

NEI



CORPORATE ENGAGEMENT
Focus List 2018



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You can't change a company you don't have a stake in

We use the special rights that come with shareholder status to expand our investable universe and create positive change on behalf of our investors. Through engagement, we alert companies to ESG risks, propose solutions, and encourage them to improve their performance.

Corporate engagement strategy

Focus List Dialogues

- Targeted, in-depth dialogues with companies on material ESG issues - independently or through collaboration
- Filing shareholder proposals where necessary, if dialogue is not progressing
- Responding to proactive requests from companies from an investor perspective on sustainability issues

Proxy Voting

- Engaged voting on agenda items at company annual meetings based on guidelines promoting sustainability and good governance, with outstanding voting transparency
- "Feedback on Proxy" providing input to companies on governance policies and practices

Public Policy

- Engaging policy-makers on corporate regulations and standards to create change on a broader scale and facilitate responsible investment

Engagement by the numbers 2017

818 Company Meetings voted

25 Public Policy actions

128 Focus List Dialogues

The Focus List

The centrepiece of our corporate engagement strategy is the Focus List - our annual program of dialogue with companies on ESG topics:

Strategic Dialogues with sector leaders that, over time, can lead to breakthroughs in corporate sustainability practice and disclosure

Tactical Dialogues launched in response to emerging risks and opportunities, and at companies facing specific ESG challenges

We select companies for dialogue based on:

- Investment exposure - the scale of holdings within our funds
- Risk and opportunity exposure - the significance of the ESG issues identified
- Impact potential - where our intervention is most likely to result in change

We publish quarterly and annual updates on the progress of all our company dialogues on our website.

Engagement takes time - *but it's worth the effort*

Over more than 15 years of corporate engagement, we have seen significant progress at many companies. Change doesn't happen overnight, but research suggests that ESG dialogue enhances value¹ while creating sustainability benefits. A 2016 Harvard Business School study found that engagement by shareholders on material environmental and social issues was associated with subsequent increases in company value. According to 2017 research commissioned by the Principles for Responsible Investment (PRI), companies that were targets of successful ESG dialogues within collaborative engagements experienced improved profitability², while another PRI research project found that engagement creates benefit for both investors and companies through information exchange, knowledge development, relationship-building and enhanced attention for sustainability issues³.



What guides us?

We draw on established norms and standards to define our responsible investment approach, including the global Sustainable Development Goals, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines, the corporate responsibility standard endorsed by the Government of Canada.

Engagement goals & themes

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

We continue to prioritize work to address systemic climate risk, seeking a just and equitable transition from fossil fuel dependency to a low-carbon economy. We will engage Canadian companies on the recommendations of the Financial Stability Board Taskforce on Climate-related Disclosure, which set new expectations for investors and issuers to communicate their response to the climate challenge. We will continue our dialogue with Canadian and U.S. oil and gas companies on their strategy for a low-carbon future, and with banks on role of finance in facilitating the energy transition. We will also undertake engagement to support the global Climate Action 100+ initiative targeting the world's largest emitters.



Responsibility to respect

All companies should implement human rights due diligence consistent with the UN Guiding Principles on Business and Human Rights. We will continue to work on responsible supply chain management and addressing labour rights abuses, with special attention for apparel companies. The integration of human rights concerns to lending policies and practices will remain a key focus for financials holdings. We will continue to advocate for the principle of free, prior and informed consent (FPIC) of indigenous peoples.



Food from farm to fork

Sustainable food production and distribution is fundamental to strong economies. We will continue to explore environmental and social risk in the food value chain, with a focus on climate risk, nutrition, human rights, labour standards and animal welfare.



Making pharma better

The health care sector has great potential to contribute to sustainable development, but controversies continue to make headlines and create risk to value. We will continue to focus on pharma ethics, including product safety, access to medicines, drug pricing and governance concerns. We will also explore the role of health care companies in the North American opioid crisis.



Governance Matters

Good corporate governance is the foundation for environmental, social and financial outperformance. We will continue to deliver feedback to companies on a range of governance issues, including board capacity and independence and executive compensation, with special attention for the companies to which our funds are most exposed. We will focus our diversity efforts on Canadian and Japanese companies that still lack representation of women on the board. We will also lead dialogues with selected global companies on responsible tax policy and cybersecurity governance.

Corporate Dialogue

In 2018 we plan to pursue dialogue with companies including:



STRATEGIC SECTOR GOALS

Position for the energy transition, focus on innovation. Play a progressive role, support effective environmental regulation while going beyond compliance in performance. Respect human rights, have a positive relationship with indigenous communities, following the principle of free, prior and informed consent.

ENERGY

Canadian Natural Resources ☀️

- Cenovus ☀️
- Chevron ☀️ 🔧
- Enbridge ☀️ ❤️
- Exxon ☀️
- Occidental ☀️
- Suncor ☀️

Utilities

ATCO/Canadian Utilities ☀️

STRATEGIC SECTOR GOALS

Address environmental and social risks in the supply chain, as well as in the company's own operations.

