



Introduction

Letko Brosseau follows the same knowledge-based approach to investing since inception. Our investment philosophy is built on fundamental research, price sensitivity, a global perspective, a long-term investment horizon, and analysis of environmental, social and governance (“ESG”) issues. We act as a long-term partner to investee companies and strive to meet with them on a regular basis to gain a thorough understanding of their strategy and material issues.

We firmly believe that companies with sound business practices—including strong corporate governance and responsible management of material environmental and social issues—are more likely to succeed and deliver stronger financial performance over time. We believe it is therefore important to engage with our investee company partners on a regular basis to properly assess their ESG practices and understand the risks these businesses face. Through this process we can question their actions and better appreciate how they can reduce risk and benefit from opportunities around key ESG topics.

This policy outlines our ESG engagement agenda and how we structure and document our activities. The objective is to encourage strong governance practices and, where shortcomings are identified, to explore and develop pathways to improve. Throughout the process, we collect data and measure how companies address practices that require improvement.

Firm-Level Engagement Themes

To ensure effective and focused engagement with our companies, we have set out firm-level themes to help direct our analysis. These include areas that we believe to be the most important across the ESG spectrum due to perceived risk or opportunity that may impact our investment horizon. Each can incorporate any or all aspects of environmental, social and governance concerns.

The firm-level engagement themes are determined by the Industry Committee on a periodic basis and can change as ESG priorities shift over time. A combination of factors is used for their determination:

- i. **Bottom-up analysis** – This includes ESG risks and opportunities we see from our company and sector analysis. These factors are determined by our investment team members. Each theme should align with one or more relevant *dimensions* of the Sustainability Accounting Standards (SASB) Materiality Map¹, as explained below in the Sector-level Engagement Framework.
- ii. **Top-down guidance** – These factors would include Letko Brosseau ESG principles, guidance from reputable organizations, such as the Canadian Coalition for Good Governance (CCGG), the Task Force

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





on Climate-related Financial Disclosures (TCFD), Principles for Responsible Investing (PRI), the SASB, and influence from the United Nations Sustainable Development Goals (UN SDGs).

The firm-level engagement themes and their associated UN SDGs are shown below (Figure 1).



The **energy transition** theme, for instance, was determined through this process. Using bottom-up analysis from our sector specialists and with the help of our Climate Change Committee, we concluded that risks from climate change are relevant and significant. The impact may be far-reaching across multiple sectors and geographies, and likely cause considerable economic and societal change. This choice of theme is also informed by top-down guidance, i.e., the perspectives of global institutions and reputable organizations, such as UN SDG #13 (climate action), and reporting in accordance with the TCFD’s recommendations. Globally, governments, corporations and individuals are shifting their view on energy and how it should be produced, transported, stored and consumed. This transition creates significant risks and opportunities that are key determinants of investment performance over our time horizon. Hence, we believe Energy Transition to be one of the most important topics today.

