RESPONSIBLE INVESTING

A program built for success

NEI

WHAT IS RESPONSIBLE INVESTING?

Like all investing, responsible investing is first and foremost a way to grow your money for the future. But there's a big difference. When you invest responsibly, your money is not just working for you and your family, it's working for *everyone*.

Responsible investing takes into consideration factors that can influence a company's financial success, as well as its impact on the world. They're called "ESG factors:"

E S G

Environmental factors, such as climate change, resource use and pollution

Governance factors, such as executive pay, corruption and board diversity

Social factors, such as working conditions, human rights and employee relations

Responsible investors ask questions that reveal the bigger picture. Do companies treat employees fairly and equally? Are they respectful of the communities where they do business? How do they treat the planet? Do their boards of directors reflect the diversity of their workforce? Do their products hurt people?

Not only do you have the right to ask these questions, you have the right to demand that companies do better – for your benefit, for society, and for the environment.

More and more people are recognizing the value of responsible investing. The Responsible Investment Association says that from 2015 to 2017, the money invested in responsible investment solutions in Canada soared almost 42% to $2.1 trillion, proof that many investors are committed to making a difference.

WHAT ABOUT YOU?

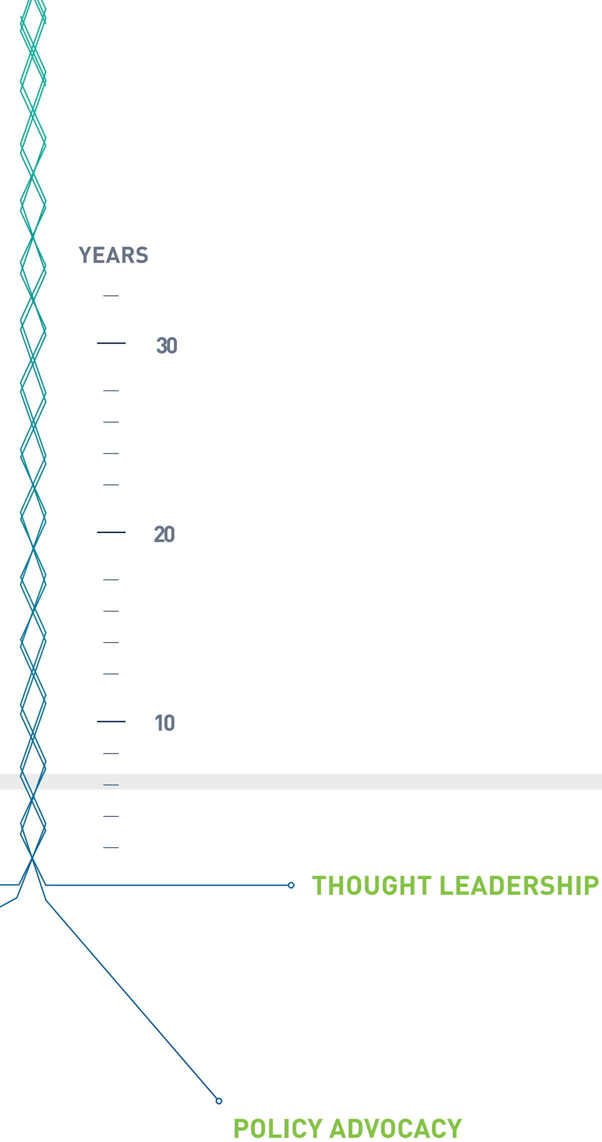
Responsible investing can help manage risk in your portfolio, while providing the opportunity for higher returns. It can help align your money with your values. It can help you make an *impact*.

But all of that is easier said than done. We've been investing responsibly for more than 30 years. In these pages, we'll show you how we do it.

IF YOU'RE CONSIDERING SPECIFIC FUNDS FOR YOUR PORTFOLIO, ASK YOUR ADVISOR THIS STARTER QUESTION: "WHAT IS THE FUND COMPANY'S EXPERIENCE IN RESPONSIBLE INVESTING?"

OUR RESPONSIBLE INVESTING MODEL

We divide our model into four areas of activity: company evaluations, corporate engagement, policy advocacy, and thought leadership. This guide explains each area in detail, so you know what goes into a comprehensive responsible investing program.



