Canadian Equity Research

22 July 2020

ESG Investing

Canadian Equity Research

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Inside

An ESG Investing Roadmap

Navigating a new normal

The last five months have been unprecedented within the global capital markets, with historic volatility, a laser focus on the "COVID-19 economy" and myriad projections on how the world will look coming out of the pandemic. Many companies have been forced to rapidly adapt their business models to adjust to changing demand environments and new physical distancing requirements, and these changes have become the focus for many investors over the last few months. That said, prior to the COVID-19 pandemic, one of the most powerful trends within both Canadian and global capital markets was an increased focus on Environmental, Social, and Governance (ESG) practices. We believe this trend is poised to accelerate.

Numerous studies have demonstrated how firms that score highly on an ESG framework tend to provide stronger shareholder returns over the long term. This, in our view, is reflective of the long-term view employed by many leaders in the ESG space, and the ability of these leaders to identify both longer-term potential risks and opportunities for growth and efficiencies. The COVID-19 pandemic has provided a concrete example of why companies and investors have become more focused on longer-term risk mitigation, and on a company's ability to pivot its growth strategy based on a rapidly changing environment.

Leaders within the ESG space today have exhibited a shift from "reactive" to "proactive" ESG strategy implementation, and we expect the adoption of more formalized ESG practices to accelerate over the next decade.

Identifying key ESG themes on a sector-specific basis

Our Canadian Equity Research team has identified the ESG trends we believe are the most impactful for each individual market sector. Our goal is to provide investors with a framework of which ESG themes, metrics, and disclosure methods are most relevant within each sector. Our analysis has identified several common threads, with the "E" tending to be the most relevant topic of discussion. Carbon reduction remains a key universal trend, as do strong corporate governance practices. However, within each sector, there are unique themes and metrics that are of increasing focus for both investors and individual companies.

This report identifies key ESG themes along with our views on the best ways to consistently track or "score" an individual company's ESG performance. We recognize that, in many cases, tracking ESG performance is much more of a qualitative exercise than a quantitative one. However, we are confident that evaluating ESG performance has become, and will continue to be, a greater point of focus for much of the investing public.

We have also identified a select group of companies in each sector which we believe are leaders on the ESG front, and that given the growth of ESG-focused investors are likely to attract incremental capital over the near and long term.

We hope this report provides some useful perspectives for your investment decisions, and we welcome any feedback.

Canaccord Genuity
Capital Markets

Industry Update

Airlines and Aerospace

22 July 2020

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Company	Rating	Price	Target
Airlines			
AC-TSX	Buy	C$16.98	C$25.00
CHR-TSX	Buy	C$2.55	C$5.00
Private Equity			
EIF-TSX	Buy	C$26.72	C$35.00

Priced as of close of business 20 July 2020

Aerospace ESG themes

Key themes impacting the sector

Social: The aerospace industry faces a potential near-term challenge as airlines resume full-cabin bookings. We note a recent poll conducted by Leger and the Association for Canadian Studies found that 72% of Canadians surveyed were not comfortable flying if seated next to another passenger. It remains to be seen how quickly passenger uptake will resume and the extent to which it could create knock-on effects through to aerospace manufacturing and training services.

Environmental: The second, longer-term trend comes from the United Nations' CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) initiative. From 2021 to 2026 (and mandatory from 2027 onward), participating countries' airlines will buy carbon offsets for emissions produced above a specific baseline, which over the next three years will be based on 2019 emissions as opposed to the lower expected 2020 levels. Using 2019 as the baseline will provide some short-term relief to internationally focused airlines (CORSIA does not apply to domestic flights). However, as the industry has not traditionally been viewed as environmentally friendly, governments may face intensifying political pressure to implement more stringent carbon regulations or attach other ESG conditions to airlines and the broader aerospace sector, particularly on companies receiving taxpayer assistance.

How do we measure company performance?

We look to various airlines' ESG initiatives as they comply with or exceed measures undertaken by the International Air Transport Association (IATA) industry group, the UN, and other government initiatives and regulations. We believe investors are seeking out companies which surpass government regulations and industry best practices and offer a high degree of transparency on the progress of achieving their ESG goals in areas such as community involvement and fleet retirements.

Which companies are doing it best?

Social: Air Canada received the Best Airline Cabin Cleanliness in North America at the 2019 Skytrax World Airline Awards, and recently launched its CleanCare+ initiative to ensure cabin sanitation. In March, the company was named one of Canada's Best Diversity Employers for the fifth consecutive year, driven by its partnerships, including Indspire, which provides financial support for Indigenous students in an aviation-related program; a program with Jazz Aviation, operated by **Chorus Aviation**, to create a First Nations Technical Institute to help Aboriginal students become pilots; and Ready, Willing, and Able, which helps match candidates with intellectual disabilities on the Autism Spectrum Disorder with specific roles.

