



# Dialogue to Action

## Shareholder engagement report

Dialogue to Action details Vancity Investment Management Ltd.'s shareholder engagement activities for 2019/Q1 2020 and includes background information on how environmental, social and governance issues affect shareholder value.





# Vancity Investment Management Ltd. (VCIM)

## 2019/Q1 2020 Shareholder engagement report

VCIM's core philosophy is founded on the premise that a company's long-term financial success depends on its ability to cultivate and maintain positive relationships with key stakeholders. Each stakeholder directly influences the company's financial sustainability: investors are a source of capital; customers and clients purchase goods and services; employees supply labour, skills and talent; and communities authorize commerce within a local environment. The relationship with each stakeholder affects the company's ability to raise money, generate revenue, earn a profit, maintain operations and create value.

Companies are better positioned to achieve sustainable growth and preserve shareholder value when they balance the needs and expectations of stakeholders. A comprehensive understanding of environmental, social, governance (ESG) and financial risk, impacts and opportunities is essential for companies to successfully meet competing interests and expectations.

Before investing, VCIM assesses company-specific policies, performance and practices with respect to the environment, social responsibility and corporate governance. A thorough ESG review is combined with rigorous financial analysis to determine whether the company's securities are appropriate for the funds managed on behalf of investors.

Once an investment is made, company ESG performance is monitored and, when new risks arise or current practices deteriorate, VCIM uses the tools of shareholder engagement to urge management to take action. Over the last decade VCIM has filed 69 shareholder proposals and engaged with companies 223 times to encourage appropriate steps on issues related to environmental performance, social responsibility and corporate governance.

### Engagement in 2019 and Q1 2020

Last year marked a milestone for VCIM as we completed our climate risk strategy transition to a fully fossil fuel-free mandate by divesting of oil and gas producers, pipeline companies, natural gas distribution utilities and liquefied natural gas (LNG) operations.

The COVID-19 pandemic changed the world overnight and forced every individual, company and government to rethink how we live, work and do business. The resulting market volatility reinforced VCIM's strategy that social and environmental problems are financial risks that need to be managed. VCIM's engagement strategy is a key component of our risk management framework.

Over 2019 and Q1 2020, VCIM engaged 32 companies in one or more of 10 key areas: employee health and safety, mining safety, gender pay equity, pesticides, anti-microbial resistance, access to medicine, human rights in digital technology and the supply chain, water use, consumer packaging, and climate change. VCIM filed 13 shareholder resolutions that were ultimately withdrawn following focused discussions and commitments made by key decision makers from each company.

#### 2019 Engagement activities

**32** | companies engaged

**13** | shareholder resolutions filed

**10** | UN Sustainable Development Goals (SDGs) advanced via engagement activities

**6** | investor statements of support, alliances or initiatives joined










In addition to engaging companies held in the funds, VCIM participated in collaborative engagements with other investors in several areas, including access to medicine; anti-microbial resistance; mining safety; carbon emissions and water use associated with animal protein supply chains; pesticide use and reduction for safer chemicals management; and safety conditions at clothing manufacturing plants.

# SUSTAINABLE DEVELOPMENT GOALS



Over the most recent period, VCIM's engagement activities helped advance 10 goals on the United Nations (UN) Agenda for Sustainable Development. In total, the Agenda includes 17 SDGs, which are designed to address poverty, economic inequality, gender equity and environmental sustainability. The UN and many governments explicitly recognize that business cannot thrive unless these goals are met.

## Shareholder engagement highlights

 	<p><b>Employee health &amp; safety</b> – The issue of paid sick leave is at the forefront of the COVID-19 discussion and companies that are not addressing employee health and safety face significant reputational risks. For social distancing, self-isolation and quarantine measures to work, employees need incentives to stay home when they are either sick or at risk of carrying the virus. Without paid sick leave, employees are more likely to ignore mild symptoms or self-isolation protocols and risk increasing the spread of the virus. VCIM engaged Restaurant Brands International, owner of Tim Hortons, Burger King and Popeyes, to encourage the company to ensure all employees have access to paid sick leave.</p> <p>Companies engaged: <b>Restaurant Brands International</b></p>
	<p><b>Anti-microbial resistance (AMR)</b> – AMR is an emerging ESG risk threatening the stability of health care systems worldwide. It occurs when bacteria and other disease-causing microbes develop resistance to previously effective drugs. As a result of AMR, antibiotics may no longer work to treat infections. As part of the Farm Animal Investment Risk and Return (FAIRR) initiative, VCIM participated in a collaborative engagement with 20 global food companies asking them to establish antibiotics policies and to phase out routine, prophylactic antibiotic use across all supply chains with clear targets and timelines for implementation.</p> <p>Companies engaged: <b>Restaurant Brands International</b></p>
 	<p><b>Access to medicine</b> – An estimated two billion people in low- and middle-income countries have no access to essential medicines.<sup>1</sup></p> <p>VCIM is a signatory to the Access to Medicine Foundation (ATMF), an independent non-profit organization focused on stimulating and guiding pharmaceutical companies to do more for people who live in low- and middle-income countries.</p> <p>VCIM filed a shareholder resolution with Gilead Sciences, requesting the company to 1) undertake a review of gaps in the provision of equitable access to HIV/AIDS drugs that can prevent infection in HIV-negative individuals, and 2) identify and eliminate financial and other barriers to access.</p> <p>Companies engaged: <b>Gilead Sciences</b></p>
  	<p><b>Climate risk: project financing</b> – The financing of Arctic oil and gas exploration projects presents serious climate risks. The Arctic is warming at double the rate of the rest of the globe and is expected to face severe ecological disruptions. Financial institutions funding these projects are exposed to material environmental, reputational and stranded asset risks. VCIM filed shareholder resolutions with Scotiabank and TD asking for board reviews of the feasibility of establishing a moratorium on Arctic oil and gas financing.</p> <p>Companies engaged: <b>Scotiabank, TD</b></p>
	<p><b>Climate risk: disclosure</b> – Improved climate disclosures highlight the climate risks companies face and provide investors with better information to make decisions. VCIM supports the Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP). We engage companies in our portfolios with insufficient climate disclosures to increase their reporting and transparency on climate risk and performance.</p> <p>Companies engaged: <b>Dream Industrial REIT, Borelex, Brookfield Infrastructure, Chartwell REIT, Colliers International, Genworth Financial, New Flyer Group, RioCan REIT, Onex Corporation</b></p>

