

New Zealand Superannuation Fund

Q2 2020

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

Engagement in review

The annual general meeting (AGM) season for most public companies worldwide faced significant challenges from the COVID-19. With mass gatherings discouraged or banned in many parts of the world, in-person AGMs could not be held. We spoke with companies about their contingency plans, with options including delaying or postponing the meeting, moving to a hybrid (part physical, part virtual) AGM, or where permitted, a virtual online-only AGM. Our engagement sought to ensure shareholder participation in meetings was not severely impaired.

The pandemic affected shareholder rights in a number of other ways during the voting season, including limited disclosure, shorter AGM notice periods and withdrawal of dividend payments. It also triggered widespread executive pay cuts, pausing of share buyback programmes and heightened investor scrutiny of environmental and social factors.

On climate change, the voting season marked the first time we implemented our new climate-related voting guidelines, which seek use of our vote to drive stronger climate change management practices at companies in high-impact industries. We also saw some increased activity on climate-related shareholder proposals, particularly in the US.

Climate policy advocacy Down Under

Engagement collaboration

In April 2020, we participated in an initiative, led by HSBC and coordinated by BMO and AMP Capital, to engage with companies in the Australian extractives industry on their climate policy advocacy positions. This follows the debate in the country since 2018, when the industry was accused of lobbying against key climate change and low carbon energy policies.

In April, we sent out letters addressing to the chairpersons of 11 extractive companies, all of which are members of industry associations known to lobby against climate policies, to set out our expectations of board-level governance on all types of lobbying activities. We emphasised that not only should boards oversee all direct interactions with policymakers, but there should also be scrutiny on how their companies' views are represented through the industry associations. We encouraged these companies to conduct regular assessments and to disclose how the climate goals in the Paris Agreement are reflected in their lobbying activities.

We have also received feedback from those companies producing fossil fuel Commodities. We have observed reluctance from these companies to tackle climate advocacy issues, which we believe comes from either their lack of robust energy transition strategy, or their active roles at industry associations that were accused by the media of lobbying against climate policies. As a result, our future engagement will focus on aligning these businesses to the ambition of limiting global warming to well below 2-degree Celsius as defined in the Paris Climate Agreement.

Responsible practices in the pharmaceutical industry

Engagement collaboration

In April 2020, we decided to join a collaborative investor initiative – co-ordinated by Achmea Investment Management – focusing on responsible practices in the pharmaceutical industry during the COVID-19 pandemic. Although we are encouraged by many pharmaceutical companies' responses, we have been concerned by reports suggesting that there are companies which are not necessarily prioritising equitable access to therapeutics and vaccines.

This investor initiative is underpinned by six high-level principles, including ensuring that employees are safe and healthy, and that their well-being is looked after; developing and providing affordable worldwide access to health products; collaborating and sharing relevant data with governments, peers and academia; and ensuring that in the long-term R&D processes sufficiently address infectious diseases.

High risks in the meatpacking industry

Engagement collaboration

Meat processing plants have emerged as frequent hotspots for the transmission of COVID-19 in the United States and other countries, including Brazil, Germany and the UK. In the U.S. alone, the Center for Disease Control and Prevention has identified numerous cases among workers in over 200 meat and poultry processing facilities across 33 states. These outbreaks have resulted in widespread criticism of working conditions at the plants where employees often work long hours in extremely cramped conditions where physical distancing is almost impossible.

We, therefore, co-signed a public investor statement (available at https://www.iccr.org/sites/default/files/page_attachments/investorstatementoncovid19riskstomeatsectorworkerswsig_06_15.20.pdf) that highlights risks to workers in the industry due to the pandemic along with recommendations to safeguard all stakeholders, importantly workers, and by extension, their families and communities. The statement was endorsed by 118 investors with \$2.3 trillion in combined assets.

Going forward, we will aim to continue our dialogue with the companies on their response to the pandemic and, importantly, any structural changes to production lines and processes necessary to address long-standing concerns regarding working conditions.

Mental health in the workplace

Engagement collaboration

The COVID-19 outbreak has not only tested the resilience of companies' contingency planning, but it has also ultimately seen a significant level of stress and upheaval placed on the workforce. Ensuring that companies are fully considering the effect of the COVID-19 crisis on its workforce has been a core engagement topic of recent months.

As part of a collaborative effort, we co-signed a letter to the constituents of the FTSE100 (100 largest UK listed companies) urging them to protect the mental health of their employees during the unprecedented working environment caused by the pandemic. We have requested that companies consider developing a mental health action plan for all employees. This may include additional training for managers, increased job flexibility and clear guidance for reaching help, coupled with monitoring the use of assistance programmes to ensure the message is being heard.

