NEI

» DEMAND MORE. WE DO.

FOCUS LIST 2022

A guide to our ESG themes and the companies we're talking to this year

OUR GOAL IS TO PROTECT SHAREHOLDER VALUE WHILE ADVOCATING FOR COMPANIES' ACCOUNTABILITY TO ALL STAKEHOLDERS.

We believe the most effective way to achieve that goal is by exercising our rights as shareholders using three powerful tools: corporate dialogue, proxy voting, and shareholder proposals. These tools comprise our active ownership program, sometimes also referred to as corporate engagement.

We talk directly with companies, alerting them to the environmental, social, and governance risks they face. We encourage them to improve their ESG performance and where possible, we influence how they are run.

Our approach to active ownership incorporates internationally recognized principles and frameworks such as the Principles for Responsible Investment, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines, and the UN Sustainable Development Goals.

Beyond active ownership lies policy advocacy. Engaging on policy and standards in Canada and globally enables us to create system-wide change. Whether we are talking with policymakers, regulators, standard setters, or industry associations, the time and energy we dedicate to this area can raise the bar for everyone.

In this document you will find:

- a summary of our key areas of focus for the year
- a list of the companies we will engage
- an overview of our expected policy activities

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INTRODUCTION

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It's not always easy for us to see how we can each contribute to making change.

The systemic problems of our time are so deeply ingrained, we often feel overwhelmed. We think it's too much for one person, community, investor, or company to take on. But we all have a role to play, and by working together we can create meaningful impact. That way we can connect our individual action to the goal we collectively want to see.

The pandemic has unveiled deep rooted, pre-existing systemic problems: labour and gender inequality, racism, poor access to healthcare, disregard for the environment, and a lack of basic human rights—all of which now feel more visceral, and somehow even more self-evident. In the midst of this we would argue that the quality of our communication has eroded. In this increasingly virtual world we struggle with divisiveness, polarization, and growing discord. Our ability to have difficult yet necessary conversations is increasingly in peril. Yet, our need to find and foster systemic solutions requires the very opposite. It takes active discussion. Constructive dispute. Collaborative problem solving.

If we are to move toward shaping solutions, perhaps we already know the tonic we need. Perhaps it lies in bridging divides and fostering collaboration. It means approaching differences with respect, building trust, and embracing shared goals. It means that often, listening is more important than talking.

This is why we believe we must lean into our active ownership and policy advocacy now more than ever. Active ownership and policy advocacy, when done right, bear all the above hallmarks. They are rooted in collaboration and a desire to find mutually beneficial outcomes to often wickedly complex problems.

But to be successful we need companies, regulators, and policymakers to meet us halfway, and there is a wide disparity in approaches. Some are embracing the benefits of robust dialogue with investors and other stakeholders and are proactive in soliciting different perspectives. On the corporate side however, some companies are becoming alarmingly more insular, often using the pretext of the pandemic and the shift to virtual communication to avoid two-way conversation. The only successful path forward is one where we actively listen to each other, for the world is simply too complex to go it alone.

We continue to favour multi-stakeholder collaborations and engagement in our active ownership and policy advocacy efforts, and we continue to believe in the power of dialogue. The ever-growing spotlight that shines on the systemic challenges in our society makes them harder to ignore, and we hope that 2022 brings a renewed sense of shared cause from companies and investors alike.

SUMMARY OF FOCUS THEMES

We have identified nine UN Sustainable Development Goals (SDGs) that most directly inform our themes and will guide our corporate dialogues for 2022:

When a company appears on our list it does not necessarily mean they are behind their peers on ESG issues. In fact, the opposite may be true—some companies on our list we consider to be leaders in certain areas. We engage them to support and contribute to their ongoing improvement, and to encourage them to help facilitate positive change within their respective industries.

1. HUMAN RIGHTS

Human rights are the backbone of our society and underpin our perspectives on fairness and equity, so it should be no surprise the topic remains a central theme of our engagements. With Russia's invasion of Ukraine, we have reached a new level of urgency. The areas that will centre many of our dialogues this year are human rights in the supply chain and digital rights. Companies in focus include **Amazon**, **Meta**, and **Walmart**.

2. INEQUALITY

We have long considered the implications of systemic inequality on communities, the workforce, and the business landscape. We will continue to prioritize the issue in our dialogues, with special attention this year on the following four areas: human capital; diversity, equity, and inclusion; equitable compensation; and equitable access. Companies in focus include **Johnson & Johnson**, **Microsoft**, and **Pfizer**.

