

Vancity Investment Management

Shareholder engagement report.

2022 Q1 – 2023 Q2





Where we stand.

In recent years, geopolitical instability, combined with more frequent extreme weather events and mounting biodiversity losses have taken their toll on the economy as well as on investors facing market volatility. Most importantly, these system-level forces have been challenging for people and communities. Around us and across the world, many are struggling to keep up with higher costs of living, rising inflation, supply chain disruptions, growing inequality, and the effects of climate change.

Socially responsible investing (SRI) is as important as ever in this context. The choices businesses make have a huge influence on people's lives. At their worst, they cause and contribute to these challenges for many around us – but at their best, they contribute to the solution and help make things better. And as SRI investors, we can

use the power of shareholder engagement to nudge businesses to be part of the solution. This is the conviction animating VCIM's shareholder engagement work.

It has been a very active year at VCIM, and we played a major role in a number of important engagements. For example, we made progress towards our 2025 net-zero goal of engaging with 75% of our financed emissions in material sectors (GICS Industrials, Materials, Utilities, Energy), undertaking engagement with 21 companies in our portfolios on climate-related issues this year. Some of this work was done through Climate Engagement Canada, an engagement initiative focused on Canada's largest greenhouse gas emitters, of which VCIM is a founding participant. We also led the way on biodiversity engagement, filing the first shareholder proposal that specifically asks for biodiversity analysis and reporting in line with the newly launched Taskforce for Nature Related Financial Disclosures (TNFD).

These and other challenges we've focused our engagement on are systemic in nature. But systemic change – whether trying to improve the environment, promote the expansion of human rights, or addressing corruption and poor governance systems – is created one small success at a time. This is where VCIM's shareholder engagement philosophy of incremental progress comes in.

We believe it is important to focus on taking small manageable steps forward. You don't hike the Pacific Crest Trail in one day. But however daunting this 4,270 kilometre hike may seem at the start, if you meet realistic, incremental goals, you can complete the challenge.

This is the key to progress and change. It is unrealistic to plan to eliminate carbon emissions in one year or restore global biodiversity in a month. But can we make significant progress by 2030 if we start acting today? We certainly can.

Collaboration across the globe is critical to achieving this. Take for example the ozone-focused Montreal Protocol, which successfully tackled the seemingly impossible task of eliminating the chemicals that were creating the hole in the ozone layer. We may be at a similar turning point today with the recent adoption of notable UN resolutions on plastics and biodiversity, and human rights due diligence legislation increasingly being adopted around the globe.

That's why a major focus this past year was on making strategic contributions to collaborative engagements. This included climate engagement groups pushing for real progress from companies, advocating for improved supply chain management to address human rights concerns, and pushing for a focus on environmental justice in Canada.

In the coming year, we plan to continue to engage on these issues and expand further into nascent areas, such as asking pharmaceutical and healthcare companies to quantify the revenue potentially at risk if antibiotic resistance rates continue to increase. We will extend our focus on biodiversity to a wider portion of our portfolio, building on our success engaging on this issue this past year. We'll also consider how discrimination-related and inequality-related issues like DEIR and widening income and wealth gaps are often-overlooked sources of systemic risk to the financial system and the economy overall.

Shareholder engagement has always been a key part of VCIM's responsible investing process. It helps us contribute to a more ethical and equal world, while also protecting and growing the financial assets that you entrust us with.

It is our pleasure to share with you our annual shareholder engagement report.

Kelly Hirsch
Head of ESG
Vancity Investment Management



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Introduction to VCIM and new engagement framework.

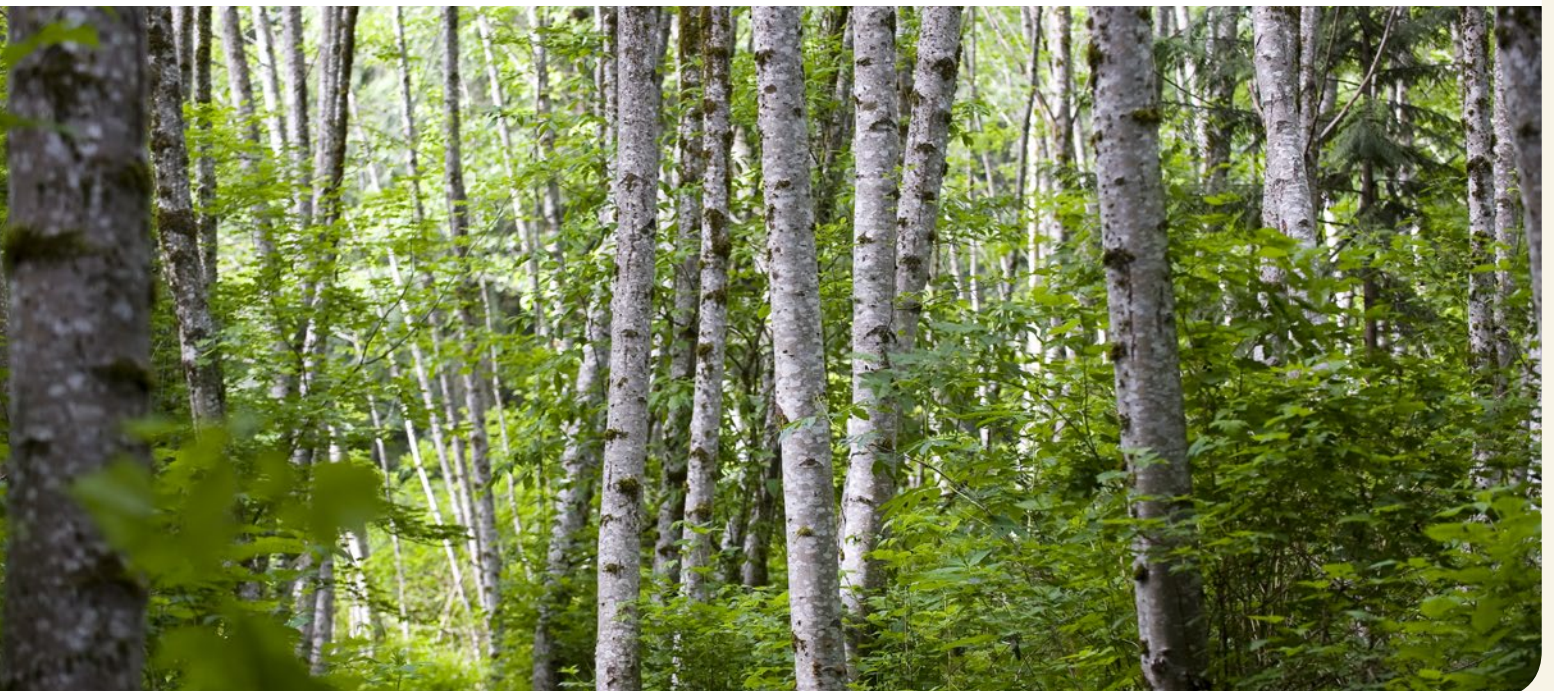
Established in 1995, Vancity Investment Management (VCIM) was one of the first wealth management firms in Canada to focus on investments that deliver competitive returns while making a positive impact on the world. Today we continue to lead the way, putting people and the creation of an inclusive society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

VCIM's new engagement framework addresses the impact areas we have identified as most important. Going forward, our engagement strategy will focus on these seven categories.

