

ANNUAL REPORT

RESPONSIBLE INVESTMENT



**DECEMBER
2022**

Contents

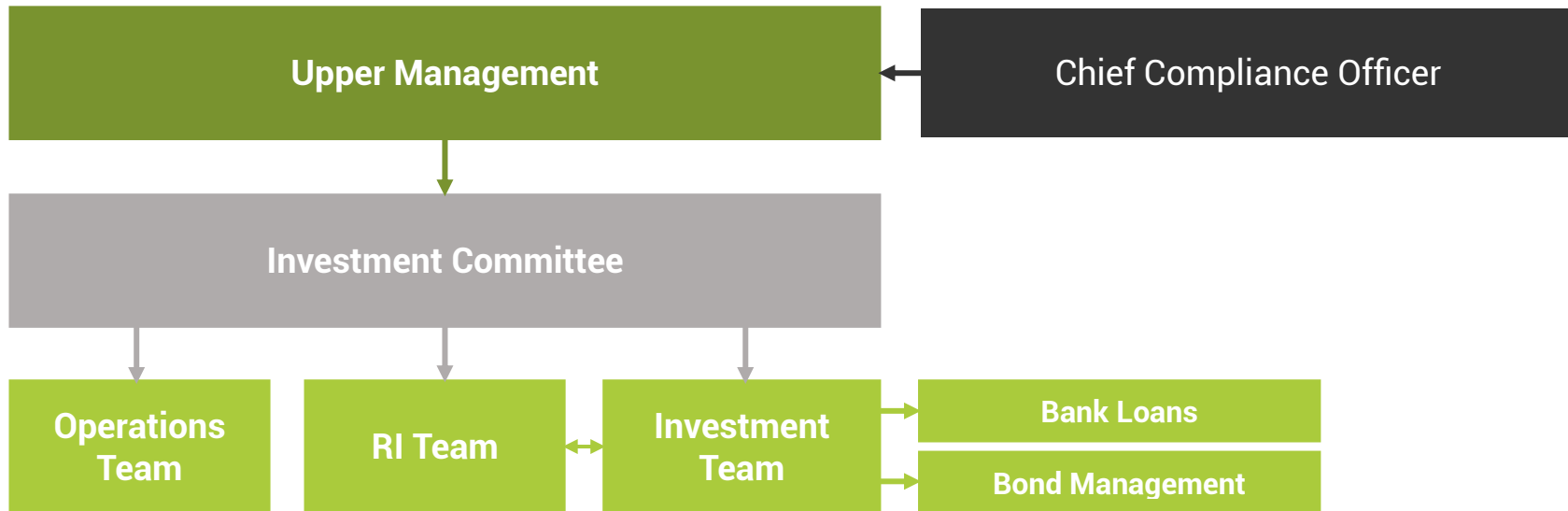
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Governance and Oversight

At AlphaFixe, all responsible investment (RI) activities are overseen by upper management. The responsible investment team ensures the implementation of various strategies for integrating environmental, social and governance (ESG) factors into the investment process. All investment professionals are also regularly called upon to participate in improving our responsible investment approach. Finally, the Chief Compliance Officer and a Senior Portfolio Manager verify that our responsible investment practices comply with our policies and procedures.

Figure 1

Governance and Oversight of RI Activities at AlphaFixe



Leadership and Commitment

Since its foundation in 2008, AlphaFixe believes it has been acting as a leader in terms of integrating ESG factors into investment decisions. In that regard, AlphaFixe has made multiple commitments or joined several industry initiatives throughout the years. AlphaFixe believes it's important to support these kinds of initiatives to send a clear message to issuers and stakeholders across the market. As of December 31, 2022, AlphaFixe was a supporter or signatory of the following initiatives:

Initiatives	Joined
Moving Together on Nature	December 2022
Net-Zero Asset Managers initiative (NZAM)	November 2022
CDP (formerly Carbon Disclosure Project)	October 2022
Statement by the Quebec Financial Centre for a Sustainable Finance	October 2021
Canadian Investor Statement on Climate Change	2021
Canada Climate Law Initiative	August 2019
Montreal Carbon Pledge	June 2018
Task Force on Climate-related Financial Disclosures (TCFD)	June 2018
United Nations Principles for Responsible Investment (UNPRI)	April 2009

Additionally, AlphaFixe also adheres and uphold the most rigorous ESG standards and practices available. As at December 31, 2022, the firm endorsed the following standards and practices:

- Climate Bonds Taxonomy
- Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG)
- Science Based Targets initiative (SBTi)
- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- Sustainable Development Goals (SDGs)
- The Paris Agreement

The Great Canadian ESG Championship

In late 2022, AlphaFixe won the Great Canadian ESG Championship in the Fixed Income category and has also been awarded the largest share of assets (\$38M out of \$104.5M). The competition was designed to raise awareness on asset managers who excel in responsible investing and create a springboard to help asset owners accelerate ESG investments. Of the 60 submissions, AlphaFixe was selected as one of the seven winning firms, recognized for their performance and compliance with financial and ESG criteria. AlphaFixe was also one of the few independent Canadian-based asset managers to be awarded such a distinction.



**Great Canadian
Championship**

**Winning Firm
Fixed Income**

“While we are very proud of the rigorous ESG methodologies that we have developed over the past 10 years, the next decade will bring more innovation to meet the growing needs of clients. The key to success lies in collaboration among ecosystem stakeholders, including our co-investors in the Great Canadian ESG Championship, with whom we will continue to play a leadership role.”

