ESG Integration Report

Sustainable Investing

Spring 2024

AIMCo

What is ESG Integration and Why is it Important?

AIMCo invests on behalf of multiple clients with a clear purpose — to help our clients secure a better financial future for the Albertans they serve. Central to our fiduciary duty to our pension, endowment, insurance and government fund clients is a commitment to systematically integrate material environmental, social and governance (ESG) considerations alongside traditional financial analysis to unlock investment opportunities, mitigate risk and identify drivers of long-term growth.

ESG factors such as climate risk, water usage, diversity, equity and inclusion, worker safety, cybersecurity, executive compensation and shareholder rights can all impact an investment's value. By applying an investment-focused lens to ESG risks and opportunities, we can make better long-term investment decisions.

In our experience, ESG integration can improve financial performance over time, and provide downside protection during crises.

How Sustainable Investing is Governed at AIMCo

AIMCo Board of Directors

Approves AIMCo's Responsible Investment Policy

AIMCo Investment Committee

Oversees Sustainable Investing (SI) strategy, reviews ESG due diligence for investment deals and approves all SI-related guidelines

Sustainable Investing Team

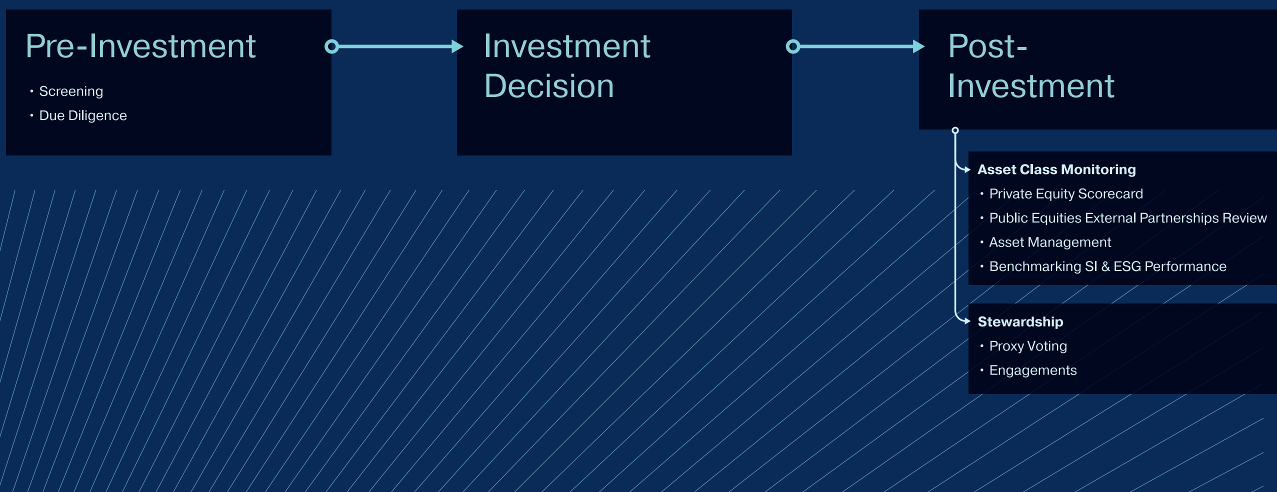
Executes the SI strategy by providing ESG integration & analytics, stewardship & communications and climate analysis to clients and investment teams

Asset Class Sustainability Committees

Asset class representatives and SI team members discuss ESG trends, develop sustainability guidelines and prioritize SI-related initiatives as applicable to the asset class

ESG Integration

While each asset class requires a tailored approach to integrating ESG risks and opportunities, the approaches are aligned and span pre-investment, investment decision and post-investment stages.



Pre-Investment

Screening

At the initial screening stage of a potential investment, AIMCo's Investment teams consider ESG factors and **Exclusion Guidelines**, such as filtering out companies with revenues from tobacco and weapons of mass destruction, and undertake high-level, red-flag analysis to identify material ESG considerations requiring deeper review.

