

# ACTIVE ENGAGEMENT MAKES THE DIFFERENCE

## *Corporate Engagement Focus List 2020*

The NEI approach to corporate engagement is a proprietary model that incorporates internationally recognized principles and frameworks such as the Principles for Responsible Investment, the UN Guiding Principles on Business and Human Rights, the UN's Sustainable Development Goals, the OECD Guidelines, and others.

The logo for NEI (Norman E. Borlaug Institute) is displayed in white, bold, sans-serif capital letters. It is positioned within a dark blue triangular shape that points upwards, which is part of a larger graphic design consisting of overlapping triangles in shades of blue and teal.



# CORPORATE ENGAGEMENT IS OUR MOST EFFECTIVE TOOL FOR DRIVING CHANGE.

We talk directly with companies – alerting them to ESG risks and encouraging them to improve their ESG performance. **Our goal is to protect shareholder value while influencing accountability to stakeholders.** Through engagement, we influence the way companies are run.

## THIS DOCUMENT IS A GUIDE TO:

- our key areas of focus for the year
- the companies we will engage
- our intended outcomes

# FIVE AREAS OF FOCUS

## 1

### *Governance*

Good governance is the pillar upon which long-term corporate success is built. Including ESG factors as a principle of good governance helps boards of directors not just to set strategy, but to align corporate culture with values.

Effective governance will be an overarching theme in our 2020 engagements. Our *Feedback on Proxy* program is designed to reach out to corporate boards, explaining our voting rationale and providing detailed feedback on governance concerns. We will address such topics as:

- Board diversity
- Board and director independence
- Linking equitable compensation to ESG outcomes
- Effective oversight of key ESG issues

## 2

### *Energy transition*

Climate change is the defining challenge of our time, and will again occupy centre stage in our 2020 engagements. We will spearhead critical collaborations to drive sector-wide progress on policies and performance standards, and we will address the need for systemic solutions to systemic problems.

- We will continue to co-lead collaborative dialogues through the \$41 trillion Climate Action 100+ initiative, building on the successes of 2019. This will deepen the strategic response to the energy transition from companies such as Suncor Energy, Canadian Natural Resources Ltd. and Teck Resources.
- In the auto industry, we will continue to push Ford and GM to evolve their fleets toward a low-carbon future, and engage parts suppliers to enhance their own low-carbon strategies.
- Utilities will play a key role in the transition and we will continue to engage with companies such as AltaGas and ATCO on aligning with the opportunities of low carbon and renewable energy.
- Methane will remain a key feature of our climate focus as we collaborate with other investors to engage companies and policymakers. We will continue our solo engagements with leading companies including Cenovus Energy, Enbridge and Nutrien to further define what alignment to the Paris Agreement looks like, what a “net-zero” future means for industry, and importantly, how companies will get there.
- We will continue to engage financial institutions such as RBC, TD, Scotiabank, BMO and CIBC on implementing the recommendations from the Task Force on Climate-related Financial Disclosures.

# 3

## *Responsible consumption*

This year Canada will host the World Circular Economy Forum, a key milestone for growing Canada's circular economy ambitions. Through our role as a founding member of the CELC, we will be working with companies and investors to ensure the success of the Forum and help create needed momentum.

- Eliminating plastic waste remains a top focus of our work. We will continue to engage consumer companies such as Canadian Tire, Loblaw and Metro on their strategies for reducing or eliminating the use of unnecessary plastics, while increasing recycling and the use of recycled content.
- Through our involvement in the Plastic Solutions Investor Alliance, we will build on the successes of 2019 where we saw companies such as Unilever, PepsiCo and Starbucks commit to ambitious new targets on the use and recycling of plastics. We will continue to push these companies to meet these targets, while leveraging their momentum to extract similar commitments from other companies.

# 4

## *Human rights*

Respect for human rights is foundational to our commitment to responsible investment, touching all aspects of our ESG program.

- We will continue our engagement with the "big five" banks (BMO, CIBC, RBC, Scotiabank, and TD) on responsible lending, ensuring they align their processes with key frameworks such as the UN Guiding Principles on Business and Human Rights, and the UN Declaration on the Rights of Indigenous Peoples.
- Through our role on the steering committee of the Investor Alliance on Human Rights, we will continue to advocate for human rights to be at the core of the new digital economy, whether it be protecting digital rights, ensuring online privacy, or understanding the intersection of human rights and artificial intelligence.
- We will continue our successful rights-based dialogues with companies such as Amazon and Alphabet (Google).
- Supply chains can hide significant human rights risks, and we will continue to engage with consumer companies such as Canadian Tire, Loblaw and others to ensure they are not causing or contributing to negative human rights impacts through their supply chains.
- In aligning ourselves with the OECD Guidelines, we will continue to perform our own due diligence to identify any human rights concerns within our portfolio, and will actively engage where we find concerns.

