# VPI SUSTAINABILITY LEADERS POOL

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

FOR THE PERIOD ENDED DECEMBER 31, 2023

### MANAGER

VALUE PARTNERS INVESTMENTS INC.

### PORTFOLIO MANAGER

VALUE PARTNERS INVESTMENTS INC.

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Pool. If you have not received a copy of the annual financial statements with this annual management report of fund performance, you may obtain a copy at your request, and at no cost, by calling toll-free at 1-866-323-4235, by writing to us at 300-175 Hargrave Street, R3C 3R8, by visiting our website at www.valuepartnersinvestments.ca or by visiting the SEDAR website at www.sedar.com. You may also contact us using one of these methods to request a copy of the Pool's interim financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

**Annual Management Discussion of Fund Performance**
March 14, 2024

**Investment Objective and Strategies**
VPI Sustainability Leaders Pool's objective is to generate longer term growth in value by investing primarily in equity securities of sustainable businesses located globally that make strong contributions to improve environmental and social outcomes and/or create products that have a positive environmental impact.

The Portfolio Manager focuses on long-term ownership of sustainable businesses that are making strong contributions to improving environmental and social outcomes of their business, the industries in which they operate and the communities they serve. This consists of businesses that have a focus on rapidly reducing their environmental footprint and the environmental footprint of customers or suppliers, and using their businesses to help local communities improve access to health care and improve diversity outcomes. To assess the levels of impact and ambition of a company's sustainability goals, the Portfolio Manager considers company-announced targets, relating such metrics to carbon emissions intensity reductions, water and waste reduction, diversity improvement, social and community improvement goals, and contributions to the United Nations Sustainable Development Goals. The Portfolio Manager tracks and evaluates these targets in comparison to the company's peers and looks to place more emphasis on metrics which are of more material impact for each individual industry. The importance of these targets may change over time in response to changing circumstances around the materiality of those targets.

The Portfolio Manager also focuses on businesses that create sustainable products which address several components within the full ecosystem of sustainability. This may include businesses that focus on clean energy infrastructure and low carbon fuels; electrification, energy efficiency and management; pollution and carbon emission reduction technologies; resource recovery and advanced recycling technologies; sustainable water infrastructure and water scarcity; ESG and sustainability data collection, information services and software; sustainable agriculture and food waste reduction; sustainable financing; and sustainable waste management and environmental services. These products address a number of long-term macro-economic themes and high areas of need within society.

**Risk**
Overall, the risks associated with investing in the Pool have not materially changed and remain as discussed in the prospectus. The Pool continues to be suitable for investors with a medium tolerance for risk.

Global equity markets were more constructive compared to 2022. Broad market indices posted positive returns for the year driven by declining inflation and low levels of unemployment despite rising interest rates.

At a high level, economic growth globally has remained resilient. However, there are pockets of weakness in sectors which hold longer duration assets and those who are more immediately impacted by higher interest rates. Most notably, the banking sector experienced high-profile failures related to asset and liability matching issues. This was compounded by the increased fragility of deposits due to digitization, especially at institutions with concentrated customer bases. Interest rates and elevated inflation are having an immediate impact on low-income consumers who continue to experience a cost-of-living crisis. The Portfolio Manager aims to protect against these risks by focusing on durable businesses with strong balance sheets in essential industries.

**Risk (continued)**
The Portfolio Manager continues to observe exceptional weakness in China, a region which has contributed greatly to global growth over the last few decades and consumes a substantial portion of global commodity output. Elevated debt levels in the real estate sector, a significant driver of China's economic growth, have finally come to a head. Many globally companies rely heavily on China as a consumer market and for manufacturing needs. The Portfolio Manager has avoided and continues to avoid companies who are overly reliant on the region for their success.

Central banks are slowing the pace of interest rate increases, recognizing their lagging effect on the economy. The relative opportunity in equity markets has declined since last year as valuations have risen despite higher interest rates. The Portfolio Manager believes that valuation of equities in the United States remain less attractive compared to other regions around the globe and continues to look for opportunities best suited for the Pool.

**Results of Operations**
The Pool began operations on June 28, 2023. Since that time, net assets for the Pool increased by approximately $14 million for the period ended December 31, 2023. This increase was primarily due to net sales of $1.3 million and a $71 thousand increase in net assets from operations. This was offset by $6 thousand of distributions to unitholders.

