Focus List 2024

A guide to our responsible investment themes and the companies we’re talking to this year

NEI

As responsible investors, our goal is to grow long-term sustainable value for our clients.

We believe one of the most effective ways to pursue that goal is to exercise our rights as shareholders, using corporate engagement and proxy voting to influence corporate direction. In a spirit of collaboration, we discuss with companies how they can improve their environmental, social and governance performance to achieve long-term sustainability.

These activities fall under the umbrella of *stewardship*, what we formerly referred to as active ownership. We define stewardship in line with the Principles for Responsible Investment: "[Stewardship is] the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend."[1]

Digging deeper, we look to the International Corporate Governance Network as they explain the *purpose* of stewardship:

> ...investor stewardship helps to promote high standards of corporate governance which contributes to sustainable value creation, thereby increasing the long-term risk adjusted rate of return to investors and their beneficiaries or clients. At an investor level, stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. This includes the consideration of wider ethical, environmental, and social factors and the consideration of relevant systemic risks as core components of fiduciary duty.
>
> In a broader context, stewardship enhances overall financial market stability and economic growth, and, by focusing on long-term value creation, stewardship is directly linked to sustainable benefits for the economy, environment, and society.[2]

The other main activity we undertake as part of our stewardship program is policy advocacy. Engaging on policy and standards in Canada and globally enables us to contribute to system-wide change. Whether we are talking with policymakers, regulators, standard setters, or industry associations, the time and energy we dedicate to this area can raise the bar for everyone.

Our Focus List provides a snapshot of our planned corporate dialogues for the year, as well as our anticipated areas of policy work. Many of the themes, companies, and policy initiatives identified here have been on our agenda for many years, if not decades. As always, we look forward to progressing on the work our clients count on us to undertake as part of our commitment to their financial well-being.

[1] https://www.unpri.org/stewardship/about-stewardship/6268.article.
[2] International Corporate Governance Network, ICGN Global Stewardship Principles, 2020, https://www.icgn.org/icgn-global-stewardship-principles.

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What is capital?

In traditional finance, return on investment is defined as the incremental return earned on the initial outlay of financial capital or the cost of the investment.

The investment may include the purchase of assets, such as equipment or materials or the employment of labour, with the expectation that future cash flows generated from this investment of capital will provide higher returns over its cost. However, this limited definition of capital has failed to capture indirect costs or externalities, with the concomitant risks to investors rising more every day.

Failure to appropriately value other forms of capital—particularly natural capital and social capital—has caused a buildup of systemic risks for all businesses. As institutional investors responsible for our clients' financial well-being, we must strive to mitigate these risks to our portfolio with no small amount of urgency. The headline risk most familiar to anyone is of course climate change. But other nature-related topics are climbing investors' list of threats to long-term value, such as resource exploitation and land-use change. On the social capital side we have risks such as labour disputes, inequality, and access to healthcare, among many others.

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services defines natural capital as "the stock of renewable and non-renewable natural resources (plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people."[3] Looked at that way, it should be blindingly obvious how incredibly valuable natural capital is to many types of businesses. And yet, because historically these capital assets have been attributed little to no value at all—essentially free for the taking, presuming one can afford the means of taking—it remains an incredibly steep uphill climb to alter corporate thinking regarding them.

Social capital can perhaps be conceived more easily in relation to human capital. An oft-cited definition of human capital comes from the Organization for Economic Cooperation and Development, which states it is the "knowledge, skills, competencies and other attributes embodied in individuals that are relevant to economic activity."[4] The key phrase there is *embodied in individuals*. Social capital is defined by the OECD as the "networks together with shared norms, values and understandings that facilitate co-operation within or among groups."[5] Social capital is about relationships *within or among groups*.

You will see we have revised two of our focus themes this year to include the word capital. Whereas last year we identified human rights and inequality as major themes, this year we roll them up under the broader concept of social capital, which for our purposes includes human capital. Meanwhile, as the investment perspective zooms in on nature-related risks, we have evolved our naming convention for that theme from biodiversity (2022) to nature (2023) to natural capital (2024).

We want to give these topics the weight they deserve by declaring them to be crucial inputs to long-term value creation, using language and concepts familiar to the investment and finance communities. As with any capital asset, natural and social capital must be appropriately valued and managed by any who seek to generate a profit from their use. The question is then, how can we help companies in our investment portfolio do a better job with this? The answer, for us, is stewardship.

This year we look forward to speaking with dozens of companies across many industries, and to voting at hundreds of annual general meetings. Our goal is to help companies boost their potential to create long-term sustainable value by improving management of natural and social capital, which, if effective, may reduce risk over the long-term and open the door to opportunity for our investors.

[3] https://www.ipbes.net/glossary-tag/natural-capital. [4] Organization for Economic Cooperation and Development, Human Capital Investment, May 1998. https://www.oecd-ilibrary.org/education/human-capital-investment_9789264162891-en. [5] OECD, The Well-being of Nations: The Role of Human and Social Capital. May 2001. https://www.oecd-ilibrary.org/education/the-well-being-of-nations_9789264189515-en.

Summary of focus themes

Social capital

We strongly believe that businesses have a responsibility to respect the rights of stakeholders. Globally held laws, standards and perspectives on human rights, workers' rights, community relations, and Indigenous rights and reconciliation reinforce the fact that the values attached to these dimensions of social capital form a strong basis for the functioning of our society—and of business. This year we will continue our longstanding stewardship initiatives across various social capital issues, focusing on human rights in the supply chain, digital rights, human capital, equitable compensation, and equitable access. Companies in focus include **AbbVie**, **JPMorgan Chase**, **Alphabet**, and **Newmont**.

Natural capital

Natural capital is a global asset that all businesses rely on to one degree or another. The complex array of a company's impacts and/or dependencies on nature creates risks and opportunities. In order to deliver sustainable value for our clients, we continue to build and refine our approach to understanding those risks and helping companies manage them appropriately while taking advantage of opportunities as they arise. Our top three areas of focus are: impact and dependency assessment, deforestation, and water. Companies in focus include **TD Bank**, **LVMH**, **Amazon**, and **Sony**.

