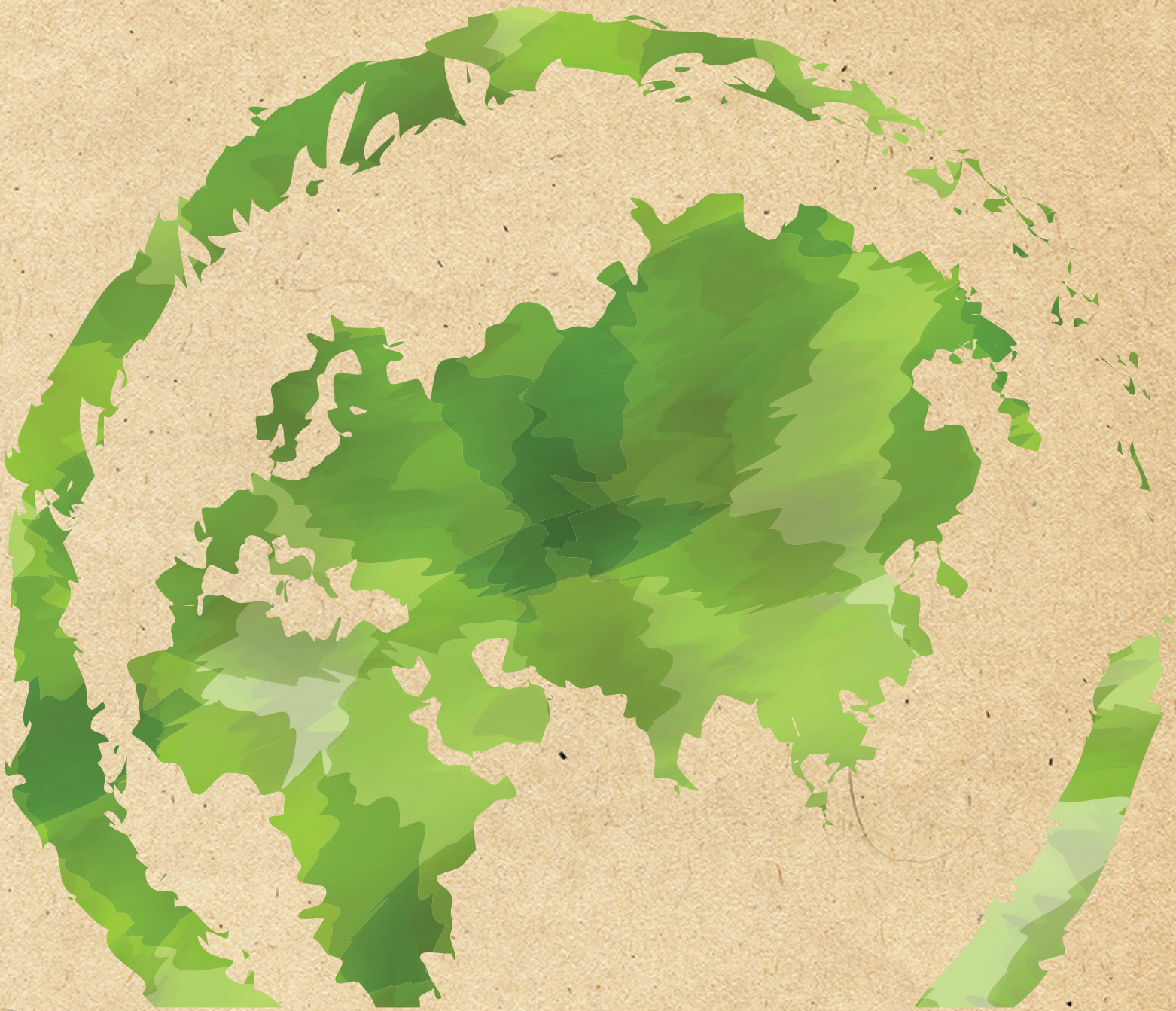


NEI



**Corporate Engagement**  
*Focus List 2019*

### Our commitment to Responsible Investment

We are committed to helping our clients grow wealth while advancing the environmental, social and governance (ESG) performance of companies wherever we invest. Our approach to investing incorporates the thesis that companies can mitigate risk and take advantage of emerging opportunities by integrating best ESG practices into their strategies and operations.

### Delivering value to investors

In Canada we have led the development of multiple and complementary responsible investment approaches that add value for our investors, including exclusionary screening, ESG evaluations, corporate engagement, impact investing and sustainability-themed investment.