Once operational, the Portfolio Manager established a portfolio of holdings for the Pool and has been continuously investing proceeds from net sales in each of the respective holdings.

Each series of the Pool experienced gains in the range of 4.7% to 7.4% for the year, slightly below the 8.1% return of the MSCI World ESG Leaders Total Return Index (CAD$), (the "Benchmark"). The Pool underperformed the Benchmark primarily due to underweighting of the United States which constituted a weight of 38% in the Pool compared to the Benchmark's 68%, and an underweighting of Japan which constituted a weight of 6.5% compared to 0% in the Pool. The effect of these country underweights was partially offset by higher allocation to Europe.

Top contributors to Pool performance among individual securities included Intel, Alphabet and Schneider Electric. The top detractors from performance were Algonquin Power & Utilities, United Parcel Service and Becton Dickinson. Top contributors to benchmark returns, which were not held by the Pool, included Nvidia, Eli Lilly, and Novo Nordisk. While the Portfolio Manager recognizes the strength of these businesses not held within the Pool, they are far from meeting the Pool's criteria with respect to valuation. Shares of these companies traded at an average price to earnings valuation of 64.4x over the period while also carrying elevated single product risks.

The Portfolio Manager remains focused on maintaining discipline by paying reasonable prices for the quality businesses.

On climate related performance, greenhouse gas scope 1 and 2 emissions intensity (emissions generated by the business and their energy use) declined by an average of 17.1% for holdings within the Pool in the last reporting period*. The total impact of this reduction was approximately 40 million tons of carbon equivalent emissions. This is equivalent to removing nine million cars from the road. All but two holdings reduced their emissions on an absolute basis in the year. On an absolute basis, the most notable decrease in emissions was from Intel and on a percentage basis was Sun Life Financial.

**Results of Operations (continued)**
Companies held in the Pool offer critical technologies which help other businesses reduce their emissions. This not only has a positive impact on the environment in reducing pollution but is a driver of growth for many businesses in the Pool. In 2023, Schneider Electric, Honeywell International, Siemens Aktiengesellschaft, and Waste Management, Inc reported that products sold by their businesses had an impact of reducing emissions for their customers by 385 million tons of greenhouse gases in the most recent reporting period, equivalent to removing 84 million cars from the road.

The Pool also looks to hold companies that are focused on reliable localized low carbon energy sources. In the last reporting period, an average of 62% of electricity purchased and consumed by companies held in the Pool was from renewable energy sources either through on-site production or power purchase agreements. This is equivalent to 13.9 million homes worth of power. Intel was the largest purchaser of renewable energy at 83.7 MWh of electricity or 7.8 million homes worth of power.

Banks held within the Pool continue to have the among the lowest exposure to fossil fuel lending exposure in North America at 0.6% of gross loans and acceptances outstanding as of fiscal year end 2023. They remain on track to meet their net zero lending commitments. In the last reporting period, they provided CA$211.6 billion in sustainable financing to help facilitate a more sustainable future. This makes for a cumulative CA$649.4 billion in sustainable financing, remaining on track to meet their aggregate individual targets of CA$1.1 trillion.

The Portfolio Manager also monitors diversity within the businesses the Pool holds. At the end of the last reporting period, 42% of the board directors were women and 89% have detailed targets to improve diversity in some capacity within their businesses.

In aggregate, healthcare businesses within the Pool provided access to 392 million people in the last reporting period through product donation and access programs. These businesses also invested US$25B in research and development. These investments are essential for solving some of the world's most challenging issues in human and animal health.

There were no divestments related to sustainability performance in the period. The policy for the Pool is to exclude companies whose primary activities (defined as over 5% of total annual company revenue) are tobacco, weapons, firearms, and extraction or production of fossil fuels.

*Note all references to "the last reporting period" refers to the last period in which all companies reported their sustainability performance which in this period is 2022. Scope 1 and 2 emissions intensity reduction is calculated as a weighted average using portfolio weights. We use the US Environmental Protection Agency estimate of 4.6 metric tons of C02 per year for calculating equivalent passenger vehicle emissions. Homes of power considers 10,791 kilowatt-hours of electricity use annually per home as estimated by the U.S. Energy Information Administration.

