

ESG Approach

- LBA's **Environmental, Social and Governance (ESG)** analysis is seamlessly integrated into our fundamental research process and portfolio management decisions. The remuneration of the investment professionals incorporates the performance of each professional in terms of their ESG analysis and engagements. There were no changes to our approach in 2020, although we improved our engagement process by introducing an internal ESG engagement database.
- Monitoring the integration of ESG issues is the responsibility of the investment team, the management committee and, ultimately, the Board of Directors.
- Our framework for ESG research and integration is the Sustainability Accounting Standards Board's (SASB) Materiality Map¹, which identifies a set of sustainability issues most likely to impact the operating performance or financial conditions of a typical company in any industry, regardless of geography.
- LBA's investment team comprises 23 investment professionals with diverse educational and cultural backgrounds. The team collectively speaks 13 languages and has cultivated deep international sector knowledge. Each analyst is responsible for investigating ESG risks – and opportunities – for the companies in their coverage area.
- A senior portfolio manager, designated as our ESG Lead, is responsible for conducting an independent review of the material ESG issues for each new investment thesis, using both internal and external resources. The ESG Lead is then responsible for reviewing each of our holdings semi-annually to identify material ESG issues that may have arisen since the security's inclusion in the portfolio.
- Our global investment universe excludes tobacco, gaming and thermal coal mining companies.
- LBA uses **Sustainalytics** and **Glass Lewis** as external service providers to support / complement its ESG analysis and proxy voting efforts.
- Our investment professionals make all final voting decisions for the companies under their coverage in accordance with our **Proxy Voting Policy**, following a thorough review of proxy materials and insight from Glass Lewis, a leading independent provider of global governance services.
- In addition, any proxy vote contrary to the management's recommendation requires written justification. Before voting contrary to the management's recommendation, we often engage with the company to express our point of view on issues of concern and inform of our voting intentions. Proxy voting activity reports are provided to clients upon request.
- We apply the same ESG framework and process to both equities and corporate bonds.
- Our ESG and fossil fuel free investment options use the same fundamental investment process for ESG analysis, with additional ESG filters to screen across the investable universe.

ESG Initiatives

- LBA is a member of the **Canadian Coalition for Good Governance (CCGG)**; Peter Letko, Senior Vice-President of LBA, has been a Board Member since June 2019.
- LBA is a signatory of the United Nations-supported **Principles for Responsible Investment (PRI)**.
- LBA has endorsed **CCGG's Stewardship Principles**.

¹ Letko Brousseau licenses and applies the SASB Materiality Map® Disclosure Topics and Accounting Metrics in its work.





- LBA supports the **Task Force on Climate-related Financial Disclosures**.
- We increased our transparency and our Proxy Voting Summary and ESG highlights report, along with related ESG and Proxy Voting policies, are available on our website.
- In 2020, 14 members of our investment team qualified for the Fundamentals of Sustainability Accounting (FSA²) credential from SASB, and 20 members of our investment team (87% of the team) are now FSA accredited.
- In 2020, LBA held over 1,000 (virtual) meetings with over 250 companies around the world, engaging on a variety of matters, including ESG issues. We voted over 275 proxies, comprising almost 3,600 resolutions, often engaging with the company’s management and/or directors.
- In 2020, LBA implemented a formal internal engagement database to monitor, document and track engagement results.

ESG Research & Engagement Highlights

Our ESG approach considers engagement in both the narrow and broad views, ensuring that we are able to understand the challenges and opportunities these issues might have not only on individual businesses and industries but more broadly speaking on the portfolios we manage. Our definition of engagement includes not only direct communication with the companies and their representatives but all forms of communication that allow us to garner additional insight and draw conclusions related to how the ESG factors under consideration may impact the investments and portfolio.

We frequently engage with portfolio companies and prospective investments on ESG-related issues. The following describes a number of these engagements during 2020 (and is by no means exhaustive).

Leadership and Governance

Critical Incident Risk Management

- Adient
- Valeo

Business Ethics

- General Electric
- L3Harris
- CCR*

Strategy

- Bombardier
- Dorel Industries
- Linamar
- Western Forest Products

Fee structure

- Brookfield Property Partners

Management of the Legal and Regulatory Environment

- Celestica
- Kyocera
- Samsung*

Succession and Compensation

- Pretium Resources
- Sun Life Financial

Transparency

- Rogers Sugar
- Beijing Enterprises*

² FSA credential demonstrates in-depth knowledge of the integration of sustainability information into investment analysis. To qualify for the FSA Credential, one must complete two exams. Level I focuses on principles and practices and Level II focuses on application and analysis.



