

# Report on NBI's Responsible Investment Approach

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# Our mission and approach

National Bank Investments (NBI) aims to be an accelerator promoting the growth and development of investment solutions and services, with the objective of having a positive impact on the lives of National Bank of Canada's clients, employees and stakeholders. NBI is committed to offering a full range of diversified investment solutions designed to help Canadian investors achieve their financial goals.

Our open architecture structure provides the flexibility to wade through a complex world by selecting and reviewing portfolio managers who meet our criteria of excellence in portfolio management. This approach is based on the respect for the management philosophy and investment decisions of our portfolio managers, as well as our investment policy.

With one of Canada's largest open architecture structures, NBI follows a rigorous process to select portfolio managers recognized for their expertise in each asset class. An important pillar in our assessments of managers is the integration of environmental, social and governance (ESG) criteria, which can impact long-term value, into their investment process. In addition, responsible investing is part of our research and portfolio construction work. The majority of the funds and investment solutions that make up our platform incorporate responsible investment considerations. Responsible investment is therefore at the heart of our processes and our product line-up.



## The approaches adopted by our portfolio managers

### Manager selection and monitoring

Our portfolio manager selection and monitoring processes are built around a proprietary research methodology we call OP4+. It consists of more than 25 well-defined criteria of excellence in portfolio management, grouped into six pillars: Organization, People, Process, Portfolio, Performance and Integration of ESG criteria.

More than 25 well-defined criteria	
 <p><b>O</b>rganization Strong organization with top-tier investment culture</p>	<ul style="list-style-type: none"> <li>› Organizational culture</li> <li>› Access to equity for employees</li> <li>› Financial stability</li> </ul>
 <p><b>P</b>eople Stable group of talented investors</p>	<ul style="list-style-type: none"> <li>› Experience of senior managers and analysts</li> <li>› Key staff stability/Clear succession plan</li> <li>› Alignment of manager's and analysts' financial interests</li> <li>› Enough analysts to thoroughly cover the investment universe</li> <li>› Diversity within the investment team (gender, origin and experience)</li> </ul>
 <p><b>P</b>rocess Emphasis on proven management processes to select securities, build portfolios and manage risk</p>	<ul style="list-style-type: none"> <li>› The portfolio managers are able to establish the competitive advantage of their strategy</li> <li>› The process is clear and repeatable, but flexible to adapt to structural market changes</li> <li>› Accountability in the decision-making process</li> <li>› Debate investment ideas in committee</li> <li>› The selling or revision process is well-defined</li> <li>› Risk management is an integral part of the portfolio construction process</li> <li>› Learn from past mistakes</li> <li>› Performance monitoring by an observer external to the investment team</li> </ul>
 <p><b>P</b>ortfolio Optimized portfolio construction that follows the investment process and ensures sound diversification</p>	<ul style="list-style-type: none"> <li>› Coherence between the process and the actual portfolio</li> <li>› Sound diversification</li> <li>› Current size of the portfolio and liquidity of the positions</li> <li>› Diligent use of cash on hand</li> </ul>
 <p><b>P</b>erformance Strong and predictable risk-adjusted returns</p>	<ul style="list-style-type: none"> <li>› The portfolio behaves as anticipated in different market conditions</li> <li>› Competitive pricing</li> </ul>
 <p><b>+</b> Integration of Environmental, Social and Governance criteria</p>	<ul style="list-style-type: none"> <li>› Signatory of the United Nations Principles for Responsible Investment (or similar organizations)</li> <li>› Incorporation of ESG criteria for value creation and risk management</li> <li>› Resources dedicated to responsible investment</li> <li>› Proxy voting and engagement in line with investment objectives</li> <li>› Measures and targets for portfolio footprint</li> <li>› Stewardship activities</li> </ul>

We believe that the consideration of ESG criteria, in conjunction with traditional financial analysis, allows for a better assessment of risks and opportunities by our portfolio managers. We therefore include ESG criteria in our manager selection and monitoring processes. Among other things, we evaluate the integration of ESG criteria into value creation, risk management, and the resources dedicated to responsible investment.