Joining forces through investor networks

Engagement collaboration

This quarter, we further strengthened our collaborative approach by joining a number of international investor networks based in North America that facilitate collaborative engagement between global investors and companies on a variety of ESG topics. We became a Steering Committee member of the Investor **Alliance for Human Rights** ('the Alliance'), an international investor coalition based in New York focused on advancing the implementation of the UN Guiding Principles for Business and Human Rights amongst investors and companies. The Steering Committee consists of global investor representatives and human rights experts, and advises the Alliance on strategy setting and activities. In that context, we participated in a strategy session to determine the Alliance's strategic focus for the next few years.

We also became an affiliate member of the **Interfaith Center on Corporate Responsibility ('ICCR')**, a long-established global network of institutional investors aimed at collectively leveraging equity ownership to engage companies, policymakers and standard-setters on ESG risks ranging from climate change, water stewardship and public health, to human rights, labour rights and business ethics. The close to 300 ICCR members represent faith-based organizations, socially responsible asset management companies, unions, foundations, and other responsible investors working alongside a global network of NGO and business partners to advance the common good. Finally, we joined the **Racial Justice Investing coalition**, a group of investors primarily based in the U.S. focused on integrating a racial justice lens into their investment and engagement activities. The group has worked on providing resources and guidance to the investor community on how investors can meaningfully commit to action on addressing systemic racism within our own institutions and the companies we invest in.

Helping transform governance practices in Japan

Engagement collaboration

We have been engaging with Japanese companies, regulators and other market participants to improve governance practices in the country for over 15 years. In addition to actively voting our shares in companies and engaging with them, we have led a couple of successful collaborations.

Over the years we saw some progress; however, it was slow and limited to a few companies and Japan continued to lag standards seen in other developed markets. The tide has, however, turned. Governance reforms proposed by Prime Minister of Japan, Shinzo Abe, and the actions of the Government Pension Investment Fund, the world's largest pension fund, to scale up its stewardship expectations have been critical to support investors' push for better governance.

We are glad to report that the 2020 AGM season alone saw over 30 companies that we had previously engaged with reach onethird board independence. These include some of Japan's largest companies such as **Nippon Telegraph & Telephone, Recruit Holdings, NTT Docomo** and **Mitsubishi Corp**. Our work is far from done and we will continue our active ownership efforts in the country.

Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
185	93	27

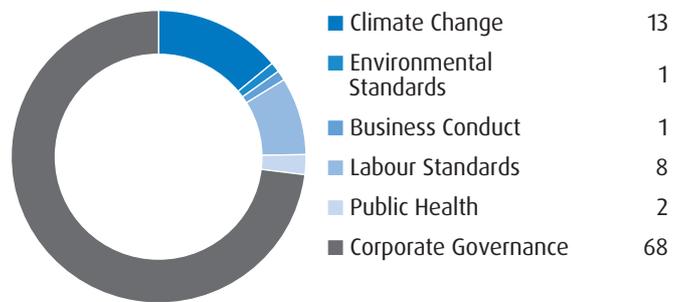
Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue



* *reo*® is currently applied to £150bn (\$186billion / €170billion) of assets as at 31st March 2020.

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

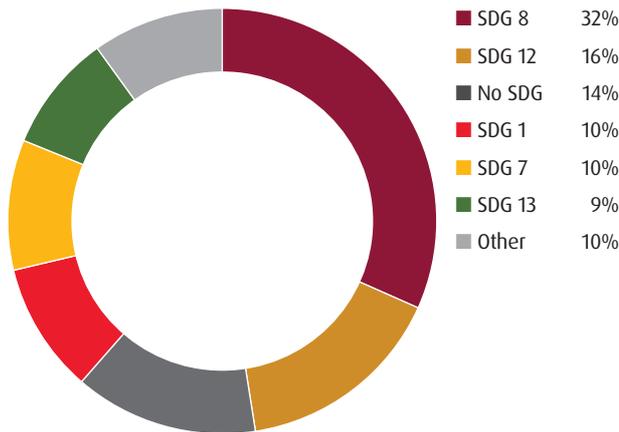
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where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

Engagements and Sustainable Development Goals (SDGs)

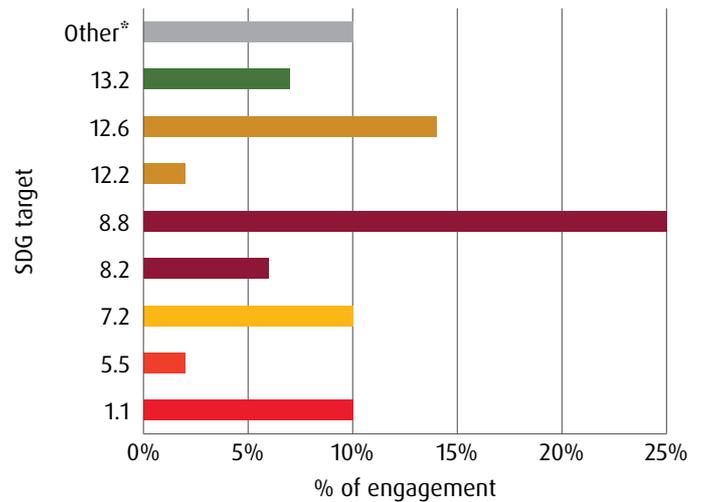
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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