Net-zero alignment

The energy transition continues along its bumpy road and the growing polarization around how best to tackle it is something we will keep a wary eye on this year. The presidential election in the U.S. adds uncertainty around whether the clean energy momentum of the Biden administration's Inflation Reduction Act will continue to be a dominant theme, while in Canada, the political environment has companies wondering which way the regulatory winds will blow. If anything, the constant churn of the climate news cycle just emphasizes the importance of focusing on the most material issues when it comes to climate and driving long-term sustainable and resilient change that sets companies up for the transition. Our top three areas of focus are: net-zero commitments and just transition plans, reducing methane emissions, and responsible mining. Companies in focus include **Enbridge**, **Vestas Wind Systems**, and **AltaGas**.

Social capital

We strongly believe that businesses have a responsibility to respect the rights of stakeholders. Globally held laws, standards and perspectives on human rights, workers' rights, community relations, and Indigenous reconciliation reinforce the fact that the values attached to these dimensions of social capital form a strong basis for the functioning of our society—and of business.

A company's relationship with its stakeholders is at the core of its ability to generate long-term sustainable value. These relationships are assets for a company that is genuine in its commitment to take a rights-respecting approach to how it conducts its operations and works with other entities. Similarly, a company with operations and business relationships that erode the rights of other stakeholders can potentially face legal liability as well as regulatory and reputational risks along with their associated costs.

In 2023, social capital issues such as human rights and human capital were high on the agenda of regulators and standard setters. For example, while its future at the time of this publication is unclear, negotiations around the Corporate Sustainability Due Diligence Directive have garnered much global attention. Meanwhile, the International Sustainability Standards Board raised social issues for consideration as a priority, and the Canadian Securities Administrators sought feedback on how to further enhance diversity disclosure requirements for corporate issuers.

We seek to uphold the rights of various stakeholders in our investment process with the data we have available to us, and we encourage more reporting and better transparency for investors and other stakeholders on social issues. We monitor our holdings for controversies which could indicate a lack of appropriate human rights risk assessment or due diligence processes, thereby exposing a company to reputational risk. If a company is flagged for concerning conduct, we may request more information or push for corporate action in response to the issue. If we are dissatisfied with a company's response, divestment is a tool we may use in extreme cases due to the potential for material downside risk to a company's value.

This year we will continue our longstanding stewardship initiatives across various social capital issues. Some activities are driven and implemented by NEI, others we conduct in collaboration with other investors through organizations such as the Interfaith Center on Corporate Responsibility, the Investor Alliance for Human Rights, the Ceres' Valuing Water Finance Initiative, the World Benchmarking Alliance, and Climate Engagement Canada. The five sub-themes below represent our top areas of activity, with Indigenous reconciliation a key consideration among all of them, particularly in the context of companies operating in Canada, where we see the conversation turning from risks to opportunities.

A company's relationship with its stakeholders is at the core of its ability to generate long-term sustainable value.

Human rights risks in the supply chain

Long-term objective: Human rights risks are identified and mitigated, and violations are remedied throughout the supply chain.

We will continue to advance this work across a series of solo and collaborative engagements. The relative lack of consistent and comparable information published by companies about how they identify, mitigate, respond to, and remedy human rights issues means effective engagement is crucial for understanding company context, so we can better evaluate risk in our decision-making processes. Research and insights published by benchmarks such as KnowTheChain[6] help guide our work by providing analysis on supply chain risks facing many companies in our portfolio. An example of a company-specific objective that would fall under this sub-theme is enhancing disclosure on supply chain, audit, and human rights due diligence processes.

Digital rights

Long-term objective: Companies have robust systems in place to uphold digital rights and mitigate risks.

The rapid evolution of technology requires companies to ensure respect for freedom of expression and privacy. Global discussions about the implications of artificial intelligence are now common as stakeholders articulate expectations for ethical AI, given the risk of bias, discrimination, misinformation and other human rights concerns. We will continue our collaborative engagements facilitated by the Investor Alliance on Human Rights and the World Benchmarking Alliance. Through the World Benchmarking Alliance's collaborative engagement on AI, we will be seeking to engage more deeply on issues such as effective implementation of ethical AI principles and how human rights impact assessments apply to high-risk use cases of AI.

Human capital

Long-term objective: Workers are respected, treated equitably, and paid fairly.

We consider worker issues in the different elements of our investment decision-making process, including how we asses ongoing eligibility of companies for investment. Human capital controversies can flare into major worker morale issues and raise significant legal and regulatory risks. However, they can also be more nuanced and have a lower profile, gradually increasing costs or presenting as missed opportunities over time. Human capital issues include health and safety; a living wage; and diversity, equity, inclusion and belonging. In our policy efforts last year we highlighted to regulators the need for enhanced diversity disclosure in Canada, and we expect that work to continue this year as opportunities arise. We will continue to integrate human capital issues into both solo and collaborative engagements, with one of our company-specific objectives being for companies to assess and report on workplace culture.

[6] https://knowthechain.org/benchmark/

Equitable compensation

Long-term objective: Executive compensation is reasonable and tied to positive non-financial results.

Equitable compensation continues to be a contentious issue for many corporate boards. The conventional wisdom states that you pay for performance, thus the more you pay, the better your performance will be. Board compensation committees are quick to point out that the excessive salaries paid to many CEOs are performance based, therefore they deserve their generous payouts. Yet time and again we see excessive compensation whether share price performance is good, bad or indifferent. We think the current generosity of boards is potentially worse than simply a questionable use of shareholders' money, as we believe there are potential downside risks with placing so much emphasis on a single individual, from encouraging excessive risk-taking, demotivating staff who might be making up to 400 times less,[7] and the broader impact that excessive CEO pay has on social inequality—an issue that has systemic impacts. We will continue our work in this area, encouraging companies to enhance their compensation frameworks by using vertical pay metrics, while asking them to consider the broader implications of outsized pay.

