



2018 **ACTIVITY REPORT**

Our MISSION

Æquo leads shareholder engagement with listed companies on behalf of institutional investors seeking to integrate environmental, social and governance (ESG) considerations into their investment strategies.

Our purpose is to amplify the impact of our clients by guiding them in the implementation of responsible investment strategies.

Æquo aims for a more sustainable economic system in which companies, encouraged by their investors, manage ESG risks and opportunities to create long-term value that benefits society as a whole.

Signatory of:



Message from **THE CHAIRWOMAN AND THE CEO**

2018 was a landmark year for Æquo, and we are happy to share its highlights with you. Our engagement plans were expanded in terms of companies, geography, and the issues discussed; new clients demonstrated their confidence in us by joining these plans; and our team grew. We head into 2019—Æquo's third year of operations—with much enthusiasm and optimism.

Our dialogues gradually widened to include American companies, thanks to our partnership with Desjardins Global Asset Management. This led to a 50% increase in the number of American companies with which we held dialogues in 2018. The number of Canadian and American engagements continues to climb and is set to reach a critical mass of nearly **70 companies** in 2019. This number allows us to identify the major trends and themes in engagement, while maintaining our detailed approach of company-by-company analysis for which we are known.

Looking at ESG issues, climate risk management was still central to our activities and dialogues this year. It is crucial for institutional investors at the international level to develop and put in place strategies aimed at reducing climate risk in their investments, promoting energy transition, and boosting the resilience of economies and populations. In 2018, we guided a number of clients in devising this kind of strategy. Similarly, while companies continue to progressively integrate climate risk, the results of initial studies on the integration of TCFD recommendations show that we still have quite a way to go. In fact, these results highlight the substantial gaps that exist between sectors, regions, and types of data disclosed. As you will see from the various examples in this report, we are pleased to have contributed to the progress achieved by some of the companies—whether through our individual dialogues, the two shareholder proposals we prepared, or investor initiatives like [Climate Action 100+](#).

Collectively, we need to act fast and come up with solutions to this century's biggest issues, in cooperation with the companies held in your portfolios, while meeting your fiduciary duty. We feel confident that we are headed in the right direction. As we do so, we thank our clients and partners, whose trust we are so fortunate to have earned.



Josée Cavalancia

Chairwoman of the Board



Jean-Philippe Renaut

CEO

Process, METHODS, AND RESULTS

SHAREHOLDER DIALOGUE

The aim of engagement, through Aequo's approach, is to improve companies' ESG practices through open and informed discussion. We gather information from companies and then invite them, in a constructive fashion, to improve the way they manage important ESG issues. We hold an average of two formal meetings per year with each company in our engagement plan, in addition to numerous conversations, follow-ups, and research.

Along with individual dialogues, we also participate actively in investor collaborations pertaining to companies and specific issues. These initiatives, to which we bring our unique expertise, lead to conversations among several investors and targeted companies, or result in joint statements.

SELECTION OF COMPANIES

The companies in our engagement plan are chosen according to the following three criteria:

- A substantial number of controversies and/or poor ESG performance compared with their peers
- Potential for our process to have an impact, as evaluated according to the presence of a certain security in a significant number of our clients' portfolios, for example
- Dialogue continuity, when the previous year's engagement goals have not yet been met

Our 2018 engagement plan contained 51 companies (31 Canadian and 20 American). In 2019, our engagement program is composed of a Canadian plan with 40 companies, and a separate American plan containing 28, for a total of 68 targeted dialogues.

DIALOGUE TRACKING

Our dialogues are geared to the long term, generally continuing over several years—in fact, 80% of the previous year's engagements continued into this year. It is thereby vital to create a climate of trust between Aequo and its contacts, since companies' ESG practices do not change overnight.

For each dialogue, we define objectives with measurable outcomes. These objectives are presented to companies as recommendations. To track their progress, we have developed an achievement scale:

OBJECTIVE ACHIEVEMENT SCALE

0	Objective (for managing a risk) has been defined but not yet communicated to the company
1	Objective has been communicated to the company
2	Company has recognized the benefit of reaching the objective
3	Company has adopted a strategy for reaching the objective
4	Company has reached the objective

ISSUES AND RESULTS

Of the 51 dialogues planned in 2018, we led engagements with 46 companies on behalf of our clients.