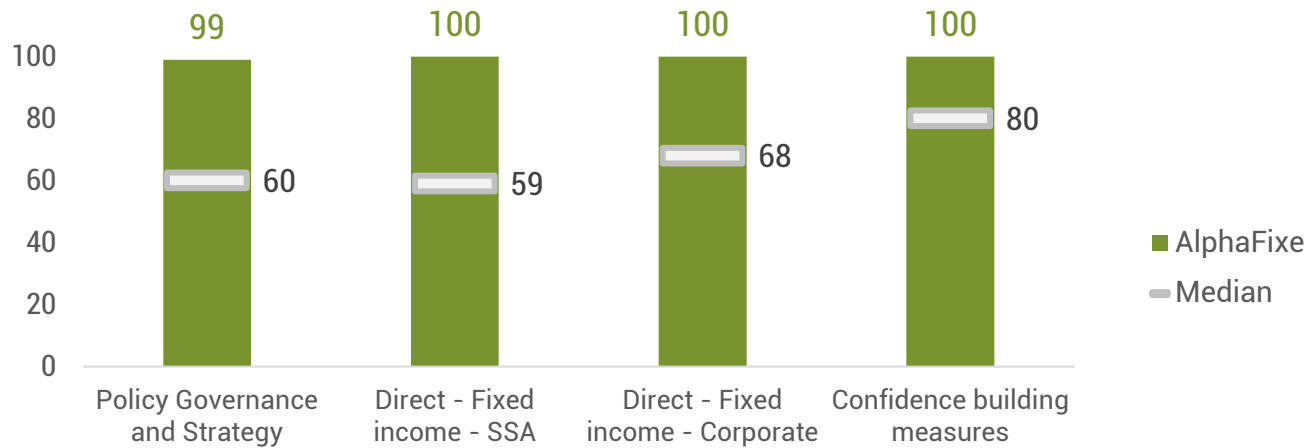
The AlphaFixe Team

Principles for Responsible Investment (PRI)

As mentioned in the previous edition of this report, the implementation of a new reporting platform by the UNPRI encountered major technical difficulties. Following these issues, the UNPRI decided to cancel the reporting period covering fiscal year 2021 (Assessment Report 2022). However, the reporting cycle covering fiscal year 2022 was recently published to signatories and AlphaFixe has obtained the following scores.

Figure 2

PRI Assessment Report 2023



Responsible Investment Team

The integration of ESG factors is carried out internally by a dedicated responsible investment team composed of three full-time employees. This team specializes in ESG analysis and integration. One of them holds a master's degree in environmental management while another one is completing a PhD in Industrial Engineering with research focusing on issuers' decarbonization targets and transition plans. We firmly believe that this can help better understand the risks and opportunities associated with certain assets or corporate behaviors.

The Responsible Investment team is located on the trading desk and is an integral part of the investment team. Credit specialists also participate in the creation of various ESG assessment tools, which allows AlphaFixe to adapt its approach to the reality of the fixed income market. For example, we adapted our ESG analysis criteria to consider financial governance, which differs between a shareholder and a lender.

The responsible investment team also engages externally to contribute to the Canadian investment community and help them adopt best practices in their processes (see Engagement section).

Sustainability at AlphaFixe

Our employees are without a doubt AlphaFixe's most valuable asset. This is why the firm is committed to providing its employees with a work environment that reflects best practices in terms of environmental and social factors. AlphaFixe believes employees who are proud of their organization's commitment to sustainability will feel more engaged. Additionally, AlphaFixe recognizes that it has a responsibility to the broader community and the planet. Although its direct impact on those factors is marginal compared to larger organizations, AlphaFixe still believes it has a role to play.

Environmental

Sustainable Transportation

- AlphaFixe matches existing electric car subsidies for all employees
- AlphaFixe reimburses all public transportation fees (metro, bus, commuter train, and BIXI)
- AlphaFixe reimburses bike maintenance cost for all employees

Greenhouse Gas Emissions

- AlphaFixe strives to reduce its greenhouse gas emissions, but offsets the remaining emissions each year through credible, ISO-14064-certified projects

Social

Diversity, Equity, and Inclusion (DEI)

- AlphaFixe has created a DEI committee

Employee Wellbeing

- AlphaFixe provides free and anonymous access to a psychologist to all its employees

Community Involvement

- Financial support and direct involvement with our community (education, financial community, social causes and supporting young athletes)

Investment Philosophy

Our investment philosophy was inspired in part by the consequences of the 2008 financial crisis and relies on a rigorous risk management process and on the integration of ESG factors. The emphasis on capital preservation, our long-term horizon, and the desire to align our investment decisions with our values encourages us to favour companies that are concerned about their environmental and social impact. Indeed, we have always believed that responsible corporate behavior towards ESG factors has the potential to improve long-term financial performance.

As such, as we invest our clients' assets to optimize the risk return profile, we believe it is appropriate to integrate ESG factors as well as climate risks into every investment decision. In addition, through engagement activities, AlphaFixe aims to raise awareness of the importance of ESG disclosure and to generate positive environmental and social outcomes. It also aims to contribute to the energy transition through its NZAM commitment.

To sum up, through our range of innovative products, we aim for constant value-added creation by promoting a fundamental approach.

Responsible Investment Approach

Our overall approach towards responsible investment revolves around the integration of multiple strategies covering all our investment decisions. These strategies include:

- Negative Screening
- ESG Integration
- Climate Risks
- Engagement
- Impact Investing

Being a manager specialized in fixed income brings several challenges relating to ESG integration. For a long time, the spotlight has been on the equity market and developments in the fixed income market have been lagging. Instead of dwelling on this, we have always sought innovative ways to integrate and promote ESG issues into our investment process and to promote them to our partners.

Negative Screening

AlphaFixe Capital excludes all investments involved in tobacco companies, cannabis, weapons, alcohol, gambling as well as those using child labor. Furthermore, all companies which operate or engage in the exploration of proven or probable fossil fuel reserves are excluded from all client portfolios and pooled funds it manages.

For ethical and sustainability reasons, we exclude companies that operate in industries deemed sensitive or controversial. From a risk management perspective, we believe this strategy enables us to lower our level of exposure. For example, excluding issuers from the fossil fuel industry can help reduce exposure to potential stranded assets.

Fossil Fuel Exclusion

In 2022, the five issuers from the fossil fuel industry (Cenovus, Canadian Natural Resources, Suncor, Arc Resources and Tourmaline Oil) represented 1.3% of the total market value of the FTSE Canada All Corporate Index and contributed to a bit more than 15% of its carbon intensity.

From 2019 to 2022, the weighted average carbon intensity of those five issuers increased substantially from 331 to 582 tonnes of CO₂ equivalent per million dollars invested. During this period, the carbon intensity of the FTSE Canada All Corporate Index decreased by about 35.6%.

