed to building our awareness of Indigenous issues and reconciliation
- + We are committed to offering innovative investment strategies that provide market returns and align with the SDGs, impact or climate transition, and net-zero ambitions
- + We have a duty to proactively contribute to the advancement and promotion of sustainable investing practices in Canada and globally through our stewardship activities focused on promoting sustainable financial markets
- + Cooperation with other investors and stakeholders can help us expand our knowledge, refine our strategy, and increase the effectiveness of our activities
- + We are committed to transparency and disclosure of our climate and sustainability goals and progress, and to sharing our sustainable investment approach and results with our clients

¹ *Co-operators Sustainable Investing and Impact Investing Policy*

² *United Nations: Universal Declaration of Human Rights*

³ *United Nations: UN Declaration on the Rights of Indigenous Peoples*





We are dedicated to working closely with our clients. As part of our communication efforts, we provide our clients with a snapshot of sustainable investing developments at Addenda and in the market, our portfolio emissions⁴, progress achieved within our climate transition equity and impact pooled funds and thought leadership pieces.

Policy

Our [Sustainable Investing Policy](#) sets the tone for Addenda's commitment to sustainable investment and provides a framework for firm-wide implementation. Where consistent with our fiduciary responsibilities and based on the principles established by the PRI, we commit to the following:

- + Identify the ESG issues that could have a material impact on investment performance and incorporate these considerations into investment analysis and decision-making
- + Monitor our investee entity ESG practices and update our research or views in cases where ESG practices materially change
- + Exercise voting rights and engage in a dialogue with our investee entities in accordance with our Stewardship and our Proxy Voting Policies
- + Promote acceptance and implementation of sustainable investing
- + Collaborate with other investors to promote and enhance sustainable investing
- + Support and partner with those clients that have sustainability goals through the development of investment solutions that strive for market returns and positive sustainability outcomes

⁴ We disclose our portfolio emissions on [page 47](#) of this report

ESG Integration

Consideration of Financially Material ESG Information in Investment Decisions

At Addenda, many of our investment strategies seek to integrate ESG factors into their investment process. Within this process, we undertake research to identify and analyze financially material ESG factors and include the resulting insights into investment decisions. We assess ESG materiality using a combination of tools, including the SASB Standards, climate risk assessments and professional judgment. Other data sources, such as ESG service providers, issuer websites, think tanks or academic research may be used to uncover ESG risks and opportunities.

After material ESG factors have been identified, we assess an issuer’s exposure to those factors and the extent to which the issuer is appropriately managing ESG risks and opportunities. Our ESG analysis is combined with other research to generate insights into whether an issuer can meet its financial obligations and insights about the overall risk profile of the issuer. Ultimately, ESG analysis may influence buy, hold or sell decisions, as well as whether to increase or decrease monitoring, or to inform engagement plans.⁵

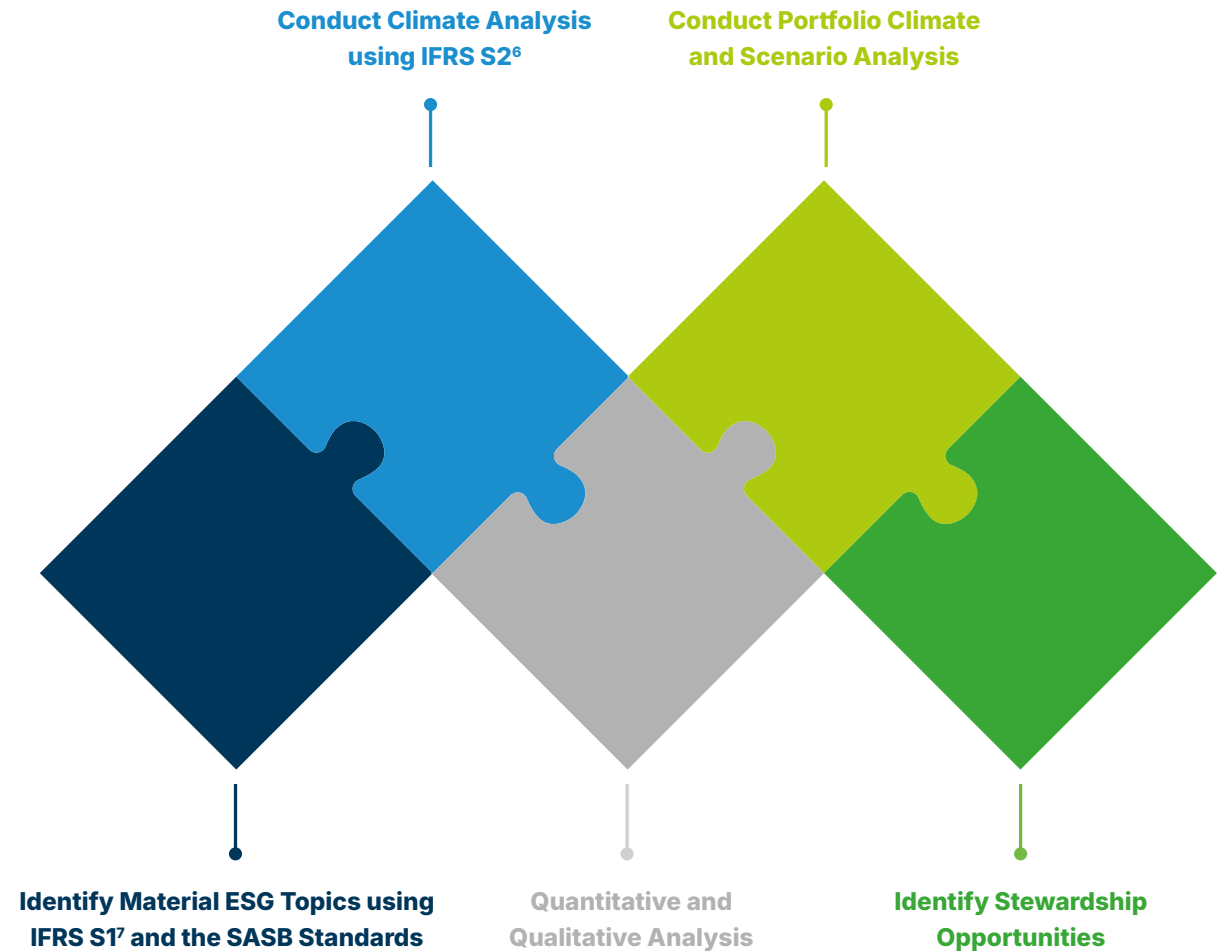
Exclusions and Policies

Our investments are subject to our Controversial Weapons Policy, which states that Addenda will not knowingly invest in the securities issued by an entity that manufactures controversial weapons. Addenda, 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.

For more information, please see our [Controversial Weapons Policy](#).

⁵ 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.

Figure 3: Elements of ESG Integration



⁶ IFRS S2 refers to Climate-related Disclosures published by the International Sustainability Standards Board (ISSB)

⁷ IFRS S1 refers to General Requirements for Disclosure of Sustainability-related Financial Information published by the International Sustainability Standards Board (ISSB)

Nature and Biodiversity

We recognize the profound importance of nature and biodiversity as they are fundamental in keeping our planet healthy and intricately linked with sustainable societies and economies. We recognize the need for financial markets to more fully incorporate strategies that safeguard ecosystems and biodiversity and preserve long-term value creation for our clients.

Planetary Boundaries

Addenda’s newly updated [Sustainable Investing](#) and [Stewardship Policies](#) acknowledge that continued economic success happens within the planetary boundaries where climate, biodiversity and natural systems are stable and resilient. The planetary boundaries concept, as shown in Figure 4, details nine planetary boundaries within which humanity can continue to develop and thrive for generations to come. In contrast, crossing these boundaries increases the risk of irreversible environmental changes. Scientific evidence indicates that human impacts are resulting in exceeding our planetary boundaries for six out of nine earth systems, increasing the risk of large, abrupt or irreversible environmental changes.⁸

One of the most urgent tipping points is climate change, reinforcing the need for globally coordinated action for transitioning to net-zero. We also recognize the recent reversal of progress on the Sustainable Development Goals (SDGs) in areas such as food, nutrition, health, education, peace and security due to the confluence of environmental degradation, the COVID-19 pandemic, a more divided world, and geopolitical conflicts.⁹ Despite these challenges, as investors, we are driven to take action to slow and ideally reverse the impacts on ecosystems and build more stable, resilient economies.

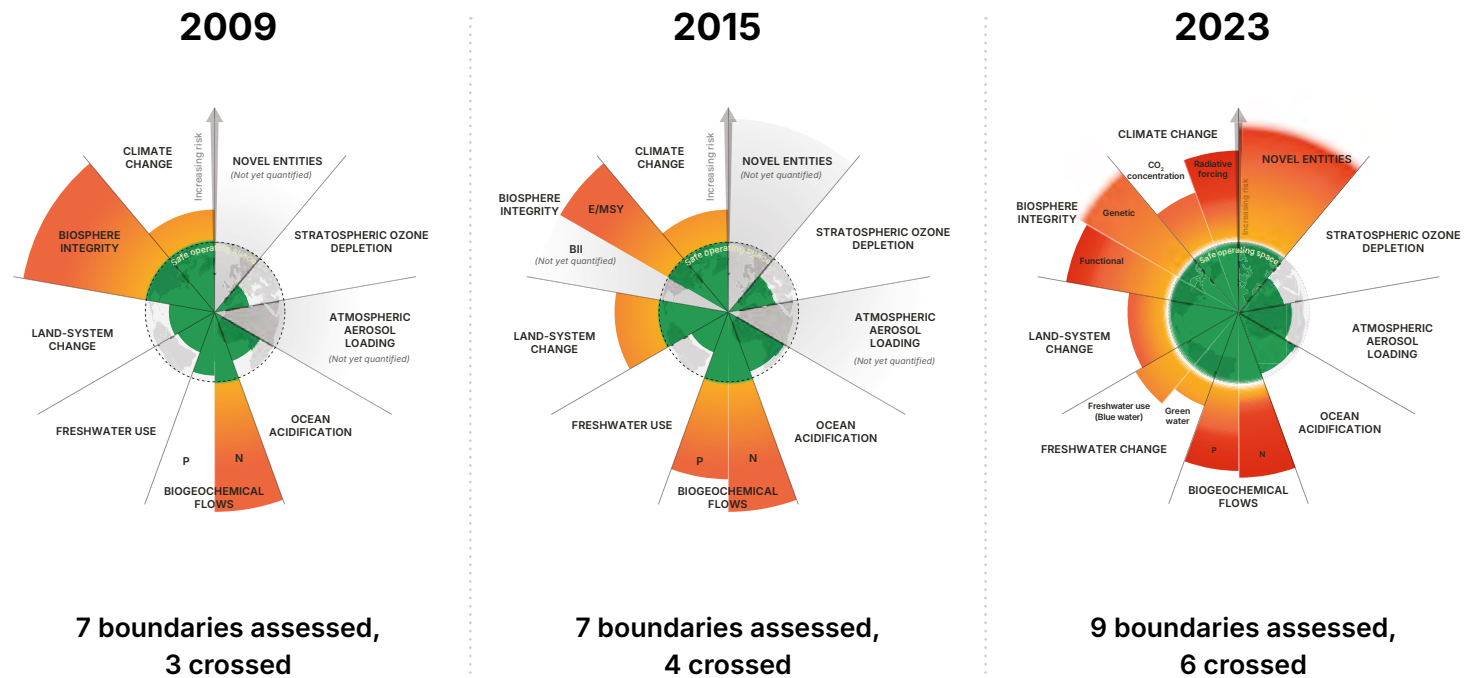
⁸ Stockholm Resilience Centre, Stockholm University: Planetary Boundaries

⁹ United Nations: The Sustainable Development Goals Report 2022



The Earth’s land and the ocean serve as natural carbon sinks, absorbing large amounts of greenhouse gas emissions. Conserving and restoring natural spaces, and the biodiversity they contain, is essential for limiting emissions and adapting to climate impacts”. – United Nations

Figure 4: Planetary Boundaries Over Time



Source: Adapted from Azote for Stockholm Resilience Centre, Stockholm University. Based on Richardson et al 2023, Steffen et al. 2015, and Rockström et al. 2009.

Engagement on Nature and Biodiversity

We are committed to learning more about the impacts of nature and biodiversity loss and incorporating them into our sustainable investing approach. This begins with our participation in the TNFD Forum, a global group of institutions aligned with the mission and principles of the Taskforce on Nature-related Financial Disclosures (TNFD), Nature Action 100 (NA100), a global investor engagement initiative focused on driving greater corporate action to reverse nature and biodiversity loss, and the Valuing Water Initiative, a group working to encourage governments, industries and civil society to bring about systemic change in water policy, practice and finance. Through our participation in these groups, we are beginning engagements with companies in higher risk industries, such as food and beverage, apparel, materials, utilities, mining and luxury goods.

Do No Significant Harm Principles

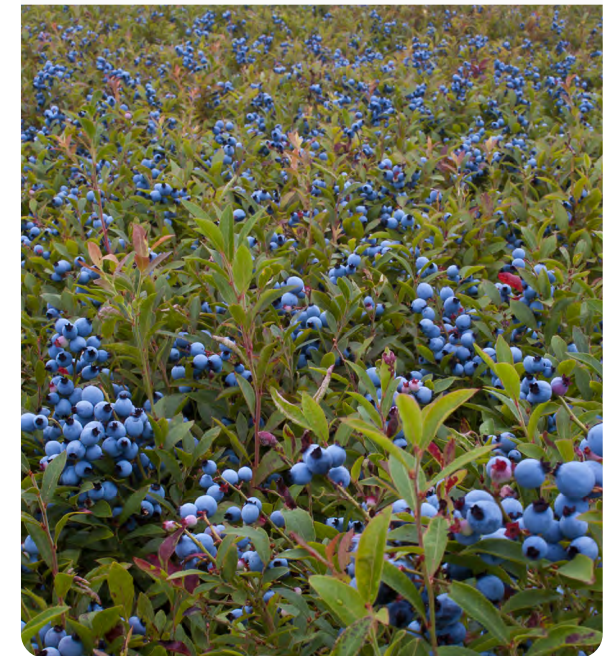
In 2023, our Sustainable Investing Committee approved the addition of the Do No Significant Harm (DNSH) principles into the due diligence process for our Impact Fixed Income Fund, whereby an assessment is made if there are major violations of the principles that would preclude the investment from being allowed into the fund. We will apply the DNSH principles laid out in the Sustainable Finance Action Council’s (SFAC) Taxonomy Roadmap Report to the Government of Canada and, when needed, will draw upon the European Union DNSH principles as described in its Taxonomy Regulation where the Canadian taxonomy lacks guidance.

