Climate Report



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INTRODUCTION

We are pleased to provide our second annual Climate Report, which is based on the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). We note that effective October 2023, the TCFD has been disbanded and the responsibility for advocating for, monitoring and guiding climate-related disclosures has been taken over by the International Financial Reporting Standards (IFRS) Foundation. Our Climate Report is structured around TCFD's recommended four thematic areas of governance, strategy, risk management and metrics and targets.

There were a number of climate-related events in 2023, accentuated by the fact that it was the hottest year ever reported. The annual average global temperature was 1.45°C above pre-industrial levels (1850–1900) in 2023. Global temperatures in every month between June and December set new monthly highs, with July and August proving the two hottest months.¹ Global oceans also set records for warmth in 2023, with surface water temperatures well above averages not just in the tropical Pacific Ocean, but also across the North Atlantic, the Caribbean and the Gulf of Mexico.² Additionally, global mean sea level reached a new high in the satellite record (since 1993), reflecting continued ocean warming as well as the melting of glaciers and ice sheets.³ Climate-related events such as wildfires, floods and severe storms also increased and led to the introduction of new weather terms such as "heat dome". In Canada, 6,623 wildfires burned 18.4 million hectares in 2023; the previous 10-year average for areas burned was 2.5 million hectares.⁴

All of this comes with an economic cost. In 2023, natural catastrophes and severe weather events caused approximately \$3.1 billion in insured damage in Canada.⁵ The U.S. experienced 28 weather and climate disasters in 2023, accounting for approximately US\$92.9 billion in damage.⁶ These numbers do not take into account the disruption to the workforce and economic activity from forced evacuations.

The UN Environment Programme's (UNEP) *Emissions Gap Report 2023* highlights that with current global policies in place and no additional action taken, the result will be

⁶Adam B. Smith, "2023: A historic year of U.S. billion-dollar weather and climate disasters", National Oceanic and Atmospheric Administration National Centers for Environmental Information: <u>https://www.climate.gov/news-features/blogs/</u>beyond-data/2023-historic-year-us-billion-dollar-weather-and-climate-disasters



¹World Meteorological Organization, "WMO Confirms that 2023 Smashes Global Temperature Record," (January 12, 2024): <u>https://wmo.int/news/media-centre/wmo-confirms-2023-smashes-global-temperature-record#:~:text=The%20annual%20average%20global%20</u> temperature,Celsius%20above%20pre%2Dindustrial%20levels.

²Rebecca Lindsey, "NOAA and partners race to rescue remaining Florida corals from historic ocean heat wave," (July 28, 2023): <u>https://www.climate.gov/news-features/event-tracker/noaa-and-partners-race-rescue-remaining-florida-corals-historic-ocean</u>

³"Climate change indicators reached record levels in 2023: MO" (19 March 2024): <u>https://wmo.</u> <u>int/news/media-centre/climate-change-indicators-reached-record-levels-2023-wmo</u> ⁴Natural Resources Canada, National Wildland Fire Situation Report (November 2, 2023): https://cwfis.cfs.nrcan.gc.ca/report

⁵Insurance Bureau of Canada, "Severe Weather in 2023 Caused Over \$3.1 Billion in Insured Damage," (January 8, 2024): <u>https://www.ibc.ca/news-insights/news/severe-weather-in-2023-caused-over-3-1-billion-in-insured-damage</u>

global warming of 2.9°C over the 21st century.⁷ This is above the Paris Agreement's goals, the climate treaty that aims to limit global warming to below 2°C — and, preferably below 1.5°C — compared to pre-industrial levels. UNEP has predicted that 2030 greenhouse gas emissions need to fall by 28% for the Paris Agreement 2°C pathway and 42% for the 1.5°C pathway.⁸ The next round of National Determined Contributions (NDCs), which are the plans and targets to cut greenhouse gas emissions that sovereign signatories to the Paris Agreement must submit every five years, is due in 2025. Greater ambition is likely required to get back on track towards a 2°C pathway.

In this context, and in our role as an investment manager that practices ESG integration, we recognize the importance of achieving the goals of the Paris Agreement. The scientific consensus is that achieving these goals by the end of the century requires the global economy to effectively become carbon neutral by 2050.⁹ In 2021, Beutel Goodman (BG) officially declared its support for the TCFD, joining more than 4,800 organizations in demonstrating a commitment to building a more resilient financial system and safeguarding against climate risk through better disclosures. We will continue to support the efforts of the sustainability standards boards to continue TCFD's goals, as well as those of the IFRS.

A key challenge in analyzing climate risks and opportunities has been the lack of depth, consistency, accuracy and availability of disclosure on corporations' climate activities. The International Sustainability Standards Board (ISSB) is in the process of delivering a comprehensive global baseline of sustainability-related disclosure standards. In June 2023, the ISSB issued two voluntary standards for entities to disclose information about sustainability-related and climate-related risks and opportunities that could reasonably be expected to affect an entity's cash flows and its access to finance or cost of capital over the short, medium or long term.

Building on the ISSB recommendations, the Canadian Sustainability Standards Board issued its draft sustainability disclosure standards in March 2024. We welcome the new standards as increased and standardized disclosure will allow investors to better analyze companies' climate-related risks and opportunities and provide the means for comparability within and across sectors. With increased transparency, financial impacts will be better understood and help inform the decision-making process.

While disclosure remains a challenge, we believe that progress is being made. In fiscal year 2022, 58% of companies disclosed in line with at least five of the eleven TCFD recommendation disclosures, a marked improvement from 18% in 2020.¹⁰ The percentage of companies reporting on climate-related risks or opportunities, board oversight, and climate-related targets increased significantly between the fiscal years 2020 (by 26%), 2021 (25%) and 2022 (24%).¹¹ According to Net Zero Tracker, 845 of the 2,000 largest publicly traded companies globally have made, pledged or proposed net zero greenhouse gas emissions by 2050 targets.¹²

⁷ "Broken Record" UN Environmental Programme Emissions Gap Report 2023: <u>https://www.unep.org/resources/</u> emissions-gap-report-2023

⁸lbid.

⁹Carbon neutrality is achieved when an actor's net contribution to global CO₂ emissions is zero. Any CO₂ emissions attributable to an actor's activities are fully compensated by CO₂ reductions or removals exclusively claimed by the actor, irrespective of the time period or the relative magnitude of emissions and removals involved.

¹⁰Task Force on Climate-related Financial Disclosures 2023 Status Report (October 2023): <u>2023 TCFD Status</u> <u>Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board (fsb.org)</u>

¹¹Ibid.

¹²Net Zero Tracker. <u>https://zerotracker.net/</u>

Beutel Goodman is a privately owned, independent Canadian investment manager. For over 50 years, we have been dedicated to helping our institutional, private wealth and retail clients achieve their long-term investment goals. As value investors, a focus on absolute risk and capital preservation is the cornerstone of our fundamental research and disciplined investment process. We are committed to integrating consideration of ESG criteria into our investment process as part of the process of evaluating the financial results and prospects for investments. As active managers managing concentrated portfolios, engagement, proxy voting and collaboration are key elements of our investment activities, and we are focused on remaining diligent and thoughtful in these critical areas.

The value of companies we invest in may be affected by climate change over the long term; for example, by direct or indirect exposure to physical risks from severe weather and changing weather patterns. Companies also face transition risks relating to their carbon footprints, including policy, legal, technology, market and reputation risk. We believe that addressing climate-related risk is part of the process of evaluating the financial results and prospects of an investment, and is consistent with our fiduciary duty to our clients.

Climate change is a key factor within our ESG integration and responsible investing approach as we seek long-term financial sustainability of investments for our clients. While considering the climate-related risks facing companies (e.g., high GHG emissions or significant exposure to the physical impacts of climate change), we also take into account climate-related opportunities for companies whose business activities and technologies can contribute to the transition and achievement of climate goals as part of our research and valuation process. We monitor and evaluate the climate-related goals set and executed by our portfolio companies to insulate their businesses against climate-related risks and take advantage of climate-related opportunities as part of our disciplined investment process. Setting and following through on goals related to climate risks and opportunities is especially challenging in Canada where the economy is deeply rooted in resources, and as an investment manager we are committed to working with portfolio companies to help these goals succeed in delivering value. We also acknowledge the importance of a just transition to a low-carbon economy that is committed to meeting climate goals by ensuring the whole of society — all communities, all workers, all social groups, including Canada's Indigenous Peoples — are brought along in the pivot to a net zero future.

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Beutel Goodman's climate-related activities oversight listed below in Exhibit 1 is the same governance structure for our ESG oversight.



Exhibit 1. Beutel Goodman Climate-Related Activities Oversight.

Source: Beutel, Goodman & Company Ltd.