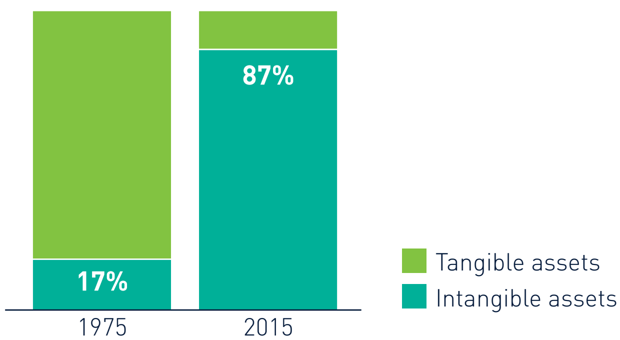
SAY. DO. SHOW.

Clear and transparent reporting is one hallmark of a well-established responsible investor. We state our goals, we move toward them, and we share our progress. See for yourself – ask your advisor to show you our annual Focus List and Active Ownership Reports, published every three months.

COMPANY EVALUATIONS

It all starts with research. Our team digs deep into every company in our funds, and every company that's up for consideration. We look at ESG factors that traditional financial analysis may not necessarily cover. That's important, because according to the following study, ESG factors now drive the majority of a company's value.

COMPONENTS OF S&P 500 MARKET VALUE



Source: Ocean Tomo, *Intangible Asset Market Value Study*, 2017.

Decades ago, companies were valued mostly on their "tangible" assets – things the company owned and produced that you could see and touch. Very little value was attributed to their "intangible" assets: brand, reputation, customer satisfaction... and ESG factors. Now, the pendulum has swung the other way, with intangible assets valued more highly.

TWO KEY BENEFITS

Looking at companies through an ESG lens offers investors the potential for two key benefits: better risk management, and higher returns over the long term.

Risk management

ESG factors can pose significant risks. For example, oil and gas producers face environmental challenges. Technology companies have come under fire for lack of gender diversity. Banks have struggled with compensation issues.

These factors can hurt a company's performance, potentially leading to a lower share price and weaker returns for investors. We identify these risks and manage them in our funds accordingly.

Long-term returns

ESG factors can also open the door to opportunity, driving improved performance and potentially higher returns. Companies that meet and overcome their ESG challenges, or whose business is to help other companies do so, can be good investments. We seek them out.

No company ever scores perfectly on our ESG evaluation. In fact, it's the companies that fall just short on ESG factors that often make the best candidates for the next level of our attention: corporate engagement.

CORPORATE ENGAGEMENT

Corporate engagement is when shareholders talk directly with companies to influence the way the company is run. It is our most effective tool for driving real, measurable change. Our program has three components:

DIALOGUE

Talking with companies is what we do best. Dialogue can take the form of letters, emails, phone calls, and face-to-face meetings. Every year we aim to speak with at least 50 companies, and that group becomes our Focus List – the centerpiece of our engagement program.

PROXY VOTING

When a shareholder – that's you – votes "by proxy," they are instructing another party – that's us – to vote on company matters on their behalf. Topics can include board member elections, pay packages and mergers. We aim to vote every proxy for every company in our funds, based on our publicly available voting guidelines and country-specific best practices.

SHAREHOLDER PROPOSALS

A shareholder proposal is a non-binding proposal aimed at encouraging company management to take specific action. We file them rarely, and only after following a strict escalation strategy. Companies take shareholder proposals very seriously. Even a 20% vote in favour of a proposal can be enough to spark change.

We also participate in large-scale collaborations with institutional investors around the world, a proven strategy for increasing the effectiveness of our collective engagement. The more voices at the table, and the more money behind them, the more likely the success.

CASE STUDY

SUNCOR: STRATEGIC RESILIENCE IN A LOW-CARBON FUTURE

2015 Engagement begins

- Five in-person meetings
- Multiple conference calls
- Exchange of letters with senior executives and board members
- Multiple emails with key staff
- Filed shareholder resolution

2016 Result

Shareholder resolution receives 98%+ support at annual general meeting, becoming the first ever environment-themed proposal in Canada to win the favour of management.

POLICY ADVOCACY

Beyond what we do through company evaluation and engagement, is our policy work. We consult with governments, regulators and organizations that set national and global standards for responsible investment.

It's rare for an asset manager to participate in stewardship at this level. But it's exceptionally powerful.

Through advocacy, we can help organizations such as the Principles for Responsible Investment lock our best practices into a set of global standards. That makes it easier for *all* responsible investors and the companies they engage to move forward together.

PRINCIPLES FOR RESPONSIBLE INVESTMENT

We are a long-time signatory and dialogue leader and have consistently earned an A+ rating for Active Ownership.