The four DNSH areas within the Canadian Taxonomy Roadmap include:



Agriculture and Nature

Some of our recent work includes studying and engaging with companies within agriculture and food systems. We have focused our efforts to date on the promotion of better soil regeneration practices and deepening our understanding of the impacts of fertilizer application and development of lower emissions alternatives.



Risk Management

Identifying, Assessing and Managing Climate-Related Risks and Opportunities

At Addenda, we continually try to improve our understanding of the various sustainability, physical and transition climate risks and opportunities relating to our investments. Although climate change can increase investment and economic risks, we believe it can also present significant opportunities. We are committed to evolving our practices and integrating these risks and opportunities into our portfolio construction, valuation and risk management practices — improving the resilience and performance of our investment portfolios over the long term. Our investment teams are working to support this integration and each asset class is developing a customized approach aligned with their unique investment processes where applicable.

In 2023, Addenda's Investment Risk Committee, in collaboration with the Sustainable Investing Team, studied the year's record-breaking climate thresholds, including air and ocean temperatures and wildfires, and regulatory developments related to the Government of Canada's emissions reduction plans. Potential future research projects include:

- + How can we extend our climate scenario analysis and more deeply map industry and sub-industries across our assets under management (AUM) to study cumulative potential exposure to climate transition and physical risks?
- + What are the big climate transition signals in Canada that will move the market to reprice rapidly or may impact us across the board?
- + Can we more consistently integrate climate risk/opportunity analysis in our economic analysis or market-wide views?

- + How vulnerable is the market in our climate transition scenarios to foreign market participants in the scenario of increasing preferences for lower-emitting or more net-zero aligned economies?
- + What unique climate opportunities does Canada have or strengths not yet priced in?

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

- + Integrating climate indicators into internal databases to enhance the analytics available to investment teams and our climate reporting. Priority indicators include carbon emissions and a basket of KPIs related to climate transition maturity
- + Conducting training sessions and building capacity on topics such as carbon emissions accounting and Canada's transition to net-zero
- + Working with portfolio managers to conduct in-depth climate transition and impact assessments to determine if they are eligible for our impact and climate transition strategies
- + Continuing our research and analysis using climate scenarios
- + Driving engagement efforts with investee entities, with a focus on targeting those with potentially high sustainability and climate risks

Risk Management by Asset Class

Below, we summarize the risk management activities being conducted by our asset class teams to incorporate climate risks and opportunities.

Commercial Mortgages

- + Require borrowers to engage an environmental engineering firm to complete an environmental site assessment (ESA) to identify potential contamination issues for each property
- + Assess physical climate and natural hazard risk exposure of the entire portfolio
- + Consider green building certifications, such as LEED and BOMA BEST
- + Use London Stock Exchange Group (LSEG) World-Check to conduct due diligence, identify potential financial criminal activity and consider reputational risk
- + Aggregate and monitor individual property scores on a dashboard to identify, score and monitor property physical risk intensity, level and portfolio impact

Canadian Equities

- + Conduct risk assessments on a sector-by-sector basis and at the individual company level, including current portfolio holdings and potential investments
- + Facilitate meaningful engagement with investee entities to understand climate maturity and ambitions and help meet corresponding goals
- + Integrate identified risks and opportunities into the fundamental analysis for decision-making purposes

Global Equities

- + Conduct a qualitative assessment using Addenda's foundational ESG framework with the Sustainability Accounting Standards Board (SASB) Standards embedded within the investment decision-making structure and additional criteria based on the investee entity sector
- + Utilize key assessment metrics, including GHG emissions, science-based targets, energy use and emissions intensity
- + Collaborate with the Sustainable Investment team on engagement with investee entities to understand climate maturity

Fixed Income

- + Conduct a qualitative assessment using Addenda's foundational ESG framework with the SASB Standards embedded within the investment decision-making structure and additional criteria based on the investee entity sector
- + Complete green bond assessments and risk summaries
- + Use a framework to understand and classify allocation of financing to green projects with criteria from best practice market frameworks, such as the EU Taxonomy, the Green Bond Principles and the Climate Bond Taxonomy
- + Produce topic-specific sustainability and climate-related research that is shared and presented internally to investment teams

Innovative Physical Climate Risk and Flood Analysis

The Commercial Mortgages team has been collaborating with Co-operators' Climate Hazards and Advanced Risk Modelling (CHARM) team to better understand potential flood exposure given the increasing frequency and intensity of flood events due in part to climate change. The modeling study assessed flood exposure for commercial properties, including fluvial flooding from rivers, coastal flooding, flood depths and frequency, presence of flood defenses, property types and uses, and potential damages. Initial findings identified 19 properties in Quebec and British Columbia with medium to high flood exposure, and four properties with a damage function exceeding 3%, indicating a potential total loss every thirty years. This preliminary analysis marks a step forward in understanding the financial impacts associated with physical climate risks in our portfolio with more research to follow.

Uncertainty in Sustainability and Climate Risk Assessments

While we have made strides in identifying and assessing sustainability and climate-related issues, our teams recognize the need for more decision-useful, comparable sustainability and climate disclosures from investee entities and third-party data providers. We believe that the credibility, availability and quality of data will improve as disclosures become regulated and mandated. This was a primary reason we submitted our recommendations to the U.S. Securities Exchange Commission (SEC) on their proposed climate disclosure guidelines for entities and have been a very strong and vocal supporter of the International Sustainability Standards Board (ISSB) standards.¹⁰ Additionally, we were one of 25 financial institutions led by Finance Montréal that jointly published an open letter at COP 28 calling for the collective adoption of the IFRS S1 and S2 sustainability and climate standards as a global benchmark for sustainability reporting.¹¹ The Standards provide a robust foundation to ensure transparent and comparable disclosures regarding climate and sustainability-related risks and opportunities. These disclosures are essential for informed and responsible investment decisions.



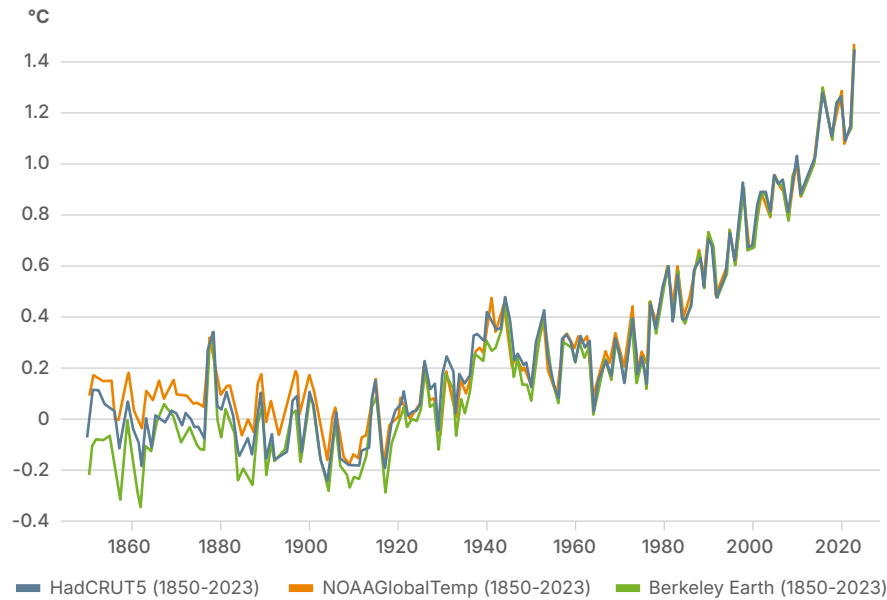
¹⁰ [Addenda's submission to the SEC](#)

¹¹ [Finance Montreal: 25 financial institutions call to go forward with the adoption of ISSB standards as a global reference for sustainability](#)

Net-Zero Framework

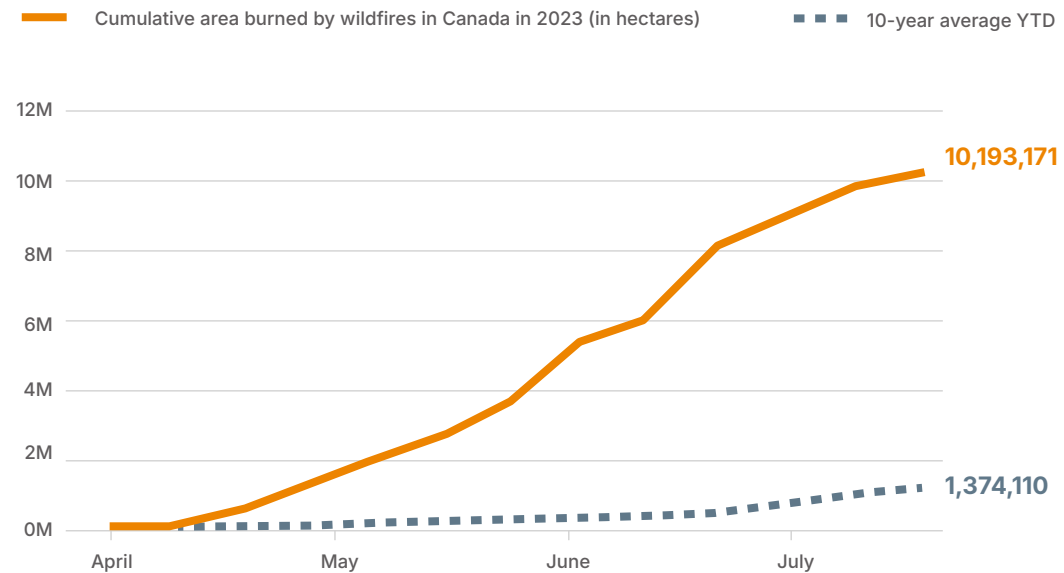
According to the Intergovernmental Panel on Climate Change (IPCC), we should avoid raising global temperatures above 1.5°C over pre-industrialized levels to avoid the most catastrophic physical impacts of climate change. The magnitude of the climate crisis cannot be overstated, as evidenced by the significant increase in climate-related disasters in recent years. From 2023 setting record temperature thresholds (Figure 5) to devastating wildfires (Figure 6), hurricanes, floods and heatwaves, the impact of climate change is felt in Canada and globally with the most vulnerable groups in society often the most severely impacted.¹²

Figure 5: Global Temperature Rise



Source: Adapted from World Meteorological Organization

Figure 6: Canada's Wildfires in 2023



Source: Adapted from Natural Resources Canada, Canadian Interagency Forest Fire Centre

¹² [The 2023 report of the Lancet Countdown on health and climate change: the imperative for a health-centred response in a world facing irreversible harms.](#)

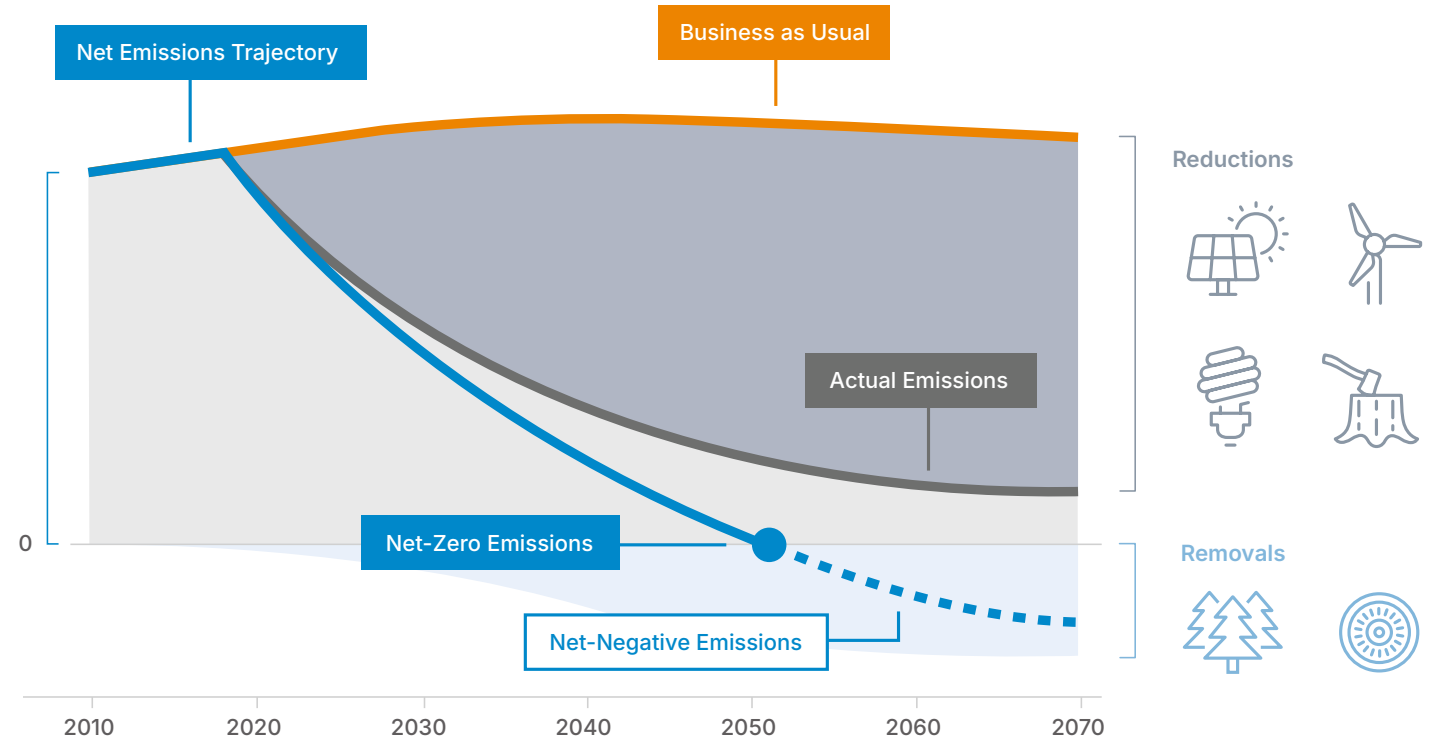
At Addenda, we are acutely aware of the urgent need to address climate change by transitioning to a net-zero economy.