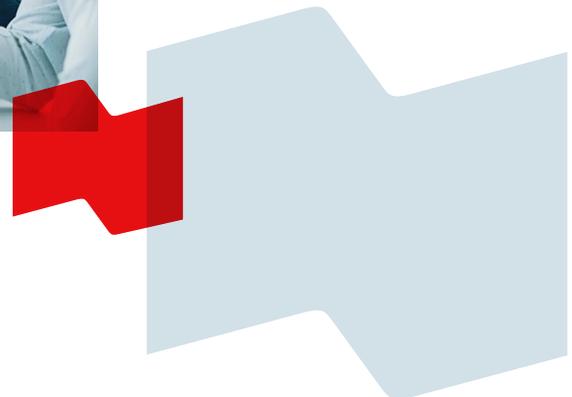
## A tailored approach for each asset class

Portfolio managers selected by NBI each have their own approach to responsible investing. As such, each portfolio manager prioritizes different objectives, ranging from avoiding exposure to undesirable companies or economic sectors to aligning portfolios with key factors in sustainable development. These divergences in responsible investment approaches are due to the plurality of partners on the NBI platform.

When selecting a portfolio manager, NBI recognizes the expertise of each manager in their respective asset classes. We therefore respect the management philosophy and investment decisions of our portfolio managers, while encouraging them to adopt industry best practices.

## Strategies

Exclusion	ESG investing	Best-in-class	Sustainable portfolio creation
<p>Involves excluding companies, sectors or even countries that are not compatible with an investor's mission or values.</p>	<p>Involves incorporating data on ESG criteria into the investment processes.</p>	<p>Involves investing in leading securities based on environmental, social and governance criteria.</p>	<p>Involves investing in securities that contribute to the achievement of one or more of the United Nations (UN) Sustainable Development Goals.</p>



# Innovation is central to our products

## The Sustainable Development Goals are a core component of the investment process

The 17 UN Sustainable Development Goals (SDGs) are the foundation for NBI's line-up of actively managed Sustainable Development ETFs. We were the first in Canada to integrate them into our responsible investment process. Adopted in 2015, the SDGs aim to fight poverty, protect the planet and improve the lives of people around the world. The United Nations Member States hope to achieve tangible results with these objectives by 2030.

## The 17 SDGs are as follows:



In March 2020, NBI launched its first series of Sustainable Development ETFs. This launch is a concrete manifestation of our commitment to provide investors with innovative portfolio and risk diversification opportunities in responsible investing. Today, the line-up includes four ETFs:

- › NBI Sustainable Canadian Bond ETF (TSX: NSCB);
- › NBI Sustainable Canadian Corporate Bond ETF (TSX: NSCC);
- › NBI Sustainable Canadian Equity ETF (TSX: NSCE);
- › NBI Sustainable Global Equity ETF (TSX: NSGE).

The various portfolio managers who, as part of our open architecture approach, are responsible for sub-managing these ETFs must adopt a rigorous investment approach and ensure that they invest in securities that contribute to the achievement of one SDG or more.

Whether it's by investing in government bonds that will be used to finance public transit infrastructure development projects, or buying shares in a company that generates a significant portion of its revenues by developing renewable energy infrastructure, our ETF sub-managers must ensure that the fund's investments create value all while contributing to the greater good.

