

**Annual Responsible  
Investment Report  
2020**

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## BEUTEL GOODMAN'S APPROACH TO RESPONSIBLE INVESTING

### 1. POLICY AND PHILOSOPHY

#### Policy

Beutel Goodman's *Responsible Investment Policy Statement* (included in [Appendix A](#)) documents our commitment to integrate environmental, social and governance (ESG) criteria into our investment analysis and selection process for all accounts managed by Beutel Goodman. The policy also reinforces our dedication to active ownership through corporate engagement and proxy voting.

Beutel Goodman is a signatory of the United Nations-sponsored Principles for Responsible Investment (PRI). We signed the PRI declaration in 2019 to formalize our commitment to its key tenets.

#### Philosophy

As a value manager, our primary objective is to deliver superior risk-adjusted portfolio performance to our clients over the long term. We pursue this objective through the thoughtful and patient ownership of debt and equity positions in high-quality companies. Companies with strong ESG practices often share many of the sound fundamentals that are attractive to our value investing approach, namely a business whose qualities and management practices generate stable, long-term cash flows. ESG factors have the potential to materially affect the long-term sustainability of a business and are thus an important part of our analytical process.

We believe in being good stewards of capital and will invest where we think we can generate value. Viewed through this lens, we consider ESG issues not only as potential areas of concern, but also as opportunities for investment.

Consistent with our long-established investment process, Beutel Goodman will not make any investments where ESG or other risk factors make it difficult, if not impossible, to accurately assess the value of a specific business.

### 2. PROCESS

Our rigorous research methodology encompasses a fundamentally driven analysis to identify valuation opportunities in quality companies from a bottom-up perspective. We consider ESG criteria to be part of the material risks associated with the long-term sustainability of investments. We seek companies with sound governance and strive to avoid businesses with material environmental and social controversies. Using a bottom-up, disciplined, value-investing approach, each equity and credit research report or update we prepare incorporates ESG considerations. ESG information is gathered from internal research, third-party ESG data providers (Sustainalytics; Refinitiv Eikon's ESG module; and Glass Lewis for proxy voting research), and meetings with company management.

All our valuations integrate ESG considerations. Each analyst builds a financial model comprising forecast financial statements, a SWOT analysis and identification of material financial risks, including ESG risks. This

information is then used to determine several valuation metrics to substantiate an intrinsic value for the company.

Material ESG issues incorporated in our research include the following:

Environment	Social	Governance
Climate change, GHG emissions	Working conditions	Corporate strategy
Resource depletion, deforestation	Employee relations	Executive compensation
Waste	Human rights	Board efficacy and diversity
Pollution	Sustainable supply chain	Succession planning
Disclosure   Transparency   Accountability   Oversight		

### 3. STAFFING, RESOURCES AND OVERSIGHT

ESG research responsibilities are shared among the entire investment team. All portfolio managers are charged with the responsibility of considering material risks to the investments they recommend, including ESG risks.

We have assigned responsibility for spearheading the implementation and coordination of our ESG activities to two team members representing our equity and fixed income teams. We have also established an ESG working group composed of members of our equity and fixed income teams and representatives from our Private Client Group and Institutional client channels. The ESG working group meets regularly to discuss matters pertaining to ESG and responsible investing. This helps to ensure coherence across asset classes and strategies.

All portfolio managers integrate ESG criteria into their bottom-up research and investment process, and undertake active ownership, including engagement and proxy voting, in accordance with our [Responsible Investment Policy Statement](#). Portfolio managers are required to provide quarterly reporting on the implementation of this policy statement to the Management Committee.

ESG policy oversight and review responsibilities ultimately lie with the firm's Management Committee.

### 4. PROXY VOTING AND SHAREHOLDER ENGAGEMENT

Our [Responsible Investment Policy Statement](#) reinforces our dedication to active ownership through corporate engagement and proxy voting. The exercise of our voting rights and ongoing engagement with the companies held in our portfolios are the pillars of our active ownership practices. These serve as important touchpoints, and insights gained from engagement are continually incorporated into our company analysis and investment decision-making.

### Proxy Voting Principles

We believe that voting proxies can encourage sound corporate governance and improve environmental and social policies, and that it is essential to advance shareholder value. We assess all ballot items, including those relating to ESG practices, based on whether they are consistent with long-term shareholder value creation.

Our research process strives to identify companies whose boards and management are aligned with shareholder interests and the creation of long-term shareholder value. We view ourselves as partners of the companies we invest in. As such, we approach ownership as an ongoing collaboration in the creation of long-term shareholder value.

We list below certain positive and negative attributes that we encourage or discourage in proxy voting. Note that this list is not exhaustive and is intended as a general overview of factors we take into consideration when casting our votes. Each proxy item is reviewed on a case-by-case basis, with leniency considered in cases where companies are making progress on certain issues.

#### Beutel Goodman generally favours:

- Boards that are aligned with the interests of shareholders and value creation; i.e., those that
  - Are majority-independent
  - Have appropriate breadth, depth and diversity
  - Have a record of positive performance
  - Favour a majority of votes over plurality of votes in board member elections
  - Favour individual board member elections over board slates
  - Are accessible and responsive to institutional shareholders (with annual interactions, at a minimum, preferred)
  - Have oversight of ESG issues
  - Separate Board Chair and CEO roles
- Companies with thoughtful, multi-year succession plans
- Executive compensation tied to long-term shareholder value-creation; e.g., companies with
  - Transparent compensation directly linked to both short- and long-term strategic targets
  - Long-term incentives linked to return metrics rather than pure growth metrics to align capital allocation decisions with shareholder value creation
  - Continued share ownership by management and directors to match investors' risks and benefits
  - Companies that tie executive compensation to ESG metrics (or companies that are working towards such targets)
- Companies that have a clear, long-term climate strategy, including emissions targets that align with the Paris Agreement
- Companies that exhibit a focus on diversity and inclusion initiatives at all levels

#### Beutel Goodman is typically not in favour of:

- Company strategies that lead to poor outcomes for long-term shareholders, such as
  - Poor capital allocation

- Equity issuances that are not accretive to existing shareholders
- Dual-class share structures (i.e., multiple classes of shares with different voting rights)
- Excessive executive-pay packages, including excessive stock option plans that may result in dilution of our ownership
- Boards not aligned with shareholders. This could include
  - Overcommitted board members
  - Board members with conflicts of interest

We note that from a fixed income perspective, proxy voting is relatively rare and typically only occurs when a company wants to change its trust indentures. Mergers, amalgamations, acquisitions, Say on Pay, share structure, etc. do not require approvals from fixed income investors.

### Proxy Voting Process

As part of our portfolio management responsibilities, we review each proxy item for all Canadian, U.S. and International equity holdings before casting our votes. In support of the process, the firm subscribes to the proxy voting services of Glass Lewis<sup>1</sup>, which provides a detailed analysis and comprehensive report of all proxy voting issues. Glass Lewis proxy interpretations conform to the corporate governance standards of the Pension Investment Association of Canada (PIAC). While we use the proxy voting services as research and consider the recommendations made, we form our own views on all proxy items and vote accordingly. As responsible investors, we make informed voting decisions through thoughtful research; this includes direct dialogue with companies, which allows us to gather additional information and voice our concerns.

All upcoming proxies are reviewed regularly and voted by the deadline. This is typically two to three weeks before the meeting date. For international securities, there may be different proxy voting considerations because of share blocking or re-registration rules in other jurisdictions. We may choose a “do not vote” option in such cases rather than have securities blocked for sale for the period until a vote. Beutel Goodman will always act in the best interest of its clients.

As and when necessary, voting issues are discussed among equity team members. All final voting decisions are made by the primary analyst.

Given the importance of proxy voting, we provide a detailed proxy voting report for our clients with segregated mandates, which is offered as part of our standard quarterly report package. This report provides information as to all issues voted during the quarter. Clients may request a copy of our proxy voting provider’s policies and procedures.

As part of our commitment to transparency, our proxy voting decisions and rationales (in the event of a vote against management or proxy voting provider) are publicly disclosed on an ongoing basis throughout the year in a [database accessible on our website](#).

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<sup>1</sup> On January 1, 2021, we changed our proxy voting provider, replacing ISS with Glass Lewis

## Engagement

Beutel Goodman's disciplined investment process focuses on well-managed, high-quality companies with sustainable cash flow generation. When necessary, we convey our views on improvements or challenges that require attention. We believe that we can effect change on ESG issues by engaging with management as owners of a company's stock or bonds. Part of our highly disciplined investment research process involves meeting with company management, which can provide important insights into issuers and ESG factors, and how these may impact long-term shareholder value. Our strong preference is to interact with senior management and boards of directors, though we also welcome engagement with other executives, including specialist or Responsible Investment / Corporate Social Responsibility / Sustainability department heads.

Although we seek to engage with all our portfolio companies at least once a year, we typically engage multiple times each year. Engagement is both proactive/thematic (as we strive to understand and promote companies' management of key ESG considerations; e.g., climate change or linking executive compensation to ESG metrics), and reactive (when controversies arise). All engagement activities are logged in a central repository and progress towards any defined goals is tracked.

Engagement by our fixed income teams is performed in close coordination with equity team counterparts to develop best practices. Our proprietary credit research incorporates detailed ESG analysis, including a list of ESG-related engagement themes. The fixed income team actively engages with company management on ESG issues that could affect the sustainability of the company's cash flows – and ultimately, the company's ability to repay its debt – or that could otherwise adversely affect the value of the bond. These issues are typically addressed in company meetings, which are shared between our equity and fixed income analysts or portfolio managers, particularly with Canadian issuers. Recurring engagement themes include capital allocation and strategic planning; governance; environmental policies, including management of climate-related risks; and employee and labour relations, as well as disclosure, transparency and accountability.