- 1. Biodiversity & nature**
- 2. Climate, energy & just transition**
- 3. Financial resilience & DEIR**
- 4. Governance & disclosure**
- 5. Healthcare**
- 6. Human capital management**
- 7. Human rights**

Most of our engagements advance multiple focus areas. We identify those areas throughout this report, with one area selected for every engagement as the primary one for tracking purposes. For example, our engagement work with Canadian banks to begin disclosing the CEO-to-median-employee-pay ratio primarily advances our Governance & Disclosure focus, but also addresses issues related to Human Capital Management and Financial Resilience & DEIR. This holistic approach to ESG issues carries through all of VCIM's engagement work.

In the report that follows, you will find graphs and summaries of our overall engagement work, along with details on our 2022/23 proxy voting, as well as summaries of each engagement category and why we believe these are vital areas for shareholders to address.





Engagement activities.

Overall VCIM engagement activities 2022 Q1 – 2023 Q2

70 total engagements

49 individual companies engaged

25 specific engagement topics

10 shareholder resolutions filed

21 investor statements of support signed

Engagement impact areas

This chart shows how specific engagements contribute to our seven primary engagement impact areas. All specific engagements have one primary impact area for tracking purposes.

Most engagements contribute to multiple areas and this is indicated by the contributes to impact area flag.

✓ Primary impact area * Contributes to impact area

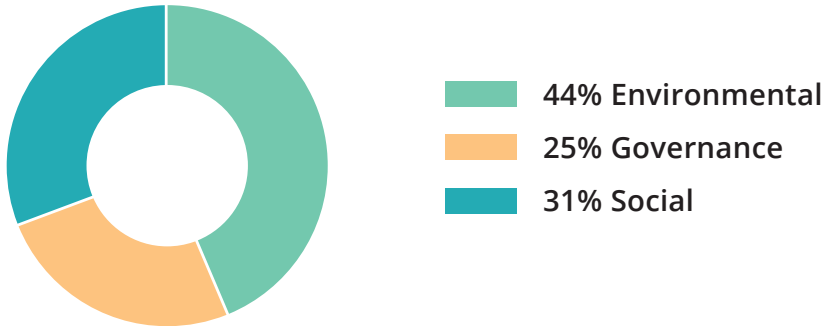
| Specific engagement | Biodiversity & nature | Climate, energy & just transition | Financial resilience & DEIR | Governance & disclosure | Healthcare | Human capital management | Human rights |
|--|-----------------------|-----------------------------------|-----------------------------|-------------------------|------------|--------------------------|--------------|
| Access to medicine | | | | | ✓ | | * |
| Anti-microbial resistance (AMR) | * | | | | ✓ | | |
| Climate action (CA100+) | | ✓ | | * | | | |
| Chemical management | ✓ | | | | * | | |
| Climate disclosure - CDP | | ✓ | | * | | | |
| Climate engagement Canada (CEC) | | ✓ | * | * | | | |
| Forced labour and supply chain due diligence | | * | | * | | | ✓ |
| Freedom of association | | | * | | | ✓ | * |
| Environmental justice | * | * | ✓ | | * | | * |
| CEO to median pay ratio | | | * | ✓ | | * | |
| Living wages | | | * | | | ✓ | * |
| Fossil fuel financing | | ✓ | | * | | | |
| General ESG disclosures | | * | * | ✓ | | * | |

✓ Primary impact area * Contributes to impact area

| Specific engagement | Biodiversity & nature | Climate, energy & just transition | Financial resilience & DEIR | Governance & disclosure | Healthcare | Human capital management | Human rights |
|---|-----------------------|-----------------------------------|-----------------------------|-------------------------|------------|--------------------------|--------------|
| Transparency reporting | | | | ✓ | | | |
| Facial recognition technology | | | * | ✓ | | | * |
| Paid sick leave | | | * | | * | ✓ | |
| Biodiversity TNFD analysis and disclosure | ✓ | * | | * | | | |
| Valuing water finance initiative (VWFI) | ✓ | * | | * | | | |
| Inclusive workplace practices | | | ✓ | * | | * | |
| Plastic pollution | | ✓ | | | | | |
| Access to communication | | | | ✓ | | | |
| Board independence | | | | ✓ | | | |
| Firearm sales | | | | ✓ | | | |
| Health and safety | | | * | | * | ✓ | |
| CDP - Water disclosure | ✓ | | | * | | | |