As a steward of capital, we want to play a role in driving progress towards a sustainable future. By integrating climate considerations into our investment decisions, engaging with companies to reduce their carbon footprint, and allocating capital towards low-carbon solutions, we hope to accelerate the transition to a net-zero economy. We anticipate that our actions today will not only mitigate the risks posed by climate change but also unlock opportunities for sustainable growth and resilience in the years to come.

Defining Net-Zero

Put simply, net-zero means cutting carbon emissions to a small amount of residual emissions that can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero in the atmosphere.” – [United Nations](#)

Figure 7: What is Net-Zero and How to Get There



Source: Adapted from World Resources Institute

Our Targets and Commitments

Our net-zero commitment is at the core of our strategy to accelerate our climate ambitions. In 2021, Addenda joined the Net Zero Asset Managers (NZAM) initiative to support the goal of net-zero GHG emissions by 2050 or sooner through our investment activities. We are committed to publicly reporting our annual progress against interim and long-term targets, as well as the actions we are taking to achieve them. We also support our parent, Co-operators, with the global Net Zero Asset Owner Alliance (NZAOA) and their expectations related to target setting, policies and engagement, as well as on climate solutions.

Our net-zero approach is designed to advance the real economy’s transition to net-zero by encouraging investee entities to set and advance on climate commitments including financing emission reductions. We collaborate with our clients, investee entities, and stakeholders to pursue positive long-term outcomes, while actively progressing toward a just and sustainable future.

Defining NZAM and NZAOA

The UN-convened Net-Zero Asset Owner Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.

The Net Zero Asset Managers (NZAM) initiative is an international group of asset managers committed, consistent with their fiduciary duty to their clients and beneficiaries, to supporting 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; and to supporting investing aligned with net zero emissions by 2050 or sooner.

Figure 8: Our Net-Zero Framework



Reduce

Addenda is committed to reducing emissions of our in-scope assets, which includes our clients who have committed to net-zero, as well as assets within our climate transition strategies. Through our climate transition equity funds and other investment solutions, we often work with high-emitting companies and engage with them to support their decarbonization journeys to enable real economy emissions reductions.

Our Commitment

Target	Emissions Scope	Metric	2019 Baseline	2023 Performance	2030 Target
50% reduction in portfolio carbon emissions for those clients that have formally partnered with us to align their investments to net-zero	Scope 1 and 2*	tCO ₂ e per million USD invested	58.5	47.8	-50%

**We intend to phase in Scope 3 emissions over time as disclosure and methodologies improve.*

Our Actions

- + Measure portfolio carbon footprint (investee entity Scope 1 and 2 emissions and, to the extent possible, material Scope 3 emissions) where methods and data now allow
- + Completed carbon emission client reporting enhancements and now progressing on operationalizing climate transition data flows to various investment teams and support reporting to clients committed to net-zero goals
- + Conducted carbon emissions calculations portfolio methodology reviews with a third party to ensure we are meeting best practices
- + Manage portfolio emissions reductions for in-scope assets
- + Continue to evolve our understanding of climate transition and physical risk analysis to inform and enhance our investment decision-making process including decarbonization pathways for key sectors and industries
- + Evolve our approach to climate scenario analysis to understand future climate transition and physical climate risks and opportunities



Engage

Addenda plays an active role in promoting sustainable financial markets through engaging standard setters, policy makers and investee entities. We have been able to build and maintain a strong rapport with our investee entities, which we leverage to deliver on our net-zero commitments and support the economic transition to net-zero.

Our Commitment

Target	Emissions Scope	Metric	2019 Baseline	2023 Performance	2030 Target
At least 90% of financed emissions from in-scope AUM are considered net-zero, "aligned" or "aligning" with a net-zero pathway, or the subject of direct or collective engagement and stewardship actions by 2030	In-scope AUM	% of financed emissions	60%	81%	90%

**In-scope assets include our clients who have committed to net-zero, as well as assets within our climate transition strategies*

Methodology and Tracking Progress

As a NZAM signatory, we commit to report annually on the progress towards our targets. Our ability to track and meet targets is reliant on shifts in the economy, policy developments that encourage companies to transition to a low-carbon economy, evolving methods, and greater disclosure of scope 3 carbon emissions by our investee entities. We cannot at this time disaggregate our portfolio alignment targets from our engagement goals, but we anticipate that we will be able to do so in the future as we gain a deeper understanding of the pace of climate transition progress among our investee entities, industries, and regulations.

Addenda's Climate Transition Strategies focus on companies that are making net-zero commitments and demonstrating steps to align their governance, strategies, and businesses towards a net-zero pathway. Our current climate transition eligibility criteria, which specify the minimum expectations for companies to be considered for inclusion within the funds, include many of the elements of the Net Zero Investment Framework (NZIF), with definitions of climate transition defined as 'Committed to Aligning,' 'Aligning,' or 'Aligned' towards a net-zero pathway. We determined the baseline threshold of companies that are considered to be at least 'Committed to Aligning' by applying these criteria across the in-scope AUM included in our net-zero commitment.



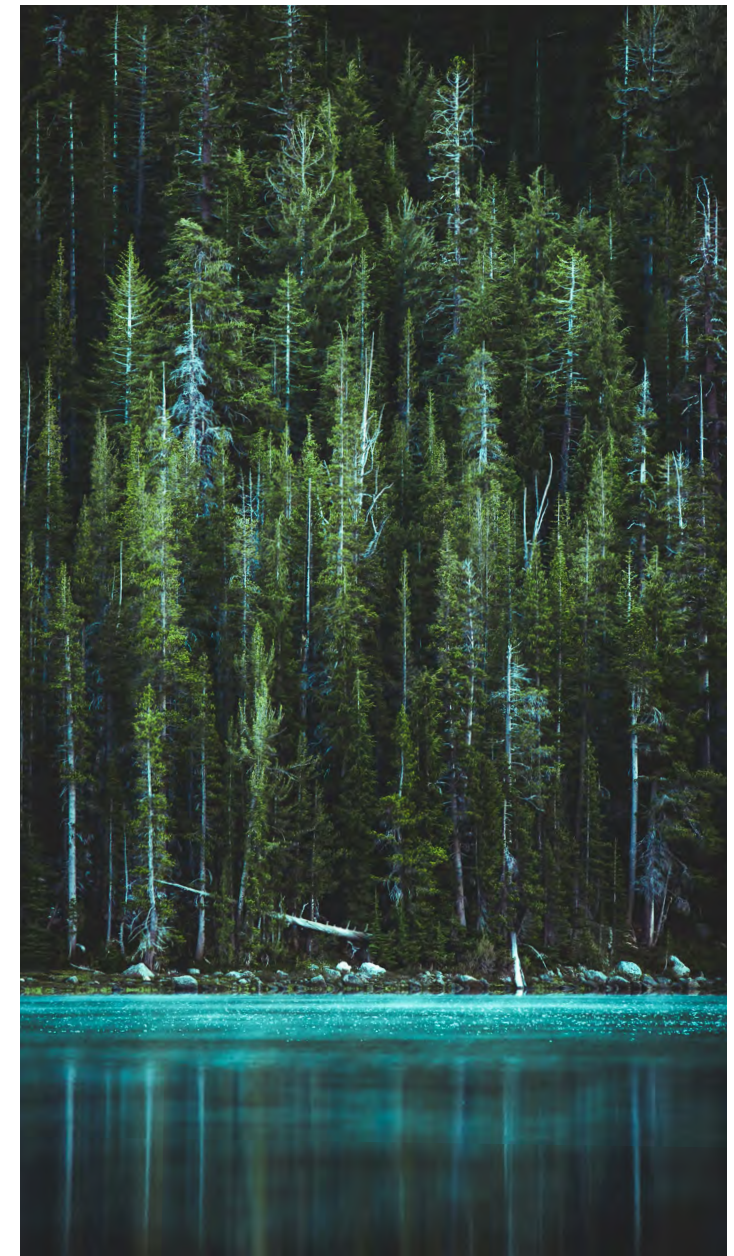
We recognize that climate transition is a journey. Our strategies intend to engage with the companies we own to strengthen their progress on their climate transition maturity and goals. We engage laggards while also sharing best practices of industry leaders to accelerate climate transition among peers. Addenda will phase in more stringent levels of climate-eligibility criteria over time and track and report on performance.

Our Actions

Our net-zero client engagement initiatives and practices include regular client reporting, communications, and knowledge sharing, as well as direct client engagement and alignment. For clients that partner with us to reach their net-zero objectives, we commit to:

- + Understand and learn about their climate goals and establish clear expectations
- + Use our [Climate Transition Maturity Criteria](#) (Figure 9) as part of our [Climate Transition Framework](#) (Figure 15) to help them meet their net-zero commitments while balancing risk and return objectives
- + Provide information and analytics on climate transition indicators, showcasing alignment of investee entities with a net-zero trajectory
- + Measure and report on portfolio carbon footprints over time using accounting best practices
- + Continue engagement efforts on climate-related topics for selected investee entities (e.g. set objectives and targets), including communicating Addenda's climate transition criteria for investee entities and at the systems level with regulators and standard-setters

- + Establish sector-specific engagement programs for companies with either the highest "owned emissions" and/or those responsible for combined 65% "owned emissions" in the portfolio
- + Provide investee entity climate engagement summaries as part of our portfolio reporting to monitor the efficacy of engagements and track company progress over time
- + Establish a divestment decision tree and phase-out timeline for investments that do not meet clients' climate objectives (currently embedded within our Climate Transition strategies)
- + Continue collaborating with peers, investee entities, industry sectors, governments and leading organizations to accelerate and support efforts to achieve net-zero by 2050





Align

As part of our Climate Transition strategies, we work with our clients to assess the climate alignment of their portfolio holdings.

Our Commitment

Target	Metric	2022 Baseline	2023 Performance	2030 Target
75% of our total assets are managed in line with net-zero emissions by 2050 or sooner	% of assets	15%*	15%	75%

**The 15% of total AUM initially committed to be managed in line with net-zero only includes the funds of our clients' that have formally asked us to partner with them to manage their assets in line with a net-zero by 2050 goal. Clients representing approximately half of our AUM have either recently set these goals or are favourably disposed to them, so we believe our target is attainable.*

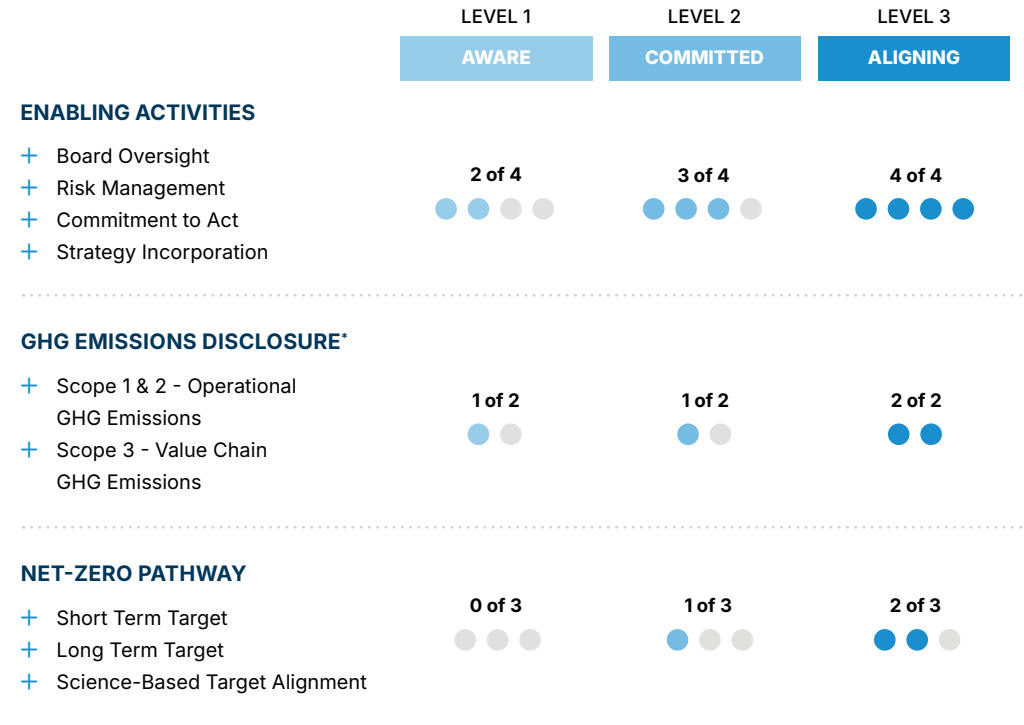
Our Actions

- + Use our proprietary Climate Transition Maturity Criteria to assess investee entities on their level of climate maturity (see Figure 9)
- + Provide information and analytics on climate transition indicators, showcasing alignment of investee entities with a net-zero trajectory
- + Measure and report on portfolio carbon footprints over time using carbon accounting best practices
- + Use our Climate Transition Maturity Criteria and portfolio carbon footprints to help clients meet their net-zero commitments while balancing risk and return objectives

Addenda's Climate Transition Criteria

We developed a Climate Transition Maturity Criteria to assess our current and future holdings against our climate transition expectations, helping us and our clients progress towards net-zero targets. This assessment helps our stewardship activities in leveraging the experience of those that are most mature and engaging with those that are the least mature.

