aequo

Activity report 2023–2024

Shareholder Engagement Activities
Analysis and Impact

Æquo carries out its work on behalf of institutional investors and asset managers participating in its shareholder engagement platform:

BÂTIRENTE

CSN
Pension plan

FÉRIQUE
GESTION DE FONDS

Fondaction
Donner du sens à l'argent.

Hydro Québec
Pension plan

RRSE
Regroupement pour la Responsabilité Sociale des Entreprises

AlphaFixe Capital

NATIONAL BANK INVESTMENTS

Desjardins
Global Asset Management

GLOBAL ALPHA

NORDIS CAPITAL

OPTIMUM
Gestion de placements

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Grands thèmes

Transition to a low-carbon economy

Building a just, equitable and inclusive economy

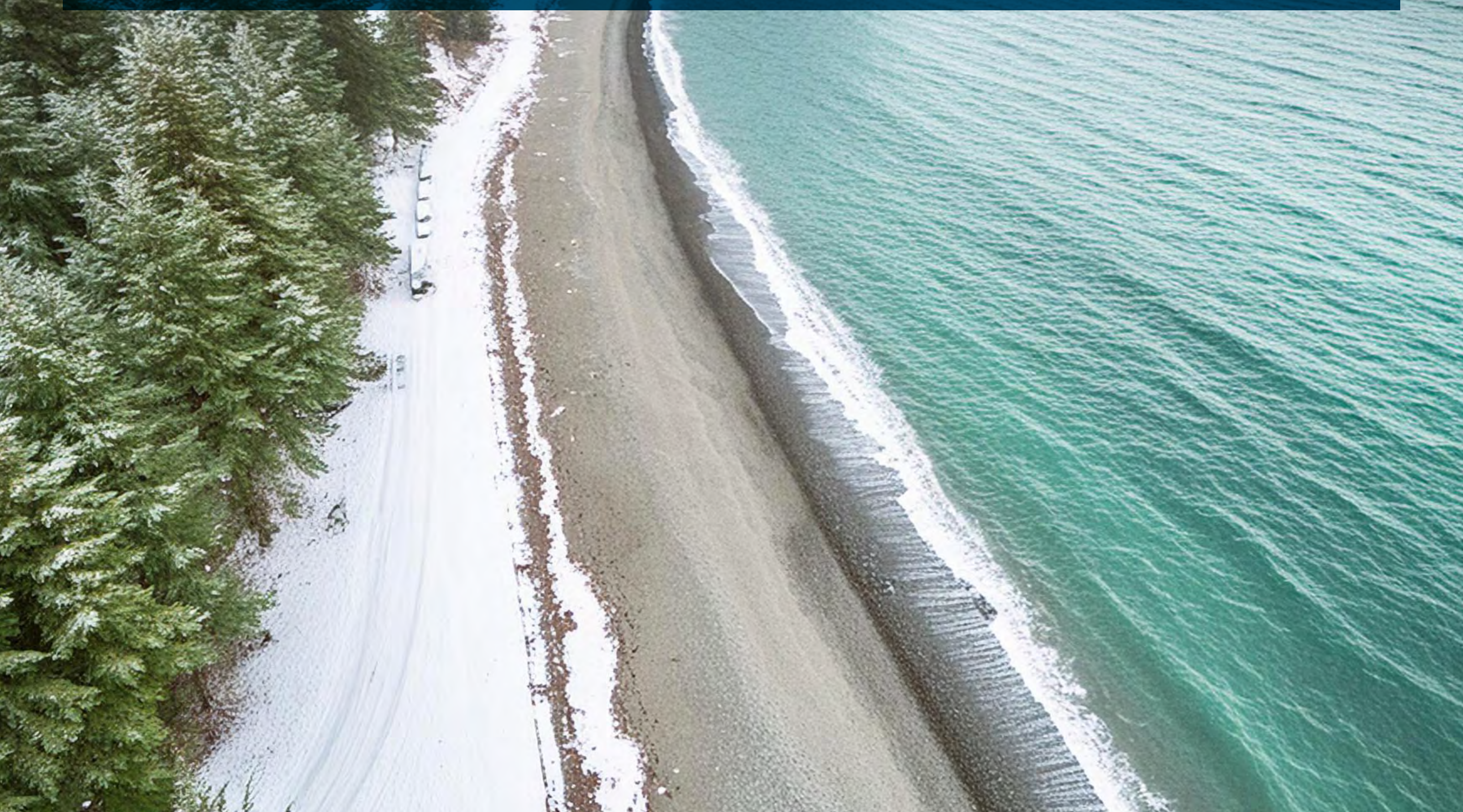
Robust sustainability-oriented governance practices

Ecosystem and biodiversity preservation

Our mission

Our mission is to help ensure a sustainable and equitable economy by using engagement to leverage investors' impact on companies.

Æquo's main activity is conducting dialogues with the companies in which our partners invest, with the specific aim of persuading them to adopt more responsible and sustainable business practices. The goal of these dialogues is to properly manage the risks and foster positive sustainability outcomes. By uniting clients' actions in engagement pools, Æquo amplifies their impact on the companies they hold in their portfolio.



Climate Action 100+ · Engagement Climatique Canada · FAIRR A Coller Initiative · Interfaith Center on Corporate Responsibility · Nature Action 100

Signatory of: PRI Principles for Responsible Investment

Message from the Chairwoman and the CEO

Shareholder engagement: more necessary than ever

Dear partners,

In terms of sustainability-related issues, this past year was similar to the previous one.

Let's look just at climate change. The year 2023 was a real record breaker. From extreme heat episodes to forest fires, droughts and floods, or the resulting losses of human life and destruction of natural and financial capital. It seems that 2024 is shaping up to be an equally bumpy ride. Other alarms are ringing, too.

Even if we don't set out to do so, it's easy to become desensitized or get too used to these events. But we should never accept such insidious normalization of catastrophes and bad news. Our intention is to encourage collective action without preaching.

The climate deterioration and its many consequences are detrimental in several respects, including to the interests of participants in our group savings vehicles. It has been shown that long-term financial returns will be significantly diminished in any scenarios where the warming exceeds the 1.5°C target.