Sector-Level Engagement Framework

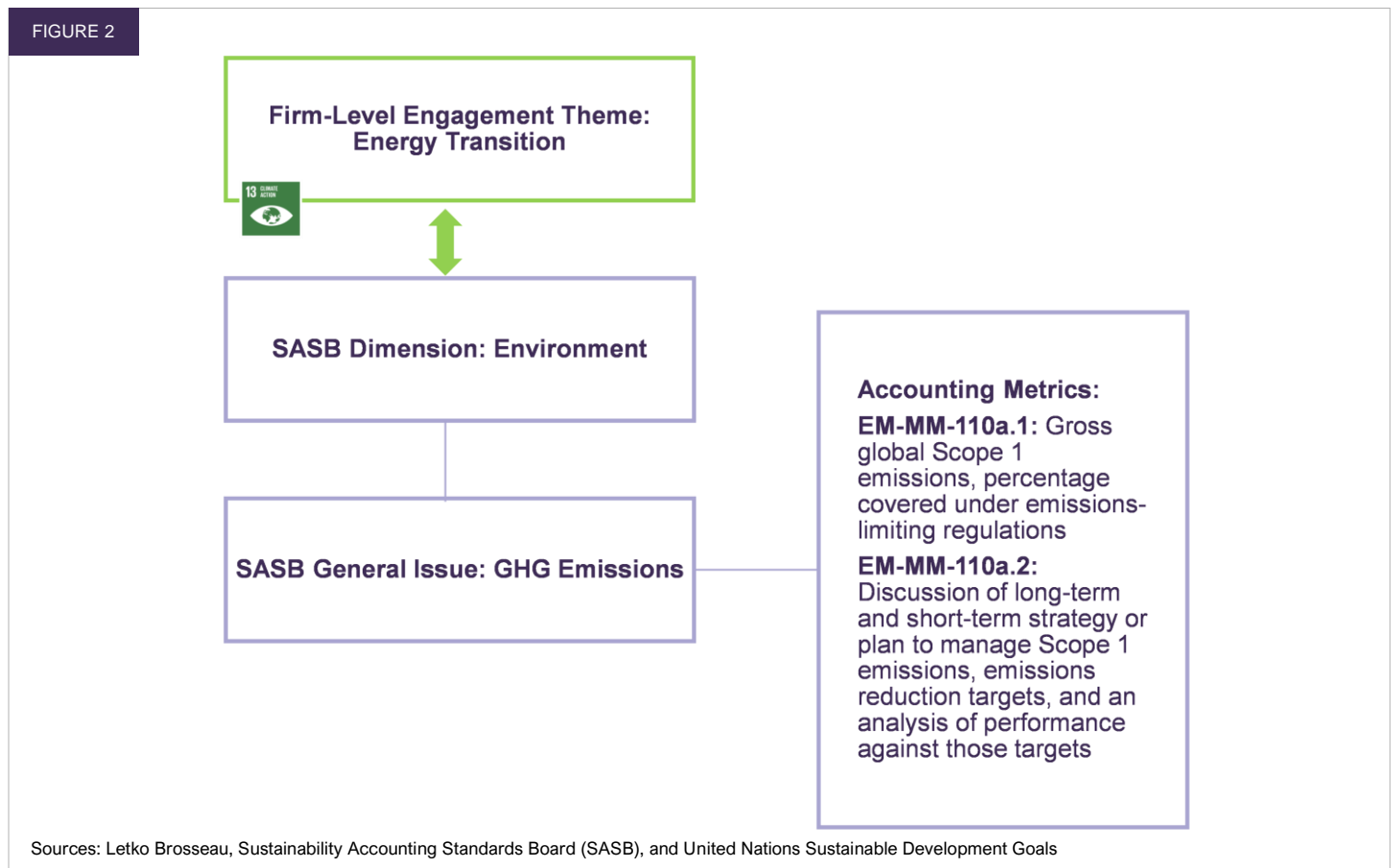
Working in alignment with the firm-level themes, sector analysts set a **sector engagement agenda** to follow while engaging with companies on the highest priority topics. Information on these engagements is collected and used for internal analysis of ESG risks, external communications and tracking of progress on key issues.

Analysts use the **SASB Materiality Map** to help build their engagement agenda and as a framework to guide discussion. This ensures that the information collected and interpreted is material, decision-useful, industry-specific and relevant to investors. The SASB Materiality Map categorizes the complex topic of sustainability into five main groups, known as **SASB dimensions**. These are the environment, human capital, social capital, business model and innovation, and governance. Analysts can look to the relevant SASB dimension to determine the appropriate **SASB general issue**, which is a topic within a SASB dimension that is considered material and likely to have a financial or operational impact on the company. Each SASB general issue has associated **accounting metrics** for measurement and tracking.





We will have **one or two** priority engagement topics for each company. These will be chosen by the responsible investment person to ensure a focused engagement and efficient tracking of metrics and progress. Our engagement priorities will change as ESG risks shift and companies respond over time but should typically align with a relevant SASB topic for that sector. Below (Figure 2) is an example for an oil and gas exploration and production company. For this company, the analyst has chosen greenhouse gas (GHG) emissions as the priority ESG topic under the energy transition theme.



Our engagements can take the following forms:

- Meetings and phone calls with company representatives (i.e., members of the board, senior executives, investor relations, unions, specific employees or employee groups)
- Company site visits (to validate or assess certain aspects of our engagements, we might require visits to company installations and conversations with employees)
- Written correspondence
- Discussions with various stakeholders and specialists
- Collective engagement with other investors, organizations and governmental institutions

Information from engagements is entered into our **engagement database**. The database uses standardized data formats, where applicable, to allow data accessibility, aggregation and analysis for interpretation and communication purposes. All information can be tracked and progress, measured for each company.





Priority ESG engagement topics may differ amongst companies in the same sector. Take the case of two oil and gas developers, A and B, both exposed to GHG emission risk, which applies to the whole sector. Company B, however, operates with high-risk waste material handling practices while company A does not. Therefore, the priority engagement topic for company B could be improving or replacing waste and hazardous material practices, and company A's could be entirely different.

This is a framework only, and each investment team member can prioritize issues, tracking metrics and the approach that best fit each company's circumstances.

ESG Metrics Monitoring

In parallel to priority engagement topics, our investment analysts will continue monitoring relevant ESG metrics for each company. They will also collect and enter data in the **database**. This allows team members to continuously track ESG risks that are relevant to each sector and individual companies. Information will be sourced directly from companies, from ESG and sustainability reports, or from third-party data providers.