Equitable access

Long-term objective: Fair and inclusive access to goods and services.

To date, most of our efforts on this sub-theme have been focused on healthcare and pharmaceutical companies—specifically the need for safe and inclusive global access to drugs and medicines. As an investor with a globally diversified portfolio, we are mindful of systemic issues with systemic impacts. Health care companies depend on a social licence to operate, which could be compromised when an access mandate is not effectively pursued or implemented. Further, a healthy society provides sector-agnostic benefits, as all companies depend on workers and those workers must be healthy to work. A healthy society in turn supports a productive economy. This work has been a longstanding feature of our stewardship program, which will continue through our participation in collaboratives such as the Interfaith Center on Corporate Responsibility and the Access to Medicine Foundation's investor collaborative.

Table 1: Social capital – selected companies in focus

Company	Sector	Sub-theme	Company-specific Objective	Category Objective
AbbVie	Health care	Equitable access	Disclose how the impact of extended patent exclusivities on product access would be considered in deciding whether to apply for secondary and tertiary patents.	Improve disclosure
Alphabet	Communication services	Digital rights	Enhance disclosure on the company's approach to conducting human rights impact assessments and responding to the findings.	Improve disclosure
JPMorgan Chase	Financials	Equitable compensation	Enhance compensation framework.	Create or improve a policy or process
LVMH	Consumer discretionary	Human rights risks in the supply chain	Enhance disclosure on supply chain, audit and human rights due diligence processes.	Improve disclosure
Newmont	Materials	Human capital	Assess and report on workplace culture.	Improve disclosure

There is often more than one sub-theme and/or objective associated with each company; only one sub-theme and objective is included in this table for illustrative purposes. Objectives are subject to change as engagements evolve over time. See page 21 for more information about our objective categories.

[7] Economic Policy Institute, October 4, 2022. https://www.epi.org/publication/ceo-pay-in-2021/.

Natural capital

Natural capital is a global asset that all businesses rely on to one degree or another. The complex array of a company's impacts and/or dependencies on nature creates risks and opportunities. In order to deliver sustainable value for our clients, we continue to build and refine our approach to understanding those risks and helping companies manage them appropriately while taking advantage of opportunities as they arise.

The focus on nature is a global one. The UN Biodiversity Conference (COP15) in 2022 led to the formation of the Global Biodiversity Framework, a set of goals and targets that include the role of the private sector.[8] There have also been regional legislative developments such as the UK Environment Act,[9] the European Union Deforestation Regulation,[10] and the Forest Act, a bill introduced in the United States.[11]

These policy and regulatory developments have been complemented by enhanced expectations from standard-setters. For example, in 2023 the Taskforce on Nature-related Financial Disclosures (TNFD) released its framework to guide voluntary reporting,[12] and the first nature targets were released by the Science Based Targets Network.[13] Regulatory and voluntary reporting developments are underway; companies that fail to respond could potentially face enforcement practices and reputational damage. More practically, they could face supply disruptions if, for example, a company does not have a reliable water supply when water is a necessary production input. Companies could lose their competitive advantage as consumers become more conscious of the ecological impact of their purchasing decisions.

We have been proactively engaging with companies on nature-related risks and drivers of nature loss, such as deforestation. In 2023 we conducted solo engagements and participated in collaborative engagements through groups such as the Finance Sector Deforestation Action, Ceres' Valuing Water Finance Initiative, and Climate Engagement Canada.

[8] https://www.cbd.int/article/cop15-cbd-press-release-final-19dec2022. [9] https://www.legislation.gov.uk/ukpga/2021/30/contents/enacted.
[10] https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en. [11] https://www.congress.gov/bill/117th-congress/senate-bill/2950.
[12] https://tnfd.global/recommendations-of-the-tnfd. [13] https://sciencebasedtargetsnetwork.org/how-it-works/the-first-science-based-targets-for-nature/.

Like all investors, we are faced with data gaps that limit quality and comparable information from companies on this issue, but that cannot stop us from advancing our work. Using a data platform called ENCORE, we evaluate the ways the sectors in our portfolio impact nature and are in turn dependent on it. We have developed an internal framework that articulates our evolving expectations of companies facing the highest impacts and dependencies on nature. This will enable us to deepen our consideration of nature in our investment decision-making and better identify the companies in our portfolio with the greatest risks and opportunities. Engagement is particularly helpful in obtaining company-specific context, especially given data limitations. We are also further embedding nature considerations, especially deforestation, into our Proxy Voting Guidelines and into our evaluation program to determine eligibility for investment.

We would emphasize that natural capital does not exist in a silo. These issues are deeply connected to climate change and social issues, such as human rights and Indigenous rights and reconciliation, and we strive to embed these interconnections throughout our stewardship activities.

The theme of natural capital encompasses three sub-themes for us this year, though that does not limit us from considering other topics as well. These sub-themes reflect priority areas for NEI and build on our previous work. We would emphasize that natural capital does not exist in a silo. These issues are deeply connected to climate change and social issues, such as human rights and Indigenous rights and reconciliation, and we strive to embed these interconnections throughout our stewardship activities.

Impact and dependency assessment

Long-term objective: Companies are transparent about their impacts and/or dependencies on nature.

There is a strong need for companies to conduct and disclose impact and dependency assessments. They must ask themselves, How are we impacting nature, and in what ways do we depend on it? Examples of negative impacts on nature include pollution due to mine tailings and the cutting down of ancient trees and primary forests, causing the carbon dioxide stored in the trees to be released into the atmosphere.

Examples of dependencies include reliance on pollination services; good soil quality for agriculture and food processes; water as an input for a variety of manufacturing processes across many industries including food, technology, energy production, and fashion; and all the ways nature helps to regulate climate and promote storm, flood, and wildfire protection.

It is crucial we understand how companies determine their own impacts and dependencies, so that we can assess the nature-related risks and opportunities in our portfolio. Disclosure across these dimensions is at a very early stage, though the reporting guidance published by the TNFD is an important starting point. In lieu of standardized information, our engagement objectives will continue to integrate questions around companies' approaches to their assessments, and where assessments have been conducted, we will encourage disclosure. We know there will be challenges as companies move through this process. We believe it is important that we encourage meaningful progress and support companies' understanding of the type of information that is most helpful to investors.