We believe our clear ESG responsibilities enhance the way we operate and service our clients as part of our overall investment approach:

- The **Management Committee** of Beutel Goodman, a key decision-making body of our company, oversees our ESG and climate approach, including review and approval of our climate-related framework, responsible investing policies and reports, PRI reporting and climate reporting, as well as climate-related initiatives/collaborations.
- The **Head of Responsible Investing** is accountable for Beutel Goodman's responsible investing governance and the consistent application of our responsible investing approach firm-wide, which includes all climate-related activities. The Head of Responsible Investing reports directly to the Management Committee.
- At the firm level, ESG risks are monitored by our VP, Enterprise Risk Management (ERM) encompassing oversight of our ESG and climate approach, commitments and reporting requirements for our climate-related pledges and providing periodic reporting to the Management Committee.

- Beutel Goodman's Chief Compliance Officer (CCO) provides leadership for monitoring, assessing and communicating ESG and climate-related regulatory compliance requirements, while overseeing overall firm compliance. The CCO reports directly to the Management Committee.
- The Portfolio Managers/Analysts are responsible for all security-level decisions and using the Beutel Goodman ESG framework in their analytical processes and corporate engagement activities, as applicable. PMs/analysts consider all material factors that may impact investment recommendations, including climate-related factors. The investment teams' responsible investing activities, including engagement and proxy voting, are reported on a quarterly basis to the firm's Management Committee.
- **ESG Leads, equity PMs and fixed income PMs** have the responsibility for defining ESG policy and procedures, which includes climate-related activities and spearheading the implementation and coordination of our ESG and climate-related investment activities, in addition to considering future responsible investing initiatives.
- **ESG Analysts** are responsible for producing, reporting and managing our data sources and providing general support for our ESG and climate-related activities.
- Our **ESG Working Group**, composed of members of our equity and fixed income investment teams and representatives of our various client channels, meets regularly to discuss opportunities for future responsible investing initiatives, as well as to provide updates and feedback.



Climate-related Risks and Opportunities

Climate-related risks can be divided into two major categories:

- 1. Risks related to the physical impacts of climate change; and
- 2. Risks related to the transition to a lower-carbon economy.

These risks may have material financial impacts on companies that we own in our investment portfolios, and could lead to, among other things, increased capital and operating costs, supply chain disruptions, impairments and write-downs, loss of revenue and market share, credit-rating downgrades, increased insurance costs or non-insurable assets, and difficulties in accessing the capital markets. Climate-related risk that translates into financial risk needs to be actively managed.

Physical risks resulting from climate change can be classified as acute or chronic. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events (e.g., cyclones, wildfires, hurricanes or floods). Chronic physical risks refers to longer-term shifts in climate patterns (e.g., sustained higher temperatures, sea level rise or changing precipitation patterns) that may cause sea levels to rise or chronic heat waves.¹³ Climate change events can cause significant risk to human health, cities, infrastructure, ecosystems, food production and access to clean water. According to a report from S&P, without adaptation measures, by the 2050s the financial costs from climate-related risks will equal an average of 3.3% — and up to 28% — per annum of the value of real assets held by companies in the S&P Global 1200.¹⁴

On the fixed income side, we also factor in the risks and opportunities to sovereign debt issuers that may include increased climate resiliency spending (preventive) and relief spending (reactive to a climate event), which will likely increase the country's debt levels and may impact their debt burdens, valuations and credit ratings. According to the Intergovernmental Panel on Climate Change (IPCC), approximately 3.3 billion to 3.6 billion people live in areas that are highly vulnerable to climate change.¹⁵ The Climate Policy Initiative (CPI) estimates that US\$5.4 trillion to US\$11.7 trillion will be required annually until 2030 to ensure global temperatures do not rise above the 1.5°C range. Additionally, between US\$9.3 trillion and US\$12.2 trillion per year will be required from 2030 to 2050.¹⁶ These needs are forecast to be dwarfed by the increased social and economic costs that could be incurred under business-as-usual warming scenarios (which CPI estimates to be at least US\$1,266 trillion) and will only worsen the longer action is delayed.¹⁷ The major floods, extreme heat and drought, and associated wildfires experienced globally in 2023 also present challenges to water and food security as well as human welfare.

¹³Recommendations of the Task Force for Climate-related Disclosures (June 2017): <u>FINAL-2017-TCFD-Report.pdf</u> (bbhub.io)

¹⁴S&P Global, "Quantifying the financial costs of climate change physical risks for companies," (November 2023): <u>https://www.spglobal.com/esg/insights/featured/special-editorial/</u> <u>quantifying-the-financial-costs-of-climate-change-physical-risks</u>

¹⁵IPCC, 2023: Summary for Policymakers. In: Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, pp. 1-34, doi: 10.59327/IPCC/AR6-9789291691647. <u>https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf</u>

¹⁶ Caroline Alberti, "The Cost of Inaction," The Climate Policy Initiative (January 4, 2024): https://www.climatepolicyinitiative.org/the-cost-of-inaction/#_ftn1

¹⁷Ibid.

Climate-related risks play out over the short, medium and long term. In the short and medium term, we have identified the following acute physical risks to companies:

- Health and safety of workers, which could result in decreased productivity due to employee absenteeism;
- Volatility in commodity prices; and
- Physical damage to companies' facilities.

Over the medium and long term, we believe some of the risks include:

- Stranded assets/write-downs;
- Disruptions to supply chains;
- Increased sovereign debt; and
- Inflation

Long-term risks from acute and chronic climate-related risk include:

- The availability of insurance;
- Scarcity of water;
- Change in consumer patterns;
- Mass migration; and
- New transportation routes (e.g., severe drought in Panama has led to restrictions in the amount of vessel traffic allowed through the Panama Canal. Routing around Cape Horn, instead of going through the canal, adds approximately 5,000 nautical miles to a journey from the U.S. to Asia, increasing time and cost for the shipper and potentially leading to supply chain disruptions.)

Using MSCI Climate Value-at-Risk scenario testing, we have created the following graph to identify the potential physical risks for the universe of companies that we may invest in using member companies of the MSCI ACWI Index as a proxy for illustrative purposes.





Exhibit 2. Physical Risks by GICS Sector — MSCI ACWI Index.



Note: We use the Network for Greening the Financial System 2°C Orderly scenario for the calculation of Climate VaR.

Based on the analysis, the investable universe (MSCI All Country World Index) is most vulnerable to climate-related risks from extreme heat and coastal flooding, likely due to the location of the respective companies' operations. Our company engagements include discussions around climate adaptation and resiliency, cost recovery from climate events and insurance, and mitigation efforts. Companies whose operations are located on a coast also face a greater risk from rising sea levels. The financials sector is impacted by physical risk through its financial product offerings. Insurance companies cover the cost of damages from extreme weather events, while banks may face the possibility of a higher level of defaults. We have done a physical risk assessment of our financial holdings where material, based on their product offerings, geographical footprint and programs to manage such risks, to gain a better understanding of the material physical risks they are facing and their efforts to mitigate those risks.

Excessive heat, in addition to creating occupational health risks, also limits a worker's physical functioning and capabilities. A study by the International Labour Organization concluded that in 2030, 2.2% of total working hours worldwide will be lost to high temperatures – a productivity loss equivalent to 80 million full-time jobs.¹⁸

¹⁸International Labour Organization, "Working on a Warmer Planet," (2019): <u>Working on a warmer planet: The</u> <u>impact of heat stress on labour productivity and decent work (ilo.org)</u>

Increased physical risk is starting to translate into increased credit risk in some areas. In November 2023, a major credit rating agency changed the utility Fortis Inc.'s credit rating to negative outlook, reflecting rising physical risk across the company's assets from wildfires, storms, hurricanes and flooding.

On the opportunities side, the International Energy Agency (IEA) states that there is a need for total annual energy investment of US\$5 trillion by 2030, which would require a tripling of investment in energy infrastructure, electricity generation and low emission fuels.¹⁹ The United Nations Climate Change Conference (COP28) calls on parties to the Paris Agreement to take action towards achieving a tripling of renewable energy capacity globally, doubling energy efficiency improvements by 2030, and other measures to drive the transition away from fossil fuels in energy systems, in a just, orderly and equitable manner. In an effort to understand what sectors may benefit from the decarbonization transition, we used MSCI to scan for green revenue opportunities using the MSCI ACWI Index as a proxy for illustrative purposes. Climate opportunity discussions with companies focus on energy efficiency, renewable energy applications and adoption of green building standards.



Exhibit 3. Green Revenue by GICS Sector — MSCI ACWI Index.

For Illustrative Purposes Only. Sources: MSCI ESG Manager, Beutel Goodman. As at December 31, 2023.

