



Stewardship Report

Sustainable Investing

August 2023







AIMCo is guided by our purpose: we help our clients secure a better financial future for the Albertans they serve. The success of the companies we are invested in directly impacts the long-term prosperity and financial security of our clients, which is why we take our responsibility as stewards of their capital very seriously. Through integrated active ownership activities such as proxy voting and engagement, we seek to create long-term value for our clients and exercise shareholder voice on material environmental, social and governance (ESG) issues that can impact the investments we make on their behalf.

Our stewardship approach is guided by our policy framework, which includes our:

[Responsible Investment Policy](#)
[Proxy Voting & Engagement Guidelines](#)

The Power of Proxy Voting



Shareholders of publicly traded companies have the right to exercise their votes at annual general meetings or special shareholder meetings on important corporate governance matters presented on the proxy ballot such as the election of the board of directors, executive compensation and strategic investments (e.g. mergers and acquisitions), and on a range of complex ESG issues through shareholder proposals.

The proxy voting system is a fundamental tenet of shareholder rights, providing a mechanism for shareholders to exercise voice on corporate governance and ESG matters that promote sustainable, long-term value, regardless of whether they are majority or minority shareholders.

Our clients delegate proxy voting to AIMCo, and we are responsible for voting on their behalf in thousands of meetings for publicly held assets each year.

Our proxy voting records are publicly available on our [website](#).



What Informs the Proxy Voting Process?

With tens of thousands of ballot items received annually to exercise voting rights in the best interests of our clients, it is essential to have a robust proxy voting process in place. A variety of inputs contribute to our voting decisions and rationales. At the foundation of those inputs are AIMCo's Proxy Voting Guidelines, which describe the underlying corporate governance principles to which AIMCo subscribes. The guidelines are updated annually to reflect the evolution of the global corporate governance landscape and our Sustainable Investing approach. These guidelines allow for flexibility and as such, AIMCo reserves the right to vote on a case-by-case basis. Other inputs to the proxy voting decision and rationale include issuers' public disclosures, research from two proxy service providers, previous engagements with issuers, prior voting history and reputable third-party benchmarks (e.g. Climate Action 100+).

AIMCo's Influence

July 1, 2022 - June 30, 2023

AIMCo voted at

4,409 shareholder meetings

⤴ 20% vs. previous year

AIMCo voted on

49,380 ballot items

⤴ 22% vs. previous year

AIMCo voted on

842 shareholder proposals

⤴ 13% vs. previous year

Shareholder Meetings by Geography



Proxy Voting Season Recap

Spotlight on

Shareholder Rights

During the 2023 proxy season, new governance processes and ballot items related to shareholder rights were brought to the forefront, such as the introduction of the universal proxy ballot. In 2021, the U.S. Securities and Exchange Commission amended the federal proxy rules to require the use of universal proxy cards. Management and shareholders soliciting a proxy must now place all candidates for election to the board on a single proxy form, rather than separate proxy cards. The 2023 proxy season was the first in which all public companies were required to present shareholders with a full slate of candidates in contested elections.¹ This new system is expected to shift focus more to the quality and reputation of individual director nominees rather than the slate overall, giving shareholders the ability to select any combination of a company's and dissident's nominees they wish to vote for.

Legislation enacted in the state of Delaware last year had shareholders taking notice. New legislation enabled Delaware companies to limit or eliminate the personal liability of certain corporate officers for monetary damages associated with breaches of the duty of care. Delaware law previously reserved this action, also referred to as officer exculpation, for board members.

The 2023 proxy season saw hundreds of Delaware corporations request shareholder approval of a charter amendment for this purpose, frequently citing the ability to recruit and retain exceptional officer candidates, as well as empowering officers to exercise their business judgement in furtherance of shareholder interests, as reasons for the proposed amendment. AIMCo believes officers should be held to the highest standard when carrying out their duties and removing liability for an officer's breach of their duty of care may not be in the best interests of shareholders. To inform our voting decision, we carefully evaluated each ballot to determine whether the board sufficiently demonstrated a need for this proposed provision.