## 2020 RESPONSIBLE INVESTING UPDATES

### 5. POLICIES AND PROCEDURES

We have updated our [Responsible Investment Policy Statement](#) and our [Proxy Voting Guidelines](#) to reflect refinements in our ESG approach and emerging responsible investing practices in the industry. We engaged a third-party specialist ESG consultant to assist with this review.

Our Policy Statement now includes a statement from Beutel Goodman's Management Committee outlining the importance of considering climate change risks and opportunities:

Climate change is emerging as one of the most critical ESG factors globally and across all sectors of the economy. The value of companies may be impacted over the long term by direct or indirect exposure to physical risks from severe weather and changing weather patterns, and transition risks relating to their greenhouse gas (GHG) emissions, including policy and legal risk, technology risk, market risk and reputation risk. We therefore believe that addressing climate-related risk in our investment process is consistent with our fiduciary duty to our clients.

In this context, we recognize the importance of achieving the goals of the Paris Agreement, the global climate treaty that aims to limit the rise in global average temperatures to under 2°C above pre-industrial levels, and if possible, to 1.5°C. The scientific consensus is that achieving these goals by the end of the century requires the global economy to become effectively carbon neutral by 2050.

We also support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board to address systemic risk to the global financial system posed by climate change. We encourage all companies in our portfolios to provide disclosure on climate-related risk that is aligned with the TCFD recommendations.

Climate change is a key factor within our ESG integration and active ownership approaches, including engagement and proxy voting. As well as considering the climate-related risks facing companies with high GHG emissions or significant exposure to the physical impacts of climate change, we also consider climate-related opportunities for companies whose business activities and technologies can contribute to the achievement of climate goals.

The ESG responsibilities that have been assigned at each level within Beutel Goodman specifically include the incorporation of climate change as a key ESG factor.

We will continue to develop our climate strategy, in particular refining our approach to incorporating climate risks in our company assessment and engaging with our portfolio holdings on this important issue.

Our updated Policy Statement is included in [Appendix A](#). Our review of our reporting materials is ongoing.



## 6. PROVIDER CHANGES

We use the services of leading ESG research and data providers to support and enhance our analysis and reporting capacity. Effective January 1, 2021, we changed our proxy voting provider to Glass, Lewis and Co. Our [proxy voting decisions and rationales](#) (in the event of a vote against management or proxy voting provider) will now be publicly disclosed immediately after each company's AGM. We continue to evaluate ESG data providers to enable us to better analyze, measure, and incorporate ESG-related information and to enhance our reporting capabilities.

## 7. STAFFING CHANGES

During 2020, we broadened our ESG Working Group from Equity and Fixed Income to also include representatives of our Private Client Group and Institutional client channels. Our ESG Working Group meets regularly to discuss, review and formalize ESG and responsible investing as it pertains to the firm and its various strategies.

We continuously seek opportunities to build our in-house responsible investment capabilities, including through training. Several members of our investment team are enrolled in the Fundamentals of Sustainability Accounting (FSA) course offered by the Sustainability Accounting Standards Board (SASB). We congratulate Vim Thasan, Vice President, Canadian Equities, on receiving the FSA credential in Q2 2020. Vim is the first member of our investment team to achieve the credential.

## 8. REPORTING

Beutel Goodman launched inaugural engagement reports for the U.S. Equity strategy and for the International Equity strategy in Q3 and Q4 2020, respectively. These reports detail the firm's proxy voting and document engagement examples with portfolio companies.

We now publish quarterly engagement and proxy voting reports for all our flagship equity strategies, including Canadian Equity, Fundamental Canadian Equity, U.S. Equity and International Equity. Clients may request to receive these reports on a quarterly basis.

This report is our first *Annual Responsible Investment Report*, which will be published annually in the first quarter of each year going forward.

## 9. FIRM INITIATIVES

Beutel Goodman believes Diversity and Inclusion are key to our success. Our goals are to ensure that diversity is reflected and that our workplace is inclusive so that all employees can be themselves and feel welcomed and accepted. In Q3 2020, we launched an Equity, Diversity and Inclusion initiative to assess our internal practices and deliver a strategy for positive outcomes. In Q4, we continued to formalize our Equity, Diversity and Inclusion efforts. We have partnered with Diversio, a Canadian data and analytics company that focuses on supporting organizations in becoming more inclusive, to help us evaluate

diversity and inclusion. We have initiated the assessment process via a company-wide survey. We also launched an internal *Female Mentorship Program* in Q3 2020.

## 10. COLLABORATIVE INITIATIVES

Beutel Goodman signed the PRI *ESG in Credit Risk and Ratings Statement* in Q4 2020. This collaborative initiative aims to enhance the transparent and systematic integration of ESG factors in credit risk analysis.

Resource industries play a large role in our economy, and as a result Canada faces some significant challenges in the transition to a low-carbon economy. At the same time, these challenges present an opportunity for Canada to play a leadership role in the development of standards for “**transition bonds**”, which would provide funding for companies in high-impact industries such as Energy and Utilities to undertake initiatives to reduce their environmental impacts over time. The Canadian Standards Association (CSA) has been working with the finance industry to develop a “[transition taxonomy](#)” covering activities that support the low-carbon transition for high-carbon industries. We have been following the consultations closely and have been working with investment dealers on transition bond standards.

We responded to the International Financial Reporting Standards (IFRS) [Consultation Paper on Sustainability Reporting](#), expressing support for global ESG standards and for IFRS to play a key role in determining these standards.

We are currently preparing for the 2021 PRI reporting cycle by reviewing the new reporting framework and collecting relevant information.

## 11. THOUGHT LEADERSHIP

Our Fixed Income team published a white paper entitled [ESG Factors in the Eyes of the Bondholder](#). The paper explores the increasing focus on ESG in fixed income, and the similarities and differences between fixed income and listed equity ESG approaches. We include this paper in [Appendix D](#).

## 2020 ENGAGEMENT AND PROXY VOTING

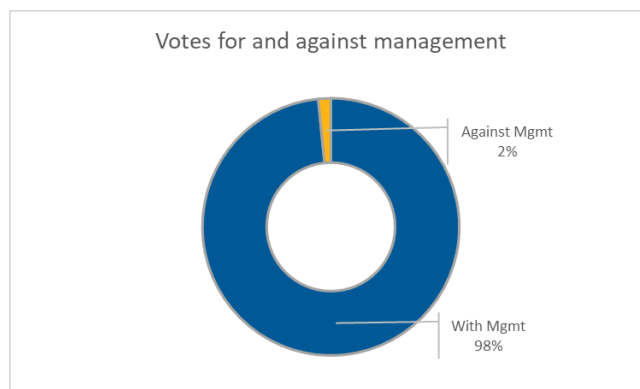
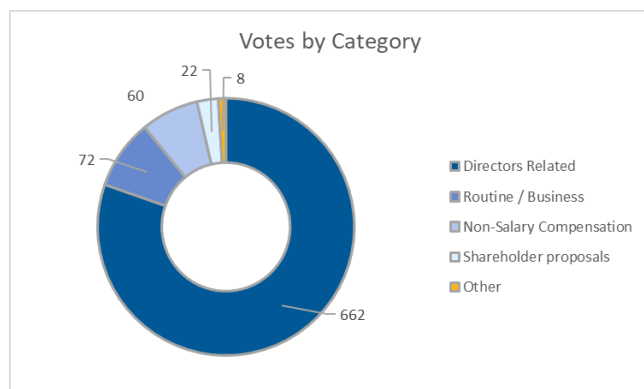
### 12. CANADIAN EQUITY STRATEGY

#### Proxy Voting

An overview of 2020 proxy voting statistics for the Beutel Goodman Canadian Equity Fund is included in the table below. Please consult [Appendix B](#) for further information.

	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
Directors Related	69	662	656	6	17
Routine / Business	67	72	71	1	0
Non-Salary Compensation	51	60	57	3	0
SH-Social / Human Rights	6	7	7	0	0
SH-Directors Related	5	5	5	0	0
SH-Compensation	5	5	5	0	0
SH-Health / Environmental	3	5	3	2	0
Antitakeover Related	3	3	3	0	0
Reorg. and Mergers	2	2	1	1	0
Preferred / Bondholder	1	1	1	0	0
Capitalization	1	1	1	0	0
Social Proposal	1	1	1	0	0
<b>Totals for the report:</b>	<b>71</b>	<b>824</b>	<b>811</b>	<b>13</b>	<b>17</b>

Note: SH=shareholder proposal



#### Engagement

Please consult [Appendix C](#) for our Canadian equity strategy engagement log.

