

New Zealand Crown Financial Institutions:

Q1 2022

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

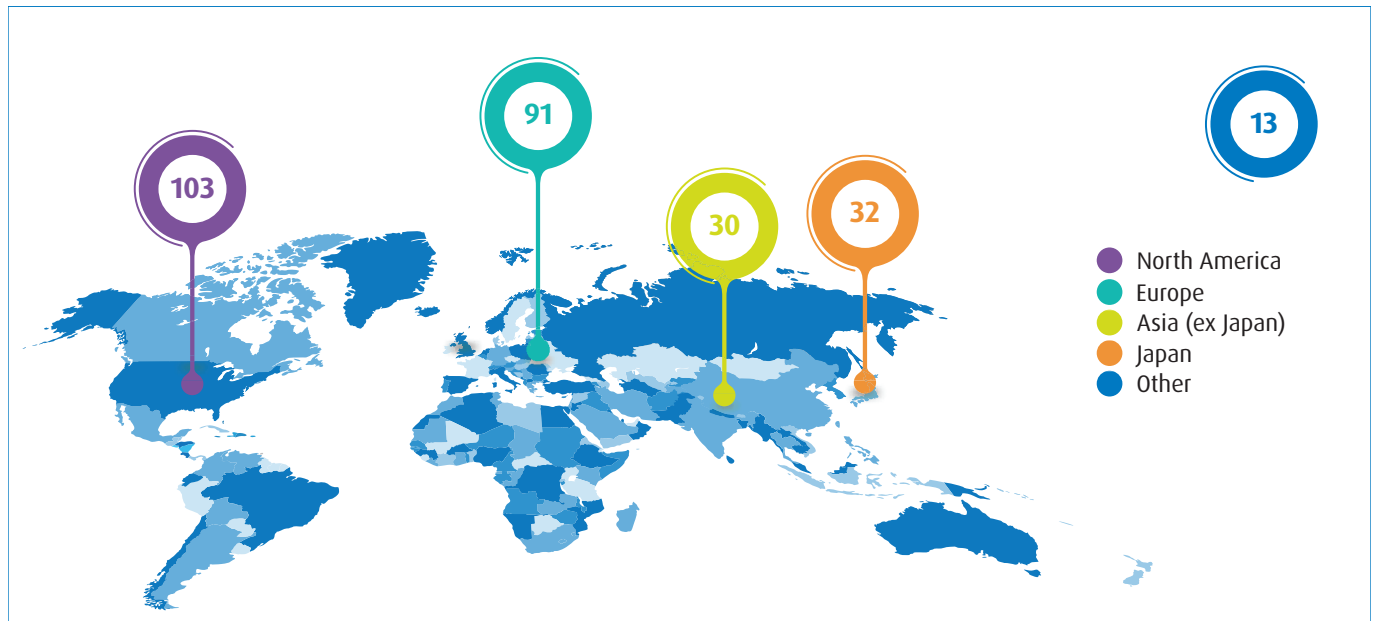
*Companies represented in this report may not be held by each Crown Financial Institution.

The purpose of the **reo**[®] (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 this quarter

| Engagement | Companies Engaged | Milestones achieved | Countries covered |
|------------|-------------------|---------------------|-------------------|
| 399 | 269 | 53 | 32 |

Companies engaged by region



Engagements by theme ***



Milestones achieved by issue



* reo[®] is currently applied to €1.02tn / £866bn / US\$1.12tn* as at 31 December 2021.

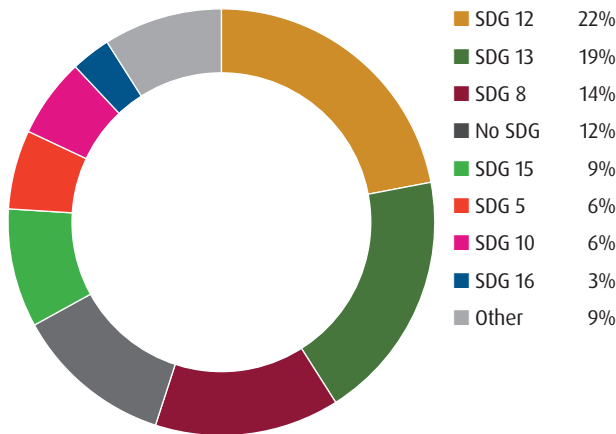
** Companies may have been engaged on more than one issue.

