

New Zealand Crown Financial Institutions:

New Zealand Superannuation Fund
Accident Compensation Corporation
Government Superannuation Fund

Q4 2021

*Companies represented in this report may not be held by each Crown Financial Institution.

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.

Investor net zero commitments

A major theme of the COP26 climate conference was finance. Financial institutions representing \$130 trillion made net zero emissions commitments in the run-up to the meeting, as part of the Glasgow Financial Alliance for Net Zero. Asset managers were an important part of this effort, with the Net Zero Asset Managers Initiative now having the support of 220 signatories with a total of \$57 trillion under management.

Focus is now shifting to implementation, and to the credibility and robustness of these commitments. Methodologies for net zero in finance are still relatively nascent and issues such as data availability abound.

Electrification of European corporate fleets

Investor collaboration

The electrification of transport is crucial. In Europe, 28 percent of all emissions come from transport, and it is the only sector where emissions have risen since the 1990s: Given that the average lifespan of an internal combustion engine is around 15 years or longer, all fleets need to be fully electric by 2030 for transport to be net zero by 2050: This aligns with the European Union's Fit for 55 goal for all new vehicles to be emissions free by 2035¹.

As businesses run a very high proportion of new vehicles on the road, they have a major role to play in reducing transport emissions and accelerating the transition to electric vehicle uptake. In addition to climate leadership opportunities, fully electric vehicle fleets are cheaper than their internal combustion engine counterparts on a total cost of ownership basis. As such, companies with large fleets can reduce emissions while benefitting their business.

In an initiative coordinated by ShareAction, BMO Global Asset Management joined investors representing >US\$2.8 trillion in assets to contact European businesses with large corporate fleets. We requested that they make ambitious public commitments to transition to 100 percent electric vehicles in their fleets by 2030, and that they cement this commitment by joining the EV100 initiative. With 113 companies across sectors and geographies, the EV100 initiative brings together a growing group of climate leaders committed to electrifying transport, to lower greenhouse gas emissions and accelerate a clean economy.

Sustainable management of hazardous chemicals

Investor collaboration

According to the World Health Organisation, 2 million people died due to exposure to hazardous chemicals in 2019, compared to 1.6 million in 2016: Hazardous chemicals are also key drivers of biodiversity loss. Indeed, 75% of all chemicals used and manufactured in Europe are hazardous to human health and/or the environment (EU 2019): The regulatory, as well as the market pressure, to transition towards less hazardous chemicals is strong and will increase even more following implementation of the European Green Deal. In the US, the EPA released its roadmap for tackling per- and polyfluoroalkyl substances (PFAS) in October 2021. In recent years the

financial implications for company's liability for past and current production of pollution of persistent chemicals, especially PFAS, have been clear.

BMO Global Asset Management joined investors representing >US\$4 trillion in assets to contact highly exposed chemicals companies, as assessed by ChemScore. ChemScore, managed by Swedish non-profit ChemSec, ranks the world's largest 50 chemical producers on their work to reduce their hazardous chemical footprint. It was developed in order to provide investors with better information to assess which companies have strong chemicals management strategies, and which do not.

Banks and climate lobbying

Multi-stakeholder collaboration

In Q4 2021 the Times and the Bureau of Investigative Journalism revealed that HSBC had written to the Net-Zero Banking Alliance (NZBA) secretariat on behalf of the 12 member banks of the Financial Services Taskforce of the Sustainable Markets Initiative (FST) in way that appeared to be lobbying for watering down the guidelines for the NZBA standards implementation. ShareAction facilitated a letter to further investigate the background and receive a public clarification by the involved banks on:

- any material feedback that their bank might have provided on the NZBA guidelines, should this be relevant to shareholders,
- a robust governance processes to ensure that all direct and indirect public engagement with policy-makers, standard-setters, and sector initiatives such as the NZBA is aligned with the bank's climate change commitments, and
- the bank's position on fossil fuel exploration and expansion, how it aligns or not with the IEA Net-Zero Emissions scenario.

As part of our "Financials and Climate Risk" we supported the letter.

By the end of December 2021, only six banks have provided detailed feedback, largely pointing to existing disclosure. We will continue to engage on strong, effective and efficient implementation of banks' net zero commitments.

¹T&E (2020). Mission (almost) accomplished.