¹⁹The International Energy Agency, "Net Zero by 2050 A Roadmap for the Global Energy Sector," (October 2021): <u>https://www.iea.org/reports/net-zero-by-2050</u>

On the transition risk side, companies face various levels of risk that could negatively affect their financials as well as their reputation. Governments are imposing regulatory and legislative actions such as carbon taxes, emission reductions, GHG emissions reporting obligations and the phasing out of fossil fuels. These actions could increase costs, require technological advancement, increase capital expenditures and alter the company's strategic direction. Companies will likely have to find greener sources of energy to power their operations, which could come at an increased cost. On the opportunities side, governments may provide tax incentives for cleaner technologies, such as wind and solar power, as well as carbon capture and storage. The development of new and possibly disruptive technologies will lead to winners and losers. We expect that companies that fail to embrace change and cling to a long runway for carbon will face decreased demand for their product, if not obsolescence over time. On the flip side, several new technologies, such as battery storage for electricity, hydrogen blending and direct air capture could revolutionize the way energy is produced and moves through the supply chain, leading to significant opportunities.

As the number of extreme climate events rises, companies also face increasing litigation risk. For example, the liabilities that utility PG&E Corp. faced for its equipment sparking several deadly wildfires in California in 2019 ultimately led to the company defaulting on its debt obligations and declaring bankruptcy. Hawaiian Electric is facing similar litigation risk after devastating wildfires in Maui led to loss of life and significant property damage in 2023. Companies also face reputational risk where accusations of greenwashing or perception of lagging best practices could lead to negative stakeholder feedback and impaired access to financing.

The risks and opportunities vary significantly from sector to sector. For example, higher-carbonintensive industries such as Energy and Utilities face significant regulatory and obsolescence risk, but also have the greatest opportunities to gain from new technologies and cleaner sources of energy.

We are in a process of understanding how evolving physical and transition climate risks will affect our own business. We have only one office, located in midtown Toronto, Ontario, that is leased. Our office building is certified as a BOMA BEST sustainable building. The certification represents a globally recognized symbol of sustainability achievement by providing a road map on how to decarbonize, reduce water and waste, retrofit for accessibility and equity, and navigate climate risk. Potential climate risks affecting that location are considered in our business continuity and disaster recovery plans. For example, the risk of a climate-related event impeding employee access to our office is addressed by our work-from-home policy. The following are what we consider as having the largest contributions to Beutel Goodman's carbon footprint: power usage, paper usage, employee travel (business and commuting) and energy efficiency. Since the pandemic, our flexible work policy has led to a material reduction in our energy usage and paper usage. As an investment manager, we consider our greatest climate-related risks to be regulatory, reputational and client-based. As a value manager, Beutel Goodman's primary objective is to deliver superior risk-adjusted financial performance to our clients over the long term. We pursue this through the ownership of debt and equity positions in high-quality companies. Companies with strong environmental, social and governance practices often share many of the sound fundamentals that are attractive to our value-investing approach. ESG factors, including climate-related activities, have the potential to materially affect the long-term financial sustainability of a business, which is an important focus of our analytical process. Using a bottom-up, disciplined, value-investing approach, each equity and credit research report we prepare incorporates climate-related considerations as part of the research and valuation process.

Exhibit 4. Beutel Goodman Active Ownership.



Analyst-driven fundamental research

Source: Beutel, Goodman & Company Ltd. Summary, for illustrative purposes only.

ACTIVE OWNERSHIP — ENGAGEMENT Engagement is a core part of our due diligence and ongoing monitoring of investments in our disciplined value investment process, since inadequate ESG practices can be a risk to the future financial performance of a company. Our philosophy is focused on delivering on our objectives via engagement and not via divestment. For example, we do not believe that divestment of companies that produce fossil fuels or have fossil fuel reserves is the most effective method to achieve climate goals that are consistent with investment goals. In our view, divestment primarily serves to shift the power of engagement to stakeholders who do not have climate factors as a component of their investment research. We believe that we have significantly more influence to achieve our client's long-term financial goals by directly engaging with companies as their major stakeholders (equities and bonds) versus sitting on the sidelines having divested.

Climate change is a key priority in our active ownership practices when it has a material financial impact on our portfolio companies. We view ourselves as partners of the companies in which we invest. As such, we approach ownership as an ongoing collaboration in the creation of long-term stakeholder value. We have a bottom-up, value-driven research process that generally leads us to hold concentrated positions in our portfolios, making our engagements significant. Our climate-focused engagements encompass many topics that can be material to the long-term value of holdings, such as disclosure and transparency (alignment with TCFD recommended disclosures), carbon footprint, pathway to net zero, science-based targets, the role of new technologies, emissions-reduction strategies, energy transition, sustainability, the role in a just transition, renewables use, the role of carbon offsets, executive compensation alignment with environmental targets, and sustainable finance. With the rise of climate-related events and their potential to have a material adverse financial impact on companies, our discussions with management of the companies in our investment portfolios on climate adaptation plans and resiliency have increased.

We conduct quarterly meetings with portfolio managers and analysts to review relevant climate-related analysis on a portfolio-level basis relative to the benchmark, outlining the main areas of risk to help inform engagements. On an annual basis, we review our portfolio holdings, identifying those with the largest GHG emissions. We then create a priority list of targeted companies to engage with, to understand what the main contributors are to their carbon footprint and what the company is doing to reduce GHG emissions. This is reviewed and updated quarterly.

In 2023, we conducted 111 climate-related engagements. The main areas of our climate discussions are:

Net Zero by 2050 Commitments	Methane Emissions		
Interim Targets	Pathways Alliance and Carbon Capture and Storage		
Disclosure	Cleaner Transportation Alternatives		
Scope 3 Emissions	Sustainable Finance		
Science-based Targets	Clean Energy Stategies and Investments		
Climate Strategies	Transition Risks and Opportunities		
Alternative Fuels	Nuclear Solutions - Small Modular Reactors		
Indigenous Relations	Renewable Power Development and PPAs		
Executive Compensation Linked to Climate Targets	Use of Water		
Electric Vehicles	Wildfires		
Greening the Electricity Grid	Government Climate Regulations and Incentives		

We also believe in the importance of thoughtfully exercising our voting rights in support of long-term shareholder value through proxy voting. Portfolio Managers/Analysts are responsible for proxy voting. We carefully assess and vote on all ballot items based on whether they are consistent with long-term shareholder value creation. We also consider the steps that the company may already have taken to address the issues raised in the proposal. As responsible investors, we seek to make informed voting decisions through diligent research; this includes direct dialogue through engagements with companies, which allows us to gather information and have thorough discussions. Where relevant to a company's long-term value, we will also use the power of our proxy votes to send a message to a Board of Directors; for example, if climate-related activities are not on track with commitments. We are fully transparent as our full proxy voting record is publicly available on our <u>website</u>.

We perform a thoughtful review of each proposal, consider what proposals should reasonably be in the purview of the Board and management, engage with management when necessary, and seek to determine whether the proposal will enhance shareholder value or help to prevent material and/or reputational risk. We also consider the steps that the company may already have taken or is committed to taking to address the issues raised. We do not blindly support every proxy that is climate related. We note that voting against climate-related resolutions does not translate into a lack of support for climate engagement, nor should it call into question our commitment to engagement on climate-related issues that relate to long-term financial performance.

Proxy Voting Example – Metro Inc

Company: Metro Inc.

Proposal: Shareholder Proposal Regarding Adoption of Targets Consistent with Paris-Aligned Climate Goals

Voting Decision: AGAINST (Mgmt Rec: AGAINST; Glass Lewis Rec: FOR)

Rationale: While we acknowledge the importance of addressing climate-related risks and reducing emissions, adopting a net-zero target, including Scope 3 emissions, is complex. In our view, the timeline in the proposal is not reasonable and the company is not able to measure Scope 3 emissions given current technology, making the commitment not feasible for the company at this point. Metro has made considerable progress towards improving both its disclosure and commitment to emissions reduction targets across the company and is committed to doing more. After engaging with the company, we believe management is thoughtfully taking the proposals into consideration and actively working towards improving the company's climate change plan. We will continue to monitor progress on this topic.

CLIMATE CHANGE AND

ENGAGEMENT

We recognize that the pooling of resources with other investors may enhance the effectiveness of our investment engagement activities and lead to positive long-term investment outcomes. We aspire to increasingly participate in appropriate collaborative engagement initiatives that are aligned with our active ownership philosophy and engagement priorities. We are participants in Climate Action 100+, a global investor initiative consisting of over 700 investors working together to engage companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures, in order to create long-term shareholder value. We are currently designated as a Collaborating Investor to engage with Duke Energy Corp. and Unilever plc. We are a founding member of Climate Engagement Canada, a finance-led initiative with 46 participants driving dialogue with Canadian companies on promoting a just transition to a net-zero economy. We are currently a Supporting Engagement Participant in the following engagements: Canadian Pacific Railway Ltd., Cenovus Energy Inc., Loblaw Companies Ltd, Lundin Mining Corp. and Pembina Pipeline Corp.