  	<p><b>Climate risk: agriculture &amp; water use</b> – Livestock production is resource intensive, with large quantities of water and energy required to maintain operations.</p> <p>VCIM has joined FAIRR's Sustainable Protein engagement. This initiative involves asking food companies to 1) publicly disclose information on their intention and long-term approach to transitioning protein portfolios towards lower-impact and more sustainable sources that include plant-based and/or alternative proteins, and 2) support a dietary transition in line with a 1.5 degree world.</p> <p>Companies engaged: <b>Loblaws Inc., Saputo Inc.</b></p>
	<p><b>Plastics &amp; the circular economy: consumer packaging</b> – It is believed that approximately 50% of plastic is used once and thrown away. Consumer packaging waste is a big contributor to the amount of plastic found in the world's oceans, and the expansion of fast-service restaurants with disposable food packaging is becoming a serious concern. VCIM engaged with Starbucks on how the company is addressing the use of plastics in its operations.</p> <p>Companies engaged: <b>Starbucks Corporation</b></p>
	<p><b>Plastics &amp; the circular economy: recycling</b> – North American recycling infrastructure relied on selling recyclable materials to China. This system collapsed with the implementation of China's policy restricting the import of recyclables. Plastic containers and packaging are especially problematic, as only 9% of plastics made since the 1950s have been recycled. VCIM filed a shareholder resolution with Waste Connections to set measurable targets to increase recycling and composting in its operations.</p> <p>Companies engaged: <b>Waste Connections</b></p>
	<p><b>Pesticides &amp; chemical management</b> – Glyphosate-based products, such as Roundup, have become one of the most widely used herbicides globally. The prevalence of glyphosate-based herbicides in the environment has led to increased scrutiny of potential impacts on both human health and ecosystem functioning. VCIM engaged companies in our portfolios on their use of glyphosate-based products and risk management strategies.</p> <p>Companies engaged: <b>Home Depot, CVS, Canadian Tire, CN Rail, CP Rail</b></p>
	<p><b>Mining safety &amp; tailings dams</b> – There are heightened ESG risks associated with mining operations, as accidents can have severe consequences for both people and the environment. Tailings are byproducts from mining operations that generally do not have economic value and can contain toxic compounds. VCIM has joined the Investor Mining and Tailings Safety Initiative, which aims to gather information from mining companies on their tailings dam management and encourage best practices. VCIM engaged companies in our portfolios to report the information requested by the initiative and discussed tailings dam management.</p> <p>Companies engaged: <b>Nutrien, Agnico-Eagle, Lundin Mining</b></p>
	<p><b>Gender pay equity</b> – The gender pay gap contributes to women's poverty, acts as a barrier to women's full economic participation, and reduces global economic growth. VCIM asked financial companies this year to measure, disclose and address any gaps in compensation for women.</p> <p>Companies engaged: <b>Royal Bank, CIBC, Manulife, Sun Life</b></p>
	<p><b>Human rights</b> – Digital technology practices present increasing human rights risks through digital surveillance, collection of personal user data, and user-targeted content. VCIM joined a collaborative investor engagement asking Alphabet Inc. to establish board-level human rights risk oversight and assess how the company manages the impacts of its products and services on human rights.</p> <p>Since the Rana Plaza Tragedy in 2013, VCIM has been actively involved in efforts to protect supply chain workers' rights in Bangladesh. This past year we called on the country's government to extend the Accord on Fire and Building Safety in Bangladesh and participated in dialogue with the Canadian High Commissioner in Bangladesh.</p> <p>Companies engaged: <b>Alphabet Inc.</b></p>



## Employee health & safety: COVID-19

The COVID-19 pandemic forced companies to restructure their business operations in a matter of weeks and in some cases days. Companies had to reimagine how they would continue to operate while prioritizing the health and safety of employees, customers and community members.

From VCIM's ESG perspective, how companies managed the health and safety of stakeholders became an urgent priority. Essential businesses had to remain operational while ensuring the protection of employees and customers. Businesses that were forced to close had to pivot to virtual models and consider the financial impacts on employees that were no longer required for work or furloughed.

Particularly vulnerable were employees working in temporary, contract, and gig worker occupations and those without paid sick leave benefits. For social distancing, self-isolation and quarantine measures to work, employees required incentives to stay home while sick or at risk of carrying the virus. Without paid sick leave, employees were more likely to ignore mild symptoms or self-isolation protocols and risk increasing the spread of the virus.

Over the first quarter of 2020, ESG leaders stepped up through policy changes in response to the pandemic, in many cases moving faster and earlier than required by government directive. Actions included implementation of paid sick leave where none was originally available, commitments to continue to pay employees despite reduced staffing needs, and funds created to support temporary and contract workers through the crisis. Where companies demonstrated an inappropriate or lack of response, VCIM used its leverage as a shareholder to engage those companies to take action.

VCIM engaged Restaurant Brands International to understand how the company was supporting employees in corporate and franchise locations with access to paid sick leave. In an open letter to all stakeholders, the company detailed a COVID-19 pandemic response outlining plans to support employees with a CAD\$40 million support fund, paid sick leave, and financial support programs for restaurant owners in order to sustain their businesses through the crisis.



## AMR

VCIM continues to engage companies on agricultural practices that can contribute to the development of novel infectious diseases. While wet markets in Asia have become infamous in the emergence of novel viruses, factory farms and poor agricultural practices in Western nations face similar concerns. For this reason, VCIM has focused our engagement work on improving agricultural practices throughout retail food supply chains by addressing AMR.

AMR is an emerging ESG risk threatening the stability of health care systems worldwide. It occurs when bacteria and other disease-causing microbes develop resistance to previously effective drugs. In the U.S., the Centers for Disease Control and Prevention (CDC) estimates that AMR causes at least 2.8 million illnesses and over 35,000 deaths annually. As a result of AMR, antibiotics may no longer work to treat infections.

A wide range of medical procedures rely on effective antibiotic treatments, including organ transplants, chemotherapy, and dialysis for end-stage renal disease. Antibiotic, antifungal, antiviral and anti-parasitic medications form the backbone of modern medicine, highlighting the urgency facing the health care community in addressing AMR. The need for action is recognized by the UN, World Health Organization (WHO), and national authorities such as the CDC.

The development of AMR occurs across multiple avenues including improper patient usage, pharmaceutical runoff and agricultural uses. The use of antibiotics for growth promotion and disease prevention in livestock is of concern to regulators and consumers. According to the U.S. Food and Drug Administration,





70% of antibiotics prescribed in the U.S. are used in animals. The sub-therapeutic doses used for disease prevention and growth promotion are more likely to result in the development of resistance than a shorter, high-dose therapeutic course. Increased presence of AMR in the food supply directly threatens human health as diseases caused by resistant bacteria tend to be more severe and have fewer treatment options. As AMR becomes more prevalent, antibiotics could be rendered ineffective and medical procedures, such as some forms of chemotherapy and dialysis that rely on antibiotics, may no longer be possible.

VCIM is a signatory to FAIRR, an investor initiative addressing material ESG risks and opportunities caused by intensive livestock production. As part of this initiative, VCIM participated in a collaborative engagement with 20 global food companies asking them to establish antibiotics policies and to phase out routine, prophylactic antibiotic use across all supply chains with clear targets and timelines for implementation. The focus is on antibiotics that have been defined by the WHO as critically important antimicrobials for human medicine.

