CLIMATE-RELATED DISCLOSURE

CONNOR, CLARK & LUNN
INVESTMENT MANAGEMENT

CC&L Investment Management (CC&L) endorses the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). With this endorsement, we actively encourage investee companies to incorporate the TCFD recommendations in their disclosures. In addition, we are committed to reporting to our clients and other interested parties on our approach as we take steps to adopt these measures into our own business over time.

CLIMATE CHANGE

CC&L has a robust Responsible Investing (RI) policy that encompasses our overall approach to the integration of environmental, social, and governance (ESG) issues into our investment processes. Fundamental to our approach is our belief that our portfolios and engagement activities must reflect the reality that the global economy is in the midst of a large-scale transition to lower carbon emissions. Many governments are enacting regulations around disclosures, investors are seeking lower carbon portfolios, and traditional energy companies are setting out transition plans as part of their long-term strategic direction. We also note that climate change has repercussions that present increased risks and new opportunities in areas other than just carbon emissions. These include, the impact of increasing weather-related natural disasters, rising sea levels, and innovation in eco-friendly products.

For these reasons, we believe that:

- The management teams of the companies that we invest in have a duty to be transparent in their disclosures, and accountable to all stakeholders,
- Better disclosures will allow our investment teams to reflect the risks that are inherent in companies that are slow to transition, as well as uncover opportunities related to earlier adoption of new technologies and innovation, and
- We too have a duty to be transparent, and we are working on our approach to reporting on our portfolio carbon emissions to our stakeholders.

TCFD Framework

In our endorsement of the TCFD, we have committed to undertaking certain activities and reporting on these activities within the recommended TCFD framework. CC&L has a Corporate Social Responsibility Policy, which reflects our approach to sustainable business practices, and we include climate change as a risk as part of the Enterprise Risk Management work we do at the firm level. However, it is our understanding that the application of the TCFD framework to privately-owned investment management firms is related to the measures taken to reflect climate change in investment portfolios and stewardship activities, and is not centered on corporate or business practices. Therefore, the following sections focus only on CC&L's consideration of climate change in our investment approach.

The TCFD framework has four pillars of disclosure as set out below. We provide our approach to each pillar in the following sections.

CORE ELEMENTS OF RECOMMENDED CLIMATE-RELATED FINANCIAL DISCLOSURES[1]

Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

[1] **https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf**, page 6, figure 2

GOVERNANCE

Accountability

The CC&L Board of Directors has ultimate responsibility for the firm's approach to RI, including climate-related risk.

ESG Committee

Responsibility for day-to-day oversight and management of the firm's approach to climate-related risks and opportunities in our investment portfolios sits with the CC&L ESG Committee, which reports directly to the Board. The composition of the Committee was purposefully created in order to facilitate the flow of information between the Committee and the investment teams as well as to foster dialogue across investment teams. Its mandate is to oversee and coordinate firm-wide RI activities including:

- Integration of ESG factors in our investment processes;
- Creation, maintenance, and review of RI-related policies including stewardship and engagement practices and proxy voting guidelines;
- Oversight of our commitments under industry collaborative initiatives, including as a signatory to the UN-backed Principles for Responsible Investing (PRI);
- Education of our teams including the internal communication of industry best practices and gathering of team insights regarding RI; and
- External communication, including reporting to our clients on RI issues.

Risk Management Committee

CC&L has a Risk Management Committee that has responsibility for risk oversight of the firm's investments as well as business activities.

Execution

The CC&L Financial Group Stewardship and Engagement (S&E) team supports CC&L on exercising its rights as owners. The S&E team provides support to CC&L's analysts and portfolio managers to more proactively engage with investee companies, collaborate with like-minded investors, and facilitate proxy voting.

Each of CC&L's three investment teams is responsible for the execution of our RI Policy through integration, research, and engagement as part of their unique investment approaches.

STRATEGY

We recognize that change does not happen overnight and many of the risks associated with climate change are long-term in nature and in many instances, outside of our investment time horizon. For that reason, our strategy focuses on both our integration activities, which tend to reflect a shorter-term time horizon and our stewardship activities that reflect longer-term advocacy.

Integration

ESG risks and opportunities, including those related to climate, are viewed from a bottom-up perspective in the integration of ESG factors in each team's investment process. The materiality of any ESG factor is considered within the investment time horizon of the analysis, and this tends to be around 12 months with some variation on each team. However, we also consider longer-term secular themes from a top-down perspective and incorporate these views into our overall analysis for our fundamental equity and fixed income strategies.

Specifically, the recognition of climate change as a secular trend has led the CC&L Fundamental Equity team to assign traditional energy companies lower valuation multiples and renewable energy companies higher valuation multiples, and factor in carbon emission reduction targets for the oil sands producers into their analysis. The CC&L Fundamental Equity team's process gathers ESG data from a large part of its universe through the use of an annual questionnaire and methodical engagement with companies. Both are tools which lead to more effective analysis, improved disclosures, and also informs the team's proxy voting decisions.

The CC&L Fixed Income team also recognizes this secular trend in their research and will draw on Bloomberg ESG data to better understand and forecast an issuer's relative preparedness to adapt to the evolving demands related to climate change. The Fixed Income team also uses the information gathered by the Fundamental Equity team's annual questionnaire in its research.

Our Quantitative Equity team integrates ESG factors into their quantitative model using MSCI data. The team will be including carbon emissions constraints using MSCI data later this year.

It is also important to note what is not included in any of our strategies. We do not screen out companies, industries, or sectors from our investment universe as we believe that each of our teams have in place robust valuation methodologies that will identify companies that do not meet our risk-adjusted return expectations. Furthermore, we are strong believers that having a seat at the table allows us to engage with the management of companies in our universe and influence outcomes.