Shareholder engagement is the preferred approach in guiding companies to better align their practices with the Paris Agreement climate ambitions and with other UN Sustainable Development Goals.

The 2023–2024 Activity Report provides illustrations of the progress that has made shareholder engagement possible, as practised by Æquo, not just in relation to climate but also to other important topics, such as biodiversity and human rights protection.

Maintaining our momentum

Æquo's team grew once again this year, and new partners joined our engagement pools. It is worth reiterating that Æquo now offers a strategy for all major global equity and corporate bond markets. We also expanded our coverage of companies.

Pooled approach

By pooling their securities and resources, institutional investors give themselves the opportunity to practise engagement in all markets where they hold securities issued by companies, whether these consist of corporate stocks or bonds, and whether directly or indirectly held (i.e., mutual funds).

In addition to economies of scale, this pooling concentrates the weight of institutional voices when it comes to speaking as a single voice to issuers, in line with an approach that is both rigorous and professional, and by focusing on the systemic, material issues. In other words, Æquo's team becomes your team of independent experts.

Accessibility

In an effort to make our shareholder engagement services offer even more accessible now to institutional investors of all sizes than it was in 2023, Æquo has reviewed its fee approach. Various levels were created, reflecting the reality and means of players from this field.

In closing, we wish to extend our warmest thanks to you, our long-standing or more recent partners, for your trust and support. We would also like to express our gratitude to the Æquo team and its board for their passion, commitment and determination. A special thank-you is owed to Colette Harvey, whose involvement in our board of directors came to a close at the end of 2023.

Josée Cavalancia
Chairwoman of the Board

Isabelle Gagnon
CEO

Process, methods and results

Shareholder dialogue: for sound investment stewardship

At Æquo, our engagement approach is aimed at improving companies' environmental, social and governance (ESG) practices and performance, as well as their positive outcomes related to sustainability, through constructive and informed discussions. In order to amplify its impact, this engagement is conducted on behalf of our investment clients—investors who combine their strength in our various engagement pools. Our objectives are presented to companies as questions or recommendations, which enable us to monitor the progress of their ESG performance.

Along with the dialogues we lead on behalf of our clients in connection with various engagement pools, we also participate actively in a range of investor collaborations pertaining to companies and specific ESG issues. Depending on the case, these initiatives lead to conversations between a group of investors and targeted companies, or they result in joint investor statements or participation in consultations related to public or private regulations.

Selection of companies

The companies in our engagement pools are chosen according to three main criteria:

- Our analysis of the ESG performance of companies held in our clients' portfolios, particularly compared with their peers, and in view of serious controversies
- A balanced representation of our clients' portfolios in our engagement plans
- A company targeted by our previous year's action plan when the engagement goals have not yet been met

In 2024, our program is subdivided into five pools: Canadian large-caps (29 companies), American large-caps (30 companies), international large-caps (14 companies), global small- and mid-caps (14 companies) and emerging markets (10 companies).

Dialogue tracking

Our dialogues are geared to the long term, generally continuing over several quarters. In fact, a change in companies' ESG practices does not happen overnight. Moreover, it is important to create a climate of trust between Æquo and our contacts.

For each dialogue, we evaluate the ESG practices, risks, and opportunities. We then define objectives aimed at improving the ESG performance and impact of these companies. To track the progress of our dialogues, we have developed a scale for measuring the achievement of these objectives.

Results

In 2023, we made progress with 70% of the companies with which we held dialogues, and we achieved at least one goal for nearly 40% of the companies.

The quality of the relationships we nurture with companies is at the heart of our mission's success. We normally only encourage filing a shareholder proposal on behalf of our clients as a last resort and when we deem that, despite multiple attempts, the practices related to a key issue are not progressing quickly enough. In such cases, we recommend that our clients who are members of the engagement pool holding shares in the targeted company file a shareholder proposal. Since our last activity report, we guided one client in filing shareholder proposals with BMO and RBC banks. However, the shareholder proposals were withdrawn following engagements taken by these companies.

Topics in 2023

MAJOR THEMES DISCUSSED IN 2023[1]

Transition to a low-carbon economy	75%
Building a just, equitable and inclusive economy	61%
Robust sustainability-oriented governance practices	39%
Ecosystem and biodiversity preservation	25%

MAIN ISSUES DISCUSSED IN 2023

Energy transition—GHG emissions management	75%
Human rights	30%
Ecological impact	25%
ESG integration and disclosure	11%
Diversity and inclusion	22%
Employee management and well-being	21%
Executive compensation	18%
General governance	8%
Product and services responsibility	8%
Community relations	5%
Data privacy/Cybersecurity	4%
Ethics, fraud and corruption	4%
Water management	4%
Waste management	3%
Gestion des déchets	2%

[1] % of companies in engagement plans with whom the topic was discussed.

Our dialogues in 2023–2024

2023–2024 Canadian engagement plan and main issues by industry

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Automotive and auto parts	Magna International *(not renewed in 2024)*	Climate crisis		Equity, diversity and inclusion Human rights	
Commercial banks	CIBC Bank	Climate crisis	Ecological impact		
	Bank of Montreal				
	National Bank				
	Royal Bank				
	Scotiabank				
	TD Bank				
Retailers, food products and restaurants	Alimentation Couche-Tard	Climate crisis	Ecological impact	Human rights Product responsibility Employee relations, well-being, and health & safety	
	Empire Company				
	Loblaw				
	Metro				
	Premium Brands*				
	Restaurant Brands*				
	Saputo*				
Specialized retailers	Dollarama	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety	
Metals and mining	Barrick Gold	Climate crisis	Ecological impact	Community relations	Fiscal responsibility
	Teck Resources				

