



SUSTAINABLE INVESTING

Annual Stewardship Summary

July 2018 - June 2019

Enhancing Investments' Long-Term Value Through Voting and Engagement

Addenda Capital is committed to active investment management and so effectively monitors investee entities, including their ESG (environmental, social, governance) practices. This oversight allows us to actively protect and enhance the long-term interests of shareholders and other stakeholders through stewardship activities that fall under two categories: proxy voting and corporate engagement. Please consult our [Proxy Voting Policy](#) and our [Stewardship Policy](#) for further details.

Regulatory Changes Affecting Proxy Voting or Stewardship

In May 2019 the US Securities and Exchange Commission (SEC) announced it was considering changes to Rule 14-8, to alter the thresholds for filing and/or resubmission of shareholder proposals. We signed a [letter](#) sent to the SEC in September regarding the potential changes to the Rule. On November 5th the proposed rule "[Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8](#)" was released for a 60 day comment period. We are planning to submit feedback to the SEC on the proposed changes.

In August 2019 the US SEC gave guidance to "assist investment advisers in fulfilling their proxy voting responsibilities." The SEC said that "proxy voting advice provided by proxy advisory firms generally constitutes a 'solicitation' under the federal proxy rules." On November 5th the proposed rule "[Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice](#)" was released for a 60 day comment period and again Addenda is planning to submit feedback.

The Financial Reporting Council in the UK introduced a substantial update to the 2012 version of the [UK Stewardship Code](#) which will take effect starting January 1, 2020. The UK Stewardship Code is generally recognized as one of the best stewardship codes in the world and this updated version yet again outlines stewardship best practice for institutional investors. Addenda will be reviewing the Code in detail and we might update our own Stewardship Policy.

The Canadian Expert Panel on Sustainable Finance put out their [final report](#) in June 2019. One of the final recommendations was to "clarify the scope of fiduciary duty in the context of climate change." We will be following regulatory and legislative developments related to this recommendation.

Proxy Voting Policy Updates

In December 2019 we updated our Proxy Voting Policy and the changes are focused on four key areas: Board and key committee independence, director commitments, board diversity and executive compensation. We have summarized the new policies below.

Board and key committee independence:

When the board is not 2/3 independent or a key committee (audit, governance, nominating or compensation) has non-independent directors we will vote against the election of the chair of the board and the election of the chair of the committee responsible for enabling non-independent directors to hold those roles.

This is instead of voting against the election of the non-independent directors themselves. This change is meant to focus our efforts on those with the power to enact the improvements to board structure we would prefer.

Director commitments: The commitment thresholds for opposition are not changing (no more than two boards for an executive and no more than 4 for other directors) but more detail has been provided to clarify how to treat subsidiaries.

Board diversity: If a board does not have at least 3 male and 3 female board members or has set that as a target we will vote against the chair of the nominating committee.

Executive compensation: The structure of executive compensation is becoming more complex and challenging to analyze and we have not traditionally spent a lot of time providing feedback to companies. In order to simplify our analysis and devote more resources to providing feedback to companies we have significantly simplified our expectations coupled with annual contact with many portfolio companies. We will still only support executive compensation frameworks that include long-term compensation that is linked to performance measures but we will address other concerning compensation practices by selecting a key concern each year and writing to each company that exhibits that practice. For example, we might write to all companies that lack a clawback provision for cases of financial restatement or misconduct.

Voting

A Key Component of Sustainable Stewardship

The right to vote at annual and special meetings is one of a shareholder's most important rights. By voting at shareholder meetings, Addenda Capital aims to affect governance, communicate preferences and signal confidence or lack of confidence in a company's management and oversight.

Evidence shows that companies that have good corporate governance are likely to sustainably generate more long-term value for their shareholders and other stakeholders.

The majority of annual meetings take place during the first half of the calendar year. For example, between July 1, 2018 and June 30, 2019, Addenda Capital voted at 210 meetings and of these over 90% took place between January and June.

210
meetings





Proxy Voting: Our Process

Addenda usually votes “by proxy” by instructing someone to vote our clients’ shares in accordance with our instructions which are based on our Proxy Voting Guidelines. We will, if necessary, attend a meeting to vote in person.

All year long, we monitor the environmental, social and governance (“ESG”) practices of the entities in which we invest. During voting season, we also enlist the help of Glass, Lewis & Co., an independent investment research firm that provides global proxy advisory and voting services.

We consider each ballot item and determine how to vote in a manner consistent with the guidelines outlined in Exhibit 1 (see below).