Figure 9: Climate Transition Maturity Criteria



Performance Against GHG Reductions Targets

Decarbonize trajectory — Is the company on track to meet its targets?

Climate Aligned or Catalytic

A company that is already fully aligned to net zero, under an internationally respected climate finance taxonomy, or involvement or development of catalytic solutions that contribute to reaching net-zero societal emissions by 2050.

**GHG performance will be monitored and considered in the eligibility assessment.*



Invest

Addenda recognizes that capital must be allocated toward activities and catalytic solutions that shift the real world to decarbonize. These climate solutions include our custom segregated accounts and our thematic sustainable investing solutions or sub-components of thematic sustainable investing solutions such as:

- + Climate themes from within our Impact Fixed Income Pooled Fund (e.g. holdings such as green bonds for renewables or clean transportation)
- + Addenda’s Climate Transition Equity Pooled Funds that focus on holdings with a commitment on climate change and net-zero. The companies will be expected to progress on climate transition commitments, be actively engaged if they do not progress or be subject to divestment
- + LEED certified, and green building allocation within Addenda’s Eco-Social Commercial Mortgages Pooled Fund
- + We also include allocations to climate solutions (e.g. green bonds focused on climate) made on behalf of our net-zero clients that may be outside of these funds

Our Commitment

Target	Metric	2022 Baseline	2023 Performance	2025 Target
Double our allocation to climate solutions to \$3.5 billion US by year-end 2025	\$B US	1.7	2.0	3.5

Our Actions

- + Added new clients to climate solutions-focused funds
- + Work alongside key clients to help achieve climate targets



Learn

Navigating steps to net-zero will be a learning journey. We will continually work to learn more about the science, policy, industry, and company actions that are needed to align to help us transition to net-zero. Addenda is committed to continually seek ways of building capacity on this topic.

Our Commitment

Target	Metric	2019 Baseline	Status
A majority of Addenda employees complete training on climate-related issues	% of employees	30	In progress*

**For more information on our ESG and climate-related trainings, please see [Building Our Capacity through Education](#).*

Our Actions

- + Support the development of thought leadership on climate change, sustainability issues and market developments
- + Continue to support research in these topics and host roundtables and events that support deeper understanding of sustainability and climate change issues
- + Organized specialized training by the Transition Accelerator for the Executive Committee, Investment Management Teams and the Client Partnership staff
- + Establish new data and information exchange platform to track all signatory and engagement-related activities, commitments and progress

Transition Accelerator Training with CEO Dan Wicklum

The Transition Accelerator is a pan-Canadian organization that works with others to solve societal challenges through positive, transformational system change. Its goal is to help ensure Canada builds a prosperous and economically competitive future by identifying and advancing the pathways that lead to net-zero greenhouse gas emissions by 2050. Some of its initiatives include the Building Decarbonization Alliance, Centre for Net-Zero Industrial Policy, Edmonton Region Hydrogen HUB and Electrifying Canada. Addenda is proud to be a member of Electrifying Canada.



“Transitions are as much about people and behaviour as they are about technology and economics. The Transition Accelerator understands these dynamics, which is why we focus on systems, not individual technologies.”
—Dr. Dan Wicklum, CEO, The Transition Accelerator



Sustainable Investment Solutions

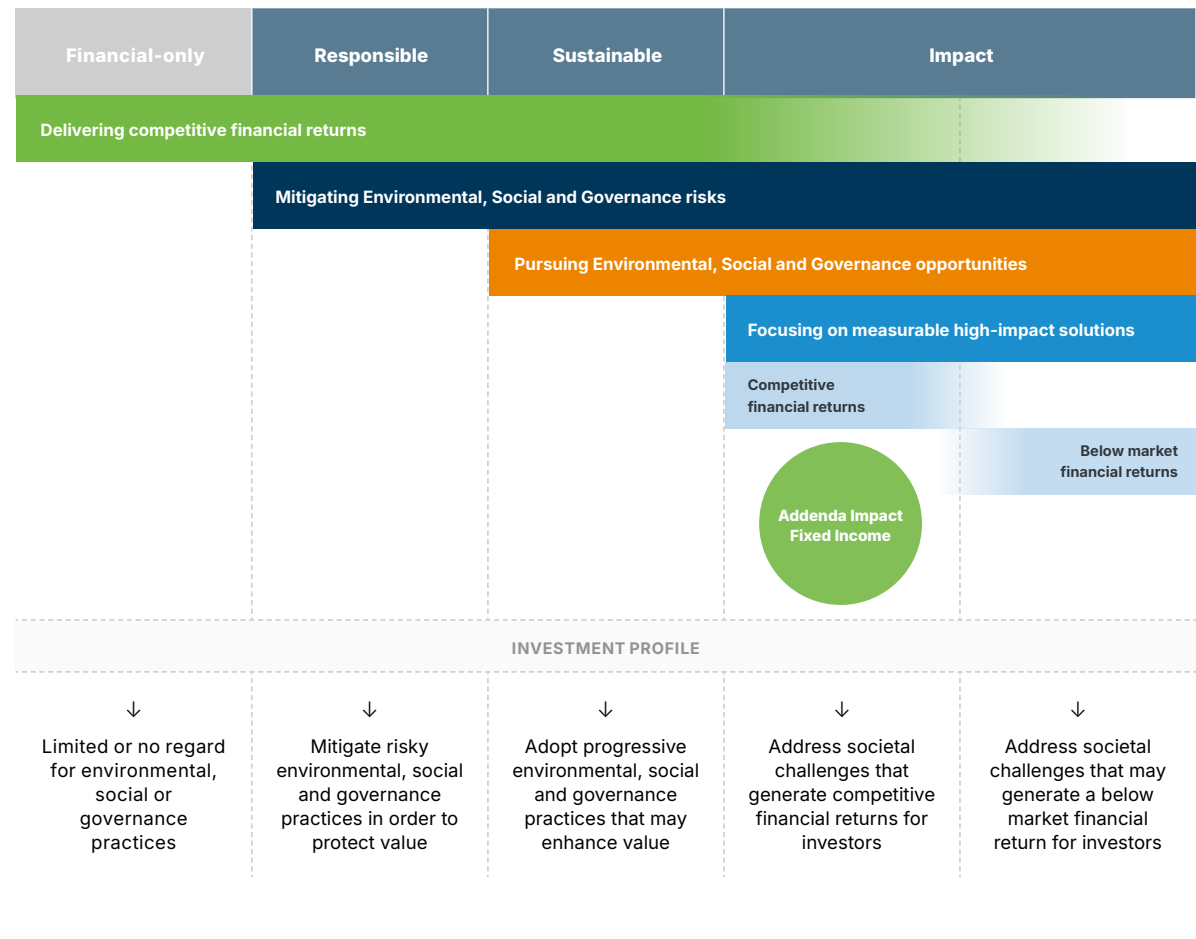
Solution 1 Impact Fixed Income Pooled Fund

In 2015, we embraced impact investing in response to client interest and working closely with Co-operators. Impact investing is an approach that intentionally seeks to create both financial return and positive social and/or environmental impact that is actively measured and reported.

Our Impact Fixed Income approach focuses on issuers or investments with capacity to deliver a positive social and/or environmental impact alongside competitive returns. Since its launch in 2018, the Addenda Impact Fixed Income Pooled Fund has grown in assets to nearly \$220 million as at December 31, 2023. We recently marked the fifth anniversary of this fund and are proud to showcase its strong financial track record, demonstrating the performance and the impact it has generated. Addenda was also the first portfolio manager worldwide to adopt the CFA Institute’s Global ESG Disclosure Standard for Investment Products in an impact-driven strategy, showing our commitment to strong disclosure practices.

Over the five years, the Impact Fund has continued to beat its benchmark, the FTSE Canada Universe Bond Index, in short- and long-term performance metrics while providing positive environmental and social outcomes.

Figure 10: Sustainable and Impact Investing Strategies



Source: Adapted from Bridges Ventures



Addenda’s Impact Framework

Addenda has a robust process to review each investment in the Impact Fund against stringent impact criteria. We established four impact themes with 12 underlying impact focus areas. In Figure 11, we summarize challenges in impact theme areas, our considerations for selecting these themes and why this fund is an important focus for our investment strategy. The Sustainable Investing Team reviews each impact investment for alignment with at least one focus area and the Do No Significant Harm (DNSH) principles (as defined on [page 37](#)). For example, an investment in a solar project would be associated with the climate change theme in the renewable energy focus area.

Figure 11: Impact Fund Themes and Focus Areas



Impact Themes and their Importance	Impact Focus Areas	Related SDGs
<p>Climate Change (64.6%)</p> <ul style="list-style-type: none"> + To limit warming to 1.5°C, emissions must be reduced by 45% by 2030 and reach net-zero by 2050 + Increased frequency of extreme weather events, forced migration, food insecurity, and infectious disease outbreaks + Estimated Investment Required: USD \$35 trillion by 2030 for a successful global energy transition¹³ 	<ul style="list-style-type: none"> + Renewable energy + Low GHG emissions energy + Clean transportation + Energy efficiency 	
<p>Health and Wellness (3.5%)</p> <ul style="list-style-type: none"> + Ageing Canadian hospital infrastructure impacts access to and quality of care + Hospital bed shortages are contributing to longer wait times in emergency departments and for surgeries + Estimated Investment Required: CAD \$15B-28B to be invested in Canadian hospitals¹⁴ 	<ul style="list-style-type: none"> + Hospitals + Non-profit seniors housing and services 	
<p>Education (9.1%)</p> <ul style="list-style-type: none"> + Crucial for social and economic development and strongly correlated with better human health and well-being + Higher levels of education are associated with greater labour market success + Estimated Investment Required: CAD \$17.2B to be invested in Canadian universities¹⁵ 	<ul style="list-style-type: none"> + Higher education + School boards 	
<p>Community Development (15.1%)</p> <ul style="list-style-type: none"> + Affordable housing and development finance challenges remain globally + As of 2022, 685 million people live in extreme poverty and 345.2 million people live with food insecurity + Estimated Investment Required: USD \$5-7 trillion per year to achieve the Sustainable Development Goals¹⁶ 	<ul style="list-style-type: none"> + Credit unions + Development finance + Affordable housing + Indigenous economic opportunities 	

As of December 31, 2023

¹³ International Energy Agency and International Renewable Energy Agency; estimated figures, March 2023

¹⁴ HealthCare CAN; estimated figures of accumulated deferred maintenance, June 2015

¹⁵ Canadian Association of University Business Officers; estimated figures of accumulated deferred maintenance, January 2021

¹⁶ United Nations Conference on Trade and Development; estimated figures

Do No Significant Harm Principles

The due diligence process for our Impact Fund contains Do No Significant Harm (DNSH) principles, whereby an assessment is made if there are major violations of the principles that would preclude the investment from being allowed into the fund.

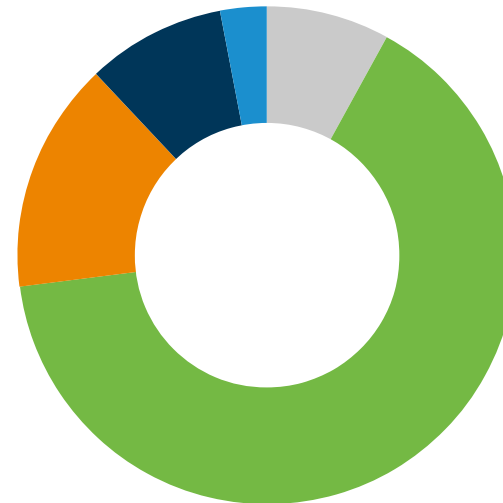
We apply DNSH principle recommendations submitted by the Sustainable Finance Action Council (SFAC) to the Government of Canada as well as those of the European Union.

As at December 31, 2023, the fund's investments were allocated across the following impact themes and focus areas.

Each impact investing focus area has proprietary qualifying criteria which have been approved by our Sustainable Investing Committee. The criteria are informed by global standards and best practices, such as the ICMA Green Bond Principles and Climate Bond Initiative Taxonomy.