3. NET-ZERO ALIGNMENT

Last year was a momentous year for the fight against climate change. We anticipate that 2022 will be yet another year of significant change, therefore the energy transition and net-zero ambitions will be core to our engagement activities. Our two key areas of interest this year are net-zero commitments and transition plans, and circularity. Companies in focus include **Magna International**, **Canadian Natural Resources**, and Canada's banks.

4. BIODIVERSITY

As we head into 2022, the imperative to address biodiversity loss and the move to reverse it has only quickened. We have elevated biodiversity to be a major theme of our engagement program this year, with the intention to home in on two key areas: impact and dependency assessment, and deforestation. Companies in focus include **Empire Company**, **Loblaw Companies**, and Canada's banks.

1 HUMAN RIGHTS

Human rights are the backbone of our society and underpin our perspectives on fairness and equity, so it should be no surprise the topic remains a central theme of our engagements.

Businesses benefit from operating in markets where human rights are respected, and they too have their role to play in ensuring those rights are upheld. As a responsible investor, it's *our* role to embed respect for human rights into our investment approach and to ensure our expectations of companies are clear.

2021 marked a decade since the implementation of the UN Guiding Principles on Business and Human Rights (UNGPs), one of the frameworks we continually refer to in our engagements. It remains as relevant as ever, along with other international covenants and standards that we commit to in our Responsible Investment Policy (pdf), helping to frame the expectations we have of corporations' role in society.

We are a member of the advisory committee of the Investor Alliance for Human Rights (IAHR) and an active investor in the Interfaith Center on Corporate Responsibility, two entities with a longstanding focus on supporting investors' dialogues with companies on human rights. Through these and other collaborations, such as the PRI's most recent efforts to foster investor collaboration, we intend to continue our work with other investors who hold human rights as a central tenet of their investment approach. We know that capital influences society. We believe that through collaboration we can amplify our voice on human rights issues as we seek to fulfil our responsibility to encourage enhanced corporate disclosure and advocate for more robust policies and practices.

There are two sub-themes that will centre many of our dialogues around human rights this year:

1. Human rights in the supply chain
2. Digital rights

Human rights in the supply chain

Companies can benefit immensely from operating in various markets and expanding their global footprint. But this comes with responsibility. It is incumbent on corporate actors to consider their influence in ensuring their suppliers and others within their value chain have clear expectations about respecting and upholding workers' rights and human rights.

We engage with companies with complex supply chains to ensure they have human rights policies in place; to assess their ongoing due diligence efforts with respect to human rights impacts; to encourage them to use their influence over others in their value chain to respect human rights; and to provide remedies where the rights of individuals have been infringed.

For example, through the IAHR last year, we co-led and/or participated in dialogues led by other investors with respect to the human rights crisis in the Xinjiang Uyghur Autonomous Region. This crisis could present human rights risks for a range of industries, such as apparel, food, technology, and solar energy. Our expectations are that companies first map their value chains to identify direct and indirect business relationships that are connected to the region, and to disengage from any relationships where they could be connected to human rights harm. We also seek enhanced disclosure from companies on their ongoing efforts. Geopolitical tensions are of course in the foreground of these conversations, including legislative efforts prohibiting the sale of goods that could be connected to forced labour in different jurisdictions, including Canada and the U.S.

Digital rights

In a world driven by technology, as much as we've grown comfortable with its benefits, we are increasingly confronted with its risks. We have been engaging technology companies for years now, to encourage the development of robust human rights policies and human rights due diligence—all grounded in proper board oversight. Human rights due diligence is the process that allows companies to identify, prevent, mitigate, and account for human rights impacts from their products and services, in alignment with the UNGPs. An important feature of robust human rights due diligence processes is that they provide companies with the opportunity to engage stakeholders, including people and communities whose rights could be affected by the company's products and services. We are a strong proponent of meaningful stakeholder engagement, particularly in a sector that is defined by innovation that often results in new human rights implications for society.

Companies can benefit immensely from operating in various markets and expanding their global footprint. But this comes with responsibility.

Topics that will continue to feature in our conversations this year include: the spread of misinformation and disinformation, user privacy, bias in artificial intelligence, targeted advertisement, use of algorithms, and the metaverse. As companies develop innovative products and services, we encourage them to take an approach that considers human rights impacts from design to sale. Companies should be grappling with questions such as: What are the potential digital rights impacts for the user? Can any potential infringements be mitigated? If not, should the use of the technology be limited?