Stewardship

As one the largest independently owned asset management firms in Canada, CC&L recognizes its responsibility as stewards of the assets entrusted to it by its clients and its leadership role in advocating for capital market integrity. We proactively engage with investee companies, collaborate with like-minded investors, and vote proxies in order to ensure our views are heard and reflected. We advocate for adoption of the TCFD framework for disclosure and where appropriate, provide feedback to investee companies on areas that are meeting these standards as well as areas for improvement.

In addition to our direct engagement with issuers, CC&L supports shareholder proposals that seek to improve issuer disclosure of ESG risks, including climate-related risk, where the existing level of disclosure is deemed insufficient.

Our collaboration work includes our active participation as a long-standing member of the Canadian Coalition for Good Governance (CCGG), an organization that has endorsed the TCFD recommendations and is using its advocacy powers to encourage wide spread adoption in Canada.

Scenario Analysis

At this time, we do not take into consideration different climate-related scenarios for our portfolios, including a 2° Celsius or lower scenario. We believe this type of analysis makes most sense for a publicly traded company whose business strategy is impacted by climate change as this type of disclosure is important to, and benefits investors. We do include climate change as a risk that we consider as part of the Enterprise Risk Management work we do at the firm level, however, as noted earlier, we do not believe that is the intent of the TCFD and so have not included any thoughts on that here. That said, long-term secular trends are included in our macro-economic outlook and we assign probabilities to best, worst, and most likely economic scenarios and this allows our teams to think through the impact of these scenarios on our portfolio positioning. These scenarios will influence our overall themes for our fundamental and fixed income teams. For example, the trends in climate change and their likely impact on environmental regulation and market drivers, such as the price of oil, are used by our teams in their company specific research.

RISK MANAGEMENT

CC&L has a Risk Management Committee that has responsibility for risk oversight of all of the firm's portfolios. The Risk Management Committee reviews a series of reports on a weekly basis that, while not specific to ESG factors or carbon emissions, consider a broad range of position limits and factor exposures. We are currently developing ESG risk reports for the Risk Management Committee's use.Risk management, including climate risk, is part of each team's overall investment process as described below:

- The CC&L Quantitative Equity team incorporates MSCI E, S, and G rankings as systematic risk factors, as well as predictors of stock-specific risk, in the quantitative investment process. This was part of an enhancement to the quantitative model in July 2020. The CC&L Quantitative Equity team conducted a review of third-party carbon data for in-house research and carbon measurement. As a results of this review, the team will be incorporating carbon emissions constraints using MSCI data in all quantitative portfolios later in 2021.

- The CC&L Fundamental Equity team's stock specific research takes into consideration the extent that there is a likely material impact of an E, S, or G issue over the investment time horizon of the strategy. The team will reflect this in its financial forecasts and target price analysis. In addition, the team uses the risk factors from the quantitative model which, as noted above, includes MSCI E, S, and G rankings.

- As mentioned earlier, the CC&L Fundamental Equity Team has noted the longer-term secular theme of transition to a lower carbon emission economy into their target prices by assigning traditional energy companies lower valuation multiples, and renewable energy companies higher valuation multiples. The team factors in carbon emission reduction targets for the oil sands producers into their analysis. As the landscape changes, the team is evaluating ways to refine how they incorporate these, and other ESG factors into the investment process, as well as how to better engage with companies on these issues.

- The CC&L Fixed Income team also recognizes this secular trend in their research and will draw on Bloomberg ESG data to better understand an issuer's relative preparedness to adapt to the evolving demands related to climate change. Under circumstances where the potential adaptations required to meet those demands appear material to the issuer's credit profile, the team may incorporate risks into the spread forecast, assuming they also fit within a relevant forecast horizon. Conversely, spread forecasts may also be adjusted favorably for issuers that are more likely to benefit from a transition away from carbon.

METRICS AND TARGETS

We believe that we have a duty to be transparent in our approach and we are working on how best to report on our portfolios' carbon emissions to our stakeholders. We do not screen out companies, industries, or sectors from our investment universe as we believe that each of our teams have in place robust valuation methodologies that will identify companies that do not meet our risk-adjusted return expectations.

At this time, we do not have strategies that specifically target a low carbon footprint or carbon emission score, nor do we have any strategies that we market as such, although we do manage several separate accounts for clients who have self-imposed ESG constraints. The carbon footprint in each of our portfolios is an outcome of our investment processes, and is not a specific metric that any of our teams target. It is important to emphasize that any carbon footprint trends identified from year-over-year results are not an intentional outcome, but a byproduct of the portfolio construction. However, we believe it is important to be transparent and we are working to determine how best to report on these metrics alongside other portfolio characteristics.

We currently provide carbon emission scores for our long only equity portfolios on request. A consistent approach to carbon emission measurement for fixed income strategies has yet to emerge and therefore, at this time, we do not have meaningful metrics for our fixed income portfolios.

We have completed a review of third-party providers' carbon capabilities relative to an in-house measurement approach. Based on this review, we will be including carbon emissions as constraints for all of our quantitative strategies later this year.

We recognize that this is an important area with growing attention. We are surveying the market place to better understand investor needs with the ultimate goal of developing a framework that best reflects our in-house expertise and skills while also serving the interest of our clients. The public reporting on all of our equity portfolio carbon emissions continues to be under consideration as we want to ensure a consistent approach that meets industry best practices.

We believe that much work remains to be done by the investment community, ourselves included, and we look forward to learning from our peers around best practices over time. As such, we trust that our own activities will evolve as we all move together along this spectrum.