Vancity Investment Management

# Shareholder engagement report.

2023 Q2 – 2024 Q2

# Where we stand.

While investors continually face pressures from geopolitical instability and climate change, the last year and a half has significantly impacted confidence in the stock market and overall economy, with wars and worsening catastrophic weather events contributing to more uncertainty for many stakeholders.

Despite inflation slowing down and the Bank of Canada cutting interest rates for the first time in four years, issues persist. Many people still face major challenges such as housing unaffordability and stagnant wages, making investing for the future more difficult. Plus, political pressure in parts of the US threatens the progress made to decarbonize and promote positive social initiatives.

In this challenging context, active socially responsible investing (SRI) continues to be a crucial tool to create a more sustainable and equitable world. By engaging with companies, filing proposals, and proxy voting, we're exercising our power as shareholders to bring about beneficial change.

Working with companies to become better environmental stewards, community members, and employers is not always a straightforward path. However, by continuously engaging, we're making progress and a positive impact.

This year, we led 22 engagements and participated in 36 additional ones, with several major companies introducing changes in response. For example, Starbucks® committed to reporting on its biodiversity risks and impacts in the company's coffee supply chain. And major Canadian banks RBC and Scotiabank made improvements to their climate reporting. Five Below, a US specialty discount retailer made commitments to evaluate the benefits of paying living wages.

SRI is more crucial today than ever. Through persistent, values-based shareholder engagement, we can drive large companies to improve their practices to benefit people and the planet. We remain unwavering and diligent in this mission.

Kelly Hirsch
Head of ESG
Vancity Investment Management

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# Our philosophy and engagement framework.

Established in 1995, Vancity Investment Management was one of the first wealth management firms in Canada to focus on investments that deliver competitive returns while making a positive impact on the world. Today we continue to lead the way. Putting people and the planet first, and the creation of an inclusive society, are at the centre of our engagement work.

Our engagement framework addresses the seven impact areas we've identified as most important to our work, as follows:

1. **Biodiversity and nature**
2. **Climate, energy, and just transition**
3. **Financial resilience and diversity, equity, inclusion, and Reconciliation (DEIR)**
4. **Governance and disclosure**
5. **Health care**
6. **Human capital management**
7. **Human rights**

Most of our engagements advance multiple impact areas. We identify these areas throughout this report, and for tracking purposes, select one primary area for every engagement. For example, our engagement work with Canadian banks to disclose the CEO-to-median-employee-pay ratio primarily advances our governance and disclosure focus, but also addresses issues related to human capital management and financial resilience and DEIR. This holistic approach to environmental, social and governance (ESG) issues carries throughout all of our engagement work.

In this report you'll find graphs and summaries of our overall engagement work, along with details on our 2023/24 proxy voting, and some of our engagement highlights from this year.

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# Engagement activities.

## Overall engagement activities 2023 Q2 – 2024 Q2.

**58**
Total engagements.

**45**
Individual companies engaged.

**26**
Specific engagement topics.

**11**
Shareholder resolutions filed.

**10**
Investor statements of support signed.

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## Engagement impact areas.

Below is our company engagement list for the reporting period. Most engagements contribute to multiple impact areas as indicated by the *Contributes to impact* area flag.

| Counterparty | Topic | Primary impact area | Contributes to impact area |
|---|---|---|---|
| Alphabet Inc.-CL C | Valuing Water Finance Initiative (VWFI) | | |
| Amazon.com Inc. | Freedom of association | | |
| Amazon.com Inc. | Living wages | | |
| Amazon.com Inc. | Valuing Water Finance Initiative (VWFI) | | |
| Aritzia Inc.-Subordinate Voti | Forced labour & supply chain due diligence | | |
| Bank of Montreal | CEO to median worker pay ratio | | |
| Bank of Nova Scotia | Fossil fuel financing | | |
| Broadcom Inc. | Mental Health in the Workplace | | |
| Can Imperial Bk Of Commerce | CEO to median worker pay ratio | | |
| Canadian Natl. Railway Co. | Paid sick leave | | |
| Canadian Pacific Kansas City | Climate Engagement Canada (CEC) | | |
| Canadian Pacific Kansas City | Paid sick leave | | |
| Carmax Inc. | Climate disclosure - CDP | | |
| Costco Wholesale Corporation | Nature Action 100 | | |
| CSL Ltd. | Clinical trial diversity | | |
| Danaher Corp. | Access to medicine | | |
| Danaher Corp. | Clinical trial diversity | | |
| Darling Ingredients Inc. | Animal waste & pollution - FAIRR | | |
| Diversified Royalty Corp. | Board independence & executive compensation | | |
| Edwards Lifesciences Corp. | Antimicrobial resistance (AMR) | | |
| Edwards Lifesciences Corp. | Clinical trial diversity | | |
| Element Fleet Management Cor | Climate disclosure - CDP | | |