Engagements and Sustainable Development Goals (SDGs)

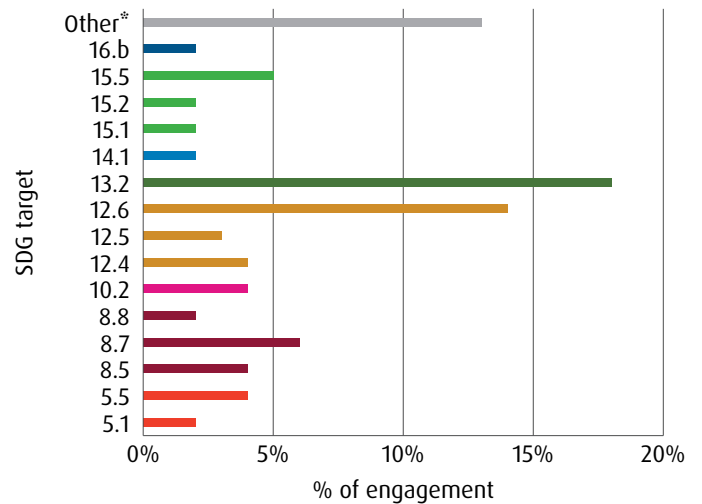
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

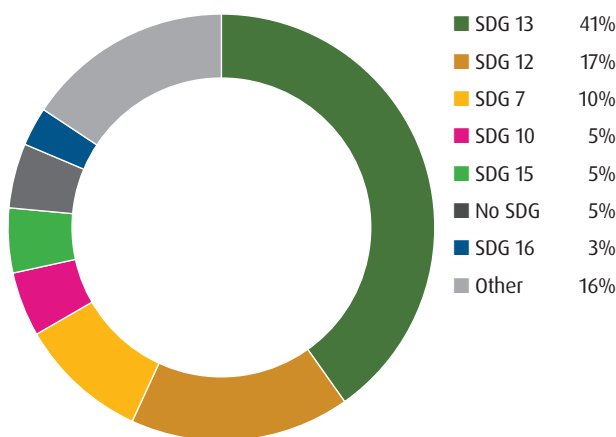
Engagement: SDG level



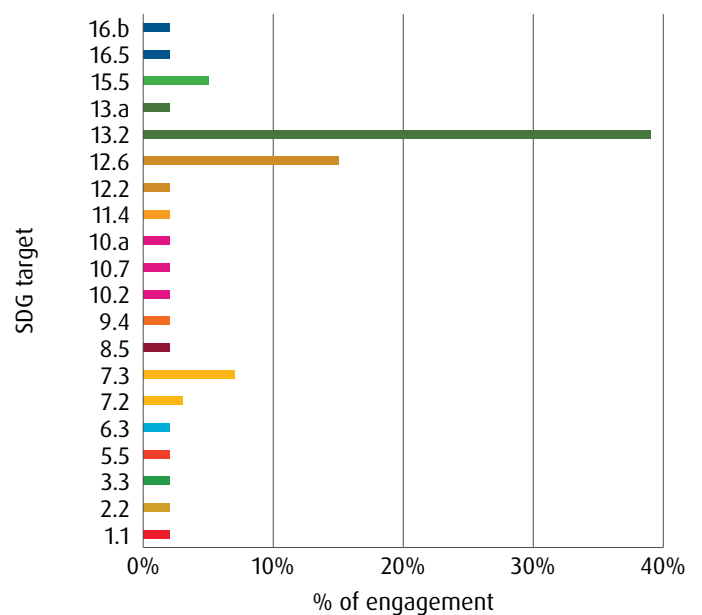
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: ASML Holding NV

Country: Netherlands

Sector: Information Technology

Priority Company: -

ESG Risk Rating:

Response to engagement: Good

Theme: Labour Standards

Issue: Diversity and discrimination

SDG:  5.5  8.5

Background

ASML, headquartered in the Netherlands, is a vital player in the semiconductor supply chain, it makes the machines to manufacture semiconductors. Each machine contains over 100,000 parts and costs \$150 million USD. Its main customers include TSMC, Samsung and Intel. It has a near monopoly on extreme ultraviolet lithography technology, which uses advance light to print circuits onto silicon wafers. These EUV machines are required to make the most complex semiconductor chips to power processors. Therefore, downstream semiconductor companies are extremely dependent on ASML.

