IPC | PORTFOLIO SERVICES

Quarterly ESG Report

Q2 2024

Preparing for the Future

The world is changing and so are you. We believe it is important for investors to stay up to date on current themes developing, and we at IPC Portfolio Services, together with your Advisor, are working to help keep you informed.

Speaking of keeping you informed, recent studies show there is a gap between investors who want to be educated about sustainable investing and advisors who are taking the initiative to do so.[1] A secret shopper campaign recently conducted by an ESG training provider reported that financial advisors can improve how they incorporate sustainable investing into their overall process.[2]

According to data in the chart to the right, 67% of clients are interested in speaking to their advisor about ESG issues/sustainable investing. However, the secret shopper report showed only 20% of the advisors brought up ESG or sustainability considerations without any prompts.[3]

The client and advisor fulfillment gaps are visually represented using the charts to the right from Environics. Clearly there is room for improvement in this area, and that is exactly what this ESG Report aims to improve upon.

Client and Advisor Fulfillment Gaps

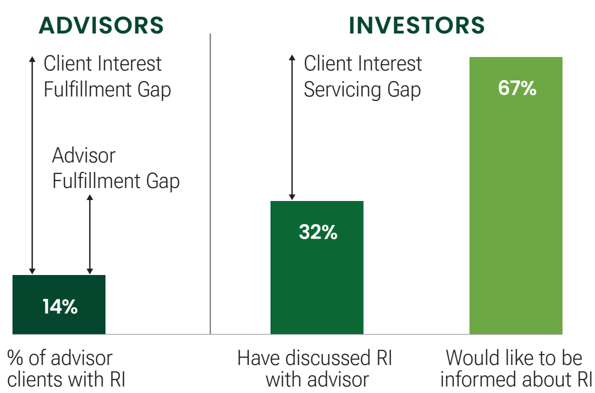


Image Credit: Environics

Not only is the appetite for sustainable investment education and solutions growing, but it's also where a large amount of assets are flowing. To provide context, in the first quarter of 2024, Canadian sustainable fund assets grew by 7.8% to roughly $34 billion.

Now let's jump into a major theme from 2023 that is continuing to evolve as we move through 2024. Our partners at ISS ESG have identified artificial intelligence (AI) as one of the top global trends that investors will be focusing on throughout 2024. In this report we will discuss some of the risks and opportunities, and feature how one of our investment specialists is incorporating AI into their ESG investing models.

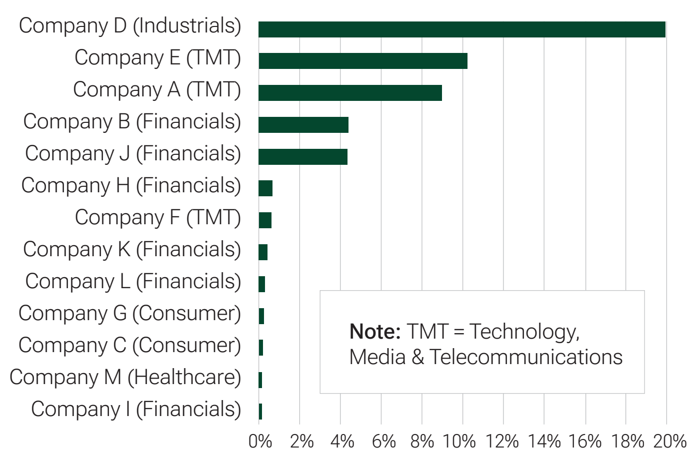
The Integration of Artificial Intelligence (AI)

Companies are swiftly incorporating generative AI into their offerings, a move that could lead to future legal responsibilities. Even though regulations specific to AI are still evolving, current laws related to privacy and property already establish a basis for possible liabilities.