INVESTOR ALLIANCE FOR HUMAN RIGHTS

We are a founding member and steering committee member.

CLIMATE ACTION 100+

We are an active member and dialogue co-leader.

FINANCIAL STABILITY BOARD

We provide input on the climate-related disclosure framework and have engaged 60 companies in our funds on adopting the framework.

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

We have consulted on the development of international standards for responsible business conduct.

MYTH:

COMPANIES DON'T LIKE HEARING FROM OPINIONATED INVESTORS

We have earned our reputation as a reliable and diplomatic voice in companies' boardrooms. Thanks to our extensive engagement program and decades of experience, companies contact us, eager to initiate conversations about how to improve their ESG performance.

SETTING THE STANDARD:
more women on corporate boards

2011
No. of companies listed on S&P/TSX Composite without a woman on the board: 110

2012
Canadian Coalition for Good Governance adopts our earlier suggestions to enhance standards for diversity

Urged Ontario Securities Commission (OSC) to consider board diversity a governance issue

2013
Lobbied International Corporate Governance Network, which later creates the global standard "Guidance on Gender Diversity"

2014
Canadian regulators set standard for disclosure of board diversity; Alberta does not adopt

Consultation with OSC on mandatory disclosure of women on boards and in senior management

2015
Urged Alberta to adopt diversity disclosure standard

2016
Alberta adopts diversity disclosure standard

2019
Urged OSC to re-prioritize board gender diversity

No. of companies listed on S&P/TSX Composite without a woman on the board: 0

There is still a long way to go, and real diversity extends far beyond gender. We continue to highlight the importance of diverse representation on corporate boards through all our engagement work.

IF YOUR GOAL IS TO MAKE A DIFFERENCE WITH YOUR MONEY, YOU'LL WANT TO MEASURE YOUR SUCCESS. ASK YOUR ADVISOR: "DOES THE FUND COMPANY REPORT ON ITS RESPONSIBLE INVESTMENT ACTIVITIES, AND HOW CAN I GET THOSE REPORTS?"

THOUGHT LEADERSHIP

We work hard to share our knowledge and experience with colleagues and competitors alike. Not just to learn from the past, but to innovate the way forward. This fosters alignment among those who choose to invest responsibly, helping clear a path toward our common goals.

We publish papers, host events, sit on panels, participate in educational webinars, and more. We're on the front lines of:

- Responsible investing in cannabis
- Holding big pharma accountable for their role in the opioid crisis
- Getting more women on corporate boards
- Fighting to reduce excessive compensation
- Driving the energy transition

We were the first in Canada to:

- Offer a socially responsible investment fund
- Disclose our proxy voting results as an investment fund company
- Receive company management support for an ESG proposal
- Offer a socially responsible certification program to investment professionals
- Offer an investment fund focused on resource optimization

A GLOBAL CALL TO ACTION

Investment management companies around the world are aligning their responsible investing activities with the Sustainable Development Goals, established by the United Nations.

There are 17 SDGs that serve as a global framework for achieving sustainable development by 2030. Goals touch on themes such as reducing poverty, responsible consumption and production, reducing inequality, good health and well-being, and climate action.

The SDGs go far beyond responsible investing. Participants of all shapes and sizes are committed to achieving the targets, from federal governments to private corporations to grassroots community groups.

www.un.org/sustainabledevelopment/

It's our goal to
generate sustainable value
for you, for shareholders,
for other company stakeholders,
and for society.

If that's also what you want,
then you've come to the right place.

Talk to your financial advisor today about how responsible investment solutions from NEI can help you ACHIEVE YOUR GOALS.

BEYOND THE BASICS

Now that you have an overview of responsible investing and how we do it, you may want to spend a few moments digging deeper. An understanding of the following terms will help you progress along your investment journey.

Imagine the concept of responsible investing as an umbrella. Under that umbrella, there are various activities investors can undertake, depending on their interest, ability and commitment. Corporate engagement was discussed earlier in this guide, as were screening, proxy voting and shareholder resolutions.

Also under that umbrella, there are different *types* of responsible investing. Investors may pursue one or more of these types based on their objectives.

ETHICAL INVESTING

Investors who wish to align their money with their values may want to consider ethical investing. This often involves screening, where companies whose business is considered to cause harm, such as through sales of tobacco, weapons, gambling or pornography, are permanently excluded from consideration. Corporate engagement can also play a big role.

