IPC | PORTFOLIO SERVICES

Quarterly ESG Report

Q4 2023

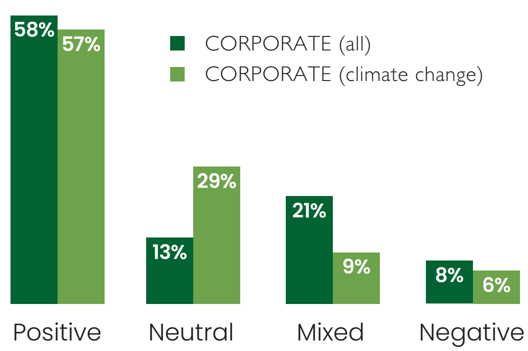
Sustainable Investing Hesitations – Barrier or Opportunity?

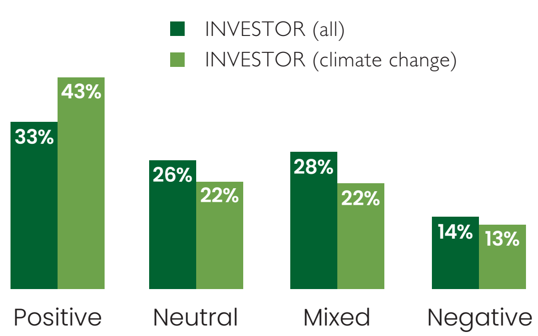
When we analyze the breakdown of investors who support sustainable investment compared to those who are against it, we quickly recognize how polarizing the topic can be. For some, the benefits of investing in a portfolio that incorporates ESG (Environmental, Social and Governance) factors seems like a "no-brainer". On the other hand, the opposing group will often present arguments against the merits and importance of sustainable investing. Let's discuss the most common barrier and explore the research either backing up and/or opposing these viewpoints.

> **The most commonly cited barrier to Sustainable Investing is: Investors require more convincing evidence showing a positive relationship between ESG and performance.**

This concept can be broken down into two different aspects which help make up performance as a whole – improved financial return coupled with reduced risk. To look at these relationships, we turn to a meta-study examining the relationships between ESG and financial performance from over 1,000 published studies between 2015 and 2020. Meta-studies examine data from a larger pool of similar independent studies covering the same topic to draw overall trends. The meta-study broke down company financial performance into two different categories – corporate and investor. Corporate means that the study focused on operational ratios, generally based on metrics found on a company's balance sheet or income statement, such as return on equity (ROE) or return on assets (ROA). Investor means the study focused on risk-adjusted calculations based on the company's stock performance and risk compared to a benchmark. Further, the study broke out climate change and low carbon studies related to financial performance. Below are the results showing whether the correlation between ESG and financial performance was concluded to be positive, neutral, mixed, or negative.

ESG and Financial Performance





As you can see from the results, there is a clear, strong relationship between ESG and corporate financial performance (chart on the left) with just 8% of the studies concluding there was a negative relationship. For investors, the relationship between ESG and financial performance, although still significant, is slightly lower[1] while there is a higher incidence of negative relationships.

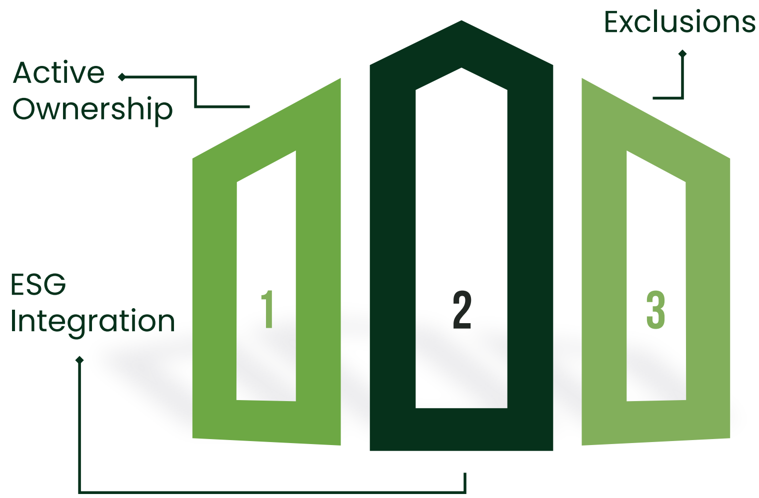
What conclusions can we draw from this? The more evident positive correlation between ESG and corporate financial performance can be directly attributed to how ESG risks and/or opportunities can affect a company's financial statements, and therefore performance on the key ratios mentioned above. Conversely, as an investor, you may have looked at a company before, done your own analysis, identified it as being undervalued and a good opportunity to purchase. Sometimes it takes the market a long time to realize the value you may have identified and for that value to be reflected in stock price appreciation. However, over the long term, if a company continues to operate more efficiently, capitalizing on market opportunities while minimizing risks, it greatly increases the probability of its stock performing well relative to peers. This reinforces the importance of having a long-term perspective when investing, especially when considering ESG factors.

