

Green Bond Framework

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1. Introduction

At Caisse de dépôt et placement du Québec (CDPQ), we believe that environmental, social and governance matters should be seen as opportunities to generate sustainable growth that benefits everyone.

Sustainable investments fit naturally into CDPQ's mission which seeks to actively support the transition towards a sustainable economy through its investments and influence while optimizing the return on depositors' funds and contributing to Québec's economic development.

In over half a century of existence, CDPQ has evolved from a local asset manager to a world-class investor with offices around the globe, managing assets for over 40 depositors, most of them being public-pension and insurance funds. Investing in clients' funds worldwide and targeting high-quality assets rooted in the real economy, from Real Estate and Infrastructure to Public Markets and Private Equity, CDPQ has also adopted a strategy focused on sustainability to reinforce an investment approach based on long-term fundamentals rather than short-term volatility.

CDPQ's sustainability journey started in 1994 with the publication of our proxy voting policy with the goal of building our influence and promoting best practices within publicly listed companies. In 2004, we published our first responsible investment strategy and two years later became a founding member of the United Nation's Principles for Responsible Investment.

In 2017, we published a unique climate change strategy and became one of the first institutional investors to measure its carbon footprint across asset classes, set targets to increase low-carbon investments and reduce the overall carbon intensity of our portfolio. Our investment strategy to address climate change is built around four pillars:

- Factoring in climate change considerations into each of our investment decisions;
- Increasing our low-carbon investments by 80% between 2017 and 2020;
- Reducing our carbon footprint per dollar invested by 25% between 2017 and 2025; and
- Exercising stronger climate leadership within the industry and through dialogue with the companies in our portfolio.

In 2019, the target set for 2020 (low-carbon assets) was reached with investments totaling \$34 billion, representing a 95%-increase since 2017.

In 2019, we became a founding member of the United Nations-convened Net-Zero Asset Owner Alliance, making a strong commitment to transition our investment portfolios to net-zero greenhouse gas (GHG) emissions by 2050.

The development of a Green Bond Framework and the subsequent issuances of Green Bonds in accordance with this framework is thus fully complementary with CDPQ's commitment and strategy to address climate change and provide a positive contribution to our global funding strategy. As such, this constitutes a milestone in the development of CDPQ's sustainable strategy.

2. CDPQ's Green Bond Framework

CDPQ's Green Bond Framework is aligned with the following four core components of the Green Bond Principles (GBP) overseen by the International Capital Markets Association (ICMA):

1. Use of Proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting

The Green Bond Framework serves as the reference document for the Green Bonds issued by CDP Financial Inc., a wholly owned subsidiary of CDPQ.

2.1. Use of Proceeds

An amount equal to the net proceeds of the Notes under this Green Bond Framework will be allocated towards a selection of investments ("the Eligible Investments") in line with the GBP's eligible project categories and/or the Climate Bonds Initiative's (CBI) Sector Criteria. Investments may also include loans to and direct investments in companies that derive at least 90% of their revenues from the eligible investment categories. Eligible Investments categories include:

1. Renewable energy
2. Clean transportation
3. Energy efficiency
4. Pollution prevention and control
5. Sustainable water and wastewater management
6. Forest, agricultural land and land management

The financing of Eligible Investments is expected to create environmental benefits by, for instance, enabling reduction in GHG emissions and energy consumption.

Eligible Investments shall meet thresholds defined by the associated Climate Bonds Standard Sector Criteria and Climate Bond Taxonomy as of March 2021¹. CDPQ's eligibility thresholds will maintain compliance with future Climate Bonds Standard Sector Criteria and Taxonomy, and any adjustments made after March 2021 will supersede the thresholds identified below. The table below presents examples of activities for each eligible investment category.

