Lincluden Climate Action Plan

Introduction

Lincluden is a signatory to the UN Principles for Responsible Investment, a supporter for the Task Force on Climate-Related Financial Disclosures (TCFD), and has long incorporated ESG analysis into its value driven, investment approach.

Lincluden recognizes the systemic risks that climate change presents. Urgency over these risks have been highlighted through scientific research. This research has resulted in calls for significant reductions in global greenhouse gas emissions (GHGs) to limit global warming to 1.5 degrees Celsius by the turn of the century. The Intergovernmental Panel on Climate Change (IPCC) believes breaching this threshold risks severe climate change impacts such as more frequent and severe droughts, heatwaves and flooding. The Paris Agreement (December 2015), seeks to remedy this by requiring significant reductions in global emissions thus limiting the temperature increase to 1.5 degrees Celsius above pre-industrial levels.

Climate change presents investment opportunities primarily through the transition to a lower carbon economy. Substantial investment in new technologies are expected and required to mitigate climate change. A sustainable energy future will require collaboration between companies, investors, governments and policy makers.

Lincluden is committed to supporting companies in their efforts to manage their climate related risks and their transition to sustainable forms of energy. This commitment is aligned with our approach of integrating environmental, social and governance factors into our investment process. Through consideration of climate related factors, we aim to more effectively manage the investment risks while pursuing sustainable, long-term investment returns.

Lincluden's Climate Action Plan: Our plan involves a multi-faceted approach where we: 1) identify and manage risks, 2) integrate climate risk factors into our investment process, 3) pursue stewardship, 4) identify opportunities 5) promote a net zero commitment, and 6) seek alignment with the TCFD. This approach is underpinned by our governance framework.

Identifying and Managing Risk

The transition to a low carbon economy is considered in our investment analysis. Risks associated with climate change include both physical and transition risk. Physical risks include floods, droughts and wildfires while transition risks relate to the financial impact of changing regulations and policies that seek to reduce emissions and effect changes in market and consumer behavior.

In order to manage these risks we consider a variety of carbon footprint metrics. Carbon emissions, intensity, and weighted average carbon intensity (WACI) are documented. Carbon risk ratings assigned by third-party data providers are also incorporated into our analysis. Climate strategies adopted by companies we are invested in are noted. A particular focus on the existence of science-based (SBTi) targets is an important factor. Our portfolio dashboard analysis includes these carbon metrics as well as net zero commitments and SBT targets. These are all are monitored regularly. Implied temperature rise metrics and climate scenario analysis compliments our investment analysis.

Integration

Managing climate risks requires effective integration of climate risk factors into the investment process. Our internal research supports the assessment of climate risk & opportunities. Our ESG Assessment Framework analyzes climate related factors that influence the overall assigned quality score for each company. This affects whether a company is included in the portfolio, and if so, its weighting within it.

Our ESG Assessment Framework considers a variety of climate related factors, including the UN Sustainable Development Goal (SDG) 13 - Climate Action. Several metrics and KPIs are identified and measured for progress towards this critical goal.

Temperature alignment metrics and scenario analysis are generated at the portfolio level which helps us measure and monitor a portfolio's climate transition risk.

Stewardship

We demonstrate our stewardship through thoughtful engagement with our portfolio of invested companies. Specific attention is paid to how these companies are managing and disclosing their climate related risks. We use proxy voting as another tool to reflect concerns and to encourage adoption of best practices towards the management of climate risks.

We do not view divestment as an effective solution to address climate risks. This strategy forfeits the right to use proxy voting as a tool to draw attention towards climate risk. It can also starve companies of crucial capital necessary to effect a transition to a low carbon economy. If initial engagement efforts prove unsuccessful we can escalate to the company's board of directors, use proxy voting and pursue collaboration with like-minded investors. Divestment is a last resort.

In late 2021 Lincluden initiated an engagement campaign to encourage our portfolio companies to disclosure their climate strategies. We requested that they disclose their climate strategies, provide relevant climate related disclosure and to adopt net zero targets. Additionally, we encouraged the adoption of the recommendations put forth by the Task Force on Climate-Related Financial Disclosures (TCFD).

