



The path to net-zero carbon: Our action plan

June 2023



Table of Contents

- 03** Message from our CEO
- 05** Our Net-Zero Carbon Commitment
- 08** Our Net-Zero Carbon Strategies
 - 09** Assess
 - 11** Invest
 - 13** Steward
 - 15** Communicate
- 16** What's Next

Message from our CEO

Acting on the net-zero carbon imperative

For decades, the United Nations' Intergovernmental Panel on Climate Change (IPCC) has warned that to avoid catastrophic climate-related risks to our natural and physical environment, we must limit the global rise in temperatures to no more than 1.5°C above the pre-industrial era. In its most recent report in 2023, the IPCC warned that not only must global carbon emissions decline by nearly half by 2030, but that three to six times the current climate investment is needed to rapidly reduce climate emissions. It is clear that to reach net-zero by 2050 will require large-scale mobilization of public and private capital, including philanthropic funding and investments.

With this Climate Action Plan, McConnell is publicly committing to the goal of net-zero greenhouse gas (GHG) emissions for our investment portfolio by 2050 or sooner.

We believe this is an important and necessary step in ensuring that all our assets work in harmony towards advancing our mission.

Founded in 1937 by J.W. McConnell, the McConnell Foundation works to create a resilient, inclusive and sustainable society that can successfully address its complex challenges. To that end, the decision to decarbonize our investment portfolio builds on a long history of funding and investing to address the climate crisis. As climate is one of our three thematic focus areas, we allocate roughly \$8 million annually through charitable contributions to Canadian organizations addressing the climate crisis. We aim to contribute to Canada's transition to a net-zero carbon economy in a way that produces sustainable and equitable outcomes for all. In other words, we are aiming not simply for a "transition" but a "just transition", seeking to put equity at the centre of our climate funding. Through a systemic approach, we support organizations working on climate mitigation solutions, those promoting sustainable finance

among financial institutions and asset managers and supporting organizations representing communities that are the most vulnerable to climate change.

Our commitment to net-zero carbon is a key component of our new investment strategy, which aims to allocate 100% of our \$655 million endowment (as of Dec. 31, 2022) towards impact investing over the next five years. As stewards of capital, we have a fiduciary responsibility to consider all material factors that may impact the risk-adjusted returns of our investments, including climate-related financial risks and opportunities. We are also committed to increasing our investments in climate solutions, which currently represent approximately 30% of our impact investing portfolio, and to engaging with fund managers, companies and market actors to encourage them to develop credible climate plans. Finally, we are also divesting our portfolio of all companies that derive at least 10% of their revenues from fossil fuels by the end of 2023, considering climate factors as part of our due diligence and asset management processes and collaborating with other investors and stakeholders on climate action.

We are pleased to join the growing group of global investors who are committing to net-zero by 2050. In Canada, we have been inspired by the Caisse de Dépôt et de Placement du Québec, the University Pension Plan of Ontario, and in the international philanthropic sector, by the McKnight Foundation and The David Rockefeller Fund, who are leading the way in this work. We hope that by making this commitment, and by sharing what we learn as we implement this action plan, others in the philanthropic sector and in capital markets will be inspired to align their assets in support of a healthy climate.

Lili-Anna Pereša
Chief Executive Officer



Our Vision

As a foundation, we envision a future in which our economy and social systems promote the thriving of all people, and in which the natural environment is stewarded for generations to come. We see all sectors working together to address climate change, to help foster reconciliation, and unleash individual creativity and organizational resources to solve social challenges and strengthen communities.

Our Net-Zero Carbon Commitment

Investment Portfolio: Net-zero by 2050

We commit to the goal of net-zero greenhouse gas (GHG) emissions for our investment portfolio by 2050 or sooner. This commitment aligns our portfolio with the Paris Agreement, the international treaty to limit global warming to 1.5°C above pre-industrial levels. En route to our net-zero goal, we will prioritize “real economy reductions” and a “just transition.”

Our net-zero carbon (net-zero) commitments are informed by industry best practices set out by such bodies as the Net-Zero Asset Owner’s Alliance (NZAOA) and the Paris Aligned Investment Initiative (PAII).