We will maintain an active role in our ongoing collaborative engagements including those grounded by the Investor Statement on Corporate Accountability for Digital Rights and the Investor Statement on Facial Recognition (pdf).

Companies in focus	Sector
Alphabet	Communication Services
Amazon	Consumer Discretionary
Aritzia	Consumer Discretionary
Meta Platforms	Communication Services
Walmart	Consumer Staples

Company list is not exhaustive and is subject to change.

UN Sustainable Development Goals related to this theme

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

2 INEQUALITY

We have long considered the implications of systemic inequality on communities, the workforce, and the business landscape. We will continue to prioritize the issue in our dialogues this year.

Workers continue to demand more from their employers on issues such as fair wages, fair treatment, and health and safety. Those calls are increasingly supported by other stakeholders in society, including customers and investors, which makes them harder for companies to ignore. Our engagements this year will take place across four sub-themes:

1. Human capital
2. Diversity, equity, and inclusion
3. Equitable compensation
4. Equitable access

Human capital

The success of any business is tied to worker and employee engagement. Our concern about income inequality and health and safety throughout the pandemic drove many of our conversations on human capital in 2021. We've encouraged corporate efforts to empower employees to speak up, and to ensure fair treatment and respect for all workers in their operations and supply chains.

Among other things, we consider the information a company's board receives from employees on their experience, employee representation on the board, and fair pay and fair treatment of employees. One example of this is our work last year with Investors for Opioid and Pharmaceutical Accountability, where we led and supported dialogues with retailers and distributors on the issue of proper board oversight of the well-being of workers.

In 2022 we intend to continue these conversations as they pertain to the experience of workers across different sectors. Our support for employees as a crucial stakeholder group will also ground our proxy voting decisions on human capital issues, where we often vote for proposals that seek to provide opportunities for employees' voices to be amplified within the business. We will continue to collaborate with other investors through organizations such as the Interfaith Center on Corporate Responsibility.

Diversity, equity, and inclusion (DEI)

While there is still much work to be done on the issue of DEI, we are happy to see some progress as more companies are taking steps to meet the expectations of a variety of stakeholder groups: customers, employees, government, and investors all included. In comparison to other sub-themes mentioned, we've seen more steady momentum on DEI within our engagements as companies are increasingly providing more information on diverse representation at different levels of the workforce.

We will continue to encourage companies to follow up on their commitments through looking to better understand their plans to implement their DEI strategies and how they intend to measure progress.

The need for transparency is increasingly being supported by new legislation and policies. For example, in Canada, federally incorporated companies must now disclose more information regarding diverse representation and their DEI strategies, or explain why they are not able to provide that information. Last year was the first time the public was able to access the enhanced disclosure since these changes came into effect.

Equitable compensation

Compensation is an important part of our discussion around income inequality. We have been discussing excessive compensation with companies for years now, typically explaining to them that excessively large compensation packages (as one aspect of income inequality) may destabilize our society over the long term.

Our support for employees as a crucial stakeholder group will also ground our proxy voting decisions on human capital issues.

Over the last seven years we voted against pay packages in circumstances where we found pay to be excessive, based on an absolute cap we set tied to median household income in the U.S. and Canada. We use this "say on pay" vote to discuss the concept of "pay for performance," and we also use it to bring the conversation around to the broader impacts of excessive compensation and the risks income inequality presents to business and to society. Last year we held a roundtable with other investors, governance experts, and academics to find a way forward on this issue, and we're looking forward to more progress in 2022 and beyond.

Equitable access

Access to vaccines, medicines, and treatment will be at the forefront of our engagement with pharmaceutical companies in 2022. In last year's Focus List we observed that the health of each of us affects the health of all of us. In the face of new COVID-19 variants this continues to be true.

Because our holdings span different sectors and countries, we are able to see the far-reaching impact on business and society of health inequity, and inequitable access to vaccines, medicines, and treatment. We hope a lesson from this pandemic is that sustainable long-term value creation must make health and equitable access to healthcare a priority. Collaborating with investors through the Interfaith Center on Corporate Responsibility and the Access to Medicine Foundation, we will continue to advance the discussion on this issue. We will encourage collaboration within the pharmaceutical and healthcare sectors to strengthen global supply chains and accelerate access to medicines and treatment.

Companies in focus	Sector
Metro	Consumer Staples
Johnson & Johnson	Health Care
Microsoft	Information Technology
Pfizer	Health Care

Company list is not exhaustive and is subject to change.