### Why Engage?

*According to research commissioned by the Principles for Responsible Investment, companies that were targets of successful ESG dialogues experienced improved profitability, while further PRI research found engagement benefits investors and companies through information exchange, knowledge development, relationship-building and enhanced attention for sustainability.*

### You can't change a company you don't have a stake in

Across all our funds, we use the special rights that come with shareholder status to expand our investable universe and create positive change on behalf of our investors. Through engagement, we alert companies to ESG risks, propose solutions to the tough challenges they face and encourage them to improve their ESG performance - seeking to protect value for shareholders and keep companies accountable to all stakeholders.

### Our approach to corporate engagement

#### Focus List Dialogues

- The centrepiece of our corporate engagement approach: in-depth dialogues with companies on key ESG issues - independently or through collaboration - targeting at least 25% of our holdings
- Filing shareholder proposals where necessary, if dialogue is not progressing
- Responding to proactive requests from companies for investor perspective on sustainability issues

#### Proxy Voting

- Transparent, engaged voting on company annual meeting agenda items based on guidelines promoting sustainability and good governance
- "Feedback on Proxy" - input to companies on governance practices

#### Public Policy

- Engaging policy-makers on corporate regulations and standards to create broader change and facilitate responsible investment
- Participation in multi-stakeholder sustainability initiatives



### Good Practice in Engagement

*Our corporate engagement approach was rated A+ in the 2018 Principles for Responsible Investment signatory assessment and NEI featured in PRI's good practice guide.*



# Engaging for impact

*a look back at the 2018 Focus List*

## Engagement by Numbers

In 2018 we engaged 118 companies in intensive dialogue on ESG topics, representing 40% of our year-end equity holdings. 83 companies (70%) were responsive to engagement approaches, with progress or achievement of our objective at 75 companies (64%). We voted 9,845 proxy items at 797 company meetings based on our custom ESG-focused voting guidelines. We voted against management 38% of the time and against 80% of North American executive compensation plans. We disclosed all vote rationales and provided detailed proxy feedback to 46 companies. We undertook 40 public policy activities. We provide detailed disclosure on engagement dialogues, proxy voting and public policy work on our website.



### Getting Real About the Energy Transition: *Resiliency Strategies for Oil & Gas*

We engaged 60 companies across our global holdings on the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosure, which address systemic risk to the financial system by promoting investor-oriented reporting of material climate information by all companies. We continued intensive dialogue with oil and gas companies on strategies for navigating the transition to a low-carbon economy. **Suncor** published an improved resiliency report, following up on the earlier report undertaken in fulfillment of its support for our 2016 shareholder proposal, and set a new bar with a goal of reducing emissions intensity 30% by 2030. Energy companies publishing reports referencing the TCFD recommendations included **Canadian Natural Resources, Cenovus, Exxon** and **Occidental**.



### Making Pharma Better: *Investors for Opioid Accountability*

There were almost 4,000 opioid-related deaths in Canada in 2017, and the role of prescription medicine in the North American opioid crisis has been under increasing legal and regulatory scrutiny. The Investors for Opioid Accountability coalition engaged U.S. pharmaceutical company boards, including **Johnson & Johnson**, on how they are responding to public concern and business risks related to opioids. NEI was the first Canadian investor to join IOA and leads its international subgroup. Eleven coordinated IOA shareholder proposals asking for opioid governance measures were filed by coalition members, all but one of which were successfully withdrawn after dialogue or received a majority vote - unprecedented support for new proposals on a social issue. We participated in the Government of Canada consultation on opioid marketing, to ensure the report included IOA's investor perspective.



### Farm to Fork: *Business Benchmark on Farm Animal Welfare*

The Business Benchmark analyses farm animal welfare management and performance at over 100 of the world's largest food companies. According to the 2017 Benchmark, 47% of the companies now have board or senior management oversight of animal welfare, and 72% have published objectives. As a long-time member of the global investor collaboration supporting the initiative, we continued to take a lead on engagement with Canadian companies including **Loblaw**, which published an updated farm animal welfare policy in 2018.



### Governance Matters: *Board Independence and Diversity in Japan*

After Canada and the U.S., the market to which our funds were most exposed in 2018 was Japan. We had implemented market-specific proxy voting guidelines to support local efforts to improve lagging board independence and diversity, and we reached out to all impacted Japanese companies with feedback in advance of voting. Companies responded, expressing interest in further dialogue with international investors, and it was encouraging that several companies we approached, including **Toyota Motor**, subsequently added independent female directors to their boards.

# NEI **Our focus:** *2019 engagement themes*



## What guides us

We draw on established norms to define our approach, including the Principles for Responsible Investment, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines, a corporate responsibility standard endorsed by the Government of Canada.

