

Shropshire County Council

Q3 2023

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

Engagement this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
100	80	11	18

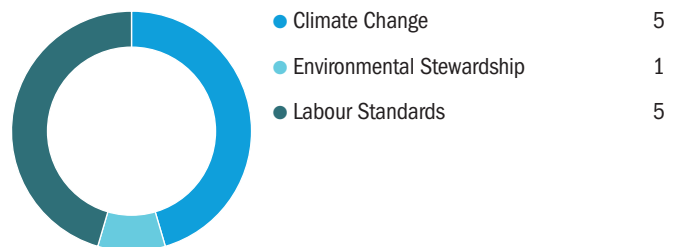
Companies engaged by region



Engagement by theme *



Milestones achieved by theme



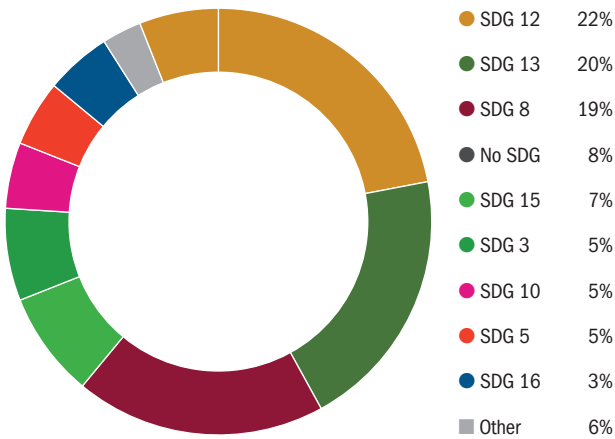
* Companies may have been engaged on more than one issue.

Engagements and Sustainable Development Goals (SDGs)

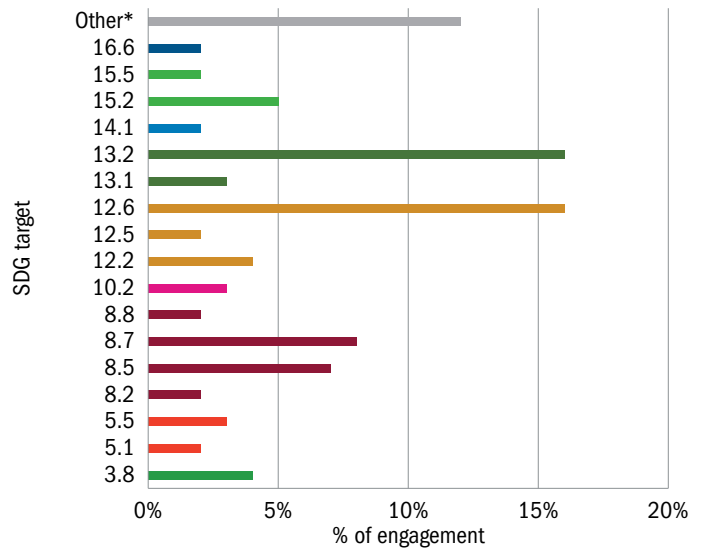
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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

