

## Sustainable Investing and Impact Investing

### Co-operators Investment Limited Partnership - Investment Policy (excerpt)

The Co-operators recognizes that our business, our communities, and the whole global economy exists within the closed system of the earth, which provides unique and irreplaceable resources and support for all forms of life. We also recognize that the capacity of the earth, to continue to provide these resources and supports, is threatened by growing demand and by the degradation of natural and social systems, including the climate. This policy underscores our desire to temper our economic goals with consideration for the environment and the well-being of society.

The Co-operators has a fiduciary responsibility to its policy holders to preserve the value of its assets in order to pay claims. As a regulated entity, we have the obligation to follow the rules of prudence established by the governing law. As an ongoing business entity, we have an obligation to our shareholders, employees, and partners to remain financially sound.

In order to help The Co-operators, meet its business objectives and achieve its vision of being a catalyst for a sustainable society, we will undertake various approaches to sustainable investing, including impact investing and investing in the climate transition. Implementation of these investing approaches largely rests with our investment manager, Addenda.

We will report on our sustainable investing and impact investing activities to our stakeholders at least annually. Public reporting will include voting and engagement activities and applicable policies will be publicly available.

#### Sustainable Investing

Sustainable investing is a suite of investment approaches that aim to enhance value for both investors and society. One of the approaches is to integrate environmental, social and governance ("ESG") considerations in investment activities with the objective of enhancing long-term investment performance. Our approach to sustainable investing is consistent with the framework provided by the United Nations-supported Principles for Responsible Investment ("PRI"). Therefore, where consistent with our fiduciary responsibilities and based on the principles of the PRI, we commit to the following:

- 1) Identify the ESG issues that could have a material impact on investment performance and incorporate their consideration into investment analysis and decision-making.
- 2) Monitor the ESG practices of the entities in which we invest, exercise our voting rights and engage in a dialogue with the entities in which we invest in accordance with our *Proxy Voting and Engagement Policy*.
- 3) Promote acceptance and implementation of sustainable investing and support regulatory or policy initiatives that would enable sustainable investment practices.

- 4) Collaborate with other investors to promote and enhance sustainable investing practices.

### **Impact Investing**

Impact investing is an investment approach that intentionally seeks to create both financial return and positive social and/or environmental impact that should be actively measured and reported.

Each impact investment will have more than one purpose or objective:

- generate a market rate of financial return and avoid undue risk of loss; and
- generate positive social and/or environmental impacts.

At least one positive environmental or social impact should be measured and reported for each impact investment on a regular basis. Positive impacts should be measured as outcomes or outputs using generally accepted performance metrics.

Three to five impact investing themes will be established that are aligned with The Co-operators' Mission, Vision, Statement of Values and corporate strategy. Within each theme specific focus areas and impact criteria will be defined by Addenda's Sustainable Investing team.

Impact investments may be outside of the defined themes provided that impact outcome metrics can be measured, and that the investment is aligned to Mission, Vision, Statement of Values and Corporate strategy.

Investment instruments offered by co-operatives that could further strengthen the co-operative movement in Canada will be considered for impact investments.

Impact investments will be globally focused with a preference for Canada.

### **Climate Transition Investing**

The Co-operators defines climate transition investments as investments in entities that support the transition to a sustainable, resilient, low-emissions society. Addenda's approach to climate transition investing is to employ a set of criteria, increasing in stringency every two years, to limit the investment universe to firms that demonstrate evidence that they are appropriately managing climate risk.

### **Combined Target**

The Co-operators has established the following targets for its investments:

- Invest 50% of the organization's invested assets in either impact or climate transition investments by 2026, and
- increase that proportion to 60% by 2030.

### **Net-Zero Commitment**

Acknowledging the societal imperative to manage climate risk, the science-based Paris Agreement, and Canada's commitment to be net-zero by 2050, The Co-operators has set the target that its investment portfolio will be net-zero with respect to greenhouse gas emissions (scopes 1-3 emissions) by no later than 2050. As an interim target, by 2026 The Co-operators will reduce the carbon footprint (tonnes CO<sub>2</sub>e / \$M invested) of its public equities and publicly traded corporate

bond portfolios by 20% from a baseline 2019. The Co-operators will set new interim targets set every 4 years in line with the organization's strategic planning cycle.

## **Ethical Investing**

Excluding industries or companies from investment or taking other actions for ethical reasons should be based on a sound ethical decision-making framework and process. Our ethical investment decision making process is:

- 1) President & Chief Executive Officer receives expression of concern from members of The Co-operators community (defined as the Board, Senior Management, staff, advisors or customers). The expression of concern must document a case for action that is consistent with The Co-operators fiduciary duties and demonstrate some support from at least two constituency groups of The Co-operators community.
- 2) Upon validating the expression of concern meets the above requirements, the President & Chief Executive Officer in conjunction with the Senior Management Team appoints the chair and members of a temporary Committee on Ethical Investing that normally include representatives from several constituency groups of The Co-operators community and Addenda Capital. The President & Chief Executive Officer will not be a member of the Committee.
- 3) The Committee on Ethical Investing will clarify the ethical issue (and confirm there is an ethical issue and not just a dispute about facts or concepts).
- 4) The Committee on Ethical Investing will consider alternative actions (which could include no action, shareholder engagement, divestiture, investment screens, or non-investment related approaches). Considerations should include:
  - a) Ethical
    - i. Who might be harmed or benefit from the action?
    - ii. Which action will produce the most good and do the least harm? (The Utilitarian Approach)
    - iii. Which action respects the rights of all who have a stake in the decision? (The Rights Approach)
    - iv. Which action treats people equally or proportionately? (The Justice Approach)
    - v. Which action serves the community as a whole, not just some members? (The Common Good Approach)
    - vi. Which action leads The Co-operators to act as the sort of organization it should be? (The Virtue Approach)
  - b) Practical
    - i. Is the action consistent with The Co-operators Mission and Vision?
    - ii. Is the action feasible? (for example, what resources would be required)
    - iii. How material is the action in the context of The Co-operators invested assets?
    - iv. Are there better alternative actions for The Co-operators to undertake to

achieve the same results?

- 5) The Committee on Ethical Investing will make a written recommendation to the Management Investment Committee, at which point it will be disbanded.
- 6) The Management Investment Committee will then refer the written recommendation, along with its own recommendation, if any, to the Risk and Compensation Committee of the Board, which will then refer the recommendations, along with its own recommendation, if any, to the Board for final decision.
- 7) The Management Investment Committee will act on the final decision within a reasonable amount of time, including updating relevant investment policies.
- 8) The Management Investment Committee will evaluate the outcome of the final decision and its effective implementation and make any further recommendations to the Risk and Compensation Committee of the Board as required and no less than every two years until the Management Investment Committee and the Risk and Compensation Committee of the Board agree such evaluations are no longer required.

### **Current Ethical Investing Actions**

The Co-operators will not invest in financial instruments issued by businesses that 1) manufacture tobacco products and 5% or more of their revenue comes from tobacco products; 2) manufacture controversial weapons, produce components for exclusive use in controversial weapons, or own a controlling interest in a company that manufactures controversial weapons or produces components for exclusive use in controversial weapons. Controversial weapons are those weapons prohibited under international humanitarian law, including chemical weapons, biological weapons, anti-personal mines, and cluster munition.