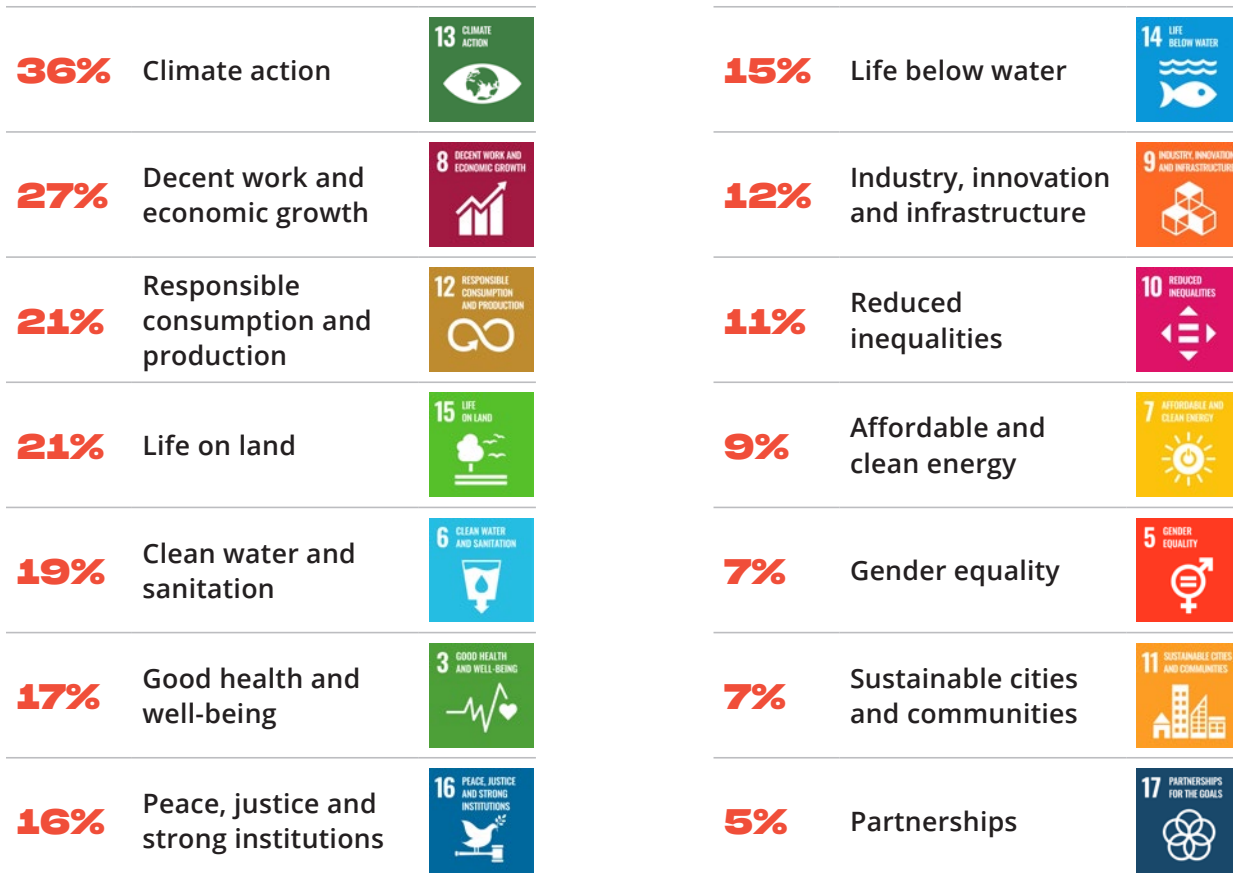
ESG categories

This diagram shows the percentage of engagements in this reporting period that are tied to each of the ESG categories, that is Environmental, Social and Governance issues.



Sustainable development goals

Over the most recent period, VCIM's 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.



Types of engagements

VCIM conducts engagements in three primary ways: internally, collaboratively with a leading role, and collaboratively with a participatory role.

- Internal: These are engagements that VCIM undertakes on our own without other investor involvement.
- Collaborative (leading role): These are engagements undertaken with other investors through collaborative investor networks where VCIM takes a leadership role in the engagement.
- Collaborative (participating role): These are engagements undertaken with other investors through collaborative investor networks where VCIM participates in the engagement.

Internal and collaborative engagements each 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.

This chart outlines how many engagements VCIM conducted internally and collaboratively, both in leading roles and participating roles.

| Type | Percentage |
|------------------------------------|------------|
| Internal | 27.5% |
| Collaborative (leading role) | 27.5% |
| Collaborative (participating role) | 45% |

Geographic distribution

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



| Country | Percentage distribution |
|----------------|-------------------------|
| Canada | 54.9% |
| United States | 33.3% |
| Switzerland | 3.9% |
| Denmark | 3.9% |
| United Kingdom | 2% |
| France | 2% |

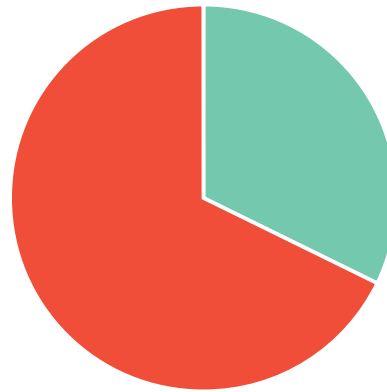
At VCIM we aim to engage with all our portfolio companies on a 3 year cycle and aim to have approximately one third of companies engaged with in any given year.

Percentage of companies engaged with on an individual fund basis.

VCIM Global Equity Pooled Fund



Percentage distribution of companies in the portfolio that you engaged with.

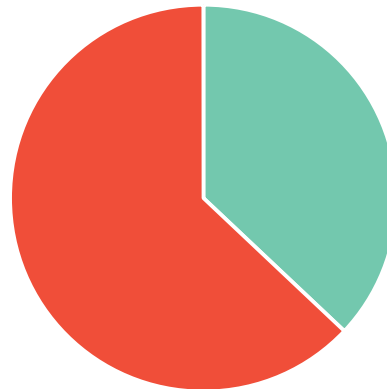
-  engaged: 32.26%,
-  not engaged: 67.74%



VCIM Canadian Equity Pooled Fund



Percentage distribution of companies in the portfolio that you engaged with.

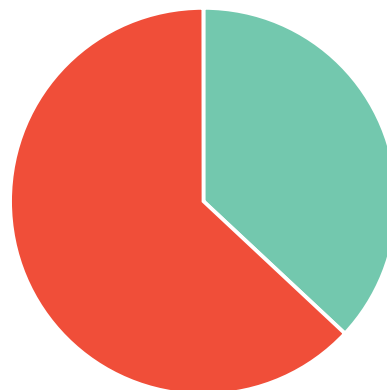
-  engaged: 37.04%
-  not engaged: 62.96%



VCIM Monthly Income Pooled Fund

Percentage distribution of companies in the portfolio that you engaged with.

-  engaged: 36.96%
-  not engaged: 63.04%



Percentage of engagements by sector on an individual fund basis.

VCIM Canadian Equity Pooled Fund

| Sector | Percentage distribution of engagements by sector |
|------------------------|--|
| Communication services | 3.7% |
| Consumer discretionary | 14.8% |
| Consumer staples | 0% |
| Energy | 0% |
| Financials | 22.2% |
| Health care | 3.7% |
| Industrials | 14.8% |
| Information technology | 7.4% |
| Materials | 29.7% |
| Real estate | 0% |
| Utilities | 3.7% |

VCIM Global Equity Pooled Fund

| Sector | Percentage distribution of engagements by sector |
|------------------------|--|
| Communication services | 3.6% |
| Consumer discretionary | 50% |
| Consumer staples | 14.3% |
| Energy | 0% |
| Financials | 3.6% |
| Health care | 14.3% |
| Industrials | 3.6% |
| Information technology | 10.6% |
| Materials | 0% |
| Real estate | 0% |
| Utilities | 0% |

**VCIM Monthly Income
Pooled Fund**

| Sector | Percentage distribution of engagements by sector |
|------------------------|---|
| Communication services | 8.3% |
| Consumer discretionary | 8.3% |
| Consumer staples | 0% |
| Energy | 0% |
| Financials | 29.3% |
| Health care | 8.3% |
| Industrials | 8.3% |
| Information technology | 4.2% |
| Materials | 12.5% |
| Real estate | 12.5% |
| Utilities | 8.3% |

