

ALPHAFIXE CAPITAL

RESPONSIBLE INVESTMENT

ANNUAL REPORT AS OF DECEMBER 31ST, 2019



AlphaFixe
Capital



WHO ARE WE?

Founded in 2008, AlphaFixe Capital Inc. is an investment management firm specializing in fixed income serving an exclusively institutional clientele. The entrepreneurial spirit and energy that drive us is an alternative for investors seeking a partner to accompany them through their concerns.

Our investment philosophy was inspired in part by the consequences of the 2008 financial crisis and relies on a rigorous risk management process. Notions of capital preservation and flexibility in the execution of our strategies guide us constantly and are reflected in our internal management models which are meant to be sophisticated yet accessible.

OUR MISSION AND VALUES

At AlphaFixe, the integration of environmental, social and governance (ESG) factors into investment decisions dates back to the creation of the firm, and is therefore an integral part of the company's mission and values. In fact, AlphaFixe became a signatory of the United Nations Principles for Responsible Investment in 2009 and is committed to the six principles.

Over the last decade, much effort has been put into the creation of innovative tools and products in terms of responsible investment. AlphaFixe is particularly proud of the progress and will continue to actively contribute towards the development of this market.

Beyond our investments, we also believe that it is important to be involved in our community. This is why we contribute not only financially, but also volunteering in support of causes such as education, children's illnesses, young athletes, climate change and the development of the Montreal financial center through the Quebec Emerging Manager Program (QEMP). In addition, we actively participate in events and conferences organized within the financial community and as committee members to share our knowledge and contribute to the advancement of sustainable finance issues.

More recently, AlphaFixe has obtained the Carboneutre (Carbon Neutral) certification for its 2019 activities. Awarded by LCL Environnement, a consulting firm strictly dedicated to environmental issues, the certification allows us to offset our greenhouse gas (GHG) emissions with credible, ISO-14064-certified offsetting organizations.

For more details on the certification and the projects financed, click [here](#)

