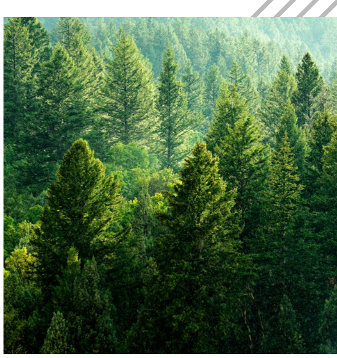
TD Asset Management

TD Asset Management Inc.

# Task Force on Climate-Related Financial Disclosures

2023 Report



# Table of Contents

# Introduction

**TD Asset Management Inc.** (TDAM) is a leading asset manager in North America which directs approximately $359 billion in assets under management (AUM) on behalf of retail and institutional investors as of October 31, 2023. TDAM offers a diversified suite of investment solutions to corporations, pension funds, endowments and foundations. Additionally, TDAM manages assets on behalf of almost two million retail investors through affiliated and third-party dealers, and offers a broadly diversified suite of investment solutions, including mutual funds, professionally managed portfolios and corporate class funds.

## About This Report

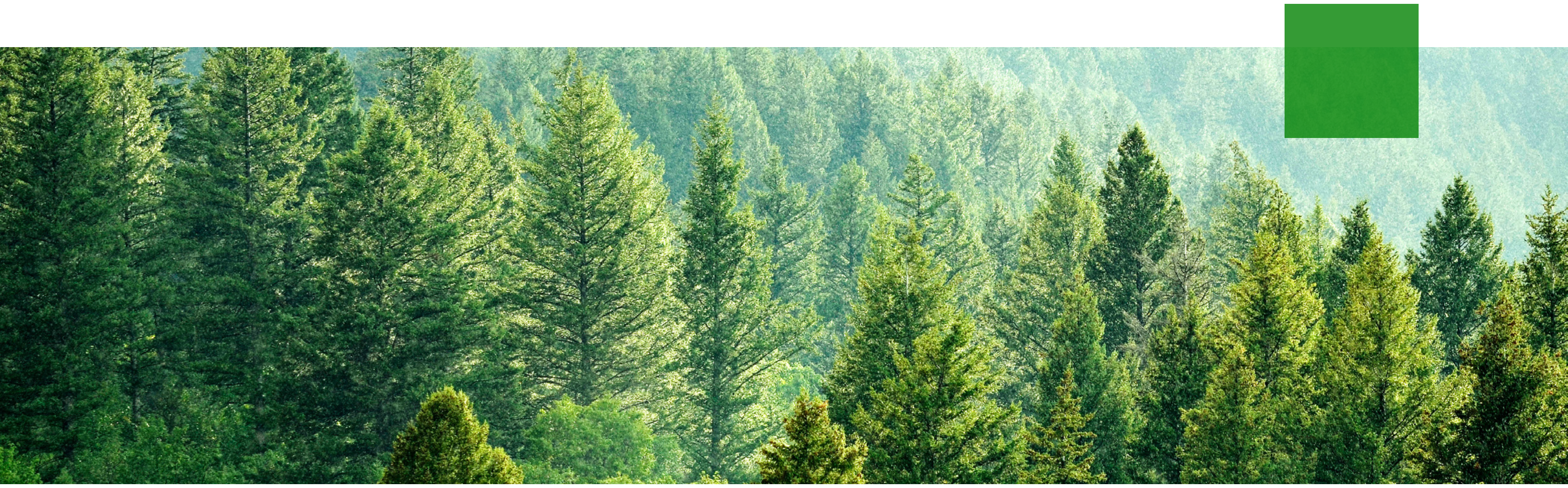
We are pleased to share our 2023 Taskforce on Climate-Related Financial Disclosures (TCFD) report documenting our continued efforts towards implementing the recommendations of the TCFD within the Financial Stability Board (FSB), an international body which monitors and makes recommendations about the global financial system. We released our statement on Climate Change-Related Investment Risks and Opportunities in 2021, and we are formal supporters of the TCFD and frequent end users of our investee companies' TCFD reporting. This report describes our data-driven approach to monitoring, evaluating, and managing material climate-related risks and opportunities in TDAM-managed assets. We recognize that preparing disclosures aligned with the TCFD's recommendations is a journey which will evolve as data, metrics, methodologies and understanding around climate risks advance over time. The information contained in this report is a point-in-time snapshot of our current approaches, methodologies and relevancy and is purely for informational purposes only.

## Scope

All information contained in this report is specific to TDAM, unless otherwise noted. This report does not contain information related to Epoch Investment Partners, Inc. (TD Epoch), TDAM's affiliated registered investment advisor in the United States.

All numbers and figures in this report cover the reporting period between November 1, 2022 and October 31, 2023. The majority of the qualitative information also covers the same period, except in a few instances where relevant information after October 31, 2023 has been included.

In this document, references to integration or incorporation of ESG factors exclude certain strategies and asset classes, including but not limited to index-tracking funds and certain third-party sub-advised strategies. Further, the extent of integration or incorporation of ESG factors varies across TDAM funds and mandates. For certain funds where ESG factors do not form part of the fund's fundamental investment objectives or principal investment strategies, ESG factors may still be considered by a fund's portfolio manager where financially material or relevant in the investment decision-making process. It is up to each individual portfolio manager to determine whether, and to what extent, ESG considerations are to be incorporated into the financial analysis within their own investment processes, and in a manner that aligns with the fundamental investment objectives of each fund. As a result, the consideration of ESG factors may play a limited role in the investment decision-making process, meaning that ESG factors are not weighted heavily in the determination of whether to purchase, hold or sell a security in a fund's portfolio.



## 2023 Climate Highlights

- TDAM launched the TD North American Sustainability Bond Fund, an investment fund with ESG-related investment objectives.[1]
- Listed equities demonstrated an overall reduced weighted average carbon intensity of 23% on an aggregated level between 2022 and 2023.[2,3,4]
- Significant year-over-year increase in the weighting of companies that are 1.5°C aligned under the MSCI's Implied Temperature Rise methodology.[5]
- TDAM's TD Greystone Canadian Real Estate Strategy standing investment and the TD Greystone Infrastructure Strategy maintained Global Real Estate Sustainability Benchmark (GRESB) scores at or above the global average for their respective assessments. For a fourth consecutive year, TDAM also improved its GRESB score for the TD Greystone Global Real Estate Strategy.[6]
- Participated in the launch of Climate Engagement Canada's (CEC) inaugural Net Zero Benchmark. TDAM is a founding member of CEC.
- Conducted initial carbon footprint analysis of TDAM's sovereign bond exposure.[7]
- Published thought leadership through internal and external distribution channels on the development of a Canadian green and transition finance taxonomy and ESG integration best practices for commercial real estate debt investors.
- Held 125 climate-focused engagements with 105 companies in 2023, where we encouraged issuers to take appropriate action to mitigate climate risk and capitalize on opportunities.[8]
- Supported 76 climate-focused shareholder proposals at Annual General Meetings at our investee companies.
- Completed a preliminary climate risk education and assessment exercise with management teams for assets within the TD Greystone Infrastructure Strategy, including identification of sector-specific physical/transition risks and current asset preparedness (i.e., existing mitigation and adaptation measures).

[1] A portion of the portfolio is allocated to what the portfolio adviser views as green, social, sustainability and/or sustainability-linked bonds. Such bond investments will be considered those that have strong sustainability characteristics and/or positively contribute toward the Sustainable Development Goals (SDGs) as set out by the United Nations. The SDGs address a range of global challenges, including those related to climate change, environmental degradation, peace and justice (more information is available at https://sustainabledevelopment.un.org).

[2] Source: MSCI; TDAM.

[3] Weighted average carbon intensity metrics are not only impacted by company emissions levels but also company revenue. Given this, this metric may fluctuate in part as a result of market conditions.

[4] Regional breakdown is included in this report.

[5] Source: MSCI; TDAM.

[6] TD Greystone Canadian Real Estate Strategy refers to TD Greystone Real Estate L.P. Fund and TD Greystone Real Estate Fund Inc.; TD Greystone Global Real Estate Strategy refers to TD Greystone Global Real Estate Fund L.P. and TD Greystone Global Real Estate Fund (Canada Feeder) L.P.; TD Greystone Infrastructure Strategy refers to TD Greystone Infrastructure Fund (Canada) L.P., TD Greystone Infrastructure Fund (Canada) L.P. II and TD Greystone Infrastructure Fund (Global Master) L.P.

[7] Results are provided in this report.

[8] One meeting with an issuer can include multiple topic engagements. We may have multiple meetings with an issuer in any given year where warranted.

# Governance and Oversight

We recognize the importance of governance structures with regards to the oversight of climate risks and opportunities within our core business of investment management. For that reason, in 2021 TDAM formally included climate change as a standalone focus area within our overall sustainable investing approach and governance structures. At TDAM, governance of sustainable investing starts with our Chief Executive Officer (CEO), who is responsible for establishing and maintaining progress on overall strategic priorities for TDAM. Climate-related items of strategic importance are brought before TDAM's Operating Committee, which consists of executive leaders from across TDAM.

TDAM's Chief Investment Officer (CIO) and the Head of ESG Research and Engagement (ESG R&E) have executive accountability for climate strategy and risk management within the investment function as part of their broader sustainable investing responsibilities. The components of TDAM's ESG governance are further described below.

## TDAM's ESG R&E Team

The mandate of TDAM's ESG R&E team includes supporting the investment teams and providing subject matter expertise; leading the firm's proxy voting activities, including developing the firm's proxy voting guidelines; leading the firm's ESG-specific engagement efforts, including dedicated engagements with companies on our annual focus list; providing research and thought leadership, often in collaboration with colleagues from the investment team; advising on the development of proposed ESG-focused funds; acting as ESG subject matter experts within the firm and conducting knowledge sharing sessions with other teams across the firm; and leading the firm's climate change-related investment R&E activities.

## TDAM's ESG Committee

TDAM has a dedicated ESG Committee that oversees the firm's overall sustainable investing strategy and integration efforts. The committee facilitates discussion around ESG issues, engagements and policy direction. The ESG Committee includes members of the investment management, external distribution and investment risk teams. The ESG Committee meets on a quarterly basis, in addition to ad hoc meetings, where necessary. Items that require additional discussion are escalated to TDAM's Operating Committee and TDAM's Risk Committee.

The ESG Committee strives to ensure that the sustainable investment approach is implemented in accordance with the applicable mandate(s) and clearly communicated across the business. The work of the ESG Committee is communicated to senior management, including the CEO, CIO and portfolio managers, all of whom serve critical roles in advancing sustainability across the firm and within applicable portfolios that TDAM manages.

The purpose of TDAM's ESG Committee is to:

- Establish TDAM's firm-wide sustainable investing approach, policies, objectives and commitments to applicable strategies.
- Provide advice and oversight of TDAM's sustainable investing approach and policies.
- Define sustainable investing objectives, track progress and monitor effectiveness of stated approaches and commitments.
- Act as a liaison with The Toronto-Dominion Bank (TD) to align, as appropriate, with TD's ESG policies, given TDAM's fiduciary responsibility to its clients and its investment obligations and objectives.

The ESG Committee has sub-committees that oversee the workings of underlying functions where relevant, such as the Proxy Voting Sub-Committee and the Alternatives ESG Committee. The ESG Committee supports the creation of working groups on different areas of implementation on an as-needed basis. The ESG Committee is chaired by the Head of ESG R&E with the CIO as an ex-officio member.

## Proxy Voting Sub-Committee

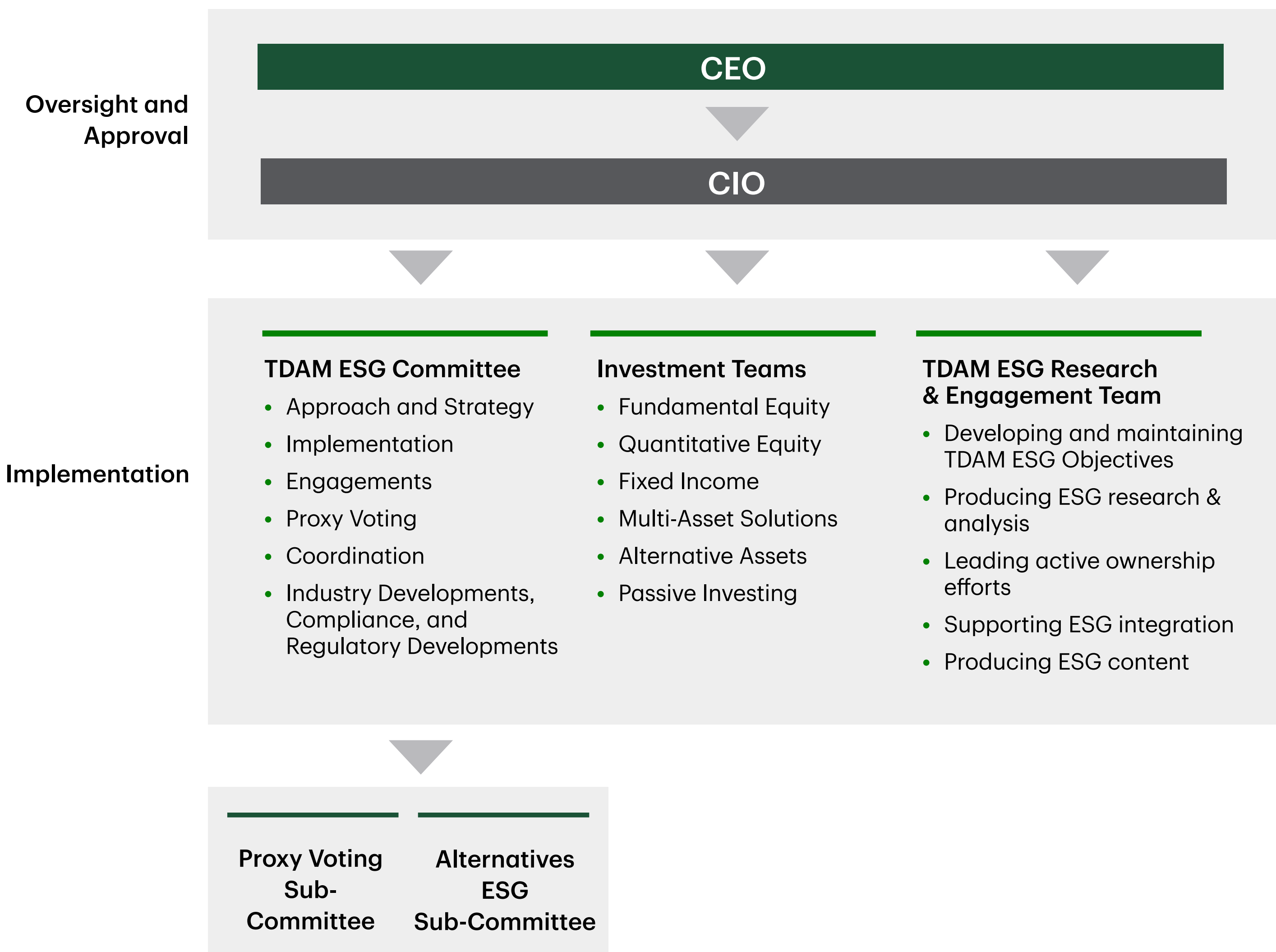
Proxy voting at TDAM is overseen and governed by its dedicated Proxy Voting Sub-Committee. The Proxy Voting Sub-Committee is responsible for reviewing and approving TDAM's proxy voting guidelines and its custom voting instructions on ESG issues, identifying key or emerging proxy issues and deliberating and deciding on any deviations or overrides of TDAM's vote recommendations. The Proxy Voting Sub-Committee is comprised of members from TDAM's public equities and ESG teams, including the CIO, Head of Equities and Head of ESG R&E.

## Alternative Investments ESG Committee

The mandate of the Alternative Investments ESG Committee, a sub-committee of the TDAM ESG Committee, is to:

- Provide advice and oversight of TDAM's alternative investments ESG approach, strategies, policies, objectives and commitments.
- Define and approve alternative asset class ESG priorities.
- Track progress and monitor effectiveness of stated objectives and commitments.
- Review and approve updates that will be provided on an as-needed basis to the TDAM ESG Committee, which the Alternative Investments ESG Committee reports into.
- Act as a decision-making body for significant alternative-investments-focused ESG initiatives and budgetary approvals.

## Figure 1: TDAM ESG Governance Structure



# Strategy

As an asset manager with investments in both public and private financial markets that span different geographies, we recognize that climate-related risks are wide-ranging and can impact both TDAM as an entity, as well as the underlying assets in which TDAM invests. Most of TDAM's public market investments are held for periods spanning one to five years or more than five years. The impacts of climate change are typically considered over these periods.