Exchange Income's airline operations include initiatives focused on First Nations groups: a pilot program with one community to fund a fish processing plant and discounted flight rates to southern markets; a chaperoned program which brings First Nations children to Winnipeg CFL and NHL games; and its Life in Flight pilot training program, which focuses on recruiting from First Nations communities.

Environment: Air Canada's Leave Less targets have endorsed industry-wide goals, including a 1.5% average improvement in fuel efficiency per year from 2009 to 2020, a cap on net aviation CO_2 emissions from 2020, and a 50% reduction in net aviation CO_2 emissions by 2050 relative to 2005 levels. The company has also recently accelerated the retirement of 79 older aircraft, reducing its carbon footprint. Air Canada and Jazz are both participants in CORSIA.

Governance: Air Canada's board of directors is 91% independent, with women holding four of 12 seats and a third of executive committee positions.

Canaccord Genuity Capital Markets

Industry Update

Cannabis

22 July 2020

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Company	Rating	Price	Target
Cannabis			
CCHW-NEO	Spec Buy	C$3.73	C$13.00
CL-CSE	Spec Buy	C$6.70	C$11.50
CURA-CSE	Spec Buy	C$9.51	C$15.00
GTII-CSE	Spec Buy	C$15.60	C$22.00

Priced as of close of business 20 July 2020

Canaccord Genuity Corp. acted as financial advisor to Tryke Companies for its proposed sale to Cresco Labs.

Canaccord Genuity Corp. acted as financial advisor to Grassroots and provided a fairness opinion to the Board of Directors of Grassroots in its proposed acquisition by Curaleaf Holdings Inc.

Cannabis ESG themes

Key themes impacting the sector

In a sector that is still in a very nascent stage of its growth curve, the cannabis industry has experienced its fair share of opportunities and challenges. Although ESG considerations are typically not at the forefront of many of our discussions with investors, we believe a number of important themes are starting to emerge, including:

- **Community relations and support of social/criminal justice reforms.** Due to the historical disparity in the implementation of strict laws for cannabis possession/distribution among different social/racial groups in the US, regulators are increasingly calling for reforms as markets become legalized. In addition to expunging criminal records, many markets have earmarked license grants to groups that have been disproportionally impacted by this issue. As a result, a number of companies have begun providing assistance and advisory services to members of groups that do not have the financial resources or legal expertise common to most public companies, in order to ensure these groups are also able to participate in the benefits brought on by cannabis legalization. As maintaining a good relationship with regulators is critical to success in any market, we believe these moves to help rectify past injustices are mutually beneficial.
- **Public health & safety in adapting to COVID-19.** The cannabis sector has experienced a unique dynamic in the current COVID-19 environment, with demand surging in virtually all legal markets. However, in the US, state governors and regulators are also calling for strict social distancing measures, which increases the complexity of distributing product to end-users. As a result, we believe companies that are best able to pivot to curbside pickup and home delivery models, and/or manage foot traffic logistics, will be best suited to mitigate business interruptions in a sector where maintaining and holding market share is highly competitive.
- **Corporate governance.** With company founders and other insiders holding large ownership interests throughout the sector, the need for improved corporate governance and independent board representation continues to be a theme among cannabis operators. We believe this is partially a function of the nascent state of the industry; however, the sector has nonetheless seen a number of notable missteps (failed M&A, poor capital allocation) that have weighed on investor confidence.

How do we measure company performance?

Although it is difficult to precisely measure and quantify the above factors, we believe investors should look toward operators which have publicly disclosed social justice initiatives, longstanding/strong relationships with regulators in their core markets, the ability to maintain sales/market share while complying with COVID-19 protocols, and boards that increasingly add independent directors.

Which companies are doing it best?

Based on the above criteria, we highlight four US cannabis companies: (1) **Columbia Care**, which has announced a number of social equity partnerships (link) and houses a board where four of its six directors are independent; (2) **Cresco Labs**, which launched its Social Equity & Educational Development initiative (link), with four of its nine directors being independent; (3) **Curaleaf**, which has launched its Rooted in Good initiative, continues to print all-time high revenues despite COVID-19 overhangs, and has a board with three of its five directors being independent; and (4) **Green Thumb Industries,** which has implemented its Social Equity License Education Assistance Program (including pro bono mentoring - link), remains one of the most profitable MSO's, and has a board in which three of seven are independent directors.