Action

In our Q1 engagement with the company, we first had a discussion with its CFO, where we discussed the company’s ESG strategy, remuneration, diversity, chip shortage and innovation. ASML improved its alignment of executive compensation with specific material ESG metrics to ensure senior-level accountability. To address the ongoing challenge with the chip shortage, it identified four key drivers and set specific goals to increase capacity while remaining conscious workers’ labour conditions. The company agrees that diversity is an area where progress is required. Given the inflow of female new hires regressed in 2021, ASML is investigating and conducting root cause analysis to understand how the dynamic will support future hiring & retention plans. On water management, ASML conducted a TCFD analysis in 2020 and added a scenario analysis in 2021. To tackle physical risks associated with the Netherlands and San Diego, ASML plans to disclose further detail in 2023.



Verdict

The company is a clear leader in ESG practices and continues to evolve. However, the company must strengthen its efforts on diversity; its current target of women in leadership positions is weak compared to peers. We urged the company to set ambitious targets at the Board of Management, where it has currently no females and in its broader workforce to build up the talent pipeline. We followed up with best practices examples and recommendations on workforce diversity, supply chain transparency, water management and conflict minerals to help ASML bolster its ESG leadership position.

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: Rio Tinto Ltd | Country: Australia | Sector: Materials |
| Priority Company: ✓ | ESG Risk Rating:  | Response to engagement: Good |
| Theme: Human Rights | Issue: Indigenous Rights | |
| SDG:  10.2 | | |

Background

Rio Tinto are one of the largest mining companies in the world, extracting a range of commodities in six continents. Multiple mining assets are situated on land traditionally owned or used by Indigenous Peoples, leading to many mining sites being near culturally significant sites. This is a particular challenge in Australia, where weak state protection of cultural heritage sites and poor application of Rio Tinto’s human and indigenous rights due diligence processes led to the company’s destruction of several significant aboriginal rock shelters in Juukan Gorge in 2020.

Action

We have had frequent and ongoing engagements with the company in relation to this specific catastrophe and their reaction, which included the CEO and several senior executives resigning and the chair stepping down. Throughout 2020 we discussed the company’s remediation and succession plans. We also voted against their Remuneration Report at the 2021 AGM due to malus and clawback provisions not being sufficiently applied to the former CEO’s compensation, and against the Chair of the Sustainability Committee due to their accountability for the failure in governance and risk management that led to the incident. Our recent engagements have focused on how the company is implementing widespread reforms on how they manage projects, engage communities, and ensure indigenous representation in decision making. We also sent the company our expectations on Indigenous Rights in the extractives sector and discussed them in light of the company’s plans to launch country-specific indigenous advisory groups that advise management teams on all indigenous affairs.

Verdict

The leadership change appears to have precipitated a wholesale reformation of the company’s culture, as demonstrated by the bold step of publishing an independent report on their workplace culture in full. This report revealed widespread issues with sexism and bullying as well as racism. However, engagement with the Chief People Officer showed that the leadership and broader employee base is fully committed to implementing all recommendations in the report and publicly disclosing the results. The company has already started to strengthen their engagement with and awareness of indigenous rights; we believe the wider cultural changes will only assist in this regard and will continue to engage on the transformation.

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: Stellantis NV

Country: Netherlands

Sector: Consumer Discretionary

Priority Company: ✓

ESG Risk Rating: 

Response to engagement: Good

Theme: Climate Change

Issue: Climate Change

SDG:  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. Historically FCA has been a sector laggard on climate change and the roll out of battery electric vehicles (BEVs), while PSA was more advanced. Over 2021 Stellantis was relatively slow to publicly release details on its climate ambition, strategy and management.

Action

We have engaged Stellantis six times in the past 12 months on climate change, including calls with the Head of Sustainability, Strategy Lead and CFO. Our main asks have been for Stellantis to set an ambitious net zero target and commit to an ambitious BEV strategy. We have provided extensive feedback to Stellantis on the specific metrics that we believe are industry best practice to evaluate climate performance against. Now the company has unveiled its strategic plan for the coming decade, including a net zero emissions target by 2038 across its entire value chain and cut emissions intensity by 50% by 2030. It also included a sales target of 100% BEV passenger cars in Europe by 2030, and 50% BEV passenger cars and light-duty trucks in the USA by 2030.

