Pacifica Partners Inc.

# RESPONSIBLE INVESTING POLICY

EFFECTIVE DATE: July 13, 2022

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PACIFICA PARTNERS INC.
Capital Management

# Overview

Pacifica Partners is an established investment manager headquartered in Surrey, BC and operating since November 2008.  We serve our clients as licensed Portfolio Managers in Canada and in the United States as RIAs (Registered Investment Advisors) with the US Securities Exchange Commission (SEC).

We provide custom-tailored portfolio management services to clients located across Canada, the US and overseas.

Pacifica Partners is dedicated to being a leader in providing customized responsible investing portfolios that integrate industry leading ESG data and analysis.

# Background

Responsible investing (RI) is an investment approach that recognizes that the companies one invests in can have a positive or negative impact on the world.  RI can also be referred to as Socially Responsible Investing (SRI), ESG Investing or Ethical Investing.

Our RI policy addresses the ethical operations of companies with regard to three factors:

Environmental
Social
Governance

Environmental factors address the impact on a company regarding items such as pollution, climate change, threat to biodiversity and wildlife.

Social factors address concerns including: diversity, human rights, consumer protection and animal welfare.

Governance factors address the rights and responsibilities of corporate boards, management, shareholders and other stakeholders.

The analysis of the above factors will provide an additional overlay to our existing security selection process and in turn will influence the asset allocation, portfolio construction, and direct shareholder engagement through proxy voting.

# Objective

This policy formalizes Pacifica Partners' responsible investing process.  It is intended to provide pertinent details on how we gather information, evaluate and invest using environmental, social and governance factors.

The end goal of this policy is to assist investors in understanding the strengths and weaknesses of responsible investing in general.  As well, we wish to provide clarity on Pacifica Partners' responsible investing process.

The ultimate objective of Responsible Investing is to prudently invest client portfolios while simultaneously supporting the commitment of corporations that lead their industry with regard to environmental stewardship, social policy and effective governance.

# Performance Impact

Adding environmental, social and governance ("ESG") factors to investment decisions can affect the performance of investment portfolios. The degree to which performance is impacted will vary over time and it may be higher or lower than a comparable traditional portfolio that does not directly incorporate ESG factors.

Studies have shown that responsible investing may have long term advantages over traditional investing by reducing risk of a portfolio. This can occur because responsible companies, in theory, are less exposed to litigation, government intervention, or consumer backlash related to their operations.

However, ESG portfolios could potentially result in lower returns whenever securities that are considered ineligible for investing due to their ESG characteristics, exhibit investment gains. In other words, the ESG portfolio could possibly miss out on lucrative opportunities that a traditional portfolio is participating in.

Our approach mitigates some of the potential risk of "missing out" by maintaining a well diversified portfolio. We do not avoid entire industry sectors altogether. Instead, we invest in companies that are committed to actions such as reducing green house gas emissions, improving worker safety and embrace their moral obligation to community and environment.

# Our Approach

Pacifica Partners' traditional investment process involves selecting investments on a security-by-security basis with a keen focus on finding opportunities that are attractively priced.

Our Responsible Investing process builds on our traditional one. Once an investment is vetted and deemed an attractive opportunity to add to our client portfolios, a second ESG review is conducted to ensure that it meets or exceeds our minimum standard of ESG quality.

To ensure that each investment is evaluated, we have combined research from two leading ESG data providers, Refinitiv and MSCI.

**If deemed to be both:**

1. **An attractive investment opportunity &**
2. **Issued by a "Socially Responsible" company**

**A security can be included into a Pacifica Partners RI client portfolio.**

The combination of research providers gives us enough information to evaluate common and preferred shares of companies. As well, bonds issued by these companies can be evaluated and rated.

# Evaluating Companies

Companies are assigned a Pacifica Responsible Investing Grade ("PRIG") based on an evaluation of their business.

Ranging from A (best) to F (worst), PRIGs reflect the ESG rank of companies within their industry sector. In addition, certain securities may receive an automatic "F" (fail) if they violate additional criteria or lack sufficient data to determine a grade.

Companies that may receive an automatic "F" include those that derive a material portion of their revenues (10% or more) from involvement in the following industries:

- Firearm production or sales
- Military contracts
- Tobacco, e-cigarettes, vaping

Our RI policy is to only invest in companies that have scored a PRIG of "B" or better, as

scored by the lesser of either of the ESG data providers. These are the top half of companies regarding ESG factors in our data providers' universe.