UN Sustainable Development Goals related to this theme

3 NET-ZERO ALIGNMENT

Last year was a momentous year for the fight against climate change. We anticipate that 2022 will be yet another year of significant change, therefore the energy transition and net-zero ambitions will be core to our engagement activities.

The UN's Intergovernmental Panel on Climate Change produced a report detailing in no uncertain terms the urgency of the problem; the International Energy Agency's *Net Zero by 2050* report outlined the potential pathways we might take to avoid the worst impacts of a changing climate; and COP26 brought a raft of new national and global commitments and targets aligned with a net-zero future. Against this backdrop we witnessed the rise of the net-zero agenda as it dominated the climate-related discourse for investors and corporations alike—and NEI was no exception.

In 2021 we published our climate strategy (pdf), which builds on our decade-plus of work on climate and represents our commitment to leverage our investment portfolio to help meet the global goal of net-zero greenhouse gas emissions by 2050. Climate-related disclosure will continue to be a foundational element of our engagements, in addition to our focus on two key sub-themes:

1. Net-zero commitments and transition plans
2. Circularity

Net-zero commitments and transition plans

As outlined in our climate strategy, our goal is to align our portfolio with a 2050 net-zero trajectory and make a meaningful contribution to the achievement of a net-zero future. That means continuing to lean into our dialogues with portfolio companies to drive real-world emissions reductions. We are working toward building on the successes we had in 2021, with the aim of materially advancing the number of companies in our portfolio that have set a target for net zero by 2050, and/or have an ambitious medium-term commitment. We will seek to ensure there are robust short- and mid-term targets that support the long-term goal of net zero, and that those targets are science-based.

Our parallel aim in 2022 is to drill down on *how* companies plan to meet their targets—in other words, what is their transition plan? This will look different for each sector and indeed for each company, but there will be some common strategies we intend to encourage.

Companies where Scope 3 emissions constitute a material aspect of their footprint (that is, the emissions associated with the use of their product or, in the case of retailers, in their upstream supply chain) will be expected to monitor, report, and ultimately act to reduce their Scope 3 emissions. Companies with large vehicle fleets will be expected to transition them to zero-emission alternatives, other companies might need to support the growth of renewable energy, and utilities will be expected to have tangible plans to ramp up their production of zero-emission energy.

We expect the oil and gas sector to address methane emissions, through the adoption of best practices in monitoring such as those outlined in the Oil & Gas Methane Partnership 2.0, and through comprehensive abatement strategies. Likewise, companies relying on the use of carbon capture, utilization, and storage will need to show capital spending plans and tangible projects that will make this strategy real. Compensation packages for executives should be tied to the success of meeting climate commitments.

We will continue to work with other investors to leverage our collective strength through collaborations such as Climate Action 100+, where we will continue to co-lead two engagements and support five or six others, and the new Climate Engagement Canada, where we will lead or co-lead three engagements and support six others.

Circularity

We will be hard pressed to meet the Paris Agreement goal of net-zero emissions by 2050 through the current linear economic model. Our approach of harvesting natural resources, building items for use, and then throwing them away (or burning them) is already testing the limits of our ecosystem. It is not enough to build our way out of this challenge—electric vehicles and renewables alone is not the solution.

From an embedded carbon perspective, a linear economy is also counterproductive. The Ellen MacArthur Foundation estimates that 45% of the emissions we need to eliminate to reach net-zero by 2050 are associated with the embedded carbon in the production of materials, products, food, and management of the land.

We are working toward building on the successes we had in 2021, with the aim of materially advancing the number of companies in our portfolio that have set a target for net zero by 2050.

A circular economic model will involve rethinking the design of products and their components to reduce resource consumption and the use of harmful chemicals, keeping them at their highest value for the longest period of time possible through durability, reuse, and repairability, and ultimately, regenerating natural capital. According to the Expert Panel on the Circular Economy in Canada, our economy today is only 6.1% circular.

The topic of circularity is only just beginning to surface for investors, and we will look to expand this conversation with companies and investors alike as we push companies to adopt more circular business models. Core to our approach will be our ongoing membership in Circular Economy Leadership Canada.

A key focus for our engagements will continue to be plastics circularity, where there is already significant momentum, as evidenced by the Canada Plastics Pact. We will be urging Canadian companies to join the Pact and embrace its ambitious goals of increasing recycling rates and recycled content for plastic packaging, and ensuring packaging is designed to be reusable, recyclable, or compostable.

