ACTIVITY REPORT 2021-2022

Analysis and Impact of Shareholder Engagement Activities

aequo

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

BÂTIRENTE

DESJARDINS
GLOBAL ASSET
MANAGEMENT INC.

Hydro Québec

Hydro Québec employees' retirement plan

RRSE
Regroupement pour
la Responsabilité
Sociale des Entreprises

CSN

CSN employees' retirement plan

HEXAVEST

FÉRIQUE
GESTION DE FONDS

Our MISSION

Æquo harnesses the collective power of investments from 360 organizations and retirement funds, representing close to 90,000 individuals. Æquo thereby mobilizes $112 billion in accumulated savings to support shareholder engagement strategies.

Our purpose is to guide our institutional investor clients in the implementation of responsible investment strategies.

Æquo's primary activity is leading shareholder engagement with listed companies on behalf of institutional investors seeking to integrate environmental, social and governance (ESG) practices into their investment strategies. By uniting investment clients' actions in engagement pools, Æquo amplifies their impact on the companies they hold in their portfolio.

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

Signatory of:

MESSAGE FROM THE CHAIRWOMAN AND THE CEO

Dear partners,

For the past year, we still found ourselves in the throes of the economic and social turbulence brought on by the COVID-19 pandemic. As the global crisis of such magnitude continues, we are gradually discovering its cumulative effects.

Governments have deployed a range of social and economic measures never seen before, as they turned to all possible budgetary, tax and monetary tools at their disposal to deal with these exceptional circumstances. At the beginning of the year, with the impending Russian invasion of Ukraine, our societies proved their resilience and their ability once again to close ranks, despite the narrow corridor imposed by the "nuclear balance."

What can we learn from these reactions with regard to successive crises, when humanity must fight more than ever against climate change as well as against poverty and inequality—phenomena that are indifferent to borders?

Faced with these challenges, the world has discovered its ability to work together and show solidarity in responding to the most urgent situations; to overcome differences so we can achieve consensus on what truly matters; and to find solutions to the tough problems when there is the will to do so. We were able to undertake the mass production of vaccines and personal protective equipment in record time. Able to agree on never-before-seen economic sanctions. Able to free ourselves from our fossil fuel dependence. Able to meet the challenge of a more sustainable world.

The world has proven just how possible it is to cooperate to overcome our greatest challenges! And the investment world must take the lead, join forces and boost its contribution.

Responsible investment is likely the most important innovation in the financial world since the start of the new millennium. This concept has seen a breakthrough that is picking up speed and, according to many, is at a turning point, while sustainable finance practices are being adopted and are spreading at a constantly quicker pace.

One of the most unique aspects of this movement is the paradigm shift that it has introduced into the definition of relations between investors. The finance world was built on the idea of competition and a contest between the various players—a kind of role-play, where each seller and buyer, in turn, hides their game. Responsible finance is a game changer in that it encourages active collaboration among investors in the pursuit of a common interest.

This is precisely the foundation upon which Æquo seeks to support its financial community's ability to collaborate more effectively, in order to implement impactful responsible investment and shareholder engagement practices. To allow it to reach the risk-adjusted yield levels expected by its beneficiaries and clients, while preserving the human and natural capital needed to produce the wealth it seeks to harvest.

In closing, we wish to acknowledge the contribution of Normand Brouillet, economist and corporate director, to Æquo's Board of Directors since its inception and until his retirement from the Board in the fall of 2021. We are also pleased to welcome the new CEO of Bâtirente, Éric Filion, actuary, whose qualities and expertise will be a valuable tool for Æquo.

Josée Cavalancia
Chairwoman of the Board

Daniel Simard
Interim CEO

PROCESS, METHODS *AND RESULTS*

SHAREHOLDER DIALOGUE: FOR SOUND INVESTMENT STEWARDSHIP

At Æquo, our engagement approach is aimed at improving companies' ESG practices and performance, through constructive and informed discussions. In order to amplify its impact, this engagement is conducted on behalf of our 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 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 on new public or private regulations.

SELECTION OF COMPANIES

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

- Our analysis of the ESG performance of companies held in our clients' portfolios, particularly compared with their peers, or 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.

Our 2022 engagement plan contains a Canadian plan, which consists of 33 companies, and an American plan, comprising 28 companies, for a total of 61 targeted dialogues. Companies might be integrated during the year, depending on the potential opportunities and impact that the engagement pools could have.

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 for Æquo to create a climate of trust between our contacts and us.

