

Shropshire County Council

Q1 2021

The purpose of the **reo**[®] (responsible engagement overlay) * service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The **reo**[®] approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities.

Engagement in review

In the past 12 months net zero firmly entered the mainstream. Global net-zero commitments doubled and commitments by companies more than tripled arrived within the past year, signalling a remarkable embrace of the concept by policymakers and businesses. While net-zero pledges are critically important steps to combat climate change, we acknowledge that much more is needed.

As per a recent analysis by PwC, only around 8% of the world's largest companies represented by the Global Fortune 500 have committed to become net zero as of February 2021. Moreover, surveys indicate that just 10% of net-zero companies have set interim science-based emissions targets. In its inaugural Net-Zero Company Benchmark, which assesses the world's largest corporate greenhouse gas emitters on their progress in their transition to net zero, the Climate Action 100+ initiative found that none of the focus companies that have announced net-zero ambitions have fully disclosed strategies to achieve such goals. Likewise, none have committed to aligning future capital expenditure with the goal of limiting temperature rise to 1.5 degrees Celsius.

Climate strategies get a vote

Proxy voting

First advocated by activist investor Sir Christopher Hohn and later supported by the former governor of the Bank of England Mark Carney, investors and high emitting companies are keenly discussing the prospect of the "Say on Climate" mechanism, which requires boards to seek regular shareholder approvals on their decarbonisation strategies at AGMs.

Whilst this certainly helps shareholders get more clarity on the ambition and accountability of the board on decarbonisation, we also see this as a great opportunity for high emitters to garner long-term shareholder support once they begin the decarbonisation journey. This journey wouldn't be straightforward for most companies, as in many occasions we have already witnessed how the 2050 decarbonisation ambition is fundamentally reshaping business strategies with uncertainty about the future energy system and market dynamics. We expect the implied regular investor engagement required to maintain the level of support on the "Say on Climate" proposals and the feedback collected in this process to help companies balance different shareholder expectations and, in return, improve shareholder loyalty to the company throughout the journey.

The coal mine that became a political hot potato

Public policy engagement

We supported the Institutional Investors Group on Climate Change (IIGCC) letter to the British Prime Minister Boris Johnson asking for a timetable for the phase-out of all coal developments in the UK. The letter notes that the opening of a coal mine in northwest England will have a notable impact on the UK's legally binding carbon budgets and commits the UK to emissions from coking coal, for which there may be no domestic use after 2035. The letter also refers to the UK's expected leadership on climate change as host

of COP26 later this year. The government has since taken on responsibility for any future decisions on the mine's opening after having previously chosen not to intervene, but first awaits an independent inquiry in the approval process and underlying climate data.

Towards a sustainable agricultural policy for the European Union

Public policy engagement

As part of our engagement on driving sustainable food systems, we joined several investors in sending a letter to the European Commission advocating for strong incentives in the Common Agricultural Policy (CAP) to support the transformation towards sustainable agriculture. Specifically, the letter called for ensuring incentives for Member States and farmers promote efforts to combat climate change and environmental impact and internalise the carbon footprint of currently subsidised commodities such as red meat.

The economics of biodiversity

Engagement tool

The Dasgupta Review, an independent study commissioned by the UK Treasury, was published in February 2021, providing an in-depth study of the economics of biodiversity. It described a devastating impact on nature from our current economic system and systematic failures of institutions to address the damage. It recommends an integration of the value of nature's good and services into accounting systems and a rebalancing of the economy to ensure demand on nature does not exceed its sustainable supply. Thirdly, it calls for institutions, especially finance and education, to transform to support these measures. We will use the findings of the report to inform corporate engagement on valuing ecosystem services and assets as part of company biodiversity strategies.

Our continuing work on living wages

Engagement update

An important element of our living wage engagement has been the work of collaborative initiatives we are part of. To celebrate our one-year anniversary of being members of the Platform Living Wage Financials (PLWF), we hosted the initiative's plenary meeting for the first time and invited a representative from the UN PRI to speak about developments around the EU Social Taxonomy. The PLWF working groups are now working on streamlining assessment methodologies for retail, garment and apparel, agriculture and food companies, all in preparation for the company assessments in the fall.

We also have ongoing dialogues on fair wages, freedom of association, employee engagement and enhanced transparency (i.e. participation in the Workforce Disclosure Initiative) with a number of companies in North America. Overall there is limited progress to report.

US update - What a difference a quarter makes

Regulatory update

This quarter we attended the spring conference of the US Council of Institutional Investors (CII), albeit virtually for the second year. We received updates on the current US regulatory agenda, as well as investor

engagement campaigns in advance of the forthcoming US proxy season. We also contributed to the work of the CII's Corporate Governance Advisory Committee, providing feedback to the CII board on its campaigns and priorities.