RESPONSIBLE INVESTMENT REPORT

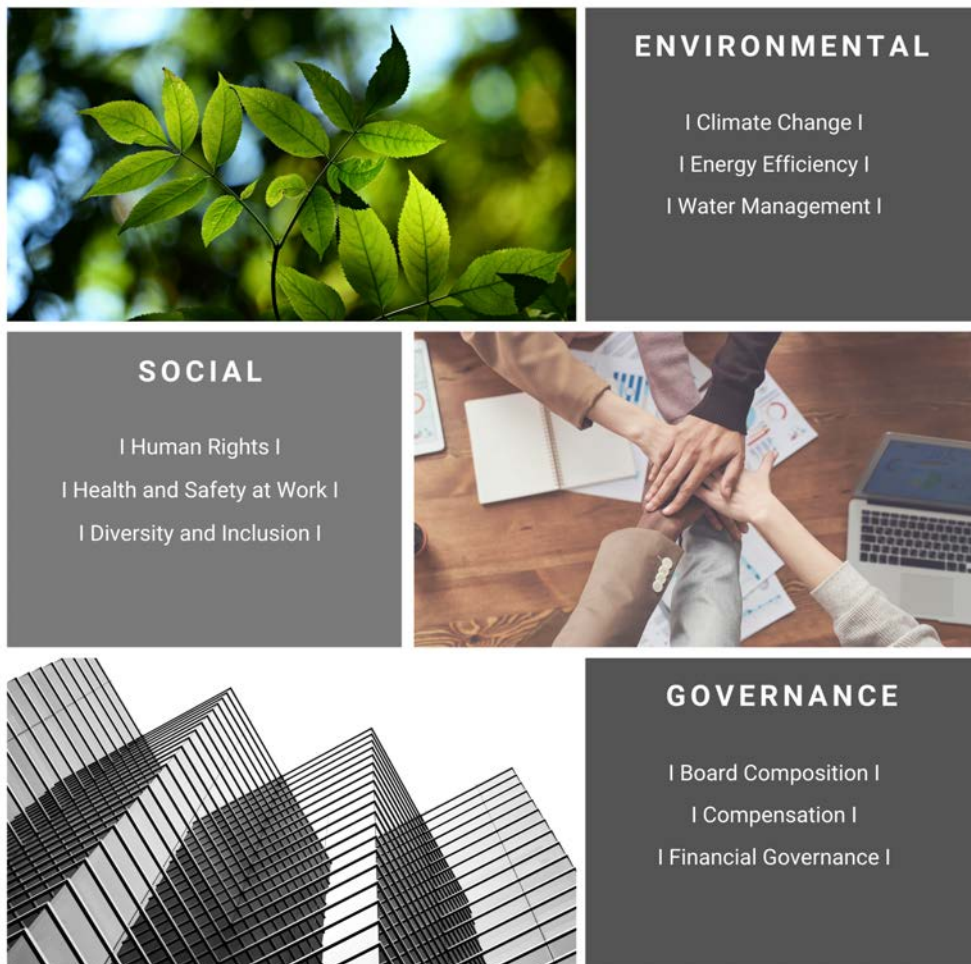
OBJECTIVE AND CONTEXT

It is with great pleasure that we publish our very first annual report on responsible investment. The report provides a comprehensive picture of our responsible investment activities and achievements for the year 2019. It is intended for all our stakeholders who wish to learn more about our practices.

RESPONSIBLE INVESTMENT

DEFINITION

At AlphaFixe, responsible investing is defined as the integration of environmental, social and governance (ESG) factors into investment management and business practices. The factors evaluated may result in risks related to negative externalities generated by certain activities, as well as opportunities arising from certain issues. Here are a few examples:



ENVIRONMENTAL

- | Climate Change |
- | Energy Efficiency |
- | Water Management |

SOCIAL

- | Human Rights |
- | Health and Safety at Work |
- | Diversity and Inclusion |

GOVERNANCE

- | Board Composition |
- | Compensation |
- | Financial Governance |

EVOLUTION

Responsible investing has grown dramatically over the past decade. According to the United Nations, the number of signatories of the Principles for Responsible Investment increased from 734 to 3,038 between 2010 and 2020. This growth reflects the values of beneficiaries, asset owners and advisors. However, the PRI remains a voluntary and non-binding initiative. We believe there is still a lot of work to be done in terms of standardizing responsible investment practices. The popularity for impact investing and contributing to the United Nations Sustainable Development Goals (SDGs) are no exception to this trend.



IMPORTANT EVENTS OF THE YEAR

In Canada, the Expert Panel on Sustainable Finance report published in June 2019 has attracted a lot of attention within the financial community. It should be remembered that in 2018, the group was mandated by the federal government to explore ways in which the financial sector could accelerate the allocation of financial flows to Canadian low-carbon initiatives. The report's 15 recommendations are based on three pillars: opportunity, foundations for market scale as well as financial products and markets for sustainable growth.

