ANNUAL REPORT

RESPONSIBLE INVESTMENT

DECEMBER 2021

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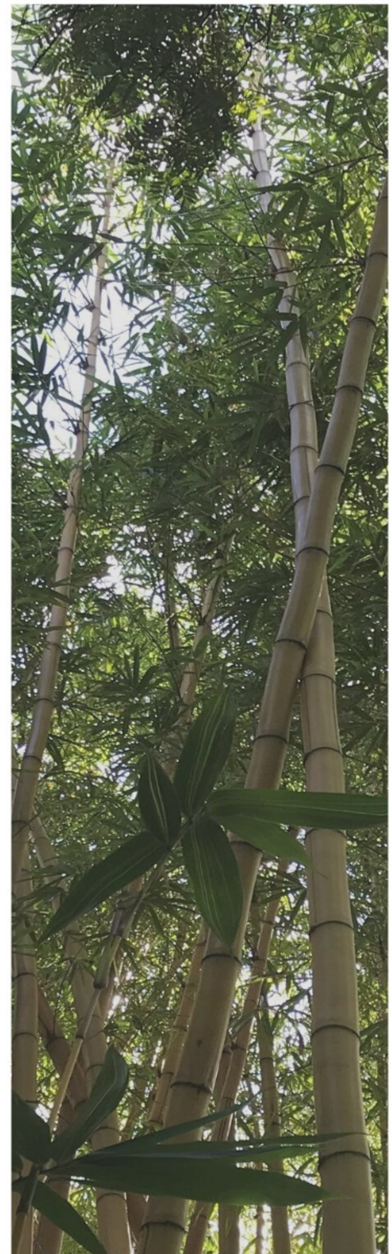
OBJECTIVES AND CONTEXT OF THE REPORT

It is with great pleasure that we publish the third edition of our annual report on responsible investment. The report provides a comprehensive picture of our responsible investment activities and achievements for the year 2021. It is intended for all our stakeholders who wish to learn more about our practices.

WHO WE ARE

Founded in 2008, AlphaFixe Capital Inc. is a leading investment management firm specializing in fixed income serving solely institutional clients. As of December 31st, 2021, the firm's assets under management amounted $7.6 billion CAD. Our entrepreneurial spirit and energy that drive us is an alternative for investors seeking a partner to lead them through their challenges. In addition, our mission is to meet the needs of our clients-partners through an innovative approach, combining value-added creation with integration and promotion of environmental, social and governance (ESG) factors into investment decisions.

OUR VALUES



SUSTAINABILITY

From our investments to the actions of AlphaFixe employees, we recognize the importance of maintaining environmental integrity and promoting social cohesion.

WELL-BEING

AlphaFixe's success relies primarily on its people. As a result, their physical and mental well-being are a priority.

STEARING OUR OWN COURSE

We strongly adhere to the principle of being master of our own destiny. For this reason, employees own all the shares in AlphaFixe.

PARTNERSHIP

The relationship with our clients is a partnership in which we are committed to supporting them, both in managing their investments as well as in related themes. We are committed to delivering outstanding customer service, which is why all members of the investment team are involved at this level.

INNOVATION

We are constantly looking to improve our processes and offer innovative and customized investment solutions that meet the current and future needs of our client-partners.

Beyond our investments, we also believe that it is important to be involved in our community. This is why we contribute not only financially, but also on a voluntary basis in support of causes such as education, children's illnesses, young athletes, climate change and the development of the Montreal financial center through the Quebec Emerging Manager Program (QEMP). In addition, we actively participate in events and conferences organized within the financial community and as committee members we share our knowledge and contribute to the advancement of sustainable finance issues.

As of 2019, AlphaFixe offset their annual greenhouse gas emissions (electricity consumption, commuting and business travel) from trustworthy and ISO-14064 certified carbon offsetting organisations.

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 environmental, social and governance (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 of companies 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 into every investment decision. 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, integration of ESG scores into our in-house credit ratings, integration of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, calculation of carbon footprint, engagement with issuers and stakeholders, and impact investing through both our green and sustainable bond funds. 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 development in the fixed income market has 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.

CHART 1

TIMELINE OF RESPONSIBLE INVESTMENT ACTIVITIES AT ALPHAFIXE

MAY 2008
ESG Integration
Integral part of credit analysis process

APR. 2009
UN PRI Signatory + Partnership with GIR

JAN. 2012
PRI Quebec Steering Committee

JULY 2016
Fossil Fuel Free
Other exclusions:
Tobacco
Weapons
Gambling
Alcohol & Cannabis producers
Child labor

NOV. 2017
Green Bond Fund
First Green Bond Fund managed in Canada

JUNE 2018
Carbon Footprint
Supporter of the **TCFD** recommendations

Signatory PRI
Montreal Carbon Pledge

Carbon footprint calculated for **all client portfolios**

DEC. 2018
ESG Integration
Canadian Provinces

DEC. 2019
Climate Risk Assessment
Corporate Issuers

Climate Risk Exposure & Mitigation Score

JUNE 2020
Carbon Neutral Certification
Corporate Activities

DEC. 2020
First Annual Report on Responsible Investment
Covering fiscal year 2019

JUNE 2021
Responsible Investment Report
Disclosed quarterly to all clients

PRI EVALUATION

Some time ago, the PRI implemented a new annual reporting system to improve the user experience. However, this pilot project encountered certain technical difficulties, resulting in a significant delay in the normal reporting cycle. This is the primary reason why the signatories' 2021 assessment reports (covering 2020 activities) were released in September 2022, more than one year later than expected. Interestingly, the assessment methodology has moved from an alphabetical to a numerical scoring system meaning that the results of the 2021 reporting cycle are not comparable to previous years.