# Responsible investment is part of our decision-making structure

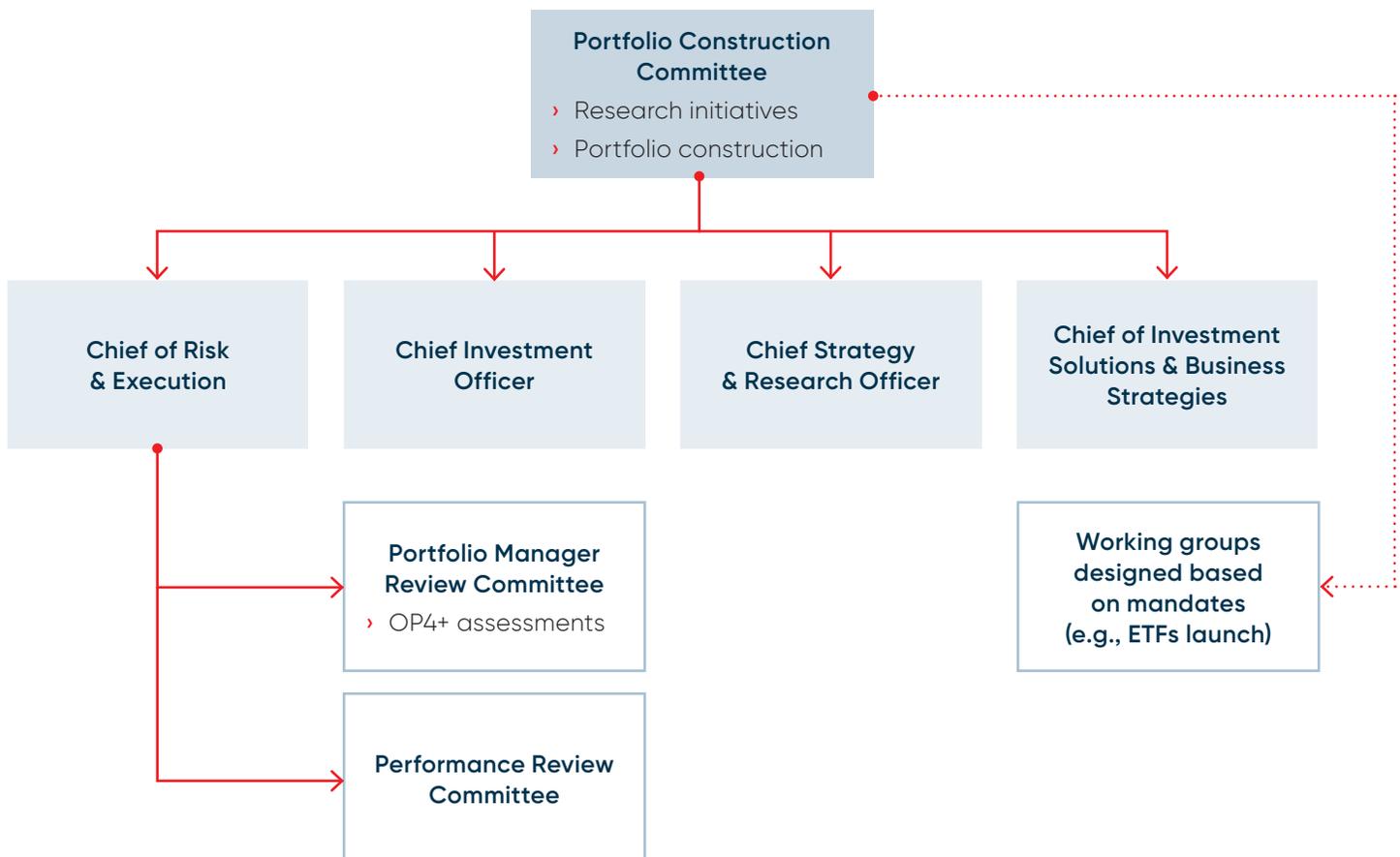
Responsible investment is an integral part of NBI's decision-making structure. At all levels of this structure, from the chairperson to the various committee members, ESG considerations are at the forefront of our approach, and we address them in innovative ways with the aim of generating tangible results.

NBI's priorities, including those related to responsible investing, are adopted by NBI's executive management. Our dedicated Risk & Execution team takes responsibility for daily responsible investment actions. It leads our efforts and helps advance our responsible investment strategy. The team works with several members of the various investment teams, in addition to the over 75 portfolio management teams that make up the NBI platform.

The OP4+ assessments, which includes the integration of ESG criteria by portfolio managers, are presented to the Portfolio Manager Review Committee. Responsible investment research is presented to the Portfolio Construction Committee, and working groups are occasionally formed to carry out various mandates.

Lastly, the current structure is leveraged as part of our responsible investment commitments. For instance, the Performance Review Committee has also been monitoring the NBI Sustainable Development ETFs since their creation.

