



HEXAVEST



Annual Report on the Integration of Environmental, Social and
Corporate Governance (ESG) Issues

2019

As a portfolio manager, Hexavest has a duty to act in the best long-term interests of its clients and their beneficiaries. In this fiduciary role and as a signatory to the United Nations Principles for Responsible Investment (PRI), Hexavest commits to report on its activities and progress toward integration of the PRI. The objective of this Annual Report is to provide an overview of the efforts and progress we have made in integrating ESG issues into our investment practices.

Approach

Hexavest's approach to responsible investment is based on the belief that companies lacking strong governance standards or social and environmental responsibility take business risks that may adversely affect them as well as their stock's performance. Our investment philosophy is strongly geared to preservation of capital; thus, consideration of environmental, social and governance (ESG) factors is consistent with our processes and is a natural fit with our portfolio management activities. We also think ESG factors can represent investment opportunities on the medium- and long-term horizons.

Our approach to responsible investment is based on the following principles, which we adhere to:

1. Consideration of ESG factors in investment strategies is in line with asset managers' fiduciary obligation.
2. Responsible investment practices help preserve and promote clients' long-term interests by contributing to sound management of risks and investment opportunities.
3. Shareholder engagement — through active exercise of voting rights, dialogue with issuing companies and dialogue with regulatory bodies — is the preferred practice for improving the quality of companies' governance along with their environmental and social practices. It leads to better risk management by such companies.
4. Proper disclosure of ESG factors by publicly traded companies is important, for it enables investors to compare and evaluate the companies' practices thoroughly in connection with investment decision-making processes.
5. Responsible investment and shareholder engagement practices promote sustainable and prosperous economic and social development, benefitting all stakeholders.

Hexavest's ESG approach therefore aims to reduce risk and to create long-term value. It is based on the following three main pillars:



**We integrate ESG factors
into our investment
processes**



**We develop and maintain our
own ESG methodology**



**We are active
shareholders**

Resources

Because responsible investment practices involve a large number of activities and evolve very quickly, they require several resources and expertise to ensure proper implementation. Hexavest has given the members of its investment team and its qualitative research team responsibility for incorporating ESG factors into its portfolio construction process. They benefit from the support of a dedicated ESG research team. To complement our in-house expertise, we retain specialized resources, essentially to carry out shareholder engagement activities and to obtain ESG research and data. Lastly, an in-house resource is dedicated to responsible investment and coordination of internal and external efforts.

Internal Responsibilities

Board of Directors

The members of Hexavest's Board of Directors are responsible for approving the Responsible Investment Policy.

Investment Team

The integration of ESG factors into the portfolio construction process is overseen by the firm's Investment Committee and supervised by the Chief Investment Officer. Analysts and portfolio managers are required to consider ESG risks and opportunities in their fundamental and quantitative research.

ESG Research Team

This team, headed by the firm's Executive Vice President, has three main responsibilities:

- 1) Coordinating the integration of ESG factors into all the firm's activities (implementation of the Responsible Investment Policy, reporting and liaison with external ESG resources).
- 2) Analysing ESG data, integrating and maintaining the data in the quantitative tools and developing Hexavest's proprietary ESG methodology.
- 3) Supporting the portfolio managers in integrating ESG factors.

Risk Committee

As part of its market risk monitoring, the Risk Committee is responsible for monitoring ESG risks and discussing the results of its analysis with the investment team.

Middle Office and Compliance

The members of these teams are responsible for integrating the specific ESG constraints of the relevant accounts into the firm's systems to ensure that the portfolios comply with the restrictions set out in the investment policies. Middle Office analysts are also responsible for adapting portfolios with significant restrictions so as to respect the active strategy favoured by the investment team.

Client Servicing

The firm's representatives are responsible for understanding ESG issues and communicating client needs and expectations to the internal and external resources involved. They are also responsible for disclosing the Responsible Investment Policy and the firm's ESG efforts to clients and consultants.

External Resources

Hexavest used various external providers in 2019 as part of its responsible investment and ESG integration practices.

- Sustainalytics: ESG research, risk ratings and data for companies
- AEquo: Shareholder engagement
- MSCI: Carbon footprint data for companies
- Refinitiv: ESG data for companies
- Groupe investissement responsable (GIR): Proxy voting agent
- Independent brokers and research firms: ESG research

Shareholder Engagement

Proxy Voting

Hexavest has incorporated ESG issues into the guidelines in its Proxy Voting Policy. We require that companies submit to the regulations in force in the countries and jurisdictions where they do business, that their conduct be socially responsible and that they submit to high standards of governance and ethics. By actively exercising our voting rights, we hope to improve the quality of the governance, environmental and social practices of the companies in which we invest and thereby contribute to better management of risks for specific securities.

