NEI

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Q1 2021

ACTIVE OWNERSHIP REPORT

Tracking the progress of our corporate engagement and policy activity

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SUMMARY OF ACTIVITIES

NEI engagement role

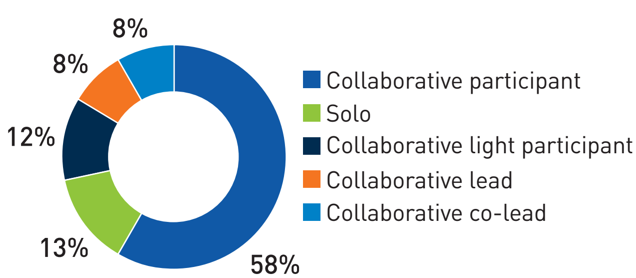
In Q1 we led 29% of our engagements, meaning that we either conducted the engagement ourselves, or led or co-led a small group or collaboration with other investors. Leads are responsible for setting the agenda, strategizing on the direction of the engagement, and chairing and organizing the investor group's correspondence and meetings with a company.

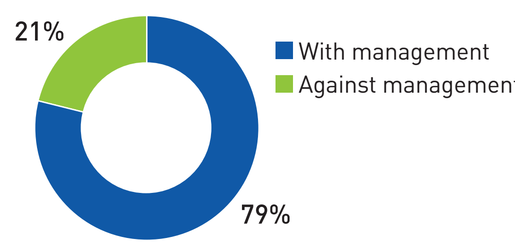
Notably in Q1 we took the role of leading or co-leading specific company dialogues in multi-shareholder collaborative engagements. Along with our usual pace of one-on-one company dialogues, we also pressed forward with solo engagements with companies we had reached out to in Q4 2020, regarding how we voted across certain themes during the 2020 proxy season through our feedback on proxy campaign.

Vote instruction

In Q1 we voted against company management on 21% of agenda items at Annual General Meetings. Voting against management is one indicator that can be used to determine whether proxy votes are actively managed by a fund company, rather than set to automatically vote in favour of management.

Our team holds regularly scheduled internal discussions to determine our voting position on a number of ESG issues and shareholder proposals, including but not limited to climate change, diversity and inclusion, and executive compensation. We also strive to stay attuned to discussions within investor groups and generally, as we seek to make informed and thoughtful proxy voting decisions.



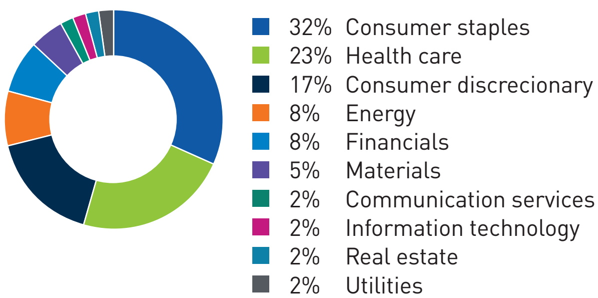


What is active ownership?

Our ESG team actively engages the companies in our funds to protect and grow value for investors while influencing accountability to all stakeholders. We talk directly with companies to alert them to environmental, social and governance risks, and we propose solutions that may help them improve. We also vote at annual general meetings on matters such as board appointments, good governance, and shareholder proposals.

Engagement by sector

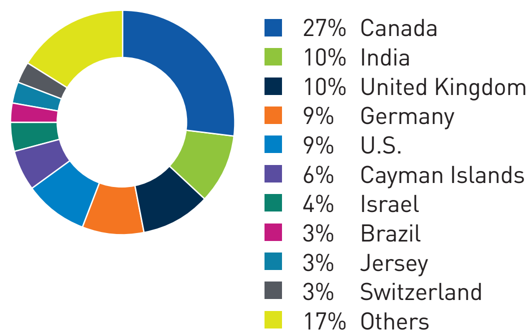
Companies in the consumer staples and consumer discretionary sectors constituted almost half our engagement efforts in Q1 due to a number of collaborative engagements on a range ESG issues. In the context of the pandemic, health care engagements continued to be a priority. Together, those 3 sectors made up approximately 75% of our Q1 engagement efforts. We would not necessarily expect that sector concentration to continue for the rest of the year. The sector breakdown of our engagements can vary quarter by quarter, depending on the evolving nature of sector-specific issues and the makeup of our holdings.