We discussed a dozen issues in ten different sectors. Issues related to energy transition, energy management, and ecological impact were brought up in almost 60% of our dialogues. Labour conditions, human rights, and human capital issues were discussed in nearly 40% of the dialogues. In 2018, we also began to discuss **new issues** related to the responsibility for products such as opioids, the ecological impact of plastics, and cybersecurity.

As with the previous year, 2018 saw progress made in a bit more than 50% of our dialogues, 40% of which involving companies already present in the 2017 action plan but for whom no achievement had been recorded the year before.

The quality of the relationships we undertake with companies is at the core of our mission's success. We do not normally encourage filing a shareholder proposal, except as a last resort and in full transparency with the company (when the latter does not respond to our requests for a meeting, or when we have observed that a sustained discussion on a particular issue has not been productive). The two occasions on which we did guide clients in this direction in 2018 yielded significant results. In both cases, the companies committed to improving their ESG strategy and disclosure. While TransCanada is now busy preparing its risk analysis report integrating various climate scenarios, **Alimentation Couche-Tard** has committed to improving its disclosure about how the company manages ESG issues.

We invite you to visit our website at www.aequo.ca under the "News" section, for further information on these two cases as well as our impact.

2018–2019 CANADIAN ENGAGEMENT PLAN AND MAIN ISSUES BY SECTOR

Sector	Company*	E	S	G
Processed foods	Maple Leaf Premium Brands	energy management; ecological impact	human capital; human rights; product responsibility	
Commercial banks	CIBC Bank Bank of Montreal Royal Bank Scotiabank TD Bank	transition funding	cybersecurity and data confidentiality	responsible taxation
Food retailers and distributors	Alimentation Couche-Tard Empire Company Loblaw Metro	energy management; ecological impact	human capital; diversity and inclusion; human rights; product responsibility	
Specialized retailers and distributors	Canadian Tire Dollarama	energy management; ecological impact	capital humain; diversité et inclusion; droits humains; responsabilité des produits	
Waste management	Waste Connections	gestion de l'énergie; impact écologique	capital humain	
Real estate	Allied Properties CAPREIT RioCan	energy management; climate resilience		
Logiciels et services informatiques	CGI Descartes OpenText			responsible taxation; fraud and corruption
Metals and mines	Agnico Eagle B2Gold (No dialogue in 2019) Barrick Gold Eldorado Gold (No dialogue in 2019) First Quantum Minerals Goldcorp (No dialogue in 2019) IAMGOLD Nevsun (No dialogue in 2019) Yamana Gold	energy management; ecological impact;	human capital; human rights; local communities	responsible taxation;
Oil and gas	Chesapeake Energy (No dialogue in 2019) CNRL Enbridge Husky Imperial Oil MEG Energy (No dialogue in 2019) Parkland Fuel Suncor TransCanada Whitecap Resources (No dialogue in 2019)	energy management; ecological impact; energy transition	local communities	
Chemical products	Methanex Nutrien	energy management; ecological impact	human capital; local communities	
Construction products	Dorel (No dialogue in 2019) Norbord Richelieu Stella-Jones	energy management; ecological impact	local communities	
Engineering and construction Services	WSP	climate resilience; energy transition		fraud and corruption
Services publics	Algonquin Power & Utilities ATCO Fortis	energy management; energy transition		

* New companies in the 2019 engagement plan are indicated in **bold**

2018–2019 AMERICAN ENGAGEMENT PLAN AND MAIN ISSUES BY SECTOR

Sector	Company*	E	S	G
Automotive	BMW (No dialogue in 2019)	energy transition	human rights	
Commercial banks	BB&T Citizens Financial Group M&T Bank	transition funding		responsible taxation; cybersecurity and data confidentiality
Food retailers and distributors	Kroger	energy management; ecological impact	human capital; diversity and inclusion; human rights; product responsibility	
Specialized retailers and distributors	Costco Wholesale Dollar General Dollar Tree Fastenal TJX Companies Under Armour	energy management; ecological impact	human capital; diversity and inclusion; human rights; product responsibility	
Oil and gas	Marathon Petroleum Superior Energy Services (No dialogue in 2019) Targa Resources Valero	energy management; ecological impact; energy transition	local communities	
Chemical products	Sherwin-Williams	energy management; ecological impact	human capital; local communities	
Household and personal products	Estée Lauder	ecological impact	human capital; local communities	
Public services	American Electric Power (No dialogue in 2019) Consolidated Edison DTE Energy Duke Energy Entergy Public Service Enterprise Southern Company	energy management; ecological impact; energy transition		
Healthcare	Biogen Cardinal CVS Health McKesson Pfizer Thermo Fisher Scientific Walgreens Boots Alliance		product access; product responsibility; diversity and inclusion	