Switching gears over to reducing risk, the study goes on to discuss how strategies that incorporate ESG have outperformed non-ESG strategies during social or economic crises. For example, during the Great Financial Crisis of 2008-09, the FTSE4Good (a set of ESG stock market indices) performed better and recovered its value quicker after the crash in 2008[2]. Additionally, to provide a more recent example, in the first quarter of the 2020 COVID market downturn, 24 of 26 ESG index funds outperformed their non-ESG counterparts. This outperformance was attributed to ESG leading to more resiliency and at the end of the third quarter of 2020, 45% of ESG-focused funds outperformed their index[3]. The large amount of outperformance during that period can be attributed to ESG funds having less exposure to the energy sector and more exposure to less capital-intensive technology companies. It is important to understand that these strategies may not always outperform their non-ESG focused counterparts. In 2022, for example, the energy sector on the S&P 500 skyrocketed approximately 66%, leaving ESG-focused funds in the dust. Performance for sectors will ebb and flow naturally throughout the market cycle. However, if you invest in a portfolio that places an importance on identifying companies operating in a sustainable manner, you are less likely to experience as extreme outcomes because those risks are being identified and mitigated.

As we have considered in previous quarterly reports, sustainable investing is not simply avoiding oil and gas companies. There are a multitude of global mega-trends emerging that companies can choose to capitalize on or fall behind. And, many of the mega-trends are shifting towards more sustainable practices in all three categories of E, S, and G. Although the benefits will not always be recognized immediately, there is clear evidence supporting the positive relationship between ESG and financial performance of companies. **At IPC Portfolios Services, we believe our Three-Pillar approach to sustainable investing targets the key areas that allows our portfolios to make the most of the best opportunities available in the market, while minimizing the exposure to companies that are not keeping up with mega-trends.**

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

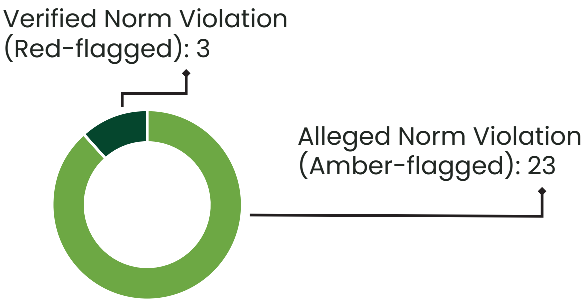
IPC Portfolio Services has partnered with ISS ESG, an industry leading company for shareholder services, to engage with corporations and assess all economic social governance engagement activities. This partnership enables us to participate alongside other asset managers to exert more influence than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

Key Statistics from ISS ESG's Q3 2023 Engagements

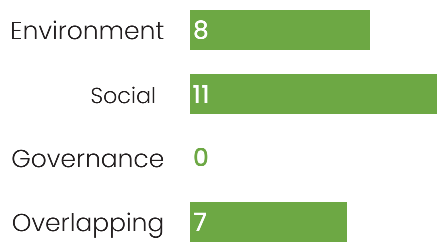
In Q3 2023, ISS ESG initiated engagements with 26 companies, covering 38 individual ESG topics. On the following page are the statistics for the companies engaged with in the quarter.

Summary charts of engagements initiated between July 1 and September 30, 2023:

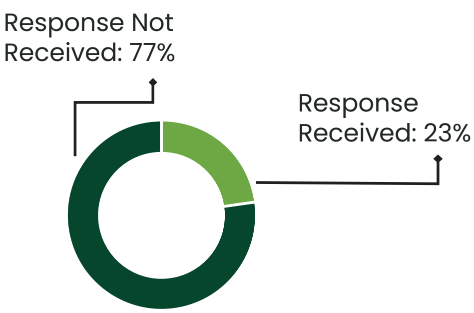
Verified or Alleged Failure to Respect Established Norms