Companies in focus	Sector
AltaGas	Utilities
Magna International	Consumer Discretionary
GFL Environmental	Industrials
Canadian Natural Resources	Energy
Canadian banks	Financials

Company list is not exhaustive and is subject to change.

UN Sustainable Development Goals related to this theme

4 BIODIVERSITY

As we head into 2022, the imperative to address biodiversity loss and the move to reverse it has only quickened.

We identified biodiversity loss last year as a rising systemic risk. We noted that we needed a better understanding of the implications of biodiversity loss in society and within our portfolio to determine how we could drive the greatest impact. It has become clear that biodiversity loss is a systemic risk on par with climate change, and the two are inextricably linked. Accelerating climate change will increase biodiversity loss, and increased biodiversity loss will hinder our ability to mitigate climate risks.

The importance of this connection was made clear at COP26, where increased support for the Leaders Pledge for Biodiversity and the announcement of the Glasgow Leaders' Declaration on Forests and Land Use were key outcomes of the summit. The Glasgow Leaders' Declaration on Forests and Land Use, which has the endorsement of signatory countries responsible for over 90% of the world's existing forest cover, commits signatories to halt and reverse forest loss and land degradation by 2030. We anticipate the UN Biodiversity Conference in the spring of 2022 will be a catalyst for even greater global momentum on biodiversity.

Biodiversity loss is not just an ecosystem risk, as over half the global economy is highly or moderately dependent on nature, according to a 2020 report by the World Economic Forum and PWC. Meanwhile the decline in ecosystem services such as pollination, coastal protection, water yield, timber production, fish production and carbon sequestration could cost as much as $10 trillion annually by 2050, says the World Wildlife Fund.

Declining biodiversity on land and in the water threatens the very foundation of the global economy. We have therefore elevated biodiversity to be a major theme of our engagement program in 2022, with two sub-themes:

1. Impact and dependency assessment
2. Deforestation

Impact and dependency assessment

A significant barrier to progress on addressing biodiversity loss is that most companies (and their investors) don't even know the extent of their reliance on biodiversity or their negative impacts on it. For investors, the lack of biodiversity-related data impedes our ability to measure the risks. More importantly, we can't expect companies to effectively address biodiversity if they haven't taken the time to assess their dependence and/or impact on biodiversity.

There are several models available that aim to assess these risks, and there is an effort to recreate the impact of the Task Force on Climate-related Financial Disclosures (one of the leading frameworks on climate reporting) through the creation of the Task Force on Nature-related Financial Disclosures (TNFD). The TNFD will be releasing a reporting framework for feedback in 2022, with the aim of having a final framework ready in 2023. We will be encouraging companies to engage with the TNFD and prepare for eventually aligning with the framework.

To allow us to better understand our exposure to biodiversity risk, we will be encouraging companies in key sectors to assess their dependency and impact on biodiversity, with the aim of developing an understanding of their major challenges and opportunities in this area. Even if these assessments are qualitative in nature, any improvement in assessment and measurement will be a critical first step for many companies.

Declining biodiversity on land and in the water threatens the very foundation of the global economy.

Some companies might be ready to dive into the solution space, such as through the use of nature-based solutions or regenerative agriculture, and we will work to encourage these efforts where possible. However, we anticipate that many companies are only in the early stages of understanding the materiality of this issue, and we will be encouraging steady action on this systemic risk.

Deforestation

Food production, while highly dependent on healthy biodiversity, is the single largest negative impact on biodiversity, according to a report by Chatham House. Specifically, commodity-driven deforestation is one of the largest threats to sensitive ecosystems, particularly in developing nations. The removal of bio-diverse forests for the production of commodities such as beef, soy, and palm oil is a well-documented phenomenon and one that most investors are likely exposed to through the supply chain of the consumer goods sector or through the lending activities of banks.

With this in mind, we have made commodity-driven deforestation our initial focus and have committed to engage companies with the goal of eliminating sources of commodity-driven deforestation in our funds by 2025, in line with the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation (pdf).

As we build out our work on this issue, we have prioritized collaboration with other investors to share learnings and align our engagements. In 2021 we joined two collaborative efforts on this issue: the UN PRI's sustainable commodities practitioner's working group, and Ceres' land use and climate working group. Both efforts provide us the opportunity to collaborate on engagement and policy approaches with investors who are also conscious of the systemic risk presented by deforestation, while receiving support from technical experts and advisors.

