

Investing in Your World

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CORPORATE ENGAGEMENT PROGRAM – STATUS REPORT



In 2013, for the fourth consecutive year, the Desjardins Environment Fund (DEF) engaged in dialogues with companies selected based on recommendations from our partner NEI Investments and the Environment Advisory Group. DEF's Corporate Engagement Program targeted 14 companies. The objective of the Engagement Program is to engage in dialogues with certain companies whose securities are held in the DEF to encourage them to adopt better environmental practices.

The dialogue with these companies is progressive, often extending over several years. This year, in partnership with NEI Investments, we have made progress on a number of previously initiated projects. The dialogues are held as part of our Corporate Engagement Program, but are independent of the manager's financial management of the fund. Accordingly, the manager may decide to sell the securities of a company targeted by dialogues, which occurred in certain cases in 2013. If the security is no longer in our holdings, we suspend dialogue. The table below presents all the actions taken this year, whether or not the security in question was held in the DEF as at September 30, 2013.

ENERGY

Status	Company	Themes	Activity
↗	Cenovus	<ul style="list-style-type: none"> Oil sands Innovation Reasonable compensation linked to ESG* performance 	<p>In November 2012 NEI met with Cenovus management to discuss the company's executive compensation framework. They discussed the need for greater detail on the metrics used to measure environmental and safety performance, and on how this performance impacted executive pay. NEI also called for explicit links between innovation performance and executive compensation. The company indicated that this input would be used to inform the decisions of the compensation committee.</p> <p>NEI participated in the Cenovus stakeholder panel in October 2012 and asked the company to take a stronger leadership position on climate change, industry innovation, and cumulative impacts management policy.</p> <p>NEI met with Cenovus' Chief Executive Officer in January 2013 to express its support for the company's focus on innovation and environmental improvements. Cenovus stated that it is working towards a step change in in situ extraction technology that should have positive impact on water use and greenhouse gas (GHG) emissions in future.</p> <p>NEI wrote to the company in May 2013, asking it to support progressive changes to Alberta's climate change policy.</p> <p>NEI wrote to the CEO in May 2013, asking Cenovus to actively support the implementation of a significant price on carbon in Canada. NEI met with the company to discuss the potential market access benefits of this policy approach.</p> <p>The dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>
↘	Enbridge	<ul style="list-style-type: none"> Aboriginal opposition to Northern Gateway project Pipeline safety Reasonable compensation linked to ESG* performance 	<p>In Fall 2012 NEI communicated to the Enbridge board our desire to see compensation linked more explicitly to ESG performance. The company has indicated that environmental and safety performance will have more influence on executive pay in future. While NEI has encouraged the company to better explain how ESG performance is measured and to increase its influence on CEO pay, Enbridge now has sector-leading linkage between safety and environmental performance and pay.</p> <p>In November 2012 Desjardins Funds and NEI representatives met with the Enbridge board, including the CEO, to discuss their concerns over First Nations opposition to the Northern Gateway Pipeline project. This followed a meeting with the same representatives and members of senior management in September 2012. NEI's message to the company and board was that it will not be possible for Gateway to progress in the face of significant opposition from First Nations communities, and that the company should state that it will not proceed with the project if it cannot gain consent. The board indicated that, while it understood the level of opposition to the project, it did not agree and considers that the company's management can still obtain the support it needs to move forward, if the joint panel deems it appropriate upon completing its review, of course. We believe the company could face significant legal, operational and reputational risks, and that there is no further scope for dialogue on this topic at present. The stock was therefore divested by NEI.</p> <p>Desjardins Funds met with the company in May 2013 to discuss pipeline safety issues. We discussed the company's efforts to develop stronger pipeline safety management systems in response to the findings from the company's Michigan spill in 2010. Enbridge has dedicated significant resources to pipeline integrity management and is implementing stricter safety protocols across the company. The company is also actively working to create a stronger culture of safety. We will be meeting with company representatives later this year to discuss pipeline safety performance trends and the Line 9 pipeline reversal project.</p>