Canaccord Genuity Capital Markets

22 July 2020

Industry Update

Consumer Products

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Company	Rating	Price	Target
Beverages			
PRMW-NYSE	Buy	US$13.71	US$15.00
Consumer Products			
MFI-TSX	Buy	C$27.46	C$39.00

Priced as of close of business 20 July 2020

Consumer ESG themes

Key themes impacting the sector

While the Consumer Products space consists of several sub-industries, our conversations with both institutional investors and Consumer Products companies have given us some insight into what we believe are the most relevant ESG factors across the space. We believe reducing carbon intensity remains front of mind for both companies and investors, as is likely the case for many of the sub-indexes in the TSX. The push to lower carbon emissions has strengthened and is expected to continue to intensify. Many of the companies within our coverage universe have established targets for reducing carbon emissions and carbon footprints; however, we believe this is now essentially table stakes for companies in this space.

Another theme we believe is of key interest to investors looking at the Consumer Products space is the ability of management teams to react to changes in shifting consumer trends, such as a focus on sustainability throughout the supply chain, and a greater penetration of e-commerce. We believe the COVID-19 pandemic further sharpened investor focus on how management teams adapt to rapidly changing environments. In our view, this all boils down to companies implementing strong governance procedures, fostering input from leaders with a variety of different backgrounds, and developing a culture that embraces new thinking and creativity.

How do we measure company performance?

A select group of the companies we cover have implemented formal carbon emission reduction targets over the near and medium term. Some have gone the extra mile to release annual sustainability reports, whereby explicit targets and metrics are provided. We believe companies that provide shareholders with detailed updates regarding their sustainability metrics, ideally on a quarterly basis, are most likely to gain the attention of ESG-focused investors.

Which companies are doing it best?

Within our Consumer Products universe, two companies that stand out in terms of providing and executing on ambitious ESG goals are **Maple Leaf Foods** and **Primo Water Corp.**

Maple Leaf has provided a target of reducing its carbon footprint by 50% by 2025. Also, in November 2019, the company announced it was the first large-scale food processing company to achieve carbon neutrality – an impressive feat. Furthermore, Maple Leaf has a goal of achieving 50% gender equality at the management level by the end of 2022. And perhaps most importantly, Maple Leaf is a global leader in the production of sustainable protein, with animal welfare and plant-based protein being two major areas of focus for the company. The company also provides a sustainability report to help investors track its ESG progress.

At **Primo Water**, Eden Springs has achieved carbon neutrality, and is the largest carbon-neutral provider of water and coffee services in Europe. In North America, the company has a target of achieving carbon neutrality by 2022. The company's plastic water bottles are recycled and reused ~60 times before being ground down and rebuilt, leading to a very environmentally friendly product offering. Primo Water appointed Shayron Barnes-Selby as VP Governmental Affairs and ESG in 2019, while also developing an ESG governance committee at the board level.

Canaccord Genuity Capital Markets

Industry Update

Oil and Gas, Exploration and Production

22 July 2020

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Company	Rating	Price	Target
Oil and Gas, Exploration and Production			
VII-TSX	Hold	C$3.15	C$3.50
Oilfield Services			
SES-TSX	Hold	C$1.62	C$2.00
Pipelines, Power and Utilities			
GEI-TSX	Buy	C$21.50	C$26.00

Priced as of close of business 20 July 2020

Energy ESG themes

Key themes impacting the sector

The Canadian energy sector is composed of the upstream, midstream and downstream sectors. While we believe each of these subsectors has somewhat different ESG priorities, we nonetheless believe environmental considerations have become the focal point for most energy sector stakeholders in recent years. More specifically, we see greenhouse gas emissions, protection of surrounding habitat, and water usage as three of the most significant environmental considerations now facing the domestic energy sector.

Beyond environmental considerations, we believe community engagement (particularly with Indigenous stakeholders) has also become critical to the long-term viability of the Canadian energy sector. In addition, we view the ongoing recruitment and development of a diverse and well-trained workforce as critical to the health of Canadian energy. Based on our dialogue with institutional shareholders, we also believe senior management and independent board teams that reflect a broad range of backgrounds and skillsets are key to attracting capital to the industry in the longer term.

How we measure company performance

Regarding environmental considerations, we can measure E&P performance in part by analyzing greenhouse gas emissions (GHG) intensity, which is calculated by dividing a company's total GHG emissions on a tonnes of CO2 equivalent basis by the company's production. This method adjusts for the size of the company and brings the focus onto the nature of the asset and the efforts of each firm to reduce GHG emissions intensity.

Social and governance issues remain a major priority for companies under our coverage, with most undertaking initiatives to promote accountability, diversity and community engagement. However, while we believe that these measures are key to attracting investors in the long term, we remain cognizant of the challenges associated with measuring performance across companies for these metrics. Given these challenges, we believe investors should lean toward companies that have outlined specific social and governance goals, and have demonstrated progress in achieving these goals.

Which companies are doing it best?

