

# New Zealand Superannuation Fund

## Q2 2019

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 in review

During the quarter, team members travelled to India for company engagement, to Thailand and Malaysia to speak at a panel on sustainable banking and engage with selected banks and to Hong Kong to learn more about green finance initiatives. We also attended annual gatherings of two sustainability initiatives we have been long engaged with – the Roundtable on Sustainable Palm Oil and the Workforce Disclosure Initiative.

#### India rising

We spent one week in Mumbai and Bangalore engaging with over 15 companies on a wide range of issues. Our assessment of companies' preparedness to tackle the potential impacts of a changing climate and social shifts was generally positive, yet there is ample room for improvement.

Most of the companies we engaged have taken a proactive approach to increasing energy efficiency, whilst looking to shift towards renewable sources of energy. Companies like Ultratech Cement, Titan Company and Marico have partnered up with third parties to increase the proportion of renewable energy in their energy mix and drive down energy costs. We supported such a strategic approach and called for improved transparency on energy use and carbon emissions.

Finally, we engaged on governance issues, board composition and diversity and director attendance. Director attendance continues to be an issue across corporate India. We encouraged companies to implement measures to ensure directors attend all board meetings, e.g. by making attendance records more prominent in director evaluation.

#### Sustainable banking in ASEAN

We shared the investor perspective on sustainable banking at a Bank of Thailand conference. We also met with several banks in both Bangkok and Kuala Lumpur (Malaysia).

The level of awareness around the importance of robust management of environment and social risks in lending transactions is generally high, but comparably high are worries that implementation of stronger sustainability standards could negatively impact competitiveness. We will therefore continue to push for the development of thorough environmental and social risk management frameworks, including policies for high-risk industries such as palm oil and coal-fired power, along with more detailed reporting and disclosure.

As banks play a crucial role in mobilising capital for the investment needs that are required for the shift towards a low-carbon economy, we will also continue to encourage ASEAN banks to become more active in this area.

#### Green Finance in Hong Kong

We also spent a week in Hong Kong to engage with several key initiatives promoting the green finance agenda. We are particularly encouraged by the newly set-up Hong Kong Green Finance Association, which is supported and chaired by the Hong Kong Financial Services Development Council and takes an integrated approach to include both investors and locally listed companies to discuss ESG integration and best practices.

We also met the Asian secretariat and fellow investors of the Climate Action 100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We exchanged views on Asian companies and discussed future strategy for the investor group to deepen our engagements with Chinese companies on energy transition. We are leading and supporting several Asian company engagements on the Climate Action 100+ list.

#### Roundtable on Sustainable Palm Oil (RSPO)

The RSPO hosted its annual European Roundtable in Utrecht (Netherlands), which we attended along with producers, traders, smallholders, government representatives, civil society and banks. Discussions covered sharing responsibility among different stakeholders to improve implementation of the RSPO principles, and measures to support demand for sustainable palm oil. The role of small farmers played an important role during the roundtable following up on the new RSPO Principles & Criteria, which are more stringent. We are encouraged by the willingness of stakeholders to continue pushing for a stronger, more sustainable industry. However, we share concerns about big players leaving the RSPO because of criticism related to their unsustainable practices, as well as consumer companies' failure to better articulate the positive sustainable palm oil message.

We advocated for a push to increase membership of ASEAN banks, some of which are amongst the largest financiers of palm oil development, in the organisation.

#### Corporate Governance

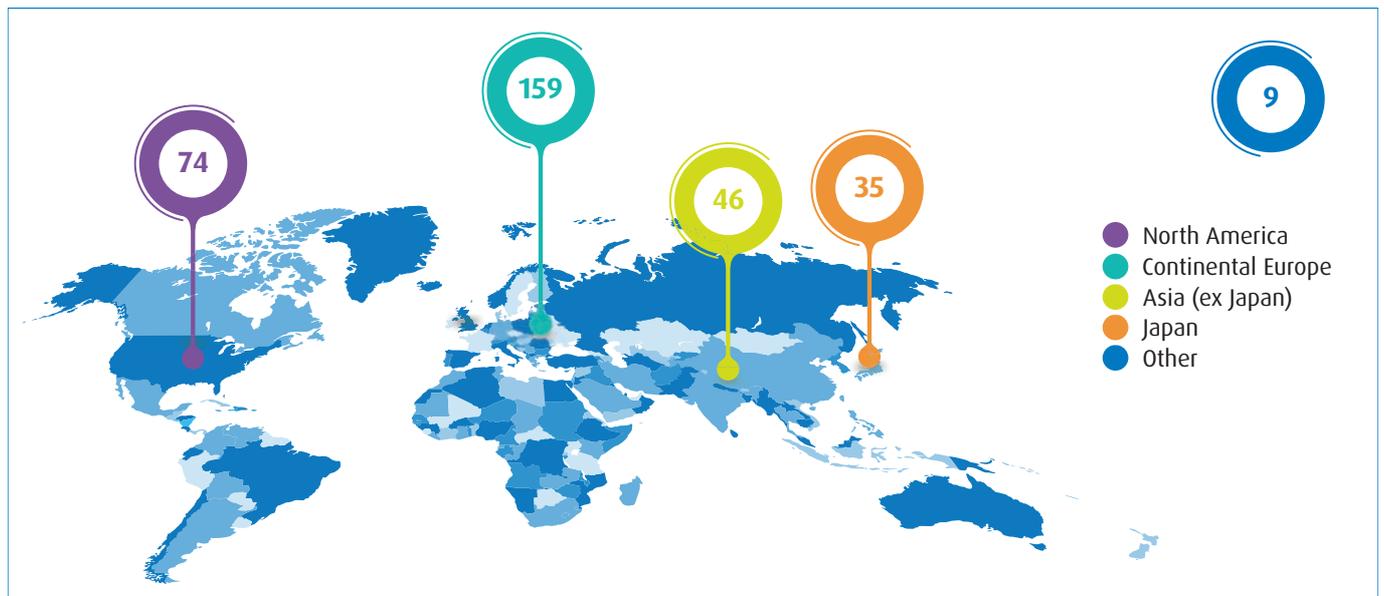
We saw a flurry of shareholder proposals on climate change as concerns about its impacts on long-term company performance continue to move up global investors' agendas. We supported resolutions asking energy and utility companies to set greenhouse gas reduction targets and disclose their plans for meeting those goals.