Following this engagement, Restaurant Brands International, owner of Tim Hortons, Burger King and Popeyes, made commitments to map antibiotic use throughout beef supply chains. This will enable the company to set targets by the end of 2020 to eliminate antibiotic use in all three brand's beef supply chains. As of 2018, Burger King and Tim Hortons have eliminated the use of medically important antibiotics in poultry supply chains. Popeyes was a later acquisition so the company is working on quantifying and understanding antibiotics use in Popeyes' poultry supply chain. Once this is complete (end of 2020), Restaurant Brands International will set specific targets to eliminate antibiotic use in Popeyes' poultry supply chains as well.



### Access to medicine

Access to medicine is a pressing issue as countries around the world work to address the COVID-19 pandemic. When COVID-19 treatments and vaccines are developed, they must be made available universally regardless of ability to pay. Similar to the fight against HIV/AIDS, equitable access to vaccines, treatments and care protocols is a social and health necessity.



Affordable access to health care is fundamental to human growth and development. Medical breakthroughs in the 20th century have bolstered much of the economic development witnessed over this period. Before the polio vaccine, children were regularly paralyzed by the disease. Without medical treatment measles would infect more than three million in the U.S. annually, with death rates of up to 5%.<sup>2</sup> Before the invention of antibiotics, a simple cut could lead to a bacterial infection and sepsis, killing otherwise young and healthy adults. Non-communicable diseases, such as diabetes, hypertension, and cancer, are more prevalent today and can lead to the same lost productivity. Poor levels of health are associated with lower savings rates, lower rates of return on capital and lower levels of domestic and foreign investment,<sup>3</sup> all factors that can and do lead to reductions in economic growth. This doesn't even account for the suffering and misery that disease inflicts on individuals and the emotional and mental impacts of losing loved ones.

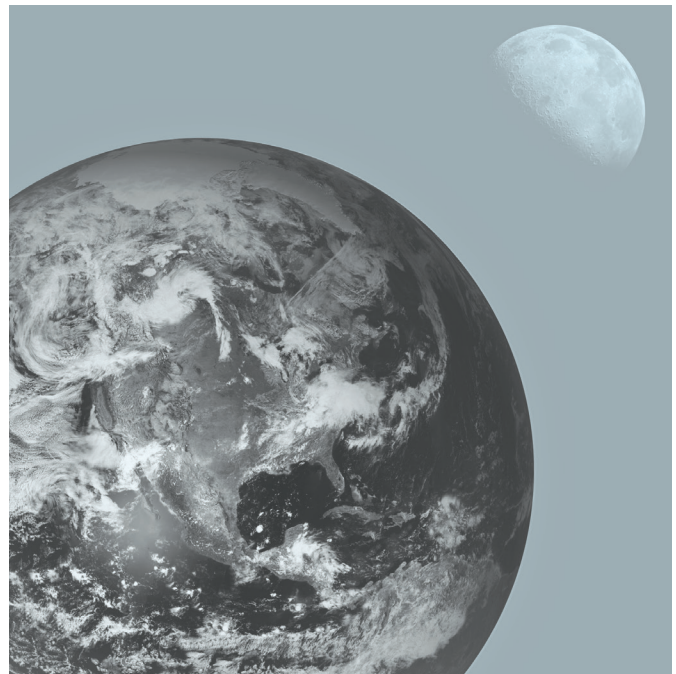
An estimated two billion people in low- and middle-income countries have no access to essential medicines.<sup>4</sup> In developed countries, particularly the U.S., lack of health insurance combined with high drug costs can prevent low-income populations from accessing available medicines. VCIM has been involved in engagement efforts addressing both access-to-medicine issues.

VCIM is a signatory to the ATMF, an independent non-profit organization focused on stimulating and guiding pharmaceutical companies to do more for people who live in low- and middle-income countries. The Foundation publishes the Access to Medicine Index every two years, outlining where pharmaceutical companies are succeeding and how they can improve. Following the last report, VCIM supported ATMF in engagement with pharmaceutical companies on the identified areas for improvement. These conversations are ongoing through 2019 and 2020.

There isn't a country that hasn't been impacted by the HIV/AIDS epidemic. An HIV/AIDS diagnosis has gone from being a death sentence as recently as the 1990s to a treatable long-term condition. There are now simple treatments for the disease that keep the virus in check, prevent transmission to others, and can prevent individuals from becoming infected. The drug Truvada can prevent infection in HIV-negative individuals and is commonly referred to as PrEP, for Pre-Exposure Prophylaxis. PrEP is considered key to stopping the spread of HIV/AIDS and to achieving the goal of eliminating new HIV infections. Truvada for PrEP is the only widely available preventative medication and is produced by Gilead Sciences. Descovy, another Gilead drug, has recently been approved for PrEP, but not in all populations. Notably, it has not been tested or approved for use in cisgender women.

Stopping the transmission of the HIV/AIDS virus is a priority for several governments and organizations. The Joint United Nations Programme on HIV/AIDS (UNAIDS) launched the 90-90-90 AIDS goals to diagnose, treat and achieve viral suppression in over 90% of people living with HIV/AIDS. The UN's Sustainable Development Goal 3: Good Health and Well-Being emphasizes reducing the number of new infections per 1,000 uninfected. The U.S. President's Emergency Plan for AIDS Relief (PEPFAR) states that the U.S. will help eliminate new HIV infections globally by 2030, aiming for a 90% reduction. Ending the HIV Epidemic: A Plan for America has similar goals specific to the U.S.

VCIM filed a shareholder resolution with Gilead Sciences requesting the company undertake a review of gaps in the provision of equitable access to PrEP for HIV/AIDS prevention and to identify and eliminate financial and other barriers to access. This led to in-depth discussions with the company on their efforts to improve access to PrEP both within the U.S. and globally. Gilead outlined the different initiatives it has undertaken to reduce financial and other barriers to access. The company will continue scaling up its programs, such as the Compass Initiative, which focuses on access in the U.S. southeastern states, and its participation in the Medicines Patent Pool (MPP). MPP is a program that provides access to patented drugs to populations in low- and middle-income countries at affordable prices. Following these discussions, VCIM withdrew the shareholder resolution.



## Climate risks

Climate change caused by greenhouse gas emissions from anthropogenic activities is a pressing concern. The impact of climate change is expected to be widespread and include increased storm intensity and flooding, longer and more severe wildfire seasons, and human health impacts due to heat and increased disease outbreaks. The emerging coronavirus pandemic lends credence to the importance of addressing climate change risks. If we don't invest in reducing emissions and building resiliencies, we will be facing more global crises that have the potential to disrupt supply chains and harm economic development.

