Responsible investment report

2024

NEI

Important information and disclaimers

This *Responsible Investment Report* (the Report) is provided for informational purposes only, and does not constitute an offer or a solicitation to buy or sell any security, product or service in any jurisdiction, and is not intended to induce investors to purchase NEI funds; nor is it intended to provide investment, financial, legal, accounting, tax or other advice, and such information should not be relied or acted upon for providing such advice. The recipient of this Report is solely liable for any use of the information contained in this document, and neither NEI nor any of its employees or agents shall be held responsible for any direct or indirect damages arising from the use of this Report by the recipient.

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Climate-related disclaimers

Climate metrics, data and other information contained in this Report are or may be based on assumptions and estimates with little supporting documentation. We have not independently verified or assessed the assumptions underlying the data we have obtained from our sub-advisors and other third parties that we use to set, track and report on our progress towards meeting our interim targets. Moreover, the data needed to define our pathway toward net zero may be limited in quality, consistency, or simply not available at the time the Report was created. All commitments and targets in this Report are aspirational and subject to change as new data and information become available, and as the legislative and regulatory landscape continue to evolve with respect to climate-related reporting.

This Report is intended to provide information from a different perspective and in more detail than is required to be included in mandatory securities filings and other regulatory reports made with Canadian securities regulators. While certain matters discussed in this Report may be of interest and importance to our stakeholders, the use of the terms "material", "significant", "important" or similar words or phrases should not be read as necessarily rising to the level of materiality used for the purposes of securities or other laws and regulations. We have no obligation to update the information or data in this Report.

Caution regarding forward-looking statements

From time to time, Northwest & Ethical Investments L.P. and its affiliates (NEI, we, us or our) make written or oral forward-looking statements within the meaning of certain applicable securities legislation. We may make forward-looking statements in this Report and in other filings with Canadian regulators, in other reports to our stakeholders, and in other communications. Forward-looking statements in this Report include, but are not limited to, statements relating to our climate-related strategy and commitments, risks and opportunities, metrics and targets (including interim targets), and our strategy supporting the transition to a net-zero economy.

Forward-looking statements are typically identified by words such as "aim", "anticipate", "believe", "commit", "estimate", "expect", "expectation", "forecast", "foresee", "goal", "intend", "intention", "likely" (and "unlikely"), "objective", "plan", "predict", "project", "seek to", "strive", "target" and similar expressions of future or conditional verbs such as "could", "may", "might", "should" and "would". Forward-looking statements are neither historical facts nor assurances of future performance. They require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that such statements will not prove to be accurate. Our actual results may differ materially from those indicated in the forward-looking statements.

We caution readers not to rely on our forward-looking statements, as they are subject to many risk factors, some of which are beyond our control and the effects of which can be difficult to predict. Such factors include, but are not limited to, the need for robust climate data and standardization of climate-related measurement methodologies, our ability to gather and verify data, our ability to successfully implement climate-related initiatives under expected time frames, the risk that initiatives will not be completed or that they will not produce the expected outcomes, the need for ongoing participation and action of various stakeholders (including our sub-advisors, governmental and non-governmental organizations, other financial institutions, businesses and individuals), changing technology and consumer behaviour, global energy needs, global decarbonization efforts including climate-related policies, and the legal and regulatory environment.

The forward-looking statements contained herein are made as of the date of this Report based on information currently available to us. Except as required by law, none of NEI or its affiliates undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf, whether as a result of new information, future developments or otherwise.

Contents

Before you begin

Information and data in this report generally cover the 12-month period ending December 31, 2023, unless otherwise indicated, with the exception of proxy voting and impact data. The coverage period for those data sets is explained in the relevant sections of the report. All currency references are in Canadian dollars unless otherwise indicated. Percentage values in charts may not add up to 100 due to rounding.

The corporate dialogue stories contained in this report are based on NEI records, research and impressions gathered during company engagements. Unless otherwise indicated, no company identified in this report reviewed its contents before publication. We acknowledge that company progress on environmental, social and governance issues is due to multiple factors and not attributable solely to NEI's influence.

Information and data contained in the corporate dialogue stories, including company responsiveness, holding status and next steps, is valid as of the time of the original publication of the story, as indicated. There may have been progress made on the engagements since that time that is not reflected in this report.

About NEI Investments

NEI Investments is committed to providing Canadians with the investment solutions they need to achieve their goals.

Part of the asset management arm of Aviso, and one of Canada's leading wealth services providers, NEI Investments holds over $11 billion in assets under management. NEI adopts a differentiated approach to achieving investment returns for Canadians, leveraging a unique structure that includes a global network of money managers, proprietary investment management and asset allocation and a dedicated responsible investing team. This structure is designed to optimally respond to the dynamics of our changing world, uncover unique investment opportunities, and deliver a broad array of investment outcomes with financial growth at the core.

About Aviso

Aviso Wealth Inc. ("Aviso") is a leading wealth services supplier for the Canadian financial industry, with over $135 billion in total assets under administration and management. We're building a technology-enabled, client-centric wealth management ecosystem. Our clients include our partners, advisors and investors. We're a trusted partner for nearly all credit unions across Canada, in addition to a wide range of portfolio managers, investment dealers, insurance and trust companies, and introducing brokers. Our partners depend on Aviso for specific solutions that give them a competitive edge in a rapidly evolving, highly competitive industry. Our investment dealer and mutual fund dealer and our insurance services support thousands of investment advisors. Our asset manager oversees a growing lineup of investment solutions, including NEI funds and portfolios, and separately managed accounts with our Managed Assets Program. Our online brokerage, Qtrade Direct Investing®, empowers self-directed investors, and our fully automated investing service, Qtrade Guided Portfolios®, serves investors who prefer a hands-off approach. Aviso Correspondent Partners provides custodial and carrying broker services to a wide range of firms. Aviso is backed by the collective strength of our owners: the credit union Centrals, Co-operators/CUMIS, and Desjardins. We're proud to power businesses that empower investors.

Introduction

Responsible investing has advanced in leaps and bounds in the last few whirlwind years, yet it's still got a long way to go. If there is one key takeaway from the ups-and-downs of 2023 (and of 2024 as well), it's this: standardized sustainability reporting is on our doorstep. At last.

Adelaide Chiu,
CA, CPA, CFA
Vice President,
Head of Responsible Investing

The publication in June of IFRS S1 and IFRS S2 by the International Sustainability Standards Board was a significant and highly anticipated development in the evolution of responsible investment. IFRS S1 is the General Requirements for Disclosure of Sustainability-Related Financial Information, and IFRS S2 is the Climate-Related Disclosures. (IFRS stands for International Financial Reporting Standards, which are issued and managed by the IFRS Foundation.) The standards are being adopted and adapted around the world, including in Canada with the establishment of the Canadian Sustainability Standards Board, also in 2023.[1] In the domestic banking and insurance industry, federally regulated financial institutions are gearing up to report in alignment with guidelines issued by the Office of the Superintendent of Financial Institutions, known as B-15.

Meanwhile in Europe, the Corporate Sustainability Reporting Directive came into force early in 2023, with in-scope issuers required to report in 2025. Then in March 2024 we got the U.S. Securities and Exchange Commission's climate rule (mired in legal challenges as of this writing), as well as the Canadian Securities Administrator's updated guidance for investment funds on ESG disclosure practices. Suffice to say, sustainability reporting and disclosure is a very hot topic and is likely to remain so for some time.

NEI's reporting initiatives have taken various forms over the years, but 2024 marks the first time we have pulled all our data and highlights of the year together into a single publication. It's the first time we have reported formally on the results of our exclusionary screening, and on our evaluations. And while we have reported impact metrics for our funds on an individual fund basis, we have not yet brought all that information together in one place, as we have now. We've also incorporated our latest climate metrics, yet another data set that has heretofore been disclosed elsewhere.

The corporate engagement stories will look familiar to some readers, as they were originally published throughout 2023 in our quarterly Active Ownership Report, which has been discontinued in favour of this larger compilation. The format of this report enables us to blend those engagement stories in with our proxy voting results as well as our related policy initiatives, giving investors a more holistic view of our program activities in connection to our focus themes.

It's also worth noting that NEI has reported again to the Principles for Responsible Investment this year, as we have since 2007. Results are expected to be available in late Q4. The Transparency Report that results from that exercise will include our progress on targets established with our commitment to the Net Zero Asset Managers initiative.

There is still a lot of work to be done for us to bring this information to investors in an efficient and timely fashion, and in a way that helps them better understand how their investments with us are achieving the desired non-financial outcomes. We

[1] NEI Vice President and Head of Responsible Investing Adelaide Chiu is a member of the board.

continue to improve our data management and analysis tools, and we are working on strengthening the feedback loop between our evaluation process, stewardship program, and climate and nature alignment frameworks. Next year we will introduce a corporate engagement reporting framework that will provide investors with a clearer and deeper understanding of our engagement objectives and how we are progressing toward them. That framework is currently being implemented, with details on page 46.

We hope you find the information presented in this report useful for understanding how NEI manages Canadians' investments with the goal of helping them achieve their goals.

Sincerely,

Adelaide Chiu

2023 fast facts

210

Companies engaged

Hundreds

Of company evaluations completed

9

Company engagements through Climate Engagement Canada

Leading on GFL Environmental, co-leading on three, supporting five

$3.0 billion

Equity assets under management engaged

That's 39% of equity AUM versus a target of 30%

2

Funds managed on a path to net-zero emissions

NEI Global Dividend RS Fund and NEI Global Total Return Bond Fund

29

Policy initiatives undertaken

4

Impact mandates launched

A suite of three multi-asset target risk solutions and a Canadian impact bond fund

11,936

Proxy items voted

At 944 meetings (for the proxy season running from July 1, 2023 to June 30, 2024)

97%

Percentage of compensation plans voted against in Canada and the U.S.

(for the proxy season running from July 1, 2023 to June 30, 2024)

100

Hours of due diligence meetings with 20 sub-advisors

Meetings in Denmark, France, U.K., Canada, U.S.

Published

Climate strategy progress update and whitepaper

Investment model

NEI Investments is focused on producing strong financial outcomes for our clients, based on a disciplined investment process incorporating broad data sets, diverse perspectives, and a holistic view of investment opportunities.

We seek to invest responsibly by considering all the factors that could impact companies' viability, profitability and future value. We also engage with companies in our portfolios to help them become more resilient over the long term.

We believe that companies can mitigate risk and take advantage of emerging business opportunities by improving their performance on environmental, social and governance (ESG) factors (also referred to as non-financial factors), and by integrating best practices into their strategies and operations. Further, we believe it is paramount for long-term sustainable value creation that companies carefully consider all forms of capital—that's economic capital, social capital, and natural capital. Without appropriate management of these inputs to a company's operations, the capital is at risk of being destroyed, perhaps permanently. In order to meet our clients' needs we take it upon ourselves, through stewardship, to influence the companies in our portfolio to improve their capital management for future cash-flow generation.

To deliver on our objectives, NEI operates an "open architecture" investment model that incorporates two interlinked roles. First, we are a manager of managers. Second, we offer innovative standalone and multi-asset investment solutions.

NEI is a manager of managers. We select independent sub-advisors from around the world based on their specific area of expertise for a given mandate. Our roster of sub-advisors includes both large and boutique firms with varying degrees of responsible investment expertise, which is assessed as part of our manager selection and ongoing due diligence process. We maintain active, collaborative relationships with our sub-advisors on the implementation of our responsible investment program and its outcomes.

NEI offers innovative investment solutions. Using the standalone investment funds managed by our sub-advisors as building blocks, we assemble multi-asset solutions where we make strategic and tactical asset allocation decisions in the pursuit of long-term success for our clients.

Embedded within these two roles are the activities we undertake as responsible investors:

- **Sub-advisor oversight** – ongoing due diligence and collaboration
- **Exclusionary screens** – two-tiers of revenue-based exclusions
- **ESG evaluations** – in-house program to determine and monitor investment eligibility
- **Thematic investing** – managed by the sub-advisor
- **Impact investing** – managed by the sub-advisor
- **Stewardship** – applies to our entire investment portfolio
    - **Proxy voting** – in-house program covers all votable equity securities
    - **Corporate dialogue** – primarily focused on equities; solo and collaborative initiatives
- **Policy advocacy** – broad-based influence on key industry developments and challenges

This is a dynamic, flexible, and continually evolving approach that broadens our perspective on risks and opportunities and widens the range of data points that inform our investment decisions. With this model in place, we feel we are well positioned to deliver the long-term results our clients expect when they choose to invest with NEI.

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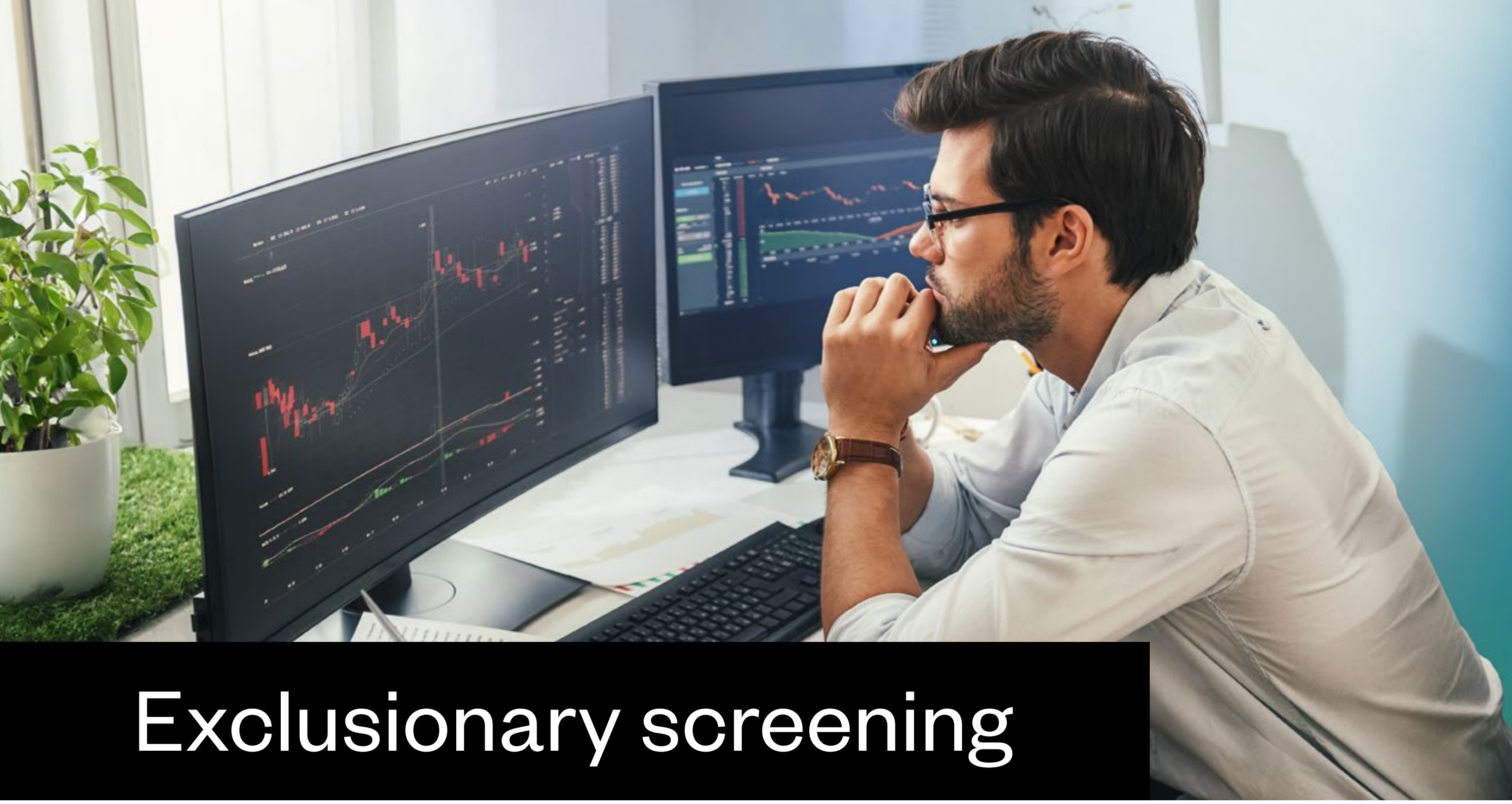


Exclusionary screening

Excluding companies from the investable universe of our funds is a baseline activity of our responsible investment program.