Net-Zero Asset Owner’s Alliance (NZAOA) is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C. NZAOA’s target setting protocol provides guidance to investors on the targets needed to achieve net-zero by 2050.

Paris Aligned Investment Initiative (PAII) is a membership organization established in May 2019 by the Institutional Investors Group on Climate Change (IIGCC). Signatories are required to implement a Net Zero Investment Framework to align with the Paris Agreement goals and to implement net-zero commitments.

¹ – Net Zero Asset Owners Alliance, Target Setting Protocol 2020, page 20

² – <https://jtalliance.org/what-is-just-transition/>

Real economy reductions

“Real economy reductions” means what it says: real world reductions in carbon emissions. It is important to understand the difference between reducing carbon emissions in an investment portfolio and reducing carbon emissions in the real economy.¹ For example, portfolio emissions can be reduced by selling shares of a high emitting company and by purchasing shares of another one with lower emissions. Alternatively, one can engage with the high emitting company, suggesting operational efficiencies which could end up generating reductions of carbon emissions over time. In these examples, the latter approach would be reducing emissions in the real economy, not the former.

Just transition

“Just transition” is a principle, a process and a practice. The principle of just transition is that a healthy economy and a clean environment can and should co-exist. The process for achieving this vision should be a fair one; it should not cost workers their jobs, nor adversely impact the health, environment, or economic assets of communities. And the practice of just transition means that the people who are most affected by pollution should be leading the crafting of policy solutions.²

Interim GHG reduction targets

Alongside our long-term absolute net-zero target for our investment portfolio, we have set interim intensity-based GHG targets (total emissions divided by million dollars of investment (tCO₂e/\$M AUM), sometimes referred to as “carbon footprint”³). This will allow us to track progress over time.

Emission reduction targets

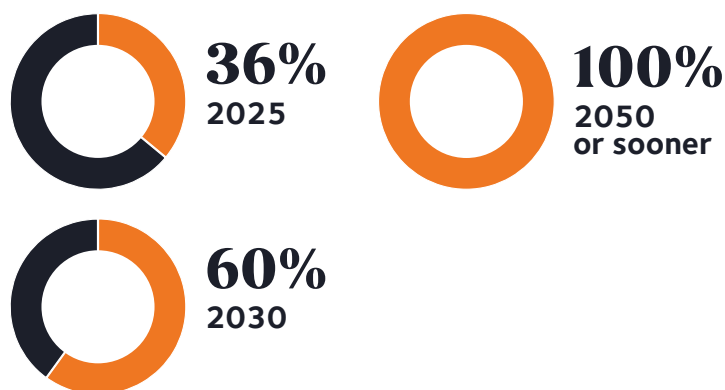


Table 1: GHG Emissions Intensity Reduction Targets our Investment Portfolio

Year	Emission reduction targets	5-year per annum reduction	GHG emissions (tCO ₂ e/\$M AUM)
2020	—	—	95
2025	36%	-7% ('20-'25)	61
2030	60%	-5% ('26-'30)	38
2050 or sooner	100%	—	—

The carbon footprint associated with our investment portfolio (i.e., our “financed emissions”) was 95 tCO₂e/\$M as of December 31, 2020⁴. This represents our base year and was used to establish our reduction targets. Our targets up to 2030 do not include carbon removals (including nature-based solutions such as restoration of landscapes or technological solutions such as direct air carbon capture and sequestration). See footnotes for more information on the methodology used for our carbon footprint.

³ – <https://www.tcfhub.org/wp-content/uploads/2022/04/Table-3.pdf>

⁴ – Total assets under management on December 31, 2020 was \$687,416,365. Total financed emissions were 65,166 tCO₂e.

Although these interim targets are intensity-based (normalized per \$M invested), our ultimate goal is to reduce absolute emissions. As such, we will report each year on progress towards our intensity targets as well as absolute emission reductions.

We plan to focus our efforts on listed equity funds as they have the greatest capacity for emissions reductions in the near term. We will also focus on other funds, particularly within the real estate and infrastructure sectors as they have a higher carbon intensity in our portfolio relative to other sectors.