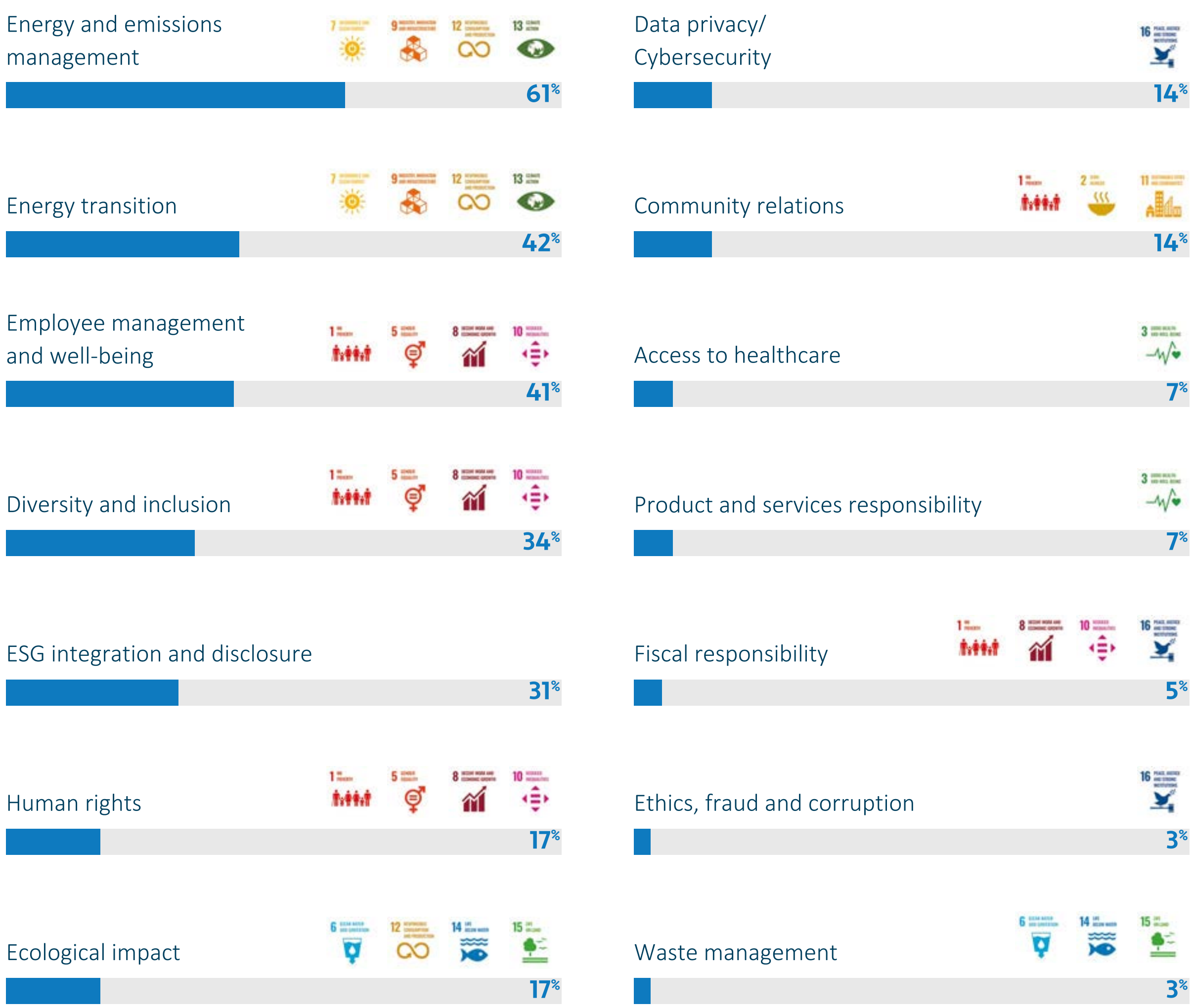
For each dialogue, we evaluate the ESG practices, risks and opportunities. We then define objectives that aim at improving ESG performance, with measurable outcomes. To track their progress, we have developed an objective achievement scale.

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

2021 INDUSTRIES, ISSUES AND RESULTS

MAIN ISSUES DISCUSSED IN 2021[1]



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

We held dialogues with 59 companies in 2021. Every company we invited for a discussion agreed to speak with us. We discussed 15 ESG topics, including human-related issues (human rights, employee management and well-being, and diversity and inclusion) with 50% of the companies, and climate issues with 76% of them.

We also discussed other important issues, including product accessibility and responsibility; plastic management; chemical substances and pesticides; and cybersecurity and data privacy.

In 2021, we made progress in 83% of companies with which we held dialogues and achieved at least one goal for 56% of the companies.

The quality of the relationships we nurture with companies is at the heart of our mission's success. For example, 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 major 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 several of our clients in filing three shareholder proposals (one with CIBC and two with Imperial Oil), one of which (Imperial Oil) was put to the shareholders for a vote. For more on the context, demands, and results of our discussions with these two companies in connection with the abovementioned proposals, see the "Climate Risks" section further down in this report.

Visit our website at www.aequo.ca under the "News" section, for more information on activities and their results.

In 2021, we made progress in 83% of companies with which we held dialogues and achieved at least one goal for 56% of the companies.

