Q2 2024
Engagement Report

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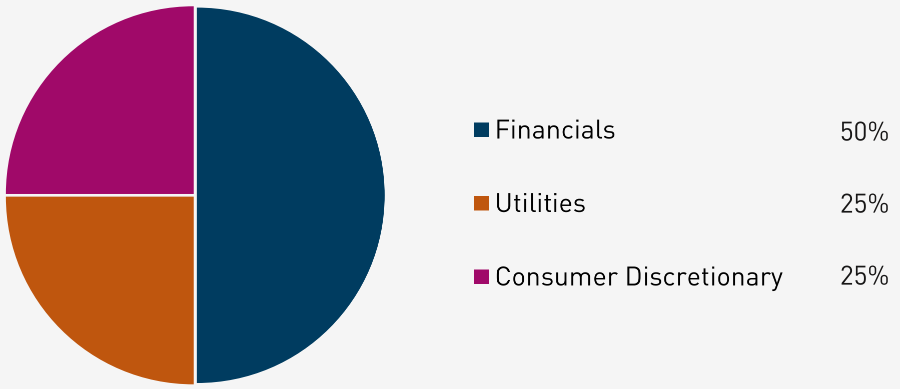
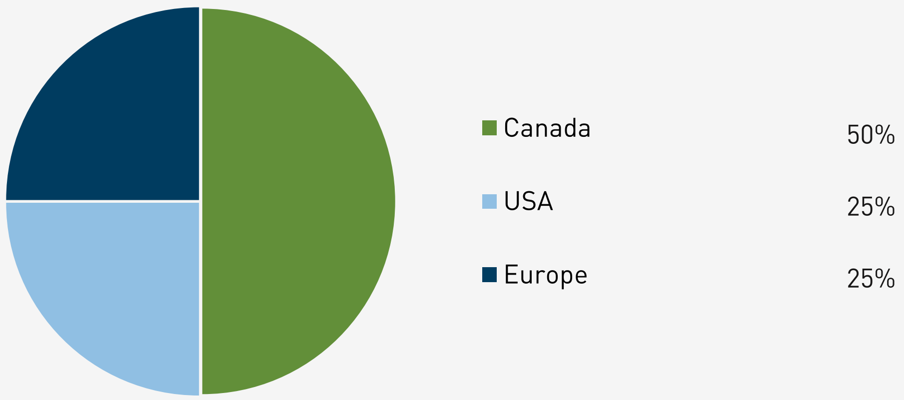
Q2 2024 Engagement Breakdown

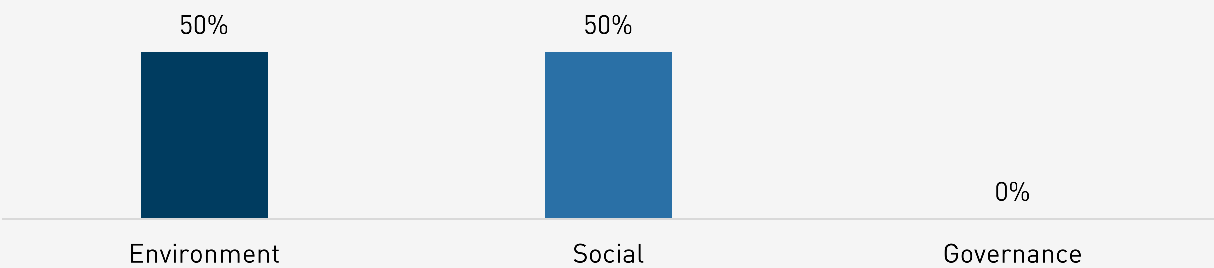
Engagements by Sector



Engagements by Geography



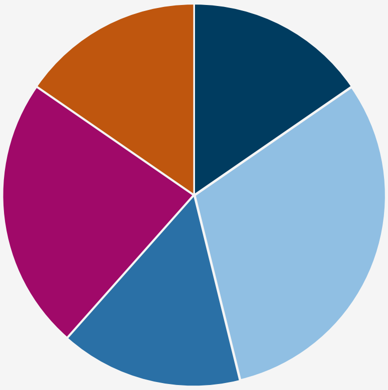
ESG Discussion Topics



Data has been rounded to the nearest number, and the sum may not equal to 100%.

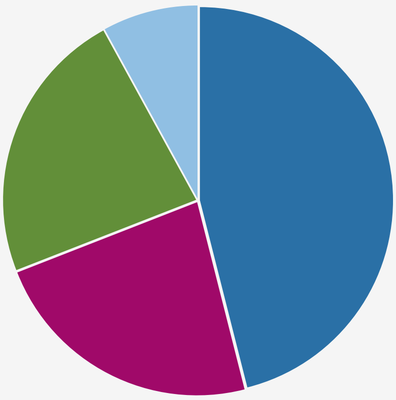
2024 YTD Engagement Breakdown

Engagements by Sector



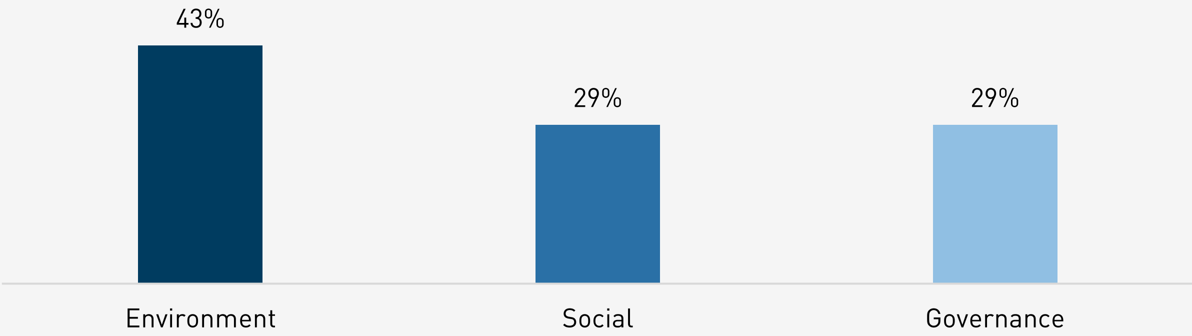
Consumer Staples	15%
Financials	31%
Health Care	15%
Utilities	23%
Consumer Discretionary	15%

