



# Climate Approach

Sustainable Investing

February 2024



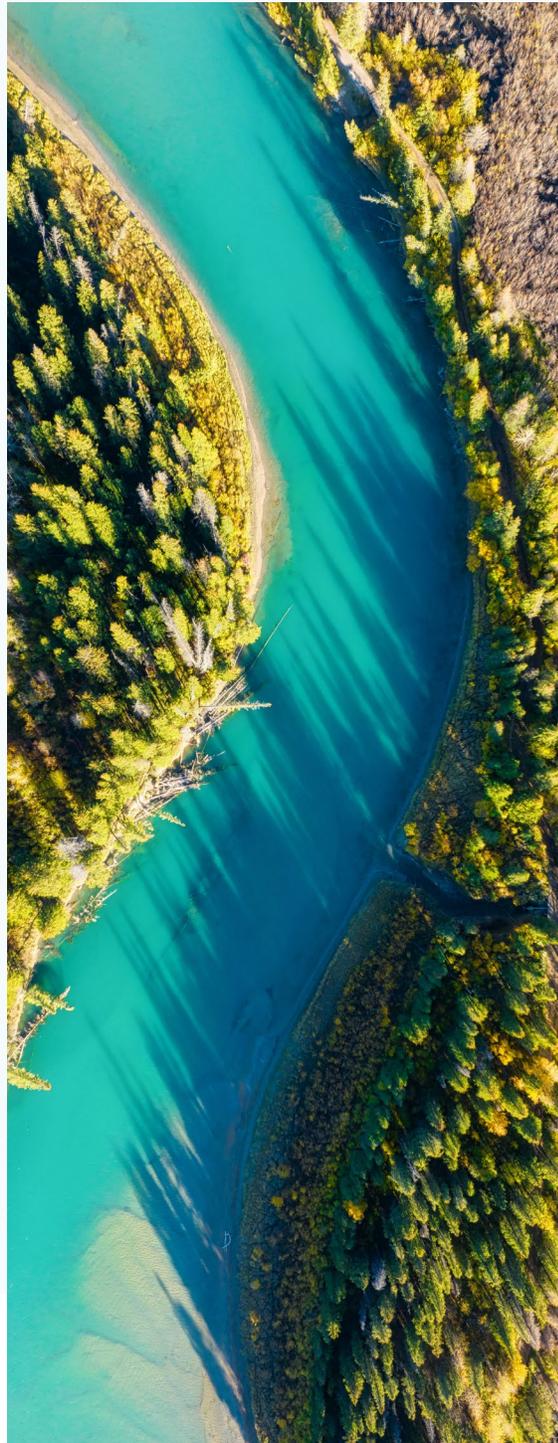
Around the globe, climate change poses significant risks, affecting ecosystems, weather patterns and economic activity. Climate change remains one of the most pressing systemic risks of our time and a material environmental factor we face not only as investors, but as members of an interconnected global community.

How AIMCo and our portfolio companies identify, monitor and manage climate risks can significantly affect the long-term, risk-adjusted net investment returns we deliver to our clients. We understand the potential risks that climate change poses for our portfolios and are working toward ensuring they are resilient in an ever-changing world.

Where there are risks, there are also opportunities. Our investment strategy compels us to seek investment opportunities created as the world transitions to a low-carbon economy.

AIMCo's Climate Approach is investment-driven and focused on meeting our clients' objectives. It is centred on the areas we can have the most impact as a global, long-term investor.

We aim to provide our stakeholders with transparency pertaining to how we consider climate and investing on behalf of clients, and how we will, over the long run, help reduce emissions in key sectors of the economy, improve resource efficiency, and identify new investment opportunities to help our clients secure a better financial future for the Albertans they serve.



# Ten Years of Climate Action

AIMCo has been strategically evaluating climate change risks and opportunities for the last decade and the organization has a strong track record of making investments in the energy transition space.

- » AIMCo has calculated its carbon footprint annually since 2016 and continues to improve its climate-related disclosure in alignment with globally accepted standards such as the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB).
- » AIMCo is an active member of climate-related collaborative initiatives including Climate Engagement Canada, Climate Action 100+, the Investor Leadership Network, the Sustainable Finance Action Council, World Benchmarking Alliance and the Partnership for Carbon Accounting Financials.
- » AIMCo has investments in energy transition and climate solutions across asset classes and in various sectors.
- » AIMCo developed a climate taxonomy in 2023 to serve as a classification system that helps identify climate change-related risks and opportunities in our portfolio and creates a baseline of where clients' assets are today with regards to the transition to the low-carbon economy.