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| | |
|---|---|
| Exchange Income Corp. | Climate disclosure - CDP |
| Five Below | Living wages |
| Killam Apartment Real Estate | Affordable housing - SHARE |
| Lululemon Athletica Inc. | Forced labour & supply chain due diligence |
| Lululemon Athletica Inc. | Valuing Water Finance Initiative (VWFI) |
| LVMH Moet Hennessy Louis Vui. | Valuing Water Finance Initiative (VWFI) |
| Microsoft Corp. | Ethical use of artificial intelligence |
| Microsoft Corp. | Mental health in the workplace |
| Novo Nordisk A/S-B | Clinical trial diversity |
| Nutrien Ltd. | Climate Engagement Canada (CEC) |
| Nutrien Ltd. | Nature action 100 |
| Procter & Gamble Co/The | Plastic pollution |
| Roche Holding Ag-Genusschein | Antimicrobial resistance (AMR) |
| Roche Holding Ag-Genusschein | Clinical trial diversity |
| Royal Bank Of Canada | CEO to median worker pay ratio |
| Royal Bank Of Canada | Fossil fuel financing |
| Russel Metals Inc. | Climate disclosure - CDP |
| Russel Metals Inc. | Executive compensation |
| Salesforce Inc. | Customer due diligence |
| Savaria Corp. | Climate disclosure - CDP |
| SiteOne Landscape Supply Inc. | Climate disclosure - CDP |
| Sleep Country Canada Holding | Supply chain due diligence |
| Starbucks Corporation | Biodiversity TNFD analysis and disclosure |
| Texas Instruments Inc. | Mental health in the workplace |
| Thermo Fisher Scientific Inc. | Clinical trial diversity |

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| | | | |
|---|---|---|---|
| TopBuild Corp. | Setting net-zero targets | | |
| Toromont Industries Ltd. | Climate disclosure - CDP | | |
| Toronto-Dominion Bank | CEO to median worker pay ratio | | |
| Toronto-Dominion Bank | Fossil fuel financing | | |
| Trane Technologies PLC | Climate action 100+ | | |
| Unilever PLC | Plastic pollution | | |
| Waste Connections Inc. | Climate Engagement Canada (CEC) | | |
| Waste Connections Inc. | Environmental justice | | |
| West Fraser Timber Co. Ltd. | Climate Engagement Canada (CEC) | | |
| WSP Global Inc. | Customer due diligence | | |
| XPEL Inc. | Setting net-zero targets | | |

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## ESG categories.

This diagram shows the percentage of engagements in this reporting period that are tied to each of the environmental, social, and governance (ESG) categories.


## Sustainable development goals.

Our engagement activities helped advance a number of the United Nations' (UN) sustainable development goals (SDGs). These goals 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. This chart illustrates the percentage of our engagements tied to each SDG.

| | |
|---|---|
| 32.8% | Climate action |
| 29.5% | Good health and well-being |
| 27.9% | Decent work and economic growth |
| 27.9% | Reduced inequalities |
| 27.9% | Responsible consumption and production |
| 19.7% | Clean water and sanitation |
| 13.1% | Industry, innovation and infrastructure |
| 13.1% | Life on land |
| 11.5% | Life below water |
| 11.5% | Peace, justice and strong institutions |
| 6.6% | Gender equality |
| 4.9% | Affordable and clean energy |
| 4.9% | No poverty |
| 4.9% | Zero hunger |
| 3.3% | Sustainable cities and communities |
| 1.6% | Partnerships to achieve the goal |

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## Types of engagements.