NEI does not invest in companies where:

- their products intrinsically cause grievous harm to society that cannot be mitigated, and no level of engagement can influence positive change
- there exists an international treaty or convention aimed at eliminating the product

Exclusions are divided into two sets, firm-wide and fund-specific.

Firm-wide exclusions

Companies with sustained revenues generated from the activities below are automatically excluded from our funds. We refer to these screens as "firm-wide exclusions," as they apply generally to our entire fund lineup[1]:

- Automatic and/or semi-automatic weapons manufacturing for civilian use
- Controversial weapons: cluster munitions, anti-personnel landmines, biological and chemical weapons, nuclear weapons
- Tobacco production and manufacturing

The weapons screens are "norms-based" screens, which is when issuers are assessed against minimum standards of international business practice. Frameworks used to identify and define such standards include Security Council sanctions, the UN Global Compact and UN Human Rights Declaration, International Labour Organization standards, the Kyoto Protocol, and guidelines provided by the Organization for Economic Cooperation and Development.

[1] Exclusionary screens do not apply to NEI Managed Asset Allocation Pool, held within NEI Private Portfolios. Exclusions apply where NEI has full portfolio management discretion; NEI does not have full portfolio management discretion over third-party funds or derivatives.

Fund-specific exclusions

In addition to the firm-wide exclusions, for certain funds we also implement a second set of exclusions with a revenue threshold of 10%.[2] The exclusions below are current as of June 28, 2024, when we removed the nuclear power, gambling, and fossil fuel exclusions from our program (see sidebar).

- The distribution of automatic or semi-automatic weapons intended for civilian use
- The manufacture of military weapon systems and/or tailor-made components for those systems
- The distribution of tobacco and/or tobacco-related products

Managing to the revenue thresholds is not always a straightforward exercise when companies are on the border. For marginal cases, we specify companies must have *sustained* revenue above the threshold. To meet the definition of "sustained," revenue would need to be over or under the threshold by at least 1% on a rolling three-year basis.

Evolving our screening program

As the investment landscape changes, NEI continues to evolve its responsible investment program to support investors with solutions that meet their long-term goals. One aspect of our program that has undergone changes recently is our exclusionary screens. Effective June 28, 2024, NEI removed the automatic exclusions for gambling, nuclear power, and fossil fuels that had applied to certain funds, enabling a more research-driven approach to investment selection. This change follows the removal of the pornography screen in 2023. The specific language that was removed from our simplified prospectus is as follows:

- Nuclear power (with exception for certain companies that are transitioning towards renewable energy or non-nuclear low carbon solutions as explained in the NEI Responsible Investment Policy)
- Gambling
- The extraction and production of fossil fuel or owning fossil fuel reserves

Key points of rationale for removing these exclusions:

- **NEI has been evolving its screening program to take a more objective approach.** This is referred to as "norms-based" screening, when companies are assessed against minimum standards of international business practice, such as those set by the United Nations.
- **Fewer automatic exclusions enable us to take a more research-driven approach to investment selection.** Beyond the few norms-based screens that remain as firmwide exclusions, we believe that conducting a fundamental analysis on each company is the best way to fully assess investment risk and opportunity rather than relying on an automatic exclusion.

[2] To learn which exclusions apply to which funds, see our prospectus: https://www.neiinvestments.com/investment-products/fund-resources/prospectus-AIFs.html

Screening process

Once per quarter, we identify and update the list of securities that meet the criteria for exclusion. We perform additional research to confirm revenue exposures in cases where we must rely on estimates from the data provider because data are not directly reported by the company.

When we assess revenue exposure at affiliated companies, we look at first degree relationships as well as companies controlled or significantly influenced by the excluded company. Additionally, as part of our evaluation process (see page 14), sector analysts will review the revenue exposure of a company during the headline risk assessment and/or baseline expectations review to ensure no thresholds are being exceeded.

At least once per quarter, we review our holdings to ensure that we do not own any securities on our exclusion list in the relevant funds. Sub-advisors are required to divest from companies that became ineligible in the quarter.

Case study: An evolving perspective on military training

After purchasing the military training business of an aerospace and defense technology company, we excluded the buyer from our investable universe for breaching our firm-wide prohibition of direct revenue generated from the nuclear weapons industry.

Based on our framework in determining the connection to nuclear weapons exposure, we conducted more research and analysis by engaging with the company. We asked questions such as: Does the company's provision of these services contribute to a lower margin of error and increased safety? (Yes); Is the company actively involved in manufacturing controversial weapons or its essential components, including parts or software? (No); Is the company involved in or contributing to the controversial weapons' lethality/destructiveness? (No); Is the company's service/product contributing to the safety of military personnel operating it? (Yes). Following our conversation and further discussions internally, we agreed that training personnel in the use of nuclear weapons should not be counted within the exclusion.

After the company passed the screening step, our sector analyst proceeded with the evaluation, which included a review of baseline expectations and headline risk assessment. Because the company met our expectations, it was deemed to be eligible for investment.

Screening snapshot

As this data captures screening results for calendar year 2023, we have included data for the gambling and nuclear power screens that were removed from the program in June this year.

Table 1: Breakdown of screening results for 2023

		% of issuers
Firm-wide (0% revenue threshold)	Automatic and/or semi-automatic weapons manufacturing for civilian use	1%
	Controversial weapons: cluster munitions, anti-personnel landmines, biological and chemical weapons, nuclear weapons	12%
	Tobacco production and manufacturing	14%
Fund specific (10% revenue threshold)	The distribution of automatic or semi-automatic weapons intended for civilian use	1%
	The manufacture of military weapon systems and/or tailor-made components for those systems	24%
	Gambling*	30%
	Nuclear power*	14%
	The distribution of tobacco and/or tobacco-related products	4%

Total excluded: 2.5% of screened universe

* The gambling and nuclear power exclusions were removed from our program on June 28, 2024. See sidebar on page 11.

Figure 1: Issuers excluded by sector

- 33% Industrials
- 26% Consumer discretionary
- 11% Consumer staples
- 7% Information technology
- 5% Utilities
- 5% No sector classification*
- 4% Materials
- 2% Energy
- 2% Real estate
- 2% Financials
- 2% Communication services

*Primarily private and state-owned enterprises.

Evaluations

Evaluating companies on their ESG performance and then integrating that information into our investment decision-making process is a cornerstone activity of our responsible investment program and a key factor in the decision to buy, hold or sell a security.

How effectively a company addresses its material ESG issues affects its business prospects, and thus the overall performance of our funds. Because companies in different sectors and geographical regions are exposed to different and varying degrees of risks, we analyze them in depth to make better investment decisions.

The process outlined below may be carried out by the sub-advisor for the relevant fund, by NEI, or through joint effort.

Identification of industry-specific material ESG risks
Material ESG risks vary from industry group to industry group; some industries inherently carry more ESG risk than others. The RI team analyzes these risks and conducts material risk assessments specific to industry groups.

Establishment of baseline expectations. Baseline expectations are measures that companies in an industry group must fulfill to satisfy us that they are managing material ESG risks appropriately.

Broad-based benchmarking. We also conduct, through the establishment of key performance indicators (KPIs) relative to specific ESG risks, industry group-specific and broad-based benchmarking to assess each company's ESG performance relative to its peers. The benchmarking may be performed qualitatively or quantitatively for certain NEI funds. Companies are categorized based on their ESG performance. These performance categorizations do not, in and of themselves, determine eligibility for investment. Rather, they are useful for determining potential corporate engagement opportunities:

- An engagement with a leader can help raise the bar for the entire sector.
- An engagement with a company with average performance could focus on improving specific ESG deficiencies that are hindering sector leadership.
- Engagements with companies with room to improve will seek to address material, unmitigated ESG risks.

Headline risk assessment. We scan for headline risk to identify unethical or illegal business practices or involvement in controversial situations. Exposure to controversy leads to further scrutiny of the severity of the incident or issue and the company's efforts to manage it. Depending on the severity of the risk, we may seek to engage the company on the topic or deem it ineligible for investment until the risk is mitigated.

Companies that are deemed ineligible for investment are not permitted to enter any fund for which we conduct evaluations unless the company passes re-evaluation at a later date; however, those companies may still be held in funds not subject to our evaluation process.

Case study: U.S.-based truck manufacturer deemed ineligible due to business practices

The company in question was one of six truck makers that broke EU antitrust rules.[1] In 2016, the truck makers were found to have colluded for 14 years (1997–2011) on truck pricing, and to have passed on the costs of compliance with stricter emission rules. Collectively, the market share of these companies accounted for 90% of the European truck market and may have caused a significant price distortion for trucks sold within the EU, negatively impacting consumers. At that time, the company's refusal to cooperate with the European Commission's investigation resulted in a fine of 753 million euros, and it was the only company that received no leniencies from the Commission.

The company remains exposed to financial risks as it faces the prospect of expensive customer lawsuits. While anti-competitive practices are a systemic issue within this industry, we were particularly concerned about how the company responded to the investigation. Unlike its peers, the company's corrective actions did not go far enough, in our view.

[1] Facts in this case are taken from a press release issued by the European Commission dated July 19, 2016: https://ec.europa.eu/commission/presscorner/detail/en/IP_16_2582.

Figure 2: Evaluations summary (% of companies)

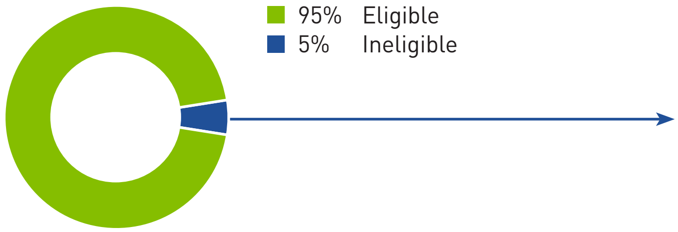
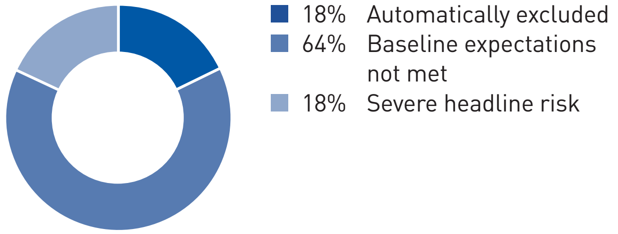
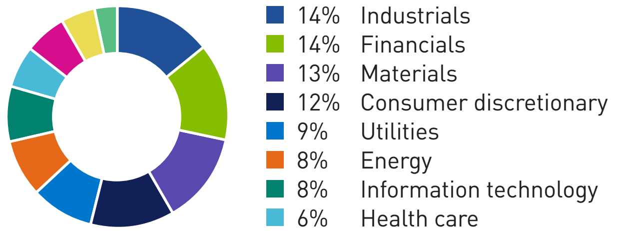


Figure 3: Rationale for ineligibility (% of companies)



- Companies that were automatically excluded derived significant revenues from activities such as nuclear power, gambling, and weapons. (Our nuclear power and gambling screens were removed in June 2024, see page 11.)
- Severe headline risks were most often related to companies' environmental impacts and human rights problems such as labour issues.
- Companies deemed ineligible for not meeting baseline expectations often did not have adequate disclosures on how they address the material ESG risks facing their industry.
- No companies were requested by NEI to be sold for ESG reasons in 2023.

Figure 4: Evaluations by sector (% of companies)



Case study:
Canadian REIT deemed eligible after disclosure improvements

A Canadian real estate company had been deemed ineligible prior to 2023 because it did not have adequate disclosures about how it manages material ESG risks in its industry. Following a re-evaluation in 2023, we noted that while the company was still in the early stages of embedding ESG strategies across its business, it had made significant progress by reinforcing ESG governance. The company hired a head of ESG, formed an ESG committee, and enhanced its ESG policy. It had also began the process of establishing robust internal ESG data collection and reporting to meet international frameworks, and had become a member of the Global Real Estate Sustainability Benchmark, which would allow it to measure and improve its ESG performance. All these developments combined led us to changing the company's status from ineligible to eligible.

NEI ESG Canadian Enhanced Index Fund

Investment objective: To achieve long-term capital growth through tracking the performance of a Canadian equity index which is focused on companies with an enhanced environmental, social and governance profile.

Fund inception date: December 3, 2018

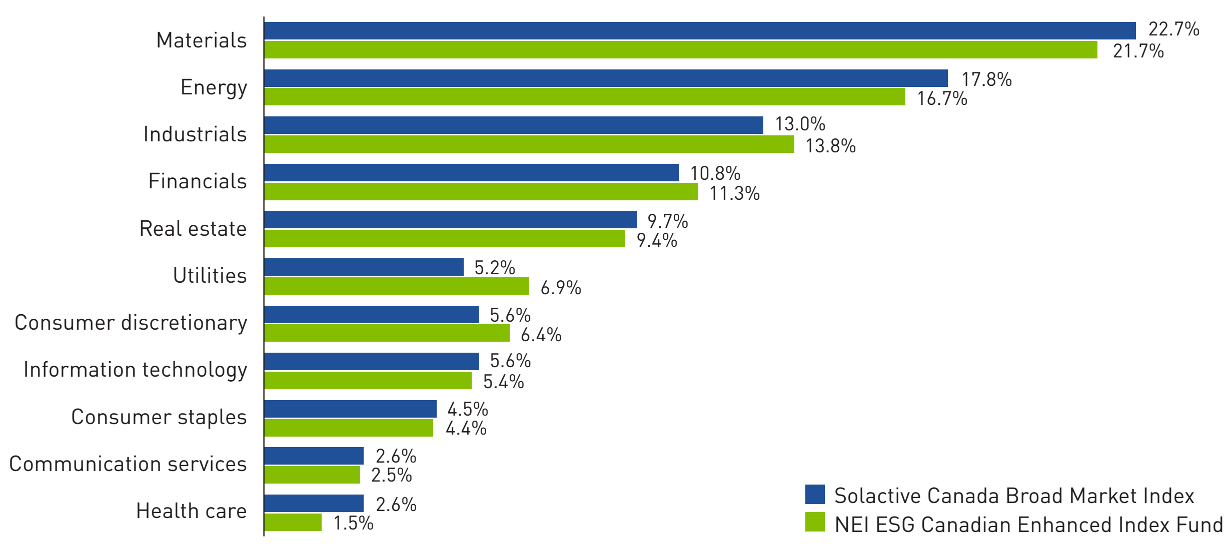
Our evaluation process plays a feature role in the management of NEI ESG Canadian Enhanced Index Fund. The fund starts its equity analysis with the Solactive Canada Broad Market Index.[2] Companies must have a market capitalization of at least $1 billion to be included in the fund, and it must remain above $750 million thereafter. The next step is the application of automatic exclusions, as described on page 10.

Then we apply our evaluation framework as described above. As a result of that process, we may exclude companies for not meeting our expectations. The companies that remain may be overweighted relative to the index, maintain their index weight, or be underweighted relative to the index. The fund is rebalanced quarterly.

Table 2: Year-over-year fund composition changes

	February 2024	February 2023
No. of holdings	203	205
No. of companies excluded based on size and data coverage	42	68
No. of companies automatically excluded based on screens	5	8
No. of companies excluded after evaluation	16	22
No. of companies categorized as ESG leaders	48	55

Figure 5: Fund vs index sector breakdown as of February 2024



[2] A free float market capitalization index that covers all Canadian securities listed on the Toronto Stock Exchange which fulfill basic liquidity criteria.

Stewardship

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]

Our stewardship program includes two main activities: corporate dialogue and proxy voting. We believe that stewardship, pursued effectively and with careful forethought, can be a powerful way to mitigate risks, improve returns, and drive real-world impact on social and environmental issues. Another key activity we undertake that has a strong influence on 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.

The dominant theme for our stewardship efforts in 2023 continued to be net-zero alignment, where the range of issues and topics for engagement seems to grow every year. The urgent need to mitigate the worst impacts of climate change is reflected in the number and the range of engagements, addressing everything from setting robust greenhouse gas reduction targets to integrating circular business models. A new twist this year entailed the use of our net-zero alignment framework to identify priority engagement targets (described in more detail in our *Climate* chapter).

[1] https://www.unpri.org/stewardship/about-stewardship/6268.article.

There were a number of policy developments in 2023 that served to bring the transition risks associated with a move to a net-zero energy system into closer view, while we continue to see engagements shifting to conversations about fundamental business strategies such as how capital spending plans are helping companies meet targets and what a credible net-zero pathway looks like. As the policy interventions continue to mount (granted, not all will succeed or survive changing governments), the question of corporate resiliency grows in materiality as companies, and their investors, are required to navigate increasingly stringent policies and regulations.

