IPC | PORTFOLIO SERVICES

Quarterly ESG Report

Q1 2024

Understanding Greenwashing

We're seeing a growing number of companies touting Environmental, Social and Governance (ESG) policies as investors continue to recognize the importance of sustainable investing. This raises legitimate questions around "greenwashing", and investors want to know how to identify the difference between reality and fiction.

To help answer this important question, I would like to discuss how our Three-Pillar Process for Sustainable Investing addresses the risk of greenwashing within our portfolios. But before we get into our process, let's define greenwashing, highlight some examples, and discuss how market regulators are helping to improve the reporting and disclosure for investors.

Greenwashing can come in a few different forms, so let's split it into two levels:

1 **At a company level,** greenwashing is a form of misinformation often used to entice consumers who are interested in being more environmentally responsible with their choices. Companies promising to be sustainable, biodegradable, or environmentally conscious occasionally fail to meet the promises they make to consumers [1]. One high-profile example that received a lot of media attention was when Volkswagen was charged with deceiving consumers through its "Clean Diesel" Campaign [2].

2 **Moving up one layer,** greenwashing can also occur at the investment product level, such as in mutual funds and ETFs. In this instance, greenwashing is the practice of investment managers passing off funds and processes as being ESG-focused when they are not, or overstating the impact of an ESG strategy within their portfolio's process.

As the number of investors who recognize the importance of ESG investing continues to grow, we are seeing an uptick in greenwashing cases across the globe. Thankfully, several large institutions are working on behalf of investors to ensure that reporting, marketing materials, etc., are providing accurate disclosures. **Here are a couple of examples of how regulators are actively reviewing companies and/or investment funds:**

1. **Companies:** Globally, regulators want to ensure plain, fair, and true disclosure is being made by companies. For example, the Australian Securities & Investments Commission (ASIC), distilled

their process down to ensure businesses are being transparent, accountable, and consistent. To simplify it further, a commissioner at ASIC said: "...provided the following guiding principles:

> ***"did you do what you said you would do,***
> ***did you explain it clearly, and did people understand***
> ***that what you did is what you said you did?".***

These are the basic questions they keep top of mind when auditing companies.

2. **Investment funds:** The Canadian Securities Administrators (CSA) protects Canadian investors from unfair, improper, or fraudulent practices and fosters fair and efficient capital markets[3]. In January 2022, the CSA released their first draft of CSA Staff Notice 81-334 – ESG-Related Investment Fund Disclosure, and a revised version was released in March 2024. The intention of the Staff Notice is to provide guidance on the disclosure and sales communication practices of investment funds as they relate to ESG matters. Since the original publication in January 2022, the CSA conducted ESG-focused reviews of the disclosure and sales communications of investment funds. They looked at:

    a. the prospectuses, related offering documents, and sales communications of 112 ESG-related funds across 57 investment fund managers;

    b. continuous disclosure, portfolio holdings, past ESG-related proxy votes, and sales communications of 50 ESG-related funds across 35 investment fund managers; and

    c. sales communication reviews on an ad-hoc basis across six investment fund managers.

    The results from these reviews were published in March 2024 and highlighted some key findings[4]. Most of the funds that were reviewed met the expectations outlined in the 2022 Notice, however, there were two important observations from the ESG-Focused Reviews:

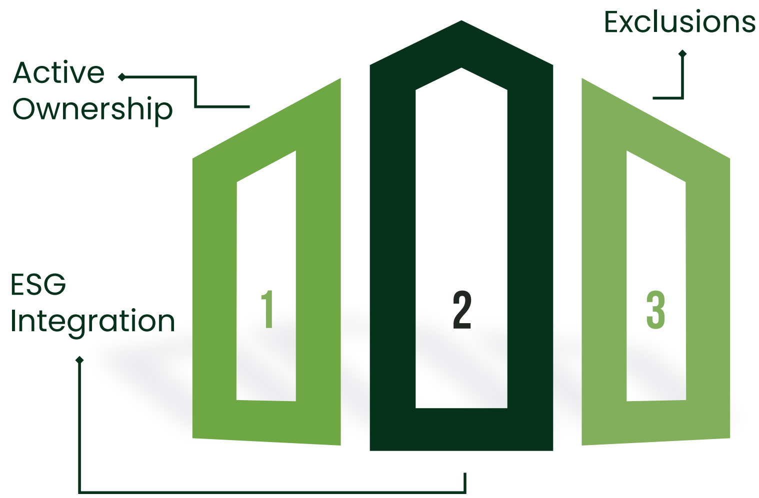
    a. **Best practices:** most funds did not follow the best practices relating to continuous disclosure that were set out in the 2022 Notice, including those related to Management Report of Fund Performance (MRFP) disclosure about the fund's progress or status towards meeting the fund's ESG-related investment objectives and disclosure about past proxy voting records and shareholder engagements.

    b. **Portfolio holdings:** during the ESG-focused reviews, staff found instances in which a fund had inadvertently held investments that should have been screened out based on the negative screens set out in the investment strategies for the fund.

