



AIMCo RESPONSIBLE INVESTMENT (RI) ENGAGEMENT GUIDELINES

AIMCo invests funds on behalf of public sector clients within the province of Alberta. Engagement with investee firms is intended to positively impact investee firms’ environmental, social and/or corporate governance (ESG) processes in order to protect and enhance long term, risk-adjusted investment returns for AIMCo clients. These guidelines outline potential RI engagement choices, processes, and escalation strategies. AIMCo champions a “voice over exit” approach, preferring to conduct meaningful engagement with the firm to effect positive change where possible, rather than divest so as not to reduce the investible universe. Engagement is intended to be both proactive and responsive, as deemed appropriate.

Figure A. outlines the main steps of the engagement process.

Figure A. Engagement Process



1.0 Approach and Desired Outcomes

Engagement approaches vary with geographic markets, asset class, industry, ownership levels, the perceived egregious nature of an issue, and with ESG trends and regulations, and as such are case dependent. Any of the following approaches may instruct a particular engagement strategy:

1.1 Approaches

- The **universal owner** approach recognizes that institutional investment managers collectively steward a disproportionately large percent of the global economy, with commensurate responsibilities. Certain engagement activities may be pursued in order to positively influence responsible business practices for the long term.
- The **norms-based** approach compares firms' ordinary business practices with normative practices for the industry, or within a specific geographic market to identify and address gaps.
- The **best-practice** approach identifies firms that excel in a given ESG area, in order to set an example within the industry and to set higher expectations for potential investee firms.
- The **risk-based** approach identifies low probability, high impact tail risks and requests the investee firm to properly reveal, address, and/or directly mitigate or outsource these risks.
- The **relationship investing** approach focuses on higher concentration investments (5% or more of the issuer) and on improving the quality of the firm's governance in order to address operating risks and thereby enhance equity value.

2.0 Priority Issues for Engagement

The Responsible Investment Committee (RIC) will regularly identify priority ESG issues for engagement on an annual basis. Proactive engagement is initiated internally and may seek to showcase firms displaying best ESG practices, request firms to more fully disclose their ESG practices, etc. Responsive engagement is pursued in response to reports of adverse ESG practices or to third party requests for engagement.

2.1 ESG Focus Areas

AIMCo has identified the following as key ESG focus areas for engagement purposes:

- Environment: Climate Change
 - Environmental Management & Disclosure
 - Water Risk
- Social:
 - Worker Safety & Human Rights Across the Supply Chain
 - Data Privacy
- Governance:
 - Shareholder Rights: Pay for Performance
 - Board Diversity

3.0 Criteria for Engagement

Primary Considerations:

- **ESG Focus Areas:** Firms displaying problematic, undisclosed, or particularly robust ESG practices may be selected for engagement on a case-by-case basis.

- **Materiality:** Percent of the issuer owned, size in market or absolute dollars, and/or materiality of ESG impacts.
- **Geographic Locale:** Country of domicile and/or operations, compliance with local regulations.
- **Responsiveness to Firms' Request for Engagement:** We will respond to company requests to engage, wherever possible, such as regarding an upcoming proxy vote.

Additional Considerations:

- **Probability of Success or Influence:** Likelihood of success and/or possible influence of investor peers.
- **Costs of Engagement:** Transaction costs and/or the availability of AIMCo resources to initiate and monitor the engagement.
- **Clients:** Response to concerns raised by AIMCo clients.

4.0 Engagement Strategy

Engagement strategy can take several forms. Any of the below engagement options may be selected variously by selected individuals and duly implemented.

Forms of Engagement:

- In-person meetings, telephone calls and written communications with company officials by AIMCo individually or in collaboration with investor peers or other member organizations.
- Advocacy: Raise issues with various levels of government, regulatory bodies or industry associations where AIMCo perceives a need for reforms to improve shareholder rights or firms' ESG practices, as deemed appropriate.

5.0 Firms for engagement

Responsible Investment department will identify companies for engagement based key ESG focus areas and RIC-approved engagement criteria.

6.0 Engagement Outcomes

Outcomes and possible AIMCo responses include:

POSITIVE OUTCOME:

Gain corporate commitment to beneficial change (ex. enhanced ESG disclosure). AIMCo may consider amending proxy voting decisions and/or voting rationale prior to the voting deadline; and/or choose to withdraw any shareholder proposals that have been filed if issues under consideration are adequately addressed.

STATUS QUO OUTCOME:

No commitment to the beneficial change as requested by AIMCo. AIMCo may continue engagement by other means, directly with the company, collaboratively with investor peers, or through more public disclosure, such as media statements.

NEGATIVE OUTCOME:

Entrenchment or deterioration of the original circumstances leading to the engagement.

7.0 Summary of Escalation Process

Unsuccessful engagement may lead to renewed forms of engagement which may be ultimately successful, or it may lead to the decision to exit.

Potential escalation strategies include:

- Additional in-person meetings with executives of the firm and their board, and/or with investor peers requesting beneficial change.
- Individual or collective media statements requesting beneficial change.
- Voting against management, including publicly disclosing voting intent prior to the vote for key proposals, supplemented by public disclosure of voting rationale after the vote.
- Filing or co-filing shareholder proposals.
- Engaging in advocacy regarding the issue.
- Communicate the possibility of exit to the firm should concerns not be addressed.

8.0 Results and Reporting

The impact and outcomes of substantive engagements will be reviewed by the Responsible Investment Committee to measure their efficacy on an ongoing basis. AIMCo's proxy voting history, including the vote rationale, is publicly available on AIMCo's website. Significant engagements, barring disclosure of any confidential discussions with firms, may be disclosed in AIMCo's annual RI Report and/or shared with the UN Principles for Responsible Investment (PRI), investor peers and clients.