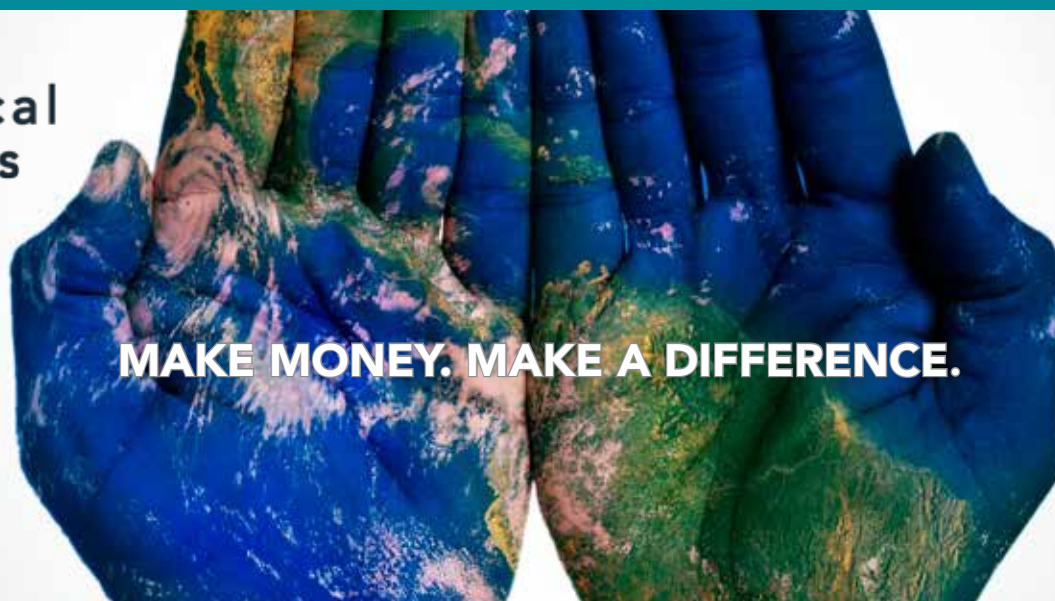


CORPORATE ENGAGEMENT FOCUS LIST 2015



MAKE MONEY. MAKE A DIFFERENCE.

**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. 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.

CORPORATE ENGAGEMENT DONE DIFFERENTLY

Our comprehensive strategy covers all companies held in Ethical Funds

- Targeted, in-depth dialogues 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 on their executive 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-wide and economy-wide change
- Participation in multi-stakeholder initiatives to find practical solutions to sustainability problems

THE ETHICAL FUNDS FOCUS LIST

Extensive reach - around 50 companies each year, representing at least 25% of Ethical Funds assets

- Strategic Dialogues with 30 selected companies, announced at the start of the year
- 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 on-going monitoring of holdings
- Flexibility to adapt engagement strategy to changing circumstances

Transparency:

- Focus List published at the start of the year
- Quarterly and annual reporting on progress

COMPANY

THEMES

Energy	
<p>Sector-specific 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 (FPIC).</p>	
Chinook Energy	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Board diversity • Enhancing ESG disclosure
CNRL	<ul style="list-style-type: none"> • Oil sands • GHG emissions, climate policy and energy transition • Unburnable carbon and stranded assets
Encana	<ul style="list-style-type: none"> • Hydraulic fracturing • Gas development in Northern BC • GHG emissions, climate policy and energy transition • Unburnable carbon and stranded assets
Gibson Energy	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Enhancing ESG disclosure
Suncor	<ul style="list-style-type: none"> • Oil sands • GHG emissions, climate policy and energy transition • Unburnable carbon and stranded assets
Materials	
Goldcorp	<ul style="list-style-type: none"> • GHG emissions and climate policy • Responsible water use • Respecting human rights
Winpak	<ul style="list-style-type: none"> • GHG emissions and climate policy • Board diversity • Enhancing ESG disclosure
IT & Telecommunications	
CGI	<ul style="list-style-type: none"> • GHG emissions and climate policy • Respecting privacy and human rights • Enhancing ESG disclosure
EMC Corporation	<ul style="list-style-type: none"> • Respecting privacy and human rights • Preventing tax base erosion
Manitoba Telecom	<ul style="list-style-type: none"> • GHG emissions and climate policy • Respecting privacy and human rights • Enhancing ESG disclosure
Mitel	<ul style="list-style-type: none"> • GHG emissions and climate policy • Respecting privacy and human rights • Board diversity • Enhancing ESG disclosure
Rogers	<ul style="list-style-type: none"> • GHG emissions and climate policy • Respecting privacy and human rights
Telus	<ul style="list-style-type: none"> • GHG emissions and climate policy • Respecting privacy and human rights
Industrial	
Caterpillar	<ul style="list-style-type: none"> • Carbon disclosure • Respecting human rights • Preventing tax base erosion
CN Rail	<ul style="list-style-type: none"> • GHG emissions and climate policy • Oil-by-rail safety