Outside of climate, the topic of nature continues to build momentum and became a more important aspect of our engagement efforts in 2023. The pace at which investor awareness of nature-related risks is growing indicates that nature will be a core part of many stewardship efforts in the coming years. Likewise the topic of human rights, where the nexus of technology and human rights is creating a fluid and uncertain environment of business risks for the companies driving society towards an ever more digital world.

The inevitable pushback on ESG gained momentum in 2023, though it was telling that this effort has not to date been led by companies, but rather by political interests, and the main casualties seem to be investor commitments, not corporate ones. The increasing focus of the anti-ESG movement will undoubtedly create headwinds for stewardship efforts, and in particular for collaborations, with the outcome being difficult to call at this point.

We begin our reporting on this important area of our RI program with a data-centric look at engagements and proxy voting results, where we explore top governance concerns and the topic of executive compensation. From there, engagement stories and data are organized according to our 2023 focus themes of human rights, inequality, net-zero alignment, and nature. Those themes were modified this year to become social capital (combining human rights and inequality), natural capital, and net-zero alignment, and that is how they will be organized when we report in 2025.

Corporate engagement snapshot

Figure 6: NEI role (% of engagements)

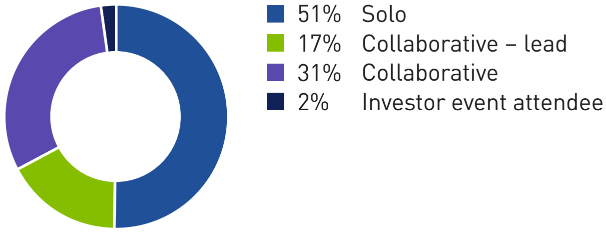


Figure 7: Focus themes (% of engagements)

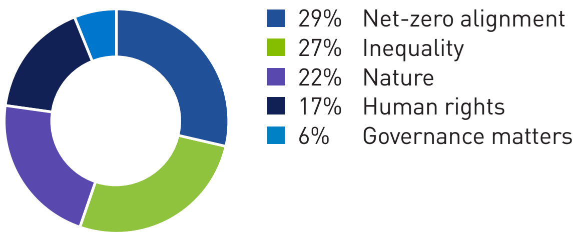
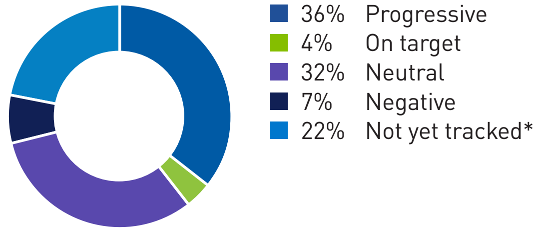
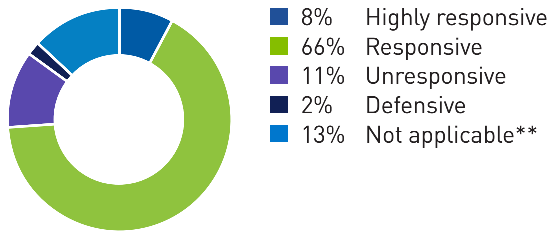


Figure 8: Topic outcomes (% of engagements)



*We engaged the company later in the year and did not yet have the opportunity to measure progress.

Figure 9: Topic responsiveness (% of engagements)



**We engaged the company but did not request or expect a response.

Proxy voting results snapshot

Proxy voting data is from July 1, 2023, to June 30, 2024, which is considered a standard proxy voting cycle. All companies named in this report were held by NEI at the time of voting, though holdings may change at any time without notice.

Data was sourced from International Shareholder Services, FactSet, and public company disclosures. The proxy voting information in this report is comprehensive but not exhaustive. Certain company vote results and NEI vote rationale were selected to represent a range of topics and sectors. To understand how and why we vote the way we do, our Proxy Voting Guidelines offer an in-depth explanation. They can be found here: https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/NEI-proxy-guidelines-en.pdf

For our complete voting history, explore our Proxy Voting Dashboard here: https://vds.issgovernance.com/vds/#/ODI3Mg==/

Figure 10: 944 meetings voted

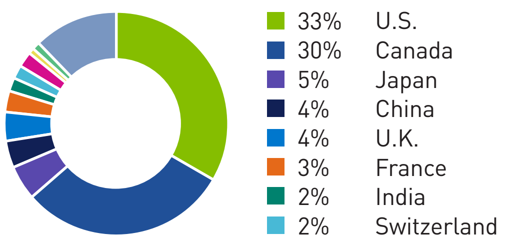


Figure 11: 11,451 management proposals voted

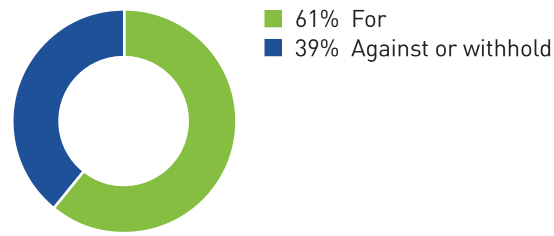


Figure 12: 485 shareholder proposals voted

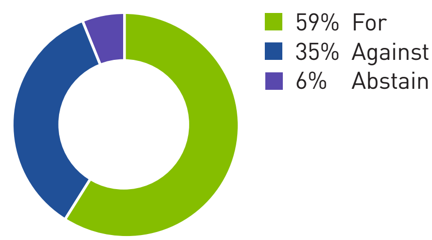
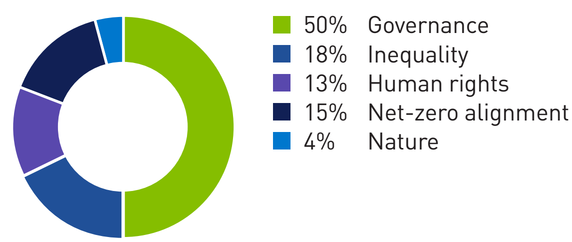


Figure 13: Shareholder proposal breakdown by focus theme



Feedback-on-proxy campaign

Every year we run what we call a "feedback-on-proxy" campaign, where we write to companies to explain why we voted the way we did at their annual general meeting (AGM). If we own more than 1% of a company's shares at the time of voting, we may reach out to them before the meeting to discuss governance concerns and to help inform our voting decisions. As part of this campaign in 2024, we engaged:

- 23 companies on board diversity
- 15 companies on equitable compensation
- 11 companies on climate risk oversight and disclosure
- 5 companies on governance of significant holdings

Governance

Good governance practices are fundamental for boards of directors to fulfill the role of overseeing management and balancing the interests of stakeholders.

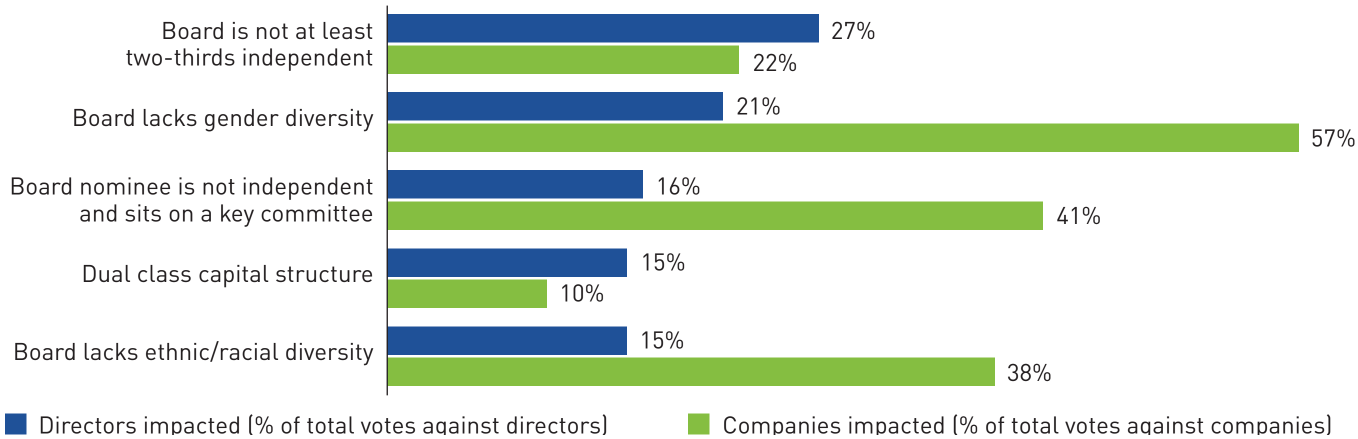
Factors that contribute to good governance include independent leadership, balanced composition, structure, and the perspective, skill, and decision-making capabilities of individual directors. When we feel certain factors are lacking, we may vote against directors according to our guidelines. Independence and diversity concerns dominated our top five rationales for voting against directors in 2023 (Figure 15).

Figure 14: Governance topics (% of engagements)

Table 3: Governance proxy voting data summary

Sub-theme/topic	Abstain	Against	For	Withhold
Auditor related (4 resolutions)	0%	25%	75%	0%
Board diversity (4)	0%	75%	25%	0%
ESG-ready boards (14)	7%	43%	50%	0%
Executive compensation framework (7)	0%	0%	100%	0%
Other governance issues (14)	0%	43%	57%	0%
Require independent board chair (25)	0%	0%	100%	0%
Director election (35)	0%	46%	31%	23%
Charitable donations and political expenditures (40)	3%	33%	65%	0%
Shareholder rights (78)	8%	37%	55%	0%
ESG management and disclosure (5)	60%	0%	20%	20%
Stakeholder theory of the firm (1)	100%	0%	0%	0%
Total (of 227 resolutions)	**5%**	**33%**	**58%**	**4%**

Figure 15: Top 5 reasons for voting against directors

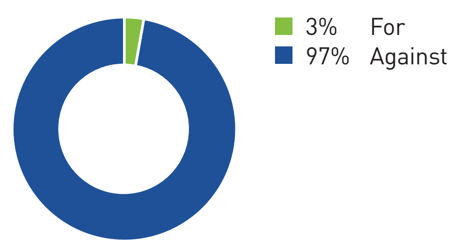


Advisory votes on executive compensation

Our disappointment in compensation practices continued in the latest proxy season, where we voted against 97% of the 488 advisory votes on executive compensation we faced (Figure 16). Reasons for voting against pay packages ranged from lack of transparency to concerns about performance, but a predominant theme was concern over pay equity (Table 4). We flagged compensation packages that we deemed excessive relative to fellow named executive officers, employees, peer companies, and/or median household income. In cases of extreme inequity we also voted against committee members.

We believe that excessive compensation and pay inequity can undermine company performance, while at a systemic level, it increases income inequality which itself has negative consequences for the broader economy. We voted against 38% of compensation plans for lack of ESG performance metrics, meaning compensation was not tied to the achievement of key, material ESG factors, which is contrary to our expectations. Lack of disclosure on the compensation framework, another common reason we voted against pay packages, prevents us from adequately assessing the rigour of a company's overall compensation framework.

Figure 16: 488 advisory votes on executive compensation*



*Canada and U.S. only.

Table 4: Rationale for votes against compensation plans

Factors guiding vote decisions	No. of Canadian companies impacted	No. of U.S. companies impacted	% of companies impacted (Canada + U.S.)
CEO pay >3x avg named executive officers	60	148	43%
CEO pay >5x avg named executive officers	1	2	1%
CEO or executive pay is excessive relative to median household income	18	53	15%
CEO or executive pay is extremely excessive relative to median household income	9	32	8%
CEO pay is excessive relative to peer companies	39	26	13%
CEO pay is extremely excessive relative to peer companies	18	10	6%
CEO pay is excessive relative to broad employee population*	1	38	8%
CEO pay is extremely excessive relative to broad employee population*	1	35	7%
Transparency concerns	120	213	68%
Performance-based concerns	130	222	72%
Lack of ESG performance metrics	47	136	38%

* This guideline is applied only in the U.S. due to lack of data in other markets. The reason two Canadian companies are impacted is because they disclosed their CEO pay ratio as required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K.

Table 5: Thresholds for determining excessive CEO pay

		Excessive pay			Extremely excessive pay		
Country	Median household income	Multiplier	Threshold	No. companies	Multiplier	Threshold	No. companies
U.S.	$68,703	280x median	$20.9M	53	375x median	$28.0M	32
Canada	$90,390	120x median	$11.8M	18	190x median	$18.7M	9

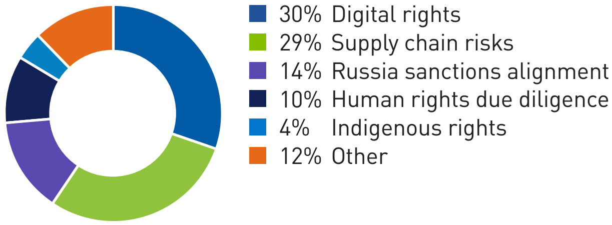
Source for median household income in Canada and the U.S. is Statistics Canada and the U.S. Census Bureau, respectively. Thresholds are set based on our 2024 Proxy Voting Guidelines, which are updated annually.

Human rights

We firmly believe there is an onus on businesses to integrate respect for human rights into their operations. Our discussions this year focused on two main areas: human rights in the supply chain, and digital rights.

At a high level, we see a general deepening of the corporate response to integrating respect for human rights into their business operations. This is a trend that has been slow to develop relative to other ESG issues, but it is strengthening—and that's a good thing. Unraveling the complex connections that link corporate supply chains to human rights impacts has been part of the challenge, and the ubiquity of certain problematic geographic regions in those supply chains makes addressing these risks challenging. When it comes to digital rights the close relationship between increasingly material human rights risks and the underlying business model of tech companies increases the complexity. However, we are seeing increased sophistication when it comes to the implementation of human rights due diligence, which is a fundamental requirement to even understand the scope of these challenges. As such, a common theme across sectors in 2023 was the request by shareholders for companies to conduct adequate human rights due diligence.

Figure 17: Human rights topics (% of engagements)



Proxy voting results

Table 6: Human rights proxy voting data summary

Sub-theme/topic	Abstain	Against	For	Withhold
Digital rights (16 resolutions)	13%	31%	56%	0%
Human rights risks in the supply chain (13)	31%	15%	54%	0%
Indigenous rights (3)	0%	33%	67%	0%
Labour practices (14)	0%	0%	100%	0%
Other human rights due diligence (21)	0%	33%	67%	0%
Total (of 67 resolutions)	**9%**	**22%**	**69%**	**0%**

Table 7: Select human rights proxy voting results

	Resolution summary	NEI vote	Vote result	Context
Microsoft	Company asked to produce a report on policies regarding military and militarized agencies.	For	21.2% support	We believe shareholders would benefit from a report that assesses AI-related risks to the company's operations and finances, as well as risks to public welfare. We supported a similar resolution at Apple, which received a significant 37.5% support, and at Meta Platforms, with support of 16.7%. We expect the frequency of such resolutions to increase.
DSV A/S	Company asked to report on its efforts and risks related to human and labour rights.	For	98.8% support	This is a rare example of company management supporting the perspective of shareholders who believe action must be taken on a particular issue.
JPMorgan Chase	Company asked to report on respecting Indigenous Peoples' rights.	For	30.8% support	While we note the company's commitment to human rights and Indigenous rights, enhanced transparency on the related due diligence and escalation processes as well as performance metrics would help assess the effectiveness of the company's policies and practices in light of controversies affecting the banks on this issue. We supported a similar proposal at Citigroup, which received 26.3%.
Amazon	Company asked to commission a third-party assessment of its commitment to freedom of association and collective bargaining.	For	31.8% support	We believe shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks, particularly regarding freedom of association and collective bargaining. We also supported a proposal requesting a third-party audit of working conditions, which received 31.2% support. A similar proposal at Walmart received 19.2% support.

	Resolution summary	NEI vote	Vote result	Context
Gildan Activewear	Company asked to report on human rights risk infrastructure.	For	13.5% support	We feel additional disclosure regarding the company's current human rights risk infrastructure would provide shareholders valuable insight into how the company's human rights-related oversight mechanisms align with its commitments. We continue to engage with Gildan on this topic.
General Motors	Company asked to report on the use of child labour in connection with electric vehicles.	For	12.8%	We believe additional information on the company's efforts to eliminate child labour from its supply chain would give investors a better understanding how the company is managing human rights-related risks.
Tesla	Company asked to adopt a non-interference policy respecting freedom of association.	For	20.6% support	In light of the high profile and increasingly contentious nature of the issue, additional clarity regarding the company's freedom of association policies would help stakeholders evaluate the company.