In addition to addressing responsible investment consistently within our structure, members of the NBI team are actively involved in various committees at National Bank and National Bank Financial Wealth Management, including the ESG Investment Committee. This gives us the opportunity to contribute more broadly to the organization's responsible investment initiatives.



# Our responsible investment priorities from 2021 to 2023

NBI's responsible investment action plan is based on three priorities.

## ① Become an industry leader through our responsible investment practices

**Improving our processes:** In January 2021, as part of our efforts to identify leading portfolio managers, NBI added excellence criteria to the OP4+ analysis framework. Most changes are related to the + pillar, providing a more in-depth analysis of ESG criteria by the portfolio managers responsible when selecting securities for NBI Funds and investment solutions.

### Two criteria have been added to the + pillar:

1. Measuring the portfolio's footprint and setting an objective for reducing it.
2. Making a commitment to advance responsible investment.

In addition, the analytical framework for the People pillar has been expanded to include an analysis of diversity within the investment team. Gender, ethnic background and experience are now analyzed and considered.

### Responsible investment added to research initiatives:

NBI's investment teams have an annual research agenda. Responsible investment has been added as a research theme, allowing for further discussion about issues such as the integration of ESG criteria into portfolio construction.

## ② Play a key role in advancing responsible investment

Through its active contribution to key projects such as the development of a Canadian Transition Taxonomy, NBI is contributing to the advancement of sustainable finance, as well as Canadian and global climate goals. The development of a Canadian Transition Taxonomy responds to the recommendations of the Government of Canada's Expert Panel on Sustainable Finance and helps to mobilize the capital needed to transition to a net-zero greenhouse gas (GHG) economy by 2050. NBI has contributed to various committees related to this project.

In addition, NBI has served on several responsible investment advisory committees, including an advisory council created by the Responsible Investment Association to help update course content on advisor practice management, as well as a technical committee of Finance Montréal for a project aiming to strengthen responsible investment expertise within the Quebec asset management industry.

### ③ Be a leading corporate citizen

#### **We're involved in the community and we give back to society**

NBI employees play an active role and help organize fundraising and awareness activities, including an annual campaign to benefit United Way Centraide, an organization dedicated to breaking the cycle of poverty and exclusion.

#### **We promote inclusion and diversity**

In 2020, a series of inclusion and diversity workshops were created and offered to all NBI executives. The focus was on active listening and unconscious biases that everyone may have and that can influence actions in recruiting, performance, leadership evaluation and talent management. In addition, educational training was provided to employees on unconscious bias, workplace diversity and behavioural norms.

National Bank's goal is to increase inclusion and diversity in the workplace by 2023 by employing more individuals from diverse backgrounds. NBI, a wholly owned subsidiary of National Bank of Canada, supports and contributes to the achievement of these targets.

#### **We emphasize data confidentiality**

New initiatives have been put in place with respect to access management, third-party management and data privacy. NBI ensures that information technology resources are able to review authorized access profiles and attribution rules, perform due diligence on all new third parties, and ensure that the accessibility and potential use of confidential data are minimized.

#### **We govern according to the highest standards**

NBI adheres to a rigorous governance structure, with oversight committees that bring together leading experts and partners to provide independent effective challenge on matters of significance, such as the management of conflicts of interest, portfolio construction and asset allocation, risk management, portfolio manager selection, investment performance review and the introduction of new products and activities.

#### **We fuel economic development**

In order to actively participate in Quebec's economic recovery effort and to support Quebec small- and medium-sized enterprises (SMEs), National Bank, in partnership with the Quebec government, launched the National Bank SME Growth Fund. NBI will manage the Fund, and several NBI teams contributed to its creation. The objective of the Fund is to ensure the sustainability and short- and medium-term development of Quebec SMEs, as part of the economic recovery following the shock of the COVID-19.



# National Bank's achievements

National Bank is committed to making a positive impact on people's lives by building long-term relationships with our customers, employees and the community. Here are some initiatives and achievements that demonstrate the importance of sustainable development and maintaining the best balance of interests across all stakeholders in society. For more information on National Bank's initiatives related to sustainable development, please consult the Social Responsibility section on [nbc.ca](http://nbc.ca).



