

New Zealand Superannuation Fund

Q3 2020

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 in review

In stark contrast to the regulatory endorsement of responsible investment practices across Europe, the current US administration continues to seek to unwind decades of progress made in this area.

After proposing a rule at the end of last quarter to clamp down on asset managers offering sustainable investments to retirement savers, the US Department of Labor (DoL) struck again last month. It is now seeking to impose additional, and unnecessary in our view, hurdles to proxy voting that could seriously impair the ability of pension funds to exercise their shareholder rights. We are very concerned about this concerted campaign to disenfranchise investors as it would weaken portfolio oversight and ultimately harm the pension plan participants it is meant to protect. We have, therefore, joined calls by US and international institutional investors for the DoL to change course by withdrawing or significantly amending the proposals.

US regulatory pushback on responsible investment gains pace

Regulatory developments

In response to an Executive Order signed by Donald Trump last year that looked to provide additional support for the US fossil fuels industry, the U.S. Department of Labour (DOL) opened a comment period on two separate rules that impact private pension plans regulated under the Employee Retirement Income Security Act (ERISA). The first of these rules looked to block the inclusion of any investment fund that partakes in "ESG investing" as a default option to beneficiaries as part of their ERISA plan. In our response to the consultation we pointed out that the integration of ESG considerations is an integral part of prudent investment analysis, meaning that the rule risked limiting the ability for plan fiduciaries to grow assets and manage risk effectively over the long-term.

The second rule looked to address concerns over how ERISA plans vote their proxies, in relation to environmental and social shareholder proposals. In our response to the DOL we argued that this proposal significantly undervalues the benefits of proxy voting by effectively encouraging ERISA plans not to vote, as well as the impractical and costly nature of implementing the new rules.

This quarter we also saw the SEC publish its final conclusions on two key pieces of rulemaking following a period of comment earlier in the year. For details on how we responded to these consultations, please see our Q1 reo reporting.

Under the second set of proposed regulations, the SEC intends to revise the terms by which investors can file shareholder proposals by increasing share ownership and re-submission thresholds and introducing mandatory obligations for filers to engage companies on the proposal. Given the positive impact that the shareholder proposal process has had on improving ESG and specifically corporate governance practices at U.S. companies, this outcome is disappointing.

Advancing climate change management and reporting standards

Engagement collaboration

There are two important developments to report this quarter on investor collaboration on climate change.

The **Climate Action 100+ initiative**, which now represents assets of US\$47 trillion, has written to all 161 companies asking for disclosure against a set of common climate change criteria and metrics, including targets, governance and strategy. Company responses will be used to create a public benchmarking report, due in the first quarter of 2021.

BMO Global Asset Management signed up to the **CDP Science-Based Targets Campaign**. The campaign aligns with the asks we are making to companies within the more focused Climate Action 100+ campaign as well as BMO GAM's own engagement approach.

Regulation on climate change disclosure also continues to tighten, with latest developments including the UK government consulting on mandatory climate risk reporting in line with **the Task Force on Climate-related Financial Disclosures (TCFD)** by large domestic pension funds, and a proposal by the New Zealand government of mandatory TCFD reporting for large corporates and financial institutions.

Workforce Disclosure Initiative update

Reporting standards

BMO GAM has been an investor signatory to the Workforce Disclosure Initiative (WDI) since its inception in 2016. We have been actively engaging companies to disclose to the WDI's annual survey since the beginning, and in turn have engaged the WDI to make their survey meaningful and manageable for investors and corporates at the same time! Key findings from the evaluation of the submissions by 118 companies to 2019's survey include that companies are generally reluctant to provide data on staff turnover as well as on internal accountability mechanisms to support workforce governance structures, and that they are willing to submit more data against

workforce metrics for permanent employees than their temporary counterparts. Another finding is that the concept of a Living Wage is not universally understood by companies, which we are not entirely surprised about.

This quarter we reached out to 62 companies to respond to the 2020 annual survey, which launched on September 1st.

Countering the decline of Indian labour laws

Engagement collaboration

In Q2 2020, two Northern India states announced that as a reaction to reductions in production demand due to COVID-19 they would suspend labour laws for three years. The impacts for workers would include wages well below regional minimum wage, no right to accrued social or pension benefits, and no protection in case of layoffs.

To better understand the regional landscape and investigate potential engagement angles, we reached out to the Indian office and the CEO of the Ethical Trading Initiative as well as the NGO ShareAction. We decided with ShareAction to jointly approach seven multinational brands for which we could find evidence of sourcing from the affected states.