Conventional E&P: Most E&P companies under our coverage have explicitly defined ESG goals and/or have disclosures including sustainability reports. Within our coverage universe, we highlight **Seven Generations Energy** for recently receiving Equitable Origin's certification as a responsible natural gas producer and consequently being awarded a contract with Quebec's largest natural gas distributor, Energir s.e.c. Further to this, the company is a signatory of the 30% club and has one the lowest GHG emissions intensities in our coverage universe.

Oilfield: About half the constituents of our oilfield coverage universe published 2019 sustainability reports. Of these, **Secure Energy Services** has materially reduced its GHG intensity since 2016 and has articulated its goal of further lowering this figure 50% by 2030. In addition, the company's new Pipestone water disposal facility has displaced more than 1,000 truckloads of waste since opening in October 2019.

Midstream: In our view, most of the companies in our midstream coverage universe have well-developed ESG disclosure and targets. We note **Gibson Energy** has made a strategic investment at its Moose Jaw Facility to reduce the intensity of GHG emissions by installing innovative thermal heat exchanger technology and is preparing its first submission to the Carbon Disclosure Project.

Canaccord Genuity Capital Markets

Industry Update

Financials

22 July 2020

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Company	Rating	Price	Target
Canadian Banks			
RY-TSX	Hold	C$94.94	C$95.00
Insurance			
MFC-TSX	Buy	C$19.04	C$22.00

Priced as of close of business 20 July 2020

Financials ESG themes

Key themes impacting the sector

A growing number of Financials companies are increasingly adopting ESG practices in their decision-making, in response to larger regulations around compliance and disclosure, and to the expectations of investors and other stakeholders. Evidence suggests a strong correlation between the robustness of the ESG framework and the long-term financial performance of these companies. Based on management expectations and current trends, we identify three ESG factors impacting companies in our coverage: (1) diversity and inclusion; (2) sustainable financing; and (3) climate change. We have selected **Royal Bank of Canada** and **Manulife Financial** as companies taking significant and measurable steps toward driving these changes.

Diversity and Inclusion

At both RBC and MFC, women account for >55% of the workforce, with a significant proportion in middle management and executive positions. At RBC, visible minorities account for ~35% of the workforce and a similar proportion of middle management and above. People with disabilities and the indigenous group occupy 7% and 1.3% of the workforce, respectively. Over the last few months, RBC has committed $1.5M to fight racism against Black people and another $100M over five years in small business loans to Black entrepreneurs. The bank also committed 40% of all its summer opportunities to BIPOC youth (black, indigenous, & people of color).

At MFC, women comprise 43% of middle to senior management, with a similar proportion as independent board members. This month, MFC committed to increasing BIPOC representation in the senior management roles by 30% by 2025, in addition to hiring at least 25% BIPOC in its Graduate program.

Sustainable Financing

RBC had ~$26B invested in sustainable finance (e.g., green bonds, affordable housing, renewable energy) as of F2019 and has committed a cumulative sum of $100B by 2025. During the year, the bank established the Sustainable Finance Group within the Capital Markets division in response to increasing demand for ESG products from clients. The firm initiated a Clean Energy Vehicle Financing Program, as the demand for hybrid and electric vehicles is on the rise.

MFC was the first global insurer to issue a green bond (2017) and had >$1B in outstanding green bonds as of 2019. In 2019, MFC invested $1.2B in renewable energy and energy-efficient projects, bringing the total to $14.8B since 2002. Approximately 81% of the company’s real estate portfolio is certified to a green building standard.

Climate Change

RBC became carbon neutral in 2017 and has committed to achieving net-zero carbon emissions in its global operations. The bank significantly reduced greenhouse gas (GHG) emissions in 2019, and plans a further 15% reduction by F2023. During F2019, RBC sourced around 77% of its electricity from renewable or non-emitting sources, and plans to increase this to 90% by 2023. RBC is also actively investing in AI (e.g., Energy AI, AI for Climate Change project) to address climate and environmental changes.

In 2019, MFC took proactive steps such as identifying climate-related risk across businesses, adding oversight of the ESG framework to the Board mandate, and establishing a Climate Change Working Group led by the Chief Risk Officer. MFC is a founding member of the Climate Action 100+ (five-year initiative launched in 2017 that encourages reduction of GHG emissions). This initiative is now supported by more than 450 asset managers from around the globe, managing >$40T in assets.

Canaccord Genuity Capital Markets

22 July 2020

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Company	Rating	Price	Target
Health, Wellness and Lifestyle			
BU-TSX	Buy	C$1.78	C$2.50
JWEL-TSX	Hold	C$37.03	C$30.00

Priced as of close of business 20 July 2020

Health and wellness ESG themes

Key themes impacting the sector

Social factors play a major role for healthcare companies. This is understandable, given the high proportion of public funding and reimbursement they receive. Notable themes include accessibility and affordability of medical treatments, innovation and R&D (specifically within areas of high unmet need), and product liability. Over the past several years, drug prices and transparency have been heavily debated in the media and politics. Companies that charge exorbitant and unsubstantiated prices are cast as public villains. The primary argument used to defend high drug prices is the R&D expense required to discover novel treatments. Given the sector encompasses products that can quite literally mean life or death, product liability is another big theme.