** New companies in the 2023 engagement pool are indicated in **bold***

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Oil and gas / Power utilities	Canadian Natural Resources	Climate crisis		Community relations	
	Cenovus Energy				
	Enbridge				
	Imperial				
	Pembina Pipeline*				
	Suncor				
	TC Energy				
	Tourmaline Oil				
	Capital Power *(not renewed in 2024)*				
	Fortis *(not renewed in 2024)*				
Chemical products	Nutrien	Climate crisis	Ecological impact		
Engineering and construction services	WSP	Climate crisis		Equity, diversity and inclusion Employee relations, well-being, and health & safety	Ethics, fraud and corruption
Technology and communications	CGI			Cybersecurity and data privacy Equity, diversity and inclusion Employee relations, well-being, and health & safety	Ethics, fraud and corruption
	Descartes				
	Telus				
Rail transport	Canadian Pacific Railway Company *(not renewed in 2024)*	Climate crisis			

** New companies in the 2024 engagement pool are indicated in **bold***

2023–2024 American engagement plan and main issues by industry

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Automotive and auto parts	AutoZone **Ford*** **Tesla*** **Fox Factory*** **Lear***	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety Product responsibility	
Commercial banks	Bank of America **Citizens Financial Group** *(not renewed in 2024)*	Climate crisis			
Biotechnology and pharmaceutical	**Abbvie** *(not renewed in 2024)* **Johnson & Johnson** *(not renewed in 2024)*	Climate crisis	Ecological impact	Product acessibility Product responsibility	
E-commerce	Amazon *(not renewed in 2024)*	Climate crisis		Cybersecurity and data privacy Human rights Employee relations, well-being, and health & safety	
Retailers, food products and restaurants	**Costco*** **Dominos Pizza*** McDonald's **Mondelez International** *(not renewed in 2024)* **Walmart***	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety	
Retail pharmacies	CVS Health *(not renewed in 2024)*		Ecological impact	Equity, diversity and inclusion Employee relations, well-being, and health & safety Product responsibility	

** New companies in the 2024 engagement pool are indicated in* ***bold***

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Specialized retailers	Dollar General	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety Product responsibility	
	Dollar Tree				
	Five Below*				
	Target				
	TJX Companies				
Packaging	**Avery Dennison** *(not renewed in 2024)*	Climate crisis	Ecological impact	Product responsibility	
Property management	**Public Storage***	Climate crisis	Ecological impact	Employee relations, well-being, and health & safety	
Industrial machinery	**Otis***	Climate crisis		Product responsibility Employee relations, well-being, and health & safety	
Oil and gas / Power utilities	EOG Resources	Climate crisis		Community relations	
	Kinder Morgan*				
	MidAmerican Energy*				
	Valero*				
	Williams companies*				
Household and personal products	Estée Lauder *(not renewed in 2024)*	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety	
	Procter & Gamble				

** New companies in the 2024 engagement pool are indicated in **bold***

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Technology and communications	**Apple***	Climate crisis	Ecological impact	Cybersecurity and data privacy Equity, diversity and inclusion Employee relations, well-being, and health & safety Product responsibility	Ethics, fraud and corruption
	AT&T				
	Alphabet *(not renewed in 2024)*				
	Comcast*				
	Mircosoft *(not renewed in 2024)*				
	Meta *(not renewed in 2024)*				
	Oracle *(not renewed in 2024)*				
	Texas Instruments*				
	Verizon				
Chemical products	Sherwin-Williams *(not renewed in 2024)*	Climate crisis	Ecological impact	Product responsibility	
Engineering and construction services	**Primoris Services***	Climate crisis		Equity, diversity and inclusion Employee relations, well-being, and health & safety	Ethics, fraud and corruption
Healthcare	Universal Health Services			Cybersecurity and data privacy Relations, bien-être et santé sécurité des employés Product responsibility	
Professional and commercial services	Costar Group *(not renewed in 2024)*	Climate crisis		Employee relations, well-being, and health & safety	Ethics, fraud and corruption
Clothing	Nike *(not renewed in 2024)*			Human rights	

** New companies in the 2024 engagement pool are indicated in **bold***

2023–2024 International engagement plan and main issues by industry

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Automotive and auto parts	**Ferrari***	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety Product responsibility	
	Mazda*				
	Toyota*				
Commercial banks	**BNP Paribas***	Climate crisis			
	HSBC				
Retailers, food products and restaurants	Ahold Delhaize	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety	
	Carrefour				
	Nestle				
Electronic equipment	**Keyence***	Climate crisis	Ecological impact	Employee relations, well-being, and health & safety Product responsibility	General governance
	Sony *(not renewed in 2024)*				
Hotels	Intercontinental Hotels	Climate crisis	Ecological impact	Employee relations, well-being, and health & safety	
Oil and gas / Power utilities	Enagas	Climate crisis			
	Total Energies*				
Engineering and construction services	**Vinci***	Climate crisis		Equity, diversity and inclusion Employee relations, well-being, and health & safety	Ethics, fraud and corruption
Clothing	**Richemont***		Ecological impact	Human rights Employee relations, well-being, and health & safety Product responsibility	General governance

** New companies in the 2024 engagement pool are indicated in **bold***

2023–2024 Small/mid-cap engagement plan and main issues by industry

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Aerospace	**Bombardier***	Climate crisis	Ecological impact	Product responsibility Employee relations, well-being, and health & safety	General governance
	Lisi				
Retailers, food products and restaurants	Industries Lassonde	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety	
	Limoneira *(not renewed in 2024)*				
	Groupe MTY				
	Roger Sugar				
Hotels	**Meliá Hotels***	Climate crisis	Ecological impact	Employee relations, well-being, and health & safety	
Industrial machinery	**Bucher Industries***	Climate crisis		Product responsibility Employee relations, well-being, and health & safety	
	Federal Signal*				
	Schoeller Bleckman				
Metals and mining	**Forage Orbit***	Climate crisis	Ecological impact		ESG integration and disclosure
Paper and forest products	**Stella-Jones***	Climate crisis	Ecological impact		
Oil and gas / Power utilities	Advantage Energy *(not renewed in 2024)*	Climate crisis			
Leisure products	**BRP***	Climate crisis		Product responsibility et services Employee relations, well-being, and health & safety	
	Brunswick*				
Clothing	**Asics***	Climate crisis	Ecological impact	Human rights Product responsibility	