Policy activity

- Signed the Investor Statement in Support of Digital Rights Regulations in the European Union Artificial Intelligence Act, urging the European Parliament, European Commission and the Council of the European Union to consider incorporating additional recommendations to protect the rights of all people.
- In honour of the 10th anniversary of the Rana Plaza tragedy in Bangladesh, we joined an investor statement asking companies in our portfolios to commit to safeguarding the health and safety of workers in Bangladesh, Pakistan, and throughout their global supply chains.
- Provided input to the UN Working Group on Business and Human Rights in response to their consultation on the intersection of investors, ESG and human rights.
- Joined fellow members of the Investor Alliance on Human Rights in a meeting with a UN working group on business and human rights to explain investor perspectives on how human rights are, should be and could be considered in ESG approaches; we also submitted a written response to the UN's consultation on this issue.
- Attended two workshops run by the Principles for Responsible Investment to provide insight into the data needs of investors, especially with respect to human rights.

Corporate dialogues

Walmart

First published in NEI's Active Ownership Report for Q4, 2023.

Sector
Consumer staples

Focus theme; sub-theme(s)
Human rights; human rights in the supply chain

Related UN Sustainable Development Goal(s)

8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Engagement activity
Collaborative meeting, third this year

Responsiveness
Responsive

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

Objective: Seek and share information about Walmart's management of human rights risks in the supply chain, and push for enhanced disclosure about their processes and remediation efforts.

We met with Walmart as part of an ongoing collaboration organized by the Interfaith Center on Corporate Responsibility (ICCR), which has been engaging with Walmart for many years. It was our third meeting with the company in 2023. While Walmart has certainly progressed in the area of human rights in the supply chain, we do feel there is more they can be doing given their size, influence, and awareness of salient risks.

One of the key risks that Walmart faces in its supply chain is labour issues. These can range from pay practices to worker safety to child labour to anti-union behaviour. When problems such as these arise and make headline news, the potential for reputational damage to the company is significant. Many media outlets[2] reported it when The Canadian Ombudsperson for Responsible Enterprise (CORE) opened investigations into Walmart Canada (along with the Canadian divisions of Hugo Boss and Diesel), regarding allegations the companies "have operations or supply chains in the Xinjiang region of the People's Republic of China that have used or benefitted from the use of Uyghur forced labour."[3] The New York Times published in February an in-depth article about migrant child labour in the U.S. that cited Walmart, among many other large, well-known companies in various sectors, which led some of the companies (including Walmart) to say they took the allegations seriously and would investigate their supply chains.[4]

Company representatives walked us through Walmart's processes, including auditing efforts, used to identify and rectify human rights risks in core supply chains, such as apparel from Bangladesh, produce from the U.S. and Mexico, and seafood from Thailand. They told us they are updating their processes to address the current labour environment in certain regions, and that we may see more on that work in 2024.

In alignment with the ICCR core working group, we do feel Walmart should be disclosing more about what they've done to address allegations of child labour brought by the New York Times article. We also feel it would be beneficial for investors for Walmart to publish a list of their Tier One suppliers,[5] which many retailers do as a best practice, particularly in the apparel industry.[6] Representatives said they consider supplier names to be sensitive information they don't want competitors to know.

Next steps: We will continue to engage with Walmart as part of the ICCR group as we call for the company to improve disclosure around their human rights risks and remediation processes.

[2] CTV News, Global News, The Globe and Mail, among others.
[3] https://core-ombuds.canada.ca/core_ombuds-ocre_ombuds/press-release_walmart-hugo-boss_diesel_communique.aspx?lang=eng.
[4] https://www.nytimes.com/2023/02/25/us/unaccompanied-migrant-child-workers-exploitation.html.
[5] Tier One suppliers are those with a direct relationship with the buyer.
[6] Fashion Revolution publishes lists of apparel companies who disclose the names of their suppliers. https://www.fashionrevolution.org/tag/tier-1/.

Innergex Renewable Energy

First published in NEI's Active Ownership Report for Q3, 2023.

Sector
Energy

Focus theme; sub-theme(s)
Human rights; human rights in the supply chain

Related UN Sustainable Development Goal(s)

Engagement activity
Solo

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Clean Infrastructure Fund,
NEI ESG Canadian Enhanced Index Fund

Objective: Discuss the current state of Innergex's oversight of human rights risks in their supply chain.

Innergex Renewable Energy is among the renewable energy companies on our 2023 Focus List that we have identified for engaging on the topic of human rights in the supply chain. They are headquartered in Quebec and are involved in wind, hydroelectric and solar power generation. The conditions of solar manufacturing supply chains have been a growing concern, as some of the world's polysilicon used in solar panels is sourced from the Uyghur region of China, which has been linked to cases of forced labour.[7] The headline risk to companies such as Innergex is substantial, and we are encouraging companies to ensure their oversight extends beyond the boardroom to ground-level operations.

The pressure to take accountability for activities throughout the supply chain is high, and has been amplified by the Uyghur Forced Labor Prevention Act that took effect in the U.S. in June 2022.[8] Canada passed Bill S-211, Fighting Against Forced Labour and Child Labour in Supply Chains Act, which comes into effect on January 1, 2024.[9] These new regulations introduce policy risk that companies have to be prepared for to avoid violations, which could potentially delay projects and hinder operations. We discussed with Innergex how they are implementing solar industry regulations and what they are doing to manage the risks in their supply chain. We want to know they are instilling a sense of accountability among their employees, and that they are also guiding their suppliers to adopt a similar stance.

Innergex tends to continue to use suppliers they already have a relationship with, which helps them maintain familiarity. These suppliers go through a third-party audit when they are onboarded; they know there is a possibility of random site visits, which speaks to Innergex's commitment to supply chain due diligence. They have a supplier code of conduct, which we view as a baseline governance element, and they are signatory to the Solar Industry Forced Labor Prevention Pledge.[10] Regarding the potential for exposure to Uyghur forced labour in the chain, Innergex says they have a plan to enhance their due diligence process even further.

To encourage responsible mining practices among their raw material suppliers, we recommended that Innergex consider the purchasing sector working group through the Initiative for Responsible Mining Assurance. We also discussed their progress on biodiversity, and they said they expect to conduct an assessment of their operations soon.

Next steps: We will continue to follow up with Innergex on their planned human rights due diligence enhancements.

[7] https://enduyghurforcedlabour.org/.
[8] https://www.cbp.gov/trade/forced-labor/UFLPA.
[9] https://laws.justice.gc.ca/eng/acts/F-10.6/index.html.
[10] https://www.seia.org/sites/default/files/Solar%20Industry%20Forced%20Labor%20Prevention%20Pledge%20Signatories.pdf.

Dassault Systèmes

First published in NEI's Active Ownership Report for Q3, 2023.

Sector
Information technology

Focus theme; sub-theme(s)
Human rights

Related UN Sustainable Development Goal(s)

Engagement activity
Solo

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Global Growth Fund

Objective: Encourage Dassault to enhance disclosure of their customer due diligence procedures as a way of managing the risk of client misuse of their products.

We met with Dassault Systèmes in September as a follow-up conversation to a letter we sent in February. The company had been named in a report that linked their 3D design software to the Myanmar military.[11] After an internal review, Dassault confirmed in a statement[12] they had not in fact sold their software to the Myanmar military, and that the entities named in the report were not on Dassault's client list.

The story led us to question Dassault about how they consider the potential for misuse of their products by their customers. The risk of significant reputational damage due to lack of oversight in this area is clear, and we wanted to better understand the company's internal controls. They explained the three main tools they use for conducting customer due diligence are export controls, acceptable use policies, and individual case review based on reports of controversial use. These tools allow for coordinated action to help the company prevent adverse human rights impacts.

The company was candid with us and provided examples of their policies in action. They were open to our recommendation that they improve public disclosure, as it appeared to us they had strong procedures in place; we explained it would be helpful to investors if they made that more explicit in their materials. They were appreciative of the resources we provided related to the management of downstream human rights risks. We pointed them to an industry tool that outlines specific human rights considerations for enterprise software providers, and we supplied public policies from peer companies that include human rights assessments and due diligence procedures.

Downstream human rights impacts of highly sensitive technology applications are a growing risk for companies. For example, surveillance company Clearview AI neglected to protect against the risks to communities impacted by the sale of its faceprint database. The company was sued for violating Illinois state biometric law and was restricted from making its faceprint database available to private entities across the U.S. as part of the settlement.[13] Cases such as this bring to the forefront the legal and operational risks when adequate due diligence is not performed. Business practices and their impact on customers, employees, communities and other stakeholders may have a material financial impact. Not only are litigation costs potentially incurred, a company could lose future orders and revenues.

Next steps: We will look for enhanced disclosure in this area, as the company said they were in the process of reshaping the sustainability section of their annual report.

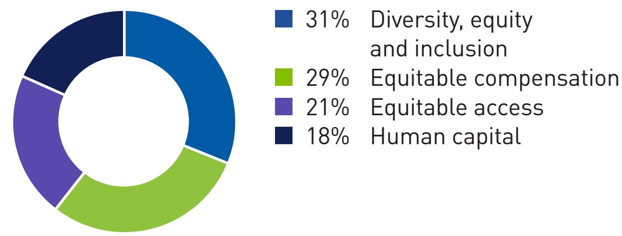
[11] https://specialadvisorycouncil.org/2023/01/13-countries-enabling-weapon-manufacture-myanmar/.
[12] https://www.3ds.com/newsroom/news-brief/dassault-systemes-statement.
[13] https://www.aclu.org/cases/aclu-v-clearview-ai.

Inequality

Inequality takes on different dimensions as it cuts across sectors in various ways. Over the years this systemic issue has required us to use the full suite of tools available to us as responsible investors. This year we have emphasized four core issues: human capital; diversity, equity and inclusion; equitable compensation; and equitable access.

We spent significant time in 2023 focusing on the policy opportunities in Canada to see greater disclosure expectations for companies when it comes to diversity, equity and inclusion (DEI). Investors have been pushing regulators for years on the need for better data, and some progress has been made. However, these conversations rolled into 2024 and will require continued persistence from investors if we are to see the kind of mandatory reporting that would provide the decision-useful information that we believe investors need. At the corporate level, we continue to encourage companies to maintain and improve their DEI and human capital efforts, as we see failure to do so as a material business risk. The investor voice is critical at this juncture with the issue of DEI being politicized, particularly in the United States. Companies are facing increasing pressure to scale back their efforts on this front, despite what we feel are the obvious business advantages of strong DEI and human capital practices.

Figure 18: Inequality topics (% of engagements)



Proxy voting results

Table 8: Inequality proxy voting data summary

Sub-theme/topic	Abstain	Against	For	Withhold
Diversity, equity and inclusion (49 resolutions)	0%	49%	51%	0%
Equitable access (4)	0%	25%	75%	0%
Equitable compensation (30)	0%	57%	43%	0%
Responsible tax (9)	56%	0%	22%	22%
Total (of 92 resolutions)	**5%**	**46%**	**47%**	**2%**

While Table 8 shows we voted against almost 50% of DEI-related proposals, all those votes were cast against proposals written with the intention of undermining the efforts of companies to address inequality – what are being called “anti-ESG” proposals. Companies and shareholders alike have resoundingly rejected these proposals, as evidenced by their average support level of only 1.2%. An example of this kind of proposal is captured below for Procter & Gamble.

Table 9: Select inequality proxy voting results

	Resolution summary	NEI vote	Vote result	Context
Procter & Gamble	Company asked to report on a third-party civil rights audit of reverse discrimination.	Against	4.1% support	We feel the proponent's rationale completely misconstrued the purpose of a non-discrimination audit, which is to identify and address potential barriers because of conscious or unconscious discrimination to ensure an even playing field for all employees. The filer's rationale suggested instead that the purpose was to advantage one group over another. This proposal was not the only one we voted against that had a heavy tilt toward "anti-inequality." We also voted against proposals at Microsoft (0.8% support) and PepsiCo (2.8% support) that were framed in such a way that we felt they were likely to undermine the companies' progress on diversity, equity and inclusion.
RBC	Company asked to perform a racial equity audit	N/A	Proposal withdrawn	After receiving 42% support at the last AGM, shareholders refiled a proposal asking RBC to perform a third-party racial equity audit of their employment practices. The proposal was withdrawn and did not go to a vote as the bank agreed to undertake the audit voluntarily, committing to have it finished by the end of 2024. Having supported the proposal previously and having raised this issue with the bank in our engagement, we were pleased to see this result. BMO also agreed to perform a third-party racial equity audit, and that proposal was withdrawn as well.
CIBC, RBC, BMO, TD	Banks were asked to disclose the CEO compensation to median worker pay ratio.	For	10.4–13.2% support	We feel that disclosure of CEO compensation to median worker pay ratio is important for investors and other stakeholders to know, particularly current and future employees. We believe it helps investors determine whether executive compensation practices are reasonable and fair and aligned with broader stakeholders' long-term interests. Excessive pay disparities could pose risks to long-term shareholder value and impact employee morale as well as a company's standing in the community.

	Resolution summary	NEI vote	Vote result	Context
ExxonMobil	Company asked to report on median and adjusted gender/racial pay gaps.	For	20.1% support	By reporting global gender pay gap statistics as required in the U.K., the company could provide shareholders with a better gauge of how its diversity initiatives are improving opportunities for women. Additionally, given that other companies have made commitments or have started to disclose their global median gender gap, it should not be prohibitively costly or unduly burdensome for the company to take on similar actions. Investor support for this proposal was the lowest of almost a dozen companies facing similar proposals, including Oracle, Apple, Applied Materials, Amazon, and Charles Schwab. Support was highest at American Tower, at 49.2%.
Tesla	Company asked to report on harassment and discrimination prevention efforts.	For	31.5% support	As the company has faced allegations of harassment and discrimination, we believe increased transparency on how the company is managing these risks is important for stakeholders to know.

Policy activity

- Met with the Ontario Securities Commission to provide feedback and share our perspective on the regulator's priorities regarding diversity, equity and inclusion and Indigenous engagement.
- As part of an investor collaboration, we wrote to the Ontario Ministry of Finance to encourage the government to support the Ontario Securities Commission in implementing changes to its diversity, equity and inclusion reporting requirements.
- Met with the Ontario Securities Commission, along with other investors, to discuss the Canadian Securities Administrators' consultation on diversity beyond gender.
- Provided comments to the Canadian Securities Administrators on the regulator's proposed pathways for enhancing diversity disclosure requirements for issuers to capture diversity characteristics beyond gender.
- Joined an investor statement about protecting and promoting good workplace mental health as a business imperative, encouraging companies to take actions on this issue.
- Joined an investor statement calling on U.S. companies to take steps toward the payment of a living wage to direct and contract workers, in line with international human rights standards.

Corporate dialogues

Starbucks

First published in NEI's Active Ownership Report for Q3, 2023.

Sector
Consumer discretionary

Focus theme; sub-theme(s)
Inequality; human capital

Related UN Sustainable Development Goal(s)

Engagement activity
Email correspondence following AGM

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Global Growth Fund

Objective: Ascertain the company's intentions following the success of a shareholder resolution regarding freedom of association and collective bargaining.

Starbucks responded in Q3 to a letter we sent them as a follow-up to their March AGM, where a shareholder proposal regarding labour practices garnered 52% investor support (including from NEI).[14] The proposal asked the company to conduct an independent assessment of its practices, as employees sought the right of freedom of association and collective bargaining.

Our analyst team had already flagged Starbucks as stories rolled in about the labour controversies in the lead-up to the AGM. They were facing significant reputational damage that had the potential to erode brand value and negatively impact financial results. The company had been (and continues to be) accused of anti-union behavior, and ex-CEO Howard Shultz was called to testify before a U.S. Senate committee regarding the matter. The U.S. National Labor Relations Board found Shultz guilty of violating labour laws,[15] and the company continues to be investigated by the U.S. Department of Labor.[16]

The letter we sent informed Starbucks that we had voted in support of the resolution, and included three key follow-up questions: What is the company's short- and medium-term plan to respond to the shareholder proposal? What are the processes in place to respond to labour concerns beyond what's required by regulators? What is the structure of the labour relations team intended to lead that area within the company?

In their response, Starbucks provided information that answered two of the three questions, demonstrating to us they are taking concrete steps to address our concerns and their labour issues at large. They have retained an independent assessor to conduct the review, which is being led by a committee of the board—another positive sign. The company said they expect to make public some key takeaways from the assessment by the end of the year. We responded that we were pleased to see the actions taken, and that we look forward to the results.

Next steps: We will review the public disclosures of the company's independent assessment when they are made available and follow-up accordingly.