CONSUMER

- Aritzia 🔧
- Amazon ❤️ 🔧
- Canadian Tire ☀️ ❤️
- Coca-Cola 🔧
- Lassonde ❤️ 🔧
- Leon's ❤️ 🔧
- Loblaws ☀️ ❤️ 🔧
- Metro ☀️ ❤️ 🔧
- Pepsi 🔧
- Restaurant Brands ☀️ ❤️ 🔧
- Target 🔧

Healthcare

- Johnson & Johnson + 🔧
- Pfizer +

IT & Telecoms

- Alphabet (Google) 🔧
- Apple 🔧
- Verizon 🔧

STRATEGIC SECTOR GOALS

Provide services that meet social needs. Avoid risk-taking that can damage the economy as a whole. Take environmental and social impacts into account in lending and investment.

FINANCIAL

- BMO ☀️ ❤️ 🔧
- CIBC ☀️ ❤️ 🔧
- Royal Bank of Canada ☀️ ❤️ 🔧
- Scotiabank ☀️ ❤️ 🔧
- TD Bank ☀️ ❤️ 🔧
- Wells Fargo 🔧

ENGAGING FOR SUCCESS

Fossil-fuel energy companies should disclose to investors how they are preparing for the transition to a low-carbon economy. Responding to engagement, in 2017 Suncor published its first low-carbon resiliency report, which it had agreed to do in supporting our 2016 shareholder proposal. Cenovus also committed to publish a resiliency report. In response to collaborative engagement with U.S. colleagues, Chevron took steps towards carbon resiliency reporting, while Exxon made commitments on methane emissions reductions and publicly supported a price on carbon.

ENGAGING FOR SUCCESS

Since 2014 we have been urging Coca-Cola to address changing consumer preferences and reduced demand for soda beverages, initiating and leading collaborative dialogue on this sensitive issue. In 2017 the new CEO announced strategy changes including more attention for nutrition and sugar concerns, product innovation and maintaining social license - topics that have been the focus of dialogue.

ENGAGING FOR SUCCESS

Ten years ago we began engaging Canadian banks on integrating environmental and social risk considerations to lending policies - now an established practice. Against the background of controversy over pipeline projects, in 2017 we engaged with banks across our global holdings to support enhanced consideration of indigenous rights in lending standards. It was announced that the Equator Principles project finance sustainability standards would be reviewed, while the OECD began work on environmental and social due diligence guidance for lenders.



Proxy Voting & “Feedback on Proxy”

In our proxy voting and feedback we will give special attention to:

- Governance at companies to which our funds have higher exposure
- Board diversity at Canadian and Japanese companies
- Board oversight of material environmental and social issues, with a focus on climate risk

ELIMINATING RISK FROM THE START

The proposed framework for improving Canada’s environmental assessment processes included several ideas we had advocated for in policy submissions, such as the use of regional strategic environmental assessments to address the cumulative impacts of individual projects.

MAKING PROGRESS ON BOARD DIVERSITY

For the past three years, board diversity has been a special focus of our proxy feedback dialogue. In 2014, fourteen Canadian companies in our holdings had no representation of women on the board. In 2017, only five companies still had no gender diversity on the board.

Public Policy

Our public policy priorities will include:

- Enhanced indigenous rights provisions under the Equator Principles standard for project finance, and strong guidance for banks on due diligence under the OECD Guidelines, that will support our dialogues on responsible lending
- Successful completion and follow-up on the Canadian Coalition for Good Governance project on best practice guidance for Canadian companies on environmental and social risks
- Integration of ESG to Canadian disclosure standards, with a focus on climate risk

Collaboration

We often collaborate with peer investors and other stakeholders, where this will allow us to advance ESG policy, practice and performance more effectively:

We will sit on the board or participate in working groups at the International Institute for Sustainable Development, the International Corporate Governance Network, the Principles for Responsible Investment, the Canadian Coalition for Good Governance, the Responsible Investment Association of Canada, the Interfaith Center for Corporate Responsibility and Ceres.

We will play a convening role in Canadian investor collaborative engagement and participate in international investor collaborations including:

- Access to Medicine (ICCR)
- Access to Nutrition (ICCR)
- Business Benchmark on Farm Animal Welfare
- Climate Action 100+
- Cybersecurity (PRI)
- Investor Alliance for Human Rights (ICCR)
- Investors for Opioid Accountability
- Labour Standards in the Agricultural Supply Chain (PRI)
- Responsible Corporate Tax (PRI)
- Sustainable Stock Exchanges (PRI)

¹ <https://corpgov.law.harvard.edu/2016/07/25/shareholder-activism-on-sustainability-issues/>


² <https://www.unpri.org/news/local-leads-backed-by-global-scale-the-drivers-of-successful-engagement>


³ <https://www.unpri.org/news/how-esg-engagement-creates-value-bringing-the-corporate-perspective-to-the-fore>

For updates on the progress of our Focus List dialogues and other corporate engagement activities:

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