



ACTIVITY REPORT - 2017



MISSION

Æquo leads shareholder engagement with listed companies on behalf of institutional investors, to improve their environmental, social and governance (ESG) practices. Strong ESG practices help improve long-term performance for companies and their shareholders, thanks to better management of risks and opportunities.

Shareholder engagement safeguards and promotes investors' interests as well as those of their beneficiaries, while creating value for all company stakeholders.

Signatory of:



MESSAGE FROM THE CHAIRWOMAN AND THE CEO

The 2017 report underlines the first complete year of activities for Æquo. During the past year, we strengthened our team, continued to develop our engagement processes and methods, expanded our service offer and engagement, and integrated new clients and partners. With the groundwork firmly laid, our position and reputation within the industry are now established.

Our engagement and dialogue follow-up methods have evolved in response to our clients' feedback, but also in line with various international best practices. We have made our definition of corporate objectives more systematic and are working to achieve greater comparability between these objectives.

The past year was characterized by the **geographic expansion** of our engagement targets beyond Canadian borders, to meet the market's growing demand. As a result, we are especially proud to announce our recent partnership with Desjardins International Asset Management. This will enable us to begin a new chapter at Æquo, as we implement an engagement plan specific to the United States and earmark additional resources for it.

We enriched and developed our service offer. We guided a number of investors in their accountability to PRI, measuring their carbon footprint, and drafting their responsible investment policy. We also designed and carried out training on best practices regarding responsible investment and shareholder engagement.

2017 was a year of accelerated development and dissemination of responsible investment and shareholder engagement practices. ESG factors and shareholder engagement are increasingly being considered by investors. While it is often necessary to explain and contrast our approach in comparison to less formal practices, our target clientele has become more exacting and sophisticated in their needs.

“(...) The time has come for a new model of shareholder engagement – one that strengthens and deepens communication between shareholders and the companies that they own.”

(Larry Fink, Chairman and CEO of BlackRock, *A Sense of Purpose*, December 2017)

In 2017, several major asset managers took a stand on various responsible investment issues. BlackRock and Vanguard emphasized the importance for companies to create value for society (and not only for shareholders). The latter two companies also positioned themselves regarding the importance of climate risk disclosure by companies and investors. These opinions were reflected in their support for such shareholder proposals aimed at oil companies like ExxonMobil and Occidental Petroleum, which passed with 62% and 67% of the votes respectively. This is an exceptional result for such types of proposals.

2018 promises to be a pivotal year. Institutional investors and private sector companies have an opportunity to fill the leadership void created by the United States’ withdrawal from numerous initiatives: The Paris Agreement, UNESCO, various international collaboration agreements, and even certain G8 discussions. Some of the companies with whom Æquo has entered dialogues are interested in filling this leadership vacuum, and the investors Æquo has been working with will be there to encourage them, support improvements in their ESG practices, ultimately contributing to the prosperity of their beneficiaries and society as a whole.

We would like to conclude with a special thank-you to our partners, contributors, suppliers, clients, and shareholders, who have helped us implement our vision of shareholder engagement — one which is professional and constructive, serving as a vehicle for change and creating value for all.

Hélène Jacques

Chairwoman of the board

Jean-Philippe Renaut

CEO

PROCESS, METHOD AND ET RESULTS

Engagement practices have become more professional and widespread, as illustrated in the recent [PRI report](#) on this topic. Only 11% of PRI signatories indicated that they had not undertaken ESG dialogues with companies held in their portfolio. The PRI report also emphasized that the quality of practices is crucial for guaranteeing any impact: “[...] poor quality dialogue and badly informed proxy voting practices can be harmful and cause cynicism by target companies.”

SHAREHOLDER DIALOGUE

At Aequo, our engagement approach is aimed at improving companies’ ESG practices, through open and informed discussion. We ask companies for information while constructively and professionally encouraging them to improve their management of certain material ESG issues. On average, we carry out two formal meetings per year with each company included in our engagement plan.