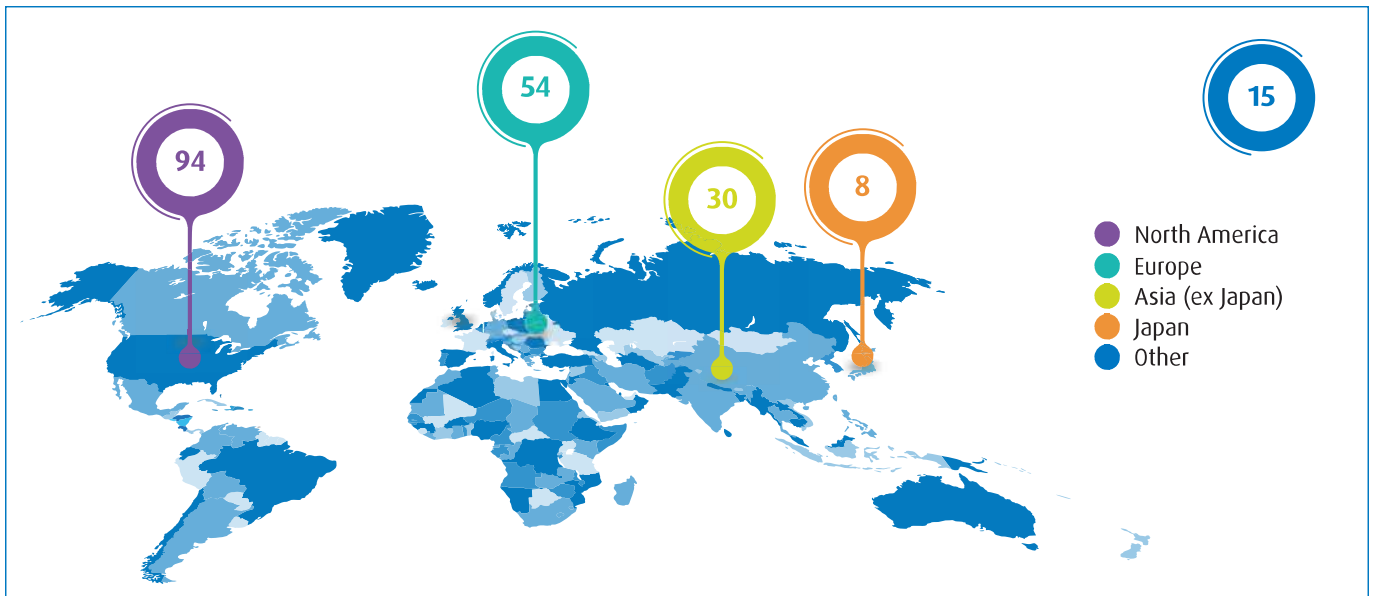
In contrast to the last few years, there was a renewed sense of optimism at the conference over the regulatory outlook in the US market since the Biden Administration came into power. In turn this has led to changes to the leadership and overall agenda at the SEC, which has spoken much more positively regarding the responsible investment industry and using proxy voting to promote better ESG performance. By means of example, they appointed a new role of climate czar and have encouraged companies to better disclose climate-related risks to investors.

Alongside this, we saw the U.S. Department of Labor (DOL) issue a non-enforcement notification regarding its two anti-ESG rules that came into force in the last few days of the Trump Administration. Although these rules are still legally binding, and therefore cannot be outright dismissed, it will give some comfort that the DOL will not investigate or overly-scrutinise investors on the ESG investing and proxy voting activities.

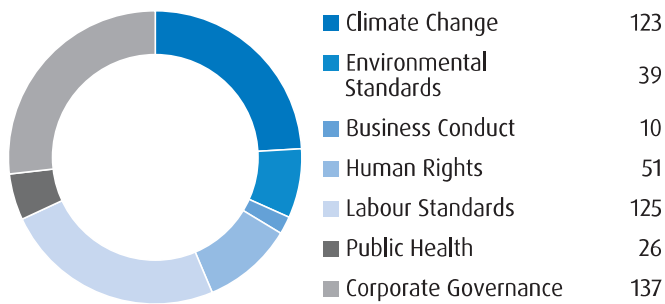
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
201	67	30

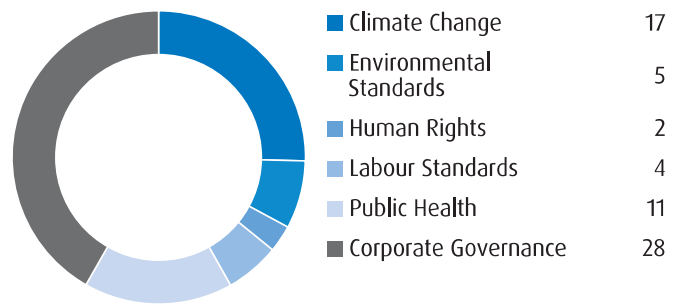
Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue **



* reo* is currently applied to £271bn / €303bn / US\$370bn / CAD\$433bn* as at 31 December 2020.