Companies are incorporating AI to make their processes more efficient, and even complete tasks humans simply can't do. However, there are multiple risks that need to be understood and mitigated. As an example, Telstra, Australia's largest telecommunications company, utilizes AI to analyze the billions of data points they receive daily on the performance of their network. For the outputs from that AI analysis to be useful, the employees need to trust the data. To build the trust, Telstra has created a governance structure through their risk and audit committees. A multitude of areas are being looked at such as quality of data, how they work with AI, all areas where AI is being used documented and disclosed, gaining consent before collecting data, and constant monitoring throughout the lifecycle. Further, they have a Risk Council for AI, where every risk case goes through the relevant business segments for review.

As mentioned above, current regulation around the use of AI is fragmented at best, leading to complexity and confusion. ISS ESG's report identified the uncompensated loss of privacy as the greatest impact of AI.[5] By "uncompensated loss of privacy", the report is referring to the fact that companies, governments, or other entities are collecting, using, and selling individuals' private information without them knowing or being compensated. Their estimates suggest that complete loss of privacy could be equal to around 30-40% of annual revenue for ad-driven internet media businesses. This may lead to a large increase in lawsuits and fines due to breaches in privacy laws which, if actioned upon in the future, could lead to decreased financial performance and poor public image. The chart to the right pulls data from company public filings and ISS ESG's estimates to model the cost of privacy-related liabilities.[6]

Figure 1: Privacy-Related Liabilities (> US$100 Million), as % of Annual Revenue



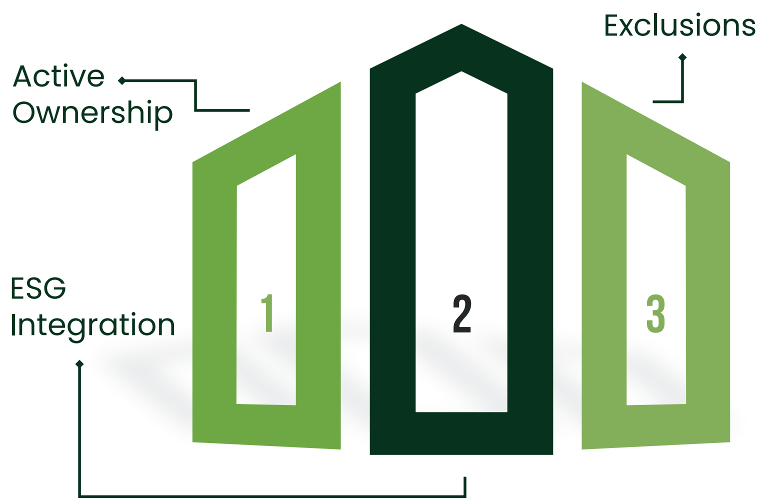
Continuing with our Telstra example, the telecommunications sector has been identified due to their exposure to privacy risks. Since Telstra is a large organization, they have access to resources and have been proactive in creating guardrails around their use of AI prior to regulations being created. They designed their AI client service bot "Ask Telstra" to remain and pull data from inside their security perimeter only – extra emphasis is placed on being aware of what is internal or external and controllable. By putting these parameters in place, Telstra is mitigating their exposure to potential privacy breaches.

Opportunities available for companies to improve their operations and deliver value to consumers using AI are seemingly endless – the key is to ensure this is done within the bounds of the law. ISS proposes that in 2024, those assessing corporate risks associated with AI shouldn't hold off for specific regulations.

Through their engagement work on our behalf, ISS has been actively engaging with companies urging an improvement in exposures using existing privacy and property laws. As highlighted, the swift integration of AI models across various sectors could amplify the chances of adverse reactions. However, some companies have displayed positive governance by proactively addressing risks, which could prove to be beneficial for financial performance in the future.

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

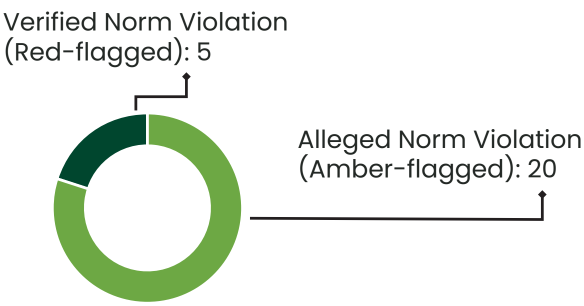
IPC Portfolio Services has partnered with ISS, an industry-leading company for shareholder services, to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. This partnership enables us to participate alongside other asset managers to exert more influence than we would be able to through individual engagements.

