



ESG Overview

Presented by:

Helena Cherniak-Kennedy & Breanna Schollaardt, *Portfolio Manager*



What is ESG, really?

Environmental

- The E in ESG stands for environmental
- This pillar often relates to sustainable actions by a company, and is often the first of the pillars focused on by companies
- This could include things like a company's environmental footprint through impacts like waste, energy use, and resource use

Social

- The S in ESG stands for social
- This pillar focuses on relationships a company may have and the reputation it has for fostering these relationships
- Examples of S include labor relations, charitable focuses and initiatives, and diversity and inclusion

Governance

- The G in ESG stands for governance
- This pillar considers the overall leadership of a company; examples of G include internal systems of practices and controls a company uses to govern itself
- A popular issue surrounding this pillar is executive compensation and diversity of management teams and Board of Directors



Sustainability Accounting Standards Board



Global Benchmark Real Assets



Global Reporting Initiative Standards



Dow Jones Sustainability Indices



Carbon Disclosure Project (CDP)

Focuses on industry specific issues

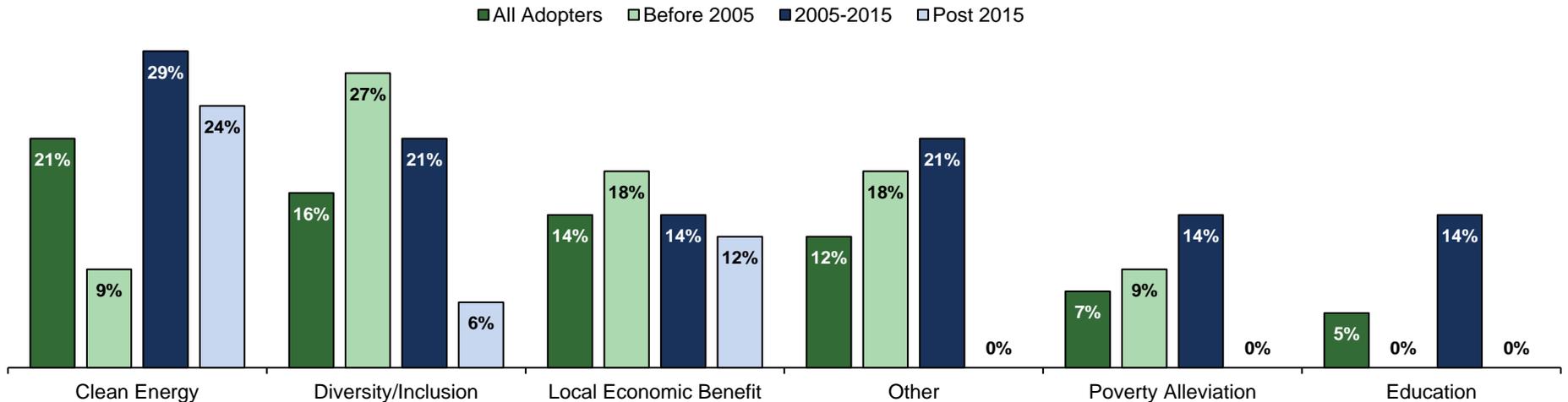
ESG performance throughout the global commercial real estate sector

Large focus on stakeholder engagement with equal weighting placed on ESG factors

Selection of top 10% most sustainable market caps per industry

Scores companies based on climate change, forestry, and water security impacts

Positive Impact Investments Intentionally Included per ESG Policies¹



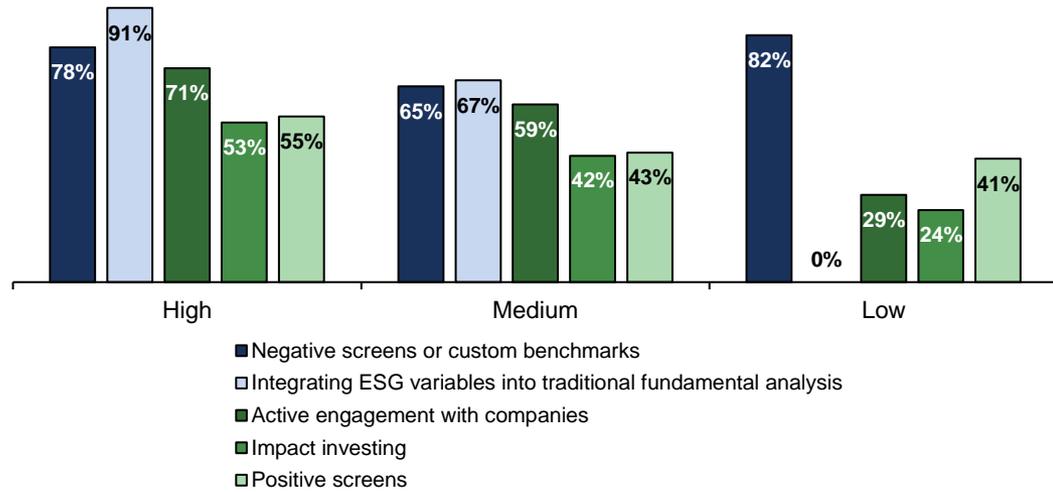
Source: McKinsey & Co., Callan
1. Multiple selections allowed



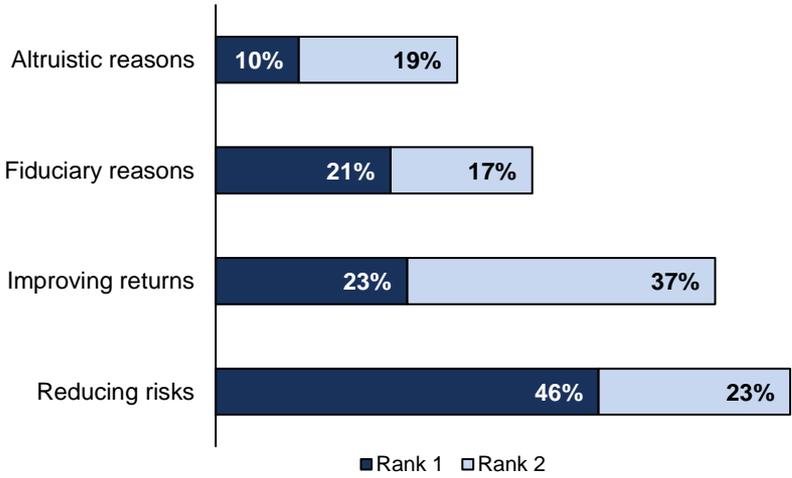
Where do Institutional Investors Come in?

