Climate strategy progress report

2023

NEI

Contents

Alignment to the TCFD

This report is aligned to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD). NEI has been an official supporter of the TCFD since 2018. The purpose of reporting against the TCFD framework is to provide investors and other stakeholders with a standardized look at a company's strategic approach to managing climate-related risks and opportunities. As an investment firm, our main environmental impacts are derived from our financed emissions—the greenhouse gas emissions associated with the companies we hold in our investment portfolio. The TCFD framework has been designed to capture the embedded risks that financed emissions represent to the financial system, and therefore to our investors. It has become the standard in climate reporting, and now underpins most voluntary and regulatory reporting frameworks regarding climate-related information. The TCFD has not reviewed this report.

Visit https://www.fsb-tcfd.org/

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Climate metrics, data and other information contained in this Report are or may be based on assumptions and estimates with little supporting documentation. We have not independently verified or assessed the assumptions underlying the data we have obtained from our sub-advisors and other third parties that we use to set, track and report on our progress towards meeting our interim targets. Moreover, the data needed to define our pathway toward net zero may be limited in quality, consistency, or simply not available at the time the Report was created. All commitments and targets in this Report are aspirational and subject to change as new data and information become available, and as the legislative and regulatory landscape continue to evolve with respect to climate-related reporting.

This Report is intended to provide information from a different perspective and in more detail than is required to be included in mandatory securities filings and other regulatory reports made with Canadian securities regulators. While certain matters discussed in this Report may be of interest and importance to our stakeholders, the use of the terms "material", "significant", "important" or similar words or phrases should not be read as necessarily rising to the level of materiality used for the purposes of securities or other laws and regulations. We have no obligation to update the information or data in this Report.

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From time to time, Northwest & Ethical Investments L.P. and its affiliates (NEI, we, us or our) make written or oral forward-looking statements within the meaning of certain applicable securities legislation. We may make forward-looking statements in this Report and in other filings with Canadian regulators, in other reports to our stakeholders, and in other communications. Forward-looking statements in this Report include, but are not limited to, statements relating to our climate-related strategy and commitments, risks and opportunities, metrics and targets (including interim targets), and our strategy supporting the transition to a net-zero economy.

Forward-looking statements are typically identified by words such as "aim", "anticipate", "believe", "commit", "estimate", "expect", "expectation", "forecast", "foresee", "goal", "intend", "intention", "likely" (and "unlikely"), "objective", "plan", "predict", "project", "seek to", "strive", "target" and similar expressions of future or conditional verbs such as "could", "may", "might", "should" and "would". Forward-looking statements are neither historical facts nor assurances of future performance. They require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that such statements will not prove to be accurate. Our actual results may differ materially from those indicated in the forward-looking statements.

We caution readers not to rely on our forward-looking statements, as they are subject to many risk factors, some of which are beyond our control and the effects of which can be difficult to predict. Such factors include, but are not limited to, the need for robust climate data and standardization of climate-related measurement methodologies, our ability to gather and verify data, our ability to successfully implement climate-related initiatives under expected time frames, the risk that initiatives will not be completed or that they will not produce the expected outcomes, the need for ongoing participation and action of various stakeholders (including our sub-advisors, governmental and non-governmental organizations, other financial institutions, businesses and individuals), changing technology and consumer behaviour, global energy needs, global decarbonization efforts including climate-related policies, and the legal and regulatory environment.

The forward-looking statements contained herein are made as of the date of this Report based on information currently available to us. Except as required by law, none of NEI or its affiliates undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future developments or otherwise.

Introduction

Adelaide Chiu,
Vice President, Head of Responsible Investing

For us to avoid the adverse impacts of climate change on the value of our investments, we need to consider our actions today. Based on an analysis by Glasgow Financial Alliance for Net Zero, we estimate that just over US$50 trillion in incremental investment is needed to achieve a net-zero carbon emission economy by 2050. Including capital currently committed, the total investment needed is US$125 trillion and will require global participation and commitment to mobilize this capital. This presents an attractive investment opportunity for both public and private sector participants–including NEI.

As this report shows, one of the key areas NEI has been focusing its expertise and influence is in its stewardship program (what we also call "active ownership"). Talking with companies, providing practical guidance, learning what it will take for them to adapt their businesses to meet the growing need for change, urging them to take a step forward. This is inherently a portfolio risk mitigation strategy. Companies that do not adapt will likely suffer consequences, and one of those potential consequences is loss of investment value. Our stewardship program gives us powerful tools to help prevent that, so we can continue to deliver the returns our investors need to achieve their goals.

On the flip side, the energy transition presents an investment opportunity like no other. Innovative, commercially successful technologies that can be deployed at scale are required. Through our engagements and investment evaluations, we seek to highlight these opportunities for companies, suggesting avenues they may not have considered under current business models. And opportunities for our portfolio companies translate into opportunities for our investors.

Climate change presents risk and opportunity—two sides of the same investment coin. Through our climate strategy we seek to manage both, for the benefit of our investors and generations to follow.

John Bai,
Senior Vice President, Chief Investment Officer

When we released our climate strategy in 2021, we knew tackling climate change from an investment perspective involved a lot of uncharted territory. Creating new frameworks and processes involves many moving parts, but the beauty of NEI's approach is that we don't have to figure it out alone. We scour the globe identifying top experts in their respective fields—whether they're in Canada, the U.S., Europe or beyond—and work together to achieve our investment objectives while making an impact.

For example, we worked with our sub-advisor Amundi Asset Management to align the funds they manage for us to a net-zero pathway. With over a trillion Canadian dollars in responsible investments, Amundi has created a comprehensive set of climate-related investment solutions that target climate change adaptation and/or mitigation activities and projects.

Working closely with Impax Asset Management, we launched a sustainability-focused solution in the form of NEI Global Sustainable Balanced Fund, helping prove that investors can make a positive impact on climate without sacrificing investment returns. We remain deeply committed to working with like-minded managers who not only share our passion for overcoming environmental and social challenges, but who can also leverage their investment skill and turn these secular tailwinds into the investment performance our clients need to achieve their goals.