According to the Intergovernmental Panel on Climate Change (IPCC), limiting the worst impacts of climate change requires that carbon emissions fall by 45% from 2010 levels by 2030 and reach 'net zero' by 2050. Approximately one-third of oil reserves and half of natural gas reserves will have to remain unused between 2010 and 2050 in order to hold global warming at 2 degrees.<sup>5</sup>

To encourage action in the private sector, the Task Force on Climate-Related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board, a creation of the G20 Finance Ministers and central bank governors. The TCFD released a series of recommendations on how companies can provide better, more relevant information on climate risks to investors. The TCFD found that climate risks could become financial risks through:



- changes in government policy;
- legal and litigation risks;
- development of new technology;
- market demand; and
- reputational risks.

The TCFD has called for regulators and companies to develop a consistent framework for disclosing financial data related to climate change. VCIM recognizes the importance of these risks to the Canadian market and is committed to supporting the TCFD recommendations.

### Climate risk strategy – going fossil fuel free

	Renewables & clean tech	Oil & gas producers
IA Clarington Inhance Global Equity SRI Class	16.5%	0%
IA Clarington Inhance Monthly Income SRI Fund	11.6%	0%
IA Clarington Inhance Canadian Equity SRI Class	4.9%	0%
Combined weighted average	12.7%	0%

Source: VCIM, as at March 31, 2020. Excludes cash.

VCIM believes we have reached a crucial point in the transition to a low-carbon future. In September 2019, VCIM divested of oil and gas companies across our product portfolio, completing our transition to a fully fossil fuel-free mandate.

To manage climate risk, VCIM has implemented a four-part strategy: divestment, decarbonization, reinvestment and engagement. The result has been the elimination of our direct exposure to fossil fuel companies and increased exposure to companies involved in activities that address climate change.

We began by divesting of fossil fuel producers and related companies from the IA Clarington Inhance Global Equity SRI Fund. At the same time we excluded heavy oil producers from the IA Clarington Inhance Canadian Equity SRI Fund and IA Clarington Inhance Monthly Income SRI Fund. When we launched our bond mandate in December 2016, we excluded all fossil fuel companies as of the first day of operations. In addition to exclusion, we made significant investments in the renewable energy industry and the companies that

support green technology. For the bond fund, certified green bonds whose proceeds are directed to green infrastructure and energy efficiency comprise a sizable portion of the assets we manage. In Q3 2019, we eliminated the residual oil and gas company exposure in the IA Clarington Inhance Canadian Equity SRI Fund and IA Clarington Inhance Monthly Income SRI Fund.

All sectors of the economy and the market will be impacted by climate change, but the most vulnerable will be fossil fuel producers and distributors and the service companies dependent on those industries. In addition to the downside risk of a declining industrial sector, as the global economy decarbonizes, oil price volatility will likely increase due to producers seeking to maximize revenue from potentially stranded assets. National oil companies, which control much of the world's petroleum and exercise pricing power, are a major source of revenue for governments and provide key budgetary support. As a result, these government-owned enterprises are likely to continue playing a role in price decline and volatility as they seek to maintain market share. In addition, as carbon pricing regimes develop across the globe, heavier petroleum products that require more energy to process will be less competitive in the international market. Western Canada Select, the primary oil sands product, is among the world's most carbon-intensive oil products on a full-life-cycle basis.

We continue to pursue opportunities in alternative energy technology and climate solutions, and use our carbon foot-printing tools to manage the overall climate



risk of the portfolios. This allows us to target corporate engagement towards companies such as banks, insurance companies and asset managers that may remain exposed to risks from the fossil fuel industry. We believe this is a prudent evolution of our climate risk strategy and will help Canadian investors minimize the economic impact of the fossil fuel industry on their investments and retirement savings.



### Climate engagement: improving disclosure

In 2019, VCIM engaged Dream Industrial REIT, Boralex, Brookfield Infrastructure, Chartwell REIT, Colliers, Genworth, New Flyer, RioCan and Onex to improve their climate disclosures.

In engaging Dream Industrial REIT, VCIM partnered with Vert Asset Management, an investment manager focused on real estate companies that are sustainability leaders. We requested the Dream Group of companies, including Dream Industrial REIT, to increase disclosure on climate risks in line with TCFD recommendations. This will help highlight the climate risks the company faces and provide investors with better information to make decisions.

The remaining companies were asked to provide climate risk disclosure through the CDP. The CDP is the world's largest investor-led initiative, supported by 515 investment managers and asset owners responsible for US\$106 trillion in assets. The CDP runs a global environmental disclosure system to help companies, cities, states and regions to measure and manage climate risks and opportunities. Its questionnaire is now aligned with TCFD recommendations and provides a useful framework for companies and investors looking to identify and manage climate risks and opportunities.



### Climate engagement: Arctic oil & gas project financing

The Arctic is warming at double the rate of the rest of the globe and is expected to face severe ecological disruptions. Sea ice coverage has already declined by 40% since 1979 and without changes, the Arctic is expected to be ice free in the summer by 2030.<sup>6</sup> These changes are already impacting animal populations such as polar bears that require sea ice to mate and hunt. Also impacted are human populations in the area that rely on ice roads in the winter to bring yearly supplies into communities that are fly-in only the remainder of the year.

In 2016, both Canada and the U.S. implemented a five-year moratorium on new offshore oil and gas drilling and exploration in the Arctic. In recent years, the current U.S. administration has been working to reverse the moratorium and issue leases for oil and gas exploration within the Arctic National Wildlife Refuge. This has led to increased interest in oil and gas exploration in the Arctic.

The financing of these projects is of serious concern. Financial institutions funding these projects are exposed to material environmental, reputational and stranded asset risks. As seen in the Dakota Access Pipeline controversy, controversial oil and gas projects not only impact the project companies but also the financial institutions that finance them. Considering concerns related to oil and gas exploration in the Arctic, several large financial institutions have restricted or banned project finance for Arctic oil and gas exploration.

VCIM filed shareholder resolutions with Scotiabank and TD requesting board reviews of the feasibility of a moratorium on Arctic oil and gas financing. After in-depth and productive discussions with both companies, Scotiabank and TD agreed to present the resolution to their respective boards and ensure they were informed of the heightened risks associated with the financing of Arctic oil and drilling projects. Both companies have committed to reporting back to VCIM on these discussions and keeping the dialogue open on climate risk.