Due Diligence

The due diligence process supports better investment decision-making by providing a holistic understanding of ESG risks and opportunities. At a high level, for any potential investment, material ESG issues are identified using the globally recognized materiality framework known as the Sustainability Accounting Standards Board (SASB), now part of the International Financial Reporting Standards (IFRS) Foundation.

The Sustainable Investing team collaborates with teams across the business to collectively ensure that ESG factors are considered alongside financial risks before allocating capital. Collaboration amongst groups is essential to guarantee that our investment decisions are financially wise, ethically sound, and aligned with our commitment to fulfilling our clients' investment goals.

To better understand and assess ESG risks and opportunities at an individual deal level, we have developed due diligence questionnaires tailored specifically to the investment type (direct or fund investment) and the asset class. These questionnaires follow industry best practices such as the Institutional Limited Partners Association (ILPA) or the Principles for Responsible Investment (PRI).

Investment Decision

The results of ESG due diligence and the recommendations form an integral part of the information package submitted to AIMCo's Chief Investment Officer (CIO), Investment Committee or Board of Directors for approval.

Post-Investment

Asset Class Monitoring

After an investment is made, AIMCo's investment professionals and SI team manage and monitor material ESG issues identified during due diligence using various strategies, which include holding director roles, developing asset-specific management plans, and attending quarterly earnings calls.

Stewardship

AIMCo's SI team supports ongoing monitoring of ESG management and performance to safeguard clients' investments using tools like proxy voting and engagements with boards and management teams, amplifying shareholder voice on critical ESG matters, as detailed in our annual **Stewardship Report**.

ESG Integration Through Investing

PCI Developments

Evaluating key environmental factors, such as the property's environmental impact, energy efficiency, and compliance with local emission targets helps enhance the value of properties and our clients' mortgage investments.

In 2023, AIMCo's Mortgages team had the opportunity to provide term financing for a PCI Developments property in Metro Vancouver located at 858 Beatty Street. The investment included attributes that are aligned with our office investment thesis, which focuses on institutional quality assets with robust tenant amenities, well located in central business districts with good transportation linkages, income stability and strong ESG profiles.

At the time, PCI, through its property manager, Warrington PCI Management (WPM), was in the process of upgrading the property to BOMA Best Gold certification. This certification represented a commitment to environmental sustainability and energy efficiency, making the property more attractive to tenants and investors alike. A study had been commissioned to determine how to increase the buildings energy efficiency with respect to heating and cooling, and a significant capital outlay was planned.

A comprehensive due diligence was completed by several teams, including SI and the investment team. The diligence concluded that with respect to ESG, the risks were minimal, but the planned energy efficiency changes would align with the City of Vancouver's ambitious emission targets, mitigating potential risks and ensuring the property's long-term sustainability and resilience.

AIMCo's funding helped PCI and WPM to deploy its strategy, including installation of intelligent occupancy sensors throughout the building and an upgrade to the property's boilers, which resulted in a 40% reduction in greenhouse gas emissions. This translated to a positive impact of 136 tonnes of carbon emissions saved compared to the previous year.

Ultimately, the improvements to the building led PCI to earn BOMA Best Gold certification, a recognition of superior environmental performance and management in commercial real estate. The certification marked a significant milestone in PCI's sustainable development journey and validated AIMCo's commitment to supporting investments that align with our thesis, including ESG factors.

Forestal Canteras

To ensure success and growth of clients' infrastructure and renewable resource assets, essential environmental and social factors like global certifications, biodiversity and community relations are key investment considerations.

In 2023, AIMCo acquired a high-quality softwood timberland estate located in one of Chile's core forestry regions. Forestal Canteras is strategically placed in southern Chile and has the ability to capitalize on the ongoing southward migration of Chile's forestry industry. This migration is a result of wood processors seeking regions with higher fibre availability and reduced fire risk.

The location offers another strategic advantage, it is in close proximity to three of Chile's largest container ports: the Port of Coronel, the Port of San Vicente, and the Port of Lirquen. This location not only ensures ample availability of forestry resources but also facilitates efficient shipping and logistics, adding to the project's potential for success.

