QV INVESTORS

2024 Responsible Investing Update

ENHANCING PERSPECTIVES & DECISION-MAKING

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Introduction

We are pleased to share our fourth Annual Responsible Investing (RI) Update.

Responsible investors may have varying objectives. In our view, ESG-related risks are business risks. Understanding exposures to material ESG factors and how they relate to corporate strategy are fundamental considerations over the long term. Our fully integrated approach to RI complements our bottom-up analysis and contributes to more informed decision-making.

We continue to build on our efforts, with the key objective of supporting strong risk-adjusted returns for clients.

Highlights from the past year include:

- Continued utilization of our proprietary ESG scorecard, with ongoing evaluations providing further context on companies' positioning and progress
- Maintaining our fully independent proxy voting efforts
- Strengthening relationships and promoting continuous improvement through ongoing company engagements
- Completing our third iteration of reporting under the Principles for Responsible Investment (PRI) framework
- Renewed membership in the Canadian Coalition for Good Governance (CCGG)

Continue reading for more information about our RI activities in 2024.

"An assessment of ESG factors provides important context as we evaluate opportunities for long-term value creation."

— Mathew Hermary, Chief Investment Officer

Our Approach

Fully Integrated

Our comprehensive investment process includes an assessment of strategically material environmental, social & governance (ESG) factors. We integrate these considerations to inform our decision-making and support strong risk-adjusted returns for clients.

Every member of our investment team is tasked with considering ESG risks and opportunities. We do not have a dedicated individual focused exclusively on ESG factors, as we believe better investment outcomes can be achieved when the same people are evaluating all risks and opportunities in context.

Our philosophy and process are consistent across the firm. None of our products are explicitly branded as ESG strategies. We feel active ownership and prudent consideration of ESG factors are key components of any strategy seeking to invest in enduring businesses over the long term.

We don’t use ESG factors in isolation to select or exclude assets. We use a bottom-up approach to evaluate material issues and their impact on a specific investment case. While companies in high-risk and/or controversial industries are not explicitly excluded from consideration on a policy basis, these types of companies are less likely to meet our investment criteria.

We strive to be active long-term owners. We express views on ESG issues and promote continuous improvement through our proxy voting and engagement efforts, which are carried out by our investment teams directly.

Oversight

Our RI Committee coordinates efforts across the investment team. The Committee meets periodically to collaborate on initiatives, identify areas of focus and discuss topics of relevance. The RI Committee reports directly to our Board of Directors, which helps set priorities and oversee initiatives.

For more information about our approach to RI, please refer to our RI Policy (available at https://qvinvestors.com/responsible-investing/).

Board of Directors (Oversight)

RI Committee (Coordination)

Investment Team (Implementation)

Integration
- Proprietary scorecard
- Assess risks & opportunities
- Implications inform overall view

Active Ownership
- Independent proxy voting
- Flexible engagement
- Promote continuous improvement

Commitment
- PRI signatory
- Member of Canadian Coalition of Good Governance
- Accountability

Communication
- Report to stakeholders
- Review progress
- Establish and convey objectives

Integration

We believe good stewardship of ESG risks and opportunities strengthens a business franchise over time, often bolstering an investment thesis. Our ESG assessment is not siloed as a separate consideration but rather informs our long-standing investment process.

True to our investment philosophy, we employ a bottom-up approach to ESG assessments. Our investment process begins with company-level analysis, where we seek to uncover quality franchises trading at attractive valuation levels. We identify companies' exposure to ESG risks and opportunities at this stage, recognizing that today's high-quality businesses aren't immune to current and emerging ESG factors.

Our ESG Scorecard

We use our proprietary ESG scorecard to identify and monitor material ESG factors unique to each investment. We consider how companies manage risks or benefit from opportunities, where improvements are needed, and potential impacts on financial performance. We prioritize our analysis in areas of high materiality, with the overarching goal of understanding how significant ESG factors may impact risk-adjusted returns over time.

While we may use third-party research to bolster our independent analysis, we do not rely on external ESG ratings in our process.

