Shropshire County Council

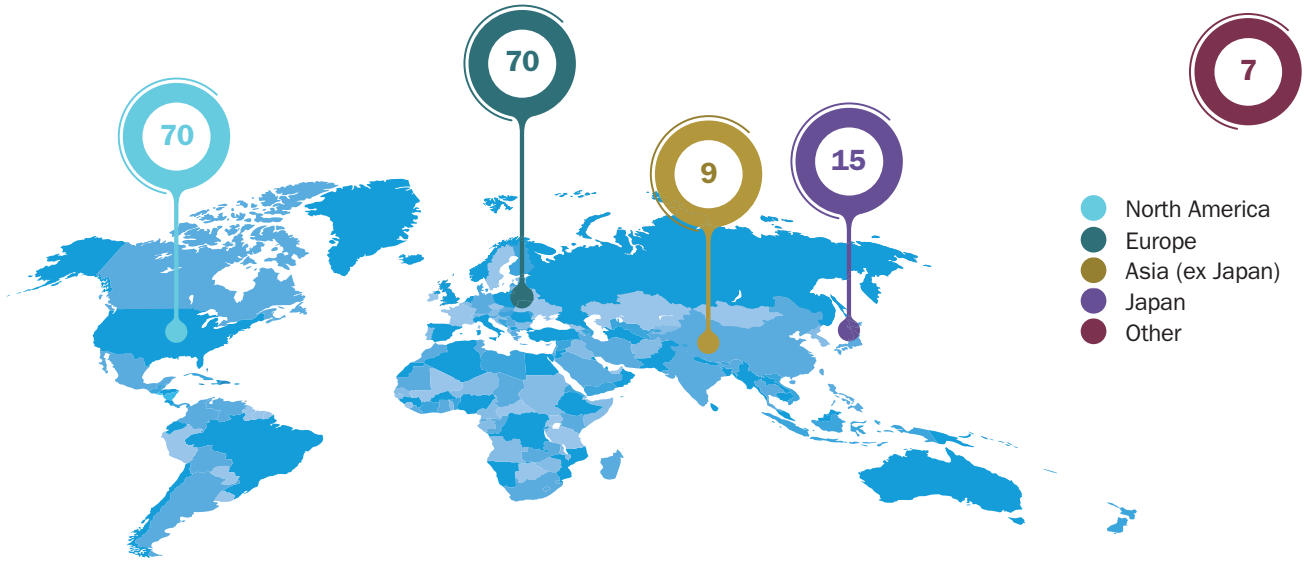
Q4 2023

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.

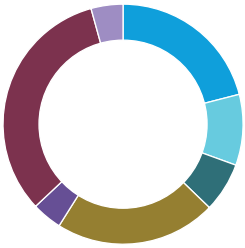
Engagement this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
202	171	67	25

Companies engaged by region

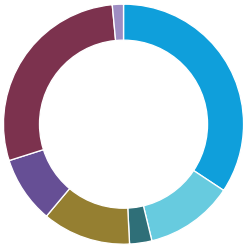


Engagement by theme *



Climate Change	88
Environmental Stewardship	40
Human Rights	28
Labour Standards	91
Public Health	17
Corporate Governance	137
Business Conduct	18

Milestones achieved by theme



Climate Change	23
Environmental Stewardship	8
Human Rights	2
Labour Standards	8
Public Health	6
Corporate Governance	19
Business Conduct	1

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

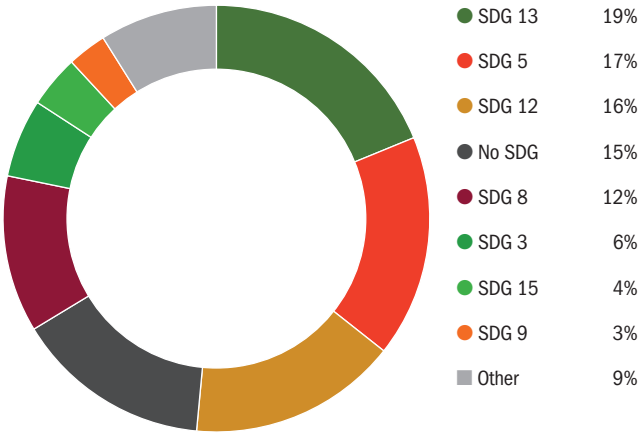
COLUMBIA THREADNEEDLE INVESTMENTS

Engagements and Sustainable Development Goals (SDGs)