Pushing for a healthier product offering

Engagement collaboration

As a member of ShareAction's **Healthy Markets initiative**, we signed joint letters to seven UK supermarkets to ask them to support efforts against obesity by promoting healthier eating habits and setting ambitious targets to increase their offering of low-calorie and low-sugar products. The initiative is supported by investors representing over \$1 trillion in assets under management.

The Covid-19 pandemic has struck those with underlying health conditions especially hard, with the risk of death being 33% higher for obese people.

Stronger farm animal welfare practices is good for business

Engagement collaboration

In July 2020, BMO GAM signed the **Business Benchmark on Farm Animal Welfare's** (BBFAW) Global Investor Statement on Farm Animal Welfare. The Investor Statement is now supported by 33 institutional investors, representing £2.5 trillion in assets under management.

As a signatory to this Investor Statement, we are publicly affirming our view that farm animal welfare is a material investment risk. We are, therefore, asking companies to raise farm animal welfare standards not only in their own operations, but also in their supply chains. Furthermore, we welcome clear and transparent reporting on this issue. We will incorporate the findings of the BBFAW in our engagement with the food industry to hone in on the key issues we want companies to address.

¹See also our Viewpoint from Nov 2019: "The workforce data quest: why we need it and why it helps companies as well".

²<https://shareaction.org/workforce-disclosure-initiative/why-disclose-to-the-wdi/wdi-2019-findings/>

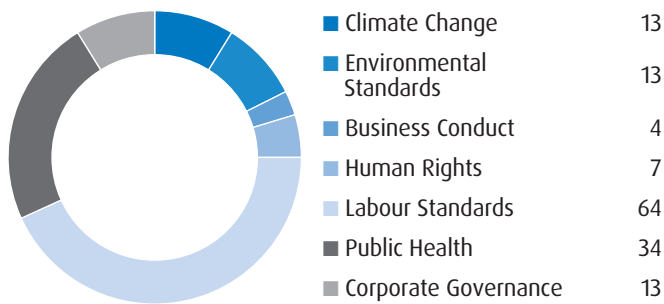
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
77	7	20

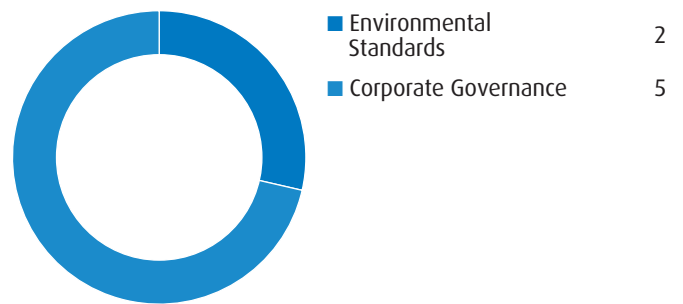
Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue



* reo® is currently applied to £170bn/\$211bn/€188bn/CAD\$287bn of assets as at 30 June 2020.

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

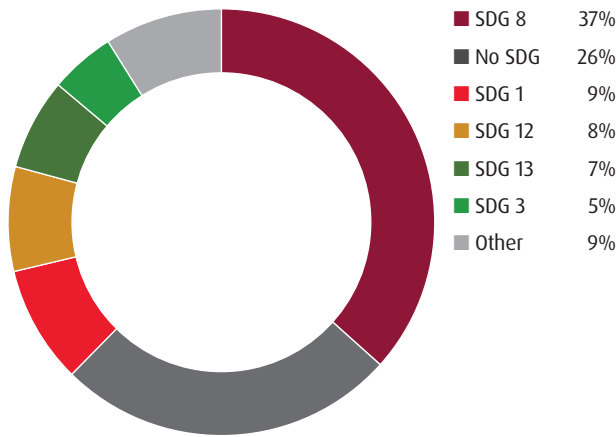
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where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

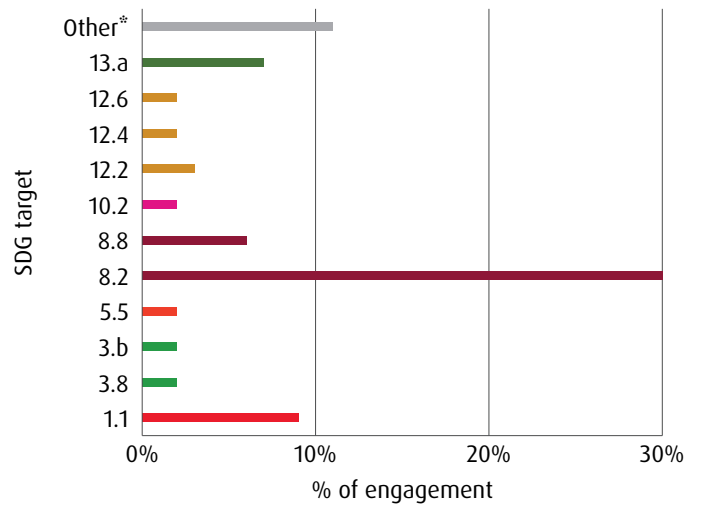
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