Votes by country

While most Annual General Meetings in North America occur in Q2 (typically referred to as proxy season), some companies choose to hold their meetings earlier in the year. In Q1, over one-third of our votes went to Canadian and American companies, closely followed by about 25% of votes going to companies in Europe. The remaining votes were distributed across various markets.

Votes in the U.S. came in at 9% in Q1. This figure will likely increase considerably over the course of Q2 and the remainder of 2021 as proxy season continues, and given the higher weighting to U.S. domiciled companies in our fund holdings.



ESG in the news

In March, U.S. President Joe Biden unveiled his economic plan for rebuilding America post-COVID. What was most interesting was not what the plan called for—improvements to roads, bridges, rail lines and airports—but rather how the plan would be funded: through increasing corporate taxes. With many profitable U.S. companies paying little or even no taxes in 2020, this will come as a shock. Companies (and many of their shareholders) will need to realize that their increased role in solving social and environmental challenges comes with an increased responsibility to pay their fair share of taxes.

FOCUS THEME SPOTLIGHT: INEQUALITY

Curbing executive pay: Companies hesitant to make the first move

By Hasina Razafimahefa, Manager, ESG Evaluations & Proxy Voting

Income inequality is a societal issue that companies can't ignore, as rising executive compensation contributes to the growing divide between the average worker and the C-suite executive. Yet, companies are wary of being the first to reduce their pay packages, because CEO compensation is primarily benchmarked against peers. And what company wants to lose its CEO because it's not paying as much as competitors?

NEI met with **Manulife**, **Visa**, **Intel** and **Thomson Reuters** in Q1 following the letters we wrote last year as part our feedback on proxy campaign, in which we raised concerns about excessive executive pay. We voted against their advisory vote on executive compensation and went one step further in the most extreme cases, to vote against members of the compensation committee.

While offering competitive pay is not fundamentally a problem, promoting executive pay increases at an exponential rate over the years most certainly is. We recognize that being the first among peers to curb pay is daunting, but we stressed to the companies that the cost of *not* taking action would be more catastrophic. We encouraged the companies to review their executive pay within a societal context and demonstrate whether it is justified from that perspective. We also question the assumption that pay packages alone determine a company's ability to attract the best talent. There must be a better way to incentivize executives beyond pure financial reward; if not, why can these companies retain other employees with much lower pay?

Manulife, Visa, Intel and Thomson Reuters shared our concerns about the risks of income inequality and were intrigued by our approach of comparing executive pay to the median household income in the U.S. and Canada. None of them pushed back on the idea of income inequality as a systemic risk. However, they questioned our thresholds for identifying excessive pay. Some argued the focus should be put on the actual amount paid to executives after taking into account company performance, rather than the target or realizable pay. Others zeroed in on the benefits of taxes paid and donations made by their executives to the benefit of the community, as an argument to offset the impact of high executive pay. In this context, we drew attention to the companies' compensation philosophy. Indeed, excessive pay is deeply rooted in what the company is willing to award its executives in the first place, even before considering company performance. Companies that reallocate money from executive compensation could drive sustainable value for their employees and communities in more meaningful ways.

U.S. companies are required under securities rules to disclose their pay equity ratio which compares the total CEO pay with that of the median employee. We have always been concerned about the potential for gaming this ratio and its unintended consequences, but given the lack of progress in disclosing other vertical pay metrics, we are encouraging companies to use this metric in thinking of vertical pay equity: how does that factor into their compensation structure? We asked Visa and Intel to consider whether the pay gap reflected in their current ratio is acceptable.

We will monitor how these companies integrate the societal context in their executive pay and will seek to engage the remaining 36 companies targeted by our feedback on proxy campaign.

ENGAGEMENT HIGHLIGHTS

Tackling diversity at Linamar

Focus theme: Inequality
Sub-theme: Diversity and inclusion

Ontario-based manufacturer **Linamar** is taking steps toward improving gender diversity in the organization, but there's work to be done. NEI met with two senior leaders to present our rationale for voting against members of the nominating committee at the company's latest AGM. Currently, Linamar does not meet our expectation for having two independent women on the board. Linamar acknowledges they could do more to recruit female employees generally and are actively working to make their program more inclusive.

Next steps: We will be keeping an eye on board composition, and we look forward to updates/additions to Linamar's board diversity policies and disclosures around gender diversity, and diversity beyond gender.