Deforestation

Long-term objective: Eliminate commodity-driven deforestation and conversion of natural ecosystems.

Land-use change that results in deforestation and the conversion of natural ecosystems has serious negative impacts, harming nature's ability to generate the benefits that we rely on and undercutting emissions reduction initiatives. Certain production processes entail a high risk of deforestation from a company's own operations or within its value chain. Companies operating in the agricultural industry, for example, may cause biodiversity loss from land-use change, which can ultimately lead to reduced crop yields and supply chain disruptions. This year we will continue to focus our deforestation efforts on the agricultural industry, primarily through our participation in the Finance Sector Deforestation Action Initiative, which involves collaborative engagement. Through this initiative NEI has committed to employing best efforts to eliminate commodity-driven deforestation in our portfolio by 2025, with an emphasis on palm oil, soy, beef, and pulp and paper.

Water

Long-term objective: A sustainable supply of water for society and business.

Water is an obvious and material financial risk. To share just one example, in technology production processes that require water as an essential input, such as semiconductor manufacturing and data centre cooling, an unstable water supply can disrupt a company's operations. Further, how a company uses or misuses water sources can impact its relationship with many stakeholders and rightsholders, such as Indigenous peoples and local communities. While water has featured in select engagements over the years, we believe it is important in the context of furthering our nature-related efforts to call out our efforts in relation to this finite resource.

Our involvement in the Ceres Valuing Water Finance Initiative has been central to our work. Last year, through this initiative, we led a collaborative engagement with Sony. We will continue to build on these efforts in 2024 in the information technology and communication sectors as we co-lead a new collaborative engagement with Amazon. We will be raising expectations around sustainable water use, the need to eliminate pollution, and proper oversight of these issues and their related societal and human rights implications.

Table 2: Natural capital – selected companies in focus

Company	Sector	Sub-theme	Company-specific Objective	Category Objective
Toronto-Dominion Bank	Financials	Deforestation	Assess and disclose on the deforestation risks in financing operations.	Improve disclosure
Amazon	Consumer discretionary	Water	Conduct an assessment of water risks in the supply chain.	Create or improve a policy or practice
DSM-Firmenich	Consumer staples	Impact and dependency assessment	Disclose on nature-related impacts and dependencies.	Improve disclosure

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Net-zero alignment

The energy transition continues along its bumpy road and the growing polarization around how best to tackle it is something we will continue to monitor this year.

The presidential election in the U.S. adds uncertainty around whether the clean energy momentum of the Biden administration's Inflation Reduction Act will continue to be a dominant theme, while in Canada, the political environment has companies wondering which way the regulatory winds will blow.

In 2023, the International Energy Agency in its World Energy Outlook made the surprising forecast that even under its base case scenario, the demand for fossil fuels (and thus the emissions associated with them) will peak by 2030.[14] The final statement out of COP28[15] included for the first time explicit language that the world will need to transition away from fossil fuels to have a chance of hitting its climate targets. Regulators appeared to have embraced the clear financial materiality of climate change and are poised to mandate climate-related disclosure in a number of jurisdictions, including Canada. All this while several major oil and gas firms seemed to walk back the ambition of their transition strategies, and investors in certain markets became less vocal on their own climate ambitions. A decidedly mixed bag when it comes to the current state of the climate debate leaves 2024 delicately poised.

If anything, the constant churn of the climate news cycle just emphasizes the importance of focusing on the most material issues when it comes to climate and driving long-term sustainable and resilient change that sets companies up for the just transition. This is why it continues to be a critical theme across many sectors.

As part of our commitment to the Net Zero Asset Managers initiative, we are leveraging the alignment framework[16] we developed last year to identify our engagement priorities, with the goal of increasing the number of high-emitting companies aligning with a net-zero trajectory. Our framework ranks companies against three pillars we feel are necessary for net-zero alignment: emissions

[14] International Energy Agency, World Energy Outlook 2023, Executive Summary. https://www.iea.org/reports/world-energy-outlook-2023/executive-summary.
[15] https://www.cop28.com/en/joint-statement-on-climate-nature.
[16] https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/Whitepaper%20-%20A%20portfolio%20in%20transition%20EN.pdf.

reduction performance, ambitious reduction targets, and strong management and reporting systems. We will continue to disclose progress against our net-zero targets in our climate reporting.[17]

Net-zero commitments and just transition plans

Long-term objective: Company strategy, capital expenditures, and emissions reduction targets and performance are aligned with a net-zero pathway.

The clear materiality of the energy transition—from the risks of increasingly stringent regulations and changing demand patterns to the potential opportunities of a rapidly growing low-carbon solutions market—allows investors to cut through the noise when engaging companies on this topic. The path continues to point to only one viable future: net zero.

In 2024 we will continue to deepen our dialogues with companies on setting ambitious targets, developing strategic transition plans, and aligning their capital expenditures with their climate targets. While the headlines would suggest there are headwinds to climate progress, by focusing our engagements on the material aspects of climate risk and opportunity we are seeing increasingly deeper discussions and substantive commitments that result from aligning corporate strategies with a net-zero pathway. These dialogues are also surfacing challenging barriers that need to be overcome and are bringing some stark differences of opinion into focus, such as on the expected demand curve for different forms of energy. These are difficult but necessary conversations to have.

We will continue to play a leading role in investor collaborations focused on the goal of alignment, such as our role as co-leads for several engagements through Climate Action 100+ and Climate Engagement Canada. The broad alignment of investors on this topic is a powerful motivator for corporate action and something we will continue to support and leverage.