¹(ISS Governance, 2023)

Proxy Voting Season Recap

Executive Compensation

“Say-on-pay” provides shareholders the opportunity to validate the structure and objectives of a company’s executive compensation plan by providing feedback to the Compensation Committee of the board. Although the vote may only be advisory in some markets, including Canada, it is designed to enhance transparency and accountability in the determination of executive pay, creating a stronger alignment between pay and performance.

Although the vast majority of say-on-pay proposals still receive majority support, during the pandemic in 2021 and 2022, there were elevated levels of pay-for-performance concerns and shareholder scrutiny over one-off awards, material COVID-related discretionary executive pay adjustments, and insufficient response to shareholder dissent.² However, the levels of support in 2023 for say-on-pay at U.S. companies tracked slightly higher than prior years, likely due to companies being more responsive to prior say-on-pay vote results by engaging with shareholders and highlighting the actions they took to address concerns. Support levels tracked at similar levels to 2022 for Canadian companies.

In Europe and the U.K., we witnessed increased incorporation of strategic objectives and ESG metrics into variable pay plans this year. We expect this to expand more meaningfully outside of Europe and the U.K. as investor expectations for companies to include sustainability aspects in executive compensation schemes continue to increase and be captured in proxy voting guidelines.³

² (ISS Governance, 2023)

³ (RBC Capital Markets, 2023)

Proxy Voting Season Recap

Shareholder Proposals

Filing a shareholder proposal — a recommendation formally submitted to a publicly traded company advocating for a specific course of action — can be an effective tool for investors to exercise shareholder voice.

The 2023 proxy voting season was another notable one for the number of environmental and social (E&S)-related shareholder proposals on the ballot, building on the trend of a record-breaking number of shareholder proposals in 2022. This trend is once again attributed to the U.S. Securities and Exchange Commission's change in approach last year toward the excludability of proposals, which made it more difficult for companies to omit shareholder proposals from the ballot, causing a surge in overall proposal volumes.

The majority of E&S shareholder proposals in 2023 were related to the following themes:

- Climate: Adoption of greenhouse gas (GHG) targets to reduce emissions in line with the Paris Agreement, climate lobbying, fossil fuel financing, methane emissions and just transition plans
- Political spending and lobbying
- Racial equity or civil rights audits
- Other social issues: Freedom of association, forced labour and reproductive rights

Average shareholder support levels fell across all environmental, social and governance shareholder proposal categories in 2023. In some instances, declines were due to companies having already implemented requested changes in previous years. In other instances, the popularity of environmental and social proposals in 2022 led to overly prescriptive or niche proposals presented in 2023, making them hard for investors to support. There has also been a shift in the type of proponent filing these proposals, with more non-profits and shareholder advocacy groups submitting E&S proposals and fewer proposals from pension fund proponents. In addition, the polarization of ESG initiatives in the United States gave rise to more “anti-ESG” shareholder proposals in 2023 that attempted to counteract the support of legitimate proposals; however, these “anti-ESG” proposals gained very low levels of shareholder support.⁴

⁴ (RBC Capital Markets, 2023)

Environmental

An uptick in shareholder proposals related to climate lobbying occurred during the 2023 proxy season, with a focus on increased disclosure of alignment between a company's lobbying activities and their climate commitments. Of the climate-related lobbying shareholder proposals on the ballot and voted on by AIMCo, only one submitted to Cenovus Energy Inc. received majority shareholder support, which was likely the result of management also being in favour of the proposal. We also witnessed a multitude of climate-related shareholder proposals submitted at North American financial institutions requesting transition plans for financed emissions targets.

A new shareholder proposal theme emerged this year related to Just Transition reporting at several American companies across a variety of sectors. These proposals called for disclosure on the impact of a company's climate change strategies on employees, workers along the supply chain, communities in which it operates and other relevant stakeholders, addressing the intersectionality of the environmental and social considerations of the energy transition.

Social

Major pharmaceutical companies received shareholder proposals this year requesting reporting on how the company considers the impact of extending patent exclusivities on drug pricing and accessibility. This proposal type was seemingly motivated by increased scrutiny from the public and legislative bodies on drug pricing spurred by the COVID-19 pandemic. AIMCo generally voted in favour of these proposals, rationalized by the legal and reputational risks of abusive patent uses and corresponding impact on shareholder value if the risks are not managed appropriately.