Key Statistics from ISS ESG's Q1 2024 Engagements

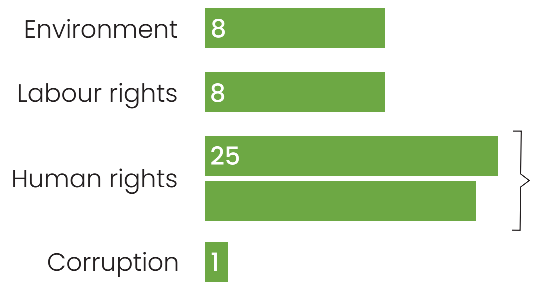
In Q1 2024, ISS initiated engagements with 25 companies, covering 42 individual ESG topics. Below are the statistics for the companies engaged within the quarter.

Summary charts of engagements initiated between January 1 and March 31, 2024

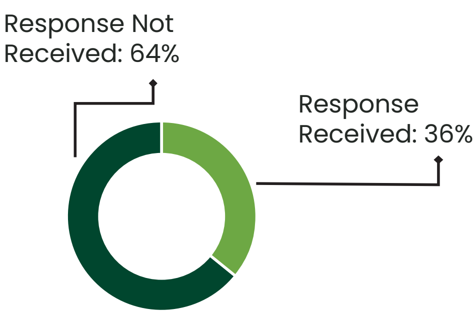
Verified or Alleged Failure to Respect Established Norms



Norm 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 Q1 of 2024, for engagements that began in Q1 2024 or earlier, that are held in IPC Portfolio Services' investment solutions:

Company	Theme	Quarter Initiated
Alphabet Inc.	Labour Rights, Human Rights, Corruption	Q4 2023
Amgen Inc.	Corruption	Q3 2023
Baker Hughes Company	Human Rights, Labour Rights	Q1 2024
Bollore SA	Environment	Q2 2023
Enel SpA	Human Rights	Q4 2023
Freeport-McMoRan Inc.	Human Rights, Environment	Q1 2024
Koninklijke Philips NV	Human Rights	Q4 2023

Company	Theme	Quarter Initiated
Marubeni Corp.	Human Rights	Q1 2024
Mitsui & Co. Ltd.	Environment, Human Rights	Q1 2024
Pan American Silver Corp.	Human Rights	Q4 2023
Sumitomo Chemical Co. Ltd.	Environment	Q1 2024
Sumitomo Corp.	Labour Rights	Q1 2024
Ubisoft Entertainment SA	Labour Rights	Q4 2023
United States Steel Corporation	Environment	Q4 2023
Wal-Mart Stores Inc.	Labour Rights	Q4 2023

Q2 2024 ENGAGEMENTS

Our Partners at ISS initiated their Q2 2024 engagements with 24 companies across 32 topics. The key themes for this quarter include:

Biodiversity, environmental impacts, climate change impacts, and pollution.

Indigenous rights, stakeholder consultation, living standards, and torture/inhumane treatment.

Workplace discrimination, union rights, gender discrimination, and sexual harassment in the workplace.

Exclusions

The next pillar of our sustainable investing process empowers IPC Portfolio Services to restrict our investment specialists from purchasing certain companies that do not align with our sustainable investing approach. This list includes:

Controversial weapons – We exclude 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. Negative screening is one of many factors considered in the investment decision-making process and it may play a limited role and is not necessarily heavily weighted in that process.

Investment Specialist Spotlight

ACADIAN

ACADIAN ASSET MANAGEMENT, Sub-advisor for Counsel Global Dividend and IPC Private Wealth North American Equity High Income

Since we are on the topic of AI, our Investment Specialist Spotlight this quarter features one of our sub-advisors whose process highly leans into quantitative investment strategies utilizing machine learning (ML) and natural language processing (NLP) – two separate branches of AI. Below is a summary of a recent article released by Acadian discussing how they have applied thematic ESG investing utilizing AI.