As we recognize the importance of achieving the goals of the Paris Agreement to facilitate long-term financial sustainability, we engage with management teams and boards on their commitment to net zero by 2050, as well as on their role in the energy transition. A key climate engagement topic is a company's pathway to net-zero GHG emissions by 2050. We use a multi-stage approach, illustrated below.



Exhibit 5: Beutel Goodman Assessment of Net-Zero Alignment.

Source: Beutel, Goodman & Company Ltd.

The first step is using quantitative data such as Weighted Average Carbon Intensity (WACI) to identify the companies with the largest carbon footprints in the portfolio. Based on that analysis, we can then prioritize topics for engagements.



Exhibit 6. Beutel Goodman Portfolios — Analysis of Sector Weights and GHG Emissions.

	Canadian Equity	U.S. Equity	EAFE Equity	Canadian Bonds	US/EAFE Bonds
Top 3 Weighted Sectors	Consumer Discretionary Financials Industrials	Consumer Discretionary Financials Information	HealthCare Industrials Materials	Communication Services Energy Financials	Communication Services Consumer Staples
Top 3 Emitting Sectors	Energy Materials Utilities	Consumer Discretionary Consumer Staples Industrials	Consumer Staples Energy Materials	Communication Services Energy Utilities	Consumer Staples Health Care Industrials

Sources: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

The second step is to determine the company's alignment to net zero, which involves a quantitative screen as well as a qualitative one. The quantitative screen uses MSCI's Implied Temperature Rise metric to determine if a company is aligned, misaligned or lagging on its path to net zero by 2050.



Exhibit 7. Beutel Goodman Portfolios – Alignment to Net Zero.

Sources: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

When examining a company's commitment to net zero, we look beyond the company's headline commitment to assess its credibility; that is, is there a concrete plan or is it aspirational? We have a framework for qualitatively assessing that commitment based on the Paris Aligned Investment Initiative (PAII). The PAII defines achieving net zero as "companies that have current emissions intensity performance at, or close to, net-zero emissions with an investment plan or business model expected to continue to achieve that goal over time."²⁰

Analysis of the commitment to net zero involves the following:

- Does the company set short and medium-term targets, as well as a long-term target?
- Do the company's targets include Scopes 1, 2 and 3 GHG emissions?
- Are the company's targets science-based, using the Science Based Targets Initiative (SBTi)'s methodology and verification?
- Does the company have a decarbonization strategy? Does it use carbon offsets? Is the plan based on technology that is currently available and/or under development? Is the capital expenditure program aligned with the company's goals?
- What are the company's opportunities for clean technology?
- Is there Board oversight and support of the climate plan?
- Is executive compensation tied to achieving climate goals?
- Does the commitment include a just transition, whereby workers' health and safety, as well as community relationships, are taken into account?²¹

²⁰"Net Zero Investment Framework Implementation Guide," The Paris-Aligned Investment Initiative, Version 1.0 (March 2021): https://www.parisalignedassetowners.org/media/2021/03/PAII-Net-Zero-Investment-Framework_ Implementation-Guide.pdf

We have created a PAII review form, illustrated below, as a tool to help in analyzing a company's climate-related commitments as part of our research and valuation process. We designed it based on PAII's recommendations, as well as based on the topics we have frequently engaged on that we believe are important in assessing a company's climate-related risks and opportunities. The data is drawn from several sources, including Bloomberg, MSCI and CDP.

Company ABC - PAII Scorecard								
In Millions of CAD except Per Share								
12 Months Ending 31 December	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Carbon Footprint								
GHG Scope 1 Emissions (000 MT CO2e)	2,207	2,455	10,212	10,042	6,962	6,853	7,431	7,715
GHG Scope 2 Emissions (000 MT CO2e)	4,757	5,225	6,436	6,786	6,489	5,827	5,997	6,693
GHG Scope 3 Emissions (000 MT CO2e)	23,073	21,002	45,269	50,226	50,903	47,717	48,489	54,101
GHG Intensity per Sales	206	222	375	363	269	324	285	270
Methane Emissions (Scope 1) (000 MT)	-	-	73.6	85.5	54.7	53.4	47.5	45.4
ESG Data Verification	No	No	No	No	No	Yes	Yes	Yes
Water				1	1	I		I
Total Water Withdrawal (000 cubic metres)	-	-	727.0	8,421.0	121.0	18.0	209.0	81.0
Energy Use	1	1	1	1	1	1	1	1
Total Energy Consumption (000 MWh)	16,428	17,260	47,151	46,413	41,792	40,842	46,521	42,602
Electricity Used (MWh)	7,478	8,722	11,617	12,366	12,230	11,618	13,049	8,495
Renewable Energy Use (MWh)	-	-	-	-	-	-	101	2,334
Governance								
Climate Change Policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Energy Efficiency Policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Renewable Electricity Target Policy	No	No	No	No	No	No	No	No
Water Policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Biodiversity Policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Engagement with Policymakers on Climate Change	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Climate Change Integrated in Business Plan	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adopts TCFD Recommendations	n/a	n/a	n/a	n/a	Yes	Yes	Yes	Yes
Adopts TNFD REcommendations	n/a	n/a	n/a	n/a	n/a	n/a	No	No
Climate Change Opportunities Discussed	No	No	No	No	No	No	No	No
Risks of Climate Change Discussed	No	No	No	Yes	Yes	Yes	Yes	Yes
Emissions Reduction Initiatives								
Company Claims Net Zero Emissions Target	No	No	No	Yes	Yes	Yes	Yes	Yes
Target Coverage				Scope 1+2				
Company Claims Science-based Targets	No	No	No	No	No	No	No	Yes
Target Year for Emissions Target						2030	2030	2030
Baseline Year for Emissions Target						2018	2018	2018
Company Performs Climate Scenario Analysis	No	No	No	No	No	No	No	No
Company Uses Carbon Offsets	No	No	No	No	No	No	No	No
Company Has Internal Carbon Price	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Climate Mitigation CapEx Amount	-	-	-	-	-	-	16.0	50.0
Environmental Initiatives CapEx Amount	-	-	-	-	-	-	-	75.0
Oversight								
CSR/Sustainability Committee on Board	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Executive Compensation Linked to ESG	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Executive Compensation Linked to Climate	n/a	n/a	n/a	No	No	No	Yes	Yes
ESG Linked Compensation for Board	No	No	No	No	No	No	No	No

Exhibit 8. Illustrative Climate Metrics.

Sources: Bloomberg LLP, MSCI. For illustrative purposes only.

We actively monitor the commitment to net zero from the companies we invest in, as we believe that the risk of stranded assets from not adapting to the transition to a net- zero world could be a material business risk.



Exhibit 9. Percentage of AUM Invested in Companies with Net-Zero Targets.

Sources: Company Reports, MSCI, Beutel, Goodman & Company Ltd. As at December 31, 2023.

Setting interim and net-zero targets are an important first step; however, for investors to have more confidence in the goals and data, focus should also be on verification and science-based targets. Where possible, we encourage companies to have their interim and long-term emissions-reduction targets verified by SBTi. The SBTi develops criteria and provides tools and guidance to enable companies to set science-based GHG emissions targets that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels by the end of this century. After a review by SBTi, if a company's targets are determined to be aligned with all requirements, then the company is considered to have an SBTi- validated science-based target. We note that SBTi has not released guidance for all sectors and ones that remain under development include aviation, oil and gas, buildings, chemicals and land transport.

Interim targets that have been set are typically in the 2030–2035 range. As we move closer to those target years, we need to assess if the company is on track to meet to its interim targets, and if not, what the company is doing to address the shortfall.

The third component is action-oriented, whereby we use the information gathered in steps one and two to formulate our engagement discussion with a view to understanding the risks and impact on valuation. We apply a waterfall approach to engagement that generally starts with discussions between the portfolio managers and the company's management, preferably at the executive level. We also seek to engage with a company's chief sustainability officers (or a similar role) for a deeper dive and may include our ESG Leads depending on the engagement topics. This typically takes place over multiple meetings, as it takes time to effect change and to gauge a company's commitment and progress. We may also seek out collaborative efforts, using the added power and effectiveness of engaging together with other company stakeholders. Engagement can be accelerated to a Board of Directors if we have significant concerns. Proxy voting is another tool we may use. Ultimately, if we believe that the risks we have identified will have a material negative impact on the valuation of a company, and we further believe that management is not addressing our concerns, we can take the final step of divestment.