While we will be raising this issue with some companies for the first time in 2022, engagement will build on previous learning from efforts to address supply chain impacts, including past concerns we've raised about sustainable palm oil certification. We'll be looking for companies to assess their exposure to commodity-driven deforestation and detail strategies to eliminate it.

Companies in focus	Sector
Empire Company	Consumer Staples
Loblaw Companies	Consumer Staples
Canadian banks	Financials

Company list is not exhaustive and is subject to change.

UN Sustainable Development Goals related to this theme

13 CLIMATE ACTION

15 LIFE ON LAND

COMPANIES IN FOCUS

The companies identified below represent just the starting point for our 2022 engagements. Typically, as a result of this engagement work and through our ongoing ESG evaluations and holdings analysis, we will engage additional companies on these and other ESG issues as the year progresses.

Companies are selected based on multiple criteria, including their connection to our identified themes, our exposure within our investment portfolio, the materiality of the ESG risk, and the company's ESG standing as determined by our evaluation process. We report on existing and new engagements in our quarterly Active Ownership Reports.

Communication Services

- Alphabet
- Meta

Consumer Discretionary

- Amazon
- Aritzia
- Magna International

Consumer Staples

- Empire Company
- Loblaw Companies
- Metro
- Walmart

Energy

- Canadian Natural Resources
- Enbridge
- Suncor Energy

Financials

- Bank of Montreal
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Scotiabank
- Toronto-Dominion Bank

Health Care

- Johnson & Johnson
- Pfizer

Industrials

- Canadian National Railway
- Canadian Pacific Railway
- GFL Environmental
- Waste Management

Information Technology

- Apple
- Microsoft
- Samsung
- Shopify

Materials

- Nutrien
- Teck Resources

Utilities

- AltaGas

POLICY ACTIVITY

We anticipate that 2022 will offer a number of policy windows where we hope to shape key ESG-related developments.

Many of the issues we are tackling in our engagements are systemic in nature–meaning the problem is bigger than any one player. Yes, we believe corporate engagement can be powerful, particularly when many of the companies we are talking to have the ability to influence entire sectors and/or value chains through their sphere of influence. But the fact remains that fixing a systemic problem means taking a systems-level approach to finding solutions. That is why our approach to responsible investing has always embraced the key pillar of policy and standards advocacy.

Energy transition

Frustrated by the lack of inconsistent climate-related reporting from corporate issuers, we have been advocating for mandatory reporting requirements for years. In 2022, the Canadian Securities Administrators will be seeking viewpoints on a proposed mandatory reporting regime (pdf), largely modeled on the Task Force on Climate-related Financial Disclosures (TCFD), that should be finalized by year's end. Similarly, the U.S. Securities and Exchange Commission is working on mandatory reporting requirements that follow the TCFD recommendations. We have been actively involved in both consultations and will be working with like-minded investors to ensure that 2022 is the year that robust, mandatory climate-related disclosure becomes the North American standard.

Another policy opportunity in the U.S. that is well-suited to our engagement focus is the Environmental Protection Agency's proposed methane emissions regulations for the oil and gas industry. Investors have been a key constituency pushing for better methane rules. Reducing methane emissions is among the most cost-effective routes for oil and gas companies to reduce their carbon footprint, and the International Panel on Climate Change has identified reducing methane emissions as one of the biggest near-term priorities for achieving a net-zero future.

In Alberta, our work with the Energy Futures Policy Collaborative will look to answer the question of how the province's economy can continue to attract investment in a net-zero future, and more specifically, how it can leverage its oil and gas-derived advantages to make that leap. The group will be engaging key stakeholders, including the Alberta government, on the results of its work in 2022.

Biodiversity

The Task Force for Nature-related Financial Disclosures will be issuing a draft framework for stakeholder feedback. This framework will look to set the standard for how issuers and investors account for their nature-related impacts and dependencies. We look forward to supporting the refinement of these and the development of other key standards this year.

Reconciliation

Indigenous reconciliation did not receive the attention it so justly deserved in 2021's policy landscape. We anticipate several opportunities to support the work of Indigenous leaders in 2022. B.C.'s Declaration on the Rights of Indigenous People's Act (DRIPA) was a key piece of legislation we supported (pdf) that committed the province to the goal of aligning its laws with the UN Declaration on the Rights of Indigenous Peoples. The federal government is looking to implement similar legislation, but a lot rides on the successful implementation of DRIPA in B.C. Yet, it has been two years and there hasn't been much progress on implementing the act in key resource sectors such as mining. We intend to help catalyze movement on this important legislation.