COMPANY

THEMES

Industrial (continued)	
Lumenpulse	<ul style="list-style-type: none"> • GHG emissions and climate policy • Board diversity • Enhancing ESG disclosure
Ryanair	<ul style="list-style-type: none"> • Carbon disclosure • Enhancing ESG disclosure
Consumer Products & Retail	
Sector-specific 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 • Sustainable apparel supply chains • Enhancing ESG disclosure
Coca-Cola	<ul style="list-style-type: none"> • Access to nutrition • Equitable compensation linked to ESG performance
Dollarama	<ul style="list-style-type: none"> • GHG emissions and climate policy • Board diversity • Enhancing ESG disclosure
Empire	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability & access to nutrition • Enhancing ESG disclosure
Loblaw	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability & access to nutrition • Sustainable apparel supply chains • Enhancing ESG disclosure
Lululemon Athletica	<ul style="list-style-type: none"> • GHG emissions and climate policy • Sustainable apparel supply chains • Enhancing ESG disclosure
Metro	<ul style="list-style-type: none"> • GHG emissions and climate policy • Food system sustainability & access to nutrition • Enhancing ESG disclosure
Finance	
Sector-specific goals: Provide services that fulfill 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 Nova Scotia	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Preventing tax base erosion • Equitable compensation
Canadian Western Bank	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Equitable compensation • Enhancing ESG disclosure
Laurentian Bank	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Enhancing ESG disclosure
National Bank	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Equitable compensation • Enhancing ESG disclosure
Royal Bank of Canada	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Preventing tax base erosion • Equitable compensation
TD Bank	<ul style="list-style-type: none"> • GHG emissions, climate policy and energy transition • Elimination of cluster munitions • Preventing tax base erosion • Equitable compensation

STRATEGIC GOALS AND KEY THEMES

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

OUR LONG-TERM ENGAGEMENT GOALS FOR ALL PUBLIC COMPANIES:



ENVIRONMENTAL:

- Innovation
- GHG emissions reduction & progressive climate policy
- Responsible water use
- Biodiversity protection
- Waste reduction



SOCIAL:

- Respect human rights
- Safe and healthy workplace
- Positive impact on communities



GOVERNANCE:

- Independent board of directors with diverse perspectives
- Equitable compensation linked to ESG performance
- Responsible tax strategy
- Anti-corruption
- Transparency

GETTING REAL ABOUT THE ENERGY TRANSITION:

The role of investors in moving from fossil fuel dependency to a low-carbon energy system was a major topic of debate in 2014. As momentum builds towards the possible adoption of a new global climate agreement in late 2015, we will continue to pursue our systemic approach to the problem - contending that reduction of carbon emissions from energy production is vital, but will be ineffective without tackling fossil fuel use across the economy. We will continue to ask 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 further our dialogue on "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? We will advance our long-term unconventional oil and gas strategy, including improved environmental and social performance in the oil sands and adoption of good practices in hydraulic fracturing – and continue to explore the risks of transporting oil by rail.

RESPONSIBILITY TO RESPECT:

We will continue to urge companies across all sectors to implement due diligence processes consistent with the UN Guiding Principles on Business and Human Rights. We will keep pressing extractives companies to apply the principle of free, prior and informed consent (FPIC) of indigenous peoples. Responsible supply chain management will remain a key focus for consumer sector dialogues, and we will encourage companies to embrace worker-led social responsibility initiatives. We will explore the role of IT and telecommunications companies in balancing security and privacy considerations. We will also ask financial institutions to join us in publicly committing not to invest in cluster munitions.

FOOD FROM FARM TO FORK:

Sustainable food production and distribution is a foundation for strong economies. We will continue our special focus on environmental and social risk in the food supply chain. As an investor supporter of the Access to Nutrition Index, we will further 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 financial resources to provide education, healthcare and infrastructure. As new global frameworks to address tax base erosion emerge, we will continue to urge companies to mitigate financial and reputational risk by adopting responsible tax policy.

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 executive pay to be linked to performance on key sustainability issues, as well as pushing companies to curb excessive executive compensation and ensure compensation is equitable for all employees.

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. As new disclosure requirements come into force in Canada, 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 ACTIVITIES:

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