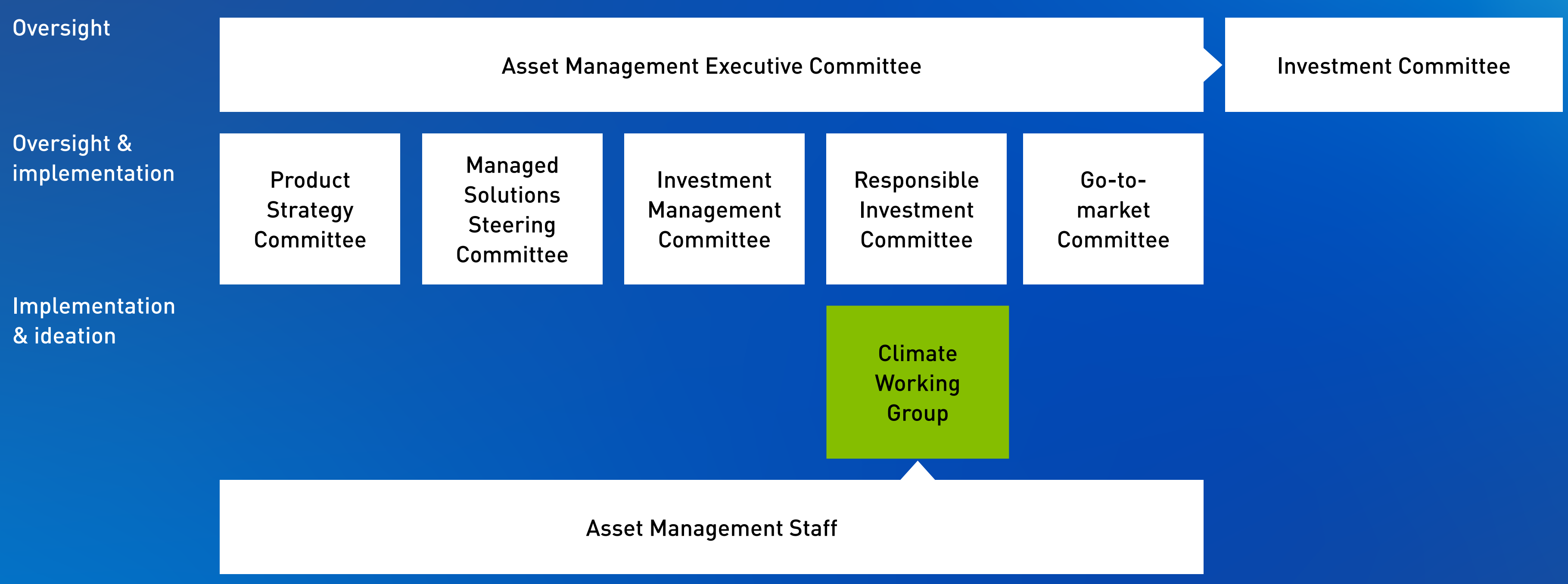
Since publishing our first report, our collaboration with sub-advisors has helped us set our own bar even higher. Getting to work alongside the brightest minds in sustainable investing gives us the confidence to do what we do every day and our desire to continue along this path has only strengthened since 2021.

Governance

Governance of NEI's climate strategy occurs at multiple levels, as depicted in Figure 1. Because we are a relatively small asset manager with a long and deep history in responsible investment, climate change considerations (among other priority non-financial concerns) are well-acknowledged throughout the organization. The work we do at NEI also helps to inform the climate considerations and mitigation activities of our parent company, Aviso.

All major business activities conducted by NEI, including the assessment and management of climate-related risks and opportunities, are subject to the governance structure illustrated above. One area we continue to develop is higher-level oversight of NEI's climate strategy in relation to our parent company as we seek greater integration, collaboration, and firm-wide oversight of risk management and the pursuit of climate-related opportunities in service of our clients.

Figure 1: *NEI governance over climate strategy*



Responsible Investment Committee

The mandate of the Responsible Investment Committee (RIC) is to monitor NEI's approach to responsible investing and its alignment with the strategic goals of Aviso's asset management division. In particular, the RIC will review reports, briefs, policies, and other documents relating to NEI's implementation of its approach, along with any other matters brought forth to the committee for review and/or approval. The RIC is a voting body. Matters that have been put to a vote recently include changes to NEI's exclusionary screens and adoption of climate targets.

The RIC meets monthly. Members come from departments across the organization and include analysts, managers, directors, vice presidents and heads of departments, up to and including our Head of Asset Management. It is chaired by our Vice President and Head of Responsible Investing. In addition to providing feedback and approving proposals put forward by the Climate Working Group, the RIC has a window into the full body of work being undertaken by the Responsible Investing team. Through this forum, responsible investment trends, research, challenges, processes, and other items of interest are discussed.

Climate Working Group

NEI's Climate Working Group was formed in early 2021 to define and set out the firm's climate strategy. Our inaugural report, *NEI Climate Strategy: Commitment*, was published in November 2021. Since then, the group continues to meet weekly, ideating, developing, and implementing such things as our commitment to the Net Zero Asset Managers (NZAM) initiative, climate-related policies and disclosure obligations, data acquisition and portfolio analysis, integration of climate factors into the investment decision-making process, sub-advisor status regarding climate commitments, reporting, and presenting this information up the governance chain for review and approval.

Our Vice President and Head of Responsible Investing serves as the Executive Sponsor of the group; it is chaired by our Head of Stewardship. There is representation from the Investment Management team, Product Development team, reporting and communications, and sustainability at Aviso, with additional contribution from the finance and sales departments.

Strategy

Business strategy

NEI has been considering climate-related risks in relation to its investment portfolio for many years. Until recently, climate risk assessment took place at the security level and was addressed through our evaluation framework and active ownership program, where we seek to draw attention to climate-related risks and influence companies to address them through strategic planning, capital allocation and target setting, as well as through our proxy vote decisions. Over the last two years incorporation of climate-related risks and opportunities has become a more prominent feature of our business strategy.

There are two types of risks associated with climate change: physical risk and transition risk. Physical risks include such things as rising sea levels, overall global temperature change, and extreme weather events such as floods, wildfires, droughts, and storms. Transition risks are those that pose a challenge—often existential, in a business sense—to the long-term sustainability of governments, companies and other organizations related to the "transition" to a low-carbon economy that is required to survive the worst effects of climate change. Examples of transition risks include regulatory and policy uncertainty, access to capital, increased cost of production inputs, changing consumer preferences, and many more.

Depending on where their physical operations are located, the predominant climate-related risks faced by asset managers such as NEI are transition risks. Our physical risks will be captured by our parent company as part of Aviso's climate strategy work, currently underway. The transition risks we highlight in Table 1 are specific to NEI's role as an investment manager within the larger Aviso organization. We see them as relevant over short- and long-term planning horizons. (Our risk assessment process and related mitigation tactics are described extensively in **Chapter 3: Risk management**.)

Table 1: *NEI-specific climate-related risks and opportunities*

Transition risk	Potential impact
AUM remains exposed to companies/sectors that lose market value due to climate-related risks.	Reduction in market value of portfolio, i.e., lower returns for investors.
Manager is unable to provide the climate-related investment solutions the market demands.	Decline in market share and assets under management; loss of growth opportunity.
Heightened regulatory scrutiny of climate disclosure, more onerous disclosure requirements.	Reputational damage, sanctions including fines/restate documents, drain of internal resources.
Manager seen as not living up to stated goals or industry reporting standards such as PRI, NZAM, TCFD.	Reputational damage, removal from organization.

Opportunity	Potential impact
To uncover investment value throughout the market.	Improve long-term sustainability of returns for clients.
To develop climate-friendly investment products.	Increase revenue through asset growth; progress toward climate solutions investment target (See **Chapter 4: Metrics and targets**)
To build advisor and investor confidence in their ability to mitigate/avoid effects of climate change as they pursue financial objectives.	Increase revenue through advisor and client loyalty to NEI, referral business.
To reduce real-world GHG emissions.	Drive overall success of energy transition, curb global warming.

To reiterate, Table 1 identifies climate-related risks and opportunities particular to NEI *as an investment manager*. Separately, but inextricably linked, are the many variable climate-related risks faced by the companies we invest in (Table 2). These risks feed into NEI's primary transition risk—loss of portfolio value and unacceptable returns for our investors—and that is precisely why we seek to assess and mitigate them through our security evaluation framework, active ownership program, sub-advisor monitoring, and policy work. But it's not just about risk. These companies also have significant opportunities before them, which have the potential to benefit our investors (Table 3).

