


reo[®] engagement report

Shropshire County Council
– 1st Quarter 2023

**Enabling stewardship
for over 20 years**

Contents

Introduction	5
Engagement in Review	6
Ensuring long term decarbonisation ambitions remain on track at European Utilities	6
CA100+ - Gearing up for AGM season	6
Modern slavery risk hiding in UK agricultural supply chains	7
Western semiconductors – engaging on customer due diligence	7
Addressing corporate governance concerns at US banks	8
Investing in Nutrition – A growth opportunity with better health outcomes	8
Stewardship Codes	9
Priority Companies and Your Fund	10
Engagements and Your Fund: Red rated	12
Engagements and Your Fund: Orange rated	13
Engagements and Your Fund: Yellow rated	14
Engagements and Your Fund: Green rated	16
Engagements and Your Fund: Unrated	19
Engagement Objective Progress Tracker	20
Environmental	29
Engagement case studies	29
Engagement projects	33
Milestones and Your Fund	35
Milestones in detail	36
Social	41
Engagement case studies	41
Engagement projects	46
Milestones and Your Fund	48
Milestones in detail	49
Governance	53
Engagement case studies	53
Milestones and Your Fund	56
Milestones in detail	57
Appendix: Viewpoints Q1 2023	58

A woman with dark hair in a ponytail, wearing a green long-sleeved polo shirt and blue safety glasses, is smiling as she sorts through a large white bag filled with clear plastic bottles. She is wearing black gloves. The background shows a warehouse setting with metal shelving units and various items stored on them.

“Responsible investment is an ethos that sits central to our investment capabilities and processes. Its position together with the emphasis we place on innovation in this area allows us offer a wide range of dedicated ESG solutions to meet a host of client needs.”

Richard Watts, Global Chief Investment Officer



Introduction

The purpose of our **reo**® service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. Our depth of expertise, industry knowledge and significant scale gives us the opportunity to talk directly with key company decision makers and bring about positive change. 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.

This report sets out detailed information about how we have engaged with companies on your behalf over the past quarter. In addition, the report details outcomes from engagement recorded as milestones and case studies. Furthermore, to provide a required level of transparency for clients, we include an engagement progress tracker section which provides detail on the engagement objective, the status of that engagement and whether the company is responsive to our engagement efforts on that particular issue.

196
engagements

33
milestones

156
companies engaged

25
countries covered

Engagement in Review

A year on, and the impact of the Russian invasion of Ukraine continued to be a focus in our engagement activities. The war had led to many European countries continuing the use of coal power plants - we engaged with multiple utility companies to ensure that these short term strategic shifts did not derail long term decarbonization targets. We also engaged with semiconductor companies on their approach to customer due diligence due to the finding of western semiconductors in Russian missiles.

In the US banking sector, risk oversight and board effectiveness were the focus of our corporate governance engagement activities, while our engagement with retailers focused on social issues; covering the importance of nutrition in achieving better health outcomes while also being a key growth opportunity, as well as the need for improved due diligence around labour risk in agricultural supply chains. Finally, along with other Climate Action 100+ leads, much of our engagement activity in Q1 has focused on preparing for AGMs and conducting deep-dive analysis on the shareholder resolutions which have been filed along key themes such as lobbying, emissions and scenario analyses.

Ensuring long term decarbonisation ambitions remain on track at European Utilities

Due to the European energy crisis driven by the Russian invasion of Ukraine, many European countries delayed shutting down or temporarily reopened coal power plants. Over the last 12 months we have engaged with six utility companies at the heart of this temporary coal bump for a total of eighteen engagement interactions. The six companies were **Fortum**, **Enel**, **RWE**, **Orsted**, **Vattenfall** and **CEZ**. Our primary focus for this engagement was to ensure that the short term need to keep these coal plants running did not have meaningful knock-on impacts on delivery against decarbonization targets and capex allocation to renewables. We also had secondary concerns that sourcing coal from outside the EU could damage the transition of third-party countries away from coal – in particular, we raised this issue with **Orsted** who were importing coal from South Africa, which runs counter to European initiatives to encourage a just transition away from coal in this country.

Through our engagement we remain confident that the climate ambitions of European utilities remain alive and well. In tandem with the German government, **RWE** brought forward its coal phase out timeline to 2030 from 2038 in Q4 2022 and increased its capex allocation to renewables. **ENEL** confirmed that its 2027 coal phase out date will still remain valid, and it plans to replace its Italian coal plants with renewable

installations by 2025. We are now seeing wider industry data that reaffirms this view of the feared coal rebound not being realized. Across the EU, 26 coal plants were brought back on emergency standby in 2022, these only operated 18% of the time since coming back on line, and coal-fired power generation was only up by 7% in 2022 compared with 2021. The smaller-than-feared coal rebound in 2022 reaffirms that Europe is committed to transitioning to renewables and phasing out coal.

CA100+ - Gearing up for AGM season

We are co-leads on seven Climate Action 100+ engagements and support a further 41, out of a total of 166. Many engagements in the first quarter of the year have focused on preparing for AGMs and voting and understanding the range of resolutions which have been filed at companies. Key themes of resolutions this year include lobbying, methane emissions, scenario analysis and GHG targets.

In the automotive sector we have had calls with **General Motors (GM)** and **Volkswagen** on lobbying. GM are set to benefit from the US Inflation Reduction Act and have taken a public position in support of it, which we commended. We also pushed them to set an EV sales target aligned with a 1.5C scenario and to give clarity on how their emissions will change as they increase production of both SUVs and EVs. Our meetings with Volkswagen focused on providing feedback and guidance on their lobbying disclosure, including a letter to the Chairman.

In the mining sector, we continued engagement with **BHP**, **Anglo American**, **Rio Tinto** and **Vedanta Resources**. With Anglo American and Rio Tinto, the conversations focused on climate accounting, which continues to be a challenge in the sector despite some improvements.

We have had engagements with US-based oil and gas companies including **ConocoPhillips**, **ExxonMobil**, **Valero** and **Occidental Petroleum**, covering both their updated reporting, which demonstrates a continued opposition to setting scope 3 targets offset by far greater coverage of their lower carbon investment plans. However, these remain a minority of capex, and many companies face a series of resolutions on disclosure, resilience and emissions targets that we have also discussed with them to ensure ongoing progress against long term aims, despite current high prices and the energy crisis facing much of the world.

We also met the new **Shell** CEO and discussed their ongoing commitment to their transition strategy; we expect a significant update on capex in particular this summer. Our engagement with **Bayer** also continues to progress, with the company now scoring very well on the CA100+ net Zero Benchmark and making efforts to demonstrate capex resilience and building on their scope 3 approach.

Many CA100+ engagements ramp up around proxy season as companies state their positions and investors seek clarity in order to determine how to vote. We will continue to be heavily involved and coordinate both collaborative and bilateral engagement approaches to ensure we leverage our involvement to the greatest effect.

Modern slavery risk hiding in UK agricultural supply chains

In 2022 several migrant workers in the agriculture sector were found to be in severe debt on arriving in the UK under the Seasonal Workers Scheme. During the recruitment process in source countries including Indonesia and Nepal, the individuals had had to pay illicit fees to secure the - by comparison - high-paying jobs. As a result, two of the Scheme operators lost their licence to recruit workers and questions were raised about whether effective due diligence was in place to ensure the absence of illicit fees.

The sector's lack of manpower due to reduced access for EU workers and the war in Ukraine led to reduced production and increased food waste. The Scheme's failings to ensure responsible recruitment further contributes to risks faced by companies in the food value chain. We have engaged with companies like **Tesco**, **M&S**, and **Compass** about risk

assessments and strategy to address the risk of modern slavery in their supply chains.

Tesco explained that risks of illicit recruitment fees in the UK agriculture supply chain is a focus area within its broader modern slavery work and has stepped up due diligence to identify risks, as well as advocating for improvements to the Scheme. **Compass Group** dedicated a session in its annual conference to engage suppliers on awareness and sound out where risks are most concentrated and how the company can provide support.

In March, the Financial Times reported that supermarkets had formed a task force to fund independent audits of farms to identify cases of worker exploitation. We welcome the active intervention in the upstream supply chain as concerted efforts are needed to address systemic issues in the provision of labour from overseas. The British Retail Consortium has also convened a working group on no-fee recruitment while the Stronger Together initiative is providing trainings to growers on modern slavery indicators. We will continue to actively monitor these stakeholders and initiatives and encourage robust risk mitigation of modern slavery in food production.

Western semiconductors – engaging on customer due diligence

Following Russia's invasion of Ukraine, western semiconductors were reported as being found in Russian missiles. Many countries, including the United States, suspended high-tech exports to Russia after the invasion. However, shipments containing western semiconductors still found their way to Russia. The challenge the industry faces is that semiconductors are dual-use components, which means that the items can be used for both civilian and military applications. Some companies conducted investigations following the reports and found that some of the chips found in Russian missiles were manufactured more than 30 years ago, as well as being manufactured for use in everyday white goods products or cars. Moreover, semiconductors use third-party distributors to sell their products, and therefore it can be difficult to monitor semiconductor components that have been repurposed after the primary sale.

We attended a recent investor briefing on managing the risks of Western semiconductors in the Russian invasion of Ukraine. As a result of the report, we engaged with several semiconductor companies including **Texas Instruments** and **NXP Semiconductors** to better understand their approach to customer due diligence. While most semiconductor companies reiterated their compliance with export controls and trade sanctions, others discussed further the strengthening of their

distribution channel management, now recording customer names and product lines sold on a daily basis.

There are some positive developments in traceability, however we believe that with the complexities of semiconductor supply chains, greater collaborative industry effort is required from all companies to tackle the risks related to product misuse. For example, it was encouraging to learn of desktop research tools which supported the Royal United Services Institute's research report (RUSI) in screening billions of trade records for Russian imports of semiconductors. These records were then cross-checked against entities acting as conduits for components entering Russia's military industry. We will continue to engage with technology companies on how they can mitigate against the potential harm associated with their products and services, particularly in conflict zones.

Addressing corporate governance concerns at US banks

Corporate governance remains a core focus of our portfolio company engagements, particularly in the banking industry and overall financial institutions sector. Topics of primary importance to our analyses in this sector include risk oversight and board effectiveness. Board effectiveness includes subthemes where we assess the company's board evaluations, composition, succession planning, and engagement with and responsiveness to investors, among others.

In the United States, we conducted engagements along these themes with **BlackRock** and **JPMorgan** during Q1 of 2023.

BlackRock, the world's largest asset manager, is currently a target for activism by both pro- and anti-ESG factions we see warring in the US. In our engagement we discussed a letter the board had received from Bluebell Capital Partners—a seemingly pro-ESG activist—in late 2022 asking for, among other things, the board to conduct a review of BlackRock's stance on ESG, to replace the current Lead Independent Director, and to split the Chair and CEO roles and appoint a new CEO. We discussed this in the context of their focus on building an effective board via tying composition and skillsets to strategic priorities including recent preparations surrounding the newly established Universal Proxy Card ("UPC") Securities and Exchange Commission rule. Viewed in concert with (in particular) pro-ESG activist campaigns, we believe the UPC rule may have a catalyzing effect that influences boards to negotiate with such actors prior to a formal proxy contest. We will continue to track BlackRock's response and Bluebell's subsequent actions.

JPMorgan, the largest US bank, suffered a failed say-on-pay proposal last proxy season due primarily to a sizable one-off retention award to their CEO. In such instances, our

engagement focuses on whether the compensation committee members have adequately engaged with and responded to investor concerns. Although no one from the board joined our call, the Corporate Secretary and Head of ESG for Investor Relations underscored that the board committed to never paying out such a retention award again to the CEO. We will continue to monitor these events.

Investing in Nutrition – A growth opportunity with better health outcomes

The obesity epidemic in the developed world is nothing short of a public health disaster, with obesity a key risk factor for multiple health conditions impacting quality of life and life expectancy. Consumer choices have a considerable impact on health, but the corporate sector also has a role to play in the availability and nutritional value of the products on offer and how they are marketed.

