

Better Companies Make Better Portfolios

“It’s not easy being green”

-Kermit the Frog

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Energy Sector- Suncor Energy SU:TSX

What MSCI ESG Research says:

Suncor is an integrated oil company with a large exposure to oil sands production. Suncor has been downgraded from 'BBB' to 'BB.' This rating action was triggered by Suncor's deteriorating environmental and safety track record. This was exemplified both by sharply increasing fatalities, reportable spills and by the resulting relatively poor performance on biodiversity and toxicity metrics, such as water use, spill and hazardous waste intensities that are significantly higher than the global oil & gas industry averages. At the same time, Suncor's environmental, health and safety (H&S) structures and stakeholder relations are notable. Suncor is an exemplary corporate citizen in local community engagement and in undertaking environmental initiatives to reduce their footprint, including identifiable and quantitative improvement targets in the areas of energy efficiency, toxic emissions reduction and land reclamation efforts.

Why we don't own it

Suncor is not eligible for inclusion in the Blue Heron Portfolios as they fail to meet our criteria in three separate ways. Suncor ranks in the bottom 16% of their peer group globally and are ranked “BB” which is below our “BBB” minimum acceptable ranking. They are also excluded as we do not include fossil fuel extracting or integrated oil companies in our Investable Universe. Lastly, Suncor fails Controversy Screening as they are deemed to have had severe structural environmental issues pertaining to toxic emissions and waste.

Who does own it

Suncor Energy is the 6th largest position in the **Jantzi Social Index** with a 5.09% weighting, and the 7th largest position in the **TSX 60** with a 3.6% weighting. Suncor also holds a Top 10 position in the Royal Bank's **PH&N Community Value Fund**, **NEI Ethical Canadian Fund**, and the **Inhance Canadian SRI Fund** (sold through VanCity) as of Dec 31, 2014.

What does Blue Heron own instead?

By rule, the Blue Heron Investable Universe excludes integrated oil companies and oil and gas producers. This criteria does not automatically exclude other energy companies, although companies must meet our other ESG requirements in order to be included in our Investable Universe. Our Universe includes 29 energy and energy transportation utilities companies that meet our stringent screening requirements for Environmental, Social and Corporate Governance. All of these rank companies “BBB” or better and have no very severe (or moderate structural environmental) controversies. Companies are added from the Investable Universe to our Blue Heron portfolios based on their investment merit, not their size or index weighting. Positions are equally weighted, contributing to the uniqueness of the portfolios and ensuring that we have not “green rinsed” and replicated the index.

Energy exposure has been minimal in all of our Blue Heron portfolios over the past six months as there are few companies who are able to meet our ESG requirements and also show the required investment criteria.

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Energy Sector

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Suncor Energy Inc. 2a,2c,2e,2g,7

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Blue Heron Advisory Group

Graham Isenegger & Neil Chappell, Portfolio Managers, Investment Advisors
Blue Heron Advisory Group || www.blueherongroup.ca
Tel: 250 361 2284 | Email: blueheronadvisorygroup@cibc.com
6th Floor, 730 View Street, Victoria, BC, V8W 1J8
Toll Free 1 800 561-5864 • Fax 250 361-2270

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Healthcare Sector- Valeant Pharma VRX:TSX

What MSCI ESG Research says:

Valeant Pharma has standard quality-management systems in place. However, the company has experienced a number of recalls since 2012, including at least one Class I Recall (the most serious type) in 2013, two Warning Letters in 2012 and at least five Form 483s since 2012. These indicate worsening quality-management performance. In addition, Valeant has yet to take advantage of the opportunities presented by the underserved market for medicines in developing countries and is among one of the few companies in their peer group to lack a management strategy to prevent or reduce toxic releases across all operations.

Why we don't own it

Valeant is not eligible for inclusion in our Blue Heron Portfolios, as they rank in the bottom 13% of their peer group globally and are rated “B” by the MSCI ESG ranking system, which is two levels below what we deem acceptable.

Who does own it

Valeant has a the 3rd largest position in the **Jantzi Social Index** with a 7.7% weighting, and the 3rd largest position in the **TSX 60** with a 5.5% weighting. Valeant also holds a Top 10 position in the Royal Bank's **PH&N Community Value Fund** and the **Inhance Canadian SRI Fund** (sold through VanCity) as of Dec 31, 2014. Valeant has a large position in many ethically-minded investment portfolios in the market. However, this company fails to meet the standards of Blue Heron.