Engagements by Geography



USA	46%
Europe	23%
Canada	23%
Other	8%

ESG Discussion Topics



Data has been rounded to the nearest number, and the sum may not equal to 100%.

Our Engagements

Canadian Power Producer

Sector: Utilities
Geography: Canada
Discussion Topic: Environment

Engagement Rationale

- Our engagement with this issuer follows a similar format to other discussions with power producers that have high greenhouse gas (GHG) emissions. Like their peers, this issuer faces the challenge of developing a transition plan for moving toward more sustainable energy sources. We are also participating in this engagement as part of the Climate Engagement Canada (CEC) initiative, which aims to facilitate dialogue between finance and industry to promote a just transition to a net-zero economy.

Highlights & Outcome

- During our call, the issuer expressed a commitment to various decarbonization strategies. These include new investments in renewable energy sources like wind and solar, repowering projects for existing wind and solar facilities, and mid-life natural gas investments. To manage costs, the company plans to build two renewable projects per year.
- Initially, renewables paired with batteries were expected to drive the obsolescence of natural gas. However, record demand for electricity has slowed this progress. The advent of AI, which requires more power to operate computers and data centers has further increased the need for additional electricity. The company also emphasized the importance of natural gas being reliable and affordable, and best paired with intermittent renewables.
- They plan to completely replace coal through a coal-to-gas conversion project. This project aims to:
    - Convert coal-powered turbines to natural gas
    - Reduce CO2 emissions by 3.4 million tonnes per year compared to 2019 levels
- We are satisfied with the company's strategy to tackle emissions and prepare for the energy transition. They are on track to eliminate coal use by early 2025.
- This issuer was a recent addition to our portfolio. Since initiating the position, we have trimmed our holdings to capture some appreciation in the bond price and we no longer have any positions outstanding.

Automotive Original Equipment Manufacturer

Sector: Consumer Discretionary
Geography: Europe
Discussion Topic: Environment

Engagement Rationale

- We engaged with this prominent auto manufacturer to gain insights into their approach to transitioning from gas-powered vehicles to Battery Electric Vehicles (BEVs). Gas-powered vehicles, with their internal combustion engines and exhaust systems, contribute significantly to global emissions. While hybrid vehicles have provided an initial alternative, recent advancements in battery technology, such as longer-lasting charges, have positioned BEVs as a viable solution to combat car-related pollution.

Highlights & Outcome

- During our discussion, the auto manufacturer indicated that, currently, demand for EVs in the higher end of the market remains relatively low. However, they anticipate that by the end of 2027, a significant portion, around 75%, of their capital expenditure could be directed toward EV investments. They are also committed to net zero manufacturing facilities by 2030.
- Their current strategy involves forming partnerships with innovative companies in the EV technology space. They plan to invest over $200 million between 2023 and 2026 to acquire proprietary technology for integration into their vehicles.
- While historically, regulatory pressures on smaller manufacturers have been limited, there is an expectation that this will increase toward the end of the decade. Consequently, the company is taking a cautious approach to EV adoption, prioritizing near and medium-term financial goals while keeping EVs as a longer-term consideration as demand grows.
- This auto manufacturer is a recent addition to our portfolio, where we've initiated a small position. Our intention is not to hold this position for an extended period but rather to capitalize on medium-term catalysts.
- Following our engagement, our views remain consistent, and there have been no trading implications.

Subprime Consumer Lender

Sector: Financials
Geography: Canada
Discussion Topic: Social

Engagement Rationale

- In light of the higher rate environment, borrowing has become increasingly challenging for consumers. Those unable to access credit from traditional banks and lenders often turn to private lenders, who may charge exorbitant rates.
- We engaged with this issuer to discuss their social responsibility as a lender to vulnerable borrowers and to ensure they are not exacerbating their financial challenges. This issuer has been a longstanding name in our portfolio. We initially held a significant position, which we gradually reduced as we captured the relative value it offered. We have now completely exited the position.

Highlights & Outcome

- The issuer's employees who provide credit to consumers are trained to assist in understanding their clients' credit reports and the steps needed to improve credit scores. They also track the number of borrowers whose credit scores improve after using their services. Notably, one in three customers graduates to prime lending, and 60% of customers show an improvement in their credit scores.
- The company has aligned its sales staff's compensation with positive outcomes for consumers. Their pay structure is 50% based on origination and 50% based on the performance of the book.
- Despite best efforts, some loans go bad. The issuer has a centralized resolutions team to manage these issues. Debt collection is handled by an internal team that strives to resolve matters with impacted borrowers fairly and transparently.
- Our engagement positively influenced our perception of the issuer and their approach to subprime customers. However, we believe there is room for improvement in formalizing their ESG strategy. This engagement did not impact our trading decisions.

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