Figure 12: Impact Fund Portfolio Construction

Current Themes and Focus Areas



Climate Change (64.6%)

- Renewable Energy (26.8%)
- Energy Efficiency (20.9%)
- Clean Transportation (16.9%)

Community Development (15.1%)

- Credit Unions and Financial Services Co-operatives (7.6%)
- Affordable Housing (4.6%)
- Development Finance (2.9%)

Education (9.1%)

- Universities (6.1%)
- School Boards (3%)

Health & Wellness (3.5%)

- Hospitals (2.3%)
- Non-profit Seniors Housing (1.2%)

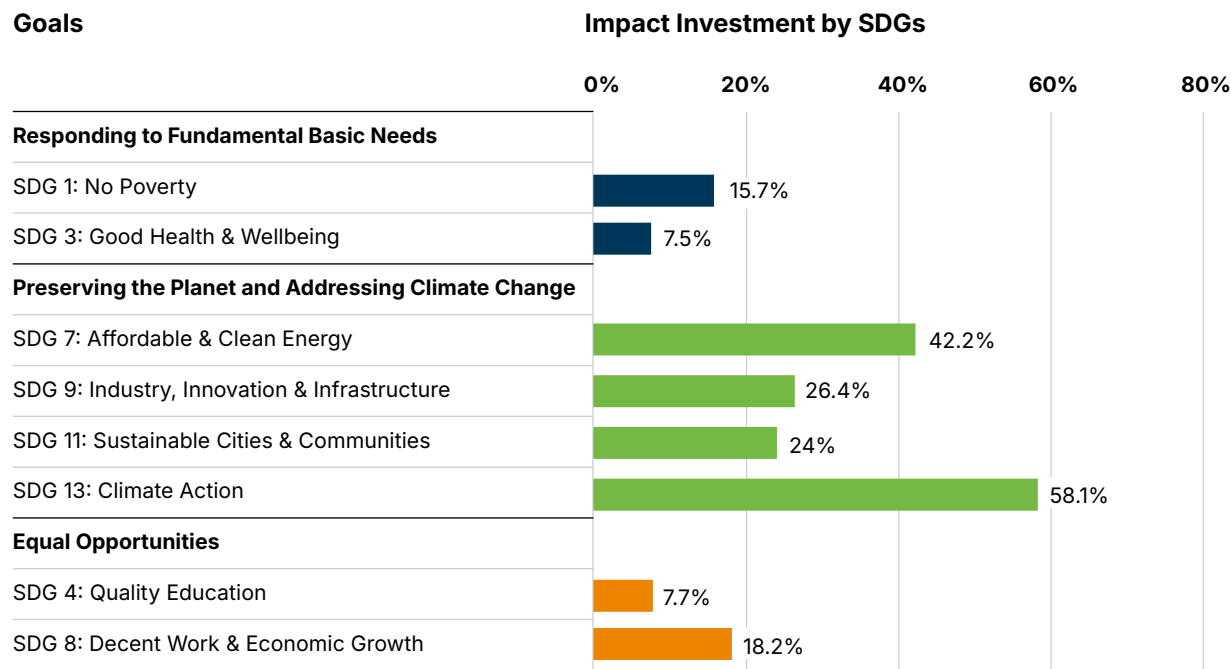
Non-Impact (7.7%)



With 42% and 58% of the fund contributing to SDGs 7 and 13 respectively, the fund is geared to support key climate solutions critical to the climate transition. This can be attributed to investments contributing to the renewable energy theme, such as Brookfield Renewable Power and Lower Mattagami Energy, which make significant contributions to climate-related SDGs 7 and 13.

For more information on our approach to impact investing, see our latest [Impact Report](#).

Figure 13: Sustainable Development Goals Alignment Distribution¹⁷



¹⁷ As an impact investment can be aligned with more than one SDG, the sum of all the SDGs exceeds 100%



Case Study: Capital Power Corporation

In 2022, Capital Power, a Canadian power producer, issued its inaugural Green Financing Framework to fund development of clean energy technology, including solar, wind, and energy storage, contributing to its coal power generation phase-out.

Impact Focus Area

- Renewable energy, energy efficiency

Impact Metric

Renewable energy generation in 2022:

- Whittla Wind facility, Alberta, Canada: 1,400,000 MWh
- Strathmore Solar, Alberta, Canada: 65,000 MWh
- Buckthorn Wind, Texas, United States: 350,000 MWh
- Cardinal Point Wind, Illinois, United States: 619,000 MWh

SDG Alignment

- Goal 7 – Affordable and Clean Energy
- Goal 9 – Industry, Innovation and Infrastructure
- Goal 13 – Climate Action



Case Study: Ottawa Hospital

In 2023, the Ottawa Hospital, an academic health science center and provider of patient-centered care serving over 1.2 million people across Eastern Ontario, issued \$275 million in debentures to fund capital investment to support the Hospital's new campus development parking structure and for other new campus development local share plan purposes. The project will facilitate access to the hospital and improve accessibility to healthcare.

Impact Focus Area

- Hospitals

Impact Metric

- Impact on Ottawa economy due to research: \$2.2B (as of 2022, and since 2001)
- Patient admissions: 60,558 (2022)
- Ambulatory care visits: 918,071 (2022)

SDG Alignment

- Goal 3 – Good Health and Well-Being

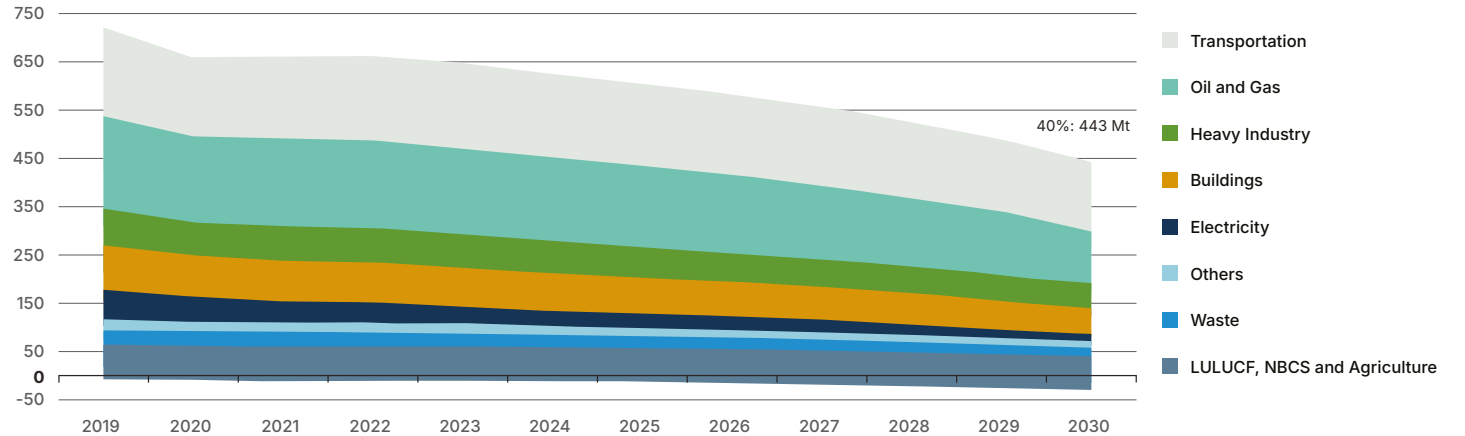
Solution 2 Climate Transition Equity Pooled Funds

To help our clients meet their own net-zero goals, we developed two Climate Transition Equity Funds — one Canadian and one international. As a Canadian asset manager, we appreciate that it will take a cross-sector approach for Canada to meet its net-zero goals. Figure 14 highlights the pathway for Canada to reach its 2030 emissions reduction target, categorized by sector.

With our Climate Transition Equity Funds, our goal is to help drive decarbonization across all sectors through strategic investment decisions and proactive engagement. Through careful analysis and due diligence, we assess companies making climate transition commitments and track their progress. We actively engage with high-emitting companies and industries, such as oil and gas, heavy industry, transportation, consumer goods, and agriculture, encouraging them to decarbonize their operations and embrace the opportunities presented by the climate transition while adapting to the associated risks.

In addition to financial analysis, we follow our Climate Transition Framework (shown in Figure 15), working closely with our clients and investee entities, to meet climate transition goals. To support this analysis, we also assess current and potential investments against our Climate Transition Maturity Criteria and actively engage to facilitate progress towards maturity, benefiting investee entities, clients, and ourselves in achieving our climate objectives.

Figure 14: Canada's Pathway to 2030



Source: Adapted from Government of Canada 2030 Emissions Reduction Plan

Figure 15: Climate Transition Framework

Climate Transition

- + Medium and long-term carbon emission reduction targets aligned with the latest IPCC recommendations
- + Gradually raising investee expectations along a Paris Agreement-aligned trajectory
- + Pragmatic approach aligned with our economy and NZAM and NZAOA expectations

Strategic Stewardship

- + Corporate climate maturity levels to track progress toward goals and targets
- + Targeted stewardship aimed at learning from climate leaders and supporting climate laggards
- + Stewardship progression tracking to see if investees are addressing and progressing on climate engagement issues

Climate Disclosure and Education

- + Climate transition reporting on security alignment and stewardship
- + Climate transition education sessions and roundtables

Since the inception of the funds, we have seen many investee entities advance their climate practices, including setting GHG emissions reduction targets and incorporating climate transition plans into their business strategies. Furthermore, the Canadian and International Climate Transition Equity Pooled Fund companies are more advanced in climate transition maturity than their respective benchmarks — the S&P/TSX Composite Index and MSCI EAFE (see Figure 16).

As engagement is a critical component of our Climate Transition Equity Funds, we regularly engage with investee entities to encourage their climate ambitions and commitments and understand best practices. As at December 31, 2023, we held over 20 strategic engagement meetings with international and Canadian companies on topics such as their climate transition plans, climate scenario analysis, capital expenditure programs toward climate solutions, and compensation alignment with climate goals.

Figure 16: Climate Transition Maturity of the Climate Transition Equity Pooled Funds



*Funds as at December 31, 2023



Case Study: Climate Transition International Equity Pooled Fund – Schneider Electric SE

Schneider Electric is a French multinational company specializing in digital automation and energy management solutions combining energy technologies, software, and services for application across industries. The company qualifies as Level 3 (Aligning with Net Zero) within Addenda's Climate Transition Maturity Criteria owing to its leadership on climate governance, disclosures, and commitments. Schneider Electric has set ambitious net-zero targets validated by the Science Based Targets initiative (SBTi), including reducing absolute emissions across its entire value chain. The company also is dedicated to doubling its energy productivity by 2030 compared to 2005 levels.

An important element of Addenda's climate transition strategy is identifying how companies are also contributing to the climate transition within their sector and the broader economy. In addition to the company's commitment to reduce its operational impacts, Schneider Electric has established a variety of innovative energy and sustainability services and green products, which, as of 2023, have helped their customers to decarbonize and avoid over 550 million tonnes of carbon emissions since 2005 (and targeting 800M by 2025 against 2005 levels)¹⁸. Finally, through its various partnerships, Schneider Electric reinforces its commitment to supporting collective and systemic action required to facilitate the global energy transition.

¹⁸ [Schneider Electric: 2023 Results Presentation](#)



Case Study: Climate Transition Canadian Equity Pooled Fund – WSP Global

WSP is a global engineering and professional services firm and is considered relatively advanced in Addenda's Canadian Climate Transition strategy. WSP services include supporting clients to become more sustainable and climate-resilient, with over 90,000 active projects globally¹⁹. Their services encompass developing climate strategies, decarbonization pathways, climate risk assessments, and Task Force on Climate-Related Financial Disclosures (TCFD) reporting. They also provide extensive technical expertise in energy modeling and carbon management for various stakeholders, including businesses, infrastructure owners, and government institutions. In its own Climate Transition Plan, WSP details its net-zero plan supported by ambitious targets (including regionally focused goals) and methods to reduce Scope 1 and 2 emissions, and Scope 3 emissions in its upstream value chain. This includes a commitment also to move to 100% renewable energy sources by 2030. WSP stands out in climate leadership due to its dual approach: providing comprehensive services to assist businesses and industries in developing transition plans and decarbonizing over time, while also making significant commitments for its own operations.

¹⁹ [WSP Climate Transition Plan](#)

Solution 3

Eco-Social Commercial Mortgages Pooled Fund

In 2022, Addenda launched the Eco-Social Commercial Mortgages Pooled Fund which seeks to support the advancement of SDGs while generating compelling returns. One of the first of its kind in Canada, the fund invests in commercial mortgages in Canada that endeavour to be consistent with social and environmental goals. While ESG factors were already integrated within our commercial mortgage investment process, we developed the Eco-Social Commercial Mortgages Pooled Fund to formally make progress on five themes from the SDGs.

Figure 17: Eco-Social Fund Themes and Focus Areas



Sustainable Development Themes	Focus Areas	Related SDGs*
Affordable Housing (3 loans, 6.4% of Total BV)	+ Affordable housing + Co-operative housing	
Green Buildings (6 loans, 22.2% of Total BV)	+ Green buildings with energy efficiencies, renewables or advanced water and waste management	
Underrepresented Groups (4 loans, 20.5% of Total BV)	Borrower entity owned and controlled by: + Visible minorities + Women + Persons with disabilities + Indigenous people	
Cultural and Community Facilities (5 loans, 16.6% of Total BV)	+ Arts facilities and museums + Recreation facilities + Heritage facilities (verifiable heritage designation) + Registered charities	
Health and Education (11 loans, 24.9% of Total BV)	+ Hospitals, healthcare facilities and social services facilities + Educational institutions + Seniors and supportive housing + Student housing	



Case Study

A multi-family residential building with retail tenants on the first floor, located in a historical neighbourhood in Montreal, with a maintained historical façade

Property Type: Multi-family

Location: Montreal, QC

Borrower: Experienced property management group

Focus Area: Cultural and Community Facilities

SDG Alignment: Goal 11 – Sustainable Cities and Communities



Case Study

A commercial property majorly occupied by Vancouver Coastal Health to serve local adults with major mental illnesses

Property Type: Commercial

Location: Vancouver, BC

Borrower: Established commercial operator

Focus Area: Healthcare facility

SDG Alignment: Goal 3 - Good Health and Well-Being

As of December 31, 2023

*Eligibility criteria will continue to evolve under the guidance of the Sustainable Investing team as additional industry metrics and disclosures develop.