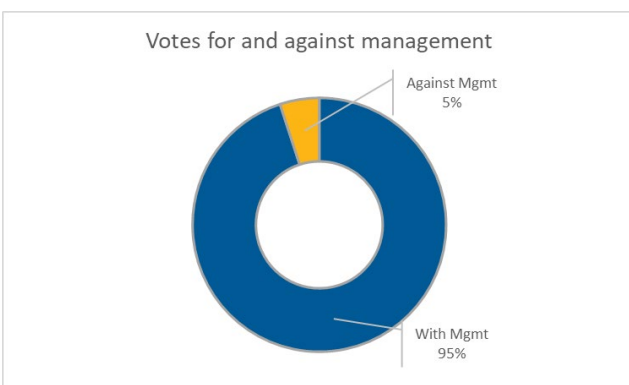
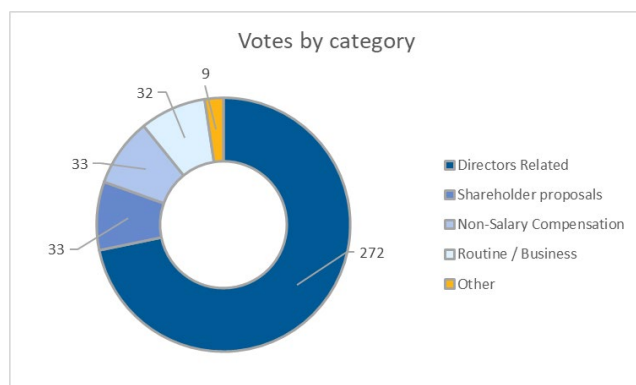
### 13. U.S. EQUITY STRATEGY

#### Proxy Voting

An overview of 2020 proxy voting statistics for the Beutel Goodman American Equity Fund are included in the table below. Please consult [Appendix B](#) for further information.

	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
Directors Related	26	272	265	7	0
Non-Salary Compensation	26	33	30	3	1
Routine / Business	27	32	32	0	0
SH-Directors Related	11	11	10	1	6
SH-Other/misc.	7	8	6	2	1
Capitalization	2	5	5	0	0
SH-Routine/Business	4	4	3	1	2
SH-Corp Governance	4	4	2	2	0
SH-Compensation	3	4	1	3	1
Antitakeover Related	2	2	2	0	0
SH-Health/Environ.	1	2	2	0	1
Reorg. and Mergers	1	1	1	0	0
Social Proposal	1	1	1	0	0
<b>Totals for the report:</b>	<b>28</b>	<b>379</b>	<b>360</b>	<b>19</b>	<b>12</b>

Note: SH=shareholder proposal



#### Engagement

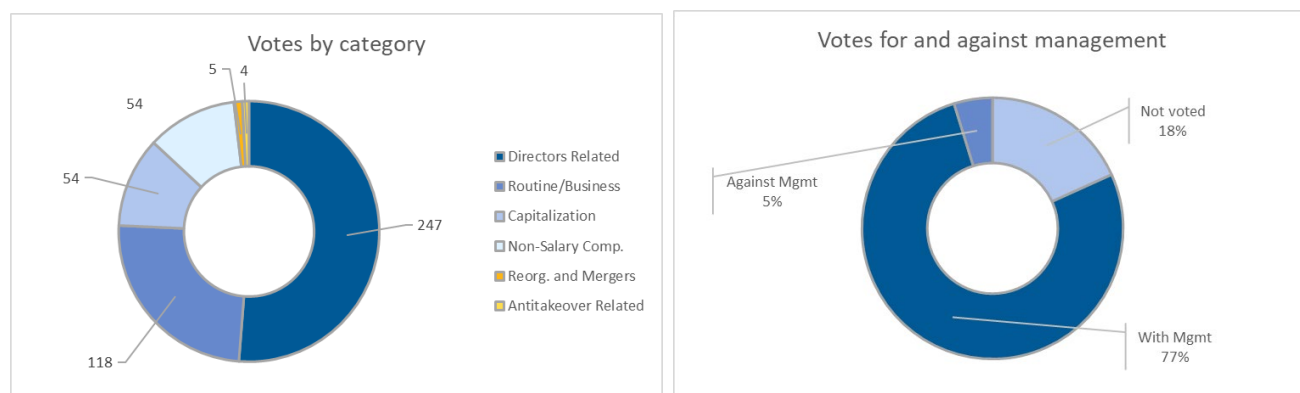
Please consult [Appendix C](#) for our U.S. equity strategy engagement log. Note that we include examples for our Q3 and Q4 engagements. As part of our active ownership, we engage with all our portfolio companies on a regular basis; however, we only started reporting engagements on a quarterly basis within our U.S. equity strategy in Q3 2020.

## 14. INTERNATIONAL EQUITY STRATEGY

### Proxy Voting

An overview of 2020 proxy voting statistics for the Beutel Goodman International Equity Fund are included in the table below. Please consult [Appendix B](#) for further information.

	Meetings	Proposals*	With Mgmt.*	Against Mgmt.*	Against ISS
Directors Related	28	247	184	18	2
Routine/Business	28	118	87	3	0
Capitalization	16	54	48	1	0
Non-Salary Comp.	22	54	44	1	1
Reorg. and Mergers	4	5	4	0	0
Antitakeover Related	4	4	4	0	0
<b>Totals for the report:</b>	<b>31</b>	<b>482</b>	<b>371</b>	<b>23</b>	<b>3</b>



*\*Note regarding the number of proposals and votes: The votes for (371) and against management (23) do not add up to total proposals (482). Because of share blocking or re-registration rules in certain jurisdictions, in accordance with our Proxy Voting Policy, we elected not to re-register or vote in certain circumstances so that our shares were not blocked from selling before the vote.*

### Engagement

Please consult [Appendix C](#) for our international equity strategy engagement log. Note that we include examples for our Q4 2020 engagements. As part of our active ownership, we engage with all our portfolio companies on a regular basis; however, we only started reporting engagements on a quarterly basis within our international equity strategy in Q4 2020.

## 15. UNIVERSE BOND STRATEGY

### Proxy Voting

An overview of 2020 proxy voting statistics for the Beutel Goodman Income Fund are included in the table below. Please note that proxy voting related to debt securities is relatively rare and typically only occurs when a company wants to change its trust indentures.

Company	Proposal	Details	Mgmt. Reco.	BG vote	BG Rationale
<b>Greater Toronto Airports Authority (GTAA)</b>	Temporary indenture amendment	Suspend rate covenant for 2020 & 2021 FY (measures related to COVID-19 related sharp decline in airport traffic)	FOR	FOR	*Waiver requested to ensure effective airport operation, in best interests of both GTAA and bondholders *Waiver is temporary and prudent (management still believes in its ability to comply with covenants even in worse case scenario)
<b>NAV Canada</b>	Temporary indenture amendment	Suspend rate covenant provisions and additional debt covenants for FY 2021, 2022 & 2023	FOR	FOR	*Waiver requested to ensure effective airport operation, in best interests of both company and bondholders *Waiver is temporary and prudent (company will maintain \$250m liquidity throughout waiver period)

### Engagement

Please consult [Appendix C](#) for our Universe Bond strategy engagement log.

## **APPENDIX A. RESPONSIBLE INVESTMENT POLICY STATEMENT**

### **BACKGROUND AND PURPOSE OF THE POLICY**

Established in 1967, Beutel, Goodman & Company Ltd. (Beutel Goodman) is a privately owned, independent Canadian investment manager. We are dedicated to generating superior long-term returns for our institutional, private wealth and retail clients, and helping them achieve their investment objectives. Our fundamental, bottom-up, value-investment philosophy is grounded in a highly disciplined proprietary research process with a focus on capital preservation, absolute risk reduction and downside protection in declining markets.

The purpose of this Responsible Investment (RI) Policy Statement is to document our commitment to integrate environmental, social and governance (ESG) criteria into our investment analysis and selection process for all accounts managed by Beutel Goodman. It also reinforces our dedication to active ownership through engagement and proxy voting. This policy statement applies to all our assets under management, including both equity and fixed income assets.

As a value manager, our primary objective is to deliver superior risk-adjusted portfolio performance to our clients over the long term. We pursue this objective through the thoughtful and patient ownership of debt and equity positions in high-quality companies. Companies with strong ESG practices often share many of the sound fundamentals that are attractive to our value investing approach, namely a business whose qualities and management practices generate stable, long-term cash flows. ESG factors have the potential to materially affect the long-term sustainability of a business and are thus an important part of our analytical process.

Beutel Goodman has a fiduciary responsibility to act in the best interests of our clients. We believe in being good stewards of capital and will invest where we think we can generate value. Viewed through this lens, we consider ESG issues not only as potential areas of concern, but also as opportunities for investment. Having a longer-term (three- to five-year) investment time horizon and focusing on the sustainability of cash flows have long been central tenets of our investment process. Accordingly, we have been incorporating material ESG risk factors into our investment processes for a number of years.

### **PRINCIPLES FOR RESPONSIBLE INVESTMENT**

In June 2019, Beutel Goodman signed the United Nations-sponsored Principles for Responsible Investment (PRI). As a signatory, we commit to following these guiding principles:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be active owners and incorporate ESG issues into our investment process and practices;
- Seek appropriate disclosure on ESG issues from the entities in which we invest;

- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance our effectiveness in implementing the Principles; and
- Report on our activities and progress towards implementing the Principles.

We commit to integrating these Principles into our investment process to benefit all our clients.

## ESG INTEGRATION TO THE INVESTMENT PROCESS

ESG integration is applied across our equity and fixed income holdings, although there are some differences in approach between asset classes.

Our rigorous research methodology encompasses a fundamentally driven analysis to identify valuation opportunities in quality companies from a bottom-up perspective. We consider ESG factors to be part of the material risks and opportunities associated with the long-term sustainability of investments. We seek companies with sound governance and strive to avoid businesses with material environmental and social controversies.

ESG research responsibilities are shared among the entire investment team. All portfolio managers are charged with the responsibility of considering material risks to the investments they recommend, including ESG risks.

Each equity and credit research report or update we prepare incorporates ESG considerations. ESG information is gathered from internal research, third-party ESG data providers, and meetings with company management.

