



Ethical Fixed Income Without Compromise

This document outlines how the strategy's investable universe is constructed from initial benchmark screening through to final portfolio composition.

Investors are increasingly seeking to align their fixed income allocations to their values without sacrificing return potential. Fiera Capital's Ethical Fossil Fuel-Free Fixed Income Strategy is designed to meet this need, offering a core Canadian bond allocation that meaningfully reduces carbon exposure while targeting competitive performance.

Launched as a pooled fund on February 28, 2025, the strategy is managed by Fiera Capital's Active and Strategic Fixed Income (ASFI) team and is supported by decades of experience in ethical and responsible investing. The portfolio excludes issuers with material exposure to fossil fuel production and distribution as well as those generating significant revenue from ethically sensitive industries. Beyond these exclusions, the strategy

applies additional carbon-conscious filters and integrates environmental, social and governance (ESG) considerations directly into security selection.

Benchmarked against the FTSE Canada Universe Bond Index, the strategy targets **35 basis points of excess return over a full market cycle**¹ through active duration management, yield curve positioning, sector allocation and security selection.

Establishing the Investable Universe

The FTSE Canada Universe Bond Index serves as the starting point for portfolio construction. From this benchmark, the ASFI team applies a structured two-layer investment framework to define the strategy’s eligible universe.

1 Layer One: Core Approach

Fossil Fuel-Free Exclusions

The Core approach begins with a negative screen applied to the FTSE Canada Universe Bond Index using the FTSE Russell sector classification framework. All issuers classified within:

- ▶ **Energy** (Level 2 industry group)
- ▶ **Utilities** (Level 3 industry subgroup)

are excluded from the investable universe.

These exclusions remove issuers that own coal, oil or natural gas reserves, that facilitate the transportation and distribution of fossil fuel-related products or operate utility businesses reliant on fossil fuel. Issuers classified within these sectors that are exclusively focused on renewable energy, such as hydroelectric, wind or solar power, may be retained where they align with the objective of the strategy.

Ethical Exclusions

In addition to fossil fuel screening, the Core approach excludes corporate issuers that derive more than **10% of revenue** directly or indirectly from the following activities:

- ▶ **Adult entertainment**
- ▶ **Alcohol**
- ▶ **Cannabis**
- ▶ **Firearms**
- ▶ **Gambling**
- ▶ **Military contracting**
- ▶ **Tobacco**

Together, these two screens establish the minimum exclusionary criteria for the strategy, removing issuers with material fossil fuel exposure and those with significant involvement in ethically sensitive industries.

Overview of the Two-Layer Framework

1

Core Approach

Removes direct fossil fuel exposure and ethical ethically sensitive industries.

2

Extended Approach

Applies carbon intensity thresholds to provinces and municipalities, excludes high-emitting non-energy corporates and tilts toward best-in-class ESG performers within the remaining investable universe.

Together, these layers produce an investable universe with a materially lower carbon footprint than the FTSE Canada Universe Bond Index while maintaining comparable risk characteristics.



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Layer Two: Extended Approach

Additional Carbon-Conscious Filters

While the Core approach establishes the minimum exclusionary criteria, it does not capture all potential sources of greenhouse gas emissions. Issuers outside the Energy and Utilities sectors, such as industrial manufacturers, building materials producers and transportation-related companies, may also have significant carbon footprints.

The Extended approach addresses these gaps.

Corporate Issuers

For non-energy, non-utility corporate issuers, two additional exclusionary filters are applied:

- ▶ Issuers with carbon intensity exceeding 100 tonnes of CO₂ per million U.S. dollars of sales

- ▶ Automotive manufacturers including affiliated auto-financing entities, reflecting downstream emissions associated with vehicle production

Government Issuers

The Extended approach is also applied to government issuers to further reduce the carbon footprint of the portfolio.

Provincial Issuers

Provinces are excluded when emissions exceed 40 tonnes of CO₂ per capita.

Municipal Issuers

Due to limited and non-standardized municipal carbon data and intensity metrics, the investment team has

developed a proprietary methodology to identify jurisdictions with concentrated high-emission industrial activity.

This process involves:

- ▶ Identifying public companies with available carbon disclosure
- ▶ Locating major production facilities within specific municipalities
- ▶ Estimating absolute emissions attributable to those facilities within a particular jurisdiction

Municipalities are excluded from the investable universe when affiliated facilities produce more than 500,000 tonnes of CO₂ on an absolute basis.