[14] Vote result data from Institutional Shareholder Services.
[15] https://www.reuters.com/legal/government/ex-starbucks-ceo-schultz-illegally-threatened-union-supporter-nlrb-judge-rules-2023-10-09/.
[16] https://www.reuters.com/legal/starbucks-must-disclose-spending-response-union-campaign-judge-rules-2023-10-06/.

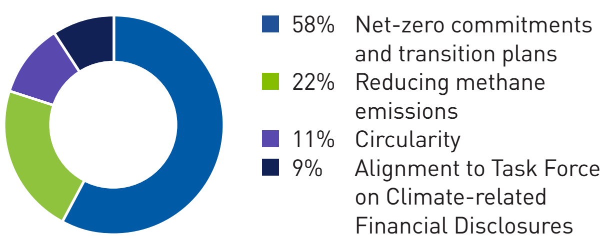
Net-zero alignment

Last year was, to say the least, a tumultuous one for the energy transition, with war, precedent-setting climate legislation, and extreme weather events. Our core topics were net-zero commitments and transition plans, reducing methane emissions, circularity, and mitigating supply chain impacts.

Progress on this theme continues in fits and starts, with an overall arc toward our objectives but with frequent challenges along the way. The continued strength of the global demand for fossil fuels complicates the net-zero pathway for companies in the business of meeting that demand, making discussions on transition plans particularly challenging. Our focus on mitigating methane emissions is an easier conversation, as minimizing methane emissions is an activity that provides material benefits, environmentally and economically, across all scenarios. Supporting the increasingly stringent policy environment around methane emissions was a focus in 2023 (and 2024) for the same reasons.

At the same time, we continue to see companies in various sectors make increasingly ambitious goals and start to articulate how their strategy will not only be resilient, but also capitalize on transition opportunities. The dialogues on circularity and mitigating supply chain impacts (particularly as it relates to the sourcing of transition/critical minerals) are less advanced and newer for companies, but we saw these conversations continue to evolve and expect them to play a growing role going forward.

Figure 19: Net-zero topics (% of engagements)



Proxy voting results

The filing of "anti-ESG" proposals, particularly proposals aimed at rolling back the climate commitments and disclosures of companies trying to navigate a net-zero pathway, is a growing threat that investors must navigate. These proposals often mimic the language and framing of shareholder proposals aimed at *improving* the corporate response to climate risk, but actually contain a contrary request which would, if enacted, result in poorer disclosure and/or performance at the company. We have not distinguished these proposals in Table 10 below, but of the 19 proposals that we voted against in the "net-zero commitments and just transition plans" category, all but four were anti-ESG proposals. We are pleased to see that shareholders (and management) have soundly rejected these proposals, with the average support for those proposals sitting at a paltry 1.3%. Climate was not the only issue that saw increased interest from anti-ESG proponents, as we also saw a number of anti-ESG proposals targeting companies for their DEI efforts as well.

Table 10: Net-zero alignment proxy voting data summary

Sub-theme/topic	Abstain	Against	For	Withhold
Advisory vote on environmental policy (12 resolutions)	42%	42%	8%	8%
Circularity (8)	13%	0%	88%	0%
Climate lobbying (4)	0%	0%	100%	0%
Mitigating supply chain impacts (2)	0%	0%	100%	0%
Net-zero commitments and just transition plans (50)	2%	38%	60%	0%
Reducing methane emissions (1)	0%	0%	100%	0%
Clean energy supply financing ratio (3)	0%	0%	100%	0%
Total (of 78 resolutions)	**9%**	**30%**	**60%**	**1%**

Table 11: Select net-zero proxy voting results

	Resolution summary	NEI vote	Vote result	Context
Dow	Company asked to commission an audited report on reduced plastics demand.	For	26.3% support	We feel the proposal would enable shareholders to more effectively evaluate the company's efforts to address a potential decrease in the demand for virgin plastics and its corresponding financial implications. ExxonMobil faced a similar proposal with 20.8% shareholder support.
Bank of America	Company asked to report on its clean energy supply financing ratio.	For	26.0% support	We see value in companies disclosing the proposed clean energy supply financing ratio to assess the pace and scale at which they are flowing capital toward low-carbon energy. A similar proposal at Goldman Sachs achieved 28.8% support. We note that other banks have committed to disclosing this ratio.
Imperial Oil	Company asked to report on the impact of the climate transition on its asset retirement obligations.	For	4.3% support	An audited report on the impacts of a range of climate transition scenarios would give shareholders insight into the company's strategy to reach its net-zero commitment, particularly as it is related to the firm's decarbonization strategy and capital allocation alignment.

	Resolution summary	NEI vote	Vote result	Context
Amazon	Company asked to: 1) report on the impact of its climate change strategy consistent with the International Labour Organization's Just Transition Guidelines; 2) report on efforts to reduce plastic use; 3) disclose all material scope 3 GHG emissions.	For (all three proposals)	Support of: 1) 23.4% 2) 28.6% 3) 15.3%	Three resolutions were filed at Amazon under our focus theme of net-zero alignment. We believe that: 1) shareholders would benefit from more disclosure on whether and how the company considers human capital management and community relations issues related to the transition to a low-carbon economy as part of its climate strategy; 2) shareholders would benefit from additional information on how the company is managing risks related to the creation of plastic waste; 3) disclosure of all material scope 3 emissions would allow shareholders to better evaluate the company's progress toward its net-zero goal, provide assurance that the company is managing climate-related risks appropriately, and help the company prepare for potential regulatory requirements.

Policy activity

- Submitted comments to the Environmental Protection Agency's consultation on its proposed rules for reducing methane emissions from the oil and gas sector, supporting the development of robust emission reduction standards for the industry.
- Responded to a survey from the Task Force on Climate-related Financial Disclosures (TCFD) on our experience reporting against the TCFD framework.
- Provided input to the Energy Futures Lab regarding their submission to the government of Alberta outlining the top policy priorities that would help the province seize the opportunities of the energy transition.
- Met with Superintendent of the Office of the Superintendent of Financial Institutions (OSFI) to discuss the implications of OSFI Guideline B-15: Climate Risk Management for smaller financial institutions (non-chartered banks), capital impacts and scope 3 measurement.
- Joined a sign-on letter supporting the adoption of the International Sustainability Standards Board's climate-related reporting framework at a global level, which was released at COP28.
- Submitted comments to the Office of the Superintendent of Financial Institutions (OSFI) in response to the consultation on its Draft Standardized Climate Scenario Exercise, showing our support for OSFI's role in building expertise across the financial industry on the use of climate scenarios, and ensuring OSFI is able to monitor and assess risk exposure across the industry.

Corporate dialogues

GFL Environmental

First published in NEI's Active Ownership Report for Q1, 2023.

Sector
Industrials

Focus theme; sub-theme(s)
Net-zero alignment; net-zero commitments and transition plans

Related UN Sustainable Development Goal(s)

Engagement activity
Climate Engagement Canada (first meeting)

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Canadian Equity Fund, NEI ESG Canadian Enhanced Index Fund, NEI Growth & Income Fund

Objective: Kick off collaborative engagement as part of Climate Engagement Canada (CEC) initiative, ensure company understanding of CEC objectives.

Waste management company GFL Environmental is maturing nicely with its climate-related disclosures, given the company has only been public since 2020. They have produced a second iteration of their sustainability report, and have said they intend to publish their first report aligned to the Task Force on Climate-related Financial Disclosures (TCFD) in 2024. We met with them in January as part of a CEC investor collaboration, though NEI had been engaging the company on its own prior to the group meeting, and on the same topics of net-zero commitments and transition plans.

Headquartered in Toronto, GFL provides diversified environmental services across North America in the areas of solid waste management, liquid waste management, and soil remediation. Their "sustainability action plan" includes commitments such as increasing resource recovery and recycling solutions, the capture and use of landfill gas, use of low-carbon fuels in their vehicles, and investing in innovation. What we liked about what we heard in our meeting is that GFL has a clear strategic intention not just to reduce emissions, but to capitalize on the energy transition for the long-term success of their business.

The company is and has been very receptive to our conversations about net-zero strategy, targets, and disclosure. They told us that TCFD is a focus for them, and that they are currently taking steps to prepare for their first report next year. They also said they are revisiting their climate scenario analysis. Overall, we are impressed by GFL's commitments and progress given their short time as a public company.

Next steps: Organize next touchpoint with the aim of agreeing on priority actions in accordance with CEC guidance, and to review the company's targets and scenario analysis for alignment with a net-zero pathway.

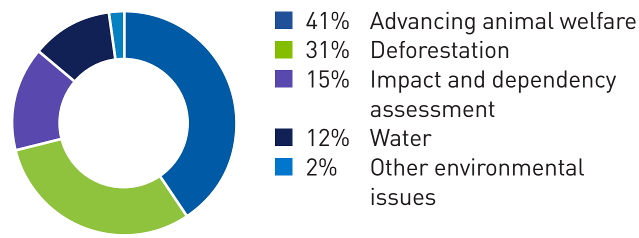
Nature

Our society has done a poor job acknowledging and managing the value of natural capital. Over the past few years NEI has placed greater focus on nature and biodiversity in our approach to active ownership, so that we can have a positive influence on this growing area of concern.

The number of shareholder proposals that addressed nature-related topics was still relatively modest in 2023, though we are seeing the topic start to gain traction. Much like our engagement efforts in this area, we are still in the early days when it comes to setting expectations for companies and identifying best practices. That is why we saw a number of resolutions asking companies to assess their impacts and dependencies on nature, which was also a frequent request for us in our engagements. The foundational work of identifying a company's exposure to nature-related risk is still a relatively new and quickly evolving topic.

One area that does have a longer track record is the issue of commodity-related deforestation, where there are established best practices and companies have a much better line of sight into their supply chain exposure. We are part of an investor collaboration that has committed to striving to eliminate commodity-driven deforestation in our portfolios. The large number of engagements related to advancing animal welfare (Figure 20) was a result of our support for the Business Benchmark on Farm Animal Welfare and its annual campaign.

Figure 20: Nature topics (% of engagements)



Proxy voting results

Table 12: Nature proxy voting data summary

Sub-theme/topic	Abstain	Against	For	Withhold
Advancing animal welfare (12 resolutions)	0%	0%	100%	0%
Impact and dependency assessment (7)	0%	14%	86%	0%
Total (of 19 resolutions)	**0%**	**5%**	**95%**	**0%**

Table 13: Select nature proxy voting results

	Resolution summary	NEI vote	Vote result	Context
Home Depot	Company asked to disclose a biodiversity impact and dependency assessment.	For	16.1% support	While we recognize the company's efforts, we believe an impact and dependency assessment would help shareholders assess how the company is managing risks associated with biodiversity loss as well as adequately tracking progress. A similar proposal was filed at PepsiCo, receiving 18.4% support.
McDonald's	Company asked to: 1) adopt an antibiotics policy; 2) approve a request on cage-free egg progress disclosure; 3) disclose poultry welfare indicators.	For (all three proposals)	Support of: 1) 15.2% 2) Withdrawn 3) 36.0%	Three resolutions were filed at McDonald's under the topic of improving animal welfare. 1) We would like to see the company progress toward phasing out the use of antibiotics in animal-related food production, as evidence suggests that excessive routine use may contribute to the global problem of antibiotic resistance. To that end, a comprehensive policy across supply chains along with the corresponding report would be beneficial for investors. 2) The proposal was withdrawn by the filer before going to a vote at the company's AGM. 3) We believe shareholders may benefit from additional information on the company's policies and practices related to animal welfare in its supply chain.
Restaurant Brands International	Company asked to report on supply chain water risk exposure	For	28.7%	We feel stakeholders would benefit from increased disclosures about how the company is measuring and working to mitigate water-related risks.

Policy activity

- Provided comments to the Global Reporting Initiative's consultation on its draft biodiversity disclosure requirements.
- Submitted comments in response to the Business Benchmark for Farm Animal Welfare's consultation on its revised benchmark, indicating areas where the benchmark could be improved for investor use.
- Joined an investor statement calling for companies with intensive use of plastic packaging to take urgent action to reduce their use of plastics.
- Submitted responses to the Taskforce on Nature-related Financial Disclosures consultation on beta v0.4 of their risk management and disclosure framework.

Corporate dialogues

Bank of Montreal

First published in NEI's Active Ownership Report for Q2, 2023.

Sector
Financial services

Focus theme; sub-theme(s)
Nature; deforestation

Related UN Sustainable Development Goal(s)

Engagement activity
Investor collaboration

Responsiveness
Highly responsive

Holding status (subject to change without notice)
NEI Canadian Bond Fund, NEI Fixed Income Pool, NEI ESG Canadian Enhanced Index Fund

Objective: To share guidance and expectations so that BMO can better understand and disclose its exposure to commodity-driven deforestation and influence clients in its lending portfolio.

Like many banks, BMO carries out a range of lending and financing activities around the world for many different clients. Through these activities, the bank is exposed to the actions undertaken by the companies it loans money to, and that includes deforestation risks. We are particularly concerned with agricultural commodity-driven deforestation, with a focus on palm oil, soy, cattle, and pulp and paper, as specified by the Finance Sector Deforestation Action (FSDA) initiative, to which we are signatory.

We met with BMO alongside another investor to better understand the steps the bank is taking to manage its deforestation risks, and we are pleased with the progress to date. BMO has started to leverage technology tools in its analysis to try to collect geospatial data on clients' physical operations. We encouraged them to make an overall deforestation and land conversion-free commitment and provided guidance on deforestation risk management to help them strengthen their lending policies, and to begin requiring that their clients meet specific FSDA expectations. We support the bank's efforts on deforestation risk assessment and we further encouraged them to assess and disclose specific commodity-related risks in their supply chain.

We should note that BMO is exhibiting strong leadership on the theme of biodiversity, as they chair the Global Cross-Sector Biodiversity Initiative, are actively involved in the Taskforce on Nature-related Financial Disclosures, play a lead role in the biodiversity working group for the UN Principles for Responsible Banking, and are the first Canadian financial institution to join the Partnership for Biodiversity Accounting Financials.

Next steps: We look forward to following up with BMO on their progress and will review their published reports for enhanced disclosure around deforestation risks and mitigation tactics.

Ball

First published in NEI's Active Ownership Report for Q4, 2023.

Sector
Materials

Focus theme; sub-theme(s)
Nature; impact and dependency assessment | Net-zero alignment; circularity, mitigating supply chain impacts

Related UN Sustainable Development Goal(s)

Engagement activity
Collaborative meeting (first time) + follow-up email

Responsiveness
Highly responsive

Holding status (subject to change without notice)
NEI Environmental Leaders Fund,
NEI Global Sustainable Balanced Fund

Objective: To seek and share information about Ball's management of nature-related risks, especially in relation to their supply chain, and to encourage greater disclosure.

We met with Ball Corporation alongside Impax Asset Management, sub-advisor to NEI Environmental Leaders Fund and NEI Global Sustainable Balanced Fund.[17] Ball is a U.S.-based aluminum packaging company specializing in "creative can and bottle designs based on sustainable manufacturing principles."[18] We are pleased with how the company is progressing on its environmental goals as it pursues low-carbon transition strategies as well as nature-related objectives, all in the context of supporting a circular economy. Earlier this year we completed an assessment of our holdings aimed at determining which companies are aligned to a credible net-zero pathway, and Ball ranked highly.[19]

The number one agenda item for our meeting was risk management of biodiversity factors, but as we spoke, the conversation evolved to focus on circularity. Most of Ball's environmental impacts and risks are connected to its supply chain, which consists primarily of miners. (Ball does not own mines.) They told us they are taking the same approach with their nature strategy as they are with their climate strategy, because the solution set is similar. As natural resources become more scarce, and as mine operations become increasingly challenging in the context of greater community and social responsibility, as well as environmental impact, Ball must absorb the knock-on risks faced by the miners themselves. This could entail higher commodity prices, tighter supply, mine shutdowns, change in ownership, reputational risk in cases of mining controversies, or some combination. The way to mitigate these risks is by establishing circularity, the key to which is recycling.

The Aluminum Association refers to the metal as "infinitely" recyclable, noting that 75% of all aluminum ever produced is still in use today. What's more, according to the group, recycling aluminum takes only 5% of the energy required to produce new material,[20] making it a winning proposition for the energy transition and for reducing the serious impact of mining on nature.