AlphaFixe has obtained the following results:

GRAPH 1

PRI ASSESSMENT REPORT 2021

TEAM

The integration of ESG factors is carried out internally by our dedicated Responsible Investment team composed of two full-time employees. This team specializes in ESG analysis and integration and one of them holds a Master's degree in Environmental Management. We firmly believe that this can help us 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 the various ESG assessment tools, which allows us to adapt our approach to the reality of the fixed income market. For example, we adapted our ESG analysis criteria to take into account 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.

Chart 2

Team's Implication in Responsible Investment

IMPORTANT EVENTS OF THE YEAR 2021

OSFI launches consultation on climate-related risks in the financial sector

In January, the Office of the Superintendent of Financial Institutions (OSFI) launched a three-month consultation period with the publication of a discussion paper entitled Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks. This paper explores the different risks arising from climate change that could impact federally regulated financial institutions (FRFIs) and federally regulated pension plans (FRPPs). The OFSI mandate is to protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan members and beneficiaries while allowing financial institutions to compete and take reasonable risks. The purpose of this new paper is to engage with FRFIs and FRPPs as well as other interested stakeholders in a dialogue on how these federally regulated bodies define, identify, measure, and build resilience in the wake of climate-related risks.

Supreme Court of Canada ends major judicial saga

March 2021 marked the end of an important judicial saga between three provinces (Saskatchewan, Ontario, and Alberta) and the federal government. As a reminder, in June 2018, the Greenhouse Gas Pollution Pricing Act (GGPPA) became an official federal law. Its purpose was to ensure there is a reliable pricing mechanism on greenhouse gas emissions across the country. Under this piece of legislation, provinces and territories were given the right to adopt their own carbon pricing mechanism, as long as it complies with federal requirements. As a result, provinces and territories that did not implement their own mechanisms fell under the umbrella of the GGPPA, which acts as a safety net against non-complying provincial governments. The provinces of Saskatchewan, Ontario, and Alberta each challenged the Act on the grounds that it was not under federal jurisdiction. It is worth noting that Canada's Constitution does not list the environment as a subject matter specifically assigned to one level of government or another.

However, the Saskatchewan and Ontario courts of appeal upheld the Act, recognizing the federal jurisdiction in this matter, while the Court of Appeal of Alberta ruled the Act unconstitutional.
The provinces of Saskatchewan and Ontario appealed the decisions to the Supreme Court of Canada. In March 2021, the Supreme Court of Canada recognized that carbon pollution knows no boundaries and that the Canadian Parliament had the authority to address the issue.

Securities and Exchange Commission proposes rules to improve and standardize climate-related disclosure for investors

In March 2021, the United States Securities and Exchange Commission (SEC) issued a proposed rule for the enhancement and standardization of climate-related disclosures for public companies. According to this proposition, organizations would have to provide relevant climate disclosure in their registration statements and annual reports. The proposed rule leverages well established framework such as the TCFD and the GHG Protocol. If adopted, it would represent an important milestone, as climate reporting would shift from voluntary/unregulated to mandatory/regulated scheme. It would also help to implement a standardized format for reporting, which would enhance reliability, consistency, and comparability of climate-related disclosure over time and amongst issuers, thus appeasing the concerns of several market participants.

IMPORTANT EVENTS OF THE YEAR 2021 (CONT.)

Creation of the Glasgow Financial Alliance for Net Zero

In April 2021, the Glasgow Financial Alliance for Net Zero (GFANZ) was created to help the financial sector transition to a low-carbon future by uniting existing and new net-zero finance initiatives in one sector-wide coalition. These initiatives include the Net-Zero Banking Alliance (NZBA), the Net Zero Asset Managers Initiative (NZAM), the Net-Zero Asset Owner Alliance (NZAOA) amongst many others. The alliance was spearheaded by UN Special Envoy on Climate Action and Finance, Mark Carney, and the COP26 Presidency. Under the terms of the GFANZ, signatories must commit to use science-based guidelines to reach net-zero by 2050 and establish a 2030 interim target. In November 2021, GFANZ represented 450 major financial institutions across 45 countries, with assets exceeding $130,000 billion.

Since its creation, GFANZ has drawn the scrutiny of non-profits, academics and activists who are casting doubts over the credibility and ambition of the initiative. Indeed, a lot of financial institutions that joined the GFANZ are still facilitating the financing of several fossil-fuel companies and projects. Furthermore, the initiative doesn't compel signatories to cease funding fossil fuel projects such as coal mining.

Telus issued the first sustainability-linked bond in Canada

In June 2021, Telus Corporation became the first Canadian company to issue a sustainability-linked bond (SLB) in Canadian dollars. Demand for the debt exceeded supply as the order book was 3.5 times oversubscribed. The company raised $750 million through this bond, which had a 10-year maturity and came 6 or 7 basis points through Telus' plain vanilla curve, at a significant premium. If Telus fails to meet its reduction target for their scope 1 and 2 greenhouse gas emissions by 46% between 2019 and 2030, the bond will see its coupon step up by an additional 100 basis points. Furthermore, this specific target was approved by the Science Based Targets initiative (SBTi), which provide companies with a clearly defined path to reduce emissions in line with the Paris Agreement goals. In our opinion, this places all of Telus' bonds as aligned with the Paris Agreement. Therefore, we do not think paying a premium for a specific SLB is advantageous.

IPCC releases Working Group 1 contribution to Sixth Assessment Report

In August 2021, the Intergovernmental Panel on Climate Change (IPCC) released its first report of the sixth assessment cycle. The IPCC was created in 1988 by the World Meteorological Organisation (WMO) and the UN Environment Programme (UNEP) to assess the climate change science. The IPCC is composed of hundreds of world's leading climate experts and publishes a Climate Assessment Report every 6 to 7 years. In its latest report, the IPCC is now unequivocal about human responsibility for observed climate change. The report also states that even under the most optimistic scenarios, global temperatures will have risen by 1.5 degree over the pre-industrial era within the next two decades.