All our valuations integrate ESG factors. Each analyst builds a financial model comprising forecast financial statements, a SWOT analysis and identification of material financial risks, including ESG risks. This information is then used to determine several valuation metrics to substantiate an intrinsic value for the company.

Material ESG factors incorporated in our research include the following:

Environment	Social	Governance
Climate change & GHG emissions	Working conditions	Corporate strategy
Resource depletion & deforestation	Employee relations	Executive compensation
Waste	Human rights	Board efficacy and diversity
Pollution	Sustainable supply chains	Succession planning
Disclosure   Transparency   Accountability   Oversight		

While some ESG factors are material across all our investments, our analysis takes into account differences in the material ESG risk exposure of issuers in different sectors and countries.



We consider an issuer's current and historical performance on material ESG factors, and its performance compared to peer companies, to identify trends that may impact future financial performance. Our ESG analysis is consistent with our extended investment time horizon (three to five years). We also consider the implications of long-term and systemic factors such as demographic change, resource scarcity, developments in technology and climate change.

Consistent with our long-established investment process, Beutel Goodman will not make any investments where ESG or other risk factors make it difficult, if not impossible, to accurately assess the value of a specific business.

We incorporate ESG data in regular reviews for equity and fixed income holdings, including our annual credit reviews for both corporate and sovereign/subsovereign, supranational and agency (SSA) issuers, monitoring for changes in ESG risk exposure.

## **ACTIVE OWNERSHIP**

Beutel Goodman favours an approach that incorporates diligent stewardship and influences positive change by having a "seat at the table". We recognize that some of our clients require an exclusionary approach, which we implement in the context of segregated mandates.

The exercise of our voting rights and ongoing engagement with the companies held in our portfolios are the pillars of our active ownership practices. These serve as important touchpoints and insights gained from engagement are continually incorporated into our company analysis and investment decision-making.

In our view, both engagement and proxy voting are effective mechanisms to mitigate risk, increase returns and advance shareholder value. We have long advocated for sound corporate governance, which we believe is the foundation of the responsible management of a company's environmental and social practices. Both our equity and fixed income teams strive to promote change where our analysis indicates an issuer falls short on stated policies or where material, unaddressed ESG issues exist or ESG disclosure is inadequate. We also recognize the value of engagement to address long-term and systemic risks to portfolio value.

### **Engagement**

We believe that we can effect change on ESG issues by engaging with management or members of the board of directors as owners of a company's stock or bonds. Part of our highly disciplined investment research process involves meeting with company management, which can provide important insights into issuers and ESG factors, and how these may impact long-term shareholder value. Our strong preference is to interact with the board of directors and senior management, though we also welcome engagement with other executives, including specialist or Responsible Investment / Corporate Social Responsibility / Sustainability department heads.

Although we seek to engage with all our investee companies at least once a year, we typically engage multiple times each year. Engagement is both proactive/thematic (as we strive to understand and promote companies' management of key ESG considerations) and reactive (when controversies arise). All engagement activities are logged in a central repository and progress towards any defined goals is tracked. We report our engagement activities to our clients on a quarterly basis and disclose our reports on our website annually.

In prioritising companies for proactive/thematic engagement, we consider the size of our holdings, specific ESG factors that are a focus within our research (e.g., linking executive compensation to ESG metrics, capital allocation strategy or climate change impacts), ESG ratings, ESG disclosure quality, credit quality, and differences in ESG risk exposure in specific markets and sectors.

We regularly monitor our holdings to identify ESG incidents or controversies that may require reactive engagement. If significant ESG-related concerns are identified, we will engage with a company on multiple occasions over a timeframe that allows for positive change. If we are not satisfied with a company's actions, we will not hesitate to manifest our disagreement through proxy voting. Failed engagement and proxy voting can factor into a decision to reduce or divest a holding.

Engagement by our fixed income teams is performed in close coordination with equity team counterparts to develop best practices. Our proprietary credit research incorporates detailed ESG analysis, including a list of ESG-related engagement themes. The fixed income team actively engages with company management on ESG issues that could affect the sustainability of the company's cash flows – and ultimately, the company's ability to repay its debt – or could otherwise adversely affect the value of the bond. These issues are typically addressed in company meetings that are shared between our equity and fixed income analysts or portfolio managers, particularly with Canadian issuers. Recurring engagement themes include capital allocation and strategic planning; governance; environmental policies, including management of climate-related risks; and employee and labour relations, as well as general ESG disclosure, transparency and accountability.

The influence of fixed income investors varies throughout the life cycle of a bond issue. Therefore, as well as engaging during the holding period, we also engage with fixed income issuers at the pre-investment stage and during investor updates related to refinancing. For our SSA fixed income holdings, we engage with provincial Ministries of Finance during our periodic review meetings.

### Proxy Voting

We believe that voting proxies can encourage sound corporate governance and improve environmental and social policies, and is essential to advance shareholder value. As part of our portfolio management responsibilities, we review each proxy item for our holdings before casting votes. We assess all ballot items, including those relating to ESG practices, based on whether they are consistent with long-term shareholder value creation.

While we subscribe to proxy voting services and take the recommendations and analysis of our service provider into consideration, we form our own views and vote accordingly. Our voting decisions and rationales (in the event of a vote against management or proxy voting provider) are publicly disclosed on an ongoing basis.

Details of our proxy voting approach can be found in our [Proxy Voting Guidelines](#).

### Collaborative Engagement

We aspire to increasingly participate in collaborative engagement initiatives that are aligned with our active ownership philosophy and ESG engagement priorities. We recognize that the pooling of resources with other investors may enhance the effectiveness of our engagement activities and lead to positive outcomes.

## CLIMATE CHANGE

Climate change is emerging as one of the most critical ESG factors globally and across all sectors of the economy. The value of companies may be impacted over the long term by direct or indirect exposure to physical risks from severe weather and changing weather patterns, and transition risks relating to their greenhouse gas (GHG) emissions, including policy and legal risk, technology risk, market risk and reputation risk. We therefore believe that addressing climate-related risk in our investment process is consistent with our fiduciary duty to our clients.

In this context, we recognize the importance of achieving the goals of the Paris Agreement, the global climate treaty that aims to limit the rise in global average temperatures to under 2°C above pre-industrial levels, and if possible, to 1.5°C. The scientific consensus is that achieving these goals by the end of the century requires the global economy to become effectively carbon neutral by 2050.

We also support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board to address systemic risk to the global financial system posed by climate change. We encourage all companies in our portfolios to provide disclosure on climate-related risk that is aligned with the TCFD recommendations.

Climate change is a key factor within our ESG integration and active ownership approaches, including engagement and proxy voting. As well as considering the climate-related risks facing companies with high GHG emissions or significant exposure to the physical impacts of climate change, we also consider climate-related opportunities for companies whose business activities and technologies can contribute to the achievement of climate goals.

The ESG responsibilities that have been assigned at each level within Beutel Goodman specifically include the incorporation of climate change as a key ESG factor. We will continue to develop our strategy in this emerging area of ESG practice.

## GOVERNANCE

The Management Committee of Beutel Goodman, which is the highest decision-making body of our company, provides oversight of our ESG approach.

ESG research responsibilities are shared amongst all investment team members, as portfolio managers and analysts are charged with the responsibility of considering all material risks to all investments they recommend. This includes ESG issues, when applicable.

We have assigned responsibility for spearheading the implementation and coordination of our ESG activities to two team members representing our equity and fixed income teams. We have also established an ESG working group composed of members of our equity and fixed income teams and representatives of our Private Client Group and Institutional client channels. The ESG working group meets regularly to discuss matters pertaining to ESG and responsible investing. This helps to ensure coherence across asset classes and strategies.

## POLICY OVERSIGHT AND REVIEW

The Management Committee of Beutel Goodman has approved this policy statement.

All portfolio managers will integrate ESG criteria into their bottom-up research and investment process, and undertake active ownership, including engagement and proxy voting, in accordance with this policy statement.

Portfolio managers are required to provide quarterly reporting on the implementation of this Policy Statement to the Management Committee.

Any conflicts of interest that may arise in relation to our ESG-related activities, including engagement and proxy voting, are governed by our [Conflict of Interest Disclosure Statement](#).

This policy statement will be reviewed annually by the Management Committee.

## REPORTING AND DISCLOSURE

Beginning in 2021, Beutel Goodman will report annually on its progress in ESG integration and active ownership with a comprehensive *Annual Responsible Investment Report* posted on our website. Our PRI Transparency Report will be publicly available on the PRI website and on our website at [www.beutelgoodman.com](http://www.beutelgoodman.com).

Information on our holdings and our proxy voting records can also be accessed on our website.