A Machine Learning-Based Approach to Thematic ESG Investing: Case Study in GEO (Green Economy Opportunities)

Asset owners are investing in the global shift to a lower carbon economy, which will likely determine future corporate success. The energy transition presents opportunities and challenges, with potential beneficiaries ranging from clean technology companies to their consumers and raw material producers. This means the universe of potential participants in the energy transition is expansive, diverse, and still unknown.

Therefore, Acadian's blog will illustrate benefits of applying advanced NLP techniques in constructing transition-aligned thematic portfolios. NLP is a branch of AI that uses ML to enable computers to understand and communicate with human language. Specifically, Acadian introduces a systematic predictive signal, called GEO (Green Economy Opportunities), that can identify companies associated with the transition more comprehensively, using richer information, and on a timelier basis than traditional methods.

Using the GEO signal, Acadian then highlights often-overlooked design decisions in the creation of thematic investment strategies. In particular, they demonstrate the financial benefits of applying sophisticated systematic portfolio construction methods as opposed to following the more conventional approach of selecting from a limited universe of companies that are clearly aligned with the theme of interest.

Introducing GEO

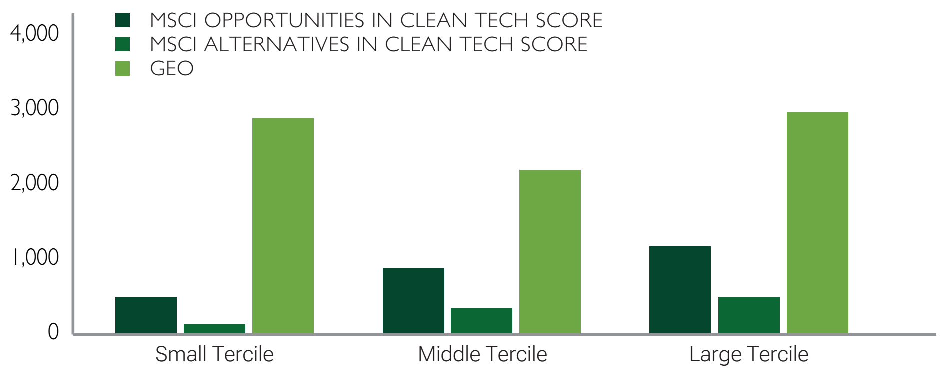
To identify companies that are directly or indirectly linked to the energy transition, Acadian took a novel approach and developed a predictive signal. The methodology uses sophisticated NLP techniques applied to a wide range of corporate disclosures to 1) identify firms with transition-related products, services, and policies and 2) gauge their commitment to sustainability and the environment.

This application of NLP techniques to analyze text has three advantages over conventional data produced by ESG analysts without the aid of such technological sophistication:

1. **Scope:** NLP is exceptionally more efficient than human beings in processing company documents, and it can be applied across many languages. Moreover, while data coverage for many traditional climate metrics is often limited to large companies, the text-based approach generates far greater coverage, particularly among mid- and small-cap stocks. The image below demonstrates this benefit.

2. **Richness:** The ability to process both qualitative and quantitative information from diverse sources allows for greater breadth and nuance in measuring thematic alignment.