Connecting with pharma companies on product access

Focus theme: Inequality
Sub-theme: Equitable access

Pharmaceutical companies have had mixed success in promoting global access to COVID-19 treatment and vaccines, but we do applaud their willingness to engage investors throughout the pandemic. NEI spoke with **AstraZeneca**, **Pfizer**, and **Johnson & Johnson** at an event hosted by the Access to Medicine Foundation. We learned that AstraZeneca intends to apply the company's COVID-19 vaccine learnings to other products, and that J&J expects the next step in promoting better access will be to consider how to align their culture of innovation with their access strategy.

Next steps: In collaboration with other investors, we are strategizing our approach to probe further on the topic of global access to COVID-19 vaccines and treatment at pharma company AGMs.

CIBC keen to engage on net zero

Focus theme: Energy transition
Sub-theme: Net-zero commitments

CIBC is not the most advanced of Canada's banks in terms of ESG factors, but they are making headway and have demonstrated a will to engage and improve. NEI joined other investment firms on an annual call with the bank's (first female) chairperson and other board members to discuss carbon emission reductions, among other things. We encouraged the bank to set and disclose net-zero targets, which many competitors have already done.

Next steps: CIBC has embarked on a 3-year project to establish the baseline emission status of their loan portfolio, and we look forward to hearing about their progress and advising where we can.

Citigroup to sharpen COVID loan tracking

Focus theme: Inequality
Sub-theme: Diversity and inclusion

Citigroup and **Bank of America** have responded appropriately if unexceptionally to the pandemic situation, focusing on the health and safety of their employees by supporting the work-from-home transition, providing bonuses for essential staff, and enhancing benefits programs. NEI spoke to bank representatives as part of an annual engagement meeting organized by the Interfaith Center on Corporate Responsibility, where we encouraged the firms to review their digital banking services from a D&I perspective.

Next steps: Citigroup said they are implementing a process to better track the disbursement of pandemic support loans to ensure inclusivity, where current data is falling short.

PROGRESS REPORT: FACEBOOK

Sector
Information technology

Focus theme; sub-theme
Human rights; tech governance

Related UN Sustainable Development Goal(s)

Engagement activity
Small group virtual meeting

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Canadian Equity Fund; NEI Global Equity Fund; NEI Global Equity Pool; NEI Global Value Fund; NEI U.S. Equity RS Fund

An improved content moderation program, but gaps remain

Facebook has revised and enhanced its approach to content moderation and its human rights oversight and governance policies with the release of its Corporate Human Rights Policy, while acknowledging they may not have it all worked out just yet.

NEI and a small group of like-minded investors met with representatives from Facebook, primarily to hear how they're progressing in the area of content moderation. The meeting was organized by the Investor Alliance for Human Rights, a group that we have been a member of for many years and whose advisory committee we sit on. The attendees from Facebook were a senior human rights advisor, and a representative from their content policy team. While both employees have a human rights background, we do see the need to remain vigilant around the uptake of progressive policies at the executive and board levels.

Overall we felt the meeting was productive and that Facebook is taking steps forward in a difficult environment. Representatives were candid about the challenges they've been facing around content moderation, which were exacerbated in 2020 with the pandemic, the U.S. presidential election, and the resurgence of systemic racism, ugly evidence of which was on display across social media platforms.

One positive development was Facebook's stated effort to support and protect the accounts of human rights defenders, who rely on the accessibility and freedom of social media platforms to express their views, rally supporters and drive change.

We do see a fairly big gap in their new policy, which has no mention of the human rights issues at play with targeted advertising—a core feature of how Facebook makes money. The company will have to consider how its need to attract advertising dollars may be at odds with human rights. We saw the risks of this last year with the #stophateforprofit campaign. Facebook has so far been quiet about how they might solve for this problem—how this friction could allow for some hurtful content to be permitted to remain on the platform and spread.

Next steps: We look forward to reviewing Facebook's annual human rights impact report that we hope will speak to their efforts to address human rights risks embedded in their business model. The company did leave the door open for follow-up conversations and we trust this is the beginning of an ongoing dialogue.

PROGRESS REPORT: ROGERS COMMUNICATIONS

Sector
Communication services

Focus theme; sub-theme
Energy transition; net-zero commitments
Inequality; diversity and inclusion

Related UN Sustainable Development Goal(s)

13 CLIMATE ACTION
10 REDUCED INEQUALITIES

Engagement activity
Check-in meeting with senior leaders

Responsiveness
Highly responsive

Holding status (subject to change without notice)
NEI Canadian Equity RS Fund; NEI Canadian Dividend Fund; NEI ESG Canadian Enhanced Index Fund

A reinvigorated approach to corporate citizenship

Rogers Communications has made improving their ESG performance a corporate priority and has a renewed focus on GHG emission reductions while building on its work in diversity and inclusion, among other things.