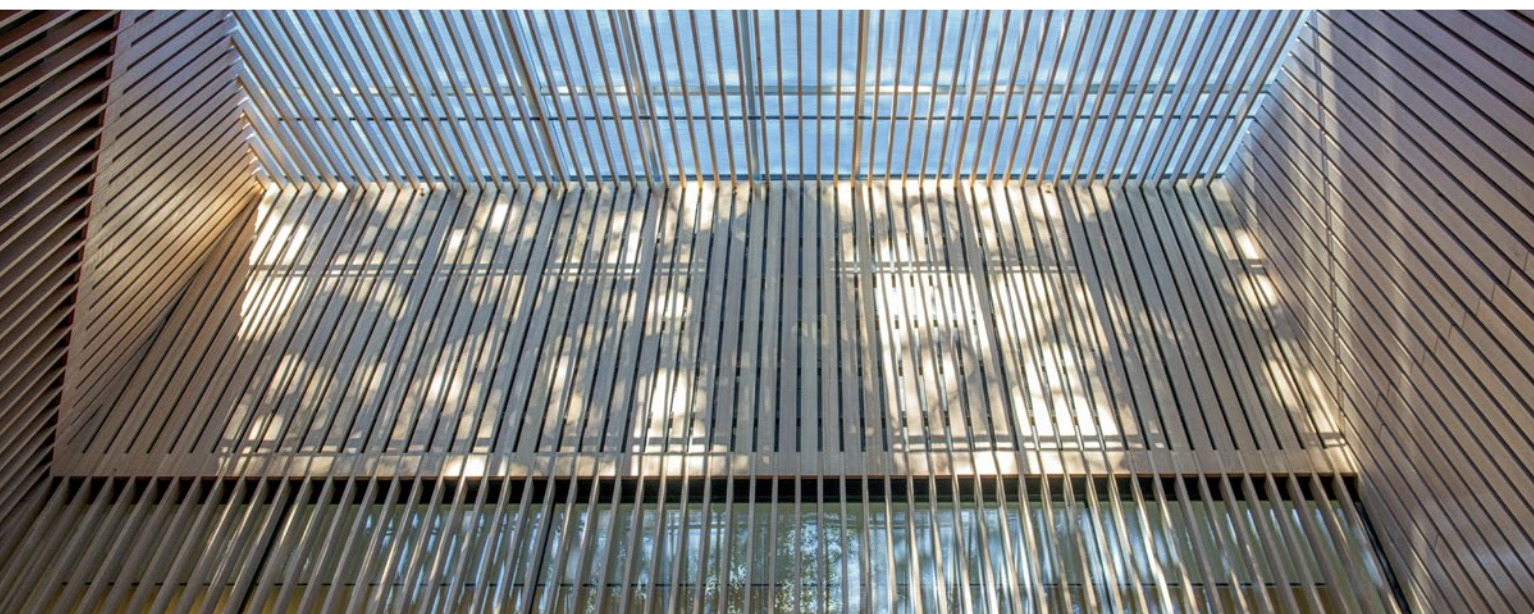
Proxy voting

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

Groupe Investissement Responsable (GIR) executes VCIM's 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, VCIM has 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 do not operate in a vacuum and that 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 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



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

| | 2022 | | | | | 2023 | | |
|---|------|------|------|------|-------|------|------|-------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Total |
| Number of company AGMs | 13 | 117 | 5 | 5 | 140 | 10 | 121 | 131 |
| Number of engagement meetings with companies | 6 | 6 | 10 | 7 | 29 | 18 | 10 | 28 |
| Say on pay - Total proposals | 13 | 111 | 2 | 4 | 130 | 10 | 139 | 149 |
| Say on pay - Proposals we voted against | 7 | 74 | 2 | 4 | 87 | 5 | 100 | 105 |
| Say on pay - % Against total | 54% | 67% | 100% | 100% | 67% | 50% | 72% | 70% |
| Shareholder proposals - Total | 15 | 84 | 1 | 7 | 107 | 17 | 105 | 122 |
| Shareholder proposals - Against management recommendation | 12 | 74 | 1 | 6 | 93 | 8 | 83 | 91 |
| Shareholder proposals - % supported against management recommendation | 80% | 88% | 100% | 86% | 87% | 47% | 79% | 75% |
| Director election - Total | 102 | 1022 | 25 | 47 | 1196 | 81 | 1107 | 1188 |
| Director election - Voted against | 25 | 579 | 18 | 30 | 652 | 49 | 654 | 703 |
| Director election - % of total we opposed | 25% | 57% | 72% | 64% | 55% | 60% | 59% | 59% |
| Shareholder proposals - Environmental | 1 | 14 | 0 | 0 | 15 | 1 | 25 | 26 |
| % Voted for/abstain against Board recommendation | 100% | 86% | 0 | 0 | 87% | 0 | 84% | 81% |
| Shareholder proposals - Social | 10 | 29 | 1 | 4 | 44 | 9 | 26 | 35 |
| % Voted for/abstain against Board recommendation | 70% | 83% | 100% | 75% | 80% | 56% | 69% | 66% |
| Shareholder proposals - Governance | 6 | 41 | 0 | 3 | 50 | 7 | 54 | 61 |
| % Voted for/abstain against Board recommendation | 83% | 93% | 0 | 100% | 92% | 43% | 83% | 79% |



Climate, energy & just transition.

With heat records being broken year after year, it is clear that addressing climate change requires us to completely overhaul how we generate energy. Energy is vital to human development. When people are energy insecure, it affects their quality of life and their ability to meet basic needs. At the same time, our current methods of energy generation are creating potentially catastrophic climactic impacts. This global issue requires an international response. Every heatwave and extreme storm foretells the future we can expect if we don't take action today to get the world on a credible pathway to net-zero by 2050.

Human ingenuity is required to provide energy for all, while at the same time drastically reducing carbon emissions worldwide. A just transition is key to achieving this because the actions necessary to meeting our collective net-zero goals require widespread acceptance, and people can't be left behind. This is why we embed a just transition lens in all our climate engagement work. The significance and challenge of this issue places Climate, Energy & Just Transition as a key engagement impact area for VCIM.