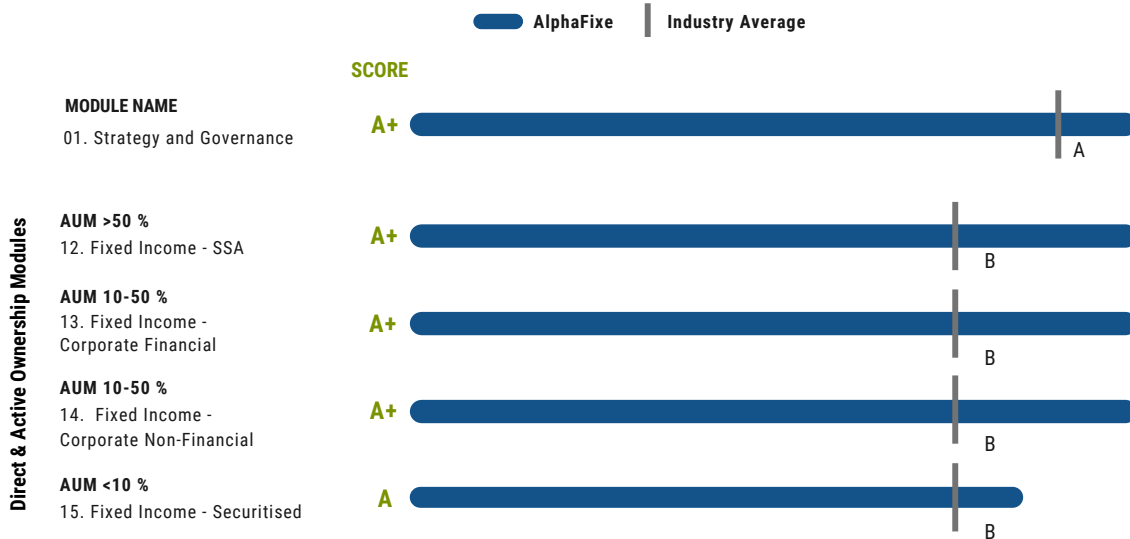
RESPONSIBLE INVESTMENT APPROACH

At AlphaFixe, ESG analysis, climate risk analysis, carbon footprint calculation, engagement with issuers and the exclusion of certain sectors, including companies that operate or engage in the exploration of proven or probable fossil fuel reserves, are processes that are systematically applied to all investment strategies. In addition, AlphaFixe offers an investment strategy with an environmental impact, namely the AlphaFixe Green Bond Fund.

TIMELINE OF RESPONSIBLE INVESTMENT ACTIVITIES



PRI EVALUATION



Source : Assessment Report 2020, PRI

TEAM

The integration of ESG factors is carried out internally by our dedicated Responsible Investment team composed of two full-time employees. This team specializes in ESG analysis and integration. One of them even holds a Master’s degree in Environmental Management. We firmly believe that this can help us better understand the risks and opportunities associated with certain assets or corporate behaviors.

The Responsible Investment team is located on the trading desk and is an integral part of the investment team. Credit specialists also participate in the creation of the various ESG assessment tools, which allows us to adapt our approach to the reality of the fixed income market. For example, we recently adapted our ESG analysis criteria to take into account financial governance, which is different between a shareholder and a lender.



ESG FACTORS ANALYSIS

As part of our investment risk analysis, we identify and evaluate ESG factors that could impact long-term financial performance.

Our methodology is based on best reporting practices such as the Global Reporting Initiative (GRI) and encompasses concepts such as materiality and industry-specific context (Sustainability Accounting Standards Board). The methodology is also based on a relative approach where issuers within the same industry are evaluated against their peers based on criteria that vary from industry to industry.

The Canadian bond index includes a significant portion of private companies. Unlike publicly traded companies, private companies generally disclose less information, which can make it difficult to achieve a fair and consistent assessment of ESG factors. For this reason, we have introduced a disclosure score. This allows us to target issuers that do not provide adequate ESG reporting (< 75%) and to raise awareness on good disclosure practices.

The ESG ratings assigned to issuers are integrated into the Credit Quality (CQ), a fundamental evaluation and rating system for issuers at the heart of the credit analysis process. They therefore have a material impact on investment decisions (10 to 15% of the weighting depending on the industry). CQs allow for a quick assessment that the bond's yield premium is consistent with the issuer's credit risk and its credit spread widening risk.

Here are average ESG ratings of the FTSE Canada Universe Bond Index, the AlphaFixe Universe Composite and AlphaFixe - Green Bond Fund:

| | Weight (%) | Average ESG Score (/10) | Coverage (%) | Disclosure Score (%) |
|--|------------|-------------------------|--------------|----------------------|
| FTSE Canada Universe Bond Index | | | | |
| Corporates | 28 | 6.5 | 79 | 89 |
| Provincials | 35 | 6.6 | 99 | |
| Corporates and Provincials | 63 | 6.5 | 90 | |
| AlphaFixe Universe Composite | | | | |
| Corporates | 43 | 6.6 | 94 | 88 |
| Provincials | 34 | 6.7 | 99 | |
| Corporates and Provincials | 78 | 6.7 | 96 | |
| AlphaFixe Green Bond Fund | | | | |
| Corporates | 34 | 6.2 | 100 | 81 |
| Provincials | 36 | 7.1 | 100 | |
| Corporates and Provincials | 70 | 6.7 | 100 | |