We consider nutritious and affordable food to be a key opportunity for food and beverage companies and retailers to positively impact consumers' health while driving growth. We are seeing action toward increased regulation of unhealthy products, such as clearer labelling of nutritional value, the restriction of promotion of unhealthy foods to children, and the establishment of sugar taxes. As members of the ShareAction Healthy Markets initiative and the Access to Nutrition Initiative (ATNI), we engage food companies on their strategies for alignment of product portfolios with these trends and believe investment value can be found in companies driving growth through facilitating the shift to more health-conscious diets and healthier lifestyles.

During Q1, we conducted collaborative engagements with **Unilever**, **Mondelez**, **Nestle**, **Kraft Heinz**, and **PepsiCo**. Unilever discloses the healthiness of its sales in its top 16 markets against six government-endorsed Nutrient Profiling Models (NPMs) which we consider an industry-leading example of transparency that should be seen as a target for their peers. Disclosing product portfolios against NPMs is a key engagement ask as this allows investors to keep track of investee companies' efforts to increase the nutritional profiles of product portfolios. Overall, we are having constructive conversations with the Food & Beverage industry, however, we still consider effective nutrition strategies to be lacking. We expect more scrutiny in terms of legislation and consumer demand and therefore we will continue to engage with the Food & Beverage sector to set ambitious targets on healthy and affordable products in order to future-proof their business.

Stewardship Codes

Stewardship codes can help investors define and discharge their ownership and governance responsibilities. Recent years have seen the emergence and growth of stewardship codes globally. While codes occasionally take the form of binding regulation, more often they involve voluntary standards. Below is an overview of countries which have adopted stewardship codes or an equivalent.



Public policy submissions this quarter

Global	UK	UK	Taiwan
Month: January	Month: March	Month: March	Month: March
Issue: Labour standards	Issue: Climate Change	Issue: Modern slavery	Issue: Governance
Initiative: Workforce Disclosure Initiative aims to provide investors with better corporate disclosure on the management of operations and supply chain workforce	Initiative: UK Sustainable Investment and Finance association (UKSIF) convenes multiple members of the UK's sustainable finance community to address key issues and opportunities within the sector	Initiative: Find it, Fix it, Prevent it is an investor collaboration working to address forced labour in global supply chains and seeking meaningful, effective action by companies in response to the Modern Slavery Act	Initiative: Asian Corporate Governance Association (ACGA) works towards the implementation of effective corporate governance practices throughout Asia
Our position: We provide input into WDI's company survey development process, including highlighting methods to encourage increased corporate participation in the reporting process as well as how the survey could be made more useful in company analysis and engagement for investors	Our position: We fed in to the UKSIF's work on the UK's hydrogen policy, providing our view on the barriers to hydrogen development, highlighting the importance of responsible sourcing and the need for clear policy frames and incentives in order to support industry transition	Our position: We provided updates on engagement developments as well as provided input into discussions around future coalition projects, aligning with our longstanding engagement addressing modern slavery risks and increasing disclosure	Our position: Taiwan Depository & Clearing Corporation (TDCC) is the only virtual AGM platform provider in the Taiwanese market but it is not effectively equipped to meet the needs of foreign investors. ACGA's Taiwan Research Director has been engaging with TDCC on this topic with our input and support

Priority Companies and Your Fund

The table below highlights the companies on our annual priority engagement list with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. Priority companies are selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the Responsible Investment team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for companies where we engage more reactively. For full details of our engagements with companies please refer to the online **reo**® client portal.

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
Amazon.com Inc	Consumer Discretionary	●	Good			●	●		●	
Bank Central Asia Tbk PT	Financials	●	Poor		●					●
Bank Mandiri Persero Tbk PT	Financials	●	Adequate						●	
BHP Group Ltd	Materials	●	Good	●			●		●	
Carnival PLC	Consumer Discretionary	●	Adequate	●	●		●			
Cloudflare Inc	Information Technology	●				●	●			
CRH PLC	Materials	●	Good	●	●		●		●	
Eli Lilly & Co	Health Care	●	Good					●	●	
HDFC Bank Ltd	Financials	●	Good	●					●	
Home Depot Inc/The	Consumer Discretionary	●	Adequate	●	●	●	●			
International Paper Co	Materials	●		●	●				●	
JPMorgan Chase & Co	Financials	●	Poor						●	
Keyence Corp	Information Technology	●	Adequate			●				
Lonza Group AG	Health Care	●	Adequate	●						
Lowe's Cos Inc	Consumer Discretionary	●	Adequate	●	●	●	●			
Makita Corp	Industrials	●	Good	●			●			
Martin Marietta Materials Inc	Materials	●	Good	●						
Moderna Inc	Health Care	●	Good		●		●	●	●	
Netflix Inc	Communication Services	●					●			●
Raytheon Technologies Corp	Industrials	●	Adequate	●						
Shell PLC	Energy	●	Good	●					●	

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Name	Sector	ESG Rating	Response to engagement	Themes engaged							
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct	
SITC International Holdings Co Ltd	Industrials	●	Adequate	●					●		
Solvay SA	Materials	●	Good	●	●			●			
Southern Co/The	Utilities	●	Poor				●		●		
Southwest Airlines Co	Industrials	●	Adequate	●			●		●		
Tencent Holdings Ltd	Communication Services	●	Adequate			●	●		●	●	
Tesla Inc	Consumer Discretionary	●	Adequate	●		●	●				
TJX Cos Inc/The	Consumer Discretionary	●	Adequate			●	●				
UPM-Kymmene Oyj	Materials	●	Adequate	●	●				●		
Valero Energy Corp	Energy	●	Good	●					●		
Vinci SA	Industrials	●	Adequate	●							
Volkswagen AG	Consumer Discretionary	●	Adequate	●							

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
Bank Mandiri Persero Tbk PT	Indonesia	Financials	✓						●	
Carnival PLC	United States	Consumer Discretionary	✓	●	●		●			
Hyundai Motor Co	South Korea	Consumer Discretionary		●	●					
Netflix Inc	United States	Communication Services	✓				●			●
SITC International Holdings Co Ltd	Hong Kong	Industrials	✓	●					●	
Southwest Airlines Co	United States	Industrials	✓	●			●		●	
Tokyo Electric Power Co Holdings Inc	Japan	Utilities		●	●			●		
Volkswagen AG	Germany	Consumer Discretionary	✓	●						

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagements and Your Fund: **Orange** rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
Amazon.com Inc	United States	Consumer Discretionary	✓							
American Airlines Group Inc	United States	Industrials								
Apple Inc	United States	Information Technology								
Cloudflare Inc	United States	Information Technology	✓							
Ford Motor Co	United States	Consumer Discretionary								
General Motors Co	United States	Consumer Discretionary								
Makita Corp	Japan	Industrials	✓							
Moderna Inc	United States	Health Care	✓							
Mohawk Industries Inc	United States	Consumer Discretionary								
Power Assets Holdings Ltd	Hong Kong	Utilities								
Ross Stores Inc	United States	Consumer Discretionary								
Skanska AB	Sweden	Industrials								
Tencent Holdings Ltd	China	Communication Services	✓							
Thermo Fisher Scientific Inc	United States	Health Care								
TJX Cos Inc/The	United States	Consumer Discretionary	✓							
Union Pacific Corp	United States	Industrials								
Valero Energy Corp	United States	Energy	✓							
Walmart Inc	United States	Consumer Staples								

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
AbbVie Inc	United States	Health Care								
Air Liquide SA	France	Materials								
Air Products and Chemicals Inc	United States	Materials								
Albemarle Corp	United States	Materials								
Alphabet Inc	United States	Communication Services								
Amcov PLC	United Kingdom	Materials								
Bank Rakyat Indonesia Persero Tbk PT	Indonesia	Financials								
Barrick Gold Corp	Canada	Materials								
BASF SE	Germany	Materials								
Bayer AG	Germany	Health Care								
BHP Group Ltd	Australia	Materials	✓							
BlackRock Inc	United States	Financials								
BP PLC	United Kingdom	Energy								
Broadcom Inc	United States	Information Technology								
Chevron Corp	United States	Energy								
Chugai Pharmaceutical Co Ltd	Japan	Health Care								
Comcast Corp	United States	Communication Services								
Corning Inc	United States	Information Technology								
DuPont de Nemours Inc	United States	Materials								
Entergy Corp	United States	Utilities								
Equity Residential	United States	Real Estate								
Ferrovial SA	Spain	Industrials								
Halliburton Co	United States	Energy								
HelloFresh SE	Germany	Consumer Staples								
IQVIA Holdings Inc	United States	Health Care								

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
JD Sports Fashion PLC	United Kingdom	Consumer Discretionary					●			
Johnson & Johnson	United States	Health Care						●		
JPMorgan Chase & Co	United States	Financials	✓						●	
Keyence Corp	Japan	Information Technology	✓			●				
LG Chem Ltd	South Korea	Materials		●	●			●		
Marathon Petroleum Corp	United States	Energy		●		●	●		●	
Mercedes-Benz Group AG	Germany	Consumer Discretionary		●						
Mitsubishi UFJ Financial Group Inc	Japan	Financials		●					●	
Mondelez International Inc	United States	Consumer Staples						●		
Occidental Petroleum Corp	United States	Energy		●					●	
Philip Morris International Inc	United States	Consumer Staples		●	●		●	●		●
Raytheon Technologies Corp	United States	Industrials	✓	●						
Repsol SA	Spain	Energy		●					●	
Sherwin-Williams Co/The	United States	Materials		●	●			●		
Shin-Etsu Chemical Co Ltd	Japan	Materials		●	●			●		
Southern Co/The	United States	Utilities	✓				●		●	
Takeda Pharmaceutical Co Ltd	Japan	Health Care						●		
Tesla Inc	United States	Consumer Discretionary	✓	●		●	●			
United Parcel Service Inc	United States	Industrials		●					●	
Vinci SA	France	Industrials	✓	●						
Vitasoy International Holdings Ltd	Hong Kong	Consumer Staples		●	●		●	●		

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Governance

Social

Environmental

Introduction

Engagements and Your Fund: **Green rated**

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
ACS Actividades de Construcción y Servicios SA	Spain	Industrials		●						
Antofagasta PLC	Chile	Materials			●	●	●	●	●	●
AP Moller - Maersk A/S	Denmark	Industrials		●	●				●	
ASM International NV	Netherlands	Information Technology							●	
Astellas Pharma Inc	Japan	Health Care						●		
AstraZeneca PLC	United Kingdom	Health Care					●			
Bank Central Asia Tbk PT	Indonesia	Financials	✓		●					●
Barratt Developments PLC	United Kingdom	Consumer Discretionary		●		●	●		●	
BlueScope Steel Ltd	Australia	Materials		●						
BNP Paribas SA	France	Financials							●	
Bouygues SA	France	Industrials		●						
Bristol-Myers Squibb Co	United States	Health Care						●		
Carlsberg AS	Denmark	Consumer Staples		●		●	●			
Chipotle Mexican Grill Inc	United States	Consumer Discretionary			●					
Compass Group PLC	United Kingdom	Consumer Discretionary					●			
ConocoPhillips	United States	Energy		●		●				
CRH PLC	Ireland	Materials	✓	●	●		●		●	
CSL Ltd	Australia	Health Care						●		
Daiwa House Industry Co Ltd	Japan	Real Estate				●				
DCC PLC	Ireland	Industrials		●		●			●	
Digital Realty Trust Inc	United States	Real Estate		●						
Dow Inc	United States	Materials		●	●			●		
E.ON SE	Germany	Utilities		●					●	
Ecolab Inc	United States	Materials		●	●			●		
Edenred	France	Financials							●	