Status	Company	Themes	Activity
➔	Encana	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC Reasonable compensation linked to ESG* performance 	<p>NEI met with Encana in October 2012 to discuss the company's executive compensation framework, highlighting its concerns about the linkage between ESG performance and compensation. The company has improved its disclosure on this linkage and has incorporated several of our previous suggestions, including detailing the impact that ESG performance has on final pay. As a result NEI was able to note that only 3% of the CEO's bonus was explicitly linked to ESG performance. NEI also asked the company to provide better disclosure on how performance is evaluated and to increase the extent to which the long-term incentive plan is linked to performance.</p> <p>NEI met with the company in November 2012 to discuss its plans for increased disclosure on fracking practices and incorporation of best practices to mitigate the risks of fracking. NEI also raised the need for a regional strategic environmental assessment in north-east BC. The company expressed interest in further dialogue on the topic and NEI will be following up on this issue in 2013.</p> <p>NEI met with the company's senior executives in January 2013 to express support for Encana's efforts to mitigate its environmental impacts, and to learn how it encourages innovation. The company appears to have a robust framework for innovation that acknowledges the need to allow for failure. Its representatives confirmed that water was one of its key focus areas.</p> <p>NEI wrote to Encana's interim CEO in May 2013, asking the company to actively support the implementation of a significant price on carbon in Canada. The company has agreed to meet with NEI to discuss this request.</p> <p>Based on the disclosure in the 2013 proxy circular, NEI wrote to the board once again to express its perspective on the Encana executive compensation package, in part because of inadequate linkage between pay and ESG performance.</p>
➔	Suncor	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC Reasonable compensation linked to ESG* performance 	<p>NEI has observed improvement in the linkage of compensation to ESG performance in the Suncor proxy circular. Disclosure now includes specific indicators and reveals the percentage of pay that depends on environmental performance. But Suncor still does not disclose the targets against which performance was judged. NEI has been engaging the compensation committee on this issue and expected to see further improvements in the 2013 proxy circular.</p> <p>In October 2012 NEI met with the company to discuss its caribou management plans; the impacts of the proposed Fort Hills project on important wetland ecosystems; and to convey its concerns about the use of end-pit lakes in the company's reclamation plan. NEI will be following up on these issues in 2013.</p> <p>In November 2012 NEI provided feedback to the company on its sustainability reporting, and among other things called for more detail on the company's efforts to influence government policy on issues such as climate change, land use planning and wetlands management.</p> <p>In April 2013 NEI provided feedback to the company on its sustainability disclosure strategy, encouraging Suncor to increase disclosure on lobbying activities and submissions to government consultations.</p> <p>In May 2013 NEI wrote to Suncor's CEO, asking the company to actively support the implementation of a significant price on carbon in Canada. In its response, the company agreed with our premise that Canada requires a price on carbon in order to stimulate innovation and drive efficiency. NEI will meet with Suncor to discuss this issue in more detail.</p> <p>Based on the disclosure in the 2013 proxy circular, NEI concluded that the company has adopted several suggestions raised in earlier dialogue on executive compensation. NEI wrote to the board in July 2013 to express support for the implementation of these changes.</p>



