

## New Zealand Crown Financial Institutions:

Q1 2024

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

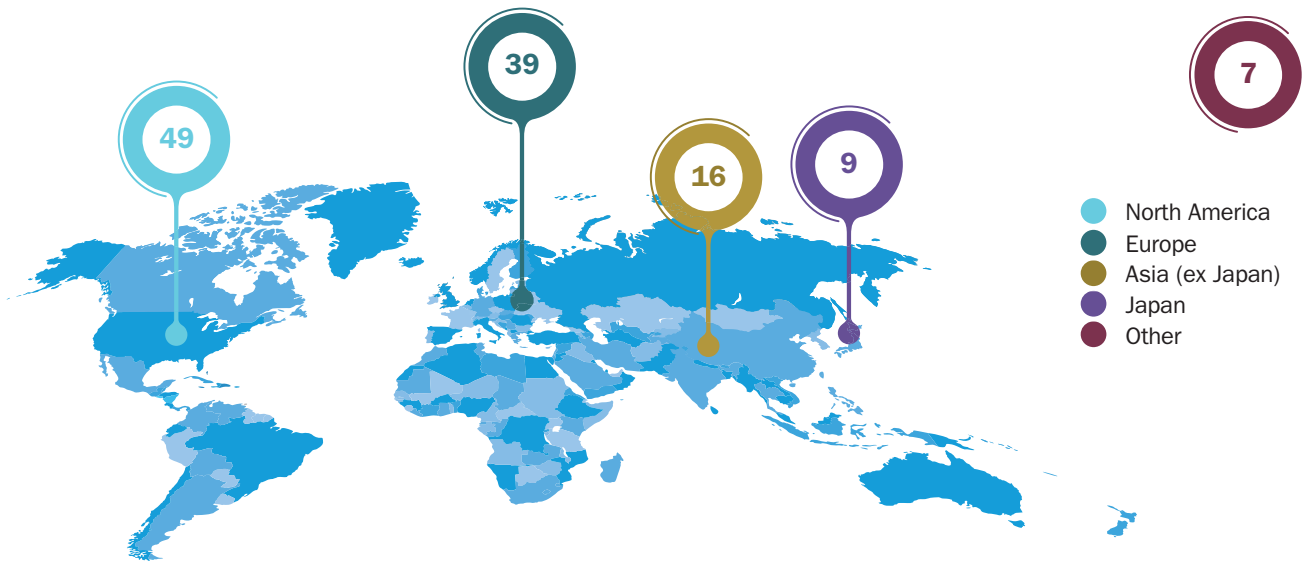
\*Companies represented in this report may not be held by each Crown Financial Institution.

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.

### Companies engaged this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
134	120	31	20

### Companies engaged by region



### Engagement by theme \*



### Milestones achieved by theme



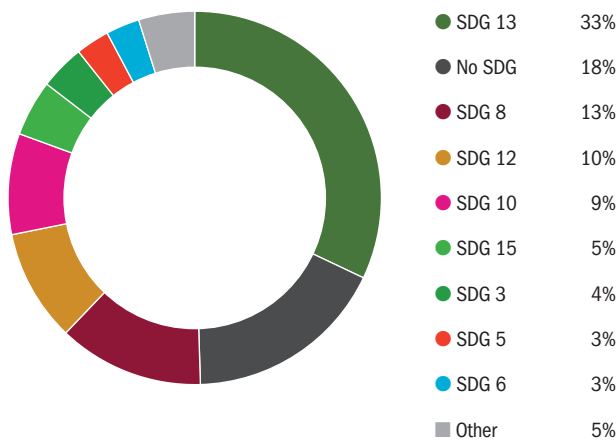
\* Companies may have been engaged on more than one issue.

## Engagements and Sustainable Development Goals (SDGs)

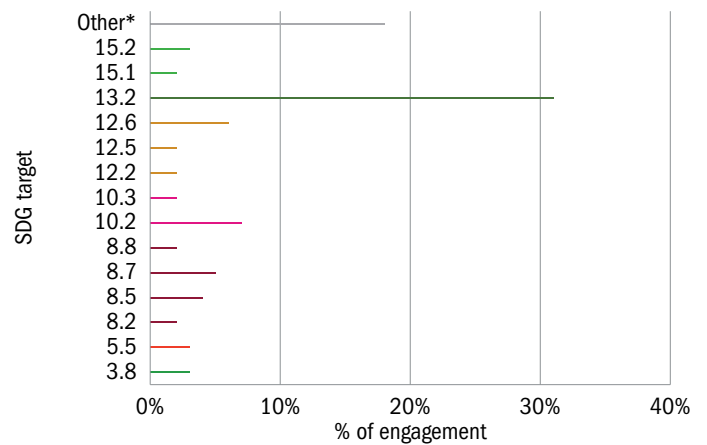
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