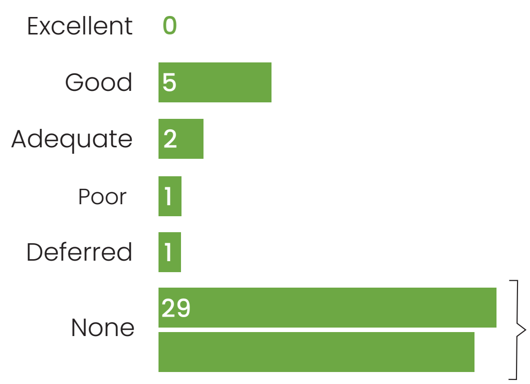
ESG Area Breakdown



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 Q3 of 2023, for engagements that began in Q3 or earlier, that are held in IPC Portfolio Services' investment solutions:

Company	Theme	Quarter Initiated
ABB Ltd	Corruption	Q2 2023
AltaGas Ltd.	Environment	Q2 2023
Chevron Corporation	Labour Rights, Environment	Q1 2023
Companhia Energetica de Minas Gerais SA	Human Rights, Environment	Q3 2023
First Quantum Minerals Ltd.	Environment	Q1 2023
Iberdrola SA	Human Rights, Environment	Q3 2023
Norfolk Southern Corp.	Environment	Q3 2023
POSCO	Labour Rights, Human Rights	Q2 2023
Stellantis NV	Environment	Q2 2022
Teck Resources Ltd.	Environment	Q3 2023

Q4 2023 Engagements

Our partners at ISS ESG have initiated their Q4 2023 engagements with 26 companies across 40 topics. The key themes for this quarter include:

Alleged failure to mitigate climate change impacts, to assess environmental impacts, and/or prevent air pollution.

Failure to prevent gender discrimination, racial discrimination and/or respect union rights.

Failure to prevent bribery in multiple countries and/or failure to prevent anti-competitive behaviour.

Failure to respect consumer health and safety, Indigenous rights, and/or adequate standard of living.

Engagement Meetings of Interest:

The goal of these meetings with specific companies is for ISS ESG 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 December, ISS ESG has a scheduled call with **Lundin Mining Corporation**. Lundin Mining Corporation is a holding in Counsel Defensive Global Equity, a component of the Counsel Retirement Portfolios, and IPC Multi-Factor Canadian Equity, a holding in the Strategic Portfolios. The call was organized to discuss the "Alleged failure to assess environmental impacts at Alcaparrosa mine in Chile".

Investment Specialist Spotlight

B Brown ADVISORY
Thoughtful Investing.

BROWN ADVISORY, Investment Specialist for Counsel U.S. Growth Equity

Brown Advisory is a global investment management firm offering a broad range of traditional and sustainable equity and fixed income investment solutions, rooted in their bottom-up, fundamental research and a disciplined, long-term investment approach. They seek competitive risk-adjusted returns over a full market cycle through a concentrated portfolio of companies that they believe offer durable fundamental strengths, sustainable competitive advantages, and compelling valuations. Brown focuses on sustainable advantages to uncover persistent drivers of shareholder value across the economy, looking for growth where other growth managers don't, and prioritizing steady growth over rapid growth.

Brown's portfolio management team completes an ESG risk assessment for every company that goes through their in-depth due diligence research process. The goal of this assessment is to uncover any undesired risks associated with the company that might not be revealed by a traditional investment research approach. The managers combine their own expertise and insights with third-party research from independent sources, including MSCI's ESG Manager and data from the Carbon Disclosure Project. **This research seeks to better understand the:**

- Overall environmental and social impacts and benefits of the company's operations, distribution systems and facilities;
- Quality of the company's ESG framework, policy, and management system;
- Company's track record of dealing with regulations and the potential for future violations inherent in the company's business model;
- Quality of the company's resource management practices (level of consumption of raw materials, efficient use and reuse of materials, effective management of waste streams); and
- Company's reputational risks as they relate to potential shifts in consumer preferences.

The team at Brown works to build unified themes for their sustainable and impact portfolios that are applicable across equity and fixed income securities alike. In their pursuit, Brown works closely to align their goals with the goals of the UN Sustainable Development Goals (SDGs). Brown believes that their framework aligns with the goals and spirit of the SDGs but also relies on their proprietary ESG research capabilities that impact their investment decisions.

Descriptions of Impact Themes

ECONOMIC DEVELOPMENT AND SOCIAL INCLUSION

Affordable Housing	Offering housing options to low- and moderate-income families.
Economic Mobility and Community Development	Increasing employment opportunities and financial inclusion for underserved communities.
Education	Reducing barriers to education for underserved groups.
Diversity, Inclusion, Equality	Supporting race and gender equity; empowering marginalized populations.

HEALTH AND WELL-BEING

Health and Wellness	Promoting health and well-being, and improving access to, and quality of, health care.
Clean Water and Sanitation	Improving access to clean drinking water and sanitation services; solving infrastructure challenges; managing freshwater ecosystems.