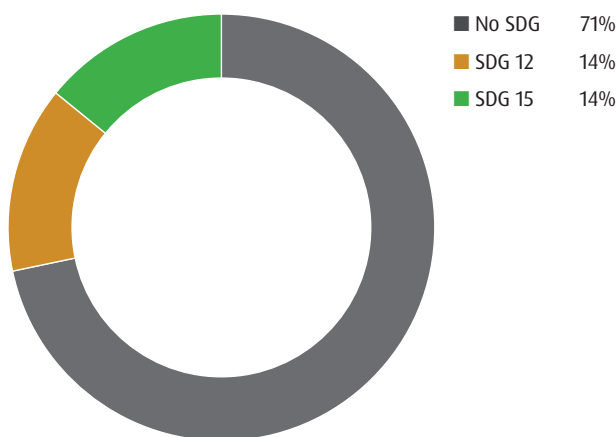
Engagement: SDG level



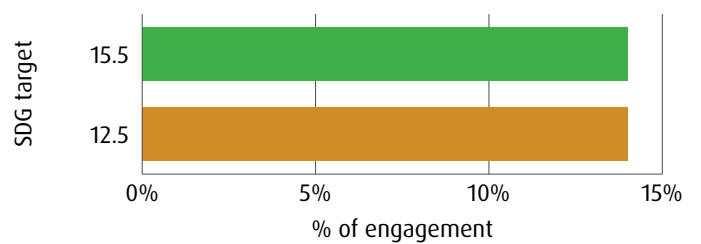
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Samsung Electronics Co Ltd

Country: Korea, Republic of (South)

Sector: Information Technology

Priority Company: -

ESG Risk Rating: 

Response to engagement:: Adequate

Theme: Climate Change

Issue: Board effectiveness, management oversight, strategy

Background

Despite being the world's second largest technology company by revenue and the jewel in the crown of the largest conglomerate in Korea, Samsung Electronics has suffered greatly at the hands of several corporate scandals in recent years. The most recent board member to be convicted and given a prison sentence is the former board chairman, Lee Sang-hoon. A South Korean court has sentenced him to 18 months in prison for sabotaging labour union activities. These actions took place during 2013 whilst he served as CFO of the company. We had met Lee Sang-hoon in April 2018 to discuss his intentions for the board. He was the first board chairman appointed following the separation of the previous chair/CEO role. Bahk Jae-wan was appointed as chairman following the departure of Lee Sang-hoon. He previously served as an outside director on the board. We were keen to meet with him to better understand his intentions for the board going forward and share our views on the direction of the company.

Action

Historically, access to the board of Samsung has been difficult. For this reason, we chose to approach the company as part of the Korea Working Group which is a sub-committee of ACGA (Asian Corporate Governance Association) members. The groups request to hold a meeting was accepted by Bahk Jae-wan. It was an important occasion for us as investors and the company as this was the first meeting he had held with investors directly. The main purpose of the meeting was to hear the chairman reflect on the corporate governance issues facing Samsung and to ensure that his interpretation of a chair's role is aligned with ours. Questions focused on the role and structure of the board, corporate culture, business practice and innovation, management incentive and the managements response to COVID-19.

Verdict

We were disappointed by the quality of the answers given by the chair to our questions. Despite being a former Finance Minister for Korea, his understanding of governance was limited. The responses to the questions were superficial and he was not up-to-speed with investor expectations. Given the company's truly global footprint one area of concerns was the lack of desire to introduce additional international board members. This was particularly concerning given that the board is expected to lead the company into the future. There was also little evidence of leadership from the board. We will communicate an expectation that the board should be further strengthened and attempt to arrange a further meeting to judge his progress in the role of board chair.

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
SDG3	3.5	Increase the prevention and treatment of substance abuse
SDG3	3.8	Access to medicines and health-care
SDG3	3.9	Reduce deaths and illnesses from pollution and contamination
SDG3	3.b	Support research into vaccines and medicines for diseases primarily in developing countries
SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
SDG7	7.2	Substantially increase the global share of renewable energy
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
SDG10	10.2	Empower and promote inclusivity for all
SDG11	11.2	Provide access to safe and affordable transport systems
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
SDG15	15.5	Take urgent action to reduce degradation of natural habitats
SDG15	15.a	Increase financial resources to conserve ecosystems