Figure 3

Exclusion of Fossil Fuel Issuers

	Unit	2022	2021	2020	2019
Excluded issuers weight in the index	%	1.3%	2.2%	2.0%	1.5%
Weighted average carbon intensity of excluded issuers	tCO ₂ eq/\$M	582	302	442	331
Carbon intensity of the index	tCO ₂ eq/\$M	47	65	76	73
Percentage contribution to total intensity	%	15%	10%	12%	7%

ESG Integration

As part of our investment risk analysis, we identify and assess ESG factors that could impact issuers' long-term financial performance. Our methodology is based on reporting best practices such as the Global Reporting Initiative (GRI) and encompasses concepts such as materiality and industry-specific context (Sustainability Accounting Standards Board). The methodology is also based on a relative approach where issuers within the same industry are evaluated against their peers based on criteria that vary by industry. The ESG scores assigned to issuers are integrated into our Credit Quality (CQ) ratings and have a material impact on investment decisions (15% to 20% of the weighting depending on the industry). These ratings help inform us of the credit spread required to be sufficiently compensated for the level of risk to which we are or would be exposed. In our view, ESG integration is simply part of a sane risk management process.

Corporate

The FTSE Canada Universe Bond Index includes a significant portion of private corporate issuers. Unlike publicly traded companies, private companies generally disclose less information, which can make it difficult to achieve a fair and consistent assessment of ESG factors. For this reason, AlphaFixe has introduced a disclosure score that allows us to target issuers that do not provide adequate ESG reporting (< 75%) and to raise awareness on good disclosure practices.

Provinces

The methodology for rating Canadian provinces on an ESG basis is very similar to the one for corporate issuers. AlphaFixe uses data from multiple sources (e.g., Moody's, Statistics Canada, etc.) to compare provinces' relative performance on a multitude of ESG criteria. There is no disclosure score for Canadian provinces since all relevant data is available for each province.

Municipalities

AlphaFixe has been working actively to develop a proprietary methodology to rate Canadian municipalities. Although our coverage is still relatively small, we are currently exploring partnering with academics to enhance the availability and standardization of ESG data within the Canadian municipal bond market.

ESG Factors

Environmental Factors

Environmental factors consider the impact of an issuer's operation on the environment, but also include the impact of environmental issues on the latter. Impact on the environment can range from energy management, GHG emissions, water consumption, waste production to pollution. On the other hand, environmental issues such as extreme weather events can also have adverse impacts on an issuer's activities.

Social Factors

Just like for environmental factors, social criteria vary from an industry to another based on materiality. For example, the incident frequency rate is relevant to the assessment of issuers within the automotive industry, but clearly not as relevant to the banking industry. These variations in social factors by industry are primarily related to occupational health and safety while criteria such as employee turnover rate and diversity, equity, and inclusion indicators (DEI) are assessed for all industries.

Governance Factors

Unlike for environmental and social factors, governance criteria remain the same for each industry. AlphaFixe assessment includes three main groups of criteria which are related to the composition of the board of directors, the compensation of executives, and financial governance. As previously mentioned, AlphaFixe implemented financial governance indicators to better reflect its reality as a lender.

Biodiversity: Emerging Topic

The 15th Convention on Biological Diversity (COP15) was held in Montreal from December 7-19, 2022. Governments from around the world came together to agree on a new set of goals to halt and reverse nature loss.

During the conference, the private financial sector mobilized and adopted the Moving Together on Nature statement. AlphaFixe was among the signatories and acknowledged the importance of tackling biodiversity loss. AlphaFixe also committed to develop a set of criteria and assessment tool to better capture the impact of issuers on biodiversity. Unlike climate change where GHG emissions are relatively easy to understand and account for, biodiversity is extremely complex and difficult to fully grasp or quantify.



Climate Risks

Task Force on Climate-Related Financial Disclosures (TCFD)

Governance

As it is the case for all responsible investment activities, climate-related risks and opportunities are overseen by AlphaFixe upper management. Additionally, the responsible investment team ensures the implementation of the integration of climate-related risks and opportunities within the investment process. Finally, the Chief Compliance Officer and a Senior Portfolio Manager are responsible for verifying processes and reporting.

Strategy

AlphaFixe considers different time horizon when identifying climate-related risks and opportunities. Short-term will usually refer to risks and opportunities that could manifest within a 1-to-5-year period while medium term will include risks and opportunities arising within a 5 to 10 years period. As for the long-term, it includes risks that could materialize in more than 10 years. Portfolio managers consider the time horizon and impact of climate change to assess if they are fairly compensated for these risks, whether it is a short or long-term bond.

Transition Risks

Transition risks arise from the shift to a low-carbon economy. They can occur with changes in regulations and policies, shift in technology, changes in market behaviours and a shift in societal perception. These risks can affect multiple facets of an issuer, including its revenues, expenditures, asset valuation, market competitiveness, and its public image just to name a few. Transition risks generally vary from short to long-term.

Physical Risks

Physical risks arise from shift in global climate pattern. They can be event-driven (acute) such as increased frequency and severity of extreme weather events (e.g., hurricanes, cyclones, droughts, floods, and wildfires). They can also relate to longer-term shifts (chronic) in precipitations and temperatures and increased variability in weather patterns (e.g., sea level rise). Although global economies are already experiencing an increase in extreme weather events, the bulk of physical risks are expected to manifest over a longer-term horizon.

