

## **ESG at Sionna: An Integrated and Active Approach**

At Sionna, thoughtful consideration of environment, social and governance (ESG) factors is integral to our in-depth due diligence process, team discussions and management interviews. Historically, we have been proponents of good corporate governance and prioritize it during our research process. As we've learned more about environmental and social factors, how those factors can be financially material to an investment decision and as disclosures have increased, we have formally integrated those factors into our research process.

These factors are included in our Research Questionnaire and we explicitly consider them as part of our analysis and valuation models. They are essential components of each investment thesis. We are active owners and have ongoing discussions with management teams during one-on-one interviews – both prior to investment and during our continuous monitoring process. These discussions often help our understanding of ESG factors and management of ESG risks. To further demonstrate the importance of ESG in our process, Sionna signed the United Nations-supported Principles for Responsible Investment (UN PRI) in 2018, publicly committing to continuous improvement in this area.

### **Integration in Action**

To demonstrate how we integrate environmental, social and governance factors into our investment decisions, let's look at Allied Properties (Allied), a company we invested in recently. Allied owns, manages and develops office real estate. The business model revolves around refurbishing old, industrial properties in downtown cores and turning them into modern offices with beautiful, exposed brick and beam. Adapting old buildings uses fewer materials than tearing down and rebuilding, thus Allied has a smaller environmental footprint.

During our research process we uncovered that Allied obtained a GRESB Assessment (a global ESG benchmark for real assets) for 2019. It was Allied's first time doing so, choosing to publicly disclose its ESG practices in areas such as waste, water, greenhouse gases, energy, and tenants and communities. Allied received a score of 64, which was described as a 'strong first-year showing' by GRESB. Allied has committed to obtaining a GRESB Assessment annually going forward, along with publishing an ESG report – which it produced for the first time in 2020. These steps are signs of commitment to continuous improvement in ESG and provide increased data and disclosure. Sionna will continue to monitor this disclosure and update our investment thesis accordingly.

Allied was recently recognized as a Kincentric Best Employer in recognition of its high employee engagement and focus on creating an environment where employees can thrive. We were pleased to see Allied launched an employee-led Equity, Diversity and Inclusion committee in 2019 and identified areas of opportunity. Allied now has an action plan developed that will be implemented in 2021. Diversity and inclusion is something we consider in companies we invest in because we believe diversity can produce better outcomes in the long term by reducing cognitive biases, driving better decisions and improving candor – things we consider vital to the long-term success of companies (our own included).

When assessing Allied's governance structure, we found an independent board with solid processes in place to evaluate board performance. Both the board and management are generally aligned with shareholders in terms of ownership and compensation structure – a quality we find highly attractive in companies we invest in. Shareholders are treated well in terms of voting rights and dilution risk. And finally, disclosures are strong, which provides transparency for investors.

From a fundamental perspective, Allied's distinctive spaces are in high demand while supply is limited, allowing the company to raise rents and grow net asset value via redevelopment. We were recently able to purchase shares in Allied at attractive valuations due to the overarching industry concerns around office occupancies. Essentially, we were able to marry detailed ESG research with traditional company analysis and discounted valuation to develop a great investment thesis. That means, through our investment actions, we can achieve returns for our clients and simultaneously invest in companies working towards a more sustainable future.

### **Active Ownership**

As part of our ongoing commitment to incorporating ESG into our ownership practices, Sionna frequently takes an active ownership approach with companies. This helps our understanding of management's consideration of ESG factors and gives an opportunity to encourage management teams to integrate ESG into their long-term strategy. We also convey our expectations for increased ESG disclosures. Below we demonstrate our active ownership approach with three different, but related, components: meeting with management, collective engagements and proxy voting. These distinct components can be powerful on their own, but collectively are intended to drive meaningful change.

Continuing with the example of Allied, we have met with Allied's management team twice in the past twelve months – including once prior to investing. Among other topics, we were able to learn about their long-term ESG ambitions, open dialogue and stay abreast of progress. These regular touchpoints build on progress from previous meetings, which would be difficult to achieve without the time spent developing a mutually beneficially relationship.

Sionna is a member of the Canadian Coalition for Good Governance (CCGG) – an investment industry coalition designed to improve corporate governance in public companies. CCGG elicits input from public shareholders like Sionna to perform collective engagements with corporate management teams regarding their ESG practices. CCGG's collective engagements have demonstrated high rates of improvement in ESG practices and/or disclosure deficiencies and are an effective way for a firm of our size to advocate for improved ESG practices and achieve outcomes. For example, in a recent collective engagement with the Bank of Nova Scotia (BNS), we provided input to CCGG with regards to BNS' executive compensation incentive metrics. This was brought up in the engagement and BNS confirmed it would review remuneration in respect to environmental and social performance.

Finally, Sionna uses a principles-based approach to proxy voting. We vote in a manner that seeks to enhance long-term shareholder value and is consistent with leading corporate governance practices. We vote nearly all our shares and put great consideration into each proposal. For example, we scrutinize board members under a highly stringent definition of independence. We would consider a supplier, customer, or someone with an ostensible conflict of interest, like a lawyer, investment banker or investment manager, to be not sufficiently independent. Additionally, we often vote for shareholder resolutions such as compensation "say-on-pay" or increased ESG disclosures.

### **Always Moving Forward**

Last year, Sionna launched an internal ESG Committee building on the work individual members of the firm have been doing for years. The Committee is cross-functional, including portfolio managers and members of the relationship management and operations teams. It also includes one of Sionna's Co-CIOs, so there is involvement from all levels and all areas of the firm. While ESG research and analysis is carried out by every member of the investment team during our comprehensive process, the Committee is a resource for education and information. The Committee is responsible for guiding best practices, identifying and sharing tools and training resources with the broader team and monitoring the overall ESG exposure of Sionna's mandates. The Committee also tracks firm ESG integration and engagements, and reports annually in accordance with the UN PRI. The Committee's goal is continuous improvement in ESG, so expect to hear more developments from Sionna.

Sionna considers employee diversity to be vital to our long-term success, driving better decisions and improved candor. As you may know, Sionna is a woman-founded and led company. Beyond that, 52% of our employees are women, including 67% of our senior management and 40% of our Advisory Council. In the last five years, 56% of internal promotions have been awarded to women and 44% to employees of colour, so we are both hiring and promoting diverse candidates.

At Sionna, we take a very holistic view of ESG stewardship, one that permeates our research, discussions, ownership practices and our culture. As a result of this integrated approach, our large cap portfolio companies are, on average, 35th percentile in ESG risk rating when compared to the global universe of investable companies, and 25th percentile when compared to their respective industries.<sup>1</sup> We believe thoughtful integration is the key to producing positive returns with long-term impacts on society, environment and performance of the business. As this continues to be an evolving field, we are constantly learning and improving our methods as well. We look forward to bringing you new developments in this fast-growing field.

Jackie Au, CFA  
Portfolio Manager

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<sup>1</sup> According to global ESG research firm Sustainalytics. Average calculated using Sionna Canadian Large Cap Pooled Fund holdings as of December 31, 2020 using most recently reported data from Sustainalytics – if available.



Sionna Investment Managers 8 King Street East, Suite 1600 Toronto, Ontario M5C 1B5  
For further information, please email [clientrelations@sionna.ca](mailto:clientrelations@sionna.ca).

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