Now that you have some background on greenwashing, we can examine how IPC Portfolio Services' Three Pillar Approach aids in reducing your portfolio exposure to potential greenwashing risks. We will start by reviewing our Active Ownership partnership and how our ESG partner, ISS ESG (ISS), conducts meaningful research, engagement, and proxy voting on our behalf. Then, in our Investment Specialist Spotlight, two managers share their processes for minimizing greenwashing. Finally, we will discuss how the exclusion of specific companies due to ethical reasons has further strengthened protection by avoiding higher-risk areas.

Our Three-Pillar sustainable investing approach promotes positive ESG policies in the companies we hold:

Three Pillars for ESG



1. **Active Ownership:** We practice active ownership through proxy voting activity and corporate engagement.

2. **ESG Integration:** We encourage our investment specialists to identify, monitor and manage ESG risks and opportunities that are, or could become, material to long-term performance, while recognizing the importance of ESG factors across industries, geography, and time.

3. **Exclusions:** Negative screening of certain companies or practices based upon specific ESG criteria.

Active Ownership

IPC Portfolio Services has partnered with ISS, an industry-leading company for shareholder services, to engage with corporations and assess all economic social governance engagement activities. This partnership enables us to participate alongside other asset managers to exert more influence than we would be able to through individual engagements.

Of note, ISS was recently named **"Best ESG Ratings Provider"** for 2024 by ESG Investing, a London-based media platform and a division of Global Markets Media Ltd. covering ESG and sustainable investing for fund managers, institutional investors, and listed companies. ISS's Corporate Rating uses a clear approach that considers a comprehensive perspective of ESG management and outcomes. It examines both current and future material risks related to ESG, as well as the potential benefits and effects on a company and its supply chain.

To discover companies that might be misleading investors, it is crucial to understand what metrics need to be considered for various ESG areas and how to track, measure, and benchmark them. Analyzing and monitoring the ESG risks and opportunities of all the companies that make up an investment portfolio quickly becomes a daunting exercise. This is one of the reasons our Portfolio Management (PM) team chose to partner with ISS for our shareholder services. At our core, IPC Portfolio Services believes in partnering with industry leading companies to ensure we're providing the best client experience, and leveraging ISS's expertise is an important ingredient in our process.

On our behalf, ISS conducts in-depth research and fact-finding dialogues with companies and stakeholders. Once a company is identified as being involved in a relevant controversy, it is considered for their Norm-Based Engagement. Through their feasibility studies, ISS identifies gaps in company disclosure and assesses whether investor dialogue is appropriate. They look at key areas such as the company's level of responsibility, steps the company has taken to mitigate possible failure to respect a norm, and the availability of stakeholder and expert sources to facilitate constructive dialogue.

Every engagement ISS conducts includes clear and actionable goals within four key categories: disclosure, implementation, remediation, and termination. Detailed reports on each engagement are provided to IPC throughout the whole process and ISS also invites their partners to join virtual meetings with companies, if they would like to listen in or participate.

ISS's detailed process helps reduce the risk of greenwashing within our portfolios in two specific ways:

- By engaging with hundreds of companies annually on our behalf on numerous diverse topics, ISS proactively addresses issues that could eventually become greenwashing claims or already are. Instead of simply not investing in those companies, they are working to make them better.

- The research and engagements ISS conducts provides our PM team with important insights into the sustainable investing realm, which helps guide their decision-making process. This specifically comes into play when the team decides what sectors to exclude – if we should add any sectors and parameter modification – and/or when they are reviewing specific holdings with our investment specialists.

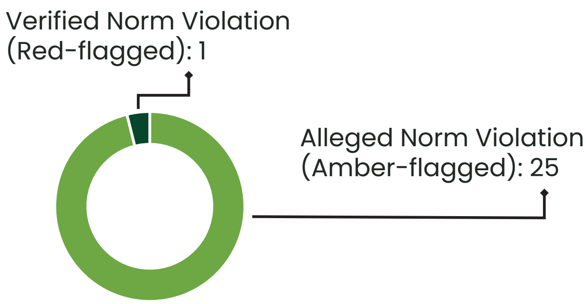
The information we gain from our partnership is extremely valuable and covers a broad range of topics that improve our team's overall strategy. Naturally, through their shareholder services, ISS can reduce some of the exposure our portfolios have to greenwashing because their activities are designed to hold companies accountable for their practices.