ESG Integration in Security Selection

Embedding Sustainability Within Investment Decisions

Beyond exclusionary screening, the Extended approach integrates ESG considerations directly into security selection through both negative and positive filters.

Negative ESG Filters

Issuers that fall below an internally defined ESG quality threshold are excluded from the portfolio. Assessments draw on multiple inputs including:

- ▶ Company-level disclosures
- ▶ Management engagement
- ▶ Third-party ESG research

Issuer ESG profiles are monitored continuously and material deterioration may result in removal from the portfolio.

Positive ESG Tilt

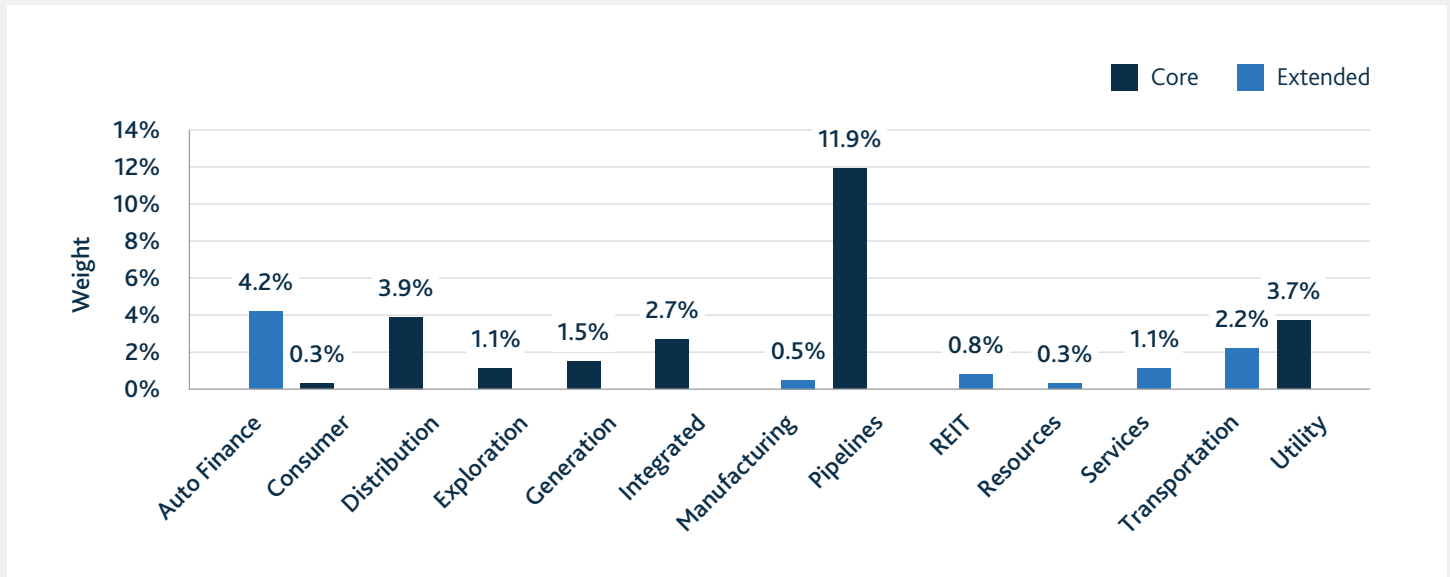
Within the remaining universe, the investment team favours issuers demonstrating strong ESG practices relative to industry peers. When issuers display comparable risk and return

characteristics, preference is given to those with superior ESG credentials, creating a meaningful best-in-class tilt across sectors.

