

ESG Approach

- There have been no changes to our ESG approach – it remains one of the pillars of our investing philosophy and is seamlessly integrated into our research and portfolio management. Our *ESG Policy* and *Proxy Voting Policy* are available upon request.
- LBA continues to use Sustainalytics and Glass Lewis as external providers in its ESG efforts.

New ESG Initiatives

- Terry Howard, our Senior PM who coordinates ESG research and integration of these factors into our decision-making process, obtained the Fundamentals of Sustainability Accounting (FSA) credential from the SASB (Sustainability Accounting Standards Board) during 2018. It is our intent to have three more Analysts / PMs obtain the FSA credential in the near future. Furthermore, Mr. Howard is in the process of formalizing an engagement plan for the main industries we invest in.
- LBA became a full member of the **Canadian Coalition for Good Governance (CCGG)**, Canada's pre-eminent corporate governance organization.
- LBA became a signatory of the **United Nations' Principles for Responsible Investment** in April 2019.

ESG Research & Engagement Highlights

We frequently engage portfolio companies and prospective investments on ESG-related issues. The following list highlights several examples and is by no means exhaustive.

INTERNATIONAL EQUITIES

- **Freeport McMoran** – we have had ongoing discussions with management about the company's tailing disposal practices at its Grasberg Mine in Indonesia, which were brought into question in recent years as being damaging to the environment. We had previously investigated this matter by conducting interviews with senior management. The company's stance was that the practices were in full compliance with the government's regulations and they were developed specifically for the Grasberg mine to respond to a very complex environmental setting. We have known Freeport to be a very reputable and experienced miner operating across numerous jurisdictions and mining settings and are still invested in their shares.
- **Kyocera** – In 2017, we wrote to company executives to request the introduction of more independent directors, as well as to express our concern with the high level of cash reported on the balance sheet. We also encouraged efforts to improve the quality of the company's English disclosures. Early in 2018, Kyocera instituted a share buy-back, demonstrating the company's commitment to shareholder relations in a way which we had not seen previously. We encouraged the company to continue assessing the required level of cash reserves held by business. We have been shareholders of Kyocera for more than





ten years and we initially purchased shares noting the company's very strong commitment to its customers, employees and community.

- **Oracle** – we voted against Oracle's executive compensation plan due to excessive dilution of shareholders' equity.
- **IBM** – we voted against the company's executive compensation plan, as we viewed it to be excessive given our dissatisfaction with the company's performance.

CANADIAN EQUITIES

- **AGT Foods** – We publicized our intent to vote against AGT's proposed management buy-out. We felt the proposed offer significantly undervalued the company and reminded the board of directors of its duty to consider the interests of all shareholders in reviewing the merits of this offer.
- **Lundin Mining** – we contacted the managements of Lundin and Nevsun Resources following Lundin's offer to acquire Nevsun. We had been concerned by Nevsun's human rights record in Eritrea for some time and had avoided investing in the company as a result. We clearly indicated to Lundin's CEO that the issue of human rights was important to us, and that we would consider divesting our holding if Lundin proceeded with the purchase. Nevsun was finally acquired by Zijin Mining.
- **Husky Energy** – During a meeting with management, we shared our concerns on several incidents that had occurred and clearly indicated that we expected the company to make every possible effort to improve Husky's environmental and employee safety track record. The company has since implemented a new strategy that we are closely monitoring.
- **Celestica** – following several discussions with management (CFO, Audit committee and Legal team), we voted against Celestica's executive compensation resolution due to its high level of equity dilution (above 5%). LBA is the second-largest shareholder of Celestica.
- **Bombardier** – In 2017, we had discussed the significant increase in Executive Chairman Pierre Beaudoin's compensation directly with management and were informed by the company that we were the only institutional shareholders to raise this directly with them. Following media attention, we were contacted by another important shareholder and together continued to engage directly with the company on our concerns. In March 2017, Mr. Beaudoin issued a statement that he requested his compensation be reset to 2015 levels, which was subsequently implemented by the company. In 2018, we continued to engage with Bombardier on various governance issues and voted in favour of a proposal by investor rights group *le Mouvement d'éducation et de défense des actionnaires* (MÉDAC) to end Bombardier's dual class share structure.
- **Hudbay Minerals** – the company has faced serious human rights issues over the past year, with several civil suits filed following alleged human rights violations at its mine in Guatemala that are currently being heard in Ontario courts. We have addressed these issues on multiple occasions with management and IR. Hudbay is confident of a successful outcome and claims to have improved its human rights systems and controls. While we elected to maintain our holding, we have been monitoring the judicial proceedings. We have also continued to engage the company on these issues, and encourage management to use



industry best practices. We closely follow these types of issues and will not hesitate to divest our holding if preventative measures are not put in place.