Key Statistics from ISS ESG's Q4 2023 Engagements

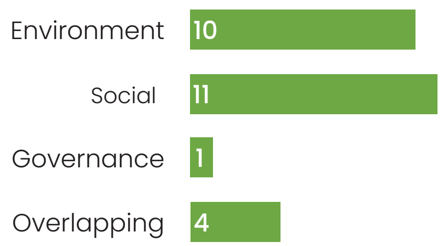
In Q4 2023, ISS initiated engagements with 26 companies, covering 40 individual ESG topics. Below are the statistics for the companies engaged within the quarter.

Summary charts of engagements initiated between October 1 and December 31, 2023:

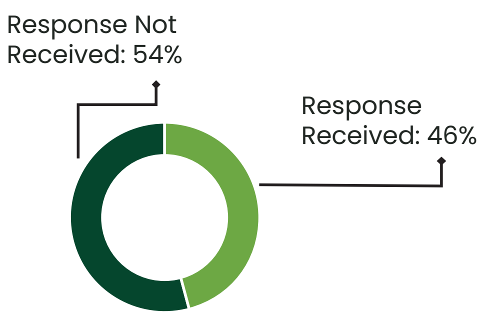
Verified or Alleged Failure to Respect Established Norms



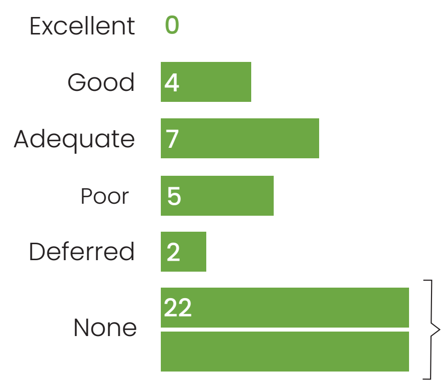
ESG Area Breakdown



Response Rate



Quality of Participation



Note: Participation quality definitions: **Excellent:** Company has fully addressed topics and there is strongly positive development in the engagement. **Good:** Company has replied and addressed the topics. **Adequate:** Company has responded, but not fully. **Poor:** Company responded but did not address the topics. **Deferred:** Company has requested more time to respond. **None:** No response received.

Companies that responded to ISS ESG engagement efforts during Q4 of 2023, for engagements that began in Q4 or earlier, that are held in IPC Portfolio Services' investment solutions:

Company	Theme	Quarter Initiated
Alamos Gold, Inc.	Environment	Q3 2023
Albemarle Corporation	Environment	Q4 2023
Alphabet Inc.	Labour Rights, Human Rights, Corruption	Q4 2023
AltaGas Ltd.	Environment	Q2 2023
ArcelorMittal SA	Environment	Q4 2023

Company	Theme	Quarter Initiated
Bayer AG	Environment	Q4 2023
Companhia Siderurgica Nacional	Environment	Q3 2023
Delta Air Lines, Inc.	Labour Rights	Q4 2023
Electricite de France SA	Environment, Corruption	Q1 2023
Enel Americas SA	Human Rights	Q4 2023
Iberdrola SA	Environment	Q3 2023
Lundin Mining Corporation	Environment	Q4 2023
Mattel, Inc.	Human Rights	Q4 2023
McDonald's Corporation	Labour Rights	Q3 2023
Neoenergia SA	Human Rights, Environment	Q3 2023
Starbucks Corporation	Labour Rights	Q3 2023
Teck Resources Limited	Environment	Q3 2023
The Kansai Electric Power Co., Inc.	Environment	Q4 2023
Tokyo Electric Power Co. Holdings, Inc.	Environment	Q4 2023
UBS Group AG	Human Rights	Q3 2023
Universal Health Services, Inc.	Human Rights	Q4 2023

Q1 2024 Engagements

Our Partners at ISS initiated their Q1 2024 engagements with 25 companies across 42 topics. The key themes for this quarter include:

Alleged failure to respect Indigenous rights, freedom of expression rights, and/or an adequate standard of living rights.

Alleged failure to respect union rights, to prevent forced labour, and/or the right to just and favourable conditions of work.

Alleged failure to prevent depletion of biodiversity and/or water pollution.

Engagement Meeting of Interest:

The goal of these meetings with specific companies is for ISS to review the controversies, engagement targets, and ask questions. The respective company will respond to items identified in the meeting and answer any outstanding questions.

In March, ISS scheduled a call with the American retail company **Walmart, Inc.** Walmart is a holding in Counsel Defensive Global Equity and Counsel Global Low Volatility, which are components in the Counsel Retirement Portfolios, and IPC Multi-Factor U.S. Equity, a component held within the Counsel Portfolios. The call was organized to discuss controversies concerning union rights in the United States and forced labour in their Chinese supply chain.

Investment Specialist Spotlight

We have summarized two of our Investment Specialists' sustainable investing processes to illustrate how they reduce the risk of greenwashing practices of the companies they invest in, especially over the long term.