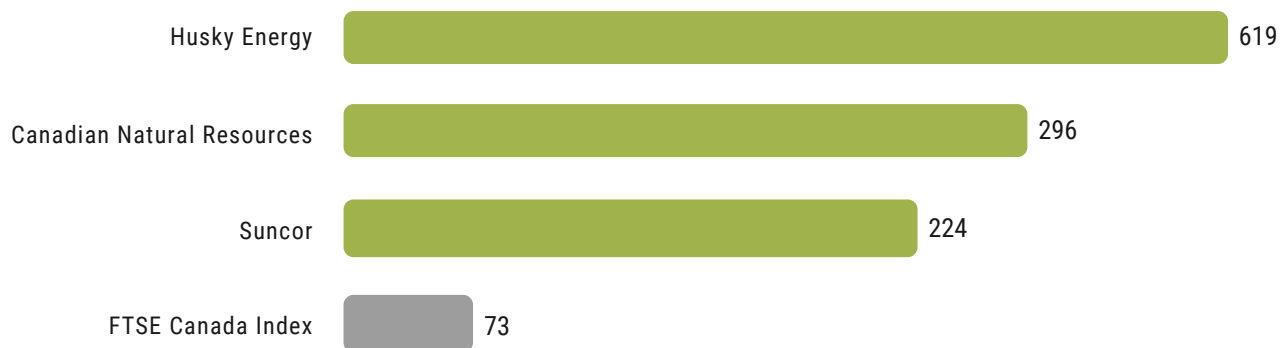
NEGATIVE FILTERS

A negative filter represents the intentional exclusion of certain sectors or companies that do not meet the previously established criteria for responsible investment. Here are the sectors excluded from investments made by AlphaFixe:



As an indication, the three issuers excluded by our fossil energy filter only represent 1.5% of the total market value of the FTSE Canada All Corporate Bond Index, but contribute to approximately 7% of its carbon intensity.

Carbon Intensity (tCO₂eq/\$M) of Issuers Excluded by the Fossil Fuel Filter



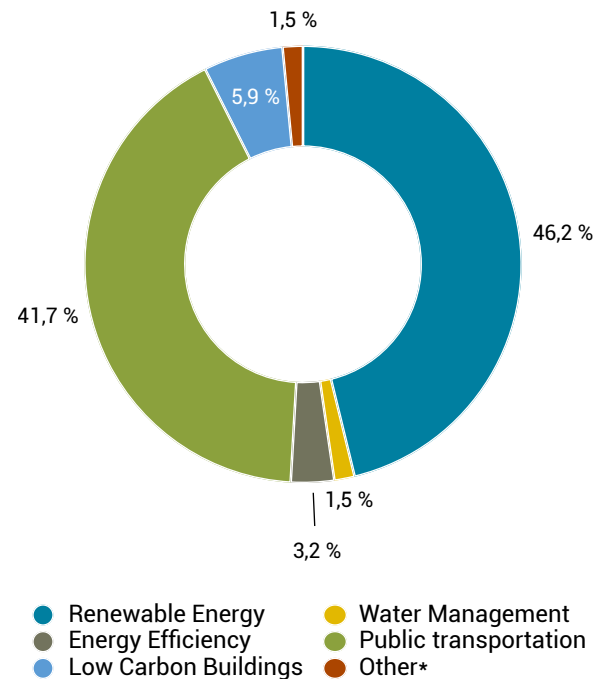
By refusing to support fossil fuel producers, we are putting upward pressure on the cost of capital of these issuers, which necessarily has a negative impact on the rest of the value chain.

IMPACT INVESTMENT

Impact investing is generally defined as any form of investment that aims to create a positive environmental or social impact, while generating a financial return. At AlphaFixe, Impact Investing includes the launch of the first ever Canadian Green Bond Fund in November 2017. The fund offers an innovative solution for the active management of green bonds, allowing investors to participate in the financing of a low-carbon economy without sacrificing returns. The fixed-income securities are intended, among other things, to finance greenhouse gas (GHG) reduction or climate change adaptation projects.