IMPORTANT EVENTS OF THE YEAR 2021 (CONT.)

Implementation of a new pay equity legislation

On August 31st, Canada implemented its new Pay Equity Act, which is intended to address pay discrimination that has been ongoing and impacting women for decades. Under this piece of legislation, federally regulated companies comprising 10 or more employees are expected to set up a pay equity plan within the next 3 years. While considerable progress has been made in the last decades, employers across Canada are still not paying women the same as men, which would be considered illegal under the Canadian Human Rights Act.

According to Statistics Canada, women earned 89 cents for every dollar earned by men in 2021. Although this may seem significant, when adjusting the wage gap for external factors such as education, hours worked, occupations and years of experience, the gap is narrowed down. In its 2019 study on gender pay gap, Glassdoor, an online platform allowing employees to anonymously provide assessment of their work environment and condition, found that Canadian women earned 96 cents for every dollar earned by men when considering those external factors, compared to 84 cents without adjustments. Although structural factors are responsible for a large share of the gap, the 4% gap remains unexplained. This global study is based on more than half a million salaries reported between 2016 and 2018. Canadian figures drew on approximately 21,000 data points.

CSA publishes consultation on proposed approach for climate disclosure

On October 21st, following the footstep of the SEC, the Canadian Securities Administrators (CSA) published for comments the proposed National Instrument NI 51-107, Climate-related Disclosure Requirements, which would help, among other things, to address the need for standardized reporting amongst Canadian issuers. The proposed requirements also showcased the CSA's willingness to adopt mandatory climate-related disclosures. Requirements are derived from the four core elements of the TCFD recommendations (governance, strategy, risk management, and metrics and targets) and would require issuers to disclose their Scope 1, 2 and 3 GHG emissions, or explain why they omitted to do so.

COP26

In November 2021, the city of Glasgow held the 26th annual summit of the Conference of the Parties (COP). The conference was an opportunity for countries to revisit their climate pledges made under the 2015 Paris Agreement. Indeed, Nationally Determined Contributions (NDCs), which embody efforts pursued by each country to reduce greenhouse gas emissions, must be submitted every five years. The result of the conference was the Glasgow Climate Pact (GCP), the most important climate agreement since the COP21 which took place in Paris. Even though some argued the GCP was rather a compromise in the face of divergent political interests, it included several agreements such as recognizing that the impact of climate change will be much lower at 1.5 °C compared with 2 °C, setting more ambitious NDCs during the COP27 (rather than 2025), phasing down unabated coal and inefficient fossil fuel subsidies, and mobilizing $100 billion in climate finance for developing countries. As for Canada, it committed to end all public financing of unabated fossil fuel projects by 2022, phase-out of coal by 2030, provide $1 billion in climate finance to other countries, cut methane emissions by 30% from 2020 levels by 2030, and impose a cap on oil and gas sector emissions to ensure they decrease at a rate consistent with achieving net-zero by 2050.

IMPORTANT EVENTS OF THE YEAR 2021 (CONT.)

Creation of the ISSB

During the COP26, the International Financial Reporting Standards (IFRS) Foundation announced the creation of the International Sustainability Standards Board (ISSB), an independent private-sector body mandated to develop and approve the IFRS Sustainability Disclosure Standards (SDS). These standards are intended to help companies and stakeholders clarify information relating to environmental and social issues, as well as governance matters. Additionally, the IFRS Foundation has decided that the city of Frankfurt will be hosting the ISSB head office whereas the city of Montreal will be hosting the main offices of the newly formed body, and act as regional hub for activities across the Americas. This is exciting news for the Montreal sustainable investment community, which has grown rapidly over the past few years, and has helped position the city as a leader amongst its peers.

IIROC integrates ESG factors

In December 2021, the Investment Industry Regulatory Organization of Canada (IIROC) updated its "Know Your Client" rules to include some ESG requirements. Members of the IIROC must now ensure that they have sufficient knowledge about their clients' investment needs and objectives, including information about personal values. Dealers should provide clients with the opportunity to express their investment needs in terms that are meaningful to them, which could include investing in accordance with environmental, social and governance factors amongst other criteria. For many years, the conversation about ESG issues between advisors and investors has been lagging. This should help bridge the gap.

APPROACH

ESG FACTORS ANALYSIS

An integral part of sound risk management.

CLIMATE RISKS

Today, companies are increasingly exposed to risks from extreme weather conditions and the transition to a low-carbon economy.

NEGATIVE SREENING

From ethical and sustainability reasons, we exclude companies that operate in certain industries deemed sensitive or controversial. We believe this strategy allows us to lower our level of risk exposure.

ENGAGEMENT

Active dialogue on ESG issues between AlphaFixe and its stakeholders.

IMPACT INVESTING

Investment that creates a net positive environmental impact while generating a financial return.

ESG ANALYSIS

Corporate Issuers

Corporate issuers analyzed: **245**

Number of industries according to our proprietary ESG model: **17**

Coverage for corporate issuers : **84.1%**

Canadian Provincial Issuers

Canadian provinces analysed : **10**

ESG performance indicators : **50**

An Integral Part of the Investment Process

As part of our investment risk analysis, we identify and assess ESG factors that could impact 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 Canadian Bond Index includes a significant portion of private companies. 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, we have introduced a disclosure score. This allows us to target issuers that do not provide adequate ESG reporting (< 75%) and to raise awareness on good disclosure practices. The ESG scores assigned to issuers are integrated into our Credit Quality (CQ) ratings. Therefore, they have a material impact on investment decisions (10% to 15% of the weighting depending on the industry). In particular, 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.