** New companies in the 2024 engagement pool are indicated in* ***bold***

2023–2024 Emerging markets engagement plan and main issues by industry

INDUSTRY	COMPANY	Low-carbon economy	Ecosystems and biodiversity	Just, equitable and inclusive economy	Robust governance
Automotive and auto parts	**Hyundai Motor*** **Kia Motors***	Climate crisis	Ecological impact	Human rights Employee relations, well-being, and health & safety Product responsibility	
Biotechnology	**Celltrion***	Climate crisis	Ecological impact	Employee relations, well-being, and health & safety Product responsibility	
E-commerce	Alibaba	Climate crisis		Cybersecurity and data privacy Equity, diversity and inclusion Employee relations, well-being, and health & safety	
Retailers, food products and restaurants	Ambev **Fomento Economico Mexicano***	Climate crisis	Ecological impact	Equity, diversity and inclusion Human rights	
Electronic equipment	**Samsung electronic***		Ecological impact	Human rights Employee relations, well-being, and health & safety	Ethics, fraud and corruption
Metals and mining	Antofagasta Grupo Mexico Impala Platinum *(not renewed in 2024)* **Vale***	Climate crisis	Ecological impact	Community relations	Fiscal responsibility

** New companies in the 2024 engagement pool are indicated in* ***bold***

Investor collaboration initiatives

INITIATIVE	TYPE	DESCRIPTION	INVOLVEMENT
Responsible Investment Association (RIA)	Organization	The Responsible Investment Association (RIA) is an association representing the industry in which Æquo and its clients operate.	• Member since January 2019
ICCR	Organization	The Interfaith Center on Corporate Responsibility brings together religious communities with the objective of building a more just and sustainable world, by integrating social values in companies and investors' actions.	• Member of various committees and participation in meetings
PRI	Organization	The PRI initiative helps signatories incorporate ESG issues into their decisions regarding investment and share ownership.	• Signatory since Æquo's founding in 2015
Climate Action 100+	Collaboration engagement	Initiative uniting more than 700 investors around an engagement plan targeting 170 of the world's largest corporate GHG emitters.	• Active participation in the North American group • Æquo leads and takes part in some dialogues (lead: Imperial Oil and EOG Resources—Active participant: Teck Resources; Canadian Natural Resources; Suncor; Carrefour, Grupo Mexico and Nestlé)
Climate Engagement Canada (CEC)	Collaboration engagement	CEC is an investor collaboration initiative that drives dialogue with the biggest Canadian GHG emitters in order to promote a just transition to a net zero economy.	• Æquo is leading and taking part in some of these dialogues (lead: Enbridge, TC Energy and Barrick—Active participant: Tourmaline and Nutrien) • Participation on behalf of Bâtirente as a member of CEC's Technical Committee
Nature Action 100	Collaboration engagement	Collaboration initiative bringing together over 200 investors for dialogues with 100 companies on nature-related topics.	• Participation in meetings and some dialogues (Active participant: Alimentation Couche-Tard, Barrick, Nutrien and Grupo Mexico)
Farm Animal Investment Risk and Return (FAIRR)	Collaboration engagement	FAIRR is a network of investors helping to build a more sustainable food system by bringing awareness about the material opportunities and risks that abound in global protein supply chains.	• Member since 2023 • Participation in meetings and some of the dialogues (Active participant: Ahold Delhaize and Loblaw)

INITIATIVE	TYPE	DESCRIPTION	INVOLVEMENT
Investor collaboration on issues related to facial recognition technology	Collaboration engagement	Coordinated by Candriam, this initiative addresses the rapidly expanding use of facial recognition technology and its impact on privacy, data protection and civil liberties. It is calling on companies that develop or use this kind of technology to increase their disclosure, demonstrate their awareness of its impact on human rights, and adopt ethical practices. In 2024, this collaboration was integrated into the Ethical AI CIC of the World Benchmarking Alliance (WBA).	• Participation in group meetings • Participation in two dialogues (Active participant: MSFT, Apple and Comcast)
Investor Initiative on hazardous chemical products (IIHC)	Collaboration engagement	The IIHC is a collaboration initiative of more than 50 investors, coordinated by ChemSec. It aims to reduce the impacts of the production of hazardous chemical products on human health and the environment	• Participation in meetings and in one dialogue (Active participant: Sherwin-Williams)
Collaboration of the Access to Medicine Foundation	Collaboration engagement	This initiative focuses on the world's biggest pharmaceutical companies, with the aim of identifying best practices, monitoring their progress, and showing where critical action is needed in order to improve access to medicine for the poorest communities.	• Participation in meetings and some of the dialogues (Active participant: Abbvie)
Business Benchmark on Farm Animal Welfare (BBFAW)	Collaboration engagement	The BBFAW initiative was created to improve companies' farm animal welfare management practices.	• Initiative signatory
Canadian Oil and Gas Working Group	Working group	The Canadian Oil and Gas Working Group is a collaboration by investors engaging in dialogue with industry associations. It is led by CERES.	• Participation in meetings • Exchange of information related to companies in the engagement pools targeted by the initiative
Circular Economy Reference Group (PRI)	Working group	The goal of this PRI working committee is to provide investors with the tools to persuade companies to eliminate unnecessary or problematic plastics from their supply chain.	• Active participation as a member of the working group

ESG issues in the spotlight

ANTI-ESG MOVEMENT

Since 2021, there has been an increase in ideological polarization in the U.S. on the issue of ESG factor consideration in investment decisions and corporate conduct. As more and more ESG regulations have been introduced, they face opposition from a movement spearheaded by Republican states. Supporters of this movement argue that ESG is not compatible with the fiduciary duty of investors to maximize returns. On the contrary, we consider it to be investors' fiduciary duty to take into account all factors that generate long-term investment value, including ESG criteria. We also emphasize the importance for companies to consider the social and environmental impacts of their activities, from the standpoint of risk management and negative impact reduction for stakeholders.

