

# TD Asset Management - Report on Sustainable Investing Engagement Activities in 2009

Sep 2010

## Background

In April 2009, TD Asset Management (TDAM) adopted and made public our Sustainable Investing Policy. It describes how we approach environmental, social and governance (ESG) issues as part of our decision-making process.

As our policy emphasizes, buying and selling securities is not the only way that we help our clients achieve their financial objective. As a security holder, we can take a number of actions. One of them is engaging with companies in appropriate situations. We see this as an important part of our duty to act in the best financial interest of our clients.

When we engage, we contact companies to seek additional information or to encourage them to take a specific action. We focus on the companies where we can have the greatest impact, and the factors that we consider to be key drivers of financial value. Usually, our chances for success are higher when we partner with other institutional investors. We therefore take part in several initiatives that make collective action easier, including the Carbon Disclosure Project (CDP), the United Nations Principles for Responsible Investment (UNPRI) and the Canadian Coalition for Good Governance (CCGG).

Our policy includes a commitment to post on our website annually a report that summarizes, on a no-names basis, our engagement activities during the previous year.

This report summarizes our activities from April to December 2009. It deals only with ESG issues, and does not include the countless number of times during the year when our portfolio managers engaged with company officials on ESG and non-ESG issues as part of ordinary course portfolio management activities undertaken. It also does not include the engagements that CCGG staff have made with Canadian companies from time to time on governance issues.

## Environmental

As part of our ESG activities, we are a member of the Canada Advisory Board for the CDP. We engaged with companies on two fronts to obtain better carbon disclosure. In Canada, we corresponded with 77 Canadian-based companies who have not yet participated in the CDP, to encourage them to do so. Internationally, and collectively with other UNPRI signatories, we participated in an engagement initiative that asked over 1,900 foreign-based companies to participate in the CDP.

In the near future, our primary focus will be on Canadian-based companies in carbon-intensive industries. We believe we have greater influence in Canada than elsewhere.

## Social

We engaged with a foreign-based steel company in the wake of allegations in a leading financial publication that forced labour was used in an early stage of the company's supply chain. The company has a supplier code of conduct which states that a supplier may not use involuntary labour of any type. The code requires each supplier to make reasonable efforts to maintain documents to show that it is complying with the code, and to make the documents available to the company upon request.

We asked the company if it has a formal risk management process in place under which it requests documents from suppliers, concurrently or on a rolling basis, and in either case at a fixed interval (e.g. each year, over a two-year period, etc.). If the company does not have a formal process and requests documents on an ad hoc basis, we asked the company to tell us the number and percentage of current suppliers whose documents it has requested and reviewed. Our discussions with the company will continue.

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## **Governance**

On behalf of the CCGG members, including TDAM, the CCGG staff engaged with 30 Canadian companies in 2009 on a range of governance issues, including: executive compensation, an investor 'say on pay' initiative on executive compensation, the need for risk management tools that deter improper risk-taking, and the need for clearer disclosure on governance issues as a whole.

As a follow-up to an engagement by CCGG staff, we engaged directly with the chair of the compensation committee of an unaffiliated 'big five' Canadian bank at his request to communicate our views on a number of issues, including: the proper link between executive compensation and company performance; the extent to which performance-based compensation should be at risk; the link between compensation and risk management; and the company's executive compensation disclosure as a whole.

## **About TD Asset Management**

TD Asset Management operates in Canada as TD Asset Management Inc. and in the United States as TDAM USA Inc. TD Asset Management is a highly diversified investment manager with leading market positions in active, quantitative and passive portfolio management. Both TD Asset Management Inc., and TDAM USA Inc. and TD Asset Management Inc. are wholly-owned subsidiaries of The Toronto Dominion Bank (TD Bank).