Our collaborative efforts include joining as signatory to various initiatives such as CDP, the CDP Science-Based Targets Campaign 2022 and the Investor Agenda's 2022 Global Investor Statement to Governments on the Climate Crisis. These initiatives encourage better disclosure and adoption of science-based targets, both of which support net zero goals.

Opportunities:

Our research process considers opportunities that are aligned with a transition to a lower carbon economy and adhere to our value-based investment criteria in order to provide strong, sustainable, long-term investment returns.

We are managing an investment strategy that seeks alignment with globally accepted temperature warming goals while targeting sustainability through active security selection and company engagement.

Net zero commitment

Mitigating climate change is a key component of our ESG policy. Lincluden is committed to the goal of net zero by 2050. We will require 50% of the relevant mandate portfolio holdings to have science-based targets (SBT) by 2030 and 100% by 2040. Our methodology to assess this is aligned with the Science Based Targets Initiative portfolio coverage approach.

Through our stewardship activities we endeavor to push invested companies towards a de-carbonization pathway. Our goal is to achieve real world reductions in GHG emissions.

TCFD Alignment

The Task Force on Climate-Related Financial Disclosures (TCFD) was created to address the need for improved climate-related disclosures from corporations and other entities. The TCFD framework includes recommendations that are based on four core elements: governance, strategy, risk management, and metrics and targets.

Recognizing the need for improved disclosure to enhance investment decision making, Lincluden is a supporter of the TCFD framework. We also recognize the need for a harmonized approach and support from regulators, policy makers and governments and are looking forward to common standards proposed by the International Sustainability Standards Board (ISSB) who will implement new global accounting standards for measuring and reporting climate-related impacts.

Our alignment with the TCFD recommendations follows.

Governance

Our efforts to manage climate related risks and opportunities are supported by an ESG Committee with representation from equity, fixed income, compliance, and marketing teams. This steering committee oversees Lincluden's responsible investing activities including our climate change commitment. The committee is led by the Chief Compliance Officer, reporting directly to our CEO.

A formal ESG Practices Report is submitted to the Board and CEO annually. This report contains our achievements and planned enhancements for the upcoming year. This report also includes progress related to our climate strategy as well as planned enhancements to our approach.

Our climate strategy, including our net zero commitment, was approved by senior management and reported to our Board of Directors.

Strategy

Climate change poses investment risks in the form of both physical and transition risk. Physical risk includes floods, droughts and wildfires. Transition risks relate to the financial impact of changing regulations and policies that seek to reduce emissions and effect changes in market and consumer behavior. Carbon pricing is a risk to company profitability due to increased indirect supply costs and direct production costs. Longer term, if global temperatures targets are not met risks may include more pronounced weather events leading to higher insurance costs and stranded assets in certain industries.

Climate change also presents investment opportunities stemming from the transition to a lower carbon economy primarily from innovation in production methods, carbon capture technologies and investments in renewable energy such as wind, solar, hydroelectric, and hydrogen.

In order to manage these risks and opportunities Lincluden's Climate Action Plan involves a multi-faceted approach where we: 1) identify and manage risks, 2) integrate climate risk factors into our investment process, 3) pursue stewardship, 4) identify opportunities 5) promote a net zero commitment, and 6) seek alignment with the TCFD. This approach is underpinned by our governance framework.

Our ESG Assessment Framework incorporates UN SDG's related to climate change including their relevant ESG metrics. This assists us in identifying climate risks and opportunities for portfolio holdings. ESG metrics and KPIs are assessed based on our own independent qualitative analysis, and supported through quantitative data provided by third party research providers.

At the portfolio level we monitor temperature alignment metrics and conduct scenario analysis. Specifically, we incorporate third party data that assesses a variety of scenarios of that account for carbon usage, policy initiatives and temperature increases out to 2050. This analysis allows us to measure and monitor climate transition risk

Risk Management

Our approach to identifying and assessing climate-related risks is underpinned by our strong governance framework. As described in our Climate Action Plan, our efforts to manage climate related risks and opportunities are supported by an ESG Committee with representation from our equity, fixed income, compliance, and marketing teams. This steering committee oversees the firm's responsible investing activities including those related to climate change.