## Climate engagement: agriculture and water use in a changing climate

According to the UN World Water Development Report 2019, global water demand is expected to increase 20–30% by 2050. Two billion people already live in countries experiencing high water stress. It is estimated that if degradation of the natural environment continues along with increased water demand, 52% of the world's population and 40% of global grain production will be at risk by 2050. Over 70% of the globe's freshwater is used to grow crops, feed livestock and process ingredients.<sup>7</sup>

Many climate change impacts will be felt primarily through water. Climate change is likely to lead to heavier precipitation events and longer periods of drought. Dry areas are expected to become drier and wet areas are expected to become wetter. This will exacerbate water shortages that have plagued many parts of the world. The fires ravaging Australia at the end of 2019 were a result of what may be the most severe drought in 800 years.<sup>8</sup> Many towns in Australia are relying on water shipments and agricultural production has been curtailed across wide swaths of land. In the southwestern U.S., prolonged droughts are becoming the norm. This is exacerbating land subsidence as farmers pump groundwater at unsustainable rates to make up for declining rainfall and surface supplies, which in turn are not available to recharge groundwater aquifers. On the other side of the continent, states bordering the Mississippi River saw severe damage from flooding in 2019, with record-breaking rains destroying 250,000 acres of farmland.<sup>9</sup>

Livestock production is resource intensive, with large quantities of water and energy required to maintain operations. The livestock sector accounts for 14.5% of total greenhouse gas emissions.<sup>10</sup> It is often tied to deforestation, as seen in Brazil, where vast stretches of the Amazon are cleared to make way for grazing pasture. Approximately 1,800 to 2,500 gallons of water are required to produce one pound of beef.<sup>11</sup>

To help stem the worst impacts of climate change, we need to reevaluate our protein sources. Protein is vital to human development. Without it, severe health problems can follow, including muscle wasting and liver failure. The necessity of protein for optimal health, combined with the environmental impacts of animal agriculture,



means that there is a great need to develop additional and improved proteins from plant products. Global food retailers and brand manufacturers can play a big role in developing and marketing these alternative proteins.

To encourage companies to examine this risk and increase their offerings of alternative proteins, VCIM has joined FAIRR's Sustainable Protein engagement. This engagement has asked food companies to publicly disclose information on their intention and long-term approach to transitioning protein portfolios towards lower-impact and more sustainable sources that include plant-based and/or alternative proteins to support a dietary transition in line with a 1.5 degree world. VCIM led dialogues with Loblaw's and Saputo on the need to diversify protein sources as part of a comprehensive climate risk strategy. Loblaw's has been developing protein alternatives, including cricket powder, and stocking them near animal proteins to increase customer awareness. Saputo is looking to increase co-packing of alternative milks such as almond and soy.

VCIM has joined the Ceres Investor Water Hub to stay up to date on best practices in water management, which we apply in our engagements with companies on this issue. We have also joined the Global Investor Engagement on Meat Sourcing led by FAIRR and Ceres to encourage retail food service companies to implement policies and quantitative, time-bound targets to reduce carbon emissions and water use associated with animal protein supply chains. Restaurant Brands International was engaged as part of this initiative.



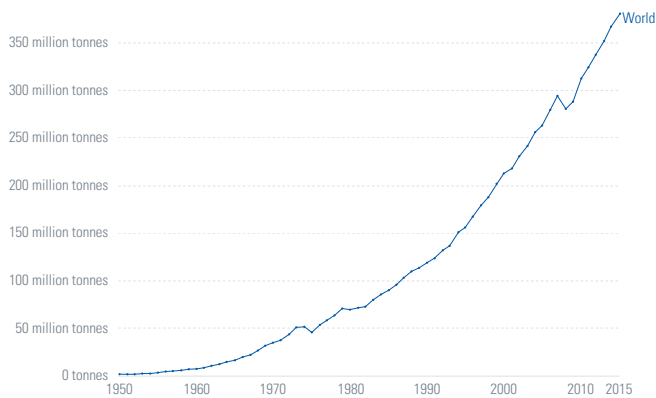
## Plastics & the circular economy



### Plastics engagement: consumer packaging

#### Global plastics production

Annual global polymer resin and fiber production (plastic production), measured in metric tonnes per year.



Source: Geyer et al. (2017).

Since the introduction in the 1950s of plastics in consumer goods, plastic use has grown exponentially. The development of plastics revolutionized modern society and enabled increased living standards throughout the world. Plastics are used in everything from single-use medical supplies that increase hygiene and reduce disease, to food packaging that helps prevent spoilage and reduce food waste. What has become apparent in recent years is the lack of proper recycling systems to ensure that materials from plastics are recovered and do not contaminate the natural environment. While plastics have many benefits, these will only be realized in full if the waste issue is addressed. There is an urgent need to move from a linear model, where plastic and packaging become waste that either pollutes our oceans or fills landfills, to a circular model where materials are recovered and reused.

While estimates vary, it is believed that approximately 50% of plastic is used once and thrown away. Consumer packaging waste is a big contributor to the amount of plastic found in the world's oceans, including the infamous Pacific garbage patch – a large area of marine debris made up of microplastics. The “Eastern Pacific garbage patch” is estimated to be double the size of Texas, while the “Southern Pacific garbage patch” is estimated to be the size of Mexico.



Five countries in Asia – China, Thailand, Indonesia, Vietnam and the Philippines – are believed to dump more plastic into the ocean each year than the rest of the world combined.

Fast-service restaurants with disposable food packaging are exacerbating the issue. Many corporations are expanding rapidly into Asia, where waste disposal systems are inefficient and plastics often escape into and contaminate the natural environment.

Starbucks operates 3,300 stores in China, with plans to nearly double this number by 2022. While the company has comprehensive programs in North America and Europe for managing waste generated from its operations, there have been concerns about the waste impacts of the company's expansion into Asian markets.

VCIM engaged Starbucks on how the company is addressing the use of plastics in its operations. For the Starbucks 2020 annual shareholder meeting, VCIM co-filed a resolution with As You Sow and Edwards Mother Earth Foundation, requesting the company prepare a report on initiatives to increase the scale and pace of its sustainable packaging initiatives worldwide.

Following recent discussions and previous engagement, Starbucks has adopted global waste reduction goals to reduce waste to landfill by 50%. To achieve these reductions in the next 10 years, the company will have to improve product recyclability and its waste management systems. Starbucks has committed resources to achieve these outcomes and agreed to continue dialogue on the issue. In response, VCIM withdrew the shareholder resolution.



## Circular economy engagement: recycling & waste management

The North American waste management industry presents concerns stemming from insufficient infrastructure to manage recyclables. For decades, much of that infrastructure relied on selling recyclable materials to China. This system has collapsed with the implementation of China's National Sword policy, which effectively bans the import of recyclables.

Plastic containers and packaging are especially problematic in waste management due to their increasing use. According to *Trash in America*, a U.S. Public Interest Research Group report, only 9% of plastics made since the 1950s have been recycled. In addition, more than 25% of U.S. municipal garbage is compostable organic material and over half is reusable or recyclable. Accordingly, there is a tremendous opportunity to improve waste management recycling practices and move toward a circular economy to minimize waste.

VCIM filed a shareholder resolution with Waste Connections, a waste management company with operations in North America, asking the company to set measurable targets to increase recycling and composting in its operations. Company management disclosed progress and plans to set recycling targets once in-progress data and research gathering is complete. These initiatives will ensure the company has the necessary systems in place to achieve its recycling goals and reduce the amount of materials being sent to landfills. Following these commitments, VCIM withdrew its proposal.