Our ESG analysis and its outcomes are not formulaic. Often more qualitative than quantitative, summary conclusions from our scorecards provide clarity in areas that may be relevant to our long-term investment theses. The identification of ESG risks and opportunities may positively or negatively impact our evaluation of a franchise, including our expectations around its long-term outlook and valuation. These judgements help inform our overall view of a company within the context of our long-standing security selection criteria and may ultimately impact portfolio construction decisions. The process also sparks thoughtful and deliberate discussions, internally and with companies directly, about strategic priorities, risk exposures and opportunities for improvement. Our engagement efforts are discussed in more detail later in this report.

Scorecard Objectives:

Inform overall assessment.

Consider potential impacts on financial performance.

Identify opportunities for engagement.

Inside the Funds

Opportunity in Cybersecurity

Breaches in cybersecurity can result in significant financial implications for businesses – from direct costs such as fines, legal fees and costs associated with recovery, to indirect costs such as reputational damage and loss of customer trust. Strong cybersecurity practices and appropriate investment in protections have therefore become table stakes for most businesses. For **Calian Group** (a QV Canadian Small Cap holding), increased risks and evolving privacy and data protection needs spell opportunity. Via acquisitions and multi-year research collaborations with universities, this technology & business services provider continues to enhance its cybersecurity offering to both domestic and international customers. While ESG factors are often discussed in terms of risk, it's a strong example of an ESG opportunity supporting the franchise of this high quality, highly cash-generative business.

>>Impact: Positive for franchise outlook

Ongoing Risk Assessment

TD Bank (a QV Canadian Equity holding) has been in the news for failing to prevent money laundering within its U.S. operations. This has been disappointing to us and the market, particularly as TD appears to be the only bank to find itself in this situation.

Within our ESG assessment, we identified the business risks of a negative anti-money laundering (AML) outcome throughout the year. It was our opinion that while a negative outcome would weigh on future growth prospects, it would likely leave current ongoing earnings undisturbed (adjusted for one-time fines). We were also cognizant that potential limits placed on TD's growth in the U.S. would likely not preclude all other areas of TD from growing organically. Lastly, we identified that TD's strong capital position should enable it to pay fines without materially harming its financial position or status. We continue to monitor what TD will do now, considering the asset cap penalty imposed on its US bank. In particular, we await more guidance on how it intends to redeploy capital given that its US division will not need as much capital as it had originally intended.

>>Impact: Contained near-term financial impact

Growth in AI a Headwind for Emissions Targets

We are witnessing exponential growth in data center and artificial intelligence (AI)-related investments within the broader technology sector. The rapid build-out of cloud computing infrastructure and AI-enabled computing hardware has important ESG implications, particularly for previously communicated greenhouse gas (GHG) reduction targets given the relatively high energy intensity of these technologies. Investor concerns have also emerged around the possible underreporting of data center GHG emissions, with actual emissions likely being several times greater than those officially reported in industry statistics. It is estimated that Scope 3 emissions (those produced elsewhere in the value chain) likely represent the majority of total GHG emissions for data centers, thus adding a layer of complexity (if not a headwind) for companies seeking to achieve meaningful GHG emission reductions. QV Global Equity strategy holdings **Amazon** and **Alphabet** have delivered mixed results with their respective GHG reduction initiatives against a backdrop of significant increases in data center and AI-related capital spending. Amazon has fared relatively well, reducing its overall carbon intensity for four consecutive years – with Scope 2 and Scope 3 emissions (79% of the company's total carbon footprint) falling in each of the past 2 years - while its own capital intensity has increased from 8% to 12%. The company maintains its goal of achieving net zero carbon emissions by 2040. Alphabet is also increasing its capital investments in data centers and in AI more broadly, while working to reduce its carbon footprint. However, recent results have been more challenging. Total GHG emissions in 2023 increased by 48% compared to the company's 2019 base year. Nonetheless, the company maintains its 2030 net zero emissions target, by seeking to reduce 50% of its combined Scope 1, 2 and 3 absolute GHG emissions and by investing in nature-based and technology-based carbon removal solutions to offset its remaining emissions.

>>Impact: No material impact on long-term investment thesis

Active Ownership

Through active ownership, we promote continuous improvement and communicate our expectations as long-term investors. We express our views on ESG issues through our proxy voting and engagement efforts, which are carried out by our investment teams directly.

Proxy Voting

Proxy voting is an important tool that allows us to voice our views on important governance matters, such as board composition and compensation practices. We aim to exercise our right to vote at every shareholder meeting held.