# 5

## *Health and well-being*

A fundamental objective of the UN Sustainable Development Goals is to foster a world where everyone has an equal opportunity to exercise their right to live a healthy and fulfilling life. Corporate actions can drive toward this goal – but they can also undermine it.

- Through our work with the Access to Nutrition Index, we will continue to push companies such as PepsiCo and Unilever to ensure that access to healthy and nutritious products is not limited to the wealthy.
- Through our collaboration with the Access to Medicine Index, we continue to push pharmaceutical companies such as Johnson & Johnson, Pfizer, and others to ensure fair and equitable access (and pricing) to critically important medicine.
- We will continue to encourage the growth of responsible and humane stewardship practices for farm animals through our support for the Business Benchmark on Farm Animal Welfare.

RATED A+



Our corporate engagement approach was once again rated A+ by the Principles for Responsible Investment in their 2019 assessment.



# COMPANIES IN FOCUS

NEI references an internationally recognized set of 17 long-term, ESG-related goals laid out by the United Nations, called the Sustainable Development Goals (SDGs), to help shape our thematic areas of engagement focus. In 2020, we have identified five SDGs that most directly inform our engagement themes. The companies below represent the starting point for our 2020 engagements. Typically, as a result of this work and through our ongoing proprietary ESG evaluations, we will add new companies to the list as the year progresses. We report on all existing and new engagements in our quarterly engagement reports.



## Energy

Canadian Natural Resources	■
Cenovus Energy	■
Suncor Energy	■
Enbridge	■

## Consumer Discretionary

Amazon	■
Ford Motor Co	■
GM	■
Canadian Tire	■ ■

## Consumer Staples

Loblaw	■ ■
Metro	■ ■
PepsiCo	■ ■
Starbucks	■ ■
Unilever	■ ■

## Financials

BMO	■ ■ ■
CIBC	■ ■ ■
RBC	■ ■ ■
Scotiabank	■ ■ ■
TD	■ ■ ■

## Materials

Nutrien	■ ■
Teck Resources	■ ■

## Health Care

Eli Lilly	■
Johnson & Johnson	■
Pfizer	■

## Communication Services

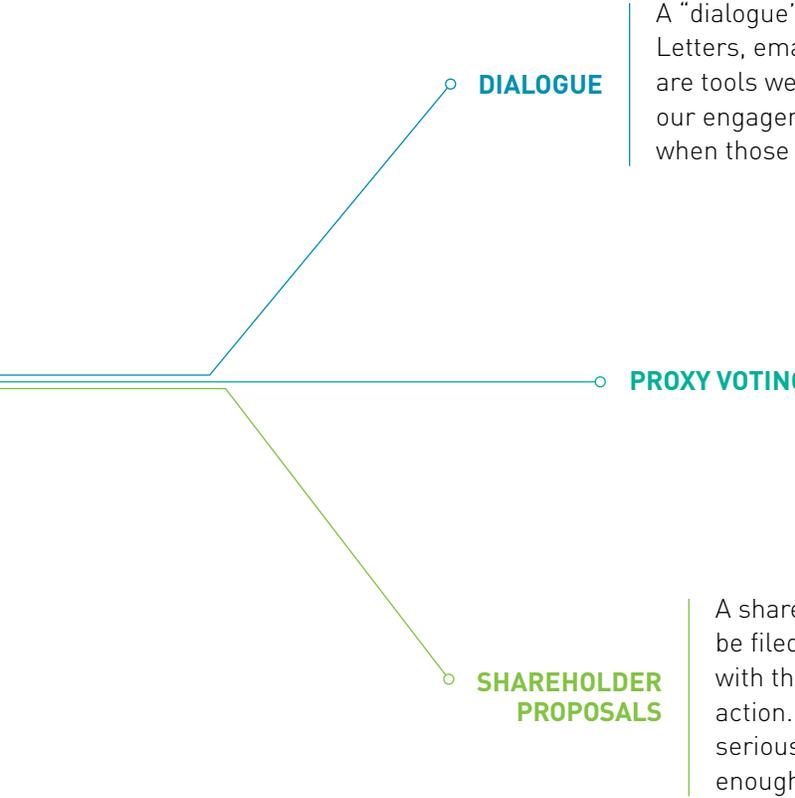
Alphabet	■
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## Utilities