This season our focus across most markets remained firmly on board composition and effectiveness, with particular attention to diversity. We use our right to vote to elect directors to hold them accountable and, importantly, to encourage boards to be better balanced, more diverse, and better equipped to oversee and advise management.

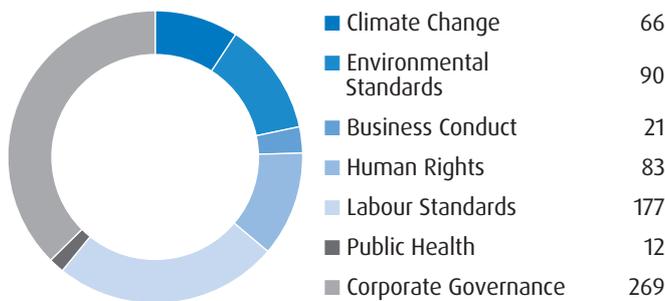
Companies engaged this quarter

| Companies Engaged | Milestones achieved | Countries covered |
|-------------------|---------------------|-------------------|
| 323               | 103                 | 32                |

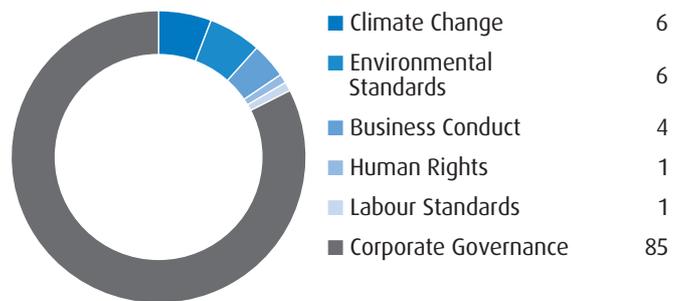
Companies engaged by region



Companies engaged by issue \*\*



Milestones achieved by issue



\* *reo*® is currently applied to £127bn (\$166billion / €148billion) of assets as at 31st March 2019.

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

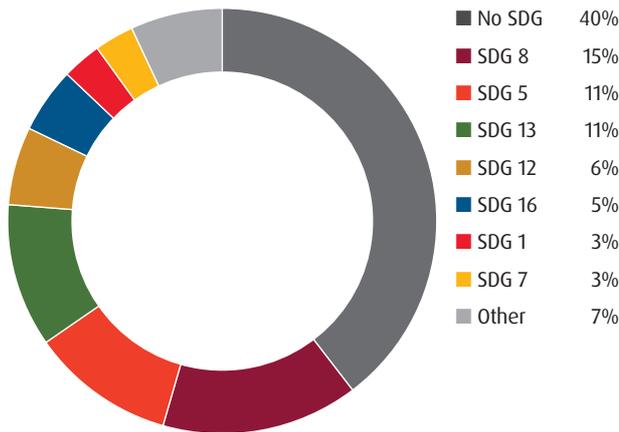
\*\*\* This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g.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

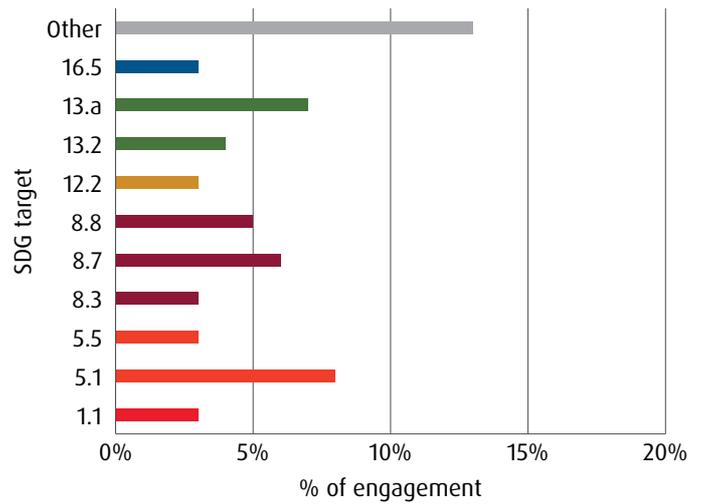
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