Figure 4

Identified Climate-Related Risks

Categories	Type of Risks	Identified Risks	Time horizon	Impact
Policy and Legal	Transition	<ul style="list-style-type: none"> • Pricing of GHG emissions • Change in legislation • Exposure to litigation 	Short and Medium	<ul style="list-style-type: none"> • Decrease in profitability • Decrease in asset valuation • Stranded assets • Increase in legal fees and possible payout
Technology	Transition	<ul style="list-style-type: none"> • Product substitution • Unsuccessful investment in new technologies • Costs to transition to lower emission technology 	Short and Medium	<ul style="list-style-type: none"> • Decrease in revenues (reduced demand) • Increase in expenditures (R&D, investments) • Stranded assets
Market	Transition	<ul style="list-style-type: none"> • Changing customer behavior • Increase in cost of raw material 	Short, Medium, and Long	<ul style="list-style-type: none"> • Decrease in profitability • Repricing of assets
Reputational	Transition	<ul style="list-style-type: none"> • Stigmatization of sector • Increased stakeholder concern 	Short and Medium	<ul style="list-style-type: none"> • Decrease in profitability • Reduction in capital availability
Acute	Physical	<ul style="list-style-type: none"> • Increased frequency and severity of extreme weather events 	Short, Medium and Long	<ul style="list-style-type: none"> • Decrease in profitability • Write-offs and early retirement of existing assets
Chronical	Physical	<ul style="list-style-type: none"> • Shift in climate patterns 	Long	<ul style="list-style-type: none"> • Increased capital costs • Increased insurance premiums

Risk Management

AlphaFixe has developed an in-house methodology for identifying, assessing, and reporting on climate-related risks. This methodology uses a set of quantitative and qualitative indicators to assess issuers' level of exposure to specific climate-related risks, but also their efforts to mitigate them. Risks are identified by the RI team and prioritized based on materiality, which can differ from an industry to another.

The Climate Risks Exposition Score (CRES) assesses the level of exposure of an issuer to identified and material climate-related risks. The CRES is split into transition and physical risks, the former being a company's exposure to risks emanating from a transition to a low-carbon economy and the latter being risks arising from the impact of changing climate patterns on the operations of an issuer.

The Climate Mitigation Score (CMS) assesses an issuer's effort to mitigate identified transition and physical climate-related risks. The CMS is the result of an analysis including several indicators, such as the disclosure of GHG emissions, the integration of TCFD recommendations, the implementation of a GHG emission reduction target and several other indicators.

Metrics and Targets

AlphaFixe uses a wide range of metrics to assess climate-related risks and opportunities in its investment strategy.

Carbon Intensity of Portfolios

AlphaFixe has been a signatory of the Montreal Carbon Pledge since May 2018. Signatories of the initiative pledged to measure and publicly disclose the carbon footprint of their investment portfolio on an annual basis. Since June 2018, AlphaFixe has been reporting to all its clients/partners on a quarterly basis the carbon intensity and footprint (corporate issuers) of their respective portfolio against its benchmark. In March 2022, AlphaFixe created an additional carbon intensity report covering both provincial and municipal issuers.

Figure 5

Carbon Intensity

	Unit	2022	2021	2020	2019
Corporate¹					
AlphaFixe ESG Fund – Green Bonds	tCO ₂ eq/\$M EV	7.6	9.8	12.4	9.8
AlphaFixe Universe Composite		17.0	37.2	38.7	41.9
FTSE Canada Universe Bond Index		46.9	64.6	75.9	73.2
Provincial and Municipal²					
AlphaFixe ESG Fund – Green Bonds	tCO ₂ eq/\$M GDP	198.9	N/A	N/A	N/A
AlphaFixe Universe Composite		236.4	N/A	N/A	N/A
FTSE Canada Universe Bond Index		284.3	N/A	N/A	N/A

There are a few reasons why the carbon intensity of corporate issuers is presented separately from provincial and municipal issuers. First, the carbon intensity of Canadian provinces is calculated by reporting direct GHG emissions against the province's respective Gross Domestic Product (GDP), which differs from AlphaFixe's corporate issuers methodology where the denominator is the enterprise value. Second, provinces' GHG emissions do include emissions from corporate activities occurring in their jurisdictions, so even if we could merge the two reports, there would clearly be double counting.

Relative Performance Against Benchmark

Long before its recent commitment to NZAM, AlphaFixe has been actively working to decarbonize its portfolios. Indeed, AlphaFixe believes that it's important to optimize the carbon intensity of its clients' portfolios. The legislative framework could undergo further changes in response to climate urgency. More specifically, an increase in carbon pricing could have a significant impact on the cash flows of carbon intensive issuers. For example, the Greenhouse Gas Pollution Pricing Act ensures a reliable pricing mechanism on greenhouse gas emissions (GHGs) across Canada. Under that federal act, the Canadian carbon price was of \$50 per tonne of GHG in 2022. A recent regulatory amendment will now further raise the carbon price of \$15 per year, leading to a carbon

¹ A company's carbon footprint divided by its enterprise value gives its carbon intensity, expressed in tons of carbon dioxide equivalent per million dollars invested (tCO₂eq/\$M). The total carbon intensity is the weighted average of all industries carbon intensity.

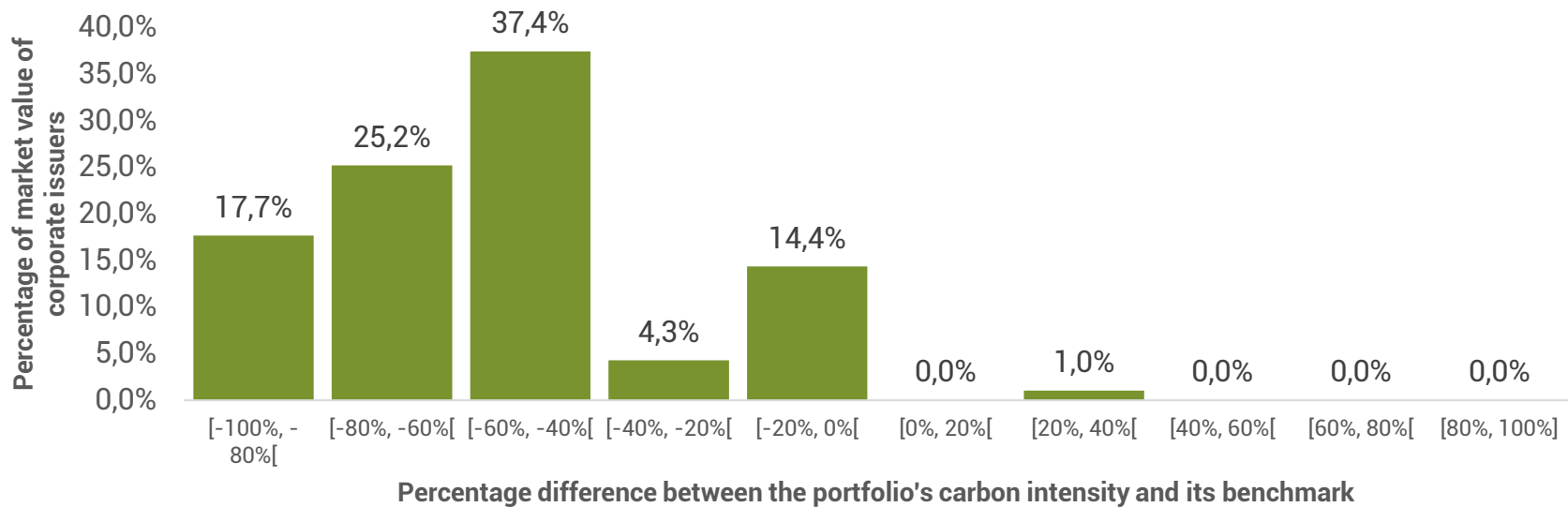
² The carbon intensity of a municipality is the one of its respective province. A province's carbon footprint divided by its gross domestic product (GDP) gives its carbon intensity, expressed in tons of carbon dioxide equivalent per million dollars (tCO₂eq/\$M). The total carbon intensity is the weighted average of all provinces and municipalities carbon intensity.