The rise of this movement has been reflected in the legislative arena. In 2023 alone, more than 150 anti-ESG bills and resolutions were introduced in 37 states, and at least 40 laws were adopted in 18 states. Some of these laws deal with specific issues, such as equity, diversity and inclusion (EDI); nine states adopted laws prohibiting or restricting EDI efforts in state-run organizations. Apart from legislative measures, the anti-ESG movement has taken other forms, too. For example, the State of Florida announced a divestment of 2 billion American dollars being managed by BlackRock, the world's largest asset manager, because of the Group's ESG investment policies.

This movement led to a number of changes in corporate practices, mainly in the U.S. In the financial sector, legislation and ESG opposition in certain American states had an impact on sustainable investment strategies. Fearing they might attract negative attention, several big institutional investors began reducing their sustainability initiatives—a phenomenon known as "greenhushing" or "ESG-hushing". Other industry players also decided to transition to using other terms or formulations to talk about ESG, like sustainable development, or even material risks and opportunities.

Large companies, including tech giants Zoom, Amazon and Meta, reduced their EDI teams and outsourced responsibilities to external consultants, illustrating the broader trend toward rethinking their strategy. Legal challenges complicated things for some businesses, with lawsuits driving companies like JPMorgan Chase and Yum! Brands to modify their EDI policies. These adjustments seem mainly aimed at avoiding lawsuits and do not appear to fundamentally call into question the EDI programs. With regard to climate change, certain fossil fuel leaders took advantage of the situation to reduce their transition plan ambitions (BP and Suncor).

Despite the context south of the border and the rise in anti-ESG shareholder proposals in Canada, the repercussions of this movement appear to be relatively limited. So far, all this has had little effect on our dialogues with companies operating in Canada, and it is a positive sign that the financial sector and Canadian regulations seem to be making continued progress toward greater integration of these criteria.

Climate crisis

This year, once again, the climate crisis and energy transition issue was a priority in our dialogues with companies, especially those from the fossil fuel industry and financial services sector.

As a reminder, 2023 was the warmest year on record for our planet (with July being the warmest month since temperature recordings began in 1880). This warming has already brought a significant increase in the number and severity of extreme weather events, including heatwaves, forest fires, drought, flooding and hurricanes. This has had major socioeconomic repercussions. It is estimated that global warming caused USD1.5 trillion in economic losses between 2010 and 2019.

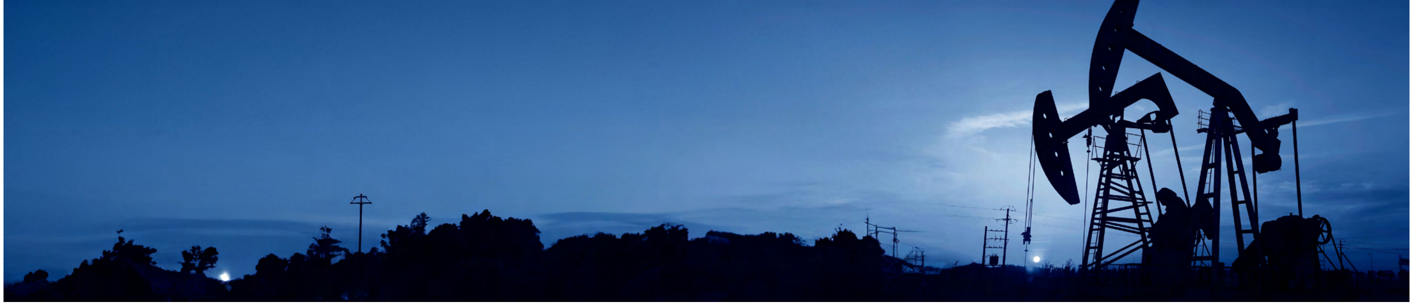
In terms of regulation, the American SEC unveiled new climate risk disclosure standards, covering GHG direct emissions, climate governance and business model risks. However, it is disappointing that these new requirements omit indirect (Scope 3) emissions which, in the case of numerous industries, are many times higher than direct (Scope 1 and 2) emissions. In other news, the Canadian Sustainability Standards Board (CSSB) published a project on Canadian Sustainability Disclosure Standards. These were inspired by the new standards from the International Sustainability Standards Board (ISSB), published in 2023.

While all sectors are exposed to climate risks, oil and gas producers play a particularly important role in GHG emissions reduction. We have been asking oil and gas companies not only to reduce their direct emissions but also modify their business model to help cut emissions related to their products (Scope 3) and take into account the ongoing energy transition. We are also asking them to support public policies that seek to reduce emissions and accelerate the transition; or, at the very least, to demonstrate transparency in their opposition to them.

Furthermore, we have been asking Canadian banks to be more demanding of their clients to get the latter to cut their GHG emissions. With the publication of its Client Engagement Approach on Climate, RBC has indicated that it is possible to describe their expectations through a credible transition plan. We are encouraging other banks to adopt a similar approach and clarify the means used to ensure they are progressing quickly enough toward getting their clients to adopt truly credible transition plans.

Banks and energy transition

Æquo has been conducting a dialogue with banks regarding their client engagement approach on climate. We have been asking them to properly communicate how they assess the credibility of their clients' transition plans and to describe the incentives in place to encourage real strategic alignment by their clients with the Paris Agreement objective. Our dialogues have been successful, especially in the case of CIBC, which disclosed the main points of the bank's analysis of its clients' transition plans. Nonetheless, a major development in 2023 was the publication by RBC of its Client Engagement Approach on Climate: Energy Sector, which describes the criteria used in evaluating energy transition plans and states that one of their clients, which has no transition plan, may be dropped. While the other banks have also improved their approach, they have not clarified their expectations of their clients in terms of transition. The next steps will be to get the banks to properly describe what they deem to be a credible transition plan and, above all, to strongly encourage their clients to develop such plans, within a short time frame; otherwise, an escalation process will need to be initiated, which could even lead to terminating business relationships with clients who have made no progress or are not doing so quickly enough. We identified a number of best practices, particularly related to several European and Australian banks, which have clear and consistent expectations when it comes to their clients.