We independently review and evaluate all ballot items in-house, using the guiding principles and evaluation framework as outlined in our Proxy Voting Guidelines (available at https://qvinvestors.com/responsible-investing/). The structure of these guidelines shows that we prefer to consider a balance of factors rather than ascribe to strict and potentially arbitrary rules.

Our decision to invest in a company is generally an endorsement of management. In the absence of material concerns, we therefore generally vote alongside management for most routine matters. However, we may vote against management recommendations when our independent reviews identify a material concern, an opportunity for improved practices or when we believe doing so best serves the interests of long-term shareholders.

Proxy Voting:

Part of our fully integrated approach.	Independent, in-house assessments.	Express views and spark thoughtful discussions.

Shareholder Proposals

Shareholder proposals represent a relatively small percentage of overall ballot items but may serve as a useful mechanism for shareholders to request action on specific issues. The number of shareholder proposals has continued to increase over time. We've also noticed them becoming more specific, more demanding, and in some cases, less relevant to long-term fundamental value drivers. We consider all shareholder proposals on a case-by-case basis to acknowledge companies' current practices, risk exposures and progress trajectories. Even in cases where we support the underlying goal of the resolution, we may withhold support when we feel the proposal amounts to micromanaging or is too prescriptive in its ask.

We Generally Support	We Generally Do Not Support
✓ Requests for disclosure about a material ESG risk that the company has not yet provided	✗ Proposals regarding existing policies or disclosure with which we are satisfied
✓ Requests for better governance practices, such as separation of the Chair and CEO roles	✗ Issues that lack relevancy or materiality to our long-term investment case
✓ Requests deemed reasonable in scope and additive to overall ESG risk management practices	✗ Proposals that are impractical or overly prescriptive
✓ Plans to manage climate risk if we feel the company's current disclosures, targets or strategic plans are inadequate	✗ Proposals that duplicate or fail to acknowledge reasonable progress on the issue

2024 Proxy Themes

Governance proposals, particularly those involving shareholder rights, generally continued to receive strong support levels from investors. The topic of virtual AGMs (and whether or not they should be allowed to replace traditional in-person meetings) came up frequently this year. While the option to join shareholder meetings virtually may reduce costs and allow more shareholders to participate, opponents worry that virtual-only meetings give management teams the ability to be selective in the questions they choose to answer. Consistent with the voices of a majority of investors, we are supportive of a hybrid approach that provides a virtual option as a complement to traditional, in-person shareholder meetings.

The proliferation of AI reached proxy ballots this year in the form of proposals asking companies to disclose the ethical guidelines they are adopting and the role Boards will play in overseeing the use of AI technology.

In place of prescriptive (and historically less successful) proposals asking financial institutions to phase out lending to new fossil fuel projects, we saw a new type of proposal focused on clean energy financing ratios emerge. This disclosure would tell investors how much of a company's loan book is associated with low carbon energy versus fossil fuel energy.

The number of "anti-ESG" proposals, such as those seeking to roll back previously established targets, has also increased, albeit with minimal support. More broadly, summary data shows that support for environmental and social proposals has generally slipped. Proxy researchers suggest that this latter trend is due, in part, to investors increasingly taking a case-by-case approach to voting, reflecting QV's preferred approach.

2024 Voting Summary

We independently assessed and voted on over 2,200 proposals this year, including nearly 270 shareholder proposals.

As of October 31, 2024. we voted contrary to management recommendations on approximately 40 occasions. The majority of these cases were related to individual director elections and executive compensation. The most common reason we voted against certain directors can generally be summarized as matters relating to independence. We voted against compensation plans in instances of excessive pay, lack of disclosure and concern about the usage of one-time awards.

In 2024 we continued to support several shareholder proposals advocating for the eventual separation of the Chair and CEO roles. As a matter of good governance, this practice facilitates the board's effective oversight of company performance. In cases where one individual holds both positions, we assess the appropriateness of the combined role and its impact on board effectiveness.

We also supported shareholder proposals that would maintain virtual options as a complement to (rather than replacement of) traditional, in-person shareholder meetings.

Engagement

Engaging with investee companies is an integrated part of our investment process. Through regular dialogue, we believe our flexible approach lends itself to building long-term relationships and ultimately influencing ESG best practices. We acknowledge progress and promote continuous improvement for the benefit of all stakeholders.