Table 2: *Climate-related risks facing the companies NEI may invest in*

Type of risk	Risks	Potential financial impacts
Transition	**Policy and legal**	
	• Increased pricing of GHG emissions • Enhanced emissions-reporting obligations • Mandates on and regulation of existing products and services • Exposure to litigation	• Increased operating costs (e.g., higher compliance costs, increased insurance premiums) • Write-offs, asset impairment, and early retirement of existing assets due to policy changes • Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	• Substitution of existing products and services with lower emissions options • Unsuccessful investment in new technologies • Costs to transition to lower emissions technology	• Write-offs and early retirement of existing assets • Reduced demand for products and services • Research and development (R&D) expenditures in new and alternative technologies • Capital investments in technology development • Costs to adopt/deploy new practices and processes
	Market	
	• Changing customer behavior • Uncertainty in market signals • Increased cost of raw materials	• Reduced demand for goods and services due to shift in consumer preferences • Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) • Abrupt and unexpected shifts in energy costs • Change in revenue mix and sources, resulting in decreased revenues • Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)

Type of risk	Risks	Potential financial impacts
Transition (cont'd)	**Reputation**	
	• Shifts in consumer preferences • Stigmatization of sector • Increased stakeholder concern or negative stakeholder feedback	• Reduced revenue from decreased demand for goods/services • Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) • Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) • Reduction in capital availability
Physical	**Acute** • Increased severity of extreme weather events such as cyclones and floods **Chronic** • Changes in precipitation patterns and extreme variability in weather patterns • Rising mean temperatures • Rising sea levels	• Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) • Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) • Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) • Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants) • Increased capital costs (e.g., damage to facilities) • Reduced revenues from lower sales/output • Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations

Table contents: Task Force on Climate-related Financial Disclosures, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, October 2021, 75.

Table 3: *Climate-related opportunities available to the companies NEI may invest in*

Opportunities	Potential financial impacts
Resource efficiency	
• Use of more efficient modes of transport • Use of more efficient production and distribution processes • Use of recycling • Move to more efficient buildings • Reduced water usage and consumption	• Reduced operating costs (e.g., through efficiency gains and cost reductions) • Increased production capacity, resulting in increased revenues • Increased value of fixed assets (e.g., highly rated energy efficient buildings) • Benefits to workforce management and planning (e.g., improved health and safety, employee satisfaction) resulting in lower costs
Energy source	
• Use of lower-emission sources of energy • Use of supportive policy incentives • Use of new technologies • Participation in carbon market • Shift toward decentralized energy generation	• Reduced operational costs (e.g., through use of lowest cost abatement) • Reduced exposure to future fossil fuel price increases • Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon • Returns on investment in low-emission technology • Increased capital availability (e.g., as more investors favor lower-emissions producers) • Reputational benefits resulting in increased demand for goods/services
Products and services	
• Development and/or expansion of low emission goods and services • Development of climate adaptation and insurance risk solutions • Development of new products or services through R&D and innovation • Ability to diversify business activities • Shift in consumer preferences	• Increased revenue through demand for lower-emissions products and services • Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services) • Better competitive position to reflect shifting consumer preferences, resulting in increased revenues
Markets	
• Access to new markets • Use of public-sector incentives • Access to new assets and locations needing insurance coverage	• Increased revenues through access to new and emerging markets (e.g., partnerships with governments, development banks) • Increased diversification of financial assets (e.g., green bonds and infrastructure)
Resilience	
• Participation in renewable energy programs and adoption of energy efficiency measures • Resource substitutes/diversification	• Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) • Increased reliability of supply chain and ability to operate under various conditions • Increased revenue through new products and services related to ensuring resiliency

Table contents: Task Force on Climate-related Financial Disclosures, *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, October 2021, 76.

Climate strategy

The activities we undertake to mitigate climate-related risks and exploit opportunities to fulfill our business strategy are captured within our climate strategy. In this section we share a detailed breakdown of the progress we have made since introducing the strategy in late 2021 and the adjustments we have made based on what we have learned through implementation.

Climate strategy goal

The revisions to our 2021 goal reflect the work we are undertaking to better integrate climate-related risks and opportunities into our investment decision-making process, underscoring the critical importance of acknowledging the short- and long-term effects of climate change on the economy, and on our investors' financial well-being.

Our strategy is founded on six pillars, summarized on page 12, with page references for the detailed updates on our underlying commitments. We have made some revisions to account for our progress in the time since we published the original commitments, and in the context of a fast-moving environment surrounding responsible investing, including disclosure requirements, data availability, and internal assessment and resource considerations. We expect to continue to revisit our commitments and revise, remove, and add new ones as the world continues its transition to a low-carbon economy.

2021

The goal of our climate strategy is to drive real-world reductions in greenhouse gas emissions.

Achieving that goal requires action on many fronts, beginning with alignment to net zero and running through our active ownership program, our policy and standards work, our commitment to transparency and reporting, and more. All of that work is guided by three principles: innovation, transparency, and accountability.

2023

The goal of our climate strategy is to drive real-world reductions in greenhouse gas emissions, so that as an investment manager, we can contribute to avoiding the worst effects of climate change as we seek to protect the value of our investors' assets.

Achieving that goal requires action on many fronts, beginning with alignment to net zero and running through our sub-advisor selection and monitoring process, security evaluation framework, active ownership program, policy and standards work, our commitment to transparency and reporting, and our duty as a corporate citizen.

1. Net-zero alignment

We commit to aligning all assets under management (AUM) and NEI as an organization with net zero by 2050 or sooner, in line with commitments made under the Net Zero Asset Managers (NZAM) initiative, and in partnership with our sub-advisors. (Page 13.)

2. Active ownership

We commit to pursuing our corporate engagement activities with renewed vigour to amplify our influence, stressing the development of net-zero strategies and widespread adoption of the Task Force on Climate-related Financial Disclosures reporting framework. (Page 15.)

3. Climate-focused investment solutions

We commit to embedding climate considerations into our product development process. We want to offer the best in climate-focused investment solutions so investors can be confident that they too are contributing to a low-carbon future. (Page 16.)

4. Policies, standards, and collaborations

We commit to continuing our work with standard-setters, regulatory bodies, and the government to strengthen global oversight of our shared path to net zero. We believe this can be better achieved when working with multiple stakeholders as part of a larger group. (Page 17.)

5. Transparency and reporting

We commit to providing ongoing reports on progress toward our short- and long-term targets, highlighting our successes and areas for improvement and identifying our next steps. (Page 18.)

6. Internal alignment

We commit to aligning corporate operations with net zero by 2050 or sooner. This includes developing methods of measuring current emissions and carbon footprint and researching innovative and effective financing mechanisms to help offset this carbon footprint within NEI, and ultimately across NEI's parent company Aviso. (Page 18.)