ENVIRONMENT

Sustainable Technology Innovation	Innovating products and services that deliver sustainability results (e.g., energy-efficient products, sustainable transportation).
Efficient Production and Conservation	Reducing use of energy or raw materials, increasing use of renewables, etc., through internal operations.
Clean Energy	Developing, operating or delivering clean energy from wind, solar and other renewable sources.
Sustainable Agriculture and Natural Resource Management	Responsibly managing natural resources, minimizing or reversing land degradation, and protecting biodiversity.

Examples of Sustainable Business Advantage (SBA) Profiles

Company	Impact Theme	SBA Profile
Adobe Inc.	Sustainable Technology Innovation	Adobe is a leader in digital transformation that drives product sustainability through Adobe Creative Cloud, Document Cloud, and Experience Cloud. These products empower customers to express their creativity, efficiently manage digital document processes and deliver exceptional customer experiences — while also enabling paperless workflows and virtual collaboration that help reduce physical waste and cut emissions from manufacturing, transportation, and shipping. For example, Adobe states that documents created, signed, shared, and stored in Document Cloud drive a 90% cost savings and a 95% reduction in environmental impact compared to paper-based processes. We also believe that Adobe's responsible approach to AI is a competitive advantage.
Chipotle Mexican Grill, Inc.	Sustainable Agriculture and Natural Resource Management	Chipotle operates one of the fastest-growing Mexican-style restaurant chains in the U.S., focusing on organically and sustainably sourced foods. The company's "Food with Integrity" mission resonates with consumers looking for high-quality, fresh food at an affordable price. From an operational perspective, Chipotle is a leader in animal welfare and is one of the first national restaurant brands to commit to increasing its use of local and organic produce, which helps support small and local farmers.

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 controversial or are in ESG-negative industries because they contribute to health or climate risks and contradict our Sustainable Investing commitment. 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.

This quarter, our Portfolio Management team has adjusted the exclusions threshold for thermal coal mining and thermal coal power generation. This reflects IPC Portfolio Services' commitment to The Net-Zero Asset Owner Alliance (NZAOA), which pledges to make our portfolios net-zero in greenhouse gas emissions by 2030. As part of this commitment, our Portfolio Management team reviews the thresholds listed above annually to ensure our portfolios are on track with the NZAOA. The team has lowered the threshold for companies that derive a percentage of their revenue from thermal coal mining – from a maximum of 10% down to 8%. Additionally, the second threshold that was lowered is companies that have power generation output derived from the use of coal – from a maximum of 20% down to 18%.

Our Portfolio Management team regularly engages with our investment specialists on their holding of flagged companies to ensure they're aware of the issues and discuss engagement activities with the respective companies.

Conclusion

Adopting and accepting new ways of going about our lives can be difficult – we humans don't like change. It is natural to question emerging trends, such as sustainable investing, and wonder if there are merits backing it up. At IPC Portfolio Services, we believe the advantages of incorporating ESG factors into our portfolios far outweigh the risks as it aligns our investment goals with the broader social and environmental objectives of society. Through our Three-Pillar Approach you can have peace of mind knowing our team and partners are incorporating, what we have identified as, the most material standards into all our portfolios.

- IPC Portfolio Services recognizes the importance of delegating complex duties to partners that are immersed in the responsible investing world. Therefore, we utilize ISS ESG as our active ownership partner. Through ISS ESG, we engage with companies in your portfolio to enact change from the ground up for the betterment of society.
- Our second pillar ensures all our investment specialists are incorporating their own ESG due diligence processes. These specialists also work directly with the companies they invest in or are interested in investing in. As evidenced in our Manager Spotlight above, they look at all sustainability factors deeply to understand implications and adjust their portfolios accordingly.
- Finally, by restricting our investment specialists from investing in certain controversial and ESG negative industries we can directly exclude companies that don't align with our sustainable investing philosophy. Additionally, our ESG approach is agile, our Portfolio Management Team is constantly monitoring changes in the market and at the company level to ensure we're ahead of the curve.

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Sources:
[1] ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020, Tensie Whelan, Ulrich Atz, Tracy Van Holt, Casey Clark (2021). [2] Wu, J., Lodorfos, G., Dean, A., & Gioulmpaxiotis, G. (2017). The Market Performance of Socially Responsible Investment during Periods of the Economic Cycle—Illustrated Using the Case of FTSE. [3] Morningstar. (2020). Sustainable Funds Weather the First Quarter Better Than Conventional Funds.