IMPACT INVESTING

According to the Global Impact Investing Network, "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return… A hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of the underlying investments."

THEMATIC INVESTING

Some investors seek to profit from long-term trends, or "themes" – an approach that's not restricted to responsible investing. General themes include the shift to e-commerce, aging populations, and rising consumer demand in China. Themes specific to responsible investing include sustainable agriculture, resource optimization, carbon reduction, access to housing and healthcare, and gender equality.

DON'T FORGET THE NUMBER ONE REASON YOU INVEST IN THE FIRST PLACE. ASK YOUR ADVISOR: "CAN RESPONSIBLE INVESTING IMPROVE MY CHANCES OF ACHIEVING MY GOALS?"

GLOSSARY

Active ownership

Active ownership is a term that groups together two key responsible investing activities: corporate engagement, and proxy voting. Active owners use their rights as shareholders to influence the direction of the companies they invest in.

Carbon footprint

Refers to the amount of carbon dioxide released into the atmosphere by a particular activity. Typically measured as tons of carbon dioxide emitted per year, a carbon footprint can also include other gases that harm the atmosphere such as methane and nitrous oxide (taken together, referred to as "greenhouse gases"). A carbon footprint can be applied to individuals, families, companies, events, and countries.

Carbon tax

This is a shorthand way of referring to programs that put a price on carbon production. Initiatives are typically government-led, intended to incent companies and individuals to reduce their carbon output by charging them a fee.

Corporate social responsibility

CSR forms part of a company's governance model, touching everything from human resources to manufacturing to health and safety. As the Business Development Bank of Canada explains, a strong CSR program reflects a company's "commitment to manage the social, environmental and economic effects of its operations responsibly and in line with public expectations."

Divestment

The opposite of investment is divestment. Simply put, it means selling your financial or business assets. In the context of responsible investing, divestment refers to selling all shares of a company due to its involvement in business activities you don't support.

ESG

Where "E" stands for environmental, "S" stands for social, and "G" stands for governance (in reference to a company's policies, practices, disclosure, accounting, auditing – essentially, how the company is run). Evaluating ESG factors, and beyond that, *integrating* ESG factors throughout the investment process, is the backbone of responsible investing.

ESG is often used as an adjective; we talk about ESG *factors*, ESG *risks* and *opportunities*, ESG *evaluation*, ESG *considerations*, ESG *performance*, ESG *integration*, and more. Terms we do *not* use are "ESG companies" and "ESG investing." There's no such thing.

ESG scoring

Investment managers and data providers that conduct ESG evaluations often give companies a numeric score. Scoring is a quantitative way to rate companies on their ESG performance, creating a baseline for comparison.

Green bonds

The money raised from the sale of green bonds is used to fund environmental initiatives such as renewable energy projects, land preservation, mitigation of climate change, and habitat restoration.

Greenwashing

Greenwashing is when companies make misleading or false claims about the environmental benefits of their products or services. And yes – it happens in the investment industry too. The best way to avoid greenwashing is to work closely with an advisor knowledgeable in the area of responsible investing.

Just transition

The phrase "just transition" refers to an approach to environmental policy-making. The goal is to minimize the impact of environmental policy on workers and communities who would be adversely affected by changes, and to include those workers in the decision-making process.

It also seeks to address global inequities related to the impact of climate change and related policies. It's generally understood that people in lower-income areas and countries are likely to feel the brunt of the physical impact of climate change, and policies must reflect that.

Low-carbon resilience

An approach that seeks to bolster an organization's ability to withstand the impacts of climate change and successfully transition to a low-carbon economy, specifically related to reputational and financial impact.

Responsible investing

Responsible investing is the umbrella term given to a range of activities intended to make money (through investing), while also making a positive difference in the world.

Screening

Narrowing the investment universe for preferred selection criteria has been common practice for many years. Traditional screens might filter for companies that pay a dividend, or whose share price is below a defined long-term average. Negative screens exclude companies for certain characteristics, while positive screens do the opposite.

In responsible investing, negative screening would exclude companies considered to have weak ESG performance, while positive screening would include companies considered to have strong ESG performance.

Stakeholder

Responsible investing is intended to benefit a range of stakeholders, including employees, customers, other workers in the supply chain, people living in the community where the company operates, regulators, and of course, investors.

Sustainability

A focus on sustainability requires decision-making that considers the long-term impact of our choices. We must all act in a way that meets our needs today, without compromising the ability of future generations to do the same.

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» DEMAND MORE. WE DO.

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