

Sustainable Investing

Quarterly Highlights

Q3 2020



UPDATES

Addenda Impact Fixed Income Pooled Fund: Annual Impact Report

The 2019 Addenda Impact Fixed Income Pooled Fund impact report was shared with unit holders in July. The report gives an overview of impact investing at Addenda Capital, explains who decides which securities qualify as “impact” and covers investment performance and portfolio characteristics. It also includes examples of the Fund’s holdings for each of the 10 focus areas under the 4 themes, which are climate change: community development, education, and health and wellness. An example of an impact investment within the health and wellness theme and hospitals focus area, is Sinai Health System. Sinai Health System brings together Mount Sinai Hospital and Bridgepoint Active Healthcare and serves patients in Toronto across the continuum of care and life-course by integrating acute, complex chronic care, rehabilitative care with primary and community-based care. The annual impact report also includes example metrics for each holding in the Fund and aggregate metrics across the Fund. Notably, at the end of 2019, Addenda’s Impact Fixed Income Pooled Fund invested in clean transportation projects that reduced 137K tonnes of CO₂.

Addenda Case Study included in CFA Institute Publication: “[Climate Change Analysis in the Investment Process](#)”

Addenda contributed a case study to a CFA Institute report launched in September. The case study entitled “Using climate considerations to build positive impacts into fixed-income portfolios” looks at how Addenda addresses climate change through its fixed-income investments. The CFA publication presents various case studies aimed to educate investors about climate change and its economic impacts, best practices in climate-related financial analysis, and sources of information on integrating climate change into the investment process.

FIRM-WIDE INITIATIVES

PROMOTING SUSTAINABLE FINANCIAL MARKETS – RAISING STANDARDS

Recommendations Submitted to the Ontario Capital Markets Modernization Taskforce

The [Ontario Capital Markets Modernization Taskforce](#) issued 47 recommendations for market reforms for consultation. The Sustainable Investing (SI) team, with institutional investor peers, contacted the taskforce to discuss ESG-related requirements we would like to see in the market. We presented our ideas to the taskforce in the spring and collaborated with a group of institutional investors to develop input on the ESG-related recommendations and questions posed in the consultation document.

The recommendations and key comments addressed in the letter are:

- #19 Board diversity disclosure and target-setting for the inclusion of women, as well as Black, Indigenous and People of Colour (BIPOC)
- #20 Regulation of proxy advisory firms
- #23 Annual advisory vote on executive compensation
- #24 Shareholder proposal appeals process
- #25 ESG disclosure for listed companies

Supporting The Sustainability Accounting Standards Board (SASB) Globalization Initiative

SASB is conducting research to identify possible improvements to their industry standards to ensure global relevance and applicability. Addenda reached out to the equity research departments of several Canadian banks to ask if their sell-side analysts would submit feedback to SASB to help with this process.

Signed the Canadian Investor Statement on Diversity & Inclusion

Addenda became a founding signatory to the [Canadian Investor Statement on Diversity & Inclusion](#), prepared by the Responsible Investment Association (RIA) with the input of the Sustaining Members. The Statement is focused on the role we can play, as an institutional investor, in addressing the inequities and discrimination that exist in Canada by taking intentional steps to promote diversity and inclusion across our portfolios and within our organization.

Support for the Science-Based Targets Campaign

This quarter, Addenda signed on to the [CDP Science-Based Targets Campaign](#). Through this initiative the CDP will write, on behalf of signatories, to approximately 1,900 high climate impact issuers asking them to commit to and adopt science-based targets (SBTs) – emissions reduction targets that have been verified to align with keeping warming below 2 degrees.

PRODUCT-SPECIFIC INITIATIVES

Corporate Bonds ■ International Equities ■ Canadian Equities ■ U.S. Equities ■ Held in Portfolios ✓

ESG INTEGRATION – BETTER INVESTMENT DECISIONS

Addenda Capital made great strides during the quarter to improve our ESG integration processes. We have created standardized tools that enable portfolio managers to identify the key ESG issues they are considering for each company in which we are invested. We have started this process for companies in the following sectors: financials, technology, communication services, utilities and real estate. Here are a few examples of companies we reviewed:

| Company | Country | Issues | Strategy | Outcome |
|----------------|----------------|----------------------------|----------|--|
| Consumer Goods | United Kingdom | • Packaging sustainability | ■ ✓ | • Identification of tools to help customers analyze their consumption and move towards more sustainable options |
| Health Care | Germany | • Workforce practices | ■ ✓ | • Focus on safety, employee engagement, and diversity, with different onsite programs |
| Financial | Canada | • ESG integration process | ■ ■ ✓ | • Review of important topics: data security, incorporation of environmental, social and governance factors in credit analysis, business ethics, corporate governance, and human capital management |