## Pesticides & chemical management

*Silent Spring*, published by Rachel Carson in 1962, is widely credited with launching the environmental movement and alerting the public to the harm that chemicals were causing to natural systems. The book highlighted the disastrous impacts of DDT<sup>12</sup> and other pesticides on environmental systems that support life. While progress has been made to eliminate particularly harmful chemicals such as DDT and other organochlorines, there are still several pesticides in use with known harmful effects. Chlorpyrifos is a known neurotoxin in children but still widely used on farms in the U.S. Neonicotinoids are ubiquitous in modern day agriculture and have been tied to declines in pollinators that are vital to ecosystem health and food production. Glyphosate, more commonly known as Roundup, has previously been advertised as harmless to humans and the environment; however, mounting evidence indicates Roundup is harmful in soil water runoff and to people who are regularly exposed to large amounts, such as gardeners and farmers.

VCIM's engagement in chemical and pesticide management focused on two areas: 1) glyphosate use, and 2) overall pesticide and chemical management by retailers and railways.

Since their introduction in the 1970s, glyphosate-based products such as Roundup have been among the most widely used herbicides globally. The herbicides have gained traction with the development of glyphosate-resistant genetically modified organism (GMO) crops that can withstand application of the chemicals directly. The prevalence of glyphosate-based herbicides in the environment has led to increased scrutiny of



potential impacts on both human health and ecosystem functioning. A recent study<sup>13</sup> indicates a link between high levels of glyphosate exposure and cancer, particularly non-Hodgkin's lymphoma and multiple myeloma. A recent study found a 41% increase in the risk of non-Hodgkin's lymphoma for individuals in the highest glyphosate exposure group.<sup>14</sup> The WHO's International Agency for Research on Cancer (IARC) determined in 2015 that glyphosate is likely carcinogenic to humans.

The IARC decision has been followed by legal action. Over 52,500 lawsuits have been filed against Roundup producer Monsanto, claiming that the use of glyphosate-based products resulted in cancer. The company is facing a US\$10 billion settlement after losing several trial cases with plaintiffs who were awarded amounts ranging from \$78.5 million to \$2.055 billion.

While the EPA and other regulators have maintained glyphosate's approval, regulatory concerns have been raised. California requires the product to be labelled as potentially cancer causing. Public sentiment is moving against glyphosate use, with groups such as Moms Across America advocating for retail stores to stop sales of glyphosate-based products.

While we have excluded Bayer, owner of Monsanto, from the funds for poor ESG performance, VCIM is exposed to companies that sell and use glyphosate-based products. We engaged with Home Depot, CVS Health and Canadian Tire on their sales of glyphosate-based products. While each company plans to continue to sell these products in compliance with government regulations, they have implemented controls including heightened warnings about the need for personal protective equipment when applying the product and locked display cases in stores.

VCIM also filed shareholder resolutions with CN Rail and CP Rail, requesting increased disclosure on pesticide use on rail tracks. Railway rights of way are federally regulated, and rail companies are required to remove vegetation for safe train operations while minimizing impacts to humans and the surrounding environment. Following our engagement on this issue last year, we asked both rail companies to increase disclosure of how they are managing and mitigating these risks. Both companies have increased public disclosure of pesticide management practices and provided the public with easily accessible channels to report concerns. CP has implemented best practice spraying technology that uses GPS and chlorophyll scanning to implement targeted spraying and minimize the amount applied. These systems incorporate weather data so glyphosate-based product spraying can be done with minimal drift into the surrounding environment. CN has implemented board oversight and is raising this issue with railway industry associations to help increase best practices across the industry.

On broader pesticide and chemical management, VCIM has joined the Investor Environmental Health Network's Initiative for Pesticide Use Reduction and Safer Chemicals Management. In collaboration with this group, VCIM engaged 13 companies, including three held in VCIM's portfolios: Costco, Amazon, and AVS. We encouraged these companies to implement the following:

1. Management strategy with policies and executive oversight.
2. Inventory of the chemicals used in products and supply chains.
3. Baseline data established through a chemical footprint process so that chemicals of high concern to human and environmental health can be tracked and substituted with safer alternatives.
4. Public disclosure of implemented processes and outcomes.

Companies taking these actions demonstrate responsible chemical management. These are the first steps towards improving the chemical composition of pesticides and reducing harm to humans and the environment.

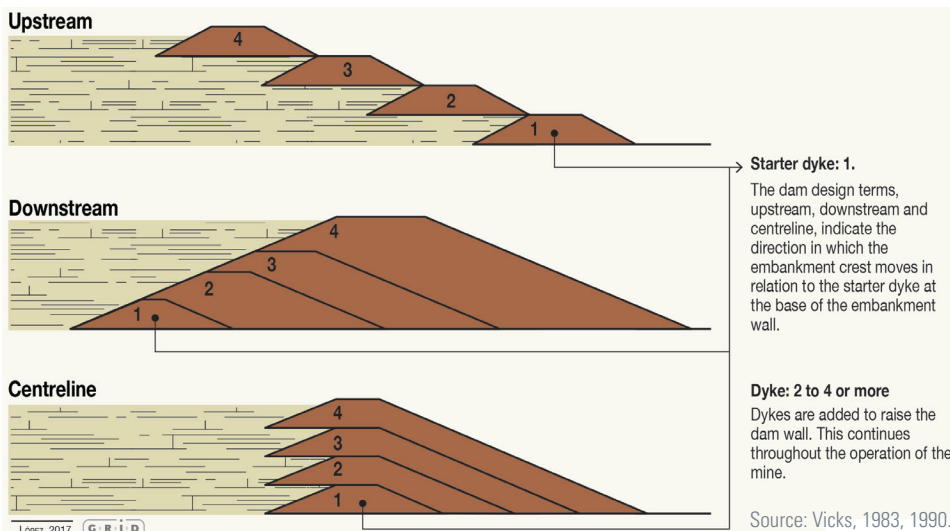


## Mining safety & tailings dams

Mining is an essential sector, providing the fundamental materials that underpin our modern economy. Everything from refrigeration to modern communication requires mined materials. The clean energy transition relies on several materials such as lithium for electric car batteries and cadmium for solar panels. There are heightened ESG risks associated with mining operations as accidents can have severe consequences for both people and the environment. Given the vital role mining plays in modern day society, it is important that safety is prioritized and risks are managed appropriately.

Mining generates tailings for most resources. Tailings are byproducts of mining operations that generally have no economic value and can contain toxic compounds. Even without hazardous components, the sheer volume of tailings to be disposed of can be significant. Tailings storage facilities are used to safely contain this material and are usually located near the mine itself. There are many types of tailings storage facilities, but upstream dams are often used and can pose risks. With an upstream dam, the tailings are maintained on the surface and reinforced by the material itself (see diagram below). These dams require close monitoring to prevent leaks and ensure that water levels are kept in a safe range to prevent liquefaction. This is where solid materials behave like liquids and in the case of tailings dams, can lead to the complete collapse of the structure. When this occurs, people are often killed or displaced, and the surrounding water and land is usually irreparably contaminated.

