



Industrial Alliance Investment Management Inc.

# **Sustainable Investment Policy**

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## 1. Introduction

### a. Purpose

Industrial Alliance Investment Management Inc., with its wholly-owned subsidiary iA Global Asset Management Inc. (collectively “**iAGAM**”), are the primary portfolio and asset managers of iA Financial Corporation Inc. (“**iA Financial Corporation**”) and some specific subsidiaries (collectively “**iA Financial Group**”). iAGAM provides portfolio management services for insurer general funds, investing clients’ mutual funds and segregated funds and external institutional clients (collectively “**Clients**”), including the selection and oversight of external portfolio managers. iAGAM’s sustainable investment strategy is aligned with iA Financial Group’s purpose which is to enable Clients to be confident and secure about their future.

Through (1) its belief, supported by research and evidence, that sustainable investment supports both value creation and risk management; and (2) its duty to be an Active Owner who considers stakeholder interests and investment impacts, iAGAM seeks to embed sustainable investment practices throughout its investment management activities. iAGAM believes this commitment reflects its duty and is in the best interests of its Clients, shareholders, employees and other stakeholders.

iAGAM recognizes that environmental, social and governance (“**ESG**”) factors can materially impact investment risk, return and reputation. The purpose of this Sustainable Investment Policy (“**Policy**”) is to outline iAGAM’s beliefs, commitments, and approach to sustainable investment, being understood that sustainable investment refers hereinafter to the integration of ESG considerations into investment management processes and decision-makings and stewardship practices, focused on those factors that could have an impact on financial performance as well as stewardship practices that address environment, social and financial systems. This Policy provides a framework and guidance to incorporate ESG considerations in investment management and stewardship activities in a consistent and comprehensive manner.

iAGAM acknowledges that sustainable investment practices are constantly evolving. As a result, iAGAM expects its approach to sustainable investment will evolve over time as research, evidence and industry practice evolve. Its goal is to act with purpose, to continuously improve, and to seek for a transparency in its approach.

iAGAM is committed to continuously improving its reporting to promote transparency and open dialogue with its Clients. iAGAM welcomes feedback and encourage comment on this Policy via [esg@ia.ca](mailto:esg@ia.ca)

### b. Scope

This Policy applies across all iAGAM managed portfolios and covers all investment activities although iAGAM’s level of influence and method of engagement within the portfolios will vary.

While the focus of this Policy is on ESG integration in its investment activities, iAGAM also seeks to address ESG factors and best practices in its own management and operations.

Application of this Policy and integration of sustainable investment considerations must be consistent with all other policies and legal obligations applicable to investment decisions. As a result, iAGAM will not make these decisions exclusively on ethical or moral grounds.

### c. Definitions

**“Active Ownership/Owner”** refers to a key tool for investors to influence a culture of sustainability among investee entities and external managers and promote, fair, efficient and transparent market practices.

**“Chief Investment Officer (CIO)”** refers to the President and Chief Investment Officer of Industrial Alliance Investment Management Inc. and iA Global Asset Management Inc.

**“Engagement”**: refers to interactions between the investor and current or potential investee entities (which may be companies, governments, municipalities, etc.) on ESG issues. Engagements are undertaken to better understand ESG practices and influence (or identify the need to influence) ESG practices and/or improve ESG disclosure.

**“Environmental, Social, Governance (ESG)”**: refers to environmental, social, and governance factors that may impact or be impacted by corporate or investment activities, where:

**Environmental factors** relate to the quality and functioning of the natural environment and natural system. How does the investee entity interact with its environment and vice versa?

- climate change and greenhouse gas (GHG) emissions
- renewable energy sources
- natural resource management and use
- air and water pollution
- water quality and availability
- waste management
- biodiversity (i.e. ecosystem protection)

**Social factors** relate to the rights, well-being and interests of people and communities (e.g., employees, customers, broader society). How does the investee entity interact with its employees, customers and communities?

- working conditions
- equity, diversity, and inclusion
- employee health and safety
- community relations
- reconciliation with Indigenous Peoples
- consumer protection
- human capital development
- political stability
- ethical supply chain

**Governance factors** relate to the policies and procedures used to direct, control, and monitor companies and other investee entities. How does the investee entity govern itself?

