

# Sustainable Investing

## Quarterly Highlights

Q4 2017





“At Addenda Capital, we raise the bar every day by taking actions that will benefit not only our clients but society as a whole. We are quite proud to share with you concrete examples of initiatives undertaken by Addenda during the past quarter.”

— Brian Minns

Manager, Sustainable Investing, Addenda Capital

## FIRM-WIDE INITIATIVES

### PROMOTING SUSTAINABLE FINANCIAL MARKETS

#### RAISING STANDARDS

##### Signed Global Investor Statement on Antibiotic Use

Coordinated by the Farm Animal Investment Risk and Return (FAIRR) initiative, the statement aims to show broad investor support for responsible antibiotics stewardship policies to address the systemic risk across multiple sectors including food, pharma, healthcare and insurance. Addenda Capital signed on to the Statement in November. The initiative secured the support of 68 investors with US\$3 trillion of assets under management.

##### Provided Feedback on Influential Proxy Voting Policy

Investors use Institutional Shareholder Services (ISS) for guidance on shareholder votes. The proxy advisory firm held a consultation on two draft policies for TSX-listed issuers, one on **Gender Diversity** and the other on **Overboarding**. Addenda supported ISS's recommendation to withhold votes for non-CEO director nominees who sit on more than four public company boards, and for CEO director nominees at their outside boards, where they sit on the board of more than one public company besides the company for which they serve as CEO. Addenda also supported ISS's recommendation to withhold votes for nominating parties if a company has not adopted a formal, gender policy and if there are no female directors on the board.

##### Provided Input on Green Bond Principles (GBP) and Social Bond Principles (SBP)

During the annual consultation on the GBP and SBP, Addenda provided input on their online resources, their guidance on external reviews and their market development.

##### Endorsed Declaration of Institutional Investors on Climate-Related Financial Risks

[The Declaration](#) encourages Canadian public companies to commit to improving disclosure on their exposure to climate change risks and on actions to manage such risks (e.g. assessment of low-carbon investment opportunities). Addenda was one of 30 Canadian and international financial institutions to participate.

## PRODUCT-SPECIFIC INITIATIVES

Fixed Income ■ International Equities ■ Canadian Equities ■

### ESG INTEGRATION

## BETTER INVESTMENT DECISIONS

### Passed on CoreCivic ■

The Corporate Bond team worked with the Sustainable Investing team when considering an investment in CoreCivic, a high yield issuer in the US. ESG considerations included pressure from activist groups on prison spending which could impact profit margins; reputational risks which could affect valuation; and ESG disclosure which is poor. **Outcome:** Did not buy – ESG considerations negatively impacted our view of the company's finances, business model, and valuation.

### Reviewed Privacy and Data Security Risks ■

We reviewed ESG risks and opportunities for companies in the software and services industry in our International Equities portfolio. We paid special attention to data security breaches and the actions of companies including Yahoo Japan, Gemalto, and SAP SE.

**Outcome:** ESG considerations further incorporated into investment analysis and monitoring.

### Reviewed ESG Data with Canadian Equities Team ■

Each quarter we update the ESG data our Canadian Equities team uses to support their ESG integration activities. In Q4 2017 we reviewed with the team the source of the metrics, how they are calculated and how they can be useful for comparing companies and identifying ESG risks when making investment decisions.

### STEWARDSHIP

## TAKING CARE OF YOUR INVESTMENTS

### Joined Climate Action 100+ Initiative

We joined a five-year investor-led initiative to engage more than 100 of the world's largest corporate greenhouse gas emitters. We will work with other investors to secure commitments from boards and senior management teams of many portfolio companies to improve governance of climate change risks, curb emissions and strengthen climate-related financial disclosure.

### Recognized Improved Environmental Practices ■ ■ ■

We are constantly monitoring the actions of the companies in which we invest. This quarter, we noticed a heightened focus on improving environmental practices at two Canadian companies. After participating in an investor day, our lead Energy Portfolio Manager highlighted the attention that Canadian Natural Resources is placing on addressing sustainability issues. We sent a letter to the Executive Chairman of the Board to indicate that we took notice of their actions and to encourage the company to continue improving their environmental practices. Elsewhere, our lead Energy Infrastructure Portfolio Manager noticed Inter Pipeline's first CDP response and their first sustainability report. We wrote a letter to the President & CEO to recognize these actions and encourage Inter Pipeline to continue improving sustainability disclosure.

### Engaged with Suncor regarding the Workforce Disclosure Initiative ■ ■

Addenda Capital is a signatory to the Workforce Disclosure Initiative (WDI), which aims to improve disclosure of workforce composition and stability, workforce training and development, and staff engagement at the companies in our investment universe. We engaged with 20 of the 75 companies that were invited to participate in the pilot year of the WDI. We approached Suncor to better understand their rationale for declining to participate. We discussed the many requests for information the company receives and the possibility for Suncor to disclose the material workforce information we are seeking using the Sustainability Accounting Standards Board (SASB) standards.

### Corporate Governance and Product Safety Practices with Terumo ■

In December 2017, we held fruitful discussions with Terumo and achieved a better understanding of the alignment of executive remuneration with business strategy; management of the quality and safety of its products and related communications with customers; and steps taken to ensure manufacturing quality and to limit the incidence of FDA enforcement actions.



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