

## New Zealand Crown Financial Institutions:

- New Zealand Superannuation Fund
- Accident Compensation Corporation
- Government Superannuation Fund
- National Provident Fund

Q3 2022

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

The purpose of the **reo**<sup>®</sup> (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**<sup>®</sup> 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
355	263	50	31

### Companies engaged by region



### Engagement by theme \*\*



### Milestones achieved by theme



\* **reo**<sup>®</sup> is currently applied to €1.11tn / £954bn / US\$1.16tn\* as at 30 June 2022.

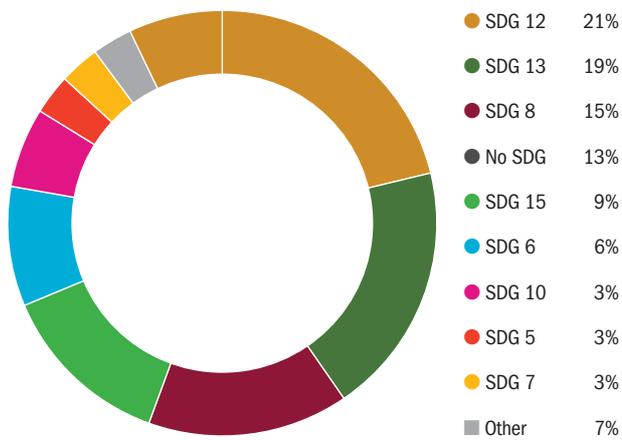
\*\* Companies may have been engaged on more than one issue.

### Engagements and Sustainable Development Goals (SDGs)

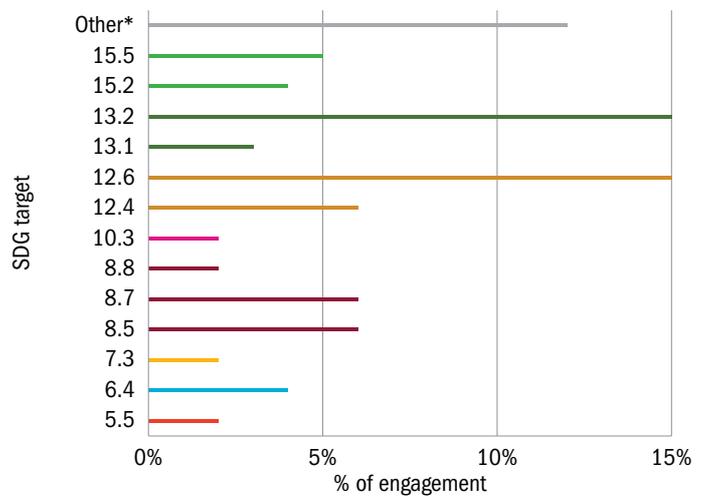
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

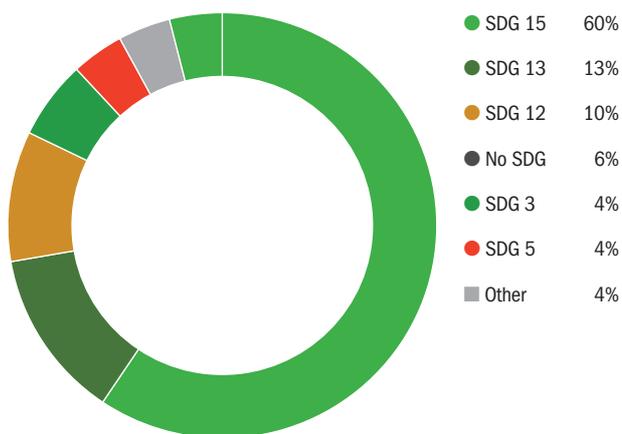
#### Engagement: SDG level



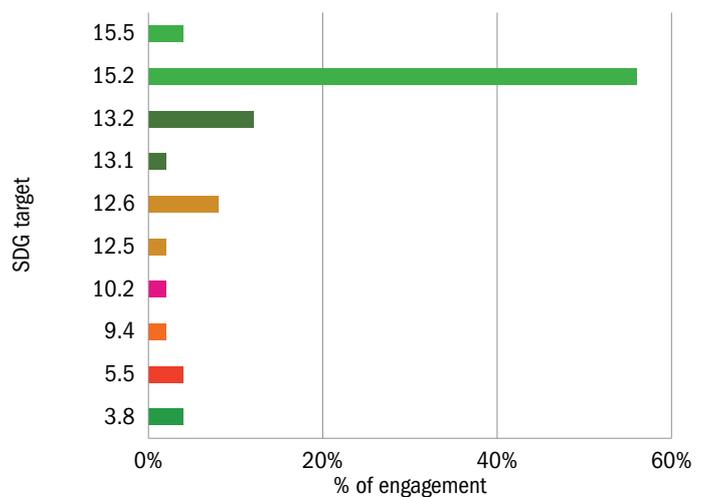
#### Engagement: SDG target level



#### Milestone: SDG level



#### Milestone: SDG target level



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

## Engagement case studies

<b>Company:</b> Phillips 66	<b>Country:</b> United States	<b>Sector:</b> Energy
<b>Priority Company:</b> ✓	<b>ESG Risk Rating:</b> 	<b>Response to engagement:</b> Good
<b>Theme:</b> Climate Change	<b>Issue:</b> Net Zero Strategy; Energy Transition	
<b>SDG:</b>	 7.2  13.2	