# Portfolio Progress

As of December 31, 2022, unless otherwise noted



**\$16 billion+** in green investments\* across our asset classes



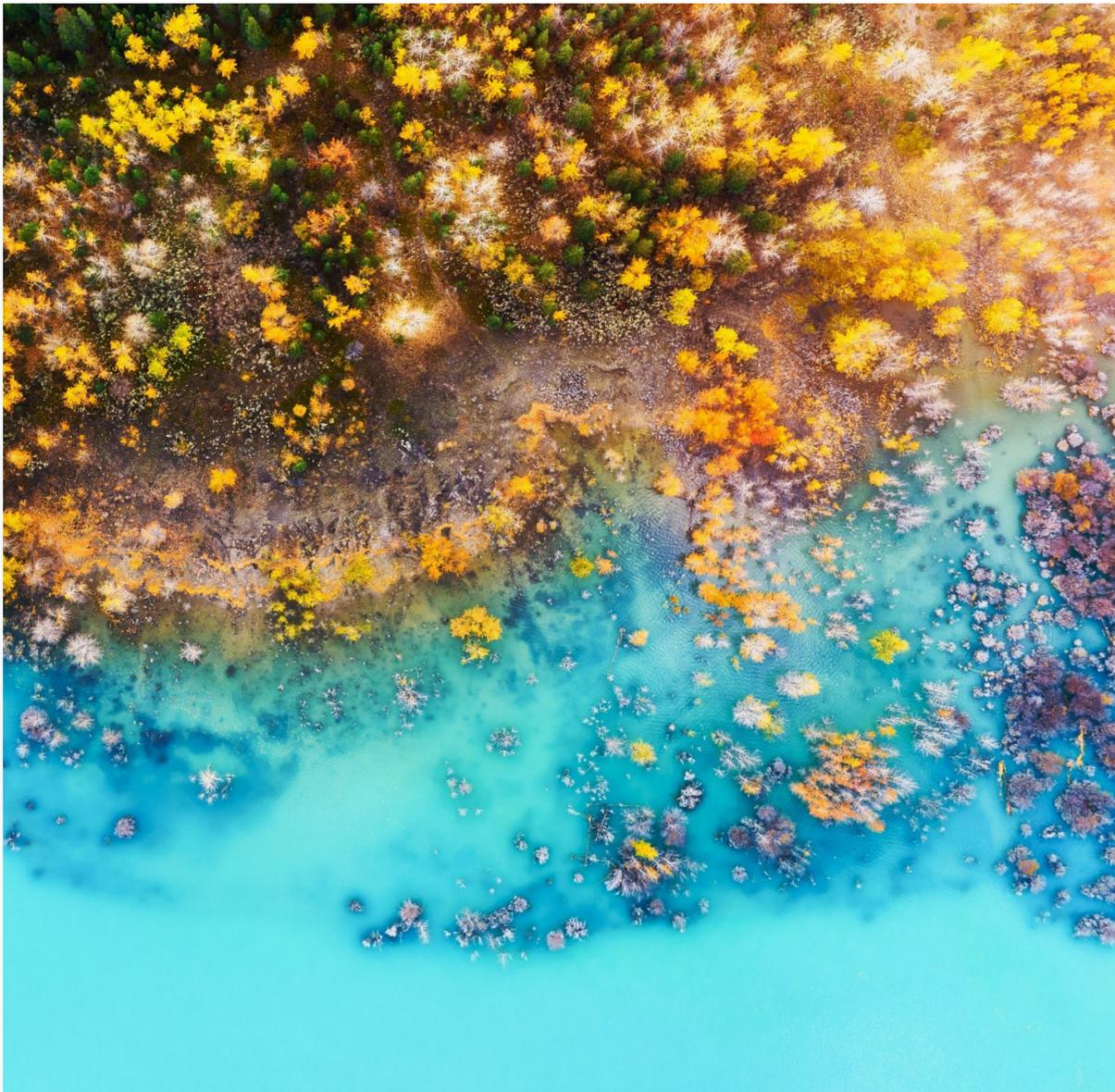
**22%** of our Private Placement Fixed Income portfolio finances renewable energy and low-carbon projects



