


Making a Difference through Targeted Action



At the heart of our comprehensive corporate engagement program, the Ethical Funds Focus List 2013 details our plans for intensive dialogue with around 50 companies to improve sustainability practices and address environmental, social and corporate governance risks.

WHY CORPORATE ENGAGEMENT?

At Ethical Funds, we are committed to using the special rights that come with shareholder status to create positive change on behalf of our investors. Our objective is to reduce risk to the long-term investment value of companies from environmental, social and governance (ESG) challenges, while helping to build an economy that works for people and the environment. We believe it is more effective to advance sustainability through corporate engagement than through exclusion and divestment alone: you can't change a company you don't have a stake in.

THE ETHICAL FUNDS APPROACH TO CORPORATE ENGAGEMENT

Our comprehensive strategy of corporate engagement includes all companies held in Ethical Funds:

- Targeted, in-depth dialogues with selected companies - the Focus List.
- Engaged proxy voting according to detailed guidelines promoting sustainability and good governance with outstanding disclosure of voting records.
- Providing constructive criticism to companies where we voted against the compensation framework through our "Feedback on Pay" campaign.
- Responding to proactive requests from leading companies and industry associations for an investor perspective on sustainability initiatives and reporting.
- Public policy engagement on corporate regulations and standards to create sector- and economy-wide change.






THE ETHICAL FUNDS FOCUS LIST

The centrepiece of our corporate engagement strategy is the Focus List – an annual program of targeted, in-depth dialogues on specific environmental, social and governance (ESG) topics. Focus List companies include sector leaders capable of breakthroughs in corporate sustainability practice and disclosure, sector laggards that need to catch up with the leaders, and companies facing major sustainability challenges that are under special observation for continuing inclusion in Ethical Funds.

- Extensive reach:
 - Around 50 companies each year, representing at least 25% of Ethical Funds assets.
- Multi-factor selection criteria for Focus List companies:
 - Investment exposure – the scale of holdings within our funds.
 - Risk exposure – the significance of our environmental, social and governance (ESG) concerns within the company.
 - Impact potential – where our intervention is most likely to result in change.
- Transparency:
 - Focus List published at the start of the dialogue cycle (October).
 - Quarterly and annual reporting on progress.

Corporate Engagement Focus List 2013

Company	Themes	ⓘ indicates sector leadership discussion ◆ indicates company under special observation
Oil & Gas		
Apache	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC 	
BG Group	<ul style="list-style-type: none"> Human rights Gas development in Northern BC 	
ⓘ Cenovus	<ul style="list-style-type: none"> Oil sands Innovation Reasonable compensation linked to ESG performance 	
CNRL	<ul style="list-style-type: none"> Oil sands Reasonable compensation linked to ESG performance 	
◆ Enbridge	<ul style="list-style-type: none"> Aboriginal opposition to Northern Gateway project Pipeline safety Reasonable compensation linked to ESG performance 	
Encana	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC Reasonable compensation linked to ESG performance 	
Ensign Energy Services	<ul style="list-style-type: none"> Sustainability performance of oil and gas contractors Reasonable compensation linked to ESG performance 	
Royal Dutch Shell	<ul style="list-style-type: none"> Human rights Oil sands Gas development in Northern BC 	
ⓘ Suncor	<ul style="list-style-type: none"> Oil sands Biodiversity protection Reasonable compensation linked to ESG performance 	
Talisman	<ul style="list-style-type: none"> Hydraulic fracturing Free, prior and informed consent of indigenous peoples Gas development in Northern BC Reasonable compensation linked to ESG performance 	
Mining, Forestry & Materials		
Barrick Gold	<ul style="list-style-type: none"> Human rights Free, prior and informed consent of indigenous peoples Water risk management 	
Domtar	<ul style="list-style-type: none"> Sustainable forest products 	
ⓘ Goldcorp	<ul style="list-style-type: none"> Human rights Free, prior and informed consent of indigenous peoples Water risk management Sustainable mine closure 	
New Gold	<ul style="list-style-type: none"> Free, prior and informed consent of indigenous peoples Sustainable mine closure 	
Potash Corporation	<ul style="list-style-type: none"> Water risk management Sustainable mine closure 	
Winpak	<ul style="list-style-type: none"> Water risk management Sustainable packaging 	
Yamana Gold	<ul style="list-style-type: none"> Free, prior and informed consent of indigenous peoples Reasonable compensation linked to ESG performance 	
Utilities		
Canadian Utilities	<ul style="list-style-type: none"> Enhanced climate disclosure 	
Healthcare & Pharmaceuticals		
◆ Johnson & Johnson	<ul style="list-style-type: none"> Product safety Reasonable compensation linked to ESG performance 	
IT & Telecommunications		
Manitoba Telecom	<ul style="list-style-type: none"> Cell phone safety 	
Telus	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance 	

