RBC Global Asset Management

Stewardship in action

2022 Responsible Investment Annual Report

- 2022 ESG highlights
- Proxy voting: Key stewardship process
- Engagements & collaborative initiatives
- Back to basics: Effectiveness in integration and data
- A new year for nature

About this report

In this document, references to RBC Global Asset Management (GAM) (we, our or us) includes the following affiliates: BlueBay Asset Management LLP (BlueBay), RBC Global Asset Management Inc. (including Phillips, Hager & North Investment Management), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), and RBC Global Asset Management (Asia) Limited, which are separate, but affiliated subsidiaries of Royal Bank of Canada (RBC). References to RBC refers to the Royal Bank of Canada and its subsidiaries in this report.

In this document, references to our investment approach, applicable types of investments, and applicable assets under management (AUM) exclude certain investment strategies, asset classes, exposure or security types that do not integrate ESG factors. Examples of what would not integrate ESG factors include, but are not limited to money market, buy-and-maintain, passive and certain third-party sub-advised strategies or certain currency or derivative instruments. In most, if not all of these instances, there is no engagement with issuers by RBC GAM. This document discusses our investments that integrate ESG factors. In some instances, strategies, policies and risk management processes may differ for RBC GAM affiliates.In 2022, BlueBay operated as a separate but affiliated legal entity of RBC GAM. As such, we provide additional disclosures in this report to identify relevant instances where practices at BlueBay differ from those of RBC GAM and our other affiliates. In 2023, we consolidated the activities of our two regulated legal entities in the United Kingdom (UK), RBC GAM-UK and BlueBay, into RBC GAM-UK.

REPORTING PERIOD All data and examples in this Report reflect activities undertaken during the 2022 calendar year (January 1, 2022 – December 31, 2022), unless otherwise noted

CIO Message

We are pleased to share RBC Global Asset Management's (RBC GAM) 2022 Annual Responsible Investment Report, which covers some of the recent activities, progress, and achievements surrounding our commitment to responsible investment. Massive disruption from the COVID-19 pandemic in recent years and the Russian invasion of Ukraine in early 2022 raised new concerns of geopolitical uncertainty, energy security issues, human rights, and ongoing supply chain challenges, all in an environment of rising inflation. These shocks contributed to an already-eventful year for responsible investment globally as the industry contended with evolving regulatory environments, further developments in climate-related data and disclosures, an emerging investor focus on nature and biodiversity, and in some regions, a loud and growing backlash against environmental, social, and governance (ESG) initiatives.

At RBC GAM, we strive to continuously improve upon our ESG integration and active stewardship efforts. This past year, we made further enhancements to our quarterly climate dashboards. As a result, investment teams can now dig deeper into climate analytics and scenario analysis, more easily identify the largest emission contributors, and better investigate the effects that different industries have on the portfolios they are managing. Additionally, to further enhance the dialogue on climate change risks and opportunities for investors, we entered into a collaboration with Exeter University's Sustainable Finance Centre to launch the RBC GAM Sustainable Investment Research Programme, which will examine how climate risk exposure, and sustainable finance more generally, affect the risk-return trade-off of assets.

After a one-year delay, we received the scores for our 2021 submission to the United Nations Principles for Responsible Investment (UN PRI). The UN PRI evaluates signatories' approaches to the Principles, and each of our assessed modules in the 2021 Assessment Report received a score of 4 or 5 stars, ranging from percentile scores of 81% to 100%, exceeding the group median score in each module.[1]

Amidst a backdrop of unacceptably high inflation and the ensuing monetary response, energy security concerns, and the ongoing conflict in Ukraine, responsible investment remains a top priority at RBC GAM. Throughout the past year, we've devoted significant resources to ESG data management and infrastructure, sought to further educate ourselves on ESG issues that could impact our investments, and continued to refine and improve upon our active stewardship activities. RBC GAM's purpose is to deliver exceptional investment outcomes and valued insights to clients, and responsible investment is an important part of that. By acting as an active, engaged, and responsible investor, we believe we are better equipped to deliver exceptional investment outcomes for our clients over the long term. We invite you to visit our Responsible Investment website, where you will find additional highlights of our responsible investment activities.

Daniel E. Chornous, CFA
Chief Investment Officer,
RBC Global Asset Management

[1] The group to calculate module medians includes all UN PRI signatories who submitted and were eligible to report on the module. As part of the paid annual membership services, the UN PRI evaluates signatories' approaches to the Principles based on its assessment methodology. Once the responses are assessed, all indicator scores are aggregated and modules are assigned a numerical score, converted from a points-based system ranging from 0 to 100. Scores from the 2021 reporting cycle cannot be compared to those from previous years. Prior to 2021, module scores used an alphabetical grading (A+ to E) system. Our firm's full transparency report as one of over 2,000 signatories can be found here: RBC GAM PRI Transparency Report. Our firm's full private Assessment Report from the UN PRI is available upon request. For a summary of RBC GAM's latest module scores compared to module medians, please visit rbcgam.com/ri.

2022 highlights

ESG integration

Enhancing ESG data management and climate dashboards

We devoted significant resources into enhancing systems for managing the ever-increasing flow of ESG data. These enhanced systems facilitate streamlined data integration between our investment management systems and the data we receive from our ESG research providers. We believe these enhancements will help facilitate further automation and scale.

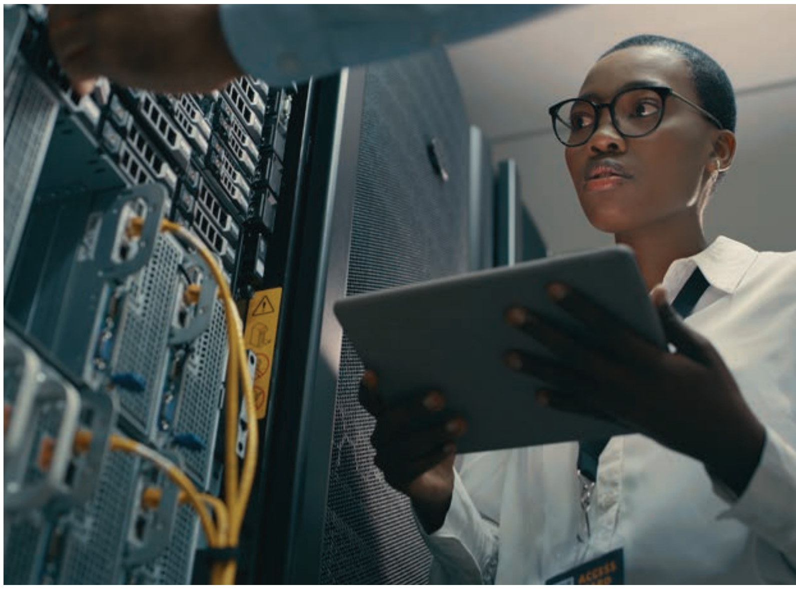
These enhanced ESG data systems have enabled us to update our quarterly climate dashboards, initially rolled out in 2020, to an interactive format. Investment teams can now dig deeper into climate analytics and scenario analysis, more easily identify the biggest emission contributors, and better investigate the effects that different industries have on the portfolios they are managing. Climate analytics and scenario analysis continue to be an important focus at RBC GAM, as the data, methodologies, and global best practices in this area evolve and improve.

ESG education

We continued our efforts to provide investment teams with up-to-date information and research on ESG topics. For example, this past year, we held education sessions on cybersecurity and the risks cyber threats create for businesses, as well as the role of energy security in the global energy transition. These sessions provided an opportunity for our investment teams to hear from internal and external experts, and share their own perspectives. Following the successful launch of its monthly internal newsletter in 2021, the RBC GAM Responsible Investment (RI) team has continued to circulate this monthly bulletin for our investment and distribution teams highlighting the latest ESG news and research.