Key Findings & Actions by Fund Managers to Incorporate ESG into Investing Objectives

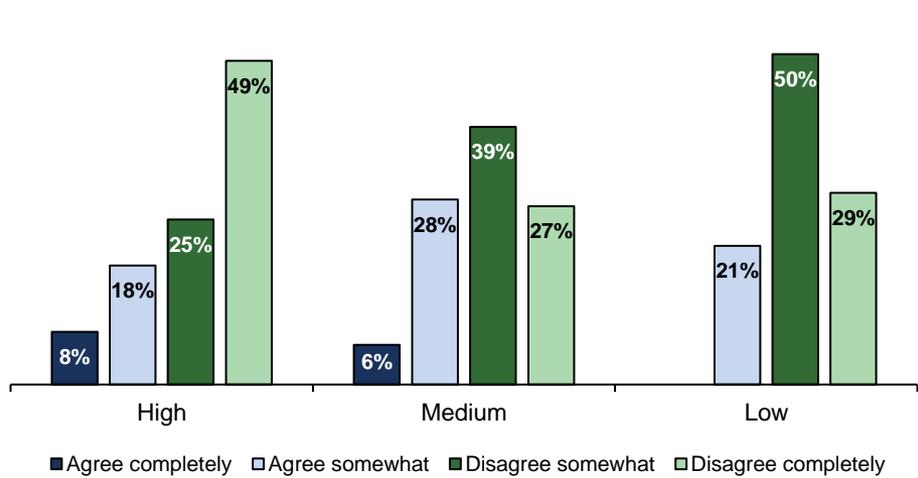
- Larry Fink's letters to CEO's have offered insights into potential trends as Fink often challenges companies to do better, and further their commitments to worthwhile causes
 - This years letter touched on the impacts of the pandemic, the urge for social justice, and the political unrest throughout the U.S.
 - Fink notes the pandemic has amplified the threat of climate change and forced us to confront it; a year prior, Fink wrote "climate risk is investment risk" and believed the markets would begin to price in climate risk
 - Investors in mutual funds and ETFs invested \$288B internationally in sustainable assets through January to November 2020, this was a 96% increase over 2019
 - Fink has added to his statement from last year, leaving us with the following "we know that climate risk is investment risk. But we also believe the climate transition presents a historic investment opportunity"



Perspective of Main Benefits of Incorporating ESG



Agreement with if ESG Integration Requires Investors to Accept Lower Rates



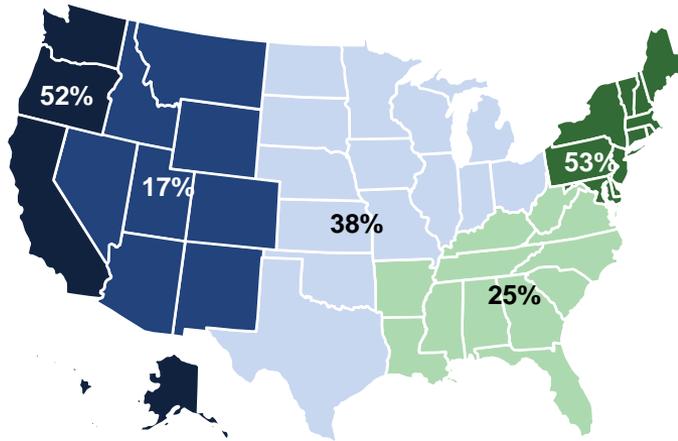
Source: BlackRock, Callan, Franklin Templeton, McKinsey & Co.



ESG Adoption

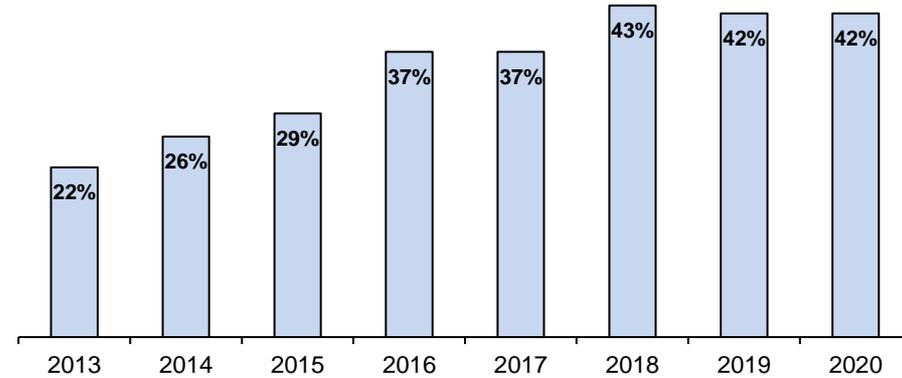
Regional Breakdown of ESG

- Sample size of 102
- Mountain region (in medium blue) contains the smallest sample
- Since 2013 the Pacific (dark blue) and Northeast regions (dark green) have seen the largest increase in ESG adoption

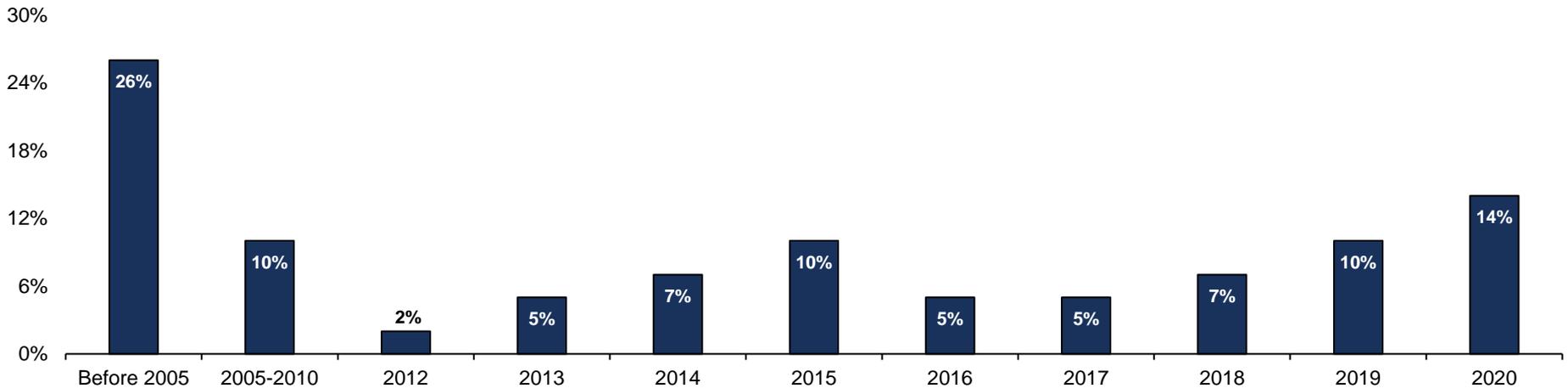


ESG Adoption

- Adoption has nearly doubled since 2013, with over 30% of respondents not yet incorporating ESG considering doing so