Our Proxy Voting Policy is based on the United Nations Principles for Responsible Investment and applies to all portfolios managed by our firm, except for the portfolios of clients who have decided to exercise their own voting rights. [Hexavest's Proxy Voting Policy](#) is public and therefore available on the firm's website.

In 2019, Hexavest exercised its voting rights at the meetings of 600 companies and voted on 8,157 resolutions.

In 47% of cases, we voted against the board's recommendations and we rejected most of the advisory resolutions on compensation (249 out of 400).

**2019 STATISTICS
NUMBER OF VOTES "FOR" AND "AGAINST"**

HEXAVEST VOTE	BOARD RECOMMENDATION	
	AGAINST	FOR
Abstention	0	450
Against	78	3,083
For	154	4,282

Note: The data exclude those resolutions for which the board of directors did not issue a recommendation.

In most cases, the inclusion of option grant plans in the executive compensation program was the reason for our negative vote, for we believe that this type of plan is not aligned with shareholder interests.

Lastly, Hexavest supported 151 shareholder proposals out of 244 during the year.

Please note that a detailed report of our votes is available on request.

Engagement with Companies

We engage in shareholder dialogue in an individual and collaborative manner. We maintain a constructive dialogue with companies located mainly in North America. The companies are selected as a function of the weakness of their ESG practices or their leadership positions in their industries. The dialogue themes for each company are identified as a function of the most material ESG risks and opportunities, depending on the sector of activity and geographic location. We define objectives for each dialogue and we track the progress achieved.

To carry out our engagement activities, we rely on the expertise of AEquo, a service provider specializing in this area. The AEquo experts carry out engagement activities on behalf of Hexavest according to an action plan predetermined each year and also on an ad hoc basis. Each quarter, AEquo reports on the various dialogues in a report submitted to our team of managers and analysts.

Our 2019 engagement plan focused on companies with which we wanted to continue a dialogue begun in 2018 and other companies whose ESG issues corresponded to the expertise developed by AEQUO. We engaged in dialogue with 40 companies in 2019, as summarized in the table below. The details of the dialogues with these companies are available on request.

Canadian Companies

INDUSTRY	COMPANY	ESG ISSUES		
		ENVIRONMENT	SOCIAL	GOVERNANCE
Consumer Staples	Alimentation Couche-Tard	✓	✓	
	Empire	✓	✓	✓
Consumer Discretionary	Richelieu Hardware	✓	✓	
Energy	Canadian Natural Resources	✓	✓	
	Husky Energy	✓	✓	
	Parkland Fuel	✓	✓	
	Suncor Energy	✓	✓	
Financials	CIBC	✓	✓	
	Bank of Montreal	✓	✓	
	Royal Bank	✓	✓	
	Scotiabank	✓	✓	
	TD Bank	✓	✓	✓
Materials	Agnico Eagle	✓	✓	✓
	Barrick Gold	✓	✓	
	First Quantum	✓	✓	
	Iamgold	✓	✓	
	Methanex	✓		
	Nutrien	✓		
Utilities	Algonquin Power & Utilities	✓		
	Atco	✓		
	Fortis	✓		
Information Technology	Open Text	✓	✓	✓

Non-Canadian Companies

INDUSTRY	COMPANY	ESG ISSUES		
		ENVIRONMENT	SOCIAL	GOVERNANCE
Consumer Discretionary	Dollar General	✓	✓	✓
	TJX Companies	✓	✓	✓
Consumer Staples	Estée Lauder	✓	✓	✓
	Kroger	✓	✓	✓
Energy	Valero	✓	✓	
Financials	BB&T	✓	✓	✓
Utilities	American Electric Power	✓		✓
	Consolidated Edison	✓		
	DTE Energy	✓		
	Duke Energy	✓		
	Entergy	✓		
	Public Service Enterprise Group	✓		
Health Care	Biogen		✓	✓
	CVS Health	✓	✓	✓
	McKesson		✓	✓
	Pfizer		✓	✓
	Walgreens Boots Alliance	✓	✓	✓
	Cardinal Health	✓	✓	✓

Collaborative Initiatives

Hexavest works with multipartite organizations to make businesses and investors more aware of responsible investment practices, consideration of ESG factors and disclosure of how they are managed. By working with other key players in the financial markets, we combine our efforts with theirs to maximize our collective influence on companies. The table below shows the 19 initiatives in which Hexavest participated in 2019.