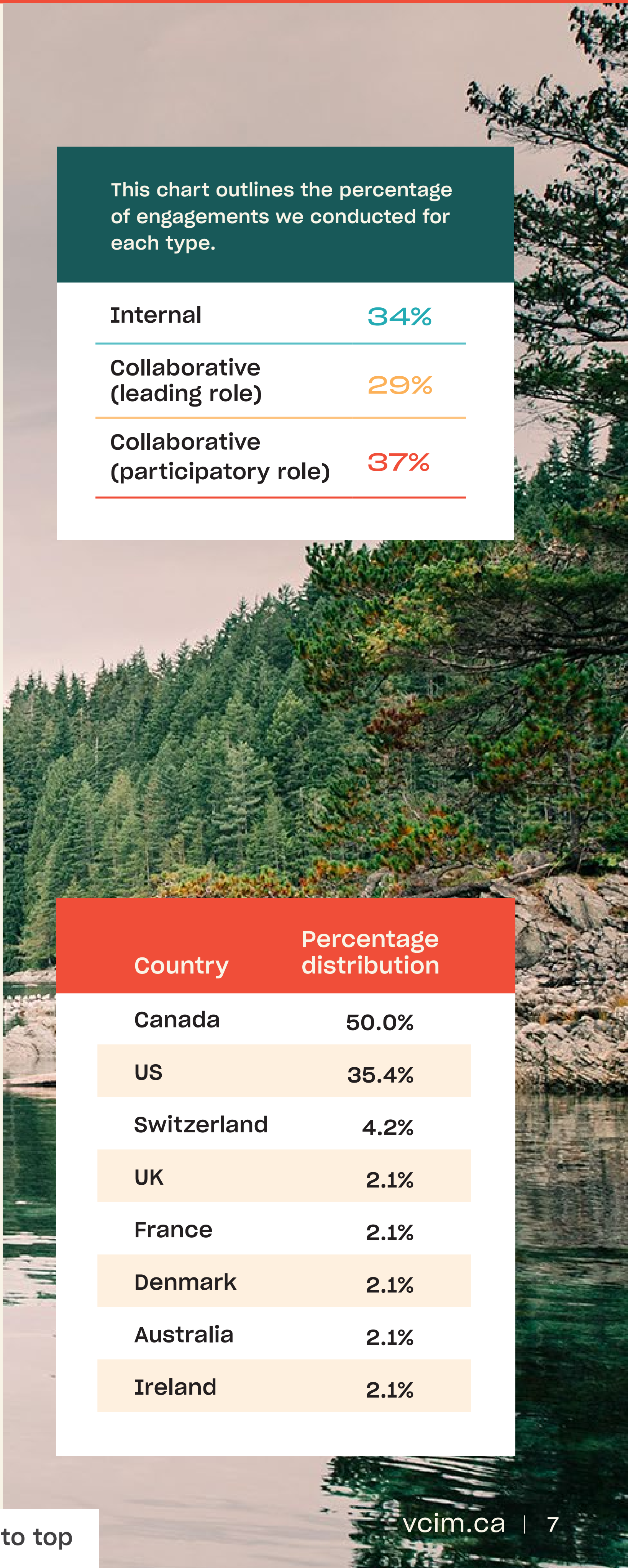
We conduct our engagements in three primary ways: internally, collaboratively with a leading role, and collaboratively with a participatory role.

- **Internal:** engagements on our own without other investor involvement.
- **Collaborative (leading role):** we take a leadership role in engagements with other investors through collaborative investor networks.
- **Collaborative (participatory role):** we participate in engagements with other investors through collaborative investor networks.

Both internal and collaborative engagements have advantages. The decision to involve other investors often depends on the size of the company being engaged with, its geographic location, the presence of an existing relationship, and the intention to file a shareholder proposal.

## Geographic distribution.

This chart shows the geographic distribution of the companies that VCIM engaged with in this reporting period.



This chart outlines the percentage of engagements we conducted for each type.

| | |
|---|---|
| Internal | 34% |
| Collaborative (leading role) | 29% |
| Collaborative (participatory role) | 37% |

| Country | Percentage distribution |
|---|---|
| Canada | 50.0% |
| US | 35.4% |
| Switzerland | 4.2% |
| UK | 2.1% |
| France | 2.1% |
| Denmark | 2.1% |
| Australia | 2.1% |
| Ireland | 2.1% |

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Engagements conducted on an individual fund basis.