* New companies in the 2019 engagement plan are indicated in **bold**

Some Issues DISCUSSED IN 2018

DISCLOSURE BY DISCOUNT RETAILERS



Even if companies are increasingly pressured by investors to measure and account for their ESG impact rather than disclose simple statistics, the *KPMG Survey of Corporate Responsibility Reporting 2017* also indicates that retail remains one of the sectors with the lowest rate of disclosure. This is especially true for “dollar store” type retailers, who continue to expand in North America, and whose business model is based on an extensive and complex supply chain for low-cost products. In the U.S. (where Dollar General and Dollar Tree together operate more than 30,000 stores), these types of businesses are competing directly against traditional retailers (including Walmart and Costco), thanks to their vast network of stores and product diversification, especially outside the larger urban centres.

The main risks these companies face, and which our dialogues focus on, are:

- product responsibility
- ecological impact
- human rights and labour conditions
- human capital management
- diversity and inclusion
- energy and emissions management

Poor practices in these fields pose risks for these retailers, whether in the form of reputational damage, litigation, or even lack of preparation regarding changing regulations. Inversely, adapted practices help reduce certain costs, limit litigation, and strengthen and protect reputations, while improving the quality of relationships with stakeholders.

The goal of our dialogues is to get companies to:

1. **identify** key ESG issues specific to their activities
2. put in place proper **governance** to help guide how each of these issues is managed
3. put in place **measures** for managing and limiting each issue (with performance indicators and defined objectives)
4. systematically and regularly **disclose** regarding the three preceding points

Good ESG disclosure promotes reflexivity and efficiency on the company’s part, as well as the differentiation of practices in competitive sectors and retention of their employees. Above all, it allows investors to make informed decisions. **Here are a few examples that highlight the significant progress made in 2018 when it comes to disclosure:**

Dollar General

We had various discussions with the company over a two-year period. We insisted that it was important for the company to improve how it discloses its information about responsible sourcing, especially regarding the risks inherent in the retail sales sector in which it operates. As proof of the company's closer monitoring in this area, we were delighted to learn that it published its first corporate responsibility report in 2019, as many of its competitors have already done.

Dollarama

Dialogues with Dollarama began even before Aequo's establishment. Since the very start of these discussions with this company, we have been encouraging them to improve the way they disclose their strategy and their management of ESG issues. Toward the end of the year, the company let us know that it was working on drafting a road map to that end, over three years (2021). In line with our requests, this disclosure will provide more specific details about key ESG themes identified by the company. The latter should provide information on governance related to these issues as well as performance indicators. We are pleased by these engagements and will continue to closely monitor the company's progress.

ALIMENTATION COUCHE-TARD

Product Responsibility and Energy Transition

Alimentation Couche-Tard is one of the largest convenience store businesses in the world. It owns and operates over 16,000 stores in more than 25 countries and regions worldwide, employing over 130,000 people.

In addition to the ESG issues specific to the retail sector (product responsibility, management of human rights and supply chain labour conditions, human capital management, etc.), the company must also properly manage petroleum sector issues (energy transition particularly). In fact, more than 70% of Couche-Tard's 2018 global revenue was from fuel sales. Furthermore, 12% came from tobacco products. This does not take into account company revenues from the sale of sugary/cafeinated/alcoholic drinks and, coming soon, cannabis—in addition to more traditional food sector products.

The information communicated by Couche-Tard to date does not enable investors to understand or evaluate the company's global risk management approach associated with this business model. After more than two years of requests for dialogue without any response on their part, **we submitted a shareholder proposal**, on behalf of one of our clients, Bâtirente, as well as PGGM, a major Dutch pension fund manager. Following this step, representatives of Couche-Tard (including the board's Lead Director) invited us to their offices to learn more about our process and our request. While indicating that they could not vote in favour of our proposal, they committed to drafting a strategy aimed at better communicating their actions in the area of sustainability by the next shareholders' meeting. We will follow these developments closely in 2019.

HOW ENERGY COMPANIES MANAGE CLIMATE ISSUES



While it's true that the transition to a low-carbon economy, as laid out in the Paris Agreement, is progressing on an international scale, this is not happening quickly enough. This year's special [report](#) by the Intergovernmental Panel on Climate Change (IPCC) highlighted the alarming effects of a rise in global average surface temperature by 2 degrees and emphasized the need to target 1.5 degrees. It is imperative that governments, companies, and investors accelerate their efforts to this end.