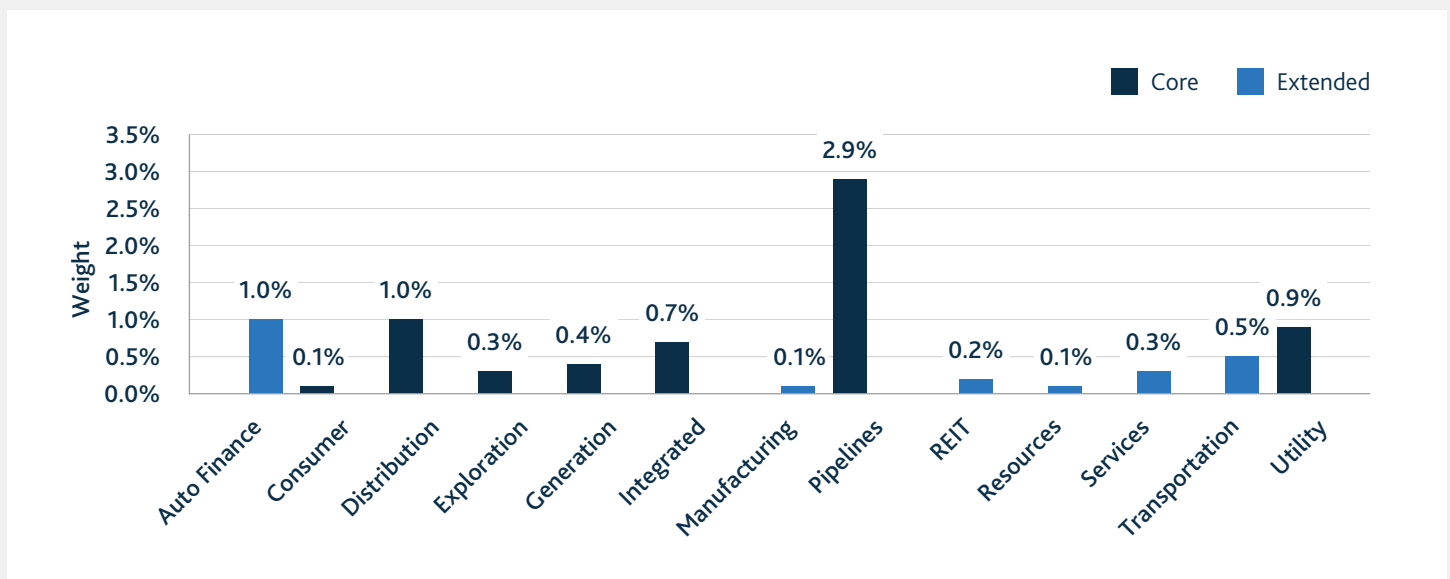
To support this process, the ASFI team employs a proprietary scoring and ranking framework that evaluates corporate issuers across environmental impact, corporate governance and health and safety metrics. This scoring framework is a key input alongside traditional credit and relative value analysis, ensuring that ESG considerations are embedded in the portfolio construction process rather than applied as an afterthought.



Exclusions as a Percentage of FTSE Canada Corporates



Exclusions as a Percentage of Total FTSE Canada



Source: Fiera Capital and FTSE Russel Global Debt Market Indices, as of November 30, 2021.



Active Management and Return Objectives

While defined by its ethical and fossil fuel-free framework, the strategy remains a fully active fixed income portfolio with a clear return objective. The team targets **35 basis points of annualized excess return**¹ relative to the FTSE Canada Universe Bond Index, measured over rolling four-year periods.

Excluding energy, utilities and high-carbon issuers reduces the size of the investable universe relative to the benchmark. Within these constraints, value is generated through four primary levers:

- ▶ **Duration management**
- ▶ **Yield curve positioning**
- ▶ **Sector allocation within the eligible universe**
- ▶ **Bottom-up security selection**

The narrower corporate universe increases the importance of security selection and relative value analysis, where the team’s proprietary ESG scoring framework provides an additional input in identifying attractively valued issuers.

All investment decisions are made within the ethical and fossil fuel-free parameters established by the Core and Extended frameworks – with the objective of aligning performance and values.

Conclusion

Excluding fossil fuel exposure from a fixed income portfolio does not require compromising return objectives or portfolio quality. Fiera Capital’s Ethical Fossil Fuel-Free Fixed Income Strategy demonstrates that a disciplined, multi-layered framework combining ethical exclusions, carbon-intensity thresholds and positive ESG integration can deliver a value-aligned core bond allocation.

A key differentiator of the strategy is the depth of its approach. Rather than relying on a single exclusionary screen, the framework addresses carbon exposure across the full carbon chain – from direct fossil fuel producers and high-emitting industrials to provinces and municipalities reliant on carbon-intensive activity. The Extended approach then goes further by favouring strong ESG performers to ensure the portfolio is not only avoiding harm but directing capital toward issuers supporting the energy transition.

Backed by more than five years of experience managing fossil fuel-free mandates on a segregated basis, the Active and Strategic Fixed Income team brings proven expertise in delivering value within constrained universes. The launch of the pooled fund in February 2025 extends this capability to a broader range of investors.

Responsible investing is not one-size-fits-all. Fiera Capital has the ability to work closely with clients to refine exclusion criteria, adjust thresholds or incorporate additional considerations, ensuring portfolios reflect both their values and long-term investment objectives.

Endnotes

- 1 Target returns/performance are aspirational, forward-looking, do not represent actual performance, there is no guarantee that such performance will be achieved, and actual results may vary substantially.

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