For a full description of the different types of climate-related risks that TDAM and the assets we manage may be exposed to and information on the steps TDAM takes to mitigate these risks, please see the Risk Management section of this report on page 35.

In general, TDAM's approach to addressing climate-related risks and opportunities within our business strategy is grounded in our approach to climate change and net-zero by 2050, as detailed below.

## TDAM's Approach to Climate Change and Net-Zero by 2050

At TDAM, we believe that asset managers have a role to play in the global ambition to achieve net-zero greenhouse gas (GHG) emissions by 2050 to limit further global temperature increases. As such, we support the principles and outcomes of the 2015 Paris Agreement and continue to monitor ongoing developments in subsequent meetings of the Conference of Parties (COP), the ultimate decision-making body within the UN Framework Convention on Climate Change.

We continue to review and evolve our approach towards a net-zero transition by referring to climate science frameworks. Those frameworks include the Intergovernmental Panel on Climate Change (IPCC) Assessment reports and U.S. Global Change Research Program (USGCRP) National Climate Assessment reports.

## Our Operational Footprint

TD Bank Group (TD)[9] measures and reports on GHG emissions, including those related to TDAM's operations. In 2010, TD was the first North American bank to offset 100% of its operational GHG emissions (Scope 1 and 2 and Scope 3 business travel emissions) through the retirement of carbon credits and renewable energy certificates. And in 2020, TD announced its Climate Action Plan, including a target to achieve net-zero GHG emissions associated with its operations and financing activities by 2050. In 2021, TD announced its first science-based interim target to achieve an absolute reduction in Scope 1 and Scope 2 GHG emissions by 25% by 2025, relative to a 2019 baseline. This target includes the GHG emissions related to TDAM's operations. For more details on TD's operational carbon footprint, see **TD's Climate Action Plan >**.

### Climate Risks and Opportunities

Physical climate risks arise from the consequences of a changing climate, including acute physical risks stemming from extreme weather events happening with increasing severity and frequency (e.g., wildfires and floods) and chronic physical risks stemming from longer-term progressive shifts in climatic and environmental conditions (e.g., rising sea levels and global warming).

Transition risks arise from the process of shifting to a low-carbon economy, influenced by new and emerging climate-related public policies and regulations, technologies, stakeholder expectations and legal developments.

Efforts to mitigate and adapt to climate change also produce opportunities for organizations - for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain.

[9] TD Asset Management Inc. is a member of TD Bank Group and is a wholly-owned subsidiary of The Toronto-Dominion Bank. For more information on TD's approach to climate change, including its 2023 TCFD Report, please visit its ESG Publications page. Throughout this report, "TD" refers to TD Bank Group. "We" refers to TDAM.

# Our Investment Approach

To address climate-related risks and opportunities within applicable portfolios, we are focused on achieving the following principles:

1. **Monitoring climate risks and opportunities in investments:** We continue to monitor and evaluate material climate-related risks and opportunities where data allows, including in our fund quarterly performance reviews with our CIO. Where aligned with the investment objective or strategies of a fund or mandate, TDAM has made investments in areas such as utility-scale solar and battery storage that contribute positively to the energy transition. We will continue to look for these opportunities where risk and expected returns align with the firm's profile, particularly through our alternative investment strategies (infrastructure and real estate). For example, renewable energy represents over 50% of the investments of the TD Greystone Infrastructure Strategy as of October 31, 2023.

2. **Increasing transparency:** Subject to data availability, we continue to track and disclose the GHG emissions associated with our investments on an aggregate level, following TCFD guidance for asset managers.

3. **Contributing to industry dialogue:** TDAM participates in policy engagements with regulators as they develop new corporate standards on measuring, managing and reporting on climate risk. We also publish regular thought leadership pieces and participate in relevant conferences on climate issues. We are active members in industry organizations that aim to enhance the discourse and understanding around incorporating climate considerations in investing and disclosures, such as the Partnership for Carbon Accounting Financial (PCAF)[10] and the United Nations Environment Programme Finance Initiative (UNEP FI)[11].

4. **Focusing on climate change through our engagement program:** We encourage companies in our portfolios to set science-based, time-bound GHG reduction targets, and to be aligned to net-zero by 2050 or sooner. For investee companies where climate change is deemed to be a material financial risk, we may add these companies to our annual climate focus list and engage with them with defined goals for the outcome of the engagement. Where possible, we conduct these engagements directly. We also engage through industry initiatives, such as Climate Action 100+[12] and CEC.[13]

5. **Engaging in climate-supportive proxy voting:** In the absence of requisite disclosures, TDAM generally supports proposals seeking basic and enhanced disclosures on how investee companies identify, measure and manage their climate-related risks, as well as proposals calling on investee companies to reduce GHG emissions and set science-based targets. We evaluate advisory votes on climate, often referred to as Say-on-Climate – either proposed by management itself or requested of management by shareholders – on a case-by-case basis.

6. **Supporting our clients' climate objectives:** When our institutional clients set their own climate objectives and targets, we work with those clients and strive to deliver solutions to support such objectives.

[10] PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the GHG emissions associated with their loans and investments.

[11] United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development.

[12] Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

[13] Climate Engagement Canada is a finance-led initiative that drives dialogue between the financial community and corporate issuers to promote a just transition to a net-zero economy.

## Investment Integration and Increasing Transparency

TDAM recognizes that a broad range of financial and non-financial considerations may be relevant in making investment decisions. For funds that do not explicitly focus on ESG factors as part of their fundamental investment objectives or principal investment strategies, TDAM may integrate ESG factors where financially material or relevant into the investment decision-making process. It is up to each individual portfolio manager to determine whether, and to what extent, ESG considerations are to be incorporated into the financial analysis within their own investment processes, and in a manner that aligns with the fundamental investment objectives of each fund. As a result, the consideration of ESG factors may play a limited role in the investment decision-making process, meaning that ESG factors are not weighted heavily in the determination of whether to purchase, hold or sell a security in a fund's portfolio. Certain strategies and asset classes do not integrate ESG, including, but not limited to, index-tracking funds and certain third-party sub-advised strategies.

Additional information on our approach to ESG integration can be found in our Sustainable Investment Approach and our annual **Sustainable Investment Report >**.

## Measuring and Actioning on Emissions

To understand the carbon footprint of our public equities and corporate fixed income holdings, we use point-in-time financed emissions metrics, including Weighted Average Carbon Intensity (WACI) and Emissions per Million Dollars Invested. Financed emissions are the GHG emissions associated with the investments TDAM makes, rather than emissions resulting directly from TDAM's operations. Below we show the year-end performance of our holdings on these two metrics.

For the assets included in this report, the performance of TDAM's portfolios is generally aligned with their corresponding benchmark.[14] Overall, the performance of TDAM's Canadian equity holdings, while closely aligned with the benchmark, stands out as having a higher carbon intensity relative to the other portfolios assessed.

We believe this reinforces our focus on high-emitting Canadian companies through our engagement program and magnifies the potential positive impact of remaining engaged with these companies. Our climate focus list, a key part of our engagement strategy, is made up primarily of Canadian companies and is further detailed in the Engagement section of this report on page 28.

U.S. corporate bonds and international bonds are the smallest piece of our overall exposure assessed in this report, representing 2% and 1% of our total AUM, respectively. Both portfolios have markedly higher results on both intensity metrics. These two portfolios' performance against the benchmark is driven by having a higher overall exposure to higher-emitting industries such as oil and gas and utilities.

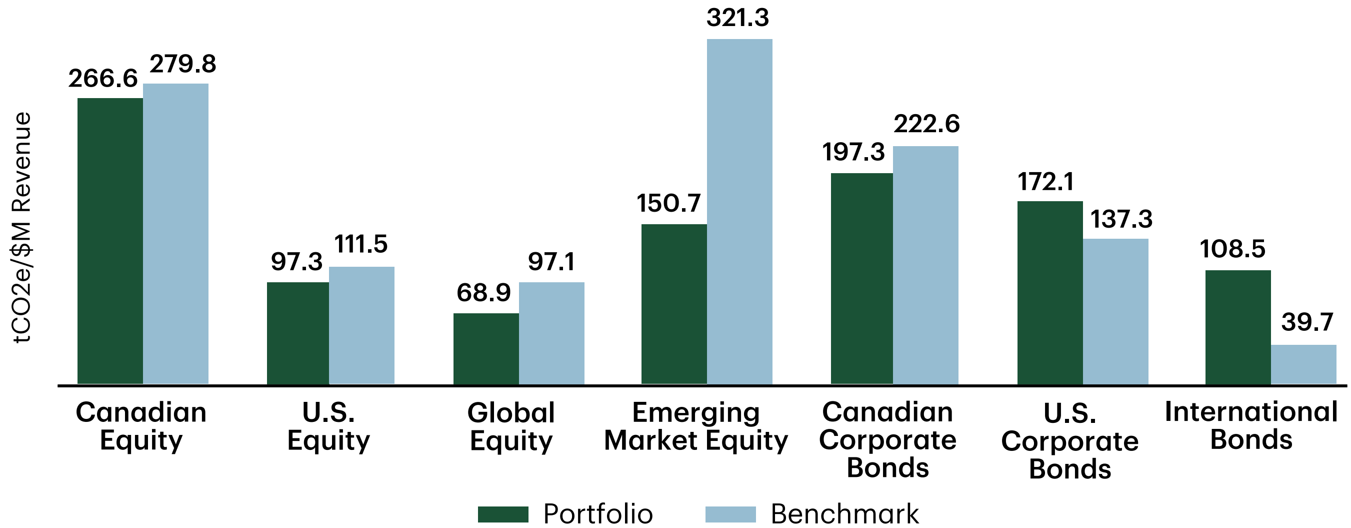
Sustainability

[14] Canadian Equity Benchmark = S&P TSX Composite Index; U.S. Equity Benchmark = S&P 500 Index; Global Equity Benchmark = MSCI EAFE Index; Emerging Market Equity Benchmark = MSCI Emerging Market Index; International Corporate Bond Benchmark = Bloomberg Barclays Global Aggregate Corporate Index; U.S. Corporate Bond Benchmark = Bloomberg U.S. Corporate Bond Index; Canadian Corporate Bond Benchmark = FTSE Canada University Corporate Bond Index.

## Figure 2: Metrics Used to Assess TDAM's Equity and Corporate Fixed Income Holdings

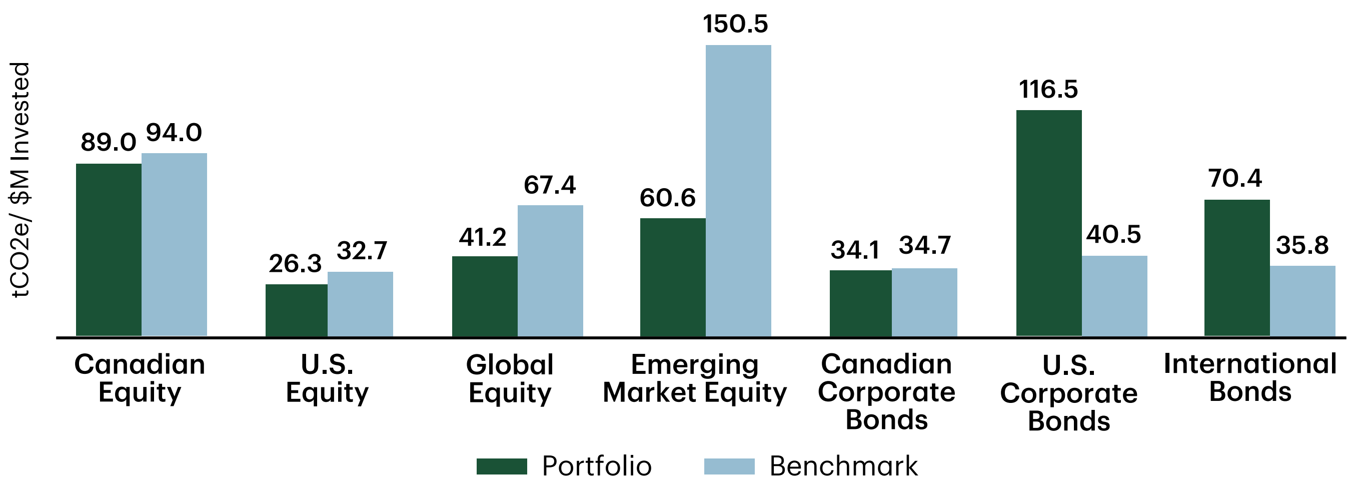
| Asset Class | Metric | Category | Unit | Definition |
|---|---|---|---|---|
| Equity and Corporate Fixed Income | WACI | GHG Emissions | Tons of carbon dioxide equivalent (tCO2e)/ $M Revenue | Measures a portfolio's exposure to carbon-intensive companies. It is computed as the sum product of the portfolio companies' carbon intensities (normalized over sales) and portfolio weights. $\sum \left\{ \frac{\textit{Current value of investment}}{\textit{Current portfolio value}} \times \frac{\textit{Issuer scope 1, 2 GHG emissions}}{\textit{Issuer revenue (\$M)}} \right\}$ |
| Equity and Corporate Fixed Income | Emissions per Million Dollars Invested | GHG Emissions | tCO2e/ $M invested | Measures the GHG efficiency of a portfolio, defined as the total GHG emissions of the portfolio normalized per million dollars of portfolio value. $\sum \left\{ \frac{\frac{\textit{Current value of investment}}{\textit{Enterprise value including cash}} \times \textit{Issuer scope 1, 2 GHG emissions}}{\textit{Current value of investment (\$M)}} \right\}$ |

## Figure 3: TDAM's 2023 WACI Across Regions and Asset Classes at Year-End 2023 (tCO2e/$M Revenue)




Source: TDAM, MSCI; As of October 31, 2023.

## Figure 4: TDAM's 2023 Emissions per Million Invested Across Regions and Asset Classes at Year-End 2023 (tCO2e/$M Invested)




Source: TDAM, MSCI; As of October 31, 2023.

## Figure 5: TDAM's Year-over-Year Change in WACI and Emissions/$M Invested Across Regions and Asset Classes

| | Canadian Equity | | | U.S. Equity | | | Global Equity | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| WACI | 266.6 | 331.4 | -19.6% | 97.3 | 135.4 | -28.2% | 68.9 | 87.6 | -21.4% |
| Emissions /$M Invested | 89.0 | 92.2 | -3.5% | 26.3 | 31.5 | -16.6% | 41.2 | 41.4 | -0.6% |

| | Emerging Market Equity | | | Canadian Corporate Bonds | | | U.S. Corporate Bonds | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | % Change | 2023 | 2022 | % Change | 2023 | 2022 | % Change |
| WACI | 150.8 | 199.6 | -24.4% | 197.3 | 174.3 | 13.2% | 172.1 | 236.8 | -27.3% |
| Emissions /$M Invested | 60.6 | 64.0 | -5.4% | 34.1 | 21.5 | 58.6% | 116.5 | 94.4 | 23.4% |

Source: TDAM, MSCI; As of October 31, 2023.

Assessing year-over-year progress, we are pleased with the overall positive movement across five of the six portfolios that were included in last year's TCFD report. Our Canadian equity holdings, despite being the most carbon-intensive of the portfolios assessed, showed a nearly 20% decrease in their WACI. Our Canadian bond holdings were the only portfolio to increase both its WACI and Emissions per Million Dollars Invested this year. Relative to 2022, our Canadian bond holdings' exposure to high-intensity sectors grew by 4%. We also note that exposure to major banks, which are very low-intensity holdings, fell by 10% year-over-year, contributing to the increase in intensity in our Canadian bond holdings.

### Sovereign Bonds

In 2023, we are including sovereign bonds in our emissions metrics for the first time, following PCAF's publication of methodology for calculating financed emissions for sovereign bonds. Sovereign bonds make up 9% of TDAM's AUM. TDAM's sovereign bond exposure is heavily skewed towards the Government of Canada, which on its own comprises 87% of our sovereign bond holdings. A further 11% is U.S. Treasuries. The remaining 2% is scattered between 16 other sovereign issuers across Europe, South America, Asia, Africa and Australia.

Sovereign bond emissions are calculated in accordance with PCAF's definitions and methodology. The table below represents PCAF's scope definitions for sovereign bonds.

