

MAKING A DIFFERENCE THROUGH TARGETED ACTION



At the heart of our comprehensive corporate engagement program, the Ethical Funds Focus List 2014 sets out our plan for intensive dialogue with companies and policy makers to improve corporate sustainability practices and address environmental, social and corporate governance risks.

YOU CAN'T CHANGE A COMPANY YOU DON'T HAVE A STAKE IN

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 challenges, while helping to build an economy that works for people and the environment.

CORPORATE ENGAGEMENT DONE DIFFERENTLY

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

- Targeted, in-depth dialogues with selected companies with around 50 companies each year
- 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
- Participation in multi-stakeholder initiatives to find practical solutions to sustainability problems

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 can 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

- Strategic dialogues with 30 selected companies, announced in the fall
- Additional tactical dialogues launched during the year in response to emerging risks and opportunities

Multi-factor selection criteria for Focus List companies:

- Investment exposure – the scale of holdings within our funds
- Risk exposure – the significance of the environmental, social and governance (ESG) concerns identified.
- Impact potential - where our intervention is most likely to result in change

Dynamic response:

- Integrated in-house ESG team allows rapid corporate engagement response where risks and opportunities are identified through ongoing monitoring of holdings
- Flexibility to adapt engagement strategy to changing circumstances

Transparency:

- Focus List published at the start of the dialogue cycle (October)
- Quarterly and annual reporting on progress

Corporate Engagement Focus List 2014

STRATEGIC DIALOGUES

Over almost 15 years of corporate engagement, we have seen significant progress at many Focus List companies. But change doesn't happen overnight. The long-term goal of our Focus List dialogues is that the performance of leadership companies will become the norm, while the leaders continue to explore new frontiers in sustainability.

Company	Themes
Oil & Gas	
Strategic sector goals: Position for the low-carbon energy transition, focusing on innovation. Play a progressive role, supporting effective environmental regulation, while going beyond compliance in performance. Respect human rights and have a positive relationship with Aboriginal and indigenous communities, following the principle of free, prior and informed consent.	
Apache	<ul style="list-style-type: none"> Hydraulic fracturing Compensation linked to ESG performance
BG Group	<ul style="list-style-type: none"> Gas development in Northern BC Unburnable carbon
CNRL	<ul style="list-style-type: none"> Oil sands GHG emissions, climate policy and energy transition Unburnable carbon Compensation linked to ESG performance
Encana	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC GHG emissions, climate policy and energy transition Unburnable carbon
Suncor	<ul style="list-style-type: none"> Oil sands GHG emissions, climate policy and energy transition Unburnable carbon
Forestry & Materials	
Domtar	<ul style="list-style-type: none"> GHG emissions and climate policy Sustainable forest products
Winpak	<ul style="list-style-type: none"> GHG emissions and climate policy Sustainable packaging Enhancing ESG disclosure
Utilities	
Canadian Utilities/ATCO	<ul style="list-style-type: none"> GHG emissions, climate policy and energy transition Enhancing ESG disclosure
Healthcare & Pharmaceuticals	
Johnson & Johnson	<ul style="list-style-type: none"> Compensation linked to ESG performance
IT & Telecommunications	
CGI	<ul style="list-style-type: none"> GHG emissions and climate policy Respecting privacy and human rights Enhancing ESG disclosure
Manitoba Telecom	<ul style="list-style-type: none"> GHG emissions and climate policy Enhancing ESG disclosure
Rogers	<ul style="list-style-type: none"> GHG emissions and climate policy Communications stewardship
Telus	<ul style="list-style-type: none"> GHG emissions and climate policy Communications stewardship Equitable compensation Board diversity leadership