First Adoption of ESG Trends¹



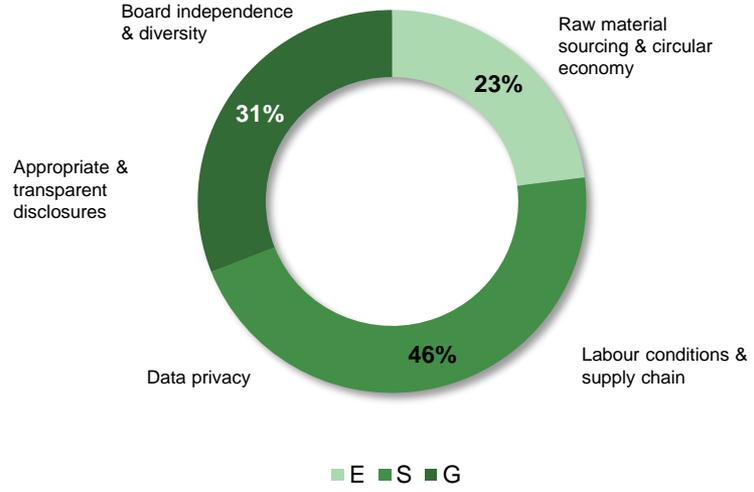
Source: Callan
1. No data for 2011



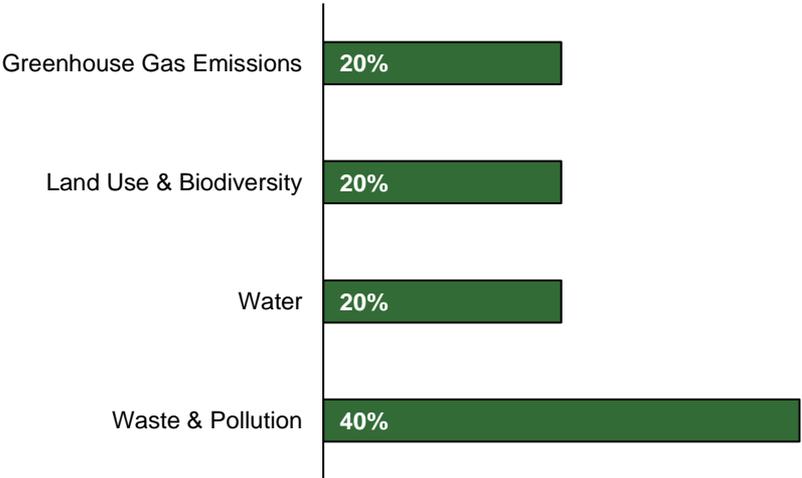
Consumers Sector ESG KPIs & Trends

Trends Throughout the Industry

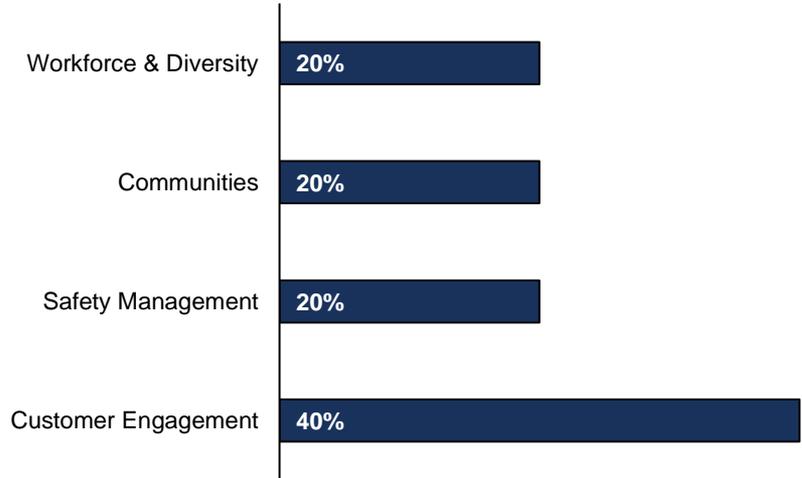
- A report by McKinsey & Company revealed that 70+% of consumers would be willing to pay 5% more for a “green” product that performed similar to a non-green product
- ESG is becoming increasingly important to consumers, a study of over 8,000 individuals revealed that consumers were 4x more likely to purchase from a brand that has a “Purpose” and 4.5x more likely to recommend it to a friend
- Considering the ESG impact companies are having is extremely important in all sectors; however, it holds a high level of importance in this industry as it may guide consumer decisions and choices
- Different discretionary brands have been incorporating conscious lines such as, H&Ms “Conscious Collection”, or Zara’s “Join Life” ranges which include eco-friendly materials
- A main concern on the S side of things is that of employee pay, working conditions, healthcare benefits, training, and parental leave