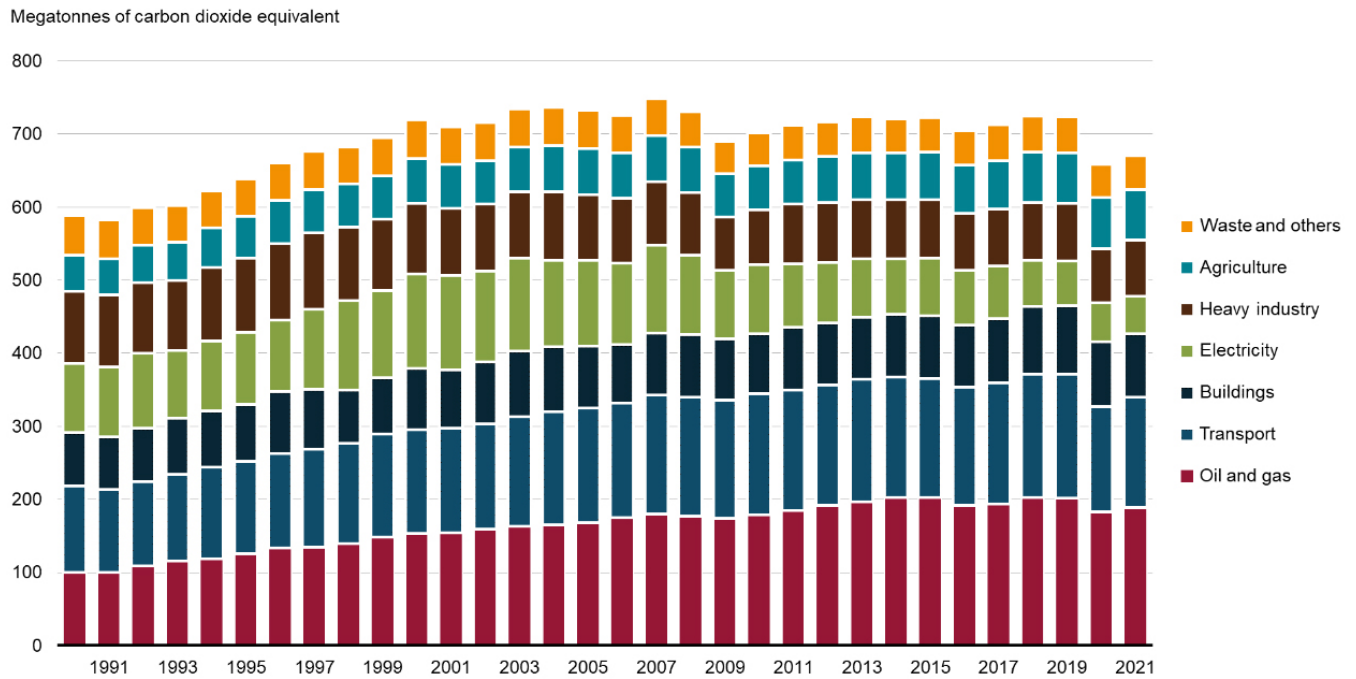
Engagement highlight

Climate Engagement Canada

VCIM is proud to be a founding partner in Climate Engagement Canada (CEC), a finance-led initiative that drives dialogue between the financial community and publicly listed Canadian companies to promote a just transition to a net-zero economy¹. CEC engages 39 TSX-listed companies and brings together 37 investor participants representing more than \$4 trillion in assets. The CEC works with finance leaders to facilitate action and partnership that brings public institutions and private industry together to achieve climate goals. We are pleased to see the progress this initiative has driven to date and we are excited to see where it goes from here.

We have found that collaborating on engagements can be more effective than tackling issues alone. As an active member in CEC, VCIM took the lead on two investor engagements this year, Canadian Pacific Kansas City (CPKC) and West Fraser, and we are also a supporting investor on the Nutrien and Waste Connections engagements. In partnership with co-investors, VCIM is working with these companies to implement governance frameworks that prioritize climate, develop and implement net-zero strategies, set measurable and sector-relevant targets, disclose emissions in line with the Task Force on Climate-related Financial Disclosures, and align advocacy activities with the Paris Agreement.

Greenhouse gas emissions by economic sector, Canada, 1990 to 2021



Source: <https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions.html>

¹ <https://climateengagement.ca/about/>



Biodiversity & nature.

All life on earth depends on healthy, biodiverse ecosystems to provide the air we breathe and the food we eat, and keep our habitat clean and fit for human beings. In addition, healthy ecosystems are the basis of our economy, with more than half of the world's GDP estimated to be dependant on nature. Though not always recognized, protecting biodiversity and natural ecosystems is a vital part of both the climate picture and a healthy, prosperous and equitable economy.

And yet, human action – mostly for commercial purposes – is greatly affecting our ecosystems' ability to perform these critical functions. For example, changing uses of land and sea are reducing the ability of natural systems to mitigate extreme climate events. The overuse of chemicals is harming animals, plants and soils. And the direct exploitation of organisms, such as overfishing, is directly impacting ecosystem health.

It is estimated that there has been an average **decline of 69%** in species populations since 1970, a figure that itself illustrates the severity of the problem. In most cases, economic activity drives these losses and therefore it is important that large corporations, particularly those with global impacts, ensure they take action to avoid contributing to these declines. Biodiversity loss is both an ethical and economic crisis, and so it has been identified as a key engagement impact area for VCIM.

Engagement highlight

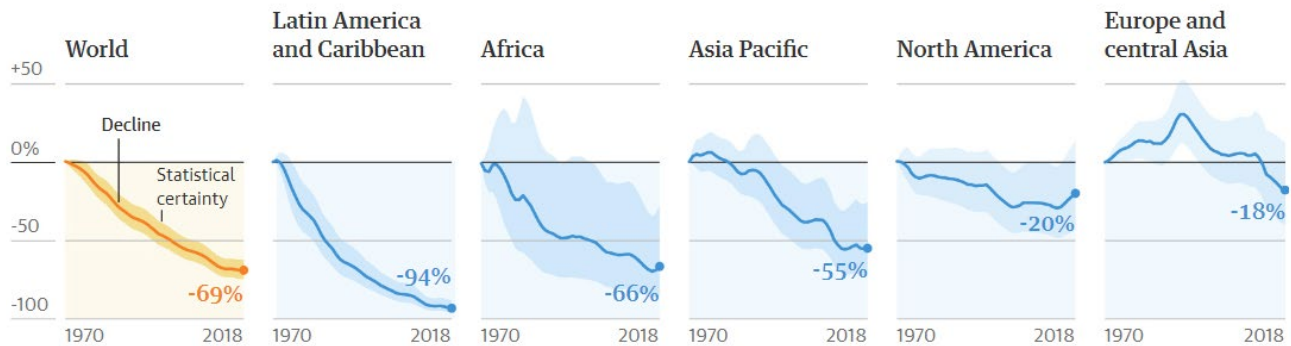
Biodiversity Taskforce for Nature-related Financial Disclosures (TNFD) analysis and disclosure

The global food system has been identified as the primary driver of biodiversity loss, with agriculture alone **threatening 86%** of species at risk of extinction. As biodiversity declines, agricultural supply chains are likely to be significantly impacted due to issues such as pollinator loss. Across the world's food crops, 75% rely on pollinators. Other concerns include monoculture systems that leave crops vulnerable to disease. Diminished food supply will translate into direct economic harms for companies that rely on agricultural products, highlighting the need for companies to identify these risks and consider which of their own practices may be contributing to these losses. This evaluation is referred to as a biodiversity dependencies and impact assessment.