### Background

As a major refiner of oil products Phillips 66 are a significant driver of climate change and face transition risks as the world move towards lower carbon fuels. In late 2021 Phillips 66 became the first U.S. refiner and second U.S. oil company to set Scope 3 emissions targets, pledging a 15% reduction in emissions intensity by 2030. It also announced a goal of reducing scope 1 and 2 operational emissions intensity by 30%, shortly followed by a 2050 target for a 50% operational emissions intensity reduction.

### Action

Whilst these actions signify progress in a region where scope 3 targets in particular are hard to come by, the company's strategy remains far from aligned with a 1.5C pathway. Both sets of targets lack ambition and are on an intensity basis so do not guarantee absolute emissions reductions. We have engaged the company on the underlying assumptions and drivers behind their strategy, highlighting that we feel their assumptions for renewable energy availability and cost advantages in particular are unrealistic to the downside and there actually far greater opportunities for decarbonising their operations. On the positive side the company has made numerous investments across the energy transition value chain over the past 18 months, including in hydrogen and EVs, which will help with their scope 3 decarbonisation plans.

### Verdict

The company has been open to engagement and we have had good access to their experts and senior management, who have all given the impression of a company cautiously feeling its way through the energy transition. A positive sign of their intent is the aim to link quantitative emissions reductions to remuneration, to replace current qualitative measures, but are waiting to have emissions reductions projects and reporting frameworks in place first. Overall Phillips 66 needs to significantly increase their level of ambition.

### 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

<b>Company:</b> RWE AG	<b>Country:</b> Germany	<b>Sector:</b> Utilities
<b>Priority Company:</b> -	<b>ESG Risk Rating:</b> 	<b>Response to engagement:</b> Good
<b>Theme:</b> Climate Change	<b>Issue:</b> Coal phase out and climate strategy in light of Russia-Ukraine	
<b>SDG:</b>	 7.2  13.2	

### Background

RWE is a German utility company engaged in the generation, transmission and distribution of electricity and gas. It is one of the last European utility players with coal mine and power assets. RWE has been impacted by the Russian invasion of Ukraine and the effects on EU energy prices and gas supplies, which is influencing its decarbonisation strategy. RWE has been mandated by the German government to reopen 1.3 GW of closed coal power plants until March 2024.

### Action

We had two calls with RWE’s IR team and ESG lead in the last quarter, one focused on the net zero implications of the European energy situation and another on its biodiversity and climate risk approach. On coal phase out, we outlined to RWE our expectations that they set clear plans to phase out reopened coal power plants after 2024 and resubmit their science-based target to be 1.5 degrees aligned once the German government brings forward the coal phase out date. We discussed RWE’s plans to convert some of its coal power stations to biomass and flagged our concerns with sourcing biomass from certain eastern European countries with poor forest management approaches. RWE reassured us that their short-term CapEx targets for renewables are likely to increase, although the geographic focus might move slightly away from the US and UK and towards Germany given the changing policy landscape.

### Verdict

RWE has been open to engagement and we have had good access to their experts. In general, we are optimistic that RWE is starting to progress in the right direction on the energy transition. CapEx plans are pivoting the business to renewables, where RWE is becoming a serious player. However, we still believe that areas of the financial planning and accounting require work to be fully 1.5 degree aligned. We aim at engaging with RWE specifically around climate risk reporting, biodiversity management and biomass sourcing going forward.

### ESG Risk Rating:

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## Appendix



SDG	Target	Target Summary
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	3.3	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	6.1	Achieve universal access to safe & affordable drinking water
SDG6	6.2	Achieve access to adequate & equitable sanitation and hygiene
SDG6	6.3	Improve water quality by reducing pollution
SDG6	6.4	Increase water-use efficiency to address water scarcity
SDG6	6.5	Implement water resource management at all levels
SDG7	7.1	Ensure universal access to modern energy services
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	8.5	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.a	Facilitate sustainable infrastructure in developing countries
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
SDG11	11.4	Strengthen efforts to safeguard the world's natural heritage
SDG11	11.5	Reduce social and economic losses caused by disasters

## Appendix (continued)



SDG	Target	Target Summary
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	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.3	Improve education & the capacity for climate change mitigation
SDG13	13.a	Address climate change mitigation for developing countries
SDG14	14.1	Prevent and reduce marine pollution of all kinds
SDG14	14.2	Sustainably manage and protect marine and coastal ecosystems
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.b	Promote non-discrimination laws for sustainable development

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