Operational Emissions

In addition to our GHG reduction targets for financed emissions, we have set a 2050 net-zero target for our operational emissions. This includes emissions associated with our energy usage at our office in Montreal and emissions from employee commuting, business travel, waste and goods and services.

Our total operational emissions were 90 tCO₂e in 2019, our baseline year. Our operational emissions are an important indicator of the coherence of our commitments.

GHG emissions primer

The **Greenhouse Gas Protocol** is the global standard framework for measuring and managing greenhouse gas emissions. Any company can have direct or indirect emissions which are categorized as scope 1, 2 or 3.

Scope 1 emissions are direct emissions from owned or controlled sources.

Scope 2 are indirect emissions from the generation of purchased electricity.

Scope 3 are all indirect emissions that occur in our value chain.

Scope 3 emissions are broken out by 15 categories.

Our financed emissions are scope 3 emissions (investments). Accounting for these emissions is governed by the **Partnership for Carbon Accounting Financials**. These represent most of our emissions and are the main focus of our net-zero commitment.

Our operational footprint reported on our scope 1 and 2 emissions and scope 3 emissions (employee commuting, business travel, waste and goods and services).

Our Net-Zero Carbon Strategies

To achieve our net-zero commitment we will implement four interconnected strategies.

Our strategies recognize the five principles for net-zero commitments set out by the United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-state Entities.⁵

Assess

We manage climate-related portfolio risks by conducting regular climate assessments and evaluating investment managers on net-zero maturity.

Invest

We invest in assets and climate solutions that are net-zero aligned and aim to transition our portfolio to 100% impact by 2028.

Communicate

We will disclose annually our portfolio's climate risks while reporting on investments that support the net-zero transition.

Steward

We engage with fund managers, companies and market actors and encourage them to develop credible climate plans.

⁵ – https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

Assess

Climate assessments

Climate scenario analysis allows us to assess current and future physical risks due to climate change, as well as those related to the net-zero transition, across our portfolio. These scenarios include implementing policies and climate action now to limit global warming, achieving 1.5° temperature rise by 2100 from pre-industrial levels or another scenario where sufficient action is not taken and global temperatures rise well above 2°. Scenario analysis will help us identify funds and assets that are most vulnerable to the impacts of climate change and the net-zero transition.

Transition alignment frameworks allow us to evaluate how well funds and assets are preparing for and performing on the pathway to net-zero. We will use

industry and peer best practices to develop our Just Transition Framework to assess our holdings, which is essential to ensure an equitable transition. We will draw on the Impact Investing Institute's Just Transition Criteria, a new framework to help investors develop financial products that deliver a fair and inclusive transition to Net Zero.

Over the next few years, we plan to undertake both types of climate assessments. This will enable us to identify risks, prioritize our engagements, invest only in new funds and direct investments that are committed to a net-zero economy and set our climate solutions and sector level targets.



Investment manager evaluations

We are developing a process to evaluate investment managers on net-zero maturity. We will integrate this net-zero evaluation into our existing manager impact assessment process, new manager due diligence and annual reporting requirements.

Just transition

As part of our assessments and evaluations—for assets, funds and managers—we will apply just transition principles and practices in a way that is consistent with our mission, vision and charitable practices. This will allow us to assess and monitor positive and negative outcomes for workers and communities associated with the transition to net-zero.

Transition frameworks

Transition alignment frameworks assess companies on their preparedness to transition to net-zero. Example frameworks include Transition Pathway Initiative and Climate Action 100+.

Net-zero maturity

Net-zero maturity is a term used to describe the depth and sophistication with which an investment manager considers climate risks and opportunities. This includes firm-level climate commitments and resources, pre- and post-investment climate analysis, capital stewardship and reporting.

Invest

We invest with impact

As of December 31, 2022, \$132 million CAD, or 20% of our investment portfolio was dedicated to impact investing.

We use the Global Impact Investing Network's (GIIN) definition for impact which is investments made with the intention to generate positive, measurable social and environmental impact alongside financial return.⁶

In February 2023, we announced our goal to transition our portfolio to 100% impact by 2028—that is, as market conditions evolve and more products become available, we aim to be investing 100% of our capital in solutions that support the creation of a resilient, inclusive, and sustainable society.