price of \$170 per tonne by 2030. As a result, Canadian issuers with a lower carbon intensity than their peers are better positioned to deal with the upcoming rise in the carbon price, confirming the importance of our portfolio decarbonization process.

The following graph depicts the percentage difference between portfolios' carbon intensity (corporate) and their respective benchmark expressed as a percentage of total market value for corporate issuers. As of December 31, 2022, 99% of total corporate market value of those assets had a lower carbon intensity than its respective benchmark with the lion's share being in a range between -40% and -100%.

Figure 6

Portfolios' Corporate Carbon Intensity

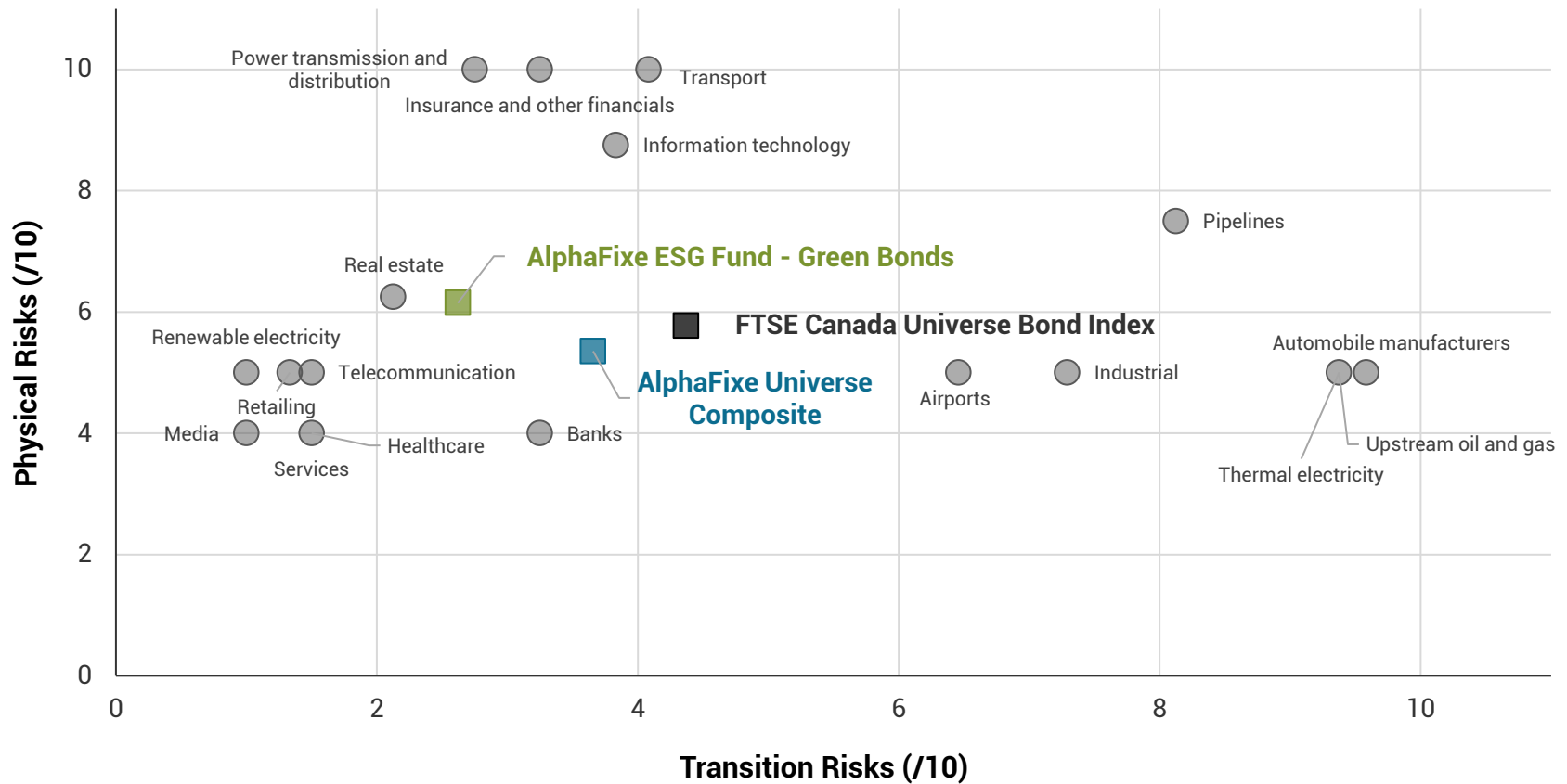


Climate Risks Exposition Score (CRES)

As mentioned previously, the CRES assesses the exposure of corporate issuers against transition and physical risks. A high score means that the issuer is highly exposed to this kind of climate-related risks.