Equity Example – CPKC

As value investors, our fundamentally driven analysis identifies valuation opportunities in quality companies from a bottom-up perspective. We focus on financial materiality — issues that may impact the financial performance of a company. In the case of CPKC, a key environmental, financially material factor is locomotive emissions, as more than 90% of the company's Scope 1 emissions come from locomotive operations.²²

In our view, financially material topics for CPKC include:

- Opportunities for revenue growth in intermodal from the transportation shift from trucks to trains due to the emissions advantage of trains;
- Capital expenditure intensity from investment into alternative propulsion such as CPKC's hydrogen program; and
- Impact on network fluidity and profitability operating ratio = operating expenses / revenue

These material topics affect our free cash flow estimates, our assessment of intrinsic value and our investment decisions.

To properly assess these material topics and to influence best practices at CPKC, we used the three pillars of our Active Management Approach. The results garnered from our engagement, proxy voting and collaborative initiatives are cycled back into our investment process. These included:

Engagements

- A discussion on GHG-reduction strategies, net-zero targets, SBTi verification with CFO;
- A call on CPKC Sustainability Framework with VP, Safety, Environment and Regulatory Affairs;
- A meeting with CEO and CFO on alternative propulsion and locomotive strategy, including hydrogen and electrification for emissions reduction; and
- A conversation with the head scientist developing hydrogen technology and a visit to see the hydrogen locomotive.

Proxy Voting

• Voted FOR the Advisory Vote on Approach to Climate Change

Collaboration

• Continued engagement with CPKC as a participant in Climate Engagement Canada

Hydro One Ltd. (Canadian Equities and Fixed Income)



Multiple Engagements with Senior Management and the Board Members

Climate-Related Engagement Topics:

- Emissions reduction targets;
- · Greening the transmission grid;
- Converting fleet to electric vehicles;
- Resiliency against climate-related events;
- Adaptation of power grid to changing consumer behaviour;
- Just Transition: Indigenous partnerships and Indigenous business procurement.

Flowserve Corporation (U.S. Equities)



Engagement with Senior Management

Climate-Related Engagement Topics:

- Emissions reduction targets;
- Scope 3 emissions;
- Science Based Target Initiative (SBTi);
- Materiality assessment, systems in place to comply with carbon intensity reduction target;
 Flowserve's 3D strategy opportunities for largest customers to decarbonize existing assets and smaller companies to scale cleaner technologies.

Pembina Pipeline Corporation (Fixed Income)



Engagement with Senior Management

Climate-Related Engagement Topics:

- Interim GHG emissions targets but no commitment to net zero by 2050;
- Stranded asset risk;
- Enabling energy transition with the Alberta Carbon Hub;
- Efforts to reduce methane emissions;
- Just transition: Indigenous partnership on Cedar LNG project.

Note: This information is provided for illustrative purposes, summarizing some of the climate-related topics discussed and may not be representative of all topics discussed.

Measuring outcomes is likely the most important element of ESG integration and active management, but also the most challenging as it can take multiple meetings, escalations and possibly collaborations to effect change. One example of a positive outcome is our joint equity and fixed income engagement with TC Energy Corp. on its ownership of liquids pipelines. The liquids pipeline business segment made up 16.5% of the company's earnings and 12.4% of its asset base in fiscal year 2023. After the company cancelled its KXL expansion project, we believed that the growth prospects for the business segment were diminished and were outweighed by the longer-term stranded asset risk of crude oil pipeline ownership. We believed that the company's strategy would be enhanced with a focus on energy transition assets (natural gas pipelines, nuclear power and carbon hubs). We engaged with various senior executives of the company over the course of several meetings, probing the possibility of and our preference for the sale of its liquids pipeline business. In July 2023, TC Energy announced it was spinning out its liquids pipeline business into a new company.

Energy Transition

When assessing a company's carbon footprint, we do not exclude potential portfolio companies that are currently not aligned to net-zero GHG emissions by 2050. We continually engage with these companies on numerous climate-related matters relevant to long-term value, including energy transition and commitments to net zero. We also discuss new technologies that should move the needle to net zero by 2050, such as carbon capture and storage, small modular nuclear reactors, renewable power, hydrogen blending, biofuels, tailings ponds improvements, and new solvent solutions for Steam Assisted Gravity Drainage extraction. We believe that the journey to net zero will be bumpy and that the demand for crude oil will remain relatively consistent in the near and mid term. It will take time to effect significant change in the way that consumers use hydrocarbons (i.e., electric vehicles) and to find cleaner alternative fuel sources for the harder-to-abate sectors such as long-haul trucking and marine transport. In the longer term, as we approach 2050 and beyond, we believe that the demand for crude oil will be significantly less than it is currently. In the interim, we seek to understand how companies are working on lowering their carbon footprint and avoiding stranded asset risk. We also believe that natural gas plays a significant role as a transition fuel and that the path to decarbonization includes nuclear power.

The challenge for the decarbonization of fossil fuels is still that currently none of the technology under consideration — such as carbon capture and storage, hydrogen blending, or battery storage — is economical on a large scale without government support (tax credits, carbon pricing, contracts for differences). We believe that additional work in concert with industry, government and investors is required for significant advancement.

In September 2022, we joined with other asset managers in submitting a joint response on "Canada's Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050."We encouraged the Government of Canada to adopt the most practical and effective regulatory changes to incentivize emission-reduction innovation and implementation to further limit climate change, and to reduce systemic risk in our portfolios.

Another important factor in risk reduction and the transition to a low-carbon economy is seeking a just transition. While outside of the scope of climate-related risk, just transition is broadly defined as ensuring that no one is left behind or pushed behind in the transition to low-carbon and environmentally sustainable economies. This includes ensuring social issues such as workers' health and safety is not compromised in the pursuit of climate-related targets. For Canada, this includes the interests of Indigenous communities. On its path to net zero by 2050, Canada needs to consider how to obtain a social licence from Indigenous communities whose lands may be impacted by project development. The United Nations Declaration on the Rights of Indigenous Peoples adopted by the Government of Canada in 2021 spells out a set of rules for business engagement anchored in Free, Prior and Informed Consent, ensuring that there is effective and meaningful participation of Indigenous Peoples in proposed projects and decisions that impact their communities and territories. We support an inclusive agenda that will engage affected Indigenous communities to seek a just transition.

As investors, we focus on the risks and opportunities to our investments from the energy transition. On the negative side, there is a risk of stranded assets as the world transitions to cleaner sources of energy. On the opportunities side, the focus is on producing cleaner products and embracing new technologies. Simply focusing on companies that have a low carbon footprint or avoiding high-emissions sectors will not achieve global decarbonization. We believe in the need to partner with the energy sector as investors and through engagement to keep the focus on the risks and opportunities of climate change, consistent with seeking to achieve long-term financial sustainability of our investments for our clients. In June 2022, we launched our first sustainable strategy, the BG Sustainable Bond Fund, a private fund available to our discretionary managed clients. The fund's main investment objective is to maximize portfolio returns by investing in a diversified portfolio that is comprised primarily of Canadian- dollar -denominated debt instruments, using a responsible investment approach that will seek to deliver a materially reduced carbon footprint compared to the fund's benchmark over time. The fund is focused on energy transition and does not have a negative screen for fossil fuels. The fund's strategy has set interim Scopes 1 and 2 GHG emissions target reductions and has committed to the pathway to net zero. The WACI of the corporate portfolio is actively managed to be lower than that of the benchmark over time, as measured by MSCI. This fund screens companies using socially responsible investment criteria, excluding companies whose primary line of business involves the manufacturing of weapons, alcohol, tobacco and cannabis, or the offering of adult entertainment or gambling. Companies and sovereigns in contravention of the principles of the UN Global Compact are also excluded. The fund will include investments in labelled green, social, sustainable and sustainability-linked bonds that meet our investment criteria. We highlight the credit story of Capital Power as an illustrative example of the type of investments that are attractive from an energy transition perspective.

Capital Power (Fixed Income)



Investment Thesis: "Brown to Get Green"

- As at FY23, Capital Power had the highest Scope 1 and 2 GHG Emissions Intensity in the BG Sustainable Bond Fund;
- By the end of 2024, the company will have repowered its Genesee coal-fired facility with natural gas and its GHG emissions will drop by approximately 3.4 Mtpa;
- Capital Power is building out a portfolio of renewable power assets (wind and solar) and sees an important role for natural-gas-fired power generation in the energy transition;
- Capital Power has committed to Net Zero by 2045 with interim targets.

In October 2023, we launched a **U.S. Sustainable Bond strategy** for our discretionary managed clients, which has a similar objective and strategy to the Canadian fund but invests primarily in U.S. dollar-denominated debt instruments.