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
Eisai Co Ltd	Japan	Health Care						●		
Eli Lilly & Co	United States	Health Care	✓					●	●	
Equinix Inc	United States	Real Estate		●						
Fast Retailing Co Ltd	Japan	Consumer Discretionary				●	●			
Fox Corp	United States	Communication Services				●	●			
General Mills Inc	United States	Consumer Staples			●				●	
Givaudan SA	Switzerland	Materials		●	●			●		
Halma PLC	United Kingdom	Information Technology			●		●			
HDFC Bank Ltd	India	Financials	✓	●					●	
Home Depot Inc/The	United States	Consumer Discretionary	✓	●	●	●	●			
HP Inc	United States	Information Technology		●	●	●	●			
HSBC Holdings PLC	United Kingdom	Financials		●						
ICON PLC	Ireland	Health Care					●	●		
Informa PLC	United Kingdom	Communication Services							●	
International Paper Co	United States	Materials	✓	●	●				●	
Intertek Group PLC	United Kingdom	Industrials				●		●	●	●
Italgas SpA	Italy	Utilities		●					●	
J Sainsbury PLC	United Kingdom	Consumer Staples			●					
Kraft Heinz Co/The	United States	Consumer Staples						●		
Lockheed Martin Corp	United States	Industrials		●					●	
Lonza Group AG	Switzerland	Health Care	✓	●						
Lowe's Cos Inc	United States	Consumer Discretionary	✓	●	●	●	●			
Martin Marietta Materials Inc	United States	Materials	✓	●						
Merck & Co Inc	United States	Health Care						●	●	
Nestle SA	Switzerland	Consumer Staples						●		
Norsk Hydro ASA	Norway	Materials			●					
Nutrien Ltd	Canada	Materials		●	●			●		
NXP Semiconductors NV	Netherlands	Information Technology				●				
OMV AG	Austria	Energy		●					●	
Orsted AS	Denmark	Utilities		●	●				●	
PepsiCo Inc	United States	Consumer Staples						●		
Pfizer Inc	United States	Health Care						●		
Public Service Enterprise Group Inc	United States	Utilities		●	●				●	
Puma SE	Germany	Consumer Discretionary				●				
Quanta Services Inc	United States	Industrials		●						
Rio Tinto Ltd	Australia	Materials		●					●	
Samsung Electronics Co Ltd	South Korea	Information Technology					●		●	

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Governance

Social

Environmental

Introduction

Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
ServiceNow Inc	United States	Information Technology							●	
Shell PLC	United Kingdom	Energy	✓	●					●	
Shimadzu Corp	Japan	Information Technology					●	●		●
Snam SpA	Italy	Utilities		●					●	
Solvay SA	Belgium	Materials	✓	●	●			●		
Starbucks Corp	United States	Consumer Discretionary					●			
Stora Enso Oyj	Finland	Materials		●	●				●	
Svenska Cellulosa AB SCA	Sweden	Materials		●	●				●	
Teck Resources Ltd	Canada	Materials			●	●				
Teleperformance	France	Industrials				●	●		●	
Tesco PLC	United Kingdom	Consumer Staples					●			
Tokyo Electron Ltd	Japan	Information Technology				●	●			
TotalEnergies SE	France	Energy		●						
Ubisoft Entertainment SA	France	Communication Services					●		●	
Umicore SA	Belgium	Materials		●	●		●			
Unilever PLC	United Kingdom	Consumer Staples						●		
UNITE Group PLC/The	United Kingdom	Real Estate					●			
United Overseas Bank Ltd	Singapore	Financials		●	●					
UPM-Kymmene Oyj	Finland	Materials	✓	●	●				●	
Vonovia SE	Germany	Real Estate		●					●	
Walt Disney Co/The	United States	Communication Services							●	●

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagements and Your Fund: Unrated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online **reo**® client portal.

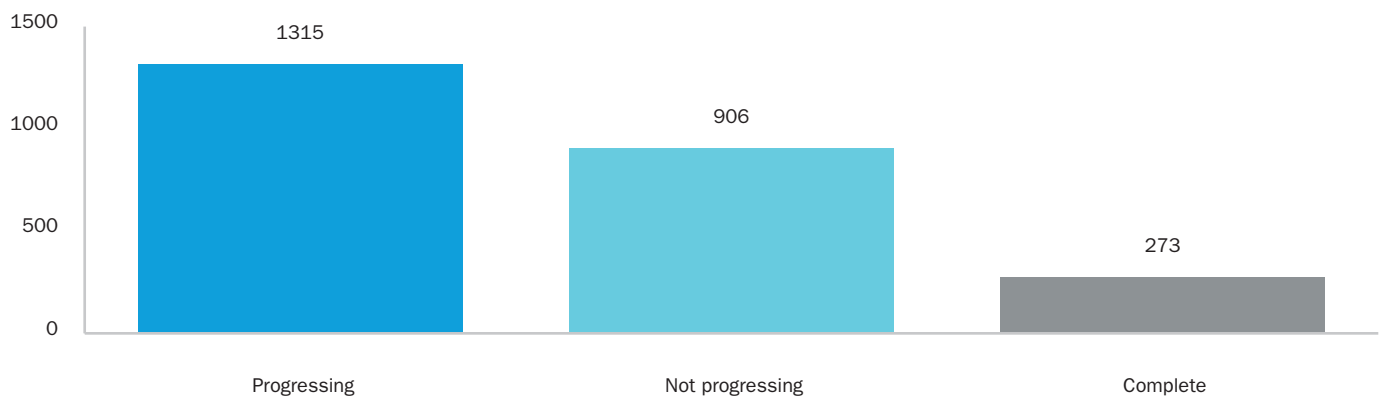
Name	Country	Sector	Priority Company	Themes engaged						
				Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
Stevanato Group SpA	Italy	Health Care								

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagement Objective Progress Tracker

This section of the report provides an overview on the status of all engagement objectives. The table reports on the status for each live engagement objective per priority company in your portfolio and provides an assessment of whether the engagement objective is progressing in a reasonable manner. For full details of our engagements with companies please refer to the online **reo**® partner portal.

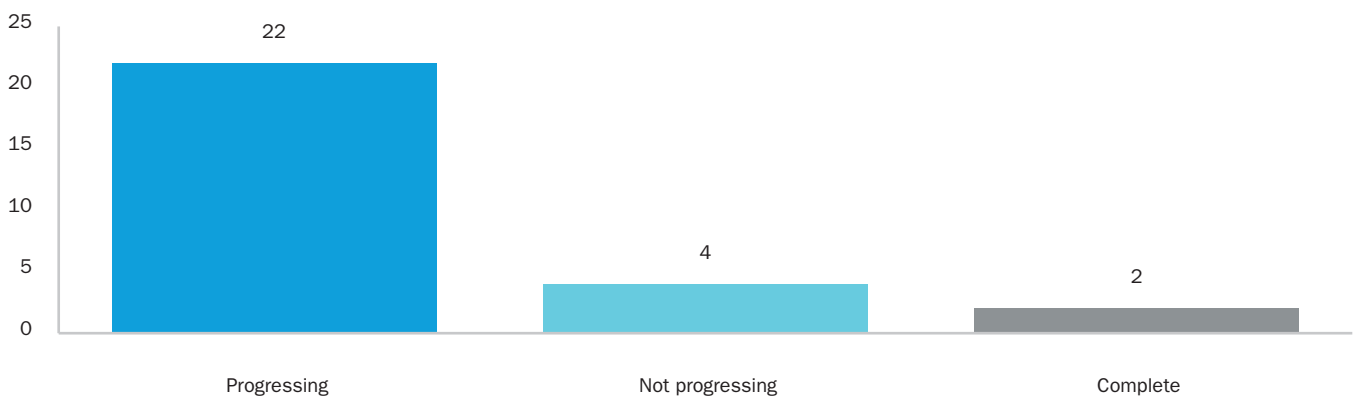
All Engagement Objectives and their progress



Source: Columbia Threadneedle Investments

The above chart outlines the status for all engagement objectives*

Quarterly Engagement Objectives and their progress



Source: Columbia Threadneedle Investments

The above chart outlines the status for all engagement objectives on companies in your portfolio this quarter.

* Engagement Objectives active since inception Jan-20

Name	Engagement Objective Name	Status	
Amazon.com Inc	Implement human rights policy		
	Human capital management		
	Monitor facial recognition technology to detect algorithmic bias		
	Conduct client due diligence for purchase of facial recognition technology		
	Workforce Disclosure Initiative participation		
	Increase access to board of directors for engagement		
	Strengthen human rights policies and due diligence efforts		
	Enhanced social disclosure		
	Demonstrate effective grievance mechanisms are in place and access to remedies		
	Disclose accuracy of facial recognition technology		
	Carbon emissions management		
	Enhanced senior management and workforce diversity		
	Public commitment to ethical AI		
Bank Central Asia Tbk PT	Set green financing targets		
	Improve climate change governance		
	Develop position on fossil fuel financing		
	Implement NDPE policy for palm oil financing		
	Implement TCFD recommendations		
	Develop sector-specific E&S lending guidelines/policies		
Bank Mandiri Persero Tbk PT	Develop metrics to measure impacts from financial inclusion initiatives		
	Improve employee engagement practices		
	Explore linkages of financing activities to SDG 14		
	Develop and implement climate change risk management and reporting strategy		

Key

- Engagement suspended Set/Not yet engaged Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern Evidence of issuer change - Milestone
- Progressing Not progressing

	Align ESG reporting to international standards		
	Develop and publish NDPE-aligned palm oil financing policy		
	Disclose gender pay gap figures		
	Increase proportion of women in senior leadership positions		
BHP Group Ltd	To publish medium and long term greenhouse gas reduction targets		
	Improve disclosures around engagement with indigenous populations.		
	To publish scope 3 engagement plan		
	Develop a robust governance framework on climate lobbying practices		
	Strengthen biodiversity targets and reporting		
	Disclose how net zero is included in capital allocation decisions		
	Provide detail on offsets approach		
Carnival PLC	Implement a decarbonisation pathway		
	Become living wage employer		
	Improve independence of key committees		
	Establish stronger workforce engagement programme		
	Develop a biodiversity strategy and implementation plan		
Citigroup Inc	Enhance climate risk management		
	Workforce Disclosure Initiative participation		
Credit Suisse Group AG	Understand changes to changes in risk-monitoring and due diligence		
	TCFD reporting		
	Workforce Disclosure Initiative participation		
	Enhanced climate risk management		
	Obtain commitment for reporting on corporate culture		
	Improve virtual AGM conduct		
CRH PLC	Pension contributions		

Key

- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

	Become living wage employer			Governance
	Disclose biodiversity strategy and targets			
	Capex aligned with 1.5C			
	Physical risk disclosure			
	Biomass procurement policy			
Eli Lilly & Co	Publish environmental metrics annually			Social
	Enhance reporting on ESG issues using disclosure standards and frameworks			
	Analyse and publish the breakdown of men and women in clinical trials			Environmental
	Improve disclosure on the supplier audit process			
	Disclose metrics to monitor and evaluate access to medicine efforts			
	Improve performance in the Access to Medicine Index			Introduction
	Publish up-to-date information about ethics and compliance training			
	Improve disclosure on strategies to manage supply chain risk and disruption			
	Improve disclosure on strategies to tackle antimicrobial resistance (AMR)			
	Disclose a species-by-species breakdown of the animals used in tests			
Fresenius SE & Co KGaA	Workforce Disclosure Initiative participation			
	Integrate AMR into environmental risk management strategy			
	Enhance human rights supply chain due diligence efforts			
	Enhance disclosure on measures to mitigate product safety and quality risks			
	Increase transparency about environmental initiatives in manufacturing			
	Use a scorecard system to assess key suppliers' sustainability performance			
	Set quantitative access-related targets			

Key

- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

	Disclose examples of human rights issues uncovered by audits		
	Participation in the Workforce Disclosure Initiative's 2022 survey		
Hannover Rueck SE	Enhanced corporate diversity		
	Climate risk strategy implementation		
HDFC Bank Ltd	Improve digital expertise at board level		
	Strengthen approach to climate change management		
	Increase representation of women in the workforce		
	Improve board gender diversity		
Home Depot Inc/The	Develop robust human rights risk management framework		
	Respond to the WDI		
JPMorgan Chase & Co	Improve alignment of executive compensation		
	Improve robustness of audit process		
	Introduce carbon reduction targets		
	Workforce Disclosure Initiative participation		
	Introduce carbon reduction targets		
Kansai Electric Power Co Inc/The	Obtain external verification of targets (SBTI)		
	Set a schedule for retirement of all existing coal-fired power		
	Set interim emissions reductions targets which are net zero aligned		
Keyence Corp	Publish comprehensive ESG report		
	Enhanced human rights program		
	Implement confidential grievance mechanism		
	Improve Code of Conduct labour related content and implementation		
	Improve board diversity		
	Improve board independence		
	Increase the level of dividend payout		