Through corporate engagement we also seek to support the Sustainable Development Goals (SDGs) - a worldwide effort by governments, business and civil society to end poverty and ensure opportunity for all, within planetary resource boundaries, by pursuing 17 environmental, social and governance goals between now and 2030.

## *In 2019 we will give special priority to corporate engagement to advance impact on five SDGs:*



We will continue to work with Investors for Opioid Accountability as well as supporting the Access to Medicine Index, which explores the extent to which health care companies are making life-saving medicines available in developing countries. We will also engage companies on the Access to Nutrition Index, measuring efforts by food and beverage companies to improve the nutritional profile of their products and market them responsibly.



As pioneers in dialogue and voting to challenge income inequality, we were pleased to see PRI adopt the theme in 2018, and we will explore ways to build on earlier engagement on topics relating to this complex issue, including workforce concerns in corporate operations and supply chains; responsible corporate tax; and excessive executive compensation. We will also continue our engagement on board diversity, with enhanced expectations for Canadian companies.



As part of our emerging focus on building an economy that maximises the social and economic benefit of resource use and eliminates waste, we will participate in the Circular Economy Leadership Coalition alongside companies active in the Canadian market, and the Plastic Solutions Investor Alliance dialogues with global brands. We will continue to engage on environmental and social challenges in the supply chains of consumer companies.



We will take an active role in the global Climate Action 100+ collaboration, as well as following up with Canadian companies as they begin to address the recommendations of the Task Force on Climate-related Financial Disclosure. In Canada we will also explore how to enable a "just transition" to a lower-carbon economy that includes opportunities for workers in high-carbon industries. We will continue to engage with banks on their role in financing the energy transition.



We will continue to help steer the new Investor Alliance on Human Rights, and take leadership roles in advancing responsible lending, and in global engagements on digital rights and cybersecurity - building on earlier work on business ethics and consumer trust. We will increase focus on the ESG-readiness of Canadian boards, following up on our 2018 participation in developing the Canadian Coalition for Good Governance E&S Guidebook for directors.



# Our commitment: *a look forward to the 2019 Focus List*

The Focus List includes two types of dialogues: strategic dialogues with sector leaders capable of breakthroughs in corporate sustainability practice and disclosure, or sector laggards that need to catch up; and tactical dialogues in response to emerging risks and opportunities. We highlight here some of the companies included in our 2019 Focus List planning.

## *In Focus:* Finding Solutions for Ocean Plastic Waste



Scientists predict oceans will contain more plastic than fish by 2050 if no action is taken. The largest single category of plastic use (25%) is packaging, and plastic packaging from products manufactured by major consumer brands is a top garbage source in countries with poor waste management infrastructure. Through the Plastic Solutions Investor Alliance, we are participating in global dialogues with **Unilever, Pepsi, Nestlé** and **P&G** to explore new ways to address the plastic waste problem.

## *In Focus:* Responsible Lending



If all companies - listed and private - are to advance towards sustainability, both investors and lenders need to take ESG considerations into account in financing relationships. That is why we engage banks to enhance their responsible lending due diligence approaches. We will continue our engagement with the largest Canadian banks on this issue - **BMO, CIBC, RBC, Scotiabank** and **TD**. Given the global nature of financial flows, we will also participate in dialogues with international banks and policy activities to enhance global responsible lending frameworks, including the Equator Principles.

## *In Focus:* Responsibility to Respect Digital Rights



In 2018 abuses by companies in the new digital economy dominated the headlines. As part of our wider human rights commitment we led a global investor statement on corporate accountability for "digital rights" - including on-line privacy and security, signed by over 40 investment institutions. In 2019 we will take a lead with companies including **Microsoft, Apple, Alphabet (Google)** and **Facebook** in the follow-up collaborative engagement.

For updates on the progress of our Focus List dialogues and other corporate engagement activities:

**NEI Investments** 1.888.809.3333

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### ENERGY

- Canadian Natural Resources
- Cenovus
- Enbridge
- Suncor

### UTILITIES

- ATCO

### MATERIAL

- Nutrien

### INDUSTRIALS

- CN Rail
- CP Rail

### CONSUMER DISCRETIONARY

- Amazon
- Aritzia
- Canadian Tire

### CONSUMER STAPLES

- Loblaw
- Metro
- Nestlé
- PepsiCo
- Procter & Gamble
- Unilever

### HEALTH CARE

- Johnson & Johnson

### FINANCIALS

- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada)
- Toronto-Dominion Bank

### INFORMATION TECHNOLOGY

- Apple
- Canon
- Microsoft

### COMMUNICATION SERVICES

- Alphabet (Google)
- Facebook
- Verizon
- Vodafone

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