Strategic pillar #1: *Net-zero alignment*

	Original commitment	Commentary	Updated commitment
1.1	Aligning our investment fund lineup with the global goal of achieving net-zero greenhouse gas emissions across all assets under management by 2050.	**Partially achieved – ongoing** This commitment was brought to reality in early 2023 with the acceptance of our commitments and targets for NZAM. The rationale for rating this commitment as "partially achieved" is that our current NZAM commitment does not cover our entire AUM. From an asset class perspective, we have excluded sovereign debt and derivatives at this time. As data availability and assessment methodologies continue to evolve, we expect to roll up more of our AUM into our commitment.	Aligning our investment fund lineup with the global goal of achieving net–zero greenhouse gas emissions across all assets under management by 2050 or sooner.
1.2	Setting and publishing interim net-zero targets in 2022 for 2025 and 2030.	**Achieved – late** Our interim targets for 2025 and 2030 are published on the NZAM website here: https://www.netzeroassetmanagers.org/signatories/nei-investments/	(Achieved; no longer applicable.)
1.3	Embedding our net-zero commitments into our product development guidelines in 2022: • Investment funds to be categorized under a proprietary scheme currently in development as either Net-zero Accelerator, Net-zero Aligned, or non-Aligned	**Partially achieved** We have put on hold the work of categorizing our fund lineup according to each fund's degree of alignment to net zero. The regulatory regime around disclosures and taxonomies is evolving rapidly and moving at different speeds in different jurisdictions around the world. As a manager of globally located sub-advisors, those jurisdictional differences have a large impact on NEI. We have determined it would be premature to proceed with such a scheme under current conditions, potentially leading to confusion among our stakeholders. Having said that, there are now two funds in our lineup with net-zero commitments embedded in their investment strategies (See **Chapter 4: Metrics and targets**). We consider these funds to be aligned with a net-zero pathway, and we continue to work with our sub-advisors on establishing similar alignment with other funds.	(Removed; see rows 1.7 and 1.8 for related commitments.)
1.4	Working with our sub-advisors to set fund-level goals and expectations that align with our net-zero targets.	**Partially achieved – ongoing** We continue to meet with sub-advisors as part of our formal due diligence process as well as through ad hoc email exchanges, calls, and meetings, to discuss our expectations regarding net-zero commitments and activities.	Working with our sub-advisors to set fund-level goals and expectations that align with our net-zero commitments.

	Original commitment	Commentary	Updated commitment
1.5	Effective immediately, any new sub-advisor will be aligned with our net-zero targets.	**Achieved – ongoing** The three most recent sub-advisors to join the NEI roster since we made this commitment are Hillsdale Advisors (June 2023), Ecofin Advisors (March 2022), and Baillie Gifford (November 2021). Ecofin and Baillie Gifford have net-zero commitments and targets in place that align with NEI's. Hillsdale is currently developing its plans for achieving net zero.	All new sub-advisors will support our commitment to reach net zero by 2050 or sooner.
1.6	2023 goals: • All sub-advisors to support the TCFD framework • All sub-advisors to track and report carbon-related metrics	**Partially achieved – ongoing** We were ambitious in setting these targets for 2023, and as of this publication we do not expect this commitment to be achieved. We can report that as of September 30, 2022, 15 of 19 sub-advisors support the TCFD framework, which means they naturally track and report carbon-related metrics.	(Removed; see rows 1.7 and 1.8 for related commitments.)
1.7	2025 goals: • All sub-advisors to have set interim targets aligned with net zero • All sub-advisors to report publicly against their net-zero targets	**Partially achieved – ongoing** As of September 30, 2022, 11 of 19 sub-advisors were committed to reaching net zero by 2050 or sooner, using the NZAM initiative or equivalent language. Any investment manager that has committed to the NZAM initiative is required to publicly disclose interim targets, which would naturally satisfy a portion of the original 2025 goals.	2025 goals: • 70% of sub-advisors to have set a commitment to reach net zero by 2050 or sooner, using the NZAM initiative or equivalent language • 20% of AUM to be managed on a pathway to net zero by 2050 or sooner
1.8	2030 goals: • All investment funds to be categorized as either Net-zero Accelerator or Net-zero Aligned	**Partially achieved – ongoing** As noted in row 1.3, we have halted our plan to categorize our fund lineup in this way due to rapid evolution of the regulatory landscape and jurisdictional differences among our sub-advisors.	2030 goals: • 90% of sub-advisors to have set a commitment to reach net zero by 2050 or sooner, using the NZAM initiative or equivalent language • 35% of AUM to be managed on a pathway to net zero by 2050 or sooner
1.9	Revising our Responsible Investment Policy and Proxy Voting Guidelines in 2022 to reflect our net-zero commitments and other climate strategy pillars.	**Achieved** For direct links to all our publicly available policies and reports, see Appendix B: Resources.	Revising our Responsible Investment Policy and Proxy Voting Guidelines annually to reflect our net-zero commitments and other climate strategy pillars.

Strategic pillar #2: *Active ownership*

	Original commitment	Commentary	Updated commitment
2.1	Setting time-bound corporate engagement targets in 2022 that address such topics as: • TCFD alignment • Net-zero aligned or science-based targets for emissions reductions • Measurable emissions reductions from companies in our investment funds • Sector-specific expectations such as renewable energy mandates, zero-emission vehicle fleets and relevant industry certifications and commitments	**Achieved - late** Targets regarding our engagement work and portfolio companies' alignment to a net-zero pathway were finalized for NZAM in January 2023. The topics listed in our original commitment are incorporated into our ongoing corporate dialogues. We expect such requests for action to play a more significant role as we pursue our climate-related objectives, seeking more in-depth disclosure and data on companies' progress toward their own targets.	(Achieved; no longer applicable.)
2.2	Engaging companies with the goal of eliminating sources of commodity-driven deforestation in our investment funds by 2025, in line with the interim targets and timelines set out in the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation.	**Partially achieved - ongoing** Since joining this investor collaboration in November 2021, now called Finance Sector Deforestation Action, we have engaged with 17 companies in our investment portfolio through the collaboration. We are also engaging companies more broadly on their exposure to nature-related risks. Further, we have been meeting with data providers to assess NEI's portfolio's exposure to deforestation risk and have recently hired a provider to help us with this work. We revised our commitment to better match the original language of the FSDA sign-on letter.	Commit to best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolio by 2025, primarily through corporate engagement, in line with the interim targets set out in the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation.

> *Measuring financed emissions is critical for financial institutions that want to improve their climate reporting. Measuring and transparently reporting financed emissions helps financial institutions and their stakeholders understand the climate impact of the organization's lending and investment activities.*
>
> – Partnership for Carbon Accounting Financials (PCAF)

Strategic pillar #3: *Climate-focused investment solutions*

	Original commitment	Commentary	Updated commitment
3.1	Continuing to review, enhance and grow our lineup of climate-focused investment solutions, providing opportunities for investors to support the transition to a low-carbon future according to their own financial and responsible investment objectives.	**Achieved - ongoing** We have made healthy progress on this commitment. In July this year we introduced a suite of three impact portfolios designed to help overcome environmental challenges, including climate change, among other environmental and social considerations. We also introduced NEI Canadian Impact Bond Fund, which invests in climate-related fixed income securities, among other investments. These new solutions follow the introduction in 2022 of NEI Clean Infrastructure Fund and of NEI Global Sustainable Balanced Fund in 2021. Prior to that, in 2016, we launched NEI Environmental Leaders Fund, which remains the largest retail equity impact fund in Canada as of August 31, 2023, according to Simfund.	(No change.)
3.2	Setting interim targets in 2022 for assets under management, with a specific focus on assets in our Net-zero Accelerator funds.	**Partially achieved** We have provided commentary in rows 1.3 and 1.8 on our decision to halt the work of categorizing our fund lineup in this way. That said, we did establish a related target in our NZAM commitment as we aim to grow AUM in our climate solutions investments (See **Chapter 4: Metrics and targets**).	(Removed.)