2021-2022 CANADIAN ENGAGEMENT POOL AND MAIN ISSUES BY INDUSTRY

INDUSTRY	COMPANY*	E	S	G
Insurance	Fairfax Financial Holdings	Climate resilience Energy transition	Cybersecurity and data privacy Diversity and inclusion	Environmental and social governance
Commercial banks	CIBC Bank Bank of Montreal **National Bank** Royal Bank Scotiabank TD Bank	Climate resilience Energy transition	Diversity and inclusion	Environmental and social governance Responsible tax practices
Food retailers	Alimentation Couche-Tard Empire Company Loblaw Metro	Energy management Ecological impact	Diversity and inclusion Human rights Employee management and well-being Product and services responsibility	Environmental and social governance
Specialized retailers	Canadian Tire *(not renewed in 2022)* Dollarama	Energy management Ecological impact	Diversity and inclusion Human rights Employee management and well-being Product and services responsibility	Environmental and social governance
Real estate	Granite Real Estate Investments *(not renewed in 2022)*	Energy management Ecological impact Climate resilience	Diversity and inclusion	Environmental and social governance
Software and IT services	CGI Constellation Software Descartes Open Text *(not renewed in 2022)*	Energy management	Cybersecurity and data privacy Diversity and inclusion	Environmental and social governance Fraud and corruption
Mining	Barrick Gold First Quantum Minerals *(not renewed in 2022)* Pan American Silver *(not renewed in 2022)* Teck Resources Wheaton Precious Metals *(not renewed in 2022)*	Energy management Gestion des déchets Ecological impact	Local communities Diversity and inclusion Human rights Employee management and well-being	Environmental and social governance Responsible tax practices
Oil and gas	Canadian Natural Resources Cenovus Energy Enbridge Imperial Parkland Fuel Pembina Pipeline Suncor TC Energy **Tourmaline Oil**	Energy management Ecological impact Energy transition	Local communities Diversity and inclusion	Environmental and social governance
Automotive	Magna International	Energy management Ecological impact Energy transition	Diversity and inclusion Human rights Employee management and well-being	Environmental and social governance
Chemical products	Nutrien	Energy management Ecological impact	Diversity and inclusion	Environmental and social governance
Engineering and construction services	WSP	Energy management Energy transition	Diversity and inclusion Employee management and well-being	Environmental and social governance Fraud and corruption
Telecommunications services	Telus	Energy management	Cybersecurity and data privacy Diversity and inclusion Product and services responsibility	Environmental and social governance
Power utilities	**Capital Power** Fortis	Energy management Energy transition	Diversity and inclusion	Environmental and social governance
Rail transport	**Compagnie de Chemin de fer Canadien Pacifique**	Energy management Ecological impact	Diversity and inclusion Employee management and well-being Community Relations	Environmental and social governance

** New companies in the 2022 engagement pool are indicated in bold*

2021-2022 AMERICAN ENGAGEMENT POOL AND MAIN ISSUES BY INDUSTRY

INDUSTRY	COMPANY*	E	S	G
Processed foods	Mondelez International **Tyson Foods Inc.**	Energy management Ecological impact	Human rights Diversity and inclusion Employee management and well-being Product and services responsibility	Environmental and social governance
Commercial banks	Bank of America Citigroup First Republic Bank U.S Bancorp	Climate resilience Energy transition	Diversity and inclusion	Environmental and social governance Responsible tax practices
Biotechnology and pharmaceutical	Abbvie Biogen *(not renewed in 2022)* Johnson & Johnson Pfizer	Energy management	Accessibility of products Diversity and inclusion Employee management and well-being Product and services responsibility	Environmental and social governance
E-commerce	Amazon	Energy management	Cybersecurity and data privacy Diversity and inclusion Human rights Employee management and well-being	Environmental and social governance
Medication retailers	CVS Health *(not renewed in 2022)* Walgreens Boots Alliance *(not renewed in 2022)*	Energy management	Accessibility of products Diversity and inclusion Employee management and well-being Product and services responsibility	Environmental and social governance
Specialized retailers	Dollar General Dollar Tree Target TJX Companies Wal-Mart	Energy management Ecological impact	Diversity and inclusion Human rights Employee management and well-being Product and services responsibility	Environmental and social governance Fraud and corruption
Software and IT services	Microsoft	Energy management	Cybersecurity and data privacy Diversity and inclusion Human rights Employee management and well-being	Environmental and social governance
Mining	Newmont Mining	Energy management Gestion des déchets Ecological impact	Local communities Human rights Diversity and inclusion Employee management and well-being	Responsible tax practices
Oil and gas	Eog Resources *(not renewed in 2022)* Exxon Mobil Valero Energy	Energy management Ecological impact Energy transition	Local communities Diversity and inclusion	Environmental and social governance
Healthcare	Universal Health	Energy management	Accessibility of products Diversity and inclusion Employee management and well-being Product and services responsibility	Environmental and social governance
Household and personal products	**Estée Lauder**	Energy management Ecological impact	Diversity and inclusion Human rights Product and services responsibility	Environmental and social governance
Restaurants	McDonald's	Energy management Ecological impact	Diversity and inclusion Human rights Employee management and well-being Product and services responsibility	Environmental and social governance
Engineering and construction services	D.R Horton	Energy management Ecological impact Energy transition	Diversity and inclusion Employee management and well-being	Environmental and social governance
Telecommunications services	AT&T Verizon	Energy management	Cybersecurity and data privacy Diversity and inclusion Product and services responsibility	Environmental and social governance
Professional and commercial services	Costar Group	Energy management	Cybersecurity and data privacy Diversity and inclusion	Environmental and social governance
Power utilities	DTE Energy *(not renewed in 2022)* Public Service Enterprise **Edison International**	Energy management Ecological impact Energy transition	Diversity and inclusion	Environmental and social governance