Status	Company	Themes	Activity
➔	Talisman	<ul style="list-style-type: none"> Hydraulic fracturing Gas development in Northern BC Reasonable compensation linked to ESG* performance 	<p>Talisman has an industry-leading policy that incorporates the principle of free, prior and informed consent (FPIC). NEI is seeking to understand how this policy is being implemented both internationally and in Canada. In 2012 NEI met with a delegation of Achuar from Peru to hear their perspective on the implementation of Talisman's FPIC policy. The company subsequently announced its intention to leave Peru based on economic considerations.</p> <p>While Talisman has industry-leading transparency on the link between ESG performance and executive compensation, other aspects of the executive compensation framework are less convincing, including the use of discretion and claw-back. The chair of the compensation committee indicated that Talisman would seek to improve disclosure on use of discretion and that it is monitoring developments on claw-back policies.</p> <p>NEI also met with Talisman in November 2012 to discuss its operations in north-east BC. The company has developed a set of shale gas operating principles and NEI has encouraged it to disclose how it is following these principles in the region. NEI also raised the need for a regional strategic environmental assessment in north-east BC. The company expressed interest in further dialogue on the topic and NEI will be following up on this issue in 2013.</p> <p>In January 2013 NEI met with Talisman senior executives, urging the company to continue to prioritize CSR efforts as it seeks to reduce its workforce. Company representatives stated that there were no plans to scale back the CSR department and continued to see ESG performance as a critical aspect of its business. NEI was also assured that the company continues to implement the FPIC policy in its Colombian operations, and that it had decided not to operate in the one portion of the lease where it did not have FPIC.</p> <p>In May 2013 NEI wrote to Talisman's CEO, asking the company to actively support the implementation of a significant price on carbon in Canada. NEI will meet with the company to discuss this request in more detail.</p> <p>Based on the disclosure in the 2013 proxy circular, NEI wrote to the board in July 2013 to express its concerns about the executive compensation package, partly because of the excessive severance package awarded to the departing CEO.</p>



MINING

Status	Company	Themes	Activity
➔	Goldcorp	<ul style="list-style-type: none"> Free, prior and informed consent (FPIC) of indigenous peoples Water risk management Sustainable mine closure 	<p>In previous years NEI has engaged Goldcorp on various environmental and social topics. NEI is continuing this dialogue and expanding it to encompass sustainable mine closure.</p> <p>In February 2013, NEI met with the compensation committee of the board to discuss its concerns, and urged the company to enhance disclosure on the linkage of compensation to ESG performance. The committee was receptive to the input, clarified how sustainability is taken into account in compensation decisions, and indicated that safety indicators will be integrated in future. NEI suggested that the committee should consider including further key ESG metrics that are already being disclosed in its sustainability reporting.</p> <p>NEI met with Goldcorp representatives in April 2013 for a wide-ranging discussion on corporate responsibility issues at Central and South American mine sites. Topics included water risk management at Cerro Blanco; potential to operationalize the concept of FPIC; and implementation of the World Gold Council's Conflict-Free Gold Standard. NEI encouraged the company to conduct a follow-up on the 2010 Marlin human rights impact assessment, and to consider adopting the principles of the United Nations Declaration on Human Rights Defenders.</p> <p>The dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>
➔	Potash Corporation	<ul style="list-style-type: none"> Water risk management Sustainable mine closure 	<p>In previous years NEI has engaged Potash Corporation on water and human rights. NEI's intention is to continue this dialogue and encourage greater disclosure on these topics and on its mine closure programs.</p> <p>NEI had discussions with Potash company representatives twice in March 2013 on mine closure practices and water strategy. The company's approach to mine closure is well structured. Its water programs are also well developed at the site level.</p> <p>In 2012, NEI had urged the company to address risks relating to its sourcing relationship with OCP in the disputed territory of Western Sahara. In April 2013, Potash released a statement, outlining its understanding of the legality of sourcing from the region, and its own initiatives and those of its suppliers to provide benefits to Saharawi people. Based on this disclosure, the company appears to be making efforts to mitigate potential human rights impacts.</p> <p>The dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>
➔	Yamana Gold	<ul style="list-style-type: none"> Free, prior and informed consent (FPIC) of indigenous peoples Reasonable compensation linked to ESG* performance 	<p>NEI met with Yamana Gold representatives in January 2013 to discuss mine safety and the company's efforts to maintain social license, including the potential challenges arising from its operations in Latin America. Company representatives were receptive to our concerns, and outlined its efforts to find opportunity in these challenges through hiring and procurement practices that benefit local people, outreach to the community, and leadership philosophy.</p> <p>There is an explicit link between executive compensation and mine safety performance.</p> <p>The dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>