NEI met with Rogers—currently in the midst of a yet-to-be-approved deal to buy Shaw Communications—to check in with this important Canadian organization. Attending from the Rogers side were various C-suite level executives from the communications, legal and regulatory, information security and human resources departments. They were eager to accept our invitation to touch base, and overall it was a productive and promising engagement.

At the top of our agenda was a discussion about the company's climate strategy. We were happy to hear that Rogers is working toward alignment with the Task Force on Climate-related Financial Disclosures and intends to use that as a framework for establishing their climate reporting. They have set an absolute GHG emissions reduction target of 25% by 2025 and are in the process of assessing further steps that could be taken. We commended their efforts to date and agreed they are on a good path, but we also encouraged them to be more ambitious in their targets; for example, by aligning them with the Paris Agreement ambition of net zero by 2050. Rogers takes the view that they are early in their journey for that level of commitment, which we acknowledged was a fair point of view at this time—but not for long.

We also took the opportunity to review Rogers' progress on the D&I front. We believe the company continues to make solid strides, and executives appear to be committed to their goal of having a workforce that reflects the full diversity of the country. They have a 5-year strategy that's owned by the CEO, and all executive-level employees have a scorecard for their respective departments to track progress against goals. To be clear, some of their framework has been in place for years, with a diversity and inclusion council established in 2015. Rogers has also been named one of Canada's Best Diversity Employers by Mediacorp.

Next steps: We encouraged and will continue to encourage Rogers to focus on enabling equitable access to the firm's digital services as internet connectivity moves from luxury to must-have for many Canadians. It's worth noting that as part of the Shaw deal, Rogers says it will create a $1B fund dedicated to connecting rural, remote and Indigenous communities across western Canada to high-speed internet service.

SUB-ADVISOR ENGAGEMENT HIGHLIGHTS

Monitoring climate plans at Nestlé

Addenda Capital

Addenda exchanged several emails with **Nestlé** to address questions about the company's Climate Action Plan, released at the end of Q4 2020. Addenda had contacted Nestlé last year about opportunities to address climate risk and emissions in the company's global supply chain. The plan sets ambitious objectives to redirect Nestlé's supply chain toward net-zero emissions through regenerative agriculture, reforestation, waste reduction and recyclability. In the emails, Addenda raised flags around the scope of offset use and scalability of proposed agriculture initiatives. They intend to monitor the rollout of Nestlé's plan and its impact on company emissions and risk.

Encouraging more disclosure at LVMH

Addenda Capital

Addenda met by phone with **LVMH** to discuss due diligence practices regarding modern slavery risk in the company's supply chain. In light of the evidence of Uyghur forced labour in the apparel supply chains in Xinjiang, China, Addenda is proactively contacting potentially exposed companies. There are no allegations connecting LVMH to forced labour in Xinjiang. Addenda's discussion with the company clarified some positive practices like group-wide minimum standards and targeted training. Addenda encouraged LVMH to disclose more information about its systematic risk identification processes and to explore global collaborative initiatives trying to eliminate the use of recruitment fees and other practices associated with forced labour.

Suggestions for improvement at PayPal

Federated Hermes (Q4, 2020)

PayPal acknowledged in Q4 2020 that it needs to better explain its human rights policy and processes and confirmed that it plans to complete its human rights saliency project by the end of Q2. This comes after Federated Hermes explained to the company early last year that it should carry out a human rights impact assessment. Federate Hermes has also asked PayPal to develop a plan to help merchants and end customers reduce greenhouse gas emissions, and to set targets around the increased employment of African Americans and Hispanics, particularly in senior and technical roles. PayPal has acknowledged both recommendations.

POLICY ADVOCACY

Climate change policy action ramps up on both sides of the border

By Jamie Bonham, Director, Corporate Engagement

There were significant developments for climate policy in Q1 that provide strong tailwinds for NEI's policy priorities. Perhaps most significantly, the new U.S. administration has made it very clear that climate action is an overarching policy priority that will have major knock-on effects for Canada. The renewed commitment touches on multiple policy areas we have been active in, from setting ambitious vehicle emission standards to reducing methane emissions from the oil and gas sector. The new administration seems intent to drive through substantive policy shifts that we will support through our U.S.-based collaborations, and this pressure will open the door for ambitious policy development in Canada.

On the home front, the Supreme Court ruling that the federal carbon pricing strategy is constitutionally sound has removed a key uncertainty facing the federal climate plan and will prompt industry and government to turn their attention to innovation.