⁶ – <https://thegiin.org/impact-investing/>

Transitioning to a 100% impact portfolio is also an opportunity to invest in funds and companies that are aligned with our net-zero commitments.

We invest in climate solutions

As of December 31, 2022, we have invested a total of \$69 million CAD, or 9.7% of our investment portfolio, into climate solutions.

**Total CAD
invested in
climate
solutions**

\$69M

Examples of our investments in climate solutions include:

AlphaFixe Green Bond Fund

Green bonds finance all or part of projects that are aligned with the four core components of the Green Bond Principles.

MacKinnon, Bennett & Co. – MKB Partners Fund

Montreal based firm providing growth capital to companies at the forefront of innovation in next-generation energy and transportation sectors. Their mission is to accelerate the energy and transportation transformation while creating sustainable impact and attractive returns.

Cycle Capital Fund IV

Cycle Capital is a cleantech venture capital firm based in Montreal with a presence in Toronto, Qingdao China, New York and Seattle. The Firm focuses on early commercialization-stage businesses across sectors such as sustainable agriculture, green IoT, green chemistry, renewable energy and energy efficiency, sustainable transportation and smart cities.

For more information on these and other climate solutions investments, read our [Impact Report](#).

Towards net-zero

As we transition our portfolio to 100% impact, we will continue to invest in climate solutions. We will seek opportunities to allocate capital towards risk adjusted investments that support our net-zero commitment and just transition outcomes.

We currently screen out companies that derive 10% or more of their revenues from the production, distribution or retailing of fossil fuel products. With 3.8% of our endowment currently invested in these types of fossil fuel companies, we have committed to completely divest from these companies by the end of 2023.

As we invest our assets into impact funds and direct impact investments, we will incorporate our net-zero commitments, including our interim GHG emissions reductions targets, into both the due diligence and investment management processes. We will be reviewing various standards and taxonomies to further our understanding of what constitutes climate mitigation and adaptation activities within each sector and set a target for total investments in climate solutions in the coming year.

Climate Solutions

“Climate solutions are investments in economic activities that contribute substantially to climate change mitigation. These are solutions that reduce GHGs by avoiding emissions and/or by sequestering carbon dioxide already in the atmosphere, or investments in climate change adaptation that contribute to enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change.”

Source: The Net-Zero Asset Owner's Alliance (NZAOA)

Steward

Investors can drive change

Through stewardship, investors have a powerful opportunity to influence and drive change within investee organizations.

The Principles for Responsible Investing (PRI) defines stewardship as “the use of influence by institutional investors to maximize overall long-term value including the value of common economic, social and environmental assets, on which returns, and clients’ and beneficiaries’ interests depend.”