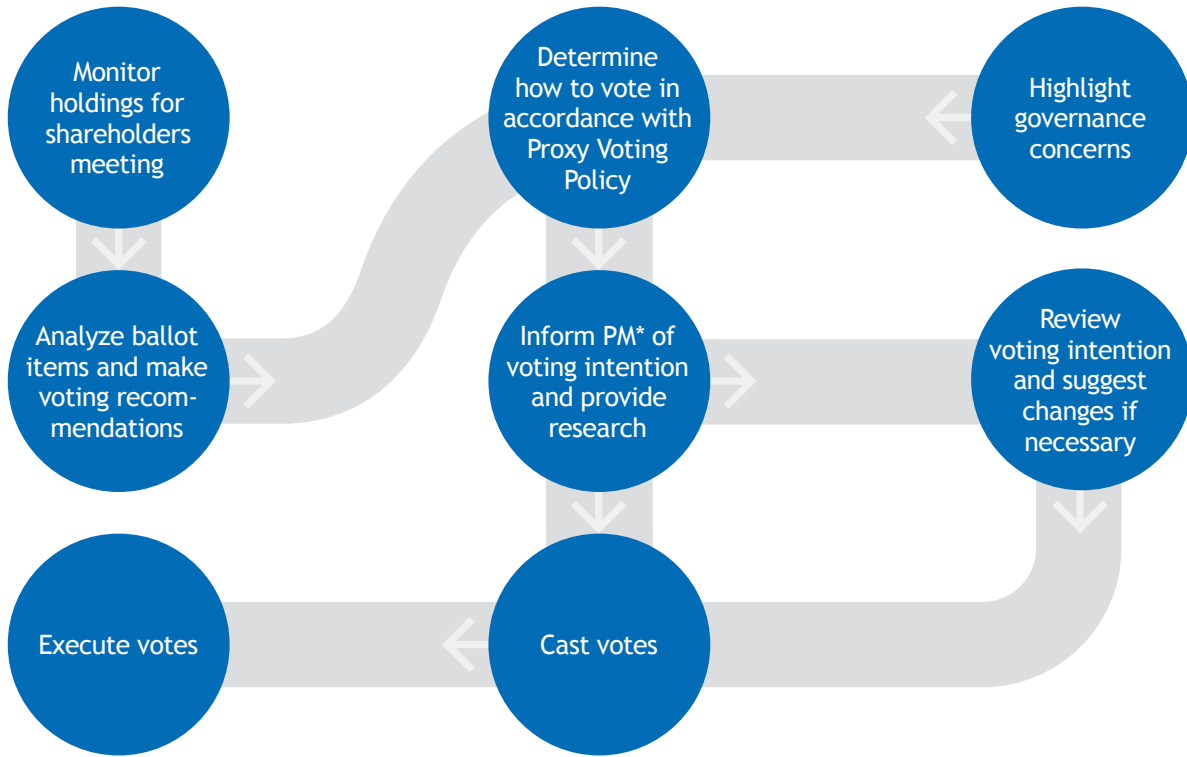
In addition, we engage the entities in which we invest and policy makers in a dialogue when warranted.

EXHIBIT 1 Addenda Capital’s Proxy Voting Process

Glass, Lewis & Co.

Sustainable Investing Team

Portfolio Manager



* Portfolio Manager
Source: Addenda Capital

Highlights From the 2018 Voting Season

During the 12 months ending June 30, 2019, Addenda Capital voted at 210 meetings. 77% of those meetings were held in North America, including 47% in Canada (see details in Exhibit 2 below).



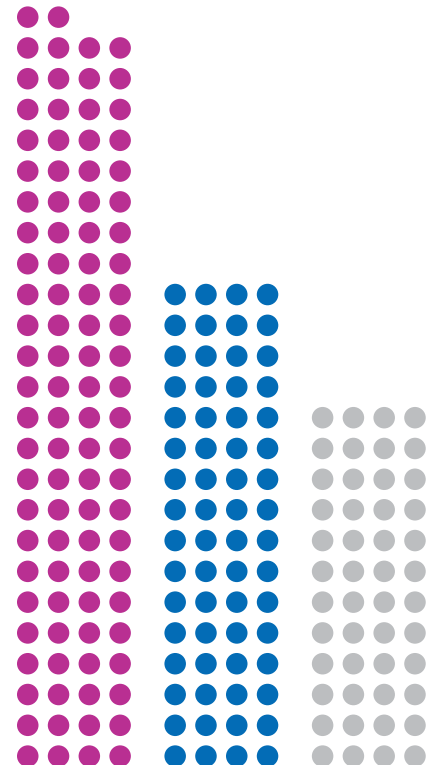
In total, we were presented with 2,780 proposals. On about 18% of all ballot items, we voted against management or board recommendations (see Exhibit 3). Voting against management recommendations is not in itself an effective measure of our voting process. But it does highlight our willingness to vote in the best interest of our clients and our ability to effectively and critically analyze each ballot item.