The investments selected must meet the green bond selection criteria established by the AlphaGreen proprietary validation process. These criteria are based on the Green Bond Principles and the Climate Bonds Standard. Bonds that are considered green are either self-labeled or climate aligned bonds, the latter being companies or projects from which 90 % of the revenues are generated by activities with positive impact on the environment.

Here is a breakdown of the fund by project categories:



*Climate change adaptation, biodiversity, waste reduction

| ENVIRONMENTAL IMPACT | | | |
|-------------------------------|--------|-------------------------|-----------------------|
| Indicators | Value | Units | Coverage ¹ |
| Potentially Avoided emissions | 276 | tCO ₂ eq/\$M | 94 % |
| Energy Savings | 1 221 | kWh/\$M | 15 % |
| Water Savings | 69 507 | Litres/\$M | 16 % |
| Waste Reduction | 414 | kg/\$M | 3 % |

These projects not only contribute to a low-carbon economy, but also have positive environmental impacts. Here are the four performance indicators that measure the environmental impact of the fund.

¹Market value percentage covered by the indicator

In addition, in order to show the fund's contribution to the SDGs, the number of bonds in the portfolio contributing to each SDG is shown below:



ENGAGEMENT

Engagement is defined as any form of exchange with issuers aimed at improving practices related to ESG issues. AlphaFixe also collaborates with its stakeholders, namely its clients/partners, investment advisors, service providers, peers and various government authorities.

As an investment management firm specializing in fixed income, AlphaFixe invests in debt securities which, by definition, do not carry voting rights. However, nothing prevents AlphaFixe from engaging in a constructive dialogue with its stakeholders in order to raise awareness of sound management of ESG risks. We therefore take every opportunity (private meetings, investor presentations, calls, conferences, etc.) to do so.

As indicated in the section on ESG analysis, the composition of the Canadian bond index means that we regularly engage the dialogue in order to raise issuers' awareness of good ESG disclosure practices. In addition, all issuers with a disclosure score below 75% are contacted annually to complete a customized ESG questionnaire.

The following is a snapshot of the engagement activities that took place during 2019:

Annual survey covering all ESG issues

64 surveys sent

Example of ESG issues covered

- Energy consumption, carbon footprint, integration of TCFD recommendations, employee engagement score, turnover rate, percentage of women in upper management, financial governance and many others...

Dialogue and ad-hoc request for information on specific issues

ESG issues

- 2 awareness calls
- 2 successful requests
- 1 refusal to collaborate

Green bonds

- 1 correction to an impact report
- 1 discussion leading to a 100% fill (primary market)
- 4 calls to raise awareness about best practices

Carbon footprint

- 4 information requests
- 3 education and awareness calls

Sustainability

- 1 information request

Integration of TCFD recommendations

- 1 information request

CLIMATE RISK EVALUATION

In its Global Risks Report 2020, the World Economic Forum (WEF) reminds us that in terms of probability of occurrence and magnitude, climate and environmental risks are always at the top of the list.



At AlphaFixe, we strongly believe that climate-related risks will inevitably impact the profitability of the companies in which we invest. For example, changes in the legislative framework could leave some companies with stranded assets, while an increase in carbon pricing could have a significant impact on the cash flows of large greenhouse gas emitters. We therefore believe it is important to pay particular attention to this issue.

The integration of climate constraints in our investment decisions is based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). These recommendations aim to increase transparency in the consideration of these risks and to make markets more efficient.

To learn more about the implementation of TCFD's recommendations at AlphaFixe, click [here](#)





CARBON FOOTPRINT

AlphaFixe has been a signatory of the Montreal Carbon Pledge since May 2018. The initiative is supported by the United Nations Principles for Responsible Investment (PRI) and the United Nations Environment Programme (UNEP). By becoming signatories, investors commit to measure and disclose the carbon footprint of their investment portfolios on an annual basis. In particular, this exercise allows us to evaluate a company's performance compared to its peers, as well as to identify industries that are highly exposed to transition risks.