Other social proposals surrounding labour rights, health and safety and racial equity garnered increased support in 2023, such as requests for third-party assessments on a company's commitment to employees' freedom of association, along with workplace health and safety and racial equity audits. Notably, a proposal for third-party racial equity audits at Canadian banks RBC and BMO garnered 42% and 38% shareholder support, respectively. We also saw proposals submitted to RBC and CitiGroup with respect to policies around the human rights impacts of their operations on Indigenous peoples.

Governance

We witnessed similar governance proposal themes from last year related to reducing the threshold required for shareholders to call special meetings and advocating for the separation of chair and CEO roles — important steps in enhancing shareholder rights. There was a noticeable increase in the number of executive compensation-related proposals requesting that boards seek shareholder approval of executive pay packages that provide for severance or termination payments exceeding 2.99 times the sum of the executive’s base salary plus target bonus. However, AIMCo found the majority of these proposals to be either duplicative as a number of the companies already took proactive steps to implement portions of the proposal or not aligned with accepted market practice.

Shareholder Proposals by ESG Pillar

2021 - 2023

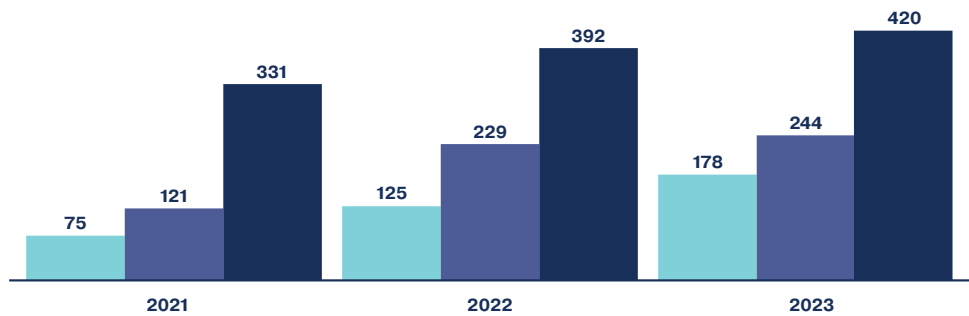
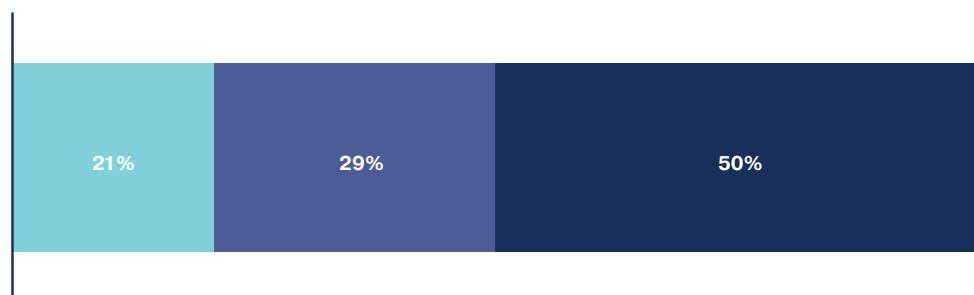


Chart reflects year-over-year proxy season changes from July 1 of the previous year to June 30 of the year being monitored.