Solution 4

Fossil Fuel Free Global Equity Pooled Fund

Our Fossil Fuel Free Pooled Fund provides exposure to global equities while avoiding 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





Performance

Operational Carbon Footprint	45
Portfolio Carbon Footprint	46

Operational Carbon Footprint

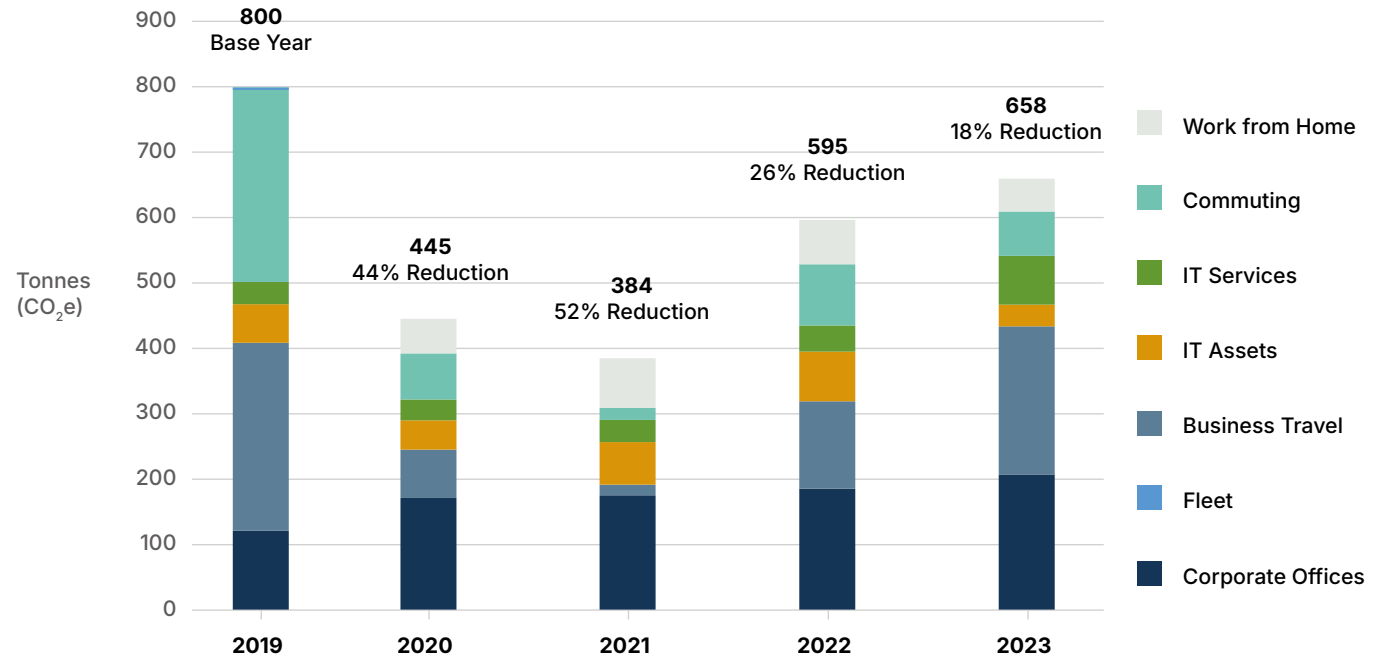
Essential to our Corporate Sustainability Initiative (CSI) is leading by example and measuring our own footprint. This is important to both reducing our environmental impact and transitioning alongside our clients and investee entities. The footprint includes the following sources of emissions:

- + Scope 1: On-site natural gas, fleet
- + Scope 2: Off-site electricity and steam
- + Scope 3: Air travel, auto travel, Information Technology (IT) assets, IT services, employee commute, work from home electricity and natural gas

The CSI Committee is working on advancing roadmap initiatives related to sustainability issues, which include climate impact and reducing our operational carbon footprint.

As shown in Figure 18, we have seen an overall reduction in our operational footprint since the 2019 baseline. Despite an increased number of clients and a larger Client Partnership team, emissions associated with business travel have decreased, largely driven by the rise in virtual meetings. Emissions related to employee commuting have also decreased with an increase in those working from home and as a greater portion of commuting employees opt for subsidized public transit. Over this same period, corporate office emissions have increased due to the expansion of office space and a growing company headcount.

Figure 18: Our Carbon Footprint - Addenda Operational Emmisions by Source





Portfolio Carbon Footprint

We measure our portfolio carbon footprint as it provides insight into the direct and indirect climate impacts of our investment activity and investee entity operations. We have been measuring our equity portfolio carbon footprint since 2015 as part of our commitment as a signatory of the Montréal Carbon Pledge (Figure 19).

Figure 19: Portfolio Financed Emissions and Carbon Intensity Calculations

Portfolio Financed Emissions: Tons CO ₂ e/USD M Invested		Weighted Average Carbon Intensity (WACI): Tons CO ₂ e/USD M Revenue	
Utility of the Metric	What is my portfolio's normalized carbon footprint per million dollars invested?	Utility of the Metric	What is my portfolio's exposure to carbon-intensive companies?
Calculation	$\frac{\sum_i \left(\frac{\text{Market value of investment (CAD)}_i}{\text{issuer's EVIC (USD)}_i} \right) \cdot \text{issuer's operational GHG emissions}_i}{\text{current portfolio value (millions of CAD)}}$	Calculation	$\sum_n \left(\frac{\text{Market value of investment (CAD)}_i}{\text{current portfolio value (CAD)}} \cdot \frac{\text{issuer's operational GHG emissions}_i}{\text{issuer's revenue (millions of USD)}_i} \right)$
In-scope Asset Types	Equity and Corporate Fixed Income	In-scope Asset Types	Equity and Corporate Fixed Income
Out-of-Scope Asset Types	Government bonds, Commercial Mortgages, Warrants, Derivative financial instruments, Cash and Money market	Out-of-Scope Asset Types	Government bonds, Commercial Mortgages, Warrants, Derivative financial instruments, Cash and Money market

Portfolio Carbon Footprint

In 2023, global markets experienced heightened economic activity compared to 2022, resulting in increased sales, company valuations, and consequently, GHG emissions. When using this information for carbon footprint calculations, Addenda's carbon intensity and owned financed emissions are offset by the underlying financial performance of our investee entities.

1. Within the Canadian equity portfolio, carbon footprints remained below those of the benchmark S&P TSX Composite Index, primarily due to strategic portfolio allocation decisions, including investments in lower-intensity sectors like information technology and reduced exposure to high-intensity sectors such as materials. Despite generally stable emissions for our portfolios throughout the year, the materials sector observed an uptick in GHG emissions.
2. Conversely, the Climate Transition Canadian Equity Pooled Fund maintained a lower carbon footprint than its benchmark, attributed to its climate transition methodology, which favors companies that are aware, committed or aligned with a net-zero economy. This strategy involves underweighting high-emission sectors like energy, utilities and materials while overweighting sectors like industrials and consumer discretionary, leading to a lower emissions portfolio.

Figure 20: Portfolio Financed Emissions and Carbon Intensity Calculations²⁰

Fund	Financed Emissions Intensity		vs Benchmark (2023)	Weighted Average Carbon Intensity		vs Benchmark (2023)	Total Carbon Emissions (tCO ₂ e)	
	(2022)	(2023)		(2022)	(2023)		(2022)	(2023)
Canadian Equity Pooled Fund	75.9	72.3	-12%	247.2	245.2	1%	29,725	30,472
Climate Transition Canadian Equity Pooled Fund ²	66.8	61.2	-26%	219.9	213.5	-12%	3,556	3,938
S&P TSX Composite Index	84.9	82.6	N/A	258.4	243.8	N/A	N/A	N/A
International Equity Pooled Fund	33.2	40.6	-42%	97.8	89.6	-9%	5,972	8,075
Climate Transition International Equity Pooled Fund	25.8	30.4	-56%	89.2	56.9	-42%	997	6,124
MSCI EAFE Index	68.0	69.7	N/A	99.3	98.0	N/A	N/A	N/A
U.S. Equity Pooled Fund	8.7	7.5	-75%	31.7	33.9	-65%	1,999	1,971
S&P 500 Index	36.4	30.0	N/A	119.6	96.6	N/A	N/A	N/A
Global Equity Pooled Fund	16.4	17.9	-57%	47.8	59.4	-41%	943	1,167
Fossil Fuel Free Global Equity Fund	16.4	17.9	-57%	47.8	59.4	-41%	943	1,167
MSCI World Index	47.3	42.1	N/A	115.9	100.3	N/A	N/A	N/A
Impact Fixed Income Pooled Fund	73.2	79.7	-14%	218.9	172.4	-30%	7,699	6,414
FTSE Canada Universe Bond Index	61.7	92.5	N/A	203.5	245.8	N/A	N/A	N/A

²⁰ Please refer to [page 64](#) for more details on carbon emissions data.

3. In international equity portfolios, carbon emissions saw a notable year-over-year increase, largely due to the addition of a high-emitting materials company. However, the carbon footprints of these portfolios remained below those of the benchmark MSCI EAFE Index. This performance can be attributed to a quality tilt in the stock selection process, avoiding investments in energy and utilities while maintaining underweight positions in materials and industrials. The materials sector remains the main driver for the portfolio's carbon footprint.
4. The Climate Transition International Equity Pooled Fund portfolio has lower carbon emissions through applying our climate transition methodology and underweighting energy, utilities and materials. The industrials sector contributes the majority of carbon emissions for the fund, yet it also serves as a key driver of technologies for future climate solutions, positioning it as crucial in the transition to a net-zero economy.
5. Applying a similar investment selection process as the international equity portfolios, the US Equities Pooled Fund does not have exposure to the energy and utility sector, which accounts for a large portion of WACI and Financed Emissions for the S&P 500 benchmark. Carbon emissions are driven mainly by the industrials and materials sector for this portfolio.
6. Half of the Impact Fixed Income Pooled Fund is allocated to green bonds. Accounting for 85% of the total carbon emissions of the fund, the primary contributors to the footprint are Ontario Power Generation, FortisBC and Capital Power Corporation due to their direct or indirect exposure through their respective parent companies to thermal power plants. We have invested in their green bonds where the proceeds from each respective issuance have been directed toward investment in energy efficiency projects, or to finance renewable energy projects, including solar, wind, and energy storage. In the case of Capital Power Corporation, these projects contribute to its coal power generation phase-out. The Partnership for Carbon Accounting Financials (PCAF) has released draft guidance for comment regarding the treatment of green bonds. This guidance advises investors to use project-specific emissions data to calculate financed emissions. However, this approach requires green bond issuers to provide detailed reports with project-specific emissions data. Currently, we do not have this data for all our Impact Fund investments. As a result, we have chosen to maintain the current method of calculating financed emissions and decided against excluding green bonds from the carbon footprint calculation, considering them integral to the capital structure of each company. We remain committed to investing in green bonds to facilitate the climate transition and intend to engage with our investee entities to obtain project-specific emissions data in the future.





Stewardship

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Stewardship is a core component of our effort to enhance long-term investment performance and positive sustainability and climate outcomes for our clients. We define it as active engagement with public policy and standard setters to promote sustainable financial markets and real economy transition, as well as engagement with investee entities and exercising proxy voting rights. We believe that systems-level engagement work can help shift entire industries and sectors of the economy, as well as drive better disclosure and transparency so that investors can integrate critical issues, such as climate change and human rights issues, into their decision-making.

Engagement

Our corporate engagement activities involve purposeful dialogue with investee entities on important matters identified by understanding the context in which companies are operating, including macroeconomic and sustainability policies and trends. This is augmented by investee entity research, assessments and monitoring to inform our direct and collaborative engagements with investee entities and our voting on shareholder meeting proposals and resolutions. We engage with company management on issues we want to understand in greater depth regarding their approach or if we have specific concerns about a company’s strategy, performance, governance, compensation, risk management or disclosures. Our engagement approach focuses on demonstrable actions and progress achieved by companies and less on what they intend to do. We perform our investment-related engagements through our internal due diligence and asset management processes, and by participating in external collaborative engagement initiatives.

Through our engagement approach, we collaborate with investee entities so that they have a clear understanding of our ambitions and expectations regarding climate and sustainable investing. Figure 21 presents our core engagement themes and overarching assessment criteria. Each theme is further supplemented by specific criteria tailored to that theme to help identify areas where we need to assess their approach to managing risks and seizing opportunities relevant to their business. For additional details on our engagement, including the escalation approach, please see our [Stewardship Policy](#).

Figure 21: Addenda’s Engagement Themes and Criteria

Engagement Themes	Assessment Criteria	
+ Climate Change	+ Human rights	+ Strategy and financial alignment
- Transition	+ Labour	+ Metrics and targets
- Resiliency	+ Diversity, equity and inclusion	+ Performance
+ Nature	+ Governance	+ Disclosure
- Biodiversity	+ Management	+ Audit and certification
- Water	+ Policy and lobbying	
+ Indigenous Reconciliation		



Collaborative Engagement

We believe strongly in collaboration with other investors and groups to effectively engage with investee entities in pursuit of shared goals. Since 2018, we have been participating in Climate Action 100+, an investor-led engagement initiative working with the world's largest corporate greenhouse gas emitters to take necessary action on climate change.

In 2021, we were one of the founding participants of Climate Engagement Canada (CEC), a Canadian investor-led engagement initiative that drives dialogue between finance and industry to promote a just transition to a net zero economy. As Chair of the Responsible Investment Association (RIA), our CEO helped guide support for the RIA, and Shareholder Association for Research & Education (SHARE) to work together as the joint secretariat for CEC and currently serves on the CEC's Steering Committee.

In 2023, we expanded these efforts by joining Nature Action 100 and the Valuing Water Initiative. Through these collaborative initiatives, we work together with other leading investors on engaging investee entities to take progressive action on climate change, nature, biodiversity and water-related risks and opportunities.



Climate Engagement Canada

CEC engagement focuses on 40+ TSX-listed companies that are strategically engaged for the alignment of expectations on climate risk governance, disclosure, and the transition to a low-carbon economy in Canada. CEC's Focus List companies have been identified as the top reporting or estimated emitters on the Toronto Stock Exchange (TSX) and/or with a significant opportunity to contribute to the transition to a low-carbon future and become a sectoral and corporate climate action leader in Canada.

CEC produces an annual [Net Zero Benchmark](#), which provides a set of common standards for investors to evaluate corporate issuers' progress towards aligning with the Paris Agreement's ambition: limiting global warming to well below 2 degrees Celsius, while pursuing efforts to limit the increase to 1.5 degrees. The Benchmark allows CEC Participant Investors to frame, and soon measure, their engagements with Canada's top emitters, inclusive of corporate issuers. With this framework in place, Participant Investors can identify areas for discussion with CEC Focus List companies and identify areas for additional improvement in their Net-Zero transition.

Results

In 2023, our Stewardship Investing team conducted 62 engagements with 44 companies. Of those engagements, 70% were related to environmental topics with climate transition being one of the priorities for the year. We also started to engage on nature and biodiversity to learn from the leading companies on their management initiatives.