Alongside these individual dialogues, we are also actively involved in collaboration efforts related to specific themes and issues. These efforts include conversations between various investors and the targeted companies as well as joint statements.

DIALOGUE FOLLOW-UP

The companies in our engagement plan are chosen according to several criteria, the top two being weak ESG performance and our ability to have an influence.

Our dialogues are a work in progress, usually led over several years; 90% of the previous year’s engagements were repeated this year. It’s important to create a climate of trust between company staff and ourselves since ESG practices do not change overnight.

For each dialogue, we define objectives with measurable outcomes. These objectives are presented to companies as recommendations. We have developed a five-stage tracking system to better report on their progress.

PRI - LEA 4/LEA 13 *
 Questions regarding progress and evolution of companies’ practices in light of engagements

ESCALATION PROCESS AND SHAREHOLDER PROPOSAL

The quality of the relationships we build with companies is critical to our mission. We are grateful that companies are most often receptive and give us access to key personnel to help advance our objectives.

Exceptional cases where it proves difficult to maintain a constructive dialogue do arise. In such cases, our first step is to write a letter to that company’s Board of Directors or its Chairman, outlining the situation and our demands. **We reached this point on two separate occasions in 2017.**

If we don’t succeed at that step, then we may consider submitting a shareholder proposal. In some strategic cases, and in full transparency with the company, a proposal might also be submitted if it will help speed up the adoption of certain practices. In that vein, Aequo was behind a **shareholder proposal submitted to TransCanada**, requesting that the company publish a risk analysis integrating various climate scenarios.

| OBJECTIVE ACHIEVEMENT SCALE | |
|-----------------------------|--|
| 0 | Objective (for managing a risk) has been defined but not yet communicated to the company |
| 1 | Objective (for managing a risk) has been communicated to the company |
| 2 | Company has recognized the benefit of reaching the objective |
| 3 | Company has adopted a strategy for reaching the objective |
| 4 | Company has reached the objective |

*The grey boxes show, by indicator, the elements to be incorporated in the PRI assessment report.

PRI - LEA 10/LEA 11
 Questions regarding number of engagements undertaken

OUR RESULTS

In 2017, we led engagements with 29 companies on behalf of our clients. These discussions were led individually (25), and/or as part of initiatives to bring together the various investors, where we led and coordinated the engagement (5). We saw a progression in company actions for about 50% of our dialogues in 2017.

At Aequo, we value quality and depth in our relationships with companies. We apply a proactive approach—one that is comprehensive, gradual, and flexible—with every single company and within each collaboration initiative. We also know when to be responsive, using methodical, informed processes to help guide our decisions.

The shareholder engagement we lead is done on behalf of our clients, to whom we report to, in detail, on a quarterly basis.

In addition to improving companies’ practices, engagement brings value to a company as much as to the investor, through information exchange, knowledge creation, and benefits in terms of internal mobilization around the consideration of ESG factors. These findings were highlighted in a study by Professor Jean-Pascal Gond published in 2017. This research helps demystify shareholder engagement, by documenting and showcasing the value creation process underpinning our practices, for both the company and its investors. Ultimately, improving the practices of companies held in a portfolio limits ESG risks and creates value for shareholders.

We invite you to visit our website at aequo.ca, under the “News” section, for further information on our impact.

The following table summarizes the dialogues undertaken in 2017, as well as those planned for 2018.

SUSTAINABLE DEVELOPMENT GOALS

Two years ago, the United Nations member states adopted 17 Sustainable Development Goals (the SDGs) aimed at eliminating extreme poverty, protecting the planet for future generations, and guaranteeing prosperity for all. As many investors are currently working to quantify the impact of their investments using these objectives, we are now using them to categorize the impact of our engagements.

We have gradually aligned each of our objectives in relation to the United Nations’ Sustainable Development Goals and, more precisely, in relation to the many sub-targets referred to by each goal.