Collaboration with Exeter University

We entered into a collaboration with Exeter University in the United Kingdom. Working with Professor Chendi Zhang, Director of the Exeter Sustainable Finance Centre, the RBC GAM Sustainable Investment Research Programme will look at how climate risk exposure, and sustainable finance more generally, affect the risk-return trade-off of assets. We believe supporting research in these areas will provide our investment teams, clients, and unitholders with fresh and novel insights into the benefits businesses may accrue from considering their climate risk exposure. We look forward to the research from this collaboration.



Active stewardship

CLIMATE ENGAGEMENT CANADA

Climate Engagement Canada[2]

In 2022, a member of the RI team was appointed to the Technical Committee of Climate Engagement Canada (CEC) and was elected Vice Chair of that committee. RBC GAM also joined four collaborative Climate Engagement Canada engagements with companies from various sectors.

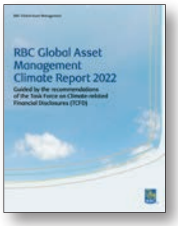
Climate Action 100+

Climate Action 100+

In 2022, there was progress on several of the Climate Action 100+ (CA100+) engagements that RBC GAM participated in. This included several meetings with senior management to discuss progress in advancing strategies to reduce greenhouse gas (GHG) emissions; establishing long-, medium-, and short-term targets; and enhancing disclosures on key issues, such as climate lobbying. In October 2022, updated results of the CA100+ Net Zero Company Benchmark showed progress for two companies that we are engaging with as part of this initiative.

[2] Logos are protected trademarks of their respective owners and RBC GAM disclaims any association with them and any rights associated with such trademarks.

Client-driven solutions & reporting



Task Force on Climate-Related Financial Disclosure (TCFD)

The recommendations of the TCFD, mandated by the Financial Stability Board, are a set of voluntary guidelines for the disclosure of climate-related risks and opportunities. RBC GAM has supported and encouraged TCFD disclosures from issuers since 2018, and became an official signatory to the TCFD in 2020. In April 2022, we released our second TCFD report, which includes disclosures on our firm polices and processes for climate-related governance, strategy, and risk management, as well as portfolio metrics related to climate change risks and opportunities. We are committed to continuous improvement and will continue to strive to report in line with TCFD best practices. Our most recent TCFD report is available at rbcgam.com/ri.

Our Approach to Responsible Investment and Climate Change

In our continued efforts to provide transparent and meaningful reporting to clients, in 2022 we released updated editions of Our Approach to Responsible Investment and Our Approach to Climate Change. Our Approach to Responsible Investment provides an overview of the three main pillars of our responsible investment strategy, the specific activities we conduct under each one, and the overarching governance structure of responsible investment at RBC GAM. Our strategy for addressing climate-related risks and opportunities is outlined in Our Approach to Climate Change.

UK Stewardship Code

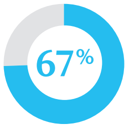
RBC GAM and one of RBC GAM's affiliated entities, BlueBay Asset Management LLP (BlueBay), are signatories to the UK Stewardship Code 2020 (Code). The Code includes a set of 12 active stewardship principles against which signatories must report. We are pleased to report that this past year RBC GAM and BlueBay met the expected standard of reporting of the Financial Reporting Council. Our most recent Stewardship Reports are available at rbcgam.com/ri

ESG thought leadership

RBC GAM publishes topical ESG-related information for our clients and unitholders to provide them with insights on material ESG issues. In 2022, we published thought pieces on the importance of climate-related financial disclosures as well as on how investors can assess the financial materiality of biodiversity and other nature-related risks. In addition, we provided insights into the 2022's proxy voting season on our website and in industry publications. We encourage you to visit our website for our full list of publications.

Annual survey

This year, we published our sixth annual responsible investment survey, the RBC GAM Responsible Investment Survey 2022. The survey included over 800 participants from around the world, including the U.S., Canada, Europe, and Asia. Respondents were from multiple areas of the investment industry, including pension plan sponsors, investment managers, consultants, endowments, foundations, and government organizations. Some of the broader global highlights include:



67% of respondents indicated that they use ESG principles as part of their investment approach and decision making. This was down from 72% in 2021 and 75% in 2020.

Perspectives on ESG varied greatly across markets, as European and U.S. investor adoption rates continued to contrast:

- 92% of European respondents indicated that they use ESG principles as part of their investment approach and decision making (this was down from 96% in 2021).
- 60% of U.S. respondents indicated that they use ESG principles as part of their investment approach and decision making (this was down from 64% in 2021).

In contrast to the decline in European and U.S. markets, Canadian and Asian investor adoption rates remained the same year over year.

- Canada: 81% adoption of ESG principles
- Asia: 76% adoption

Fiduciary responsibility as a primary driver on both sides of the coin

The rationale behind incorporating ESG in respondents' investment approaches was primarily fiduciary responsibility, up to 61% in 2022 from 57% in 2021. Simultaneously, the top reason for those not incorporating ESG factors into their investment approach was that it is inconsistent with fiduciary duty, at 47%. This was up significantly from 39% in 2021, and 33% in 2020.

Top five ESG concerns globally

1. **Climate change:** Up from third last year 44% of respondents ranked climate change as the top concern
2. **Shareholder rights/voting:** Up from fourth last year
3. **Renewable energy:** New in the top five
4. **Water:** Up from fifth last year
5. **Anti-corruption:** Down from first last year

Divestment versus engagement

When asked, "when approaching investments in high carbon-emitting sectors, do you consider divestment or engagement to be more effective?", nearly half (47%) of respondents indicated engagement was more effective, while only 10% indicated divestment was more effective, and 17% stated that they are equally effective.

Proxy voting

Proxy voting is a key part of our stewardship process as it provides an important way for us to convey our views to boards and management. Voting responsibly is part of our fiduciary duty, and we make our voting decisions independently and in accordance with the RBC GAM Proxy Voting Guidelines (Guidelines). The Guidelines provide an overview of the principles we generally support and how we will typically vote on particular issues.

2022 Guidelines updates

Our Guidelines are updated annually to reflect our views on emerging trends in responsible investment. Some of the most notable updates made for 2022 are summarized below.[3]

Diversity and inclusion

In our view, board diversity should be reasonably aligned with the diversity of the communities in which the company operates and sells its goods and services. In 2022, we updated our Guidelines to include a recommendation for boards to adopt policies, objectives, and timelines to advance the diversity of their boards and senior management teams, with an emphasis on underrepresented groups. Our Guidelines encourage businesses to share details about the diversity of their executive and/or senior management teams, as well as their overall workforce.

We recommend disclosure to be, at the very least, in accordance with local laws and regulations, such as the Canada Business Corporations Act (CBCA) in Canada or the EEO-1 Report in the United States, which requires the disclosure of a workforce's demographic information.

Board tenure

We see board renewal as an important element of the continued effectiveness of the board, and a practical way to increase board diversity. We encourage boards to takeinto account the length of each director's tenure, as well as the variety of tenures on the board, as part of the annual board evaluation in order to facilitate the board renewal process. Accordingly, we updated our Guidelines this year to communicate that we will generally vote against the election of the chair of the nominating committee where more than one-third of the board has a tenure greater than 15 years.

Our updated Guidelines are focused on boards that are skewed toward directors with disproportionately long tenures as compared to market norms. Importantly, this does not call for the dismissal of long-tenured directors, whose skill sets and institutional knowledge can make them effective in their roles. Instead, it promotes board renewal to incorporate fresh viewpoints that will complement those of more experienced, effective directors.

Climate change

Over the last couple of years, we saw a rise in the number of companies submitting their own proposals seeking shareholder approval of their emissions reductions and climate transition plans – typically referred to as management "say-on-climate" proposals. As a result, we updated our Guidelines to reflect the nature of these proposals. These updates include the standard elements that we generally require in order to support a company's climate transition plan.

For more information on how we approach say-on-climate proposals, please see our 2022 RI Semi-Annual Report.

