2024 Report on Positive Transformation

—

Executive Summary

Fondaction
Giving money meaning.

Presentation

This report on positive transformation is the second of its kind. Although it's a continuation of the 2023 report, which already differed from previous extrafinancial reports in terms of structure and format, the 2024 report introduces a number of new features:

- Deployment of the impact savings approach, which enables us to present an initial series of indicators and targets.
- First version of the sustainability and impact strategy for other investments (public markets), which allows us to integrate the results of all our assets across the sustainable finance spectrum.
- New impact measurements, which are introduced for development capital investments. Thus, some indicators are monitored for the first time in 2024, while others illustrate the progress made since 2023.
- Impact measurements carried out by Fondaction Asset Management, which enhance the content pertaining to structuring investments.

These new elements, described in detail in the report, give us better tools to deploy our intentionality, assess our progress more accurately and guide our decision-making.

The report is divided into four main sections entitled:

1. **Our positioning: Fondaction and its intentions**
2. **Our approach and strategies**
3. **Our results**
4. **Internal practices**

1. Our positioning: Fondaction and its intentions

1.1 Fondaction's mission

A two-fold mission:

- Support Quebec workers in their efforts to save more for their retirement, particularly by raising awareness and offering an accessible savings product;
- Harness these accumulated savings to benefit Quebec's economy, society and environment, by investing them in ways that meet people's needs while protecting our environment and respecting the limits of natural ecosystems.

1.2 Our vision

Become THE fund for positive transformation and work, through our actions, to transform the economy so that it meets people's needs while respecting the planet's limits.

1.3 The positive transformation of the economy

The positive transformation of the economy aims to make it more equitable, inclusive, green and performant.

Issues

- Concentration of wealth (the rich get richer, and the rest have less and less purchasing power)
- Shrinking middle class
- Declining social mobility

Answer

- Fondaction is, in itself, a tool for distributing wealth and sharing ownership
- Solutions that enable everyone to meet their basic needs are required to maintain social peace and democracy

Issues

- Significant negative effects for groups that are victims of sexism, racism or other forms of discrimination
- Social costs and social divisions
- Need for solutions other than increasing diversity

Answer

- Companies with diversity and inclusion are more successful and offer greater investment opportunities
- Inclusion helps attract and retain high-performance employees

Issues

- Climate change has a major impact on life on Earth
- Biodiversity is vital to sustain life, including human life
- The planet's resources are limited

Answer

- Fighting against climate change creates a host of opportunities and opens up new markets
- Using fewer resources is a competitive advantage
- All businesses will have to adapt

Issues

- The prevailing economic model, based on unlimited growth in the face of limited resources, is unsustainable
- A healthier and more resilient Quebec economy creates wealth and quality jobs

Answer

- Measurements of economic success must evolve to include human well-being and respect for the planet's limits.
- Solving environmental and social challenges requires innovation
- Companies whose products and services contribute to positive transformation must grow and export

Figure 1: The positive transformation of the economy

1.4 Our intentions

Fondaction is determined to become an impact company (enabling people of modest means to prepare for retirement while improving the world in which they will live) and an impact investment fund that supports organizations whose activities contribute to positive transformation by fighting against climate change, protecting biodiversity, reducing inequalities, ending exclusions and achieving greater social justice.

2. Our approach and strategies

2.1 A lever for transformation

Intentional saving is a way for any saver to reconcile their needs and values and to act with purpose. More than 220,000 savers have accumulated over $3.77 billion with Fondaction for long-term investment by the Fund.

2.2 Our theory of change

A theory of change helps to specify the desired changes and how they will be achieved. Basically, it describes the problem, outlines the changes to be made and explains the desired results. Fondaction follows a theory of change organized around five components: inputs, change mechanisms, outputs, short- and long-term results and final impact.

2.3 Impact savings

The impact savings of Fondaction, with its product, are a long-term lever for collective change. They are designed to improve retirement readiness, autonomy and financial inclusion for those who need it most, in particular by opening up groups in the workplace. Priority is given to people:

- with low incomes, for whom the tax credit offers a proportionally larger benefit;
- who work in sectors with high job insecurity;
- who lack a satisfactory supplemental pension plan or need better financial and extrafinancial literacy.

Priority is also given to opening up groups within organizations working in the field of sustainability, especially if they do not offer a satisfactory pension plan.