Environmental



Social



Source: Citi Bank, Forbes, S&P Global, Zeno Global



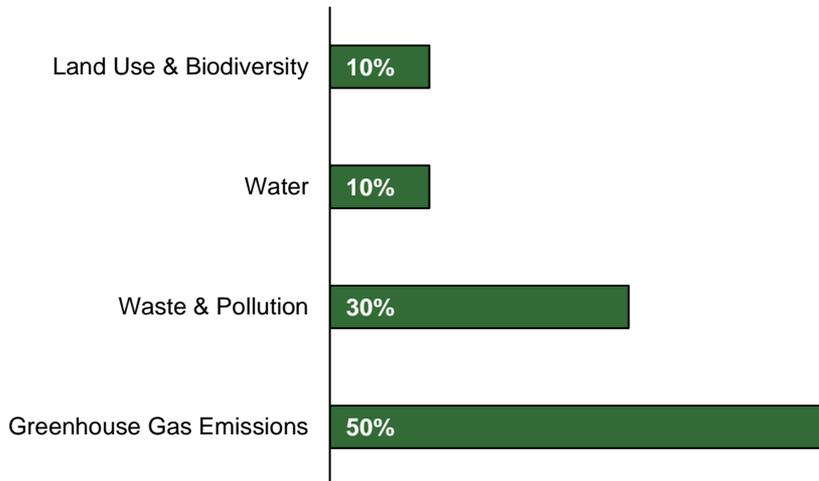
Telecommunications Sector KPIs & Trends

Trends Throughout the Industry & BCG Three Stage Agenda

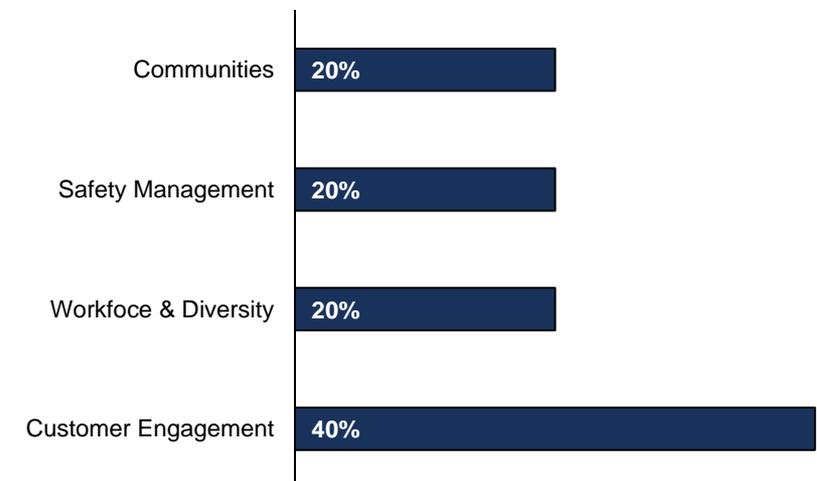
- On the G side, all of Canada's main telecom providers have impressive compensation plans in the sense that they include multiple factors in short-term, mid-term, and long-term incentive plans
 - These include employee experience, customer experience, financial performance, FCF, TSR and others
- Companies in this industry have large workforces that often have substantial unionization, requiring proper and ethical human capital management
- ~72% of global telcos leaders believe a key factor in maintaining their jobs is managing climate-related risks
- A report by BCG and GSMA focuses on the total societal impact (TSI) telco companies can have in future
 - Given the access to data, advancement of 5G, and increasing popularity of AI, telcos can push towards effective solutions
 - Key social themes are digital inclusion and cybersecurity
 - Key environmental themes are energy efficiency and carbon intensity

1. Establish "license to lead" (internal focus)	2. Enable other industries to tackle their ESG issues (external focus)	3. Create new businesses that solve key environmental and societal challenges (external focus)
Address material ESG topics for telcos and measure socioeconomic impact of core business	Tackle industry specific ESG issues by adjusting or building new business models (eg: IoT solutions for energy efficiencies)	Create new businesses that leverage key capabilities to enter new areas (eg: health, financial services, education)

Environmental



Social



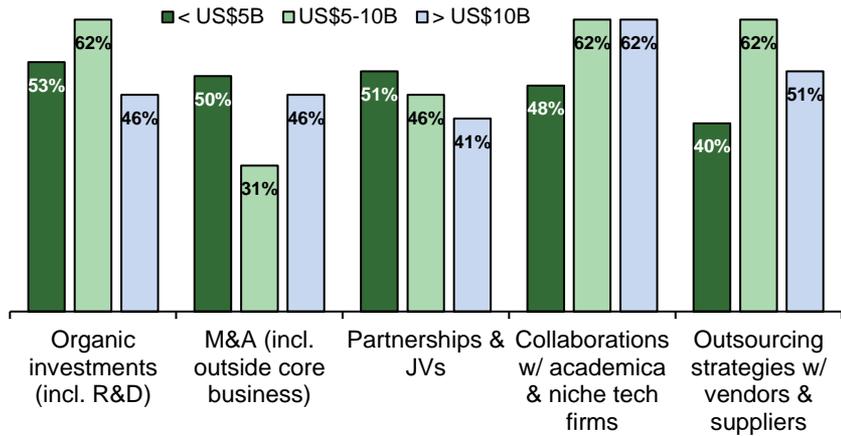


Oil & Gas Sector KPIs & Trends

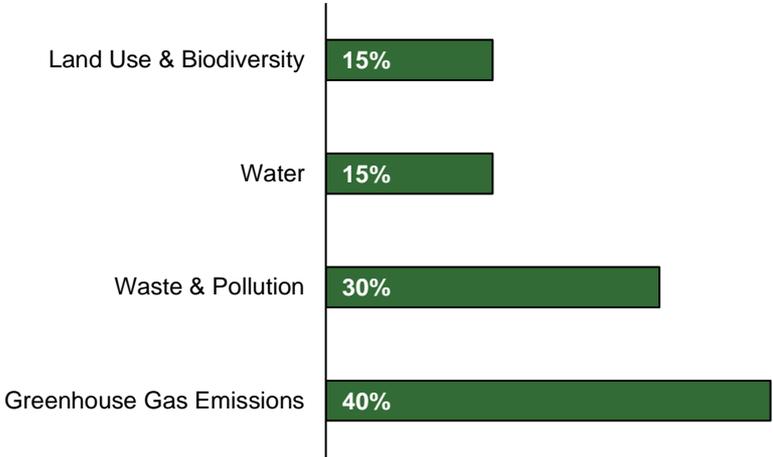
Industry Trends

- O&G directly accounts for 8% of global emissions (Scope 1), but including end-user consumption of O&G products makes up 42% (Scope 1, 2, & 3)
- Investors pushing companies to disclose consistent, comparable, and reliable ESG data
 - 80% of investors think O&G co's must make and meet emissions reduction targets
- Renewable technologies are becoming more cost effective and therefore competitive (since 2011, the cost of solar has fallen >70% and the cost of wind has fallen >65%)
- Carbon taxes or cap-and-trade systems cover 20% of global emissions
- Financial resilience becoming tied to climate resilience; O&G companies must build a portfolio that is resilient to lower commodity prices and higher carbon prices
 - 80% of oil projects break even at \$60/bbl oil and \$100/ton CO₂e
- Current technologies allow for significant emission reduction across the O&G value chain, e.g., carbon capture, use, and storage (CCUS), electrification, improved maintenance
- OH&S concerns remain a priority, with most companies having established targets

