

New Zealand Crown Financial Institutions:

Q2 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**[®] (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.

Companies engaged this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
131	115	30	20

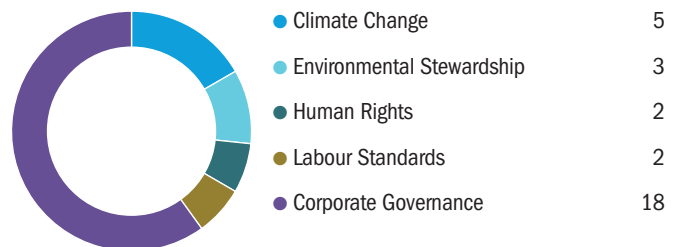
Companies engaged by region



Engagement by theme *



Milestones achieved by theme



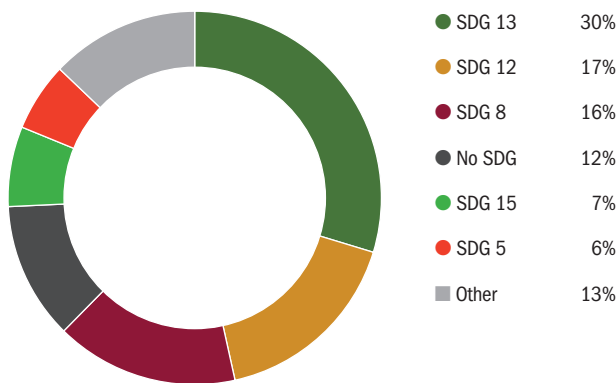
* Companies may have been engaged on more than one issue.

Engagements and Sustainable Development Goals (SDGs)

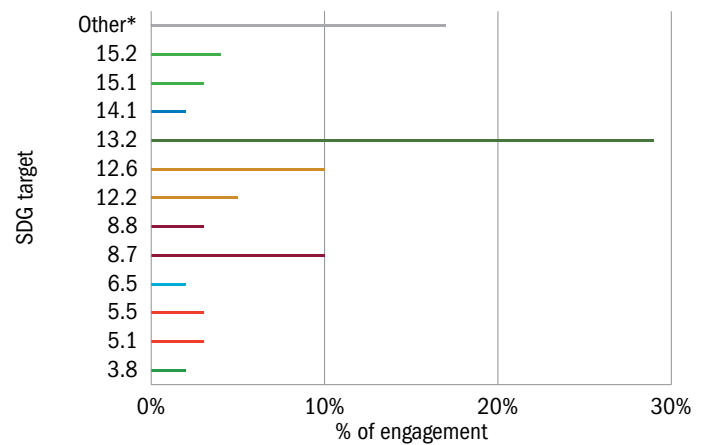
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

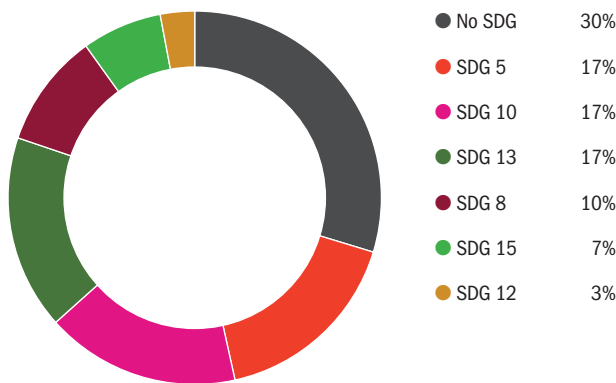
Engagement: SDG level



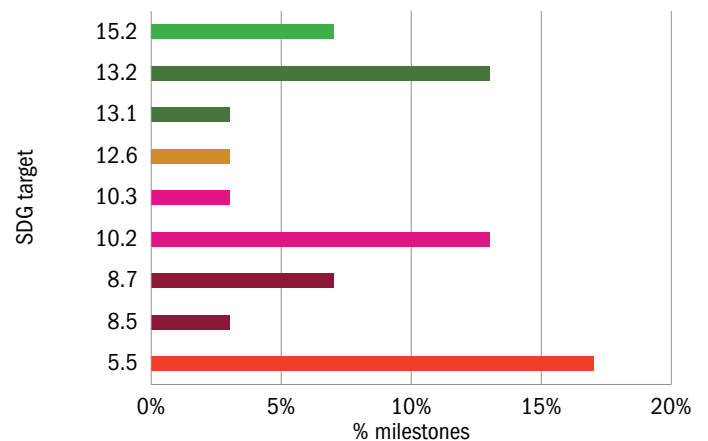
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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



Engagement case studies

Company: Amazon.com Inc

Mailing Country: United States

Sector: Consumer Discretionary

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Good

Theme: Labour Standards

Engagement Case Study Name: Standing firm in the face of multiple shareholder proposals

SDG:  8.8

Background

Amazon is a technology company engaged in e-commerce, cloud computing, online advertising, digital streaming, and artificial intelligence. The company has continued to face numerous shareholder proposals, receiving 14 shareholder proposals on its ballot across the environmental, social and governance spectrum during the 2024 AGM. These covered topics such as Scope 3 emissions and plastic use to repeated shareholder proposals on freedom of association and working conditions. Half of the proposals had also been filed in previous ballots.