> *Fundamentally, the financial impacts of climate-related issues on an organization are driven by the specific climate-related risks and opportunities to which the organization is exposed and its strategic and risk management decisions on seizing those opportunities and managing those risks.*
>
> – Task Force on Climate-related Financial Disclosures (TCFD)

Strategic pillar #4: *Policy, standards, and collaborations*

	Original commitment	Commentary	Updated commitment
4.1	Continuing to play a lead role in publicly advocating for the creation of ambitious, net-zero aligned policies and standards.	**Achieved – Ongoing** Between November 2021 and September 2023, we participated in 14 submissions to governments, regulators, and standards setters in support of ambitious climate-related policies, and signed our name to 11 investor statements on related topics, plus four on water and four on biodiversity.	(No change.)
4.2	Continuing to work with Canadian securities regulators on establishing climate-related corporate disclosure rules in line with the TCFD framework.	**Achieved – ongoing** We have been engaging with Canadian securities regulators on our own and as part of broader investor coalitions on the topic of mandatory climate-related corporate disclosure. In 2022 the Canadian Securities Administrators released a proposal for mandatory climate-related disclosure, and they have indicated that publication of the framework continues to be a priority.	Continuing to work with Canadian securities regulators to ensure the finalization and adoption of robust, mandatory climate-related disclosures that align with international developments.
4.3	Enhancing our advisor education program in 2022 so that advisors can better understand the potential effects of climate change on their clients' portfolios, and then use that knowledge to guide their clients' investment decisions in line with their goals, time horizon, and risk tolerance.	**Achieved** In 2022 we hosted a number of webinars for advisors on the subject of how to incorporate net-zero considerations into the portfolio construction process. Our new commitment in this area reframes our education objective to be more focused on the benefits of impact investing, specifically in relation to climate change.	Ensuring our distribution team can present to advisors the potential benefits of impact investing as a way for investors to mitigate the effects of climate change as they pursue their financial goals.

Strategic pillar #5: *Transparency and reporting*

	Original commitment	Commentary	Updated commitment
5.1	Reporting annually on our progress against our climate strategy in alignment with the TCFD framework, beginning in 2022.	**Achieved - ongoing** This report is NEI's first climate strategy progress report since introducing our commitments in November 2021. It is also our first report produced in alignment with the TCFD framework.	Reporting annually in alignment with the TCFD framework, and biennially on our climate strategy progress overall.
5.2	We will continue to make our Transparency and Assessment reports from the Principles for Responsible Investment (the PRI) available to the public, and to publicly disclose our Proxy Voting Guidelines and all proxy voting decisions. We will also continue to provide quarterly reports on our corporate engagement and policy activities, and to produce our annual Focus List.	**Achieved - ongoing** In the time since we published our original commitment, the PRI released the results of its 2021 assessment. We are exceptionally proud of our results under the PRI's new and more stringent framework, and we look forward to continuing to enhance our responsible investment program in line with the principles. For direct links to all our publicly available policies and reports, see Appendix B: Resources.	We will continue to make our Transparency and Assessment reports from the Principles for Responsible Investment (the PRI) available to the public, and to publicly disclose our Proxy Voting Guidelines and all proxy voting decisions. We will also continue to report on our corporate engagement and policy activities, and to produce our annual Focus List.

Strategic pillar #6: *Internal alignment*

	Original commitment	Commentary	Updated commitment
6.1	Undertaking in 2022 the work required to measure NEI's current emissions and carbon footprint and to set appropriate reduction targets aligned to net zero by 2050.	**Achieved – Ongoing** An environmental committee was established to assess GHG emissions at the level of the parent company (along with biodiversity impacts) and continues to work toward a full assessment.	Contribute as needed to Aviso's emissions assessment methodology, with the goal of measuring Aviso's GHG emissions by the end of 2024.
6.2	Investigating in 2022 innovative and effective financing mechanisms to offset NEI's existing emissions footprint and that of its parent company Aviso.	**Partially achieved – ongoing** Aviso began exploring opportunities to offset travel mileage through the purchase of carbon credits and continued its partnerships with Bullfrog Power for energy conservation and with the Electronic Recycling Association for computer re-use and recycling. Aviso is also exploring the potential to host a micro-habitat (rooftop) for 2024 at its Toronto, Vancouver, and Montreal locations, as well as circular economy and carbon management opportunities through forest partnerships.	Contribute as needed to Aviso's initiatives to reduce GHG emissions, better conserve energy, and promote biodiversity throughout the organization.

Risk management

The four transition risks we identified as inputs to our strategic planning were first identified in **Chapter 2: Strategy**. In Table 4, we share the results of our risk assessment and present an in-depth review of the tactics we employ to mitigate those risks. As you will see, our mitigation tactics are woven throughout everything we do as responsible investors, and many of them have been employed by NEI for over two decades.

Risk ratings are determined at NEI by assessing two factors: the *likelihood* of the risk occurring, and the *impact* on the business if the risk were to materialize. These factors are given a score, from which an overall risk rating (five possible levels) is derived. Each risk is also given a control rating, which is an evaluation of the effectiveness of the controls that are currently in place to mitigate the risk, and then assigned a risk treatment. The risks and ratings are included in NEI's risk register, which provides visibility for Aviso's enterprise risk management team.

Table 4: *Transition risk assessment*

Risk	Likelihood (1-5)	Impact (1-5)	Risk level	Control rating	Risk treatment
1. AUM remains exposed to companies/sectors that lose market value due to climate-related risks.	3	2	**Medium**	Robust	Monitor
2. Manager is unable to provide the climate-related investment solutions the market demands.	1	3	**Low Medium**	Robust	Monitor
3. Heightened regulatory scrutiny of climate disclosure, more onerous disclosure requirements.	5	2	**Medium**	Adequate	Mitigate
4. Manager seen as not living up to stated goals or industry reporting standards such as PRI, NZAM, TCFD.	2	2	**Low Medium**	Robust	Monitor

Mitigation tactics

Company evaluations (Table 4; Risk 1)

We have been incorporating climate-related metrics into the company evaluation process for those sectors where climate change is deemed a material risk for over 15 years. Sectors that receive a greater degree of scrutiny include energy, utilities, industrials, materials and financials. Among other expectations, we are looking for companies to have robust measurement and management of climate-related risks in place and to be developing credible transition plans and emission reduction strategies. The weighting of climate-related expectations depends on the sector, but it can be a material factor in whether we choose to invest in a company. The results of our evaluations inform our corporate engagement priorities, where we may seek to take a more aggressive approach in our dialogues. Evaluations are also likely to inform our proxy voting decisions.

Active ownership program (Table 4; Risk 1)

Corporate dialogue. Our active ownership program is in its third decade, with climate change ranking among our top four themes since 2005. We speak with a broad range of companies about their climate strategies and energy transition plans, drawing their attention to current and future risks and how they might overcome their sector-specific hurdles. We believe this constitutes a fundamental risk mitigation strategy for our investment portfolio, and ultimately our investors, who rely on us to help them achieve their financial goals amid the daunting challenges of climate change. While it's not always possible to draw a direct line from our dialogues to the resulting corporate action, we feel confident stating we have contributed positively to the development of many companies' climate strategies, helping to de-risk their operations for their long-term sustainability and for the long-term sustainability of our investment portfolio.

Proxy voting. Proxy voting is a key component of our active ownership program and a foundational risk-mitigation tool. Our Proxy Voting Guidelines establish the proprietary framework we use to make our voting decisions and are revisited annually. Our 2023 edition, for example, guides us to vote against certain board members at high-impact companies that lack adequate emission reduction targets or are not effectively managing their climate-related risks.

Shareholder resolutions. This is the third tool in our active ownership toolbox. It is one we employ only as a last measure, when we feel that companies are falling behind where we expect them to be at, and where dialogue efforts have proven to be unfruitful. NEI will typically join with other likeminded investors when filing resolutions. While we have not participated in a climate-related filing recently, we would note there has been a marked increase in such resolutions in the past few years as more investors demand companies take action.