## Figure 6: PCAF Scope Definitions for Sovereign Bonds

| Scope 1 | Scope 2 | Scope 3 |
|---|---|---|
| Domestic GHG emissions produced within the country's territory, including emissions from exported goods and services. | GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory. | Emissions attributable to non-energy imports as a result of activities taking place within the country's territory. |

PCAF has defined the following intensity-based metrics which allow for the comparison of GHG emissions between sovereign issuers:[15]

## Figure 7: PCAF Intensity-based Metrics for Sovereign Issuers

| Metric | Definition |
|---|---|
| **Sovereign production emission intensity** | $\frac{\text{Production emissions}}{\text{PPP – adjusted GDP}} = \frac{\text{Sovereign scope 1 emissions}}{\text{PPP – adjusted GDP}}$ |
| **Sovereign consumption emission intensity** | $\frac{\text{Consumption emissions}}{\text{Capita}} = \frac{\text{Sovereign scope 1 + 2 + 3 – exported emissions}}{\text{Capita}}$ |

Production emissions are emissions produced domestically, including emissions from domestic consumption and production of exported goods and services. This definition of production emissions aligns with the Scope 1 definition outlined above. The sovereign production emission intensity metric relates a country's production emissions to its output, while accounting for the real size of its economy by removing the exchange rate effect using Purchasing Power Parity-adjusted Gross Domestic Product (PPP-adjusted GDP) as opposed to nominal GDP.

Consumption emissions are a country's domestic emissions, plus the emissions from the production of goods and services which are imported, minus the emissions generated during the production of goods and services which are exported to other countries. This metric accounts for the demand side of sovereign emissions and trade effects, which assigns a level of responsibility for a sovereign's emissions.

Although Production Emissions is frequently the key metric to account for sovereign GHG emissions, PCAF also recommends that financial institutions track the GHG emissions of countries more holistically and report Consumption Emissions as described above.

Our Emissions per Million Dollars Invested metric is calculated according to PCAF's approach for attributed emissions for sovereign bonds:

$$\text{Attributed emissions} = \frac{\text{Exposure to sovereign bond}}{\text{PPP – adjusted GDP}} \times \text{Sovereign Scope 1 emissions}$$

[15] Source: PCAF, Global GHG Accounting and Reporting Standard for the Financial Industry >, December 2022.

TDAM uses the metrics below to assess the GHG intensity of our sovereign bond holdings.

## Figure 8: Metrics Used to Assess TDAM's Sovereign Bond Holdings

| Asset Class | Metric | Category | Unit | Definition |
|---|---|---|---|---|
| **Sovereign Bond** | Emissions per Million Dollars Invested | GHG Emissions | $tCO_2e$/$M invested | Measures the GHG efficiency of a portfolio, defined as the total GHG emissions of the portfolio normalized per million dollars of portfolio value. $\sum\left\{\frac{\frac{\text{Current value of investment}}{\text{PPP – adjusted GDP}} \times \text{Sovereign scope 1 GHG emissions}}{\text{Current value of investment (\$M)}}\right\}$ |
| **Sovereign Bond** | Weighted Average Production Emissions Intensity | GHG Emissions | $tCO_2e$/$M GDP-PPP | Measures a portfolio's exposure to GHG-intensive sovereign issuers. It is computed as the sum product of the portfolio sovereign issuers' production of GHG intensities (normalized over PPP-adjusted GDP) and portfolio weights. $\sum\left\{\frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Production GHG emissions}}{\text{PPP – adjusted GDP (\$M)}}\right\}$ |
| **Sovereign Bond** | Weighted Average Consumption Emissions Intensity | GHG Emissions | $tCO_2e$/capita | Measures a portfolio's exposure to GHG-intensive sovereign issuers. It is computed as the sum product of the portfolio sovereign issuers' consumption of GHG intensities (normalized per capita) and portfolio weights. $\sum\left\{\frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Consumption GHG emissions}}{\text{Capita}}\right\}$ |

## Figure 9: Sovereign Bond GHG Emissions Metrics[16]

| Metric | 2023 Value |
|---|---|
| Sovereign Emissions per Million Invested | 304.3 $tCO_2e$/$M invested |
| Weighted Average Consumption Emissions Intensity | 17.0 $tCO_2e$/capita |
| Weighted Average Production Emissions Intensity - excluding Land Use, Land-Use Change and Forestry (LULUCF)[17] | 296.5 $tCO_2e$/$M GDP-PPP |
| Weighted Average Production Emissions Intensity - including LULUCF | 288.2 $tCO_2e$/$M GDP-PPP |

Source: TDAM, MSCI; As of October 31, 2023.

Given that our sovereign bond holdings are primarily comprised of just two issuers, we are not including reference to a benchmark as we do not believe there is insight to be gained by completing this comparison. We will, however, monitor year-over-year movements in the sovereign bond financed emissions figures displayed above.

[16] These metrics represent all sovereign bonds held across TDAM's funds.

[17] According to PCAF, there is a divergence of views among emissions data providers and climate experts regarding the accounting of LULUCF emissions, given significant data uncertainty. Also, LULUCF emissions have the potential to distort the overall trends of the key sectors that contribute to global warming (energy and industrial processes). As countries treat LULUCF emissions differently in their mitigation targets and investors might have diverging views on the potentially offsetting role of land-use and forestry emissions, financial institutions should report Scope 1 emissions including and excluding LULUCF.

## Portfolio Alignment

We recognize that these point-in-time financed emissions calculations do not tell the whole story of a portfolio or an individual company's approach to climate change. Portfolio alignment tools can help gauge how a company's future climate plans reflect against global climate goals. The portfolio alignment tools detailed below help inform our strategy at a firm level, particularly how to prioritize engagements with our investee companies and our positions on key shareholder proposals.

Where data is available, assessing our investee companies that have their climate targets approved by the Science Based Targets initiative (SBTi) or have committed to having their targets verified by the SBTi is one way we can gauge the overall alignment of our portfolios towards a 1.5°C or 2°C warming scenario. The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

At the end of 2023, more than 6,700 companies, covering over a third of the global economy's market capitalization, were setting targets or committing to do so via the SBTi.[19]

It is important to note that SBTi is just one way we can gauge overall portfolio alignment. It is not the sole indicator of whether a company we are invested in is aligned with a 1.5°C or 2°C warming scenario, or whether a company has put together a strong climate plan. Additionally, SBTi target frameworks are not yet developed for all sectors, limiting their applicability across the entire range of TDAM's holdings.

We are including our overall SBTi alignment within the portfolios assessed as part of 2023's TCFD disclosures and moving forward we will continue to monitor developments related to SBTi.

Across the portfolios included in this report, there was unanimous increase in the percentage of the portfolio assets that have SBTi approved targets. We are encouraged by this observation and take it as an indicator that companies across our holdings are moving towards setting verified science-based targets.

Overall, U.S. and global equity assets both have a majority of assets that are either SBTi committed or aligned. As investors, this gives us a certain degree of confidence that these companies have put together (or are in the process of putting together) transition plans that are aligned with the goals of the Paris Agreement. Both the Canadian portfolios and the Emerging Market portfolios have a significantly lower exposure to companies with SBTi alignment or commitment. In general, U.S. and European companies have been quicker to adopt SBTi verification than other jurisdictions. Getting targets verified by SBTi is something we have encouraged our investee companies to do through engagements, where it is appropriate.

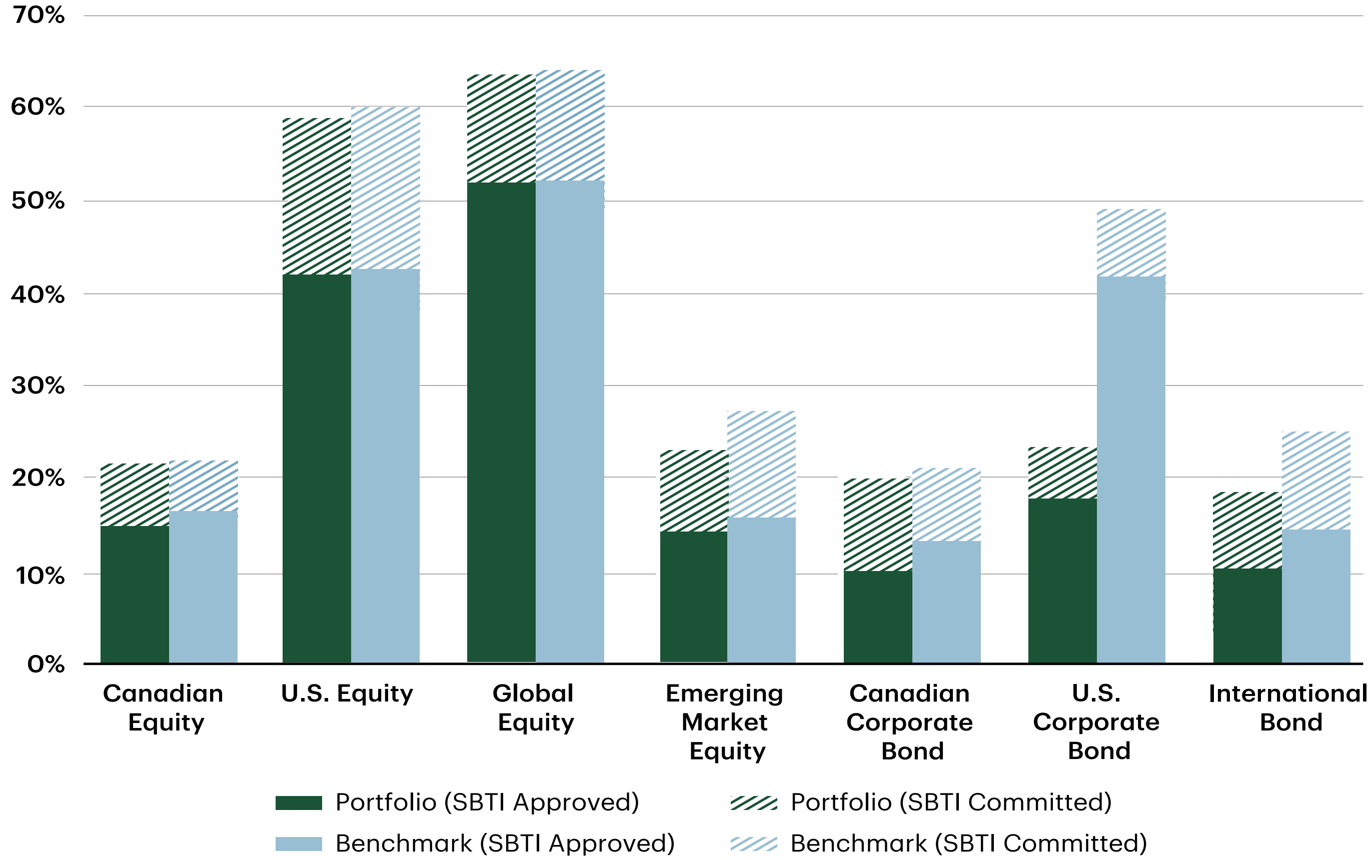
### SBTi

- Defines and promotes best practices in emissions reductions and net-zero targets in line with climate science.
- Provides technical assistance and expert resources to companies which set science-based targets in line with the latest climate science.
- Brings together a team of experts to provide companies with independent assessment and validation of targets.

[18] Commitments demonstrate an organization's intention to develop targets and submit these for validation with the SBTi within 24 months. These organizations do not yet have validated science-based targets. From March 2, 2023, organizations that fail to submit targets within 24 months of their commitment will be identified as 'Commitment removed.'

[19] Please refer to the following link for more information regarding the SBTi: https://sciencebasedtargets.org/about-us.

## Figure 10: Percentage of the Portfolio Assets That Are SBTi Aligned or Committed Versus the Benchmark at Year-End 2023




Source: TDAM, MSCI; As of October 31, 2023.

Implied Temperature Rise (ITR) is an additional metric from MSCI ESG Research that assesses the overall alignment of a specific security or portfolio, where applicable. ITR is an intuitive forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals.[20]

## Figure 11: ITR Categories and Description

| ITR Categories | ITR Band | Range | Description |
|---|---|---|---|
| Misaligned | **Strongly Misaligned** | > 3.2 | This company/portfolio is misaligned even by business-as-usual standards. Its contribution to catastrophic climate change is higher than most companies/portfolios. |
| | **Misaligned** | > 2 – 3.2 | This company/portfolio does not comply with the 2015 Paris Agreement goals. Its pace of decarbonization to mitigate catastrophic climate change is lagging. The threshold is determined by the "Current Policies" scenario of the Network for Greening the Financial System Regional Model of Investment and Development (NGFS REMIND), yielding an estimated 3.24°C at the 2100 horizon (rounded 3.2°C). |
| Aligned | **2°C Aligned** | > 1.5 – 2 | This company/portfolio meets the 2015 Paris Agreement's minimum objective of +2°C global mean temperature compared with pre-industrial levels. It is engaged in the low-carbon transition. |
| | **1.5°C Aligned** | < 1.5 | This company/portfolio is in line with the 2015 Paris Agreement's maximal objective of keeping global mean temperature to +1.5°C compared with pre-industrial levels. It is a transition leader, significantly contributing to mitigating catastrophic climate change. |

Key to understanding the ITR is the concept of a carbon budget, i.e., how much the world can emit so that global warming does not exceed 2°C by 2100 and, by analogy, how much a company can emit for its fair share of global decarbonization. A company whose projected emissions are below budget can be said to undershoot, while those whose projected emissions exceed the budget can be said to overshoot.

The calculation of the company-level ITR involves four key steps:

1. Transpose a 2°C carbon budget at company level.
2. Project companies' future emissions, considering their targets (Scope 1, 2 and 3 emissions).
3. Calculate the companies' over/undershoot of their carbon budgets.
4. Convert the relative over/undershoot to a degree of temperature rise.

[20] ITR description provided by MSCI. See more at https://www.msci.com/our-solutions/climate-investing/implied- temperature-rise.

Below is our weighted average ITR of the corporate portfolios included in this report. Currently, TDAM interprets the ITR figures below more directionally, given that our portfolios change over time and with that investee companies' climate plans are evolving, and we expect they will continue to be updated throughout our holding period. The figures help inform our conversations with our investee companies and aid in our understanding of how their plan benchmarks against their peers. They also allow us to understand where there might be climate risks across TDAM's holdings and where we may be able to leverage our position as shareholders to encourage companies to strengthen their transition plans.

We are, however, encouraged that in nearly every one of our portfolios there is significant year-over -year increase in weighting towards companies that are 1.5°C aligned. In general, we can discern via the improvement on forward-looking metrics that companies in our portfolios are doing a better job at aligning their targets and commitments with a 1.5°C pathway, not necessarily at implementing actions to decarbonize their business in 2023.

## Figure 12: TDAM's Year-over-Year % Increase in 1.5° C Aligned Companies Across Regions and Asset Classes

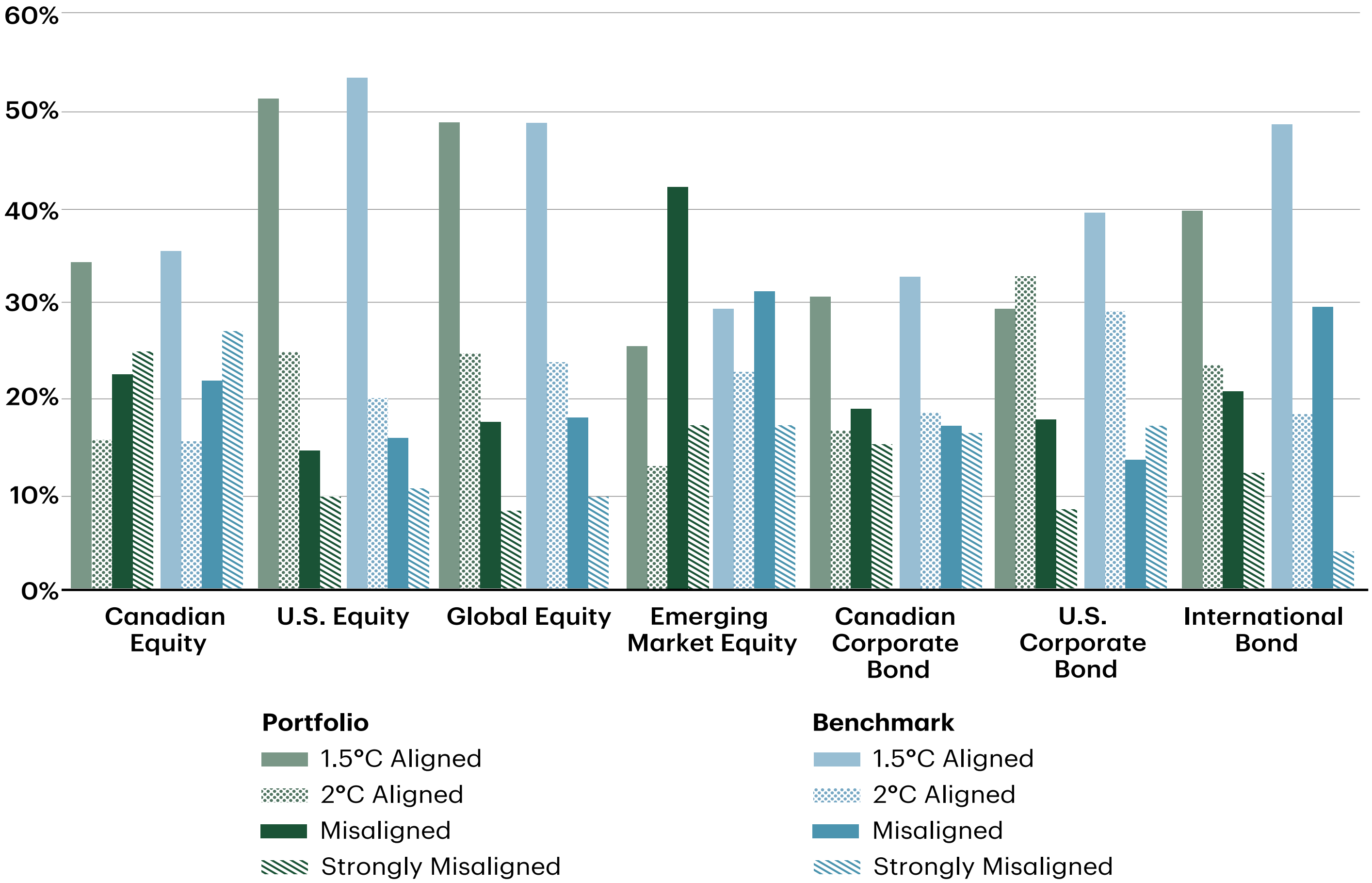
| | |
|---|---|
| **Canadian Equity** | 10% |
| **U.S. Equity** | 16% |
| **Global Equity** | 20% |
| **Emerging Market Equity** | 16% |
| **Canadian Corporate Bonds** | 10% |
| **U.S. Corporate Bonds** | -1% |
| **International Corporate Bonds**[21] | N/A |

Source: TDAM, MSCI; As of October 31, 2023.