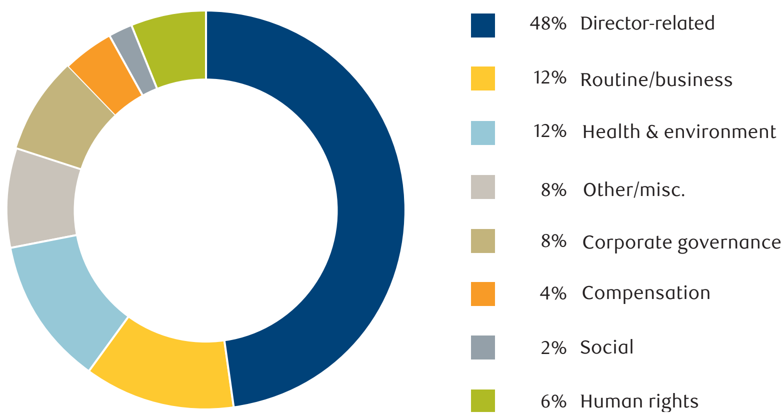
[3] The Guidelines are applied for issuers in Canada, the United States, the United Kingdom, Ireland, Australia, and New Zealand. In all other markets, RBC GAM utilizes the local proxy voting guidelines of Institutional Shareholder Services.

2022 calendar year – proxy voting statistics[4,5]

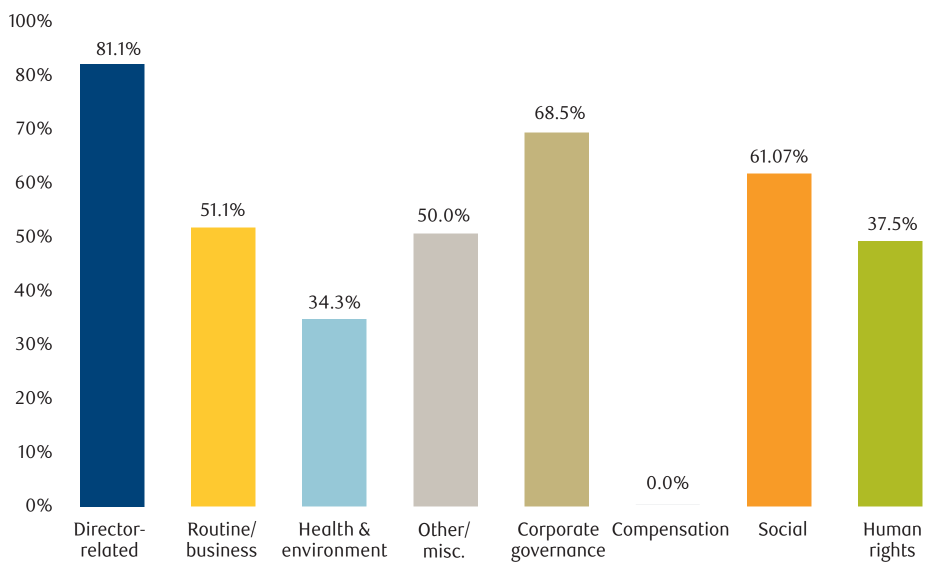
Shareholder proposals

Shareholder proposals represent a small number of overall ballot items but are an important mechanism for shareholders to request that an investee company take action on material and trending issues. For context, we voted on 1,160 shareholder proposals out of 35,825 management and shareholder proposals in 2022. The following charts provide an overview of the types of shareholder proposals we reviewed and supported this proxy voting season.

Shareholder proposals by category



Shareholder proposals supported by category[6,7]



[4] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds, and specific institutional accounts.

[5] Voting statistics account for proxy votes submitted by RBC GAM and may include instances where RBC GAM's proxy votes were rejected at the time of meeting, which may occur due to proxy voting administration issues. Voting statistics exclude instances where RBC GAM intentionally did not vote due to shareblocking restrictions or other logistical impediments.

[6] The proxy voting statistics include voting for all of RBC GAM with the exception of funds managed by BlueBay Asset Management LLP, externally managed sub-advised funds, and specific institutional accounts

[7] Throughout the 2022 Proxy Season, we saw an increase in what are often referred to as "anti-ESG" shareholder proposals. These proposals tend to have supporting statements with politically- or ideologically-motivated content, and, in our view, often request actions or disclosures counter to the consideration of material ESG issues. Of the 23 "Social" proposals RBC GAM voted on in 2022, 16 (70%) can be categorized as "anti-ESG." In 2022, these proposals focused on topics such as diversity & inclusion and the ideological diversity of boards. We evaluate each shareholder proposal on a case-by-case basis, with a view to enhancing the long-term value of securities, and this approach also applies to proposals that may be categorized as "anti-ESG."

2022 calendar year – proxy voting statistics,

The table below summarizes how we voted against management's recommendations across markets in 2022

	Canada	U.S.	Overseas	Total
Proposals	3,444	11,510	20,871	35,825
Votes WITH management	3,028	9,080	18,807	30,915
Votes AGAINST management	416	2,430	2,064	4,910
% of votes AGAINST management	12.1%	21.1%	9.9%	13.7%

Overview of our voting record by issue

Below is a snapshot of our voting record on a set of notable and frequent management and shareholder proposals. Management typically recommends voting against shareholder proposals. As a result, a vote against management in a shareholder proposal typically equates to a vote in favour of the proposal.

	Canada			U.S.			Overseas			Total		
Item category	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt	WITH Mgmt	AGAINST Mgmt	% AGAINST Mgmt
Management proposals												
Amend or approve omnibus stock plan	0	24	100.0%	4	189	97.9%	2	17	89.5%	6	230	97.5%
Elect director	2325	291	11.1%	6544	1782	21.4%	4811	518	9.7%	13680	2591	15.9%
Approve remuneration of executives	177	12	6.3%	863	121	12.3%	611	142	18.9%	1651	275	14.3%
Management climate-related proposal	2	0	0.0%	0	0	0.0%	24	2	7.7%	26	2	7.1%
Approve remuneration of directors	0	0	0.0%	1	0	0.0%	788	71	8.3%	789	71	8.3%
Ratify or approve auditors and their remuneration	288	4	1.4%	1079	1	0.1%	808	13	1.6%	2175	18	0.8%
Shareholder proposals												
Require independent board chairman[8]	0	0	0.0%	3	34	91.9%	0	0	0.0%	3	34	91.9%
Provide right to act by written consent or amend articles to call special meetings[9]	0	0	0.0%	9	74	89.2%	0	0	0.0%	9	74	89.2%
Racial equity and/or civil rights audit	0	0	0.0%	5	17	77.3%	0	0	0.0%	5	17	77.3%
Report on equal employment opportunity[10]	2	2	50.0%	1	5	83.3%	0	0	0.0%	3	7	70.0%
Political contributions and/or lobbying disclosure	0	0	0.0%	15	28	65.1%	0	0	0.0%	15	28	65.1%
Gender pay gap	0	0	0.0%	2	3	60.0%	0	0	0.0%	2	3	60.0%
Human rights risk assessment or improve human rights standards	3	1	25.0%	9	13	59.1%	0	0	0.0%	12	14	53.8%
Report on climate change and ghg emissions[11]	2	0	0.0%	28	17	37.8%	22	4	15.4%	52	21	28.8%

[8] In the case of a proxy contest, shareholders are often able to vote on either a management card or dissident card. For the period under review, RBC GAM voted on the management card of a proxy contest that included shareholder proposals. As a result, our instructions of "Do Not Vote" on the dissident card were calculated as one vote AGAINST management under the following proposal categories: "Approve Remuneration of Executives", "Ratify or Approve Auditors and their Remuneration", "Provide Right to Act by Written Consent or Amend Articles to Call Special Meetings", "Racial Equity and/or Civil Rights Audit". The following categories received two proposals on the dissident card, as a result, our instructions of "Do Not Vote" on the dissident card were calculated as two votes AGAINST management under the following categories: "Political Contributions and/or Lobbying Disclosure".

