

2023 Report on Positive Transformation

—

Executive Summary

Presentation

The Executive Summary of the 2023 Report on Positive Transformation, which faithfully reproduces the structure of the report, aims to provide a synthesis and to indicate where detailed content can be found in the full report. This document is not intended to be comprehensive or to replace the [2023 Report on Positive Transformation](#).

Fondaction's general approach and investment practices continue to be based on recognized benchmarks that impose requirements that are among the highest in the industry. This is crucial for Fondaction. But this new report is different from previous ones in structure and essence, and does not meet the usual disclosure standards for an annual or sustainability report. Instead, it focuses on Fondaction's actions in support of positive transformation. It reflects its firm and growing commitment to increase and amplify its impact, both as a company and as an investment fund.

1. Our positioning: Fondaction and its intentions

1.1

Fondaction's mission (two-fold)

- ▶ 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 and conviction

Become THE fund for positive transformation in response to the need to radically change the current economic model to meet 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 fairer, more inclusive, greener and more performant. Fondaction addresses the concentration of wealth by being a tool for distributing wealth.

1.4

Fondaction aims to be both an impact company and an impact investment fund

An impact company

that enables people of modest means to prepare for retirement while improving the world they will live in.

Our intentions

- ▶ Reduce inequalities in access to pension plans
- ▶ Increase financial inclusion of the underserved
- ▶ Reduce the number of people who are financially vulnerable in retirement
- ▶ Improve financial literacy, raise awareness and encourage people to save for retirement

An impact investment fund

that drives and accelerates change by investing in high-performing, sustainable companies and organizations¹ that will make up tomorrow's economy, by helping to:

- ▶ fight against climate change;
- ▶ protect biodiversity;
- ▶ reduce inequalities;
- ▶ end exclusions;
- ▶ achieve greater social justice.

Our intentions

- ▶ Mobilize and direct capital to address societal challenges
- ▶ Develop innovative financial solutions that enable needed change
- ▶ Drive changes in the business models of companies, funds and other investors to increase their sustainability and social impact

¹ Fondaction's diversified portfolio is divided into two main categories: development capital investments and other investments (listed investments on financial markets).

2. Our approach and strategies

2.1

A lever for transformation

Fondaction is a movement that, foremost, engages those who need to save for their retirement and want the world to be a better place when they retire.

There are now nearly 215,000 people who have accumulated more than \$3.3 billion and want Fondaction to invest it sustainably, for the long term.

2.2

Our theory of change

Fondaction's theory of change is organized around five components: inputs, change mechanisms, outputs, short- and long-term results and final impact.



fairer



**more
inclusive**



greener



**more
performant**

Issues

Concentration of wealth (the rich get richer, and the rest have less and less purchasing power)

Shrinking middle class

Declining social mobility

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

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

The prevailing economic model, based on unlimited growth in the face of limited resources, is unsustainable

A healthy, resilient Quebec economy creates wealth and quality jobs

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

Companies with diversity and inclusion are more successful and offer greater investment opportunities

Inclusion helps attract and retain high-performance employees

Fighting against climate change opens up a host of opportunities and new markets

Using fewer resources is a competitive advantage

All businesses will have to adapt

We need to decouple growth from pollution, resource use and/or greenhouse gas (GHG) emissions, and go even further

Solving environmental and social challenges requires innovation

Companies whose products and services contribute to positive transformation must grow and export

2.3 Impact savings

Fondaction's impact savings contribute to the positive transformation of the economy by improving the quality of life after retirement, enhancing the social performance of participating organizations and empowering our savers.

In short, it's about:

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

2.4 Capital deployment

Fondaction manages a diversified portfolio divided into two broad categories: **development capital investments** and **other investments** (listed investments on the financial markets). We look for companies that integrate ESG factors to create long-term value, innovate, protect the environment and help reduce inequality.

We determine the level of alignment with strategy using the sustainable finance spectrum. This tool assesses corporate practices and their societal impacts across four distinct investment categories: responsible, sustainable, impact and structuring.