We identify opportunities for engagement through our ongoing integration and proxy voting activities. ESG discussions may be conducted alongside other strategy and investment-related discussions or serve as the primary topic of conversation. We generally focus on company-specific issues. In prioritizing resources, we may consider factors such as the size of the holding and the materiality of the ESG issue to our long-term investment case.

We initiate conversations with companies, and they also seek out our feedback as long-term investors. Given our concentrated ownership positions and long-term focus, our viewpoints on these topics have historically been well-received and well-respected by management teams.
In addition to our regular discussions with companies, we will also engage directly with board members when appropriate.

A company's responsiveness to ESG concerns may materially impact our overall assessment for investment. Escalation of a material concern may include voting action, further engagement with the board, a reduction in exposure, or divestment.

Engagement Objectives:

Build long-term relationships.	Acknowledge progress.	Promote continuous improvement.

2024 Engagement Summary

We continued active discussions throughout 2023. True to our approach, topics ranged widely across areas of importance for specific businesses. We continue to encourage companies to adopt a continuous improvement mindset and to focus on both the medium and long term.

Examples of select recent engagements:

- **Winpak** continues to push to enhance its business, utilizing innovation, a customer focus and long-term view. The company is working to improve recycle-ready packaging options, increase its usage of recycled inputs, and create leading solutions to reduce spoilage and reduce packaging. Our discussions with the company reinforced the importance of being prepared for the future, while moving at the pace of customers and regulations, and ensuring economics for Winpak are preserved as it offers incremental value to partners and stakeholders.

- **Leon's Furniture** is a business with significant family/insider ownership. Our discussions have centered around board composition and evolution, while respecting the high degree of ownership alignment and long-term expertise among the company's leaders. The Board's action to bring in a non-family executive over the last couple years signals a receptivity to outside experience and perspective, and is perhaps a trend to anticipate over the long term.

- In discussions with Board representatives of **iA Financial**, we learned more about the approach it takes in overseeing the company's capital deployment decisions. We also talked about the merits and downsides of virtual-only AGMs versus hybrid AGMs. We expressed our opinion, which is consistent with that of the Canadian Coalition for Good Governance, that virtual-only shareholder meetings may limit shareholder voices and adversely impact the ability of shareholders to exercise their rights and express themselves to the company directly.

- We continued regular dialogue with some of our largest holdings, generally centered on governance topics.
- We continued ongoing discussions with companies around long-term emissions targets, investments needed to achieve those goals, and expected rates of progress over the medium and long term.

As further discussed below, we continued to support additional engagement efforts indirectly through our membership in the Canadian Coalition for Good Governance.

Commitment

Principles for Responsible Investment

We have been a signatory to the Principles for Responsible Investment (PRI) since 2021. These voluntary and aspirational principles formalize our commitment to the ongoing advancement of our ESG activities.

We report and receive feedback on our ESG activities annually. We use this process to assess ways to improve our policies and disclosures each year. Further details on the PRI can be found at www.unpri.org.

Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will report on our activities and progress towards implementing the principles.

Canadian Coalition for Good Governance

We have been a member of the Canadian Coalition for Good Governance (CCGG) since 2018. CCGG represents the collective voice of its Canadian institutional members (representing a total of $6 trillion in assets) as it promotes good governance practices at Canadian public companies.

Our membership extends our impact and amplifies our internal engagement efforts.

We continue to publicly endorse CCGG's Stewardship Principles, further formalizing our commitment to being active and effective stewards of our investments.

CCGG's Stewardship Principles

1. Develop an approach to stewardship.
2. Monitor companies.
3. Report on voting activities.
4. Engage with companies.
5. Collaborate with other institutional investors.
6. Work with policy makers.
7. Focus on long-term sustainable value.

Communication

This report is part of our commitment to communicate regularly with stakeholders. Within our well-established investment process, we continue to build upon the RI initiatives that have helped to better define risks and opportunities within our funds. These efforts support our ultimate objective of building resilient portfolios that will provide strong risk-adjusted returns for our clients.

As regulatory requirements and investor priorities evolve, ESG remains a relevant lens through which long-term investment opportunities must be considered. As we strive to provide excellence in investment management and client service, we will continue to build on these efforts in the periods ahead.

For more information on our approach to RI, please visit https://qvinvestors.com/investing/esg.

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