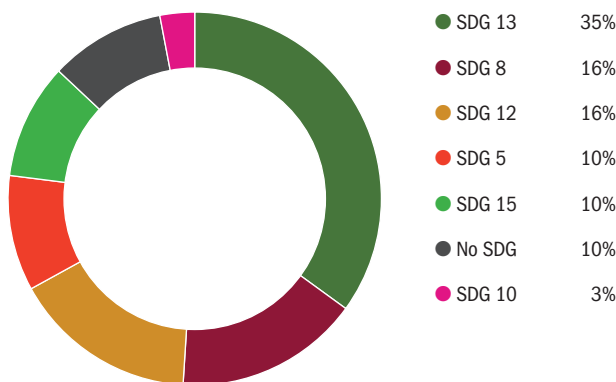
### Engagement: SDG level



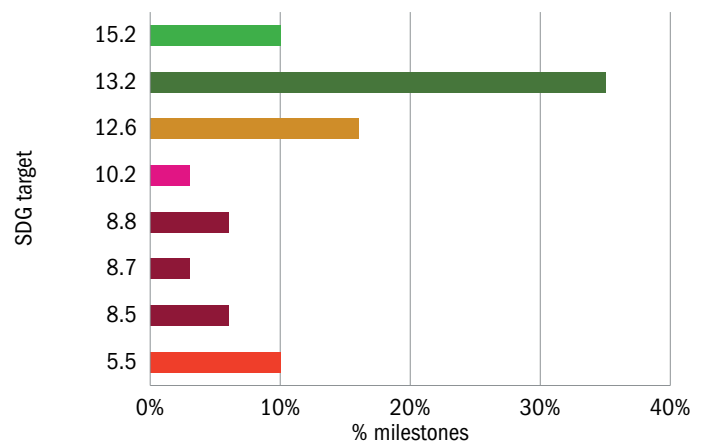
### Engagement: SDG target level



### Milestone: SDG level





### Milestone: SDG target level



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



## Engagement case studies

<b>Company:</b> Amazon.com Inc	<b>Mailing Country:</b> United States	<b>Sector:</b> Consumer Discretionary
<b>Priority Company:</b> ✓	<b>ESG Risk Rating:</b> 	<b>Response to Prior Engagement:</b> Poor
<b>Theme:</b> Human Rights	<b>Engagement Case Study Name:</b> Still reluctant to shed light on Responsible AI	
<b>SDG:</b>  10.3		

### Background

Amazon is a leading online retailer and web service provider that offers a range of products and services to customers from electronic devices, media content and on-demand technology services. The company is part of our Responsible Governance of Artificial Intelligence (AI) project as it uses AI across its operations from personalised product recommendations, Alexa voice shopping, powered search to optimization in the warehouse. It's encouraging the company has also outlined AI opportunities particularly how it is using AI to advance its sustainability goals from reducing packaging use to identifying damaged items to prevent waste.

### Action

We had an in-person meeting to discuss the company's approach to Responsible AI in further detail. We gained further insight to the Board's oversight and scope of responsibilities with respect to Responsible AI. The whole Board is well aware of the interest in Responsible AI and the Nominating Governance committee has oversight of the topic. It was encouraging to note that a few members of the Board including the Lead Independent Director has policy experience which helps with monitoring policies and regulations around Responsible AI. While there is no specific Responsible AI committee as the company has various different use cases, there is a group of people from different disciplines (including the Legal department) who provide their insight and views on the topic. The company also states that it conducts risk assessments, although it did not elaborate further, stating that nothing is currently publicly disclosed. We encouraged enhanced disclosure in order to support investors in understanding the company's approach more fully. We learnt that these risk assessments or 'vulnerability' mechanisms are not limited to cybersecurity and are designed to cover broader ethical issues, although no specifics were divulged. Amazon has not disclosed any safety issues but asserts that it is an iterative process and the company is conducting a significant amount of testing.

### Verdict

Amazon has made progress with its public commitments to Responsible AI such as the White House Voluntary AI commitments signed in 2023. It has a Responsible AI policy and model scorecards that is limited to Amazon Web Services but we are optimistic that there will be more disclosure on the operationalization of Responsible AI principles beyond this division. This is important to enhance wider customer trust and adoption to scale AI. We also encouraged publication of further information on its human rights impact assessment process on Responsible AI, and the consideration of quantitative impact measurements to demonstrate how its use of AI can drive sustainable outcomes. We will continue to monitor progress on its Responsible AI framework and process.

