

Time and again, Loblaw has proven itself to be among the country's leaders in corporate sustainability. But they didn't get there alone. In this case study, we share highlights of a productive collaboration spanning 15 years and counting.

Loblaw Companies is among the biggest retailers in Canada, with close to 200,000 employees at well-known stores such as Shoppers Drug Mart, Real Canadian Superstore, No Frills, President's Choice Financial, and Joe Fresh.

NEI initiated a dialogue with Loblaw in 2002, forging the path of corporate engagement that other concerned investors would later follow. Through those early years, we helped the company recognize that with a big footprint comes big responsibility. In 2008, Loblaw published its first Corporate Social Responsibility report, where Executive Chairman Galen Weston said this: "We are driven to act because we care, and are mindful of our opportunity to make a difference with simple, but committed actions because of our size and impact."

NEI Investments has collaborated with Loblaw on a range of initiatives over the years to help the company "make a difference" for customers, employees, supply chain workers and investors. While we would characterize our relationship as positive and congenial, we've also had our share of tough conversations. And that's to be expected. The environmental, social, and governance challenges facing companies today are complex. There can be dozens of disparate stakeholders, often with competing interests. It's a journey we take with open eyes.

Easing up on energy use

We saw years ago that Loblaw had the potential to become a leader on climate. We took charge of the issue, encouraging the company to articulate a public position in support of policy action. In 2016 Loblaw published its climate strategy and joined collaborations such as the Carbon Pricing Leadership Coalition and the Smart Prosperity Leaders Initiative.

It is often said that what gets measured, gets managed. From the start, Loblaw has reported its performance against annual targets, demonstrating a clear commitment to transparency.

Loblaw has committed to cutting its carbon footprint 20% by 2020, and 30% by 2030. By 2017, it had reduced emissions by 22% from 2011. Here's a sample of Loblaw's latest carbon reduction efforts:

- Cut grocery store electricity use by 4.3% per square foot (2017)
- Installing low-energy lighting and more efficient refrigeration technology
- Unveiled a fully-electric truck and hybrid refrigerated trailer, allowing zero-carbon grocery deliveries
- Ordered 25 Tesla trucks

Reducing energy use comes with benefits beyond the obvious environmental impact. It can also mean lower operational costs, which can be passed to consumers in the form of lower prices, and to investors in the form of higher profitability.

Paying the highest price

In 2012, as the Joe Fresh clothing line was expanding, we urged Loblaw to demonstrate how it was addressing risks associated with garment factory conditions around the world.

Risk became reality in April 2013 when Rana Plaza collapsed in Bangladesh, killing over 1,100 textile workers and injuring thousands more. It's among the worst industrial accidents in history. Joe Fresh clothing was manufactured there, along with apparel from many other companies.

Loblaw was among the first to step up, committing \$5 million in compensation and relief aid. The company also pledged to continue sourcing from Bangladesh to provide jobs, but with increased attention to building safety and working conditions. Ongoing initiatives include:

- Safety assessments at garment factories around the world
- Compliance staff based in key countries
- Publishing names of source factories (since 2017)

For our part, we follow up on a regular basis with Canadian companies' responsible sourcing practices. We have also taken a lead in collaborative engagement with the Retail Council of Canada.

Good governance

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In 2011 the company introduced multi-year plans and targets for key areas of its sustainability practice. The Corporate Social Responsibility report is reviewed by the

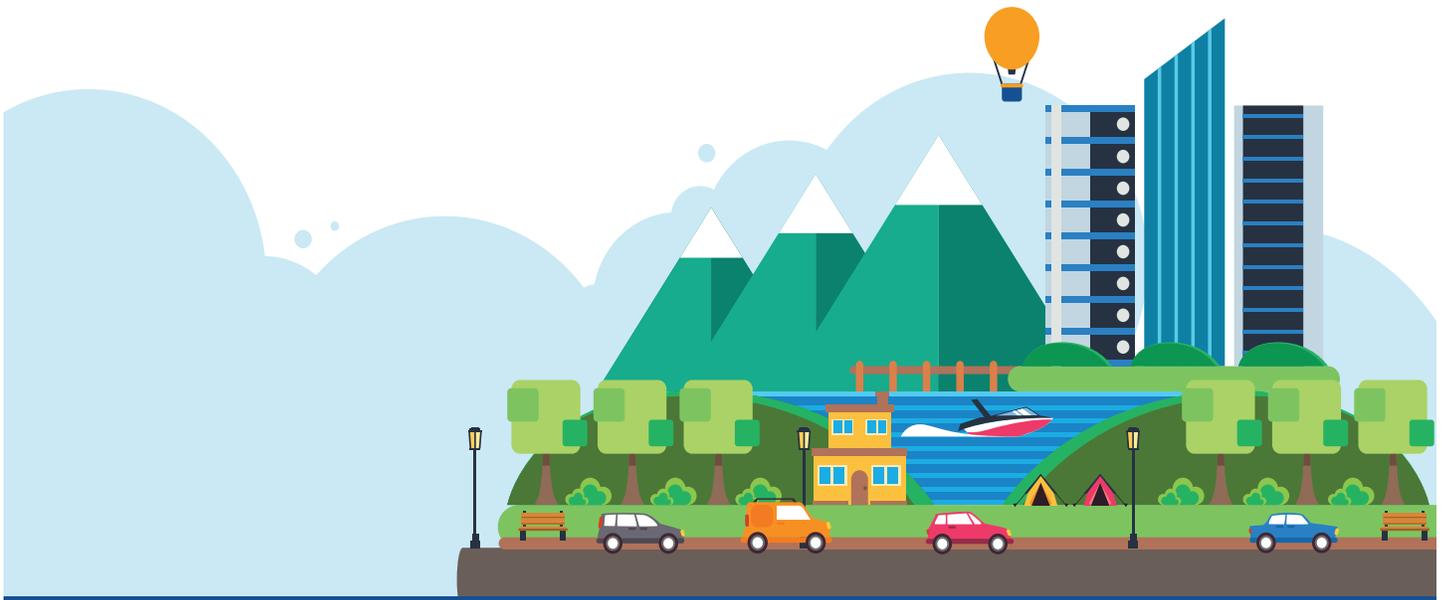
Environmental, Health and Safety Committee of the board of directors. And every year, in the spirit of collaboration, Loblaw consults with stakeholders on the report. Our most recent conversations have revolved around supply chain due diligence, carbon footprint reduction, and farm animal welfare.

Is the process perfect? Certainly not. Can we do better? Always. But we believe our dialogue with Loblaw over the past 15 years has been exceptionally productive, helping improve outcomes for all stakeholders.

INVESTMENT HIGHLIGHTS

As of March 31, 2019

- **3:** Number of funds managed by NEI Investments that hold common shares of Loblaw
- **\$41,150,032:** Collective value of Loblaw common shares held in funds managed by NEI Investments
- **2:** Rank of Loblaw within NEI Canadian Equity RS Fund as measured by total market value (5.8% of total fund holdings)
- **204.8%:** Total return of Loblaw common shares, including dividends, from January 1, 2008 (the year Loblaw published its first Corporate Social Responsibility report). Source: Morningstar.



NEI

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