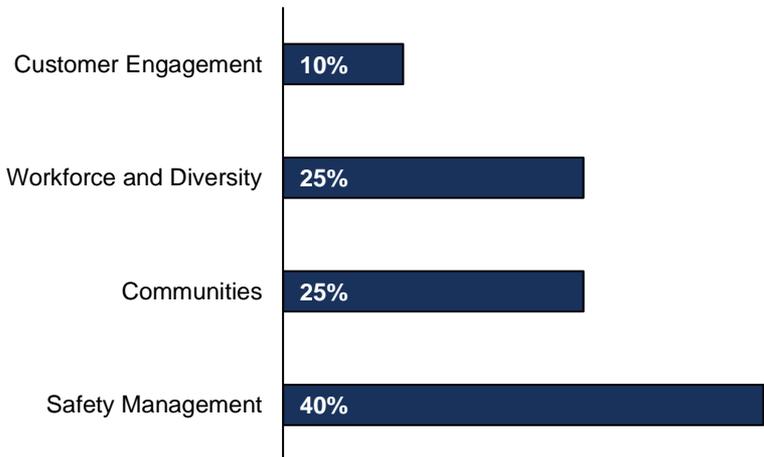
Strategies to Lower Carbon Emissions, by Company Size



Environmental



Social



Source: BCG, Deloitte, McKinsey & Co., S&P Global

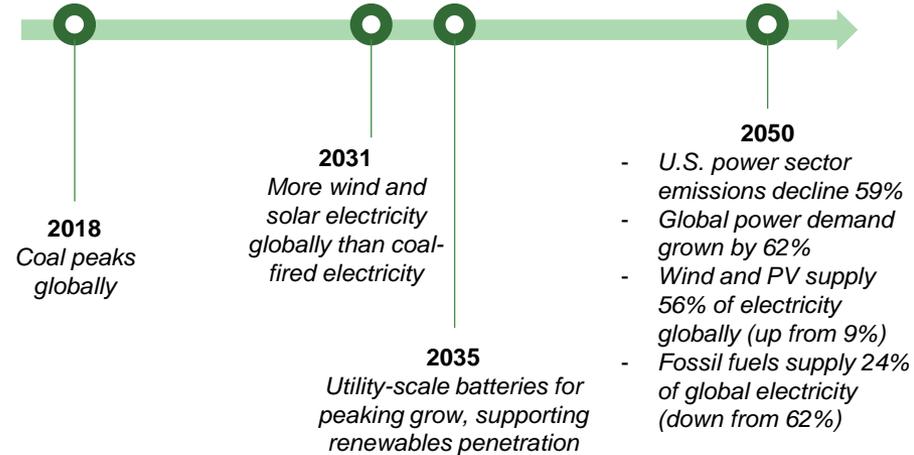


Utilities Sector KPIs & Trends

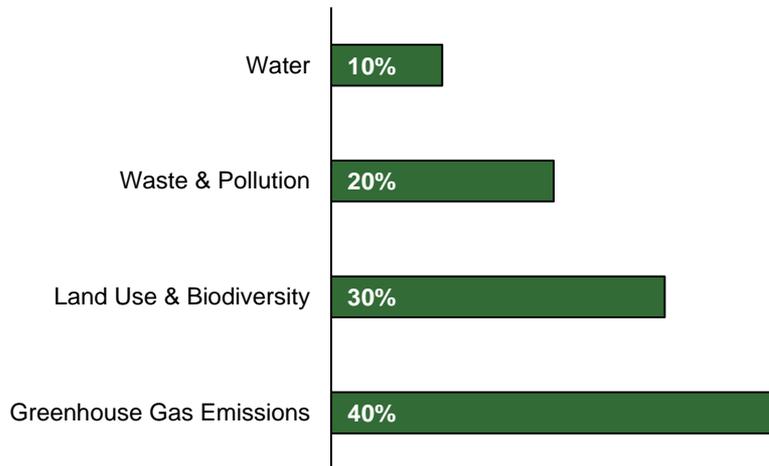
Industry Trends

- Political and social pressure for decarbonization leads to trade-off between providing cheap power and addressing environmental issues
 - Transition to renewables and modernization of electrical grid
 - Dependent on how much consumers are willing to pay and how much regulators are willing to let them pay
 - Equity considerations around who can and should pay given utilities provide a public service; consideration of favourable payment programs
- Environmental themes
 - Renewable energy PPAs signed by U.S. corporations increased from 0.5 GW in 2015 to 9.1 GW in 2018
 - U.S. utilities increasingly highlighting clean energy portfolios and GHG emissions on earnings calls; increasing investor focus on ESG reporting
 - Rise of natural gas as cleaner fuel source; challenges with public opposition
- Security remains a priority, including cybersecurity and environmental security
- Growing governance concerns include political expenses, lobbying, and taxes paid