Our engagements are:

- + Strategic: We have an objective to influence and encourage the issuer toward improvement
- + Research-driven: We seek to gather further information for our ESG integration investment process
- + Incident-based: Following a significant ESG controversy, we aim to gather additional information to thoroughly evaluate the incident’s severity and explore any mitigation strategies to prevent future occurrences

In addition, Addenda’s leadership has been promoting the integration of Indigenous reconciliation into investor climate and net-zero objectives through collaborative and peer-sharing events. We believe this systems-level engagement work can help shift entire industries and sectors of the economy, as well as drive better disclosure and transparency so that investors can integrate critical issues, such as climate change and human rights issues, into their decision-making.

Figure 22: 2023 Engagement Topic Distribution

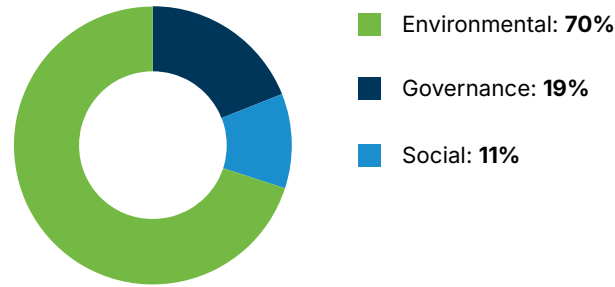
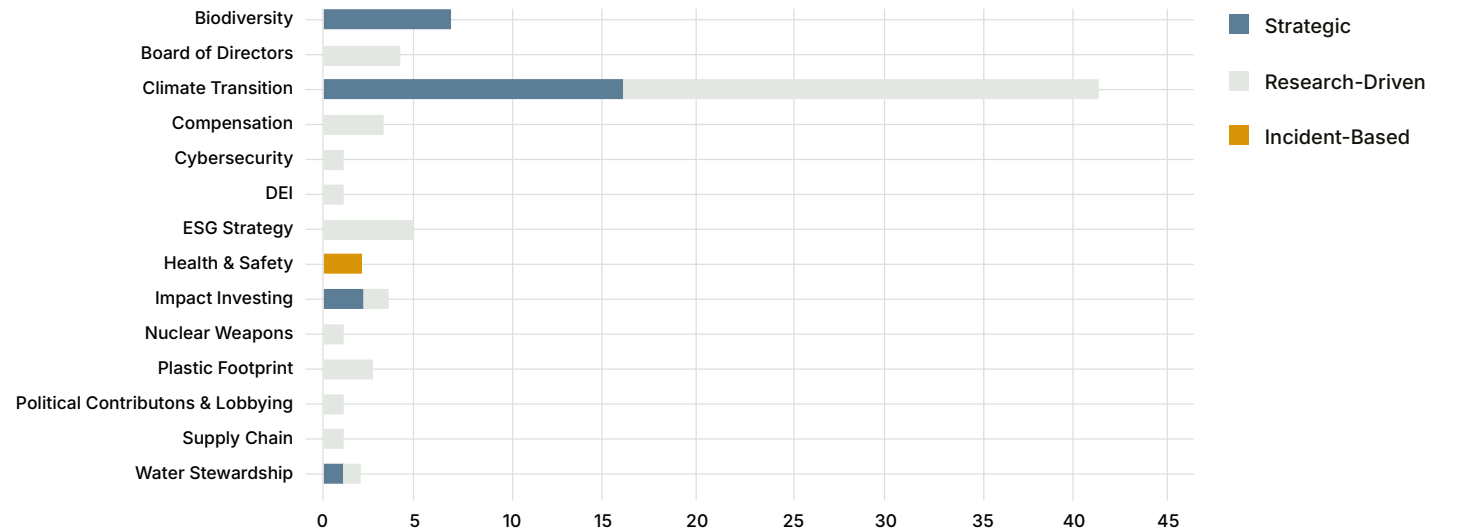


Figure 23: 2023 Engagements by Type and Topic





Case Study: Tourmaline Oil

Tourmaline Oil is a Canadian energy company engaged in natural gas and oil acquisition, exploration, development and production in the Western Canada Sedimentary Basin. In 2023, Addenda had three engagement meetings with Tourmaline – one direct and two through our partnership in Climate Engagement Canada.

Engagement Focus Areas

- Approach to net-zero transition planning and strategy
- Move to absolute targets
- Discussion on methane
- Climate scenario analysis
- Capital expenditures and considering climate in financial planning
- Climate policy and governance

Key Takeaways

- Tourmaline's focus is on near-term emissions reduction targets – preference for actionable targets over aspirational targets
- They are awaiting technical feasibility of hydroelectricity in BC and carbon capture and storage in Alberta to feel confident in setting longer-term targets
- Efforts to reduce methane emissions: working against a target

Future Engagement Topics

- Scope 3 emissions: Seeking to quantify in 2024
- Methane: OGMP 2.0 membership
- Climate Scenario Analysis: update to IEA NZ
- Policy engagement: Encourage more disclosure on trade associations and alignment with climate policy
- Encourage a longer-term perspective on net-zero and climate transition



Case Study: Nestlé

Nestlé is a Swiss multinational food and drink processing conglomerate corporation that manufactures and markets a wide range of food products including milk, chocolate, confectionary, bottled water, coffee, creamer, food seasoning and pet foods. In 2023, Addenda had one direct engagement meeting with Nestlé.

Engagement Focus Areas

- Biodiversity strategy and disclosure
- Climate strategy and intersection with nature strategy
- Capital expenditures and considering climate/biodiversity in financial planning
- Adaptation investments and implementation
- Policy and regulatory engagement supporting climate and biodiversity progress
- Just Transition alignment with a strategy for net-zero and regenerative agriculture
- Methane emissions and efforts to reduce Scope 3 emissions

Key Takeaways

- Many projects focused on climate will have positive biodiversity outcomes, if structured properly. Nestlé has budgeted over \$3 billion in investments in its climate strategy to 2025, of which \$1 billion has crossover with regenerative agriculture program
- The company decided to eliminate carbon offsets from its strategy because they distract from the actual focus of decarbonization and do not resonate with most consumers
- View continued investment in resilience and supply chains as durable and adaptable, compliant with potential regulations
- Nestlé does not have a specific target on methane emissions, but this forms a significant part of their net-zero strategy each year

Future Engagement Topics

- Observe evolution of disclosures on relevant biodiversity-related metrics in line with TNFD
- Continue to ask about alignment between financial planning and investments to decrease climate and biodiversity risks
- Track developments with respect to commitments on methane emissions in overall climate strategy

Engagement with Policy Makers, Investor Networks, and Standard Setters

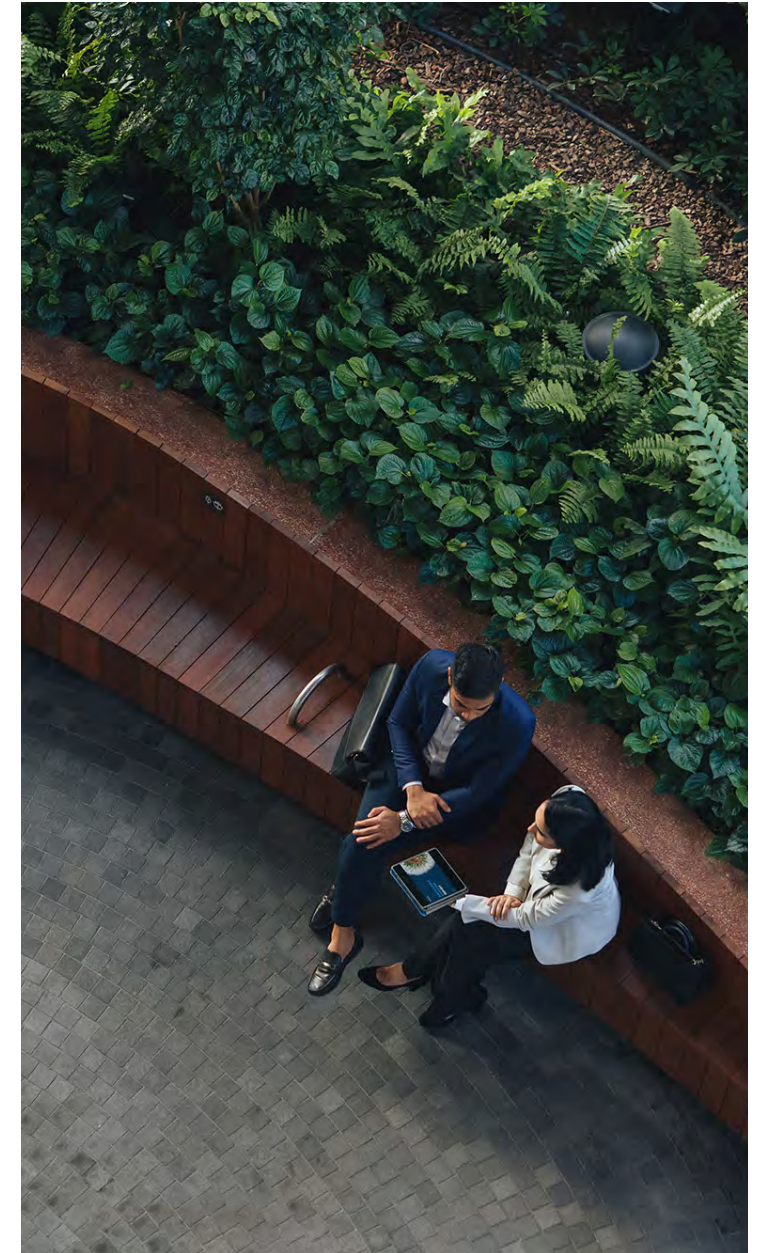
Investors must work within economic, policy, and market systems to drive the transition to net-zero and more sustainable financial markets. Addenda is committed to proactively engaging in advancing climate policies, promoting sustainable financial markets, and integrating climate considerations into standard-setting, disclosures, and transparency efforts. We are advocating for improved, standardized sustainability and climate-related reporting and risk management practices and will continue collaborating with other investors and issuers to facilitate progress in these areas.

Specifically, our engagements focus on:

- + Identifying standards, policy, and regulatory frameworks that support development and growth of sustainable finance best practices (e.g. participation in the PRI and RIA policy groups, and membership in the Transition Accelerator's Electrifying Canada initiative)
- + Promoting policies and government actions that accelerate climate mitigation and adaptation, energy transition, decarbonization, mandatory climate reporting, and business transition plans consistent with the Paris Agreement (e.g. dialogues on the Climate-Aligned Finance Act, engagement with Canada Climate Law Initiative research and policy recommendations, internal training by the Transition Accelerator, membership in New Economy Canada)
- + Promoting and enhancing sustainable investing practices through industry collaborations (e.g. Institute for Sustainable Finance, Climate Engagement Canada, CDP Non-Disclosure Campaign, Nature Action 100, Valuing Water Finance Initiative, Climate Action 100+)

- + Being a visible and vocal champion for action on climate change by supporting key investor network initiatives (e.g. ongoing action as part of the Canadian Investor Statement on Climate Change, Climate Engagement Canada and Climate Action 100+)
- + Incorporating a Just Transition lens and Indigenous peoples' rights into our public policy advocacy activities (e.g. submission to the CSA Consultation on Board and Executive-level Diversity related Disclosures)

We have also been escalating our engagement with standard setters and policy makers in Canada on climate transition. This included advisory support for Canada's Green and Transition Taxonomy through our parent company, Co-operators, and being on Sustainable Finance Action Council (SFAC), which seeks to drive capital toward climate transition-aligned and sustainability solutions. In 2023, we joined two new leading initiatives – Electrifying Canada and New Economy Canada. For more detail, see [Advocacy and Industry Collaboration](#).



Proxy Voting

Shareholders of public companies have a right to vote on proposals brought before them at annual and special meetings. The right to vote is one of the most important rights a shareholder has, and with that right comes the responsibility for Addenda to cast votes in a manner that supports the long-term value of investments for our clients and other stakeholders. Voting at shareholder meetings is an important way in which we communicate preferences and signal confidence or lack of confidence in a company's leadership, strategy, management and oversight.

Approach

Our proxy voting approach is focused on promoting the long-term performance and sustainable success of companies for shareholders and other stakeholders. We consider each ballot item, with the help of Institutional Shareholder Services (ISS), and determine how to vote in a manner consistent with the guidelines outlined in our [Proxy Voting Policy](#). This policy includes guidelines on multiple sustainability and climate-related issues, such as climate change, oversight of environmental and social risks and opportunities, diversity, equity and inclusion, and human rights.

Results

Figure 24: Proxy Voting Snapshot

Proxy Voting Topic	Votes in Favour	Votes Against
Climate	22	12
Diversity, Equity and Inclusion (DEI)	9	5
Human Rights	15	7

Our proxy voting decisions highlight our commitment to promote greater transparency and performance on sustainability and climate-related practices. Between July 2022 and June 2023, we voted in support of 65% of climate-related shareholder proposals, 64% of DEI-related shareholder proposals and 68% of human rights-related shareholder proposals.


Abstentions or votes against can occur when we agree with the spirit but not the specifics of a proposal. We vote against 100% of anti-ESG shareholder proposals.



Advocacy and Industry Collaboration

Joining forces with other like-minded investors and stakeholders significantly enhances our effectiveness in the promotion of sustainable financial markets. We take part in investor initiatives, groups, consultations, and conferences. This enables us to leverage our internal resources, lend our credibility to the good work of others, share tools, pool resources and gain access to enhanced sustainability-related data and insight.