Figure 7

Climate Risks Exposition Score



Carbon Footprint

AlphaFixe has been tracking the greenhouse gas emissions from its activities for several years now. The firm's only office is situated in downtown Montreal in a building that runs entirely on electricity, so there are no direct GHG emissions (scope 1). Since Quebec's provincial electrical grid is one of the cleanest in the world, AlphaFixe's scope 2 emissions are very low. Excluding financed emissions, the lion's share of AlphaFixe's GHG emissions comes from commuting and business travels, which have fluctuated widely since the Covid-19 pandemic. AlphaFixe has been offsetting its GHG emissions (excluding financed emissions) with credible and certified ISO-14064 organizations such as Ostrom Climate (British-Columbia) and Carbone Boréal (Quebec) since 2019.

Figure 8

AlphaFixe Carbon Footprint

Categories	Unit	2022	2021	2020	2019
Scope 1	tCO ₂ eq	0	0	0	0
Scope 2		1.5	1.6	2.1	2.2
Scope 3 (excl. Financed Emissions)		12.2	1.5	11.9	38.7
<i>Employee Commuting</i>		2.6	1.1	6.4	12.4
<i>Business Travel</i>		9.6	0.5	5.5	26.2
Total (excl. Financed emissions)		13.7	3.2	14.0	40.8
Offsets		14.0	41.0	14.0	40.8
Scope 3 (Financed Emissions)³	tCO₂eq	119,251	N/A	N/A	N/A
Total Market Value (Corporate)	\$M	5,603	N/A	N/A	N/A
Carbon Intensity	tCO ₂ eq/\$M	21.3	N/A	N/A	N/A

³ AlphaFixe is responsible for overseeing and managing its clients' assets to maximize returns and minimize risks. While doing so, it must also comply with specific investment guidelines requested by clients, which sometimes have a material impact on its investable universe. Inherently, the capital provided by clients must be invested in fixed income securities (mostly from the Canadian investment grade bond market), which generally include federal, provincial, municipal, and corporate issuers. Investing in corporate issuers usually involves some form of exposure to climate-related risks such as GHG emissions. According to the GHG Protocol, those GHG emissions would fall under AlphaFixe's scope 3 emissions (Category 15 – Investments).

Net Zero Asset Managers initiative (NZAM)

In November 2022, AlphaFixe officially became a signatory of NZAM, formalizing its well-advanced process of portfolio decarbonization. NZAM signatories commit to support the net zero GHG emissions goal by 2050 or sooner, in line with efforts to limit global warming to 1.5 °C. AlphaFixe has also set an interim target that by 2030, 100% of its assets under management (AUM) are aligning towards a net zero pathway by 2050. The base year for the intermediate target is 2021.

In order to be considered as aligning towards a net zero pathway by 2050:

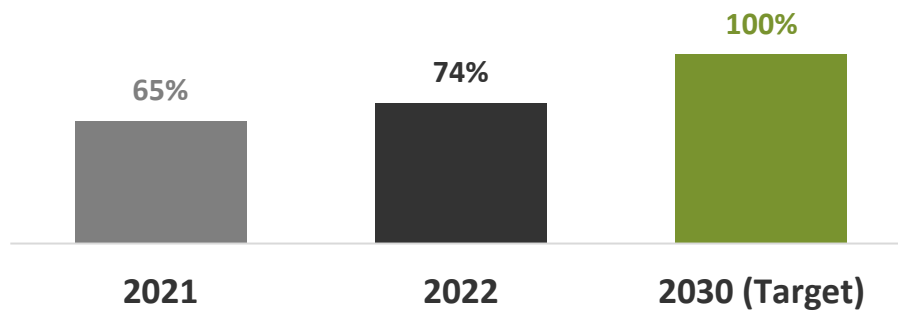
- Issuers must have a greenhouse gas (GHG) emissions reduction target approved by the Science Based Targets initiative (SBTi)
OR
- Issuers must have a science-based target reflecting best market practices (e.g., SBTi, Glasgow Financial Alliance for Net Zero and Transition Pathway Initiative). Issuers' targets will be analyzed and validated by the responsible investment team according to AlphaFixe's proprietary methodology.
OR
- Issuers must generate a minimum of 90% of their revenues from recognized climate solutions (e.g., renewable energy) through a credible scenario (e.g., International Energy Agency's Net Zero by 2050 scenario).

The latest SBTi Progress Report confirmed that 76% of GHG reduction targets assessed were on track to be achieved and that the same GHG reduction targets generally permitted to annually reduce emissions by 8.8%. This annual reduction rate is twice as fast as the reduction rate required for a 1.5-degree compatible trajectory. Therefore, AlphaFixe is confident that issuers with SBTi targets have a better chance of attaining net zero emissions by 2050. However, AlphaFixe still tracks the progress of approved SBTi targets to ensure issuers are on track to deliver promised GHG reductions.

As at December 31, 2022, 74% of AlphaFixe total AUM was already aligning towards a net zero pathway by 2050 compared to 65% in 2021. Going forward, AlphaFixe will continue to engage with issuers on this utterly important topic.

Figure 9

Percentage of AUM Aligning Towards a Net Zero Pathway



Engagement

Engagement is generally defined as any form of exchange with issuers aimed at improving practices related to ESG issues. As an investment management firm specializing in fixed income, AlphaFixe invests in debt securities which, by definition, do not carry voting rights. However, nothing prevents AlphaFixe from engaging in a constructive dialogue with issuers to raise awareness about sound management of ESG risks. As mentioned in the Net Zero Bondholder Stewardship Guidance report by the Institutional Investors Group on Climate Change, engagement with issuers from bondholders is essential to encourage organizations to transition in line with net-zero pathways. Apart from climate change, bondholders can also engage on multiple other ESG issues.

At AlphaFixe, engagement activities occur at different stages of the investment lifecycle (pre-issuance, allocation, post-issuance, and maturity/refinancing). These activities cover issues specific to each issuer, as well as more systemic issues such as the climate or biodiversity erosion for example. The responsible investment team closely collaborates with credit specialists to conduct engagements.

As mentioned previously, the composition of the Canadian bond index means that we regularly engage the dialogue to raise issuers' awareness of good ESG disclosure practices. In addition, all issuers with a disclosure score below 75% are contacted annually to complete a customized ESG questionnaire. It should be noted that a follow-up is carried out with issuers and an annual reporting is published in this report.