In December 2023, we launched a **Sustainable Canadian Equity strategy** for our discretionary managed clients. The strategy is a concentrated, value-biased mandate, focused on stock-specific research, including a rigorous review of the fundamental and ESG characteristics of companies. The strategy invests in large and small cap companies, a subset of our Canadian equity and Canadian small cap strategies. The strategy follows Beutel Goodman's responsible approach to investing, which integrates ESG factors into the investment analysis to identify risks and opportunities in the pursuit of financial performance. Engagement, proxy voting and collaborative initiatives are key pillars to our active management approach. Our research includes a proprietary BG ESG score and rating for each holding. The strategy is committed to seeking net-zero GHG emissions by 2050 at the portfolio level and has set an interim target of GHG emission intensity reductions of 50% by 2030, versus a 2019 base, but does not exclude fossil fuel-exposed investments.

Sustainable Finance and Fixed Income

We follow a rigorous process for the evaluation of sustainable finance securities in all of our strategies and portfolios. First, any labeled bond (green, social, sustainable or sustainability-linked) must be issued using the principles established by the International Capital Markets Association (ICMA), whereby:

- 1. The use of proceeds are clearly defined;
- 2. The process for evaluation and selection of projects to be financed is delineated;
- 3. The use of proceeds can be tracked; and
- 4. The projects funded are verified, updated annually and audited.

Additionally, a second- party opinion on the sustainable bond framework is strongly preferred.

Sustainability-linked bonds (SLBs) are evaluated under the following criteria:

- 1. Ambitious targets that are challenging for the company to achieve and material to the company's business;
- 2. Environmental Key Performance Indicators (KPIs) that align with a pathway to net- zero GHG emissions by 2050;
- 3. A sufficient length of time between the observation date and the maturity date;
- 4. Frameworks that hold the issuer accountable;
- 5. KPIs that are measurable, published annually and verified (see Exhibit 10 below).



Exhibit 10. Beutel Goodman's Sustainable Finance Evaluation Process

Source: Beutel, Goodman & Company Ltd. for illustrative purposes only

Climate scenario analysis helps identify how businesses might change in response to climate-related risks and opportunities. We continue to use MSCI's Climate Value-at-Risk (CVaR) to quantify climate-related risks and opportunities under different climate scenarios. The tools are used by portfolio managers and investment analysts in their analysis of where a company is on their journey, and to identify risks and opportunities and help focus engagement. We also run the analysis on individual companies and sectors so we can gauge how a company compares to its peers.

Future policy pathways and macroeconomic changes stemming from climate-related risk, as well as any adaptation measures, remain highly uncertain. Scenario analysis captures a range of potential future outcomes. We use the NGFS (Network for Greening the Financial Sector) scenarios to assess climate risks and opportunities facing our portfolios. NGFS, an organization consisting of over 100 global central banks and supervisors, developed a set of forward-looking climate scenarios to be used by financial institutions to assess and manage climate-related risks. The NGFS scenarios rely on models designed to simulate the complex and non-linear dynamics of energy, economy and climate systems, accounting for various possible policy and technology paths. The seven NGFS scenarios have been generated by well-established integrated assessment models (IAMs).²³

The NGFS climate scenarios examine a range of potential outcomes: : Orderly, Disorderly, Hot-House World, and Too-Little-Too-late. The orderly scenarios assume climate policies are introduced early and become gradually more stringent. In these scenarios, both physical and transition risks are relatively subdued. Carbon sequestration becomes an efficient process towards decarbonization under these scenarios and the electrification of the transport industry paves an orderly path. The Disorderly scenarios explore higher transition risk due to policies being delayed or divergent across countries and sectors. These scenarios employ the use of more low-carbon sources of technology. The Hot-House World scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. These scenarios result in severe physical risk, including irreversible impacts like a rise in sea levels. The Too-Little-Too-Late scenarios assume that a late and uncoordinated transition fails to limit physical risks.²⁴

²³The three IAMs used are the Global Change Assessment Model (GCAM), MESSAGEix-GLOBIOM and REMIND-MAgPIE. While the three IAMs share the same structure, integrating macro-economic, agriculture and land-use, energy, water and climate systems in creating cost-effective transition pathways, the REMIND-MAgPIE model offers a wide range of scenarios that guided the formation of all NGFS scenarios. ²⁴https://www.ngfs.net/ngfs-scenarios-portal/

Scenario	MSCI Name	Category	Policy Ambition	Policy Reaction	Technology Change	Carbon Dioxide Removal	Regional Policy Variation
Net Zero 2050	1.5°C Orderly	Orderly	1.4°C	Immediate and Smooth	Fast	Medium-high Use	Medium
Below 2°C	2°C Orderly	Orderly	1.6°C	Immediate and Smooth	Moderate	Medium-high Use	Low
Delayed Transition	2°C Disorderly	Disorderly	1.6°C	Delayed	Slow/Fast	Low-medium use	High
NDCs	NDC	Hot House World	2.6°C +	NDCs	Slow	Low-medium use	Medium
Current Policies	-	Hot House World	3°C +	None	Slow	Low	Low
Low Demand	-	Orderly	1.4°C	Immediate and Smooth	Fast	Medium Use	Medium
Fragmented World	-	Too Little Too Late	2.3°C	Delayed and fragmented	Slow then fragmented	Low-medium use	High

Exhibit 11. NGFS Scenario Framework.

*Discontinued scenario with obsolete information from 2022 Sources: NGFS

The Net Zero 2050 pathway set out by NGFS emphasizes the importance of decarbonizing the electricity supply, increasing electricity use, increasing energy efficiency and developing new technologies to tackle hard-to-abate emissions. On the power-generation side, the power sector needs to increase electricity from renewables five-fold over the next three decades. This translates to switching to alternative sources of energy such as solar, wind or nuclear, as well as some deployment of carbon, capture and storage for new and existing power plants.

We performed climate scenario analysis on our equity portfolio holdings as at December 31, 2023 using four NGFS scenarios (Net Zero 2050, Below 2°C, Delayed Transition and NDC) as they align with the options offered in our MSCI tools. We diligently monitor updates from NGFS and will incorporate the updated scenarios into our analysis as they become available via MSCI. As shown in Exhibit 12, the largest risk to our portfolios occurs under the Net Zero 2050 scenario, where the transition risks to meet temperature alignment are prominent, and the Delayed Transition scenario, where costs for transition are transferred to physical damages associated with climate change.





Sources: MSCI, Beutel, Goodman & Company Ltd. As at December 31, 2023.

We note that the MSCI CVaR model assesses risk at the security level, including each individual bond. The model assumes that equities exist in perpetuity and models projections for equities to 2100. Bonds are modelled using their maturity date, assuming that the bonds will not be exposed to the same transition and physical risks as the equity of the same issuer for the same time period. This methodology results in a CVaR outcome for a fixed income portfolio that is significantly less than that for an equity portfolio, and therefore not comparable in our opinion. We therefore exclude fixed income from CVaR analysis. When possible, the fixed income team runs CVaR analysis on the equity holding companies of the bond issuers to help understand the climate-related risks of the corporate bonds.





Beutel Goodman has Enterprise Risk Management (ERM) structures and processes in place to identify, assess and manage risks, including setting appropriate governance structures and accountabilities. We have incorporated environmental-related risks and opportunities in our overall risk management framework and approach.

We consider climate-related risks as part of our investment, strategic, reputational, and operational risk categories.

Climate-Related Risks	Actions
 Adverse climate events, transition and/ or related operational and reputational risks impacting the valuations of portfolio companies 	• BG incorporates climate considerations as part of our disciplined fundamental research investment process
 Inability to meet evolving client expectations around climate- related risks 	• BG works with clients and industry groups to understand climate and industry developments. We employ a thoughtful approach in meeting client needs and expectations in line with our disciplined value investing principles
 Negative perception around BG's approach to climate-related risks 	 BG strives toward open and transparent communication of our investment approach and business practices related to climate risks via ongoing reporting and industry participation (e.g., PRI)
 Rapid change and increased regulatory and industry expectations around compliance and disclosure. 	 BG actively monitors regulatory changes and evolving industry expectations
 Increased risk of regulatory enforcement and/or legal actions Adverse climate events and/ or transition risks impacting BG's 	 BG has implemented robust business continuity and disaster preparedness processes and is committed to proactive risk management and continual improvement to manage
	 Climate-Related Risks Adverse climate events, transition and/ or related operational and reputational risks impacting the valuations of portfolio companies Inability to meet evolving client expectations around climate- related risks Negative perception around BG's approach to climate-related risks Rapid change and increased regulatory and industry expectations around compliance and disclosure. Increased risk of regulatory enforcement and/or legal actions Adverse climate events and/ or transition risks impacting BG's operations

Exhibit 13. Beutel Goodman's Climate-related Risks.

Source: Beutel, Goodman & Company Ltd.