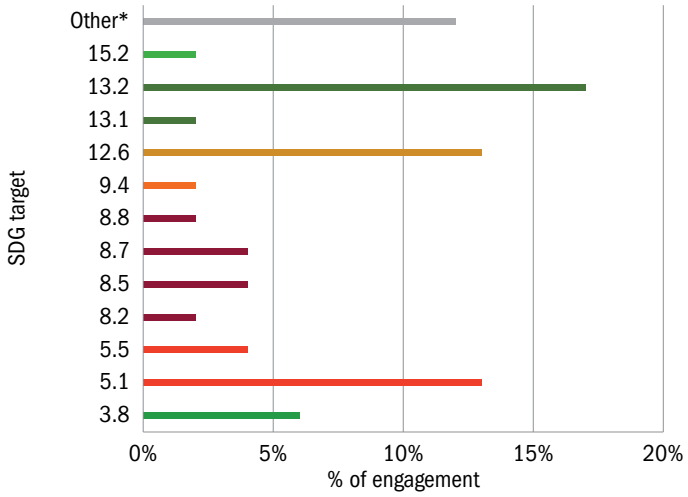
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

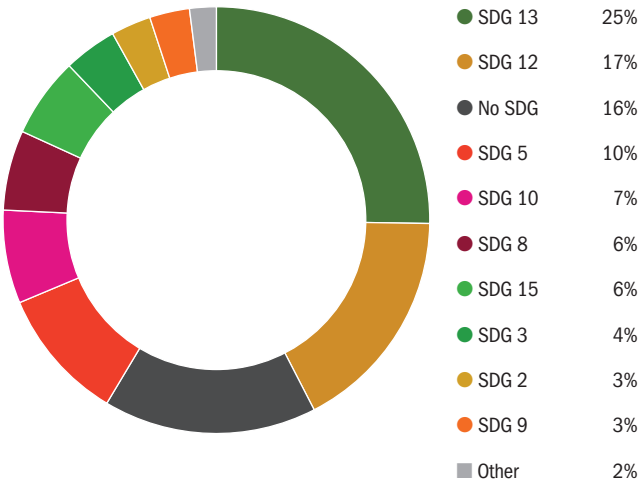
Engagement: SDG level



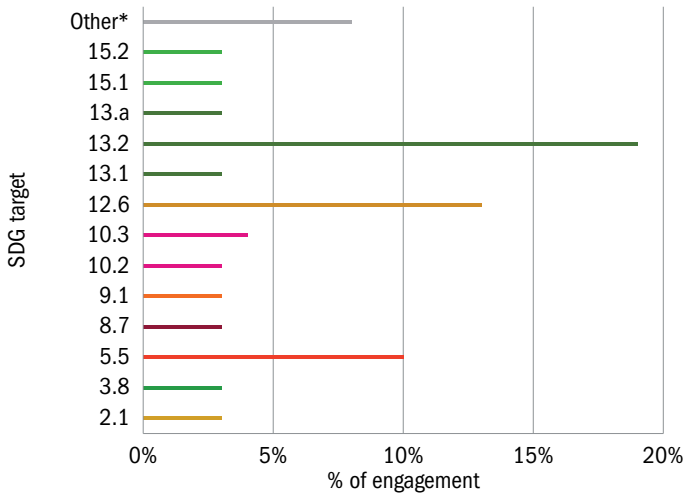
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: GSK PLC	**Country:** United Kingdom	**Sector:** Health Care
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Public Health	**Issue:** Diversity in clinical trials at GSK	
SDG:  3.8		

Background

GSK is a global bio-pharmaceutical company which manufactures innovative medicines and vaccines. Upcoming US regulatory requirements due to take effect in 2024 will push the industry to include diversity planning in their trial protocol or justify why this is not necessary. In our view, being under-prepared for this might result in novel drugs and therapies not being approved by the FDA, which poses a very material risk to drug manufacturers and Contract Research Organizations (CROs). As part of our diversity in clinical trials engagement project, we organized a call with GSK's Senior Vice President of Global Clinical Operations to learn more about the company's work on diversity in clinical trials and preparations for stricter regulation.

Action

We discussed the upcoming regulatory requirements on diversity in clinical trials and how GSK prepares for compliance. The company has a dedicated team that works on diversity in clinical trials, which ultimately falls under the Chief Scientific Officer. While work on trial diversity costs time and effort, GSK considers this a continuous learning curve for the company. They stressed that this is the right thing to do for patients and communities and that financially, the cost of getting it wrong will be more substantial. They also consider it a crucial part of their ambition to reach 2.5 billion patients by the end of 2030. The company shared a number of insightful case studies, for instance on how it works together with patient advocacy groups to assess and better understand patient needs as well as increasing the availability of Decentralized Clinical Trials (DCT). Finally, GSK shared more insight into how they collaborate with CROs, that they expect these to adhere to GSK's third-party vendor rules and that GSK is not interested in working with CROs who do not work on improving diversity in clinical trials.