Table 1

ESG Score

	2021	2020	2019
FTSE Canada Universe Bond Index			
ESG Score	6.6	6.5	6.5
Coverage (%)	93%	91%	90%
Disclosure Score[1]	89%	88%	89%
AlphaFixe Universe Composite			
ESG Score	6.7	6.5	6.7
Coverage (%)	97%	97%	96%
Disclosure Score[1]	87%	86%	88%
AlphaFixe Green Bond Fund			
ESG Score	6.6	6.6	6.7
Coverage (%)	99%	99%	100%
Disclosure Score[1]	83%	80%	81%

[1] The disclosure score applies only to corporate issuers.

The ESG rating methodology has not changed between 2020 and 2021, which explains the stability of the ESG ratings for the FTSE Canada Universe Bond Index, the AlphaFixe Universe Composite, and the AlphaFixe Green Bond Fund. Note that the ESG rating of a portfolio is derived from a weighted average of the rating and respective weight of each security in the portfolio. Interestingly, the coverage of FTSE Canada Universe Bond Index has risen from 90% to 93% between 2019 and 2021, reflecting the efforts undertaken to improve this indicator. Over the next year, we will keep intensifying our efforts to increase the coverage of the FTSE Canada Universe Bond Index. It is also noteworthy that the AlphaFixe Green Bond Fund has a lower disclosure score than its peers. This is primarily due to the fact that a large portion of the fund is made up of bonds related to specific renewable energy projects. These issuers generally disclose less ESG information than larger publicly traded companies.

CLIMATE RISKS

AlphaFixe has supported the recommendations of the TCFD since June 2018. Among other things, the initiative aims to increase transparency in the consideration of climate risks and to make markets more efficient. As part of implementing the recommendations, AlphaFixe has developed an approach to identify and manage climate-related risks. The approach is available on our website. The purpose of this section is to communicate the results of the analyses conducted in the context of climate risk management.

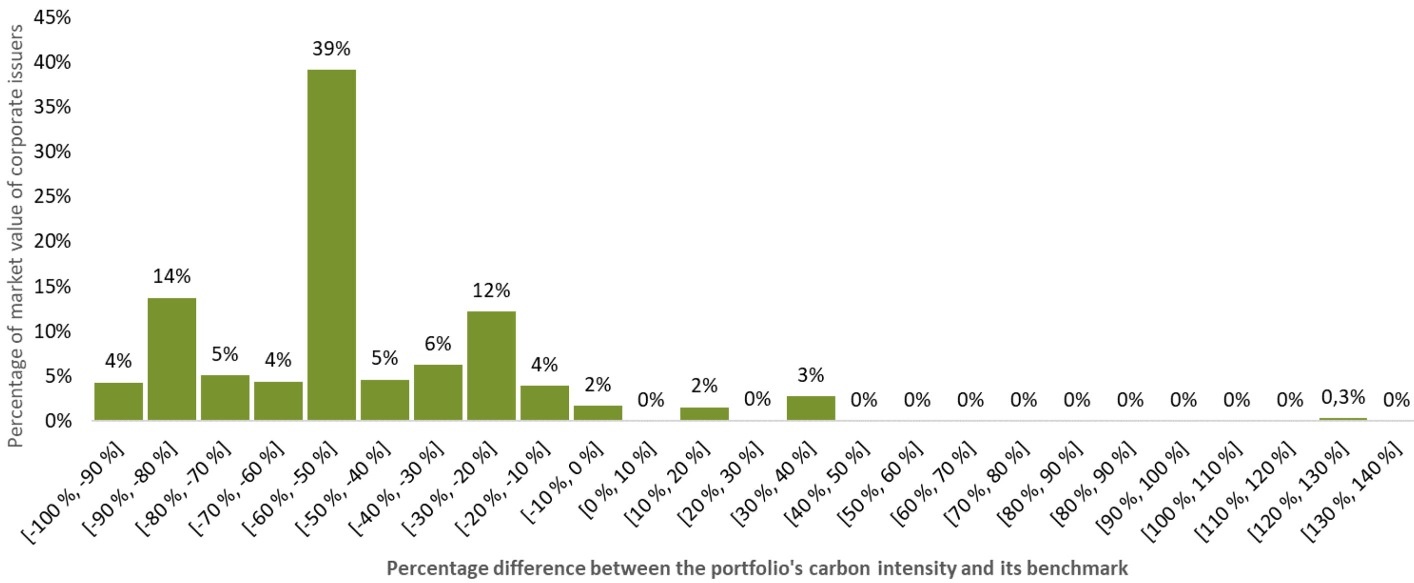
In the Global Risks Report 2022, the World Economic Forum (WEF) reminds us of the importance of climate and environmental risks. Among the 10 most severe risks globally over the next 10 years, we find climate action failure (1st rank), extreme weather (2nd rank), biodiversity loss (3rd rank), human environmental damage (7th rank), and natural resource crises (8th rank). The report also highlighted that social risks such as social cohesion erosion, livelihood crises, and mental health deterioration are the ones that have worsened the most since the beginning or the pandemic.

At AlphaFixe, we strongly believe that climate-related risks will inevitably impact the profitability of the companies in which we invest. For example, changes in the legislative framework (transition risk) could leave some companies with stranded assets, while an increase in carbon pricing could have a significant impact on the cash flows of large greenhouse gas emitters. On the other hand, extreme weather events (physical risk) can affect a company's value by causing physical damage to its infrastructures. We therefore believe that it is important to pay particular attention to climate issues.