## Data Providers

The ESG data and research for evaluation of each company comes from a variety of sources and takes into consideration the following:

- Timeliness – the ESG data must not be outdated and updated in a timely fashion.
- Accuracy – it has come from reputable sources: audited corporate documents or reputable 3rd party research.
- Comprehensiveness – it must provide extensive coverage of ESG data by examining all aspects of each corporate entity and its business units.
- Completeness – it must cover enough of our investable universe to measure companies against peers and the market.
- Comparability –the data will allow comparison of companies within an industry and across the market.

Based on the above criteria, the primary data providers that we selected for conducting our ESG review is Refinitiv (“RF”) and MSCI ESG Research LLC (“MSCI”), reputable and trusted leaders in the collection and analysis of ESG data. For more information on Refinitiv's ESG data process, security coverage, and methodology please click here[i]; for MSCI please click here[ii].

## Continuous Monitoring

Companies operate in ever changing environments and their operations evolve and change with them. As a result, securities that have been purchased in our RI portfolios may cease to meet the strict ESG criteria that allowed for their initial inclusion.

We believe that simply selling a company because it ceases to maintain an adequate PRIG score, may result in a poor investment “sell” decision. To address this, we separate our decision making of buying favourable ESG companies from our decision of selling existing investments to ensure that first and foremost – a prudent investment decision is made at the level of each security.

**However, our RI portfolios will always maintain at least a 90% weighting in securities with a PRIG score of “B” or better.**

This portfolio level monitoring will ensure that each RI portfolio always remains predominantly invested in favorable ESG companies.

Should the 90% portfolio threshold become violated, Pacifica Partners will divest at least some of the low PRIG companies by the end of the current calendar quarter.

## Controversies

While companies will fluctuate in their ESG rankings due to changes in regular business activities, they also face additional scrutiny arising from controversies. An example of a controversy would include a railway that experiences a derailment resulting in serious environmental impact. Likewise, a financial institution may be involved in a controversy if exposed for unethical sales practices.

While such events are serious and can be material to a company's share value, an immediate divestment of its securities from an ESG perspective may not be prudent.

It is not unusual that involvement in a controversy result in a rapid drop in the value of a company's security values. However, the true impact of the controversy may not be fully known due to delays in completing investigations and assessing the realized harm. In some situations, there may be a low likelihood a controversy may be repeated by the same company, there may have been no previous track record of concerns prior to this controversy, or the controversy is handled effectively by the company's management.

Due to the unpredictable nature of the outcome of controversies, we do not believe it is prudent to force a decision of whether to sell or hold a security simply because a company is involved in a controversy.

Therefore, in such circumstances an existing holding in an RI portfolio may be eliminated from the portfolio to manage risk and protect the value of the investment portfolio. Alternatively, it may also be held based on the individual investment merits of doing so. However, all other outlined procedures of maintaining "Existing Holdings" will be adhered to.

## Proxy Voting

Prior to an Annual General Meeting of each publicly traded company, management invites shareholders to vote on various items identified in their proxy statement. Voting items can commonly include: electing directors to the board, approving a merger or acquisition, or approving a compensation plan.

An investor's right to vote in key corporate initiatives is an asset that comes with share ownership. For a responsible investor, however, this voting right also provides an opportunity to steer corporate decisions toward more socially responsible outcomes.

As the investment manager, Pacifica Partners will exercise votes to support responsible initiatives for the companies in your RI portfolio. Our proxy voting guidelines are to vote in favour of initiatives that generally support:

- Diversity of the Board of Directors, management and employees
- Responsible stewardship of the environment *
- Fair treatment of shareholders
- Management accountability

*Additionally, and importantly, policies and initiatives that promote the conservation of natural resources, like water, and positively impact climate change will be supported.

# Technical Methodology

Effective Summer of 2022 our Responsible Investing methodology has been enhanced to provide broader company coverage and extend to include all the following security types:

- Stocks
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Preferred Shares
- Corporate issue Bonds

## Equity Securities (Stocks)

Pacifica Partners generally invests in companies with a minimum $200 million USD market capitalization that are included as constituents, individual stock holdings, of the following indices or exchange traded funds (ETFs):

**Indices:**

- S&P 500 (Large Cap US)
- S&P 400 (Mid Cap US)
- S&P TSX (Canada)
- S&P ADR (International Stocks)
- Thomson Reuters (TR) Canada
- TR Canada Energy
- TR Canada Basic Materials
- TR Canada Industrials
- TR Canada Consumer Cyclicals
- TR Canada Consumer Non-Cyclical
- TR Canada Financials
- TR Canada Health Care
- TR Canada Technology
- TR Canada Telecommunications
- TR Canada Utilities

**ETFs:**

- BLDRS Europe 100 ADR ETF
- BLDRS Asian 50 ADR ETF
- BLDRS Emerging Markets 50 ADR ETF
- BLDRS Developed Markets 100 ADR ETF

The constituents of these indices and funds comprise Pacifica Partners, "buyable universe", or stocks (common and preferred shares) that are under consideration as possible investment opportunities for client portfolios.