MAWER

MAWER INVESTMENT MANAGEMENT, Investment Specialist for Counsel International Growth and Counsel Global Equity, a component of the IPC Visio Global Advantage Pool

Mawer subscribes to Sustainalytics, an industry-leading independent firm that provides ESG and corporate governance research, ratings, and analytics for investors. The data they receive from Sustainalytics helps aggregate information and provide analysis, which is then incorporated and considered when making investment decisions. Generally, Mawer's investment process leads to a portfolio with stronger ESG characteristics since its bias is towards companies that have competitive advantages, which generally means fewer commodity companies and more differentiated service providers like AON, a British-American company that is a leading provider of risk, retirement, health, and data solutions. However, when Mawer does invest in commodity companies, efficiency is a critical competitive advantage. For example, Southern Copper is in the top quartile of copper mining companies in terms of copper produced per ton of CO_2 emitted. This is positive as it will lead to Southern Copper increasing their revenue and being able to retain more of that revenue, especially compared to peers who are not managing their emissions as well.

Mawer's investment process integrates ESG into the fundamental evaluation of the investment because these risks can hurt or help the likelihood of a positive or negative surprise that affects the investment. Also, a company that creates negative externalities (like pollution) and isn't currently paying for them, risks radical changes in profitability the day it does have to pay. This is why ESG reviews for a given company are done by the analyst who is working on that company.

Lincluden

LINCLUDEN INVESTMENT MANAGEMENT,
Investment Specialist for Counsel Canadian Dividend

Lincluden's investment process utilizes a proprietary quality scoring methodology which includes a qualitative ESG assessment. This assessment entails performing in-depth analysis of various Environmental, Social, and Governance factors by examining company Corporate Social Responsibility (CSR) reports, Annual Information Forms (AIFs), and various company policies such as climate change, health & safety, human rights etc. In addition, ESG risk ratings, detailed risk assessments and controversy indicators sourced from third-party service providers are taken into consideration. This analysis provides Lincluden with a base for engagement in areas that they feel are lacking or are not in accordance with best practices. For example, their net zero engagements encourage better disclosure of environmental data by requesting companies to adopt the recommendations put forth by the Task Force on Climate-Related Financial Disclosures (TCFD). Reporting plays an extremely important role in identifying and avoiding greenwashing because, as we have all heard before, numbers don't lie. The more companies that are following best practices and being transparent, the more portfolio managers can compare companies' claims to the actual data and confirm the validity of the claim

Exclusions

The third pillar of our sustainable investing process empowers IPC Portfolio Services to ensure our investment specialists do not purchase certain companies. The goal is to avoid companies that are ESG-negative because they contribute to health or climate risks and contradict our sustainable investing commitment. By excluding certain controversial industries, such as the manufacture and distribution of landmines or weapons of mass destruction, our process automatically removes exposures to companies more susceptible to greenwashing that would otherwise be present. This list includes:

Controversial weapons – We do not invest in companies involved in the production, use or distribution of anti-personnel land mines and cluster munitions, and companies with verified involvement in weapons such as depleted uranium, nuclear weapons (in violation of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) entered into force in 1970), chemical weapons, biological weapons, incendiary weapons, and white phosphorus weapons.

Tobacco – We exclude companies within the Tobacco sub-sector whose business focus is primarily (50% or greater) based on the manufacture and distribution of tobacco products.

Thermal coal mining – We exclude companies that derive 8% or more of their revenue from thermal coal mining.

Thermal coal power generation – We exclude companies whose power generation output is derived from 18% or greater from the use of coal.

In addition to the restrictions, our PM team regularly engages with our investment specialists on their holdings of flagged companies to ensure they're aware of the issues and discuss engagement activities with the respective companies.

Conclusion

Greenwashing is a hot topic in the news as several controversies have caused doubts and mistrust amongst investors. Markets and regulators are working towards improving reporting and standards to regain that trust, which will take time. At IPC Portfolio Services, we believe incorporating ESG factors into our portfolios aligns our clients' investment goals with the broader social and environmental objectives of society, and our Three-Pillar Approach provides broad coverage across multiple ESG strategies, producing benefits that far outweigh the risks.

Haley Jones

Haley Jones, CIM®, Certified ESG Analyst
Product Manager, ESG Specialist
Investment Planning Counsel

IPC | PORTFOLIO SERVICES

Sources:
[1] What is greenwashing—and how do you avoid it? (nationalgeographic.com)
[2] FTC Charges Volkswagen Deceived Consumers with Its "Clean Diesel" Campaign | Federal Trade Commission
[3] Homepage - Canadian Securities Administrators (securities-administrators.ca).
[4] 6132649-CSA-Staff-Notice-81-334-Revised-ESG-related-Investment-Fund-Discl.ashx (asc.ca).