Ball has a target of using 85% recycled content by 2030, up from 62% as of 2023. They also have a goal of sourcing aluminum only from sites certified by the Aluminum Stewardship Initiative (ASI), which aims to "promote sustainability throughout the aluminum value chain."[21] And, they have targets around water use, another major input into their business. They told us they are engaging with different levels of government in the U.S. regarding "extended producer responsibility," which is "an approach to recycling that requires producers, such as manufacturers,

[17] NEI and Impax are partnering on a series of engagements with companies held in those two mandates; we will share more in the New Year.
[18] www.ball.com.
[19] For an explanation of our net-zero alignment framework, refer to: https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/Whitepaper%20-%20A%20portfolio%20in%20transition%20EN.pdf.
[20] Data points in this paragraph sourced from www.aluminum.org/Recycling.
[21] https://www.dqsglobal.com/en-us/certify/asi-aluminium-stewardship-initiative-certification.

distributors, and retailers to take responsibility for the life cycle of the products they sell."[22]

Next steps: We followed up our virtual meeting with an email in early December. We requested additional disclosure about supply chain management and about the ASI and biodiversity risk. We also suggested the company explore combining their TCFD and TNFD[23] reporting, since that relationship is so intertwined for Ball and would appear to be a good fit. This would be an uncommon reporting approach that shows Ball's leadership.

[22] https://www2.gov.bc.ca/gov/content/environment/waste-management/recycling/extended-producer-responsibility.

[23] Task Force on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNDF).

Sony

First published in NEI's Active Ownership Report for Q4, 2023.

Sector
Consumer discretionary

Focus theme; sub-theme(s)
Nature; impact and dependency assessment (water)

Related UN Sustainable Development Goal(s)

Engagement activity
Co-lead of collaborative meeting (first time)

Responsiveness
Responsive

Holding status (subject to change without notice)
NEI Global Equity RS Fund,
NEI Global Value Fund

Objective: To seek and share information about Sony's management of water-related risks, and to support the development and setting of water use targets for the company's 2030 planning process.

We met with Sony as part of an investor collaboration organized by Ceres, a large non-profit organization made up of investors, companies, and other non-profit groups. The work stems from Ceres' Valuing Water Initiative, a global investor-led initiative aimed at engaging companies with large water use footprints.[24] NEI is the lead investor for the Sony collaboration, and will also lead the collaboration with Amazon in 2024.

The Valuing Water Initiative lays out six corporate expectations[25] that align with UN Sustainable Development Goal number six, "clean water and sanitation." For our discussion, we were primarily focused on expectations around water quantity, and to a lesser extent, water access. The main use case we were looking at is the manufacture of semiconductors, sales of which make up 11% of Sony's total revenue and which require significant volumes of water as an input. As with any critical input to a production process (see aluminum as an input for Ball Corporation on page 43), whatever risks there are to that input will be transferred up the chain. Sony needs a large, consistent supply of water for certain manufacturing sites around the world to maintain output, and if supply is affected by government-imposed restrictions, climate change, scarcity, reputational damage in the community, or other factors, that can have a major impact on the business.

Sony's semiconductor operations are growing and expected to grow further, and the water footprint is growing as well. We want to understand how the company is addressing the potential long-term impacts on the business, how they intend to reduce their water use through recycling, and how they intend to support water accessibility in the communities where they operate, among other considerations.

It's clear that Sony has been addressing the material risk of water for a number of years. They have long-term climate and water use targets extending to 2050, as well as incremental five-year plans to help them get there. As an example of such a target, for 2025, they have a goal of reducing water use intensity by 5% at their high water usage sites (not all of them are). In addition to reducing water withdrawal rates, Sony is also investing in water recycling technologies to improve that aspect of the production process.

Next steps: Sony is beginning the process of setting sustainability business goals for 2030. It is our intention to engage them along the way so that we can provide input. We also intend to dig deeper into the company's supply chain risks (component suppliers that also face water challenges), board oversight, and water use in high-risk geographic areas, among other related topics.

[24] https://www.ceres.org/water/valuing-water-finance-initiative.
[25] https://www.ceres.org/sites/default/files/Ceres%20Corporate%20Expectations%20for%20Valuing%20Water%202022.pdf.

Evolving our engagement reporting

This article was originally published in NEI's 2024 Focus List.[26]

Next year, our 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.

For reporting purposes, company-specific objectives—tangible outcomes expected to be achieved in a 24-month period—will be assigned to one of four categories (Table 14) and monitored along five stages of progress (Table 15).

Table 14: Objective categories

Category	Context	Example of a company-specific objective[27]
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.

[26] https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/reports/focus-list.html.

[27] 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 15: Progress categories

Category	Context	Example case: Improving a diversity policy[28]
Early stage	These objectives are either at the "Seek and share information" stage (see Table 14 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.

[28] Illustrative purposes only.

One of the key resources used to develop our framework is the UK Stewardship Code,[29] 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.[30]

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.

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

Policy activity

Our policy work enables us to effect change at a broader scale, beyond individual companies, to remove barriers and create incentives to improve sustainability performance and disclosure. It is intended to support and reinforce the other aspects of our program, from evaluations to stewardship, and works synergistically to raise the bar for company performance.

We firmly believe stronger standards and regulations lead to better corporate performance and disclosure, while best practices by companies in turn encourages standard-setters and regulators to show more ambition. The result of this virtuous cycle is better data (and better performers) that allow us to best implement our investment thesis.

Our policy work in 2023 was reflective of a longer-term trend that we are seeing, where certain sustainability themes and topics have reached a maturity level where standard-setters and regulators are now wrestling with the details of codifying them. For example, we had several interactions with the Canadian Securities Administrators regarding updates to mandatory diversity disclosures, where the conversations dug into the exact parameters of how to assess and disclose on diversity characteristics (having moved well past the discussion of why the topic has merit in the first place). In other areas, such as our support for an investor statement regarding plastic packaging, we are at the early stages of a conversation on the need to address the issue, and detailed conversations on actual regulations are yet to come. The number of sustainability-related themes that are moving into detailed discussions on implementation is heartening to see, and a trend we expect to continue.

Policy initiatives have been captured above in the *Stewardship* chapter of the report (beginning on page 18) and grouped by focus theme, so our work supporting the standardization of climate-related reporting, for example, would be found in the section on net-zero alignment.

In this chapter, we highlight some of the other initiatives that don't necessarily fit into a focus theme. For example, we provided feedback to the Canadian Sustainability Standards Board and the International Sustainability Standards Board on what we felt they should prioritize over the next two years, where we emphasized the need to ensure that both organizations prioritize the implementation of the good work done to date and see it through before focusing on new topic areas. We believe we are at a critical juncture and on the precipice of seeing standardized, mandatory sustainability reporting a reality, and success on this front will have far-reaching implications that we have long looked forward to.

Policy initiatives

- Responded to the Principles for Responsible Investment (PRI) consultation, "PRI in a Changing World," to provide our perspective on how the PRI can best evolve to support the growth of responsible investment.
- Took part in a research project from the University of Brighton looking at the role of mining assurance programs in driving responsible mining practices.
- Spoke with the Mining Association of Canada on the proposal to create a single industry-driven responsible mining standard to replace the separate frameworks currently in place.
- Responded to the RIA's trends survey on responsible investment practices to inform the development of industry best practices.
- Provided comments to the Canadian Sustainability Standards Board as it sought input on what Canadian investors believe should be the priority areas of focus for the International Sustainability Standards Board over the next two years.
- Provided comments to the International Sustainability Standards Board on priority areas of focus over the next two years, highlighting the implementation of existing standards as a top focus area.
- Responded to the Canadian Association of Pension Supervisory Authorities draft guidelines on pension plan risk management, highlighting the importance of incorporating ESG considerations into the investment process as part of a plan administrator's fiduciary duty.
- Submitted comments on the Ontario Securities Commission's Statement of Priorities highlighting, among other things, support for progressing mandatory climate-related reporting, enhancing diversity and inclusion reporting requirements, and integrating Indigenous perspectives into the regulator's work.

Impact

NEI considers impact investing to rank near the top of the responsible investment scale in terms of its ability to make a positive difference for society and the environment.

In order for an investment to qualify as an impact investment for NEI, it must meet three criteria:

- **Financial return.** Investments must seek to generate a positive return.
- **Intention.** Investments must seek to generate positive social and/or environmental impact.
- **Measurement.** Investments must be able to measure their intended impact.

NEI manages five standalone impact funds, as well as four multi-asset impact solutions that are made up of the standalone funds, with a partial allocation to ETFs. As of June 30, 2024, NEI offered more impact investment funds to Canadian retail investors than any other domestic asset manager, and has the highest share of AUM.[1]

In the pages that follow, we report the available impact metrics for four of our impact funds as provided to us by the relevant sub-advisor for the calendar year 2022. Impact metrics for our three Impact Portfolios and NEI Canadian Impact Bond Fund will be reported beginning next year, since the funds were launched in June 2023. NEI Global Corporate Leaders Fund, which was launched in June 2024, will appear in our 2026 report.

Important notes about our impact data:

- All impact data are for the 12-month period ending December 31, 2022, unless otherwise indicated.
- NEI does not internally assess individual fund holdings against impact criteria or for their impact potential; that responsibility lies exclusively with the sub-advisor for the relevant mandate.

[1] Based on analysis of domestic retail mutual funds and ETFs identified by the Canadian Investment Funds Standards Committee as impact funds, with AUM sourced from Institutional Shareholder Services.

- Impact data and methodologies are provided to us by our sub-advisors for the relevant funds and reported here as is.
- Our impact-oriented sub-advisors map the revenue of companies held within the funds to the United Nations' Sustainable Development Goals (UN SDGs); read more about UN SDGs here: https://sdgs.un.org/goals.
- Impact metrics cannot be aggregated among funds, as each sub-advisor's methodology for calculating such metrics varies. For example, the tonnes of carbon emissions avoided by an investment in NEI Environmental Leaders Fund cannot be added to the same metric for an investment in NEI Clean Infrastructure Fund.
- Some of NEI's funds are based on the "representative strategies" of our sub-advisors. The funds hold the same securities in the same proportion as the sub-advisors' representative strategies, although there might be slight differences. A representative strategy enables multiple institutional clients (such as NEI) to create investment funds in their respective jurisdictions using the same model. In this chapter, we may refer to the impact performance of the sub-advisors' representative strategies in the same way as it is reported to us by the sub-advisor. Specific notes are provided for the impact data for each fund, as applicable.

Detailed reporting of impact metrics and results by investment fund managers is in a nascent state. Consistent global standards and metrics have not been established, and data access and reliability remain a challenge. The reporting timeline is often lengthy, primarily because of the custom nature of the measurement. As standards come into play and metrics gain wider acceptance, reporting will become more comparable across funds and jurisdictions. As this work evolves, we will continue to report the information that is available to us and that we believe is useful for our investors to understand how their investments are making a difference.

Included this year (2022 data)

NEI Environmental Leaders Fund

NEI Clean Infrastructure Fund

NEI Global Impact Bond Fund

NEI Global Sustainable Balanced Fund

To be added in 2025 (2023 data)

NEI Impact Conservative Portfolio

NEI Impact Balanced Portfolio

NEI Impact Growth Portfolio

NEI Canadian Impact Bond Fund

To be added in 2026 (2024 data)

NEI Global Corporate Leaders Fund

NEI Environmental Leaders Fund

Investment objective:
To achieve long-term capital growth by investing primarily in equity and equity-related securities of companies active in the growing resource optimization and environmental markets located globally.

Sub-advisor:
Impax Asset Management

Fund inception date:
January 13, 2016

Data source:
Impax Asset Management, *NEI Environmental Leaders Fund: Beyond Financial Returns Report*, 2023.

As of June 30, 2024, NEI Environmental Leaders Fund was the largest impact equity fund by AUM available to Canadian retail investors.[2]

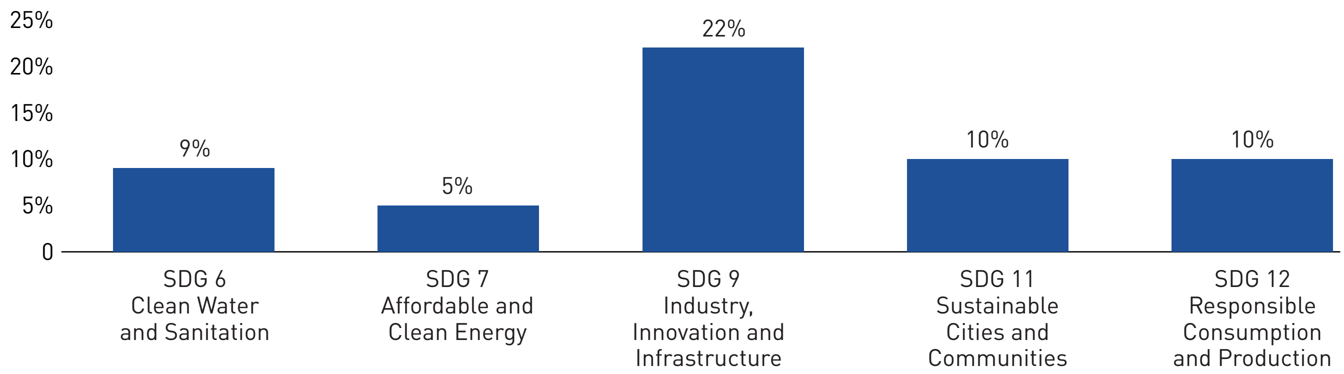
Table 16: Fund contribution to environmental impact for 2022 based on a $15M investment

Metric	Amount	Equivalence
Water provided/saved/treated	230 megalitres	1,770 households' water consumption
Renewable energy generated	580 MWh (Megawatt hours)	160 households' energy consumption
Material recovered/waste treated	1,500 tonnes	1,530 households' waste output

There can be no assurance that results in the future will be comparable to the results presented herein. Based on most recently reported annual environmental data for holdings and assets under management as of 31 December 2022. Impax's impact methodology is based on equity value. Refer to the *Methodology* section below for further details. The impact metrics reported for Impax's strategies relate to the benefits that the products and services of investee companies are enabling. Investing in listed impactful companies does not increase or add to that impact but is a concrete demonstration that the investment is strongly aligned to companies benefiting from, and enabling, the transition to a more sustainable economy.

[2] Based on analysis of domestic retail mutual funds and ETFs identified by the Canadian Investment Funds Standards Committee as impact funds, with AUM sourced from Institutional Shareholder Services.

Figure 21: Revenue exposure to UN Sustainable Development Goals



Impax has mapped the portfolio to show how companies' eligible activities align with the goals based on environmental market revenue exposure. Impax's investment process does not identify alignment with SDGs as a specific objective. Instead, the nature of Impax's investment philosophy results in some meaningful revenue exposure within the fund's strategy based on investee companies' eligible activities. See Methodology below.

Commentary excerpt:

Investee companies must generate at least 20% of their revenues from sales of environmental products or services in Energy (alternative and efficient), Clean and efficient transport, Sustainable food, Water, Circular economy, and Smart environment solutions. The portfolio' weighted average revenue exposure to these markets at year end was approximately 55%.

Within the portfolio, Orsted (Renewable Energy Developers & IPPs, Denmark), a Danish offshore windfarm specialist, led the way in generating renewable electricity. In addition, waste companies, in particular Veolia (Water Utilities, France), but also Republic Services (General Waste Management, U.S.), and Waste Management (General Waste Management, U.S.), played a role in the generation of renewable energy through cogeneration from biomass and landfill gas-to-energy activities.

Investee companies also helped in the provision, saving and treatment of water. This was facilitated by activities from global water utilities, water infrastructure companies, companies providing critical supplies for water treatment, or those specializing in industrial water and energy efficiency.

Lastly, the waste companies mentioned above (Veolia, Republic Services and Waste Management) were notable contributors in facilitating the treatment of waste or materials recycled.

Methodology

Impact methodology

The relevant environmental metrics for all portfolio companies were measured where data was available or could be estimated. The analysis included all companies in which the strategies were invested as at 31 December 2022. At the time of preparation, Impax aimed to obtain the most recently available and commonly collected environmental data from investee companies. For approximately 80% of companies this was from 2022 reported information, and for the remainder of companies this was from previously reported information. The percentage owned in each underlying company (calculated based on the proportion of shares owned) as at 31 December 2022 was applied to measure the environmental benefit attributable to the strategies. These included:

- Greenhouse gas (GHG) emissions, Scope 1, 2 and 3 (tonnes of CO_2e)
- Greenhouse gas (GHG) avoidance (tonnes of CO_2e)
- Renewable electricity generated (MWh)
- Water treated, saved or provided (megalitres/gallons)
- Materials recovered/waste treated (tonnes/tons)

The relevance of each metric was also assessed for each company based on its business activities.