¹ <https://www.climatebonds.net/standard/taxonomy>

Eligible investment category	Examples of eligible activities	Environmental objectives
<p>Renewable energy</p>	<p>Acquisition and development of and/or upgrades to facilities and supporting equipment for the generation of electricity from renewable sources including wind, solar, marine renewable energy, geothermal and hydropower as defined by the associated Climate Bonds Standard Sector Criteria and Taxonomy. Direct emissions of eligible geothermal projects will be less than 100g CO₂/kWh. Eligible hydropower projects in operation before 2020 must have a power density of over 5 W/m² or operate with lifecycle emissions below a threshold of 100g CO₂e/kWh. Eligible hydropower projects in operation in 2020 or after must have a power density of over 10 W/m² or operate with lifecycle emissions below a threshold of 50g CO₂e/kWh. Projects must meet additional assessments based on recognized best practice guidelines, of environmental and social risks and incorporate measures to address risks.</p> <p>Eligible activities may also include infrastructure supporting the integration of renewable energy or energy efficiency systems and their load balancing, if at least 90% of electricity from renewable sources.</p>	<p>Increasing low-carbon, renewable energy production</p>
<p>Clean transportation</p>	<p>Eligible expenditures are related to the construction, ownership and operation of low-carbon passenger and freight transportation along with supporting infrastructure.</p> <ul style="list-style-type: none"> • Construction expenditures may include dedicated facilities and expenditures related to the production of low-carbon vehicles and rolling stock, as well as key components, such as batteries used for eligible vehicles. • Ownership and operation expenditures are related to the acquisition and maintenance of and/or upgrade to infrastructure for low-carbon transportation, including, for example, procurement of eligible vehicles or electric vehicle charging stations. • Eligible vehicles and passenger transport systems meet CBI gCO₂ /p-km (passenger-kilometre) threshold: <ul style="list-style-type: none"> • For rail transport: freight and passenger electric rolling stock emit less than 25 grams of CO₂ per ton-kilometre (gCO₂/t-km). • Low-carbon vehicle fleets (hybrid and electric vehicles) emitting less than 50 grams of CO₂ per passenger-kilometre (gCO₂/p-km) for passenger vehicles. 	<p>Contributing to the reduction of GHG emissions from road and rail transportation</p>

Eligible investment category	Examples of eligible activities	Environmental objectives
Energy efficiency	<p>Development and distribution of and/or upgrades to equipment or technology which result in energy savings of at least 20%, such as:</p> <ul style="list-style-type: none"> • Smart grid; • District heating projects, excluding those from fossil fuel generation, and cooling; • Energy storage; and • Efficient lighting. <p>Heating/cooling, and co-generation facilities using biomass or biofuel must be 80% lower than fossil fuel baseline and the energy efficiency achieved must be at least 80%. Biomass/biofuel must be sourced from certified sustainable feedstocks under approved best practices standards, such as RSB, RTRS, FSC, and ISCC Plus, that protect biodiversity and neither deplete existing terrestrial carbon pools nor compete with food production.</p>	Increasing energy savings contributing to the reduction of GHG emissions
Pollution prevention and control	<p>Development, construction and maintenance of:</p> <ul style="list-style-type: none"> • Waste management activities such as waste prevention, waste reduction and waste recycling • Equipment or technologies aiming at significantly reducing air emissions and GHG and limited to direct air capture. 	Fostering pollution reduction and the development of a circular economy
Sustainable water and wastewater management	<p>Development and construction of and/or upgrades to water infrastructure, such as:</p> <ul style="list-style-type: none"> • Water network and equipment for efficient water supply, distribution and storage. • Water treatment and rainwater harvesting. 	<p>Improving the efficiency of water distribution and water recycling services</p> <p>Contributing to the quality of natural environments</p>
Forest, agricultural land and land management	<p>Eligible projects may include costs associated with reforestation, sustainable forest management and natural forests, demonstrating significant carbon sequestration, reduction in emissions and/or compatibility with low carbon agriculture targets.</p> <p>CDPQ will select investments that have a net positive impact and rely on international labelling and certification systems for all eligible sustainable forestry projects to verify compliance, such as FSC, PEFC or equivalent international certification standards.</p> <p>Eligible projects may also include:</p> <ul style="list-style-type: none"> • Sustainable agricultural land management – including land used to produce crops, agroforestry and silvopastoral systems, and pastureland. Expenditures directly related to livestock production will be excluded. • Specialized machinery (not general-purpose road vehicles) and equipment to manage and cultivate eligible forested land. • Associated management, information systems and other technologies supporting precision agriculture and resource efficiency. 	Delivering substantial carbon sequestration capacity, reducing GHG emissions, and improving climate resilience

EXCLUSIONARY CRITERIA

Certain activities will be automatically excluded under this Framework due to their potentially controversial or negative environmental and/or social impact, such as:

- Nuclear power generation;
- Weapons and munitions;
- Fossil fuels; and
- Tobacco.

