

# Cidel Responsible Investment Policy Updated July 2024

## Guiding Beliefs

Cidel Asset Management (Cidel) employs a responsible investing approach to enhance risk-adjusted long-term returns for our clients and contribute to a more sustainable world. Our approach is centered on incorporating environmental, social and governance (ESG) factors into our investment decisions and ownership practices.

Cidel believes that the way a company treats its labour force, community, and environment can significantly influence its competitive advantage, future earnings, and valuation. Companies that manage their ESG factors effectively with sustainable business practices deliver superior long-term performance. Conversely, when ESG factors are managed poorly, companies have greater exposure to reputational and financial damage. Furthermore, the importance of ESG factors increases along with the investor's time horizon. The consideration of ESG factors provides Cidel with a more comprehensive view of an investment, resulting in better informed decisions and improved risk management.

Depending on the nature of the investment, Cidel will consider a wide range of potential ESG factors that may have a material impact on the investment's risk and return profile.

### Example of ESG Factors include:

#### Environmental

- Greenhouse gas emissions
- Climate change
- Environmental safety
- Resource depletion
- Water scarcity

#### Social

- Labour practices
- Ethical supply chain
- Data privacy
- Diversity
- Workplace safety

#### Governance

- Board independence
- Executive compensation
- Shareholder rights
- Tax practices
- Corruption

## Responsible Investment in Practice

Our approach to responsible investment and ESG integration varies by asset class. Cidel currently manages public equity, fixed income, and alternative investments (including hedge funds and private equity) for clients.

### Public Equity

#### ESG Integration

In all active public equity strategies, Cidel incorporates ESG considerations into the decision-making process at the individual investment level. We believe a business's capacity to create, preserve or grow economic value can be substantially impacted by ESG factors, such as a company's treatment of its employees, community, and environment. Cidel's ESG integration approach seeks to understand how a company's material ESG factors impact its investment risk and return characteristics. Cidel aims to avoid investing in companies whose ability to deliver attractive shareholder returns could become limited by ESG issues.

Cidel's ESG approach for public equity includes the following steps:

- First, Cidel utilizes a proprietary framework, which utilizes both qualitative and quantitative information, to identify a company's material ESG risks and opportunities. Material ESG risks may vary greatly by industry and country.
- Next, we discuss the identified ESG risks, such as divisive labour relations or excessive executive compensation, with the investee company's management team to gain a deeper understanding of the potential financial impact and any mitigation efforts.
- Finally, Cidel determines whether the ESG risks warrant an adjustment to the valuation of the equity, such as a higher required rate of return or a lower valuation multiple.
- Cidel reviews a company's ESG risk level and the related investment implications once per year and more frequently if needed.

### Active Ownership

Cidel is committed to ensuring that the companies we invest in act in the best long-term interests of our clients. Correspondingly, we aim to positively influence the ESG behavior of our investee companies, which can help to mitigate risk and improve returns for shareholders. The primary tools of Cidel's active ownership efforts are ongoing engagement and proxy voting. If an investee company is not committed to making progress on mitigating an identified ESG risk, Cidel may divest our position in the company.

### Engagement

Cidel directly engages with its investee companies at least once a year, mainly through email, conference calls, and in-person meetings. The objective of Cidel's engagement efforts is to better understand a company's risks and opportunities, including those related to ESG factors. When an investee company is falling short on a particular ESG issue, Cidel will encourage the adoption of sustainable business practices to proactively manage the identified issue. The investment team prioritizes engagement on ESG issues that are believed to have the greatest potential financial impact on the company. The investment team uses an internal database to track all Cidel's engagement activities and related progress.

### Proxy Voting

Cidel uses proxy voting to support shareholder proposals for the implementation of ESG best practices. By voting proxies, we can encourage our investee companies to improve their environmental, social and governance policies, which we believe enhance long-term returns. We work with a leading proxy advisory firm to develop and execute voting recommendations that support sustainable business practices and are consistent with long-term shareholder value creation.

Cidel favours ESG initiatives related to increasing environmental footprint disclosure, introducing specific targets for environmental impact reduction, supporting diversity and inclusion, and increasing board independence. The priority of Cidel's proxy voting guidelines is to ensure that our investee companies are well-equipped to confront climate change risks, maintain a motivated and efficient workforce, and uphold robust corporate governance standards.

### Portfolio Asset Allocation

While our investment approach is driven by bottom-up fundamental analysis, the investment team may incorporate long term ESG trends and climate change considerations into portfolio asset allocation decisions to improve returns and manage risks.

## Negative or Exclusionary Screening

Cidel's approach to ESG integration does not mean our equity strategies automatically avoid investing in industries or companies based exclusively on their ESG practices. However, Cidel does offer dedicated active equity strategies that, in addition to ESG integration, employ negative screening to eliminate companies in specific controversial industries, such as tobacco or oil. Cidel ensures the investment return and risks implications of the specific restrictions are disclosed to clients, before investing in our negatively screened portfolios.

## Thematical Investing

Cidel offers a dedicated thematical active equity strategy that invests in public companies participating in the world's transition to net emissions. The portfolio primarily focuses on businesses in the electric vehicle, renewable energy, electrification, and sustainable building value chains. The approach is to target established companies with proven technologies that are positioned for accelerating growth driven by the energy transition.

## Fixed Income

Cidel's approach to ESG for fixed income is to ensure that risks related to ESG are incorporated into the fixed income investment process. Cidel's fixed income team employs a comprehensive analysis of risks related to investments at both the individual security and overall portfolio levels. ESG risk factors are included in the risk analysis for individual issuers and how those risks may impact the ability to service debt obligations. ESG risks are tracked separately for each issuer and aggregated to analyze the portfolio's sensitivity to those risks.