**Revenues and Expenses**
Revenues of the Pool amounted to $9 thousand, which can be attributed to dividend and interest income from its holdings. The Pool experienced $65 thousand in unrealized appreciation in the value of its investments and realized gains on the sale of investments of $3 thousand. The Pool also incurred $6 thousand in management fees and operating expenses net of $73 thousand of expenses absorbed by the Value Partners Investments Inc. (the "Manager").

**Recent Developments**
*Economic Conditions*
In 2023, central banks continued the rapid pace of interest rate increases not seen in decades. These actions aimed to alleviate the burden of inflation stemming from pandemic related supply chain issues and government spending programs. Despite a significant improvement in inflation over the year, caution is warranted as inflation tends to be stickier and more difficult to remove from the economy than many expect.

Over the last eighteen months, the U.S Federal Funds rate moved from near zero (0.5%) to 5.5%. In effect, much of the world has moved from an environment where capital came at virtually no cost and investments were made with little skepticism into a normalized environment which will inevitably demand higher discount rates and more skepticism. This marks a paradigm shift. Not only from the last decade of abnormally low rates, but the last four decades of declining rates which had a natural effect of increasing asset values. What has worked for many in the past may no longer work going forward. Transitions like these are typically met with fits and starts. Investors are creatures of habit, typically attempting to hang onto their paradigm, buying what has worked in the past only to inevitably experience disappointment. Within the business environment, many businesses and consumers were not prepared for the dramatic increase in interest rates from abnormally low levels. The impacts of this have yet to be fully borne on the economy as interest rate increases typically have a delayed impact.

Given these factors, the Portfolio Manager believes caution is warranted. The Portfolio Manager believes that the best approach in these periods is to remain disciplined on the price paid, the quality of businesses owned, and the importance of remaining diversified. The Portfolio Manager is looking to own a collection of attractively valued and resilient businesses which carry inherent characteristics that allow them to grow over time but also do not rely on the same outcomes for achieving that growth. Risk is what is left over after one has thought of everything and overconcentration in a particular area exposes investors to unforeseen risks in this type of environment.

Despite these challenges, there remain good opportunities. Specific to the Pool, the Portfolio Manager remains optimistic about long-term prospects related to a need for more sustainable business practices. The imperative to decarbonize the economy, grow electrification, and circularity among other sustainable developments offers strong growth opportunities for the businesses owned. Additionally, the Portfolio Manager is optimistic about prospects in health care and technology, which should remain durable creators of value over the coming decades driven by an aging population, innovation, productivity gains, and artificial intelligence. The Portfolio Manager remains defensive in positioning, owning durable businesses, most of which do not rely on growth in the economy to grow their own business.

*Change in Ownership*
On September 8, 2023, Great-West Lifeco Inc. and a wholly owned subsidiary of The Canada Life Assurance Company, 14894821 Canada Inc. acquired all the issued and outstanding shares of Value Partners Group Inc. ("VPGI"), the parent company of Value Partners Investments Inc. (the "Manager"), from the previous shareholders of VPGI ("the acquisition"). As a result of the acquisition, there was a change in control of the Manager of the Pool.

**Portfolio Allocation**

| | | | |
|---|---|---|---|
| US Equities | 38.9% | Cash | 9.0% |
| Offshore Equities | 27.8% | Liabilities, Less Other Assets | -2.1% |
| Canadian Equities | 26.4% | | |

**Sector Allocation**

| | | | |
|---|---|---|---|
| Capital Goods | 13.1% | Telecommunication Services | 4.3% |
| Banks | 9.8% | Technology Hardware and Equipment | 4.2% |
| Cash | 9.0% | Household and Personal Products | 3.8% |
| Pharmaceuticals and Life Sciences | 9.0% | Insurance | 3.5% |
| Software and Services | 7.9% | Semiconductors and Equipment | 3.4% |
| Health Care Equipment | 7.8% | Automobiles and Components | 2.8% |
| Utilities | 6.8% | Commercial and Professional Services | 2.8% |
| Transportation | 6.4% | Consumer Staples Distribution and Retail | 2.5% |
| Media and Entertainment | 5.0% | Liabilities, Less Other Assets | -2.1% |

