

## New Zealand Crown Financial Institutions:

Q1 2023

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

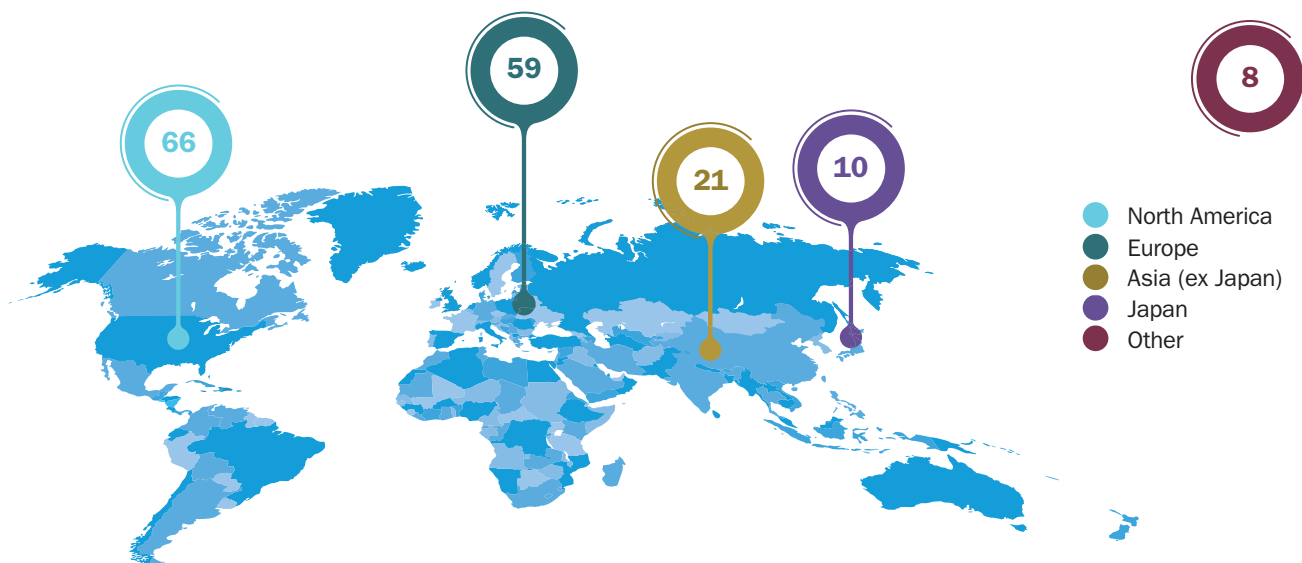
\*Companies represented in this report may not be held by each Crown Financial Institution.

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.

### Engagement this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
213	164	34	27

### Companies engaged by region



### Engagement by theme \*\*



### Milestones achieved by theme



\* **reo**<sup>®</sup> is currently applied to €1.08tn / £960bn / US\$1.16tn\* as at 31 December 2022.

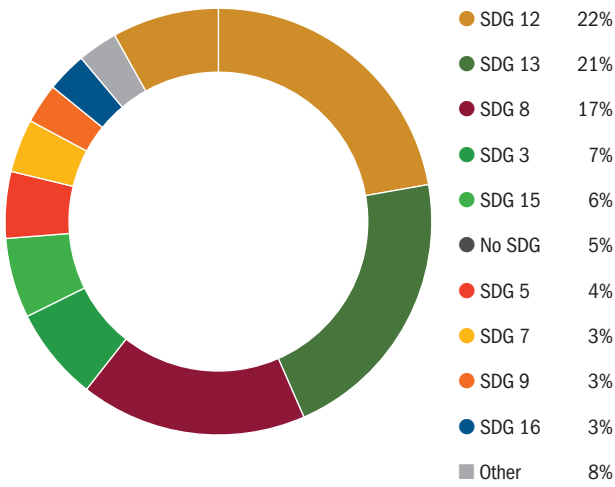
\*\* Companies may have been engaged on more than one issue.