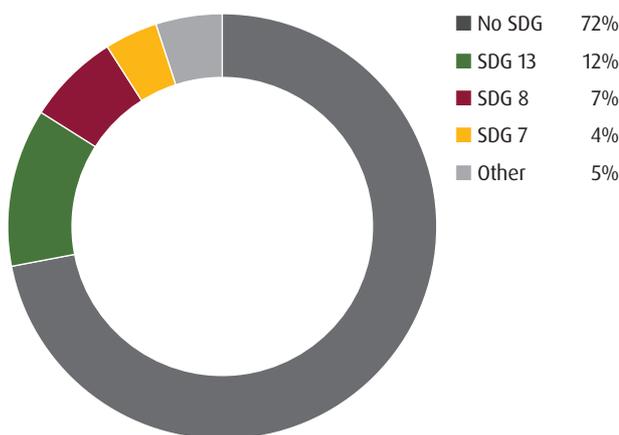
Engagement: SDG level



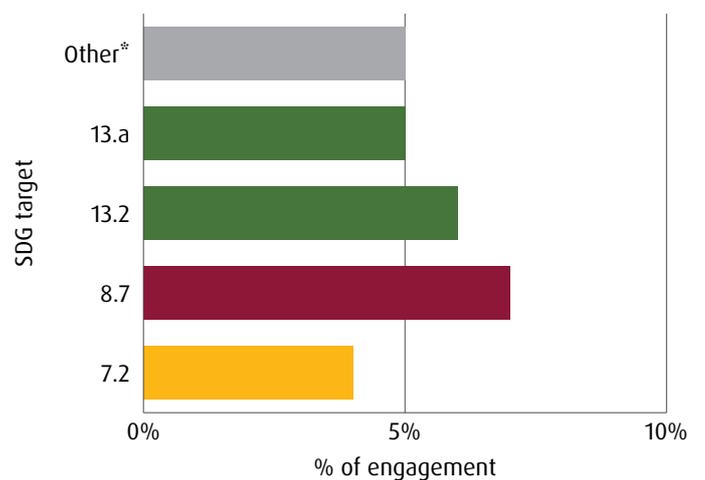
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Goldman Sachs Group Inc/The	Country: United States	Sector: Financials
Priority Company: -	ESG Risk Rating: 	Response to engagement:: Adequate
Theme: Environmental Standards	Issue: Climate Finance	

SDG:  13.2 Climate Action

Background

The OECD estimates that USD 6.9 trillion a year is required up to 2030 to meet climate and development objectives, including the transition to a low carbon economy, providing both risks and opportunities for banks. In 2019, we analysed major financial institutions in developed markets regarding their climate strategies, including whether any scenario stress testing has been performed and resulted in relevant business metrics. Our conclusion was that most banks lack sufficiently robust systems and practices to address climate risk, with Goldman Sachs, as one of the world’s largest and most influential investment banks, being no exception.

Action

We have engaged the company on several occasions over the past year to better understand how it integrates sustainability considerations, including climate risk, into its lending and underwriting activities. We became aware that a new environmental and social risk framework was forthcoming and further disclosure on their climate risk management procedures would be published in line with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD). Our overall conclusion was that their work in this area was much stronger than their disclosure currently outlined and provided them with feedback on how to best address this imbalance. Towards the end of 2019, the company announced it will provide \$750 billion in financing, advisory services and investments for sustainable initiatives, including initiatives contributing to the transition to a low carbon economy. As part of this announcement, GS highlighted updates to its environmental policy framework to restrict any future financing of new coal mines or coal fired power generation worldwide, which is the strongest policy amongst the big U.S. banks. Finally, this quarter the company published its inaugural TCFD report.

Verdict

Alongside the high-level commitments, the company finally publishing its inaugural TCFD report is an essential step for management to better understand how climate risk impacts the business and for investors to analyse relevant exposure and mitigation strategies. This report, which brought together a lot of their existing work in this area, as well as more clarity on their climate-risk scenario analysis, explained the process but stopped short of providing details on the results. Our future dialogue with the company will focus on enhancing this disclosure and encouraging them to expand their restrictions and level of detailed provided on funding carbon intensive sectors.

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
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
SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
SDG3	3.4	Reduce mortality from non-communicable diseases and promote mental health
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
SDG7	7.2	Substantially increase the global share of renewable energy
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	8.6	Reduce the proportion of youth not in employment or education
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
SDG11	11.4	Strengthen efforts to safeguard the world's natural heritage
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
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	15.1	Ensure sustainable usage of terrestrial freshwater ecosystems
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG15	15.a	Increase financial resources to conserve ecosystems
SDG16	16.5	Reduce corruption and bribery in all their forms
SDG16	16.6	Develop effective, accountable and transparent institutions