Figure 25: Advocacy

Industry Group	Addenda Capital Involvement
Canadian National Adaptation Strategy, Federation of Canadian Municipalities, Green Municipal Fund	<ul style="list-style-type: none"> + Addenda supported Co-operators in providing investor and insurance perspectives to the development of Canada's National Adaptation Strategy + Our involvement also included presentation and conference events hosted by the Federation of Canadian Municipalities and Green Municipal Funds recognizing that cities are often at the forefront of climate adaptation
Climate-Aligned Finance Act (CAFA)	<ul style="list-style-type: none"> + Addenda participated in several forums and roundtables since 2022 when Senator Galvez introduced the Climate-Aligned Finance Act
Canadian Securities Administrators (CSA) Consultation on Board and Executive-level Diversity-related Disclosures	<ul style="list-style-type: none"> + Addenda submitted comments to the CSA consultation on diversity supporting the Form B proposal to improve the comprehensiveness and comparability of diversity disclosures
Government of Canada	<ul style="list-style-type: none"> + Addenda engaged or provided feedback, in partnership with our parent, Co-operators, on: <ul style="list-style-type: none"> - Canada's Draft National Adaptation Strategy²¹ - OSFI's Climate Risk Management Guidelines²², and - Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050 — discussion document²³
	<ul style="list-style-type: none"> + Addenda submitted feedback to the IFRS Foundation's and the International Sustainability Standards Board's (ISSB) climate and sustainability-related disclosures exposure drafts






²¹ *Canada's National Adaptation Strategy*

²² *OSFI's Climate Risk Management Guidelines (Draft)*







²³ *Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050 — discussion document*






Figure 26: Industry Collaboration

Industry Group	Addenda Capital Involvement
 <p>Canadian Bond Investors Association Association canadienne des investisseurs obligataires</p>	<ul style="list-style-type: none"> + Addenda's membership allows for opportunities to provide input on position statements regarding developments in the Canadian fixed income market + Addenda is on an ESG Working Committee of the Association
 <p>Canada Climate Law Initiative L'Initiative canadienne de droit climatique</p>	<ul style="list-style-type: none"> + Addenda participates on the advisory committee and is actively engaged with CCLI's efforts engaging on sustainable finance policy + In 2023, Addenda supported CCLI's work for the Green and Transition Taxonomy, OFSI engagement and disclosure as part of the Canada Business Corporations Act
<p>Canadian Impact Investing Working Group (CIIWG)</p>	<ul style="list-style-type: none"> + Addenda is a member of a consortium of 10 Canadian institutional impact investors to provide recommendations on how to scale the impact investing market in Canada
 <p>DRIVING SUSTAINABLE ECONOMIES</p>	<ul style="list-style-type: none"> + Addenda participates in the non-disclosure campaign and has access to all corporate responses to CDP – an international non-profit organization that helps organizations disclose their environmental impact – which detail information on the risks and opportunities that companies face, as well as management discussion and analysis on strategies to address climate change, water-related issues, deforestation-related issues and emissions-reduction performance
 <p>Climate Action 100+</p>	<ul style="list-style-type: none"> + Addenda is a member of this investor-led initiative and works with investors to drive clean energy transition to achieve the goals of the Paris Agreement + The initiative aims to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change and supports engagement activities and messaging of dialogue with more than 160 of the world's most systemically important emitters
 <p>CLIMATE ENGAGEMENT CANADA</p>	<ul style="list-style-type: none"> + Addenda is one of the founding members of the "Canadian blueprint" of investor action on climate change + CEC published its inaugural and first-ever net-zero assessment of Canada's top reporting or estimated emitters on the Toronto Stock Exchange to engage in consistent dialogue and encourage addressing climate-related risks and opportunities + Addenda is leading three CEC company engagements and participating in five collaborative CEC engagements, and our CEO is on the Steering Committee



Industry Group	Addenda Capital Involvement
	<ul style="list-style-type: none"> + Addenda is a member of this initiative of the Transition Accelerator focused on widespread electrification that enables an affordable, resilient and clean energy system for Canada's economic development + Diverse coalition of industry, Indigenous groups, labour and civil society + Provides expert analysis and research, convening for identifying challenges and developing solutions that are relevant regionally
 	<ul style="list-style-type: none"> + Addenda participated in sessions to raise awareness and explore ideas on how lessons learned in the green bond market can extend and potentially support Indigenous communities developing a bond framework along with foundational training on ESG practices + Addenda, through its work of the RIA Canada, has also been instrumental in bringing in Indigenous expertise and voices to sustainable investing industry leadership perspectives (e.g. on RIA Board) and raise awareness (RIA webinars) + Addenda conducted an ESG 101 training session for NATOA members in 2023
	<ul style="list-style-type: none"> + Addenda is a member of the Institute for Sustainable Finance (ISF), a multi-disciplinary network that brings together academia, the private sector and government to shape Canada's innovations in sustainable finance + Addenda participates on the advisory board of the ISF and is actively involved in participating in professional development initiatives
	<ul style="list-style-type: none"> + Addenda is a member of this network, which provides regular communications on US and global climate change and sustainability issues relevant to investors + Access to stakeholder engagement meetings with large publicly traded companies. Opportunities to provide input to the working groups that advance members' priorities like enhanced sustainability disclosure and improved public policy
	<ul style="list-style-type: none"> + Addenda is a member of Nature Action 100, a global investor engagement initiative focused on driving greater corporate action to reverse nature and biodiversity loss
<p>The Net Zero Asset Managers Initiative</p>	<ul style="list-style-type: none"> + Addenda is a member of <u>NZAM</u>, which aligns capital with objective of reaching net-zero emissions by 2050 or sooner, in line with efforts to limit global warming to 1.5 degrees Celsius + Sets an interim target for the proportion of assets to be managed in line with the attainment of net-zero. Interim target is reviewed at least every five years + Provides asset owners with information and analytics on net-zero investing, as well as TCFD disclosures



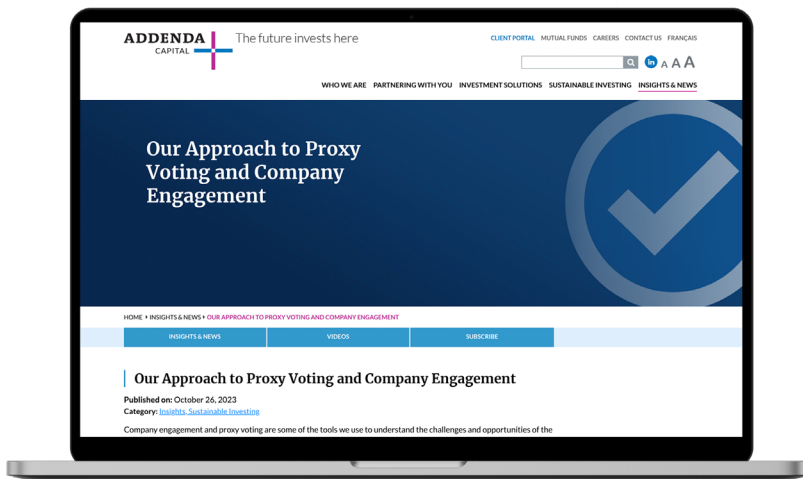
Industry Group	Addenda Capital Involvement
	<ul style="list-style-type: none"> + Addenda is a member of this collaboration of 45 organizations across 10 sectors from across the country bringing a united message to governments that there needs to be more and faster action to: <ul style="list-style-type: none"> - Advance economic reconciliation with Indigenous nations and peoples - Increase the supply of clean energy and related infrastructure - Accelerate investment in skills training + Support clean innovation to ensure competitiveness across industrial sectors
<p>Québec Financial Centre for Sustainable Finance</p>	<ul style="list-style-type: none"> + Addenda joined other signatories in support of an initiative led by Finance Montréal to strengthen the finance ecosystem, make sustainable finance a key element in the development and influence of the Québec financial industry, and position the province of Quebec among the major financial centers at the international forefront of sustainable finance
	<ul style="list-style-type: none"> + Addenda has been a Sustaining Member of the Responsible Investment Association (RIA) since 2015, promoting the practice of sustainable investing in Canada + Addenda CEO is the chair of the RIA Board
<p>Sustainable Finance Action Council of Canada (SFAC)</p>	<ul style="list-style-type: none"> + Addenda supports our parent, Co-operators, as an active member of SFAC which is developing Canada’s approach in evolving the financial system to better meet Climate goals. SFAC serves as a centre of expertise, partnership, and dialogue on sustainable finance issues in Canada and internationally
	<ul style="list-style-type: none"> + Addenda is a member of the Valuing Water Initiative, which focuses on engaging with some of the largest companies in the world with high dependencies on water on their water stewardship practices + An Addenda Sustainable Investing Team member is on the advisory committee of the Valuing Water Initiative, which collaborates with global stakeholders and investors on bringing systemic change in water policy, practice and finance



Thought Leadership

Addenda publishes thought leadership pieces regularly as a commitment to transparency and sharing knowledge with others. Below is a snapshot of some of our 2023 insights. For more, please visit [our website](#).

Our Approach to Proxy Voting and Company Engagement	Glimmers of Hope Despite a Challenging Summer	Why Investors Should Care About Canada's Green and Transition Taxonomy	Biodiversity: The Meteoric Rise of a Critical Issue
<p>Company engagement and proxy voting are some of the tools we use to understand the challenges and opportunities of the companies whose securities we own on behalf of clients.</p>	<p>This year has laid bare that the climate transition is not going to be easy, but also that we are running out of time.</p> <p>Monika Freyman, Vice-president, Sustainable Investing, shares her thoughts on why she remains hopeful regardless of these challenges.</p>	<p>Achieving net-zero by 2050 in Canada will require annual investments of \$125 to \$140 billion. To help mobilize capital for such a major transition, the Sustainable Finance Action Council (SFAC) proposed a classification system in March to define what qualifies as “green” and “transition” projects.</p> <p>Once developed and the federal government gives these the go-ahead, investors and managers should get acquainted with the suggested language and consider the implications for the financial sector sooner versus later.</p>	<p>Biodiversity is now among the top three areas of interest for Canadian institutional investors, along with climate change and diversity, equity, and inclusion issues.</p>





Appendix

IFRS S2 Climate-related Disclosures Content Index 62



IFRS S2 Climate-related Disclosures Content Index

We have mapped our climate-related initiatives and practices to the IFRS S2 Climate-related Disclosures.

Governance

Governance body(s) or individual(s) responsible for oversight of climate-related risks and opportunities

Information can be found within the "Governance and Oversight" section on [page 14](#) of the report

Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities

Information can be found within the "Governance and Oversight" section on [page 15](#) of the report

Strategy

The climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects

Information can be found within the "Sustainable Investing" section beginning on [page 16](#) of the report

The current and anticipated effects of those climate-related risks and opportunities on the entity's business model and value chain

Information can be found within the "Sustainable Investing" section beginning on [page 16](#) of the report

The effects of those climate-related risks and opportunities on the entity's strategy and decision-making, including information about its climate-related transition plan

Information can be found within the "Sustainable Investing" section beginning on [page 16](#) of the report

The effects of those climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period, and their anticipated effects on the entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those climate-related risks and opportunities have been factored into the entity's financial planning

Information is not disclosed at this time

The climate resilience of the entity's strategy and its business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities

Information can be found within the "Sustainable Investing" section beginning on [page 16](#) of the report



Risk Management

The processes and related policies the entity uses to identify, assess, prioritise and monitor climate-related risks

Information can be found within the "Risk Management" section starting on [page 23](#) of the report

The processes the entity uses to identify, assess, prioritise and monitor climate-related opportunities, including information about whether and how the entity uses climate-related scenario analysis to inform its identification of climate-related opportunities

Information can be found within the "Risk Management" section starting on [page 23](#) of the report

The extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related risks and opportunities are integrated into and inform the entity's overall risk management process

Information can be found within the "Risk Management" section starting on [page 23](#) of the report

Metrics and Targets

Information relevant to the cross-industry metric categories

Information can be found within the "Performance" section beginning on [page 44](#) of the report

Industry-based metrics that are associated with particular business models, activities or other common features that characterise participation in an industry

Information can be found within the "Net-Zero Framework" section beginning on [page 26](#) of the report

Targets set by the entity, and any targets it is required to meet by law or regulation, to mitigate or adapt to climate-related risks or take advantage of climate-related opportunities, including metrics used by the governance body or management to measure progress towards these targets

Information can be found within the "Net-Zero Framework" section beginning on [page 26](#) of the report



Source and Quality of Carbon Emissions Data

Addenda's approach is guided by "The Global GHG Accounting" and "Reporting Standard for the Financial Industry" developed by the Partnership for Carbon Accounting Financials (PCAF) an industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement. Carbon emissions data is sourced from MSCI and Bloomberg, based on data availability. Enterprise Value Including Cash (EVIC) and Revenue data are sourced from Bloomberg. Our carbon intensity metrics are calculated using USD for more global cross comparisons. Portfolio financed emissions and weighted average carbon intensity are measured as at December 31 of each year.

Scope of Emissions

Our portfolio carbon metrics reflect Scopes 1 and 2 emissions which are currently the most robust and complete available. Scope 1 refers to direct GHG emissions from entity's owned and controlled sources. Scope 2 refers to indirect emissions from acquired energy (e.g. electricity, steam, heat, and cooling). We currently do not include Scope 3 emissions that occur in other areas upstream and downstream of the value chain as reporting and data quality are not yet sufficient. However, we do think this will improve in the future and recognize that for some industries and companies, Scope 3 emissions can be far larger than Scope 1 and 2. We will look to include this analysis when reporting and data quality improve.

Carbon Accounting in Evolution and Limitations

While the data and methods we applied reflect what is among the best currently available, it has limitations due to varying methods companies use to calculate GHG, incomplete reporting and evolution of global standards and methods. Carbon accounting is also a point-in-time approach that may not fully reflect current or future carbon emissions developments of the holdings and portfolio. We anticipate more standardized and regulated reporting and disclosure in the future and likely future changes to our approach to reflect best practices as they evolve. We also recognize that carbon emissions metrics are one indicator of climate transition risk, and that many other climate indicators and analysis are required to get a comprehensive understanding of climate risks and opportunities.



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