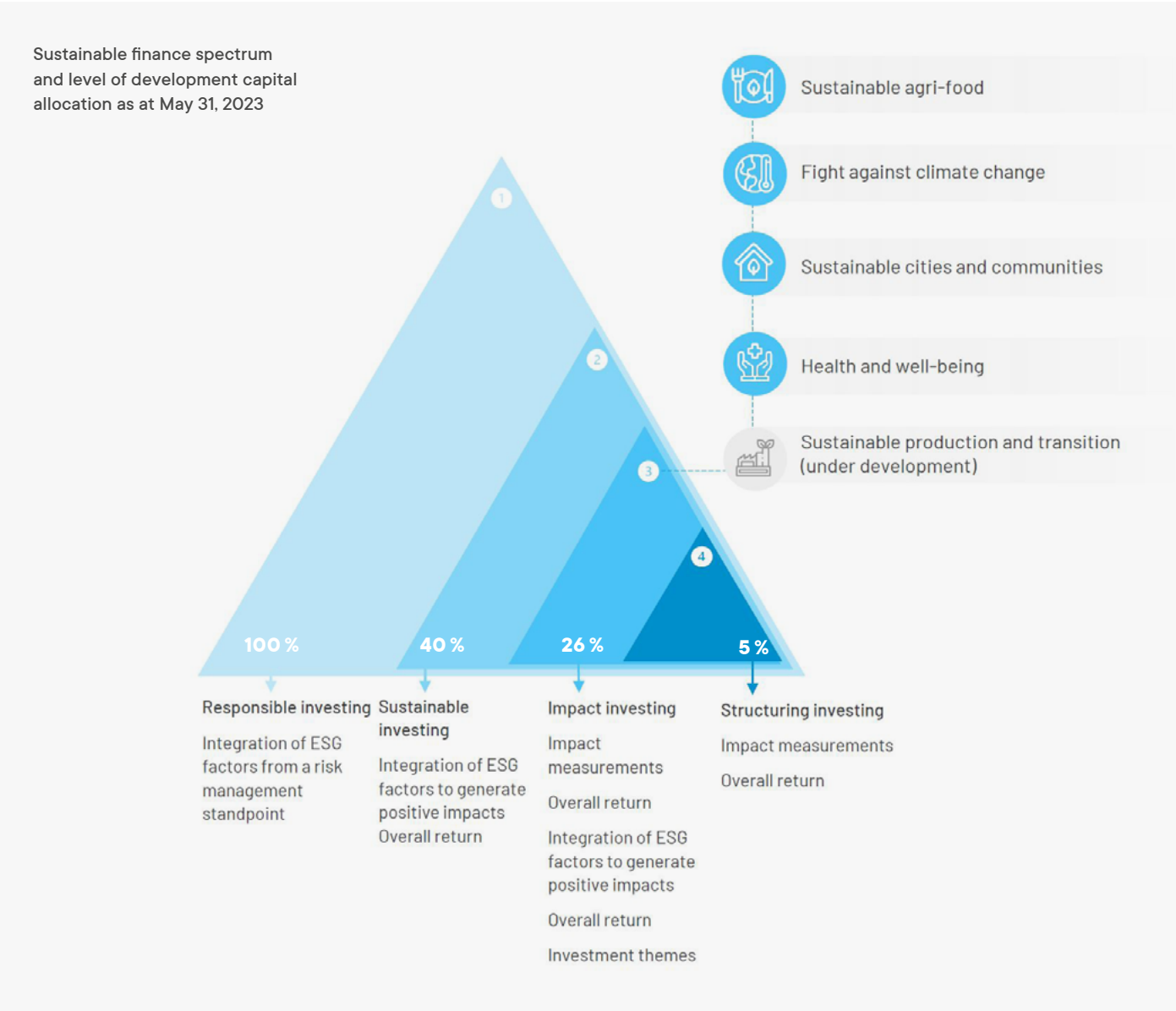
All companies in the development capital investment portfolio are responsible. They must avoid excluded sectors such as fossil energy or weapons, and demonstrate sufficient entrepreneurial, social, territorial and environmental scope. Fondaction uses the UN's Sustainable Development Goals (SDGs) to assess investment sustainability.