ESG Questionnaire

The disclosure score is based on available ESG documentation, the use of recognized reporting standards and finally, the availability of ESG data. A disclosure score below 75% reduces the value of peer comparison, in which case the issuer is contacted to obtain additional information. Issuers responding positively to our ESG information request receive a tailored questionnaire that contains only the missing information for our ESG assessments.

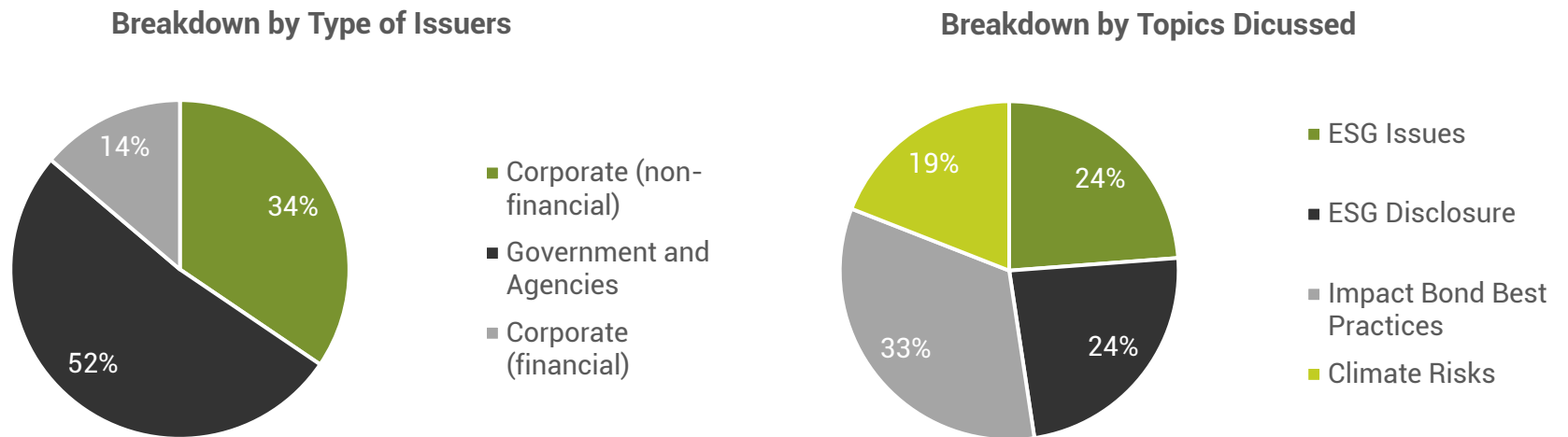
In general, ESG disclosure practices from issuers have improved in the last years. It shows that we are not the only ones asking for more information.

Engagement Activities

In 2022, the RI team and credit specialists met jointly with 29 issuers. The topics discussed with issuers varied from specific ESG issues, ESG disclosure, impact bond best practices to climate risks.

Figure 10

Summary of Engagement Activities in 2022



In addition to all engagement activities performed by the AlphaFixe team, at the end of 2022, we started a collaboration with Aequo to engage with a few Canadian and American corporate issuers. Aequo is a service provider that engages directly with issuers on behalf of their clients.

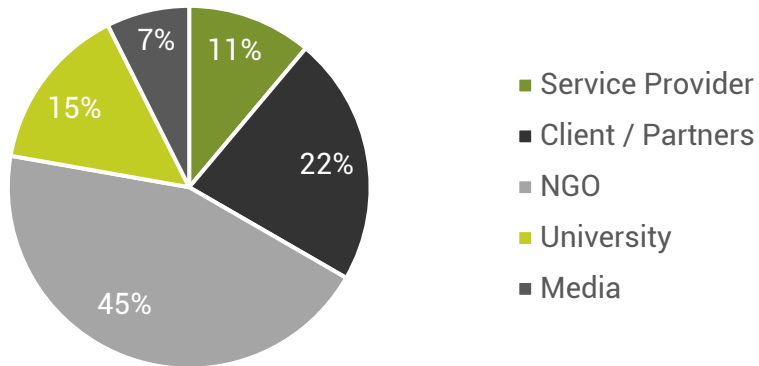
Collaboration Activities

The responsible investment team regularly collaborates with the Canadian investment community to discuss ESG integration best practices. In 2022, the team collaborated 27 times with different organizations. As shown in figure 10, most collaboration activities were with NGOs or AlphaFixe's clients. The topics discussed were similar to the ones for engagement activities.

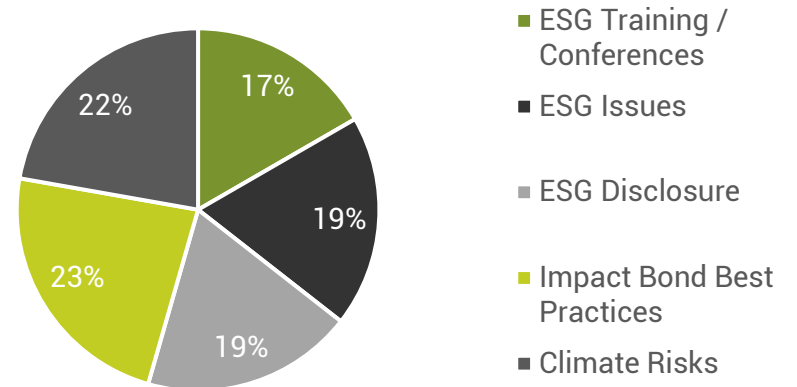
Figure 11

Summary of Collaboration Activities in 2022

Breakdown by Type of Organizations



Breakdown by Topics Discussed



Impact Investing

Impact investing is generally defined as any form of investment that aims to create a positive environmental or social impact, while generating a financial return. The impact of a project is the result of comparing, with an appropriate key performance indicator (KPI), the yearly contribution of a project against a baseline scenario. Our approach is inspired by the Carbon Yield, a publicly available methodology used to calculate potentially avoided emissions and other relevant environmental metrics.

At AlphaFixe, impact investing inevitably involves our flagship green bond fund, which was launched in November 2017. This first-ever Canadian green bond fund offers an innovative solution for the active management of green bonds, making it possible to participate in the development of a low-carbon economy, without diminishing performance objectives. Fixed income securities are mainly intended to finance climate change mitigation and adaptation projects.