Impax collected relevant data from company disclosures, including sources such as annual reports, CDP and sustainability reports. Where information was not available, Impax contacted companies to request additional disclosure, which in some cases produced additional relevant data.

However, some companies could not/did not provide information on several metrics. Impax therefore created estimates where robust data was obtained for these metrics:

- For missing Scope 1 and 2 GHG emissions data, Impax uses third party estimates for missing Scope 1 and 2 GHG emissions. Impax does not use estimates for Scope 3 GHG emissions.
- For missing environmental impact data, industry or academic data was sought in order to set robust assumptions. In cases where robust data could not be found, zero impact was reported for a company.

Impax strives to be conservative with estimates in an effort to ensure that positive impact is not overstated, or in the case of GHG emissions, avoided emissions are not overstated.

SDG mapping

The UN Sustainable Development Goals (SDGs) comprise a series of 17 sets of targets across a range of issues including poverty, inequality, climate change, clean water, gender inequality and other global challenges, to be met by the world's economies by 2030. Impax Asset Management uses the SDG framework to understand which current and potential portfolio companies are involved in activities that contribute towards addressing these critical global challenges.

Impax's methodology is based on identifying the portion of companies' revenues that relate to the targets and indicators within each Goal. Impax has mapped 51 categories of business activities linked to 11 of the 17 SDGs and their underlying targets and indicators. Impax focuses on those SDGs where the underlying targets of the Goal are relevant to private sector investment opportunities, rather than public funding or policy action.

Mapping of company revenues to the SDGs occurs annually at the end of each calendar year and is quantified based on portfolio company disclosures.

> *"Impax has been measuring environmental impact for its thematic strategies since 2015 and continues to evolve and refine impact reporting in an effort to align with emerging best practice and standardisation where possible."*
>
> – Impax Asset Management

The mapping is done on a global basis and does not differentiate between regions except in the case of financial services and telecom companies and their business activities relevant to SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure) where Impax only focuses on company revenue generated in the least developed countries (LDCs). For business activities relevant to other SDGs the focus described by the SDG framework is predominantly "global." As such, Impax's methodology for measuring SDG-related revenue does not differentiate between geographic regions as the natural environment is regarded as a "global common."

Impax's investment process does not analyze alignment with SDGs as an investment objective or component of portfolio construction. Impax simply maps SDG-related revenue exposure for portfolio companies, which is instead a byproduct rather than a feature of the investment process.

NEI Clean Infrastructure Fund

Investment objective: To achieve long-term capital growth and income by investing primarily in equity and equity-related securities of companies which are developers, owners and operators, in full or in part, of renewable electricity technology plants and systems, and related infrastructure investments, with no geographic constraint.

Sub-advisor: Ecofin[3]

Fund inception date: March 1, 2022

Data source: Ecofin Advisors, *Sustainability & Impact Report*, 2023; impact data is presented in connection with the Global Renewable Infrastructure Representative Account, which is the sub-advisor's representative strategy for NEI Clean Infrastructure Fund.

Commentary excerpt:

The power sector is undergoing a profound transformation driven by the decarbonisation and electrification of energy demand. Utilities are at the forefront of this multidecade transition. By adapting and, in many cases, substantially overhauling their business models to accommodate new greener technologies and decentralised power sources, utilities are bound to be major beneficiaries of secular growth and attractive returns on significant capital investments.

Table 17: Investment themes and targeted outcomes

Investment theme	Thematic focus	Targeted thematic outcome
Electrification	• Captures the growing electricity market as a piece of the broader energy market • Renewables growth within electricity generation; beneficial for the environment – beneficial for the company	• Measurable reduction in greenhouse gas emissions (GHG) and other pollutants in comparison to local grid • Continued replacement of coal and other fossil fuel generating plants with renewables • Fewer coal plants in a grid equates to fewer GHG and particulate emissions and fewer tons of coal being mined • Providing affordable and abundant electricity to consumers and industry • Economic growth and higher employment

- 71.3% of power generated by companies held in the fund comes from renewable energy resources, including wind, solar, hydro, biomass, and nuclear.
- $1 million invested in the fund implies the avoidance of 391 tonnes of carbon per year, compared to an investment of $1 million in the MSCI World Utilities Index. That's equivalent to the emissions from 1,305 round-trip flights from Toronto to Montreal.[4]

[3] On July 11, 2024, Ecofin was purchased by London, U.K.-based investment manager Redwheel.
[4] Flights equivalencies are calculated through Carbon Footprint https://calculator.carbonfootprint.com/calculator.aspx?tab=3.

Figure 22: Alignment to the UN Sustainable Development Goals

- 15% SDG 3 Good Health and Wellbeing
- 15% SDG 7 Affordable and Clean Energy
- 14% SDG 8 Decent Work and Economic Growth
- 14% SDG 9 Industry, Innovation and Infrastructure
- 14% SDG 11 Sustainable Cities and Communities
- 14% SDG 12 Responsible Consumption and Productiong
- 14% SDG 13 Climate Action

Percentages represent the Global Renewable Infrastructure Representative Account's contribution to its primary SDGs to demonstrate thematic impact, calculated by mapping the holdings to sustainable investment themes (as defined by Ecofin).

"Climate change and the growing societal and economic response should continue to drive major shifts in consumption, regulation, and technology. We refer to these societal evolutions as the Sustainability Revolution. We believe this revolution will be a driver for the next several decades and will create robust investment opportunities across the global economy."

– Ecofin

NEI Global Impact Bond Fund

Investment objective: To provide current income and long-term total returns by investing in debt instruments issued by companies, governments, and organizations located all over the globe whose products, services, or funding objectives help address some of the world's major social and environmental challenges.

Sub-advisor: Wellington Management

Fund inception date: July 14, 2020

Data source: Wellington Management, *Global Impact Bond Report*, 2023; impact data is presented in connection with the sub-advisor's representative strategy for NEI Global Impact Bond Fund.

Table 18: 2022 impact highlights

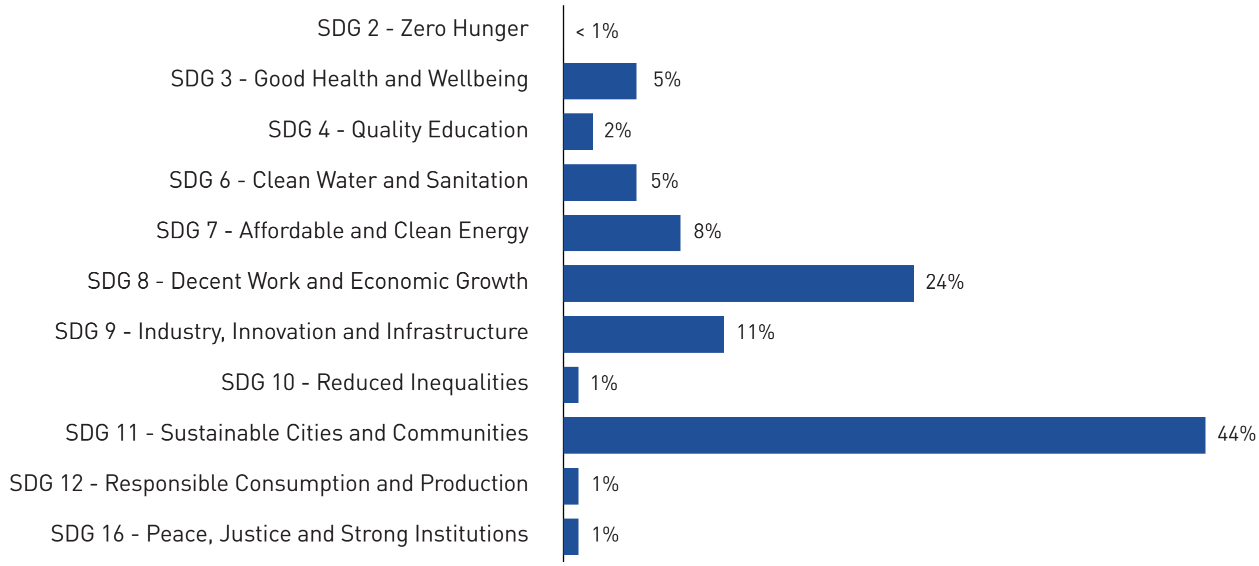
The data points below represent 100% of the impact of the companies or issuers in which Wellington invests. Wellington does not account for fund ownership stakes in its impact calculations.

Metric	Equivalence
Supplied or financed almost **6.8 million** units of affordable housing	Equivalent to 13.4 times the housing stock of Stockholm[5]
Provided or treated more than **661 million** cubic meters of water	Equivalent to approximately 1% of the water consumption of Canada in 2022[6]
Supplied health care products and services to more than **22 million** patients	Equivalent to nearly twice the average number of patients admitted to hospitals annually in Australia[7]
Enabled digital access for close to **1.3 billion** people in developing countries	Roughly equal to the population of Africa
Provided education, training, and career support to nearly **3.3 million** people	Equivalent to 1.3 times the number of students enrolled in higher education in Japan in 2022[8]
Provided financial services to **12 million** underserved people and businesses	Compared to 1.4 billion adults globally without bank accounts[9]
Protected more than **30.2 million** businesses or individuals with cybersecurity tools and technologies	Compared to 392 million US data-breach victims in 2022[10]
Generated **99.2 terawatt hours** of renewable energy	Equivalent to the average year-long electricity consumption of 8.4 million U.S. households[11]
Avoided nearly **47 million** tonnes of greenhouse gas (GHG) emissions through improved resource efficiency[12]	Equivalent to 10.5 million fewer[13]

5 "Number of dwellings in 2022", Statistics Sweden, May 2023.
6 "Countries that waste the most water" and "Canada's population clock (real-time model), Canada statistics.
7 Australian Institute of Health and Welfare.
8 Worldometer.
9 "FY2022 School Basic Survey," National Information Center for Academic Recognition, Japan, February 2023.
10 "The 2022 Annual Data Breach Report," Identity Theft Resource Center.
11 "Greenhouse Gas Equivalencies Calculator," United States Environmental Protection Agency.
12 Unless otherwise indicated, we use tonnes for metric tons.
13 "Greenhouse Gas Equivalencies Calculator," United States Environmental Protection Agency.

38% of Wellington's holdings (as a percentage of market value) leverage a common Key Performance Indicator (KPI) that can be aggregated. If a company or issuer does not report a figure that Wellington believes aligns with one of their aggregated KPIs, they still monitor and report the KPI over time, but do not include it in the above aggregated statistics which they believe provide a conservative estimate of the impact their funds enable. All reported impact KPIs are obtained from publicly available information. Wellington does not account for fund ownership stakes in the above calculations which represent 100% of the impact of the companies or issuers in which they invest. For each aggregated KPI, Wellington provides what they believe to be a relevant reference point. These are for context only and do not imply any equivalence for the KPIs regarding benefits delivered for society and the environment. 2022 data has been used for all holdings included in the above aggregation.

Figure 23: Holdings distribution across UN Sustainable Development Goals



Distribution of the representative account for Wellington's impact bond strategy across each primary SDG as of 31 December 2022. Holdings can have more than one secondary SDG. Wellington's impact bond approach supports SDG 17 at the strategy level. Wellington does not manage the portfolio to any targeted level of alignment with regard to the UN SDGs. The data shown relates to the representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. Totals may not agree due to rounding. Excludes cash, cash equivalents, interest-rate, and currency derivatives.

"Our investment philosophy is simple: Public fixed income markets have the potential to provide not only attractive financial returns, but also a way to make a significant difference."

– Wellington Management

NEI Global Sustainable Balanced Fund

Investment objective: To generate a combination of income and capital appreciation over the long-term by investing in a globally diversified portfolio of equity and fixed income securities which fit within the Fund's definition of responsible investing.

Sub-advisor: Impax Asset Management

Fund inception date: July 5, 2005

Data source: Impax Asset Management, *NEI Global Sustainable Balanced Fund – Fixed Income: Beyond Financial Returns Report*, 2023.

As of June 30, 2024, NEI Global Sustainable Balanced Fund was the largest impact balanced fund by AUM available to Canadian retail investors.[14]

NEI Global Sustainable Balanced Fund has a 60% equity and 40% fixed income asset allocation. The fund holds NEI Environmental Leaders Fund as its 60% equity allocation, while the 40% fixed income allocation is made up of individual securities. To understand the impact of the equity allocation, see page 53 for data from NEI Environmental Leaders Fund. The data below is strictly for the fixed income allocation.

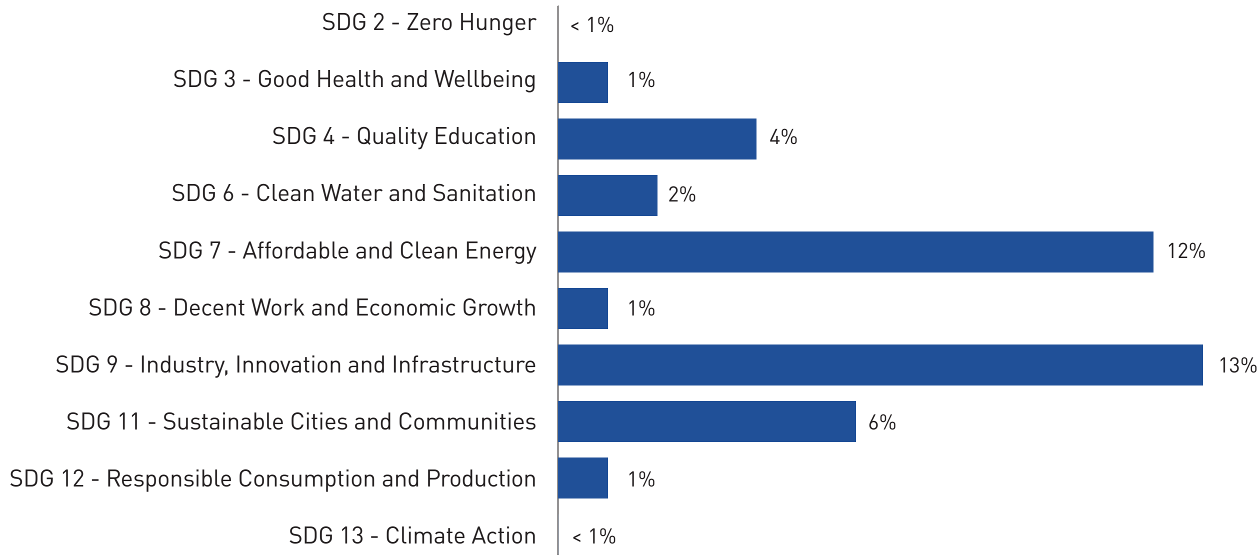
Table 19: Fund contribution to environmental impact for 2022 based on a $10M investment (fixed income portion)

Metric	Amount	Equivalence
Water provided/saved/treated	239 megalitres	1,869 households' water consumption
Renewable energy generated	1,861 MWh (megawatt hours)	517 households' energy consumption
Material recovered/waste treated	6 tonnes	6 households' waste output

The impact metrics reported for Impax's strategies relate to the benefits that the products and services of investee companies are enabling. Investing in listed impactful companies does not increase or add to that impact but is a concrete demonstration that the investment is strongly aligned to companies benefiting from, and enabling, the transition to a more sustainable economy. See *Methodology* section on page 54.

[14] Based on analysis of domestic retail mutual funds and ETFs identified by the Canadian Investment Funds Standards Committee as impact funds, with AUM sourced from Institutional Shareholder Services.

Figure 24: Revenue exposure to UN Sustainable Development Goals



Impax has mapped the portfolio to show how companies' eligible activities align with the goals based on environmental market revenue exposure. Impax's investment process does not identify alignment with SDGs as a specific objective. Instead, the nature of Impax's investment philosophy results in some meaningful revenue exposure within the fund's strategy based on investee companies' eligible activities.

Climate

The goal of our climate strategy is to help drive real-world reductions in greenhouse gas emissions, so that as an investment manager, we can contribute to avoiding the worst effects of climate change as we seek to protect the value of our investors' assets.

Achieving that goal requires action on many fronts, beginning with alignment to net zero and running through our sub-advisor selection and monitoring process, security evaluation framework, stewardship program, policy and standards work, our commitment to transparency and reporting, and our duty as a corporate citizen.

Foundational information about our climate strategy that remains relatively static, including its strategic pillars, governance, risk assessment and management can be found in our *Climate strategy progress report* published in November 2023.[1]

This 2024 report is focused on metrics and targets. It includes carbon footprint data for 2023 as well as data points related to our commitment to the Net Zero Asset Managers initiative. Note that we are formally reporting our NZAM progress through the PRI's annual survey of firms' responsible investment programs. We expect the Transparency Report that is produced out of that submission to be available later this year or in early 2025.