**Top 25 Holdings**

| Issuer | Percentage of Net Assets |
|---|---|
| Cash | 9.0% |
| Alphabet Inc., Class A | 5.0% |
| Honeywell International Inc. | 4.7% |
| Deutsche Telekom AG | 4.3% |
| SAP SE | 4.3% |
| Cisco Systems, Inc. | 4.2% |
| Schneider Electric S.E. | 4.2% |
| Siemens Aktiengesellschaft | 4.2% |
| Canadian National Railway Company | 4.0% |
| Novartis AG | 4.0% |
| Becton, Dickinson, and Company | 3.9% |
| CVS Health Corporation | 3.8% |
| Unilever PLC | 3.8% |
| Royal Bank of Canada | 3.7% |
| Microsoft Corporation | 3.6% |
| Bank of Montreal | 3.5% |
| Sun Life Financial Inc. | 3.5% |
| Intel Corporation | 3.4% |
| Enel SpA | 3.0% |
| Danaher Corporation | 2.9% |
| Magna International Inc. | 2.8% |
| Canadian Imperial Bank of Commerce | 2.6% |
| Waste Management, Inc. | 2.5% |
| Loblaw Companies Limited | 2.4% |
| United Parcel Service, Inc., Class B | 2.4% |
| **Total** | **95.7%** |

*The above summary of investment portfolio may change due to ongoing portfolio transactions of the Pool. An update will be made available within 60 days of each subsequent quarter-end.*

**Past Performance**
Past performance for the Pool has not been provided as the Pool has only been operating since June 28, 2023.

**Management Fees**
The Pool pays an annual management fee on each of its series (excluding Series I & Series O) to the Manager. The management fee is calculated daily as a percentage of the net asset value of each series as of the close of business on each business day. In consideration for the management fees, the Manager may pay a percentage sales commission and/or trailing commission to registered dealers or brokers for units bought and held in the Pool depending on which series of units were purchased. The Manager also pays a portion of the management fee to the Portfolio Manager for its services in managing the investment portfolio. Series O units of the Pool pay a portfolio management fee based on a percentage of the net asset value of Series O units as of the close of business on each business day calculated at a rate of 0.20% annually.

For the period ended December 31, 2023, approximately 26% of the management fee revenues received by the Manager from the Pool were paid to registered dealers and brokers as sales and/or trailing commissions. Since each series may have a different commission structure, this percentage may vary by series. For unitholders eligible for the Management Fee Reduction Program, approximately 14% of the gross management fees were returned to unitholders as management fee rebates. The remainder of the management fee revenue, after payment of fees to the Portfolio Manager for its services, was retained by the Manager for corporate purposes.

**Related Party Transactions**
Value Partners Investments Inc. is the manager of the Pool and is responsible for the overall business and operations of the Pool. For the period ended December 31, 2023, the Pool paid $3 thousand in management fees (excluding taxes) to the Manager. In addition, parent company of the Manager held 1 Series A unit, 15,135 Series F units, 1 Series I unit and 1 Series O unit as of December 31, 2023.

**Financial Highlights**

The following tables show selected key financial information about each series of the Pool and are intended to help you understand the Pool's financial performance for the current period ended December 31. This information is derived from the Pool's audited annual financial statements and is not intended to be a reconciliation of the net asset value per unit.

**The Pool's Net Assets Per Unit ($)(1)**

| **Series A** | **December 31 2023** |
|---|---|
| **Net assets, beginning of period(4)** | **10.00** |
| **Increase (decrease) from operations:** | |
| Total revenue | 0.15 |
| Total expenses | (0.12) |
| Realized gains (losses) for the period | 0.05 |
| Unrealized gains (losses) for the period | 0.92 |
| **Total increase (decrease) from operations (2)** | **1.00** |
| **Distributions:** | |
| From net investment income (excluding dividends) | - |
| From dividends | - |
| From capital gains | (0.02) |
| Return of capital | - |
| **Total annual distributions (3)** | **(0.02)** |
| **Net assets, end of period** | **10.53** |

| **Series F** | **December 31 2023** |
|---|---|
| **Net assets, beginning of period(4)** | **10.00** |
| **Increase (decrease) from operations:** | |
| Total revenue | 0.10 |
| Total expenses | (0.08) |
| Realized gains (losses) for the period | 0.03 |
| Unrealized gains (losses) for the period | 0.84 |
| **Total increase (decrease) from operations (2)** | **0.89** |
| **Distributions:** | |
| From net investment income (excluding dividends) | (0.01) |
| From dividends | (0.04) |
| From capital gains | (0.02) |
| Return of capital | - |
| **Total annual distributions (3)** | **(0.07)** |
| **Net assets, end of period** | **10.53** |