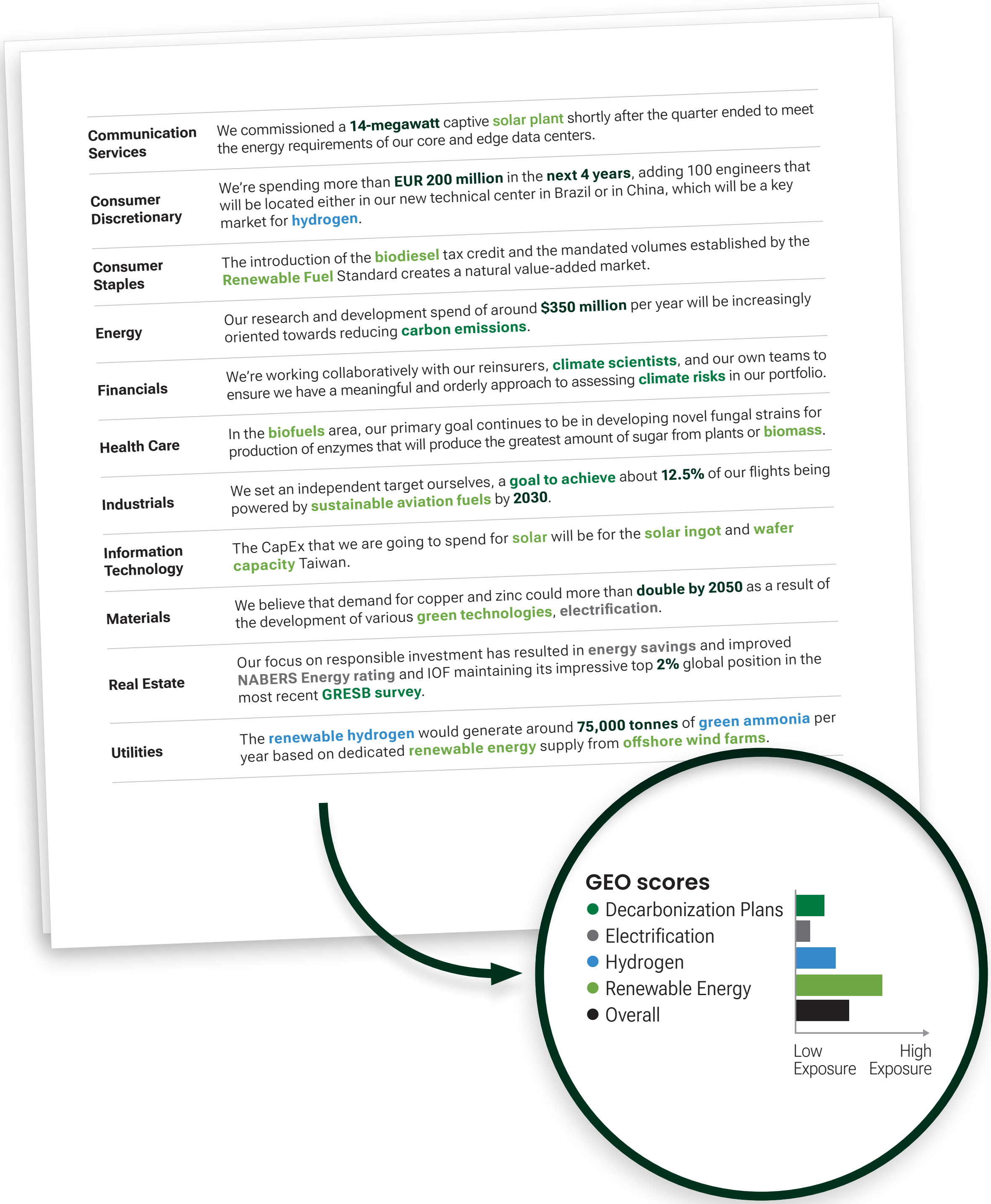
3. **Timeliness:** The GEO signal updates automatically as new information arrives and is algorithmically processed. There is no need to wait for a scheduled review, as is the norm for traditional data providers.



Data as of January 2022. Number of global stocks where the indicated data items are available, sorted into terciles by market capitalization. Sources: Acadian, MSCI. MSCI data copyright MSCI 2023. All rights reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.

The methodology underlying GEO involves training a complex machine-learning algorithm to recognize and quantify the extent to which individual companies discuss environmental themes, including decarbonization plans, renewable energy, and carbon capture. The first step in that process is to train the algorithm to recognize relevant characteristics of information related to the energy transition by having it process reports on the topic published by various industry organizations.

Using a subset of ML called supervised learning, Acadian then applies an algorithm to analyze a wide range of company disclosures, among them earnings call transcripts, regulatory filings, and annual shareholder meetings, to measure firms' alignment with the energy transition.