** New companies in the 2022 engagement pool are indicated in bold*

INITIATIVES COLLABORATIVES D'INVESTISSEURS

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
Collaboration on the responsibility for opioids and other medications (ICCR)	Collaborative engagement	Investors for Opioid and Pharmaceutical Accountability (IOPA) is a global coalition of institutional investors. IOPA was created with the goal of maintaining a dialogue with opioid manufacturers, distributors, and pharmacies, about the risks of opioids and other pharmaceutical products.	• Participation in meetings • Exchange of information related to companies in the engagement pools targeted by the initiative
Collaboration on the reduction in pesticide use and safer management of chemical products (ICCR)	Collaborative engagement	Investor collaboration on the risks related to the use of pesticides and other toxic chemical products in supply chains	• Participation in meetings • Exchange of information related to companies in the engagement pools targeted by the initiative
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 • Participation in various collaboration initiatives
PRI Committee on shareholder engagement (Active Ownership 2.0)	Working group	Advisory committee on the PRI's direction regarding shareholder engagement and proxy voting	• Active participation as a member of the working group
Climate Action 100+	Collaborative engagement	Initiative bringing together 545 investors from across the planet (collectively managing $54 trillion in assets) to join in on an engagement plan aimed at the world's 167 biggest corporate (public company) GHG emitters. Æquo coordinates engagements with three of the five companies in Canada.	• Active participation in the North American group • Æquo is leading dialogues for three of the five Canadian companies targeted by the initiative (Enbridge, TC Energy and Imperial)
Climate Engagement Canada (CEC)	Collaborative engagement	CEC is a finance-led initiative that drives dialogue between the financial community and Canadian companies to promote a just transition to a net zero economy.	• Æquo is leading and taking part in some of these dialogues • Participation on behalf of Bâtirente as a member of the Technical Committee
PRI Plastic Investor Working Group	Working group	This PRI working committee raises investors' awareness and understanding of the impacts, risks, and opportunities related to plastic.	• Active participation as a member of the working group
Working group on risks associated with carbon assets	Working group	Led by the Ceres organization, the Carbon Asset Risk Working Group (CAR) brings together investors and focuses on dialogue with energy companies about issues related to climate risks.	• Participation in meetings • Exchange of information related to companies in the engagement pools targeted by the initiative
Oil and gas technical subcommittee of the Standards Council of Canada (CSA) tasked with creating a transition taxonomy	Working group	The aim of this subcommittee was to determine the transition activities for the oil and gas sector, with the goal of developing a national standard specific to Canada for "transition financing."	• Active participation on behalf of Bâtirente as a member of the working group
Investor collaboration on issues related to facial recognition technology	Collaborative 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.	• Participation in group meetings • Participation in two dialogues (Microsoft and Amazon)
Collaboration of the Access to Medicine Foundation	Collaborative engagement	This initiative focuses on the world's biggest pharmaceutical companies, by 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 • Exchange of information related to companies in the engagement pools targeted by the initiative

ISSUES TO HIGHLIGHT

CLIMATE RISKS

This issue was given priority in our discussions with companies in the energy sector as well as the banking sector (which finances them)—and, more generally, with the companies in all activity sectors—insofar as the central role they play in energy transition and in reducing their dependence on fossil fuels.

In its "Net Zero by 2050" report, the International Energy Agency (IEA) stated that reaching net zero emissions by 2050 means committing to no further involvement in the development of new oil and gas fields. Moreover, the latest IPCC reports make it clear that if the possibility is still there to limit global warming to 1.5°C, this can only happen through an immediate and consistent reduction in emissions by all sectors. Despite this statement, the "2021 Oil and Gas Benchmark" shows that the most influential players in this sector will deliberately move in the opposite direction, choosing the "take what you can, while you can" approach. As for the banking sector, the most recent report, "Banking on Climate Chaos 2022," underscores, once again this year, the central role of Canadian banks in financing oil and gas companies.

While studies highlight the fact that mandatory ESG disclosure reduces the risk of ESG controversies and probabilities of a significant drop in share price, international regulations are evolving in this area. Europe continues to work on the ESG disclosure obligations of investors (Sustainable Finance Disclosure Regulation) and companies (Corporate Sustainability Reporting Directive), as well as the taxonomy for classifying sustainable activities. Canada, unfortunately, lags behind when it comes to sustainable finance. According to the report "Changing Gears: Sustainable Finance Progress in Canada," published by the Institute for Sustainable Finance, Canada made "significant" progress on only one of the 15 recommendations formulated in 2019 by the Expert Panel on Sustainable Finance. Furthermore, we were sorry to learn that the process for developing a Canadian taxonomy, in which we took part, has been put on hold due to the current lack of consensus among members.