Key

- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

Lonza Group AG	Establish a climate governance framework		
	Undertake physical climate risk and opportunity assessment		
	Engagement on climate change strategy and implementation		
	Develop and implement a strategy for building climate resilience		
	Identify and report against physical climate risk metrics		
Lowe's Cos Inc	Disclose Human Rights Due Diligence Framework		
	Human Rights Risk Assessment		
	Improve health and safety performance		
	Publish gender/racial pay gap information		
Marriott International Inc/MD	Set science-based targets aligned with Net-Zero Standard		
	Develop effective tracking of labour conditions and human rights		
	Assess and mitigate biodiversity impacts		
Martin Marietta Materials Inc	Develop nature management approach		
	Set emissions targets covering all operations		
	Disclose to the CDP		
	Report in line with TCFD		
Moderna Inc	Take additional steps to increase access to the Spikevax vaccine for COVID-19		
	Disclose information about product safety and quality risk management		
	Disclose employee turnover rate		
	Expand commitment to vaccines and therapeutics access		
	Increase transparency on COVID-19 vaccine pricing		
Procter & Gamble Co/The	Strengthening human rights due diligence		
	Develop biodiversity strategy		
	Develop a strategy to address plastic pollution		

Key

- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

Raytheon Technologies Corp	Disclose in line with the TCFD		
	Set net-zero target		
Shell PLC	Develop strategy for net zero emissions by 2050		
	Become living wage employer		
	Improve TCFD disclosures		
	Strengthen community relations approaches and disclosures		
	Improve disclosures on offsetting and CCS strategy		
	Improve biodiversity disclosure and set targets		
	Nigeria: improve bribery and corruption prevention		
	A revised decarbonisation strategy given the court order and the new IEA net zer		
	Clarify and strengthen the climate elements in remuneration		
	Improve GHG targets to align with 1.5C		
SITC International Holdings Co Ltd	Appoint additional independent non-executive directors		
	Join industry organisations addressing climate change issues		
	Incorporation of emissions reduction targets in executive compensation		
	Enhance carbon emissions reduction targets		
	Build capacity at board level on climate change		
	Improve disclosures around health and safety		
	Disclose in line with TCFD		
	Disclose detailed decarbonisation strategy		
	Improve climate-related disclosures		
	Fully independent audit committee		
Solvay SA	Establish a climate governance framework		
	Phase out hazardous chemicals		
	Develop stronger waste management programme		

Key

- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

	Develop and implement a strategy for building climate resilience		
	Identify and report against physical climate risk metrics		
	Undertake physical climate risk and opportunity assessment		
	Phase out fossil fuels		
	Develop stronger emissions reduction programme		
Southwest Airlines Co	Disclose in line with TCFD		
	Link Board remuneration with sustainability metrics		
	Disclose detailed decarbonisation strategy		
	Improve Board diversity and independence		
	Set operational CO ₂ -emission reduction targets		
	Establish SAF procurement criteria		
Tencent Holdings Ltd	Improve climate-related disclosures		
	Set diversity & inclusion targets		
	Grievance mechanism reporting		
	Improve board composition		
	Improve oversight process of subsidiaries		
	Improve employee engagement reporting		
	Put external audit contract to tender every 10 years; disclosure auditor tenure		
Tesla Inc	Workforce Disclosure Initiative participation		
	Enhanced human rights due diligence		
	Commitment to social dialogue, and freedom of association		
	Improve Board diversity and independence		
	Improve climate disclosures		
	Improve diversity, equity and inclusion disclosures		
	Conduct an independent review of labour management		
TJX Cos Inc/The	Improve efforts to enable supply chain living wages		

Key

- Engagement suspended Set/Not yet engaged Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern Evidence of issuer change - Milestone
- Progressing Not progressing

Governance

Social

Environmental

Introduction

	Supply chain labour standards		
	Chemical management		
	Waste management and circularity		
Valero Energy Corp	Disclose emissions using industry standard methodologies and improve scenario an		
	Improve independence of key committee		
	Improve alignment of executive compensation		
	Introduce long-term net zero target		
	Set scope 3 target		
	Set targets that do not rely on displaced emissions		
Vinci SA	Aligne capex with Paris Agreement		
	Publish method for reviewing, monitoring and mitigating modern slavery in supply		
Volkswagen AG	Introduce a zero-recruitment fee policy		
	Workforce Disclosure Initiative participation		
	Have climate targets third-party verified		
	Disclose detailed decarbonisation strategy and capital expenditure plans		
	Publish climate lobbying report		
	Publish climate scenario analysis		

Key

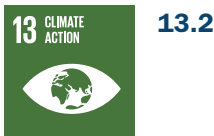
- Engagement suspended
- Set/Not yet engaged
- Expectation/concern raised with issuer
- Issuer committed to consider expectation/concern
- Evidence of issuer change - Milestone
- Progressing
- Not progressing

Engagement case studies

Southwest Airlines Co

Confidential (Held)

Country: United States	Sector: Industrials	Priority Company: ✓
ESG Risk Rating: ●	Response to engagement: Adequate	Theme: Climate Change
Issue: Flying ahead but room still remains for improvement		



Background

Southwest Airlines is an airline operating out of Dallas, Texas. It is a significant carbon emitter, with Scope 1 emissions of some 16 million tonnes of CO₂ in 2021. In 2021 Southwest set its target to reduce emissions intensity by 20% by 2030. We had repeatedly engaged with Southwest to set an emissions reduction target and viewed this as a positive step forward at the time. However, Southwest is now one of the few major US airlines not to have set a well-below two degree aligned target. Southwest’s decarbonisation strategy in the short term is heavily reliant on bringing newer, more fuel-efficient aircraft into its fleet, and increasing the percentage of sustainable aviation fuel (SAF) that it uses. However, much SAF on the market today is derived from biofuels, the production of which can have negative impacts on food availability and biodiversity. In addition, SAF supply needs to grow quickly and substantially to meet future industry demands, but Southwest has moved slowly and without a clear strategy to lock in SAF supply. Finally, contrails produced by aircraft can contribute up to two thirds of an airline’s impact on global warming. Several airlines are actively managing these contrails by adjusting flight paths, but Southwest is yet to take active steps to reduce its impact.

Action

As a result of our analysis of Southwest Airline’s performance, we have engaged the company intensively on these issues since 2022, with six engagement since the start of 2022, including our latest call with their ESG team in February 2023. We had three core asks: 1. For Southwest to increase the ambition of its medium-term decarbonisation target to align with at least a well-below two-degree future. 2. For Southwest to publish its SAF procurement policy to provide investors with clarity on how ESG risks are being screened for at the point of purchase, and to provide greater clarity on its SAF procurement strategy. 3. We asked Southwest to implement measures to manage the warming impact of contrail formation.

Verdict

In our latest meeting Southwest said they expect to announce their enhanced climate targets in their May disclosures. They also became one of the first airlines to publish the five criteria of their SAF policy which dictates the types of SAF they will and will not use. Southwest also became a founding member of the Contrail Impact Task Force, and are working to design and implement flight trials to validate model predictions, understand costs and tradeoffs, and verify the inclusion of contrail management in airline operation. Southwest has made good progress against our asks, but room remains for improvement on providing additional detail on its decarbonisation strategy and implementing contrail management technologies.

ESG Risk Rating:	Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client’s portfolio

BlueScope Steel Ltd

Confidential (Held)

Country: Australia	Sector: Materials	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Good	Theme: Climate Change; Environmental Stewardship

Issue: Realising net-zero in Australian steelmaking



15.5



13.2

Background

BlueScope Steel (BlueScope) is an Australian-based steel production company, operating in Australia and the US, as well as offering a range of coated and painted flat steel products, using steel it both purchases and produces. The Port Kembla Steelworks (in Australia) is the largest of the company's global operations, producing over 40% of its total raw steel output each year. BlueScope has committed to net-zero across scope 1 and 2 targets and has appointed an Executive Climate Change Office. Their net zero strategy hinges on the procurement of green hydrogen and the scaling of Direct Reduced Iron – Electric Arc Furnaces with hydrogen technology. However, the company has been experiencing recent challenges, as Shell withdrew from an MoU to build out a green hydrogen production plant in Australia with BlueScope. The company's plan to reline its blast furnace in Port Kembla (which runs on coal) has also been challenged recently, both by incoming carbon regulation as well as public sentiment.

Action





We have engaged BlueScope twice in the last 6 months on this issue. In general, they are open, receptive, and well-versed in climate and sustainability issues. They are also involved in several climate groups, such as the Science Based Target initiative for Steel as well as the Responsible Steel initiative, which indicates they are actively contributing to sustainability efforts in the industry. However, we have pinpointed consistent areas for improvement: we have been engaging with the team to set a scope 3 target - as the company is also procuring steel and aluminium, it has a significant scope 3 footprint (vs other steel-peers). The company also lacks any targets or strategy on biodiversity and nature, which has led to several communications – both written and verbal – on the importance of embedding biodiversity and nature targets into its climate strategy. On the Port Kembla upgrade, we have highlighted the long-term asset stranding risk, challenging the assumption that relining its Blast Oxygen Furnace (and locking into coal-based steel making) is the most cost efficient option, particularly in the face of increasing regulation on carbon in Australia. The company states that they have stress-tested this, and are in conversation with the Australian government about its review of the Australian Carbon Credit Unions (ACCUs) which are central to the government's carbon pricing mechanisms. We will continue to follow these developments closely.

Verdict

BlueScope is open to engagement, and the team is well informed. However, we believe the company should be more ambitious in its emissions reduction target and biodiversity plan, particularly where they lag peers (including nature impacts and scope 3 targets), as well as clearer long term cost analysis of the continuation of coal-based steelmaking in light of significant regulatory risk. We will continue to engage with BlueScope on these topics through 2023.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Umicore SA
Public (Held)

Country: Belgium		Sector: Materials		Priority Company: X			
ESG Risk Rating: ●		Response to engagement: Adequate		Theme: Climate Change; Environmental Stewardship; Labour Standards			
Issue: Improving environmental impacts and health & safety							
<div>6 CLEAN WATER AND SANITATION</div> <div></div>	6.4	<div>13 CLIMATE ACTION</div> <div></div>	13.2	<div>8 DECENT WORK AND ECONOMIC GROWTH</div> <div></div>	8.8	<div>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</div> <div></div>	12.5

Background

Umicore is a leading auto catalysts manufacturer for emissions controls in the light and heavy-duty vehicle industry, aiming to position itself as a producer of battery materials for electric vehicles, stationary storage and portable electronics. It also has significant refining and metal recycling capabilities and is especially proficient in Platinum Group Metals (PGM) refining. Under Umicore’s 2030 RISE project (its new strategic plan designed to accelerate value creative growth launched in 2022), the company expects to further build on its leadership position within clean mobility materials and recycling. This growth will come with increased stress of key environmental and social concerns associated with these activities – notably around water usage, waste management and employee health and safety. Indeed, recycling can be a dirty business, as highlighted by past problems around lead pollution at Umicore’s Hoboken site – specialised in recycling batteries through extraction of precious metals such as silver, gold and platinum.