Initiative	Summary
1. Investor Statement in support of the continued functioning of the Bangladesh Accord	<p>Hexavest signed a statement asking for the continued functioning of the Bangladesh Accord. Investors appealed to Bangladeshi Prime Minister to demonstrate his support to allow Accord to complete its mandate until government is fully prepared to assume responsibility for the safety of garment factory workers.</p> <p><u>Outcome:</u> The Bangladesh Accord will be extended in the form of the RMG Sustainability Council (RSC), a body whose governance is ensured by brands, manufacturers and unions. It should retain the same attributes as the original Accord.</p>
2. Statement of Investor Support for the Green New Deal	<p>Hexavest signed a statement encouraging global retailers of household goods and clothing to take measures to reduce the risk of forced labour in Turkmenistan's cotton fields.</p> <p><u>Outcome:</u> As of March 2020, the number of corporate signatories to pledge was 89.</p>
3. Statement of Investor Support for the Green New Deal	<p>Hexavest signed a statement encouraging members of the U.S. Senate and House of Representatives to support the Green New Deal. The letter expressed investor concerns about the measures that should be taken by the U.S. government to accelerate the transition to a low-carbon economy.</p>
4. PRI Supported Engagement on Responsible Sourcing of Cobalt	<p>Hexavest signed a statement encouraging companies to implement the OECD Due Diligence Guidance and to manage cobalt supply chains and the related human rights risks and opportunities in alignment with relevant international standards.</p>
5. BP Shareholder Proposal on Climate Change Risk	<p>Hexavest jointly put forward a motion to adopt a shareholder proposal calling on BP's board of directors to provide a description of how capital investments align with the Paris objectives.</p> <p><u>Outcome:</u> This proposal, supported by BP's board of directors, was approved by more than 99 per cent of shareholders.</p>
6. Comments on Statement Announcing SEC Staff Roundtable on the Proxy Process	<p>Hexavest signed a comment letter to the SEC encouraging the Commission to resist pressure to modify the current ownership requirements, resubmission thresholds and regulations for proxy advisory firms.</p>
7. Christchurch Call	<p>Hexavest supported the Christchurch Call, which set out voluntary commitments for governments, companies and wider society to work together to eliminate terrorist and violent extremist content online.</p> <p><u>Outcome:</u> Significant progress has been made in implementing the Christchurch Call to Action, including an independent body that will drive the tech sector's work on implementing the Call, a new crisis</p>

	response protocol and the establishment of a Christchurch Call Advisory Network.
8. Letter from global investors to governments of the G20 nations	Hexavest signed a statement that was sent to the G20 leaders before their summit on June 28-29, 2019. The statement called on them to achieve the objectives of the Paris Agreement, to accelerate private-sector investment in the low-carbon transition and to commit to improving climate-related financial reporting. <u>Outcome:</u> At COP25 in Madrid in December 2019, a record 631 investors managing more than US\$37 trillion signed the Global Investor Statement to Governments.
9. Investor Statement Regarding the Need for Corporate Workplace Equity Transparency	Hexavest signed this statement asking more than 3,000 companies to provide more relevant data on their management of gender and workplace equity.
10. BBFAW Global Investor Statement on Farm Animal Welfare	Hexavest joined the BBFAW initiative. The signatories to this statement identify farm animal welfare as being potentially material to responsible management of the food supply chain and consider BBFAW a unique tool that can be used to assess the quality of companies' policies, practices and disclosure in this regard. <u>Outcome:</u> The BBFAW 2019 Report highlights that food companies are starting to address systemic challenges to ensure a higher welfare standard.
11. Access to Medicine Index Investor Statement	The signatories to this statement think that access to medicines is potentially important for creating long-term shareholder value, and that the Access to Medicine Index makes it possible to evaluate companies' risk management and business practices.
12. Investors for Opioid Accountability (IOA)	Hexavest officially joined the Investors for Opioid Accountability. This engagement focuses on management practices related to the opioid crisis with pharmaceutical companies and retailers. <u>Outcome:</u> From July 2017 to July 2019, IOA achieved a 52% success rate on negotiated settlements.
13. Investor Submission to the Equator Principles Association	Hexavest signed a letter commenting on the latest draft of the Equator Principles, which provide a framework, adopted by the signatory financial institutions, for determining, assessing and managing environmental and social risk. The letter sets out key recommendations for revising the current draft to ensure better alignment with the UN Guiding Principles. <u>Outcome:</u> The new version of the Principles includes several improvements, namely in terms of evaluation of projects in designated countries.
14. Investor Statement on Deforestation and Forest Fires in the Amazon	Hexavest signed an investor statement highlighting concerns regarding forest fires and deforestation in the Amazon. The statement called on companies to redouble their efforts to eliminate deforestation within their operations and supply chains.
15. Protect Public Lands Investor Letter	Hexavest signed a letter regarding the Trump administration's rollback of protection for U.S. public land and water. It invited mining companies and banks not to conduct or to finance new or expanded operations on formerly protected public land.