### Engagements and Sustainable Development Goals (SDGs)

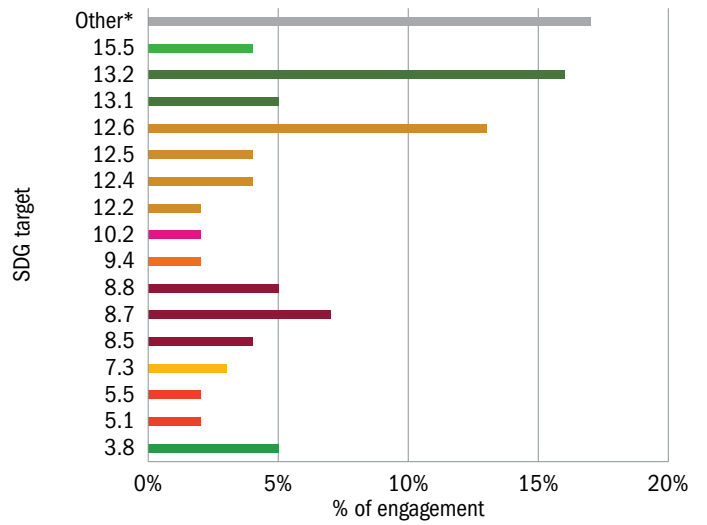
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

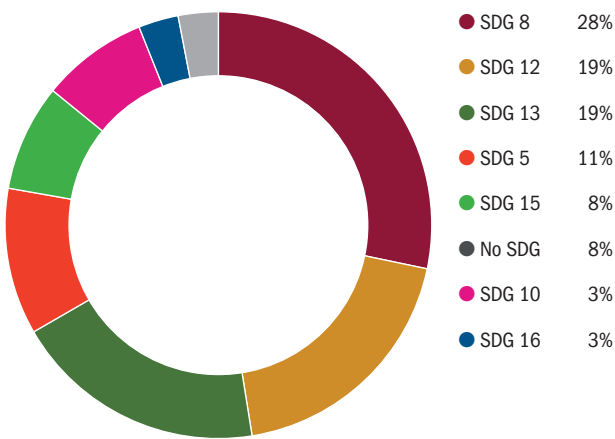
#### Engagement: SDG level



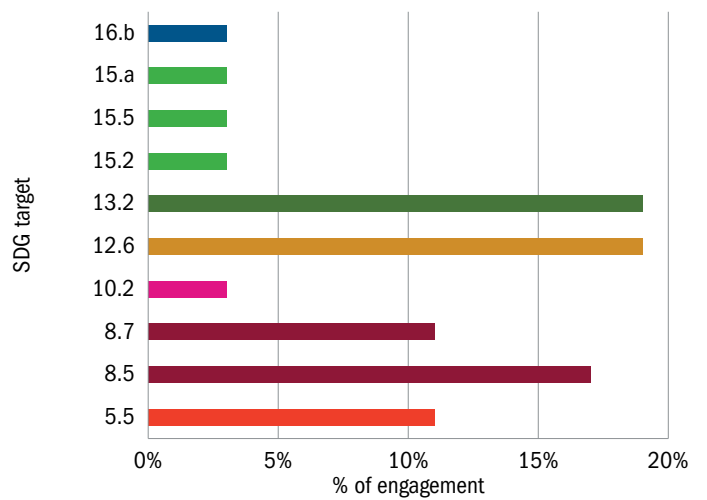
#### Engagement: SDG target level



#### 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> CoreCivic Inc	<b>Country:</b> United States	<b>Sector:</b> Industrials
<b>Priority Company:</b> -	<b>ESG Risk Rating:</b> 	<b>Response to engagement:</b> Adequate
<b>Theme:</b> Human Rights, Labour Standards		<b>Issue:</b> Human Rights Due Diligence, Forced Labour
<b>SDG:</b>	 16.b	 12.6

### Background

CoreCivic is one of the largest private prison and detention centre operators in the United States. They have faced a host of allegations over many years, relating to the poor treatment of detainees in its facilities resulting in accusations of breaching the principles of the UN Global Compact. Our record of the allegations against the Company extends back to 2014 when a report on a four-year investigation stated several detainees had died while in custody after management refused or failed to provide adequate medical care. In 2018, the U.S. Commission on Civil Rights asked Congress for an investigation in to forced labour concerns in relation to the company’s Voluntary Work Program where detainees may work up to 8 hours per day and paid as little as \$1. As recently as 2022, CoreCivic has continued to face scrutiny in the press and the threat of legal action against executives about the program. They have also faced scrutiny relating to officer safety and allegations of discriminatory practices. In 2021, the Company was subject to a shareholder proposal to conduct a racial equity audit, to which they quickly agreed and commissioned an independent report.