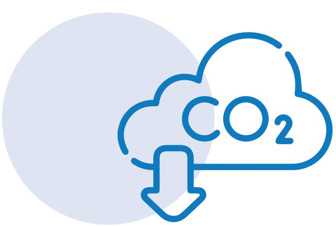
In spite of this, we welcomed the plan by the Government of Canada describing measures aimed at a 40-45% reduction in GHG by 2030 (compared to 2005) and achievement of carbon neutrality by 2050. The plan provides for reductions in GHG (31% by 2030, with a starting point in 2005) and methane (75% by 2030) for the oil and gas sector.

In terms of stock market regulatory authorities, the Securities and Exchange Commission (SEC) recently proposed a number of climate disclosure rules, and the Canadian Securities Administrators (CSA) published a project with the same goal in mind. We provided comments on it to improve its relevance and robustness.

Æquo is pleased to be a participant in Climate Engagement Canada (CEC), a collaboration by investors launched in 2021, which specifically targets the largest GHG emitters in Canada, regardless of sector. We wholeheartedly joined this initiative so we could lead and take part in specific dialogues, while representing Bâtirente on their technical committee. We continue our work on ***Climate Action 100+*** (CA100+) by leading three dialogues in Canada (TC Energy, Imperial, and Enbridge). In its report evaluating the world's largest corporate greenhouse gas emitters with regard to their transition to net-zero emissions (published in 2021 and updated in 2022), CA100+ highlighted the fact that the majority of the companies targeted by the initiative were unable to make progress on key indicators, such as disclosure of medium-term emission reduction targets and investment strategies aligned with a 1.5°C scenario. In terms of what we are seeking, it specifically aims to have companies go beyond their carbon neutrality commitments. We require concrete information about how they plan to achieve that target, through the development of a comprehensive and robust transition plan aligned with a 1.5°C scenario, which includes:

- absolute reduction targets including indirect emissions
- interim targets
- Information on investors' alignment with such a scenario.

EXAMPLES OF CLIMATE GOALS ACHIEVED

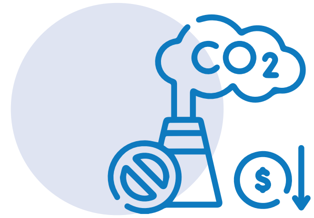


ABSOLUTE EMISSION REDUCTION TARGET

Suncor set itself an absolute reduction goal for its emissions. As for Imperial Oil, our client Bâtirente agreed to withdraw a shareholder proposal in exchange for the oil company's commitment to work toward adopting an absolute reduction target for its oil sands operations and its activities downstream of the extraction.

CARBON NEUTRALITY GOAL

Magna, Suncor, TC Energy, Valero, Verizon and WSP adopted a carbon neutrality target by 2050—a key commitment in aligning their strategies with Paris Agreement commitments.



REDUCTION IN FINANCED EMISSIONS

The Bank of Montreal (BMO), Royal Bank of Canada (RBC), Scotiabank, TD Bank and CIBC joined the Net-Zero Banking Alliance. They too adopted a target aimed at achieving net-zero financed emissions by 2050. BMO, Scotiabank, CIBC and TD Bank announced interim targets for specific sectors, including the oil and gas sector.

NEED FOR ACTIVE ROLE BY OIL COMPANIES AND BANKS IN ACCELERATING ENERGY TRANSITION

Last spring, just a few days ahead of COP26, a small revolution took place within the energy community. That was when the International Energy Agency (IEA) adopted a decidedly more favourable stance on accelerating the energy transition—a switch from its historically more limited role as gatekeeper for maintaining the world's oil supply. Having produced annual scenarios for the energy sector's evolution, the IEA embarked on a new scenario called "Net-zero emissions by 2050." This scenario proposes a trajectory by which demand for petroleum products would experience such a drop that no new oil and gas extraction capacity would be needed today. This conclusion generated considerable discussion in the business and finance realms, which is still being echoed now.

On behalf of its clients—institutional investors—Æquo has been closely monitoring these developments and regularly refers to the Net Zero Emissions (NZE) scenario in its dialogues. To meet the "net-zero emissions" goal sought by the international community, the demand for hydrocarbons must necessarily fall, while petroleum producers would increasingly benefit from revisiting their strategic plans and, at the very minimum, cease their exploration and capital investments in new extraction projects.

We raised this question with Imperial Oil, whose long-term strategy remains centred on their oil sands operations. Even if the company's current strategy is focused more on enhancing existing assets and it does very little exploration as such, we maintain that it would be preferable for the company to clearly state that it is abandoning the exploration and development of new extractive projects.