Verdict

The key take-away from this conversation was that diversity in clinical trials is increasingly embedded in the company-wide strategy. GSK feels confident about their preparedness for regulatory requirements, having made efforts to increase diversity in clinical trials for over 15 years. This is evidenced by successful progress on their target to have 100% of 2023 phase III trials contain a proactive strategy to enroll appropriately diverse trial participants, consistent with the disease epidemiology. We consider GSK a leader in this space and will monitor further developments.

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: Adobe Inc	**Country:** United States	**Sector:** Information Technology
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Human Rights	**Issue:** Adobe's leading approach to Responsible AI	
SDG:  10.3		

Background

Adobe is one of the largest software companies in the world, offering a suite of products and services used by creative professionals, businesses, and customers to create, manage, measure, optimise content and experiences. Artificial Intelligence (AI) is embedded in many of its offerings and has the power to drive greater innovation and monetization opportunities. With this in mind, their approach to Responsible AI was high on our engagement agenda.

Action

We held a dialogue with Adobe's Investor Relations and General Counsel to learn more about the company's approach to Responsible AI. We asked about the company's governance approach as well as requesting further details on its impact assessment. We also discussed areas of biggest potential risks and how the company approaches mitigating them. Several years ago, Adobe formed an AI ethics governance committee which is responsible for conducting an AI ethics review every time an AI feature is proposed. It involves identifying potential harm and bias and multiple tests to minimize and eliminate these risks where possible. In order to measure the success of its efforts to mitigate AI bias or harm, the company tracks the percentage of outputs that are categorised as harmful. Adobe provided context about its Firefly tool (its generative machine learning model used in the field of design) which is trained solely on its licensed assets in order to reduce copyright related risks. It also mentioned that a wide variety of teams are involved in the oversight of testing to ensure diversity of perspectives are taken into account. Beyond social issues, the risks on the environmental side in relation to AI are believed to be more nascent. Nonetheless, the topic is addressed at the Board level when considering the potential impact on its net zero commitment.

Verdict

Overall, it is clear the company has been ahead of the curve on Responsible AI which presents a revenue opportunity, competitive advantage, and the opportunity for proactive risk mitigation. We were encouraged by the constructive dialogue, using the opportunity to better understand Adobe's leading approach. We will take some of these findings and outcomes into our internal Responsible AI assessment framework as Responsible AI remains a key topic for 2024. Engagements such as these are key for us to continuously evolve our understanding of how companies are thinking about Responsible AI and to learn and share good practices as we encourage industry-wide 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: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagement case studies

Company: DSM-Firmenich AG	**Country:** Switzerland	**Sector:** Materials
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:**
Theme: Climate Change, Corporate Governance	**Issue:** Discussing steps towards ESG integration post-merger	
SDG:  13.2		

Background

DSM-Firmenich is a Dutch multi-national company formed through the merger of Koninklijke DSM and Firmenich SA completed in May 2023. It is focused on the creation and development of nutrition, health and beauty products. Before the merger, Koninklijke DSM had two co-CEOs (Geraldine Matchett and Dimitri de Vreeze). Post merger, the CEO of Firmenich retired, with both DSM co-CEOs set to lead the new company. However, Ms. Matchett has also subsequently left the company, leaving Mr. de Vreeze as the sole CEO. Given the changes in corporate structure as a result of the merger, we focused our engagement on discussing the governance as well as environmental programs at the newly created company.

Action

We engaged with the company to learn more about the board composition, the merger, and how they are integrating their environmental, social, and governance (ESG) program. They noted that when it came to merging the company, it was a challenge to decide management and board members, as both had qualified people. We recommended the company disclose the board integration process, including providing information on how they arrived at the current board composition which they view as being the most suitable for the oversight of the new company. The company is also in the process of integrating their climate targets to set new group goals, having hired a Chief Sustainability Officer in June to help with the integration. They have yet to set combined emission reduction targets and are currently following individual legacy company targets. However, they emphasized that while the creation of combined targets is a complex process which will take some time, they intend to have the reconciliation process completed by their March 2024 report. Given that the merger was completed in May, we view a publication timeline of less than 12 months as evidence of their focus on swiftly setting the foundation for their climate – and broader ESG - program.