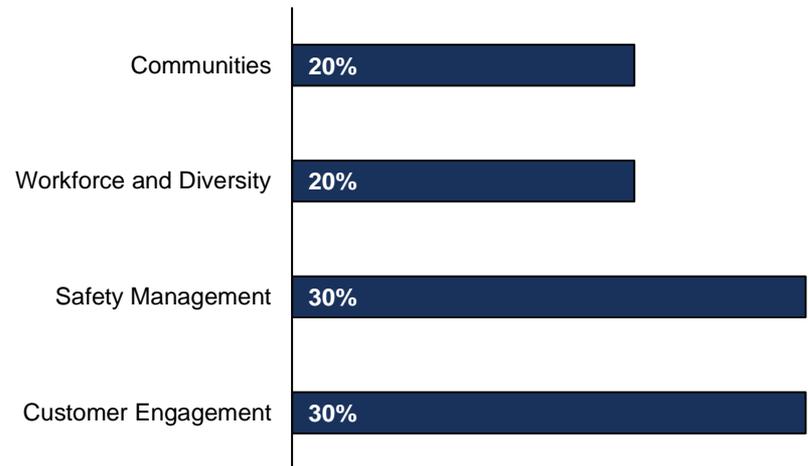
Bloomberg New Energy Outlook, 2020



Environmental



Social





Financials Sector KPIs & Trends

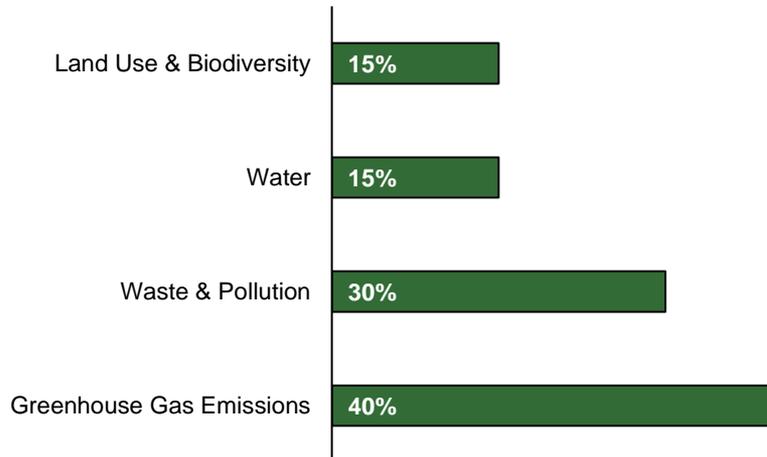
Industry Trends

- **Banking**
 - As the center of economic development, banks have a responsibility to promote more responsible and sustainable business practices
 - In 2020, several shareholder proposals called for reduction of GHG emissions within Canadian banks
 - Canada's six largest banks all have CEO compensation linked to ESG (vs. only 9% of 2,684 companies in the FTSE All World Index)
 - TD has the goal of achieving net-zero CO₂ emissions from operations and financing activities by 2050, while RBC has committed to \$500B in sustainable financing by 2025
 - 71% of U.K. banking customers are more likely to choose a bank with a positive ESG impact
- **Asset Management**
 - UN Principles for Responsible Investing (PRI) signatories have risen from 100 to >3,000 since 2006
 - A Moody's report indicated that in 2020, ESG penetration averaged 6.5%; median ESG penetration among UN PRI signatories' US\$89T market is 1.8%
 - Asset managers are increasingly incorporating ESG into portfolio selection
- **Insurance**
 - Opportunity to integrate ESG into insurance underwriting, through "impact underwriting"

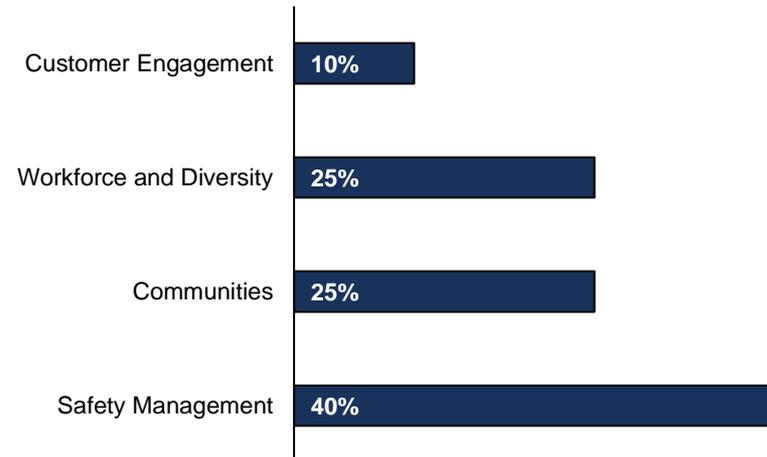
ESG Strategy for Banks (EY)

1. Consider environmental and social risks in lending
2. Channel financing towards social and environmental initiatives through sustainable finance products and services
3. Consistent ESG disclosures and ratings
4. Measuring and setting targets for portfolio emissions or financed emissions
5. Review internal environmental and social management processes

Environmental



Social





Health Care Sector KPIs & Trends

Industry Trends

Environmental

- Developing environmentally-friendly products, using sustainable materials, and developing recyclable medical devices
 - Can save \$3.1mm at a single hospital through utilizing recyclable medical devices
- Health Care companies have high water usage, but lower land and fossil fuel usage, leading to lower GHG emissions

Social

- Most important component of the ESG framework for Health Care
- Significant regulation around market access, generic drugs, pricing, innovation funding, and clinical trials
- Rising social issues in Health Care include:
 - Growing gap in access and affordability
 - Pricing transparency
 - Safety and quality of care

Case Studies

Abbott Laboratories (Medical Devices)

ESG Rating: BB (MSCI), 29.8 (Sustainalytics)