Our engagement objectives are in line with most sustainable development objectives. The private sector has an important role to play in achieving the SDGs, and in 2018, we will be able to show precisely how our engagements are contributing.



¹ Jean-Pascal Gond (2017), *How ESG Engagement Creates Value: Bringing the Corporate Perspective to the Fore*. <https://www.unpri.org/academic-research/how-esg-engagement-creates-value-bringing-the-corporate-perspective-to-the-fore/536.article>

DETAIL OF 2017 DIALOGUES AND 2018 FOLLOW-UP

| Sector | Company | E | S | G | 2018 |
|--------------------------------|-------------------------------|-------|---------|---|---------|
| Consumer Discretionary | Alimentation Couche-Tard | I | I/C (1) | | I/C (1) |
| | BMW | C (2) | | | C (2) |
| | Canadian Tire | | C (1) | | C (1) |
| | Costco Wholesale (US)* | | I | | I |
| | CVS Health (US)* | | I | | I |
| | Dollar General (US) | | I | | I |
| | Dollar Tree (US) | | I | | I |
| | Dollarama | I | I | I | I |
| | Dorel | I | I | I | I |
| | Empire Company | I | I | | |
| | Kroger (US)* | I | I | | I |
| | Loblaw Companies | I | C (1) | | C (1) |
| | Metro | I | C (1) | | C (1) |
| | Quebecor | I | I | I | |
| | Richelieu Hardware* | | I | I | I |
| | Saputo | I | I | I | |
| Walgreens Boots Alliance (US)* | | I | | I | |
| Energy | Canadian Natural Resources | I | I | | I |
| | Chesapeake Energy (US)* | I | I | | I |
| | Enbridge | I | I | | I |
| | Husky Energy* | I | I | | I |
| | Imperial Oil* | I | I | | I |
| | MEG Energy | I | I | | I |
| | Suncor Energy | I | I | | I |
| | Superior Energy Services(US)* | I | I | | I |
| | TransCanada | I | I | | I |
| | Whitecap Resources* | I | I | | I |

I : Individual
 C : Collaborative
 * : New dialogue en 2018

1) PRI-coordinated engagement on Supply Chain Labour Practices in Agriculture (rôle de leader)
 2) Engaging with Eco-Efficiency and Climate Change Engagement companies on energy productivity (rôle d'accompagnateur)

| Sector | Company | E | S | G | 2018 |
|------------------------|--------------------------------------|---|---|---|------|
| Financials | CIBC | I | I | I | I |
| | RBC | I | I | I | I |
| | Scotia Bank | I | I | I | I |
| | TD Bank | I | I | I | I |
| | BB&T (US)* | I | | I | I |
| | Citizens Financial Group (US)* | I | | I | I |
| | M&T Bank (US)* | I | | I | I |
| Industrials | Fastenal (US) * | I | I | | I |
| | WSP | I | | I | I |
| Materials | Agnico Eagle* | | I | I | I |
| | B2Gold Corp | | I | | I |
| | Barrick Gold | I | I | I | I |
| | Eldorado Gold | I | I | | I |
| | Goldcorp | | I | | I |
| | Nevsun | | I | I | I |
| | Norbord * | I | I | | I |
| | Stella Jones * | I | I | | I |
| Utilities | Yamana Gold | | I | I | I |
| | American Electric Power (US) | I | | | I |
| | Consolidated Edison (US) | I | | | I |
| | DTE Energy (US) | I | | | I |
| | Duke Energy (US) | I | | | I |
| | Entergy (US) | I | | | I |
| | Fortis * | I | I | | I |
| | National grid | C | | | |
| Information Technology | Public Service Enterprise Group (US) | I | | | I |
| | Southern Company (US) | I | | I | I |
| | CGI* | | I | I | I |

I : Individual

C : Collaborative

* : New dialogue en 2018



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