Each quarter, we provide our clients/partners their own portfolio's carbon intensity as well as that of the index. Here is the carbon intensity of the FTSE Canada Universe Bond Index, the AlphaFixe Universe Composite and the AlphaFixe - Green Bond Fund:

| | FTSE Canada Universe Bond Index | | | AlphaFixe Universe Composite | | | AlphaFixe Green Bond Fund | | |
|--|--|--------------------|------------------------------------|--|--------------------|------------------------------------|--|--------------------|------------------------------------|
| Weight of Corporate Bonds | 28.0% | | | 43.2% | | | 34.3% | | |
| Coverage % of Corporate Bonds | 90.3% | | | 91.5% | | | 96.1% | | |
| Industries | Carbon Intensity ² (tCO2eq/\$M) | Industry Weighting | Industry Contribution (tCO2eq/\$M) | Carbon Intensity ² (tCO2eq/\$M) | Industry Weighting | Industry Contribution (tCO2eq/\$M) | Carbon Intensity ² (tCO2eq/\$M) | Industry Weighting | Industry Contribution (tCO2eq/\$M) |
| Communication | 5.8 | 8.3 % | 0.5 | 6.4 | 8.2% | 0.5 | 11.8 | 3.5 % | 0.4 |
| Energy | 174.9 | 20.8 % | 36.4 | 172.8 | 13.0% | 22.5 | 5.4 | 22.7 % | 1.2 |
| Financial | 6.8 | 40.9 % | 2.8 | 0.5 | 55.4% | 0.3 | 2.4 | 32.8 % | 0.8 |
| Industrial | 43.0 | 6.3 % | 2.7 | 65.8 | 6.0% | 3.9 | 7.0 | 3.9 % | 0.3 |
| Infrastructure | 182.5 | 16.2 % | 29.6 | 155.5 | 8.7% | 13.5 | 23.8 | 14.2 % | 3.4 |
| Real Estate | 18.0 | 6.4 % | 1.2 | 19.8 | 5.8% | 1.1 | 10.4 | 7.9 % | 0.8 |
| Securitization | 5.2 | 1.1 % | 0.1 | 0.2 | 1.0% | 0.0 | 0.0 | 0.0 % | 0.0 |
| Banks Loans | 0.0 | 0.0 % | 0.0 | 19.4 | 2.0% | 0.4 | 19.4 | 15.0 % | 2.9 |
| TOTAL | | 100.0 % | | | 100.0% | | | 100.0 % | |
| Portfolio's Carbon Intensity³ (tCO2eq/\$M) | 73.2 | | | 42.2 | | | 9.8 | | |

¹ Companies not covered by the carbon footprint calculation are assigned the average of their respective industry.

² A company's carbon footprint divided by its enterprise value gives its carbon intensity, expressed in tons of carbon dioxide equivalent per million dollars invested (tCO2eq / \$M).