<p>16. Letter to include ghost gear in the Marine Stewardship Council's Sustainable Fisheries Standards</p>	<p>Hexavest signed a letter asking the Marine Stewardship Council (MSC) to explicitly reference ghost gear in its fisheries certification standards.</p>
<p>17. Amendment Bill to the Foreign Exchange and Foreign Trade Act - Japan</p>	<p>Hexavest sent a letter to the Japanese Ministry of Finance to express concerns about the direction and substance of recently proposed amendments to the Foreign Exchange and Foreign Trade Act (FEFTA). The announced changes would limit the ability of foreign investors to invest in Japanese companies as well as their ability to promote good governance practices.</p> <p><u>Outcome:</u> Some improvements have been made in a summary of proposed changes to the FEFTA released by the Japanese government. They relate to exemptions for certain types of investor.</p>
<p>18. Global Investor Statement to Governments on Climate Change issued at the United Nations Climate Conference (COP25)</p>	<p>Hexavest signed a statement sent to governments during COP25 in Madrid. The statement called on governments to 1) achieve the goals of the Paris Agreement; 2) accelerate private sector investments in the low-carbon transition; and 3) commit to improving climate-related financial reporting.</p>
<p>19. Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies</p>	<p>Hexavest signed a statement outlining investors' expectations for airlines and aerospace companies regarding the management of climate risks and the transition to a low-carbon economy.</p>

Incorporation of ESG Factors into Our Portfolio Construction Processes

Strategy for Incorporating ESG factors

We think companies that lack strong governance standards or social and environmental responsibility take business risks that can adversely affect the companies themselves and their stock performance. Our investment team is mindful of the risks associated with ESG issues, which are therefore considered from a risk-assessment standpoint. We also believe that certain investment opportunities may arise from ESG factors. This strategy applies to the entire firm, and its underlying convictions are shared by all our investment professionals.

We apply sustainable investment practices to all our assets because they promote financial stability and create long-term value. Our ESG philosophy plays a role in the decision-making processes of all our strategies, but the approach we use varies from one portfolio to another. When it comes to ESG issues, investors have differing expectations, which we think can be reconciled with our convictions. To that end, we offer a range of approaches that take advantage of our investment style while integrating ESG criteria to varying degrees.

Integration Approach – Traditional Strategies

Hexavest favours an active, top-down investment approach to build a highly diversified equity portfolio while minimizing stock-specific risks. Our global portfolios therefore hold more than 300 stocks. Our efforts are focused on top-down decisions, such as selection of regions, countries, currencies, sectors and industries. Stock selection represents a smaller proportion of our decision-making process. We actively manage several decision-making levels, using mainly fundamental analysis and an investment horizon ranging from 12 to 18 months. Our fundamental analysis is based on three vectors: the macroeconomic environment, market valuation and investor sentiment.

Integration of ESG Factors into the Selection of Countries, Sectors and Industries

Material ESG factors are considered under the first vector, namely the macroeconomic environment. For example, if a sector is likely to be adversely affected by new privacy protection regulation or if a country benefits from improved corporate governance standards, the portfolio managers will take these factors into account in their research and analysis, which may have a positive or negative impact on their decision. All research reports written by our managers and analysts include an analysis of ESG issues.

Integration into Stock Selection

The managers use quantitative tools to support the portfolio construction process, including a stock selection model. The model ranks companies according to the main families of variables. The ESG risk rating represents one of these families of variables. Thus, companies' ESG risk systematically affects their rank among their peers and can ultimately influence their presence in the portfolio.

This ESG integration approach is complemented by our strategy of shareholder engagement with portfolio companies that present issues covered by our dialogue plan. Another section of this report discusses our engagement practices.

Combined Approach – ESG Strategies

To meet the needs of investors who want a more stringent sustainable investment strategy, we have developed a proprietary methodology based on an ESG approach that involves applying negative and positive (best-in-class) filters. This sophisticated approach allows us to build ESG universes that can be adjusted to varying degrees of ESG criteria stringency.