Communication Services	We commissioned a **14-megawatt** captive **solar plant** shortly after the quarter ended to meet the energy requirements of our core and edge data centers.
Consumer Discretionary	We're spending more than **EUR 200 million** in the **next 4 years**, adding 100 engineers that will be located either in our new technical center in Brazil or in China, which will be a key market for **hydrogen**.
Consumer Staples	The introduction of the **biodiesel** tax credit and the mandated volumes established by the **Renewable Fuel** Standard creates a natural value-added market.
Energy	Our research and development spend of around **$350 million** per year will be increasingly oriented towards reducing **carbon emissions**.
Financials	We're working collaboratively with our reinsurers, **climate scientists**, and our own teams to ensure we have a meaningful and orderly approach to assessing **climate risks** in our portfolio.
Health Care	In the **biofuels** area, our primary goal continues to be in developing novel fungal strains for production of enzymes that will produce the greatest amount of sugar from plants or **biomass**.
Industrials	We set an independent target ourselves, a **goal to achieve** about **12.5%** of our flights being powered by **sustainable aviation fuels** by **2030**.
Information Technology	The CapEx that we are going to spend for **solar** will be for the **solar ingot** and **wafer capacity** Taiwan.
Materials	We believe that demand for copper and zinc could more than **double by 2050** as a result of the development of various **green technologies**, **electrification**.
Real Estate	Our focus on responsible investment has resulted in **energy savings** and improved **NABERS Energy rating** and IOF maintaining its impressive top **2%** global position in the most recent **GRESB survey**.
Utilities	The **renewable hydrogen** would generate around **75,000 tonnes** of **green ammonia** per year based on dedicated **renewable energy** supply from **offshore wind farms**.

But, the model does more than simply quantify the extent to which companies speak about the transition. It also assesses the credibility of what they say by integrating prescriptive guidelines from leading climate frameworks, including the Task Force on Climate-related Financial Disclosures and the Science Based Targets initiative. For example, the NLP algorithm takes into account the granularity of decarbonization plans, including whether they refer to dates, baselines, and targets.

GEO-Based Portfolios: Benefits of a Systematic Implementation

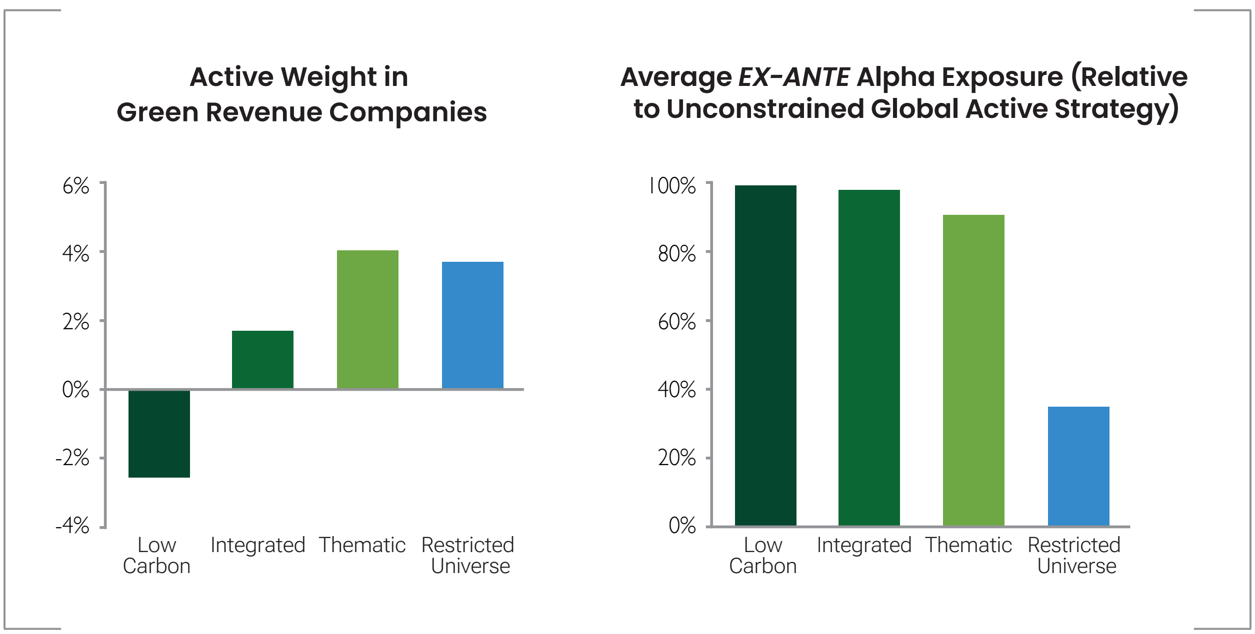
The GEO signal allows for better portfolio creation for the low-carbon transition, highlighting overlooked design decisions in thematic strategies. Starting with a baseline hypothetical Low Carbon strategy benchmarked to the MSCI World Index, three implementations of the GEO signal are compared:

1. **Restricted Universe strategy:** This approach, though systematic, mirrors conventional thematic strategies by drawing from a restricted investment universe of companies most aligned with the desired theme. Acadian ranks stocks in the investable developed market universe by the GEO signal and only consider the top-20% for portfolio inclusion.

2. **Integrated strategy:** This strategy applies an additional portfolio-level tilt to the Low Carbon baseline, requiring that its GEO exposure exceed the benchmark's by 20%.

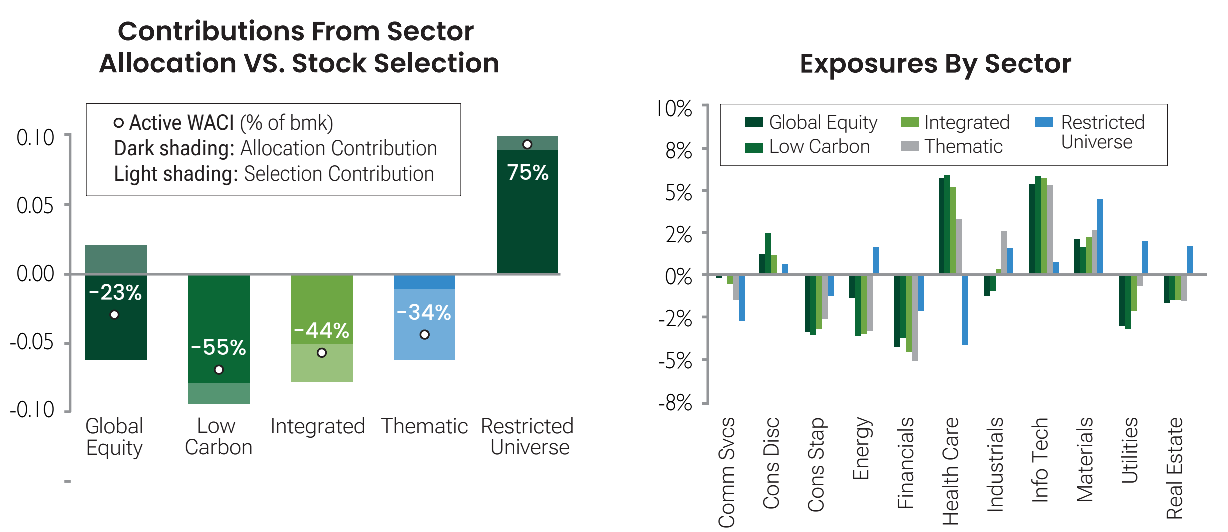
3. **Thematic strategy:** Includes a stronger tilt towards GEO exposure, two times the benchmark, with the intent of providing exposure to green companies similar to the Restricted Universe GEO strategy.

Each seeks to maximize risk-adjusted returns while ensuring minimum GEO exposure, which differs depending on the strategy. Despite challenges with green revenue, all three GEO strategies deliver positive active exposure to green revenue companies, with the Thematic GEO generating the largest increase.