Through our association with the Boreal Champions (pdf), we hope to support the continued growth of Indigenous-led conservation in the country's Boreal Forest, working with Indigenous and industry leaders to support opportunities that address environmental and economic reconciliation. As Canada moves forward with its net-zero strategy, it is clear that preserving the enormous carbon sink that is the Boreal Forest can only be fully realized with the guidance and stewardship of the Indigenous communities that call it home.

Human rights and environmental due diligence

We have publicly supported investor statements that highlight the need for mandatory human rights and environmental due diligence in the European Union. Mandatory due diligence requirements will help ensure companies have clear expectations around the work to be done to uphold human rights and limit their environmental impact. We support calls for legislation that would set an ambitious standard of conduct for all businesses. We also believe such steps in Europe could promote further global legislative action, and as a result we expect conversations on this issue will continue in 2022.

But the fact remains that fixing a systemic problem means taking a systems-level approach to finding solutions.

Standard setting

It is also shaping up to be another big year for standard setters, as the International Sustainability Standards Board (ISSB) continues its development of global ESG reporting frameworks. Canada will play a leading role in the development of the ISSB standards (the agency has made Montreal one of its key office hubs), and investors will have the chance to ensure the standards are built to deliver the biggest positive impact they can.

We will continue to prioritize our participation in policy discussions, both on our own and in collaboration with other investors and stakeholders, as we seek to drive systemic change using all the tools in our responsible investment toolbox.

WHAT IS ACTIVE OWNERSHIP?

Active ownership is a strategy employed by investors who want to influence companies to change their behavior. It is an umbrella term that covers three main activities: corporate dialogue, proxy voting, and shareholder proposals.

Corporate dialogue

NEI pioneered the concept of holding direct dialogues with company management, often in alignment with other investors, to address specific concerns, improve ESG performance, and advance our ESG objectives. Always conducted in the spirit of collaboration with the goal of improving the investment potential of companies, dialogues can take many forms, including letters, emails, phone calls, and face-to-face meetings.

Proxy voting

NEI aims to vote every proxy for every company in our funds based on our publicly available voting guidelines and country-specific best practices. Proxy voting topics can include board member elections, pay packages, shareholder proposals, mergers, and other corporate matters. Of the three activities covered here, proxy voting is the most accessible to shareholders and should be considered a core duty of all responsible investors.

Shareholder proposals

When corporate dialogue and proxy voting are not enough to alter the course of management on serious issues, NEI may file a shareholder proposal, often in collaboration with other investors. A shareholder proposal, also called a shareholder resolution, is a non-binding resolution filed for a vote at a company's annual general meeting that encourages management to take a specific action.

APPENDIX: 2021 IN REVIEW

Corporate dialogue and proxy voting continue to anchor our approach to active ownership.

As we reported throughout the year, engagement efforts were defined by solo and collaborative dialogues with companies across sectors. Approximately 82% of our 2021 engagements involved meetings with companies, as opposed to letters and emails. We value this real time, two-way dialogue with companies, which allows us to get a better understanding of their approach to, and ambitions around, material ESG risks and opportunities.

We noted a surge in shareholder proposals last year, largely due to the heightened urgency around climate change, a rise in geopolitical tensions, and a sharpened awareness of inequality in our society. Proposals that we considered were centred on themes such as the need for companies to conduct racial equity audits, to provide transparency on efforts to promote equitable access to COVID-19 products, to facilitate disclosure and action on climate change, and to promote action on Indigenous rights. One example of success was at the TMX Group, where a shareholder proposal was supported by management. The company was asked to report on policies and practices around Indigenous community relations, as well as recruitment and advancement of Indigenous employees. The proposal, which we supported, passed with a 98% vote in favour.

2021 engagements by the numbers

- **131** companies engaged (29% of year-end equity assets under management)
- **108** companies actively engaged
- **23** companies engaged through correspondence
- **19** different topics raised
- **927** company meetings voted
- **11,634** proxy items voted
- **4,220** votes against management (36% of all proxy items voted)
- **380** votes against North American compensation plans (88% of all plans voted)

Feedback on proxy campaign

Every year we run what we call a "feedback on proxy campaign," in which we write to companies to explain why we voted the way we did at their AGMs. In 2021 we streamlined our approach, enabling us to escalate some pre-existing engagements while initiating more strategic dialogues. If we own more than 1% of a company's shares at the time of voting, we may reach out to them ahead of the meeting to discuss governance concerns to help inform our voting decisions.