While healthcare companies address medical problems, wellness companies strive to prevent these problems in the first place by augmenting society's nutrition, fitness, mental health, sleep and more. As a result, sustainable socially responsible investing goes hand-in-hand with the wellness industry. Key areas of focus are product liability, namely clean transparent ingredients, and "green" initiatives, such as limiting waste and natural resource consumption. Consumer education, and the resultant change in preferences, has been the biggest driver of the industry.

How we measure company performance

While none of the companies we cover explicitly publishes ESG targets or performance metrics, there are certain criteria we look at. For healthcare companies, this includes treatment prices versus standard of care, how accessible treatments are for lower-income populations (e.g., reimbursement, market penetration), investment in R&D as a percent of revenue, product efficacy (i.e., is it curative?) and safety (i.e., no recalls, major side effects, deaths). For wellness companies, we look at qualitative metrics such as initiatives that reduce waste and resource consumption.

Which companies are doing it best?

The companies that stand out within our universe are **Burcon NutraScience** and **Jamieson Wellness**.

Burcon has invested millions into R&D to create innovative organic, non-GMO, plant-based proteins. These proteins are not only seen as significantly healthier than the animal counterparts, but their production results in multiple-fold lower greenhouse gas emissions and utilizes less freshwater and land than animal agriculture. The proteins will be manufactured and sold through JV partner Merit Functional Foods. Merit's production facility was designed to minimize energy consumption and recycle water, yielding carbon neutrality from day one. This is facilitated by its location in Manitoba, where it uses hydroelectricity, versus US plants that use coal fire. In fact, its location was one of the main reasons ESG-conscious Nestlé chose Merit as a supply partner.

Jamieson has implemented formal environmental programs, such as Jamieson Forest, a 10-year partnership to restore over 120 acres of former Carolinian forest in the greater Windsor area in Ontario to offset its wood-fibre consumption. In 2011, the company installed solar panels at its Windsor plant. It is constantly looking for ways to reduce packaging and/or find more environmentally friendly alternatives. In terms of product liability, JWEL exceeds regulatory minimums via its rigorous "360 Pure" program and TRU-ID testing. The company is an active donor to several charities, including Vitamin Angels, the Canadian Cancer Society, and more recently, to COVID-19 frontline workers and their families. In response to COVID-19, JWEL also introduced a bonus program for staff required to be physically present and implemented stringent safety measures across its manufacturing and distribution facilities.

Canaccord Genuity Capital Markets

22 July 2020

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Company	Rating	Price	Target
Engineering and Construction			
ARE-TSX	Buy	C$15.00	C$19.00
BAD-TSX	Buy	C$30.40	C$32.00
BDT-TSX	Buy	C$6.74	C$7.00
NOA-TSX	Buy	C$7.55	C$16.00
STN-TSX	Buy	C$43.71	C$46.00
WSP-TSX	Buy	C$86.14	C$95.00
Equipment Distribution and Rentals			
FTT-TSX	Buy	C$19.03	C$24.00
TIH-TSX	Buy	C$73.35	C$71.00

Priced as of close of business 20 July 2020

Capital Goods ESG themes

Key themes impacting the sector

ESG considerations in the capital goods space do more than just check the sustainability box, they are good for business. We highlight the social component of ESG as being particularly important to our coverage universe, which is dominated by companies in the construction, engineering, and equipment supply chain. These are businesses that rely almost entirely on human capital to design, build, operate, and maintain infrastructure and equipment, often in harsh geographic climates. When your primary asset is people, it pays to keep turnover low and engagement high while fostering a diverse workforce with a strong safety culture.

Within the social aspects of ESG, we believe diversity and safety are of particular importance. In an industry where fatalities unfortunately do occur, safety is priority number one and a safe workplace helps attract and retain talent. Additionally, it is key for winning new business from customers that increasingly demand a clean safety record from suppliers. Importantly, industry safety records can be quantified, unlike many other ESG factors, through the Total Reportable Injury Frequency (TRIF) ratio and similar measures. In terms of diversity, engineering and construction, companies face labour constraints, so being able to attract people that are underrepresented in the industry, such as women and minorities, potentially alleviates the labour pinch point while fostering an environment of diversity and inclusion.

Which companies are doing it best?

