

# ENVIRONMENT, SOCIAL AND GOVERNANCE SCREENING GUIDELINE

As part of our ongoing commitment to integrate Environment, Social and Governance (ESG) considerations in portfolio selection and management, IMCO has developed a Screening Guideline (the “Guideline”). This Guideline helps determine which companies, sectors or activities are eligible – or ineligible – to be included in our portfolios.

## WHAT OUR SCREENING GUIDELINE COVERS

IMCO invests through a range of active and passive, internal and external strategies. The Guideline is applicable to all investments and asset classes where we can meaningfully influence or control investment decisions.

## OUR APPROACH

The screening of assets to ensure they comply with ESG fundamentals is central to our overall approach to investing.

We will implement a screening process that strives for research-based, repeatable, and defensible results. In deciding whether to screen-out a category of investment, among other things, IMCO considers such factors as the practicalities of identifying companies that are exclusively or primarily involved in screened-out categories of investments, the near-term and long-term investment and risk implications to client portfolios of screening-out such investments, and the reputational issues for IMCO and its clients.

## OUR PROCESS

The Management Investment Committee (“MIC”) will approve the list of Screened-Out Investments based on the Responsible Investing team’s recommendations and application of the Screening Principles, and any other considerations that they consider relevant and consistent with IMCO’s Responsible Investing Policy. Screened-Out Investments shall be added to this Guideline, as amended from time to time, and the MIC will approve the Guideline. An investment category will only be added to this Guideline after the Board of Directors and the Clients have been notified.

## IMCO SCREENED-OUT INVESTMENTS

### Controversial Weapons

Controversial weapons include anti-personnel landmines, cluster munitions, chemical/ biological weapons, white phosphorus, depleted uranium munitions and nuclear weapons. These weapons have indiscriminate and disproportional impacts on civilian populations and the environment. These effects can persist long after the end of military conflicts. As a result, their use, stockpiling, and production has been prohibited by several international conventions or treaties.<sup>1</sup> IMCO excludes investments in companies involved in the production of antipersonnel landmines, cluster munitions, chemical, biological, and nuclear weapons.

### Firearms

Civilian firearms are responsible for tens of thousands of deaths a year around the world, contributing to injuries and fatalities associated with violent crime, unintentional shootings, and suicides.<sup>2</sup> The firearms industry carries heightened ESG risks stemming from the nature of its core products. IMCO excludes investments in companies where over 10% of revenue (as measured on a 3-year rolling basis) is from the manufacture of firearms and small arms ammunitions for civilian markets. The exclusion does not cover companies that cater to the military, government, and law enforcement markets.

### For-Profit Prisons

The privatization of the prison industry represents a problematic trend, principally in the United States. The industry has been flagged for human rights abuses, problematic uses of prison labour and lobbying practices. More recently, the industry has obtained contracts for the detention of immigrants and children, with over 80% of the total detained immigrant population in the United States being held in private facilities.<sup>3</sup> IMCO excludes investments in companies where over 10% of revenue (as measured on a 3-year rolling basis) is derived from the operation of for-profit prisons and detention centres.

### Tobacco

Tobacco consumption is associated with pervasive health consequences and fatalities for smokers and non-smokers. Tobacco products are intrinsically unhealthy for human consumption and are linked to hundreds of thousands of premature deaths every year.<sup>4</sup> According to the World Health Organization (WHO), tobacco generates social and economic costs as it causes premature deaths and losses in productivity, leading to reduced household income, increases in poverty, and healthcare expenses. As a result, the WHO member states adopted the Framework Convention on Tobacco Control<sup>5</sup> in 2003 to reduce tobacco demand and supply. IMCO excludes investments in companies where over 10% of revenue (as measured on a 3-year rolling basis) is derived from the production of tobacco products.

### Thermal Coal Mining

According to the International Energy Agency (IEA), carbon dioxide emitted from the combustion of coal has been the single largest source of global temperature increase, responsible for at least 0.3°C of the 1°C increase in global average annual surface temperature above pre-industrial levels.<sup>6</sup> IMCO excludes investments in companies where over 10% of revenue (as measured on a 3-year rolling basis) is derived from mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties.

<sup>1</sup> These agreements include the Treaty on the Non-Proliferation of Nuclear Weapons (1968); the Biological Weapons Convention (1975); the Ottawa Treaty (1997); the Chemical Weapons Convention (1997); and the Convention on Cluster Munitions (2008)

<sup>2</sup> <https://www.gunviolencearchive.org/past-tolls>

<sup>3</sup> <https://www.sentencingproject.org/publications/private-prisons-united-states/>

<sup>4</sup> [https://www.cdc.gov/tobacco/data\\_statistics/sgr/50th-anniversary/index.htm](https://www.cdc.gov/tobacco/data_statistics/sgr/50th-anniversary/index.htm)

<sup>5</sup> <https://fctc.who.int/who-fctc/overview>

<sup>6</sup> <https://www.iea.org/reports/global-energy-co2-status-report-2019/emissions>

## Arctic Oil & Gas Production

Arctic oil & gas production poses significant environmental and climate risks. Oil spills from arctic oil production are more challenging to clean up due to limited infrastructure in mostly isolated geographic areas.<sup>7</sup> Further, flaring of waste natural gas from oil and gas fields results in nitrogen dioxide and black carbon pollution in the Arctic. In addition to absorbing sunlight while aloft, black carbon darkens snow when it settles on the surface. Both processes lead to heating of the air and the land surface, accelerating the melting of snow and ice.<sup>8</sup> IMCO excludes investments in companies where over 10% of revenue (as measured on a 3-year rolling basis) is derived from arctic oil & gas production, either offshore or onshore production. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude.

## THE FOUR PILLARS OF IMCO'S ESG STRATEGY

Our Approach to ESG is comprised of four key strategies:



### INTEGRATION

We integrate ESG risks and opportunities in our investment processes to support and enhance our investment analysis and decisions



### STEWARDSHIP

We practice good stewardship by actively monitoring, influencing and engaging with external managers and companies on ESG matters



### SUSTAINABLE INVESTING

We invest in sustainable, long-term ESG opportunities that contribute to investment returns and have a positive impact on the environment and society



### SCREENING

We use Screening Guidelines to align our investment decisions with our core values and risk tolerances

<sup>7</sup> [http://www.nap.edu/catalog.php?record\\_id=18625](http://www.nap.edu/catalog.php?record_id=18625)

<sup>8</sup> <https://www.sciencedirect.com/science/article/abs/pii/S1352231016301893>