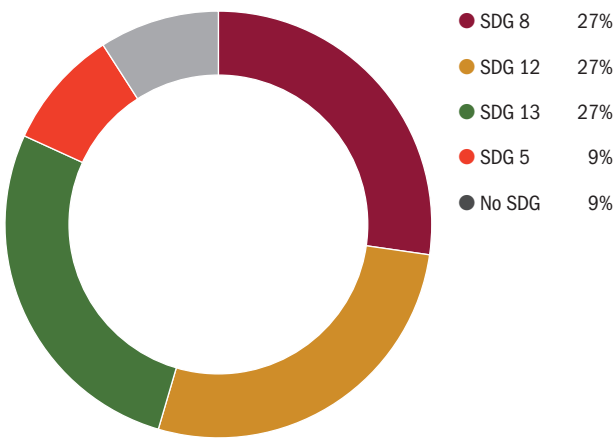
Engagement: SDG level



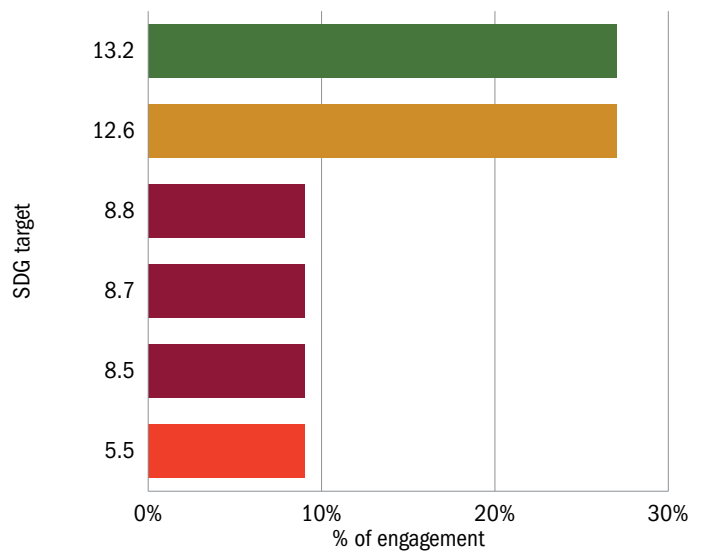
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Fresenius SE & Co KGaA

Country: Germany

Sector: Health Care

Priority Company: ✓

ESG Risk Rating:

Response to engagement: Good

Theme: Human Rights, Labour Standards, Public Health, Corporate Governance

Issue: Fresenius SE group restructuring - enhanced ESG oversight to be expected

SDG:  3.8  8.5  16.6

Background

Fresenius SE is a German healthcare group that has historically operated four specialised business segments. In an effort to improve oversight and control, the company is currently being restructured which will include the deconsolidation of its business segments focused on service provision and dialysis. Our engagement focus has been on ensuring the restructuring process results in a more sustainable business model that embeds enhanced oversight on the material ESG issues into corporate strategy.

Action

We met with the company's sustainability leads to discuss the company's restructuring process and the impact this will have on key ESG topics such as product quality and animal welfare. The Fresenius sustainability department has struggled for a long time to be effective with limited resources and a fragmented business structure, with little group level target setting and oversight. There has been a relative lack of centralised management information, including the absence of a single human resources database. This has resulted in implications for business strategy setting and oversight. From our discussions with the company, we believe that progress should be forthcoming as the business structure is being simplified. The group is on a clear path to quantified ESG-related KPIs for material issues of medical quality/patient satisfaction and employee engagement being embedded in performance incentive plans. Fresenius also explained that they are now aligning corporate strategy around a newly articulated central mission of "advancing patient care".

Verdict

The operational challenge of organisational change will still dominate resourcing for the coming months, but for the first time there is broad agreement of goals and direction across the Management and Supervisory Boards. We look forward to more granular data and targets being published in due course and will revisit progress in the coming months.

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: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagement case studies

Company: General Mills Inc

Country: United States

Sector: Consumer Staples

Priority Company: -

ESG Risk Rating:

Response to engagement: Adequate

Theme: Corporate Governance

Issue: Capital Structure and Shareholder Rights

Background

General Mills is an American based food manufacturer. Over the years, our engagements with the company have led to positive improvements in environmental stewardship, in particular on water management and plastics packaging. Most recently we have focused on Governance topics – at its 2023 Annual General Meeting, General Mills tabled a management proposal to allow shareholders holding 25% of common stock to request a special meeting. This was shortly followed by a shareholder proposal of a 10% threshold.

Action

We engaged with the company to discuss the management proposal and implications for shareholder rights. We highlighted that given the company’s by-laws currently do not allow shareholders the right to call a meeting, we view this proposal as a positive step. However, we inquired about the considerations the company took in determining the 25% threshold and underscored that it would be unlikely for shareholders to reach such a high percentage, given the more passive investment strategies of their largest institutional investor shareholders.