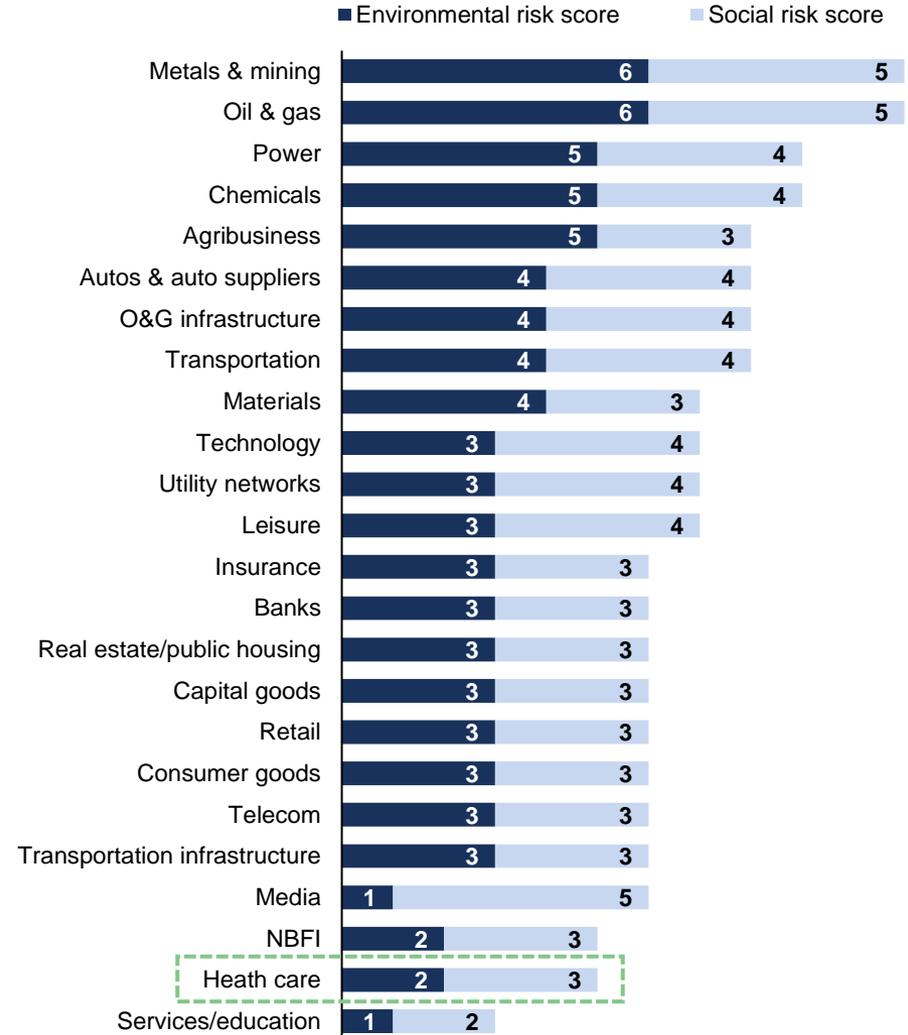
- Named the Dow Jones Sustainability Index industry leader for Health Care Equipment & Supplies in 2020, the 8th consecutive year
- 2030 Targets:
 - Make access and affordability core to new product innovation
 - Transform care for chronic disease, malnutrition and infectious diseases
 - Advance health equity through partnership

Amgen (Biotech)

ESG Rating: AA (MSCI), 19.1 (Sustainalytics)

- Target to achieve carbon neutrality by 2027, including reducing water usage by 40% and waste disposal by 75%
- Concerns around aggressive, unjustified pharmaceutical price hikes
 - In Q2 2020, Amgen released a statement that it would not increase prices for the remainder of the year

S&P Global ESG Sector Risk Atlas



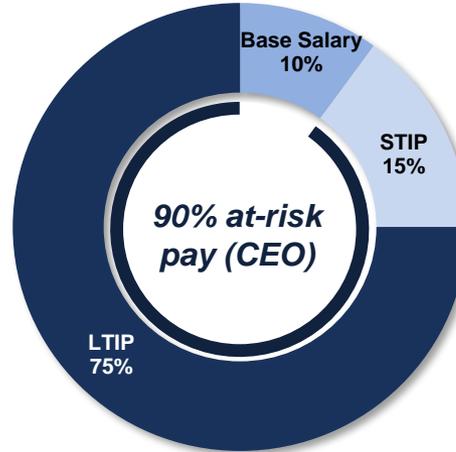


Governance Trends & Things to Look For

Key Developments

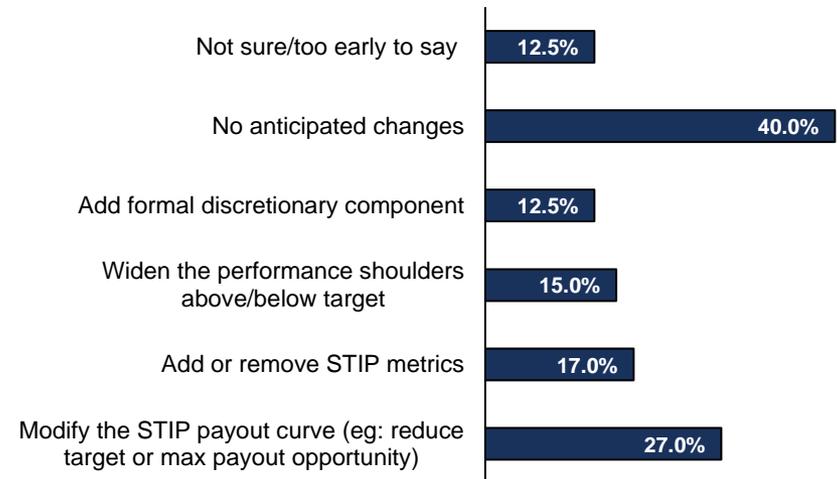
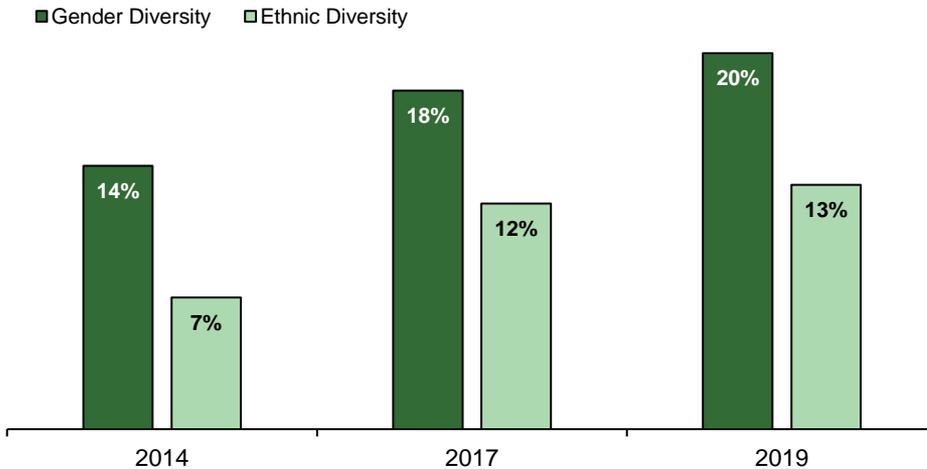
- The Black North Initiative was established by Wes Hall in June 2020
 - The pledge surrounds the existence of anti-Black systemic racism and its impact on Black citizens throughout Canada (~3.5% of the population)
- A study undertaken by McKinsey & Co reports boards with diverse teams are more likely to outperform financially than their peers
- This same study reported a 36% higher likelihood for outperformance on EBIT margin from culturally and ethnically diverse teams
- McKinsey reported that sentiment towards inclusion was more negative than diversity, with both still being viewed in a negative light in some sectors

NextEra Energy (NYSE: NEE) Compensation Plan Case Study



- NEE's plan is used as an example as it features high at-risk pay and multiple performance goals throughout the plan
- The STIP plan considers both financial and operational goals
- The financial is based on a matrix focused on Adj. ROE and Adj. EPS growth
- Operational is based on a number of achievements with different weightings
- The LTIP plan offers PSU's, performance-based restricted stock, performance-based restricted NEP common units, and options
- The performance measures are based on similar considerations as the STIP with an additional consideration towards TSR

Progress on Executive Team Diversity (U.S. and U.K.) & Anticipated Modifications to STIP This Upcoming Year Due to COVID



Source: Black North, Hugessen, McKinsey & Co.