Policy activity (Table 4; Risk 1, 3, 4)

This covers an extensive array of activities for our Responsible Investing team as NEI seeks to create positive momentum in domestic and global initiatives. Our team members participate in, organize, chair, and otherwise contribute to investor collaborations, standard-setting initiatives, and the development of polices and frameworks. Participating in such activities enables us to influence change at a higher level and to stay abreast of emerging policy-driven risks and opportunities that could affect our investment portfolio.

Sub-advisor selection and oversight (Table 4; Risk 1, 2)

Ongoing due diligence and oversight of our sub-advisors is a staple risk management tactic, and it is one we have been emphasizing more as climate-related risks and opportunities climb higher on the list of material considerations. We conduct in-depth due diligence on each sub-advisor annually and have ad hoc conversations and meetings throughout the year as we seek to understand how they are incorporating climate considerations into the funds they manage for us, including their definitions of climate solutions, their engagement strategies, and their net-zero commitments and pathways, among other things.

Product innovation and development (Table 4; Risk 2)

The only way to encourage further and ongoing investment in a successful global energy transition is to provide investors with robust and easy-to-access investment products. For NEI, those investment products are mutual funds. We design our funds to meet our clients' dual need of achieving their financial goals while making a positive impact on the world. The more investment dollars that are put toward the problem of climate change, the greater the likelihood we will avoid its worst effects.

Advisor education (Table 4; Risk 2)

Advisor education goes hand-in-hand with product development and availability. We work with advisors to help them understand the importance of considering climate change in the context of an investor's portfolio, and how they can broach the topic with clients and walk them through the options for creating a "climate-aware" investment portfolio. This is not just a tactic for managing our portfolio risk, it is a tactic for advisors to manage their own business risk. We want them to be comfortable answering client questions about portfolio impact, and about how their investments may or may not be contributing to the energy transition.

Engagement with regulators (Table 4; Risk 3, 4)

We meet with the Canadian Securities Administrators (CSA) and individual provincial regulators as part of formal consultations, often proactively and with multiple investors. We submit feedback on proposals whenever we have the opportunity. Our latest climate-related submission to the CSA was regarding their proposal for climate-related disclosures, in which we confirmed the investor need for robust, standardized climate-related reporting.

Reporting initiatives (Table 4; Risk 3, 4)

To foster transparency and maintain accountability, NEI produces various materials intended to keep our stakeholders informed of our responsible investment activities and progress toward goals. These include both quantitative and qualitative analyses of such things as corporate dialogues, proxy vote results, shareholder resolutions, and climate information as you see here. As PRI signatories, we publish our Assessment Report and Transparency Report on our website. For links to our materials, see Appendix B: Resources.

Maintain standing with industry groups (Table 4; Risk 4)

This includes fulfilling our annual reporting obligations with the PRI and NZAM, aligning our climate reporting to the TCFD, leading engagements in the CA100+ and Climate Engagement Canada investor collaborations, and actively contributing to the authoring and ongoing implementation of the RIA Canadian Investor Statement on Climate Change.

Metrics and targets

Portfolio emissions

This report marks the inaugural publication of greenhouse gas (GHG) emissions metrics related to NEI's investment portfolio. We have selected 2019 as our baseline year, which is a common choice among investment managers globally. It is important to note that not all assets are in scope for measurement of our financed emissions (Table 5), due to data availability and the development of appropriate methodologies. Like many reporting entities, we are reporting only scope 1 and 2 emissions (combined) at this time. As these inputs continue to improve and as we apply more of our own resources to climate strategy implementation, we will continue to add to our in-scope AUM.

What are financed emissions?

Financed emissions are the GHG emissions tied to the investment and lending activities of financial institutions. Think of them as the carbon footprint of an investment manager's portfolio or a bank's lending book. Emissions of all issuers in a portfolio (in-scope AUM only) are summed, and the proportional share attributable to each issuer is calculated based on issuer weight within the portfolio, whether equity or debt.

Table 5: *Scope of assets under management for portfolio emissions analysis*

In scope	Out of scope
Listed equities	Sovereign debt
Listed corporate bonds	Derivatives
	ETFs

What are scope 1, scope 2, and scope 3 emissions?[1]

GHG emissions are grouped into "scopes" as a way of setting operational boundaries for the purposes of attribution.

Scope 1: Direct GHG emissions
Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.; emissions from chemical production in owned or controlled process equipment.

Scope 2: Electricity indirect GHG emissions
Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3: Other indirect GHG emissions
Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

[1] Source for definitions: World Resources Institute and World Business Council for Sustainable Development, *The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard*, Revised Edition, 2004, 25.

Table 6: *Portfolio GHG emissions (scope 1 & 2)*

	2019		2020		2021		2022	
	AUM in scope: 79.4%		AUM in scope: 82.3%		AUM in scope: 80.9%		AUM in scope: 82.4%	
	Results	Data coverage	Results	Data coverage	Results	Data coverage	Results	Data coverage
Absolute emissions (tCO_2e)	463,768.2	91.5%	448,270.7	85.5%	545,872.9	83.9%	457,403.6	84.3%
Emissions per $1M invested ($tCO_2e$/$M invested)	91.3		73.6		72.2		71.7	
Weighted average carbon intensity (tCO_2e/$M sales)	190.3	93.2%	195.2	90.5%	203.2	89.0%	201.9	89.4%

tCO_2e = Tonnes of carbon dioxide equivalent. Climate data source: MSCI. GHG emissions data is a combination of issuer reported and MSCI estimated.

The process of discussing and disclosing our climate data has been beneficial for many reasons. In order to make quantifiable progress toward net zero, we need to understand where we are starting from. And while there is much work to be done analyzing the underlying factors contributing to the variations in our portfolio emissions over time, we can at least present the headline data and identify areas for closer inspection. We anticipate that our portfolio emissions will trend downward and that our portfolio-level metrics will ultimately show this, but it will not be a straight line. There are several reasons why this would be the case, and we need to be careful how we interpret the rise and fall of our data points.

The absolute emissions and emissions per $1M invested metrics displayed in Table 6 are derived from a standardized financed emissions calculation (Figure 1). They represent our "ownership" of the emissions associated with our investee companies based on the size of our holdings, relative to the company's EVIC (enterprise value including cash). The absolute emissions metric is simply the total direct exposure of our holdings, while the emissions per $1M invested incorporates the *weight* of the holdings. A review of the inputs to the calculations is crucial for understanding why emissions metrics would rise and fall.

All things being equal, if assets grow as a result of new money coming into our funds (i.e., sales), the absolute emissions of the portfolio will rise, even if the investments within it do not change. A bigger portfolio will have a bigger absolute emissions number. Meanwhile, because the financed emissions calculation uses EVIC as a denominator (Figure 1), market changes that push the portfolio holdings' *value* up or down can significantly impact the results in a way that is completely unrelated to whether the emissions themselves are changing. Similarly, changes in the *weight* of the holdings will impact the emissions per $1M invested, but won't necessarily equate to a change in real-world emissions. Finally, because the weighted average carbon intensity, or WACI, is normalized by the revenues of the investee companies, we can see that a change in corporate *revenues* will increase or decrease the WACI but will not necessarily reflect actual changes in emissions.