STEWARDSHIP – TAKING CARE OF YOUR INVESTMENTS

| Company | Country | Issues | Strategy | Outcome |
|--------------------------------|---------|--|----------|--|
| Energy | Canada | • Climate disclosure | ■ ■ ✓ | <ul style="list-style-type: none"> • Participation in CDP non-disclosure campaign urging high emitting companies to disclose details of climate change risks, impacts and management in a standardized form • Company submitted their climate disclosure to CDP |
| Restaurant | France | <ul style="list-style-type: none"> • Workforce safety • Employee engagement, diversity, and inclusion • GHG reduction targets | ■ ✓ | <ul style="list-style-type: none"> • Discussion on workforce safety during COVID-19 and their system addressing employee engagement and management improvement among others • Identification of inclusion programs • Improvements on reducing waste and setting GHG reduction targets |
| Healthcare | France | <ul style="list-style-type: none"> • Workforce safety and management • Setting KPIs | ■ ✓ | <ul style="list-style-type: none"> • Discussion on workforce safety during COVID-19 • Implementation of tracking workforce demographics, engagement plan and KPI development • Development of stronger practices for health and safety and ongoing training |
| Medical Equipment and Supplies | Ireland | • Board diversity | ■ ✓ | <ul style="list-style-type: none"> • Diversity consideration in board nominee selection despite no clear policy • Meeting request with the Chair of the nominating committee to follow |

PRODUCT-SPECIFIC INITIATIVES (CONTINUED)

Corporate Bonds ■ International Equities ■ Canadian Equities ■ U.S. Equities ■ Held in Portfolios ✓

STEWARDSHIP – TAKING CARE OF YOUR INVESTMENTS (CONTINUED)

| Company | Country | Issues | Strategy | Outcome |
|------------------------------|---------|---|----------|--|
| Food Processing | Ireland | <ul style="list-style-type: none"> Climate strategy | ■ ✓ | <ul style="list-style-type: none"> Review of their climate strategy Identification of more explicit board oversight responsibility Set of science-based emission reduction targets |
| Packaging | Canada | <ul style="list-style-type: none"> Sustainability, climate, workforce and related disclosures | ■ ■ ✓ | <ul style="list-style-type: none"> Discussion on sustainability disclosure with a recommendation for climate, workforce and related disclosures Identification of comprehensive emissions measurement and looking to GRI to guide its first sustainability report next year |
| Energy | Canada | <ul style="list-style-type: none"> Climate related disclosures Science-based targets | ■ ■ ✓ | <ul style="list-style-type: none"> Discussion on expanding its disclosures and on setting science-based targets to reduce emissions Report will be available in the fall |
| Real Estate Investment Trust | Canada | <ul style="list-style-type: none"> Climate related disclosures and sustainability enhancements | ■ ■ ✓ | <ul style="list-style-type: none"> Review of plan for climate related disclosures for 2021 reporting and encouraged them to use specific frameworks Commitment to reporting to the GRESB and a minimum percentage of its annual capital budget towards sustainability enhancements |
| Rental and Leasing | Canada | <ul style="list-style-type: none"> ESG considerations | ■ ✓ | <ul style="list-style-type: none"> Discussion on plans to incorporate ESG considerations into strategy and to set an emissions reduction target Confirmation that this is a priority for the board |
| Financial Services | Canada | <ul style="list-style-type: none"> ESG disclosures | ■ ■ ✓ | <ul style="list-style-type: none"> Discussion on plans to incorporate both SASB and TCFD standards in reporting along with more climate-related disclosures in annual reporting |
| Real Estate Investment Trust | Canada | <ul style="list-style-type: none"> Climate related disclosures | ■ ■ ✓ | <ul style="list-style-type: none"> Review of existing climate related disclosures, how disclosures around risk management can be improved and how exposed its properties are to climate related risks SASB standards are used to guide ESG reporting and they have set GHG emissions reduction target to 2023, we encouraged net-zero or science based targets beyond 2023 |