Indigenous reconciliation is front and centre when we think about a just transition, and companies operating in resource extraction industries are best positioned to embrace the opportunities the energy transition can bring Indigenous communities. Free prior and informed consent will play a prominent role in determining the sustainable use of transition minerals such as copper, nickel, and lithium, and in the scaling up of renewable energy projects. Companies that include Indigenous communities as partners will benefit most from these opportunities. At the same time, traditional energy projects will continue to be a major source of revenue for many Indigenous communities, so ensuring communities benefit from existing projects while planning for future transitions remains as important as ever.

Reducing methane emissions

Long-term objective: Methane emissions are near zero in line with the Global Methane Pledge and Canada's methane targets.

Methane's outsized warming impact relative to carbon dioxide (over 80x the warming impact over a 20-year period)[18] over the short term means substantive reductions in methane emissions buys us further time to address some of the more difficult challenges in reducing CO_2 emissions. The reduction of global methane emissions is increasingly recognized as a critical near-term priority—over 100 countries (including Canada) have signed the Global Methane Pledge, a commitment to reduce methane emissions 30% by 2030.[19] Canada and the U.S. are targeting the industry with increasingly strict regulations to achieve these reductions. According to the International Energy Agency, the three largest sources of methane emissions from human activity are the oil and gas, agriculture, and waste management industries.[20]

Reducing methane emissions is not only cost effective (since the methane captured can be sold or used), but it is something the oil and gas industry is already quite good at. There is no need for major technological innovations to get things started—though innovation continues to bring the cost curve down, making methane reduction projects even more attractive. Our 2024 engagements will continue to

[17] See our latest climate report: https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/Climate%20strategy%20report%202023%20EN.pdf.
[18] https://www.unep.org/news-and-stories/story/methane-emissions-are-driving-climate-change-heres-how-reduce-them.
[19] https://www.globalmethanepledge.org/resources/global-methane-pledge.
[20] International Energy Agency, *Methane and Climate Change*. https://www.iea.org/reports/methane-tracker-2021/methane-and-climate-change.

emphasize the cost-effective nature of methane reduction activities for oil and gas companies and will also build on our engagements with the waste management industry on the strategic business opportunities related to methane capture projects.

But the major asterisk on this good news story is the significant uncertainty surrounding our understanding and quantification of methane emissions, in particular as they pertain to the oil and gas industry. Direct measurement technologies such as hand-held methane detection devices and planes fitted with methane detection equipment have evolved significantly and are now able to provide accurate measurements. Field studies done using these techniques consistently show that industry estimates of their methane emissions are vastly undercounting actual emissions.[21] This is a problem from a global warming perspective but more practically, it is a major risk for companies trying to reduce their emissions as it implies they may not be deploying their capital in the most efficient manner.

In 2024 we will continue to deepen our dialogues with companies on setting ambitious targets, developing strategic transition plans, and aligning their capital expenditures with their climate targets.

We will continue to push companies to improve their measurement and management of methane emissions with a particular focus on asking companies to align with the Oil & Gas Methane Partnership (OGMP) 2.0 initiative,[22] a collaboration among the UN, civil society and industry that is focused on driving best practices in methane measurement and management. Companies that sign onto OGMP 2.0 commit to working toward the use of direct measurement technologies to create accurate methane inventories to back ambitious reduction targets. We engaged every one of our Canadian oil and gas companies on this topic in 2023, and we intend to have a focused follow-up in 2024 to increase Canadian membership.

Responsible mining

Long-term objective: Majority of global mining operations follow responsible mining standards.

In order for society to transition to a low-carbon energy system, we will need to rapidly scale up the deployment of various low-carbon technologies at an incredible pace, building out solar and wind farms and transitioning our transportation and heating systems to electric vehicles and heat pumps. All of these technologies require vast amounts of minerals such as copper, lithium, and nickel, with the International Energy Agency estimating that meeting our net-zero goals will see demand for transition minerals grow by over 500%.[23] Even with a rapid scale-up of circular business models (e.g., recycling and reusability), it is clear there will be a need for mining, and not just a little.

How that mining happens matters, as mining operations can often be associated with dramatic environmental impacts, human rights violations, and conflict with Indigenous communities, among other challenges. The inability to effectively address these impacts will inevitably lead to conflict, which could in turn lead to the delay or outright derailment of mining projects. This would be a considerable bump in the road to a just energy transition. For investors and companies banking on the continued growth of low-carbon technologies, this represents a material supply chain risk. For mining companies, the risks are even greater.

Increasingly, downstream users of mined materials are wary of these hidden environmental and social impacts in their supply chain and are placing expectations on the mining industry to prove it is operating responsibly. Driving the adoption of responsible mining practices will be a key focus for us in 2024.

[21]Conrad, B.M., Tyner, D.R., Li, H.Z. et al. A measurement-based upstream oil and gas methane inventory for Alberta, Canada reveals higher emissions and different sources than official estimates. *Commun Earth Environ 4*, 416 (2023). https://doi.org/10.1038/s43247-023-01081-0. [22]https://ogmpartnership.com/. [23] International Energy Agency, World Energy Outlook 2023. https://www.iea.org/reports/world-energy-outlook-2023.

A critical tool for achieving our long-term objective will be our continued support for the Initiative for Responsible Mining Assurance,[24] a multi-stakeholder governed, third-party audited standard that sets the highest bar for mine performance. Civil society, mining-impacted communities and even governments are increasingly pointing to it as the only credible standard that addresses their key concerns.[25]
As such, we see it as a key mitigation tool for mining companies looking to ensure their social license to operate and importantly, a critical request of downstream users of transition minerals looking to reduce risks in their supply chains and to avoid the damaging reputational risks that stem from being associated with mining's worst impacts.

Table 3: Net-zero alignment – selected companies in focus

Company	Sector	Sub-theme	Company-specific Objective	Category Objective
Enbridge	Energy	Reducing methane emissions	Enhance measurement and monitoring of methane emissions.	Create or improve a policy or practice
Vestas Wind Systems	Industrials	Responsible mining	Commit to responsible sourcing standards for mined materials.	Create or improve a policy or practice
AltaGas	Utilities	Net-zero commitments and just transition plans	Enhance disclosure of climate lobbying practices.	Improve disclosure

There is often more than one sub-theme and/or objective associated with each company; only one sub-theme and objective is included in this table for illustrative purposes. Objectives are subject to change as engagements evolve over time. See page 21 for more information about our objective categories.