The main point we would make is that while we can absolutely derive strategic value from analysing the data, until we are able to drill into these various inputs, we must treat these numbers with appropriate caution.

Looking at our portfolio makeup over the period shows some interesting sector-based shifts that we believe are reflected in our numbers. Our exposure to certain high-impact sectors such as industrials and materials increased considerably. That's in part because of the growth in AUM of our impact funds, which tend to invest in companies in these sectors, as they are the ones creating solutions to environmental challenges. However, these companies tend to have high emission profiles. As a result, the increasing weight of these companies in our portfolio may be contributing to the increase in our WACI.

At the same time, our AUM in energy companies has dropped in absolute terms *and* relative to other sectors. As these names tend to have very high emissions associated with them but don't necessarily represent a big weighting in our portfolio, our financed emissions intensity should be dropping along with the sector exposure, which appears to be the case. Likewise, while we have seen a growth in AUM in the utilities sector, the financed emissions associated with these names appears to be declining, which would correlate with the decline in real-world emissions we are seeing from the sector. That comes from a combination of existing companies in our portfolio decarbonizing and increased investment in utilities companies that are focused on renewable energy.

We expect that ongoing investigation into our emissions data will surface valuable insights as we further integrate our climate analysis into our investment process.

Net Zero Asset Managers initiative

NEI committed to the NZAM initiative in November 2021, with detailed targets published in September 2023.[2] Targets were developed in line with the Net Zero Investment Framework (NZIF). Our commitments and targets fall into three categories: portfolio decarbonisation, corporate alignment to a net-zero pathway, and asset growth in climate solutions investments.

Portfolio decarbonisation targets

As of August 31, 2023, our portfolio decarbonization targets apply to two funds, covering approximately 12.3% of our AUM ($1.4B). Both funds are sub-advised by France-based Amundi Asset Management. Amundi requested to work with us as their first partner outside France to offer their mandates with net-zero alignment, and we look forward to working with them on tracking progress of the strategies.

Targets are set against a 2019 baseline of each fund's benchmark GHG emissions intensity, measured in tonnes of CO_2 equivalent per US$1 million of sales ($tCO_2e$/$M). Specific details of the decarbonization approach and benchmark intensity are discussed below in relation to each fund.

For both funds, we are targeting:

- By 2025, 30% reduction in GHG emissions from 2019 baseline
- By 2030, 60% reduction in GHG emissions from 2019 baseline
- By 2050, 100% reduction in GHG emissions from 2019 baseline (net zero)

NEI Global Total Return Bond Fund

Baseline (2019): 363.0 tCO_2e/$M sales (USD)
Decarbonization approach, excerpt from NEI's simplified prospectus dated June 29, 2023:

> The Fund follows a portfolio decarbonization approach intended to reduce the financed emissions of the corporate bond holdings of the Fund to net zero by 2050. (Financed emissions are defined as the proportion of emissions associated with the underlying holdings that are financed by the Fund's investment in those holdings.) To achieve this, some or all of the Fund's holdings will be linked to lower carbon emissions, and the Fund will strive to maintain a level of financed emissions that is lower than a projected pathway from the benchmark level at 2019 to net zero by 2050. Carbon emissions will be measured and reported in tons of CO_2 equivalent per US$1 million in aggregate corporate revenue of Fund holdings.
>
> The achievement of the Fund's net-zero target as described above is dependent on external factors outside the control of the Manager and Sub-Advisor. External factors include but are not limited to technology advancement, commercial developments, climate change, and the regulatory environment. There can be no guarantee the Fund will meet its target.

[2] https://www.netzeroassetmanagers.org/signatories/nei-investments/.

NEI Global Dividend RS Fund

Baseline (2019): 238.8 tCO_2e/\$M sales (USD)
Decarbonization approach, excerpt from NEI's simplified prospectus dated June 29, 2023:

> The Fund follows a portfolio decarbonization approach intended to reduce the financed emissions of the Fund to net zero by 2050. (Financed emissions are defined as the proportion of emissions associated with the underlying holdings that are financed by the Fund's investment in those holdings.) To achieve this, some or all of the Fund's holdings will be linked to lower carbon emissions, and the Fund will strive to maintain a level of financed emissions that is lower than a projected pathway from the benchmark level at 2019 to net zero by 2050. Carbon emissions will be measured and reported in tons of CO_2 equivalent per US\$1 million in aggregate corporate revenue of Fund holdings.
>
> The achievement of the Fund's net-zero target as described above is dependent on external factors outside the control of the Manager and Sub-Advisor. External factors include but are not limited to technology advancement, commercial developments, climate change, and the regulatory environment. There can be no guarantee the Fund will meet its target.

Portfolio companies' alignment to a net-zero pathway

Assessing corporate alignment to a net-zero pathway has been the most significant analytical undertaking of our climate work to date. Using NZIF to guide our work, we developed a custom framework using multiple data points from different data providers to determine alignment.[3] We consider a company to be aligned to a net-zero pathway if its commitments, actions, and performance put it on a trajectory of reducing its GHG emissions to net zero by 2050 or sooner.

The targets are as follows:

- By 2025, 70% of financed emissions in material sectors are net zero, net-zero aligned, or the subject of engagement
- By 2030, 90% of financed emissions in material sectors are net zero, net-zero aligned, or the subject of engagement
- By 2040, 100% of financed emissions in material sectors are net zero or net-zero aligned

The calculation for determining the financed emissions of individual holdings used in our alignment analysis (Figure 1) is an industry standard provided by the Partnership for Climate Accounting Financials (PCAF):

Figure 1: *Financed emissions calculation for individual holdings*

$$\text{Financed emissions} = \sum_i \text{Attribution factor}_i \times \text{Emissions}_i \quad \text{(with i = borrower or investee)}$$

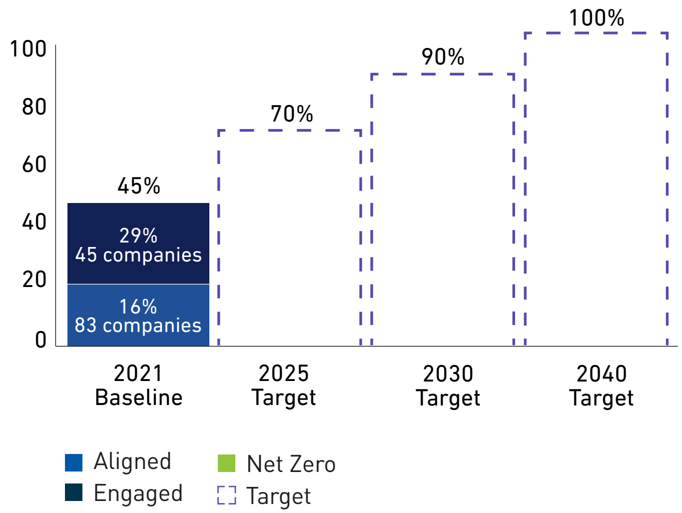
$$\text{Attribution factor}_i = \frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i}$$

Source: PCAF (2022). *The Global GHG Accounting and Reporting Standard Part A: Financed Emissions*. Second Edition.

The output of our assessment for our 2021 baseline (Figure 2) indicates our alignment framework is largely on point, with three key takeaways. First, as anticipated, the majority of high-impact companies in our portfolio are not currently aligned with a net-zero pathway. Second, despite the first point, we found more companies in our portfolio showing data-based evidence of progress toward net zero than we had expected. Third—and something we were fairly confident of going into the analysis—we are already engaging many of the top emitters and have been for years.