Graph 2

Carbon intensity of portfolios compared to their benchmark

December 31st, 2021

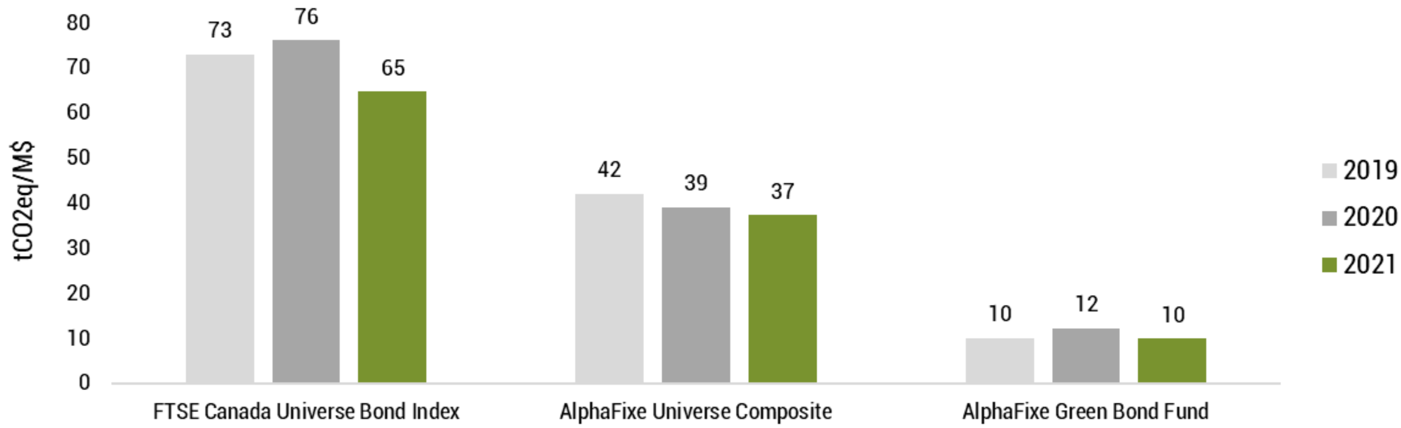


Based on the market value of corporate bonds, 95% of the mandates managed by AlphaFixe have a lower carbon intensity than their index.

In the same vein, 66% have a carbon intensity more than 50% below the index.

Graph 3

Carbon Intensity



The graph above shows the evolution of the carbon intensity between 2019 and 2021. Note that the carbon intensity of the FTSE Canada Universe Bond Index decreased between 2019 and 2021. This decrease is due to a reduction in the carbon intensity within the infrastructure industry. Specifically, Nova Scotia Power's carbon intensity declined substantially during this period. It should be recalled that this issuer is the most carbon-intensive corporate issuer in the benchmark. The company continues to produce most of its electricity from coal, oil and natural gas, although it has recently committed to reducing its greenhouse gas emissions by 80% by 2040. As for the AlphaFixe Universe Composite, the decrease was also driven by the infrastructure industry. In this case, the increase in the coverage for this industry between 2019 and 2021 contributed to the decrease in carbon intensity. Companies not covered by the carbon footprint calculation are assigned the average of their respective industry in the benchmark. Meanwhile, the AlphaFixe Green Bond Fund continues to provide substantial carbon savings relative to both peers. More details on carbon intensity can be found in the appendix.