## Financial Highlights (continued)

| Series I | December 31 2023 |
| --- | --- |
| **Net assets, beginning of period[4]** | **10.00** |
| **Increase (decrease) from operations:** | |
| Total revenue | 0.03 |
| Total expenses | - |
| Realized gains (losses) for the period | 0.03 |
| Unrealized gains (losses) for the period | 0.89 |
| **Total increase (decrease) from operations [2]** | **0.95** |
| **Distributions:** | |
| From net investment income (excluding dividends) | - |
| From dividends | (0.01) |
| From capital gains | (0.02) |
| Return of capital | - |
| **Total annual distributions [3]** | **(0.03)** |
| **Net assets, end of period** | **10.72** |

| Series O | December 31 2023 |
| --- | --- |
| **Net assets, beginning of period[4]** | **10.00** |
| **Increase (decrease) from operations:** | |
| Total revenue | 0.85 |
| Total expenses | (0.70) |
| Realized gains (losses) for the period | 0.28 |
| Unrealized gains (losses) for the period | (0.44) |
| **Total increase (decrease) from operations [2]** | **-** |
| **Distributions:** | |
| From net investment income (excluding dividends) | (0.03) |
| From dividends | (0.13) |
| From capital gains | (0.02) |
| Return of capital | - |
| **Total annual distributions [3]** | **(0.18)** |
| **Net assets, end of period** | **10.28** |

*(1) This information is derived from the Pool's audited annual financial statements.*
*(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.*
*(3) Distributions were paid in cash/reinvested in additional units of the Pool, or both.*
*(4) The Pool began operations on June 28, 2023*

**Ratios and Supplemental Data**

| Series A | December 31 2023 |
|---|---|
| Total net asset value (000's) (1) | $450 |
| Number of units outstanding (000's) (1) | 43 |
| Management expense ratio (2) | 2.25% |
| Management expense ratio before waivers or absorptions | 16.65% |
| Trading expense ratio (3) | 0.11% |
| Portfolio turnover rate (4) | 3.98% |
| Net asset value per unit (1) | $10.53 |

| Series F | December 31 2023 |
|---|---|
| Total net asset value (000's) (1) | $583 |
| Number of units outstanding (000's) (1) | 55 |
| Management expense ratio (2) | 1.35% |
| Management expense ratio before waivers or absorptions | 22.64% |
| Trading expense ratio (3) | 0.11% |
| Portfolio turnover rate (4) | 3.98% |
| Net asset value per unit (1) | $10.53 |

| Series I | December 31 2023 |
|---|---|
| Total net asset value (000's) (1) | $359 |
| Number of units outstanding (000's) (1) | 33 |
| Management expense ratio (2) | 0.00% |
| Management expense ratio before waivers or absorptions | 16.26% |
| Trading expense ratio (3) | 0.11% |
| Portfolio turnover rate (4) | 3.98% |
| Net asset value per unit (1) | $10.72 |

Series O has not been included given the only unit issued was held by the parent company of the Manager as at December 31, 2023. Therefore, there is no applicable information to include in Ratios and Supplemental Data for Series O.

*(1) This information is provided as at the date shown.*
*(2) Management expense ratio is based on total expenses for the stated period (excluding distributions, commissions and other portfolio transaction costs) and is expressed as an annualized percentage of daily average net assets during the period. In the period a series is established, the management expense ratio is annualized from the date of inception to December 31.*
*(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.*
*(4) The Pool's portfolio turnover rate indicates how actively the Pool's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Pool buying and selling all of the securities in its portfolio once in the course of the year. The higher the Pool's portfolio turnover rate in a year, the greater the trading costs payable by the Pool in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Pool*

**Forward-Looking Statements**

*This report may contain forward-looking statements about the Pool, including its strategy, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Pool action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Pool and economic factors.*

*Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Pool. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.*

*We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Pool has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.*