As for government initiatives aimed at implementing a financial system that favours sustainable investments, some notable achievements were made, especially in terms of developing strategies that are comprehensive, coherent, and concerted. In Europe, the [report](#) produced by the high-level panel of experts included a road map for a greener and cleaner economy. Canada also launched its [report Expert Panel on Sustainable Finance](#), whose [preliminary report](#) was published at the end of 2018.

On the companies' side, even if practices are progressively evolving, there is still ground to be covered. Climate change brings transition risks (government-imposed constraints and technological advancements) as well as physical risks to assets in a number of sectors of the economy. The fossil fuel-based business models of certain companies are bound to be questioned in the context of a low-carbon economy.

In the context of the dialogues we are leading with energy companies, we are specifically aiming for them to demonstrate how they are adapting their business to these issues. Now, beyond simply disclosing, we are asking them to put in place the required governance to properly manage this issue (especially regarding their board of directors' expertise, responsibility, and supervision), to describe how they manage risk and what their strategy is in that regard (transition plan, scenario analysis, proportion of investments in renewable energy), and to define goals in the form of greenhouse gas emission reduction targets.

There were some remarkable advances made in 2018. Worth mentioning is the role played by the [Climate Action 100+](#) (CA100+) investor collaboration initiative in the engagements taken by [Shell and BP](#). To date, this initiative has brought together more than 300 investors representing in excess of US\$33,000 billion in managed assets. **With regard to the companies in our action plan, here are a few examples of significant achievement:**

Southern Company

We had various discussions with Southern Company during the past two years. Right from the start, we asked them to disclose more information about their strategy for reducing carbon emissions. Following pressure from investors, the company carried out a 2°C scenario analysis. Still in line with our demands, the company announced its greenhouse gas reduction target of 50% by 2030.

Enbridge

We have been in discussions with Enbridge for several years to persuade the company to publish a report detailing the resilience of its business model in a low-carbon economy, particularly through a scenario analysis. The company is preparing to disclose such a report in 2019. They were very open to receiving our comments and suggestions over the course of our constructive discussions in 2018.

Suncor

During our discussions with Suncor in recent years, we have repeatedly underlined the relevance of becoming involved with the electric vehicle market, given the company's extensive network of gas stations across Canada, and how this would be advantageous in terms of their reputation and opening up new markets. We were happy to learn that Petro-Canada, a subsidiary of Suncor, will be installing a network of recharging stations across Canada in 2019. Few companies have committed to this kind of transportation electrification, and Suncor deserves to be recognized for their leadership in this area.

New themes IN 2019

PLASTIC



The production of plastic, derived overwhelmingly from fossil fuels, has increased exponentially over the past few decades. While packaging (25% of plastic production) represents the lion's share of single-use materials, only 14% of these are currently collected for recycling. Every year, **USD\$80 to 120 billion** of plastic packaging materials are lost from the economy. Plastic pollution in the ocean represents around **150 millions tonnes**, and is increasing by 8 million tonnes annually. In addition to the impacts on wildlife and vegetation, there is also the public health aspect. In fact, various studies have shone a light on the traces of plastic in food products, with undeniable long-term, yet still little known, impacts on human health.

Although this issue concerns all sectors, it has mainly been brought up in our dialogues with the food and retail sales sector. For those companies, the risks associated with this issue are particularly linked to reputation and lack of preparation for changing regulations. For example, Europe announced its [strategy](#) with regard to this issue in 2018. [The G7 also developed a charter in this field.](#)

As you Sow launched an [initiative](#) aimed at holding discussions with companies on this issue, and we have been taking part in the [PRI](#) working group dedicated to this. The initiative seeks to define precise indicators for evaluating and comparing companies in that area.

OPIOID CRISIS



The U.S. and Canada are facing a crisis in connection with the unprecedented consumption of opioids. While Canada has seen more than [3000 deaths](#) per year related to opioid consumption since 2016, the toll is over [40 000](#) in the U.S. – not counting the exponential number of individuals and families who suffer the disastrous effects of dependence on this type of product. The development of this crisis, due in great part to the [high opioid prescription rate and the appearance of powerful synthetic opioids](#) (like fentanyl), has had considerable and devastating effects on entire communities.