What does Blue Heron own instead?

The Blue Heron Investable Universe includes 39 healthcare companies that meet our stringent screening requirements for Environmental, Social and Corporate Governance. All 39 of these companies rank “BBB” or better and have no very severe (or moderate structural environmental) controversies. Companies are added from the Investable Universe to our Blue Heron portfolios based on their investment merit, not their size or index weighting. All positions are equally weighted, contributing to the uniqueness of the portfolios and ensuring that we have not “green rinsed” and replicated the index.

AmerisourceBergen ABC:TSX

Rather than owning the TSX Healthcare dominating Valeant, we choose to own companies like AmerisourceBergen (as of March 31, 2015).

AmerisourceBergen has been upgraded from 'A' to 'AA.' In addition, they have strengthened their ethics policies and programs, which should help hold employees accountable to high standards of ethical behavior. In January 2014, they revised their Code of Ethics and Business conduct policy, further strengthening their anti-corruption programs, particularly related to the use of facilitation payments in day to day interactions with government officials and third parties. AmerisourceBergen's leading anti-corruption programs should help mitigate potential involvement in unethical business practices, particularly as their intention is to increase global sourcing capabilities going forward. This is driven in part by their partnership with pharmacy retailer Walgreens in 2013. AmerisourceBergen has also continued to avoid recalls or regulatory warnings over the last year, unlike some of their direct competitors who are involved in the wholesale distribution of pharmaceuticals and other medical products. This strong commitment to ethical behaviour and anti-corruption shown by AmerisourceBergen is a characteristic that is greatly valued in Blue Heron Portfolios.

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Healthcare

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Valeant Pharmaceuticals International 2a,2e,2g,7

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Transportation Sector- Canadian National Railway CNR:TSX

What MSCI ESG Research says:

Canadian National Railway (CNR) has been downgraded from 'AAA' to 'AA.' As noted in the previous year's report, CNR's performance on carbon emissions and transportation safety relative to that of their industry peers is in decline. Among industry peers, CNR has the highest carbon emissions on an absolute basis. Although CNR continues to stay ahead of the regulatory curve when addressing increased transportation safety requirements in the U.S. and Canada, the effectiveness of current regulations and CNR's transportation safety mechanisms is in question as a result of numerous recent accidents involving crude oil tank cars. CNR remains a strong performer on carbon emissions intensity reduction, and in employee compensation and training programs. On the downside, in addition to its Canadian peer, the company faces labor relations challenges especially as related to the renewal of their collective bargaining agreements.

Despite scoring in the top 3% of its peer group using MSCI's IVA ranking system and receiving the second highest "AA" scoring possible, CNR is not eligible for inclusion in the Blue Heron Portfolios as they fail to meet our criteria. CNR fails our Controversy Screening as they exhibit moderate but structural environmental controversies around toxic emissions and waste primarily due to a number of derailments and toxic spills from trains transporting oil.

Why we don't own it

CNR is the 5th largest position in the **Jantzi Social Index** with 6.6% weighting, and the 4th largest in the **TSX 60** with 4.8% weighting. CNR also holds a Top 10 position in the Royal Bank's **PH&N Community Value Fund**, **NEI Ethical Canadian Fund**, and the **Inhance Canadian SRI Fund** (sold through VanCity) as of Dec 31, 2014.

What does Blue Heron own instead?

The Blue Heron Investable Universe includes five road and railway companies that meet our stringent screening requirements for Environmental, Social and Corporate Governance. All rank "BBB" or better and have no very severe (or moderate structural environmental) controversies. Companies are added from the Investable Universe to our Blue Heron portfolios based on their investment merit, not their size or index weighting. Positions are equally weighted, contributing to the uniqueness of the portfolios and ensuring that we have not "green rinsed" and replicated the index.

Currently, as of March 31, 2015, the Blue Heron Canadian Focused Equity holds CP Rail rather than CNR. While CP Rail's rating of "BBB" from MSCI is lower than CNR's, they have not exhibited the structural environmental controversies that led us to screen-out their competitor.

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Transportation Sector

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Canadian National Railway Co. 2g,7,9

Canadian Pacific Railway Co. 2a,2c,2e,2g,3a,3c,9

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