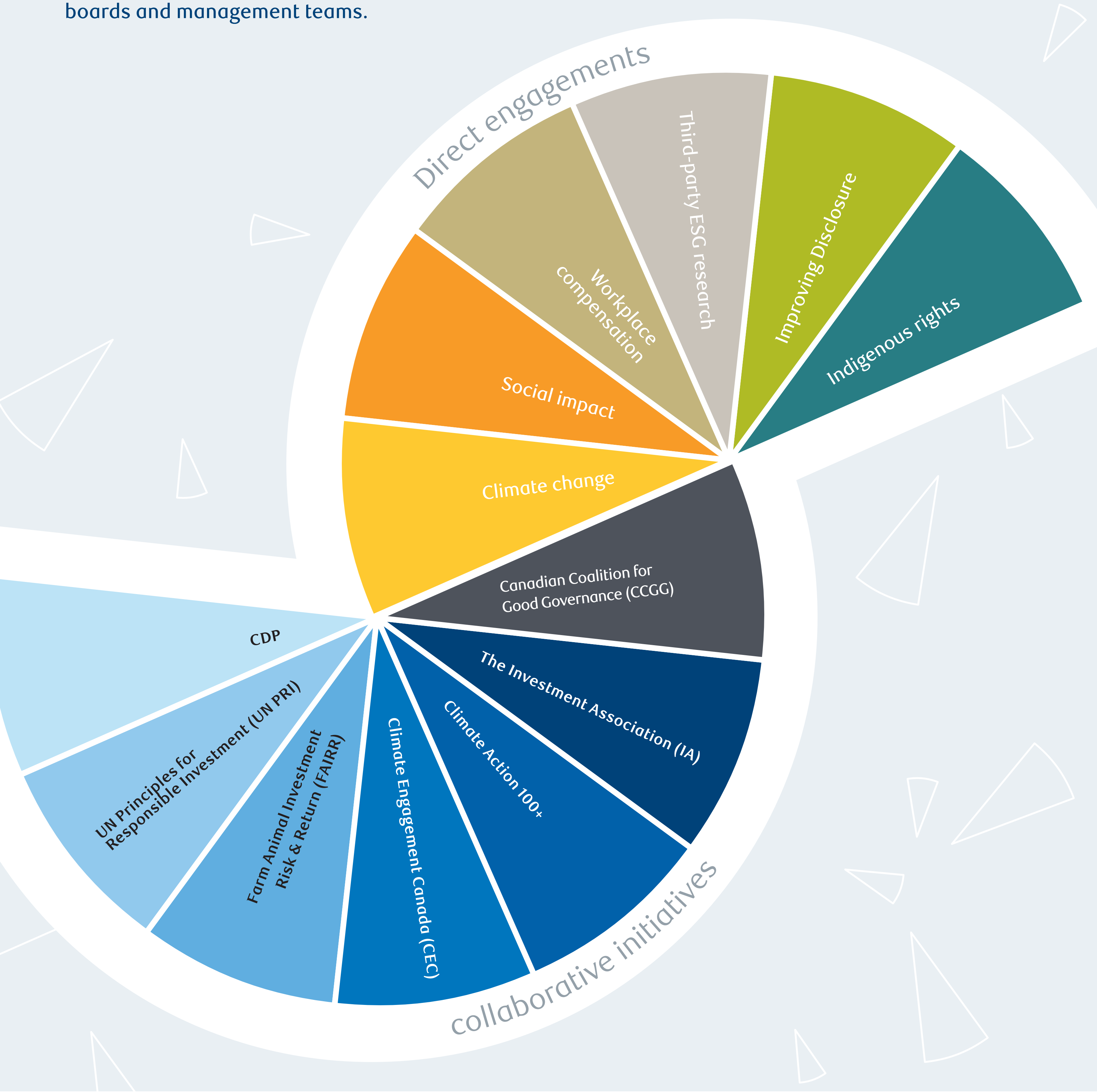
[9] Management supported one proposal under the "Provide Right to Act by Written Consent or Amend Articles to Call Special Meetings" item category. After review, RBC GAM voted WITH management on the proposal.

[10] Management supported one proposal under the "Report on Equal Employment Opportunity" item category. After review, RBC GAM voted WITH management on the proposal

[11] Six proposals were supported by management teams in the "Report on Climate Change and GHG Emissions" item category. After review, RBC GAM voted WITH management on all six proposals. RBC GAM voted FOR two additional proposals where management did not provide a voting recommendation.

Engagement & collaborative initiatives

At RBC GAM, we believe that engagement through private dialogue and collaborative initiatives can facilitate our understanding of how an issuer is addressing its ESG risks and opportunities, and also allows us to convey our own views to boards and management teams.



Direct engagements

In 2022, our investment teams held over 1,800 engagements with issuers directly on ESG issues.[12] Below are a few examples of the ESG-related engagements that our investment teams conducted over this past year.

Climate change

We recognize that climate change is one of the most pressing issues of our time and it remained an engagement focus for many of our investment teams over this past year. Our investment teams engage with issuers to discuss material climate-related risks and opportunities, where applicable.

- **The RBC High Yield Fixed Income team** engaged with a Canadian oil field services issuer on its plan to reduce the environmental impact of the Canadian oil and gas industry. The issuer was particularly excited about its GHG reduction targets and ambition to achieve net-zero GHG emissions by 2050, having successfully decreased absolute levels and Scope 1 and Scope 2 emission intensity in 2021. With a focus on water treatment and recycling, the issuer was also confident about its target of reducing freshwater usage by 5% in 2022. Carbon capture and sequestration is an exciting growth area for the industry, and the issuer continues to evaluate opportunities to participate. Overall the investment team was pleased with the issuer's response to climate-related risks and potential opportunities, and will continue to monitor the issuer's progress.
- **The RBC North American Equity team** engaged with a number of oil sands producers within the Pathways Alliance - Net-Zero Emissions by 2050.[13] The investment team focused on carbon capture and storage and the potential for it to be a major decarbonizing technology in Canada. The companies discussed the opportunities and challenges with executing their plans. They also spoke to the regulatory requirements and limitations, carbon taxes, and the overall economics of the plans including total cost of projects, biggest areas of innovation, and government support and taxation. Overall, the investment team came away with more detail regarding carbon capture, and the opportunities and risks to watch for, and confidence that the companies involved in this initiative are focused on executing and deploying resources to develop these technologies. The investment team will continue to engage with and monitor the progress of the companies that make up the alliance.
- **The RBC Global Equity team** engaged with a Japanese industrials company to discuss its pathways to carbon neutrality and specific action plans to reach this goal. The company aims to be carbon neutral by 2040 based on Scope 1 and 2 emissions, and aims to establish a detailed plan for reducing Scope 3 emissions by 2025. Further, the company has identified material climate-related issues and has introduced short-term Scope 1 and 2 emissions targets for 2025. By incorporating material ESG factors into medium-to-long-term goals, the company is potentially enhancing its environmental sustainability. In addition, the company set up a new department that will play a key role in its environmental sustainability reporting. The company has also made a commitment to have its targets verified and to submit related documentation to the Science Based Targets Initiative (SBTi). The team was pleased with the company's progress thus far and will continue to monitor its decarbonization efforts moving forward.
- **The RBC Global Fixed Income & Currencies team** engaged with a large European auto manufacturer to discuss its electrification strategy, including the potential use of hydrogen and strategies surrounding charging infrastructure. Although the transition to electric vehicles is at the core of the company's strategy, it does not see hydrogen as a viable fuel alternative for the passenger car segment, as the technology is not well suited to smaller vehicles making relatively short trips. It does, however, see potential for application in heavier vehicles such as trucks and buses. Additionally, the company views the charging network infrastructure as being a separate business, similar to the current gas station network, and therefore has no plans to actively build out a network of its own. Management believes that the current available and planned infrastructure would be able to support the transition of its fleet to electric vehicles. Overall, the team feels that meeting with management helped strengthen its understanding of the company's electrification strategy and its more specific plans for the electrification of its fleet.