Our aim is to increase investments that fall into the sustainable or impact categories.

- ▶ In addition to being responsible, a sustainable company contributes to at least one of the SDG targets.
- ▶ Besides being sustainable, an impact company targets specific objectives to meet societal challenges across four themes: sustainable agri-food; fight against climate change; sustainable cities and communities; and health and well-being. A 5th theme – sustainable production and transition – is currently under development.

Our impact model is based on three principles:

- ▶ Additionality or intentionality;
- ▶ Risks and opportunities management;
- ▶ Impact realization risks.



Our impact investments consist of direct investments in companies and indirect investments in impact funds.

Included in the Other investments category (listed investments on the financial markets), sustainable investments are largely made up of green, sustainable and social bonds. The goal for the coming year is to develop a sustainability and impact strategy for these other investments, drawing in particular on the approach adopted for development capital investments and the results achieved to date.

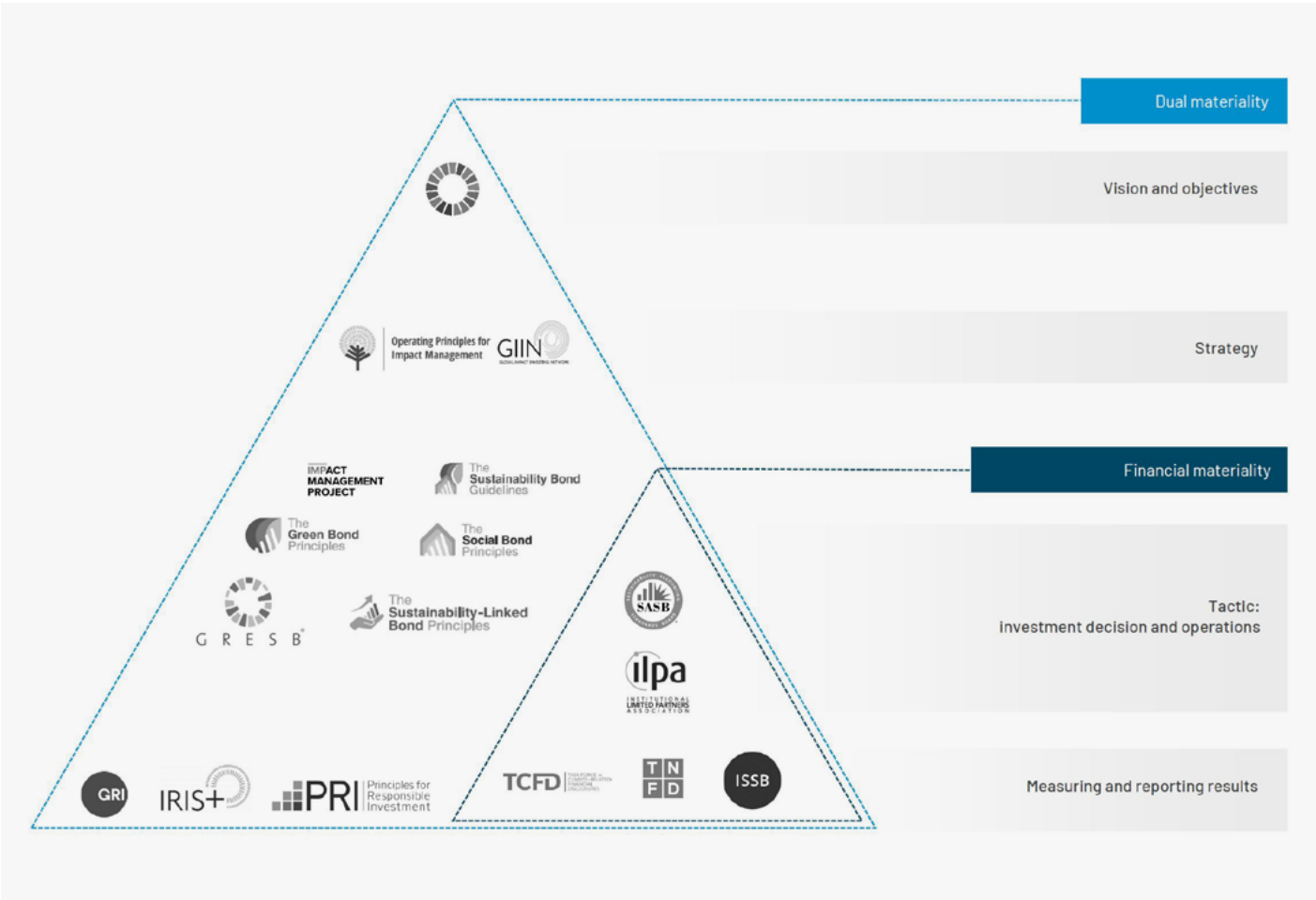
Our structuring projects mainly consist of specialized financial vehicles designed to structure a particular sector of the economy by implementing solutions that respond to a market failure and specific societal issues, and that produce measurable positive impacts. Our structuring funds include SOFIAC, which addresses the challenges of energy efficiency in real estate assets, and Inlandsis, which operates in the carbon markets.