Table 2

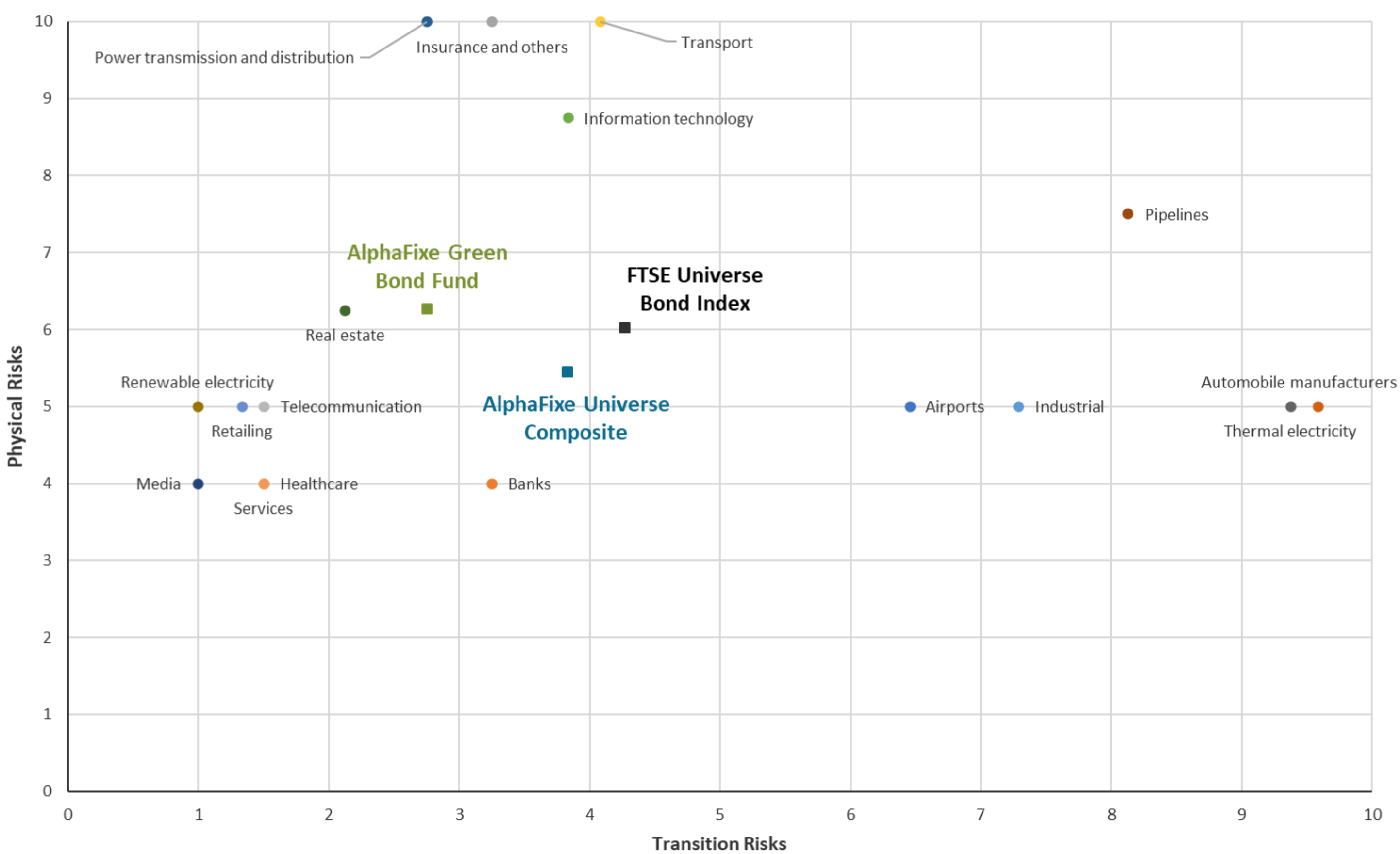
Climate Risk Mitigation Score

	2021	2020	2019
FTSE Canada Universe Bond Index			
Corporates (%)	26%	27%	28%
Coverage (%)	84%	79%	79%
Mitigation Score	6.3	5.5	5.7
AlphaFixe Universe Composite			
Corporates (%)	39%	40%	44%
Coverage (%)	95%	94%	93%
Mitigation Score	6.4	5.3	5.6
AlphaFixe Green Bond Fund			
Corporates (%)	36%	29%	34%
Coverage (%)	98%	99%	98%
Mitigation Score	6.8	6.8	6.9

The mitigation score assesses the efforts deployed by issuers to manage physical and transition climate risks. Therefore, it is not surprising that the AlphaFixe Green Bond Fund's mitigation score is higher than the benchmark. Issuers of this type of debt are generally proactive with the adoption of a transition plan, which goes hand in hand with the implementation of a green bond issuance program. The mitigation score 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, just to name a few.

Graph 4

Climate Risk Exposure Score per Industry



The physical and transition risk exposure scores assess the vulnerability of issuers, industries, and our funds to climate risks. The score is calculated based on an analysis of several climate indicators. The transition indicators focus on issues related to an abrupt transition to a low-carbon economy (e.g., pricing of GHG emissions, changes in consumer behavior, etc.), while the physical indicators focus on the potential damage that could be caused by an increase in the frequency and magnitude of extreme weather events (e.g., rising sea levels, hurricanes, etc.).

As it was the case with the mitigation score, the AlphaFixe Green Bond Fund outperforms its peers in terms of transition risk. This is primarily due to the fact that a large portion of the fund's bonds finance renewable energy projects. In terms of physical risk, the AlphaFixe Green Bond Fund has a significantly higher risk than its peers. This can be explained by the fact that the fund includes several issuers from real estate, insurance and information technology industries.

NEGATIVE SCREENING

AlphaFixe excludes all investments involved in tobacco companies, gambling, weapons, alcohol, and cannabis production as well as those who use child labor. In addition, 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.

The five issuers excluded by our fossil fuel filter represent only 2,2% of the total market value of the FTSE Canada All Corporate Bond Index, but contribute approximately 10% of its carbon intensity.

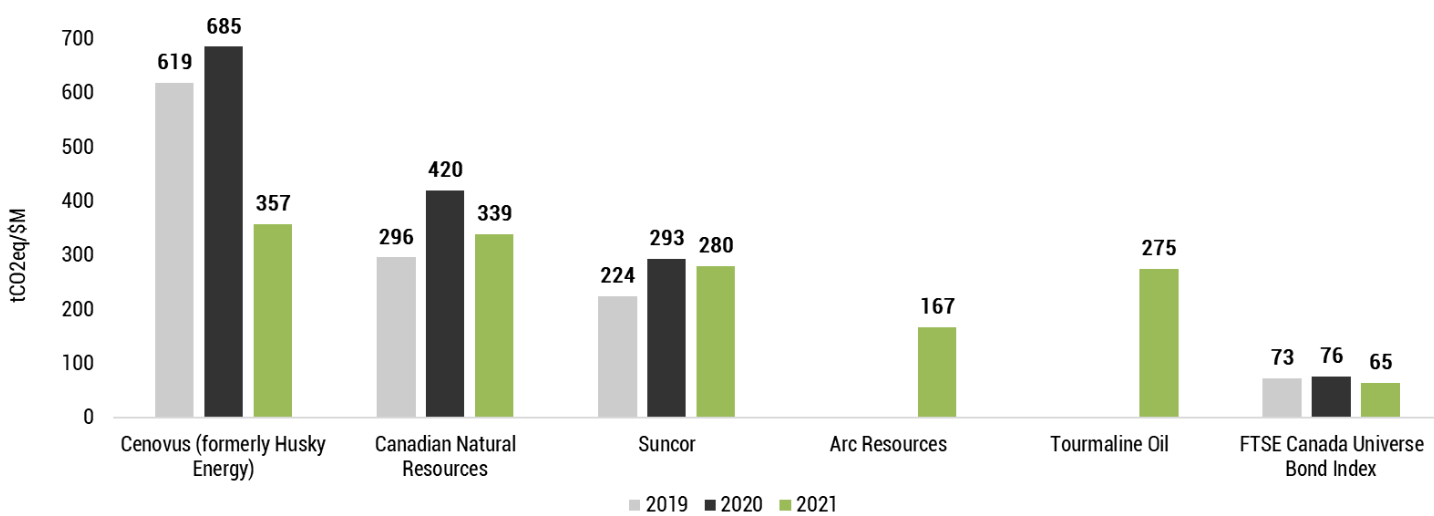
Table 3

Contribution of Fossil Fuel Issuers to Carbon Intensity

	2021	2020	2019
Excluded Issuers Weight in the Corporate Index	2,2%	2,0%	1,5%
Average Carbon Intensity of Excluded Issuers	302	442	331
Carbon Intensity of the Index	65	76	73
Percentage Contribution to Total Intensity	10%	12%	7%

Graph 5

Carbon Intensity of Excluded Issuers - Fossil Fuel



ENGAGEMENT

Engagement is defined as any form of exchange with issuers aimed at improving practices related to ESG issues. AlphaFixe also collaborates with its stakeholders, namely its clients/partners, investment advisors, service providers, peers, and various government authorities.