We engaged:

6 companies on governance of significant holdings

6 companies on climate risk oversight and disclosure

10 companies on board diversity

12 companies on equitable compensation

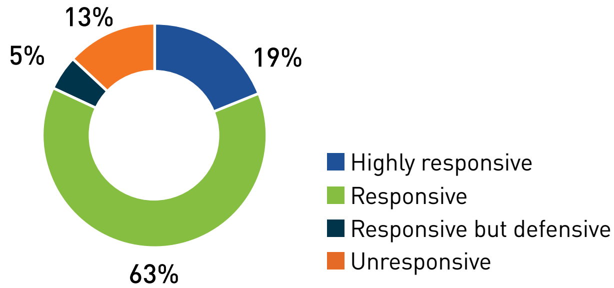
Company responsiveness and topic outcomes

We actively engaged 108 companies. Active engagement is defined by cases that are not limited to written correspondence, where we are able to meet with a company as a lead, co-lead, or participant investor. 82% of companies were "responsive" or "highly responsive" to dialogue. Given investors' increased expectations around ESG issues, we believe it will become harder for companies to ignore their demands for change.

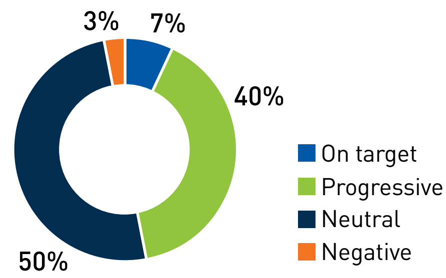
We found 7% of our 2021 engagements delivered results that were on target, 40% were progressive, and 50% were neutral. "On target" indicates that a company has achieved or made significant strides toward an engagement objective. "Progressive" engagements occur if we see evidence a company is taking positive steps to address the ESG risks and/or opportunities raised through dialogue even if they have not yet met our core requests.

In circumstances where we are dissatisfied with a company's responsiveness or its lack of action on ESG issues, even if they may have been willing to respond to our requests for dialogue, we look for opportunities to escalate the matter within the company, or to take a more assertive approach such as filing or co-filing a shareholder proposal.

Topic responsiveness for actively engaged companies

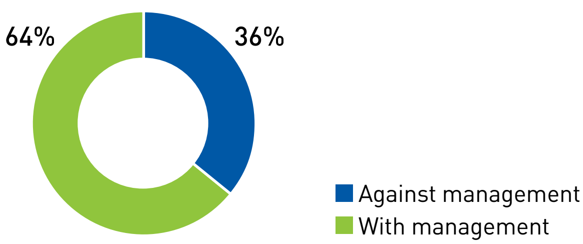


Topic outcome



Vote instruction

We voted against company management on 36% of all agenda items voted in 2021, a figure slightly over our 2020 result. 94% of the votes against management related mostly to director elections, compensation issues, and the ratification of auditors. The remaining cases where we voted against management involved shareholder proposals we supported during the year. While some companies improved their governance practices, the main reasons for voting against director nominees included independence concerns about the board chair, which would generally require us to withhold a vote from nominating committee members. Board diversity, including both gender and ethnic/racial diversity, remains a key governance concern. Votes against the ratification of auditors were essentially due to concerns about excessive auditor tenure and/or excessive non-audit fees which may adversely impact auditor independence.



Shareholder proposals

We support well-targeted shareholder proposals addressing key ESG issues that are important for the long-term value of a company. In 2021, we supported 84% of the 286 shareholder proposals that went to a vote, according to the following breakdown:

78% of the 27 environmental proposals

92% of the 64 social proposals

83% of the 195 governance proposals

In cases where we did not support shareholder proposals but agreed with the proponent on the matter at hand, we typically abstained; however, we often took the opportunity to explain our concerns around the issues raised, even though we might have sought a different response from the company compared to the one requested by the proponent.

Say-on-pay

We voted against 88% of North American plans in 2021, which is similar to our 2020 result. Concerns about the compensation structures at most companies remained, in terms of the proportion of performance-based incentive awards under the long-term incentive plan. We also noted persistent pay equity concerns at several companies when comparing the quantum of CEO pay to pay received by other named executive officers, executives at peer companies, and executive pay relative to the country's median household income. A number of companies also provided limited disclosure on their compensation structures including thresholds, maximums, and targets, that would determine their short-term and/or long-term incentive plans. This information is important for investors to make an informed vote on the appropriateness of a pay package.

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