Through the investment process, AIMCo and its investment partner in Chile proposed a strong community engagement strategy, incorporating social impact assessments, corporate social responsibility, and opportunities to support community development. The investment will also maintain the Forestry Stewardship Council (FSC) certification, which adheres forestry investments to a strict set of standards that preserve biological diversity and benefit the lives of local people and workers while ensuring economic viability.

Environmental degradation and climate change were also risks to the investment. Like many countries, Chile faces increasing temperatures, decreasing rainfall, and the increasing frequency and severity of wildfires and droughts. These changes could have long-term impacts on forestry in the region. Despite these concerns, the continuation of FSC certification for the project provided AIMCo with comfort regarding biodiversity conservation efforts. Additionally, the use of alternative drought and fire-resistant species and shorter rotations for the project helped mitigate environmental concerns such as the impacts of climate change.

This asset is expected to benefit from AIMCo's partner's extensive experience in Latin America and forest management operations. The overall due diligence conducted along with the balanced ESG review enables our clients to have exposure to an asset that will have an investment manager in Chile with a strong track record.

America's Big 3 Automakers

After investing, AIMCo safeguards and grows the value of our clients' investments by actively monitoring and analyzing key social factors such as labour relations.

AIMCo's Fixed Income team is actively involved in investing in a range of credit sectors, both in public and private markets with a strong emphasis on ESG due diligence. While environmental factors often receive significant attention from credit analysts, social factors get overlooked, yet also have the ability to affect clients' fixed income investments, as was observed with General Motors (GM), Stellantis, and Ford Motor Company, last year.

In September 2023, autoworkers from America's three largest automakers walked off the job. The union representing America's autoworkers (United Automobile Workers, U.A.W.) launched the strike, demanding higher pay, better working conditions and protections for workers as electric vehicles replace gasoline models, and components.

The strike posed significant social risks to the three automakers, highlighting a potential disconnect between companies' profits and compensation levels. Members of the U.A.W. union were striving to reclaim various concessions granted during the Great Financial Crisis and to ensure employee remuneration and working conditions were in line with improved corporate balance sheets.

Over the course of the strike and tense negotiations, AIMCo's Fixed Income Credit team had to analyze the social risks associated with the dispute to understand how it might impact some of our clients' fixed income investments. On one hand, there could be backlash from the public, stakeholders, and the workers themselves if the companies refused to increase wages. This could lead to reputational damages, loss of consumer trust, reduced profitability and possibly, even more strikes. Ultimately, this would significantly impact the companies' operations and could negatively affect their balance sheets, debt serviceability and credit ratings of debt instruments.

On the other hand, AIMCo had to consider the financial repercussions of the salary increases. Raising wages would lead to increased operational costs, directly impacting the company's bottom line and profitability. Given the possibility of a strike lasting several weeks and the limited ability of the companies to prevent a multibillion cash burn in this scenario, there was the potential for a material deterioration in earnings and liquidity entering 2024. This combination of increased costs and potential earnings decline could significantly affect the company's credit metrics, impacting the capacity to service debt, including the payment of interest on corporate bonds, thereby hurting bond valuations and ultimately client portfolios.

Analysts from the Fixed Income Credit team stayed well-informed of the strike and the ongoing negotiations. The team forecasted a wage increase of around 25%, and near-term resolution of the strike, suggesting to AIMCo that the social, reputational, and subsequent financial risks were too great for the companies to ignore. This analysis also reinforced the investment team's view that corporate bonds from America's Big 3 auto manufacturers remained attractive investment opportunities with the end of disruption in sight.

Negotiations with the U.A.W. came to an end in late October. The autoworkers scored wage increases of 25-30%, better working conditions, and some job protections.

A week after the resolution of the strike, S&P upgraded Ford Motor Company's credit rating. Just days after regaining its investment-grade rating, Ford Motor Credit raised $2.75 billion through the issue of 5 and 10-year bonds. Bond valuations of the Detroit 3 automakers, including Ford Motor Company, stabilized, supporting the team's original assessment. This example proves that treating and compensating employees fairly and maintaining profitability are not mutually exclusive goals, but rather complementary components of sustainability in action.

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