The federal government also released its proposed Clean Fuel Regulations for comment, and we believe this will be another keystone piece of legislation that will drive real progress in emissions reduction. Our submission to the consultation affirmed our support for the standard and highlighted its potential to spur innovation that will ultimately make the domestic industry more competitive globally. Something we have heard over and over from companies is that they need certainty and consistency in policy to make major capital allocations to reduction opportunities, and we believe both these pieces deliver on that front.

Something that gathered less attention, but which might have significant ramifications for climate-related disclosure in Canada, was the Ontario government's initial response to the recommendations of the Capital Markets Modernization Taskforce. In regard to the recommendation that Ontario adopt mandatory climate-related disclosure in line with the Task Force for Climate-related Financial Disclosures, the government highlighted the priority of that topic in mandating the Ontario Securities Commission to follow up on the recommendations. We helped write the submission that led to the recommendation and will be lobbying the OSC to enact it. We aim to encourage other provincial securities regulators to follow suit.

A related development (that we will be supporting on several fronts) is the announcement by the U.S. Securities and Exchange Commission that they are seeking comment on what, how and from whom to require climate-related disclosures, signalling a possible move to propose climate disclosure rules in the near future. We believe the time is right to get ahead of the curve when it comes to mandatory climate-related disclosure and that 2021 may prove to be the year we finally see this goal realized.

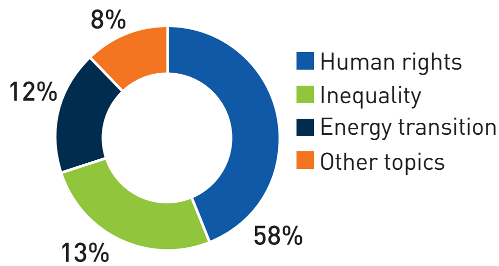
The new administration seems intent to drive through substantive policy shifts that we will support through our U.S.-based collaborations, and this pressure will open the door for ambitious policy development in Canada.

POLICY HIGHLIGHTS

- Submitted comments to the International Corporate Governance Network on their proposed revised Global Governance Principles.
- As part of the Boreal Champions initiative, co-signed a letter to the federal government indicating our support for new investments in Indigenous-led conservation, stewardship, and economic reconciliation as part of the pandemic recovery plan.
- Signed a global investor statement in support of equitable access to COVID-19 vaccines, medicine, and diagnostics.
- Submitted comments to the Sustainability Accounting Standards Board consultation on the materiality of human capital considerations, including diversity and inclusion, workers wages, and mental and physical health.
- Submitted comments to the federal government's consultation on its proposed Clean Fuel Regulations, supporting the implementation of the standard and recommending ways to strengthen it.
- Met with the Sustainability Accounting Standards Board to provide input on the development of a new disclosure framework for content moderation and governance in the tech sector.
- Signed an investor statement outlining expectations of the nursing home sector to address key concerns such as health and safety of employees, adequate wages and working conditions, and quality of care.

COMPANY ENGAGEMENT LIST

Engagements by focus theme



Alphabetical list of companies engaged between January 1 and March 31, 2021

List may not be exhaustive. Holding status is subject to change without notice.

Company	Sector	Focus theme	Sub-theme/topic	NEI holdings
Adidas	Consumer discretionary	Human rights	Supply chain risks	NEI International Equity RS
Alphabet	Communication services	Human rights	Supply chain risks; human rights due diligence	NEI Canadian Equity RS; NEI Canadian Dividend; NEI Canadian Equity; NEI Global Equity; NEI Global Equity Pool; NEI Global Equity RS; NEI Global Sustainable Balanced; NEI U.S. Equity RS
Amazon	Consumer discretionary	Human rights	Supply chain risks; human rights due diligence	NEI Global Equity; NEI Global Equity Pool; NEI Global Equity RS; NEI U.S. Equity RS
Apple	Information technology	Human rights	Supply chain risks; tech governance	NEI Global Equity; NEI Global Equity Pool; NEI Global Equity RS; NEI Global Sustainable Balanced; NEI U.S. Equity RS
AstraZeneca	Health care	Inequality	Equitable access	Sold
Bank of America	Financials	Energy transition	Alignment to TCFD; net-zero commitments; advancing stakeholder theory	NEI Canadian Dividend; NEI Global Equity Pool; NEI Global Equity RS; NEI Global Impact Bond; NEI Global Sustainable Balanced; NEI U.S. Equity RS
CIBC	Financials	Inequality; energy transition	Equitable access; net-zero commitments	NEI Canadian Dividend; NEI Canadian Equity; NEI ESG Canadian Enhanced Index; NEI Growth & Income; NEI Fixed Income Pool; NEI Money Market