Our buyable universe is then evaluated using both the MSCI & Refinitiv ESG Ratings. A Pacifica Responsible Investment Grade (PRIG) is calculated through the following methodology.

| MSCI ESG Rating | Pacifica Responsible Investing Score (PRIG)[1] | Refinitiv ESG Rating |
|---|---|---|
| AAA to A | **A** | A+ to A- |
| BBB to BB | **B** | B+ to B- |
| Pacifica Partners' RI Passing Threshold | | |
| B to CCC | **C** | C+ to C- |
| Other | **D** | D+ to D- |
| | **F**<br>Companies with more than 10% of their revenue derived from:<br>1) Tobacco<br>2) Military Contracts<br>3) Firearms & Armaments | |
| [1] Whenever a rating from both providers is available the PRIG will reflect the more conservative (lesser) of the two ratings.<br>A company which is not ranked by either provider receives a PRIG of "F". | | |

Equity holdings that are not in our buyable universe are assigned a PRIG based solely on the MSC ESG rating framework.

## Fixed Income

An often-overlooked component of responsible investing policies is ESG treatment of fixed-income securities or bonds. We recognize this shortcoming and address it by applying our same ESG buy and hold criteria to bonds held in RI portfolios.

Government issued bonds, crown corporations, or government owned companies are deemed by Pacifica Partners to be ESG compliant and are assigned a PRIG of “A”.

For individual bond holdings that are issued by a private corporation we examine the PRIG of the company issuing the bond. If the underlying issuer meets our standard for inclusion in a RI portfolio, any bonds it issues may also be included.

## Preferred Equity Shares

Preferred equity shares will be assigned the PRIG score of its issuing company if the company is in our buyable equity universe, as defined above. Otherwise, the preferred equity will be evaluated using the rating of its issuing company based solely on the MSCI ESG grading framework. Non graded issuing companies are assigned a PRIG of “F”.

## Exchange Traded Funds (ETFs)

As part of Pacifica Partners’ tactical investment process, there may be times that ETFs are used to rapidly increase exposure to a key market or asset class. Likewise, smaller accounts within a larger portfolio group may best be managed through the purchase of index funds.

An ETF PRIG is calculated using solely the MSCI grading framework. ETFs that do not have a MSCI grade and have less than 1/3 exposure to equity markets are assigned a passing grade of “B”. Otherwise, non-graded ETFs are assigned a PRIG of “F”.

## Mutual Funds

Mutual funds are selectively used in our investment process, with the exception of money-market (cash management) instruments. However, mutual funds are also evaluated on Responsible investing framework.

As with ETFs, a Mutual Fund PRIG is calculated using solely the MSCI grading framework. ETFs that do not have a MSCI grade and have less than 1/3 exposure to equity markets are assigned a passing grade of “B”. Otherwise, non-graded ETFs are assigned a PRIG of “F”.

## Cash & Cash Equivalents

Cash and cash equivalent securities such as treasury bills, commercial paper, bankers’ acceptances, money market mutual funds, GICs, and cash are deemed to have a PRIG score of an “A”.

## Non-Standard Portfolio Holdings

It is not uncommon for client portfolios to contain positions that were not purchased by Pacifica Partners and were instead transferred to accounts under our management or were client directed purchases. Likewise, holdings in a client portfolio may have client specified restrictions related to tax considerations or personal preference.

Such holdings may not be part of our buyable universe; however, we do endeavour to evaluate them as indicated above.

## Our Commitment

Pacifica Partners is committed to being a leader in providing customized responsible investing portfolios that integrate industry leading ESG data and analysis.

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Pacifica Partners' Responsible Investing policy is subject to change to adapt to changing trends in the responsible investing practices. Changes to the methodology, criteria, and data providers could potentially occur.

This document is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this document should consult with his or her Pacifica Partners advisor.

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[i] Refinitiv ESG brochure can be accessed here:
https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/refinitiv-esg-scores-methodology.pdf
(May 2022)

[ii] MSCI ESG Ratings Methodology can be accessed here:
https://www.msci.com/documents/1296102/21901542/ESG-Ratings-Methodology-Exec-Summary.pdf
(June 2022)