### Action

We have engaged CoreCivic on its approach to human rights risk management since 2015, both independently and as part of collaborative investor groups, including asking for better disclosure of the framework and metrics used to assess the effectiveness of its human rights risk mitigation efforts. In reporting on specific grievances raised by inmates, we noted the high proportion of reports against correctional officers. The Company defended its facility culture and highlighted its efforts to continue to strengthen its commitment to human rights. Given the high proportion of employee grievances raised about disciplinary actions, we questioned whether oversight mechanisms were effective or even contributed to employee discontent and untoward actions against detainees. The Company admit that facility staff may not always act appropriately, despite oversight and safeguards in place. We also discussed inmate and officer safety - whilst the Company discloses employee work related injuries, we encouraged the disclosure of the same for detainees. With regard to the voluntary work program, the Company maintains that it is a government initiative with all payment terms set by the government - despite wording to the contrary in the government’s standard policy.

### Verdict

Whilst there is a long way to go to gain comfort on the Company’s human rights risk mitigation practices, their efforts to provide ESG reporting, conduct human rights risk assessments and engage with stakeholders is viewed favourably. That said, continued allegations relating to poor detainee conditions, detainee fatalities and other human rights abuses persist, calling in to question the effectiveness of the Company’s approach. The continued negative press has impacted the Company’s social licence to operate, making it a target for stakeholder backlash. Additionally, there has been a negative impact on their ability to access investment capital in recent years as a number of investment banks have publicly committed to ending their financing relationships with the private prison industry.

### 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:** Moderna Inc

**Country:** United States

**Sector:** Health Care

**Priority Company:** ✓

**ESG Risk Rating:** 

**Response to engagement:** Good

**Theme:** Human Rights, Corporate Governance

**Issue:** Access to Medicine, Corporate Governance

**SDG:**  3.8

### Background

When Moderna was valued at \$7.9bn at its IPO in 2018, it represented a significant leap of faith in a company yet to turn a profit or bring a product to market. Then the pandemic transformed Moderna into a household name, with their mRNA technology platform able to seize the covid vaccine opportunity. Now worth nearly \$60bn, the company has had to mature exceptionally fast. Going into the pandemic, Moderna had limited formalisation of its approach to material ESG issues, but have now developed an ambitious strategy and committed to transparency in implementation. Focus areas include a comprehensive global health strategy, a human capital management approach that embeds a strong culture in a fast growth business, and a commitment to net zero emissions using SBTi by 2030. Equitable access to the covid vaccine particularly in relation to low and middle income countries (LMICs) has been a priority issue for investors. Moderna has put progressive access measures in place including reprioritising supply away from ‘first come first served’ contracts, committing not to enforce patents in 92 LMICs, opening up the mRNA technology platform, and investing in a new manufacturing base in Kenya.

### Action

During the pandemic, we engaged Moderna collaboratively on their vaccine access strategy, encouraging a constructive relationship with GAVI (a public-private global health partnership) over participation in the COVAX initiative (focused on global access to covid vaccines), which saw Moderna deliver 650m doses. Moderna was reluctant to engage in detail at the time but over the last year, resource has been built and the ESG strategy has been formally presented, with the first report published and a shareholder event in 2022. We also engaged individually at the time of the 2022 AGM - going forward we will focus on the implementation of their ESG strategy and monitor progress on addressing gaps. We are particularly aware of challenges ahead relating to establishing the Kenyan manufacturing base, such as supply chain resilience, bribery and corruption risk, and environmental stewardship. We will also continue engaging on corporate governance, encouraging the further tightening of IPO-era provisions such as declassifying the board and limiting supermajority vote requirements in order to be more shareholder friendly.

### Verdict

While Moderna showed limited willingness to engage openly with investors during the earlier stages of the pandemic, the past year has seen considerable progress. Moderna has formalised and presented a comprehensive strategy on material ESG topics, and shown a willingness for transparency on gaps and implementation. On access to medicine, we are confident that their programme now shows genuinely innovative leadership on the issue. Moderna continues to grow fast and is keeping many different plates spinning, and while there is thoughtful effort being made to put appropriate systems, goals, and oversight structures in place to support this, there will almost inevitably be some balls dropped. We will continue to engage to encourage and monitor progress.

### ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

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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	3.5	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	5.5	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	8.5	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
SDG11	11.1	Ensure universal access to safe and affordable housing
SDG11	11.4	Strengthen efforts to safeguard the world's natural heritage
SDG11	11.5	Reduce social and economic losses caused by disasters
SDG12	12.2	Sustainably manage and make efficient use of natural resources

## Appendix (continued)



SDG	Target	Target Summary
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
SDG14	14.4	Regulate harvesting and end overfishing to restore fish stocks
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.b	Promote non-discrimination laws for sustainable development

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