The selected investments must comply with the green bond selection criteria established by AlphaFixe Capital's proprietary validation process, AlphaGreen. These criteria are based on the Green Bond Principles and the Climate Bonds Taxonomy. In its assessment, AlphaFixe considers both labelled and unlabelled green bonds. For the former category, a bond is considered green if 100% of the proceeds raised by the issuance is allocated towards projects or activities compliant with the Climate Bonds Taxonomy. For the latter category (Pure Play), the issuer or the project is considered green when it generates a minimum of 90% of its revenues from activities compliant with the Climate Bonds Taxonomy.

AlphaFixe ESG Fund – Green Bonds

As of December 31, 2022, 93.4% of the total market value of the AlphaFixe ESG Fund – Green Bonds was composed of impact bonds, the vast majority being green bonds. The fund also had an exposure to sustainability bonds, which can both finance environmental and/or social projects. Some projects can also contribute to the environment and the society at the same time. For example, a LEED Gold hospital would fall under both type of project. This is why the two categories don't necessarily add up to the sustainability bond total. Finally, the AlphaGreen category represents the percentage of total market value that is directed towards eligible green projects. It can be obtained by adding environmental projects from sustainability bonds to green bonds. As of December 31, 2022, 90.4% of the total market value of the AlphaFixe ESG Fund – Green Bonds was considered AlphaGreen, substantially above the minimum of 85% prescribed by the fund's investment policy.

Figure 12

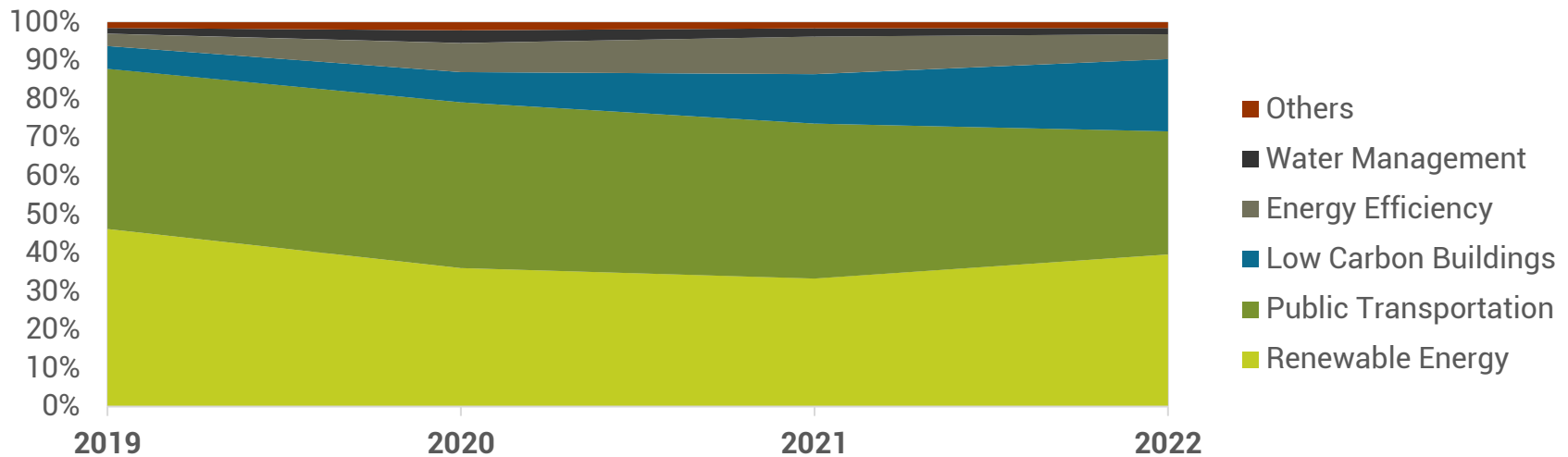
Percentage of Total Market Value in Impact Bonds

Impact Bonds	FTSE Canada Universe Bond Index	AlphaFixe ESG Fund – Green Bonds
Green Bonds 	4.1%	83.4%
Social Bonds	1.3%	0%
Sustainability Bonds	0.3%	10.0%
<i>Environmental Projects</i> 	0,3%	7.0%
<i>Social Projects</i>	0,2%	4.3%
Total	5.8%	93.4%
AlphaGreen 	4.3%	90.4%

In terms of types of projects financed by the AlphaFixe ESG Fund – Green Bonds, most proceeds are being used for renewable energy, public transportation and low carbon buildings.

Figure 13

Breakdown by Project Categories



According to Canada's latest National Inventory Report (NIR), electricity generation still accounted for 8% of total GHG emissions while transportation and buildings accounted for 25% and 17% respectively. All together, these categories represented roughly half of the country's GHG emissions. Reaching net zero emissions by 2050 will require drastic GHG emissions reduction in these sectors of the economy. Impact bonds (especially green bonds) provide an easy way to achieve those needed reductions in some of those key sectors of the economy.

When it comes to environmental performance of the AlphaFixe ESG Fund – Green Bonds, AlphaFixe reports on multiple indicators such as potentially avoided emissions, energy savings, water savings, and waste reduction.

Figure 14

Environmental Key Performance Indicators

	Unit	2022	2021	2020	2019
Potentially Avoided Emissions	tCO ₂ eq/\$M	173	168	196	276
Energy Savings	kWh/\$M	10,014	5,716	4,412	1,221
Water Savings	Litres/\$M	61,338	68,304	69,116	69,507
Waste Reduction	Kg/\$M	152	176	292	414

Impact Strategies

In recent years, there has been a notable increase in issuances of social and sustainability bonds. This has enabled AlphaFixe to launch other impact strategies that can include green, social and sustainability bonds.

As it is the case for green bonds, selected social investments must meet specific criteria established by AlphaFixe. These criteria are based on the Social Bond Principles and the United Nations Sustainable Development Goals (UN SDGs).

As at December 31, 2022, impact bonds (green, social and sustainability) represented 25.8% of AlphaFixe's total assets under management (AUM).