Company	Themes
Consumer Products & Retail	
Canadian Tire	<ul style="list-style-type: none"> Supply chain management
Coca-Cola	<ul style="list-style-type: none"> Water risk management Reasonable compensation linked to ESG performance
Dollarama	<ul style="list-style-type: none"> Supply chain management Enhanced ESG disclosure
Kraft Foods	<ul style="list-style-type: none"> Water risk management Forest risk management Palm oil
Magna International	<ul style="list-style-type: none"> Water risk management Conflict minerals in the supply chain Enhanced ESG disclosure
Maple Leaf Foods	<ul style="list-style-type: none"> Water risk management Reasonable compensation linked to ESG performance Enhanced ESG disclosure
Metro	<ul style="list-style-type: none"> Supply chain management
Mondelez International	<ul style="list-style-type: none"> Water risk management Forest risk management Palm oil
Quebecor	<ul style="list-style-type: none"> Forest risk management
Tim Hortons	<ul style="list-style-type: none"> Supply chain management Water risk management Forest risk management
Industrial Production & Transportation	
Bombardier	<ul style="list-style-type: none"> Water risk management Conflict minerals in the supply chain
 CN Rail	<ul style="list-style-type: none"> Board diversity disclosure Aboriginal relations
Ryanair	<ul style="list-style-type: none"> Airline sustainability Enhanced ESG disclosure
Southwest Airlines	<ul style="list-style-type: none"> Airline sustainability
 Transcontinental	<ul style="list-style-type: none"> Water risk management Forest risk management Board diversity disclosure
United Continental	<ul style="list-style-type: none"> Airline sustainability
Waste Management	<ul style="list-style-type: none"> Sustainable waste management
Finance	
Bank of Montreal	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance
 Bank of Nova Scotia	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance Board diversity disclosure
CIBC	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance
Industrial Alliance	<ul style="list-style-type: none"> Enhanced ESG disclosure
Intact Financial	<ul style="list-style-type: none"> Enhanced ESG disclosure
Laurentian Bank	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance
Power Financial	<ul style="list-style-type: none"> Enhanced ESG disclosure
 Royal Bank of Canada	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance Board diversity disclosure
 TD Bank	<ul style="list-style-type: none"> Reasonable compensation linked to ESG performance Board diversity disclosure

Corporate Engagement - Key Themes for 2013

STAKEHOLDER APPROACH TO EXECUTIVE COMPENSATION:

Our recent report *Crisis, What Crisis?* exposed flaws in current executive compensation practice that create systemic risks for our economy. Too much focus on short-term financial indicators threatens the long-term value of companies for all their stakeholders, including shareholders. We will continue to ask for pay to be linked to performance on key sustainability issues. We will also be asking companies to explore ways to curb escalation in top executive compensation, at a time when most employees are being asked to moderate their pay expectations.

MANAGING WATER & FOREST RISK:

Water is essential for industrial operations, and also a focus for pollution concerns and conflict with other users. Deforestation not only threatens biodiversity, but is a major contributor to climate change risk. We will continue to focus on corporate responsibility for water and forest protection across all sectors – addressing both the direct impacts of company operations, and the supply chain. We will be encouraging companies to adopt good practices in water risk analysis and water management, and support strong certification standards for forest products such as paper and palm oil - as well as improving their disclosure so that we can follow their progress. This year sees us chairing the Boreal Leadership Council - a collaborative initiative of First Nations, companies, financial institutions and environmental organizations for conservation and sustainable development in Canada's vast Boreal forest.

RESPONSIBLE EXTRACTIVE INDUSTRIES:

Extractive industries can be a source of benefit to communities, but can also exacerbate poverty, corruption and conflict – creating a more challenging operating environment for the companies involved. Given the significance of mining, oil and gas in the Canadian economy, we will continue to give special attention to these sectors. We will be asking companies how they will implement the 2012 UN Guiding Principles on Business and Human Rights, with special attention for human rights impact assessment. We will also be exploring how companies can apply

the principle of free, prior and informed consent (FPIC) of indigenous peoples for extractives projects. We will continue to push for policy changes to encourage extractive industry revenue transparency, to ensure that benefits are shared.

SOCIAL RESPONSIBILITY IN MINING:

We will continue to encourage efforts to create conflict-free mineral supply chains. We will explore approaches to mitigating risk in the sometimes difficult relationship between large mining companies and artisanal miners. We will also be asking companies to improve management of the final stages of mining – closure, remediation and long-term monitoring.

UNCONVENTIONAL OIL & GAS:

We will press for further environmental and social performance enhancements in the Alberta oil sands, particularly on technology innovation and biodiversity conservation. We will also continue to encourage companies to adopt good practices in hydraulic fracturing that prevent water pollution. A special focus will be gas production and infrastructure in Northern BC – an area of intensive development that has received little attention so far in the fracking debate – where we will promote regional strategic planning that addresses Aboriginal rights.

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

- **Visit our website:** ethicalfunds.com
- **Like us on Facebook:** Ethical Funds
- **Follow us on Twitter:** @ethicalfunds
- **Contact your NEI Investments Sales Representative:** 1.888.809.3333