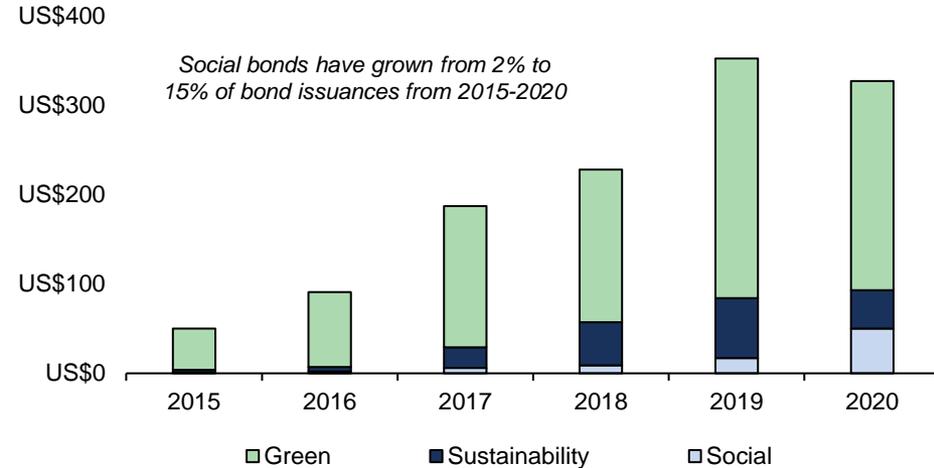


Sustainable Financing

What is Sustainable Financing?

- “Assimilating environmental and social factors as a means of promoting sustainable economic growth and the long-term stability of the financial system”
 - (Source: RBC)
- In 2018, the EU released its action plan on financing sustainable growth
- **Green bonds**
 - Finance environmentally beneficial projects
- **Social bonds**
 - Finance projects that achieve positive social outcomes or address a social issue
- **Sustainability bonds**
 - Finance a combination of green and social projects or activities
- **Sustainability-linked bonds**
 - Financing that is structurally linked to the issuer’s achievement of ESG or SDG goals; often links the borrowing costs to progress towards targets

Social, Sustainability, and Green Bond Issuances (US\$B)



Recent Corporate Sustainable Financing

Issuer	Description	Amount	Use of Proceeds
Pfizer	Sustainability Bond March 2020	US\$1.25B	Provide affordable medicine and vaccines to underserved patients globally
BBVA	Social Bond June 2020	€1B	Finance social projects in healthcare, education, affordable housing or financing for SMEs
Alphabet	Sustainability Bond August 2020	US\$5.75B	Affordable housing and advancing economic opportunities for underrepresented communities
BANK OF AMERICA	Sustainability Bond September 2020	US\$2B	Reduce racial inequality by funding businesses and mortgage financing for Black and Hispanic-Latino borrowers and communities in the U.S.
ENBRIDGE	Sustainability-Linked Credit Facility February 2021	\$1B	Achieve ESG goals of reduced GHG emissions and diverse representation in the workforce and Board



The CPMT's Stance on ESG

How ESG Drives Value

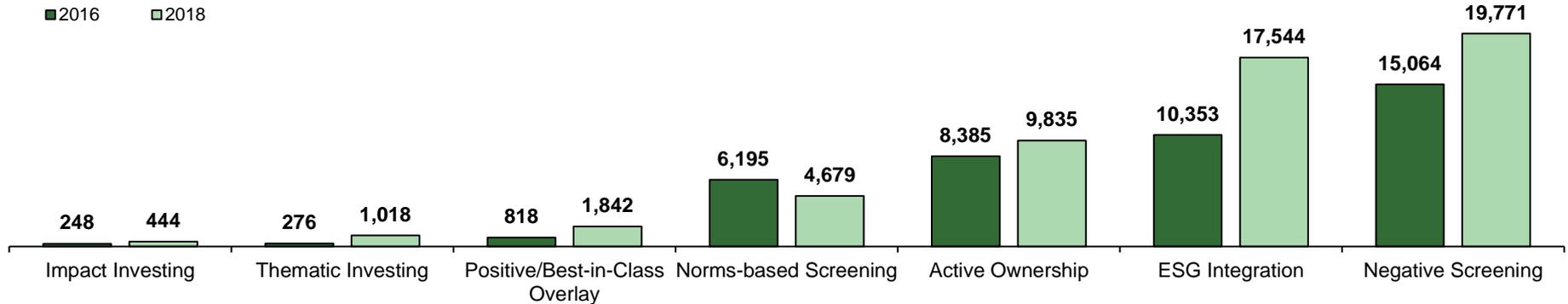
- Top-line growth from easier access to markets and capital through government, investor, and consumer trust
- Higher valuation multiples; ESG performers can warrant a 3-19% premium
- Cost reductions through resource efficiency and less carbon exposure
- Reduced regulatory and legal interventions as ESG regulation strengthens
- Enhanced talent attraction & retention, and increased employee productivity
- Proactive investment in ESG-conscious areas; reduces risk through avoiding value destruction and potential for bans of less ESG-friendly processes



How the CPMT Can Incorporate ESG

Environmental	Social	Governance
<i>Sustainability report</i>	<i>Focus on diversity throughout the Company</i>	<i>Compensation aligning management with shareholder interests</i>
<i>Environmental targets</i>	<i>Positively impacting communities</i>	<i>Diversity of thought on the BoD and management teams</i>
<i>Consideration towards clean energy transition</i>	<i>Operational health & safety</i>	<i>Addressing relevant shareholder proposals</i>

Assets Managed with Sustainable Investing Methodologies (\$USB)



ESG drives long-term business performance and shareholder value creation