## APPENDIX B. PROXY VOTING STATISTICS

### BEUTEL GOODMAN CANADIAN EQUITY FUND

CANADIAN EQUITY FUND	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
<b>Preferred / Bondholder</b>					
The Undersigned Hereby Certifies that the Shares Represented by this Proxy are Owned and Controlled by a @ Citizen	1	1	1	0	0
<i>Totals for Preferred / Bondholder:</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>0</i>
<b>Routine / Business</b>					
Adopt New Articles of Association/Charter	1	1	1	0	0
Amend Articles/Bylaws/Charter -- Non-Routine	1	1	1	0	0
Approve Auditors and Authorize Board to Fix Their Remuneration Auditors	42	42	42	0	0
Authorize Board to Fix Remuneration of External Auditor(s)	1	1	1	0	0
Change Company Name	1	1	1	0	0
Other Business	1	1	0	1	0
Ratify Auditors	25	25	25	0	0
<i>Totals for Routine / Business:</i>	<i>67</i>	<i>72</i>	<i>71</i>	<i>1</i>	<i>0</i>
<b>Directors Related</b>					
Elect Director	69	657	651	6	17
Fix Number of Directors and/or Auditors	5	5	5	0	0
<i>Totals for Directors Related:</i>	<i>69</i>	<i>662</i>	<i>656</i>	<i>6</i>	<i>17</i>
<b>Capitalization</b>					
Approve Reduction in Share Capital	1	1	1	0	0
<i>Totals for Capitalization:</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>0</i>
<b>Reorganizations and Mergers</b>					
Approve Merger Agreement	2	2	1	1	0
<i>Totals for Reorganizations and Mergers:</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>0</i>
<b>Non-Salary Compensation</b>					
Advisory Vote to Ratify Named Executive Officers' Compensation	48	48	48	0	0
Amend Executive Share Option Plan	7	7	5	2	0
Amend Omnibus Stock Plan	1	1	1	0	0
Amend Qualified Employee Stock Purchase Plan	1	1	1	0	0
Amend Restricted Stock Plan	1	1	1	0	0
Approve/Amend Deferred Share Bonus Plan	2	2	1	1	0
<i>Totals for Non-Salary Compensation:</i>	<i>51</i>	<i>60</i>	<i>57</i>	<i>3</i>	<i>0</i>
<b>Antitakeover Related</b>					
Adopt, Renew or Amend Shareholder Rights Plan (Poison Pill)	2	2	2	0	0
Require Advance Notice for Shareholder Proposals/Nominations	1	1	1	0	0
<i>Totals for Antitakeover Related:</i>	<i>3</i>	<i>3</i>	<i>3</i>	<i>0</i>	<i>0</i>
<b>SH-Directors Related</b>					
Board Diversity	5	5	5	0	0
<i>Totals for SH-Directors Related:</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>0</i>	<i>0</i>
<b>SH-Social / Human Rights</b>					
Data Security, Privacy, and Internet Issues	4	4	4	0	0
Human Rights Risk Assessment	1	1	1	0	0

CANADIAN EQUITY FUND	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
Improve Human Rights Standards or Policies	2	2	2	0	0
<i>Totals for SH-Social / Human Rights:</i>	6	7	7	0	0
<b>SH-Compensation</b>					
Clawback of Incentive Payments	1	1	1	0	0
Limit Executive Compensation	3	3	3	0	0
Link Executive Pay to Social Criteria	1	1	1	0	0
<i>Totals for SH-Compensation:</i>	5	5	5	0	0
<b>SH-Health/Environmental</b>					
Climate Change Action	2	2	2	0	0
Report on Climate Change	1	1	0	1	0
Report on Environmental Policies	1	1	0	1	0
Sustainability Activities and Action	1	1	1	0	0
<i>Totals for SH-Health/Environmental:</i>	3	5	3	2	0
<b>Social Proposals</b>					
Miscellaneous Proposal -- Environmental & Social	1	1	1	0	0
<i>Totals for Social Proposals:</i>	1	1	1	0	0
<b>Totals for the report:</b>	<b>71</b>	<b>824</b>	<b>811</b>	<b>13</b>	<b>17</b>

## BEUTEL GOODMAN AMERICAN EQUITY FUND

AMERICAN EQUITY FUND	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
<b>Routine / Business</b>					
Accept Financial Statements and Statutory Reports	2	2	2	0	0
Approve Auditors and Authorize Board to Fix Their Remuneration Auditors	2	2	2	0	0
Approve Dividends	2	2	2	0	0
Change Company Name	1	1	1	0	0
Ratify Auditors	24	25	25	0	0
<i>Totals for Routine / Business:</i>	27	32	32	0	0
<b>Directors Related</b>					
Approve Discharge of Board and President	1	1	1	0	0
Declassify the Board of Directors	1	1	1	0	0
Elect Director	26	269	262	7	0
Provide Proxy Access Right	1	1	1	0	0
<i>Totals for Directors Related:</i>	26	272	265	7	0
<b>Capitalization</b>					
Approve Issuance of Equity or Equity-Linked Securities with or without Preemptive Rights	1	1	1	0	0
Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	1	1	1	0	0
Authorize Reissuance of Repurchased Shares	1	1	1	0	0
Authorize Share Repurchase Program	1	1	1	0	0
Company Specific - Equity Related	1	1	1	0	0
<i>Totals for Capitalization:</i>	2	5	5	0	0

AMERICAN EQUITY FUND	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
<b>Reorganizations and Mergers</b>					
Approve Acquisition OR Issue Shares in Connection with Acquisition	1	1	1	0	0
<i>Totals for Reorganizations and Mergers:</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>0</i>
<b>Non-Salary Compensation</b>					
Advisory Vote to Ratify Named Executive Officers' Compensation	24	24	22	2	1
Amend Executive Share Option Plan	1	1	1	0	0
Amend Omnibus Stock Plan	3	3	2	1	0
Amend Qualified Employee Stock Purchase Plan	1	1	1	0	0
Amend Restricted Stock Plan	1	1	1	0	0
Approve Omnibus Stock Plan	3	3	3	0	0
<i>Totals for Non-Salary Compensation:</i>	<i>26</i>	<i>33</i>	<i>30</i>	<i>3</i>	<i>1</i>
<b>Antitakeover Related</b>					
Adjourn Meeting	1	1	1	0	0
Amend Articles / Charter Governance-Related	1	1	1	0	0
<i>Totals for Antitakeover Related:</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>0</i>	<i>0</i>
<b>SH-Routine / Business</b>					
Require Independent Board Chairman	4	4	3	1	2
<i>Totals for SH-Routine / Business:</i>	<i>4</i>	<i>4</i>	<i>3</i>	<i>1</i>	<i>2</i>
<b>SH-Directors Related</b>					
Adopt Proxy Access Right	1	1	1	0	1
Amend Articles Board-Related	4	4	4	0	0
Amend Articles/Bylaws/Charter - Call Special Meetings	1	1	1	0	1
Amend Proxy Access Right	1	1	1	0	1
Provide Right to Act by Written Consent	4	4	3	1	3
<i>Totals for SH-Directors Related:</i>	<i>11</i>	<i>11</i>	<i>10</i>	<i>1</i>	<i>6</i>
<b>SH-Corporate Governance</b>					
Company-Specific--Governance-Related	2	2	2	0	0
Reduce Supermajority Vote Requirement	1	1	0	1	0
Submit Severance Agreement (Change-in-Control) to Shareholder Vote	1	1	0	1	0
<i>Totals for SH-Corporate Governance:</i>	<i>4</i>	<i>4</i>	<i>2</i>	<i>2</i>	<i>0</i>
<b>SH-Compensation</b>					
Adopt Policy on Bonus Banking	1	1	0	1	0
Company-Specific--Compensation-Related	1	1	0	1	0
Limit Executive Compensation	1	1	0	1	0
Link Executive Pay to Social Criteria	1	1	1	0	1
<i>Totals for SH-Compensation:</i>	<i>3</i>	<i>4</i>	<i>1</i>	<i>3</i>	<i>1</i>
<b>SH-Health / Environmental</b>					
Report on Climate Change	1	2	2	0	1
<i>Totals for SH-Health / Environmental:</i>	<i>1</i>	<i>2</i>	<i>2</i>	<i>0</i>	<i>1</i>
<b>SH-Other / misc.</b>					
Charitable Contributions	1	1	1	0	0
Gender Pay Gap	4	4	3	1	0
Political Contributions Disclosure	1	1	1	0	0



AMERICAN EQUITY FUND	Meetings	Proposals	With Mgmt.	Against Mgmt.	Against ISS
Political Lobbying Disclosure	2	2	1	1	1
Totals for SH-Other / misc.:	7	8	6	2	1
<b>Social Proposals</b>					
Miscellaneous Proposal -- Environmental & Social	1	1	1	0	0
Totals for Social Proposals:	1	1	1	0	0
<b>Totals for the report:</b>	<b>28</b>	<b>379</b>	<b>360</b>	<b>19</b>	<b>12</b>

#### BEUTEL GOODMAN INTERNATIONAL EQUITY FUND

INTERNATIONAL EQUITY FUND	Meetings	Proposals*	With Mgmt.*	Against Mgmt.*	Against ISS
<b>Routine / Business</b>					
Accept Consolidated Financial Statements and Statutory Reports	2	2	2	0	0
Accept Financial Statements and Statutory Reports	15	15	13	0	0
Acknowledge Proper Convening of Meeting	3	3	3	0	0
Amend Articles / Bylaws / Charter -- Non-Routine	1	1	0	0	0
Amend Articles / Bylaws / Charter -- Routine	3	4	3	0	0
Amend Corporate Purpose	1	1	0	0	0
Approve Allocation of Income and Dividends	15	15	13	0	0
Approve Auditors and Authorize Board to Fix Their Remuneration Auditors	1	1	1	0	0
Approve Charitable Donations	1	1	1	0	0
Approve Dividends	8	8	6	0	0
Approve Financial Statements, Allocation of Income, and Discharge Directors	3	3	2	0	0
Approve Minutes of Previous Meeting	3	3	1	0	0
Approve Political Donations	3	3	3	0	0
Approve Special Auditors' Report Regarding Related-Party Transactions	2	2	1	1	0
Approve Stock Dividend Program	1	1	1	0	0
Authorize Board to Fix Remuneration of External Auditor(s)	7	7	5	0	0
Authorize Filing of Required Documents / Other Formalities	2	2	2	0	0
Change Company Name	1	1	1	0	0
Change Location of Registered Office / Headquarters	1	1	0	0	0
Designate Inspector or Shareholder Representative(s) of Minutes of Meeting and/or Vote Tabulation	4	5	4	0	0
Designate X as Independent Proxy	2	2	1	0	0
Discuss / Approve Company's Corporate Governance Structure / Statement	1	1	0	0	0
Elect Chairman of Meeting	3	3	1	0	0
Elect Member of Nominating Committee	2	4	1	0	0
Elect Member of Remuneration Committee	2	7	4	0	0
Miscellaneous Proposal: Company-Specific	1	1	1	0	0
Other Business	3	3	0	2	0
Prepare and Approve List of Shareholders	3	3	3	0	0