Business Model and Innovation

Systemic Risk Management

- Transat A.T.

Competitive Behavior

- General Electric

Business Model Resilience

- Panasonic
- Air Canada
- CAE
- Warsaw Stock Exchange*

Business Response to the Global Pandemic

- Aliance*

Capital Allocation

- Spirit Airlines
- Atrium*

Strategy

- Cenovus
- Ovintiv
- Magellan Aerospace

Social Capital

Product Quality and Safety

- Carrefour

Data Security

- Facebook

Selling Practices and Product Labelling

- Wells Fargo

Animal Care

- Maple Leaf Foods

Human Rights and Community Relations

- Linamar
- OpenText
- Pretium Resources

Access and Affordability

- Profound Medical
- Banorte*
- Concentradora Fibra Danhos*

Human Capital

Compensation Alignment

- ConocoPhillips
- Devon Energy
- Cenovus
- Manulife Financial

Executive Compensation

- State Street

Employee Health and Safety

- Husky Energy
- Lucara Diamond Corp
- Pretium Resources
- Suncor Energy



Environment

Employee Engagement, Diversity and Inclusion

- Linamar
- OpenText

Ecological Impacts

- Dow and BASF
- Eastman
- Smurfit Kappa
- Nutrien
- Stelco Holdings
- Cascades
- High Liner Foods
- Nine Dragons Paper*

GHG Emissions

- Energias de Portugal (EDP)
- FLSmith & Co
- Mitsui & Co
- Total
- United Parcel Service
- Birchcliff Energy
- Canadian Natural Resources
- Capital Power
- Cenovus
- Enerflex
- George Weston
- Linamar
- Magna
- Norbord
- Peyto Exploration & Development
- Pretium Resources
- Suncor Energy
- TC Energy

Water and Wastewater Management

- Intertape Polymer Group
- Winpak
- Companhia de Saneamento do Paraná (Sanepar)*

Energy Management

- United Parcel Service
- Kernel Holding*

* Emerging markets



OTHER RESEARCH by the Climate Change Committee

The Climate Change committee mission is to provide a thorough understanding of climate change and evaluate relevant risks and opportunities on an ongoing basis. The Climate Change Committee is chaired by a Portfolio Manager and is comprised of 10 Analysts covering a variety of industries, including energy, materials, metals and mining, industrials, clean tech, transportation, as well as macroeconomics. The committee goes deep into academic literature reviews, explores the impacts of climate change from a scientific perspective, studies various technologies and potentials solutions to climate change and conducts detailed cost benefit.

Key achievements of the committee in 2020 includes an in-depth study of the hydrogen industry. The study is complimentary to the previous studies on renewable energy, electric vehicles and carbon capture. These studies are all crucial to the decarbonization of the world economy and hydrogen would play a vital role for sectors that are hard to be electrified. Although the economic feasibility of green hydrogen is still to be proven, our cross-sector studies show that both renewable energy and carbon capture technology can contribute to lowering the cost of the hydrogen economy. Electric vehicles and hydrogen fuel cell vehicles can also be complimentary in different applications.

Going forward, our Climate Change Committee will continue to watch for the latest development and technological innovations in different industries that can help address the challenges posed by climate change. Our goal is 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.

ESG-related investment decisions in 2020

- Divestment of Norilsk Nickel
- Abstention from Purchase of ExxonMobil
- Abstention from Purchase of L3Harris Technologies

About Us

Founded in 1987, Letko, Brousseau & Associates Inc. is an independent investment manager with offices in Montreal, Toronto and Calgary. The firm manages funds for both institutional investors and private clients.

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This document describes our most important engagements in 2020 with portfolio companies and prospective investments on ESG-related issues and is by no means exhaustive. It also includes information on the ESG-related investment decisions made by our firm in 2020. The companies mentioned herein do not represent all the securities purchased, sold or recommended for clients. It should not be assumed that an investment in these securities was or will be profitable.

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