Furthermore, and in alignment with the Climate Bonds Standard Forestry Sector Criteria, carbon stocks and the general health of forests or other habitats are maintained through good management practices and the projects do not lead to natural landscape conversion.

2.2. Process for Project Selection and Evaluation

To ensure a robust process for project selection and evaluation, a Green Bond working group has been created and will meet regularly. The group is composed of key members from various teams, including the climate risks and issues, investment stewardship, treasury, asset management, legal affairs and public affairs and is chaired by a member of the treasury team. The composition of the group may change over time and other members may be added when necessary.

The role of the working group is to evaluate and select Eligible Investments. The list of Eligible Investments will then be submitted for final approval to the Liquidity and Funding Management Committee, chaired by the Chief Financial and Operations Officer.

Eligible Investments include investments that comply with the eligibility criteria as defined by this Framework and that have been funded by CDPQ or any of its wholly owned subsidiaries within 24 months preceding the date of the Green Bond Issuance.

The Green Bond working group will monitor the Eligible Investments during the life of the transaction. If any Eligible Investment exits CDPQ's portfolio or ceases to fulfil the eligibility criteria, the working group will substitute the asset with replacement Eligible Investments that comply with the eligibility criteria in a best effort basis.

The Green Bond working group will also approve allocations of net proceeds and manage any future updates to the Framework. If updates are made to any of the Framework's core components, CDPQ will secure an updated Second Party Opinion.

2.3. Management of Proceeds

An amount equivalent to the Green Bond net proceeds will be allocated for disbursements to Eligible Investments.

The Green Bond net proceeds will finance Eligible Investments and any future commitments for those investments or refinance a maturing green bond issued in compliance with this Framework.

The treasury department will maintain a Green Bond Register, that will be reviewed annually by the Green Bond working group. It will contain all the relevant information concerning the use of proceeds of each Green Bond issuance, including among other things, Eligible Investments names, categories as well as the allocation amounts.

Pending full allocation, unallocated proceeds may temporarily be invested in high quality liquid assets in the form of government bonds, money market securities and/or cash.

CDPQ intends to allocate its Green Bond net proceeds within one year following the Green Bond issuance.

2.4. Reporting

CDPQ will publish an annual Green Bond report until full allocation of the proceeds. In case of material developments, CDPQ will publish an updated Green Bond report in a timely basis. The reporting document will be made available on CDPQ's website.

CDPQ's Green Bond report will provide at a minimum the following information:

1. A list of the Eligible Investments including amount of proceeds allocated, in aggregate and per Eligible Investment category
2. Share of financing versus refinancing
3. Amount of unallocated proceeds (if any)
4. Aggregated relevant quantitative impact measures
5. Relevant quantitative and qualitative performance descriptions, on a selection of Eligible Investments, subject to confidentiality considerations

Aggregated relevant quantitative impact measures may include (i) renewable energy generated or decrease in water use (ii) annual energy saved and GHG emissions reduced or avoided (iii) number of people provided with access to clean power, etc.

3. External Review

3.1. Second Party Opinion

CDPQ has obtained an independent Second Party Opinion from *Sustainalytics* on its Green Bond Framework, to confirm the alignment of the Framework to the ICMA's Green Bond Principles.

The Second Party Opinion document is available on *Sustainalytics*' website² and on CDPQ's website³.

3.2. Post-issuance external verification

An external verification of the allocation of the Green Bond proceeds will be carried out by CDPQ's external auditor on an annual basis, until the complete allocation of proceeds.

The auditor will verify that the proceeds of the bonds are either allocated to Eligible Investments or invested in approved financial instruments.

² <https://www.sustainalytics.com/sustainable-finance/our-work/>

³ <https://www.cdpq.com/en/investor-relations>