Our portfolio managers, ESG Leads, ESG Working Group and the Head of Responsible Investing form the first line of defense and are primarily accountable for identifying, assessing and managing climate-related risks in our portfolios. Compliance, Legal and ERM serve as the second and third lines of defense and are responsible for oversight. Compliance, Legal and ERM are independent from the first line and report directly to the firm's Management Committee. Management monitors climate risks as part of ongoing management reporting.

Exhibit 14. Climate Related Risk Lines of Defense.



Source: Beutel, Goodman & Company Ltd.

Identify	•	PMs are the first line of defense in identifying climate-related risks in the portfolio companies. PMs leverage third-party data such as MSCI to augment proprietary research and help identify the companies most exposed to climate change and the associated highest risk factors. Head of Responsible Investing and ESG Leads actively participate in collaborations and industry events to identify potential new climate-related risks or areas of focus. Key findings are shared with the investment teams. The CCO, Head of Responsible Investing, ESG Leads and ESG Working Group monitor for changes in regulatory compliance and disclosure requirements.
Assess	•	PMs assess the climate-related risks that have been identified and determine the level of materiality for each investment. In determining the level of materiality, applicable physical and transition risks are considered (e.g., location of assets, stranded asset risk, regulatory jurisdiction). PMs use MSCI's Climate VaR and Implied Temperature Rise metrics to assess the level of climate-related risk exposure within each portfolio company, as well as at the portfolio level.

Respond	•	Active ownership is the cornerstone of our climate integration efforts. We directly engage with our portfolio companies, and we thoughtfully vote our proxies to understand risks in portfolio companies and support long-term financial outcomes for investors. For the companies that are most exposed to climate-related risks, engagements are often focused on the credibility of a transition plan, target setting, disclosure, and the robustness of climate strategies. We track our engagements and outcomes of those engagements. See Exhibit 15 for a summary of our engagements by theme.
Monitor and Report	٠	ESG tear sheets are produced as part of the fundamental research process, at the time of investment initiation and generally updated annually for each company across both fixed income and equity portfolios. These sheets highlight and track the material performance indicators we have deemed important and are categorized by environmental, social and governance factors, including climate considerations and data. See Exhibits 16 and 17 for examples.
	•	ESG summary reports are generated on a quarterly basis using MSCI to track the carbon footprint and GHG intensity of the portfolios compared to the applicable benchmark.
	•	Responsible investing reports are produced quarterly and annually, highlighting our ESG- related activities, including engagements and proxy voting.
	•	Investment teams discuss areas of material risk on a company-by-company basis during quarterly ESG review meetings with PMs and the respective ESG Lead.
	•	Management monitors relevant climate risks and commitments as a standing item in the quarterly management reporting package.





Source: Beutel, Goodman & Company Ltd. As at December 31, 2023.

Exhibit 16. Example of a Beutel Goodman ESG Tear Sheet (Equity).

NEW CO.

Overall ESG Assessment

Identify Key Material Issues: consider MSCI rating and research, company's sustainability disclosure, proxy information

BG Assessment: assess management of key financially material issues, areas of strength, areas of weakness

Key ESG Metrics

Governance (G)

Alignment with Shareholders and Value Creation

Voting structure, ownership, board quality, independence, diversity Management Compensation tied to returns and ESG targets, capital allocation policy, ROIC

Environmental (E)

Commitment to Climate Strategy

GHG Emissions, scopes disclosed, targets, alignment with disclosure frameworks, TCFD, SASB, GRI, CDP Targets, other company specific/sector concerns

Social (S)

Commitment to Good Corporate Citizenship

Diversity, Equity and Inclusion initiatives, compliance with human rights frameworks, SDG alignment

Key ESG Issues and Areas of Engagement

Controversies

ESG Opportunities

Note: For illustrative purposes only and may not be representative of all the factors we consider.

Exhibit 17. Example of a Beutel Goodman ESG Tear Sheet (Fixed Income).

Company ABC	
Overall ESG Risk	
MSCI Rating	
MSCI Previous Rating	
Last MSCI Rating Date	
Quality of ESG Disclosure	
Sustainable Finance (Amount Outstanding \$mm)	
Environment	
Reports Scope 1, 2, 3 GHG Emissions	
GHG Emissions Intensity	
Water Stress	
Power Consumption	
Renewable Power Use	
Toxid Emissions Management	
GHG Emissions Management	
GHG Emissions Reduction Plan	
Clean Revenue	
Clean Technology Opportunities	
Significant Environmental Spills	
Significant Environmental Fines	
Commitment to Net Zero	
Net Zero Status	
Net Zero Target Year	
Interim Targets	
Company Claims Science-Based Emissions Targets	
Carbon Offsets	
Company Aligns with UN SDGs	
Implied Temprerature Rise	
Social	
Safety Record	
Workforce Diversity	
Female Executives	
Community Spend and Involvement	
First Nations Relationships	
Governance	
Executive Compensation	
ESG Goals tied to Executive Compensation	
Capital Allocation Policy	
Related Party Transactions	
Board of Directors Quality	
Board Independence	
Female Representation on Board	
Overloaded Board	
Controversies	
Key ESG Factors for Engagement with Management	

Note: For illustrative purposes only and may not be representative of all the factors we consider.



We use several metrics to measure the climate-related risks of our investments:

- Economic emissions intensity
- WACI
- Climate Value-at-Risk
- Implied temperature rise
- Percentage of green revenue

These metrics are a tool to measure the climate-related risks and opportunities in our investment portfolios. The analysis helps us assess a company's net-zero commitments, carbon intensity and clean technology opportunities and their impact on long-term value. We also use these metrics to inform our engagements. Companies with the largest WACI and emissions intensity are targeted for priority engagements due to the elevated risks and opportunities to the companies' long-term financial sustainability. For customized strategies that have commitments to net zero by 2050 and interim targets, the metrics help us measure progress.

We also review our investments for other climate-related risks such as biodiversity, water stress, land reclamation, significant spills and fines, as well as climate-related controversies and hazardous waste.

While the metrics we employ allow us to compare and contrast the companies we invest in, we recognize that metrics present challenges. The primary issue is with the data itself. While improving, disclosure of climate-related data is still disparate. Despite the increase in disclosure, gaps and uncertainty in data remain, especially around Scope 3 disclosure. The lack of historical emissions data is also a problem as it makes measuring progress and comparability a challenge. New disclosure regimes globally, including the proposed Canadian Sustainability Disclosure Standards by the Canadian Sustainability Standards Board, SEC climate disclosure rules in the U.S., and the EU Corporate Sustainability Reporting Directive, will help fill the disclosure regimes, which would allow for further comparability across companies and sectors in different geographies, as well as audited metrics to improve the data quality and reliability.

Aggregating a portfolio-level carbon footprint may not always be possible, especially in fixed income. Stand-alone debt issuers tend to lag in comparison to their equity issuing peers in terms of disclosure. Additionally, some data services may link an operating company's emissions data (if not disclosed separately, which is not often the case) to the holding company's emissions data. This generally overstates the operating company's carbon footprint and risks double-counting if an investment portfolio owns both the holding company and operating company debt.

There are also some challenges with sovereign GHG emissions data when trying to capture the carbon footprint of a fixed income portfolio. For example, when measuring intensity, corporates tend to use revenue or enterprise value. However, a sovereign's intensity is typically based on GDP, which makes calculating the carbon footprint for an entire fixed income portfolio challenging. For now, we are only calculating the carbon footprint for corporates (39.25% of the overall Ffixed lincome portfolio), but we do track GHG emissions for sovereigns, provincials and municipals, and monitor legislation and commitments. We also note the lag in terms of sovereign emissions reporting. For example, the last year that Canada released GHG emissions data (according to Statistics Canada) was 2021.

Scope 3²⁵ emissions are problematic due to issues of comparability, coverage, transparency and reliability. Scope 3 emissions are not widely reported and estimates vary significantly. Another problem is the double- counting of emissions. One company's Scope 3 emissions can overlap with another's Scope 1 emissions. For example, the Scope 1 emissions of a power generator are the Scope 2 emissions of an electrical appliance user, which are in turn the Scope 3 emissions of both the appliance manufacturer and the appliance retailer. Categories can also be double- counted within Scope 3; for example, if two companies account for third-party transportation of goods between them. However, even with these issues, Scope 3 is relevant as for some companies, where the vast majority of their carbon footprint is Scope 3.

Economic Emissions Intensity

Economic emissions intensity is a climate impact indicator defined as the absolute emissions associated with investments normalized for the total size of assets under management. This is the calculation recommended by the Partnership for Carbon Accounting Financials (PCAF). Economic emissions intensity helps investors understand the climate impact of the organization's investment activities. It also helps to demonstrate how the emission intensities of different portfolios (or benchmarks) compare to each other per monetary unit. We note that MSCI refers to the economic emissions intensity metric as financed emissions intensity.