Stantec - Stantec, in our view, has perhaps the most comprehensive ESG profile. On the environmental front, Stantec has achieved a 39% reduction in its emissions from its 2013 baseline and expects to surpass its 2028 reduction target of 40%. Its social leadership is also strong as evidenced by its inclusion in the Bloomberg Gender-Equality Index and the Jantzi Social Index, while its safety record has been improving since at least 2014. On the governance front, the board is 40% female comprised and 75% independent.

WSP Global - WSP is making strides across all aspects of ESG and was named "Most Sustainable Company in the Engineering Industry - 2019" by *World Finance* magazine. It has a 25% GHG reduction target (2018-2030) in place and is making progress on achieving it. Its safety record is impressive, but its progress on filling over 30% of management positions by women requires improvement. In terms of governance, WSP scores well with an independent Chairperson and good shareholder alignment. We note 6 of 8 directors are independent and 3 of 8 are women.

Toromont Industries - Toromont has reduced its GHG emission carbon intensity by 10% over the last three years and increased landfill diversion by 25%. The company scores well on social considerations, with senior leadership compensation tied to TRIF. In a tight labour market, Toromont was able to increase its workforce by 8% in 2019, reflecting successful recruiting, onboarding, and retention. Toromont values diversity, as evidenced by women comprising 22% of its leadership team and 30% of its Board.

Aecon Group - Aecon has begun disclosing its carbon footprint and set reduction targets; possesses a strong safety culture; has relationships with over 40 Indigenous groups; and scores well on governance measures with 80% of the board independent and 100% of employees being shareholders.

Best of the rest - We would be remiss if we did not mention the strong safety cultures at **Badger Daylighting**, **Bird Construction**, and **North American Construction Group**, while **Finning International** boasts a comprehensive ESG program and is on track to improve its safety measures.

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Company	Rating	Price	Target
Base Metals - Producer			
ERO-TSX	Buy	C$17.23	C$22.00
LUN-TSX	Buy	C$8.51	C$11.00
Mining Royalties			
WPM-TSX	Buy	C$66.94	C$75.00
Precious Metals - Producer			
AEM-TSX	Buy	C$93.00	C$110.00
AGI-TSX	Buy	C$14.56	C$17.50
BTO-TSX	Buy	C$8.63	C$11.00
NEM-NYSE	Buy	US$64.19	US$83.00
PAAS-NASDAQ	Hold	US$35.68	US$36.00
SSRM-TSX	Buy	C$30.59	C$35.00

Priced as of close of business 20 July 2020

Metals and Mining ESG themes

Key themes impacting the sector

The mining sector has often been perceived (sometimes, we believe, with justification) as a poor steward of ESG standards. The industry has collectively worked hard to overturn this narrative, especially given the increased focus on ESG performance among global institutional investors. We note that ESG was front and centre at the 2019 Denver Gold Forum for many companies, including the royalty/streaming companies, with a general recognition that "it's the right thing to do". On September 12, 2019, the World Gold Council unveiled an ESG framework, *Responsible Gold Mining Principles*, that many companies have since adopted. The framework addresses key environmental, social and governance issues for the gold mining sector. We believe that mining companies that meet stringent investor criteria will earn valuation premiums over time, and companies that do not will see their investor base shrink regardless of financial fundamentals. While the "G" in ESG is important, in this report we focus on the more often visible factors related to mining: environmental and social factors.

Environmental: Mining, by nature, involves ground disturbance to extract minerals, and mines are often located in environmentally pristine and ecologically sensitive areas. As such, from an environmental perspective, the focus is generally on leaving as small a footprint as possible. Key areas of focus for the industry include 1) tailings dam standards; 2) processing plant effluent discharge into local watersheds; and 3) "greening" operations to limit fossil fuel consumption, including electric transport and renewable power installations.

Social: Community relations and social impact can often be a contentious topic within the mining industry, as many mines are located on Indigenous lands and can dramatically affect traditional ways of life. Key areas of focus include 1) quality of relationships with local communities, proper consultation and ability to resolve differences; 2) size and nature of revenue and other benefit-sharing agreements with local communities and governments; 3) job creation and training programs for local communities; and 4) more recently, support programs for workers and communities during the COVID-19 pandemic.

How do we measure a company's ESG performance?

Most mining companies now release an annual ESG report, and many hold open calls to discuss their results. In addition, most institutional investors now have an ESG scorecard on each company, or a dedicated ESG team that will generate an internal view on the company's ESG performance. Factors being considered vary from a mining-specific suite at some clients to a general sector-agnostic list at other clients (which tends to put mining at a disadvantage). In addition, specific events can lead to industry-wide movements; as an example, following VALE's Brumadinho tailings dam tragedy, the Church of England led an institutional investor mandate requesting that major mining companies globally provide full disclosure on their tailings dam designs and risk-mitigation measures.

Which companies are doing it best?

