

AIMCO ENGAGEMENT GUIDELINES

AIMCo invests funds on behalf of public sector clients within the province of Alberta. Engagement with investee firms is intended to positively impact investee firms' environmental, social and/or corporate governance (ESG) processes in order to protect and enhance long term, risk-adjusted investment returns for AIMCo clients. These guidelines outline potential engagement choices, processes, and escalation strategies. AIMCo generally prefers to engage with a firm rather than divest, that is to exercise 'voice over exit,' so as not to reduce the investible universe, and to contribute to firms' progress. Engagement is intended to be both proactive and reactive, as deemed appropriate.

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

Figure A. Engagement Process



1.0 Approach and Desired Outcomes

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

1.1 Approaches:

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

2.0 Priority Issues for Engagement

The Responsible Investment (RI) Committee will regularly identify priority ESG issues for engagement (at least annually.) Pro-active engagement is initiated internally, and may seek to showcase firms' displaying best ESG practices, request firms to more fully disclose their ESG practices, etc. Reactive engagement is pursued in response to reports of adverse ESG practices or to third party requests for engagement.

3.0 Criteria for Engagement

- **ESG Issues:** Firms displaying problematic, undisclosed, or particularly robust ESG practices may be selected for engagement on a case- by- case basis.
- **Materiality:** a) Ownership as a percent of AIMCo assets under management (AUM.) b) Market capitalization: percent of the issuer owned, size in market, or absolute dollars.
- **Regulatory Non-Compliance:** Compliance with existing, new or upcoming regulations.
- **Return on Investment (ROI):** Preservation and enhancement of risk -adjusted returns and long-term shareholder or equity value.
- **Probability of success or influence:** Likelihood of success and/or possible influence of co-investors and public opinion
- **Costs of Engagement:** Transaction costs and/or the availability of AIMCo resources to initiate and monitor the engagement.
- **Holding Period:** Expected turnover influences the potential efficacy of the engagement process.

4.0 Identify Firms for Engagement

The portfolio manager, RI manager, proxy voting manager(s) or members of the RI committee will identify the firms for engagement after considering the issues and the above criteria.

5.0 Review Third Party Requests

AIMCo receives third party engagement requests from peers, co-investors and signatory organizations. AIMCo will review third party requests for engagement against its list of pre- selected issues, criteria, and firms before making decisions to engage collaboratively.

6.0 Identify and Implement Engagement Strategy

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

Forms of Engagement:

- In-person meetings, telephone calls and written communications with company officials.
- Written communication by AIMCo individually or in collaboration with peers or member organizations.
- Voting at the shareholder meetings of publicly owned assets around the world in accordance with the AIMCo Proxy Voting Guidelines. The voting process further allows AIMCo to:
 - Voice discontent or approval by instructing votes for/against directors and committees/chairs of committees, and for/against shareholder proposals and other routine/non-routine ballot items, or by initiating proposals.
 - Publicly disclose voting rationale.
- Advocacy: Raise issues with various levels of government, regulatory bodies or industry associations where AIMCo perceives a need for reforms to improve shareholder rights or firms' ESG practices, as deemed appropriate.
- Request the firm halt the identified business activity or relationship that causes it to join the AIMCo exclusions list, or prepare to divest AIMCo holdings, i.e. disengagement. (See Section 8.1 for AIMCo exclusions.)

7.0 Engagement Outcomes and Responses

Outcomes and possible AIMCo responses include:

POSITIVE OUTCOME:

- Gain corporate commitment to beneficial change (ex. ESG disclosure.) *Response:* AIMCo may consider withdrawing relevant shareholder proposals and/or formal requests for change if issues under consideration are adequately addressed. AIMCo will continue to monitor the investee firm's implementation of its commitments.
- Firm halts the offending activity or relationship which causes them to join the AIMCo exclusions list. *Response:* Notify external and internal investment managers that the firm in question is now re-admissible to the investment universe.

STATUS QUO OUTCOME:

- No commitment to the beneficial change as requested by AIMCo. *Response:* Continue engagement by other means, directly with the company, collaboratively with co-investors, or more public disclosure, such as media statement(s)

NEGATIVE OUTCOME:

- Entrenchment or deterioration of the original circumstances leading to the engagement. *Response:* Continue engagement by other means, directly with the company or indirectly with co-investors, via public disclosure, escalation, divestment, or add to exclusions list if warranted.