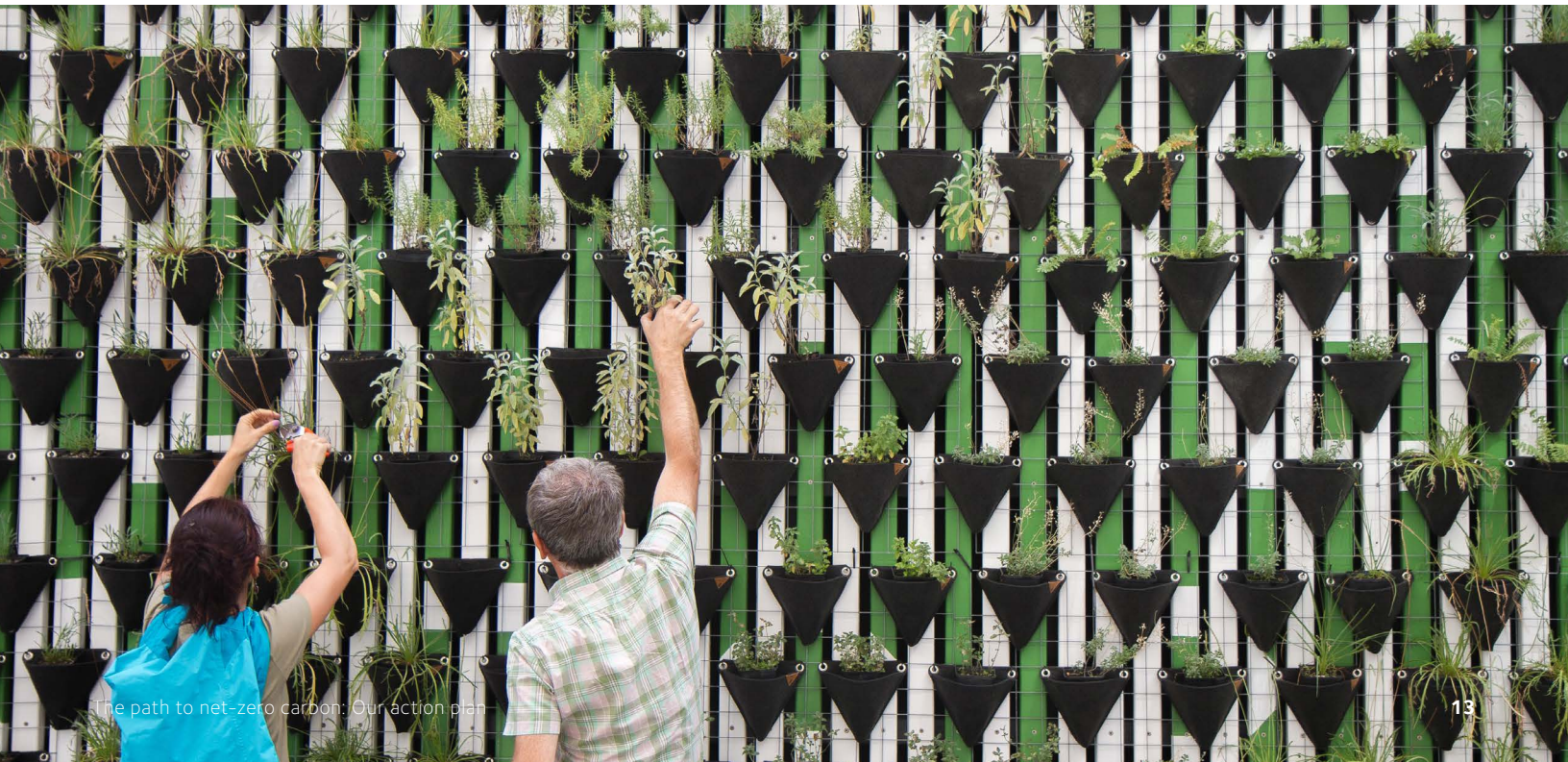
We will engage directly with fund managers

After assessing fund managers net-zero maturity, we will adopt a priority list of fund managers on which we will concentrate our efforts. As part of our route to net-zero, we will ensure all fund managers and industry partners are clear about our engagement efforts to advance a just transition.

We engage directly with investee organizations

We work with SHARE for our direct engagement activities. In the coming year, we will place special emphasis on our portfolio’s highest GHG emitters and set an engagement target for this. Our engagement target is an important part of our net-zero commitment.

We will also formalize our climate engagement strategy. This will include updating our proxy voting policy with climate stances in accordance with our commitment, increasing our voting activity and formalizing our escalation approach to be employed when companies and/or funds are not responding to our engagement efforts.



We collaborate for greater impact

We recognize that collaborative engagement with industry actors is key to the transition to a net-zero economy.

As a result, McConnell is a signatory and/or member of several climate commitments and groups that support climate action, including:

- **Shareholder Association for Research and Education (SHARE)**
- **The Canadian Investor Statement on Climate Change**

- **The Canadian Philanthropy Commitment on Climate Change**
- **Ceres Investor Network**
- **Confluence Philanthropy Climate Solutions Collaborative**
- **CREO**

To support just transition outcomes, we will continue to partner with other foundations and investors on collective engagement efforts related to climate change, diversity, equity & inclusion, and indigenous reconciliation.