2.5 The multireferential model

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

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

In this context, dual materiality is a concept and a global solution that integrates coherently both types of materiality: the environmental impact on the company and the company's impact on its environment.



3. Our results

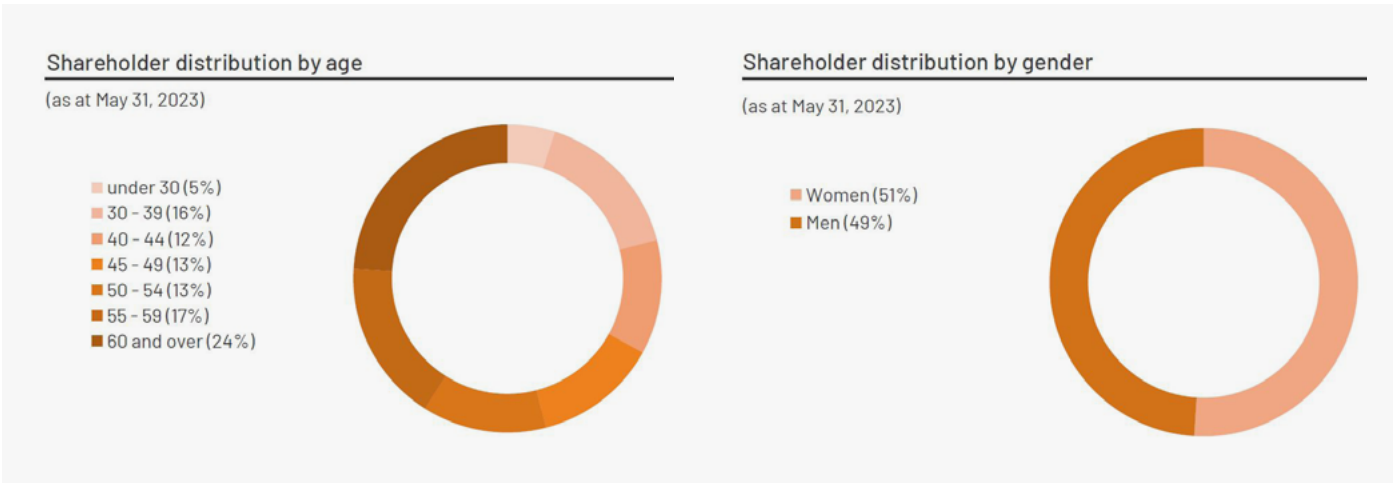
The portfolio’s carbon footprint and the reduction in GHG emissions

We measure our carbon footprint each year to assess the environmental impact of our investments. In 2023, our carbon footprint was 22.6 tonnes of GHG emissions CO₂ equivalent per million dollars invested, up slightly from 2022.