Verdict

Overall, the company emphasized they are looking to capitalize on synergies, both in their business model and in their climate change management. In our view, their proactive efforts to quickly set group goals demonstrate the company's commitment to developing a successful ESG program. Both entities appeared to have ambitious 2030 emission reduction goals and we expect to see a similar entity goal. We will continue monitoring the integration process and look forward to reviewing their next reporting disclosure in Q1 2024 to get more information on their board composition as well as updates on their emissions management integration.

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: ArcelorMittal SA	**Country:** Luxembourg	**Sector:** Materials
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Human Rights, Labour Standards	**Issue:** Engaging on worker safety after the deadly fire in Kazakhstan	
SDG:  8.8		

Background

ArcelorMittal is the second largest steel-producer globally, with manufacturing facilities in 16 countries and customers in 155. 46 of ArcelorMittal's (MT) employees were killed in a fire at its Kostenko coal mine in Kazakhstan which was triggered by a methane-gas explosion on October 28th, 2023. The explosion is the most severe industrial accident in Kazakhstan's independent history and triggered the nationalization of all MT's assets in the country, consisting of 8 coal mines, 4 iron ore mines and 1 steel plant.

Action

MT reached out to us following the accident to explain the remediation actions taken, and to outline what went wrong along with the lessons learnt. We have previously spoken to the company about its chequered safety record in Kazakhstan, as there have been consistent indications that the company is not handling occupational safety effectively for example with 14 fatalities in 2022 and 4 fatalities before October 2023. MT quickly outlined the remediation steps taken after the accident, including providing immediate support for families, such as a payment equivalent to a 10-year salary, payment for children's education up to the age of 23 and repayment of all personal loans of the families impacted. Regarding what went wrong, MT highlighted the 'complex' geology of the region as well as the 'risk-taking culture' as exacerbating risks. We challenged the company on this, as these are in no ways risks that we believe should have been outside of MT's due diligence and safety reviews – as it stands, we view these two explanations as inadequate at justifying what went wrong, particularly considering the scale of the accident and the endemic safety issues in the region. We requested evidence of how MT will ensure that its 33,000 employees- who are now being transferred to a nationalized company - will not be exposed to even worse work conditions. The company state they want to ensure a good legacy for MT in the region, however this will be a challenge, with the Prime Minister of Kazakhstan stating on the day of the disaster that MT is the "worst" investor in Kazakhstan's independent history.

Verdict

We are disappointed by the explanations provided by MT on what went wrong, particularly considering the safety record in the region which should have provided ample warning of the need for significant improvement on safety monitoring and procedures. MT state more information will be provided after the ongoing third-party audit of the whole company's safety practices is published, due in mid-2024. We will re-engage the company on safety after its publication.

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

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Appendix

SDG	Target	Target Summary
SDG1	1.1	Eradicate poverty and ensure a living wage for all
SDG2	2.1	End hunger and ensure access to safe and nutritious food
SDG2	2.2	End all forms of malnutrition, particularly for children and women
SDG3	3.7	Ensure global access to sexual and reproductive health-care
SDG3	3.8	Access to medicines and health-care
SDG3	3.9	Reduce deaths and illnesses from pollution and contamination
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	6.1	Achieve universal access to safe & affordable drinking water
SDG6	6.3	Improve water quality by reducing pollution
SDG6	6.4	Increase water-use efficiency to address water scarcity
SDG6	6.6	Protect and restore water-related ecosystems
SDG7	7.2	Substantially increase the global share of renewable energy
SDG7	7.3	Double the global rate of improvement in energy efficiency
SDG8	8.2	Achieve greater productivity through innovation.
SDG8	8.3	Promote development-oriented policies
SDG8	8.4	Improve resource efficiency and prevent environmental degradation
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
SDG9	9.c	Ensure universal and affordable access to ICT
SDG10	10.1	Achieve a higher rate of income growth for the bottom 40%
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.3	Ensure equal opportunity and legislation for all
SDG10	10.4	Adopt policies to progressively achieve greater equality

Appendix (continued)

SDG	Target	Target Summary
SDG10	10.7	Facilitate safe migration through managed policies
SDG11	11.2	Provide access to safe and affordable transport systems
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.4	Manage chemical usage and waste throughout their life cycle
SDG12	12.5	Reduce waste through prevention, reduction, recycling and reuse
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG12	12.7	Promote sustainable procurement practices
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
SDG14	14.4	Regulate harvesting and end overfishing to restore fish stocks
SDG15	15.1	Ensure sustainable usage of terrestrial freshwater ecosystems
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG15	15.5	Take urgent action to reduce degradation of natural habitats
SDG16	16.5	Reduce corruption and bribery in all their forms
SDG16	16.6	Develop effective, accountable and transparent institutions
SDG16	16.b	Promote non-discrimination laws for sustainable development