**48%** of our direct core Infrastructure portfolio assets under management have made net-zero commitments (as of December 2023)



**94%** of operational Canadian properties in our Real Estate portfolio have green building certifications

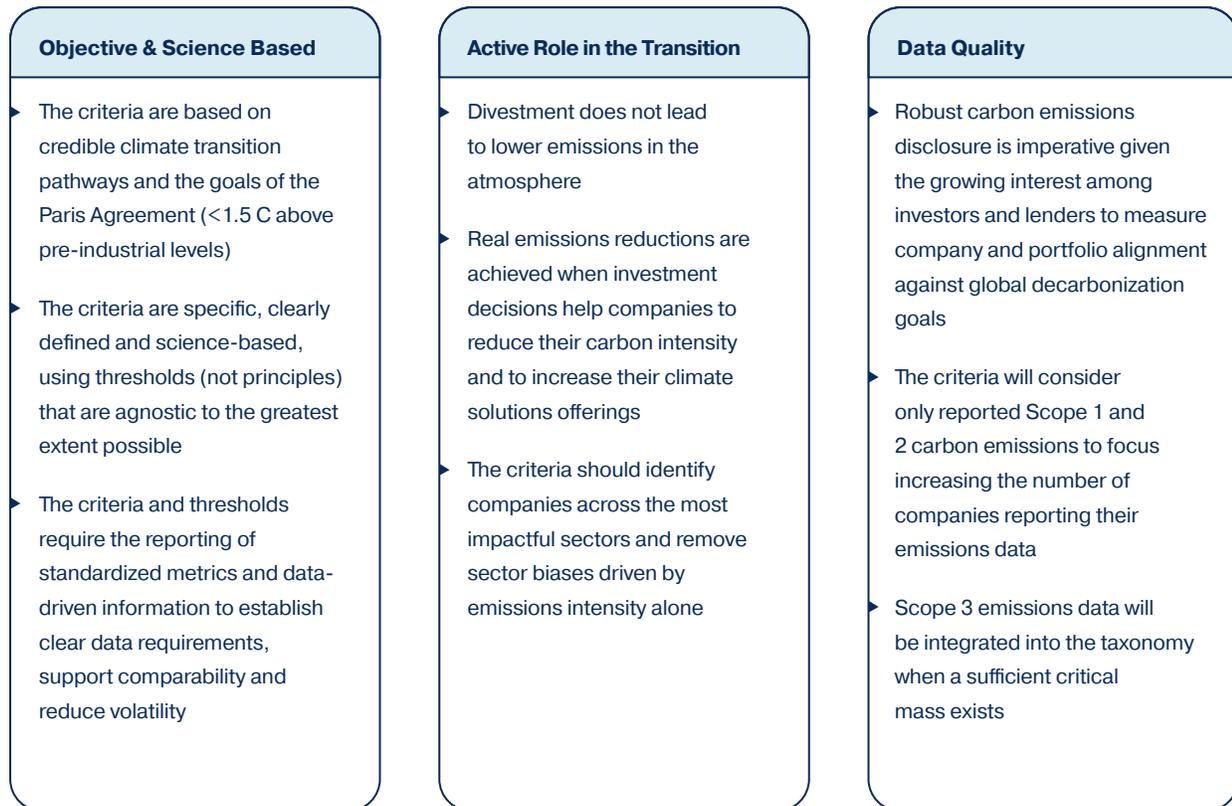


\*Green investments are defined based on generally accepted definitions, such as the Organization for Economic Cooperation and Development's Annual Survey of Large Pension Funds and Public Pension Reserve Funds and include: equity investments in pure play green companies, labelled green bonds, investments in renewable energy in private infrastructure, private renewable resources investments which includes forestry and agriculture, and Canadian and U.S. commercial real estate investments with green building certifications.