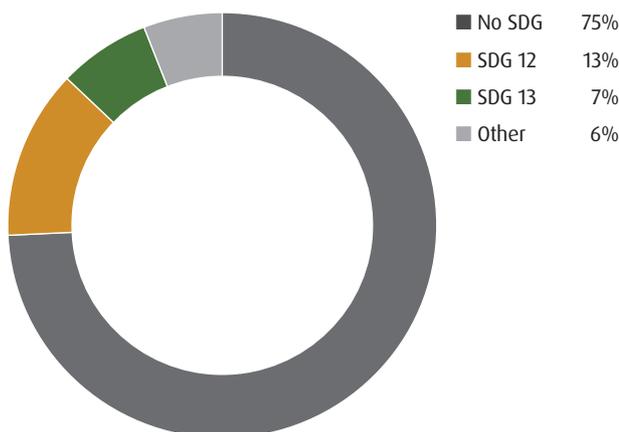
Engagement: SDG level



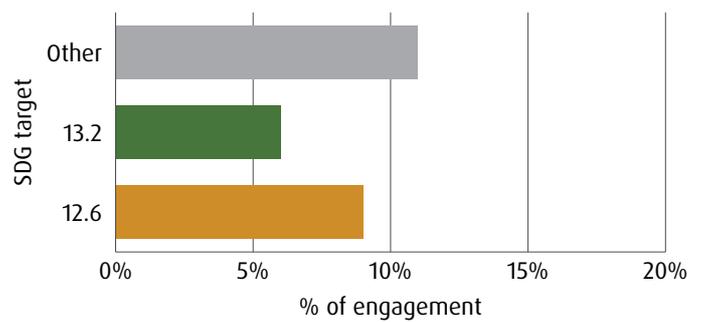
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



## Engagement case studies

Company: ING Groep NV

Country: Netherlands

Sector: Financials

Priority Company: 4

ESG Risk Rating: 

Response to engagement: Adequate

Theme: Business Conduct

Issue: No confidence vote

SDG:  16.5

### Background

In 2018, the Dutch Prosecution Service fined the bank EUR775 million (the biggest ever levied to a Dutch listed company) for serious shortcomings in preventing financial economic crime, including money laundering and financing terrorism, at ING Netherlands between 2010 and 2016. The fine prompted the ouster of the CFO and led to measures against ten more employees, varying from dismissals to clawing back bonuses. Furthermore, the executive board agreed to forgo a bonus for 2018. In 2019, ING has struggled to move on from its money laundering woes: anti-money laundering compliance weaknesses have been uncovered in Russia (for the period between 2006 and 2013) and in Italy, where ING is the largest online lender. Prosecutors have opened probes in both cases.

### Action

We had previously engaged with the company on disciplinary measures against the executive board members and efforts to bolster anti-money laundering compliance. Ahead of the 2019 AGM we discussed the largely positive developments, which include a new Global Know-Your-Customer (KYC) Enhancement Programme bolstering compliance and transaction monitoring with 2,500 staff, as well as calibrating algorithms for flagging suspicious transactions so that red flags could no longer be ignored. The bank also introduced two core committees: KYC and Client Integrity Risk Committees in the countries and in the Wholesale Banking unit, overseen by the Global KYC and Risk functions, respectively. Finally, and to address any outstanding cultural issues, a behaviour risk team with psychological training was appointed to detect high risk behaviours and intervene where needed. A training programme for all managers is in place and executive pay is now linked to non-financial risk and culture metrics.

### Verdict

Alongside a majority of investors, we voted against the discharge of the management and supervisory boards over their handling of money laundering issues, as well as a precautionary measure in light of the ongoing regulatory investigations. However, we recognised the significant improvements made by the company. Alongside positive developments in the company's governance and culture, this led us to support the election of most board directors. Whilst largely symbolic rather than binding, we expect the vote to push management to step its efforts to build an effective compliance culture.

**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                      |
| SDG2  | 2.4    | Implement climate-resilient and sustainable food production                   |
| 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  | 6.2    | 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                       |
| SDG7  | 7.1    | Ensure universal access to modern energy services                             |
| SDG7  | 7.2    | Substantially increase the global share of renewable energy                   |
| 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                    |
| SDG10 | 10.2   | Empower and promote inclusivity for all                                       |
| SDG10 | 10.4   | Adopt policies to progressively achieve greater equality                      |
| 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                    |
| 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                           |
| SDG15 | 15.b   | Mobilise resources to finance sustainable forest management                   |
| SDG16 | 16.5   | Reduce corruption and bribery in all their forms                              |

Appendix (continued)



| SDG     | Target | Target Summary                                                |
|---------|--------|---------------------------------------------------------------|
| ■ SDG16 | 16.6   | Develop effective, accountable and transparent institutions   |
| ■ SDG16 | 16.7   | Ensure responsive and inclusive decision-making at all levels |