At the same time, many of our investments help to reduce GHG emissions. The performance of our development capital investment portfolio companies has prevented the emission of 1.84 million metric tonnes of CO₂ equivalent this year, enough to take 487,500 cars off the road for a year. In 2022, this figure was 1.49 million metric tons of CO₂ equivalent.

3.1 Savings

In terms of savings, we have reached record levels, with almost \$730 million in subscriptions over the last two years ending on May 31, 2023. During this time, we gained more than 41,500 new investors, with 49% being under the age of 45. Our activist network, made up of Fondation Representatives, plays a crucial role in promoting the importance of signing up for retirement savings that support the positive transformation of society.



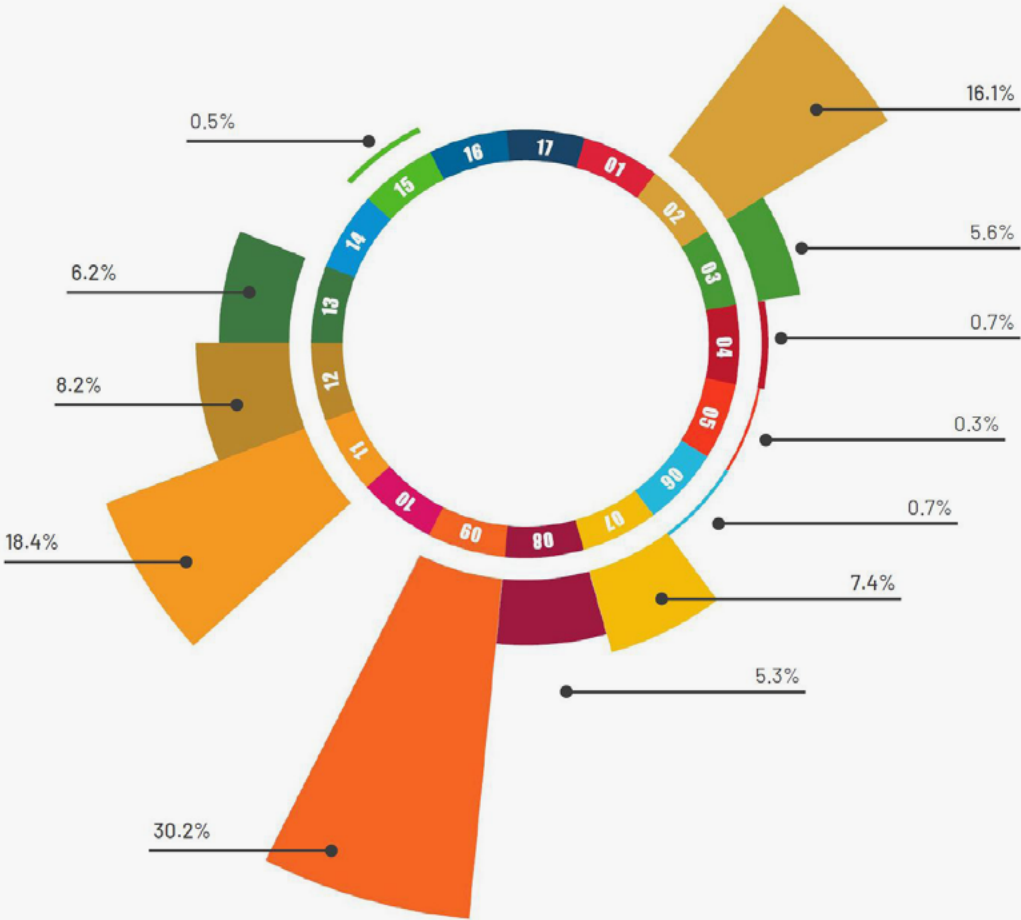
3.2 Private and listed investments

Most of our investments, both private and listed, are responsible and account for 96% of our total assets. Our goal is to achieve 100% responsible investment by collaborating with external managers to raise the level of ESG requirements.

Development capital investments

All our development capital investments are responsible, and 40% are considered sustainable. We aim to reach 51% sustainable investment by 2025, with a focus on companies that make significant contributions to the SDGs.