EXHIBIT 2 Proxy Voting at Annual and Special Meetings

Number of Meetings

- 98 Canada
 - 64 United States
 - 48 Outside North America
-
- 210 Total

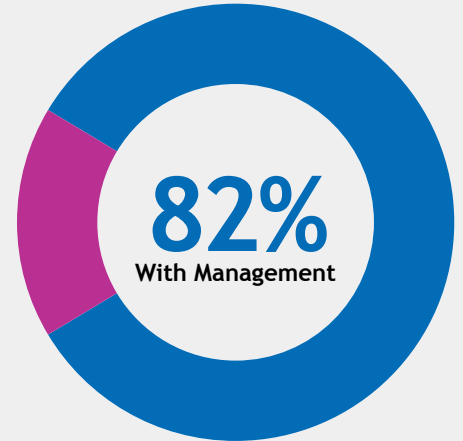
2,780
proposals



Source: Addenda Capital

EXHIBIT 3 Votes Against Management Recommendations

18% Against Management



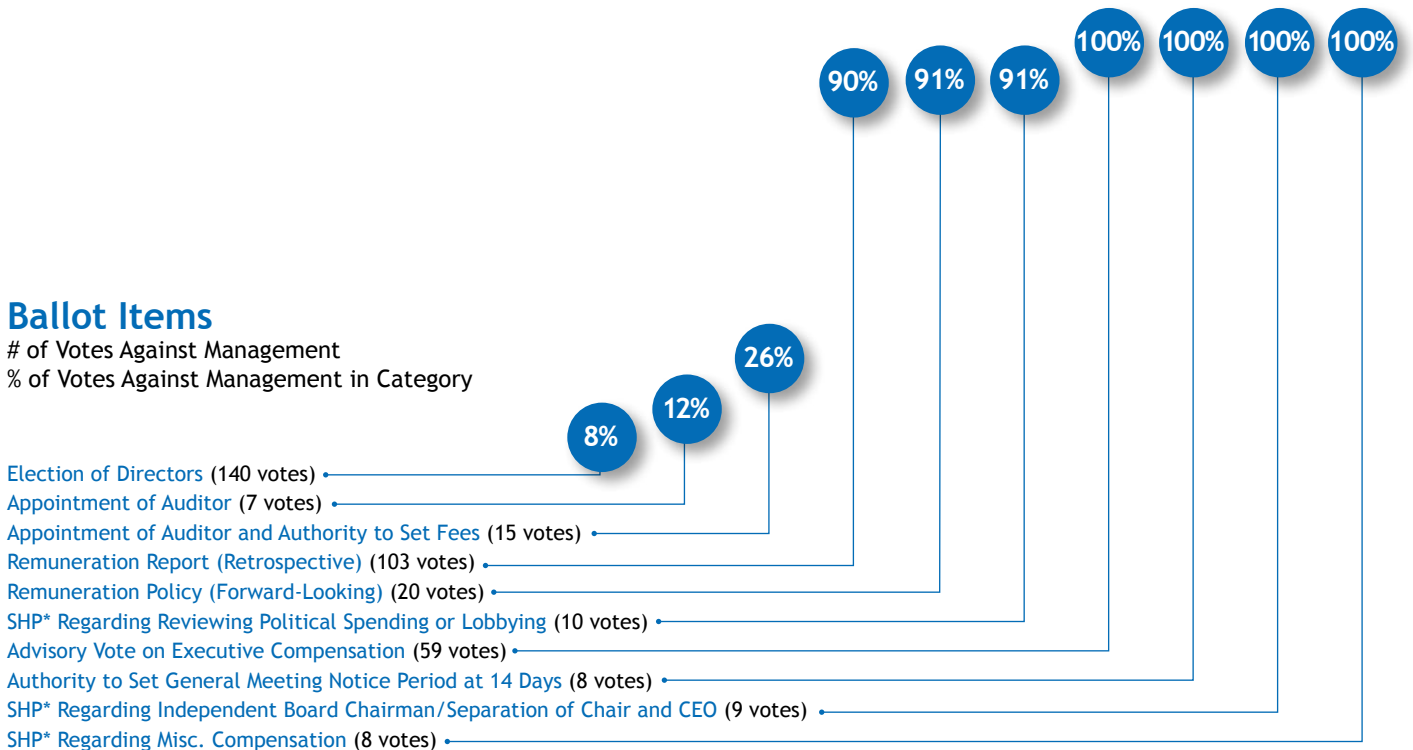
Source: Addenda Capital

Most often, when we voted against management recommendations, the proposal was about the election of directors (see Exhibit 4). For this type of ballot item, we cast 143 votes against management recommendations, which corresponds to 8% of a total of 1,816 nominees that we voted on. We opposed the nominees for various reasons including a lack of independence on a board, a nominee’s apparent lack of effective oversight on another board or the appearance of too many commitments to fulfill their duties as a director.