We are also observing a lower portion of strongly misaligned companies in every portfolio except for international bonds. We take the improvements in forward-looking metrics as directionally positive. The gap between the forward-looking metrics and the increase in portfolio emissions in some portfolios reflects an environment which we have observed in our engagements, where companies are developing plans, setting targets (usually for 2030 or later), and charting their path towards net-zero by 2050. We intend to continue to engage and hold these companies accountable to ensure that they achieve the goals they set for themselves and that they keep up with industry standards and investor expectations on action related to climate change.

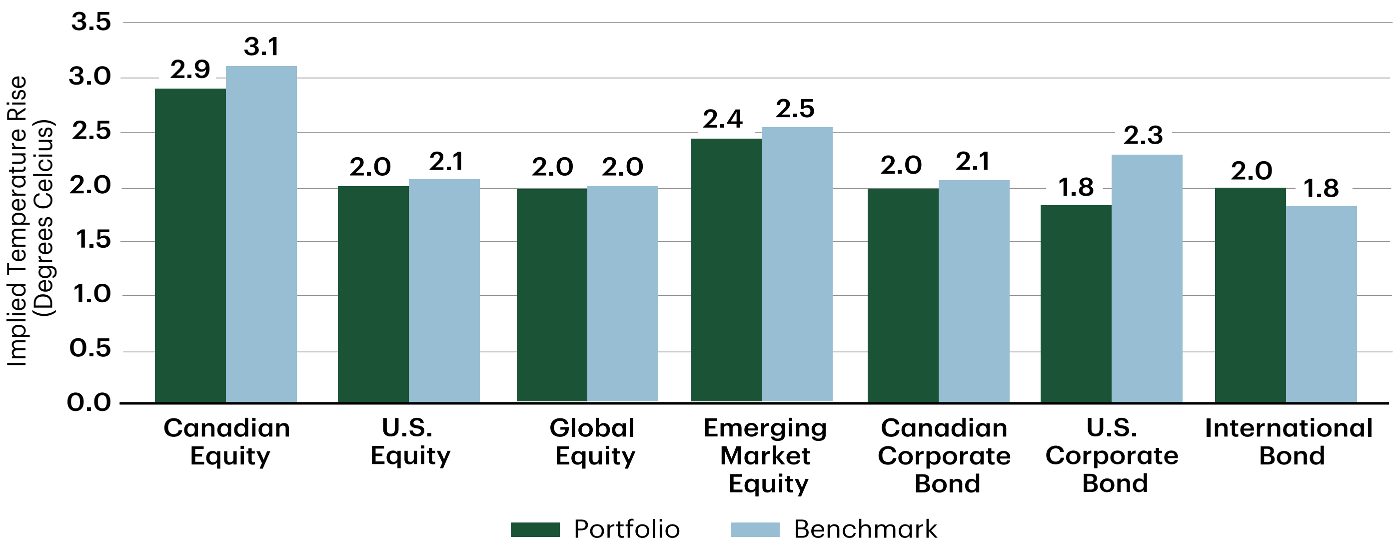
[21] As this is the first year we are disclosing International Corporate Bonds climate metrics, year-over-year data is not available for International Corporate Bonds.

## Figure 13: ITR Alignment of TDAM's Investments Versus the Benchmark at Year-End 2023




Source: TDAM, MSCI; As of October 31, 2023.

## Figure 14: ITR of TDAM's Investments Versus the Benchmark at Year-End 2023




Source: TDAM, MSCI; As of October 31, 2023.

## Scenario Analysis

Given the limitations of point-in-time metrics, TDAM also uses forward-looking climate scenario analysis to help us understand the potential impact of climate change on our investee companies and to inform TDAM's assessment of the potential downside risks climate change poses across the portfolios we are including in this report. Conducting climate scenario analysis involves assessing the climate risks and opportunities posed by and to our investee companies through the lens of various future warming scenarios, including scenarios where there is global warming of 1.5°C, 2°C and 3°C. To conduct this scenario analysis, we leverage MSCI's Climate Value-at-Risk (Climate VaR) tool.

Climate VaR is designed to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities. The model offers insights into how climate change could affect company valuations. Climate VaR reflects the stressed market value of a company's issued securities under a specific climate change scenario. Climate VaR aggregates exposure from policy risk, technology opportunities and physical climate risk to deliver a comprehensive understanding of climate change risk exposure.[22]

Using MSCI's Climate VaR tool, TDAM's scenario analysis leverages the scenarios developed by NGFS. NGFS is a group of central banks and supervisors willing, on a voluntary basis, to share best practices, contribute to the development of environment and climate risk management in the financial sector, and mobilize mainstream finance to support the transition toward a sustainable economy. Below is a brief description of the five scenarios.

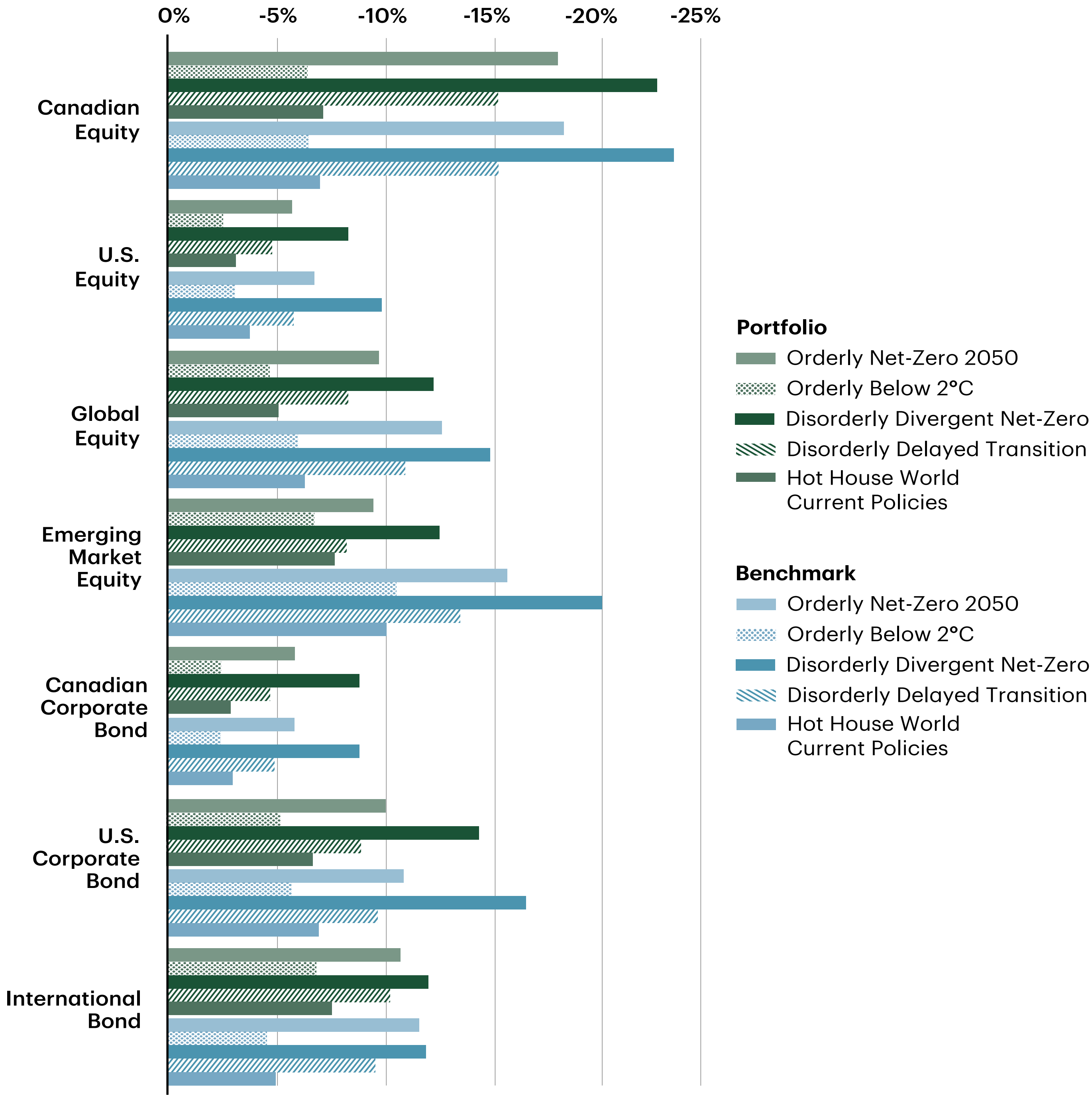
## Figure 15: NGFS Climate Scenarios

| | NGFS Scenario[23] | Summary |
|---|---|---|
| Orderly | **Net-Zero 2050** | Net-Zero 2050 is an ambitious scenario that limits global warming to 1.5°C through stringent climate policies and innovation, reaching net-zero $CO_2$ emissions around 2050. |
| | **Below 2°C** | Below 2°C gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C. |
| Disorderly | **Divergent Net-Zero** | Divergent Net-Zero reaches net-zero by 2050 but with higher costs due to divergent policies introduced across sectors and a quicker phase-out of fossil fuels. |
| | **Delayed Transition** | Delayed Transition assumes global annual emissions do not decrease until 2030. Stronger policies are required to limit warming to below 2°C. Negative emissions are limited. |
| Hot House World | **Current Policies** | Current Policies include all pledged policies even if they are not yet implemented. |

[22] Climate VaR definitions provided by MSCI. See more at: https://www.msci.com/our-solutions/climate-investing/climate-and-net- zero-solutions/scenario-analysis.

[23] NGFS. NGFS Scenario data is available under a public license here >. NGFS Scenario Explorer is available here >.

## Figure 16: Climate VaR of TDAM's Investments Versus the Benchmark at Year-End 2023




Source: TDAM, MSCI; As of October 31, 2023.

Similar to ITR, TDAM interprets Climate VaR figures more directionally than literally at this time due to the high degree of fluidity in the transition plans being developed by our investee companies and the regulatory environments they are operating in. In general, the stressed market value of the assets under each scenario is closely aligned with the benchmark. The U.S. corporate bond portfolio reflects more value at risk under four of the five scenarios assessed. Again, this is due to the higher exposure to oil and gas in the portfolio versus the benchmark. Like the emissions and portfolio alignment metrics, the Canadian equity portfolio stands out as having a higher amount of VaR than the other portfolios assessed in this report. We acknowledge that Canada is a resource-heavy economy, with a higher concentration of oil and gas than the other jurisdictions assessed here, which contributes to the higher VaR than the other portfolios.

**Case Study 1**

## Climate Scenario Analysis for ALM considerations

The Portfolio Research and Analytics team has integrated climate risk scenario analysis with existing stochastic modelling capabilities, allowing us to evaluate climate scenarios against our baseline climate-unaware stochastic simulations in terms of asset class performance. We explore three climate scenarios sourced from the NGFS.

## Figure 17: Description of NGFS Climate Scenarios and Outcomes[24]

| | Scenario Description | Climate Outcome (Temperature) |
|---|---|---|
| **Current Policies** | Current policies set by governments remain as is over the forecast horizon. No transition risk in this scenario; most climate risk is due to the physical risk resulting from rising temperatures. Aligned with the median of our climate-unaware stochastic simulation. | The current policies in place are not sufficient to achieve the net-zero 2050 goal. Average temperatures are expected to rise over 3°C from pre-industrial levels. |
| **Delayed Transition** | Current policies are in place for the first 10 years and then stringent action is needed to achieve net-zero. Significant transition risk due to policy shock at the start of the transition. Physical risks still exist because no action was taken earlier. | Net zero is achieved; the temperature target under this scenario is 1.6°C above pre-industrial levels. |
| **Net-Zero** | More stringent policies are taken immediately in a coordinated effort to reduce transition risk. Both transition and physical risks are reduced. | Net-zero is achieved; the temperature target is 1.4°C above pre-industrial levels. |

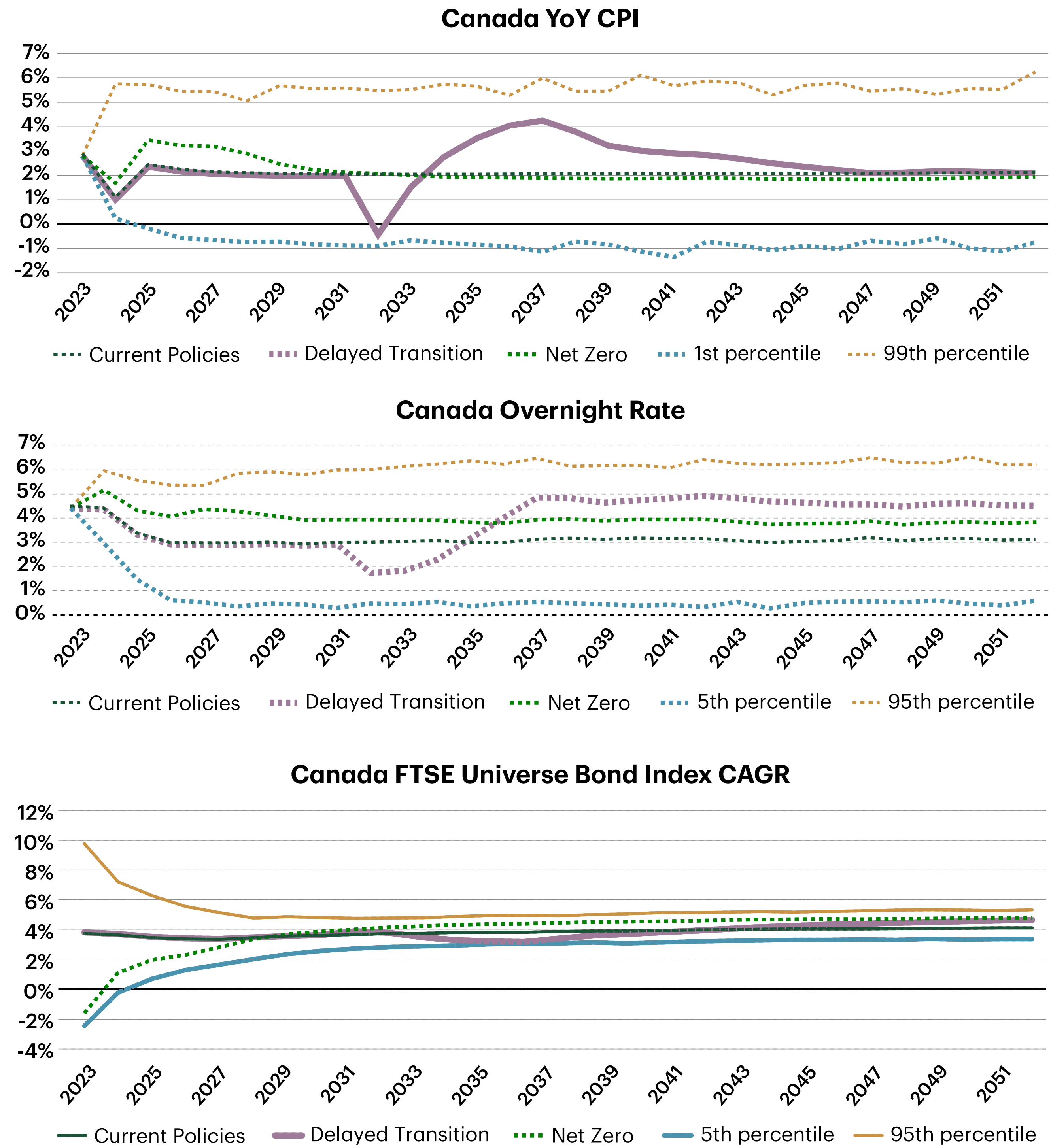
These scenarios explore how climate policies could affect energy supply and demand dynamics (leading to transition risk) and the climate (leading to physical risk). The models arrive at an overall GDP impact over time for each climate scenario, which are then downscaled to economic factors such as inflation and interest rates.