Shareholder Proposal by ESG Pillar

2023 Proxy Season



● Environmental ● Social ● Governance

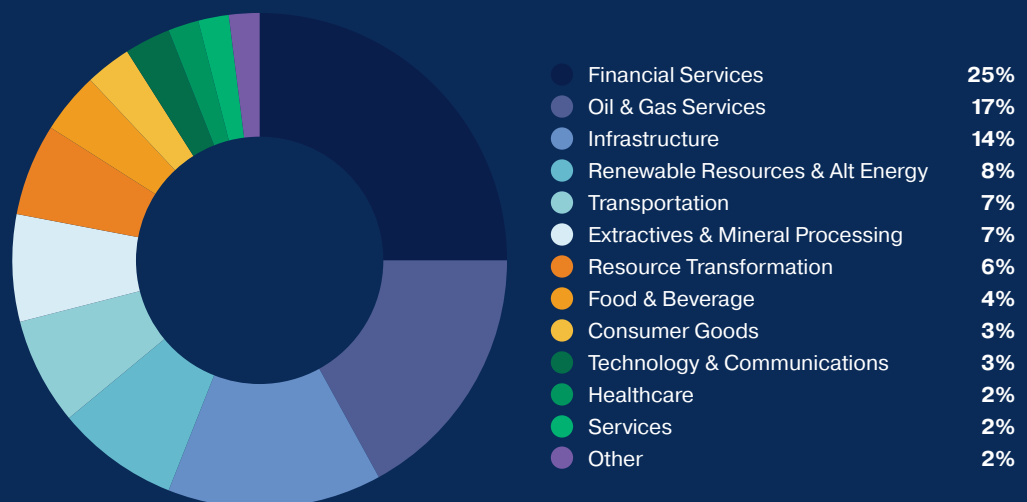
The Power of Engagement

Engaging individually or through collaborative investor initiatives builds a deeper, more direct connection to the companies we are invested in on behalf of our clients. When investee companies better understand the views of asset owners and managers on material ESG issues such as climate risk, human rights, executive compensation and board diversity, they are more likely to drive positive change that enhances the long-term value of our clients' investments, consistent with our fiduciary duty. Our "voice over exit" philosophy means we prefer to leverage our influence as investors to spur ongoing, constructive dialogue on best ESG practices rather than to divest and unnecessarily reduce the investible universe.

From July 1, 2022, to June 30, 2023, we conducted 102 engagements with investee companies and external managers across our public and private market holdings in a variety of sectors.

Percentage of Engagements by Sector

July 1, 2022 - June 30, 2023



Spotlight

Outcomes-Based Engagement Framework & Engagements Dashboard

To enhance the effectiveness of the engagements we conduct on behalf of our clients, AIMCo revised its engagement framework to become more outcomes-based. This outcomes-based approach differs from our previous approach in the following ways:

Sector-Agnostic Focus >> Sector-Specific Focus

Previously, AIMCo's engagement approach centered around a general and sector-agnostic ESG theme or topic, such as board gender diversity, human rights or climate risk, that we would engage with companies across multiple sectors on. The revised approach will narrow our focus for each quarterly engagement campaign on a specific sector and ESG Key Performance Indicators (KPIs) material to that sector. This will enhance comparability and benchmarking amongst companies and sector leaders, allowing for more focused and effective engagements.

Obtaining an Understanding >> Setting & Tracking Progress Towards Desired Outcomes

Previously, our engagements were rooted in gaining an understanding of a company's perspectives and strategies on various ESG issues. Moving forward, AIMCo's expectations of desired outcomes and

timelines on material ESG KPIs will be defined, communicated and monitored through recurring engagements with each focus company. This provides the company transparency on AIMCo's expectations and improves accountability towards achievement of outcomes that enhance the long-term value of our clients' investments.

To support this approach, we onboarded a new third-party engagement management platform. This technology solution allows us to track engagement campaigns and activities, and the progress made on the set engagement outcomes for each focus company through a fit-for-purpose database. Its automated analytic and reporting capabilities will enable efficient reporting for our clients on engagement initiatives and enhances data accuracy and comparability.

>> CASE STUDY ENGAGING ON CLIMATE

Methanex



As an active member of [Climate Action 100+](#) and [Climate Engagement Canada](#), AIMCo expects investee companies to demonstrate transparency and accountability by adopting appropriate, industry-specific climate-related reporting protocols such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and to have board oversight and appropriate expertise to adequately manage climate-related risks. On a case-by-case basis, and if deemed material, AIMCo may vote against or withhold from relevant directors in situations where an issuer has failed to provide relevant climate-related disclosures or insufficient action is being taken to address climate-related risks and opportunities.

[Methanex](#) is the world's largest producer and supplier of methanol to major international markets in North America, Asia Pacific, Europe and South America. In 2022, AIMCo sent an invitation for dialogue to Methanex as a result of voting against a director during the previous proxy season for lack of alignment with Paris Agreement goals and TCFD reporting. We engaged with Methanex in fall 2022, emphasizing the importance of clear ESG links to executive compensation and providing shareholders with enhanced disclosure on how the company is managing climate-related risks and opportunities in alignment with the TCFD framework.