# AIMCo's Climate Taxonomy

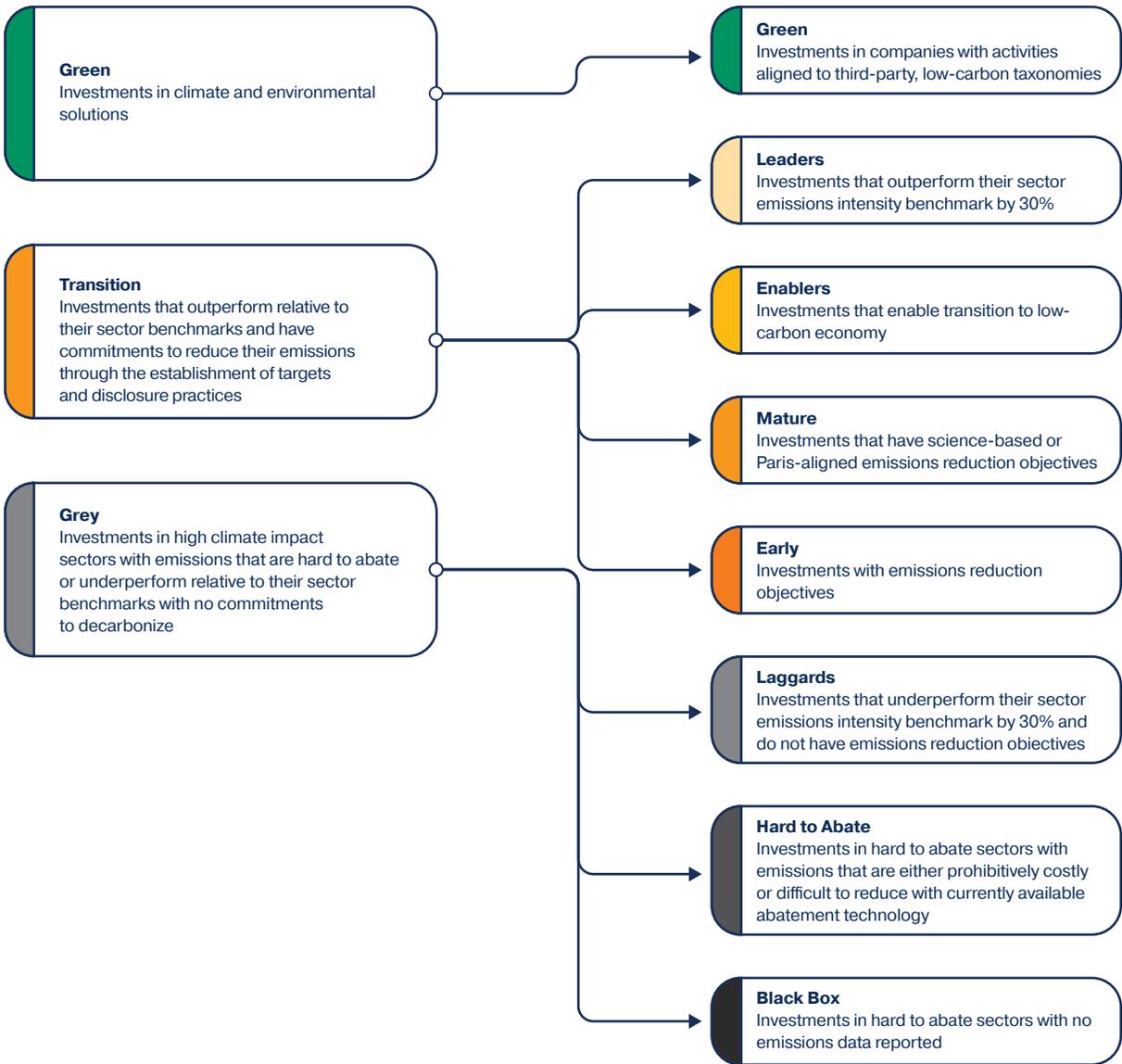
AIMCo's climate classification system provides insight into our portfolio and offers transparency to our clients. This system, which is called a climate taxonomy, frames both existing and new investments as they relate to energy transition readiness and carbon intensity.

The taxonomy is rooted in three key principles:



Classifying our investments through this lens helps:

- » Analyze climate risk within our clients' portfolios
- » Measure and improve our total portfolio's transition readiness
- » Classify investments into defined categories of grey, transition and green



# Examples from our Portfolio

There are assets in our clients' portfolios that are at the forefront of the transition to the low-carbon economy.