In short, it's about:

- Facilitating access to savings for those who need it most;
- Helping to meet the significant need for retirement savings;
- Promoting intentional savings that empower people to act collectively in support of positive transformation.

2.4 Capital deployment

Fondaction leverages its savers' capital wisely by investing in companies and funds with positive impact that seize opportunities linked to sustainability issues. This capital deployment is carried out through two main portfolios: development capital investments (DCI) and other investments (public markets).

Fondaction's investment strategy is based on the belief that the most resilient companies over the long term are those that integrate ESG factors, contribute to sustainability, intentionally create impact and help meet people's needs while respecting the planet's limits.

Fondaction aims to balance financial returns to shareholders with positive economic and social impacts by taking a broader view of risks and opportunities, integrating environmental, social, economic, territorial and governance criteria.

This is achieved through financial and extrafinancial analyses; exclusion filters; impact investment themes; tailored support to improve overall company performance; and selection criteria for external managers for other investments.

Since 2020, Fondaction has ranked its development capital investments according to their expected level of impact and assessed their progress using the sustainable finance spectrum, which has four categories: responsible, sustainable, impact and structuring. These categories are not mutually exclusive; an investment must first be deemed responsible before it can be considered sustainable, and then sustainable before it can be deemed impact. As for structuring investments, by their very nature they are directly qualified as such.

In 2024, we extended this approach to include the Other investments portfolio. This new strand of our sustainable finance strategy has four pillars: investment approach (selection criteria); active ownership (shareholder commitment); leadership and influence (proactivity in sustainability); and reporting (data collection and disclosure of results). This first version of the sustainability and impact strategy for other investments was used to define the investment approach.

As with development capital investments, other investments (public markets) now help to increase the sustainability and impact of Fondaction's assets.

The process for identifying and selecting investments, shown in Figure 2, defines each of the four investment categories in the sustainable finance spectrum, as well as the mechanisms used to filter and select them.

2.5 Multireferential model

To develop and implement its sustainable finance strategy in its investments, Fondaction uses a multi-referential framework based on:

- the degree of sustainability integration attained in the investment process;
- the most appropriate measurements for evaluating activities;
- the relevant information to be disclosed.

Responsible investment

An investment that takes into account the integration of ESG factors from a risk management standpoint, while providing a financial return.

DCI:
- Screening by exclusion (sectors*):
  - Weapons
  - Adult entertainment
  - Fossil energy
  - Gambling
  - Tobacco
- Performance thresholds
- ESG analysis by materiality of issues

Other investments:
- Screening by exclusion (same as DCI)
- PRI signatory external managers
- Systematic ESG analysis carried out by the external manager

*The exclusion by sector and type of activity approach followed by Fondaction is described in detail in the Sustainability Policy for Investments.

Sustainable investment

An investment that, not only takes ESG criteria and factors into account, but also creates sustainability benefits that contribute directly to achieving one or more of the SDGs, while providing a financial return.

DCI:
- Positive screening based on business model sustainability
- Positive screening based on the contribution of companies' products and services to the SDGs

Other investments:
- Shares in listed companies and bonds that contribute to at least one of the SDGs
- Framework for analyzing alignment with the SDGs

Impact investment

An investment made with the intention of achieving a measurable social and/or environmental impact, while providing a financial return.

DCI:
- Positive screening based on impact conditions:
  - Intentionality
  - Additionality
  - Impact measurements
- Impact grids
- Impact investing

Other investments:
- External impact managers
- Bonds meeting Fondaction's impact requirements

Structuring investment

An investment that targets promising and innovative projects. These projects, mainly specialized financial vehicles, aim to structure a sector and implement solutions that respond to a market failure and generate positive, measurable impacts, while providing a financial return.

DCI:
- Creation of financial solutions
- Fondaction's leadership in both financial structuring and project implementation

Other investments:
- Structuring initiatives by external managers and partners

Figure 2: Investment identification and selection process

3. Our results

3.1 Impact savings

We present a first series of impact savings indicators for each of the three orientations of our impact savings approach: amplification, dialogue and impact. Some indicators cover all savers, while others currently only cover new groups opened up in 2024.

Amplification

Amplification is achieved mainly by growing the savings collected, the assets under management derived from new savings products, enrolment in payroll deduction and the number of shareholders.

Over the past year, 117,486 shareholders subscribed, enabling Fondaction to raise nearly $390 million through share issues ($178 million in payroll deduction), compared with $369 million in 2022-2023 and $360 million in 2021-2022. Fondaction welcomed 14,147 new savers in 2023-2024, bringing the total number of shareholders to 221,512 as at May 31, 2024.