[24] NEI Head of Stewardship Jamie Bonham is a board member. https://responsiblemining.net/. [25] https://responsiblemining.net/wp-content/uploads/2024/02/Recognition-of-IRMA.pdf.

Companies in focus

The companies identified below represent the starting point for our 2024 engagements. Typically, as a result of this engagement work and through our ongoing evaluations and holdings analysis, we will engage additional companies on these and other issues as the year progresses. Companies are selected based on multiple criteria, including their connection to our identified themes, our exposure within our investment portfolios, and the materiality of the risk. With respect to their non-financial performance, companies may be ahead of peers, behind them, or in the middle of the pack.

Communication services

Alphabet
Meta Platforms
Tencent Holdings

Consumer discretionary

Amazon
Canadian Tire
Gildan Activewear
LVMH
Magna International
Sony

Consumer staples

DSM-Firmenich
Loblaw Companies
Metro

Energy

Canadian Natural Resources
Enbridge
Suncor Energy

Financials

Bank Central Asia
CIBC
JPMorgan Chase
Scotiabank
Toronto-Dominion Bank

Health care

AbbVie
Roche
UnitedHealth Group

Industrials

Canadian National Railway
GFL Environmental
Mullen Group
Vestas Wind Systems

Information technology

Apple
CGI
Microsoft

Materials

Agnico Eagle Mines
Newmont
Teck Resources

Utilities

AltaGas
NextEra Energy

Companies held by fund

This table shows how many focus companies are intended to be engaged per fund along with fund assets under management attributable to those companies as of January 31, 2024. The number of companies adds up to more than the 35 identified on page 16 due to holdings overlap among funds. Holdings are subject to change without notice.

Fund name	No. of companies	Fund AUM %
NEI Long Short Equity Fund	16	21.4%
NEI ESG Canadian Enhanced Index Fund	18	29.9%
NEI Canadian Equity RS Fund	13	34.6%
NEI Global Equity Pool	13	20.9%
NEI Canadian Dividend Fund	12	25.6%
NEI Canadian Equity Fund	12	20.4%
NEI U.S. Equity RS Fund	9	29.5%
NEI Canadian Equity Pool	6	24.0%
NEI Global Value Fund	6	23.0%
NEI Global Equity RS Fund	6	15.9%
NEI Global Dividend RS Fund	5	3.9%
NEI Global Growth Fund	< 5 companies per fund	
NEI Emerging Markets Fund		
NEI Canadian Small Cap Equity RS Fund		
NEI International Equity RS Fund		
NEI Environmental Leaders Fund		
NEI U.S. Dividend Fund		
NEI Clean Infrastructure Fund		
NEI Canadian Small Cap Equity Fund		
Total NEI equity AUM represented		**17.9%**

Policy activity

Our policy and standards advocacy work supports our investment thesis that companies integrating best environmental, social and governance practices will be better investments over the long term.

We are striving to create a broader investment landscape that recognizes the materiality of natural and social capital, helps companies measure and manage those capitals, rewards companies that do so effectively, and supports investors in incorporating them into their investment processes. Our work on policy and standards is a key facet of our stewardship program that complements our engagement activities in seeking to drive better financial and non-financial results.

We anticipate that global momentum toward a more robust regulatory framework will continue to raise natural and social capital up to the level enjoyed by financial capital. The issues of human capital, Indigenous rights, biodiversity, and net-zero alignment (among others) have all begun to percolate into national and international frameworks and legislation; 2024 will see some key developments on this front.

Climate-related disclosure

Global adoption of mandatory climate-related corporate disclosure standards took a huge step forward in 2023 with the release of the International Sustainability Standards Board's IFRS S2 disclosure standard on climate change.[26] The release of the standard provides a common template for securities regulators to adopt quantifiable and comparable climate-related metrics. The subsequent endorsement of the standard by the International Organization of Securities Commissions sets the stage for global adoption. In Canada, the Canadian Securities Administrators has yet to announce its final framework for climate-related financial disclosure but has indicated it will look to align with the recommendations of the Canadian Sustainability Standards Board,[27] whose mandate is to develop Canada-specific recommendations based on the international standard. The Canadian arm will release its final recommendations in the spring of 2024 for comments, and we will provide commentary on those recommendations and encourage quick adoption by domestic regulators.

Energy transition

In 2024 we expect to see key developments with the potential to impact the energy landscape in profound ways. The oil and gas industry finds itself at a crossroads, being pulled in multiple directions by regulators and standard setters desperate to keep sight of national climate targets while also looking to provide critical energy for a growing demand. Our eye will be on developments in Canada and the U.S., where several important policies will be in their final round of consultation before being finalized. Methane will be a common theme, with the release of federal rules in both countries governing the reduction of methane emissions to meet ambitious reduction targets. Our comments on these proposals will highlight the importance of ensuring that regulations address the current shortcomings in methane measurement, while incenting the allocation of capital toward major emissions reduction opportunities.

Other key policy developments we will be following are the finalized emissions cap for the oil and gas industry and the updated Clean Electricity Regulation,[28] both of which will address key aspects of Canada's net-zero strategy. We also hope to see the Sustainable Finance Advisory Council's proposed Green and Transition Finance Taxonomy[29] move closer to fruition, providing investors and financial institutions with a framework to drive innovative financing solutions.

[26] https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/. [27] NEI Vice President and Head of Responsible Investing Adelaide Chiu sits on the board of the CSSB. https://www.frascanada.ca/en/cssb. [28] https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/clean-electricity-regulation.html. [29]https://www.canada.ca/en/department-finance/programs/financial-sector-policy/sustainable-finance/sustainable-finance-action-council/taxonomy-roadmap-report.html.