- board structure and independence
- directors’ expertise
- succession planning
- executive compensation and link to ESG performance

- shareholder and stakeholder rights
- corporate oversight and risk management
- data privacy and cybersecurity
- conflicts of interest
- anti-bribery and anti-corruption
- standards business conduct

**“Material/Materiality”**: Our investment teams focus on those ESG factors that have the potential to impact the value of the investment. The extent of these impacts depends on the issuer, the industries and geographies in which it operates and the nature of the investment vehicle for which it is purchased. For sustainability to translate into financial performance, it must have an impact on either the amount of cash flow generated by the company, or the cost of external financing to the company (the weighted average cost of capital).

**“Proxy Voting”**: refers to voting on management and/or shareholder resolutions as well as filing shareholder resolutions.

**“Stewardship”**: refers to investors’ use of influence to mitigate risk or derive long-term value, including the value of common economic, social, and environmental assets on which returns, and Clients’ interests, depend (also referred to as **“Active Ownership”**). Engagement and Proxy Voting are elements of Stewardship.

## 2. COMMITMENTS

Industrial Alliance Investment Management Inc. became a signatory to the United Nations-supported Principles for Responsible Investment<sup>1</sup> in 2019 and, together with its subsidiary iA Global Asset Management Inc., is committed to the following six voluntary and aspirational investment principles:

- Incorporate ESG issues into investment analysis and decision-making process;
- Be an Active Owner and incorporate ESG issues into its ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which it invests;
- Promote acceptance and implementation of the principles within the investment industry;
- Work together to enhance its effectiveness in implementing the principles;
- Report on its activities and progress towards implementing the principles.

iAGAM commits to integrating these principles into its investment process to benefit all its Clients.

## 3. GUIDING PRINCIPLES

iAGAM’s investment activities are guided by the following principles, all of which are subject to and support iAGAM’s duty to its Clients:

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<sup>1</sup> <https://www.unpri.org/about-us/about-the-pri>

#### **a. Strong Corporate Governance**

iAGAM supports and encourages good corporate governance practices at its investee entities. Companies that follow well-accepted principles of good governance tend to have better risk-adjusted returns and improved alignment between corporate, investor and broader stakeholder interests.

#### **b. Environmental Stewardship**

iAGAM supports and encourages measures taken by its investee entities to protect the environment. iAGAM expects them to ensure compliance with environmental regulations, and in regions where there are no regulations or regulations are not enforced, to strive for generally accepted best practices. iAGAM aims to reduce the environmental footprint of its investments with respect to climate change, energy, water, waste management, transportation, biodiversity and indoor and outdoor environments.

#### **c. People and Communities**

iAGAM supports and encourages equitable practices relating to employees, communities and other stakeholders including respect for the fundamental human rights enshrined in internationally accepted norms and standards as well as fair wages, benefits and working conditions. iAGAM's parent company, iA Financial Corporation, has detailed its commitment to diversity and inclusion in its [Human Rights Statement](#).

#### **d. Transparency and Disclosure**

iAGAM supports and encourages transparency and disclosure of relevant and material ESG information to enable investors to fully assess and manage ESG risks and opportunities.

### **4. iAGAM'S APPROACH**

#### **a. ESG Integration**

iAGAM's portfolios are managed either by internal teams or by external managers, and application of this Policy varies in each arrangement.

When assets are managed internally, iAGAM portfolio managers and analysts are expected to adhere to the guiding principles in this Policy and the integration of ESG considerations in the investment process, in particular. iAGAM will regularly assess the application of this Policy across its investment portfolios.

Our investment teams are provided with ESG information to facilitate the incorporation of ESG risks and opportunities in the investment decision-making process. iAGAM seeks to incorporate material ESG considerations throughout the investment lifecycle, taking into consideration characteristics specific to the asset class and investment strategy, as well as industry and geographic considerations among others. Our investment team has responsibility for its own investment process, from research through implementation, including for the integration of ESG considerations. In our private market investments, the oversight and accountability for sustainable investing is managed through our private markets investment committee. From time to time, sustainable investing guidelines may be developed at the asset class level to help guide investment decision-making. Where possible, independent third-party ESG research and data is

made available to the investment team for consideration in their investment decisions and stewardship approach.

When assets are managed by an external manager, their sustainable investment policy and practices are reviewed as part of the selection process and on a regular, ongoing basis (more details are provided in “Section 6. External Managers”).

#### **b. Divestment and Exclusions**

iAGAM favours active engagement over exclusion or divestment as a first course of action in order to influence corporate behaviours and will use constructive dialogue and clear guidance as primary tools to effect change.

iAGAM will consider divestments or exclusions where:

- Investment would contravene international treaties;
- There is a significant ESG breach and engagement activities by iAGAM or broader industry that are unsuccessful.