We are also discussing this issue with Canadian banks. The latter are resistant to the idea of imposing measures on their clients, preferring instead to work with them to facilitate their transition plan. However, these transition plans vary greatly from one company to the next, both in terms of their transparency and their ambition. The current prevailing line of thought within the Canadian oil and gas sector, as well as in the banking sector, is that a reduction is needed when it comes to GHG emissions per barrel of oil produced, but not necessarily a reduction in overall barrel production. We believe that to speed up the energy transition, we will need to reduce fossil fuel demand as well as supply. We were able to convince CIBC to recognize this idea as part of the negotiation surrounding the withdrawal of a shareholder proposal filed by our clients Bâtirente and the Congrégation de Notre-Dame. Furthermore, we agreed that the bank would commit to supporting its clients in reducing their total GHG emissions, both those originating in their operations and those coming from the consumption of their products. We are trying to gain acceptance for the notion that a transition plan should also include the goal of reducing end users' indirect emissions. For an oil company, this means reducing its dependence on hydrocarbons for the purpose of combustion and diversifying its revenue sources by looking to renewable energy.

HUMAN RIGHTS

This topic was addressed with nearly 20% of the companies with which we held discussions in 2021, primarily companies in the retail sector.

Poor human rights management practices create risks for a company, whether these relate to their corporate reputation, the upgrading of practices in a context of regulatory changes, or even their operations.

As revealed by numerous studies, including that of the Clean Clothes Campaign, the pandemic's effects have highlighted the inequalities and abusive practices within global value chains. There still is considerable work to be done in the area of human rights management. For example, allegations of abuse were identified in the supply chains of more than half (54%) of the companies evaluated in the latest report from Know The Chain—the Apparel and Footwear Benchmark Report.

Investors are missing transparency with regard to supply chains and the way in which companies manage human rights-related risks. As such, we lack information about direct suppliers and even more often about indirect suppliers (particularly their geographic location and workforcce). What's more, companies disclose very little information as to how their risks are assessed and managed; particularly on the proportion of the supply chain assessed, on the risks identified and on the ways in which these risks are addressed and mitigated on the ground.

As rightly underlined by the International Federation for Human Rights (FIDH) report "*From Policies to Impacts: Analysing Modern Slavery Risks in Portfolio Companies*," investors need to look beyond corporate policies and codes of conduct when analyzing the practices of companies held in their portfolio, and put the emphasis instead on corporate disclosure and analysis of indicators that could actually demonstrate their implementation and the real impact these have on the ground. Thus, in addition to our requests for disclosure regarding approach and policies, one of our aims is to obtain information on the way stakeholders and workers are actually consulted in the overall process, as well as how grievance processes are implemented (including the proportion of the supply chain covered, along with the number and type of complaints received and addressed) and, depending on their analysis, how these processes help change such practices in the workplace, adapt the corporate strategy and mitigate corporate risks.

Integrating workers and their voice in the risk assessment and management processes is crucial. To that end, we were glad to learn that the Bangladesh Accord was renewed and extended for two more years. This Accord was put in place following the 2013 collapse of the Rana Plaza (a building housing garment factories) that caused the death of more than 1,200 people, and it provides for bipartisan governance (brands and unions). It led to substantial improvements in the labour conditions of two million workers from this industry in Bangladesh, resulting in 1,600 safer garment factories, along with the creation of a transparent complaint mechanism. The new Accord, signed by 170 brands, aims to expand these safety standards to other countries and markets, by using the framework of the Bangladesh Accord.

NEED FOR STRONG REGULATION REGARDING DUE DILIGENCE

According to the OECD, a company's obligation for due diligence includes identifying, preventing and mitigating the real and potential negative impacts of their activities, and being accountable for the way in which these impacts are addressed. Many legislative initiatives have been developed in this area over the last few years, especially in France, Germany, Norway and, more broadly, the European Union (through the proposal of the Directive on corporate sustainability due diligence). Canada lags behind on this issue. Various legislative bills have been tabled in recent months. Bill S-211, which was tabled in November 2021, is not very ambitious, especially when it comes to the magnitude of the issues at hand, minimum required practices and accountability. More ambitious bills on these various points were tabled in the spring, namely C-262 (on due diligence) and C-263 (on the ombudsman's expanded role), and supported by the Canadian Network on Corporate Accountability (CNCA).

The Know the Chain report *Closing the Gap: Evidence for Effective Human Rights Due Diligence from Five Years Measuring Company Efforts to Address Forced Labour* emphasizes that these new laws should, at the very minimum, integrate the following principles:

- traceability and supply chain transparency
- risk assessment and stakeholder engagement
- responsible purchasing practices and freedom of association
- worker-oriented grievance mechanisms.

In addition to supporting the CNCA's "Support for Canadian mandatory human rights and environmental due diligence legislation," we guided RRSE and its human rights' committee during its awareness campaign on this issue. In that connection, we took part in the conference organized jointly with Université Laval, called "Our companies abroad: Aiming for a framework for business practices in 2022?" The conference helped bring together European and Canadian academics, companies, stakeholders and political representatives to share their viewpoints and knowledge in this area, and to help advance business practices and legislation.