Action

We had a call with Umicore’s ESG Director to discuss how the company is dealing with its material ESG issues against a backdrop of planned expansive growth. On the environmental side, the company has had their 2030 emissions reduction targets approved by SBTi, including an intensity-based scope 3 target. Whilst we pushed for an absolute target to be set, Umicore felt that this is not currently viable under the current growth strategy. Umicore launched a dedicated water stewardship programme last year. We used this call as an opportunity to better understand the work carried out to date, and what to expect for the year ahead. The company has identified its first two sites where it sees potential water issues (both in Belgium) – and are hopeful of setting some quantitative targets – e.g. relating to water use/re-use/levels drawn/intensity – later this year. Umicore admitted that waste management continues to be an issue. The largest portion of waste is at its Hoboken site, focused on recycling activities, where half of the input mix is secondary materials. Any hazardous waste that cannot be recycled is disposed of in line with regulatory requirements. Positively, the company confirmed that it is looking into ways to best report on these recycling activities and ultimately hopes to set recycling targets in the future.



Verdict

Umicore is well aware of its environmental and social impacts, and is refreshingly honest in its assessment of where it currently stands. Whilst there is undoubtedly still work to be done to mitigate and minimise these impacts, we are extremely encouraged with the steps the company is taking to address them. We look forward to developments around its water stewardship programme later this year and expect to see site level targets for its “at-risk” sites. We also expect to see the company continue to develop its safety practices and protocol in a bid to see a fall in Lost Time Accidents in the next reporting cycle after a rise in 2022.

ESG Risk Rating:	Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client’s portfolio

Teck Resources Ltd

Confidential (Held)

Country: Canada	Sector: Materials	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Good	Theme: Climate Change; Environmental Stewardship
Issue: Improving climate change and nature approach		
<div><div>7</div><div>AFFORDABLE AND CLEAN ENERGY</div><div></div></div> <div>7.3</div>	<div><div>15</div><div>LIFE ON LAND</div><div></div></div> <div>15.5</div>	

Background

Teck Resources are a Canadian mining company with exposure to metallurgical coal, copper, zinc, precious metals and oil sands through operations across the Americas. The company is exposed to biodiversity, climate and water risks primarily, and community relationships can often be strained due to the impacts of sites on local communities. Teck have committed to net zero by 2050 across scope 1, 2 and 3 emissions, with interim targets and a fairly robust strategy in our view. They have also set a high level goal to have a “net positive impact on biodiversity”. Some of Teck’s assets, such as in the Elk Valley in Canada, have come under fire for their impact on local water sources and subsequently on local communities.

Action

We have engaged Teck sixteen times since 2018. On climate change we feel the company is making good progress, but pressed for more clarity over how they will reduce scope 1 and 3 emissions in the short term, and to fully incorporate climate change and resilience in their capex framework. Teck had a strong C-suite presence at December 2022’s COP15 and are seeking to take a leading position on nature issues, and work with indigenous peoples in these plans, which is a positive approach. However, we highlighted our concern that they are focusing on offsets and conservation at the expense of addressing operational impacts which lead to community, biodiversity, permitting and publicity issues. We shared our best practice report, which they acknowledged was a good framework and ties in with work they are currently undertaking on nature reporting through the International Council on Mining and Metals. Teck have a good approach to community relations and indigenous rights, partly driven by the Canadian government’s strong protection of these issues. We pushed for progress on water pollution in particular, although the company believes their latest plans should resolve key issues in the coming years.

Verdict

Teck’s management appear to be well versed in environmental and social issues, and they are implementing the high-level frameworks required to show the direction they are taking. The next step will be to improve disclosure and clarity on specific actions and spending. Strengthening the company’s focus on mitigating direct impacts is also key, as these frequently have the most material financial, regulatory and reputational impacts, as well as being the greatest impacts the company can control.

ESG Risk Rating:	Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
	Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client’s portfolio

Engagement projects

This section reports on priority engagement projects where we have made progress in the past quarter. For full details of our engagements with companies in these projects please refer to the online **reo**® client portal.

Project: Physical risk management

Category: Environmental

Project Objective

Intensifying climate change is causing changes to the scale and impact of extreme weather events, such as drought, wildfires and flood. Companies with supply chains or operations in areas of high vulnerability are subject to heightened risk of business interruption or damage to assets, and even threat to life. We will engage with a focused set of companies in the chemicals and electronic manufacturing sectors in order to understand how their current risk systems compare with investors' expectations, as set out in the IIGCC Physical Climate Risks and Opportunities statement, and to encourage them to address any gaps.

Progress Summary

We continue to engage a focused set of companies to understand how their current risk systems compare with investors' expectations on physical risk. We reached out to 11 companies and engaged 6 of them in Q1. We will reach out to the remaining 24 companies in Q2. We engaged construction and infrastructure companies Barratt Developments, Skanska and Ferrovial, food retailers Casino and Ebro, as well as gas utility SNAM. The degree to which these companies are assessing and monitoring physical risks varies by both business model and the maturity of climate reporting. Of the 6 companies, 4 of them report in line with the expectations of the Taskforce for Climate related Financial Disclosure (TCFD), and all of these have some degree of scenario analysis. Only two companies (Ebro and Casino) lacked TCFD reporting. On board level oversight, 4 of the companies have clear evidence of overview, with physical risks included in the risk register. In the construction sector the degree to which physical risks is considered varies with the business model. For example, Skanska derive 80% of its revenue from construction project, and notes that a significant risk is the loss of work-hours due to increasing heat (or extremes) during construction. Ferrovial has larger risk exposure to actual infrastructure, as it operates toll-roads and airports as well as construction, however, the company were not able to provide satisfactory evidence that physical risks were considered at group level. The food sector is exposed to physical risk due to impacts on the supply of agricultural products. Casino recognises the potential impact on prices and availability of raw materials based on two considered climate change scenarios. Ebro Foods relies on its flexible sourcing model to manage impacts on raw material quality and availability and considers physical risks as part of overall market risk; however, its reporting and oversight of these risks lagged peers. In utilities, we encouraged SNAM to disclose more detail on its exposure to physical risks by conducting a physical risk scenario analysis, especially for higher value sites such as cross-border assets, storage plants, regasification plants and LNG terminals.

Project: Zero Deforestation

Category: Environmental

Project Objective

Deforestation is a major driver of the twin crises of biodiversity loss and climate change. The destruction and fragmentation of forests is the biggest driver of extinctions across the world, and the deforestation and forest degradation contribute up to 15% of the carbon dioxide emissions caused by human activity. This is primarily linked to the production of commodities including palm oil, soy, cattle products, timber, cocoa, coffee and rubber. We have developed a bespoke tool to appraise the quality of deforestation management of issuers involved in soft commodity value chains. We combine datasets from sources including Forest 500, CDP Forests, ZSL SPOTT, Forests & Finance and MSCI to identify holdings with material exposure to deforestation impact and risk with poor quality management. Through our analysis we have discovered that the most common criteria which issuers fail against are on targets and traceability. We ask issuers to commit to no conversion of natural ecosystems and or zero deforestation, and to trace at least 90% of the total production/consumption volume of all high-risk commodities down to the relevant production site or processing facility level. We will also engage issuers on policy and procedures, certification, due diligence, indigenous and smallholder support and risk assessments.

Progress Summary

Through the deforestation project we are engaging a set of companies that we have identified as being material drivers of deforestation impacts with sub-standard deforestation management systems. We aim for these companies to commit to no conversion of natural ecosystems and/or zero deforestation, and to strengthen traceability to be able to trace at least 90% of the total production/consumption volume of all high-risk commodities down to the relevant production site or processing facility level. In Q1 2023 we had conducted 17 engagements with 14 companies within those targeted as priorities under this project:

- Adient released a deforestation policy following the advice of our engagements, and has set up a quarterly advisory working group with several NGOs. We are still encouraging Adient to make an explicit no-deforestation commitment and commit to improving traceability and due diligence for directed suppliers.
- We spoke with Walmart's ESG leads, and the company expects to provide more concrete updates in 2023 on progress towards the zero-deforestation commitments and the strategy to deliver on the top-line biodiversity commitments. We outlined our expectations for a step forward in its deforestation strategy and metrics.
- We were encouraged by International Paper's commitments and technology-based risk monitoring. We encouraged the company to bring forward the target date for sourcing 100% of fibre from sustainably managed forests from 2030 to 2025, and to set clear biodiversity impact targets for managed forests.
- We had a positive call with multiple members of Banco do Brasil's IR, Sustainability, and Agribusiness financing team. We encouraged them to make more public disclosures on their deforestation risk management, and to strengthen their due diligence process for processors as well as producers. In Q2 we will focus on expanding the coverage of the project across other high-risk companies which we have identified, and on conducting follow up engagements with laggards.

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects or enhances investor value. For full details of our engagements which led to one star milestones please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	ESG Rating	Themes engaged						
					Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
★★★★											
Danske Bank A/S	Denmark	Financials		●	●						
★★★											
ASM International NV	Netherlands	Information Technology		●	●						
Bank Central Asia Tbk PT	Indonesia	Financials	✓	●	●	●					
Mizuho Financial Group Inc	Japan	Financials		●	●						
Mohawk Industries Inc	United States	Consumer Discretionary		●	●						
Southwest Airlines Co	United States	Industrials	✓	●	●						
Unicharm Corp	Japan	Consumer Staples		●	●						
★											
Bank Mandiri Persero Tbk PT	Indonesia	Financials	✓	●	●						
International Flavors & Fragrances Inc	United States	Materials		●	●						
Mercedes-Benz Group AG	Germany	Consumer Discretionary		●	●						
Tecan Group AG	Switzerland	Health Care		●	●						
Trelleborg AB	Sweden	Industrials		●		●					

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Milestones in detail

Danske Bank A/S

Country: Denmark	Sector: Financials	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
<div> <div>13 CLIMATE ACTION</div> <div>13.2</div> </div>		

Milestone Detail:

Danske Bank have updated their position statement on fossil fuels and have included wording to highlight that they will not offer refinancing or new long-term financing to oil & gas exploration and production (E&P) companies that do not set a credible transition plan in line with the Paris Agreement. As part of this, they have decided not to offer long-term financing or refinancing to E&P oil and gas companies that intend to expand supply of oil and gas beyond what was approved for development by 31st of December 2021. This puts them in a minority of banks who have extended their oil and gas lending criteria beyond project financing, to include corporate financing. We have engaged with the company on their climate risk management, and their treatment of oil and gas.

ASM International NV

Country: Netherlands	Sector: Information Technology	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
<div> <div>13 CLIMATE ACTION</div> <div>13.2</div> </div>		

Milestone Detail:


The company committed to set a science-based emissions reduction target in line with a 1.5C pathway. We had previously engaged with the company to encourage the adoption of science-based targets.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●


Bank Central Asia Tbk PT

Country: Indonesia	Sector: Financials	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Environmental Stewardship	Milestone Rating: ★★
		

Milestone Detail:

Bank Central Asia have disclosed and implemented a palm oil sector lending policy. The policy largely requires debtors in the sector to ensure legal compliance, however it does also explicitly highlight that they encourage debtors to adopt the principle of No-Deforestation, No-Peat, No-Exploitation (NDPE). We have engaged with the company initially in August 2021, with a subsequent meeting in October where we asked about their lending criteria to the palm oil sector and specifically asked if they would consider an NDPE requirement in the policy. We discussed this again in January 2023 where they clarified that NDPE was encouraged, but not required.

Bank Central Asia Tbk PT

Country: Indonesia	Sector: Financials	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Environmental Stewardship	Milestone Rating: ★★
		

Milestone Detail:


In Bank Central Asia's latest sustainability report, they announced that they have introduced E&S risk credit policies for additional sectors, beyond palm oil. These policies are for coal mining, toll road, timber & forestry, cement and steel sectors. Like the palm oil policy, these policies essentially highlight that debtors must be aligned with the legal requirements, with a number of additional criteria that the bank say they encourage. While the details on the key criteria and implementation are minimal, this still represent a positive development. We initially engaged and had a meeting with the company in September 2021 where discussed the E&S risk management and they highlighted a lack of due diligence and policies in place beyond the plantation sector. We followed up to encourage them to expand these policies to other sectors, particularly mentioning the energy, cement and construction sectors. Most recently engaged with the company January 2023 where the company referenced these policies and we asked about their implementation.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●


Bank Central Asia Tbk PT

Country: Indonesia	Sector: Financials	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
 12.6		

Milestone Detail:

In their latest sustainability report BCA have provided some enhanced disclosures on their climate risk management and alignment to the TCFD recommendations. This includes the development of a high-level climate change roadmap which includes a commitment to calculate GHG emissions from investment activities between 2023 and 2025. They also provide high-level disclosures of the outcomes of the recent climate scenario analysis. We have previously engaged with the company a number of times on climate risk management as well as requesting disclosure aligned to the TCFD recommendations.