Engagement

Our affinity network, which includes Fondaction representatives (FRs), is the cornerstone of our commitment to savings. It plays an essential role in the workplace, raising awareness of the individual and collective importance of saving for retirement. With this in mind, we are particularly keen to open up new groups working in the different areas of sustainability, which represents 37% of new groups created this year, compared to 25% in 2023.

Impact

It's by applying the principle of additionality to savings that Fondaction is introducing impact savings. It's a form of savings that targets and reaches those who need it most, those who are poorly served or not served at all by the current system. This prioritization of savers is based on a number of characteristics, such as lack of a pension plan, employer contributions, gender identity, belonging to a visible or ethnic minority, etc.

The majority of our savers, 51%, are women or people who identify themselves as non-binary, two groups that we prioritize. As a result of this inclusive approach, these two groups account for more than half of Fondaction's shareholders and 60% of new savers using payroll deduction. Another impact indicator is the introduction of an "employer share" in the groups, which increases the level of an employee's savings and the social performance of the participating company. Half the groups opened up during the year benefit from an employer contribution, a performance we hope to maintain in 2025.

3.2 Development capital investments and other investments (public markets)

Carbon footprint and avoided emissions

Fondaction calculates its carbon footprint each year to estimate the GHG emissions funded by its investments. This enables it to assess the associated environmental impact and climate risk. Fondaction also calculates the emissions avoided by the various companies and projects financed in the DCI portfolio. The methodologies associated with these measurements are presented on page 75 of the document available here.

The entire portfolio has a carbon footprint of 21.1 tonnes CO_2 eq./$M (a reduction of 1.5 tonnes CO_2 eq./$M compared with 2023). For their part, avoided emissions are down from 1.84 million tonnes to 895,911 tonnes CO_2 eq./year. This performance is half as good, but can mainly be explained by the maturity of an investment in a company that produces a large amount of avoided GHGs.

A disclosure compliant with the Task Force on Climate Related Financial Disclosures' standard is available in the appendix to this report.

Results that combine our two portfolios (DCI and Other investments)

The results achieved in implementing our sustainable finance strategy now include other investments (public markets), which we combine with development capital investments (DCI).

The development of the first phase of our Sustainability and Impact Strategy for other investments in 2024 has enabled us to clearly define the criteria for classifying our other investments into the various categories of our sustainable finance spectrum.

We can now present a combined breakdown of capital allocation by category.

It should be noted that the 2024 results for assets managed by Fondaction include amounts committed to funds that have not yet been invested. This approach gives us a more complete view of capital allocation.

The 2023 results do not include amounts committed but not deployed.

The following sections present the respective and combined results of DCI and other investments (public markets).

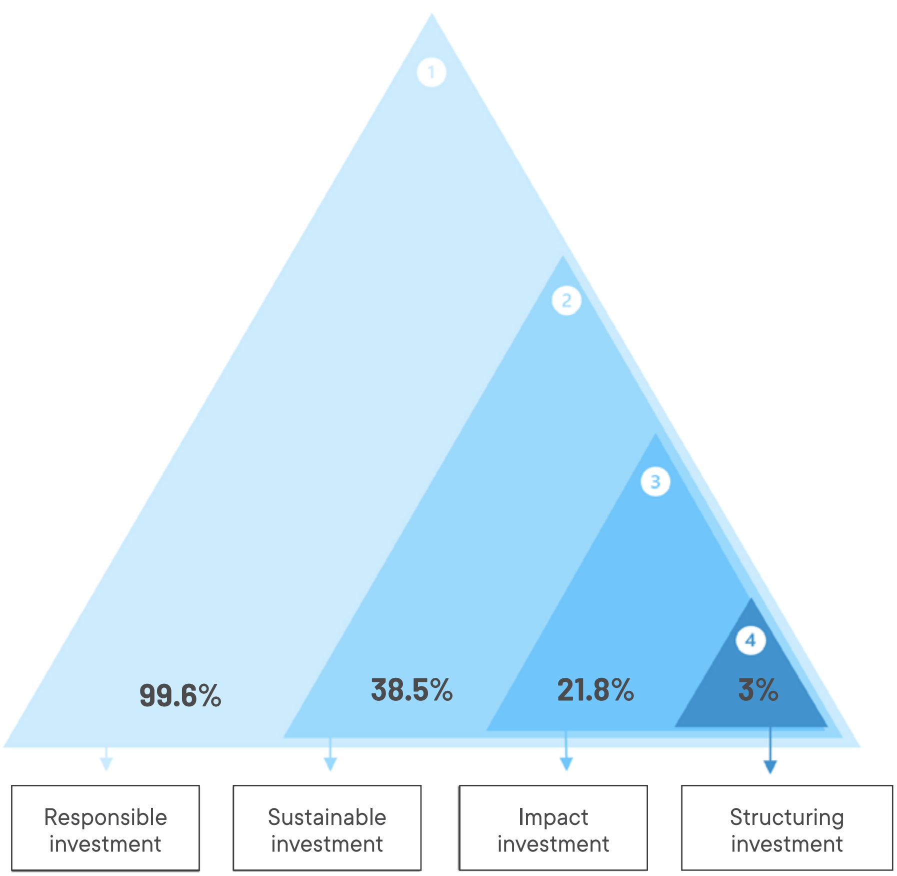
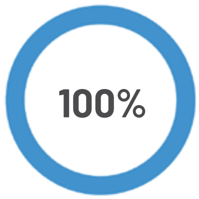
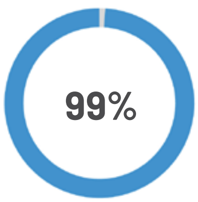