INTERNATIONAL EQUITY FUND	Meetings	Proposals*	With Mgmt.*	Against Mgmt.*	Against ISS
Ratify Auditors	15	15	14	0	0
<i>Totals for Routine / Business:</i>	28	118	87	3	0
<b>Directors Related</b>					
Amend Articles Board-Related	4	5	4	0	0
Appoint Internal Statutory Auditor(s) [and Approve Auditors / Auditors Remuneration]	2	3	3	0	0
Approve Discharge -- Other	1	2	2	0	0
Approve Discharge of Board and President	3	5	5	0	0
Approve Discharge of Management Board	8	16	15	0	0
Approve Discharge of Supervisory Board	7	22	22	0	0
Approve Remuneration of Directors and/or Committee Members	10	13	7	0	0
Elect Board Chairman / Vice-Chairman	1	1	1	0	0
Elect Director	17	149	110	2	0
Elect Directors (Bundled)	1	1	1	0	0
Elect Supervisory Board Member	7	29	13	16	2
Fix Number of Directors and/or Auditors	1	1	1	0	0
<i>Totals for Directors Related:</i>	28	247	184	18	2
<b>Capitalization</b>					
Amend Articles/Charter Equity-Related	1	1	1	0	0
Approve Issuance of Equity or Equity-Linked Securities with or without Preemptive Rights	9	9	9	0	0
Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	8	12	10	0	0
Approve Issuance of Shares for a Private Placement	1	1	1	0	0
Approve Reduction in Share Capital	7	7	6	0	0
Authorize Board to Increase Capital in the Event of Demand Exceeding Amounts Submitted to Shareholder Vote Above	1	1	1	0	0
Authorize Capital Increase of up to 10 Percent of Issued Capital for Future Acquisitions	1	1	1	0	0
Authorize Capitalization of Reserves for Bonus Issue or Increase in Par Value	1	1	1	0	0
Authorize Issuance of Equity or Equity-Linked Securities with Preemptive Rights	2	2	1	1	0
Authorize Reissuance of Repurchased Shares	1	1	1	0	0
Authorize Share Repurchase Program	11	11	11	0	0
Authorize Share Repurchase Program and Reissuance of Repurchased Shares	2	2	0	0	0
Eliminate Preemptive Rights	3	4	4	0	0
Set Global Limit for Capital Increase to Result From All Issuance Requests	1	1	1	0	0
<i>Totals for Capitalization:</i>	16	54	48	1	0
<b>Reorganizations and Mergers</b>					
Amend Articles to: (Japan)	1	1	0	0	0
Amend Articles / Bylaws / Charter -- Organization-Related	1	1	1	0	0
Approve Affiliation Agreements with Subsidiaries	1	1	1	0	0
Approve Merger Agreement	1	1	1	0	0
Change Jurisdiction of Incorporation	1	1	1	0	0

INTERNATIONAL EQUITY FUND	Meetings	Proposals*	With Mgmt.*	Against Mgmt.*	Against ISS
<i>Totals for Reorganizations and Mergers:</i>	4	5	4	0	0
<b>Non-Salary Compensation</b>					
Advisory Vote to Ratify Named Executive Officers' Compensation	12	18	17	0	0
Approve Annual Bonus Payment for Directors and Statutory Auditors	1	1	1	0	0
Approve Equity Plan Financing	2	2	1	0	0
Approve Increase in Aggregate Compensation Ceiling for Directors	1	1	0	0	0
Approve Increase in Aggregate Compensation Ceiling for Statutory Auditors	1	1	0	0	0
Approve Qualified Employee Stock Purchase Plan	2	2	2	0	0
Approve Remuneration Policy	12	14	10	1	1
Approve Remuneration of Executive Directors and/or Non-Executive Directors	2	4	3	0	0
Approve Restricted Stock Plan	5	7	6	0	0
Approve Retirement Bonuses for Directors	1	1	1	0	0
Approve Share Plan Grant	1	2	2	0	0
Approve Special Payments to Continuing Directors in Connection with Abolition of Retirement Bonus System	1	1	1	0	0
<i>Totals for Non-Salary Compensation:</i>	22	54	44	1	1
<b>Antitakeover Related</b>					
Authorize the Company to Call EGM with Two Weeks Notice	4	4	4	0	0
<i>Totals for Antitakeover Related:</i>	4	4	4	0	0
<b>Totals for the report:</b>	<b>31</b>	<b>482</b>	<b>371</b>	<b>23</b>	<b>3</b>

## APPENDIX C. ENGAGEMENT LOGS

### CANADIAN EQUITY STRATEGY

Examples of ESG-related engagements with boards / management undertaken in 2020 are set forth below.

Company	Representative	Category	Theme	Quarter
Diversified bank	CEO	Governance Environmental	Compliance risk / investor protection Environmental exposure	Q1
Multisector financial holding	IR Chair of Investment Committee	General ESG	General ESG	Q1
Application software provider	CFO IR	General ESG Environmental	Carbon footprint CSR program Disclosure and oversight	Q1
Gas utility	CEO	Governance	Capital allocation Shareholder alignment	Q1
Integrated Telecommunications provider	EVP & CFO	Governance	Capital allocation Shareholder alignment	Q1
Trading company & distributor	Board Chair CFO	Governance	Capital allocation Executive compensation	Q2
Diversified metals & mining company	CEO IR	Social Environmental Governance	COVID-19-related employee protocols Environmental footprint of steel production and technological progress Capital allocation	Q2
Life & health insurer	CEO & President	Governance	Capital allocation	Q2
Electric Utility	President & CEO CFO	Governance	Strategy and M&A	Q2
Integrated Telecommunications provider	CEO CFO	Governance	Strategy and M&A	Q3
Diversified bank	CFO	Governance	Shareholder dilution Capital allocation Regulatory matters	Q3
Railroads	IR Chair of the Board Chair of the Risk & Sustainability Committee	Governance Environmental	Succession Executive compensation Board composition Sustainability Climate change	Q3
Food retailer	Independent Board member	Governance Environmental	Strategy Board matters Executive compensation Climate change Succession Disclosure	Q4
Integrated telecommunications provider	CFO	Governance	Strategy and M&A	Q4
Trading company & distributor	President & CEO President, South American division	Environmental Governance	Low carbon transportation Strategy	Q4

Company	Representative	Category	Theme	Quarter
Autoparts & equipment manufacturer	Chair of Board	Governance	CEO succession	Q4
Metal & glass containers packaging company	Independent board members	Governance Environmental	Share structure and coattail provisions Executive compensation Strategy and M&A Succession planning Water and emissions targets	Q4
Aerospace & defense company	EVP, Business Development & Growth Initiatives	Governance	Strategy and M&A	Q4
Diversified metals & mining company	CFO President & CEO VP, Legal Affairs & Legal Counsel	General ESG Environmental Social	ESG framework ESG reporting Water/emissions/waste management Health & safety	Q4
General merchandise store operator	President & CEO EVP & CFO IR	Social Governance	COVID-19 preparedness Strategy and M&A	Q4
Restaurants	CEO CFO	Governance	Capital allocation Balance sheet Franchisee relationships	Q4
Gas utility	CEO CFO	Social	Indigenous rights / lands	Q4
Diversified metals & mining company	CFO Treasurer	Governance Environmental	Financial reporting Strategy Oversight on environmental issues Coal to hydrogen Specific issues	Q4
Aerospace & defense company	President of Defense	Governance General ESG	Balance sheet Strategy and M&A ESG frameworks	Q4
Food retailer	President & CFO	Governance	Strategy Specific issues	Q4
Fertilizer & agricultural chemicals company	President & CEO	Social Environmental General ESG	COVID-19 preparedness Emissions Paris Agreement Deforestation ESG targets and KPIs	Q4
Multisector financial holding	President	Governance	Strategy and M&A Executive structure	Q4
Diversified bank	CFO	Governance	Strategy	Q4
Diversified metals & mining company	CEO	Environmental	Long-term environmental strategy Commodities (oil, copper) Green steel Specific issues	Q4

## U.S. EQUITY STRATEGY

Examples of ESG-related engagements with boards / managements undertaken in Q3 and Q4 are set forth below.

Company	Representative	Category	Theme	Quarter
Systems software provider	Board member	Governance	Board composition Executive compensation Capital allocation	Q3
IT Consulting & services provider	Board CFO	Governance	Capital allocation Succession	Q3
Asset management and custody provider	CFO	Governance General ESG	Strategy Succession ESG products	Q3
Asset management and custody provider	Global Head, Sustainable Investing	General ESG	ESG framework	Q3
Consumer finance provider	Finance, compensation, IR, CSR	Governance Environmental	Succession planning Net Zero emissions Cyber security TCFD Specific issues	Q4
Advertising company	Board members	Governance	Succession planning Board diversity Executive compensation Strategy Reporting Specific issues	Q4
Household products provider	Corporate Secretary, VP, Safety, Sustainability & Occupational Health Global Supply Chain, IR	Governance	Policies and practices	Q4
Systems software provider	CEO CFO	Governance General ESG	Succession planning Board composition Shareholder alignment CSR	Q4
Automotive retailer	CFO	Governance	Succession planning Executive structure	Q4

## INTERNATIONAL EQUITY STRATEGY

Examples of ESG-related engagements with boards / managements undertaken in Q4 are set forth below.