Given this significant material risk, VCIM filed a shareholder proposal with Costco Wholesale Corp. requesting such a material biodiversity dependencies and impact assessment report. VCIM secured several commitments in discussions with Costco, including an analysis of a select material supply chain and an accompanying disclosure in line with the Task Force for Nature Related Disclosures. In follow-up discussions, Costco's sustainability team demonstrated that they had identified a material supply chain in their business and are working closely with the World Wildlife Foundation (WWF) on completing this analysis. This work also led the company to explore how to use science-based targets for nature to support the analysis.

Costco is on-track to fulfill its commitment to conduct and disclose the results of biodiversity dependencies and an impact assessment on a pilot supply chain by the end of 2024, progress resulting directly from VCIM's engagement. VCIM intends to use our engagement with Costco as a model for future engagements in the area of biodiversity risk.

The region of Latin American and the Caribbean has experienced the steepest decline in animal populations since 1970



Guardian graphic. Source: World Wildlife Fund and Zoological Society London

Source: <https://www.theguardian.com/environment/2022/dec/06/the-biodiversity-crisis-in-numbers-a-visual-guide-aoe>



Financial resilience & DEIR.

The Financial Resilience & DEIR (Diversity, Equity, Inclusion, Reconciliation) engagement area shines a light on underrepresented and economically disadvantaged groups. Creating access to financial services for everyone is core to who we are at VCIM. And we believe that social justice and economic inclusion must be addressed if we are to create a strong and resilient economy. Further, Reconciliation is one of the Vancity Group's core organizational values, which reflects our commitment to taking action and being a financial force for change.

The unequal distribution of capital and access to opportunities has far-reaching impacts on economies, effects that are too often overlooked. High levels of inequality are associated with poorer health, more violence, a lack of community life, and increased rates of mental illness across socio-economic classes. Societies with more equal income and wealth distribution are more stable and are more likely to experience sustainable growth that benefits a greater number of people.

Wealth inequality in Canada is growing and the disparities are quite astonishing. The top 20% of earners in Canada hold almost 68% of the country's net worth, compared to the bottom 40% of wage earners that hold merely 3%. Indigenous, Black, people of colour, and other equity-denied groups are disproportionately represented in lower income tiers and, on average, have significantly less wealth than white Canadians. Financial resilience is vital to addressing racial wealth disparities, and it contributes greatly to the creation of more stable economies. Other key DEIR areas to address are higher pollution burdens, lack of clinical trial diversity in healthcare, and unwelcoming workplace cultures, to name a few. This key engagement impact area for VCIM is key to achieving a stronger, more resilient society.

Engagement highlight

Environmental justice

Everyone deserves protection from environmental hazards and the right to live, learn, and work in a healthy environment. Environmental justice (EJ) refers to the fair treatment and meaningful involvement of all people regardless of race, colour, income, or nationality with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies.² In the United States there is an increasing legislative focus on environmental justice to address examples of historical injustices, such as high polluting operations being predominantly built in communities of colour or near low-income housing. Landfills and waste operations have often followed this pattern as well, leaving these communities to bear the brunt of the associated air and noise pollution. Companies must be aware of the impacts of their operations and address any issues that have a disproportionate impact on communities of colour or low-income communities.

Given these concerns, VCIM filed a shareholder proposal with Waste Connections requesting that they complete an EJ audit of their American and Canadian assets. An EJ audit helps a company identify where their operations may be having outsized impacts on communities of colour or low-income housing so that they can implement changes. Using the EJScreen³ tool provided by the American government, the company was able to complete an EJ audit and they publicly disclosed the results. As no such resource or data exists in Canada, Waste Connections has committed to exploring various ways to complete this analysis here, with a focus on impacts on Indigenous peoples.

² <https://www.epa.gov/environmentaljustice>

³ <https://www.epa.gov/ejscreen>



Governance & disclosure.

Governance & Disclosure is about the systems and oversight in place to ensure that companies are not contributing to systemic inequities, corruption, and poor business practices. To be able to implement and achieve ambitious goals such as net-zero by 2050 and to reduce economic inequalities, strong governance oversight and transparent disclosure are required. Comprehensive disclosures of ESG-related metrics, both quantitative and qualitative, are also necessary to track progress and identify areas that require more focus. Fundamentally, we require proper governance structures at all levels, including companies and governments, to be able to create the sustainable communities we aspire to see. Governance & Disclosure impacts all aspects of ESG and is a key tool to achieve our ESG goals, making this a key engagement impact area for VCIM.

Engagement highlight

CEO-to-median-worker pay ratio

Building on momentum from the 2022 proxy season, VCIM filed new proposals with RBC, CIBC, and TD Bank in 2023. The proposals requested each of the large financial institutions to disclose their CEO-to-median-worker pay ratio. The purpose of the proposals is to obtain data that shows how the value generated across each bank is distributed to ensure that it is not only accumulating at the top.

Economic inequality is a persistent issue in our society, and one of the contributing factors is the growing disparity between executive and employee pay. The value being created by companies is increasingly accumulating at the top of organizations, which is driving economic inequality more broadly. From 2019 to 2020, average executive pay in Canada increased 17%. The average Canadian salary grew by just 4% over the same period.

Income inequality leads to lower employee morale, which results in higher labour costs due to employee turnover. In the context of the broader economy, inequality harms productivity to the tune of 4% lost GDP growth.⁴ Public disclosure of the CEO-to-median-worker pay ratio provides all stakeholders a quantifiable way to monitor economic inequality over time and is a first step to ensure the pay gap does not continue to widen at the same alarming pace.

VCIM attended the RBC, CIBC and TD Bank AGMs in April to present our wage-gap proposal. The proposals received 12% support, on average.

In 2022, as a result of VCIM engagement, Scotiabank agreed to publish their CEO-to-median-worker pay ratio. VCIM will continue to push for other major financial institutions to disclose this important metric.

VCIM wage-gap proposal results

| | Support | Abstention |
|---------|---------|------------|
| RBC | 12.98% | 4.68% |
| CIBC | 10.37% | 5.68% |
| TD Bank | 12.40% | 4.40% |

⁴ Paul, P. (2022). Historical Patterns of Inequality and Productivity around Financial Crises. Federal Reserve Bank of San Francisco. <https://www.frbsf.org/wp-content/uploads/sites/4/wp2017-23.pdf>

Healthcare.

The COVID-19 pandemic highlighted just how important health is to the functioning of our economies. This does not even account for the suffering and misery that disease often inflicts on individuals and the emotional and mental impacts of losing loved ones. Focusing on health-related issues can both improve communities' quality of life and help build resilient economies. Systemic threats to human health such as increasing anti-microbial resistance (AMR) rates and evolving viruses can be prevented and mitigated, while at the same time ensuring more people can access existing treatments. This is why VCIM has identified healthcare as a key engagement impact area.

