



# Sustainable Investing

## Quarterly Highlights

Q1 2018





*“The purpose of our Sustainable Investing team is to be a leading investment management partner that adds value for clients and generates benefits for society over the long-term by focusing on sustainability risks and opportunities.”*

— **Brian Minns, CFA**  
Vice-President, Sustainable Investing

## INVESTMENT STRATEGY-SPECIFIC INITIATIVES

Fixed Income ■ International Equities ■ US Equities ■ Canadian Equities ■

### ESG INTEGRATION

## BETTER INVESTMENT DECISIONS

### Vodafone ■

The Corporate Bonds team worked with the Sustainable Investing (SI) team when considering an investment in **Vodafone**, a global telecommunications company. The SI team identified strengths and risks such as: good data security programs; affordable services for developing economies; controversies related to tax avoidance and misleading customers and labour management challenges.

### Choice Properties REIT ■ ■

The SI team provided research to the Corporate Bonds and Canadian Equities teams regarding **Choice Properties REIT**. Highlights of the research include:

- large opportunity but small efforts to reduce environmental footprints of properties; and
- REIT lags peers in adopting comprehensive compensation and benefits packages for employees.

### Company Reviews — Consumer Discretionary and Consumer Staples ■

The Sustainable Investing team reviewed several companies in the International Equities portfolio including Consumer Durables & Apparel companies **Richemont** and **LVMH Moët Hennessy Louis Vuitton**. Responsible supply chain management emerged as a major theme. Follow-up research was conducted to better understand responsible practices regarding supply chains and targets for improvement such as responsible palm oil sourcing.

Media companies were also reviewed this quarter and a key issue that arose is the EU General Data Protection Regulation (GDPR), which could prompt significant additional costs for companies as they may be required to revise compliance procedures.

Consumer Staples portfolio companies were also reviewed this quarter. A key risk is the concentration of suppliers in high water-stress regions. This could lead to supply disruption, which in turn could cause product price volatility. The SI team investigated company disclosure around how these types of risks are being managed.

### Restaurant Brands International ■

The SI team provided research to the Canadian Equities team regarding **Restaurant Brands International**. Highlights of the research include:

- poor labour management could lead to labour disputes and operational disruptions which could impact revenue, reputation, brand value, and market share; and
- regions with high demand for healthier products represent a substantial percentage of the company's revenues and the company's strategy in this area is not clear.

## STEWARDSHIP

### TAKING CARE OF YOUR INVESTMENTS

#### Workforce Disclosure Initiative ■ ■ ■ ■

33 companies responded to the pilot year request for better disclosure of workforce practices and performance including several companies that we own in our portfolio: **BCE, Canadian National Railway, Diageo, HSBC, Microsoft, Nestlé** and **RELX**. We are reviewing the detailed data provided by the companies and will be determining if more dialogue is required. Our focus for the second year of the initiative will be on helping to improve the survey to focus the questions on material issues, with the hope of generating a higher response rate among companies invited to participate.

#### Meeting with ABB to Discuss Bribery and Corruption Risks ■

In March, the SI and International Equities teams had a call with **ABB** representatives to learn more about how ABB mitigates bribery and fraud. We discussed ABB's Global Integrity Program, recent and planned improvements to ABB's framework for addressing bribery and corruption risks as well as public disclosure of policies, procedures and possible violations.

#### Banking on a Low Carbon Future ■ ■ ■ ■

47 banks responded to the questions from investors including portfolio companies **Bank of Montréal, CIBC, HSBC, ING, JPMorgan Chase, RBC, Bank of Nova Scotia, TD, US Bank** and **Wells Fargo**. The banks were evaluated in a [report](#) by Boston Common Asset Management that found:

- almost all the banks (97%) are involved in industry or multi-stakeholder groups addressing climate risks and solutions;
- only 58% have a group-wide climate strategy in place;
- 71% have adopted public exclusion policies linked to carbon-intensive practices; and
- less than half (49%) are implementing risk assessments or 2°C scenario analysis.

Addenda is reviewing the detailed data provided by the companies and will be determining if more dialogue is required.

## FIRM-WIDE INITIATIVES

### PROMOTING SUSTAINABLE FINANCIAL MARKETS

#### RAISING STANDARDS

##### Provided Feedback to the Canadian Securities Administrators Regarding Director Independence

Addenda Capital submitted a response to the Canadian Securities Administrators' (CSA) [Consultation Paper 52-404 Approach to Director and Audit Committee Member Independence](#), indicating that the current approach has a good balance of allowing boards to exercise judgement while still specifying some relationships that would make independence an unreasonable expectation. We also suggested two improvements: address the impact director tenure might have on independent judgement; and, require all director nominees to disclose circumstances and relationships that could reasonably be perceived as material.

##### Wrote to Alberta Legislators Regarding the Filing of Shareholder Proposals

Addenda wrote to the Government of Alberta requesting that the threshold for filing shareholder proposals be lowered to the one used elsewhere in North America. We joined a growing chorus of investors that have been working with the responsible Ministers and their staff for some time to advance the proposal. In February, we received a response from the Minister of Service Alberta and Status of Women, Stephanie McLean, indicating that our suggestion will be brought forward the next time the legislation is reviewed.

### COMPANY UPDATE

#### ADDENDA IMPACT FIXED INCOME POOLED FUND LAUNCHED

Our [new Impact Fixed Income Fund](#) is seeded and ready to take in new investors, making it one of the first domestically-focused fixed income impact investment funds in Canada. Building on Addenda's experience and expertise, the fund was designed to generate positive environmental and social impacts while delivering competitive investment returns. The investment solution meets the needs of Canadian institutional investors and high net worth clients who wish to improve society through their investments.



## Offices

### Montréal

800 René-Lévesque Blvd. West  
Suite 2750  
Montréal (Québec)  
H3B 1X9

### Toronto

110 Yonge Street  
Suite 1600  
Toronto (Ontario)  
M5C 1T4

### Guelph

Priory Square  
130 Macdonell Street  
Guelph (Ontario)  
N1H 6P8

### Regina

1920 College Avenue  
Regina (Saskatchewan)  
S4P 1C4

[info@addendacapital.com](mailto:info@addendacapital.com)



[addendacapital.com](http://addendacapital.com)