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 its stakeholders in order to raise awareness of sound management of ESG risks. Therefore, we take every opportunity (e.g., private meetings, investor presentations, calls, conferences, etc.) to do so.

As indicated in the section on ESG analysis, the composition of the Canadian bond index means that we regularly engage the dialogue in order 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.

The following is a snapshot of the engagement activities that took place during 2021:

CHART 3

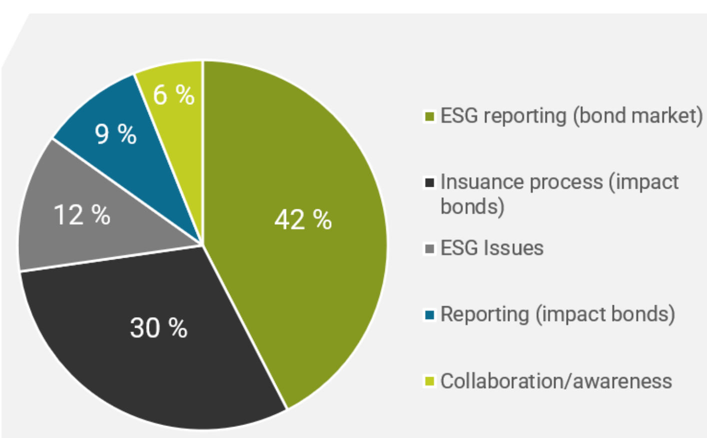
DIALOGUE AND AD-HOC REQUEST FOR INFORMATION ON ESG ISSUES

49 **Annual ESG questionnaires sent to issuers**

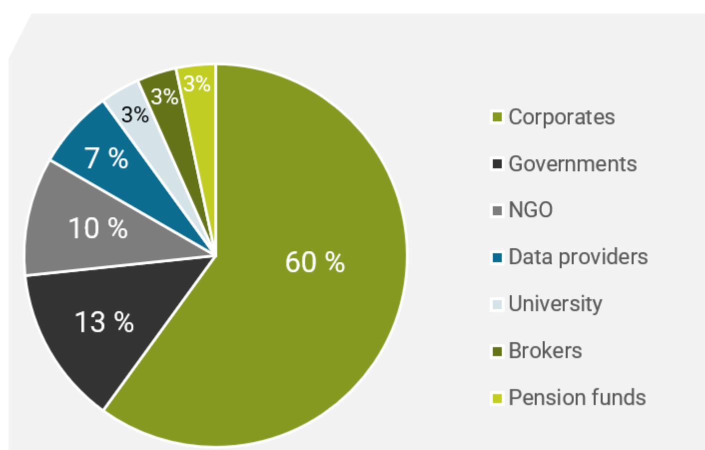
Information requested on the following issues:

- TCFD recommendations
- Energy consumption
- Carbon footprint
- Financial governance
- Equity, diversity, and inclusion
- And many others

Breakdown by Type of Topic Discussed



Breakdown by Type of Organisations Met



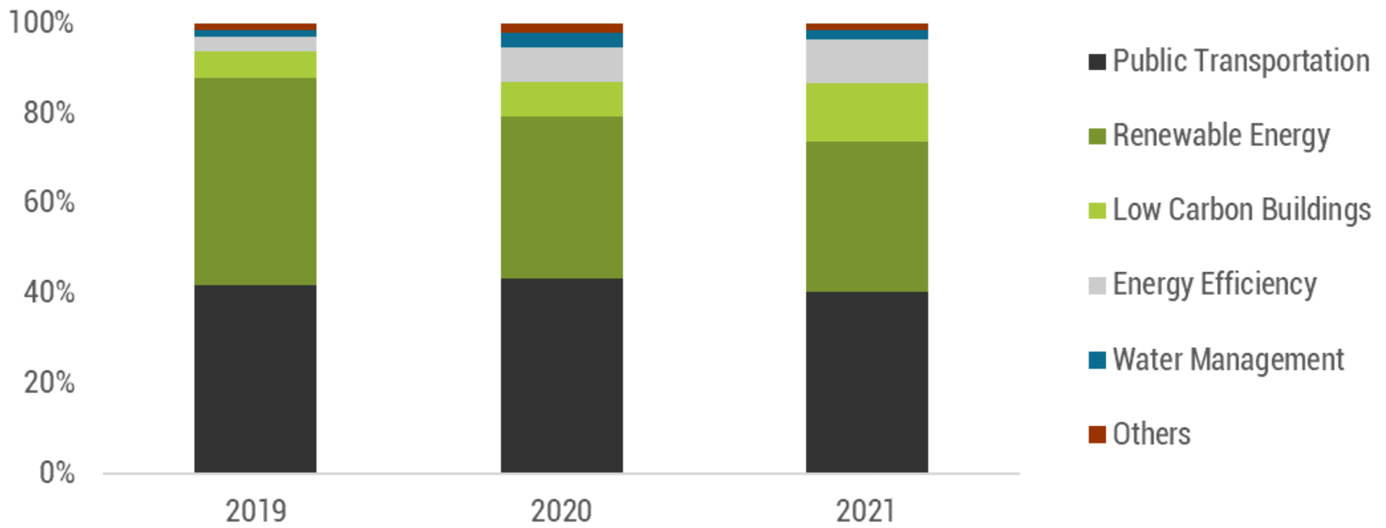
IMPACT INVESTMENT

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. At AlphaFixe, Impact Investing includes the launch of the first-ever Canadian Green Bond Fund in November 2017. The fund offers an innovative solution for the active management of green bonds, allowing investors to participate in the financing of a low-carbon economy without sacrificing yield. Fixed income securities are intended, among other things, to finance greenhouse gas (GHG) emissions reduction or climate change adaptation projects.