### Types of sequentially raised tailings dams



In recent years, there have been several serious incidents that have raised concerns about mine tailings dam management.

The Mount Polley disaster in BC occurred when a dam breach led to the largest tailings failure that has ever occurred in Canada.<sup>15</sup> No one was killed or injured but the environmental harm was substantial and will impact the region for years to come.

In 2015 and 2019, two serious mine tailings dam failures in the towns of Mariana and Brumadinho in the Minas Gerais region of Brazil resulted in almost 300 deaths and catastrophic environmental impacts downstream of both mining sites.

According to the World Mine Tailings Failures (WMTF) organization, dam failures with serious consequences have increased in recent years and it is predicted that without changes, there could be a further 19 serious failures by 2027. Failures are hard to predict and monitor as there is no central database documenting where these structures are located and how they are being managed.

Climate change is expected to increase the number of extreme weather events worldwide, particularly high-precipitation events. With heavy precipitation and water loading noted as the most common cause of tailings dam failures, improvements in tailings dam safety are urgently needed.

To address these risks, VCIM has joined the Investor Mining & Tailings Safety Initiative. This initiative aims to gather information from mining companies on their tailings dam management and encourage best practices. A major goal of the initiative is to compile an inventory of tailings dams worldwide that will help investors and local communities monitor company risk and avoid further disasters.

VCIM engaged with three mining companies held in the funds: Nutrien, Agnico-Eagle and Lundin Mining. We encouraged all three to report the information requested by the initiative and had discussions on tailings dam management. All three companies responded to the initiative following VCIM's engagement efforts.



## Promoting equity: gender pay gap

The difference in workplace compensation for women compared to men is known as the gender pay gap. Sometimes the gap results from paying a woman less for the same job, other times it is due to a bias that prevents women from being recruited into higher-paying positions. In other cases, whole categories of underpaid work are historically done by women.

The impact of COVID-19 may widen social inequality. Lower-wage jobs, occupied disproportionately by women, are more likely to disappear due to the economic downturn.<sup>16</sup> Recent research<sup>17</sup> notes women returning to work after time off are likely to be compensated 7% less than other candidates, further magnifying gender pay discrepancies.

Statistics Canada estimates women earn 87 cents for every dollar earned by men. This gap widens for indigenous women, women of colour, those living with a disability, and recent immigrants. The Ontario Equal Pay Coalition has found that on average it takes women 15.5 months to earn what a man earns in 12. The World Economic Forum estimates that, if pay equity gap

trends continue, it will take 99.5 years to achieve full gender equality globally. Further, research continues to demonstrate how the gender pay gap can have lifelong financial consequences, directly contributing to women's poverty, acting as a barrier to women's full economic participation and reducing global economic growth.

The Organisation for Economic Co-operation and Development reports that addressing gender pay equity can increase economic growth, reduce poverty, enhance societal well-being, and promote sustainable development.

Global regulatory trends are moving towards greater disclosure requirements. In 2017, gender pay gap reporting regulation was introduced in the U.K. The financial sector was found to have the second-highest gender pay gap in the UK. Canadian banks operating in the U.K. with 250 or more employees reported median gender pay gaps in the 40% range, with women representing a majority of the lowest-pay quartile and a minority of the highest-pay quartile. The financial sector is also found to have the highest level of mid-career exit for women in comparison to other sectors; female managers, senior managers, and executives in financial services are 20–30% more likely to leave their employer than peers in other industries.<sup>18</sup> In Canada, consultations to consider public disclosure requirements as part of federal pay equity legislation are on-going; however, changing governments or priorities could deter this initiative.

Voluntary quantitative gender pay gap disclosure by companies would demonstrate best-in-class social responsibility as well as business and financial prudence. Emerging research finds transparency significantly lowers the gender pay gap, increases promotion of women to more senior positions, and decreases operational costs.<sup>19</sup>

In 2019, VCIM filed shareholder resolutions with CIBC, RBC, Manulife and Sun Life calling on each company to provide quantitative gender pay gap disclosure. CIBC, RBC, and Manulife committed to quantitative gender pay gap disclosure in forthcoming public reporting and the shareholder resolutions were withdrawn. Sun Life committed to making a recommendation to the board of directors to provide quantitative disclosure and the shareholder resolution was subsequently withdrawn. These financial institutions are now in line with TD and Scotiabank, which began reporting on the gender pay gap for their Canadian operations after shareholder advocacy by VCIM in 2018.

## Human rights



### Human rights engagement: digital technology

The UN High Commissioner for Human Rights notes that while digital technology delivers many benefits and is valuable for human rights and development, the digital revolution is also a major global human rights issue.<sup>20</sup> Companies on the cutting edge of technology developments are also facing scrutiny for their human rights due diligence practices. Digital surveillance, the collection and sharing of user information, and the use of algorithms to show user-targeted content via technological products and services pose significant human rights challenges.

Alphabet Inc. is noted for technological products and services that can transform how the world operates. In response to COVID-19, the company, via its Google operations, partnered with Apple to launch contact-tracing technology that allows authorities to notify users who have come into contact with a person who has tested positive for the virus. Contact-tracing technology requires the collection of sensitive user data and has come under scrutiny for privacy concerns and human rights protections.

Alphabet is criticized for lacking an enterprise-wide human rights policy or board-level human rights oversight. In the rapidly changing landscape of technology products and global data drivers, insufficient human rights frameworks are considered a significant governance weakness and expose the company to human rights and privacy risks.

VCIM joined a collaborative investor engagement requesting Alphabet Inc. to establish a Human Rights Risk Oversight Committee of the Board of Directors, composed of independent directors with relevant experience. The Committee should provide an ongoing review of corporate policies and practices, above and beyond legal and regulatory matters, to assess how Alphabet manages the current and potential impact of the company's products and services on human rights. The shareholder proposal was presented at the June 2020 Alphabet Annual General Meeting for voting.<sup>21</sup>



### Human rights engagement: Bangladesh supply chain update

In May 2013, following the Rana Plaza tragedy that resulted in 1,134 deaths and 2,600 injuries, VCIM joined the Bangladesh Investor Initiative to promote greater safety for factory workers in the clothing industry. VCIM encouraged companies held in the funds to join the Accord on Fire and Building Safety in Bangladesh. The Accord set out inspection, mitigation, remediation and funding provisions covering supplier factories for 220 clothing brands and retailers. The Accord covered a five-year period ending in May 2018. During this time, 150,000 safety issues were identified at 1,700 factories and 90% were remediated.<sup>22</sup>

Several companies and global unions have attempted to extend the Accord for an additional three years to ensure adequate time to remediate problems and build confidence in the local inspection authority. Following a lawsuit filed by a factory whose contracts were terminated for falsifying concrete strength test results, the Bangladesh High Court issued a restraining order preventing the Accord from operating in Bangladesh after May 30, 2018. The court eventually lifted the restraining order, allowing the Accord to operate for six more months while the Accord, the government, and the Bangladesh Garment Manufacturers and Exporters Associations (BGMEA) negotiated the Accord's future.