Figure 3: Capital allocation by category on the sustainable finance spectrum

Responsible investments



All development capital investments are responsible



99% of other investments (public markets) are responsible

Fondaction's strategy is grounded in the belief that companies that integrate a broader approach to risks and opportunities, particularly those related to ESG factors, will prove the most resilient and high-performing over the long term. To this end, our objective is for 100% of our investments to be at least responsible.

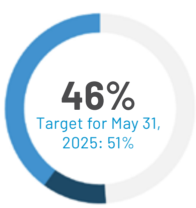
As at May 31, 2024, 99.6% of our investments were responsible, compared with 96% in 2023. Some of our external investment manager mandates for our public markets are currently in a period of transition, which is why we have not yet reached 100%.

With regard specifically to development capital investments, sustainable investments totalled $1 billion. They reached 46%, an increase of 2.5% compared with 2023 results. Our goal is to reach 51% as at May 31, 2025.

As for other investments (public markets), sustainable investments amounted to $504 million, or 30% of this portfolio. Our goal is to reach 35% in 2025.

Our sustainable finance strategy aims to increase the proportion of investments that are not only responsible, but also sustainable or impact.

Sustainable investments



46% of development capital investments are sustainable

30% of other investments (public markets) are sustainable

A sustainable investment is defined as an investment that not only takes ESG (responsible investing) criteria and factors into account in investment decisions, but also creates sustainability benefits that contribute directly to achieving the Sustainable Development Goals (SDGs).

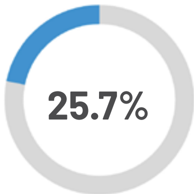
As at May 31, 2024, sustainable investments represented 38.5% of development capital investments and other investments (public markets) combined.

With regard specifically to development capital investments, sustainable investments totalled $1 billion. They reached 46%, an increase of 2.5% compared with 2023 results. Our goal is to reach 51% as at May 31, 2025.

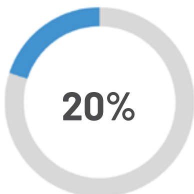
As for other investments (public markets), sustainable investments amounted to $504 million, or 30% of this portfolio. Our goal is to reach 35% in 2025.

In the sustainable real estate sector, we adopted a strategy based on sustainability of the built environment, social aspects and sustainable cities and communities. This approach aims to move away from the functionalism of real estate and instead create living environments on a human scale, reduce our exposure to risks and ensure the longevity of buildings, thereby contributing to the development of sustainable cities and communities. For example, the average ratio of green space to total project area is 31%; 498 affordable, social or community housing units were built or under construction as at May 31, 2024 (we are aiming for 1,000 units by May 31, 2025) and 100% of projects built are accessible by public transit.

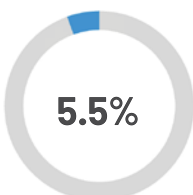
Impact investments



25.7% of development capital investments are impact



20% of other investments (public markets) are impact



5,5% of development capital investments are structuring

All our impact investments are made with the prior intention of having a positive impact on a sustainability issue covered by one of our impact themes: sustainable agri-food, sustainable cities and communities, fighting against climate change and health and well-being.