Mizuho Financial Group Inc

Country: Japan	Sector: Financials	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
 13.2		

Milestone Detail:

Mizuho published interim financed emissions targets for upstream oil and gas, and thermal coal mining and a transition finance framework to verify the credibility of client transition plans. Although the setting of interim targets has been slower compared to Japanese peer banks, this is nonetheless a positive step. We have engaged with the company 3 times in the past two years, most recently having a meeting with them in January 2022 which was focused on their climate risk management, in particular the setting of financed emission targets and how they assess and support their clients' low carbon transition. We also supported a shareholder resolution requesting enhanced climate disclosure at their June 2020 AGM.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Mohawk Industries Inc

Country: United States	Sector: Consumer Discretionary	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
<div><div>13 CLIMATE ACTION</div><div></div></div> <div>13.2</div>		

Milestone Detail:

Disclosed a commitment to reduce Scope 1 and 2 emissions, disclose Scope 3 emissions and develop science-based targets (SBTs) by 2024. We have engaged the Company on its supply chain environmental impact and efforts to reduce supply chain emissions.

Southwest Airlines Co

Country: United States	Sector: Industrials	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★
<div><div>13 CLIMATE ACTION</div><div></div></div> <div>13.2</div>		

Milestone Detail:

Southwest Airlines published its Sustainable Aviation Fuel (SAF) procurement policy, one of the first airlines to put out detail on the ESG criteria which they screen for at the point of the SAF purchase. We engaged with Southwest on publishing its SAF procurement policy four times in 2022, and are encouraged that they have now done so. While there is still room for improvement, that we will continue to engage the company on, this is a good step forward.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Unicharm Corp

Country: Japan	Sector: Consumer Staples	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Climate Change	Milestone Rating: ★★

13 CLIMATE ACTION

13.2

Milestone Detail:

The company announced that it had obtained emissions data for approximately 80% by value of the materials procured mainly in Japan. We have engaged the company on its lack of scope 3 emissions as a weakness for developing a robust climate change strategy, so this is a welcome step forward. The company has also made progress in calculating emissions per product, which could provide its customers with relevant scope 3 data.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagement case studies

Intertek Group PLC

Public (Held)

Country: United Kingdom	Sector: Industrials	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Adequate	Theme: Human Rights; Labour Standards; Business Conduct
Issue: Audits are not Enough		
 8 DECENT WORK AND ECONOMIC GROWTH 8.7 8.8	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 12.6	

Background

We engaged Intertek as part of a project concerning how social audit and assurance providers ensure audit quality. The aim is to understand how providers educate clients on what an audit should encompass, including efforts to encourage holistic due diligence frameworks and their approach to human rights and labour standards audits particularly in high-risk regions. We also sought to understand their view on increased government and stakeholder scrutiny of human rights risk mitigation and any expectations gaps that may occur. Intertek has faced allegations of unfair labour practices in Korea where a subsidiary allegedly shut down its local office prior to planned strike action as well as allegations of negligence relating to an audit carried out on a Tesco supplier in Thailand. These incidents have raised concerns over its approach to human rights due diligence (HRDD) and the effectiveness of its audit programs in identifying egregious labour standards.

Action

The courts did not uphold the allegations in Korea, however we reached out to Intertek on its approach to freedom of association and collective bargaining. They stated their policy is to fully respect employees' rights to form or join trade unions and take part in collective bargaining where this is accepted by local law. They also noted their efforts to engage with trade unions and employees, highlighting their policy not to retaliate or discriminate against employees wishing to organise. Regarding the Tesco audit, they were unable to comment in detail given ongoing legal proceedings but confirmed the findings were shared with Tesco. We asked Intertek about its own HRDD program and for better disclosure of its own standards of responsible business conduct. Finally, we highlighted the changing regulatory landscape and the likely higher level of scrutiny they will face as their clients need to evidence due diligence processes. Therefore, we encouraged better processes around client onboarding and offboarding.





Verdict

Our engagement highlights that while companies point to audits as evidence of HRDD, audits do not mitigate supply chain risks. Despite detailed audit procedures, Intertek faces an increased risk of loss of brand value should an audit face public scrutiny and be deemed inadequate. Key questions remain over how negative practices beyond the scope of the audit are identified and how this is communicated to clients. Given international convergence toward supply chain due diligence legislation, social audit data is likely to be scrutinised in more detail. Companies such as Intertek may need to move away from the provision of audits against base level standards and give preference to clients that conduct remediation to protect themselves and promote better audit quality.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Umicore SA

Public (Held)

Country: Belgium	Sector: Materials	Priority Company: X	
ESG Risk Rating: ●	Response to engagement: Adequate	Theme: Climate Change; Environmental Stewardship; Labour Standards	
Issue: Improving environmental impacts and health & safety			
<div><div>6</div><div>CLEAN WATER AND SANITATION</div><div></div></div> <div>6.4</div>	<div><div>13</div><div>CLIMATE ACTION</div><div></div></div> <div>13.2</div>	<div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div> <div>8.8</div>	<div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div></div></div> <div>12.5</div>

Background

Umicore is a leading auto catalysts manufacturer for emissions controls in the light and heavy-duty vehicle industry, aiming to position itself as a producer of battery materials for electric vehicles, stationary storage and portable electronics. It also has significant refining and metal recycling capabilities and is especially proficient in Platinum Group Metals (PGM) refining. Under Umicore's 2030 RISE project (its new strategic plan designed to accelerate value creative growth launched in 2022), the company expects to further build on its leadership position within clean mobility materials and recycling. This growth will come with increased stress of key environmental and social concerns associated with these activities – notably around water usage, waste management and employee health and safety. Indeed, recycling can be a dirty business, as highlighted by past problems around lead pollution at Umicore's Hoboken site – specialised in recycling batteries through extraction of precious metals such as silver, gold and platinum.

Action

We had a call with Umicore's ESG Director to discuss how the company is dealing with its material ESG issues against a backdrop of planned expansive growth. On the environmental side, the company has had their 2030 emissions reduction targets approved by SBTi, including an intensity-based scope 3 target. Whilst we pushed for an absolute target to be set, Umicore felt that this is not currently viable under the current growth strategy. Umicore launched a dedicated water stewardship programme last year. We used this call as an opportunity to better understand the work carried out to date, and what to expect for the year ahead. The company has identified its first two sites where it sees potential water issues (both in Belgium) – and are hopeful of setting some quantitative targets – e.g. relating to water use/re-use/levels drawn/intensity – later this year. Umicore admitted that waste management continues to be an issue. The largest portion of waste is at its Hoboken site, focused on recycling activities, where half of the input mix is secondary materials. Any hazardous waste that cannot be recycled is disposed of in line with regulatory requirements. Positively, the company confirmed that it is looking into ways to best report on these recycling activities and ultimately hopes to set recycling targets in the future.

Verdict

Umicore is well aware of its environmental and social impacts, and is refreshingly honest in its assessment of where it currently stands. Whilst there is undoubtedly still work to be done to mitigate and minimise these impacts, we are extremely encouraged with the steps the company is taking to address them. We look forward to developments around its water stewardship programme later this year and expect to see site level targets for its "at-risk" sites. We also expect to see the company continue to develop its safety practices and protocol in a bid to see a fall in Lost Time Accidents in the next reporting cycle after a rise in 2022.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

CoreCivic Inc
Public (Not held)

Country: United States		Sector: Industrials	Priority Company: X
ESG Risk Rating: ●		Response to engagement: Adequate	Theme: Human Rights; Labour Standards
Issue: Human Rights Due Diligence, Forced Labour			
<div><div><div>16</div><div>PEACE, JUSTICE AND STRONG INSTITUTIONS</div><div></div></div><div>16.b</div><div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div></div></div><div>12.6</div></div>			

Background

CoreCivic is one of the largest private prison and detention centre operators in the United States. They have faced a host of allegations over many years, relating to the poor treatment of detainees in its facilities resulting in accusations of breaching the principles of the UN Global Compact. Our record of the allegations against the Company extends back to 2014 when a report on a four-year investigation stated several detainees had died while in custody after management refused or failed to provide adequate medical care. In 2018, the U.S. Commission on Civil Rights asked Congress for an investigation in to forced labour concerns in relation to the company's Voluntary Work Program where detainees may work up to 8 hours per day and paid as little as \$1. As recently as 2022, CoreCivic has continued to face scrutiny in the press and the threat of legal action against executives about the program. They have also faced scrutiny relating to officer safety and allegations of discriminatory practices. In 2021, the Company was subject to a shareholder proposal to conduct a racial equity audit, to which they quickly agreed and commissioned an independent report.

Action

We have engaged CoreCivic on its approach to human rights risk management since 2015, both independently and as part of collaborative investor groups, including asking for better disclosure of the framework and metrics used to assess the effectiveness of its human rights risk mitigation efforts. In reporting on specific grievances raised by inmates, we noted the high proportion of reports against correctional officers. The Company defended its facility culture and highlighted its efforts to continue to strengthen its commitment to human rights. Given the high proportion of employee grievances raised about disciplinary actions, we questioned whether oversight mechanisms were effective or even contributed to employee discontent and untoward actions against detainees. The Company admit that facility staff may not always act appropriately, despite oversight and safeguards in place. We also discussed inmate and officer safety - whilst the Company discloses employee work related injuries, we encouraged the disclosure of the same for detainees. With regard to the voluntary work program, the Company maintains that it is a government initiative with all payment terms set by the government - despite wording to the contrary in the government's standard policy.

Verdict

Whilst there is a long way to go to gain comfort on the Company's human rights risk mitigation practices, their efforts to provide ESG reporting, conduct human rights risk assessments and engage with stakeholders is viewed favourably. That said, continued allegations relating to poor detainee conditions, detainee fatalities and other human rights abuses persist, calling in to question the effectiveness of the Company's approach. The continued negative press has impacted the Company's social licence to operate, making it a target for stakeholder backlash. Additionally, there has been a negative impact on their ability to access investment capital in recent years as a number of investment banks have publicly committed to ending their financing relationships with the private prison industry.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Moderna Inc

Public (Held)

Country: United States**Sector:** Health Care**Priority Company:** ✓**ESG Risk Rating:** ●**Response to engagement:** Good**Theme:** Human Rights; Corporate Governance**Issue:** Access to Medicine, Corporate Governance**3.8**

Background

When Moderna was valued at \$7.9bn at its IPO in 2018, it represented a significant leap of faith in a company yet to turn a profit or bring a product to market. Then the pandemic transformed Moderna into a household name, with their mRNA technology platform able to seize the covid vaccine opportunity. Now worth nearly \$60bn, the company has had to mature exceptionally fast. Going into the pandemic, Moderna had limited formalisation of its approach to material ESG issues, but have now developed an ambitious strategy and committed to transparency in implementation. Focus areas include a comprehensive global health strategy, a human capital management approach that embeds a strong culture in a fast growth business, and a commitment to net zero emissions using SBTi by 2030. Equitable access to the covid vaccine particularly in relation to low and middle income countries (LMICs) has been a priority issue for investors. Moderna has put progressive access measures in place including reprioritising supply away from 'first come first served' contracts, committing not to enforce patents in 92 LMICs, opening up the mRNA technology platform, and investing in a new manufacturing base in Kenya.