Partnerships and industry engagement



Shareholder Association for Research and Education (SHARE) is a Canada-based shareholder engagement, advisory and research organization. We work with SHARE on engagement related to our Canadian equities' portfolio, which represents approximately 11% of our total portfolio.



The Canadian Investor Statement on Climate Change identifies actions organizations need to take to transition to a net-zero economy. As a signatory, McConnell has committed to integrating climate risks, developing a climate action plan, implementing a stewardship and engagement strategy (including policy and industry), and providing annual disclosures aligned with Taskforce for Carbon Related Financial Disclosure (TCFD).



Canadian Philanthropy
Commitment on Climate Change

The Canadian Philanthropy Commitment on Climate Change is a call to all Canadian foundations to act on climate change. As a signatory, McConnell has committed to implementing actions across seven pillars, including resources, advocacy, education and learning, and integrating climate considerations into our granting, investments and operations practices.



Ceres
Sustainability is the bottom line.

The Ceres Investor Network advances sustainable investment practices. It engages corporate leaders, and advocates for key policy and regulatory solutions to accelerate the transition to a just, sustainable, net-zero economy. McConnell hopes that by participating in this network, they will be part of larger investor movements.



CONFLUENCE PHILANTHROPY
OWN WHAT YOU OWN

The Confluence Philanthropy Climate Solutions Collaborative encourages values-aligned investors to be at the forefront of the necessary economic transition by deploying disruptive capital, empowering communities, and advocating for policies to advance a just transition. McConnell, alongside like foundations in North America, is learning how to become best in class climate investors.



CREO connects like-minded and aligned investors, facilitating information flow, and fostering collaboration to accelerate capital deployment at scale. As a member, McConnell has access to a global community of investors that provide opportunities to partner and invest in climate and sustainability solutions.

Communicate

At McConnell, we continue to improve transparency in all our work and are committed to being transparent about the impact that is, and is not, achieved across our investment portfolio.

We recognize that we are all in this together. We embrace collaboration and partnership, and we are committed to sharing our journey with stakeholders, peers and partners.

Through our annual **Year in Review** and Impact Investing Report, we will publicly disclose our portfolio's climate risks while updating stakeholders on investments that support the net-zero transition. We will also openly share information through webinars and conference engagements.

In accordance with Article 4.9 of the Paris Agreement, we commit to publishing our GHG reduction targets and reporting annually on our GHG emissions for both our operations and investment portfolio. We plan to publish our progress towards interim targets on a five-year cycle.

Our Board of Directors will annually review progress against our Climate Action Plan and our 100% impact investment commitment.



What's Next

We recognize the urgency to address the financial and physical risks of climate change. We anticipate that much of our progress up to 2030 will come from aligning our assets to our 100% impact investing strategy.

First and foremost, this will enable us to invest in climate solutions and funds that are clearly aligned with the targets set by the Paris Agreement. It will also enable us to invest in assets where we believe we can influence a more decisive shift towards a net-zero economy.

In the meantime, in addition to our GHG reduction targets for financed emissions, we will establish a net-zero plan for our operations. And by 2025, we will use our knowledge gained from our climate assessments and application of sector decarbonization pathways to set our sector level targets.

We thank all industry actors and groups, such as NZAOA and PAll, who continue to spearhead the net-zero movement and produce science-based recommendations and guidance on how asset owners can effectively be a part of this narrative. We are and will continue to review the opportunity of being a member of the Net Zero Asset Owners Alliance.



“We have reached a tipping point in the climate crisis. Urgent action is required from every sector of society to avoid the catastrophic climate-related risks posed to human and natural environments across Turtle Island and around the world. As a philanthropic foundation, it is our responsibility to both contribute to climate solutions, and to join the growing chorus of investors who are committed to reaching net zero-carbon by 2050 at the latest. Through this commitment, we hope to not only ensure that all our assets are working to advance our mission but that we are doing everything we can to combat the climate crisis.”

Lili-Anna Pereša

Chief Executive Officer



The McConnell Foundation

Suite 1800 – 1002 Sherbrooke Street West
Montreal, QC H3A 3L6
Phone: 514 288-2133
Fax: 514 288-1479

mcconnellfoundation.ca