## **Constantine Energy Storage**

This company in our clients' Infrastructure & Renewable Resources portfolios is a battery energy storage platform with exclusivity over 450-megawatt battery development pipelines across the U.K.

Grid scale battery energy storage systems will play a crucial role in decarbonization of the U.K. electricity supply by addressing the supply and demand imbalances resulting from increasing intermittent renewable generation.

## **ACES Delta**

On behalf of clients, AIMCo is part of an equity syndication program to finance the world's largest green hydrogen platform in the U.S.

Hydrogen can serve as a versatile and clean energy carrier and can help decarbonize sectors such as transportation, industrial processing, and power generation. Hydrogen is expected to play a vital role in meeting many industries' decarbonization goals.

## **Grand Renewable**

A debt agreement, on behalf of our clients, finances a utility scale, 100-megawatt alternating current solar facility in Ontario.

Solar energy can significantly decarbonize the world by providing clean, renewable power. Through the development of solar facilities, the world can reduce its reliance on fossil fuels.

## **Puget Sound Energy**

Puget Sound Energy (PSE) is an energy utility company based in Washington state that provides electrical power and natural gas to the Puget Sound region.

The company has set an aspirational goal to be a Beyond Net Zero Carbon company by 2045. PSE will target reducing its own carbon emissions to net zero and go beyond by helping other sectors to enable carbon reduction across the state of Washington.

## **Blackstone Green Private Credit Fund (BGREEN III)**

AIMCo's strategic investment in Blackstone's Green Private Credit Fund (BGREEN III) aligns capital with the largest energy transition private credit fund ever raised. BGREEN III is managed by Blackstone Credit's Sustainable Resources Platform, which focuses on providing private credit to the renewable energy, infrastructure, and energy transition marketplace.

Investing in this fund reinforces AIMCo's commitment to sustainable investments and advancing the shift to a greener future.

# Energy Transition Opportunities Pool

In consultation with clients, AIMCo has established an Energy Transition Opportunities Pool (ETOP). With many clients allocating to the pool, more than \$1 billion will be deployed to capitalize on the tailwinds of the global energy transition and decarbonization sectors. This approach is additive to the efforts we already make on climate investing across asset classes.

By investing in ETOP, clients can seize the early-mover advantage, allowing them to capitalize on growing transition opportunities at scale. Its strategy is to complement existing products and concentrate investments in opportunities that may not be able to be leveraged within existing asset class mandates, enhancing clients' overall investment strategies.

Due to the far-reaching effects of the energy transition and evolving innovation, ETOP investments will offer clients exposure to a variety of energy transition opportunities and themes, including, but not limited to:

- » Industrial decarbonization, carbon capture and sequestration
- » Sustainable solutions and renewable fuels
- » Low-carbon renewable energy production and related technologies
- » Electrification, storage, and energy efficiency

# AIMCo's Four Pillar Climate Approach

AIMCo is committed to supporting the transition to the low-carbon economy through our investments and stewardship. We strive to be transparent with our stakeholders about the strategies and processes through which we implement and execute our approach. We have organized our approach to climate into four pillars that provide the opportunity to have a positive, lasting impact for both our clients and for real-world decarbonization efforts.

Our approach includes:

» **Due Diligence & Risk Management**

Build a scalable, data-driven and enterprise-wide approach for evaluating and managing climate risk across the portfolio.

» **Investing & Transition Finance**

Capture value enhancing investment opportunities by funding the transition across asset classes and in new and emerging industries.

» **Engagement & Value Creation**

Improve transition readiness and capacity across our portfolio, and internally.

» **Reporting & Disclosure**

Meet ever-increasing reporting standards and requirements and deliver transparent and insightful disclosure to clients and stakeholders on climate-related activities.

Climate Pillar

# Due Diligence & Risk Management

## Long-Term Objectives

Develop resilient portfolios through integration of an enterprise-wide approach to identify, monitor, and manage climate-related risks and opportunities across the investment lifecycle.

## Actions

Focus on top-down climate scenarios and heat maps to enable total risk analysis of the total portfolio, with dedicated personnel.