## Environment

We're working to develop a green economy

- › Target set to reduce GHG emissions resulting from our own activities by 25% before the end of 2025 to contribute to the most ambitious goal of the Paris Agreement (with 2019 being the reference year);
- › Partnership with Équiterre to support the rollout of concrete solutions that promote energy transition and the adoption of eco-responsible choices every day;
- › New head office designed to meet the highest standards in terms of sustainable construction and occupant health and well-being.



## Social

We enrich communities

### We support our clients and employees in uncertain times

- › Temporary relief measures for our individual and business clients during the COVID-19 pandemic;
- › Measures implemented to protect the health of our employees.

### We promote inclusion and diversity

- › Participation in several initiatives to address systemic racism and support the Black community, including the BlackNorth Initiative, the Black Entrepreneurship Loan Fund and the Being Black in Canada incubator program;
- › Active support for women, cultural communities, the LGBTQ+ community and Indigenous communities.

### We support the community

- › More than \$2.5 million donated to the vulnerable communities most affected by the pandemic and to mental health organizations;
- › Millions of dollars given back to the community through donations, sponsorships and fundraising events.



## Governance

We govern according to the highest standards

- › Publication of our first Report on Environmental, Social and Governance Advances;
- › Inclusion of ESG-related responsibilities in the mandates of the Conduct Review and Corporate Governance Committee, the Audit Committee and the Risk Management Committee;
- › Succession planning for directors takes into account the Board's diversity policy (gender, age, designated groups, sexual orientation, ethno-cultural groups and geographic origins).

# Our commitments

NBI is a signatory of the Principles for Responsible Investment (PRI) and a member of the Responsible Investment Association (RIA). Signing on to the internationally recognized PRI publicly demonstrates our commitment to responsible investment and allows us to join a global community seeking to build a more sustainable financial system. Our RIA membership allows us to establish our commitment to responsible investing and to showcase our leadership in Canada.

## NBI is a signatory of the Principles for Responsible Investment

Signatory of:



The PRI are a voluntary and aspirational set of investment principles that offer multiple possibilities for incorporating ESG issues into investment practices.<sup>1</sup> More than 3,400 participants collaborate on the global initiatives established by the United Nations, and nearly 170 of them are in Canada.

### The six principles can be defined as follows:

**Principle 1:** Incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** Be active owners and incorporate ESG issues into ownership policies and practices.

**Principle 3:** Seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** Promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** Work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** Report on our activities and progress towards implementing the Principles.

## NBI is a member of the Responsible Investment Association



The RIA is Canada's industry association for responsible investment.<sup>2</sup>

### The RIA has five strategic priorities for driving the adoption of responsible investment in Canada.<sup>3</sup>

#### 1. Market education:

Driving demand for responsible investments.

#### 2. Integration:

Developing the responsible investment capacity of investment professionals.

#### 3. Advocacy:

Shifting public policy and regulation.

#### 4. Brand and reputation:

Strengthening the RIA's reputation as the leading voice for responsible investment in Canada.

#### 5. Capacity building:

Building the RIA's financial and human capital resources.

## National Bank's commitments

Other subsidiaries, as well as our parent company, use recognized frameworks, international disclosure standards and guidelines that are widely used by the market in their activities. In addition, National Bank of Canada is a founding signatory of the United Nations Principles for Responsible Banking and is a partner of Équiterre, one of the leading environmental organizations in Quebec.



1 [PRI](#)  
2 [RIA](#)  
3 [RIA](#)

# Conclusion

This report illustrates NBI's commitment to integrating responsible investing throughout our operations. We will strive to further integrate our commitment to responsible investing into everything we do and to strengthen our role as an active leader in this area in Canada. As such, NBI will aim to remain a leader in its investment practices, play a socially engaged role, including allocating some assets to local managers, continue to be a leading corporate citizen by becoming the destination of choice for talent and giving back to our society through community engagement.

## Other resources

To learn more about National Bank Investments:

- › [NBI Responsible Investment Policy](#)
- › [Proxy voting policies and records for external managers](#)

To learn more about National Bank:

- › [NB Social Responsibility Report](#)
- › [NB Report on ESG Advances](#)



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