[12] This figure includes instances where our investment teams engaged with the same issuer multiple times. This figure is calculated on a best efforts basis, and may not capture every ESG-related engagement.
[13] An alliance of Canada's largest oil sands producers working together to address climate change. More information can be found here.

Social impact

We believe that companies seeking to positively impact the communities in which they operate can benefit from employee attraction and retention, a positive brand reputation, and a social license to operate, among other benefits. Our investment teams often engage to understand what initiatives companies are taking to further their social impact.

- **The RBC Emerging Markets Equity team** engaged with a Chilean copper miner about its impact on local communities. The company has always placed a strong emphasis on social impact, and the investment team was pleased to hear that this continues to be the case. The company explained that it has been shifting its strategy from a transactional to a dialogue-based approach with both trade unions and the communities in which it operates. It has developed a number of initiatives aimed at equipping communities with necessary skills and tools. For example, this year the company developed a local procurement program with over 150 small businesses from a province within the country. The company also installed fiber optic cables and provided internet access to some of the more rural areas in Chile as part of its digitalization program. The investment team will continue to monitor the company's progress on its community impact moving forward.

Workplace compensation

Our investment teams believe that incentives for management and the workforce can have a significant impact on driving value in the business. Incentives for the general workforce can increase morale and productivity, and can help reduce turnover.

- **The RBC U.S. Growth Equity team** engaged with a health care company on its increase in stock-based compensation for 2022. After engaging with the company, the investment team concluded that the significant increase in stock-based compensation in 2022 was largely due to the way the accounting was completed for the company's financial statements. In addition, the team also notes that grants were given to all employees, including the relatively lower paid employees, which represented the company's largest employee population. The team believes the company's equity compensation is a differentiator in retaining and incentivizing longer-term employees, and recruiting and retaining new employees. Although there are benefits for its workforce, the investment team notes that equity compensation can be expensive for a growing company and increased use of this approach may lead to dilution for shareholders. The investment team will continue to monitor the company and its stock-based compensation moving forward.

Third-party ESG research

Our investment teams may use third-party research providers in order to research issuers' management of and exposure to material ESG factors. However, there are times when an investment team feels that the third-party research provider is missing information, or that the research does not reflect the most recent issuer disclosures. Our investment teams may seek to engage with companies to provide feedback on how the company is being perceived by third-party research providers.

- **The RBC Asian Equity team** engaged with a Japanese semiconductor company on its third-party ESG research related to human capital development. The investment team engaged with the company's chief financial officer (CFO) to discuss ways to improve the gap between the third-party research vendor's assessment and the company's unique management system on human capital development. Domestic turnover rates continued to be low, and the company provided a reward system for employees. However, the company's score in this area from the third-party vendor was significantly lower than that of its peers. The company was thankful that the investment team brought this to its attention and planned to engage with the third-party vendor.
- Although the investment team believes the score was lower than what it deemed appropriate, it also expressed some concerns about the company's human capital development outside of Japan. The investment team believes that the company's domestic hiring and reward system is in line with industry levels, however, outside of Japan, hiring and retention remain primary concerns. The investment team will continue to research and monitor where the company lags against peers and monitor the situation closely.

Improving Disclosure

Transparency on material issues allows our investment teams to assess issuers' strategies, risks, and values. Comprehensive and transparent disclosure by the issuers in which we invest may demonstrate that these issuers are accountable in managing their material ESG risks and opportunities. Our investment teams frequently seek engagements or are asked to engage in order to provide feedback on an issuer's ESG disclosures.

- **The PH&N Fixed Income team** engaged with a provincial nuclear utility to take part in its ESG materiality assessment to help inform the company's ESG strategy and determine what topics and areas to focus on in its annual ESG Report. The investment team took part in a call with an ESG consultant, and completed a session where they discussed aspects of ESG including, but not limited to: air quality, biodiversity and wildlife habitat stewardship, community engagement, human rights, Indigenous reconciliation and relations, and supplier diversity. The intent was to identify the areas that are most applicable to the company's business, the areas the company has the most potential to impact in the future, and the areas that will be most important to the planet and society in the long-term. The consultant is also conducting sessions with other stakeholders including Indigenous nations, Indigenous employees, non-Indigenous employees, suppliers, contractors, community members, and other stakeholders for the company. Overall, the investment team was pleased with the discussion. The team had previously communicated its desire to engage with the issuer as it develops its ESG-related strategy and this was an opportunity to do so. The team will continue to engage and monitor the company's ESG strategy moving forward.

- **The BlueBay Fixed Income team** engaged with a South American government's new finance ministry on budget transparency through the Emerging Markets Investor Alliance.[14] The issuer had a very positive message, emphasizing the importance of clear communications and open dialogue with its investors. The investment team provided some suggestions on how to improve the ministry's budget reporting. For example, the team requested comparisons between borrowing estimates and actual outcomes, amongst other items. The issuer advised that it is not presently planning to deviate from current procedures, but recognizes that there is always room for improvement. Overall, the investment team felt that the engagement was a success, but will continue to monitor the new ministry's progress moving forward.

Indigenous rights

Indigenous peoples have specific rights, such as those set out in the UN Declaration on the Rights of Indigenous Peoples[15], which may be material to a company's operations and decision making.

- **The PH&N Canadian Equity team** engaged with a midstream energy company regarding its community relations approach. Strong community relations are a key focus of the company, particularly relations with Indigenous peoples, as the company's asset base intersects the territories of many Indigenous groups across North America. The investment team was impressed with the company's thoughtful and multi-pronged process. The company has a consultative approach to project management and construction, backed by a team of front-line workers directly engaging with Indigenous groups. Management discussed their willingness to listen to these groups and adjust construction accordingly, despite having to incur costs to do so. Management also discussed solutions they employ to gain buy-in from the company's Indigenous stakeholders. For example, the company employs contractors from local Indigenous groups, and invests in communities in the form of training and project funding. The company also gives Indigenous groups opportunities to invest in projects alongside them for further alignment. Overall, the investment team was pleased with the company's approach to Indigenous relations, and will continue to monitor the company's progress on this moving forward.

[14] BlueBay is a member of the Emerging Markets Investor Alliance (EMIA). The EMIA aims to enable institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. For more information, please refer to this link.
[15] The full United Nations Declaration on the Rights of Indigenous Peoples can be found here.

Corporate governance

We believe companies with good corporate governance structures are better able to focus on the company's long-term, sustainable growth; pose less risk for shareholders due to proper alignment of management and shareholder interests; and are more likely to effectively manage the company's environmental and social risks and opportunities. Our investment teams often engage with companies on corporate governance practices such as board and management structure, oversight, and succession planning.

- The **RBC European Equity team** engaged with a British financial service company on corporate governance after the chief executive officer (CEO) announced his upcoming departure. The timing of the departure was concerning as the company had just announced a major strategic plan earlier in the year. The CFO – a potential successor – appears to be very capable, but has only been in the role for eight months. The company explained how the board has started the succession planning process, and the nomination committee is looking to increase the number of non-executive directors, and find candidates who bring specific skills such as digital and wealth management expertise. Another issue is seven of the ten current board members have less than two years tenure. After further review and consideration, the investment team decided to exit the position. Although the investment team felt that the business was lucrative and understood the rationale for the strategic shift, it was not comfortable with the overall governance of the company. Overall, the team felt that there was too much risk stemming from the CEO's departure prior to seeing the company's major strategic plan through, as well as the lack of tenure from the CFO and the board.
- The **RBC U.S. Value and Core Equity team** engaged with a value-added reseller of technology products on its corporate governance. The company is a controlled company, with one beneficial owner owning more than 50% of the company's voting stock. Cognizant of the ownership structure, the investment team spoke to the company about the board structure and recent changes. The board recently added a sixth member, and the investment team was pleased that more than 30% of board seats were held by women. In addition, while the investment team noted the board's average tenure of 14 years at the time of the last shareholders' meeting, they were encouraged by the addition of two new board members in the last two years, and recognized that two longer-tenured directors – including the founder and controlling shareholder – skewed the average director tenure, mitigating concern. Overall, the investment team found the engagement constructive, and was pleased with some of the recent governance changes at the company

Collaborative initiatives

We participate in initiatives that we believe will increase transparency, protect investors, and foster fair and efficient capital markets. Highlights of our activities in 2022 are as follows:

Canadian Coalition for Good Governance (CCGG)

Representing the interests of institutional investors, CCGG promotes good governance practices at Canadian public companies. It also seeks to improve the regulatory environment to promote the efficiency and effectiveness of the Canadian capital markets, and align the interests of boards and management with those of their shareholders. RBC GAM is a founding member of CCGG. Members of the RI team sit on the CCGG's Public Policy Committee, as well as the Environmental & Social Committee. RBC GAM is a participant in CCGG's collective engagement program and contributed to six collective engagements in 2022. In total, CCGG completed 30 collective engagements over the past year.

