

# ESG

## Factors Integration Policy



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## Introduction

National Bank Investments Inc. (NBI) is an investment management firm committed to creating investment solutions that help Canadian investors achieve their financial goals. Being the leading retail open architecture provider in Canada, we are dedicated to providing diverse investment solutions to meet the evolving needs of clients. We are portfolio manager agnostic and offer endless opportunities as a key partner promoting innovation and excellence.

Our open architecture structure gives us the flexibility to maneuver the complex world of investing by selecting, reviewing and changing portfolio managers who no longer meet our criteria of excellence in portfolio management. Such an approach is predicated on respecting the management philosophy and investment decisions of our external portfolio managers while following an investment policy statement. Consequently, we are careful not to impose our views or preferences on them, while encouraging them to follow our Environment, Social and Governance (ESG) factors integration policy.

This policy describes our approach to ESG factors integration in our portfolio manager selection and monitoring process.

## ESG Factors Integration

We believe that the consideration of ESG factors in conjunction with traditional financial analysis allows for a better assessment of risks and opportunities, which leads to better investment decisions. Because we view ESG factors integration as an essential component of sound portfolio management practices, applicable to any investment philosophy or approach, we include ESG factors integration criteria in our manager selection and monitoring processes.

Our selection and monitoring of external portfolio managers are underpinned by a proprietary research methodology. We call it the OP4+ process. It consists of more than 20 well-defined criteria for excellence in portfolio management grouped together into six key pillars: Organization, Personnel, Process, Portfolio, Performance, and ESG factors integration. As part of the OP4+ analysis, we assess, among others, a portfolio managers' process, resources and data sources with respect to ESG factors integration.

The OP4+ criteria for excellence in portfolio management	
Organization	Strong organization with top-tier investment culture
People	Stable group of talented investors
Process	Emphasis on proven management processes to select securities, build portfolios and manage risk
Portfolio	Optimized portfolio construction that follows the investment process and ensures sound diversification
Performance	Strong and predictable risk-adjusted returns
ESG+	Integration of <b>E</b> nvironment, <b>S</b> ocial and <b>G</b> overnance factors

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## Proxy Voting

We believe portfolio managers have a responsibility to exercise their proxy voting rights. We provide a copy of our Proxy Voting Guidelines to all our external portfolio managers and expect them to vote their proxies, in accordance with their own guidelines, and to provide us with a report of their activities on an annual basis.

Any public fund's proxy voting records for the most recent period ended June 30, is available on NBI's website any time after August 31 of each year. Private funds' proxy voting records are available upon request.

## Engagement

We believe that engagement is part of a robust investment process. From time to time we may engage with our external portfolio managers on specific ESG issues to understand how they are integrating it into their investment analysis and decision-making process.

Apparent discrepancies with our own policy and guidelines will prompt a discussion to ensure our respective goals and intentions are sufficiently aligned. For those portfolio managers who do not explicitly integrate ESG factors, we encourage them to adopt clear ESG factors integration strategies in their investment process.

We also encourage our external portfolio managers to discuss material issues with companies held in their portfolios, including ESG issues that may affect their business and prospects.

## Implementation, Governance and Review of Policy

Our ESG factors integration practices are implemented by the Strategic Portfolio Management team, which is responsible for selecting and monitoring external portfolio managers. Any portfolio manager that does not meet our expectations, or that is affected by a change to any element of the OP4+ process, is added to our watch list and subject to a complete review. Recommendations, which may include replacing a portfolio manager, are made to the Portfolio Manager Review Committee and presented to the Investment Committee for review on a quarterly basis.

Our ESG factors integration practices are overseen by our Investment Committee, which is composed of representatives from key departments within NBI, including the CIO Office, Strategic Portfolio Management, Legal, Products, Compliance, and Sales, as well as other Wealth Management divisions at National Bank of Canada.

This committee endorses policies and receives quarterly reports on the performance of investment products, external portfolio manager assessments, and changes to investment policies.

This policy reflects NBI's approach to ESG factors integration as of December 2018. It is reviewed annually by the Strategic Portfolio Management team, or more frequently if necessary, to reflect our practices with respect to ESG factors integration.



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