Action

During the pandemic, we engaged Moderna collaboratively on their vaccine access strategy, encouraging a constructive relationship with GAVI (a public-private global health partnership) over participation in the COVAX initiative (focused on global access to covid vaccines), which saw Moderna deliver 650m doses. Moderna was reluctant to engage in detail at the time but over the last year, resource has been built and the ESG strategy has been formally presented, with the first report published and a shareholder event in 2022. We also engaged individually at the time of the 2022 AGM - going forward we will focus on the implementation of their ESG strategy and monitor progress on addressing gaps. We are particularly aware of challenges ahead relating to establishing the Kenyan manufacturing base, such as supply chain resilience, bribery and corruption risk, and environmental stewardship. We will also continue engaging on corporate governance, encouraging the further tightening of IPO-era provisions such as declassifying the board and limiting supermajority vote requirements in order to be more shareholder friendly.

Verdict

While Moderna showed limited willingness to engage openly with investors during the earlier stages of the pandemic, the past year has seen considerable progress. Moderna has formalised and presented a comprehensive strategy on material ESG topics, and shown a willingness for transparency on gaps and implementation. On access to medicine, we are confident that their programme now shows genuinely innovative leadership on the issue. Moderna continues to grow fast and is keeping many different plates spinning, and while there is thoughtful effort being made to put appropriate systems, goals, and oversight structures in place to support this, there will almost inevitably be some balls dropped. We will continue to engage to encourage and monitor progress.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Response to engagement:

Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

(Not held) (Held)

This mark indicates whether the company is held in client's portfolio

Starbucks Corp
Confidential (Held)

Country: United States	Sector: Consumer Discretionary	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Adequate	Theme: Labour Standards
Issue: Starbucks defiant in face of investor action on freedom of association		
<div><div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div><div>8.8</div></div>		

Background

One of the most recognisable brands in the world, Starbucks has more than 32,000 stores in 80 countries. The current CEO Laxman Narasimhan is new in the role, having joined the company in October while former Chairman and CEO Howard Schultz led the company through the transition from the former CEO Kevin Johnson. In April 2022 we wrote about the allegations of obstruction and retaliation against union activities. Since then, the company has been put on the MSCI Watchlist for allegations of anti-union practices, been ordered by US judges to reinstate workers allegedly fired for supporting a union campaign in Tennessee, and to cease anti-trade union activities nationwide. In March, Howard Schultz appeared before a US Senate committee to answer questions about its labour practices. While the company has often pointed to the benefits and development prospects it claims as industry-leading, investor focus has been on non-interference with union activities as a key aspect of the fundamental right for workers to organise in accordance with the law. Starbucks maintains that it respects this right and does not engage in obstruction, and points to its voluntary commitment to ILO Core standards which includes freedom of association. A resolution passed at the 2023 AGM asking the company to commission an independent review of its policies and practices relating to freedom of association and collective bargaining.

Action

Building on last year’s dialogue and the subsequent vote against the Chair, we spoke with the new CEO, reiterating our concerns over company reputation and risk to talent attraction and retention. We noted that the company stated last September its commitment to engage in good faith with unions but highlighted the lack of concrete actions taken to ensure that the company’s commitments are upheld throughout the store network. We also asked for explicit commitment to non-interference in freedom of association activities. The CEO acknowledged our concerns and offered a call the next day with the Chief Communications Officer and the human resources team. In our view, the call was constructive in tone but lacking in additional detail. The company denies any union-busting activities and explained its strong preference for an internal review of its policies and processes. We presented our view that the current actions and statements are insufficient to allay concerns and that an independent review would help demonstrate transparency and restore stakeholder trust.

Verdict

While we appreciate the time and attention given to us by the company, the discussions provided little in the way of new information and we maintain that there is a lack of an explicit policy of non-interference and disclosure of concrete actions to ensure implementation. We believe we have exhausted our options of engagement and therefore chose to support the shareholder resolution. Going forward, we will encourage the incoming CEO to take a firm approach to protect the company’s reputation and attractiveness in the labour market and we will engage on its cooperation with the independent assessment. Nonetheless, we remain frustrated at the pace of change at Starbucks and despite multiple engagements and voting action, we lack confidence in near-term improvement.

ESG Risk Rating:	Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client’s portfolio

Engagement projects

This section reports on priority engagement projects where we have made progress in the past quarter. For full details of our engagements with companies in these projects please refer to the online [reo®](#) client portal.

Project: Asia's all-male boards

Category: Social

Project Objective

This project intends to cover the largest issuers in Asia which still have an all-male board. There is clear evidence that an inclusive and diverse issuer, especially at the highest leadership level, often outperforms other less diverse peers. The global average female representation on the board is 19.7%, and the figure in Asia only reaches 11.7% (as of 2022). All-male boards are still commonly seen in Asia. South Korea has the lowest gender diversity on the board at 4.2%, followed by Japan's 8.2% and Taiwan's 12.2%. Regulators in Asian countries such as Malaysia, India and Hong Kong have already applied pressure to eliminate the male-only boardrooms. However, there is still lots of room for improvement which we want to investigate, and ensure appropriate action is taken.

Progress Summary

The "Improving Board Gender Diversity in Asia" project aims to engage some of the largest companies in Asia that currently have all-male boards. At the end of 2022, we informed all target companies that we will increase our gender diversity expectations in developing markets to 13.5% (having previous expectations of at least 1 female on the board), or we will vote against directors we deem responsible for failing our gender expectations. Q1 has seen the first wave of South Korean AGM season. Korean non-financial issuers with total assets exceeding two trillion Korean Won need to comply with "no single gender" board requirements set out by the Financial Investment Services and Capital Markets Act (Article 165-20). We saw progress being made by companies in the project in this regard. Ecopro BM Co., Ltd. appointed its first female non-independent director to the board, resulting in a gender diversity ratio of 9%. Doosan Enerbility Co., Ltd. also appointed its first female independent director to the board, taking its gender diversity ratio to 14%. However, there are many companies that still have an all-male board, such as L&F Co., Ltd which we will engage in Q2, with a key ask being a plan to improve its gender diversity. HMM Co., Ltd will also be engaged after failing to improve gender diversity at the 2023 AGM, despite being subjected to the "no single gender" board regulatory requirements. Finally, Canon, Inc. held its AGM in Q1 and while there is no regulatory gender requirement at the board level for Japanese companies, it was disappointing to see that the company failed to improve gender diversity on the board at the 2023 AGM. We will engage with this company in Q2, requesting the development of a plan to improve its gender diversity.

Project: Mandatory human rights due diligence

Category: Social

Project Objective

Building on public investor commitments that we have supported over the last few years, asking governments to mandate corporate environmental and human rights due diligence we will now focus on engaging corporates on implementing human rights due diligence across their supply chain. We will reach out to 20 developed markets and 10 emerging markets companies that have scored "0" in the 'Embedding respect and human rights due diligence' theme of the Corporate Human Rights Benchmark ("CHRB") 2021. The background for mandatory human rights due diligence is to create a level playing field among companies, ensure the protection of human rights across the supply chain, and enhance business continuity and general supply chain management practices. This is intended to be a 2 year project, with CHRB results as measurements for engagement impact.

Progress Summary

Institutional investors continue to face scrutiny over their efforts to mitigate the potential negative impacts of their investments. The swathe of national supply chain due diligence legislation we have seen in recent years is an example of this. We see this as an opportunity to encourage improved disclosure and better practice at our investee companies as the lack of sufficient disclosure has been a longstanding hurdle to our ability to appropriately understand the environmental, social and governance risks tied to our investments. To move towards filling these data gaps, we use information from ESG data providers and company rankings on social benchmarks. Now in its second year, our Mandatory Human Rights Due Diligence project began in Q1 2022, where our initial focus was on 26 companies from both developed and emerging markets, covering the extractives, automotive, technology, food retail, agriculture and apparel sectors. A key driver of our engagement with these companies was their zero score on the human rights due diligence indicator of the Corporate Human Rights Benchmark (CHRB). In Q2 2022, we removed Russian companies from the project as a result of the war in Ukraine and moved the project forward with 23 companies this year. As noted in our 2022 full year update, on the back of refreshed CHRB benchmarks for the automotive, ICT, food and agricultural sectors we will continue our engagement programs with, Infineon Technologies, Costco, Tyson Foods, Shoprite, Suzuki and Yili Group all who continue to score 0 on the human rights due diligence indicator. We noted improvements under the CHRB's scoring methodology for Carlsberg, Starbucks, BRF, Yum! Brands and Falabella. Highlights from our engagement program so far this year include robust dialogue with the heads of sustainability and human rights at Carlsberg., Despite their limited progress under the CHRB assessment, the Company is taking steps to operationalise its human rights policy commitments and conduct regular reviews to understand risk. At Starbucks, we spoke with several Company representative, including the CEO, on their approach to unionisation and the highly public shareholder proposal advocating for an independent review. We are pleased to be part of the cohort of institutional investors supporting the proposal, which passed by 52% at the 2023 AGM. As per the ILO Core Conventions, freedom of association and a right to organise is a fundamental freedom that corporates have a responsibility to protect, per the UN Guiding Principles on Business and Human Rights. A commitment to neutrality in employee relations has been a part of our engagement program with Starbucks and we have discussed their approach to employee relations with them since 2006. We look forward to the publication of the updated CHRB assessments for the apparel and extractives sectors later this year and have already had preliminary communication with Anta Sports, Foot Locker and TJX regarding their involvement in the benchmark.

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects or enhances investor value. For full details of our engagements which led to one star milestones please refer to the online **reo**® client portal.

						Themes engaged						
Name	Country	Sector	Priority Company	ESG Rating	Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct	
★★★★												
Broadcom Inc	United States	Information Technology		●			●					
Hewlett Packard Enterprise Co	United States	Information Technology		●			●					
★★★												
ASM International NV	Netherlands	Information Technology		●				●				
International Flavors & Fragrances Inc	United States	Materials		●				●				
J Sainsbury PLC	United Kingdom	Consumer Staples		●				●				
Lowe's Cos Inc	United States	Consumer Discretionary	✓	●				●				
Walmart Inc	United States	Consumer Staples		●				●				
★												
AstraZeneca PLC	United Kingdom	Health Care		●				●				
Carlsberg AS	Denmark	Consumer Staples		●			●					
Fast Retailing Co Ltd	Japan	Consumer Discretionary		●				●				
Fresenius SE & Co KGaA	Germany	Health Care	✓	●				●				
International Flavors & Fragrances Inc	United States	Materials		●				●				
Panasonic Holdings Corp	Japan	Consumer Discretionary		●			●					
Safaricom PLC	Kenya	Communication Services		●				●				
Tesco PLC	United Kingdom	Consumer Staples		●				●				


ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Milestones in detail


Broadcom Inc

Country: United States	Sector: Information Technology	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Human Rights	Milestone Rating: ★★
<div><div>16PEACE, JUSTICE AND STRONG INSTITUTIONS</div><div></div></div> <div>16.b</div>		

Milestone Detail:

Conducted a human rights impact assessment to identify the most salient human rights concerns impacting its supply chain. We previously recommended the company to conduct a human rights assessment and publish its salient risks instead of solely relying on supplier self assessment questionnaires.

Hewlett Packard Enterprise Co

Country: United States	Sector: Information Technology	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Human Rights	Milestone Rating: ★★
<div><div>8DECENT WORK AND ECONOMIC GROWTH</div><div></div></div> <div>8.7</div>		

Milestone Detail:

Strengthened and formalised human rights due diligence for sales in high-risk areas. The company also partnered with BSR (Business for Social Responsibility) and published best practices for human rights due diligence in technology sales channels. We had previously spoken to the company about improving its approach to customer due diligence regarding technology sales in high-risk areas.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

ASM International NV

Country: Netherlands

Sector: Information Technology

Priority Company: ✕

ESG Risk Rating: ●

Milestone Theme: Labour Standards

Milestone Rating: ★★



5.5

Milestone Detail:

ASM International has improved its workplace diversity from 15% to 17% in 2022; the company appears on track to reach its target of 20% by 2025. It has established concrete goals to reach this target, has increased its female hiring rate from 14% to 19% in a year, and has almost doubled the promotion of female employees simultaneously. We previously engaged the company to formalise programmes to reach its diversity and inclusion targets.