Any divestments or exclusions must be recommended by the Chief Investment Officer and approved by iA Financial Corporation’s Chief Executive Officer (“CEO”). Currently, iAGAM does not knowingly invest directly or indirectly through external managers in public or private companies that are considered to be manufacturers of cluster munitions and anti-personnel landmines.

iAGAM is committed to encouraging companies and other investment managers to adopt policies and practices that enhance long-term corporate financial performance.

### **5. STEWARDSHIP**

iAGAM’s Stewardship builds on three important pillars, which we believe provide a leading approach in stewardship: a focus on real-world outcomes, prioritisation of systemic sustainability issues and collaboration.

#### **a. Engagement**

iAGAM prefers an approach that incorporates diligent Stewardship and influences positive change by having a “voice at the table”.

In iAGAM’s view, both Engagement and Proxy Voting are effective mechanisms to mitigate risk, increase returns and advance investment value. iAGAM portfolio managers and analysts have opportunities to communicate directly with the management of the investee entities to discuss ESG issues and concerns.

iAGAM’s portfolio managers and analysts engage more specifically with companies on ESG-related issues when such elements have been identified as potentially material to an investment. In general, the goal of the Engagement program is to communicate its views as an investor. Engagement allows iAGAM to better understand its investee entities, their governance structures and their approach to ESG issues, which generally allows iAGAM to make better informed investment decisions. Where Engagement is not proving to be successful, the matter will be

escalated, potentially in conjunction with other investors. Should these escalation strategies still not be successful, then the ultimate sanction is divestment and exclusion.

## **b. Collaborative Engagement**

In addition to direct Engagements, iAGAM also participates in collaborative Engagements.

iAGAM believes that collaborative Engagement can be a powerful tool to effect change, by developing consensus on what actions and changes are needed, and by driving meaningful action. Engaging collaboratively with other investors and stakeholders helps to amplify our voice and impact. In our view, Stewardship activities are most effective when a consistent message is provided to investee companies.

Further, iAGAM recognizes that systemic risks cannot be solved by any one institution in isolation. Climate change, human rights, biodiversity loss, and other sustainability issues are material financial risks that must be assessed and managed in concert. Many collaborative initiatives are designed to address these risks collectively, while allowing for each investor to make their own independent decisions consistent with their legal duties, client mandates and regulatory requirements.

## **c. Proxy Voting**

iAGAM believes that good governance practices support stronger long-term performance and enhance shareholder value creation. iAGAM actively exercises the shareholder voting rights on behalf of its Clients, as Proxy Voting is a key component of Active Ownership with publicly listed investee entities. Shares are actively voted according to iAGAM's Proxy Voting guidelines, which outline expectations for:

- the composition of boards of directors
- executive compensation
- shareholder rights
- disclosure of material social and environment information

iAGAM may use one or more external Proxy Voting advisory firms to provide research and to assist with share voting. iAGAM works closely with the voting firm(s) and monitor the vote record to ensure compliance with the guidelines.

## **6. COLLABORATION**

iAGAM seeks to promote sustainable finance and recognizes the importance of collaborating with other investors and stakeholders to gain insights into evolving best practices and to contribute to the growth and adoption of sustainable finance worldwide. To facilitate this, iAGAM participates in various sustainability initiatives, including the following examples:

- Canadian Coalition on Good Governance
- Ceres
- Climate Action 100+
- Climate Engagement Canada
- Principles for Responsible Investing (PRI)



iAGAM selects groups and initiatives to which to contribute based on several criteria. These include how the aim of the initiative may align with iAGAM’s approach to promoting sustainable finance; and whether participation in the initiative offers meaningful knowledge sharing. iAGAM may also select initiatives which facilitate a meaningful communication or dialogue with policy-makers on sustainability issues relevant to investors.

## **7. EXTERNAL MANAGERS**

Some of iAGAM portfolios are managed by external managers. When selecting new external managers, iAGAM evaluates their sustainable investment practices, including their ESG policy, commitments, approach, resourcing, stewardship activities, performance measurement and reporting. iAGAM seeks to integrate sustainable investment requirements, such as reporting on ESG activities into new agreements. External managers are also encouraged to adopt Proxy Voting policies that integrate ESG factors and to continuously improve their sustainable investment practices.

iAGAM assesses the external managers’ commitments to sustainable investment on a regular basis by reviewing and evaluating their business organization, investment processes and portfolio composition. More specifically, iAGAM engages with them at least annually to request updates on changes in their sustainable investment policy, ESG integration approach, stewardship activities and other ESG related issues. In addition, iAGAM engages with them directly when any significant ESG incidents or other concerns arise.

iAGAM recognizes that different external managers have made different levels of progress in incorporating sustainable investment practices. iAGAM is committed to supporting external managers through regular Engagement and will encourage them to enhance their sustainable investment practices, including ESG analysis, reporting and stewardship activities.