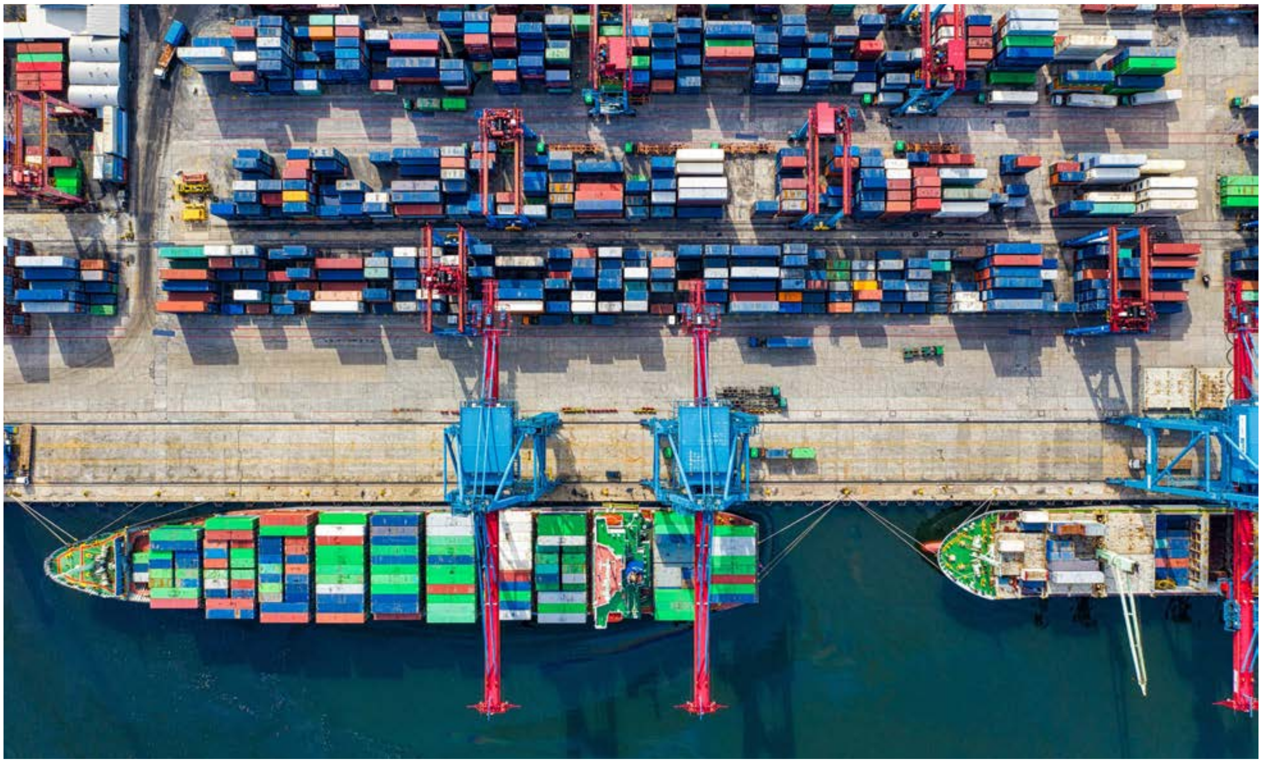
DOLLARAMA: SLOW BUT NOTICEABLE IMPROVEMENT IN ESG PRACTICES AND DISCLOSURE

Dollarama is a low-cost retailer (dollar store) with whom we have been holding dialogues for many years. In Canada, this company of more than 24,000 employees owns and operates over 1,300 stores. It also has a majority stake in Dollarcity, a low-cost Latin American retailer boasting more than 3,000 employees.

The business model for this type of low-cost retailer is based on an extensive international supply chain of low-priced products. The main issues facing these companies, and which our dialogues focus on, are:

- product responsibility
- ecological impact
- human rights and labour conditions in their supply chain
- human resources management
- diversity and inclusion
- energy and emissions management.

In 2019, after nearly five years of dialogue with Æquo, Dollarama finally published its first ESG report. Though somewhat limited, we considered this to be a good first step in the right direction. In 2021, we highlighted the progress made in their disclosure in their second ESG report, particularly the presence of more performance indicators. The company is now aligning its reporting with SASB standards and has set itself formal ESG targets whose progress it monitors. It now publishes information about product recalls, diversity and employee salaries. As for auditing, the company has been prioritizing some of its direct suppliers, specifically in China, and is working with an independent audit firm to strengthen the company's control over its indirect suppliers. It plans to align its disclosure with the TCFD and is working on measuring its indirect emissions. Although we view this as significant progress, we will continue our discussions with the company so that it further improves its practices and disclosure related to human rights management in its supply chain.