- **Manulife** – we have been meeting with the company’s board Chairman on an annual basis for the past five years to discuss business risks and opportunities, executive compensation, succession planning and executive leadership development.

OTHER RESEARCH

- Our Analyst covering clean tech prepared a **detailed study of environmental factors in investing**, highlighting risks and opportunities in sectors such as water, utilities, industrials & chemicals, engineering, waste, EV & battery, and gas distribution.

ESG-related investment decisions

- **Veolia Environnement** – we purchased one of the world leaders in optimized resource management, include water, waste and energy.
- **Energias de Portugal** – we purchased one of the largest global producers of eolian and hydroelectric energy.
- **BB&T** – we have held shares of BB&T, one of the U.S.’s largest financial services holding companies, since 2014. We have been impressed by the bank’s employee wellness and compensation programs, its commitment to engaging with shareholders, and its progressive social initiatives. BB&T offers an industry-leading compensation package, which constitutes a win-win both for employees and the company through increased loyalty, retention and productivity. BB&T also participates in numerous socially-responsible initiatives centred on the concept that education leads to financial well-being. These include the Early Literacy project, a national initiative to provide early childhood literacy education, the Financial Foundations digital program, provided across secondary schools, and direct support to organizations such as United Way.
- **Glencore** – a leading global mining company. Among other commodities, Glencore is the largest producer of cobalt – one of the main materials for batteries for Electric Vehicles. Our analyst follows and models the company to understand the supply and cost dynamics in the industry, but has not brought it forward due to (i) Glencore’s large position in thermal coal mining and (ii) Glencore being under investigation in the U.S. for their dealings in the DRC.
- **BAE Systems** – our analyst studied this company, which was not presented as a potential investment due to its exposure to the defense-related equipment industry.
- **Bayer** – our analysts researched the company, which was ultimately not purchased due to the company’s exposure to the genetically-modified (GM) seeds and glyphosate (Round-up) industry, as well as drug litigation.
- **Olin** – American manufacturer of chemicals and ammunition. The company is a low-cost producer of industrial chemicals. Our analyst researched this company, whose shares were trading at a two-year low



(at 6.2× P/E with a yield of 3.5%). However, the company was not presented as an investment idea due to its exposure to the ammunition business.

ESG News

INTERNATIONAL EQUITIES

- **Smurfit Kappa** – one of the global leaders in corrugated and cardboard packaging, Smurfit launched its *Better Planet Packaging Design* initiative aimed at tackling one of the greatest challenges facing the sector: reducing the amount of non-recyclable waste produced every day.
- Some of our portfolio companies were recognized as model corporate citizens in Corporate Knights' Influential Global 100 ranking. **Total** is the second highest-ranked integrated oil & gas company, having made a commitment to ramping up its renewables business. Also notable is **Bank of America**, which provides billions of dollars of financing for the low-carbon economy, offers a solid pension plan for its workers and has relatively impressive gender diversity on its board, where a third of directors are women. **GlaxoSmithKline** is the top-ranked pharmaceutical company, recognized for transparency, mostly in terms of pricing.
- **Samsung Electronics America's** Galaxy Upcycling project received Environmental Leader's *Top Project of the year 2018* award. The judging panel commended the company for its "creative approach to reusing old materials that reduces landfill and electronics waste". Samsung's goal is for every Galaxy phone to be repurposed and upcycled without being discarded prematurely, leading to billions of devices with extended useful lives.

CANADIAN EQUITIES

- A number of our portfolio companies were recognized as model corporate citizens in Corporate Knights' Influential Global 100 ranking. Among others, **Teck Resources** is the highest-ranked mining company in the world partly because of its carbon productivity scores and pension plan quality, though most of its points came from its growing mix of metals that are essential to the low-carbon economy. Copper (critical in electric cars) and zinc now account for half the company's revenues. **Suncor** topped the integrated oil & gas companies, while **Bombardier** was featured in 22nd place, thanks to its investments in innovation, high security standards, and level of "clean" revenues, i.e. revenue associated with environmentally-friendly products and services.
- **Air Canada** – named eco-airline of the year (2018) by Air Transport World, recognizing the company's environmental accomplishments, in particular its commitment to emissions reduction through their support of the development of alternative fuels and its numerous green programs and partnerships.