CDP

RBC GAM and BlueBay have been investor members to the CDP, which runs the global disclosure system that enables entities to measure and manage their environmental impacts, and strives to advance environmental disclosure. During 2022, BlueBay worked closely with the CDP on the following initiatives:

- Joined other CDP signatories in asking over 10,000 companies to respond to the climate change, forest, and water security questionnaires.
- Supported the CDP in its non-disclosure campaign, which works in parallel with the overall disclosure request to target companies that have failed to disclose metrics to CDP in previous years.
- Signed up to the Science-Based Targets Initiative (SBTi) campaign, which seeks to accelerate the adoption of science-based climate targets by encouraging a CDP-selected group of companies to respond and commit to setting a science-based emissions reduction target aligned with 1.5 degree Celsius scenarios through the SBTi.

Climate Action 100+

RBC GAM has been a signatory to the CA100+ since 2020 and is a participant in several collaborative engagements. Climate Action 100+ is an investor collaboration that focuses on active engagement with the world's largest publicly traded and systemically important carbon emitters, or companies with a significant opportunity to drive the transition to a low-carbon economy.

For example, over the past year, the RBC North American Equity and RI teams engaged with an integrated oil company as part of a collaborative engagement for CA100+:

- In 2021, investors participating in the collaborative initiative sent a letter to the Chairman, President, and CEO of the company and had a follow-up meeting with management to discuss the importance of adopting interim emissions reduction targets to support their short-term target, and to provide greater disclosure on their climate-related lobbying.
- In early 2022, the company announced the establishment of both medium- and long-term carbon emissions reduction targets to further support its existing short-term target. Although the company had not yet published its climate-related lobbying expectations for trade associations, it did disclose its trade association memberships.
- Areas of ongoing discussion include the disclosure of scope 3 emissions, and the implementation of climate scenario analysis.

Climate Engagement Canada (CEC)

RBC GAM is a founding participant of CEC, which launched in October 2021. This investor-led initiative focuses on engaging collaboratively with the boards and senior leaders of 40 TSX-listed focus companies that are top greenhouse gas emitters, and/or provide a significant opportunity to contribute to a low-carbon future. Since its launch, the CEC has established both a Steering and Technical Committee to guide the governance and implementation of the initiative's objectives. A member of the RI team serves as the vice-chair of the Technical Committee.

Initial letters from investors were sent to focus companies in mid-2022, confirming that investors would be engaging with companies on the following topics: the implementation of strong governance frameworks for oversight of climate risks and opportunities; the implementation of emissions reduction strategies; the establishment of emissions reduction targets; providing disclosures in line with the recommendations of the TCFD; and transparency on climate-related lobbying activities.

Farm Animal Investment Risk & Return (FAIRR)

BlueBay is a member of FAIRR, which is a collaborative investor network that raises awareness of the ESG risks and opportunities brought about by intensive livestock production. Last year, BlueBay signed up to a global collaborative investor engagement focused on promoting better practices in the animal protein industry in emerging markets. 2022 was the second year of this three-year initiative, which continues to build off of the dialogue from last year to address the key areas of risk and opportunity identified from the initial conversation. BlueBay has also broadened its involvement beyond emerging market companies, to include companies in the U.K. and the U.S.

THE INVESTMENT ASSOCIATION

The Investment Association (IA)

BlueBay is a member of the IA, the trade body and industry voice for U.K. investment managers. Last year, BlueBay was invited to participate in a Fixed Income Stewardship Working Group (Working Group). The purpose of the Working Group is to inform and direct the IA's work on improving stewardship in fixed income assets by developing guidance on how stewardship in fixed income can be improved, encouraging industry to set expectations of bond issuers and hold them accountable, and helping overcome barriers to engagement with issuers. These conversations continued through to 2022, where BlueBay and other members shared insights, experiences, and best practices. In November 2022, the outputs of these discussions were used to produce a report, Improving Fixed Income Stewardship.

PRI Principles for Responsible Investment

UN Principles for Responsible Investment (UN PRI)

BlueBay continued to be active across a range of UN PRI-led initiatives to drive best practices within the fixed income asset class as part of its membership in the UN PRI's advisory committee focused on fixed income. Examples from 2022 include:

- **Corporate debt and credit ratings.** Since 2016, the UN PRI has been engaging with credit rating agencies (CRAs) to advance the review of ESG factors within a credit rating assessment. Over the past year, BlueBay supported the ongoing program of the UN PRI's sector-focused workshops that brought together CRAs, issuers, and companies to discuss how ESG factors may impact credit rating assessments.[16] The UN PRI also surveyed investors to better understand whether they believe issuers and/or companies reporting in alignment with the recommendations of the TCFD is useful for credit risk analysis.[17]
- **Sovereign debt ESG investing.** BlueBay participated in a UN PRI-led roundtable discussion with index providers and climate-analytics vendors to better understand how they are incorporating sovereign ESG considerations into their service offering. BlueBay also contributed to the UN PRI's white paper, Human Rights In Sovereign Debt: The Role of Investors, which addresses human rights in sovereign investing,[18] and participated in a UN PRI-led engagement with sovereign issuers and the World Bank to discuss climate budget tagging best practices.[19]

Regulatory initiatives

In 2022, RBC GAM also provided comments on a variety of regulatory initiatives relating to corporate governance and shareholder rights. Our submissions included the following:

- Through the CCGG, we provided feedback to the Ontario Securities Commission on its Statement of Priorities for the 2023/2024 financial year. This included discussions focusing on the Canadian Securities Administrators' progress on establishing new diversity disclosure and targets requirements for Canadian issuers.
- Through the Portfolio Management Association of Canada, we provided feedback to the Canadian Association of Pension Supervisory Authorities on ESG considerations in pension plan management.
- Through the International Corporate Governance Network, we provided comments on proposed revisions to the German Corporate Governance Code.
- Through the European Leveraged Finance Association, BlueBay provided feedback to the International Finance Reporting Standards' (IFRS) International Sustainability Standards Board (ISSB) on its public consultation on general sustainability-related and climate-related disclosures.
- Through the Alternative Investment Management Association, BlueBay provided feedback to the U.S. Securities and Exchange Commission on its recommended proposal to increase climate-related disclosure for U.S. publicly listed companies.