The following charts overlay the NGFS scenarios against our climate-unaware stochastic simulations. The overnight rate remains higher for longer in the net-zero scenario as there is higher inflation embedded in this scenario. In the delayed transition scenario, there is a shock to inflation and interest rates at the beginning of the transition period, and rates are higher relative to the net-zero scenario after the transition as a more rapid pace of transition is needed.

Ultimately, these economic factors have implications for asset class performance. The following is an example of how the FTSE Universe Bond Index total returns (expressed as CAGR) might behave under the scenarios relative to our stochastic projections. Equities and real asset classes would also reflect the NGFS scenario outputs.

[24] The table provides a summary only. There are other factors such as pace of technology change and the use of carbon dioxide removal technologies. Refer to NGFS for more details on scenario narratives.

## Figure 18: Projection of Economic Factors Under Different Climate Scenarios




While the above considers the asset side, the financial factors also affect liability valuations, which are rate- and credit- sensitive, and hence this type of analysis has lent itself well to asset-liability management (ALM). It allows us to explore how asset-liability ratios (surplus) are impacted by these scenarios.

Scenario analysis allows us to verify whether our stochastic models can capture holistic economic narratives. In this case, by incorporating the climate lens, we are able to gain better insight into how different climate policies could drive portfolio performance. This analysis allows us to quantify the severity of each of the scenarios against the simulations and manage climate risk. The portfolio research and analytics team keeps up to date with current climate scenario analysis best practices by participating in the Scenario Analysis and Stress Testing working group as part of the UNEP-FI programme.

# Alternative Assets

Material ESG considerations are integrated into how we execute our alternative investment strategies. From an environmental standpoint, a growing list of factors are evaluated throughout our sourcing, underwriting and asset management processes. We are also committed to protecting asset value and mitigating climate risk within our portfolios, as the countries where our assets are located transition to a low-carbon economy.

## Canada's First Zero Carbon Certified Hotel[25]

As a co-owner[26] of the iconic Fairmont Royal York Hotel in downtown Toronto, TD Greystone Canadian Real Estate Strategy is proud to have supported the property in attaining Canada Green Building Council's (CAGBC) Zero Carbon Building (ZCB) - Performance Standard™ certification in 2023. The Royal York Hotel became the first hospitality asset to obtain a ZCB certification in Canada.

The hotel's recent $65 million major renovation resulted in an 80% decrease in GHG emissions, totaling 7,000 tons of $CO^2$ equivalent reduction when compared to 2022 operations.[27] It is also anticipated to generate over 35% in utility savings in the first year. The project received $46.5 million in debt financing support from the Canada Infrastructure Bank's (CIB) Building Retrofits Initiative, demonstrating how public-private partnerships can accelerate progress towards Canada's climate goals.

## Infrastructure Opportunities in the Energy Transition[28]

TD Greystone Infrastructure Strategy remains strategically aligned with the energy transition taking place worldwide. The transition to low-carbon generation is not only one of the largest opportunities for private investment in infrastructure, but a great example of how infrastructure investment can interact with local economies and communities to support sustainability goals.

Government and private sector commitments to decarbonize have emphasized the need for renewable energy and power infrastructure, with over US$140 trillion of new investment anticipated to be required worldwide to reach current net-zero targets by 2050. In 2023, we continued to bring renewable energy and grid resiliency to the forefront across our North American solar (Silicon Ranch Corporation), European wind (Rabbalshede Kraft AB) and Canadian battery storage (Enfinite) platform investments:

- Located in the United States, Silicon Ranch Corporation continued to scale its renewables platform, with 404 MW of new solar generating capacity brought online in 2023, bringing total capacity to over 2,700 MW across 15 states. Silicon Ranch is the first operator to bring utility-scale solar projects to the states of Tennessee, Georgia, Mississippi, Arkansas, and Kentucky.
- Enfinite, an Alberta-based utility-scale battery storage and power generation asset which is wholly-owned by TD Greystone Infrastructure Strategy, had 315 MWh of total storage capacity in service or development as at year-end 2023.
- Located in Sweden, Rabbalshede Kraft added 535 MW of solar power to the company's development pipeline and operationalized two projects (Lursang and Femstenaberg) totaling 62 MW of additional generating capacity. The total Rabbalshede Kraft renewables platform stood at 402 MW across 23 projects at the end of 2023.

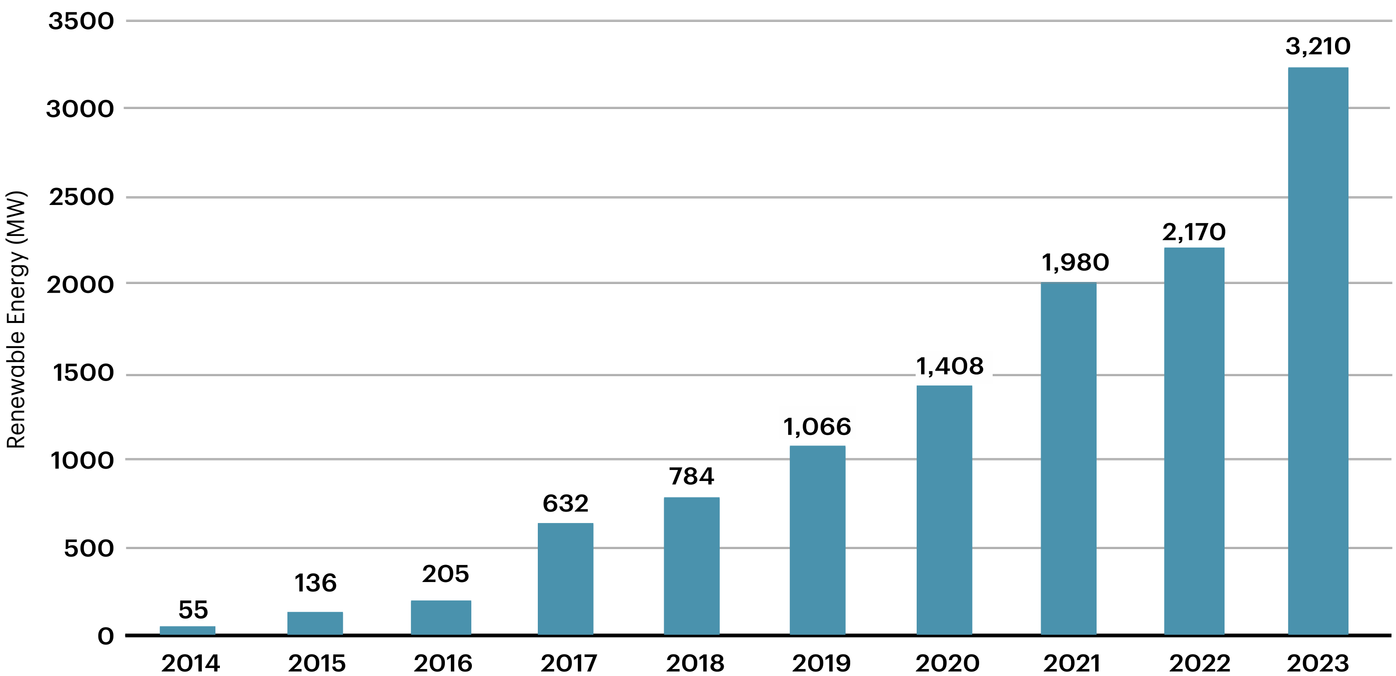
[25] Information in this section is provided by the respective asset/property manager.

[26] TDAM is a 40% co-owner of the Fairmont Royal York Hotel.

[27] See more at: https://www.newswire.ca/news-releases/historic-fairmont-royal-york-receives-zero-carbon-building-certification-866216160.html

[28] Information in this section is provided by the respective portfolio company.

## Figure 19: Renewable Energy (MW) for Global Infrastructure Strategy




Source: TDAM; As of December 31 of each year.

## Climate Risk Integration for Commercial Mortgages

The TD Greystone Mortgage Fund has developed a multi-faceted approach to incorporating ESG considerations where financially material or relevant, including climate-related physical and transition risks, into its underwriting and portfolio management practices. During origination, each mortgage opportunity has its own dedicated ESG Due Diligence Checklist, and in 2023, the process for the fund was updated to evaluate the site-specific transition and physical climate risks of prospective investments.

For example, the investment team evaluates physical climate risk under the Representative Concentration Pathway (RCP) 8.5[29] - a more severe global warming scenario - until 2030. The following acute and chronic climate hazards are included as part of this scenario analysis: riverine inundation, coastal flooding, chronic heat, fire probability (i.e., wildfire risk), drought, precipitation, hail, wind and combined inundation.

Additionally, as part of the due diligence process, the mortgage investment team investigates if climate-related transition risks have been incorporated into action plans and budgets and/ or whether the lender has dedicated capital for financing sustainability-focused property enhancements.

Furthermore, material ESG factors may also be integrated into our portfolio management process through the fund's ESG Borrower Survey and the Annual ESG Property Review (Survey). In 2023, for the first time, the fund requested GHG emissions data for collateral properties from its borrower groups serviced by GMI Servicing Inc., TDAM's wholly-owned mortgage servicing group. While portfolio data coverage was low, the team was able to estimate financed Scope 3 GHG emissions associated with loans for underlying operational buildings (i.e., income producing properties) held in the fund. This exercise was conducted in accordance with guidance provided by the Partnership for Carbon Accounting Financial (PCAF) for mortgage investments.

[29] RCP 8.5 refers to the concentration of carbon that delivers global warming at an average of 8.5 watts per square meter across the planet. The RCP 8.5 pathway delivers a temperature increase of about 4.3˚C by 2100, relative to pre-industrial temperatures.

## Benchmarking Real Asset ESG Performance

Since 2016, we have been an active participant in external ESG benchmarking for our real asset portfolios through GRESB. GRESB is an investor-led organization and the leading ESG benchmark for real estate and infrastructure investments across the world, used by 140 institutional and financial investors. The GRESB Score is an overall measure of ESG performance – represented as a percentage, where 100% is the maximum score.

## Figure 20: TDAM 2023 GRESB Assessment Summary

| GRESB Score | 2020 | 2021 | 2022 | 2023 | 2023 GRESB Global Average |
|---|---|---|---|---|---|
| **Real Estate Assessment** | | | | | |
| **TD Greystone Canadian Real Estate Strategy - Standing Investment** | 70 | 73 | 80 | **75** | **75** |
| **TD Greystone Canadian Real Estate Strategy - Development** | 75 | 79 | 81 | **82** | **83** |
| **TD Greystone Global Real Estate Strategy - Standing Investment (Portfolio Analysis Tool)[30]** | 75 | 82 | 84 | **86** | **80** |
| **Infrastructure Assessment** | | | | | |
| **TD Greystone Infrastructure Strategy** | 70 | 85 | 87 | **87** | **82** |

**Note: TD Greystone Canadian Real Estate Strategy refers to TD Greystone Real Estate L.P. Fund and TD Greystone Real Estate Fund Inc.; TD Greystone Global Real Estate Strategy refers to TD Greystone Global Real Estate Fund L.P. and TD Greystone Global Real Estate Fund (Canada Feeder) L.P.; TD Greystone Infrastructure Strategy refers to TD Greystone Infrastructure Fund (Canada) L.P., TD Greystone Infrastructure Fund (Canada) L.P. II, and TD Greystone Infrastructure Fund (Global Master) L.P.**

Find more information regarding GRESB and the methodology behind these scores on the **GRESB website >**.

[30] The GRESB Portfolio Analysis Tool allows investors to examine the performance of an aggregate portfolio against self-selected benchmarks to gain valuable insight into investments, strategy and overall ESG performance. TDAM utilizes a Gross Asset Value (GAV)- weighted portfolio analysis methodology to assess the ESG performance of each of its fund managers within TD Greystone Global Real Estate Fund (currently covering over 90% of the fund's holdings, it could be seen as a representative evaluation of the fund's ESG performance).

# Industry Dialogue - Regulatory Engagements and Thought Leadership

Financial policymakers around the globe, including in the jurisdictions TDAM operates and invests in, are moving to regulate how corporate issuers report on climate risks. As a stakeholder in the regulatory and reporting ecosystem, TDAM considers contributions to policy discussions on climate change to be important as regulators continue to refine the standards used to measure, manage and report on climate risk.

In 2023, through organizations that TDAM is a member of, we engaged or participated in consultations on climate reporting frameworks with several regulatory and standard setting bodies, including:

- Providing feedback to a corporate governance industry association on its response to the ISSB on agenda and work plan priorities.
- Engaging with an Asian regulator on climate, taxonomy and regulation.
- Engaging with a provincial regulator on the baseline and national adoption of reporting requirements.
- Engaging with CEC on the CEC Net Zero Benchmark, which provides a set of common standards for investors to evaluate corporate issuers' progress towards Paris Agreement alignment.

## Industry Initiatives

CLIMATE ENGAGEMENT CANADA

**Climate Engagement Canada:**

In 2021, TDAM became a founding member of CEC, which aims to drive dialogue between the financial community and Canadian corporations to promote a just transition to a net-zero economy. CEC focuses on 41 select Toronto Stock Exchange-listed companies that are strategically engaged in relation to climate risk governance, disclosure and the transition to a low-carbon economy in Canada.[31] TDAM co-leads engagements with four companies on the CEC focus list and participates in engagements with an additional company. TDAM also is represented on the CEC Technical Committee and the CEC Industry Leaders Advisor Panel. Notwithstanding participation in CEC, TDAM continues to exercise its proxy voting decisions independently as per its internal policies and guidelines.

In December 2023, the CEC published the first iteration of the CEC Net Zero Benchmark >. The benchmark provides a set of common standards for investors to evaluate corporate issuers' progress towards aligning with the Paris Agreement's ambition: limiting global warming to well below 2°C, while pursuing efforts to limit the increase to 1.5°C. The benchmark allows CEC participant investors to frame, and soon measure, their engagements with Canada's top emitters, including corporate issuers. The benchmark provides a useful blueprint for TDAM's future engagements with companies both inside and outside of its CEC focus list.

[31] Climate Engagement Canada, https://climateengagement.ca/focus-list/

Case Study 2

## CEC Case Study

TDAM co-leads an engagement with a Canadian automotive company as part of our work with CEC. TDAM met with the company twice in 2023 to discuss its transition plan and approach to climate governance. Overall, we were pleased with the company's short- and medium-term plans. The company had laid out an ambitious plan towards 2035 and clear and measurable steps it would take to achieve its decarbonization plans. However, the company did not have a long-term net-zero ambition. In our engagements we encouraged the company to consider adopting a long-term net-zero ambition. In the fall of 2023, we were pleased to see the company announce that it was committing to be net-zero by 2050 across all three scopes of emissions and that it would submit its targets to the SBTi, which we consider to be a gold standard for verifying targets, as outlined above.

A proud participant of: Climate Action 100+ Global Investors Driving Business Transition

### Climate Action 100+:

TDAM is a signatory and active investor participant in the Climate Action 100+ initiative. Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change. Almost 700 investors, responsible for over $68 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions and strengthening climate-related financial disclosures.[32] TDAM has been a member of Climate Action 100+ since 2019. Participation in investor networks such as Climate Action 100+ enables TDAM to have a wider engagement reach and a better understanding of climate-change-related investment risks and opportunities. This is consistent with TDAM's approach of actively engaging with companies in which it invests on behalf of its clients. Notwithstanding participation in the Climate Action 100+, TDAM continues to exercise its proxy voting decisions independently as per its internal policies and guidelines.