[3] For a detailed exploration of this work, refer to our whitepaper *A portfolio in transition: How NEI is assessing corporate alignment to a net-zero pathway*, available here.

Figure 2: *Summary of alignment results for NEI investment portfolio, 2021 holdings*



Analysis conducted August to September 2023. In-scope AUM include listed equity and corporate bonds (77% of total AUM); analysis includes only AUM in high-impact sectors (35% of in-scope AUM). High-impact sectors are defined by the Net Zero Investment Framework and include energy, industrials, utilities, materials, and certain sub-sectors within the information technology and consumer discretionary sectors. Data sources: MSCI, Sustainalytics, Institutional Shareholder Services, Bloomberg.

The immediate outcome of our analysis will be to inform our 2024 Focus List discussions. We will also look to integrate our alignment framework into our company evaluations model, as well as explore the utility of the framework for companies outside the high-impact sectors. Assessing new investment opportunities through the lens of alignment and flagging inconsistencies at this early stage will support our net-zero ambitions.

The framework and analysis results will also provide important new inputs for our conversations with sub-advisors. Some of them are working on their own alignment frameworks, and we are in the habit of exchanging ideas and processes as we all drive forward on our respective commitments. We look forward to their feedback and to discussions about implications for their investment processes and security selection.

Climate solutions investments

The third category of our commitments to NZAM relates to growing assets in climate solutions to enable the transition to a low-carbon economy. Once again, this commitment follows guidance provided by NZIF, which encourages investment managers to "create investment products aligned with net-zero emissions by 2050 and facilitate increased investment in climate solutions,"[4] and to set a goal "for allocation to climate solutions representing a percentage of revenues or capex from AUM… increasing over time, in line with investment trajectories based on a net-zero pathway."[5]

Our target is as follows:

- By 2030, tripling of assets in climate solutions investments

Our current definition of climate solutions investments is tied to our impact mandates, which seek to make a positive, measurable impact on such environmental challenges as climate change mitigation and adaptation. We are also developing an appropriate methodology for measuring exposure to climate solutions revenue across our entire portfolio, which will give us a broader perspective on how our holdings are contributing to global decarbonization efforts and may influence our targets.

We are measuring progress toward this goal (growth in AUM) in our local currency (C$), but for NZAM purposes, we are required to report in US$.

Table 7: *Progress toward climate solutions investment target*

	Baseline (2019)	August 31, 2023	% change	Target (2030)
CAD	**$1.99B**	**$2.36B**	**+18.6%**	**$5.97B**
USD	$1.57B	$1.74B	+10.8%	$4.71B

Source for currency conversion rate: Bank of Canada.

[4]Paris Aligned Investment Initiative, *Net Zero Investment Framework Implementation Guide*, version 1.0, March 2021, 9.
[5]NZIF, 10.

Next steps

Now that we have completed the various assessments of our portfolio needed to establish baselines for measuring progress, we are assembling the information for discussion of how we will further integrate climate concerns into our investment decision-making process. While the mechanism for incorporating this new information has been well-established at NEI for some time, and much of it is already being considered, we are now in a position to better manage our clients' capital with the help of quantitative data points that can be folded into existing risk mitigation tactics. For example, the alignment results will be used to prioritize and inform our corporate dialogues for 2024; they will also be considered as part of our evaluation framework and used to inform conversations with sub-advisors. Progress toward our climate solutions target can be used as an input for product development and marketing strategy.

One area we have yet to meaningfully explore is climate scenario analysis. We have begun to research a suitable approach, using guidance and tools provided by the Network of Central Banks and Supervisors for Greening the Financial System, as well as NZIF. Climate scenario analysis is used by investment managers to model potential long-term outcomes of following one path versus another in response to climate-related risks and opportunities. In the words of the TCFD, scenario analysis is a tool for exploring "alternatives that may significantly alter the basis for 'business-as-usual' assumptions."[6]

To conclude, we believe the work we have done to date puts us in a strong position to improve management of climate-related risks and opportunities for the ongoing benefit of our investors. Yet there is much to do. Now that the foundation has been laid, we look forward to building up from here by enhancing our decision-making process and strengthening our investment portfolio for long-term success.

[6] TCFD, https://www.tcfdhub.org/scenario-analysis/.

Appendix A: Statements and collaborations

Investor collaboration is a key component of our strategy and a fundamental requirement for our membership in the Principles for Responsible Investment (PRI). The ability to mobilize trillions of dollars in assets under management to support key climate-related policy developments is a powerful tool for change.

A full list can be found on the policy and standards page of our website, but key investor statements include:

- Investor Call for a Global Treaty on Plastic Pollution
- Investor Statement on Global Biodiversity Framework
- Investor Statement on National Emission Reduction Targets for Agriculture
- The Investor Agenda Global Investor Statement to Governments on the Climate Crisis
- Investor Statement in Support of Ambitious Methane Regulation
- Investor Statement on SEC Climate Disclosure

Group name (alphabetical order)	NEI role*	Date joined
Canadian Coalition for Good Governance	Member; member of E&S Committee	2005
CDP (formerly the Carbon Disclosure Project)	Signatory; participant in Non-Disclosure Campaign, Science-Based Targets Campaign	2006
CERES	Member; participant in Carbon Asset Risk Working Group, Canadian O&G Working Group, Midstream Working Group	2008
Circular Economy Leadership Canada	Founding member	2019
Climate Action 100+	Co-lead on two engagements, participant in others	Inception 2017
Climate Engagement Canada	Founding participant; member of Technical Committee; co-lead or lead on four engagements, participant in five others	Inception 2021
Energy Futures Lab	Ambassador; participant in Energy Futures Policy Collaborative	2019
Finance Sector Deforestation Action	Member; co-lead on two engagements, participant in others	2021
Interfaith Center on Corporate Responsibility	Associate member; participant in Methane Leadership Group and Finance Working Group	2006
International Corporate Governance Network	Member	2008
Nature Action 100	Investor participant	2023
Principles for Responsible Investment	Various collaborations over time (e.g., Methane Collaboration, Oil and Gas Advisory Committee, Transition Collaboration, Investor Working Group on Corporate Climate Lobbying)	2006
Responsible Investment Association	Sustaining member; participant in Policy Stewardship Group; co-author of Canadian Investor Statement on Climate Change	1999
Taskforce on Nature-related Financial Disclosures Forum	Forum member	2023

*All as of October 31, 2023.

Appendix B: Resources

References

Net Zero Asset Managers initiative
https://www.netzeroassetmanagers.org/
https://www.netzeroassetmanagers.org/signatories/nei-investments/

Net Zero Investment Framework
https://www.parisalignedassetowners.org/net-zero-investment-framework/

Task Force on Climate-related Financial Disclosures
https://www.fsb-tcfd.org/

Partnership for Carbon Accounting Financials
https://carbonaccountingfinancials.com/

Greenhouse Gas Protocol
https://ghgprotocol.org/

NEI materials

Climate strategy web page
https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/climate-strategy.html

Focus List
https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/reports/focus-list.html

Active Ownership Reports
https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/reports/active-ownership.html

Proxy Voting Report
https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/reports/proxy-voting.html

Responsible Investment Policy (pdf)
https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/NEI-RI-Policy.pdf

PRI assessment report (2022, pdf)
https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/NEI-2021-PRI-assessment-report-en.pdf

PRI transparency report (2022, pdf)
https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/NEI-2021-PRI-transparency-report-en.pdf

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