Company

Themes

Consumer Products & Retail	
Strategic sector goals: Ensure products are sourced with respect for the environment and human rights.	
Canadian Tire	<ul style="list-style-type: none"> • GHG emissions and climate policy • Worker safety in the supply chain • Cotton in the supply chain • Enhancing ESG disclosure and supply chain disclosure
Coca-Cola	<ul style="list-style-type: none"> • Food system sustainability and access to nutrition • Equitable compensation linked to ESG performance
Empire	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability and access to nutrition
Kraft Foods	<ul style="list-style-type: none"> • Food system sustainability and access to nutrition • Enhancing ESG disclosure
Loblaws	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability and access to nutrition • Worker safety in the supply chain • Cotton in the supply chain • Enhancing supply chain disclosure
Lululemon Athletica	<ul style="list-style-type: none"> • GHG emissions and climate policy • Worker safety in the supply chain • Enhancing supply chain disclosure
Metro	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability and access to nutrition
Industrial Production & Transportation	
CN Rail	<ul style="list-style-type: none"> • Oil-by-rail • GHG emissions and climate policy • Aboriginal relations • Board diversity leadership
Magna International	<ul style="list-style-type: none"> • GHG emissions and climate policy • Enhancing ESG disclosure • Equitable compensation
Ryanair	<ul style="list-style-type: none"> • GHG emissions and climate policy • Enhancing ESG disclosure
Finance	
Strategic sector goals: Provide services that fulfil social needs. Avoid risk-taking that can damage the economy as a whole. Take environmental and social impacts into account in lending and investment.	
Bank of Montreal	<ul style="list-style-type: none"> • Equitable compensation
Bank of Nova Scotia	<ul style="list-style-type: none"> • Equitable compensation • GHG emissions, climate policy and energy transition • Preventing tax base erosion • Board diversity leadership
CIBC	<ul style="list-style-type: none"> • Equitable compensation
National Bank	<ul style="list-style-type: none"> • Equitable compensation
Power Financial	<ul style="list-style-type: none"> • GHG emissions and climate policy • Enhancing ESG disclosure
Royal Bank of Canada	<ul style="list-style-type: none"> • Equitable compensation • GHG emissions, climate policy and energy transition • Preventing tax base erosion • Board diversity leadership
TD Bank	<ul style="list-style-type: none"> • Equitable compensation • GHG emissions, climate policy and energy transition • Preventing tax base erosion • Board diversity leadership

Corporate Engagement - Key Themes for 2014

GETTING REAL ABOUT THE ENERGY TRANSITION:

2013 saw an upsurge of interest in the role of investors in moving from fossil fuel dependency to a low-carbon energy system. Reduction of carbon emissions from energy production is vital, but will be ineffective without reducing emissions from energy use across the economy. We will be asking companies on both sides of the energy equation to intensify efforts to reduce emissions, and to participate constructively in the climate policy debate. We will also be exploring “unburnable carbon” with oil and gas companies: how they are preparing for a future in which fossil fuel reserves may no longer be valued the way they are today.

TOWARDS RESPONSIBLE EXTRACTIVE INDUSTRIES:

Extractive industries can benefit communities, but can also exacerbate poverty, corruption and conflict – creating a more challenging operating environment. We will continue to support extractive industry revenue transparency, to ensure benefits are shared. We will also continue to urge companies to fulfill their responsibility to respect human rights, and apply the principle of free, prior and informed consent (FPIC) of indigenous peoples. We will advance our long-term unconventional oil and gas strategy: seeking better environmental and social performance in the oil sands, adoption of good practices in hydraulic fracturing, and regional strategic environmental assessment in areas of Northern BC facing intensive gas development. A new focus will be the environmental and safety risks of transporting oil by rail.

FOOD FROM FARM TO FORK:

Sustainable food production and distribution is a foundation for strong economies. We will continue to focus on environmental and social risk in the food supply chain, including trade in food commodities such as palm oil. As investor supporters of the Access to Nutrition Index, we will also begin to explore the role of consumer companies in ensuring everyone has access to a healthy diet.

PAYING A FAIR SHARE:

Economies can't thrive unless governments have the resources to provide education, healthcare and infrastructure. We will renew our focus on the issue of the role of companies in preventing tax base erosion.

STAKEHOLDER APPROACH TO EXECUTIVE COMPENSATION:

Too much focus on short-term financial indicators threatens the long-term value of companies for all stakeholders, including shareholders. We will continue to ask for pay to be linked to performance on key sustainability issues, as well as asking companies to explore ways to curb escalation in top executive compensation.

BOARD DIVERSITY MATTERS:

Research suggests that an independent board of directors with diverse experience and perspectives contributes to corporate performance – while entrenched boards that encourage group-think may do the opposite. We will continue to urge the value of ESG expertise and identity diversity on boards (including representation of women and minorities).

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