[32] Climate Action 100+, https://www.climateaction100.org/whos-involved/investors/ >

## Thought Leadership, Conferences and Continuing Education

TDAM regularly publishes thought leadership on a wide variety of subjects through both external publications and our own channels. Given the importance of climate change to our business and our clients, the systemic risks associated with climate change, and our belief that we have a role to play in shaping the industry's approach to climate change, we have made climate a focus area for our thought leadership program. TDAM leverages expertise from across the firm to contribute to our climate-focused thought leadership. Below is the climate-focused piece we contributed to in 2023:

- **Canada’s Green and Transition Finance Taxonomy: What Does It Mean for Investors? >**

In the spirit of staying on top of developments at the intersection of climate change and investing, TDAM occasionally hosts climate-focused educational sessions for its investment professionals and colleagues from other areas of the firm. The aim of these sessions is to provide team members with investment-relevant information with help from external subject matter experts. In 2023, 94% of eligible members of TDAM's investment team in Canada completed the PRI Academy Understanding Responsible Investment course. The course introduces the principles that underlie and define responsible investment. Following the completion of the course, 84% of TDAM participants felt that their understanding of ESG had improved, and 79% felt that their confidence in discussing ESG had improved.

TDAM professionals also attended relevant conferences throughout the year to share ideas and insights and learn from industry leaders. Conferences TDAM professionals attended in 2023 included:

- Climate Week 2023 Conference, New York, United States
- PRI in Person 2023 Conference, Tokyo, Japan
- 2023 United Nations Climate Change Conference (COP28), Dubai, United Arab Emirates
- 2022 United Nations Biodiversity Conference (COP15), Montreal, Canada
- Infrastructure Investor Global Summit, Berlin, Germany
- ICGN 2023 Annual Toronto Conference, Toronto, Canada
- 2023 RIA Conference, Toronto, Canada
- Calgary Oil and Gas Sector and Investor CDP Roundtable, Calgary, Canada
- The Net Zero Leadership Summit, Ottawa, Canada

Insights

# Engagement

**In 2023, TDAM conducted a total of 125 climate-focused engagements[33] with 105 entities[34], compared to 134 climate-focused engagements with 104 entities in 2022. Out of the 105 entities we engaged in 2023, 54 were energy-related.**

TDAM considers its engagements with its investees to be a primary way to help manage climate-related risk and positively influence the transition to a low-carbon economy.

TDAM develops an annual climate focus list of companies for engagement priorities. The methodology behind this list involves a combination of the issuer's historical environmental performance, assessment of the issuer's climate targets, as well as the market value of TDAM's investment in each issuer. We prioritize issuers based on our investment exposure (AUM) and level of shareholding that can help achieve better outcomes through ongoing discussions with company directors and management. Our practice has been to engage with each issuer that gets added to the list for a minimum of two years before assessing its continued place on the list. In 2023, our climate focus list included 22 companies. While every engagement is unique to each issuer, its industry and region, TDAM generally encourages companies to publish Scope 1 and 2 emissions figures as well as material Scope 3 emissions figures with limited or reasonable assurance. We also generally encourage the companies we engage with to set science-based targets that are aligned with a net-zero-by-2050 pathway; detail the tactics they will use to achieve their emissions targets, including disclosing capital expenditure towards low-carbon initiatives; have appropriate board oversight of climate-related matters; and tie executive compensation to ESG metrics where appropriate.

In 2023, we engaged heavily with our portfolio's oil and gas companies in North America and Europe. In general, we have reached a point where most oil and gas companies in our portfolio have put forward plans that include absolute reductions in Scope 1 and 2 emissions around the 2030 timeframe, often via carbon capture and storage capabilities, operational efficiencies and technology improvements to address methane emissions. Given the urgency to reduce emissions on a global scale by 2030 as well as the recent developments of the UAE Consensus, an outcome from COP28 in Dubai, at this point companies should clearly demonstrate how their capital expenditure plans are linked to their decarbonization and transition strategies. Aligning capital expenditure plans with decarbonization and transition strategies is a crucial first step, and it is expected that companies should begin to transparently demonstrate how they are funding and progressing on their plans. This is something we view as a challenge for many of the oil and gas companies in our portfolio. This key gap is an engagement priority for TDAM in 2024.

[33] An engagement in this context is considered a direct exchange or outreach to company on a specific topic. One meeting with a company can include multiple topic engagements. Moreover, we may have multiple meetings with a company in any given year where warranted.

[34] Entities refer to and captures listed equity issuers, asset managers (such as property managers in direct real estate portfolios), borrowers in private debt and mortgage portfolios, listed and non-listed corporate and non-corporate debt issuers.

Case Study 3

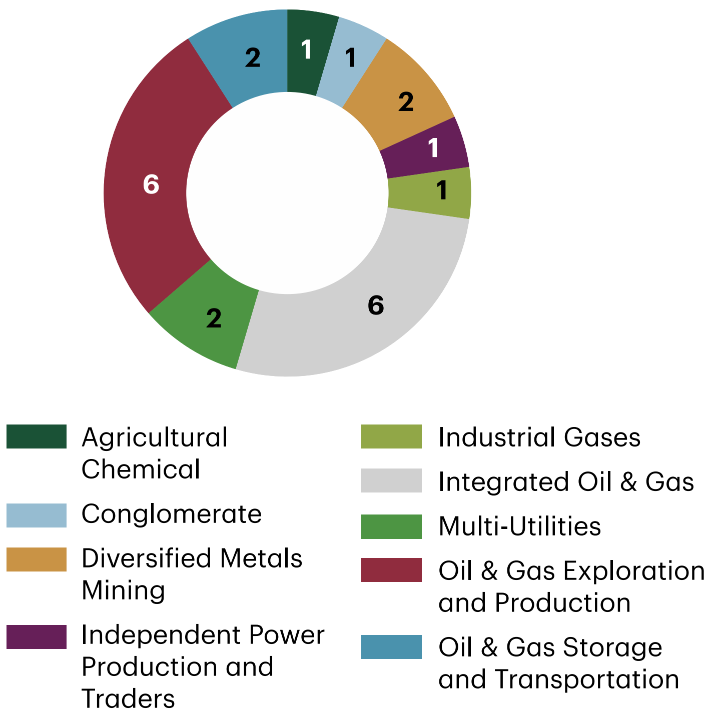
## Utilities and Physical Asset Risk

The assessment of physical asset risk is an important part of our corporate debt research, particularly as we are potential long-term bond owners. This is especially true for essential, asset-heavy businesses such as utilities. However, in recent years, as climate change has resulted in more frequent storms and wildfires, financial impacts have become a greater and more pressing current issue, not just a future risk. Utilities need to spend more capital today to protect critical infrastructure like transmission towers, to rebuild after a fire, and increasingly to settle legal claims.

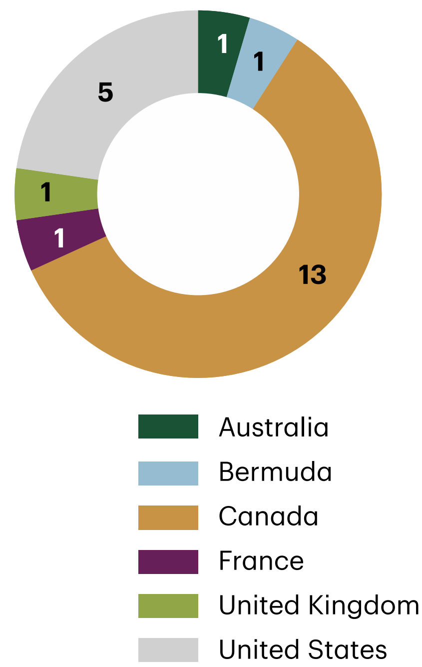
Importantly, for utilities that operate in areas at high risk for severe storms, regulators have increasingly recognized the importance of making investments in grid resilience and reliability, allowing utilities to recover preventative costs such as storm "hardening". In contrast, where once wildfire risk was limited to those utilities operating in drier, high-risk regions, we now consider fire risk a much broader industry concern because wildfires are more frequent and affect larger territories.

As a result, beyond spending more time assessing the risk of a wildfire in a utility's territory, we are focused on management's prevention efforts and on the supportiveness of the regulatory jurisdiction. Specifically, we are spending more time with company management discussing how they are working with their communities and regulators to protect the safety of people, property and the electricity transmission grid while ensuring customer affordability. We are pleased that there have been improvements in early detection technology. More importantly, there is a growing alignment of utilities, communities, regulators, and politicians as they recognize wildfires impact all stakeholders negatively and that the investment to protect the grid will allow utilities to sustainably provide an essential service to its communities.

## Figure 21: TDAM's 2023 Climate Focus List by Sector

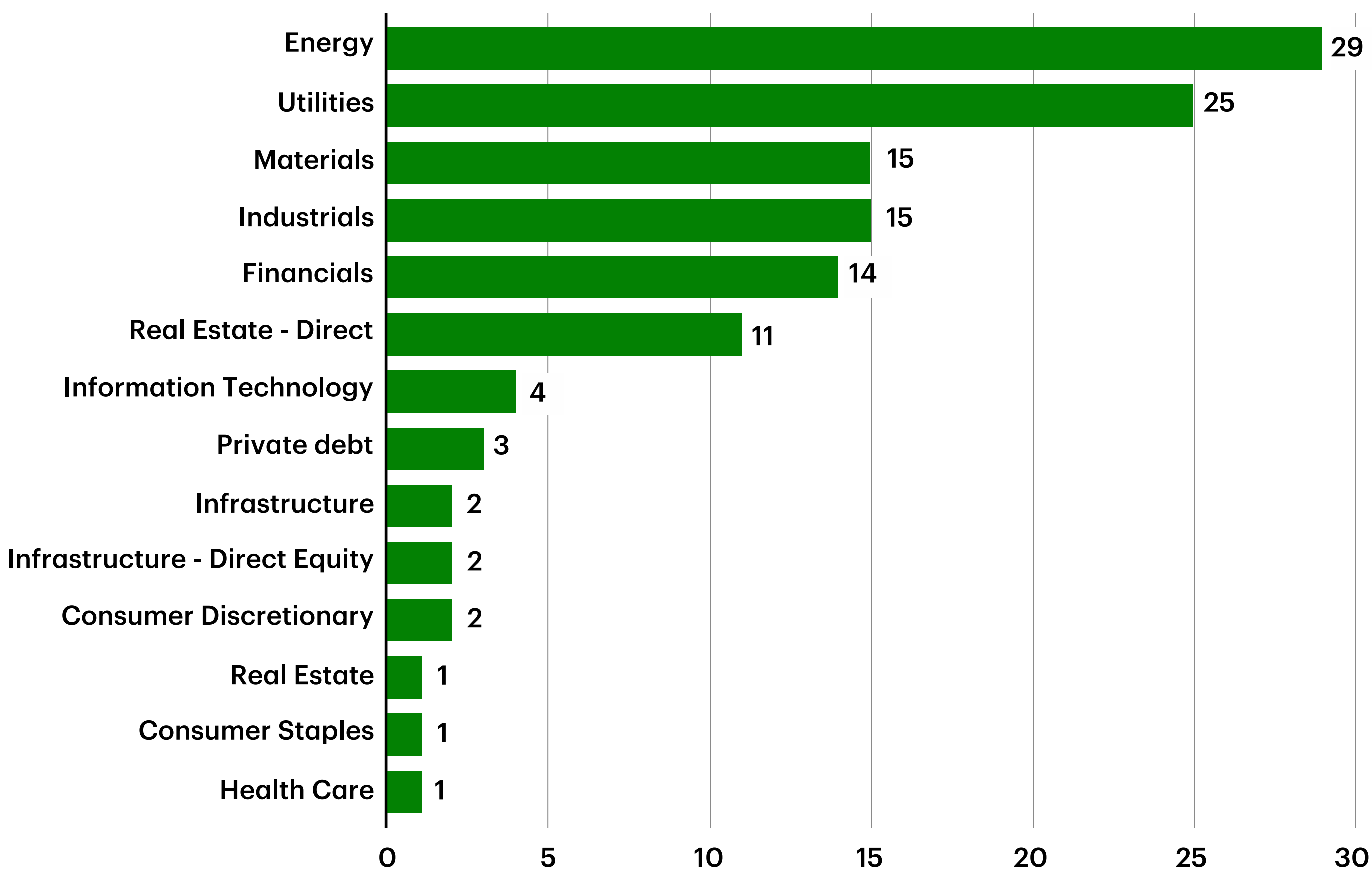



## Figure 22: TDAM's 2023 Climate Focus List by Country of Issuer



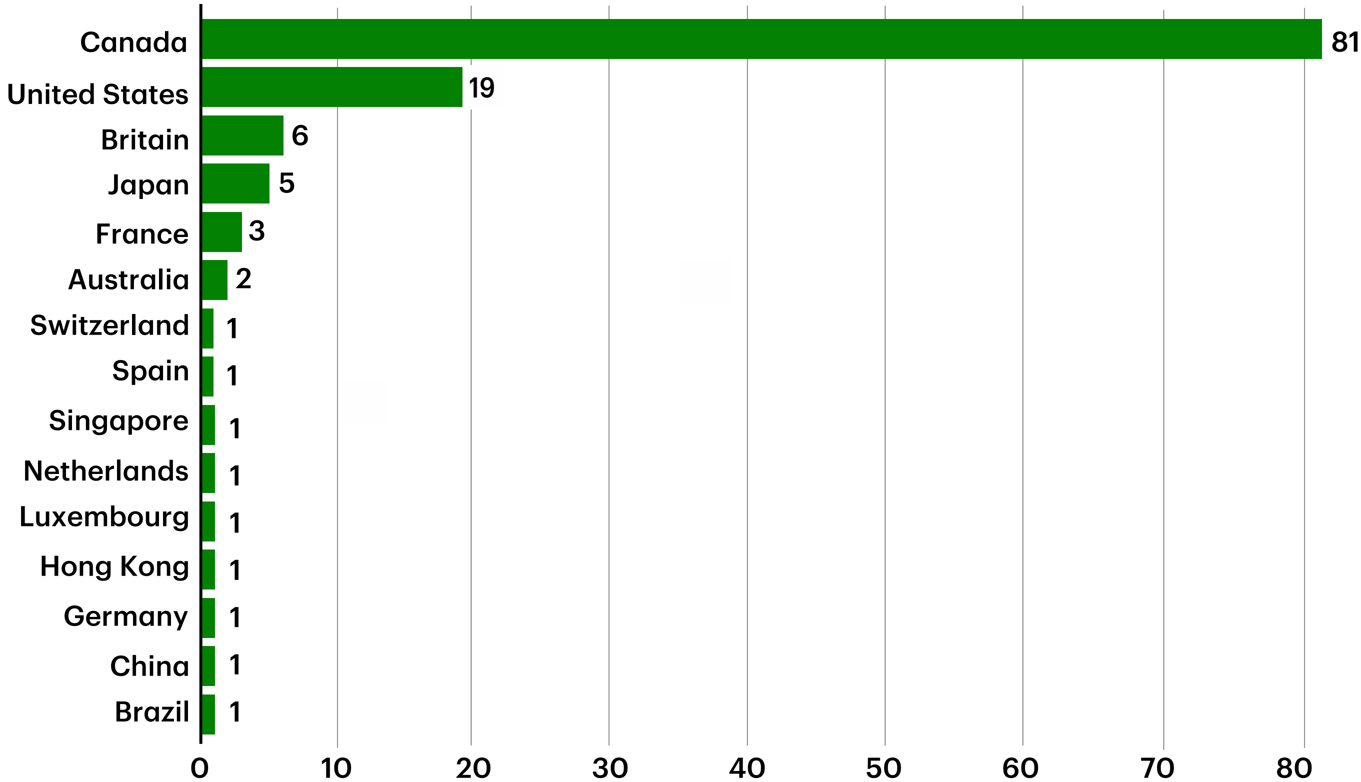

Source: TDAM; November 1, 2022 to October 31, 2023.

## Figure 23: Climate Engagements by Sector




Source: TDAM; November 1, 2022 to October 31, 2023.

## Figure 24: Climate Engagements by Country




Source: TDAM; November 1, 2022 to October 31, 2023.

### Engagement in Action:

In 2022 and 2023, TDAM co-led several engagements with a North American waste management company where TDAM is in the top 10 list of shareholders. While we believe this company is well positioned to capitalize on the opportunity for growth presented by the global transition towards net-zero, we had two primary concerns about the company's climate strategy.