### Vancity Investment Management Global Equity Pooled Fund

26% Engaged

74% Not engaged

### Vancity Investment Management Global Small Cap Pooled Fund

10% Engaged

90% Not engaged

### Vancity Investment Management Monthly Income Pooled Fund

20% Engaged

80% Not engaged

### Vancity Investment Management Canadian Equity Pooled Fund

31% Engaged

69% Not engaged

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## Percentage of engagements by sector on an individual fund basis.

### Vancity Investment Management Global Equity Pooled Fund

| Sector | Percentage distribution of engagements by sector |
| --- | --- |
| Communication services | 4.3% |
| Consumer discretionary | 34.8% |
| Consumer staples | 8.7% |
| Energy | 0.0% |
| Financials | 0.0% |
| Health care | 26.1% |
| Industrials | 4.3% |
| Information technology | 21.7% |
| Materials | 0.0% |
| Real estate | 0.0% |
| Utilities | 0.0% |

### Vancity Investment Management Canadian Equity Pooled Fund

| Sector | Percentage distribution of engagements by sector |
| --- | --- |
| Communication services | 0.0% |
| Consumer discretionary | 14.3% |
| Consumer staples | 0.0% |
| Energy | 0.0% |
| Financials | 28.6% |
| Health care | 4.8% |
| Industrials | 38.1% |
| Information technology | 0.0% |
| Materials | 14.3% |
| Real estate | 0.0% |
| Utilities | 0.0% |

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## Vancity Investment Management Monthly Income Pooled Fund

| Sector | Percentage distribution of engagements by sector |
|---|---|
| Communication services | 0.0% |
| Consumer discretionary | 5.6% |
| Consumer staples | 0.0% |
| Energy | 0.0% |
| Financials | 38.9% |
| Health care | 11.1% |
| Industrials | 16.7% |
| Information technology | 11.1% |
| Materials | 11.1% |
| Real estate | 5.6% |
| Utilities | 0.0% |

## Vancity Investment Management Global Small Cap Pooled Fund

| Sector | Percentage distribution of engagements by sector |
|---|---|
| Communication services | 0.0% |
| Consumer discretionary | 60.0% |
| Consumer staples | 20.0% |
| Energy | 0.0% |
| Financials | 0.0% |
| Health care | 0.0% |
| Industrials | 20.0% |
| Information technology | 0.0% |
| Materials | 0.0% |
| Real estate | 0.0% |
| Utilities | 0.0% |

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## Proxy voting.

We have adopted the Shareholder Association for Research and Education's (SHARE) model proxy voting guidelines. We participated on the SHARE's Proxy Voting Guidelines Advisory Committee, playing an integral role in the development of these guidelines to ensure they reflect best practices and are aligned with our responsible investing philosophy.

Groupe Investissement Responsible (GIR) executes our proxy voting based on SHARE's guidelines. GIR partnered with SHARE in 2020 to establish a single entity to execute proxy votes and since this time, we've abided by SHARE's model proxy voting guidelines and used GIR to execute votes.

### Key components of SHARE's guidelines include:

Recognition of systemic risks: we go beyond assessing how each vote affects issuers individually by looking at the impact of economy-wide systemic issues that may affect our portfolio and future investment returns. These include issues such as climate change, inequality, and human rights violations.

Recognition that companies don't operate in a vacuum and they affect and are affected by the people, social structures, and environment around them.

The proxy voting guidelines and principles are inspired by the following international standards:

- The Universal Declaration of Human Rights
- The ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy
- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises
- The UN Declaration on the Rights of Indigenous Peoples
- The UN Global Compact
- The UN Guiding Principles on Business and Human Rights

Proxy voting is a critical avenue for engagement and an opportunity for shareholders to elevate the importance of ESG issues to management. As can be seen in the table below, we've regularly supported proposals raised by other shareholders on environmental, social, and governance issues and often vote against executive compensation packages.

| | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|
| | Q3 | Q4 | Total | Q1 | Q2 | Total |
| Number of company AGMs | 7 | 9 | 16 | 24 | 130 | 154 |
| Number of engagement meetings with companies | 2 | 8 | 10 | 10 | 7 | 17 |
| Say on pay - Total proposals | 2 | 5 | 7 | 7 | 90 | 97 |
| Say on pay - Proposals we voted against | 2 | 5 | 7 | 6 | 86 | 92 |
| Say on pay - % Against total | 100% | 100% | 100% | 86% | 96% | 95% |
| Shareholder proposals - Total | 2 | 11 | 13 | 12 | 90 | 102 |
| Shareholder proposals - Against management recommendation | 2 | 8 | 10 | 5 | 65 | 70 |
| Shareholder proposals - % supported against management recommendation | 100% | 73% | 77% | 42% | 72% | 69% |
| Director election - Total | 21 | 50 | 71 | 86 | 1134 | 1220 |
| Director election - Voted against | 15 | 35 | 50 | 63 | 635 | 698 |
| Director election - % of total we opposed | 71% | 70% | 70% | 73% | 56% | 57% |
| Shareholder proposals - Environmental | 0 | 1 | 1 | 1 | 18 | 19 |
| % Voted for/abstain against Board recommendation | 0% | 100% | 50% | 0% | 72% | 68% |
| Shareholder proposals - Social | 0 | 1 | 1 | 4 | 25 | 29 |
| % Voted for/abstain against Board recommendation | 0% | 100% | 50% | 25% | 64% | 58% |
| Shareholder proposals - Governance | 2 | 9 | 11 | 7 | 47 | 54 |
| % Voted for/abstain against Board recommendation | 100% | 67% | 73% | 57% | 77% | 74% |

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# Persuading Starbucks® to report on coffee bean sustainability.

We advocated for improvements in the supply chain sustainability practices of the world's largest coffeehouse chain, Starbucks. The Arabica coffee bean, a vital component of the coffee giant's operations, is considered at severe risk of biodiversity loss and is a climate sensitive species.

Given Starbucks' dependency on this wild coffee species, we filed a shareholder proposal asking Starbucks to conduct an analysis on their exposure and potential contribution to biodiversity loss related to their coffee supply chains. We also requested that they publicly disclose the results of this assessment.

As a result, Starbucks made the commitment to publicly report on its Arabica coffee bean supply chain in accordance with the Taskforce on Nature-related Financial Disclosures (TNFD) framework. In response, we voluntarily withdrew the proposal.

> "This is a significant win and underscores the power of shareholder engagement in driving corporate environmental responsibility. Our engagement work is rooted in the conviction that shareholders have the power to actively press companies to become more sustainable."
>
> **Kelly Hirsch, Head of ESG, Vancity Investment Management**

# Canadian banks play huge role in transition to net zero.

Canada's top five banks—Royal Bank of Canada (RBC), Toronto-Dominion Bank (TD), Scotiabank (BNS), Bank of Montreal (BMO), and Canadian Imperial Bank of Commerce (CIBC)—are all signatories of the Net Zero Banking Alliance (NZBA). The banks have agreed to align their operational and attributable greenhouse gas (GHG) emissions from lending and investment portfolios with pathways to net zero by 2050 or earlier.

While these banks face risks from climate change, there are also immense opportunities for them to inject capital into diverse green technologies in the shift to net-zero. We monitor and engage with all banks in our portfolio to ensure they remain accountable and deliver on climate commitments. In 2024, we submitted climate-related shareholder proposals to RBC, TD and Scotiabank.

As a result of our engagement, proposals were withdrawn from Scotiabank and RBC. In its 2023 Climate Report, Scotiabank developed a Net-Zero Preparedness Score to assess a client's transition readiness, and committed to providing additional reporting on specific metrics in October 2024. RBC reported insights from their assessment of energy-sector clients in its 2023 Climate Report and agreed to continue reporting on these clients' progress over time. We had productive discussions with TD; however, a withdrawal agreement didn't come to fruition and the proposal went to a vote at TD's AGM and received significant support with almost one-third of shareholders going against management's recommendation and supporting the proposal.

## We monitor and engage with all banks in our portfolio to ensure they deliver on climate commitments.

# Working to improve rail safety by proposing paid sick leave for US rail workers.

Paid sick leave (PSL) is a fundamental workplace benefit that provides paid time off for employees when ill or injured. PSL helps ensure workers, particularly those in safety-critical roles such as rail workers, are physically and mentally fit for duty, thereby reducing the risk of accidents, injuries, and errors.

While the Canadian federal government has mandated 10 days of PSL for all federally regulated private sector workplaces—including rail workers—the same doesn't apply in the US.