Engagement highlight

Antimicrobial resistance (AMR)

An emerging area of ESG risk is antimicrobial resistance (AMR). AMR is viewed as a global issue that threatens the stability of healthcare systems worldwide. AMR occurs when bacteria and other disease-causing microbes develop resistance to previously effective drugs and can lead to infections more commonly known as superbugs. In the US alone, AMR causes 2.8 million illnesses and 35,000 deaths annually, and worldwide deaths are currently estimated at 1.27 million.

The concept of stranded assets (when assets suffer a significant loss in value) is more commonly associated with climate impacts on property or fossil fuel reserves, but there are significant parallels when looking at healthcare assets. If AMR prevalence increases as predicted, it is estimated that deaths from AMR will rise to 10 million by 2050. Many pharmaceutical treatments and medical devices require antibiotics to prevent or treat infection and with rising AMR rates, infection risks could outweigh the benefits of treatments. This could effectively lead to stranded assets as expected revenues decline in a high-AMR scenario.

VCIM is a member of the Investor Action on AMR Initiative (IAAMR), which has pioneered an engagement campaign on AMR stranded asset risks.

With limited research and development funding being directed to novel antibiotics, in combination with the slow progress towards addressing the exposure risks driving increased rates of AMR, the risk for stranded healthcare assets is increasing. VCIM is requesting the pharmaceutical and healthcare companies we hold to begin to quantify the potential lost value and implement strategies to mitigate these risks. This is the first coordinated campaign on the issue of stranded assets directly linked to AMR, and we look forward to progress on this issue in 2024.



Human capital management.

This topic covers how companies manage their most valuable asset, their employees. While human capital management can take many different forms, it is fundamentally about ensuring that the people who actually make up a company are treated well. Whether ensuring that their workforce is appropriately compensated, has access to benefits including retirement savings, or enjoys a cohesive and inclusive culture, companies need to be focused on how they support their employees' well-being. This is a business imperative as engaged employees are more likely to be productive and value-generating for their employer. Studies have found that burnt-out employees can cost **\$3,400 out of every \$10,000** in salary because of disengagement from work. Human Capital Management is fundamental to any company's success and is why this is a key engagement impact area for VCIM.

Engagement highlight

Freedom of association

The right to associate is a fundamental human right proclaimed in the Universal Declaration of Human Rights. Freedom of association is respect for the right of employees and workers to freely organize and collaborate in the pursuit of collective workplace goals. We believe that freedom of association leads to collaborative partnerships between companies, unions, and workers, resulting in stronger workplaces and positive labour relations.

In 2022, VCIM joined a campaign organized by SHARE where co-signed letters were sent to Amazon and Starbucks. The letters highlighted the value of worker representation to productivity and called on the companies to recognize the fundamental rights of workers to associate freely and bargain collectively. The letter sent to Amazon was in response to reports that the company was actively interfering with its workers' efforts to organize its facility in Bessemer, Alabama. Similarly, the letter to Starbucks followed allegations that the company was terminating employees who were attempting to form a union.

Currently, only one Amazon warehouse has unionized in the US. However, recently there has been a wave of 328 unionizations at American Starbucks locations. VCIM strongly believes in the importance of employees' right to organize and is committed to monitoring for violations of freedom of association within our portfolios.



Human rights.

The world of work has long been a site of exploitation where workers are placed in difficult conditions in the name of profit. A combination of pricing pressures and profit-seeking often leads to horrific conditions. It can be difficult for companies to identify violations when they are often far removed from the people doing the hands-on work. Even so, companies are fundamentally responsible for addressing and preventing human rights abuses, whether they occur in their own operations or in their supply chains.

It is critical that companies look internally for human rights violations, but it is also vital that they ensure their business practices are not leading to these violations in their supply chains. Increasing human rights due diligence (HRDD) legislation is turning these reputational risks into direct financial risks. While the sheer number of human rights violations occurring around the globe can feel overwhelming, it is important to focus on taking steps to address the issue and evaluate the effectiveness of each action. The issue is not easily solved, but better supply chain management practices need to start now. This is why human rights is a key impact area in our shareholder engagement work.

Engagement highlight

Forced labour and supply chain due diligence

In 2022/2023, VCIM maintained our focus on supply chain due diligence to ensure the companies we invest in operate in alignment with international human rights guidelines such as the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. Forced labour in China is one area we focus on, particularly in solar and technology supply chains. Several credible sources⁵ have alleged that Uyghurs and predominantly Muslim ethnic minority communities in the XUAR region are being forced into labour camps and subjected to work in factories against their will. The Uyghur or XUAR Region in China supplies 45% of worldwide solar-grade polysilicon (which is a key raw material for the solar global supply chain), and a significant amount of manufacturing that contributes to the global communications sector is centered in China and at risk of supporting this system of forced labour. VCIM has continued to engage with portfolio companies most exposed to supply chains that may be tainted with forced labour.

New legislative efforts underway globally to address the ongoing human rights risks in the XUAR region include the American Uyghur Forced Labor Prevention Act (UFLPA), which will make it difficult to import raw materials and goods from areas where forced labour is suspected. VCIM met with representatives of Brookfield, Boralex and Cisco in 2023 to identify if these companies had conducted risk mapping of their supply chains and inquire about other initiatives that had been implemented to safeguard against human rights risks. All three companies demonstrated important measures that minimize the risk of forced labour. Notably, Boralex has made improvements based on VCIM recommendations; for example, the company has contracted a third party to conduct supply chain mapping to identify human rights risks. They also recently launched a Responsible Procurement Charter and have taken concrete steps to align their operations with international human rights benchmarks. Human rights and global supply chains will become increasingly more material for businesses in light of proposed regulations mandating companies to report on human rights practices and risk mitigation, at the same time as investors require increased transparency with regard to human rights practices.

⁵ OHCHR Assessment of human rights concerns in the Xinjiang Uyghur Autonomous Region, People's Republic of China; In Broad Daylight: UYGHUR FORCED LABOUR AND GLOBAL SOLAR SUPPLY CHAINS

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Appendix A - Company engagement list.