Our ESG risk analysis begins at the issuer level, with the belief that ESG concerns are integral to an issuer's risk profile. We evaluate each issuer's exposure to ESG risks within the context of their specific industry or sector. We review and analyze public information and proprietary third-party research on issuers, as well as information obtained through the engagement of senior management via questionnaires and interviews. Each issuer receives a Cidel ESG risk score that captures the issuer's ESG performance and risk exposure which is then used to create a relative ranking of material ESG issues across all issuers. All ESG analysis and scores are stored in a database managed by the fixed income team.

At the portfolio level, we include the ESG score in our risk analysis of the portfolio. We summarize ESG scores across sectors, industries, maturities, and credit rating tiers using both market weights and duration distributions. We use this analysis to help identify areas of risk within our portfolio, which is included in the overall investment management process.

## Impact Investing

Cidel offers a Canadian Impact Bond Fund that invests in bonds dedicated to financing projects and investments with specific environmental and social targets. The fund's holdings include green bonds, sustainable bonds, and social impact bonds. The bond issues are sourced from corporations, government organizations, and supra nationals, such as the World Bank.

## Alternative Investments

Cidel engages with fund managers in the alternatives space (i.e. hedge funds and private markets) whom we are considering investing with to understand how they incorporate ESG factors into their investment approach. When possible, Cidel will encourage the adoption of an ESG approach if it is not already in place.

## Approach to Climate Change

Cidel believes climate change is one of the most critical issues facing the world. The impact of climate change is a key consideration of Cidel's ESG integration and active ownership approaches. For public equity and fixed income, Cidel assesses climate risks and opportunities at a company level using qualitative and quantitative information and analytic tools, including climate scenario analysis.

We are concerned with both the physical and transition risks of climate change to our investments. Physical risks are those related to the potential damage to land, buildings, or infrastructure owing to the physical effects of climate-related factors, such as rising sea levels or frequent heat waves. Transition risks are those related to the possible impact on a company's operations from government policy changes or consumer preference shifts in response to climate change.

In addition, Cidel monitors the CO<sub>2</sub>e intensity of its investments at the individual company and portfolio levels. We calculate CO<sub>2</sub>e intensity in two ways: tonnes of CO<sub>2</sub>e (Scope 1 and Scope 2) / Sales (USD millions) and tonnes of CO<sub>2</sub>e (Scope 1 and Scope 2) / market capitalization (USD millions). Cidel considers a company's CO<sub>2</sub>e intensity in the firm's investment decisions as higher emitters may face higher risks. Cidel measures the weighted average CO<sub>2</sub>e intensity of all active equity portfolios relative to the level of their respective benchmarks monthly.

## Statement on Human Rights

Cidel believes human rights issues - including employee safety, financial inclusion, data privacy and indigenous rights - can materially impact on a company's financial performance. Cidel supports the principles outlined in the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Declaration on the Rights of Indigenous Peoples. Due to our commitment to these principles, Cidel scrutinizes companies for potential negative human rights impacts as part of our investment process, which involves engaging with management teams and voting proxies to support resolution to any identified issues.

## Commitment to the Principles for Responsible Investment

Cidel believes that the United Nations-supported Principles for Responsible Investment (PRI) has an important role to play in developing a more sustainable global financial system.

Cidel is committed to applying the six principles of the PRI:

1. To incorporate ESG issues into investment analysis and decision-making processes.
2. To be active owners and incorporate ESG issues into ownership policies and practices.
3. To seek appropriate disclosure on ESG issues by the entities in which Cidel invests in.
4. To promote acceptance and implementation of the Principles within the investment industry.
5. To work together to enhance Cidel's effectiveness in implementing the Principles.
6. To report on activities and progress towards implementing the Principles.

## Support for the Task Force on Climate-related Financial Disclosures

Cidel is a supporter of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) which aims to provide guidelines for companies to disclose their climate-related risks and opportunities. Cidel strongly believes that for investors to make informed decisions, companies must report transparently on their material climate risks, related to both physical and transition factors.

## Support for Paris Accord

Cidel is a supporter of the Paris Agreement, an international treaty on climate change. We acknowledge the threat of climate change and strive to promote corporate actions that address it, while ensuring alignment with our investment objectives.

## ESG Committee and Responsible Investment Oversight

Cidel has an ESG Committee that oversees the firm's overall strategy for responsible investing (RI) and ESG analysis. The ESG Committee consists of members from across the firm, including representatives from each investment team (equity, fixed income, and hedge funds).

The responsibilities of the ESG Committee include:

- Monitoring the application of Cidel's RI approach by the investment team and ensuring accountability
- Providing the investment team with sufficient resources and training to effectively incorporate ESG factors into their investment and ownership decisions in a consistent manner
- Ensuring proxy voting is consistent with the firm's active ownership objectives
- Producing research, articles, and case studies on RI topics for publication
- Considering collaboration opportunities with others on ESG related issues

The responsibilities of the Investment Team include:

- Developing an approach that effectively integrates ESG factors into the investment process for each asset class and investment strategy
- Incorporating material ESG risks and opportunities into investment and ownership decisions
- Engaging with investee companies on material ESG factors, when relevant

On a quarterly basis, the Investment Committee, convened by the CEO and CIO, receives RI progress updates from the ESG Committee and monitors performance relative to the stated objectives. In addition, the Investment Committee evaluates the firm's approach to RI and provides feedback at least once a year. On an annual basis, the CEO and Board of Directors review and approve the firm's overall approach to RI and provides high-level oversight.

## Review of Policy

Cidel's Responsible Investment Policy is reviewed annually, or more frequently if needed.