International Flavors & Fragrances Inc

Country: United States

Sector: Materials

Priority Company: ✕

ESG Risk Rating: ●

Milestone Theme: Labour Standards

Milestone Rating: ★★



5.5



10.2

Milestone Detail:


The company announced new diversity targets. By 2030, 40% people of colour in management positions in the United States, and with equitable representation globally, and women holding 50% of management roles across the business.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●


J Sainsbury PLC

Country: United Kingdom	Sector: Consumer Staples	Priority Company: ✕
ESG Risk Rating: ●	Milestone Theme: Labour Standards	Milestone Rating: ★★
<div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div> <div>8.5</div>		

Milestone Detail:

The company raised hourly wages to at least £11 for around 127,000 of the lowest-paid workers.

Lowe's Cos Inc

Country: United States	Sector: Consumer Discretionary	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Labour Standards	Milestone Rating: ★★
<div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div> <div>8.5</div>		

Milestone Detail:

Lowe's published median and statistically adjusted racial and gender pay gap data, in response to a majority vote by investors at the company's annual meeting in May 2022. We engaged the Company around the time of the vote and supported the shareholder proposal. We see this as best practice disclosure and applaud the Company's commitment to update the disclosure annually.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Walmart Inc

Country: United States

Sector: Consumer Staples

Priority Company: ✕


ESG Risk Rating: ●

Milestone Theme: Labour Standards

Milestone Rating: ★★

8

DECENT WORK AND ECONOMIC GROWTH



8.5

Milestone Detail:

The company announced that it will be raising wages for associates, expected to bring its average US hourly wages to over \$17.50.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Engagement case studies

Walt Disney Co/The Public (Held)

Country: United States	Sector: Communication Services	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Good	Theme: Corporate Governance
Issue: Disney's Wildest Ride		

Background

The Walt Disney Company is an international household name; from its global parks to its film titles and streaming services, a vast number of people use their services. But with that reputation comes increased scrutiny from, well, everyone. As the backlash against ESG continues apace in the US, Disney has been hit from all sides. After the 2022 AGM, Disney employees staged walkouts to protest the slow response of former CEO Bob Chapek to Florida's 'Don't Say Gay' bill. Later that year, Ron DeSantis, the governor of Florida, restructured the Reedy Creek Improvement District in an attempt to strip Disney of its control of the area after its belated opposition to the bill. And catching up to current events, newly reinstated CEO Bob Iger has called Governor DeSantis' attempts to control the company 'anti-business' and 'anti-Florida.' To add to the turmoil, in the past six months, Disney has experienced both executive and board-level turnover, with Bob Chapek stepping down as CEO and Bob Iger returning to fill the position. Former Chair of the Board Susan Arnold has also stepped down, with Mark Parker taking up her role. Against this backdrop, we have been engaging with Disney to better understand their approach to succession planning and political expenditures.

Verdict

Disney has shown a consistent willingness to engage and has actively solicited shareholder feedback from us. They have taken our suggestions on board and actioned demonstrable improvements in their lobbying disclosure. Additionally, their succession planning also provided us with comfort that Disney is focused on key elements for management of their long-term business and strategy.

Action

We met with Disney nearly every quarter over the past year to discuss a variety of ESG topics, but one that kept re-surfacing was around political expenditure transparency. Given the company is one of Florida's biggest "heavy hitters", we wanted to better understand how Disney oversees and discloses political expenditures and discuss areas for improvement, especially in light of the current environment in the US. The company highlighted recent improvements, including providing more information on trade association payments, disclosure on the primary purpose of each trade membership, and that they have prohibited trade associations from using dues to make contributions to political candidates. Disney also stressed their board-level oversight of the lobbying process. Ahead of the 2023 AGM, succession planning was another core area of focus for us. Given the recent high-profile turnover at the company, we spoke with them to better understand Disney's succession planning for both executives and the board. They provided additional information around their process, and we were reassured by the CEO succession planning experience of newly appointed Chair Mark Parker and by his level of engagement with the executive team.

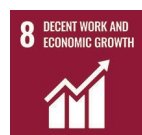
ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Intertek Group PLC

Public (Held)

Country: United Kingdom	Sector: Industrials	Priority Company: X
ESG Risk Rating: ●	Response to engagement: Adequate	Theme: Human Rights; Labour Standards; Business Conduct

Issue: Audits are not Enough



8.7
8.8



12.6

Background

We engaged Intertek as part of a project concerning how social audit and assurance providers ensure audit quality. The aim is to understand how providers educate clients on what an audit should encompass, including efforts to encourage holistic due diligence frameworks and their approach to human rights and labour standards audits particularly in high-risk regions. We also sought to understand their view on increased government and stakeholder scrutiny of human rights risk mitigation and any expectations gaps that may occur. Intertek has faced allegations of unfair labour practices in Korea where a subsidiary allegedly shut down its local office prior to planned strike action as well as allegations of negligence relating to an audit carried out on a Tesco supplier in Thailand. These incidents have raised concerns over its approach to human rights due diligence (HRDD) and the effectiveness of its audit programs in identifying egregious labour standards.

Action

The courts did not uphold the allegations in Korea, however we reached out to Intertek on its approach to freedom of association and collective bargaining. They stated their policy is to fully respect employees' rights to form or join trade unions and take part in collective bargaining where this is accepted by local law. They also noted their efforts to engage with trade unions and employees, highlighting their policy not to retaliate or discriminate against employees wishing to organise. Regarding the Tesco audit, they were unable to comment in detail given ongoing legal proceedings but confirmed the findings were shared with Tesco. We asked Intertek about its own HRDD program and for better disclosure of its own standards of responsible business conduct. Finally, we highlighted the changing regulatory landscape and the likely higher level of scrutiny they will face as their clients need to evidence due diligence processes. Therefore, we encouraged better processes around client onboarding and offboarding.

Verdict

Our engagement highlights that while companies point to audits as evidence of HRDD, audits do not mitigate supply chain risks. Despite detailed audit procedures, Intertek faces an increased risk of loss of brand value should an audit face public scrutiny and be deemed inadequate. Key questions remain over how negative practices beyond the scope of the audit are identified and how this is communicated to clients. Given international convergence toward supply chain due diligence legislation, social audit data is likely to be scrutinised in more detail. Companies such as Intertek may need to move away from the provision of audits against base level standards and give preference to clients that conduct remediation to protect themselves and promote better audit quality.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Moderna Inc
Public (Held)

Country: United States	Sector: Health Care	Priority Company: ✓
ESG Risk Rating: ●	Response to engagement: Good	Theme: Human Rights; Corporate Governance
Issue: Access to Medicine, Corporate Governance		



3.8

Background

When Moderna was valued at \$7.9bn at its IPO in 2018, it represented a significant leap of faith in a company yet to turn a profit or bring a product to market. Then the pandemic transformed Moderna into a household name, with their mRNA technology platform able to seize the covid vaccine opportunity. Now worth nearly \$60bn, the company has had to mature exceptionally fast. Going into the pandemic, Moderna had limited formalisation of its approach to material ESG issues, but have now developed an ambitious strategy and committed to transparency in implementation. Focus areas include a comprehensive global health strategy, a human capital management approach that embeds a strong culture in a fast growth business, and a commitment to net zero emissions using SBTi by 2030. Equitable access to the covid vaccine particularly in relation to low and middle income countries (LMICs) has been a priority issue for investors. Moderna has put progressive access measures in place including reprioritising supply away from ‘first come first served’ contracts, committing not to enforce patents in 92 LMICs, opening up the mRNA technology platform, and investing in a new manufacturing base in Kenya.

Action

During the pandemic, we engaged Moderna collaboratively on their vaccine access strategy, encouraging a constructive relationship with GAVI (a public-private global health partnership) over participation in the COVAX initiative (focused on global access to covid vaccines), which saw Moderna deliver 650m doses. Moderna was reluctant to engage in detail at the time but over the last year, resource has been built and the ESG strategy has been formally presented, with the first report published and a shareholder event in 2022. We also engaged individually at the time of the 2022 AGM - going forward we will focus on the implementation of their ESG strategy and monitor progress on addressing gaps. We are particularly aware of challenges ahead relating to establishing the Kenyan manufacturing base, such as supply chain resilience, bribery and corruption risk, and environmental stewardship. We will also continue engaging on corporate governance, encouraging the further tightening of IPO-era provisions such as declassifying the board and limiting supermajority vote requirements in order to be more shareholder friendly.

Verdict

While Moderna showed limited willingness to engage openly with investors during the earlier stages of the pandemic, the past year has seen considerable progress. Moderna has formalised and presented a comprehensive strategy on material ESG topics, and shown a willingness for transparency on gaps and implementation. On access to medicine, we are confident that their programme now shows genuinely innovative leadership on the issue. Moderna continues to grow fast and is keeping many different plates spinning, and while there is thoughtful effort being made to put appropriate systems, goals, and oversight structures in place to support this, there will almost inevitably be some balls dropped. We will continue to engage to encourage and monitor progress.

ESG Risk Rating:	Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc. Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●
Response to engagement:	Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.
(Not held) (Held)	This mark indicates whether the company is held in client's portfolio

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects or enhances investor value. For full details of our engagements which led to one star milestones please refer to the online **reo**® client portal.

Name	Country	Sector	Priority Company	ESG Rating	Themes engaged						
					Climate Change	Environmental Stewardship	Human Rights	Labour Standards	Public Health	Corporate Governance	Business Conduct
★ ★ ★											
SITC International Holdings Co Ltd	Hong Kong	Industrials	✓	●						●	
★ ★											
ASM International NV	Netherlands	Information Technology		●						●	
★											
Orsted AS	Denmark	Utilities		●						●	
Panasonic Holdings Corp	Japan	Consumer Discretionary		●						●	

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Milestones in detail

SITC International Holdings Co Ltd

Country: Hong Kong	Sector: Industrials	Priority Company: ✓
ESG Risk Rating: ●	Milestone Theme: Corporate Governance	Milestone Rating: ★★

Milestone Detail:

The board announced that Ms Yang Xin (the daughter of the founder) has resigned as a member of the audit committee of the company and has been appointed as a member of the risk management committee on 16 December 2022. The audit committee is now fully independent.

ASM International NV

Country: Netherlands	Sector: Information Technology	Priority Company: ✗
ESG Risk Rating: ●	Milestone Theme: Corporate Governance	Milestone Rating: ★★



12.6

Milestone Detail:

The company improved oversight and accountability of ESG practices and performance by incorporating sustainability metrics in the executive remuneration plan. 25% of short-term incentive is tied to non-financial metrics, specifically, leadership development and targets submitted to the Science-based Target initiative. We have been engaging with the company to encourage linking ESG metrics to executive compensation.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: ● Second quartile: ● Third quartile: ● Bottom quartile: ●

Appendix: Viewpoints Q1 2023

January



Net Zero: best practice and engagement approach

Quick view: As signatories of the Net Zero Asset Managers initiative, we are adopting a Stewardship-led approach to delivering our net zero commitment. Read more about our decarbonisation strategy, including our eight component Net Zero Model.

<https://bit.ly/3KMqZgb>

February



Banking on biodiversity

Quick view: Banks need to improve when it comes to understanding and managing their biodiversity impacts. Read about our recommended best practices and ongoing engagement with the sector.

<https://bit.ly/418JwbU>

March



Evaluating ESG Progress at South Korean companies

Quick view: Progress has been slow in recent years, so we travelled to Seoul to see how companies are dealing with ESG issues and assess where there is room for improvement.

<https://bit.ly/3H44hxL>



The challenges of realising zero-carbon cement

Quick view: Cement production accounts for about 7% of global carbon emissions. We explore the challenges the industry is facing on the road to net zero. Read about our engagement efforts with this critically important sector in our ESG Viewpoint.

<https://bit.ly/3nZ8xle>

Appendix: Viewpoints Q1 2023

March



Putting the brakes on fast fashion
Quick view: Cheap and on trend clothing but at what cost? We assess the implications of Fast Fashion and ask whether a more sustainable approach to clothing manufacture is set to gain traction.

<https://bit.ly/3KQBG12>

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