As at May 31, 2024, impact investments represented 21.8% of development capital investments and other investments (public markets) combined.

With regard specifically to development capital investments (DCI), impact investments amounted to $562 million, or 25.7% of this portfolio. This represents an increase of 1.2% compared with the 2023 results.

In the other investments (public markets) portfolio, impact investments accounted for 20%, or $330 million.

Structuring investments

Structuring investments are made in promising, innovative projects in which Fondaction provides leadership, essentially through its Fondaction Asset Management (FAM) subsidiary, from the financial set-up to the implementation of the projects themselves. These projects, mainly specialized financial vehicles, aim to structure an economic sector and implement solutions that respond to a market failure and generate positive, measurable impacts, while providing a financial return.

To date, Fondaction's structuring investments are solely attributable to the DCI portfolio. As at May 31, 2024, they totalled $119 million, representing 5.5% of total DCI.

FAM develops, raises capital for and operates innovative funds and financial vehicles focused on impact through the following five themes:

- Mitigating climate change;
- Energy efficiency;
- Circular economy;
- Affordable housing;
- Sustainable land management.

Designed to be diversified and complementary, the five platforms – SOFIAC, the Fonds Économie circulaire (Circular Economy Fund), Inlandsis, PRIMAccès and the LCC Fund – cover five asset classes: Energy transition infrastructure; Venture capital; Natural capital and environmental markets; Real estate; and Private equity.

3.3 Engagement and dialogue

By maintaining an ongoing dialogue with leaders from different backgrounds, Fondaction aims to develop better consultation and an effective transition to action. Through dialogue, Fondaction aims to:

- Rally financial and civil society stakeholders around sustainability issues;
- Develop the ability to influence the practices and definition of sustainable finance;
- Build capabilities, share knowledge and implement solutions to sustainability challenges.

Among the recent projects carried out with partners, four are highlighted to demonstrate Fondaction's engagement and the way it encourages dialogue:

- *Génération d'impact*'s second cohort;
- Sustainable finance dialogues and thematic dialogues;
- Social and environmental compensation and public investment;
- The launch of the first report of the Canadian Impact Investing Working Group (CIIWG).

4. Internal practices

In the interests of consistency, Fondaction is dedicated to reflecting its vision of positive transformation through its practices. The company continuously applies the principles and impact measurements guiding its operations to its internal practices, decision-making and activities. The goal is to eventually embody change and bring its own vision of positive transformation to life.

As an organization and as an employer, Fondaction is committed to making the economy fairer, more inclusive, greener and more performant.

4.1 As an organization

Fondaction's Environmental Responsibility Policy, adopted in 2019, is based on five areas of action:

- Sustainable building management;
- Responsible purchasing;
- Sustainable transportation;
- Environmentally responsible events;
- Waste management.

Measures include an improved public transportation program and the integration of art into the working environment.

The Enhanced Public Transportation Program provides employees with several measures to help them adopt environmentally responsible travel behaviours. For example, 53% of regular employees working in the Montreal office use the OPUS & Cie or OPUS+ entreprise annual public transit pass.

Greenhouse gas emissions associated with energy consumption in our two buildings, business travel including air travel, and travel by Fondaction representatives totalled 108 tonnes of CO_2 eq. They will be offset by purchasing carbon credits from Inlandsis.

During the year, Fondaction set up an ad hoc art committee which, with the expertise of Artbangbang (a young company specializing in integrating works of art into professional environments), acquires or rents works by local artists. This model not only supports the artists themselves, but also allows us to promote more of them to the people who pass through our offices.

4.2 As an employer

Fondaction’s culture is based on developing the full potential of each individual in order to excel as a team, grow and succeed together. Diversity and inclusion are at the centre of discussions, and are seen as important levers for change.

Fairness is achieved, most notably, through salaries, which are set by collective agreement for unionized employees. Fondaction also formed a parity committee for salary relativity for the purpose of ensuring the fairness of each job category. Wage indexation is set according to the collective bargaining agreement and takes into account increases in consumer prices. The Fondaction employee supplemental pension plan is a defined benefit contributory plan.

Furthermore, the annual salary of the organization’s highest-paid individual as at May 31, 2024 is equivalent to 4.08 times the median annual salary of all other Fondaction employees, demonstrating the low salary dispersion within the organization.