### 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:** Analog Devices Inc

**Mailing Country:** United States

**Sector:** Information Technology

**Priority Company:** ✓

**ESG Risk Rating:**

**Response to Prior Engagement:** Good

**Theme:** Corporate Governance

**Engagement Case Study Name:** Compensation improvements enhance pay for performance link

### Background

Analog Devices Inc (Analog) is a multinational semiconductor company that designs and manufactures analog, mixed signal, and Digital Signal Processor (DSP) integrated circuits used for data conversion, signal processing, and power management. It is headquartered in Wilmington, Massachusetts and has customers globally across industries, including communications, automotive, and consumer electronics. Ahead of Analog’s 2024 AGM, we had a meeting to continue our dialogue from last year on executive compensation and discuss the changes made by the company.

### Action

We have met with Analog Devices annually the past few years, either off-season or prior to the company’s AGM, to discuss ESG topics. Executive compensation has been a focus in the past year, having met with the compensation committee chair in 2023, and following up with the head of total rewards in March 2024 to understand Analog’s compensation philosophy and provide our views on best practice. The company stressed that attracting and retaining talent was important, and that tying compensation to performance with rigorous metrics was an area of focus. During our discussions ahead of the 2024 AGM, they highlighted positive changes to the executive compensation program, including an increase to the target payout under the total shareholder return metric of the long-term incentive plan to the 55th percentile and an increase in the percentage of performance-based grants to the CEO. In our view, both of these changes better align CEO and other named executive officers to Analog’s performance and strategy execution and illustrated that the company had been responsive to our earlier feedback.

### Verdict

We welcomed the opportunity to engage with Analog and were encouraged by the changes made to executive compensation. We felt that through our conversations, the company proved responsive to our feedback and was able to comprehensively articulate their compensation philosophy and how it was reflected throughout their organization.

**ESG Risk Rating:**

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## Engagement case studies

**Company:** Inner Mongolia Yili Industrial Group Co Ltd **Mailing Country:** China

**Sector:** Consumer Staples

**Priority Company:** ✓

**ESG Risk Rating:**  

**Response to Prior Engagement:** Good

**Theme:** Labour Standards

**Engagement Case Study Name:** Solid progress towards more effective supply chain due diligence

**SDG:**  8.7

### Background

Yili is a global producer mainly of dairy products based in Hohhot, in China’s Inner Mongolia province. It sources raw milk primarily from suppliers on the Chinese mainland. We engaged to assess the oversight of supply chain labour standards and advocate for increased robustness. The agriculture sector is at high risk of labour exploitation due to its informal and fragmented nature and low visibility. In addition, China is itself considered a high-risk area. Yili is a signatory to the UN Global Compact, but is lacking disclosure on how it operationalises the Principles. A clear due diligence program to identify materials risks, implement monitoring, and prepare to proactively support suppliers would provide safeguards and transparency on expectations relating to labour standards.

### Action

We wrote to the company in 2022 to advocate for disclosure of its supplier labour standards requirements, a robust due diligence process, and mechanisms that can provide remedy in case of breaches of human or labour rights. The initial response was formulaic and did little to address the issues raised. In 2023 we continued to ask for disclosure and progress towards supply chain monitoring, providing examples by peers and our publicly available Viewpoint on due diligence. In the January 2024 call, we were able to meet the new sustainability director who has demonstrably strengthened the company’s know-how. It also demonstrates how long-term and supportive engagement can provide access to operational specialists which can deepen our understanding. We learnt that Yili had joined Sedex, a respected supply chain transparency platform, and started labour standards audits at key suppliers. Internally, the sustainability team had increased its engagement with the sourcing team and started looking at reducing supplier numbers which could increase monitoring effectiveness.

### Verdict

Looking back to the response to our 2022 letter asking for disclosure of policy and due diligence, Yili has come a long way both in terms of action taken and the richness of dialogue. Drawing upon direct supply chain experience on our team, we could discuss practical approaches and support the process towards identifying a workable way forward. Joining the Sedex platform is not a panacea, but still a very important step towards formalising supply chain monitoring and continuing the learning process. While we hope to see more public disclosure on policy and outcomes, we believe the monitoring now commenced will lead to greater confidence in what is achievable for suppliers in the short-term.