** Companies may have been engaged on more than one issue.

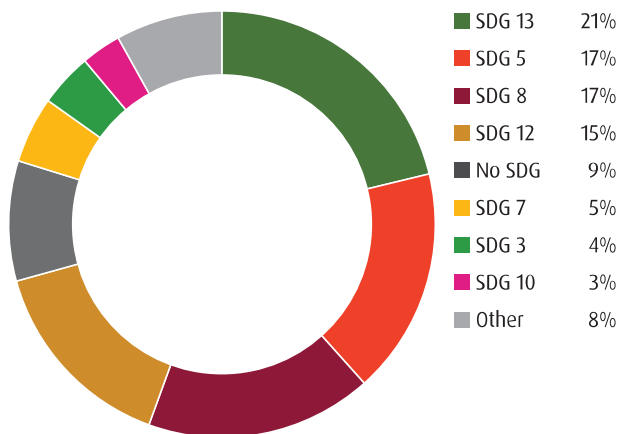
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest.

Engagements and Sustainable Development Goals (SDGs)

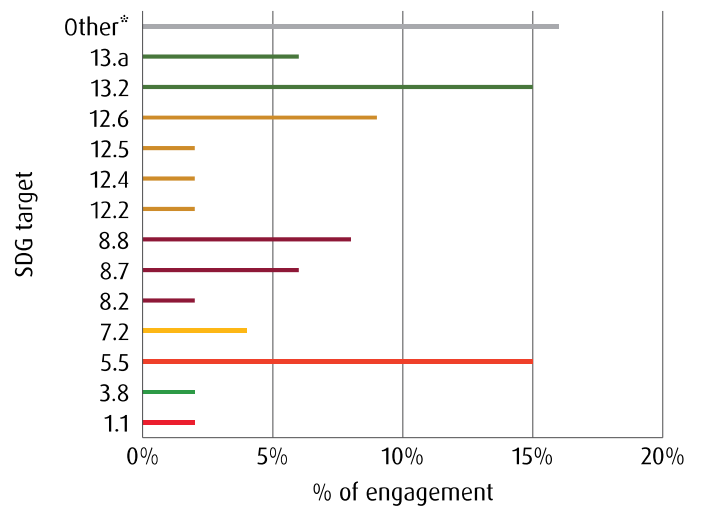
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.

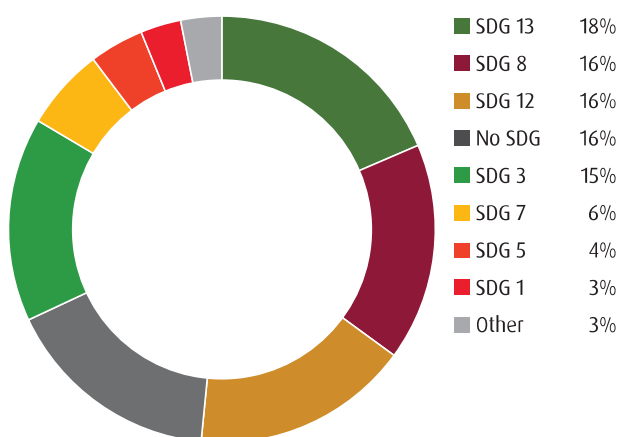
Engagement: SDG level



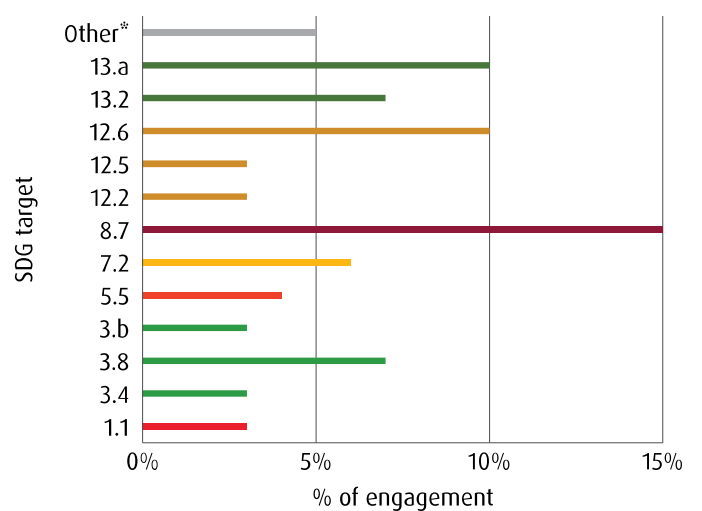
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



*Other represents SDG targets less than 2% of the relevant SDG Goal.