[16] For more information on this initiative, please refer to the following link: UN PRI: https://www.unpri.org/credit-risk-and-ratings/bringing-credit-analysts-and-issuers-together-workshop-series/5596.article
[17] For more information on this survey, please refer to the following link: UN PRI: https://www.unpri.org/credit-risk-and-ratings/are-the-tcfd-recommendations-useful-for-credit-risk-analysis/9429.article
[18] Human Rights in Sovereign Debt: The Role of Investors: UN PRI: https://www.unpri.org/download?ac=15518
[19] For more information, please refer to: UN PRI: https://www.unpri.org/sovereign-debt/climate-budget-tagging-a-discussion-between-sovereign-debt-investors-and-issuers/10571.article

Back to Basics on ESG

In 2022, we saw a rise in headlines questioning the role and effectiveness of ESG integration or investing, and in the use of third-party ESG ratings or ESG data. In many ways these headlines demonstratethe mainstreaming of ESG, and open the door to healthy and constructive debate around the challenges and limitations of responsible investment approaches, such as poor data quality, low data coverage, or insufficient disclosures. However, in many cases, the headlines highlight the confusion and misunderstanding that exists around what different responsible investment terms mean. This is understandable, as the lack of consistent definitions and terminology is one of those challenges that needs to be addressed. A good place to start is by going back to the basics.

Defining the letters ESG is generally the easy part–it stands for environmental, social, and governance. What is more challenging, however, is sorting through the different ways the term ESG is interpreted and applied. There is no one standard set of definitions, but at RBC GAM we refer to industry or regulatory standards wherever possible. One common misconception is confusing ESG integration with socially responsible investing (SRI), both of which may also be referred to as ESG investing, sustainable investing, or impact investing. Another aspect has to do with references to ESG data that are in fact referring to ESG ratings or scores from third-party research providers. We will walk through each of these in turn.

ESG integration vs. Investing with an ESG objective

Let's start with ESG integration, which is the process by which material ESG factors—or ESG factors the investor believes have the potential to impact price, valuation, creditworthiness, or other financial metrics relevant to the investment—are considered by investment managers alongside other financial information in order to inform investment decision-making. ESG integration is based on a belief that considering material ESG factors may enhance long-term, risk adjusted returns, and that doing so is part of an asset manager's fiduciary duty. For example, we believe that, in the long run, a well-governed company that is managing environmental risks and liabilities while treating its employees and community with consideration and respect, is in a better position to outperform peers that fail to do so. In essence, ESG integration is about making better investment decisions by considering ESG factors that may be material to a company's performance. It is about maximizing risk-adjusted returns for investors.

Where the misunderstanding often lies is in mistaking ESG integration with investing with a specific ESG-related objective; which is often also done to align investments with investor values, rather than solely to maximize risk-adjusted returns. To add to the confusion, investing with an ESG-related objective may be referred to as SRI, sustainable investing, ESG investing, or impact investing. In this case, although the strategy may have a financial objective, investments are also being managed with the purpose of achieving a (typically) environmental or social objective, which may involve excluding companies from certain industries or activities (e.g. tobacco, thermal coal), or only investing in companies that meet particular criteria (e.g. low carbon emissions, women owned). Although investors may choose to have their assets managed using an ESG integration approach or managed with a specific ESG objective, these are distinctive concepts that are often confused in the common lexicon.

Terminology matters because it is only from a shared understanding of definitions that we can have thoughtful discussions, address challenges and derive solutions that meet investors' needs. Although regulators in Canada, the U.S., Europe, and the United Kingdom, as well as international standard-setting bodies, are working to establish a common dictionary for ESG, these are not globally standardized. What this means is that as investors, we must be clear, transparent and precise in the language that we use, and carefully consider the language that others are using when referring to ESG.

ESG data vs. ESG ratings

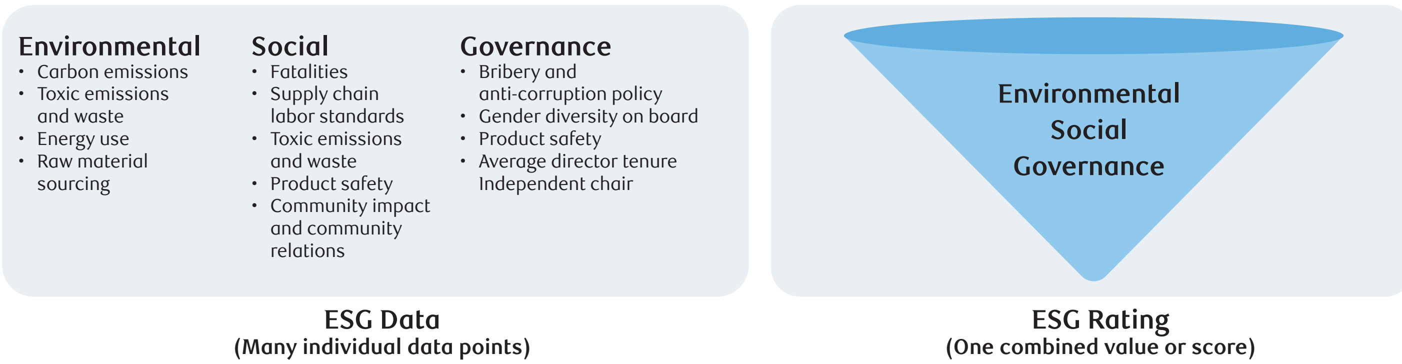
Another set of terms that have been used interchangeably while referring to quite different concepts is ESG data and ESG ratings. Although both refer to information about a company's performance on ESG issues, the information they are referring to and how it is used is actually quite different. ESG ratings (or scores) are an aggregate view of an issuer's performance on E, S, and G factors, based on one provider's views. At the most concise level, providers seek to provide one value that reflects a combined view of the issuer's overall ESG performance. This is often in the form of an issuer-level overall ESG rating or score. By their design, ESG ratings depend on the methodology used by the third-party data provider that generates the rating, and are intended to provide its proprietary view on ESG performance, including its proprietary view on the materiality of individual ESG factors. This also helps explain why there is generally a lack of correlation between ESG ratings from different vendors[20] – they each use different underlying ESG data factors, different weightings for those factors, and different methodologies to create their score or rating. This in and of itself isn't an issue, as long as investors recognize ESG ratings as only one input or one opinion that may inform investment decision making and not as a definitive "truth" on ESG performance. In fact, this is similar in concept to sell-side analysts providing different earnings forecasts for a company: each of these should be assessed on its merits and taken as input versus fact. It is for this reason that RBC GAM subscribes to ESG ratings from multiple providers. In addition, investment teams may leverage ESG data, research and due diligence, engagement, and other inputs to inform their view of material ESG factors and performance.

Although ESG ratings aim to combine ESG performance into a single value, ESG data refers to the many individual data points related to ESG issues. ESG is complex, and for any one company the E, S, and G factors can be intertwined, with each one influencing or impacting the others in ways that are often difficult to separate. As a result, the importance of each of these factors in an investment decision will vary for

[20] https://blogs.cfainstitute.org/investor/2021/08/10/esg-ratings-navigating-through-the-haze/

each issuer, which is why the focus on materiality is critical. For example, carbon emissions may be material to an energy company but less so for a health care company. Tailings and water management is material to a mining company but less so for a professional services company. It is for this reason that it is often important to go beyond ESG ratings and look at the underlying ESG data for a company. ESG data may be quantitative data regarding the percentage of board members that are women, or it may be a more qualitative assessment of the quality of risk management and types of policies at a company. ESG data can also be sourced directly from companies (i.e., reported data), or either estimated or modelled. It may also include time series or historical data as well as projected forward-looking data. At RBC GAM, our investment teams have direct access to in-depth and multi-faceted ESG data. Each investment team or analyst may then select and use specific ESG data factors that they believe are material to a company, sector, asset class, or geography.

Illustrative example of the difference between ESG data and an ESG rating



Where do we go from here?

Consistent and transparent use of ESG-related terminology is essential to advancing responsible investment. For RBC GAM, responsible investment (RI) is an umbrella term used to describe a broad range of approaches for incorporating ESG considerations into the investment process. These approaches are not mutually exclusive; multiple approaches can be applied simultaneously within the investment process. For instance, a solution applying exclusionary criteria to the investment universe can also apply ESG integration to the remaining assets eligible for investment. Efforts are underway globally, and in different regions, to increase the consistency and standardization of both terminology and disclosures related to ESG. For example, in 2021, the IFRS foundation established the ISSB, which is tasked with developing sustainability and climate disclosure standards at a global level. Regulators in several jurisdictions are also establishing, or planning to establish, product-labelling guidelines that aim to bring consistency and transparency to clients. To date, this includes new or proposed requirements in Europe, the U.K., Canada, and the U.S. As these initiatives move forward, it will be important for there to be alignment in terminology and core concepts, or they risk adding to the confusion, instead of solving for it.