This year we filed shareholder proposals asking CN Rail and Canadian Pacific Kansas City (CPKC, formerly CP Rail) to negotiate paid sick leave policies with all unions representing their American workforce. We presented proposals at the companies' AGMs in April 2024 and received 11.6 per cent support on average, a strong result for a proposal in its first year.

Since our proposal, CN Rail and CPKC have come to additional PSL agreements with select unions representing part of their workforce. However, we plan to continue engaging with them to work towards PSL for their entire workforce to demonstrate their commitment to the wellbeing of all employees and the communities they operate in.

## Since our proposal, CN Rail and CPKC have come to additional paid sick leave agreements with select unions.

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# Committing to paying living wages makes good business sense.

As a subsidiary of Vancity, we're one of Canada's leading private-sector living wage employers and leverage our position as investors to advocate for workers' rights. We engage with companies to strive for best practices in human capital management, including ensuring employees earn a living wage—the hourly amount a family of four needs to cover basic expenses and save a small amount for illness or emergencies.

Employers that pay a living wage have found that it's not only ethically right but also makes good business sense. This includes reduced staff turnover, increased morale, making it easier to recruit staff. Living wages can reduce working poverty, which in turn helps to tackle systemic inequality.

In April 2024, we engaged with US value retailer Five Below to discuss the benefits of paying living wages to their full and part-time staff, encouraging them to commit to working toward this goal. Five Below was very receptive to the engagement and interested in how a living wage could benefit the organization. As a result, they committed to taking the information we provided to their ESG committee and board. Following this review, Five Below has committed to continuing the dialogue. We look forward to working with their senior leadership next year on how they can improve their wage practices to benefit their workers, and ultimately the company.

We're one of Canada's leading private-sector living wage employers advocating for workers' rights.

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# Staying ahead of emerging AI technologies.

Interest in artificial intelligence (AI) has exploded in recent years. And it's become an exciting growth story for the market. AI can help improve the accuracy of medical diagnoses and agriculture efficiency, broaden financial inclusion, and bolster accessibility for people with disabilities. It's even been used to help detect wildfires.

However, AI can present potential risks, including bias and discrimination, invasion of privacy, identity theft, and child predation. We're glad to see that Microsoft (a holding in the Vancity Investment Management Global Equity Fund), along with other companies, has publicly committed to Safety by Design principles to combat the creation and spread of AI-generated child sexual abuse materials.

As socially responsible investors, we must be able to mitigate emerging risks and ensure the companies we invest in develop or demonstrate robust AI governance. This year we signed the World Benchmarking Alliance's (WBA) Investment Statement on Ethical AI that urges companies to implement, demonstrate, and publicly disclose:

1. a set of ethical principles
2. strong AI governance and oversight
3. how these principles are implemented via specific tools and programs
4. impact assessment processes applied to AI.

We've reached out to Microsoft, as part of WBA's coalition, to have an in-depth discussion on these issues and how Microsoft is implementing the principles in it's development of AI technologies.

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# Pushing to disclose the CEO to worker pay gap.

Wage inequality in Canada has been increasing for the last 20 years. And the gap is continuously widening between the average worker and the wealthy, particularly when compared to CEOs, the highest paid of whom make up to 246 times more than average workers.

Research shows that high wage gaps can lead to lower productivity, reduced GDP growth, and longer and more severe recessions. But the good news is that shareholders in a company have the power to advocate for change. Through our shareholder engagement, we advocate for long-term value and encourage companies to adopt best practices that address environmental, social, and governance risks.

For the last few years, we've filed shareholder resolutions with several of Canada's largest banks asking them to publish their CEO to median worker pay ratios. Scotiabank acknowledged the value of the CEO to median worker pay ratio disclosure and began publicly reporting the information in 2023. And while we've had constructive conversations with Canada's other large banks, they've not yet been receptive to our proposal.

Awareness of CEO salaries compared to workers' median salary enables investors and employees to track trends over time, ensuring the wage gap doesn't continue to widen. The CEO to median worker pay ratio is an important metric to disclose, not only benefitting large financial institutions but also setting an example for other Canadian companies to follow.

**We've filed shareholder resolutions with several of Canada's largest banks asking them to publish their CEO to worker pay ratios.**

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# Introduction to Environmental, Social and Governance Team.

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