²T&E (2020). Mission (almost) accomplished.

³T&E (2021). Why the EU needs a ZEV Fleets Regulation & how to do it.

⁴WHO 2016 The Public Health Impact of Chemicals, Knowns and Unknowns, 2021 Data Addendum <https://www.who.int/publications/i/item/WHO-HEP-ECH-EHD-21.01>. This includes lead and pesticides, and is equivalent to 3.6% of all deaths globally.

⁵Production & Consumption of Chemicals by Hazard Class, EUROSTAT 2021 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_chmhaz&lang=en

Companies engaged this quarter

Number of Engagements	Companies Engaged	Milestones achieved	Countries covered
348	264	56	34

Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue



* reo® is currently applied to €696bn / £599bn / US\$807bn* as at 30 September 2021.

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

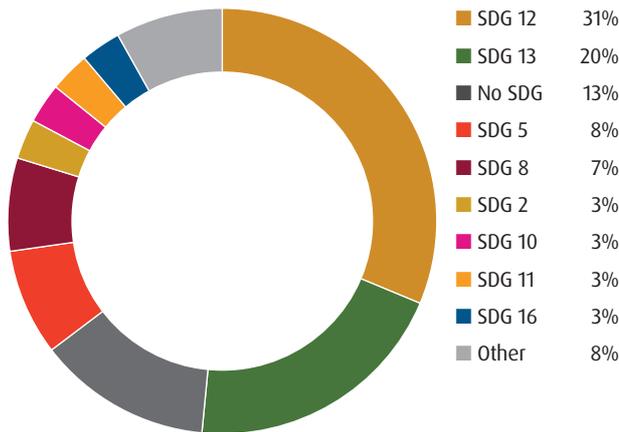
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where 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.

Engagements and Sustainable Development Goals (SDGs)

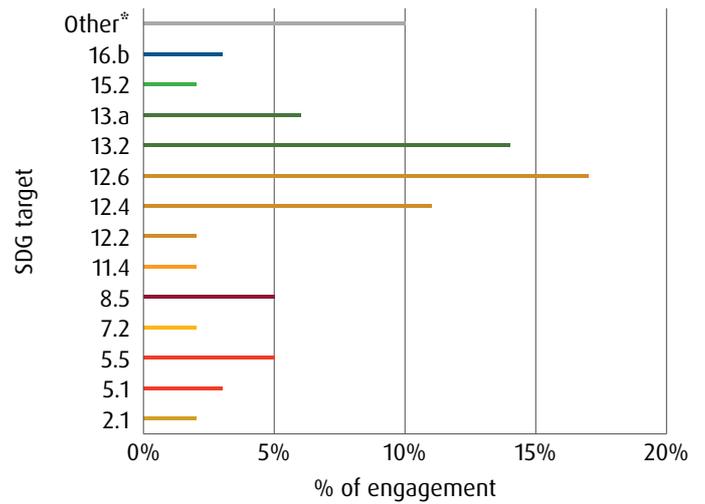
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