### 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:** Koninklijke Philips NV

**Mailing Country:** Netherlands

**Sector:** Health Care

**Priority Company:** ✓

**ESG Risk Rating:** 

**Response to Prior Engagement:** Good

**Theme:** Climate Change, Labour Standards, Public Health

**Engagement Case Study Name:** Corporate ESG Targets on Track but Employee Morale Still an Issue

**SDG:**  7.2

### Background

Philips is a Dutch healthcare conglomerate which offers a range of products across different business divisions: diagnosis and treatment, connected care and personal health. The company is still working to recover from the global recall of Philips Respironics and Respiratory Care Devices linked to potential health risks in 2021 which resulted in a loss of two-thirds of its value and multiple lawsuits. Philips invited us to a one-on-one meeting as part of their most recent ESG roadshow in order to update us on the latest ESG developments following the release of their 2023 Annual Report.

### Action

We were encouraged to note that Philips is on track to achieve its 2025 ESG targets and has already exceeded its target to use 75% renewable energy in its operations by 2025, having reached 78% in 2023. In its 2023 double materiality assessment, Philips' most financially material topic was product responsibility and safety, which is not surprising in light of the global recall which continues to negatively impact the company's reputation. Philips shared that internal research concluded that approximately 70% of historic issues around product safety and quality partly originated in the design phase. This insight is helping them in redesigning the R&D process, a tangible example of lessons learned as a result of the recall that we welcome. Finally, we noted that the 2023 employee engagement outcomes had worsened slightly as employees have generally been less favourable about the company (73% vs 77% in 2022) and more explicitly unfavourable (10% vs 8% in 2022). However, Philips believes employee favourability will begin to improve with the progression of its corporate re-organisation. We will be monitoring this metric with interest going forward.

### Verdict



We continue to appreciate Philips' transparency around the product recall and their actions to recover from it. Their progress on renewable energy is commendable, nonetheless, our concerns remain regarding employee engagement outcomes which are directly linked to the company's re-organization as a result of the recall and financial losses. We will continue our conversations with the company on how they aim to address this point given the uncertainty that the re-organisation has caused.

### 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> Stellantis NV	<b>Mailing Country:</b> Netherlands	<b>Sector:</b> Consumer Discretionary
<b>Priority Company:</b> -	<b>ESG Risk Rating:</b> 	<b>Response to Prior Engagement:</b> Good
<b>Theme:</b> Climate Change	<b>Engagement Case Study Name:</b> Material progress towards climate aligned lobbying activities	
<b>SDG:</b>	 13.2	

### Background

Stellantis are one of the largest automakers in the world, with a presence in over 130 countries and over 300,000 employees. Stellantis was formed in 2021 by a merger between the Italian-American conglomerate Fiat Chrysler Automobiles (FCA) and the French PSA Group. Stellantis has been slow to provide investors with more transparency on its positioning on public policies, and its lobbying on climate related policies directly and through industry associations. Many peers have published lobbying reports, including Volkswagen, General Motors, Ford, Mercedes, BMW, Volvo and Toyota. This lack of transparency is especially concerning given the mixed record that the company has on its lobbying around vehicle emissions standards in the US, UK and EU.

### Action

We have engaged FCA and PSA bilaterally and through CA100+ on this topic since 2019, and began engaging Stellantis on this topic in 2022. In 2022, together with the other CA100 + co-leads, we spoke to Stellantis' Heads of Public Affairs, Head of CSR and investor relations representatives to discuss the company's approach to climate lobbying. We reiterated that progress on climate lobbying was a priority in a call with investor relations in 2023, and provided the company with further guidance on what we considered to be good practice. In March 2024 we had another collaborative call with Stellantis' head of European public affairs and IR, where we asked for the company to establish and disclose a monitoring and review process to ensure that all of its direct and indirect climate change lobbying activities are consistent with its proclaimed climate targets. Stellantis recognised that it had work to do to on its lobbying disclosures compared to peers, and committed to evaluating the steps that it could take to improve disclosure.

### Verdict

In mid-March the company sent us a letter signed by the CFO in which it committed to provide investors with an initial work plan for its lobbying disclosures by the end of June, with a view to preparing an initial disclosure by the end of 2024. This is a positive step, and shows that the company is proactive and open to productive conversations with investors. We will continue to work with the company on its work plan, and to ensure that Stellantis' disclosures align with the best practices outlined in the Global Standard on Responsible Climate Lobbying.

### ESG Risk Rating:

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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
SDG3	3.4	Reduce mortality from non-communicable diseases and promote mental health
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	6.5	Implement water resource management at all levels
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
SDG8	8.10	Increase access to finance
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
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



## Appendix (continued)



SDG	Target	Target Summary
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
SDG16	16.5	Reduce corruption and bribery in all their forms

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