EXHIBIT 4 Top 10 Ballot Items for Which Addenda Voted Against Management Recommendations

Ballot Items

of Votes Against Management
% of Votes Against Management in Category



* SHP: Shareholder Proposal
Source: Addenda Capital

Vote Examples

Below are two examples of votes from this past voting season.

Election of a Board Member

Company	Insurance Company
Addenda's Proxy Voting Policy	Oppose election of directors who appear to have too many commitments to fulfill their duties as directors. For example, a director without a full-time job that sits on more than 4 public company boards or a director with a full-time job (including senior executives) that sits on more than 2 public company boards would be viewed as having too many commitments in the absence of a contrary indicator.
Addenda's Vote	Vote Against
Rationale	The director nominee had too many commitments to fulfill their duties as a director. He is on a total of ten public company boards.
Results	20% of Votes Were Cast Against this Director's Election.

Shareholder Proposal Regarding Diversity Reporting

Company	Investment Management Company
Addenda's Proxy Voting Policy	Support implementation and disclosure of diversity policies and practices.
Addenda's Vote	Vote for (Against Management)
Rationale	Disclosure of the breakdown of the company's workforce with respect to gender or ethnicity would allow shareholders to gauge how the company is managing this issue and track progress the company is making and help with the evaluation of related risks and opportunities.
Results	39% of Votes Were Cast for this Proposal.



Engagement Examples

Taking Care of Your Investments

Our corporate engagement activities involve purposeful dialogue with investee entities on important matters identified through monitoring, and on matters that are the subject of votes at shareholder meetings.

We may further engage with company management on issues we feel strongly about or if we have specific concerns about a company's strategy, performance, governance, compensation or approach to risks.

If the company is unresponsive or unable to address our concerns in a manner that helps to optimize long-term value, we may file a shareholder proposal or sell the security.

Please turn to the next page for examples of engagement activities Addenda conducted between July 2018 and June 2019.

Climate Change Stewardship Plan

In 2018 Addenda kicked off its 3-year **Climate Change Stewardship plan**. By directly engaging with companies, Addenda hopes to form a better understanding of how they manage the risks and opportunities presented by climate change and to promote a transition to a low-carbon, climate resilient society. Between July 2018 and June 2019 we engaged with 10 issuers as part of this stewardship plan.

In 2018 Addenda reached out to several portfolio companies to bring to their attention the Sustainability Accounting Standards Board (SASB) Standards. These industry-specific standards shed light on material risks and opportunities helping companies effectively manage metrics. Addenda hopes to see more companies report using the SASB Standards, which will allow us as investors to make better-informed investment decisions without going through multiple sustainability reports.

Sustainability Accounting Standards Board (SASB)

Board Diversity Stewardship Plan

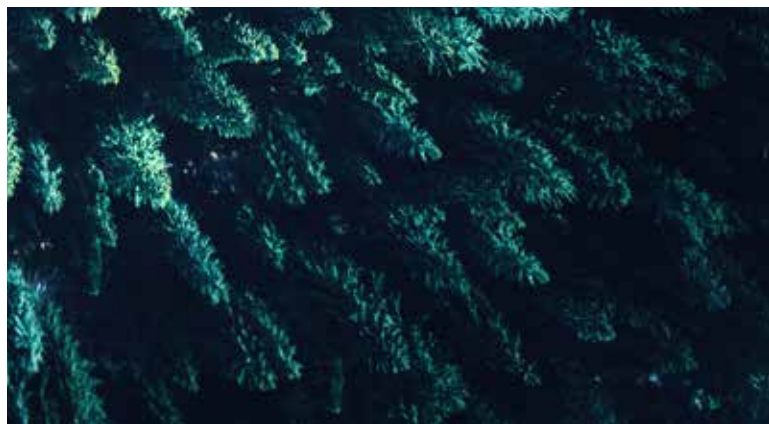
In 2018 Addenda completed Phase Two of its 3-year **Board Diversity Stewardship Plan**. In 2017, Addenda identified 35 companies across our equity portfolios with one or no women on their board and wrote emails to their Investor Relations teams asking about their board diversity policies or targets. In 2018, Addenda wrote to the Chairs of the Nominating Committees of those companies and any recently added portfolio companies with one or no women on their boards. In these letters, Addenda encouraged the companies to adopt formal board diversity policies and provided examples of best practices for board diversity target setting, board recruitment, and board renewal practices. By publishing standalone board diversity policies, those companies would allow investors such as Addenda to more effectively evaluate the corporate governance practices they are undertaking as they relate to board diversity.

More highlights of our company engagements can be found in our [quarterly sustainable investing reports](#).



Conclusion

Our stewardship activities, including casting votes and engaging with companies, allows us to actively protect and enhance the long-term interests of our clients and other stakeholders.



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