Every mining company we cover is now making a significant effort to improve its ESG score, although we generally observe more focus on the 'E' and 'S' than on the 'G'. Among the base metals companies we cover, our conversations with investors have indicated a preference for **Lundin Mining** and **Ero Copper** from an ESG perspective. Among the senior precious metals companies, **Newmont**, **Agnico Eagle Mines**, **B2Gold**, **Pan American Silver**, and **Wheaton Precious Metals** are perceived as ESG leaders. Among the mid-cap precious metals companies, we have observed a general preference for **Alamos Gold** and **SSR Mining**.

Canaccord Genuity Capital Markets

22 July 2020

Industry Update

Real Estate

Canaccord Genuity Corp. (Canada)

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Company	Rating	Price	Target
Real Estate			
BAM-NYSE	Buy	US$34.30	US$42.50
Real Estate Investment Trusts			
FCR.UN-TSX	Buy	C$13.62	C$17.50

Priced as of close of business 20 July 2020

Real Estate ESG themes

Key themes impacting the sector

Within the REIT sector, ESG programs have largely evolved from existing initiatives aimed at improving efficiency and operating in a more sustainable manner. However, as investor awareness relating to ESG has grown, this has become an increasing focus for REITs, and ESG initiatives are now an element of most Canadian REITs' public disclosure. The themes of these programs vary, but in general the focus is on:

- Reducing energy consumption and waste at properties;
- Increasing the diversity of the REIT's workforce, including senior management and the board; and,
- Charitable giving and encouraging volunteerism among employees.

How do we measure company performance?

There are a number of independent rating systems which have been established to provide assessments of companies' ESG programs, mainly regarding environmental sustainability. We highlight three of the most notable rating systems below:

- Building Owners and Managers Association (BOMA) BEST, an independently verified building certification program with established standards for energy and environmental performance of existing buildings.
- Leadership in Energy and Environmental Design (LEED), a rating system for buildings which evaluates performance based on location and transportation availability, sustainable site development, water savings, energy efficiency, materials selection and indoor environmental quality.
- Global Real Estate Sustainability Benchmark (GRESB), a benchmark for the ESG performance of commercial property owners based on annual survey data.

In addition to the above, most REITs report workforce diversity (including that of the board and senior management), which is expressed on a percentage basis and serves as an additional objective ESG-related measurement.

Which companies are doing it best?

Within our coverage universe, we highlight two names which stand out with respect to their commitment to ESG principles: **Brookfield Asset Management** and **First Capital REIT**.

Within **BAM**'s property segment, it has achieved a number of certifications, including 48 LEED certifications in its North American office portfolio, 44 Energy Star certifications in the United States, and 52 BOMA 360 certifications in the United States and Canada. BAM is also the asset manager to, and owns a 57% interest in, Brookfield Renewable Partners, a renewable power company with US$47 billion of assets under management across the Americas, Europe and Asia.

FCR is targeting a 9% reduction in greenhouse gas emissions between 2018 and 2021 and has announced that it will be upgrading all exterior lighting to LED lighting by the end of 2020. The REIT has achieved a BOMA BEST rating for properties amounting to 76% of its GLA and has obtained LEED certifications for properties amounting to 16%. In addition, over 50% of the REIT's workforce is female, and all full-time employees are entitled to one paid day off annually to volunteer for a charity of their choice.

Industry Update

Telecommunications

22 July 2020

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Company	Rating	Price	Target
Telecommunications			
BCE-TSX	Buy	C$56.70	C$61.00
RCI.B-TSX	Buy	C$55.53	C$60.00
T-TSX	Hold	C$23.56	C$24.00

Priced as of close of business 20 July 2020

Telecom ESG themes

Three key themes impacting the sector

Within the telecom space, the greatest ESG focus is on affordability and viewing connectivity as a human right, as communications services are increasingly recognized as vital to social participation, education, and employment. As a result, the incumbents in the telecommunications industry have grown their efforts to offer affordable products to disenfranchised members of the community. Rogers, for example, subsidizes over 25,000 households with its "Connected for Success" program, while **TELUS** offers all students in need within Western Canada access to high-speed internet for $10 with its "Internet for Good" program. These programs have become increasingly important during the COVID-19 pandemic, as unemployment rates have risen substantially and communication has become a greater part of everyday life, for work, education, and leisure.

In addition to affordability, we see a greater demand for telecommunications companies to be involved in conversations around health. Bell's "Let's Talk Day", for example, has become one of the country's most recognized charity events supporting mental health, while TELUS' "Health for Good" helps make healthcare more accessible to Canadians.

Lastly, as with many other corporations, diversity has come into greater focus, with social movements demanding that companies hold themselves to higher standards in terms of inclusion.