| Company | Topic | Primary impact area | Contributes to impact area |
|---|--|-----------------------------------|--|
| Air Products & Chemicals | Chemical Management | Biodiversity & Nature | • Healthcare |
| Alphabet | Valuing Water Finance Initiative (VWFI) | Biodiversity & Nature | • Climate, Energy & Just Transition • Governance & Disclosure |
| Amazon.com | Forced labour and supply chain due diligence | Human Rights | • Governance & Disclosure |
| | Freedom of Association | Human Capital Management | • Financial Resilience & DEIR • Human Rights |
| | Health and safety | Human Capital Management | |
| | Transparency Reporting | Governance & Disclosure | • Human Rights |
| | Valuing Water Finance Initiative (VWFI) | Biodiversity & Nature | • Climate, Energy & Just Transition • Governance & Disclosure |
| Aritzia | Water Disclosure - CDP | Biodiversity & Nature | • Governance & Disclosure |
| | Forced labour and supply chain due diligence | Human Rights | • Governance & Disclosure |
| Bank of Nova Scotia | CEO to Median Worker Pay Ratio | Governance & Disclosure | • Financial Resilience & DEIR • Human Capital Management |
| | Fossil fuel financing | Climate, Energy & Just Transition | • Governance & Disclosure |
| Bell | Access to Communication | Governance & Disclosure | |
| Boralex | Forced labour and supply chain due diligence | Human Rights | • Climate, Energy & Just Transition • Governance & Disclosure |
| Brookfield Renewable Partners | Forced labour and supply chain due diligence | Human Rights | • Climate, Energy & Just Transition • Governance & Disclosure |
| Canadian Imperial Bank of Commerce | CEO to Median Worker Pay Ratio | Governance & Disclosure | • Financial Resilience & DEIR • Human Capital Management |
| | Fossil fuel financing | Climate, Energy & Just Transition | • Governance & Disclosure |
| Canadian Pacific Kansas City | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | • Financial Resilience & DEIR • Governance & Disclosure |
| Carmax | Climate Disclosure - CDP | Climate, Energy & Just Transition | • Governance & Disclosure |

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|---------------------------------|--|-----------------------------------|--|
| Cisco Systems | Forced labour and supply chain due diligence | Human Rights | • Governance & Disclosure |
| Constellation Software | Climate Disclosure - CDP | Climate, Energy & Just Transition | • Governance & Disclosure |
| | General ESG Disclosures | Governance & Disclosure | • Human Capital Management |
| Costco | Biodiversity TNFD analysis and disclosure | Biodiversity & Nature | • Climate, Energy & Just Transition • Governance & Disclosure |
| | Plastic pollution | Biodiversity & Nature | |
| CVS Health | Paid Sick Leave | Human Capital Management | • Financial Resilience & DEI • Healthcare |
| Danaher | Anti-Microbial Resistance (AMR) | Healthcare | • Biodiversity & Nature |
| Diversified Royalty | Board Independence | Governance & Disclosure | |
| Dollarama | Climate Disclosure - CDP | Climate, Energy & Just Transition | • Governance & Disclosure |
| Royal DSM | Chemical Management | Biodiversity & Nature | • Healthcare |
| Edwards Lifesciences | Anti-Microbial Resistance (AMR) | Healthcare | • Biodiversity & Nature |
| Element Fleet Management | Climate Disclosure - CDP | Climate, Energy & Just Transition | • Governance & Disclosure |
| Enphase Energy | Chemical Management | Biodiversity & Nature | • Climate, Energy & Just Transition • Safer Chemicals |
| Home Depot | Chemical Management | Biodiversity & Nature | • Healthcare |
| JPMorgan Chase & Co | Fossil fuel financing | Climate, Energy & Just Transition | • Governance & Disclosure |
| Lululemon Athletica | Water Disclosure - CDP | Biodiversity & Nature | • Governance & Disclosure |
| | Forced labour and supply chain due diligence | Human Rights | • Governance & Disclosure |
| | Valuing Water Finance Initiative (VWFI) | Biodiversity & Nature | • Climate, Energy & Just Transition • Governance & Disclosure |
| Lundin Mining | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | • Financial Resilience & DEIR • Governance & Disclosure |
| | General ESG Disclosures | Governance & Disclosure | |
| LVMH | Valuing Water Finance Initiative (VWFI) | Biodiversity & Nature | • Climate, Energy & Just Transition • Governance & Disclosure |
| Magna | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | • Financial Resilience & DEIR • Governance & Disclosure |

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|------------------------------|--|-----------------------------------|--|
| Mastercard | Firearm Sales | Governance & Disclosure | |
| Microsoft | Facial Recognition Technology | Governance & Disclosure | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Human Rights • Governance & Disclosure |
| | Inclusive Workplace Practices | Financial Resilience & DEIR | <ul style="list-style-type: none"> • Human Capital Management |
| NFI Group | Living Wages | Human Capital Management | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Human Rights |
| Nike | Forced labour and supply chain due diligence | Human Rights | <ul style="list-style-type: none"> • Governance & Disclosure |
| Northland Power | Fossil fuel financing | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Governance & Disclosure |
| Novo Nordisk | Access to Medicine | Healthcare | <ul style="list-style-type: none"> • Human Rights |
| | Anti-Microbial Resistance (AMR) | Healthcare | <ul style="list-style-type: none"> • Biodiversity & Nature |
| Nutrien | Chemical Management | Biodiversity & Nature | <ul style="list-style-type: none"> • Healthcare |
| | Climate Disclosure - CDP | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Governance & Disclosure |
| | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Governance & Disclosure |
| Riocan | Climate Disclosure - CDP | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Governance & Disclosure |
| | General ESG Disclosures | Governance & Disclosure | |
| Roche | Access to Medicine | Healthcare | <ul style="list-style-type: none"> • Human Rights |
| | Anti-Microbial Resistance (AMR) | Healthcare | <ul style="list-style-type: none"> • Biodiversity & Nature |
| Royal Bank of Canada | CEO to Median Worker Pay Ratio | Governance & Disclosure | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Human Capital Management |
| Russel Metals | Climate Disclosure - CDP | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Governance & Disclosure |
| Starbucks | Freedom of Association | Human Capital Management | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Human Rights |
| Telus | Access to Communication | Governance & Disclosure | |
| Thermo Fisher | Anti-Microbial Resistance (AMR) | Healthcare | <ul style="list-style-type: none"> • Biodiversity & Nature |
| Toromont Industries | Climate Disclosure - CDP | Climate, Energy & Just Transition | <ul style="list-style-type: none"> • Governance & Disclosure |
| Toronto-Dominion Bank | CEO to Median Worker Pay Ratio | Governance & Disclosure | <ul style="list-style-type: none"> • Financial Resilience & DEIR • Human Capital Management |

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|------------------------------|---------------------------------|-----------------------------------|---|
| Toronto-Dominion Bank | Fossil fuel financing | Climate, Energy & Just Transition | • Governance & Disclosure |
| Trane Technologies | Climate Action (CA100+) | Climate, Energy & Just Transition | |
| Unilever | Plastic pollution | Biodiversity & Nature | |
| Visa | Firearm Sales | Governance & Disclosure | |
| Waste Connections | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | • Financial Resilience & DEIR • Governance & Disclosure |
| | Environmental Justice | Financial Resilience & DEIR | • Climate, Energy & Just Transition • Human Rights • Healthcare |
| West Fraser Timber | Climate Disclosure - CDP | Climate, Energy & Just Transition | • Governance & Disclosure |
| | Climate Engagement Canada (CEC) | Climate, Energy & Just Transition | • Financial Resilience & DEIR • Governance & Disclosure |