Indigenous reconciliation

The project of reconciliation is a long-term one, and the theme of reconciliation cuts across many aspects of our policy and standards work. Discussions on policies and standards that address net-zero alignment, human rights due diligence, and diversity, equity and inclusion all have elements relevant to the respect and protection of Indigenous rights. For example, our work with the Canadian Sustainability Standards Board and the Climate Engagement Canada benchmark have focused on raising the profile of Indigenous rights, as the relevance of Indigenous rights and perspectives is often overlooked in international frameworks.

Other opportunities in 2024 will be more specific, such as ongoing developments regarding the implementation of federal and provincial legislation on aligning with the principles of the UN Declaration on the Rights of Indigenous Peoples.[30] As Canada and its provinces look to develop a transition minerals industry, the alignment of this strategy with the commitment to these principles will be of paramount importance.

Human rights disclosure

Human rights due diligence, and reporting on human rights risk, has been a core feature in regional legislative developments. The 2023 passing of Bill S-211 in Canada—the country's *Modern Slavery Act*,[31] which came into force January 1, 2024—will require companies in scope to comply with reporting obligations on how the company seeks to prevent and reduce the risk of forced or child labour in the production of goods imported into Canada. Companies in scope in Canada are now required to meet these reporting requirements ahead of a May 31, 2024, deadline. We will be keen to see how companies achieve compliance with this new requirement.

Other regional developments at play include ongoing negotiations in the European Union around the Corporate Sustainability Due Diligence Directive.[32] Though we have yet to see what the finalized directive could entail, so far, member states' perspectives have been varied. It is proposed to be not solely a reporting requirement, as it would require global companies in scope to meet human rights due diligence obligations. We have been advocating for companies to enact proper human rights due diligence processes as part of our own responsibilities to uphold human rights, and if finalized, we are optimistic this directive will standardize expectations around how companies and investors conduct and report on human rights due diligence.

Our work on policy and standards is a key facet of our stewardship program that complements our engagement activities in seeking to drive better financial and non-financial results.

Unsurprisingly, we expect ongoing discourse around artificial intelligence to continue well into 2024 and beyond. In Canada, we are monitoring for developments related to Bill C-27, the *Artificial Intelligence and Data Act*, [33] which has been criticized by stakeholders for numerous reasons—including concerns the bill does not put forward different expectations in relation to high- and low-risk use cases of AI, and for not going far enough to mitigate the human rights risk associated with AI. These are concerns investors must reflect on. Notably, our stewardship efforts on AI to date have focused on considering how companies deploy and use AI systems ethically, and how they mitigate against human rights risks. We will also monitor developments in the EU as a provisional agreement has been reached on the EU AI Act.[34] The next step would be for the proposal to be adopted by the European Parliament and European Council before becoming law.

[30] https://www.un.org/development/desa/indigenouspeoples/wp-content/uploads/sites/19/2018/11/UNDRIP_E_web.pdf. [31] https://www.parl.ca/legisinfo/en/bill/44-1/s-211.
[32] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en.
[33] https://ised-isde.canada.ca/site/innovation-better-canada/en/artificial-intelligence-and-data-act.
[34] https://www.europarl.europa.eu/topics/en/article/20230601STO93804/eu-ai-act-first-regulation-on-artificial-intelligence.

Diversity disclosure

We feel that investors still do not have the optimal level of standardized disclosure on human capital issues to meet our needs. We continued to highlight the need for enhanced disclosure around this issue and social issues broadly in our comments to the International Sustainability Standards Board's consultation on their proposed priorities. We have been leaning into additional opportunities to highlight the need for enhanced diversity disclosure specifically, and we have collaborated with other investors to amplify our requests for this information.

We were pleased to see that in 2023 the Canadian Securities Administrators facilitated a public consultation for feedback on two proposed approaches to enhancing diversity disclosure for domestic issuers. We participated in the consultation and joined a panel convened by the Ontario Securities Commission to discuss the two approaches. In general, we are supportive of more standardized and consistent reporting requirements on diversity and believe this is important information needed to inform our investment decision-making processes. We have expressed our support for this issue to remain an ongoing priority of the Ontario Securities Commission in 2024 and will be monitoring follow-on activity from the consultation.

Nature-related reporting

Global policy and standard-setting expectations on nature have also informed investor expectations. The finalization of the Global Biodiversity Framework coming out of COP15 in 2022 set the stage for some meaningful developments with respect to nature-related reporting. As we have mentioned, we were encouraged by the release of the final TNFD framework, which is meant to facilitate voluntary corporate disclosure. We are optimistic that the TNFD framework, as supported by guidance from the Science Based Targets Network, will lead to better and more useful reporting by companies. We will be monitoring the landscape for reflections and feedback that will arise once entities start publishing in alignment with the TNFD framework. We are also mindful of how these developments may inform the International Sustainability Standard Board's prioritization of issues over the coming years.

Reporting on our progress

Next year, our 2025 responsible investment annual report will present our corporate engagement progress within a new framework.

We will be putting greater emphasis on the tangible objectives we have set with our focus companies and on sharing the progress we are making toward those objectives. Our goal is to improve transparency and accountability, so our investors and other stakeholders can see with greater clarity how NEI strives to create long-term sustainable value through corporate dialogue.

You will notice the tables of focus companies on pages 8, 11, and 15 include examples of the kinds of company-specific objectives we are beginning to disclose. For reporting purposes, company-specific objectives—tangible outcomes expected to be achieved in a 24-month period—will be assigned to one of five categories (Table 4) and monitored along four stages of progress (Table 5).