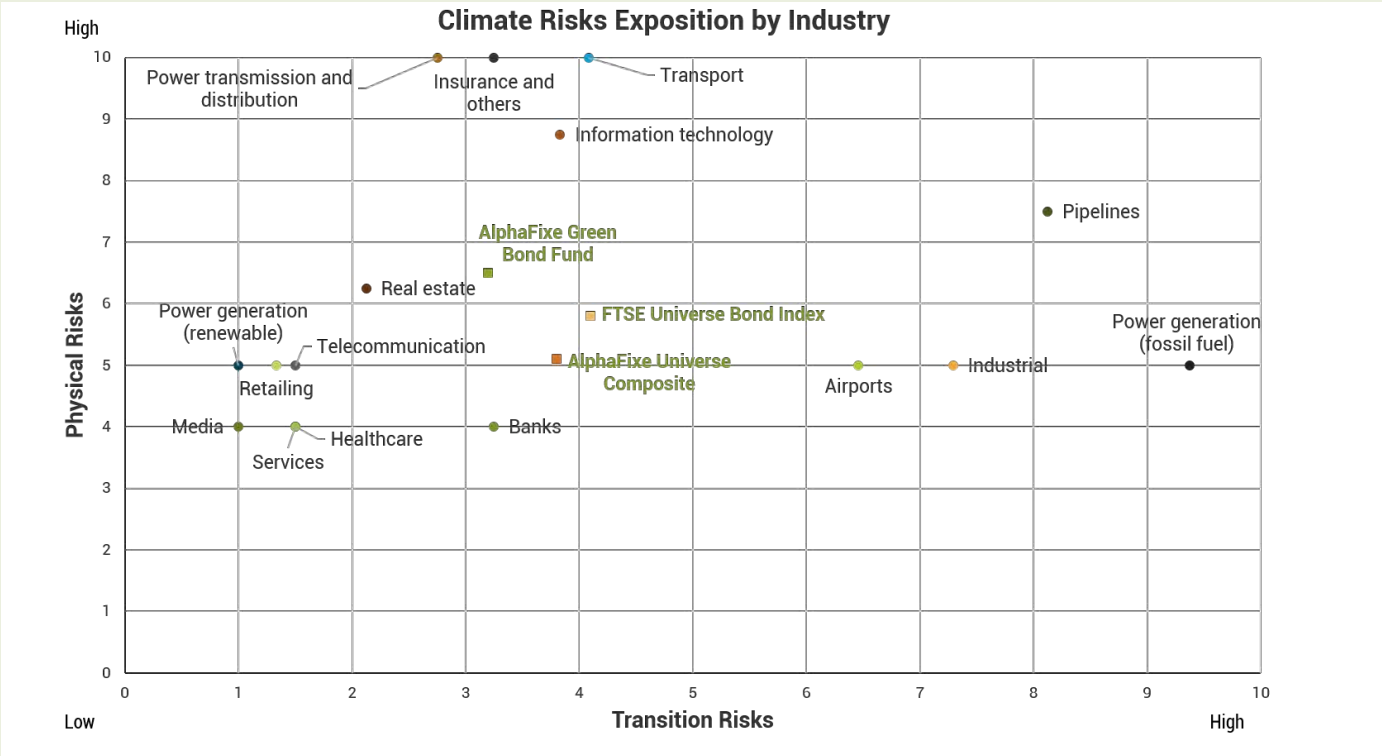
³ The portfolio's carbon intensity is the weighted average of all industries carbon intensity.

CLIMATE RISKS

More recently, our team has implemented a tool to assess the level of exposure to climate risks (physical and transition), as well as the level of effort made by companies to mitigate them.

The exposure score allows us to identify the companies or industries most likely to be affected by climate change, whether its in the context of an abrupt transition to a low-carbon economy (transition risks) or in the context of extreme weather events (physical risks).

Here is the level of risk to which the industries we cover are exposed and how the FTSE Canada Universe Bond Index, the AlphaFixe Universe Composite and the AlphaFixe - Green Bond Fund are positioned in this environment. A high rating represents a significant level of risk:



As for the climate mitigation score, it allows us to assess the efforts made by each issuer in terms of fighting climate change. Indicators include the implementation of the TCFD recommendations, annual disclosure of GHG emissions, the annual variation in emissions and the alignment of their reduction target with the Paris Agreement. Here, a high score shows that the issuer is making considerable effort:

| | Corporates (%) | Coverage (%) | Mitigation Score |
|---------------------------------|----------------|--------------|------------------|
| FTSE Canada Universe Bond Index | 28 | 79 | 5.7 |
| AlphaFixe Universe Composite | 43 | 93 | 5.6 |
| AlphaFixe Green Bond Fund | 34 | 100 | 6.7 |

While climate-related risks are of concern, we also believe that efforts to mitigate and adapt to climate change are already creating and will continue to create investment opportunities. This is particularly true for the green bond market, which has grown dramatically over the past decade. Whether through labeled or unlabeled issuances, we are always looking for investment opportunities in activities, projects or assets that are consistent with a low-carbon economy.

FUTURE PROJECTS

In addition to the contribution to SDGs from sustainable bonds, our team is currently working on the creation of a tool to assess the contribution (positive and negative) to SDGs of a company's various activities. Given the availability of data, this exercise represents a significant challenge. Once again, the level or format of disclosure by issuers is generally insufficient or inadequate. It will therefore be important to engage in a dialogue with issuers to raise their awareness on this issue, which is increasingly capturing the attention of the market.



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