Climate Pillar

# Investing & Transition Finance

## Long-Term Objectives

Maximize long-term, risk-adjusted net returns through investments in climate solutions and the energy transition.

## Actions

Launch a dedicated Energy Transition pool that will enable clients to invest and participate in the global energy transition.



## Climate Pillar

# Engagement & Value Creation

### Long-Term Objectives

Use our influence to improve the transition readiness of our assets through better emission measurement and reporting.

Build capacity within our portfolio companies and across the organization with tools to build, assess, and implement transition plans.

### Actions

Work with portfolio companies in high-emitting sectors to measure and report on Scope 1 and 2 emissions, and where relevant, Scope 3 emissions, starting with assisting up to five companies.

Select portfolio companies to build decarbonization pilots including the development of credible transition plans, beginning with two. AIMCo can then apply these learnings to other portfolio companies and for broader portfolio transition planning.

Engage annually with the top 10 emitters in our portfolio to drive decarbonization.

Through proxy voting, vote against directors when climate action or disclosure is deemed insufficient for portfolio companies.

Support shareholder proposals that are in favour of improving climate reporting and other climate-related initiatives.

## Climate Pillar

# Reporting & Disclosure

### Long-Term Objectives

Ensure we deliver reporting to our clients and beneficiaries that is transparent and in line with industry best practices and regulations.

### Actions

Ensure climate reporting is aligned with globally accepted frameworks, including IFRS S2.

Report annually on our climate action, including progress made on our objectives.

# Navigating Climate Realities

## Stewardship to Advance the Transition

As a multi-client asset manager, AIMCo must consider the risk and return profiles of all clients in setting investment strategy, including our approach to climate.

Our approach strongly emphasizes our stewardship function. We believe that engaging with portfolio companies improves sustainability practices more holistically. Through direct and collaborative engagements and our proxy voting, AIMCo continues to improve companies' transparency, climate disclosures, sustainability reporting, emissions target-setting and reductions, and more.

Our "voice over exit" philosophy enables us to leverage our influence as investors to spur ongoing, constructive dialogue on climate best practices rather than to divest and unnecessarily reduce the investible universe. We take a practical and goal-oriented direction toward facilitating a realistic transition for companies and industries that may be higher emitting today. In some instances, this means working with companies to help develop short, medium, and long-term reduction goals. In other cases, we use our proxy voting function to have a voice on fundamental climate matters.

Many of AIMCo's portfolio companies are working toward their own emissions targets. Others have a more difficult decarbonization path. All are subject to our investment due diligence and disciplined asset management approach.

## Direct Capital to Decarbonization

If Canada is to meet its Paris Climate Agreement pledges, investors will need not only to invest in renewable, zero-emission energy, but also to aid heavy emitters in lowering their greenhouse gas footprints or go from "grey to green."

If investors direct capital only toward green, low impact companies, there is very little room to further improve real-world decarbonization efforts. Directing capital away from higher emitting sectors pushes companies closer to financial distress, thereby forcing them to focus on the short term, which can lead to firms halting abatement methods.

AIMCo's belief is rooted in supporting the energy transition. We will remain invested in industries with notable carbon footprints as we believe divesting, cutting funding, or making the energy transition more expensive for carbon-intense industries causes a lack of real-world progress.

### **Integrate Climate Considerations in Investment Decisions**

At AIMCo, climate considerations span pre-investment, investment decision and post-investment stages. Our pre-investment stage includes high-level identification of material climate considerations requiring deeper review. This due diligence process supports better investment decision-making by providing a holistic understanding of climate risks and opportunities.

For any potential investment, high level material climate issues are identified using globally recognized materiality frameworks such as those developed by the Sustainability Accounting Standards Board or the International Financial Reporting Standards Foundation. We also deploy due diligence questionnaires tailored specifically to the investment type, following industry best practices, such as the Institutional Limited Partners Association or the Principles for Responsible Investment. This due diligence function is a significant factor in determining the fate of a current or prospective investment.

Additionally, AIMCo's post-investment monitoring process, which includes stewardship and asset class monitoring, considers climate significantly by assessing companies' climate performance goals, targets, and strategies. Risk mitigation, climate accountability, transparent reporting, and commitment to ensuring climate is considered when making business decisions are also monitored.

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