Company	Sector	Focus theme	Sub-theme/topic	NEI holdings
Cisco Systems	Information technology	Human rights	Supply chain risks	NEI Canadian Dividend; NEI U.S. Dividend
Citigroup	Financials	Energy transition	Alignment to TCFD; net-zero commitments; advancing stakeholder theory	NEI Canadian Bond; NEI Canadian Equity; NEI Global High Yield Bond; NEI Global Total Return Bond; NEI Global Equity RS
Facebook	Information technology	Human rights	Tech governance	NEI Canadian Equity; NEI Global Equity; NEI Global Equity Pool; NEI Global Value; NEI U.S. Equity RS
H&M	Consumer discretionary	Human rights	Supply chain risks	NEI Global Dividend RS
Intel	Information technology	Human rights; inequality	Supply chain risks; equitable compensation	NEI Global Value
Johnson & Johnson	Health care	Inequality	Equitable access	NEI Canadian Equity RS; NEI Global Dividend RS; NEI Global Equity Pool; NEI U.S. Equity RS
Kinder Morgan	Energy	Energy transition	Net-zero commitments	NEI U.S. Dividend
Kirkland Lake Gold	Materials	Inequality	Diversity and inclusion	NEI ESG Canadian Enhanced Index
L Brands	Consumer discretionary	Human rights	Supply chain risks	NEI Global High Yield Bond
Lightspeed POS	Information technology	Inequality	Diversity and inclusion	NEI ESG Canadian Enhanced Index
Linamar	Consumer discretionary	Inequality	Diversity and inclusion	NEI Canadian Equity RS; NEI ESG Canadian Enhanced Index
LVMH	Consumer discretionary	Human rights	Supply chain risks	NEI Global Equity; NEI International Equity RS
Microsoft	Information technology	Human rights	Supply chain risks	NEI Canadian Dividend; NEI Global Total Return Bond; NEI Global Dividend RS; NEI Global Equity; NEI Global Equity Pool; NEI Global Equity RS; NEI U.S. Equity RS
NAVIENT	Financials	Human rights	Human rights due diligence; advancing stakeholder theory	NEI Global High Yield Bond

Company	Sector	Focus theme	Sub-theme/topic	NEI holdings
Nike	Consumer discretionary	Human rights	Supply chain risks	NEI Global Equity
Nintendo	Communication services	Human rights	Supply chain risks	NEI Global Equity
Nokia	Information technology	Human rights	Supply chain risks	NEI Global Sustainable Balanced
Pfizer	Health care	Inequality	Equitable access	NEI Canadian Dividend; NEI U.S. Dividend
Procter & Gamble	Consumer staples	Inequality; energy transition	Diversity and inclusion; plastics circularity; advancing stakeholder theory	NEI Global Dividend RS; NEI Global Equity Pool; NEI Global Equity RS; NEI U.S. Equity RS
Rogers Communications	Communication services	Inequality	Diversity and inclusion	NEI Canadian Equity RS; NEI Canadian Dividend; NEI ESG Canadian Enhanced Index
Samsung	Information technology	Human rights	Supply chain risks	NEI Emerging Markets; NEI Global Equity; NEI Global Equity RS; NEI Global Value
Sony	Consumer discretionary	Human rights	Supply chain risks	NEI Global Equity; NEI Global Equity Pool; NEI Global Equity RS; NEI Global Value
Thomson Reuters	Consumer discretionary	Inequality	Equitable compensation	NEI Canadian Equity Pool; NEI ESG Canadian Enhanced Index
TJX Cos	Consumer discretionary	Human rights	Supply chain risks	NEI Global Equity; NEI Global Equity RS
Toromont Industries	Industrials	Energy transition	Alignment to TCFD	NEI Canadian Equity RS; NEI Canadian Small Cap Equity RS; NEI Canadian Bond; NEI ESG Canadian Enhanced Index; NEI Fixed Income Pool
Visa	Financials	Inequality	Equitable compensation	NEI Global Dividend RS; NEI Global Equity Pool; NEI Global Equity RS; NEI Global Sustainable Balanced; NEI U.S. Equity RS
Walt Disney Co	Consumer discretionary	Human rights	Supply chain risks; human rights due diligence	NEI Global Equity RS

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