This issue relates primarily to the pharmaceutical sector (manufacturers, distributors, and retailers). We started discussing our action plan with American pharmacies (retailers) in 2018. In 2019, we plan to delve into this topic with Canadian retailers as well.

The risks these companies face are reputational but may also comprise litigation and prosecution. In fact, various states and communities in Canada and the U.S. have filed lawsuits against manufacturers and distributors to get them to acknowledge their responsibility.

In terms of best practices, we are asking companies to implement proper governance in order to manage this issue (especially regarding board responsibility and oversight), concrete measures to limit risk (patient awareness, training of personnel, prescription monitoring, medications return, availability of antidotes), and related objectives.

We are actively working as part of [The Investors for Opioid Accountability \(IOA\)](#) group established by the ICCR to coordinate our efforts with other investors. After filing a shareholder proposal asking Walgreens Boots to disclose its risk management associated with the opioid crisis, this coalition also celebrated a major victory when its proposal garnered more than 60% of shareholder votes.

CYBERSECURITY AND DATA CONFIDENTIALITY



These days, issues related to cybersecurity and the protection of confidential data are some of the predominant risks facing any business. Major companies, like Marriott and T-Mobile, experienced substantial breaches in 2018. As highlighted by the Canadian Centre for Cyber Security in its [National Cyber Threat Assessment 2018](#), such attacks have increased in number and sophistication this past year and are expected to keep growing in 2019.

While we discussed this issue with the banking sector, we plan to expand the number of sectors targeted in 2019.

For companies, the main risks arising from this issue are in the form of costs and reputational damage whenever an intrusion, system paralysis, and/or data theft occurs; as well as the lack of preparation regarding changing regulations. Indeed, the regulatory framework evolved considerably on an international scale in 2018. The European Union's *General Data Protection Regulation* (GDPR) came into force—regulation aimed at strengthening human rights and increasing the accountability of those handling data. In Canada, the Personal Information Protection and Electronic Documents Act (PIPEDA), which has been in effect since November 1st, imposes *new obligations* in case of data violation. In the U.S., the SEC published *interpretive guidance* to assist public companies in disclosing, monitoring, and meeting their obligations related to cybersecurity.

Turning to practices and companies, the *EY Global Information Security Survey 2018–19* notes that a substantial number (77%) of companies still operate with limited cybersecurity or resilience. Furthermore, the *PRI Report* on companies' disclosure of this issue emphasized the lack of information on the part of listed companies.

As for best practices, we are asking companies to implement proper governance in order to manage this issue (especially regarding board expertise, responsibility, and oversight), as well as concrete measures to evaluate and limit risk (especially in terms of staff training, internal and external audits, and resilience plan).

SUSTAINABLE DEVELOPMENT GOALS



Since 2018, we have aligned every one of our objectives with the *United Nations' Sustainable Development Goals*. The latter address the major global challenges associated with poverty, inequality, climate, environmental deterioration, and prosperity, along with peace and justice. The private sector plays an important role in the attainment of these goals. As the representative of our investing clients, we invite companies, through our dialogues, to improve their impact on the majority of these 17 Sustainable Development Goals.

COLLABORATIVE INVESTOR 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.	Intermediate – Support role <ul style="list-style-type: none"> ● Official member since January 2019 ● Advising on content and participants in the April 2019 annual conference
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.	Intermediate – Support role <ul style="list-style-type: none"> ● 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.	Advanced <ul style="list-style-type: none"> ● Signatory since Æquo's founding ● Participant in various collaborative initiatives
PRI Québec	Organization	Network of PRI signatories in Quebec, which was instrumental in disseminating the Principles of Responsible Investment within Quebec. The nature of this group has transformed considerably since the beginning of 2019, and our involvement will also be different this year.	Advanced <ul style="list-style-type: none"> ● Organizing thematic meetings on responsible investment ● Moderating and participating in various panels
Climate Action 100+	Collaborative engagement		Advanced <ul style="list-style-type: none"> ● Active participation in the North American group ● Leadership role on certain engagements with targeted companies
PRI collaboration on taxation	Collaborative engagement		Advanced <ul style="list-style-type: none"> ● Active participation as a member of the working group
PRI collaboration on agricultural supply chain labour standards	Collaborative engagement		Advanced <ul style="list-style-type: none"> ● Active participation as advisory committee member
PRI Plastic Investor Working Group	Working group		Advanced <ul style="list-style-type: none"> ● Working group
Working group on carbon asset risk	Working group		Intermediate – Support role





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