Verdict

We view special meetings as a positive shareholder right, allowing shareholders displeased with the company or the board to request a meeting to enact change. While our view is that 10% is a more suitable threshold than 25%, we believe that General Mills opening this avenue to shareholders is nonetheless a positive development. As such, we chose to support both the management and shareholder proposals, thereby underscoring the suitability of the 10% threshold. Both proposals passed, with management receiving c71% support and the proponent receiving c60%. In these circumstances, we anticipate the Board adopting the 10% threshold, leading to a significant step forward in shareholders rights at General Mills.

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: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagement case studies

Company: Johnson & Johnson

Country: United States

Sector: Health Care

Priority Company: -

ESG Risk Rating: 

Response to engagement: Good

Theme: Public Health, Corporate Governance, Business Conduct

Issue: Engaging with Johnson & Johnson on the value of transparency

SDG:



3.8



12.2

Background

Pharmaceutical giant Johnson & Johnson (J&J) has been grappling in recent years with more than 38,000 lawsuits alleging that its talc products, including Johnson's Baby Powder, can contain asbestos and caused cancers including ovarian cancer and mesothelioma. J&J has attempted to resolve this litigation, offering \$8.9 billion to end all current and future lawsuits alleging that talc causes cancer. The company's Senior Director of Sustainability and Engagement as well as the Company Secretary attended an in-person investor meeting in London to address investor concerns and queries regarding litigation, drug pricing, and ESG metrics.

Verdict

In our view, J&J displayed a willingness to listen to our recommendations and we anticipate increased disclosure from the company as a result. We will continue our dialogue with the company on access to medicine and litigation in the next quarter, as well as discussing board remuneration and climate disclosure.

Action

A key theme of the engagement was transparency. Regarding the lawsuits, we encouraged increased transparency and communication around changes in corporate practices and processes implemented to mitigate current and future harm. In relation to drug pricing, we acknowledge that companies such as J&J must strike a balance between expensive drug discovery and development processes and setting final drug prices. While noting the complexities involved, we urged the company to create more transparency (where feasible) on price increases in order to understand how these align with input costs and added patient value. Along with other investors, we recommended increased clarity around ESG metrics, such as how they are implemented and how they align with the company's ESG materiality assessment. J&J stated that while they currently only have qualitative ESG metrics, they are cognisant of differences in regional regulations and sentiment around ESG targets and disclosures which they must take into consideration when considering disclosure.

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:  GREEN Second quartile:  YELLOW Third quartile:  ORANGE Bottom quartile:  RED

Appendix



SDG	Target	Target Summary
SDG2	2.4	Implement climate-resilient and sustainable food production
SDG3	3.5	Increase the prevention and treatment of substance abuse
SDG3	3.8	Access to medicines and health-care
SDG5	5.1	End all forms of discrimination against women and girls
SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
SDG6	6.3	Improve water quality by reducing pollution
SDG6	6.4	Increase water-use efficiency to address water scarcity
SDG8	8.2	Achieve greater productivity through innovation.
SDG8	8.3	Promote development-oriented policies
SDG8	8.5	Achieve full and productive employment for all
SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
SDG8	8.8	Protect and promote safe working environments for all workers
SDG9	9.1	Develop resilient and sustainable infrastructure
SDG9	9.4	Upgrade and retrofit industries to increase sustainability
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.3	Ensure equal opportunity and legislation for all
SDG10	10.7	Facilitate safe migration through managed policies
SDG10	10.a	Implement the WTO's special rights provisions
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.5	Reduce waste through prevention, reduction, recycling and reuse
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG13	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.a	Address climate change mitigation for developing countries
SDG14	14.1	Prevent and reduce marine pollution of all kinds
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG15	15.5	Take urgent action to reduce degradation of natural habitats

Appendix (continued)



SDG	Target	Target Summary
■ SDG16	16.6	Develop effective, accountable and transparent institutions
■ SDG16	16.10	Ensure public access to information and protect fundamental freedoms

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