At RBC GAM, RI includes the following investment strategies:

ESG integration

Systematically incorporating material ESG factors into investment decision making to identify potential risks and opportunities and improve long-term, risk-adjusted returns.

ESG screening & exclusion

Applying positive or negative screens to include or exclude assets from the investment universe.

Thematic ESG investing

Investing in assets involved in a particular ESG-related theme or seeking to address a specific social or environmental issue.

Impact investing

Investing in assets that intend to generate a measurable positive social or environmental impact.

A new year for nature

One of 2022's key ESG themes was nature and biodiversity. In March, the Network for Greening the Financial System (NGFS), a collaboration of over 100 central banks and supervisors, released a statement acknowledging that nature-related risks could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications may pose a material financial risk.[21] At the same time, there has been growing recognition of the importance of investing in nature-based solutions in order to mitigate climate change and to improve the Earth's ability to adapt and be resilient to natural disasters.

[21] Statement on Nature-related financial risks, NGFS, Mar 2022

Discussions on nature as an investment issue culminated at the United Nations' biodiversity conference (COP15) in December. In what has been called a "Paris moment for nature,"[22] 196 nations and thousands of business, finance, and civil society observers descended on Montreal, Canada, to discuss, negotiate, and collaborate on the issue of biological diversity. In the end, all participating countries signed on to the Kunming-Montreal Global Biodiversity Framework, which sets out 23 targets to halt and reverse biodiversity loss, and put nature on a path to recovery. [23] As part of this, nations agreed to a target to protect 30% of land and sea by 2030 – a goal commonly referred to as 30x30. They also set forth a target to take legal, administrative, or policy measures to encourage and enable businesses and financial institutions to monitor, assess, and disclose their risks, dependencies, and impacts on nature and biodiversity.

Defining nature & biodiversity

Nature is comprised of four realms: land, freshwater, ocean, and atmosphere. It is the overarching term that encompasses both the extent (amount) of these realms on Earth, as well as the condition and health of the species and ecosystems that inhabit them.

Biodiversity is a characteristic of nature. It can be defined as the variability among living organisms from all sources, including, terrestrial, marine and other aquatic ecosystems. This includes diversity of species and ecosystems.

Good biodiversity is vital to nature. It supports healthy ecosystems, which in turn clean the water, purify the air, maintain the soil, regulate the climate, recycle nutrients, and provide food.

Much work remains to put the Global Biodiversity Framework in action. However, for investors, nature-related risks and biodiversity are likely to continue to move up the agenda, as more data, measurements, and disclosure emerge.

At RBC GAM, we continued to track developments in the nature and biodiversity space throughout 2022, including by:

- building internal knowledge and understanding of nature and biodiversity loss as a potential investment risk and a potential systemic risk;
- publishing an insight article on investor perspectives on biodiversity and COP15 (Dec 2022); and
- participating in the delegation of the UN PRI at the COP15 biodiversity conference.

In addition, as part of RBC GAM's ESG integration activities, our investment teams continued to evaluate material ESG factors within their investment decision-making processes for applicable types of investments.[24] This includes consideration of factors such as biodiversity and land use, natural resource use, water stress, sustainable forest management, and other factors, when financially material to a sector or issuer. RBC GAM is also a supporting investor of the Investors Policy Dialogue on Deforestation (IPDD), and BlueBay is a co-chair of the IPDD.

In focus: emerging markets equity

When it comes to biodiversity-related risk, we view geography and location as key factors. A significant portion of the Earth's remaining biodiversity is located in emerging markets. In countries such as Brazil and Indonesia, which have an abundance of rainforest and native species, the likelihood of nature-related risk incidents through deforestation and other channels is high. Of the ten countries in the world with the highest count of registered biodiversity risk incidents in 2021, six were within emerging markets; Indonesia and Mexico had the highest proportion of biodiversity-related incidents relative to all risk incidents in those countries, and Brazil had the largest number of biodiversity risk incidents anywhere in the world.[25]

Such statistics, in addition to on-the-ground investment expertise in emerging markets, led our RBC Emerging Markets Equity team to spend part of 2022 deepening its research and understanding of biodiversity as a potential investment risk.

The team noted that the current lack of company-level, nature-related disclosure means that thoughtful engagement with companies is imperative to understanding the risks and opportunities that businesses face on this subject, and how they approach them. Engagement has always been important to the team's investment process, and in 2022, the investment team began engaging with investee companies specifically on biodiversity and nature loss.

Although the issue of biodiversity and nature loss is still nascent for many companies, the team has been pleased to see that some issuers have already started to think and act meaningfully on these topics, including by introducing policies, biodiversity-related audits and inspections of high-risk areas of operation, and reporting on biodiversity impacts and dependencies as part of their corporate sustainability reporting.

[22] The Paris Agreement is an international treaty on climate change adopted in 2015. https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement
[23] Kunming-Montreal Global Biodiversity Framework, Convention on Biological Diversity (CBD), Dec 2022
[24] Certain investment strategies or asset classes do not integrate ESG factors, including but not limited to money market, passive and certain third-party sub-advised strategies.
[25] RepRisk, "Biodiversity risk by the numbers," February 2022

The investment team also decided to more formally integrate considerations of biodiversity and nature loss within its investment process, specifically including it as part of the team's consideration of environmental risks within its investment due diligence checklist. The team was also heartened that many of the areas that intersect with biodiversity and natural capital, including climate change and greenhouse gas emissions, water usage, waste management and supply chain management, have been part of its analysis of, and discussions with, investee companies for some time.

In Philippe Langham's words (Senior Portfolio Manager & Head of Emerging Markets Equities, RBC Global Asset Management (UK) Limited):

> "We believe that biodiversity and nature loss will become high-profile focuses for the global financial community. With increasing nature-related regulation and initiatives, including the Taskforce for Nature-Related Financial Disclosures (TNFD), it will become incumbent on companies and investors to think meaningfully about these issues and the associated risks and opportunities they face. The importance of the issue in emerging markets is clear, and we look forward to continuing to develop our work and engage with our investee companies on this important topic."

In focus: Investor Policy Dialogue on Deforestation (IPDD)

The IPDD is an investor-led sovereign engagement initiative that aims to halt deforestation in some of the world's most biodiverse, carbon-absorbing biomes. Specifically, the initiative has focused much of its efforts to date on Brazil and Indonesia. Increasingly, sovereign fixed income investors in these markets are considering deforestation as a potential risk to a country's or investment's creditworthiness. Collaborative engagement with policymakers is one way that investors can aim to manage potential risks related to deforestation.

In 2022, RBC GAM continued to be a supporting investor of the IPDD, and BlueBay is a co-chair of the IPDD and contributed directly to the initiative's efforts in Brazil.

In Brazil, where deforestation has been accelerating since 2019, the IPDD's desired outcomes include the enforcement of Brazil's Forest Code, the prevention of fires, and public access to data. According to the IPDD's 2022 report, the group was successful in establishing open dialogue with members and groups within the federal government, congress, embassies, state governments, and key financial organizations. The IPDD is now a valued initiative in Brazil, with Graham Stock, Senior Emerging Market Sovereign Strategist at BlueBay and co-chair of the IPDD, having been invited to speak at the announcement of a national carbon market in Rio de Janeiro in May 2022. While there is much progress to be made, moving forward the IPDD will continue to focus on engaging with federal and state-level government on actions to halt deforestation, and is encouraged that the new government in Brazil is showing a firm commitment in this regard.

RBC Global Asset Management

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