The investments selected must meet the green bond selection criteria established by the AlphaGreen proprietary validation process. These criteria are based on the Green Bond Principles and the Climate Bonds Standard. Bonds that are considered green are either self-labeled or climate aligned bonds, the latter being companies or projects with a minimum of 90% of the revenues coming from positive environmental impact activities.

Graph 6

Breakdown by Project Category



According to the International Energy Agency, the main sources of GHG emissions from the energy sector are from the power generation, and transportation industries. Therefore, it is a appropriate that the dominant project categories in the AlphaFixe Green Bond Fund are renewable energy and public transit, as illustrated in the graph above.

Table 4

Environmental Impact of the AlphaFixe Green Bond Fund

		2021		2020		2019	
Key Performance Indicators	**Units**	**Value**	**Coverage**	**Value**	**Coverage**	**Value**	**Coverage**
Potentially Avoided Emissions	tCO2eq/M$	168	87 %	196	90 %	276	94 %
Energy Savings	kWh/M$	5 716	43 %	4 412	35 %	1 221	15 %
Water Savings	Liters/M$	68 304	23 %	69 116	21 %	69 507	16 %
Waste Reduction	Kg/M$	176	1 %	292	2 %	414	3 %

The potentially avoided emissions indicator has decreased substantially between 2019 and 2021. This is mainly due to the fact that the weighting of Hydro-Quebec issuances has gone from just over 21% of the fund's market value in 2019 to only 8.2% in 2021, demonstrating an important diversification of the type of issuers in the portfolio. This diversification was beneficial to the energy savings indicator, which has seen its value and its percentage of coverage increase significantly between 2019 and 2021. Indeed, many real estate investment trusts have recently come to the green bond market for financing. The green bond program of these trusts primarily funds new energy efficient buildings as well as several energy efficiency measures.

Chart 4

Contribution to the Sustainable Development Goals (SDGs)

Out of 134 bonds financing environmental projects, here is the number of bonds contributing to the achievement of the United Nations (UN) Sustainable Development Goals (SDGs) * :

* A bond can contribute to the achievement of several SDGs. For example, a wind energy project contributes to achieving objectives 7, 9, 11 and 13.

Table 5

Impact Investment

	FTSE Canada Universe Bond Index	AlphaFixe Green Bond Fund
Green Bonds	3,6 %	84,5 %
Social Bonds	1,6 %	0 %
Sustainability Bonds	0,3 %	9,3 %
Environmental Projects	0,2 %	6,1 %
Social Projects	0,2 %	4,7 %
Total	**5,5 %**	**93,7 %**
AlphaGreen Stamp	**3,8 %**	**90,6 %**

The table above shows the percentage of impact bonds in the AlphaFixe Green Bond Fund and in the FTSE Canada Universe Bond Index. Sustainability bonds provide funding for both environmental and social projects. In order to achieve a high level of transparency on the impact of our investments, we segment the proportion of environmental and social projects that these bonds finance.

Note that the percentage by project type does not equal the total in sustainability bonds. The fact is that a project can have an impact in both categories. The best example is a hospital with an energy efficient certification, positively impacting both health care and the reduction of greenhouse gas emissions.

Overall, the AlphaFixe Green Bond Fund is funding environmental projects at 90.6% of its market value.

Conclusion

As we have seen, the year 2021 was marked by several significant events within the responsible investment ecosystem. Moreover, in November 2022, AlphaFixe officially became a signatory of the Net Zero Asset Managers Initiative. This formalizes our process of portfolio decarbonization, a process that has been in place for several years. The target and details of this commitment will be presented in the next edition of this report.

APPENDIX

TABLE 6

CARBON INTENSITY REPORT DECEMBER 31ST, 2021

	FTSE Canada Universe Bond Index			AlphaFixe Universe Composite		
Weight of Corporate Bonds		26.4%			36.3%	
Coverage % of Corporate Bonds		93.1%			97.7%	
Industries	**Carbon Intensity (tCO2eq/$M)**	**Industry Weighting**	**Industry Contribution (tCO2eq/$M)**	**Carbon Intensity (tCO2eq/$M)**	**Industry Weighting**	**Industry Contribution (tCO2eq/$M)**
Communication	5,0	9,0 %	0,5	4,5	9,6 %	0,4
Energy	161,1	23,2 %	37,4	179,0	12,6 %	22,6
Financial	4,8	35,6 %	1,7	0,4	49,0 %	0,2
Industrial	39,6	6,8 %	2,7	71,4	5,6 %	4,0
Infrastructure	127,1	17,2 %	21,8	84,1	10,0 %	8,4
Real Estate	6,4	7,0 %	0,4	4,2	7,2 %	0,3
Securitization	4,5	1,3 %	0,1	0,0	0,0 %	0,0
Bank Loans	0,0	0,0 %	0,0	20,8	5,9 %	1,2
TOTAL		**100,0 %**			**100,0 %**	
Total Carbon Intensity (tCO2eq/$M)			64,6			37,2