Charts represent average performance of hypothetical portfolios based on long-only strategies benchmarked to the MSCI World Index from January 2016 – August 2022. Key assumptions include USD1BN starting AUM, monthly rebalancing, and others noted in the text. Green revenue companies are those with more than 10% of their revenue from green opportunities. Please contact us for further details about portfolio construction. Sources: Acadian using green revenue data from MSCI. This is meant to be an educational illustrative example and is not intended to represent investment returns of an actual portfolio. Results do not represent actual trading or an actual account. They do not reflect transaction costs, other implementation costs, and advisory fees or their potential impact. Hypothetical results are not indicative of actual future results. Reference to the benchmark is for comparative purposes only and is not intended to indicate that the simulated portfolio contained or will contain the same investments or weights as the benchmark. Every investment program has the opportunity for loss as well as profit. For illustrative purposes only.

The financial impact of achieving ESG gains is a key issue for investors. The Restricted Universe approach, which limits the investment universe, results in a significant cost in terms of exposure to Acadian's alpha model (alpha is an investment strategy's excess return compared to a benchmark). However, the Integrated and Thematic implementations, which use portfolio-level tilts to boost GEO exposure, show minimal deterioration. The Thematic GEO implementation generates both attractive environmental characteristics and financial results, managing to avoid high Weighted-Average Carbon Intensity (WACI) while achieving GEO targets and maintaining high alpha model exposure. This is achieved through stock selection rather than blunt sector reallocation, allowing the portfolio to maintain a sector allocation profile similar to the Low Carbon baseline.



WACI represents Scope 1 + 2 emissions. Hypothetical portfolios based on strategies as described in note to Figure 4 and the text. Data represents averages from January 2016 – August 2022. Sources: Acadian using index and carbon data from MSCI; we estimate carbon emissions where MSCI data is missing. This is meant to be an educational illustrative example and is not intended to represent investment returns of an actual portfolio. Results do not represent actual trading or an actual account. They do not reflect transaction costs, other implementation costs, and advisory fees or their potential impact. Hypothetical results are not indicative of actual future results. Reference to the benchmark is for comparative purposes only and is not intended to indicate that the simulated portfolio contained or will contain the same investments or weights as the benchmark. Every investment program has the opportunity for loss as well as profit. MSCI data copyright MSCI 2023. All rights reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.

Summary

Systematic investing can offer substantial benefits in the thematic context, particularly with the sophisticated analysis of alternative data. Scalable machine-learning algorithms, especially NLP-based textual analysis, can identify a broader set of relevant companies using richer, more forward-looking information. The advanced portfolio construction of modern systematic investment processes can extract greater financial value from the investment universe, preserving exposure to a holistic stock-selection alpha model and controlling for uncompensated risk exposures. However, applying these tools profitably requires significant algorithmic expertise and high-performance computing infrastructure. Since Acadian has the expertise and infrastructure, these investments are part of a broader evolution of their information set and analytical toolkit, making the adaptation to thematic portfolios surprisingly natural for their team.

Conclusion

The world is changing rapidly and advancements in technology are at the forefront. Often you will hear professionals speaking about the potential of AI and comparing it to when computers and/or the internet was invented. Granted there are risks present as companies explore ways to integrate AI into their value-chain, there are numerous opportunities – and we're just at the beginning of understanding the possibilities. As investors, we recognize the importance of participating in these exciting times, while remaining cautious to risk exposures. ESG factors are one of many considered in the investment process. They provide additional information for investment decision-making and can have an impact on the long-term performance of investments in terms of both the risk and returns. ESG factors may play a limited role, and may not necessarily be heavily weighted in the investment-decision making process. 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 can potentially outweigh the risks.

Haley Jones

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

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Sources:
[1] ESG discussions with clients lacking, research suggests | Investment Executive
[2] ESG discussions with clients lacking, research suggests | Investment Executive
[3] ESG discussions with clients lacking, research suggests | Investment Executive
[4] Sustainable fund flows rebound in Q1: Morningstar | Investment Executive
[5] ISS ESG – Actionable Insights: Top ESG Themes in 2024
[6] ISS ESG – Actionable Insights: Top ESG Themes in 2024

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.