Examples of climate-related progress

Climate lobby: Enbridge and TC Energy published a first report on their lobby; Cenovus and Suncor disclosed their positions on bills and other policies.

Disclosure of emissions: Magna, Mondelez and Teck adopted reduction targets for their indirect emissions.

Reduction in emissions: IMO and Dollar Tree adopted a carbon neutrality target for 2050; CNRL adopted absolute reduction targets.

Methane emissions: EOG Resources joined the Oil and Gas Methane Partnership (OGMP).

Banks' engagement with their clients: RBC clearly improved its disclosure of information on how the bank assesses its clients' transition plans. CIBC, TD Bank and BMO also improved their approaches, although not to the level of RBC's approach.

Biodiversity preservation

The world is facing an unprecedented biodiversity crisis. In fact, the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) has highlighted, among other things, the fact that one million animal and plant species are currently threatened with extinction and that, respectively, 75% and 66% of terrestrial and marine ecosystems have been significantly modified by human activity. This same organization identified five factors that are responsible for biodiversity loss: changing use of sea and land; direct exploitation of organisms; climate change; pollution; and invasive non-native species.

Since the UN Biodiversity Conference (COP15), which was held in Montreal in December 2022, various regulations and investor initiatives have emerged. For example, we can mention the Nature Action 100 initiative, which counts Æquo as a member. In September 2023, the 100 targeted companies received a letter explaining investors' main expectations. The first dialogues will take place in 2024. We also support PRI's Spring initiative, whose focus is on halting and reversing forest loss and soil degradation, as well as shining a spotlight on companies' political lobbying.

As for important legislative changes, the European Sustainability Reporting Standards (ESRS), recorded in the CSRD (Corporate Sustainability Reporting Directive), were adopted by the European Commission in July 2023. The ESRS E4 standard deals specifically with biodiversity and includes the obligation for companies to disclose information on, among other things, corporate biodiversity strategy, its targets and metrics, and actions implemented.

Furthermore, the Taskforce on Nature-related Financial Disclosure (TNFD) published its first final version of recommendations and guidelines regarding nature-related disclosure. Financial companies and institutions can now assess, disclose and implement actions regarding their nature-related dependencies, impacts, risks and opportunities. Disclosure is based on four pillars: governance, strategy, risk and impact management, and metrics and targets.

While biodiversity is in crisis and more than half of the world's GDP depends on nature, many companies have still not taken any measures to protect biodiversity. In fact, the Carbon Disclosure Project (CDP) revealed in its 2022 analysis that only 31% of companies had publicly committed to or supported biodiversity-related initiatives, 55% of companies had not taken any action to fulfill their commitments, and 70% of companies were not assessing the impacts of their supply chain on biodiversity. This is why we require concrete information on the impacts, dependencies, risks and opportunities associated with biodiversity, as well as clear, measurable objectives, along with actions that help halt and reverse biodiversity loss.

To ensure this, we begin by asking companies to develop a global biodiversity-related approach, through the following:

- Analysis of impacts, dependencies, risks, and opportunities associated with nature in their operations and value chain.
- Adoption of targets that make it possible to halt and reverse biodiversity loss by 2030.
- Implementation of an action plan to achieve these targets.

Fight against deforestation

Among the issues related to biodiversity and climate, deforestation plays a key role, since it has decimated tropical forests that shelter 80% of terrestrial biodiversity and is responsible for 11% of global greenhouse gas emissions.

In 2023, new regulations were created to combat deforestation. For example, the European Union regulation on the placing of products on the European Union market and the export from the European Union market of certain basic products or products associated with deforestation and forest degradation (EUDR), aimed at prohibiting the marketing of goods and products derived from a number of raw materials (beef, cocoa, coffee, palm oil, soy and wood, or products derived from the latter) if these materials come from deforested lands or degraded forests. This regulation is considered the most ambitious currently to combat deforestation. In practice, all companies marketing their products within the European Union must put in place a due diligence process to ensure that their operations and supply chain are deforestation-free.

According to the Global Forest Report by the Carbon Disclosure Project (CDP), 84% of all companies that answered the CDP Forests questionnaire and undertook a risk assessment for a specific product identified deforestation-related risks. Nonetheless, only 12% of companies stated that they were on track to eradicate deforestation. What's more, just 3% of companies responding to CDP's Forests questionnaire have since carried out a complete assessment of forest-related risks or are mapping out their suppliers' operation sites.

Consequently, when it comes to the question of deforestation, we are asking companies to implement the following measures in their operations and supply chain:

- Disclose information on risk management processes and deforestation-related traceability.
- Disclose measures taken to fight deforestation.
- Disclose zero deforestation and conversion targets, covering all high-risk commodities, such as beef, palm oil, cocoa and soy, among others.

Examples of progress on biodiversity protection

Reduction in plastic: CVS Health, McDonald's, Target and Dollar General made progress toward adopting reduction objectives for single-use plastics and redundant packaging.

Accountability reporting / TNFD: Alibaba and Nutrien are considering aligning their disclosure with TNFD standards.

Deforestation: Carrefour took steps toward disclosing more information about measures taken to combat deforestation.

Reduction of biodiversity impact: Ahold Delhaize worked on a new approach, which will include a review of targets and an action plan for reducing the impacts on biodiversity.

Respect for human rights in the supply chain

Investors are more than ever concerned about human rights violations in companies' supply chains. According to the ILO, it was estimated in 2021 that 27.6 million people were in a forced labour situation—an increase of 2.7 million individuals since 2016. Approximately 63% of these cases were imposed by private-sector players.

Under the *UN Guiding Principles on Business and Human Rights*, companies have the responsibility to ensure human rights are respected during their activities, and they must exercise due diligence. And yet, more than a decade after this text's adoption, nearly half of all companies analyzed in the most recent *Corporate Human Rights Benchmark* failed to demonstrate any proof of having identified or mitigated the issues related to human rights in their supply chains. To make these practices mandatory, new mandatory human rights and environmental due diligence laws (mHRDD) have emerged, such as the *Corporate Sustainability Due Diligence Directive* (CSDDD) in Europe. We have also seen the emergence of other types of regulations promoting human rights. In Canada, the new modern slavery legislation imposes on certain companies the obligation to disclose information regarding risks and measures taken to prevent and mitigate forced labour in their supply chain, but without actually requiring companies to implement these measures. In the United States, the *Uyghur Forced Labor Prevention Act* establishes a rebuttable presumption, according to which, products manufactured in the Uyghur autonomous region of Xinjiang, or by specific identified entities, are banned from import.