VCIM supported the Bangladesh Investor Initiative, along with 190 global investors representing over US\$3 trillion in assets under management. We called on the government of Bangladesh and the BGMEA to negotiate an agreement allowing the Accord to continue its work in the garment sector.

In May 2019, an understanding was reached between the Accord and the BGMEA, with the endorsement of the government of Bangladesh. This led to the establishment of a national safety entity to be called the RMG Sustainability Council (RSC), which will take over all Accord Bangladesh operations and inherit the Accord's infrastructure and staff. This breakthrough ensures that progress made on factory safety in Bangladesh will continue. The Accord was given permission to continue to operate during a 12-month transition period.



The RSC will be governed by a body with representatives from the BGMEA, global brands and global and national trade unions in cooperation with the government of Bangladesh. The RSC will continue with factory inspections, remediation, follow-up inspections, worker training, and the independent grievance mechanism. All existing transparency features of the Accord will also be maintained, including full disclosure of all results of inspection and remediation activities on a public website.

### **Signatory and collaborative initiatives**

VCIM believes responsible investing involves supporting initiatives and organizations that advance positive global social and environmental impact. In 2019 and Q1 2020:

- We became a member of the World Benchmarking Alliance, a global network comprised of public, private and civil society sectors supporting the measurement of corporate performance on the UN Sustainable Development Goals. VCIM participated in the 2019 roundtable discussion towards the development of the Gender Benchmark to be published September 2020.
  - We became a signatory to the Investor Statement on Coronavirus Response. The statement urged the business community to take steps to protect their employees, suppliers, customers and communities during the pandemic by providing paid leave, prioritizing health and safety, retaining employees, maintaining supplier and customer relationships, and demonstrating financial prudence.
  - We joined the Access to Nutrition Foundation initiative as a signatory. The initiative targets large food and beverage manufacturers to improve the nutritional profile of food and beverages marketed around the globe.
  - VCIM joined Investors for Opioid and Pharmaceutical Accountability. This initiative focuses on improving board governance to address the opioid crisis and pharmaceutical industry ESG concerns.
  - VCIM supported the Global Investor Statement to Governments on Climate Change. The statement calls on global leaders to achieve the Paris Agreement's emissions-reduction goals, accelerate private sector investment in the low-carbon transition, and commit to improve climate-related financial reporting by publicly supporting TCFD recommendations.
  - VCIM joined the Plastics Solutions Investor Alliance (PSIA), a group of investors who engage with publicly traded companies on the threat posed by plastics pollution. The PSIA encourages companies using plastic packaging to support public policy measures aimed at reducing plastics waste, disclose annual plastic packaging use, set plastic use reduction goals, transition plastic packaging to be recyclable, reusable, or compostable and develop alternatives to plastic for packaging purposes.
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- <sup>1</sup>“Ten Years in Public Health: 2007-2017,” Dr. Margaret Chan, Director-General, WHO (2017).
- <sup>2</sup>History of Vaccines – Measles Report (<https://www.historyofvaccines.org/timeline/measles>).
- <sup>3</sup>World Health Organization’s Guide to Identifying The Economic Consequences of Disease and Injury (2009).
- <sup>4</sup>“Ten Years in Public Health: 2007-2017,” Dr. Margaret Chan, Director-General, WHO (2017).
- <sup>5</sup>Christophe McGlade & Paul Ekins, “The geographical distribution of fossil fuels unused when limiting global warming to 2°C,” *Nature*, vol. 517, pp. 187–190 (January 2015).
- <sup>6</sup>“Global Linkages Report: A Graphic Look at the Changing Arctic,” UN Environment Programme and GRID-Arendal (March 2019).
- <sup>7</sup>“Feeding Ourselves Thirsty” Ceres (October 2019).
- <sup>8</sup>Mandy Freund and Benjamin Henley, “Recent Australian droughts may be worst in 800 years,” University of Melbourne (2019).
- <sup>9</sup>Amal Ahmed, “Last year’s historic floods ruined 20 million acres of farmland,” *Popular Science*, January 20, 2020.
- <sup>10</sup>“Tackling Climate Change through Livestock – A Global Assessment of Emissions and Mitigation Opportunities,” Food and Agriculture Organization (FAO) of the UN (2013).
- <sup>11</sup>“Future of food – the investment case for a protein shake up,” FAIRR (September 2016).
- <sup>12</sup>Dichlorodiphenyltrichloroethane, commonly known as DDT, is a colorless, tasteless, and almost odorless crystalline chemical compound, an organochlorine. It was originally developed as an insecticide, then became infamous for its environmental impacts.
- <sup>13</sup>U.S. Agency for Toxic Substance and Disease Registry (ATSDR) Draft Toxicological Profile for Glyphosate (April 2019).
- <sup>14</sup>Zhang, L. et al., “Exposure to Glyphosate-Based Herbicides and Risk for Non-Hodgkin Lymphoma: A Meta-Analysis and Supporting Evidence,” *Mutation Research-Reviews in Mutation Research* (2019) (<https://doi.org/10.1016/j.mrrev.2019.02.001>).
- <sup>15</sup>“Mount Polley mine storage facility failure,” UN Environment Programme and GRID-Arendal (2017).
- <sup>16</sup>*ILO Monitor: Covid-19 and the World of Work*. Third Edition, International Labour Organization, April 2020.
- <sup>17</sup>“How to Advocate for Pay Equity Analysis,” PayScale, May 2020.
- <sup>18</sup>“Women in Financial Services,” Oliver Wyman, 2016 (<https://www.oliverwyman.com/our-expertise/insights/2016/jun/women-in-financial-services-2016.html>).
- <sup>19</sup>Morten Bennedsen et al., “Do Firms Respond to Gender Pay Gap Transparency?” November 2018 ([http://tsoutsoura.com/Gender\\_Gap.pdf](http://tsoutsoura.com/Gender_Gap.pdf)).
- <sup>20</sup>“Human Rights in the Digital Age: Can they Make a Difference?” Keynote speech by Michelle Bachelet, UN Human Rights Office of the High Commissioner, October 17, 2019.
- <sup>21</sup>At the time of this report, voting results were not available.
- <sup>22</sup>Accord on Fire and Building Safety in Bangladesh, July 2018 (<https://bangladeshaccord.org/updates/2018/07/20/achievements-2013-accord>).

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