INDUSTRIALS

Status	Company	Themes	Activity
➔	Bombardier	<ul style="list-style-type: none"> • Water risk management • Conflict minerals 	<p>At the request of Bombardier, NEI participated in the company's stakeholder consultation in November 2012. NEI took this opportunity to highlight the importance of human rights due diligence, compliance with new conflict minerals regulations, board diversity and executive compensation.</p> <p>In November 2012 NEI wrote to the board, encouraging the company to incorporate specific mechanisms and metrics linking compensation to ESG performance and to disclose this in the proxy circular. The chair of the compensation committee responded indicating that the company would try to incorporate non-financial metrics into its compensation plans. Based on the disclosure in the 2013 proxy circular, while there is room for improvement, Bombardier has adopted several compensation best practices.</p> <p>The company has adopted a number of suggestions raised in earlier dialogue. Its latest sustainability report, published in May 2013, provided enhanced disclosure responding to issues raised during the stakeholder consultation, including more information on supply chain management, water use and anti-corruption efforts. The company has also published a new human rights statement.</p> <p>In May 2013 NEI met with the company to discuss its efforts to identify and address conflict minerals in the electronic components supply chain, and its preparedness to respond to emerging regulations on this issue. NEI also discussed the company's exposure to water risk, which appears to be relatively low.</p>

CONSUMER

Status	Company	Themes	Activity
➔	Canadian Tire	<ul style="list-style-type: none"> Supply chain management 	<p>Following the Rana Plaza factory building disaster in April 2013, NEI wrote to the company, encouraging Canadian Tire and its subsidiaries, Mark's and FGL Sports, to sign the Accord on Fire and Building Safety in Bangladesh, a multi-stakeholder agreement to promote safer factory buildings. NEI will meet with the company shortly to discuss supply chain compliance issues, particularly in the context of sourcing from Bangladesh.</p>
↗	Magna International	<ul style="list-style-type: none"> Water risk management Conflict minerals Enhanced ESG* disclosure 	<p>In March 2013, NEI wrote to the company to outline its concerns with respect to ESG disclosure, supply chain management and water risk.</p> <p>In June 2013, NEI met with the company to discuss the issue of conflict minerals in the supply chain, water risk management and ESG disclosure.</p> <p>The company appears to be better prepared to deal with potential requirements arising from U.S. conflict minerals legislation than its reporting up to now might suggest. NEI also discussed the company's efforts to reduce water usage in its paint division. NEI shared its investor perspective on ESG disclosure opportunities and needs.</p> <p>NEI wrote to the board in July 2013 to express its concerns about the executive compensation package, particularly the absence of performance metrics.</p>
↗	Metro	<ul style="list-style-type: none"> Supply chain management 	<p>In February 2013, NEI met with Metro to discuss the company's approach to sustainability. The company has made significant progress since the last meeting in 2010. It has disclosed a sustainability roadmap and published its first CSR report in 2012. Metro's priorities include enhancement of its responsible sourcing policies, including the question of palm oil in the supply chain, as well as exploring packaging optimization opportunities. As Metro's supply chain management program develops, NEI will be encouraging the company to disclose more on its policies and verification activities.</p> <p>NEI emphasized the importance of reporting annually on key ESG issues instead of every two years, to ensure investors have up-to-date and comparable information.</p> <p>NEI wrote to the board in July 2013 to express its concerns about the executive compensation package, particularly the absence of performance metrics.</p>
➔	Quebecor	<ul style="list-style-type: none"> Forest risk management 	<p>This was a new addition to the engagement program. NEI had planned to discuss the company's policy on use of paper from sustainably-managed forests, but the dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>
➔	Tim Hortons	<ul style="list-style-type: none"> Supply chain management Water risk management Forest risk management 	<p>In 2012 NEI engaged Tim Hortons on disclosure and management of forest risks associated with commodities in the supply chain. NEI had planned to follow up with the company in 2013 to learn more about its exposure to palm oil and soy, as well as exploring its exposure to water risk, but the dialogue was paused when the Ethical Funds portfolio manager sold the holding.</p>