In order to adapt their practices, we have been asking companies with which we conduct dialogues to implement various measures based on the *UN Guiding Principles on Business and Human Rights*.

First, we encourage organizations to put in place a human rights policy, then we ask them to periodically assess their supply chain risks. Today, it is not enough to simply adopt an approach based entirely on social audits, which have been criticized due to their incomplete and often biased nature. Instead, companies need to map their entire supply chain and identify the greatest risks by considering a variety of criteria, including geography or commodity type. This process must also involve a dialogue with workers.

Next, we ask companies to disclose information on measures implemented to prevent and mitigate the identified risks, and to monitor the efficiency thereof. For example, this can be achieved by implementing a grievance mechanism for workers, whether at direct or indirect suppliers, to report potential human rights violations. We also expect companies to communicate these actions to stakeholders. Lastly, in the event of a proven violation, we ask companies to implement remedial measures. We suggest to companies that they follow the recommendations provided by the Office of the High Commissioner for Human Rights (OHCHR) in a new interpretive guide on the effectiveness of the various types of remediation mechanisms.

Most companies with which we hold dialogues have codes of conduct in place to frame human rights management in their supply chain. Some of them have also established processes, such as periodic audits of their direct suppliers. Yet few companies have clearly communicated anything about their risk assessment or the measures taken to prevent, mitigate and remediate human rights violations. Furthermore, almost none of them disclose the indicators by which one could monitor the effectiveness of these measures.

Necessity of a living wage

In line with the Global Living Wage Coalition, a living wage is defined as: "The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events." The concept of a living wage is recognized as being part of a person's fundamental rights and is therefore mentioned in the Universal Declaration of Human Rights, the Preamble to the Constitution of the International Labour Organization, and the UN's Sustainable Development Goals (SDG).

As highlighted in the University of Cambridge "The Case for Living Wages" report: "Globally, 630 million people are in working poverty, earning under US$3.20 per day in terms of Purchasing Power Parity (PPP)". The issue of decent salaries is a concern for all countries (high-, medium- or low-income) across the world. For example, while the U.S. federal minimum wage has remained just slightly above $7/hour since 2009, inflation has reduced the value of wages. This minimum wage along with those set by individual states (e.g., $16/hr in New York City and slightly less than $14/hr in Vermont) are far from ensuring a decent wage for workers, which was estimated at $25/hr in 2023 for the U.S. as a whole ($33/hr for New York City and $23/hr for Vermont). Turning to Bangladesh, the recent rise in minimum wage for textile industry workers, to $113 per month, is still a long way from the living wage of $235 estimated by the Global Living Wage Coalition.

Ensuring a living wage remains one of the most effective ways to help individuals escape poverty, reduce inequities, and make progress toward achieving SDGs. In addition, providing a living wage to employees brings many benefits to companies, including increased employee satisfaction and well-being, and lower staff turnover.

No companies in our plan seem particularly interested in implementing a living wage, be it for their direct employees or those in their supply chain. However, some companies, like Dollar Tree, have initiated a reflection process when it comes to compensation. In fact, Dollar Tree gathers compensation-related data to assess the company's practices and opportunities for improvement of working conditions and compensation.

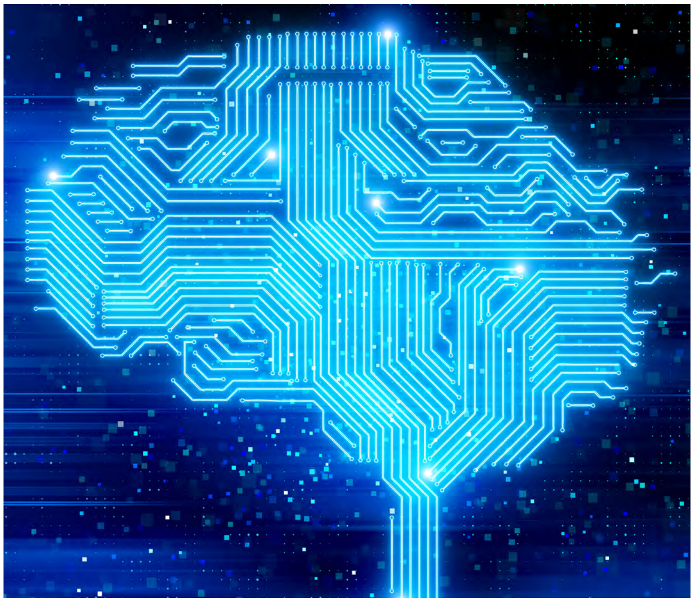
Regarding a living wage, we are therefore asking companies to adopt the following practices:

- **Disclose information on employee salaries—average wage, CEO-to-worker pay ratio, and employee benefits.**
- **Adhere to living wage targets set by the Forward Faster initiative.**
- **Adopt a living wage policy that covers direct employees and suppliers.**
- **Analyze the gap between employee wages and the living wage threshold, as well as the gap between CEO salary and median worker wage; follow up by implementing measures to reduce these gaps.**
- **Conduct a cost-benefit analysis of pay increases and publicly disclose results.**

Issues related to artificial intelligence technologies

The technologies associated with artificial intelligence (AI) have revolutionized all industries, offering companies unprecedented opportunities to improve their efficiency and decision-making. On the other hand, as underscored by the ICGN, the development and use of these technologies entail certain ethical risks that may be associated with: undesirable biases which could give rise to and propagate discrimination, the creation of false information, data leaks and intellectual property infringements.