Breakdown of fair market value by SDG as at May 31, 2023



Sustainable Development Goals

- | | | |
|---------------------------------------|---|--|
| 01 No poverty | 08 Decent work and economic growth | 13 Climate action |
| 02 Zero hunger | 09 Industry, innovation and infrastructure | 14 Life below water |
| 03 Good health and well-being | 10 Reduced inequalities | 15 Life on land |
| 04 Quality education | 11 Sustainable cities and communities | 16 Peace, justice and strong institutions |
| 05 Gender equality | 12 Responsible consumption and production | 17 Partnerships for the goals |
| 06 Clean water and sanitation | | |
| 07 Affordable and clean energy | | |

Listed investments

All our external managers assessed are signatories to the United Nations' Principles for Responsible Investment (PRI). Among these managers, 73% apply the principle of relevance (materiality), 64% adopted a diversity, equity and inclusion (DEI) policy, and 45% implemented exclusion standards. With regard to the fight against climate change, all our mandates exclude shares in companies with fossil fuel reserves (gas, oil and coal).

Sustainable real estate

We adopted a strategy based on sustainability of the built environment, social aspects and sustainable cities and communities. Around 80% of our real estate assets are currently covered by this initiative.

Our approach is to move away from the functionalism that characterizes much of today's real estate development and instead focus on creating residential areas that reflect the needs of local residents, developing sustainable cities and communities, reducing exposure to risk, and ensuring that buildings are durable and long-lasting. For example, 44% of our residential projects are certified according to an environmental or social standard.

Impact investments

In 2023, impact investments directly deployed by our Impact team according to our four themes totalled \$405 million. For each impact category, we specify the issues, the goals, the change mechanism and the expected results and impacts, so that we can monitor and measure the impact of a company's activities using the appropriate indicators.

Structuring investments

As at May 31, 2023, structuring investments represented 5% of development capital investments.

In recent years, Fondaction created several specialized financial vehicles or funds that tackle particular societal issues and act as financial leverage. Once they're up and running, they attract other investors. So there is a real and potential investor appetite for the type of solutions that Fondaction has developed and brought to market.

To further research and develop, and to grow and sustain these solutions by attracting new capital from here and around the world, Fondaction created in 2022 a new fund management platform: Fondaction Asset Management.

3.3

Engagement and dialogue

Fondaction fosters an ongoing dialogue with leaders from diverse backgrounds to promote concerted action on sustainability. The dialogue aims to engage financial and civil society stakeholders, influence sustainable finance practices, and share knowledge to proactively address sustainability issues.

The organization focuses on two major areas to bring about meaningful transformations, resulting in the following formula: financing transformation (what's needed for a sustainable future) and changing finance (how it's done).

To bring about transformation in the most optimal manner, Fondaction also believes in forging connections between the everyday experiences of the majority of people, the real economy and the financial sector. This dialogue fosters a more resolute, rapid and efficient mobilization towards the necessary changes.

Three projects initiated in 2022 and 2023 demonstrate the benefits of Fondaction's commitment and the outcomes of this dialogue: Biodiversity Indicators for Quebec Investors, Génération d'impact and Canadian impact investing group. They are presented in the full report.



4. Internal practices

In the interests of consistency, Fondaction is dedicated to reflecting its vision of positive transformation through its practices. The organization strives to always apply its impact principles and measures to its internal practices, choices 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 places the principles of sustainable development at the heart of its internal practices. We are implementing eco-responsibility initiatives in a variety of areas, from building management to responsible purchasing and sustainable transportation. Fondaction is dedicated to promoting sustainability and leading by example in responsible internal practices.

4.2 As an employer

Fondaction promotes inclusion and the development of individual potential. A Diversity and Inclusion Committee has been created to promote fairness and monitor progress in this area. With respect to fairness, the total annual compensation of the organization's highest-paid employee, as at May 31, 2023, is equivalent to 3.88 times the median compensation of all other Fondaction employees, demonstrating the low salary dispersion within the organization.