Exhibit 18. Calculation of Economic Emissions Intensity.



Source: Partnership for Carbon Accounting Financials

Note: EVIC is defined as the sum of the market capitalization of ordinary shares at fiscal year- end, the market capitalization of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.²⁶

A challenge when using this metric is that it does not consider climate scenarios, company targets, low carbon opportunities or sustainable finance. In addition, changes in underlying companies' market capitalization can be misinterpreted, as market movements can create significant changes in the footprint measure that are unrelated to actions to reduce emissions. This challenge applies to all metrics that use EVIC in their calculations.

²⁵The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.
²⁶The Global GHG Accounting and Reporting for the Financial Industry, Partnership for Carbon Accounting Financials (November 2020)



Exhibit 19. Economic Emissions Intensity by Beutel Goodman Asset Class versus Benchmark.

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023

Weighted Average Carbon Intensity

WACI is a climate risk indicator used to measure a portfolio's exposure to carbon-intensive companies, expressed in metric tonnes of CO2e/\$M per revenue.

Exhibit 20. Calculation of WACI.



Source: MSCI

This metric normalizes for size and allows for comparability not only across portfolios, but also against benchmarks. It also helps to mitigate any significant changes in absolute GHG emissions due to a company's strategy (e.g., merger, acquisition, divestiture). While this metric is fairly simple to calculate and communicate, it is a point-in-time measure and therefore is sensitive to end dates and does not take into account any of the company's future actions to reduce its carbon footprint. In addition, WACI does not capture the investor's responsibility for GHG emissions like the economic emissions intensity metric does. On a company-by-company basis, this metric is useful for identifying companies with a large carbon footprint that may be exposed to potential stranded asset risk.





Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

Emissions Data Quality and Relevance

We look at additional metrics to better understand the reliability and relevance of the portfolio level emissions data. The quality of the strategy level emissions data is evaluated based on PCAF scores. PCAF scores the quality of a company's emissions data using a scale of 1–5, with 1 being the most reliable (verified reported emissions) and 5 being the least reliable (not disclosed). A full definition of the PCAF scores can be found in the appendix. Both our equity and fixed income corporate portfolios have a PCAF score ranging from 2.0 to 2.2, which is slightly above or close to that of their benchmarks. A weighted average score band of 2 means that emissions data points used are mostly either calculated by the company, or estimated based on physical activities data (i.e., the company's energy consumption or production). This level of emissions data quality is satisfactory, in our view.



Exhibit 22. PCAF Score by Fund.

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

The coverage ratio of WACI and financed emissions intensity are examined separately for relevance of emissions data on a portfolio level. Our equity strategies' emissions are almost 100% covered on both WACI and financed emissions, while our fixed income strategies have lower coverage ratios on financed emissions intensity. We attribute the lower coverage ratio on financed emissions intensity on holding corporate bonds issued by debt-only issuers, where a reasonable EVIC cannot be reliably sourced by MSCI.

Strategy	Canadian Equity	U.S. Equity	International Equity	Canadian Fixed Income	U.S. + International Fixed Income
Coverage Ratio - WACI	99.7%	99.8%	100.0%	97.2%	99.0%
Coverage Ratio - Financed Emissions	99.7%	100.0%	100.0%	84.2%	42.2%

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

Climate Value-at-Risk

CVaR aims to assess potential financial sensitivity to climate-related risks and opportunities. The metric is forward-looking and assesses both the transition and physical risk for a company and/or portfolio. The calculations are complex and require many methodological choices and assumptions. We use MSCI's methodology and tools for calculating the CVaR of our companies and our investment portfolios. MSCI calculates the present value of aggregated future policy risk costs, technology opportunity profits, extreme weather event costs, and profits expressed as a percentage of the portfolio's market value. The metric is used as a risk-measurement tool as it estimates the risk of loss for investments. The metric does not consider climate risk management and is sensitive to changes in a company's market value and cost of capital.



Exhibit 24. Climate Value-at-Risk for Beutel Goodman's Equity Asset Classes versus Benchmark.

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

Note: For illustrative purposes we used the NGFS below 2°C scenario, whereby the stringency of climate policies gradually increases, giving a 67% chance of limiting global warming to below 2°C. For the above example, we measure only the equity portfolios for illustrative purposes.

Implied Temperature Rise

Implied temperature rise (ITR) calculations rely on historical and backward-looking data, limiting their applicability for forward-looking scenario analysis. The ITR attempts to estimate a global temperature rise associated with the GHG emissions of a company, expressed as a numeric degree. Again, we use MSCI to calculate the ITR for individual companies, as well as on a portfolio basis. MSCI estimates the global rise in average temperature by 2100 and later if the global economy were to overshoot (or undershoot) its remaining carbon budget to the same extent as the company or portfolio in question. MSCI uses Scopes 1, 2 and 3 GHG emissions in its calculations.

Similar to CVaR, the ITR is a complex calculation that is sensitive to its multiple assumptions. While attempting to use forward-looking data disclosed by a company, there are limitations in factoring in technological or strategic change. We use this metric as one of our tools to help determine where the company is in its decarbonization plans.



Exhibit 25. Implied Temperature Rise for BG Asset Classes.

Portfolio 🔳 Benchmark

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

Green revenue is the weighted average of revenue exposure to the following environmental categories:

- Alternative energy
- Energy efficiency
- Green building
- Pollution prevention
- Sustainable water
- Sustainable agriculture

This is used as an indicator for company-specific transition related opportunities.



Exhibit 26. Exposure to Green Revenue by Fund.

Source: MSCI ESG Manager, Beutel, Goodman & Company Ltd. As at December 31, 2023.

With the exception of our sustainable strategies or custom client mandates, Beutel Goodman has not set carbon intensity targets at the firm level nor at the investment portfolio level. We will continue to evaluate the potential of setting targets in the future. We believe it is important for any commitment to net zero by 2050 in our investment portfolios to be serious, thoughtful and measurable, as well as in accordance with our value investing style and client commitments.





Table 5-3. General description of the data quality score tablefor listed equity and corporate bonds68

Data Quality	Options to estimate the financed emissions		When to use each option
Score 1	Ontion 1:	1a	Outstanding amount in the compay and EVIC are known. Verified emissions of the compay are available.
	Reported emissions	1b	Outstanding amount in the company and EVIC are known. Unverified emissions calculated by the company are available.
Score 2	Option 2: Physical activity-based	2a ⁶⁹	Outstanding amount in the company and EVIC are known. Reported company emissions are not known. Emissions are calculated using primary physical activity data of the company's energy consumption and emission factors ⁷⁰ specific to the primary data. Relevant process emissions are added.
Score 3	emissions	2b	Outstanding amount in the company and EVIC are known. Reported company emissions are notknown. Emissions are calculated using primary physical activity data of the company's production and emission factors specific to the primary data.
Score 4		За	Outstanding amount in the company, EVIC and the company's revenue ⁷¹ are known. Emission foactors for the sector per unit of revenue are known (e.g., tCO ₂ e per euro or dollar of revenue earned in a sector).
Score 5	Option 3: Economic activity-based emissions	3b	Outstanding amount in the company is known. Emission factors for the sector per unit of asset (e.g., tCO_2e per euro or dollar of asset in a sector) are known.
		3с	Outstanding amount in the company is known. Emission factors for the sector per unit of revenue (e.g., tCO ₂ e per euro or dollar of revenue earned in a sector) and asset turnover ratios for the sector are known.

(score 1 = highest data quality; score 5 = lowest data quality

Source: Partnership for Carbon Accounting Financials

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The information provided is as of December 31, 2023. Beutel Goodman has taken reasonable steps to provide accurate and reliable information. Beutel Goodman reserves the right, at any time and without notice, to amend or cease publication of the information.

Please note Beutel Goodman's ESG and responsible investment approach may evolve over time. This report refers to progress made during the calendar year 2021 and our approach as of December 31, 2021. Also note that the integration of ESG and responsible investment considerations does not guarantee positive returns. Past performance does not guarantee future results.

For more information on our approach to ESG and Responsible Investing, please visit <u>https://www.beutelgoodman.com/about-us/responsible-investing/.</u>

Certain portions of this document may contain forward-looking statements. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and other similar forward-looking expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future action, is also forward-looking statement. Forward-looking statements are based on current expectations and forecasts about future events and are inherently subject to, among other things, risks, uncertainties and assumptions which could cause actual events, results, performance or prospects to be incorrect or to differ materially from those expressed in, or implied by, these forward-looking statements.

These risks, uncertainties and assumptions include, but are not limited to, general economic, political and market factors, domestic and international, interest and foreign exchange rates, equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. This list of important factors is not exhaustive. Please consider these and other factors carefully before making any investment decisions and avoid placing undue reliance on forward-looking statements. Beutel Goodman has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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