Table 4: Objective categories

Category	Context	Example of a company-specific objective*
Seek and share information	This category is reserved for initial meetings as we learn about the company's approach to risk management, specifically related to environmental and social factors relevant to their operations. Once we have begun to set tangible objectives based on our understanding of where the company should be directing its efforts, the other three objective categories come into play and this objective will be marked as achieved.	NEI to understand the company's risk mitigation strategies around water use and share relevant best practices.
Create or improve a policy or practice	Policies establish essential guidelines for corporate behaviour. When corporate behaviour falls short of stakeholder expectations, leading to potentially damaging outcomes, the fault may lie in weak policies and/or implementation of those policies, i.e., practices and procedures. We encourage companies to develop, implement, and oversee (often at the board level) strong policies to govern their actions.	Company to develop and publish an Indigenous engagement policy.
Improve disclosure	The purpose of corporate disclosure is to help investors make informed decisions with all relevant information at hand. Over the years, investors have grown more aware of the relevancy and influence of non-financial information such as environmental and social factors on a company's overall health. Climate, human rights, and diversity are just some of the areas where deeper disclosure is increasingly sought by investors.	Company to publish results of a human rights impact assessment.
Set targets	Targets can be applicable to any area of the business where improvement is desired. Companies may have diversity targets, employee satisfaction targets, climate targets, waste reduction targets, and many more. In addition to framing a quantifiable improvement, targets are incredibly important for focusing activity and maintaining accountability.	Company to set short- and medium-term net-zero targets on a path to net zero by 2050.

*Illustrative purposes only. Company-specific objectives are tangible goals deemed by NEI to be achievable in a 24-month period. They are subject to change as engagements evolve over time.

Table 5: Progress categories

Category	Context	Example case: Improving a diversity policy*
Early stage	These objectives are either at the "Seek and share information" stage (see Table 4 above), or the company has agreed to study the matter but has yet to make any commitments toward action or change.	A technology company is amenable to the idea of reviewing its diversity policy to determine whether it needs improvement.
Mid stage	These objectives have moved into a more action-oriented stage, where the company has taken demonstrable steps toward achieving the objective.	After reviewing its diversity policy, the company commits to hiring a third-party consultant to provide recommendations.
Late stage	These objectives are nearing completion with identifiable milestones tracked over time.	The company confirms a third-party review has been completed and recommendations sent to the board.
Achieved	These objectives are met. Note that objectives do not need to be met according to a prescribed path or in the same way as originally envisioned or stated. Companies pursue objectives in ways that are best suited to their strategy and operating model.	The company publishes its new diversity policy.
Discontinued	There are various reasons we may halt the pursuit of an objective. It may be the result of new information, a change in the regulatory landscape, a change in direction for the company, a change in NEI's engagement priorities, or other reasons. Objectives may be discontinued by NEI, by the company, or upon mutual agreement.	We decide not to pursue disclosure enhancements following a merger, where the acquiring company's stronger disclosure practices are expected to prevail.

*Illustrative purposes only.

One of the key resources used to develop our framework is the UK Stewardship Code,[35] published by the Financial Reporting Council. The UK Stewardship Code focuses on the reporting of stewardship *activities* and *outcomes*:

> Activities identify the actions taken by the organisation during the reporting period … while outcomes explain the result of the actions taken during the reporting period. Case studies can be a useful tool to meet reporting expectations and describe activity and outcomes, explaining the firm's approach and its role in the process. Effective outcome reporting is clear about the progress made against objectives and identifies next steps where appropriate. Fair reporting also identifies areas where objectives have not been met and lessons learned.[36]

Other resources used in developing the framework come from the Principles for Responsible Investment, the Canadian Coalition for Good Governance, and extensive reviews of peer reports.

Effective stewardship involves long-term change management that rarely progresses in a straight line, incorporating many players in a complex ecosystem. As investors, we are but a small factor in an equation that includes passionate and committed leaders, internal champions and visionary boards, regulators and standard-setters, governments and non-governmental organizations, civil society, market forces, and more.

To be clear, this is more than just a reporting exercise. The work entails an evolution of our engagement program, now in its third decade, that we expect will streamline and focus our efforts, allow us to go deeper on select engagements, and improve discipline, record-keeping, and overall program rigour. We look forward to implementing the framework as we ramp up our 2024 engagements and to bringing you the results next year.

[35] https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code/.
[36] https://www.frc.org.uk/library/standards-codes-policy/stewardship/how-to-report-on-the-uk-stewardship-code/.

Collaborations

NEI participates in many organizations with the goal of helping companies better manage risk as they strive to grow and maintain sustainable value. We also participate in policy working groups and other related collaborative initiatives.

Group name (alphabetical order)	NEI role*	Date joined
Access to Medicine Foundation	Investor member; Expert Review Committee (2023)	2018
Canadian Coalition for Good Governance	Member of E&S Committee	2005
Canadian Sustainability Standards Board	Board member	Inception 2023
CDP (formerly Carbon Disclosure Project)	Signatory; participant in Non-Disclosure Campaign, Science-Based Targets Campaign	2006
Ceres	Investor participant in Valuing Water Finance Initiative (lead on one engagement, co-lead on one other); participant in Carbon Asset Risk Working Group, Canadian O&G Working Group, Midstream Working Group	2008
Circular Economy Leadership Canada	Founding member	2019
Climate Action 100+	Co-lead on two engagements, participant in others	Inception 2017
Climate Engagement Canada	Founding participant; member of Technical Committee; co-lead or lead on four engagements, participant in five others	Inception 2021
Energy Futures Lab	Ambassador; participant in the Alberta Competitiveness Advisory Committee	2019
Finance Sector Deforestation Action	Co-lead on two engagements, participant in others	2021
Initiative for Responsible Mining Assurance	Investor board member	2021
Interfaith Center on Corporate Responsibility	Associate member; participant in Methane Leadership Group and Finance Working Group	2006
International Corporate Governance Network	Co-chair of Human Capital Committee	2008
Investor Alliance for Human Rights	Advisory committee member	2018
Nature Action 100	Investor participant	2023
Principles for Responsible Investment	Sustainable Systems Investment Manager Reference Group; various collaborations over time (Methane Collaboration, Oil and Gas Advisory Committee, Transition Collaboration)	2006 (year PRI was formed)
Responsible Investment Association	Board member; sustaining member; participant in Policy Stewardship Group; co-author of Canadian Investor Statement on Climate Change	1999
Taskforce on Nature-related Financial Disclosures	Forum member	2023
World Benchmarking Alliance	Investor participant in Collective Impact Coalition for Ethical AI	2022

*All as of February 29, 2024.

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