[1] https://www.neiinvestments.com/responsible-investing/responsible-investing-expertise/reports/climate-strategy-report.html.

Metrics and targets

What are financed emissions?

Financed emissions are the greenhouse gas (GHG) emissions tied to the investment and lending activities of financial institutions. They can be thought of as the carbon footprint of an investment manager's portfolio or a bank's lending book. Emissions of all issuers in a portfolio (in-scope AUM only) are summed, and the proportional share attributable to each issuer is calculated based on the year-end issuer weight within the portfolio, whether equity or debt.

What are scope 1, scope 2, and scope 3 emissions? [2]

GHG emissions are grouped into "scopes" as a way of setting operational boundaries for the purposes of attribution.

Scope 1: Direct GHG emissions

Direct GHG emissions occur from sources that are owned or controlled by the company, for example, emissions from combustion in owned or controlled boilers, furnaces, and vehicles; emissions from chemical production in owned or controlled process equipment.

Scope 2: Electricity indirect GHG emissions

Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3: Other indirect GHG emissions

Scope 3 emissions are a consequence of the activities of the company, but occur from sources not owned or controlled by the company. Some examples of scope 3 activities are extraction and production of purchased materials; transportation of purchased fuels; and use of sold products and services.

Table 20: Scope of NEI assets under management for portfolio emissions analysis

In scope	Out of scope
Listed equities	Sovereign debt
Listed corporate bonds	Derivatives
	ETFs

[2] Source for definitions: World Resources Institute and World Business Council for Sustainable Development, *The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard*, Revised Edition, 2004, 25.

Table 21: Portfolio GHG emissions

	2023	2022	2021	2020	2019
In-scope AUM	**84.9%**	82.4%	80.9%	82.3%	79.4%
Absolute emissions (ktCO_2e)	**3,729.7**	4,574.0	5,458.7	4,482.7	4,637.7
Financed emissions (tCO_2e/$1M invested)	**54.3**	71.7	72.2	73.6	91.3
Data coverage	**93.9%**	84.3%	83.9%	85.5%	91.5%
Weighted average carbon intensity (tCO_2e/$1M sales)	**164.2**	201.9	203.2	195.2	190.3
Data coverage	**96.9%**	89.4%	89.0%	90.5%	93.2%

ktCO_2e = Kilotonnes of carbon dioxide equivalent; tCO_2e = Tonnes of carbon dioxide equivalent. Climate data source: MSCI; holdings data source: Bloomberg. Data for the years 2019-2022 were previously reported as is in our *Climate strategy progress report*, November 2023.

What stands out here is the fairly significant decline in GHG emissions from 2022 to 2023. There was an 18% drop in absolute portfolio emissions, a 24% drop in emissions per $1M invested, and a 19% drop in weighted average carbon intensity. The increase in data coverage is due to an improvement in our process for preparing the data for analysis. Because the footprint metric we have chosen uses EVIC (enterprise value including cash) as the normalizing factor, it is possible that some amount of the decrease in our portfolio emissions is the result of the strong market environment in 2023. For example, the S&P 500 rose 24% in 2023, meaning the enterprise value of companies that year generally also ended higher. Mathematically, a higher EVIC (the denominator in the financed emissions calculation) will reduce the emissions intensity of individual companies, assuming the total emissions number (the numerator) stays steady.

Another factor that could be considered for our drop in emissions is the gradual shifting of our portfolio away from some heavy-emitting sectors toward sectors that tend to have a lower emissions footprint. Over the five-year time period we have analysed, our exposure to financials, information technology, and health care has increased while our exposure to the materials and energy sectors has declined. The increased weighting to lower-emitting sectors is likely part of the explanation for the trend we are seeing, though it should be noted that the shift is not an intentional move toward those sectors with the explicit goal of reducing portfolio carbon emissions.

It is important to note that at this point, generally speaking, neither NEI nor our sub-advisors are selecting securities with the specific intention to reduce a given fund's carbon footprint. The exceptions to that are the two funds sub-advised by Amundi Asset Management (see *Portfolio decarbonization targets* below), which are being managed on a path to net-zero carbon emissions and which account for approximately 12% of NEI AUM. Our *intentional* approach is currently reflected in our stewardship activities (corporate engagement and proxy voting), where we believe we have the power to make the most progress both on reducing climate-related investment risks for our clients and for effecting a real-world reduction in GHG emissions. Stewardship activities are now being informed by our alignment analysis (See *Portfolio companies' alignment to a net-zero pathway* below), which tells us which companies we ought to focus our engagement efforts on and how they are doing on their own path to net zero.

The process of discussing and disclosing our climate data has been beneficial for many reasons. In order to make quantifiable progress toward net zero, we need to understand where we're starting from. And while there is much work to be done analyzing the underlying factors contributing to the variations in our portfolio emissions over time, we can at least present the headline data and identify areas for closer inspection. We anticipate that our portfolio emissions will trend downward and that our portfolio-level metrics will ultimately show this, but it will not be a straight line.

Net Zero Asset Managers initiative

Our NZAM commitments and targets fall into three categories: portfolio decarbonisation, corporate alignment to a net-zero pathway, and asset growth in climate solutions investments. Our target-setting approach was developed in line with the Net Zero Investment Framework.[3]

Portfolio decarbonisation targets

Our portfolio decarbonization targets apply to two funds, covering approximately 12% of our AUM, or $1.4B as of December 2023. Both funds are sub-advised by France-based Amundi Asset Management. Targets are set against a 2019 baseline of each fund's benchmark GHG emissions intensity, measured in tonnes of CO_2 equivalent per US$1 million of sales ($tCO_2e$/$M).

For both funds, we are targeting:

- By 2025, 30% reduction in GHG emissions from 2019 baseline
- By 2030, 60% reduction in GHG emissions from 2019 baseline
- By 2050, 100% reduction in GHG emissions from 2019 baseline (net zero)

NEI Global Total Return Bond Fund

- Benchmark[4] emissions intensity (2019 baseline): 363.0 tCO_2e/$M sales (USD)
- Fund emissions intensity as of December 2023: 89.0 tCO_2e/$M sales (USD)
- Emissions intensity reduction from benchmark baseline: 75.5%

Decarbonization approach, excerpt from NEI's simplified prospectus dated June 27, 2024:

> The Fund follows a portfolio decarbonization approach intended to reduce the financed emissions of the corporate bond holdings of the Fund to net zero by 2050. (Financed emissions are defined as the proportion of emissions associated with the underlying holdings that are financed by the Fund's investment in those holdings.) To achieve this, some or all of the Fund's holdings will be linked to lower carbon emissions, and the Fund will strive to maintain a level of financed emissions that is lower than a projected pathway from the benchmark level at 2019 to net zero by 2050. Carbon emissions will be measured and reported in tons of CO_2 equivalent per US$1 million in aggregate corporate revenue of Fund holdings.
>
> The achievement of the Fund's net-zero target as described above is dependent on external factors outside the control of the Manager and Sub-Advisor. External factors include but are not limited to technology advancement, commercial developments, climate change, and the regulatory environment. There can be no guarantee the Fund will meet its target.

NEI Global Dividend RS Fund

- Benchmark[5] emissions intensity (2019 baseline): 238.8 tCO_2e/$M sales (USD)
- Fund emissions intensity as of December 2023: 119.0 tCO_2e/$M sales (USD)
- Emissions intensity reduction from benchmark baseline: 50.0%

Decarbonization approach, excerpt from NEI's simplified prospectus dated June 27, 2024:

> The Fund follows a portfolio decarbonization approach intended to reduce the financed emissions of the Fund to net zero by 2050. (Financed emissions are defined as the proportion of emissions associated with the underlying holdings that are financed by the Fund's investment in those holdings.) To achieve this, some or all of the Fund's holdings will be linked to lower carbon emissions, and the Fund will strive

[3] Paris Aligned Investment Initiative, Net Zero Investment Framework Implementation Guide, version 1.0, March 2021.
[4] Corporate segment of the Bloomberg Global Aggregate Hedged Index.
[5] MSCI World.

to maintain a level of financed emissions that is lower than a projected pathway from the benchmark level at 2019 to net zero by 2050. Carbon emissions will be measured and reported in tons of CO_2 equivalent per US$1 million in aggregate corporate revenue of Fund holdings.

The achievement of the Fund's net-zero target as described above is dependent on external factors outside the control of the Manager and Sub-Advisor. External factors include but are not limited to technology advancement, commercial developments, climate change, and the regulatory environment. There can be no guarantee the Fund will meet its target.

Portfolio companies' alignment to a net-zero pathway

Using NZIF to guide our work, we have developed a custom framework using multiple data points from different data providers to determine alignment. We consider a company to be aligned to a net-zero pathway if its commitments, actions, and performance put it on a trajectory of reducing its GHG emissions to net zero by 2050 or sooner.

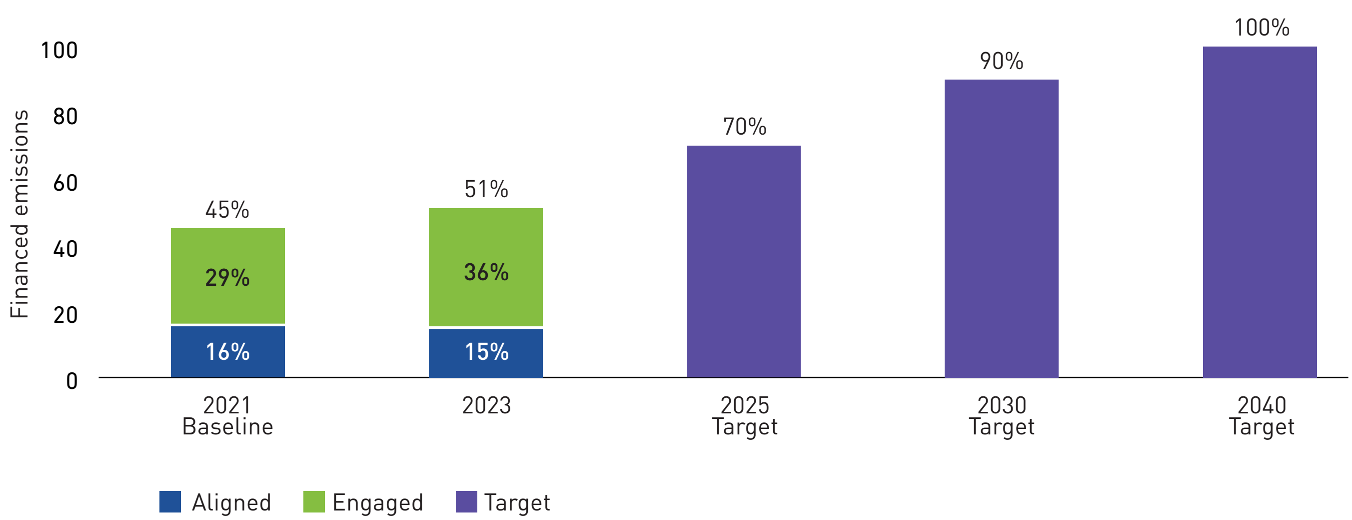
The targets are as follows:

- By 2025, 70% of financed emissions in material sectors are net zero, net-zero aligned, or the subject of engagement
- By 2030, 90% of financed emissions in material sectors are net zero, net-zero aligned, or the subject of engagement
- By 2040, 100% of financed emissions in material sectors are net zero or net-zero aligned

The output of our assessment of our 2023 portfolio (Figure 25) indicates we continue to progress toward our nearest term goal of 70% net-zero aligned or engaged by 2025. The percentage of our financed emissions that we identified as aligned remained mostly static, which was not a terribly surprising result as our bar for alignment is relatively high; it will take some companies a good length of time to meet all the conditions we have set. However, a deeper look at the numbers reveals that the number of significant contributors to our aligned category increased – meaning more of the high-impact names we are invested in were considered aligned, even as the total number of aligned names decreased. This is because the biggest contributor to our 2021 calculation of alignment, L'Air Liquide, fell out of alignment due to an increase in emissions. That one company represents almost 8% of our total financed emissions in high-impact sectors, and its inclusion (or exclusion) has a notable impact on our results.

We did see an increase in our engagement numbers due in part to the planned integration of our alignment framework into our engagement strategy. The absolute percentage of AUM engaged rose by 6% (a 24% jump from 2021), and the number of companies increased to 65 (a 44% increase over 2021). Taken together, we feel we are on track to meet our 2025 target.

Figure 25: Summary of alignment results for NEI investment portfolio, 2023 holdings



Analysis conducted June to July 2024. In-scope AUM includes listed equity and corporate bonds (85% of total AUM); analysis includes only AUM in high-impact sectors (38% of in-scope AUM). High-impact sectors are defined by the Net Zero Investment Framework and include energy, industrials, utilities, materials, and certain sub-sectors within the information technology and consumer discretionary sectors. Companies engaged are based on a rolling two-year window; in this data set, companies may have been engaged at any time in 2022 or 2023. Data sources: MSCI, Sustainalytics, FactSet, Institutional Shareholder Services, Bloomberg.

Table 22: Top 10 contributors to financed emissions

Company	Financed emissions*	Sector	Country	Aligned	Active engagement
L'Air Liquide	23,802	Materials	France	N	N
Veolia Environnement	19,088	Utilities	France	N	N
Waste Management	12,276	Industrials	U.S.	N	Y
Republic Services	11,941	Industrials	U.S.	N	Y
Vistra Corp.	11,491	Utilities	U.S.	N	N
Capital Power	11,016	Utilities	Canada	N	N
Imperial Oil	10,172	Energy	Canada	N	Y
Linde	9,569	Materials	Germany	Y	N
Emera	8,626	Utilities	Canada	N	N
TC Energy	7,426	Energy	Canada	N	Y

*Tonnes per US$1M invested, sorted highest to lowest.

Table 23: Top 10 aligned companies

Company	Financed emissions*	Sector	Country
Nutrien	5,775	Materials	Canada
Canadian National Railway	2,228	Industrials	Canada
Enel	2,192	Utilities	Italy
Yara International	2,183	Materials	Norway
ERG	2,174	Utilities	Italy
EDP – Energias de Portugal	1,605	Utilities	Portugal
Koninklijke Ahold Delhaize	1,118	Consumer staples	Netherlands
Algonquin Power & Utilities	991	Utilities	Canada
Iberdrola	856	Utilities	Spain
CSX Corporation	600	Industrials	U.S.

*Tonnes per US$1M invested, sorted highest to lowest.

We have begun to integrate our alignment framework into our company evaluations model, as well as into our Proxy Voting Guidelines.[6] The 2024 proxy season marks the first year we began to flag directors for votes against based on the results of our alignment assessment. Assessing new investment opportunities through the lens of alignment and flagging inconsistencies at this early stage will support our net-zero ambitions.

The framework and analysis results will also provide important new inputs for our conversations with sub-advisors. Some of them are working on their own alignment frameworks, and we are in the habit of exchanging ideas and processes as we all drive forward on our respective commitments. We look forward to their feedback and to discussions about implications for their investment processes and security selection.

Climate solutions investments

The third category of our NZAM commitment relates to growing assets in climate solutions to enable the transition to a low-carbon economy. The guidance provided by NZIF encourages investment managers to "create investment products aligned with net-zero emissions by 2050 and facilitate increased investment in climate solutions,"[7] and to set a goal "for allocation to climate solutions representing a percentage of revenues or capex from AUM… increasing over time, in line with investment trajectories based on a net-zero pathway."[8]

Our target is as follows:

- By 2030, tripling of assets in climate solutions investments

Our definition of climate solutions investments is tied to our impact mandates, which seek to make a positive, measurable impact on such environmental challenges as climate change mitigation and adaptation. We are measuring progress toward this goal as growth in AUM in our local currency (C$), but for NZAM purposes, we are required to report figures in US$.

Table 24: Progress toward climate solutions investment target

	Baseline (2021)	June 30, 2024	% change	Target (2030)
CAD	**$1.99B**	**$2.63B**	**32.2%**	**$5.97B**
USD	$1.57B	$1.92B	22.3%	$4.71B

[6] https://www.neiinvestments.com/content/dam/nei/docs/en/responsible-investing/reports/NEI-proxy-guidelines-en.pdf.
[7] Paris Aligned Investment Initiative, Net Zero Investment Framework Implementation Guide, version 1.0, March 2021, 9.
[8] Ibid, 10.

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