Verdict

While there is still limited detail on how Stellantis will achieve these net zero targets, we believe that the ambition level is strong. Stellantis' 2038 net zero target in particular compares favourably to European peers, with Mercedes aiming for 2039, and VW and BMW aiming for 2050. While recent progress is encouraging, this is still an initial step. This year our focus will be shifting from climate targets to strategy, climate lobbying and sustainable sourcing. We expect Stellantis to publish additional details on its strategy to achieve its targets, including further details on its CapEx planning. We have seen a number of European automakers publish climate lobbying reports this year and want Stellantis to follow suit. Finally, we will be engaging Stellantis on its sustainable sourcing and circular economy approaches.

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: Tesla Inc

Country: United States

Sector: Consumer Discretionary

Priority Company: ✓

ESG Risk Rating: 

Response to engagement: Adequate

Theme: Human Rights, Labour Standards

Issue: Human rights and labour standards

SDG:



10.2



8.7

Background

Tesla Inc is an electric vehicle and clean energy company based in the USA. Tesla is the world's most valuable automaker by market capitalisation and has the most worldwide sales of battery electric vehicles. Despite its strong environmental credentials as a climate solution investment, Tesla has been plagued by several social issues related to labour standards and human rights. On labour standards, Tesla has been the subject of a number of lawsuits in recent months by former employees alleging rampant sexual harassment and racial discrimination at Tesla facilities, including a lawsuit filed by California's Department of Fair Employment and Housing (DFEH). On human rights, Tesla's suppliers have been linked to using forced and child labour, and poor employment conditions in cobalt mines in the Democratic Republic of Congo (DRC).

Action

We had a call with a member of Tesla's investor relations and ESG teams in Q1 2022 to discuss these issues and have subsequently exchanged several emails to clarify our expectations. On labour standards, Tesla response to these issues was that there is often a significant lag time between the incidents occurring and them evolving into public court cases, so these cases are more reflective of issues from three or four years ago. While we believe there is some truth in this, we still have strong concerns due to the number and severity of incidents, and we have received limited reassurances that there have been sufficient improvements in internal systems, processes and culture. We also spoke about their human rights approach, after their poor performance in the Corporate Human Rights Benchmark and the failed shareholder resolution at the Q4 2021 AGM. They have since improved their policy framework and have invested considerable sums to improve traceability and conduct on the ground due diligence in their cobalt supply chains.

Verdict

We believe Tesla has some way to go to assuage investor concerns on labour standards. We have outlined our enthusiasm for an independent appraisal of their labour management systems, especially their whistle-blowing processes, grievance mechanisms, and arbitration process. We encouraged them to provide additional assurances that they are improving labour management practices and we explicitly called out additional metrics we expect to see in the company's next Diversity, Equity and Inclusion report. On human rights, we view positively their recent progress on cobalt. We will push them to roll out their responsible cobalt processes to other minerals of concern, such as nickel and aluminium.

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 | 2.2 | 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 | 3.5 | Increase the prevention and treatment of substance abuse |
| SDG3 | 3.8 | Access to medicines and health-care |
| SDG5 | 5.1 | End all forms of discrimination against women and girls |
| SDG5 | 5.2 | Eliminate all forms of violence against women |
| 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 |
| SDG6 | 6.6 | Protect and restore water-related ecosystems |
| 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 | 8.4 | Improve resource efficiency and prevent environmental degradation |
| 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 | 9.4 | 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 | 10.5 | Improve the regulation and monitoring of financial markets |
| 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 | 12.3 | Halve global food waste at the production and consumer level. |
| SDG12 | 12.4 | Manage chemical usage and waste throughout their life cycle |
| SDG12 | 12.5 | Reduce waste through prevention, reduction, recycling and reuse |

Appendix (continued)



| SDG | Target | Target Summary |
|---------|--------|--|
| ■ 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 |
| ■ 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 |
| ■ 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 |
| ■ SDG16 | 16.10 | Ensure public access to information and protect fundamental freedoms |
| ■ SDG16 | 16.a | Strengthen national institutions to combat terrorism and crime |
| ■ SDG16 | 16.b | Promote non-discrimination laws for sustainable development |

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