Methanex demonstrated a willingness to improve, and following the engagement, AIMCo shared best practice examples of sustainability reporting and ESG metrics incorporated into compensation programs with the company.

In advance of their 2023 AGM, Methanex proactively reached out to AIMCo to share how their disclosure had improved since our last engagement, demonstrating their commitment to transparency and further alignment with TCFD reporting standards. In addition, for 2023, the company disclosed that the individual performance for Methanex's CEO (30% weighting in the executive compensation plan) will be measured against goals that include progress towards their commitment to a reduction of 10% emissions intensity by 2030. We commend Methanex on these disclosure and executive compensation improvements and look forward to ongoing dialogue on their role in the transition to the low-carbon economy.



>> CASE STUDY ENGAGING ON DIVERSITY, EQUITY & INCLUSION

Canadian Tire

As a signatory to the [Canadian Investor Statement on Diversity & Inclusion](#), member of the [30% Club Canada Chapter](#), and signatory to the [CFA DEI Code](#), AIMCo believes that promoting diversity, equity and inclusion (DEI) is not only the right thing to do — it is good for business and society. Diverse boards and executive management teams are more likely to achieve better outcomes for investors and other stakeholders by introducing a broader spectrum of perspectives, skills and experience, fostering a higher quality of board governance overall.

In alignment with our commitment to the 30% Club Canada Investor Group, AIMCo leveraged its ownership rights through proxy voting and engagement to advance the Investor Group's goal of achieving a minimum of 30% women on the board and at the executive management level of S&P/TSX Composite Index companies by 2022. While we are pleased a significant milestone was achieved — as of 2023, women now occupy 34% of board seats at those companies — this is just the starting point as sustained action is required, and more progress needs to be made at the executive level where women represent only 23% of C-suite roles.

Building on our support for gender diversity and in recognition of the intersectionality of gender, race and other identities, AIMCo updated its [Proxy Voting Guidelines](#) in 2023 to include where an issuer exhibits no directors from another underrepresented group as a condition that may trigger an against or withhold vote from the chair and/or members of the nominating committee or another relevant board director.

In 2022, AIMCo led a 30% Club Canada Investor Group collaborative engagement with [Canadian Tire Corporation](#), a group of companies that includes a retail segment, a financial services division and CT REIT. Some members of the 30% Club Canada Investor Group, including AIMCo, have proxy voting guidelines that incorporate gender and racial diversity metrics for boards which may have impacted votes at the Canadian Tire AGM in May 2022. In fall 2022, the 30% Club Canada Investor Group met with Canadian Tire to learn more about their approach to DEI. We learned the Board was exploring the possibility of implementing a DEI policy and a board diversity target in advance of their 2023 AGM. The 30% Club Canada Investor Group offered to send resources on best practice diversity policies and targets to Canadian Tire, which were shared in a follow-up email after the engagement. In the context of its board renewal and succession planning, and based on feedback from shareholders including the 30% Club Canada, the Board adopted a written diversity policy codifying its commitment to diversity. In adopting the policy, the Board set a target that it be comprised of at least 30% women by the 2023 Annual Meeting of Shareholders and thereafter.

The 30% Club Canada Investor Group was pleased to see two female directors elected at the 2023 Canadian Tire AGM, taking the composition of women on the Board from 19% to 31%. Since 2021, three women have been nominated to the Board. In addition, over that period, two members of visible minorities have been added to the Board. We were pleased with Canadian Tire's responsiveness to shareholder feedback and look forward to future engagement opportunities with the iconic Canadian retailer as it continues on its evolving DEI journey.



>> CASE STUDY ENGAGING ON ESG DISCLOSURE

Tidewater Renewables

In fall 2022 AIMCo, on behalf of clients, made a debt investment in [Tidewater Renewables](#), an Alberta-based business focused on the production of renewable diesel and renewable natural gas. A true energy transition story, Tidewater Renewables is on the cusp of opening its first renewable diesel facility in Canada. In early 2023, AIMCo's Sustainable Investing team had the opportunity to engage with Tidewater Renewables to share ESG reporting best practices and provide feedback from an investor perspective on their inaugural [ESG Report](#). We congratulate Tidewater Renewables on publishing their first ESG Report and look forward to the expansion of their sustainability reporting as the company grows.