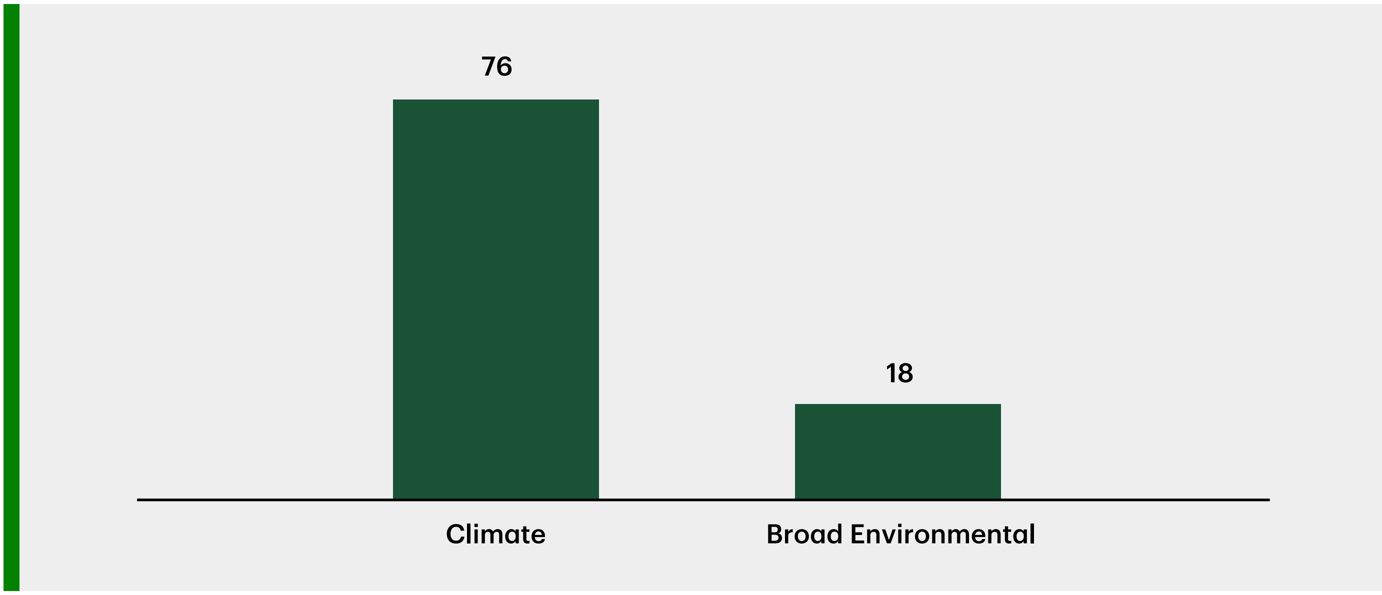
First, the company referred to itself as being already beyond net-zero due to avoided emissions generated through its recycling program. While we understood the company's desire to promote the positive impact its recycling program has on GHG emissions, in our perspective, the company was putting itself at risk by pronouncing itself to already be beyond net-zero. We were pleased that after several engagements the company said it would stop using this language and instead frame the avoided emissions in a more balanced light.

The second area we wanted to push the company on was the level of ambition of its targets. Relative to peers, the company's reduction goals were small and were to take place over a longer period. The company had made strong progress towards achieving its targets nearly a decade ahead of schedule. We were pleased to see that towards the end of 2023 the company announced it was increasing the level of ambition of its targets as well as submitting them to SBTi for verification.

It should be noted that over the span of less than three years, the company has gone from having no emissions reduction ambitions to committing to get its new targets verified by SBTi. This example illustrates our belief in remaining engaged with companies often over several years and encouraging them to realize their decarbonization potential. We will continue to engage with this company to evaluate progress on decarbonization activities as well as the opportunities this company is taking advantage of via the energy transition.

# Proxy Voting

## Figure 25: Climate and Environmental Shareholder Proposals Supported by TDAM in 2023




TDAM, as an asset manager, has a fiduciary duty to exercise the voting rights attached to the securities in the investment funds and accounts we manage. TDAM seeks to vote in a manner that is most likely to enhance the economic value of the underlying securities. Proxy voting is a central part of our stewardship toolbox, and we approach this responsibility with a commitment to long-term value on behalf of our investors.

TDAM is committed to remaining transparent about its proxy voting policies and practices. We have recently updated our Proxy Voting Guidelines >, which sets forth our expectations of investee companies when it comes to its governance practices and oversight of material risks, including environmental and social risks.

TDAM will generally support proposals seeking basic and enhanced disclosures on how the company identifies, measures and manages its climate-related risks, as well as those calling on companies to reduce their GHG emissions and set Paris Agreement-aligned targets, taking relevancy, materiality, cost, existing climate strategy and reporting practices into consideration.

TDAM will vote on Say-on-Climate proposals proposed by management or requested of management by shareholders on a case-by-case basis. Our evaluation framework is broadly based on the relevancy, materiality, cost and existing climate strategy for shareholder driven proposals. For management proposals, our assessment of a company's climate action plan may include, but is not limited to, the strength of targets within the climate plan and related duration of such targets, TCFD-based disclosures to investors, pathways toward achieving set targets, alignment of lobbying activities with targets, as well as our engagement with companies where applicable.

**2023 Proxy Review** - In 2023, we saw a continuation of the increased number of climate proposals year-over-year, and we expect this trend to continue throughout 2024. In general, we supported shareholder proposals asking companies to strengthen targets or disclosures where the company's current practices lagged its peers'.

An example of this was our decision to support a proposal at a major Canadian oil company requesting the company to adopt an absolute GHG reduction target for its Scope 1 and 2 emissions. Through our peer analysis, we observed that all the company's closest Canadian peers had set absolute-based reduction targets, compared to the company's current intensity-based target. Due to our long history of engagement with this company, we had an understanding of the technologies and projects it was considering to move towards an absolute emissions reduction by 2030. From our perspective, the proposal was not overly prescriptive and allowed the company sufficient flexibility to design a target that works for its business. Given the above considerations, we decided it was appropriate to support this proposal.

At the other end of the spectrum, we did not support proposals for more ambitious targets or disclosures where we viewed the company as already having market-leading plans. For example, a European supermajor oil and gas company faced a shareholder proposal requesting it to align targets for its Scope 3 emissions with the Paris Agreement. This company already had targets to reduce the Scope 3 emissions from its oil business by an absolute 40% by 2030, as well as intensity-based Scope 3 targets covering the rest of its business, which includes natural gas, among other low- and no-carbon electricity sources and decarbonized fuels. Beyond that, the company had painted a clear picture of what its product mix would be in the year 2050, and the limited remaining fossil fuels in its plan were consistent with the International Energy Agency's net-zero scenario.

We engaged with the company ahead of the vote to better understand its perspective, and ultimately, decided not to support the proposal. We thought the company's plan to transition away from fossil fuels was already sufficiently underway, with clear milestones and targets for Scope 3 emissions between 2023 and 2030. Its plan put it ahead of all its peers in terms of ambition, and in our judgement, warranted our support.

For more information on TDAM's proxy voting activities, please see our quarterly proxy voting reports, which are available on **our Sustainable Investing webpage >**.

# Environmental

## Stewardship in Action

A prominent North American grocer, of which TDAM is a top-five shareholder, faced a shareholder proposal requesting it to adopt near- and long-term science-based GHG emissions reduction targets, including Scope 3 emissions. The targets had to be aligned with the Paris Agreement's 1.5°C goal of net-zero emissions by 2050 and to include appropriate emissions reductions prior to 2030.

The company had recently established a target to reduce its Scope 1 and 2 emissions by 37.5% by 2035, using 2020 as a baseline year. The company had no other GHG reduction targets. Notably, a longer-term target was not included, there was no net-zero ambition, and there were no targets about the company's Scope 3 emissions.

TDAM engaged with the company before the vote to better understand its perspective on the proposal and the feasibility of setting science-based reduction targets.

## Figure 26: Peer Analysis on Climate Targets

| Company | Short-/Mid-Term Targets | Long-Term Targets |
|---|---|---|
| Company | Reduce Scope 1 and 2 emissions by 37.5% by 2035, based on 2020 baseline | No targets |
| Peer A | Reduce Scope 1 and 2 emissions by 50% by 2030, based on a 2020 baseline | 1. Net-zero Scope 1 and 2 emissions by 2040<br>2. Net-zero Scope 3 emissions by 2050 |
| Peer B | 1. Reduce Scope 1 and 2 emissions by 55% by 2030, based on 2019 baseline<br>2. Reduce emissions from fuel sold (Scope 3) by 28% by 2030, based on 2019 baseline | 1. Net-zero Scope 1 and 2 emissions by 2040<br>2. Net-zero Scope 3 emissions by 2050 |

Peer analysis played a critical role in TDAM's decision-making process. The company's two closest peers and biggest competitors in the North American market had established considerably more robust targets than the company. In addition, both peers had committed to have their targets verified by the SBTi within the next two years.

TDAM ultimately supported the shareholder proposal. While we recognized the company had only recently established its Scope 1 and 2 emissions targets, we still thought the outcome of that target setting exercise significantly lagged its two closest peers, which we communicated to the company in our engagement. By not working towards a long-term net-zero goal or placing any targets on Scope 3 emissions, the company could face increased financial and competitive risks.

We were pleased to see that in late 2023 the company announced a new suite of targets in line with SBTi standards and a commitment to have them verified by SBTi.

# Risk Management

TDAM's approach to climate risk management is comprised of four key processes: risk identification and assessment, measurement, control, and monitoring and reporting.

1. Risk identification and assessment is focused on defining, recognizing and understanding climate risks as they relate to TDAM's investments.

2. Measurement practices continue to evolve and will support TDAM's ability to provide timely and accurate quantification of the risks assumed.

3. Control involves the integration of climate considerations into applicable investment processes, investee engagement and proxy voting activities.

4. Monitoring and reporting represents ongoing monitoring and reporting of relevant climate metrics related to our investments, subject to data availability.

The responsibility for identification, assessment and management of climate-related risks sits at the management level and is executed with assistance from various teams across TDAM. TDAM understands that climate-related risks can have a wide range of impacts, and has summarized below the actions taken to identify, assess and mitigate the potential resulting impacts.

## Figure 27: TDAM's Actions to Identify, Assess and Mitigate Climate-Related Risks

| Risk Category | Climate-Related Risk | Actions to Identify, Assess and Mitigate |
|---|---|---|
| **Market Risk** | Impact of physical and transition risk on market factors such as equity prices, commodity prices and credit spreads. | Depending on the financial materiality of climate risk to the investment and subject to data availability:<br>• TDAM may integrate material climate-related considerations into the investment processes of applicable funds, in a manner that aligns with the fundamental investment objectives of each fund. The approach to integration varies but may include:<br>– Evaluating assets on climate-related indicators such as absolute GHG emissions, emissions' intensity and energy consumption.<br>– Considering the strength and scope of our investee companies' climate targets and climate-focused reporting.<br>– Conducting physical climate risk assessments of our investments in physical assets within our alternative asset funds.<br>• ESG metrics included in quarterly performance reviews for active equity and alternative asset strategies.<br>• Conducting annual scenario analysis using Climate VaR, where data is available, to assess the risk to our investments under a number of different climate scenarios.<br>• Within our equity and fixed income assets, we actively engage with investee companies to promote stronger climate risk management and greater transparency through reporting. Where applicable, we will exercise our rights as shareholders through supporting climate-focused shareholder proposals. |

| Risk Category | Climate-Related Risk | Actions to Identify, Assess and Mitigate |
|---|---|---|
| **Legal, Regulatory Compliance and Conduct Risk** | Increased potential for climate-related litigation and regulatory enforcement action.<br><br>Introduction of new or amended laws and regulations related to climate, novel application of existing laws and regulations, and issuance of judicial or regulatory decisions that may result in new or unanticipated legal requirements.<br><br>Non-compliance with existing laws and regulations as they apply to climate-related matters.<br><br>Increase in international policy and standard-setting initiatives concerning climate action and the management and disclosure of climate-related risks and opportunities. | • Climate-focused regulations impacting TDAM, its clients and investee companies are evolving at a rapid pace. TDAM Regulatory and Policy Governance, Legal, Compliance and the ESG R&E team share responsibility for monitoring and evaluating regulations in the jurisdictions where TDAM operates and invests.<br><br>• Where applicable, TDAM has participated in, and will continue to participate in, Canadian and international regulatory and standard-setter consultations related to climate risk in the asset management industry. |
| **Reputational Risk** | Stakeholder perceptions of TDAM's action or inaction in relation to climate change. Increased focus from NGOs to apply sustainable investment and business practices. | • TDAM strives to communicate its approach to climate change to all relevant stakeholders. TDAM has made reporting and transparency a priority in 2022 and this TCFD report serves to communicate the firm's actions to a broad group of stakeholders. TDAM will strive to improve transparency as it relates to its approach to climate change.<br><br>• TDAM believes in transparency in its proxy voting and engagement activities. Our full proxy voting records are available online **here >**. TDAM also publishes quarterly proxy voting reports, available **here >**. |
| **Strategic Risk** | Risk of not being able to meet changing client and consumer expectations for ESG products and services. | • TDAM regularly seeks to improve the solutions it offers and introduce new solutions to meet the changing needs and expectations of existing and potential clients.<br><br>• TDAM provides tailored climate reporting to clients on an as-requested basis. |
| **Operational Risk** | Impact of extreme weather events on physical operations. | • TDAM is subject to TD’s enterprise-wide Business Continuity and Crisis Management program, to support management’s ability to operate TD’s businesses and operations in the event of a business disruption incident. |

# Metrics and Targets

This section provides a synthesis of the metrics we use to evaluate our assets for climate-related risks and track year-over-year progress against our benchmarks.[35, 36] The metrics below are evaluated on 63% of TDAM's overall AUM as at October 31, 2023, across both public markets and our alternative asset classes. Cash and the following assets are not included in the analysis below due to a lack of data: derivatives, private debt, mortgages and asset-backed securities.

## Figure 28: Public Market Metrics - Equities[37]

| Category | Metric | Canadian Equity | | U.S. Equity | | Global Equity | | Emerging Market Equity | |
|---|---|---|---|---|---|---|---|---|---|
| | | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| Emissions | Emissions Coverage | 100% | 99.8% | 100% | 100% | 99% | 100% | 98% | 100% |
| | WACI | 266.6 | 279.9 | 97.3 | 111.5 | 68.9 | 97.1 | 150.8 | 321.3 |
| | Emissions /$M Invested | 89.0 | 94.01 | 26.3 | 32.7 | 41.2 | 67.4 | 60.6 | 150.5 |
| | Weighted Average Quality Score[38] | 2.0 | 2.2 | 2.1 | 2.1 | 2.0 | 2.0 | 2.1 | 2.3 |
| Implied Temperature Rise | ITR | 2.9 | 3.1 | 2.0 | 2.1 | 2.0 | 2.0 | 2.4 | 2.5 |
| | 1.5°C Aligned | 34% | 35% | 51% | 53% | 49% | 48.5% | 25% | 29.1% |
| | 2°C Aligned | 15% | 15% | 25% | 20% | 25% | 23.7% | 13% | 22.5% |
| | Misaligned | 22% | 22% | 15% | 16% | 17% | 17.8% | 42% | 30.9% |
| | Strongly Misaligned | 25% | 27% | 10% | 11% | 8% | 9.6% | 17% | 17.1% |

Source: TDAM, MSCI; As of October 31, 2023.

[35] The metrics cover all TDAM equity and corporate fixed income holdings as of October 31, 2023, subject to data availability, including the following sub-advised funds: TD Canadian Small Cap Equity Fund, TD Emerging Markets Fund, TD U.S. Blue Chip Equity Fund, TD U.S. Mid Cap Growth Fund, TD U.S. Small Cap Equity Fund, TD Health Sciences Fund, TD Science and Technology Fund, TD Global Entertainment & Communications Fund, and legacy TDAM U.S.A. accounts.

[36] Canadian Equity Benchmark = S&P TSX Composite Index; U.S. Equity Benchmark = S&P 500 Index; Global Equity Benchmark = MSCI EAFE Index; Emerging Market Equity Benchmark = MSCI Emerging Market Index; International Corporate Bond Benchmark = Bloomberg Barclays Global Aggregate Corporate Index; U.S. Corporate Bond Benchmark = Bloomberg US Corporate Bond Index; Canadian Corporate Bond Benchmark = FTSE Canada University Corporate Bond Index.

[37] All emissions, Climate VaR, ITR and SBTi data are provided by MSCI. Note that not all emissions are measured and reported on by the companies that we are invested in, and where data is not available, an estimation model may be used to determine the company's emissions.

[38] Weighted Average Quality Score: Based on PCAF guidance for their data quality scores, which help institutions rate the reliability of their information. The score itself ranges from one to five, with one being the highest-quality data and five being the lowest quality. Quality score data is provided by MSCI.

## Figure 28: Public Market Metrics - Equities continued

| Category | Metric | Canadian Equity | | U.S. Equity | | Global Equity | | Emerging Market Equity | |
|---|---|---|---|---|---|---|---|---|---|
| | | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| SBTi | SBTI Approved | 15% | 16% | 42% | 42% | 51% | 51.6% | 14% | 15.5% |
| | SBTI Committed | 7% | 6% | 16% | 17% | 11% | 11.7% | 8% | 11.3% |
| Climate VaR | Net Zero 2050 | -17.9% | -18.2% | -5.7% | -6.8% | -9.7% | -12.6% | -9.4% | -15.6% |
| | Below 2°C | -6.4% | -6.4% | -2.5% | -3.1% | -4.7% | -5.9% | -6.7% | -10.5% |
| | Divergent Net Zero | -22.5% | -23.2% | -8.3% | -9.8% | -12.2% | -14.8% | -12.5% | -19.9% |
| | Delayed Transition | -15.1% | -15.1% | -4.8% | -5.8% | -8.3% | -10.8% | -8.1% | -13.4% |
| | Nationally Determined Contributions | -7.1% | -7.0% | -3.1% | -3.7% | -5.1% | -6.3% | -7.6% | -10.0% |

Source: TDAM, MSCI; As of October 31, 2023.