Our methodology for creating ESG universes is based on the following process:

- 1) Exclusion of tobacco, controversial weapons and the most polluting companies (10%) from the investment universe (MSCI World);
- 2) Withdrawal of companies whose practices are harmful according to our ESG criteria;
- 3) Assignment to the remaining companies of positive points to determine best-in-class ESG leaders according to our criteria;
- 4) Inclusion of companies with enough positive points in the investment universe.

With our sophisticated optimization tools, we can offer an ESG strategy that aims to replicate the risk-return profile of our traditional strategies by investing only in companies that meet our ESG criteria.

Customized ESG Approach

The proprietary methodology that Hexavest uses to create its ESG universe means that portfolios can be customized to meet specific investor criteria. Moreover, our optimization tools allow us to replicate, in personalized investment universes, top-down decisions based on fundamental analysis by our managers. This approach is used for the separately managed portfolios of those Hexavest clients who decide to exclude controversial sectors from their investment policies, such as tobacco, gambling and weapons.

Hexavest's Climate Vector Strategy is another example of a customized ESG approach. This strategy is intended for investors who want to reduce their exposure to climate-change risks through an exclusionary approach. The portfolio is invested in the MSCI All Country Index, but excludes companies with proven or probable reserves of oil, gas or coal, as well as companies that use coal as an energy source. This strategy also leverages our optimization capabilities. Thus investors who opt for a divestment approach can aim for the same value-added profile as our traditional equity portfolios, without exposure to fossil fuels.

Lastly, the Hexavest Global Environment Multifactor Strategy is intended for investors looking for a global portfolio of the companies that are best at managing environmental issues. This strategy leverages our best-in-class ESG methodology and our quantitative investment models.

ESG Risk Monitoring

Every month, a risk report is presented to the Investment Committee at a formal meeting. The report includes ESG risk metrics for the different strategies as well as their carbon footprint in terms of emissions and intensity. The team members then discuss the elements of greatest concern. These discussions may lead to analysis and occasionally to adjustments in portfolio positioning.

Progress of our ESG Approach

As a UN PRI signatory, Hexavest is committed to incorporating ESG issues into its analysis and decision making. Through our Responsible Investment Policy, we are also committed to continuing to develop our ESG approach.

As the timeline below shows, our first responsible investment initiative goes back to 2011, when we adopted a Proxy Voting Policy that emphasizes ESG issues. Since then, our progress has been constant, and we have completed a number of other initiatives, such that today responsible investment is an integral part of Hexavest’s culture and product offering.



Our latest PRI Assessment Report, based on the 2019 annual reporting framework, confirms our position relative to our peers.

Hexavest PRI Scorecard for 2019 versus Other Asset Managers

	Hexavest Score	Median Score
MODULE 01. STRATEGY & GOVERNANCE	A+	A
MODULE 10. LISTED EQUITIES - INCORPORATION	A+	B
MODULE 11. LISTED EQUITIES – ACTIVE OWNERSHIP	A	B

Achievements in 2019

Hexavest had an especially constructive year in terms of achievements related to integration of ESG data. These advances enabled us to deepen our knowledge of the various data available on the market and to understand the strengths and weaknesses of what is available. Our search for new data confirmed the need to develop a proprietary methodology so that we can optimize our efforts to integrate ESG into our management style, in a coherent manner and in accordance with our convictions. Here are our main achievements in 2019:

- **Incorporation of carbon-footprint data into our systems**
Carbon-footprint metrics were integrated into our database and systems. Moreover, our Risk Committee included such data in its monthly reports, which were presented and discussed at formal meetings with the Investment Committee.
- **Increase in the number of engagement activities**
The number of companies with which we have initiated dialogues went from 36 in 2018 to 40 in 2019. As well, the number of initiatives we took part in went from 11 in 2018 to 19 in 2019.
- **Addition of new sources of complementary ESG data into our quantitative tools and development of a proprietary methodology**
We carried out considerable research to develop an in-house methodology that enables us to construct ESG universes. This project contributed to our understanding of ESG factors and the available data. It also led to the decision to purchase data from a new supplier and to create an ESG Analyst position for the firm.

Objectives for 2020

We have set specific objectives for the next year to ensure we constantly progress with our responsible investment practices:

- **Creation of a Corporate Responsibility Committee**
The committee's mandate will be to promote corporate responsibility practices by proposing sustainability initiatives. It will also be responsible for co-ordinating such initiatives and monitoring their impacts.
- **Increase in the intensity of our engagement with companies through more dialogues and broader geographical coverage**
- **Integration of new ESG data into our portfolio management tools and processes**

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