## **8. ISSUE SPECIFIC GUIDANCE**

### **a. Climate Change**

iA Financial Corporation’s Sustainable Development Policy applies to all iA Financial Group activities and can be found [here](#). iAGAM believes that the approach to addressing climate change should be grounded in science and supports the goals of the Paris Agreement of the United-Nations<sup>2</sup> to limit the increase in global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase even further to 1.5°C.

iAGAM recognizes that climate change will continue to present risks and opportunities for investment portfolios. As asset managers, investors, and stewards of its Clients’ assets, iAGAM is committed to fully integrating climate change in the investment process, including the identification of climate risk at asset class, sector, asset levels across various time horizons, through the use of scenario analysis, acknowledging that this will also evolve over time.

iAGAM supports the recommendations of the Task Force on Climate-related Financial Disclosures<sup>3</sup> (“TCFD”), which was established by the Financial Stability Board to address systemic risk to the global financial system posed by climate change and to promote more informed investment,

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<sup>2</sup> Adopted at COP21 in Paris on December 12<sup>th</sup>, 2015 and in force on November 4<sup>th</sup>, 2016

<sup>3</sup> <https://www.fsb-tcfd.org/>

credit, and insurance underwriting decisions. TCFD recommendations are being applied by companies and investors globally to help integrate climate considerations into investment management and iAGAM encourages all investee entities in its portfolios to provide disclosure on climate-related risk that is aligned with the TCFD recommendations.

#### **b. Diversity, Equity and Inclusion**

iAGAM seeks to promote a diverse, equitable and inclusive environment and practices within its own operations as well as among its investee entities and external managers. iAGAM will support and participate in industry initiatives that promote diverse and inclusive representations at all levels as a means towards effective decision-making, innovation and long-term investment performance.

iAGAM will actively engage, including through Proxy Voting, with its investee entities and external managers as it relates to diversity and inclusion in their internal policies, talent strategies and training. Looking forward, iAGAM commits to continually enhancing its tracking and disclosure of diversity data within iAGAM and its portfolios.

iAGAM's parent company, iA Financial Group, has detailed its commitment to diversity and inclusion in its [Diversity and Inclusion Statement](#).

### **9. REPORTING AND DISCLOSURE**

iAGAM's mission is supported by a commitment to the values of transparency and accountability. To that end, iAGAM will provide its Clients with information on its sustainable investment approach and activities on a regular basis. iAGAM aims to promote sustainable investment by publicly reporting on an annual basis its sustainable investment activities and results achieved. The reporting will include, but will not be limited to, Proxy Voting and other Stewardship activities.

In addition, iAGAM intends to contribute to increasing the awareness of sustainable investment with both its investee entities and Clients.

### **10. GOVERNANCE, ROLES & RESPONSIBILITIES**

#### **a. Industrial Alliance Investment Management Inc.**

The Board of Directors of Industrial Alliance Investment Management Inc. is responsible for approving this Policy following the approval of iA Financial Corporation's CEO.

Both Industrial Alliance Investment Management Inc. and iA Global Asset Management Inc. are responsible to monitor and report regularly and directly to their respective Clients, including to the Investment Committee of iA Financial Corporation.

#### **b. Chief Investment Officer**

The Chief Investment Officer is responsible for communicating the Policy to all iAGAM employees, operationalizing this Policy, and ensuring that its Clients, including iA Financial Corporation, receives the required reporting on the sustainable investment program.

All iAGAM portfolio managers and analysts and other stakeholders deemed relevant are expected to adhere to the guiding principles in this Policy in all investment decisions. To this end, iAGAM intends to contribute to the training of investment staff on sustainable investment.

### **c. Responsible Investment Committee**

The Responsible Investment Committee is a standing committee and is responsible for ensuring that iAGAM meets sustainable investment objectives by planning, implementing, monitoring and coordinating ESG initiatives, both internally and externally. The Responsible Investment Committee, which includes one member representing each asset class, reports directly to the management executive members of Industrial Alliance Investment Management Inc. The Responsible Investment Committee will also report to iA Financial Corporation's CEO on relevant sustainable investment matters on an ongoing basis, and on compliance to this Policy at least annually.

The management executive members of Industrial Alliance Investment Management Inc. ensure coordination of iAGAM's activities with iA Financial Corporation's Sustainability Steering Committee.