Company	Representative	Category	Theme	Quarter
European oil & gas equipment & services provider	CEO COO	Governance	Several governance-related topics	Q4

Company	Representative	Category	Theme	Quarter
European IT consulting & services provider	CEO	Governance	Several governance-related topics	Q4
European construction materials company	CEO IR	Environmental Governance	Climate change and goals Emissions targets Regulatory considerations Capital allocation	Q4
European household products provider	CEO	Governance	Operational and strategic issues Executive compensation Succession planning	Q4
U.S. pharmaceutical company	CFO	Governance Social	Succession planning COVID-19 vaccine roll-out	Q4
Asian diversified bank	IR	Governance General ESG	Succession planning ESG-sensitive lending in Asia	Q4

## UNIVERSE BOND STRATEGY

Examples of ESG-related engagements with boards / managements undertaken in 2020 are set forth below.

Company	Representative	Category	Theme	Quarter
Electric utility	CFO	Environmental	Energy transition / natural gas	Q1
Multi-utility	CFO	Environmental	Discussion on producing separate CSR report for operating company	Q1
Electric utility	CFO	Governance Environmental	Grid modernization; EV opportunity and grid requirements	Q1
Electric utility	CFO	Environmental	Fire mitigation strategy	Q1
Automobile manufacturer (U.S.)	IR Treasury	Environmental	EV transition EU emissions regulations	Q1
Automobile manufacturer	IR Treasury	Environmental	EV transition	Q1
Automobile manufacturer	IR Treasury	Environmental	EV transition	Q1
Oil & gas exploration & production company	CEO	Governance Environmental	Discussion on increasing female representation on board Discussion on improving ESG disclosure / reporting	Q1
Gas utility	CEO CFO	Governance Environmental	Discussion on improving ESG disclosure GHG emissions target setting Board oversight on ESG	Q1
Electric utility	CEO CFO	Environmental	Opportunities to reduce GHG emissions	Q1
Oil & gas exploration & production company	CEO	Environmental	New technologies in oil sands	Q1
Electric utility	CEO CFO	Environmental	Battery storage and large-scale hydro Coal to gas power conversion	Q1
Oil & gas storage & transportation company	Treasurer	Environmental	Commitment to net zero by 2050 GHG emissions target setting Transition and green bonds	Q1

Company	Representative	Category	Theme	Quarter
Oil & gas storage & transportation company	Treasurer	Environmental Social General ESG	GHG emissions target setting Tying executive compensation to ESG First Nations relations	Q1
Oil & gas refining & marketing company	CEO CFO	Environmental Social	EV threat to business Tobacco sales Discussion on required improvement in disclosure (ESG report)	Q1
Multi-utility	CEO CFO	Environmental	Green bonds	Q1
Oil & gas storage & transportation	CEO CFO	Environmental Social	Emissions focus - venting and flaring Commitment to net zero by 2050 Transition and green bonds Safety challenges on large projects	Q1
Oil & gas exploration & production company	CFO	Environmental	New technologies in oil sands	Q1
Integrated oil & gas company	CFO	Environmental	New technologies in oil sands ESG focus	Q1
Integrated oil & gas company	CFO	Environmental	Commitment to net zero by 2050 GHG emissions target setting Sustainable finance options	Q1
Oil & gas storage & transportation	CEO	Environmental	Discussion on issuing sustainability report GHG emissions target setting	Q1
Oil & gas storage & transportation	CEO CFO	Environmental	GHG emissions target setting Commitment to net zero by 2050 Renewable power options	Q1
Metal & glass containers manufacturer	IR	Environmental	Lightweight / sustainable packaging	Q1
Metal & glass containers manufacturer	IR	Governance	Founding family influence on company Share structure Board independence	Q1
Environmental & facilities service company	IR	ESG	General ESG discussion (company initiation)	Q2
Construction & engineering company (U.S.)	IR	Social	COVID-19 operating protocols	Q2
Packaged foods and meats (U.S.)	IR	Governance	Conclusion of price fixing scandal	Q2
Oil & gas exploration & production company	CEO	Governance	Board turnover	Q2
Oil & gas exploration & production company	CEO CFO	Environmental	Commitment to net zero emissions	Q2
Integrated oil & gas company	CEO CFO	Environmental	GHG emissions reduction focus	Q2
Gas utility	CFO	Social	COVID-19 safety protocols	Q2
Oil & gas refiner & marketer (U.S.)	CEO	Environmental	Ethanol backlash	Q2
Renewable electricity provider	CFO	Social	Operating in emerging markets during pandemic	Q2
Trucking (U.S.)	Treasurer	Environmental	Outfitting trucks with alternative fuel sources	Q2

Company	Representative	Category	Theme	Quarter
Independent power producer & energy trader	CFO	Environmental	Carbon capture and hydrogen opportunity	Q3
Oil & gas storage & transportation company	CFO	Environmental	Material environmental factors	Q3
Retail REIT	CEO CFO	Environmental	ESG targets LEED specifications on buildings	Q4
Integrated telecommunication services company	IR	Social	Outstanding lawsuits relating to data collection, privacy breaches, system access fees.	Q4
Electric utility	CEO	Environmental	Decarbonization strategy Hydrogen Outlook for natural gas Disruptive forces for utilities.	Q4
Electric utility	CEO	Governance	Relationship with province	Q4
Industrial research & consulting services company	CEO CFO	Governance	Checks & balances to prevent a corporate scandal	Q4
Healthcare facilities	CEO CFO	Social	Lawsuits related to COVID-19 Improving safety for residents and staff Staffing changes to prevent spread (multi-property employment)	Q4
Healthcare facilities	CEO CFO	Social	Lawsuits related to COVID-19 Improving safety for residents and staff Staffing changes to prevent spread (multi-property employment)	Q4
Consumer finance company (U.S.)	IR	Social	COVID-related payment relief programs	Q4
Life and health insurer	Global Treasurer	Governance	Board independence	Q4



**APPENDIX D. WHITEPAPER**

# Environmental, Social, Governance Factors

## In the Eyes of the Bondholder

*Beutel Goodman became a signatory of the U.N.-sponsored Principles for Responsible Investment (PRI) in June 2019. On the credit research side, we have been incorporating Environmental, Social and Governance (ESG) factors into our credit analysis for the past several years; signing the PRI serves to formalize and augment the ESG integration.*

*This is the first in a series of “Topic of the Month” on ESG that we plan to roll out over the course of this year.*



Source: Adobe Stock

March 2, 2020

Beutel Goodman  
Fixed Income Team

Historically, fixed income has somewhat lagged equity in embracing ESG. However, in the past several years, the application of ESG principles to fixed income has grown significantly, especially with the rise of sustainable finance and green bonds.

The long-term nature of fixed income investing generally fits well with the long-term nature of ESG risks and opportunities. Many of the ESG factors a fixed income investor considers would be the same as an equity investor — both are trying to assess the sustainability of cash flows in light of any ESG risks. The difference, then, is mainly on the governance side; equity investors have opportunities to vote proxies on items such as Say on Pay, while fixed income investors can only vote proxies when there are proposed covenant changes — a fairly rare occurrence. Just because fixed income investors can’t vote, however, does not mean that they cannot engage with management teams and advocate on ESG issues. The frequency of debt issuance provides bondholders significant contact with issuers, and may afford them a stronger voice to effect positive change.

Simply speaking, ESG factors may affect a borrower's ability to repay debt. Significant ESG issues such as carbon-intensive business models, labour disputes, data breaches, and fraud can translate into credit risks that can negatively affect cash flows, capital costs, and reputation. ESG analysis can help to uncover likely risks or disruptions that could negatively impact spreads. Issuers with less balance sheet flexibility are typically less able to absorb the costs and fallout from an unexpected ESG event. For example, the Pacific Gas and Electric (PG&E) company's transmission lines triggered the deadly Camp Fire in California in November 2018. The subsequent investigation uncovered falsified natural gas safety records, inadequate maintenance of equipment, and transmission lines that were not buried even though the regulator had approved the capital budget for the project. The resulting fines and liabilities forced the company into bankruptcy.