Investment teams monitor a dashboard that contains specific ESG metrics such as third party ESG risk ratings and controversy indicators as well as carbon and temperature warming metrics.

ESG analysis is integrated into our research process for each investment in part to assess the potential investment risks involved in the transition to a low carbon economy. Close attention is paid to company filings and announcements as we recognize that efforts towards this end are constantly evolving. Material climate-related ESG factors included in our proprietary quality scoring system can either improve or lower a company's overall quality score impacting its required discount, position size, and may influence its inclusion or elimination.

Climate-related risks in our portfolio holdings are also addressed through our stewardship program which includes direct and collaborative engagement as well as proxy voting. By encouraging companies to improve disclosure, adopt climate strategies that include science-based targets, and hold management and Boards accountable, we are striving to reduce climate-related risks in client portfolios.

Metrics & Targets

Lincluden considers several metrics to assess climate-related risks and opportunities. Carbon footprint metrics we measure and monitor include:

Carbon Emissions (tons CO2e/$M invested) – measures the portfolio's normalized carbon footprint per million dollars invested

Formula:

$$\left(\frac{\sum \frac{\$\text{ investment}}{\text{Issuer market cap}} \times \text{Issuer emissions}}{\text{Portfolio market value}} \right)$$

Carbon Intensity (tons CO2e/$M sales) – measures how efficient the portfolio is in terms of carbon emissions per unit of output

Formula:

$$\frac{\sum \frac{\$\text{ investment}}{\text{Issuer market cap}} \times \text{Issuer emissions}}{\sum \frac{\$\text{ investment}}{\text{Issuer market cap}} \times \text{Issuer sales}}$$

Weighted Average Carbon Intensity (tons CO2e/$M sales) – measures the portfolio's exposure to carbon intensive companies

Formula:

$$\sum \text{Portfolio weight} \times \frac{\text{Issuer emissions}}{\text{Issuer sales}}$$

These metrics are calculated internally using data sourced by third-party providers and reflect Scope 1 and 2 emissions. Scope 1 emissions are direct GHG emissions from owned or controlled sources. Scope 2 emissions are indirect GHG emissions from the generation of purchased electricity. Scope 3 emissions are indirect emissions from sources not owned or controlled by the company, both up and down its value chain. Given that Scope 3 disclosures are generally insufficient they are not included in our analysis. That said, we would look to include Scope 3 in the future once data quality improves.

Carbon metrics for the Lincluden Stable Income Equity Pooled Fund and the Lincluden Global Stable Equity Pooled Fund:

	Weighted Average Carbon Intensity (tons CO2e/$M sales)	Carbon Intensity (tons CO2e/$M sales)	Carbon Emissions (tons CO2e/$M invested)
LSIEPF	152	78	64
LGSEPF	29	34	27

It is widely known that the underlying emission data can be subject to considerable time lag in reporting and are backward looking. To address these limitations and provide more robust analysis of climate-related risks and opportunities we also consider several forward-looking metrics and analysis.

At the portfolio level we monitor temperature alignment metrics and conduct scenario analysis. Specifically, we incorporate third party data that assesses a variety of scenarios of that account for carbon usage, policy initiatives and temperature increases out to 2050. This analysis allows us to measure and monitor climate transition risk.

We measure and monitor the percentage of portfolios that have net zero commitments as well as the percentage of portfolios that have committed and approved science-based targets (SBT). This latter metric is aligned with the Science Based Targets Initiative (SBTi) portfolio coverage approach which focuses on getting companies onto a de-carbonization pathway in order to achieve real world reductions in emissions. This method has been favored over a portfolio emissions reduction approach which, while intuitive, may incent divesting high carbon emitters which may not lead to meaningful emissions reductions.

Lincluden's target: we will require 50% of the relevant mandate portfolio holdings to have science-based targets (SBT) by 2030 and 100% by 2040. This target recognizes our diverse client base, their varied investment objectives, and our fiduciary duty to them.

Progress may not be linear as the composition of portfolios change over time, and as companies continue to invest in current operations, engage in acquisitions and incorporate innovative solutions that reduce emissions.