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Focus on ESG

We have released our **2019 ESG Highlights**. This report summarizes our initiatives related to sustainable investing and our engagement with companies located in developed and developing markets on Environmental, Social and Governance (ESG) issues.

We engage daily with the management of companies in our portfolio on a broad range of topics relating to responsible investment and do so on a global platform.

Doing good to do well

At Letko Brosseau, ESG integration plays an essential role in our research and decision-making. ESG analysis is seamlessly integrated into our fundamental research process and portfolio management decisions. Our framework for ESG research and integration is the Sustainability Accounting Standards Board's (SASB) Materiality Map, which identifies a minimum set of sustainability issues most likely to impact the operating performance or financial condition of the typical company in an industry, regardless of location. LBA uses Sustainalytics and Glass Lewis as external service providers in support of its ESG and proxy voting efforts.

To reinforce our commitment to sustainable investing, we are a member of the Canadian Coalition for Good Governance (CCGG) and are a signatory of the United Nations' Principles for Responsible Investment (PRI): a global framework for incorporating ESG issues into investment practice. We consider ourselves to be long-term partners of our investee companies in our quest for sustainability, promoting effective corporate-governance and business practices. LBA is also a member of NATOA (the National Aboriginal Trust Officers Association) and AFOA (the Aboriginal Financial Officers Association of Canada).

ESG integration begins at the individual level. Each analyst is responsible for investigating material environmental, social and governance risks, and the opportunities companies in their coverage face. In addition, to ensure key ESG issues for a company have been captured, an analyst, who holds the Fundamentals of Sustainability Accounting (FSA) credential from SASB, has been designated as ESG Lead. It is our objective to have all our investment team obtain the FSA credential. For any new investment idea, the ESG Lead conducts an independent verification by reviewing third-party ESG research and presents their findings to the investment committee. The ESG Lead further conducts a similar review annually for all companies in our portfolio.

Furthermore, we established a Climate Change Committee in 2019 whose main objective is to: (1) identify investment risks and opportunities arising from climate change, both in our portfolios and more broadly in capital markets; and (2) conduct climate change scenario analysis, beginning with potential global physical changes and how these, in-turn, impact the macroeconomic environment, policy and regulation, sector and industry dynamics, and individual company performance.

The Climate Change Committee has analyzed the main scientific models and claims made in relation to climate change and global warming. Our macroeconomists, along with industry specialists, have assessed the broad political and economic consequences of climate change and the mitigation thereof, including region- and country-specific regulatory/legislative environments and global collaborative initiatives.

Committee members are evaluating technologies and solutions that are already being used to mitigate the effects of climate change, and those in development stages likely to be offered in the near future. An early area of focus has been Carbon Capture and Storage (CCS) technologies, currently widely used in industries such as cement production and power generation. Ongoing research topics include batteries, as well as industry-specific mitigation solutions.



Throughout its work, the Committee is mindful of our ultimate aim: to ensure that our client portfolios are well positioned to take advantage of opportunities linked to the adoption of new technologies and solutions, and to avoid undue risk from the direct and indirect consequences of climate change.

In addition, we further sustainability through dialogue. We maintain an ongoing dialogue with management and, to an extent, with board members. Relevant issues, including ESG, are discussed candidly. We take our responsibility to proxy voting very seriously.

ESG responsibility also includes avoiding certain sectors. LBA has identified specific industries that it chooses to avoid, industries that present abnormal risks or benefit some stakeholders at the expense of others. Accordingly, our global investment universe has been adjusted to exclude tobacco, gaming, and thermal coal mining companies.

We seek out opportunities where shareholders win when all a company's stakeholders win; whether they are clients, employees, suppliers, or the communities in which the company operates. If one of these groups loses, the chances of the company's success are reduced.

By analyzing the competitive and regulatory contexts specific to different sectors, and by establishing a dialogue with company management, we determine whether they comply with environmental restrictions and regulations and act responsibly. We look favourably on companies that develop or employ sustainable technologies and solutions. This analysis is part of our fundamental due diligence process, which aims to identify investment opportunities that offer an attractive risk/return profile for our clients.

We always try to identify and invest in companies with the lowest environmental risk profile and the most law-abiding history. We are also attracted to companies seeking to reduce greenhouse gas (GHG) emissions and their own carbon footprint. For example, we are invested in **Cascades**, the largest recycled paper collector in Canada, and **Capital Power** with its robust emissions reduction programs and investment in technology to adapt to a lower-carbon world. These are just a few examples of investments in companies in our Canadian portfolio which address the needs created by climate change.

In the international portfolio, **EDP – Energias de Portugal** is the owner of the fifth-largest group of wind farms globally. We also own companies such as **Valeo**, an automotive supplier at the centre of three technological revolutions – electrification, autonomous vehicles, and digital mobility. **Siemens** is a leader in the sustainability field, with its environmental portfolio focused on decarbonization and energy-efficient buildings. It has a goal to become carbon neutral by 2030. **Panasonic**, whose Environment Vision 2050 plan centres on energy saving, storage and management, is executing an ambitious path towards creating factories with zero CO₂ emissions.

ESG factors play a key role in choosing investee companies, the direction and guidance we give them, how we conduct our business, and the fair and clear way we deal with those that have entrusted us with their portfolios.

We invite you to read through our **2019 ESG Highlights** report for further details.

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