With those criteria in mind, TELUS is leading the way

TELUS continuously demonstrates its commitment to the environment, the communities it serves, and its shareholders. The company has shown its understanding of the symbiotic relationship between profitability and sustainability. Through initiatives such as the TELUS Friendly Future Foundation, the company has donated over $1.2 billion and 1.3 billion hours to a variety of causes since 2000. Throughout the pandemic, in addition to its programs connecting low-income families and students, TELUS distributed 10,000 free phones to isolated seniors and vulnerable Canadians, with a free 3GB data plan.

The "For Good" suite of services removes the barriers to connectivity. Utilizing its telecom infrastructure and broad health offerings, TELUS offers communities a variety of services under its "For Good" program, which is split into four categories. "Health for Good" offers mobile health clinics, using technology to improve the effectiveness of outreach nurses. "Mobility for Good" helps children in foster care to stay connected, with subsidized phone plans and handsets. "Internet for Good" provides low-cost internet access. Lastly, "Tech for Good" invests in solutions to assist differently abled Canadians in staying connected.

Diversity and independence a key focus on the TELUS board. TELUS' desire to support diversity and strong governance is clearly reflected in its board of directors. Currently, 45% of TELUS' independent directors are women, and 55% of independent directors represent diversity. TELUS is one of the companies committed to the Catalyst Accord 2022, which pledges to increase the average percentage of women on boards and in executive positions to 30%+ by 2022.

Canaccord Genuity Capital Markets

Industry Update

Technology, Media and Telecom

22 July 2020

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Company	Rating	Price	Target
Enterprise Software			
ABT-TSX	Buy	C$15.43	C$13.50
REAL-TSX	Buy	C$29.03	C$25.00
Enterprise Software - Software as a Service			
DCBO-TSX	Buy	C$38.97	C$32.00
DSGX-NASDAQ	Buy	US$53.94	US$50.00
KXS-TSX	Buy	C$199.16	C$190.00
SHOP-NYSE	Hold	US$1,009.39	US$700.00

Priced as of close of business 20 July 2020

*Shopify (SHOP-NYSE) is co-covered with David Hynes Jr. | Canaccord Genuity LLC (US)

Technology ESG themes

Key themes impacting the sector

As technology, particularly cloud software, emerges from the global pandemic thus far relatively unscathed, we expect to see more of a focus on ESG issues. Technology companies have played a key role in the response to the global pandemic, and while technology companies have a relatively strong reputation for equal access to information and tools, diversity/inclusiveness and the environment, there have been missteps.

Although technology companies do not have a reputation for overconsumption of resources, we see a growing concern related to energy usage in some corners. For example, the cryptocurrency boom focused attention on the inefficient use of energy in the mining process. We have also seen some concern about the amount of energy consumed in data centres, where AI model development and training is performed.

Data security and privacy is another key dimension, as regulators assess the control that large technology companies have over our digital lives, irrespective of the value aggregation provides. As users surrender biometric data, which can identify us by voice, fingerprint, optical scan, gait and face, we become easier to track and trace. Technology companies are amassing comprehensive data on how their users browse and search online, and even on how they behave when they are offline. This has temporarily taken a back seat through the global pandemic; however, we believe there is still appropriate concern over how the data is stored and used.

How do we measure company performance?

A critical measure of a data centre's environmental impact is the source of energy. Large data centre operators track energy usage and renewable energy purchases, and we have seen increasing investment in clean energy projects and internal carbon taxes that incentivize decisionmakers to minimize their climate impact. These companies are best measured by their commitment to, and usage of, renewable energy, as data and security performance is often more difficult to measure. As we often see in the media, missteps will often come under close regulatory and public scrutiny.

Which companies are doing it best?

Within our coverage, we highlight **Kinaxis** as a protagonist due to its efforts to help customers cut carbon emissions. The company aims to identify the most efficient route with real-time scenario planning, helping customers to reduce their environmental footprint. Outside of our coverage, many companies that operate in the cloud computing space publish detailed sustainability reports. Most of these large North American players have announced long-term commitments aiming to improve usage of renewable energy and to reach net zero carbon emissions.

Within data and privacy, our Canadian coverage universe has largely operated without fault. Most Canadian, data-rich software companies (**Kinaxis**, **Docebo**, **Descartes**, **Shopify**, **Real Matters**, **Absolute Software**) handle enterprise data, and several rely on the larger cloud providers for storage and security.

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Investment Recommendation

Date and time of first dissemination: July 22, 2020, 04:40 ET

Date and time of production: July 21, 2020, 15:55 ET

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	#	%	%
Buy	499	60.85%	54.71%
Hold	188	22.93%	40.43%
Sell	17	2.07%	35.29%
Speculative Buy	116	14.15%	69.83%
	820*	100.0%	

*Total includes stocks that are Under Review

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