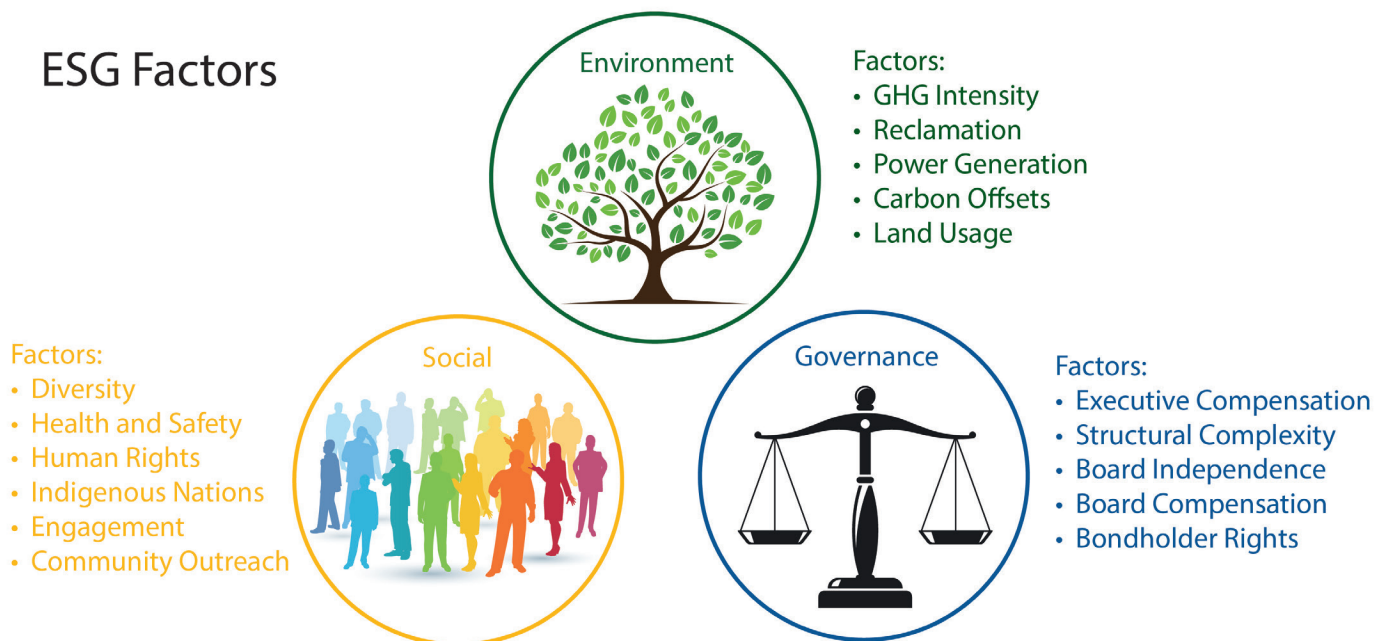
ESG can also work on the positive side. In 2013, Rio Tinto experienced a landslide at its Bingham Canyon mine in Utah. No one was injured as the site was evacuated due to the company's early warning system. This incident underscores the importance of ensuring that a company has the necessary safety measures in place to either

protect against an unforeseen event, or respond quickly to mitigate further damage.

Governance for corporate bonds takes on a different hue. Oversight, lack of transparency and accountability can negatively affect credit spreads. When meeting with management, fixed income investors need to evaluate whether management has adequately considered and responded to debtholders' needs and concerns. These issues may include explicit leverage and ratings targets; a capital allocation policy; a reasonable payout ratio; and management incentives that align with all stakeholders, not just equity holders. In addition, bondholders must take the experience of management into account. For example, do any members of the management team have previous experience with a defaulted company or a track record of disadvantaging bondholders? Bondholder governance can also be manifested in demanding stronger bond covenants and even asking for ESG-related issues in bond trust indentures.

Numerous companies over the past few years have taken advantage of low interest rates to issue debt at record levels. In many cases, the use of proceeds was not to fund capital expenditures, which generates cash flows to help fund the debt-servicing requirements.

## ESG Factors



Monies raised were used instead to fund share buybacks or dividend increases. While not all cases represent a major risk to bondholders, credit investors need to ensure that management takes into account leverage and credit ratings when they undertake shareholder-focused initiatives. In addition, credit investors need to be vigilant as to whether management is solely focused on actions that serve to drive the share price higher. This is particularly pertinent in cases where there is significant share ownership and share compensation by management.

Emphasis is also placed on the company's ownership structure, board composition and takeover defenses, with an eye to the potential threat of a private equity takeover and leveraged buyouts. In essence, governance for bondholders comes down to a question of trust; i.e., do we trust the company and the management team to pay its bonds back upon maturity? A company that ignores bondholders' interests could see its cost of capital increase or be left on the sidelines of the bond markets, unable to issue. Governance needs to be viewed through the lens of what is good for all stakeholders.

A common question in terms of integrating ESG into credit research is, does it contribute to value-added performance? At Beutel Goodman, we have a fiduciary responsibility to act in the best interests of our clients. As value managers, our primary objective is to deliver superior risk-adjusted portfolio performance over the long term. While the data is evolving as ESG integration is growing, there is evidence that ESG for credit investing does in fact enhance performance. A study undertaken by MSCI on U.S. investment grade and high yield corporate bonds found that companies with high ESG ratings tended to have tighter credit spreads, outperforming corporate bonds with lower ratings, especially during periods of market volatility<sup>1</sup>. A review in 2017 by S&P on how environmental and climate risks have affected global corporate ratings over a two-year period identified 106 cases where those risks resulted in a change of rating and/or outlook<sup>2</sup>. Additionally, S&P studied downgrades from the period 2010 through Q1/19, and found that approximately 57% of the downgrades from the "A" category to the "BBB" category were attributable to management decisions that led to a more aggressive credit profile<sup>3</sup>.

In a recent report, the CFA Institute concluded that there is no best way to do ESG integration and no "silver bullet"<sup>4</sup>. Integrating ESG into an active investment

management process requires analysis of both qualitative and quantitative data, engagement with the issuer, and then a judgement call on the potential impact of ESG factors. At Beutel Goodman, we have approached ESG not through negative screening, but through stewardship and having a seat at the table. In our view, divestment leaves the manager with no stake and therefore no potential to help drive responsible corporate practices. For example, a negative screen on carbon would likely exclude utilities with coal-fired generation. This exclusion would ignore an opportunity, as some utilities are undertaking projects to convert from coal to cleaner sources of power such as natural gas. Most of these conversion projects are rate-based (i.e., regulated) and therefore generating significant cash flow and returns. We consider ESG issues not only as potential areas of material risk, but also as opportunities to promote improvement. ESG-related risk exposure will not therefore preclude an investment, although as a rule of thumb, we will not make any investments where ESG factors make it difficult, if not impossible, to accurately assess the value of the business.

ESG integration into credit research at Beutel Goodman is an iterative process and we work closely with our equity partners to develop best practices. We pursue our objective to deliver superior risk-adjusted portfolio performance through the thoughtful and patient ownership of debt and equity positions in high-quality companies. Companies that gain high marks for their ESG practices often share many of the sound fundamentals that are attractive to our value investing approach; namely a business whose qualities and management practices generate stable, long-term cash flows. ESG factors have the potential to materially affect the long-term sustainability of a business and are thus an important part of our analytical process.

At Beutel Goodman, ESG analysis for corporate bonds is the responsibility of the credit analyst. We do not have a separate ESG team. The analyst is responsible for owning the decision on the company from a credit perspective that incorporates ESG, as well as on relative value basis. Currently, all of our credit research reports contain a write-up on ESG. We employ company sources, management interviews, rating agencies' research, and sell-side research, as well as third-party ESG research. In our reports we perform a peer analysis, identify the greatest ESG risks for the company, and make a list of issues to engage with the company on.

Engagement is both proactive and reactive. The companies on the Approved List run the gamut of ESG disclosure, from not producing any sort of sustainability report to best-in-class reporting. Issues we may engage companies on include the following:

- Improved disclosure, or disclosure that adheres to Sustainability Accounting Standards Board (SASB) or Global Reporting Initiative (GRI) standards;
- Direct ESG oversight at the Board level, and tying executive compensation to achieving ESG objectives;
- Making a net zero GHG emissions by 2050 commitment;
- Emission reduction targets;
- Projects that the company is undertaking to reduce its environmental footprint;
- Developing policies on human rights and bribery;
- Having a whistleblowing monitoring system;
- Tax transparency;
- Preparedness for events such as worker accidents, pipeline leaks, and mining spills;

- First Nations and other stakeholders engagement;
- Board independence;
- Executive compensation; and
- Diversity and inclusion in the company's workforce, senior management and on the Board of Directors.

The positive outcome of the rise of ESG is that engagement across the asset management industry is compelling companies to articulate to investors how sustainability creates value as part of their fundamental investment story and explain how they are addressing risks related to ESG matters. Integrating ESG into the investment process provides a more complete picture of the investment landscape.

#### Notes

<sup>1</sup> Kevin. (2018) "Does High-Yield Receive The ESG Credit It Deserves?" MSCI.

<sup>2</sup> S&P. (2017). "How Environmental and Climate Risks and Opportunities Factor Into Global Corporate Ratings - An Update."

<sup>3</sup> S&P. (2019). "Credit Trends: To 'BBB' Or Not To 'BBB': Management Decisions Spur Most U.S. Corporate Downgrades To 'BBB.'"

<sup>4</sup> CFA Institute. (2018) "ESG Integrating in the Americas: Markets, Practices, and Data."

*This commentary represents the views of Beutel, Goodman & Company Ltd. as at March 2, 2020 and is subject to change without notice. It is provided for information purposes only and is not intended to be, and should not be relied upon as, specific financial, investment, tax, legal or other advice.*

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## APPENDIX E. NOTES

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The information provided is as of December 31, 2020. Beutel Goodman has taken reasonable steps to provide accurate and reliable information. Beutel Goodman reserves the right, at any time and without notice, to amend or cease publication of the information.

Please note Beutel Goodman’s ESG and responsible investment approach may evolve over time. This report refers to progress made during the calendar year 2020 and our approach as of December 31, 2020. Also note that the integration of ESG and responsible investment considerations does not guarantee positive returns. Past performance does not guarantee future results.

For more information on our approach to ESG and Responsible Investing, please visit <https://www.beutelgoodman.com/about-us/responsible-investing/>.

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