## Figure 29: Public Market Metrics - Corporate Fixed Income

| Category | Metric | Canadian Corporate Bonds | | U.S. Corporate Bonds | | International Bonds | |
|---|---|---|---|---|---|---|---|
| | | Portfolio | Benchmark | Portfolio | Benchmark | Portfolio | Benchmark |
| Emissions | **Emissions Coverage** | 99% | 92% | 98% | 100% | 98% | 100% |
| | **WACI** | 197.3 | 222.6 | 172.1 | 137.3 | 108.5 | 39.75 |
| | **Emissions /$M Invested** | 34.1 | 34.7 | 116.5 | 40.5 | 70.4 | 35.80 |
| | **Weighted Average Quality Score** | 2.1 | 2 | 2.0 | 2.2 | 2.1 | 2.00 |
| Implied Temperature Rise | **ITR** | 2.0 | 2.1 | 1.8 | 2.3 | 2.0 | 1.8 |
| | **1.5°C Aligned** | 31% | 32.6% | 29% | 39.2% | 39% | 48% |
| | **2°C Aligned** | 17% | 18.8% | 33% | 28.9% | 23% | 18% |
| | **Misaligned** | 19% | 17.1% | 18% | 13.5% | 21% | 29% |
| | **Strongly Misaligned** | 15% | 16.3% | 9% | 17.0% | 12% | 4% |
| SBTi | **SBTI Approved** | 10% | 13.0% | 18% | 41.3% | 10% | 14% |
| | **SBTI Committed** | 10% | 7.7% | 6% | 7.1% | 8% | 10% |
| Climate VaR | **Net Zero 2050** | -5.8% | -5.8% | -10.0% | -10.84% | -10.6% | -11.49% |
| | **Below 2°C** | -2.4% | -2.4% | -5.2% | -5.65% | -6.8% | -4.56% |
| | **Divergent Net Zero** | -8.8% | -8.8% | -14.3% | -16.43% | -11.9% | -11.79% |
| | **Delayed Transition** | -4.8% | -4.9% | -8.9% | -9.60% | -10.2% | -9.42% |
| | **Nationally Determined Contributions** | -2.9% | -3.0% | -6.6% | -6.96% | -7.5% | -4.92% |

Source: TDAM, MSCI; As of October 31, 2023.

## Limitations

- There is a lack of consistency among different companies' GHG emissions data because data is self-reported and calculated using varying methodologies. In many jurisdictions, GHG emissions data is not required to be assured or verified by a third party. Where companies do not disclose GHG emissions data, estimation models based on assumptions are used. Over time, as regulatory regimes evolve, we expect that there will be greater transparency and assurance with respect to self-reported emissions data, which in turn will improve the quality and quantity of GHG emissions data.

## Limitations continued

- GHG emissions data is predominantly disclosed on an annual basis for the previous fiscal year, leading to a lag in GHG emissions of one or two years depending on the timing of reporting or disclosure. In turn, there is a potential for misalignment between the GHG emissions data used in calculations and the corresponding financial metrics, such as enterprise value and revenue.
- GHG emissions are a point-in-time calculation. They do not capture any quantitative or qualitative data about a company's approach to lowering its carbon footprint over time.
- Metrics such as WACI and Carbon Emissions per Million Dollars Invested can fluctuate due to non-emissions-related factors such as changes in company revenue, enterprise value and market capitalization.

## Figure 30: Alternative Assets GHG Emissions

| Strategy | 2022 GHG Emissions (tons $CO_2e$) | 2021 GHG Emissions (tons $CO_2e$) |
|---|---|---|
| **TD Greystone Canadian Real Estate Strategy**[39] | 202,374 | 184,341 |
| **TD Greystone Infrastructure Strategy** | 221,342 | 192,086 |
| **TD Greystone Mortgage Strategy**[40, 41] | 37,339 | N/A |

Source: TDAM; As of December 31 of each year.

## Figure 31: TDAM 2023 GRESB Assessment Summary

| GRESB Score | 2020 | 2021 | 2022 | 2023 | 2023 GRESB Global Average |
|---|---|---|---|---|---|
| **Real Estate Assessment** | | | | | |
| **TD Greystone Canadian Real Estate Strategy – Standing Investment** | 70 | 73 | 80 | **75** | **75** |
| **TD Greystone Canadian Real Estate Strategy – Development** | 75 | 79 | 81 | **82** | **83** |
| **TD Greystone Global Real Estate Strategy – Standing Investment (Portfolio Analysis Tool)** | 75 | 82 | 84 | **86** | **80** |
| **Infrastructure Assessment** | | | | | |
| **TD Greystone Infrastructure Strategy** | 70 | 85 | 87 | **87** | **82** |

**Note: TD Greystone Canadian Real Estate Strategy refers to TD Greystone Real Estate L.P. Fund and TD Greystone Real Estate Fund Inc.; TD Greystone Global Real Estate Strategy refers to TD Greystone Global Real Estate Fund L.P. and TD Greystone Global Real Estate Fund (Canada Feeder) L.P.; TD Greystone Infrastructure Strategy refers to TD Greystone Infrastructure Fund (Canada) L.P., TD Greystone Infrastructure Fund (Canada) L.P. II and TD Greystone Infrastructure Fund (Global Master) L.P.**

[39] Annual GHG emissions for the TD Greystone Canadian Real Estate Strategy includes estimated data and Scope 1, 2, and 3 (i.e., tenant emissions) GHG emissions for the active (i.e., divestments excluded) Core portfolio. GHG emission accounting is in accordance with the GHG Protocol Standard for Corporate Accounting.

[40] Annual financed GHG emissions were calculated using estimated building energy consumption and average emission factors specific to the respective energy source. The exercise was aligned with PCAF methodology Data Quality Score 4 for mortgages. That is, each building's annual emissions are attributed to the mortgage provider using a loan-to-value approach. The attribution is equal to the ratio of the outstanding amount at the time of GHG accounting to the property value at the time of loan origination.

[41] 2023 was the first year we started calculating GHG emissions for the TD Greystone Mortgage Strategy using 2022 data.

### TDAM's Operational Carbon Footprint

At an operational level, TDAM's Scope 1 and 2 emissions are included in **TD Bank's climate reporting >**. Additionally, TDAM's operational emissions (Scope 1 and 2) are covered by TD's net-zero target.

## Looking Forward

In 2024, we continue to refine our work of integrating climate risks and opportunities where financially material into applicable investment processes and stewardship efforts. A key piece of work we are focused on in 2024 is establishing a climate engagement framework. Until now we have focused on engaging with the highest contributors to TDAM's financed emissions. This has led to the climate focus list that is overweighted towards the companies in our portfolios with the highest Scope 1 and 2 emissions, which are heavily skewed towards oil and gas and utilities companies. Recognizing the importance of seeing real-world emissions reductions, not just portfolio level emissions reductions, we are developing a framework that will elevate engaging with companies in the demand-heavy sectors, such as heavy industry, agriculture, real estate and transportation. We expect that this will change the profile of our climate focus list, broadening both our sector and geographic reach.

We are also including the recent developments from the UAE Consensus, an outcome from COP28 in Dubai, in our engagement approach moving forward. The UAE Consensus included an unprecedented call to transition energy systems away from fossil fuels in a just and orderly fashion and to triple the deployment of renewable energy by 2030.[42] Given these landmark shifts, we will continue to remain engaged with fossil fuel companies in our portfolios. As we near the mid-decade, investors at large expect heavy emitters to move away from the planning phase into demonstrating measurable progress against plans. We will echo these expectations in our engagements with our portfolio companies.

In parallel, we continue to monitor for opportunities to support the energy transition through our public and private investments where appropriate and applicable to the investment mandate. In 2023, as part of our commitment to protecting the value of our assets and mitigating financially material climate risk within our portfolios, the TD Greystone Canadian Real Estate Strategy continued to build out its decarbonization roadmap, providing additional guidance and instruction to its third-party asset and property managers. This included expectations around setting GHG reduction targets in accordance with the SBTi's 'Buildings Science-Based Target-Setting Guidance' and achieving net-zero GHG emissions by 2050 on a trajectory that is in line with what the latest climate science deems necessary to limit global warming to 1.5°C above pre-industrial levels. Throughout 2024, TDAM will be working with its asset and property managers on building-specific decarbonization pathways to validate the feasibility of a proposed interim (2030) GHG reduction target.

We are committed to the pursuit of continuous improvement in our investment practices, and we look forward to sharing the progress we achieve over the course of the year in our next TCFD report.

### Additional Resources:

1. **2023 Sustainable Investment Report >**
2. **TDAM Sustainable Investing Approach >**
3. **TDAM Proxy Voting Guidelines >**

[42] Source: United Nations Framework Convention on Climate Change, COP28: **https://unfccc.int/cop28**

## Appendix: List of Climate-Related Shareholder Proposals Supported

| Company Name | Proposal Text |
|---|---|
| **KLA Corporation** | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **BHP Group Limited** | Approve Climate Accounting and Audit |
| **BHP Group Limited** | Approve Climate Accounting and Audit |
| **Campbell Soup Company** | Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk |
| **Microsoft Corporation** | Assess and Report on the Company's Retirement Funds' Management of Systemic Climate Risk |
| **Metro Inc.** | Adopt Near and Long-Term Science-Based Greenhouse Gas Emissions Reduction Targets |
| **Santos Limited** | Approve Capital Protection |
| **The Boeing Company** | Report on Climate Lobbying |
| **CenterPoint Energy, Inc.** | Disclose Scope 3 Emissions and Setting Scope 3 Emission Targets |
| **PACCAR Inc** | Report on Climate Lobbying |
| **Wells Fargo & Company** | Report on Climate Lobbying |
| **Wells Fargo & Company** | Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets |
| **BorgWarner Inc.** | Report on Just Transition |
| **Marathon Petroleum Corporation** | Report on Just Transition |
| **The Goldman Sachs Group, Inc.** | Report on Climate Transition Plan Describing Efforts to Align Financing Activities with GHG Targets |
| **BP Plc** | Approve Shareholder Resolution on Climate Change Targets |
| **Lockheed Martin Corporation** | Report on Efforts to Reduce Full Value Chain GHG Emissions in Alignment with Paris Agreement Goal |
| **NewMarket Corporation** | Publication of GHG Emissions and Setting Short-, Medium- and Long-Term Emission Reduction Targets to Align Business Activities with Net Zero Emissions by 2050 in Line with the Paris Climate Agreement |
| **Woodside Energy Group Ltd.** | Approve Contingent Resolution - Capital Protection |
| **Imperial Oil Limited** | Adopt an Absolute Greenhouse Gas Reduction Target |
| **Imperial Oil Limited** | Report on the Impact of the Energy Transition on Asset Retirement Obligations |
| **Public Storage** | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **Raytheon Technologies Corporation** | Report on Efforts to Reduce GHG Emissions in Alignment with Paris Agreement Goal |

| Company Name | Proposal Text |
| --- | --- |
| Enbridge Inc. | Disclose the Company's Scope 3 Emissions |
| General Electric Company | Issue Audited Report on Impact of IEA Net-Zero Emissions by 2050 Scenario |
| Coterra Energy Inc. | Report on Reliability of Methane Emission Disclosures |
| Coterra Energy Inc. | Report on Climate Lobbying |
| United Parcel Service, Inc. | Adopt Independently Verified Science-Based Greenhouse Gas Emissions Reduction Targets in Line with the Paris Climate Agreement |
| United Parcel Service, Inc. | Report on Just Transition |
| Berkshire Hathaway Inc. | Report on Physical and Transitional Climate-Related Risks and Opportunities |
| Berkshire Hathaway Inc. | Report on Audit Committee's Oversight on Climate Risks and Disclosures |
| Berkshire Hathaway Inc. | Report If and How Company Will Measure, Disclose and Reduce GHG Emissions |
| Valero Energy Corporation | Report on Climate Transition Plan and GHG Emissions Reduction Targets |
| Equinor ASA | Identify and Manage Climate-Related Risks and Possibilities, and Integrate Them into Company's Strategy |
| iA Financial Corporation Inc. | Advisory Vote on Environmental Policies |
| Ameren Corporation | Disclose GHG Emissions Reductions Targets |
| Cheniere Energy, Inc. | Report on Stranded Carbon Asset Risk |
| Martin Marietta Materials, Inc. | Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| Westlake Corporation | Strengthen 2030 GHG Reduction Targets and Adopt Long-Term Targets Aligned with Net Zero |
| Chubb Limited | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| Quest Diagnostics Incorporated | Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| Targa Resources Corp. | Report on Efforts to Reduce Methane Emission Venting and Flaring in Supply Chain |
| Amazon.com, Inc. | Report on Climate Risk in Retirement Plan Options |
| Amazon.com, Inc. | Report on Impact of Climate Change Strategy Consistent with Just Transition Guidelines |
| Amazon.com, Inc. | Report on Climate Lobbying |
| The Southern Company | Adopt Scope 3 GHG Emissions Reduction Targets Aligned with Paris Agreement Goal |
| The Travelers Companies, Inc. | Report on Efforts to Measure, Disclose and Reduce GHG Emissions Associated with Underwriting |
| The Mosaic Company | Report on Efforts to Reduce GHG Emissions in Alignment with Paris Agreement Goal |
| Glencore Plc | Resolution in Respect of the Next Climate Action Transition Plan |

| Company Name | Proposal Text |
|---|---|
| **California Water Service Group** | Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **Chevron Corporation** | Report on Social Impact from Plant Closure or Energy Transition |
| **Exxon Mobil Corporation** | Report on Methane Emission Disclosure Reliability |
| **Exxon Mobil Corporation** | Adopt Medium-Term Scope 3 GHG Reduction Target |
| **Exxon Mobil Corporation** | Report on Social Impact from Plant Closure or Energy Transition |
| **Meta Platforms, Inc.** | Report on Framework to Assess Company Lobbying Alignment with Climate Goals |
| **Netflix, Inc.** | Report on Climate Risk in Retirement Plan Options |
| **Alphabet Inc.** | Report on Framework to Assess Company Lobbying Alignment with Climate Goals |
| **Comcast Corporation** | Report on Climate Risk in Retirement Plan Options |
| **Comcast Corporation** | Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **Dollarama Inc.** | Adopt Net Zero Targets in Alignment with the Paris Agreement |
| **CoStar Group, Inc.** | Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **Caterpillar Inc.** | Report on Climate Lobbying |
| **Toyota Motor Corp.** | Amend Articles to Report on Corporate Climate Lobbying Aligned with Paris Agreement |
| **Mitsubishi Corp.** | Amend Articles to Disclose Greenhouse Gas Emission Reduction Targets Aligned with Goals of Paris Agreement |
| **Mitsubishi Corp.** | Amend Articles to Disclose Evaluation concerning Consistency between Capital Expenditures and Net Zero Greenhouse Gas Emissions by 2050 Commitment |
| **Chubu Electric Power Co., Inc.** | Amend Articles to Require Disclosure of Capital Allocation Policy Aligned with a Net Zero by 2050 Pathway |
| **Electric Power Development Co., Ltd.** | Amend Articles to Disclose Business Plan through 2050 Aligned with Goals of Paris Agreement |
| **Electric Power Development Co., Ltd.** | Amend Articles to Disclose How Executive Compensation Policy Contributes to Achievement of Greenhouse Gas Emission Reduction Target |
| **The Kansai Electric Power Co., Inc.** | Amend Articles to Disclose Transition Plan through 2050 Aligned with Goals of Paris Agreement |
| **Tokyo Electric Power Co. Holdings, Inc.** | Amend Articles to Require Disclosure of Asset Resilience to a Net Zero by 2050 Pathway |

| Company Name | Proposal Text |
| --- | --- |
| **Constellation Brands, Inc.** | Disclose GHG Emissions Reductions Targets |
| **Casey's General Stores, Inc.** | Report on Efforts to Reduce GHG Emissions in Alignment with Paris Agreement Goal |
| **Darden Restaurants, Inc.** | Adopt GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal |
| **FedEx Corporation** | Report on Just Transition |
| **Cintas Corporation** | Adopt Near and Long-Term Science-Based GHG Emissions Reduction Targets Aligned with Paris Agreement Goal |
| **Whitehaven Coal Limited** | Approve Capital Protection |