DIGITAL TECHNOLOGIES AND PRIVACY RISKS

Digital technologies and the companies associated with their development and usage (hardware and software manufacturers, service providers and telecommunications companies) play a central role in our globalized economy. The necessity of remote work ushered in by the pandemic merely reinforced this dynamic. The "Tech giants and human rights: Investor expectations" report, published by the Danish Institute for Human Rights in 2021, sheds light on the impact of these companies on human rights. These risks relate to violations of privacy and of freedom of expression; and the dissemination of hate speech or disinformation, or even discrimination.

As a reminder, the *Universal Declaration of Human Rights, International Covenant on Civil and Political Rights, Canadian Charter of Rights and Freedoms, and Quebec Charter of Human Rights and Freedoms* all recognize the right to privacy as a fundamental right. Collected data may be used to "feed" automated decision-making processes that are based on artificial intelligence (AI). The "*2021 Digital Inclusion Benchmark*" focuses specifically on the fact that scores of digital companies cite the benefits and potentials of AI, yet hardly any of them seem concerned by the risks entailed. At the end of 2021, the United Nations High Commissioner for Human Rights published "The right to privacy in the digital age," a report analyzing the impact of these new technologies on our enjoyment of the right to privacy and related rights. These negative impacts can be tied to data breaches; data gathered without consent; bias or errors arising during data collection or in the interpretation thereof; and discrimination. As for the companies developing or using this kind of technology, what we are asking of them is in line with the report's recommendations. They aim to ensure that these companies:

- adopt policies and principles on the ethical usage of such technologies
- limit data collection, their retention period, and their distribution
- promote control of data by the users
- put in place a due diligence process aimed at identifying, evaluating, preventing and mitigating their negative impacts on human rights
- be transparent on these various points as well as on the decision-making processes and algorithms used by their AI technology.

FACIAL RECOGNITION TECHNOLOGY

Even if the development of new technology related to facial recognition could be potentially useful for our societies, the way in which this technology is used today has spawned a number of ethical issues regarding its human rights impact.

The rapidly expanding facial recognition field has developed in a relatively opaque fashion, certainly more quickly than the legislative framework intended to control its development and usage. The main risks associated with the use of this technology have to do with its reliability (e.g., the higher rates of error among visible minorities and women), privacy violation, consent of individuals, and mass surveillance (especially in China, as reported by various media).

In this context, it is important for investors to integrate these risks and put pressure on companies to ensure the latter improve their practices. Æquo has been taking part in the investor collaboration on this issue initiated by Candriam. An investor statement and white paper have been published. The initiative aims at companies developing and using this type of technology, and its goal is multifaceted:

- define best practices
- maintain a dialogue with companies
- improve their practices and their transparency.

ESG-BASED COMPENSATION

Effective consideration of ESG issues is based on the sound governance of these factors. In that connection, integrating incentives into executive compensation can act as a leverage for improving companies' practices. Moreover, as ESG practices evolve, so do the metrics and indicators that make it possible to evaluate these practices as well as their impact. Companies are subject to increasing pressure from stakeholders to integrate such incentives. Æquo is working in that direction.

A report by the firm Hugessen, on the practices of S&P/TSX60 companies in this field, provides a snapshot of the trends in Canada. Accordingly, they reveal that in 2021, approximately two thirds of these companies integrated ESG measures into their incentive plan. The most common issues pertain to health and safety, followed by those related to human resources management (employee engagement as well as diversity, equity and inclusion) and, finally, those tied to customer satisfaction and the environment. Looking at the situation in the U.S., the *Semler Brossy* report notes that 57% of S&P 500 companies have integrated ESG measures into their incentive plan. Diversity, equity and inclusion is the most widespread ESG measure (promoted through the action of social movements denouncing racial inequalities in the United States these past two years), ahead of measures related to customer satisfaction, health and safety, human resources management and, finally, the environment.

As to the practices of companies in our engagement pool, our findings are consistent with those detailed in the Hugessen report. The most common ESG issues are not well-entrenched, and companies disclose little information about targets and performance indicators. Our main demands for companies in our engagement pool are fourfold:

- integrate, on a priority basis, incentives tied to their material ESG issues
- define goals suitable to the issue they are trying to mitigate and relevant performance indicators
- disclose information regarding targets and performance indicators
- expand the proportion of compensation related to ESG goal achievement.

We also encourage companies to work together with standards-setting bodies (including SASB) and with investors to define relevant indicators. One case where this applies concerns access to healthcare, in connection with a collaboration being led by Achmea, which aims at pharmaceutical companies that produce COVID-19 vaccines. We are asking these xcompanies to follow the World Health Organization (WHO) roadmap on COVID vaccine access (particularly for populations in low- and middle-income nations) and to integrate WHO targets in their executive compensation strategy, in a significant, relevant, measurable and transparent fashion.

Since 2018, we have aligned each of our objectives with the United Nations Sustainable Development Goals. The latter are aimed at the world's greatest challenges related to poverty, inequality, climate, environmental degradation, and prosperity, as well as peace and justice. The private sector plays a pivotal role in achieving these objectives; and as a representative of our clients, we encourage companies, through our dialogues, to improve their performance in all 17 Sustainable Development Goals.

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