AltaGas	■
ATCO	■

# THE THREE-PART APPROACH

*to effective corporate engagement*



## DIALOGUE

A “dialogue” with a company can take many forms. Letters, emails, phone calls, and face-to-face meetings are tools we use to advance the conversation in pursuit of our engagement objectives. The best progress is made when those objectives are shared among all stakeholders.

## 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.

## SHAREHOLDER PROPOSALS

A shareholder proposal is a non-binding proposal that can be filed for a vote at a company’s annual general meeting, with the intent to encourage management to take specific action. Companies take shareholder proposals very seriously. Even a 20% vote in favour of a proposal can be enough to spark change.

## ADDRESSING POLICY

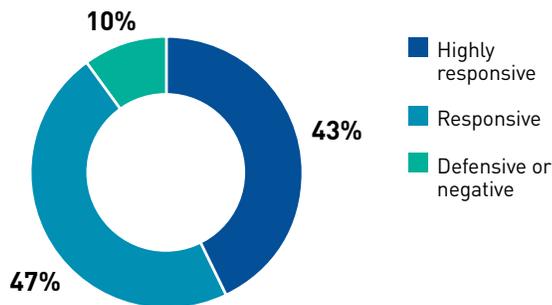
Separate to corporate engagement but tightly related is our policy work. We consult with governments, regulators and organizations that set national and global standards for responsible investment and corporate performance. Through advocacy, we can help lock our best practices into a set of standards that make it easier for all responsible investors, companies and their stakeholders to move forward together.

# PAST PERFORMANCE

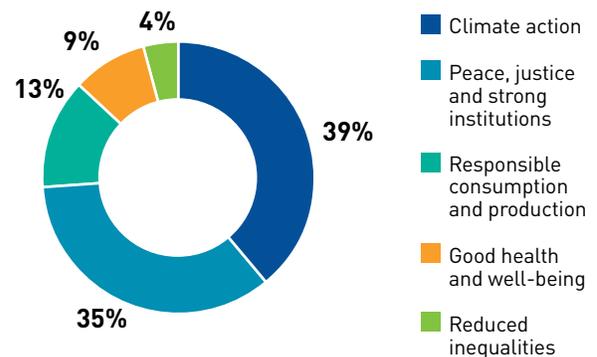
## 2019 engagements in review

- We engaged 152 companies, which represents 32% of our year-end equity holdings
- Of the 152 companies, we sent correspondence to 66, detailing our specific ESG concerns while not initiating intensive dialogues
- We engaged the other 86 companies in intensive dialogues through meetings, phone calls, shareholder resolutions, and other points of contact
- Of the 86 companies we engaged in intensive dialogues, 43% were highly responsive, 47% were responsive, and 10% were defensive or negative
- Of the 86 intensive dialogues, 23% were on target with respect to topic outcomes, 65% were progressive, 7% were neutral and 5% were negative
- We voted 10,775 proxy items at 858 company meetings
- We voted against management 30% of the time
- We voted against 85% of North American executive compensation plans

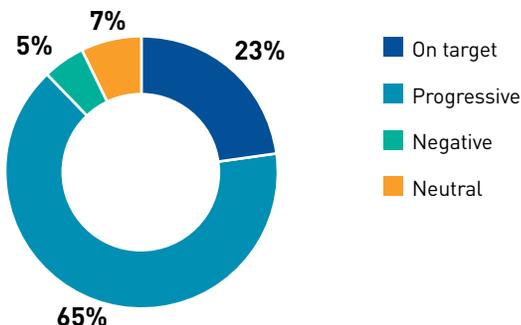
### DIALOGUE RESPONSIVENESS



### ENGAGEMENTS BY RELATED SDG



### TOPIC OUTCOME



# IMPACT

## LEADERSHIP IN CORPORATE ENGAGEMENT

NEI has been committed to responsible investing for more than 30 years. It's how we help our clients grow wealth. It's how we identify opportunities and reduce risks. And it's how we advance the environmental, social and governance performance of the companies we invest in.

*It's a commitment to making an impact.*



# NEI

» DEMAND MORE. WE DO.

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