In the global context, various legislative and normative initiatives have been put in place to encourage responsible AI. Internationally, this includes the OECD Principles as well as the ISO/IEC 421001 standard. In Europe, the European Union agreed on a bill regarding artificial intelligence. In the U.S., the Biden administration issued an Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence. In Canada, while the Code of Conduct on generative AI systems sets out guidelines to be adopted on a voluntary basis, the Canadian government has been working on a law aimed at regulating AI.



Investors are also mobilizing. The Candriam-led collaboration initiative on facial recognition technology, in which we took part, was integrated into the Collective Impact Coalition for Ethical Artificial Intelligence. We are pleased to have joined this initiative, commonly referred to as the Ethical AI CIC, which is based on the findings of the World Benchmarking Alliance's Digital Inclusion Benchmark. The group of investors issued a statement at the beginning of 2024 summarizing the context, the issues and our expectations. Few companies have developed ethical principles to guide the development and use of their technologies; among those that have done so, only a few disclose information on how their principles have been implemented. However, we were satisfied to see that in 2023, Verizon published guiding principles for its approach. We have several main requirements for the companies developing or using this type of technology:

- Implement robust governance, in the form of a board of directors with the mandate and abilities to supervise this issue.
- Adopt policies and principles on the ethical/responsible use of AI technologies.
- Put in place a due diligence process aimed at identifying, assessing, preventing and mitigating their negative impacts on human rights.
- Disclose information about these various items as well as on how they are implemented.

Measuring and amplifying the impact of companies and investors

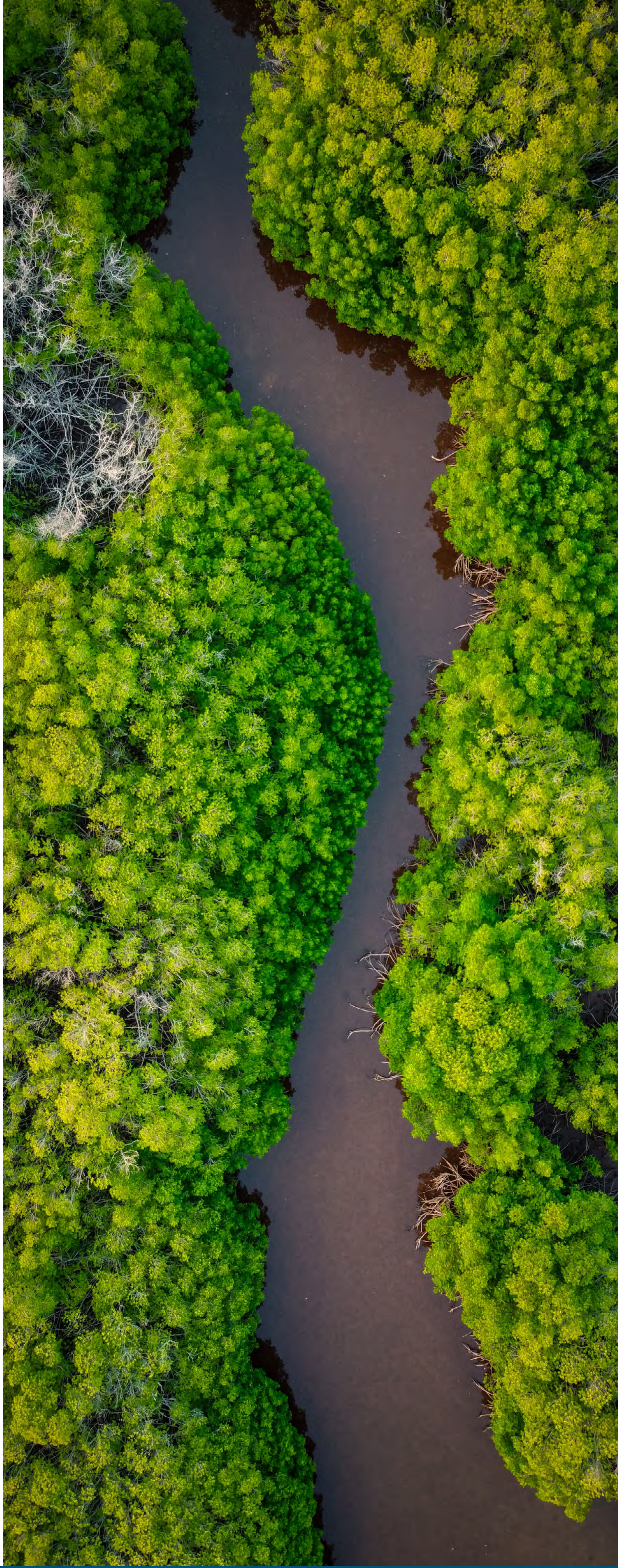
Æquo continued to expand its impact measurement work in 2023. We guided one of our clients in developing a fund aimed at achieving positive social and environmental outcomes. This guidance entailed the creation of a methodology to structure the fund approach, with the goal of mobilizing and deploying capital toward companies whose products, services and activities are aligned with the SDGs.

Æquo's role in this project was threefold. First, we developed (and will update) the methodology for defining the fund philosophy and the process for selecting and monitoring companies. Based on industry best practices (Global Impact Investing Network—GIIN, Impact Management Project/Impact Frontiers), this process seeks to assess both the positive outcomes of products and services sold, through a list of activities developed in accordance with the various internationally recognized taxonomies (e.g., the European Taxonomy or the United Nations' Sustainable Development Goals Financial Taxonomy), and the potential negative impacts, in line with the principle of double materiality, to ensure a real contribution is made to the SDGs, while respecting the "Do no significant harm" principle.

We then verify the implementation of the methodology by the manager, by paying careful attention to the selection of companies to be integrated into the fund and to the tracking of their performance.

Lastly, we conduct a dialogue with the fund companies through an engagement strategy, which has a targeted and specific impact, aimed at strengthening positive outcomes and reducing the negative impacts associated with their activities.

This methodological and engagement-based approach developed by Æquo was designed to promote the key principles of impact investing: intentionality, additionality, and measurability. Its goal is to ensure that investments generate positive, measurable social and environmental outcomes while minimizing potential negative impacts.



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