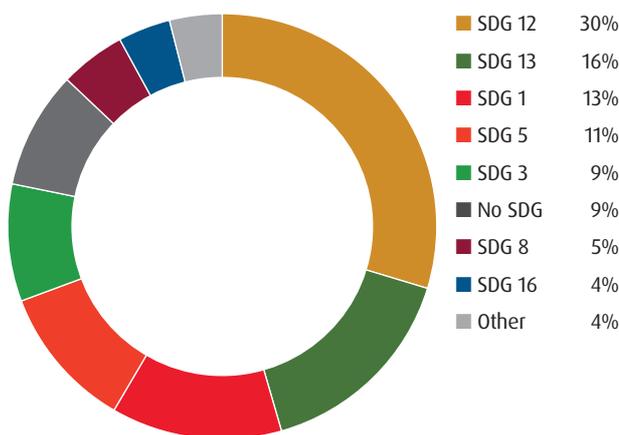
Engagement: SDG level



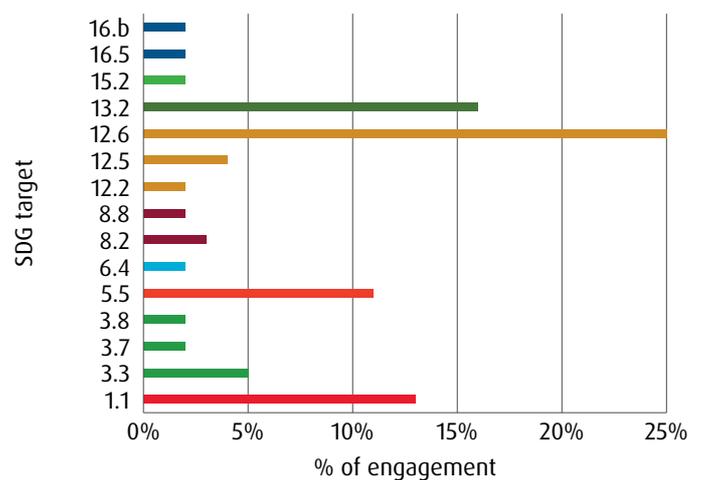
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Linde PLC	Country: United Kingdom	Sector: Materials
Priority Company: -	ESG Risk Rating: 	Response to engagement: Good
Theme: Climate Change	Issue: Net Zero Strategy	
SDG:  13.2		

Background

Linde is the world’s largest industrial gas company, with a market cap of c. US\$344 billion. The firm’s main products are atmospheric and process gases, as well as equipment used in industrial gas production. Linde’s approach to climate change mitigation is of particular importance given its sizeable GHG footprint, as well as the integral role it will play in the green hydrogen revolution. More than 95% of hydrogen produced worldwide is currently made using fossil fuels – termed grey hydrogen. Green hydrogen is produced through electrolysis, a process that separates water into hydrogen and oxygen, using electricity generated from renewable sources. It will be essential to meeting the goals of the Paris Agreement.

Action

We contacted Linde in late 2021, following the announcement of its 2035 intermediate GHG reduction target and 2050 climate neutral ambition, to understand its pathway towards meeting these goals and how green hydrogen will feature. In December, we participated in a small group call alongside two other investors and Linde’s COO and Head of Sustainability. Whilst Linde’s GHG reduction efforts are predominantly focussed on Scopes 1 & 2, we encouraged the company to consider incorporating Scope 3 into their targets. To reduce scope 1 emissions, Linde stated it is developing projects with carbon capture and sequestration (CCS) technology. For scope 2 emissions, the company is currently sourcing around one third of its energy from renewable or low carbon energy but is looking to scale this up by a factor of 3 by 2035 through various projects, such as offtake agreements and strategic alliances with renewable energy companies. The company confirmed it is well positioned to benefit from the development of green hydrogen technology, given its joint venture with ITM – a specialist in PEM electrolyzers. However, it suggested that the commercial scale up of green hydrogen wouldn’t likely be until the back end of this decade. Before this can happen, renewable energy projects need to happen at a pace not seen before – requiring 10x more renewable energy in the next 15-25 years than now – and electrolyser technology must be scaled up.

Verdict

Linde’s COO, soon to be CEO, demonstrated that the company has a clear sustainability focus, notably with its products resulting in a 2-3x reduction of GHG emissions for its customers. These abated (Scope 4) emissions are something that are often overlooked. The work carried out on Linde’s climate strategy is market-leading, underpinned by a transparent roadmap to reach its climate neutral ambition. The company is ahead of the curve as it looks towards implementing low carbon 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:  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
SDG1	1.3	Implement social protection systems 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
SDG2	2.4	Implement climate-resilient and sustainable food production
SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
SDG3	3.7	Ensure global access to sexual and reproductive health-care
SDG3	3.8	Access to medicines and health-care
SDG4	4.6	Increase youth and adult literacy and numeracy rates
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
SDG7	7.3	Double the global rate of improvement in energy efficiency
SDG8	8.2	Achieve greater productivity through innovation.
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
SDG11	11.4	Strengthen efforts to safeguard the world's natural heritage
SDG11	11.5	Reduce social and economic losses caused by disasters
SDG11	11.6	Reduce the negative environmental externalities of cities
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	13.2	Integrate climate change plans into policies and strategies
SDG13	13.a	Address climate change mitigation for developing countries

Appendix (continued)



SDG	Target	Target Summary
■ SDG15	15.2	Promote the implementation of sustainable management of forests
■ 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

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