Action

Ahead of the AGM, we had a constructive dialogue with the Head of ESG engagement regarding pertinent proposals on the ballot. On working conditions, we were pleased to see the improvements in injury rates and increased investments in health and safety. However, the company continues to face allegations around the misrepresentation of its injury data. The company clarified that prior to data submission to the regulator, it conducts audits to reduce the risk of false reporting. Given continued allegations and investigations, shareholders would benefit from independent audits to ensure the integrity of the data. On customer due diligence, the company reiterated its robust human rights due diligence programme and its compliance with the UN Guiding Principles. Amazon states that it conducts risk assessments at both a product and enterprise level. But while we note that the company enforced a ban on the sale of its facial recognition technology, to police departments, Amazon is still exposed to reputational and regulatory risks from the potential misuse of the software. We believe shareholders would benefit from further disclosure of how it conducts customer due diligence for its facial recognition software. On plastics, we are encouraged by the company's improved disclosure and did not support the proposal to report on efforts to reduce plastics this year. While we think it could be beneficial to publish time-bound goals for plastics reduction, we understand that customers and other stakeholders are able to monitor the company's improvements through its disclosure on the percentage of its plastic packaging in its annual reporting.

Verdict

The company's stance remains unchanged that independent reviews for freedom of association and working conditions would not be beneficial given that its current standards are very high, and the company would not place itself at risk of penalties by reporting incorrect data in an SEC filing. Nonetheless, given the continued high-profile controversies related to this, we reiterated that independent reviews would help to alleviate investors' concerns on these material labour issues which impact its c1.5 million employees and appear annually on the ballot. As a result, we supported the shareholder proposals on freedom of association, working conditions and customer due diligence. Despite these proposals not passing, these topics will continue to be focus areas for engagement with the company going forward.

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: Taiwan Semiconductor Manufacturing Co Ltd **Mailing Country:** Taiwan

Sector: Information Technology

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Adequate

Theme: Corporate Governance

Engagement Case Study Name: Disappointing steps backward in corporate governance

Background

TSMC is the largest independent semiconductor foundries and the second most valuable semiconductor company in the world. We have concerns around their governance structures and policies. For example, TSMC initiated a key 2018 Company Act amendment in Taiwan to push for more frequent cash dividend payout from annually to quarterly. While we welcome timelier returns to shareholders, this development also removes the shareholder’s right to vote on the cash dividend at AGMs. We have already seen the first foreign shareholder proposal filed in Taiwan to contest this amendment. In addition, before the founder Morris Chang stepped down in 2018, he introduced a robust corporate governance legacy as part of his succession plan – separating the CEO and Chair roles – a rare and welcome development in a market with many family-run businesses. However in December 2023, Chairman Dr. Mark Liu suddenly announced his retirement, leaving Dr C.C. Wei holding both CEO and Chair roles after the June 2024 AGM.

Verdict

In our view, corporate governance risks are increasing at TSMC with one person holding both the highest executive and supervisory roles possibly compromising the board quality and increasing key person risk. We expect TSMC to justify why the roles are combined and how it can ensure a proper balance of authority for shareholders’ interests at the board level. Moreover, as one the most valuable companies in the world, we believe investors increasingly will need to pay attention to the decline in corporate governance standards at this company while pursuing higher stock performance.

Action

We voted against all the proposals that remove shareholder’s rights to vote on cash dividend in Taiwan. We engaged with TSMC in person in 2023 to express concerns about this amendment and encourage it to support the development of better corporate governance structures with the regulators. TSMC acknowledged its influence on amending the law, but it asked us to engage with the regulators instead. We also asked we asked the company for a meeting after the announcement of Dr Liu’s retirement plan. This meeting was to further understand its succession plan and the arrangement of combining the CEO and Chair roles. However, we were disappointed to note that the company was only willing to communicate via email, providing very limited information and not committing to improve.

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: Vale SA

Mailing Country: Brazil

Sector: Materials

Priority Company: ✓

ESG Risk Rating: 

Response to Prior Engagement: Adequate

Theme: Climate Change, Environmental Stewardship, Human Rights

Engagement Case Study Name: Mining giant aims to rebuild trust through enhanced risk oversight

SDG:  13.2  6.3

Background

Vale is a diversified global mining company, headquartered in Brazil, producing iron ore, nickel, copper, coal, and other minerals and metals. We have engaged the company consistently in the last 2 years on the remediation and mitigation efforts following the catastrophic tailings dam collapses at Brumadinho in 2019 and Samarco in 2015. Both tragedies resulted in loss of life, environmental damage, and widespread community impacts.

Action

We met with Vale's Climate and Social lead this quarter. We spoke about how the company is improving its risk management practices and, crucially, what Vale is doing to restore its social license to operate. We also asked for an update on its victim compensation. Vale has been prioritizing the elimination of its highest-risk tailings dams, while building out new global safety standards. The company is making progress on compensating victims and restoring communities, though the Samarco reparations process remains complex, with lawsuits still threatening the company's bottom line. On the environmental front, Vale is taking firm steps towards net-zero, announcing \$6-8 billion in investments to achieve its Scope 1 and 2 emissions targets and is evaluating approaches for Scope 3 emissions.

Verdict

While Vale still has significant work ahead, we appreciate the openness of our dialogue and the company's intent to learn from the disasters. Enhancing governance transparency, tightening safety oversight, and prioritizing environmental resiliency are crucial to regaining investor confidence. In our view, Vale's community engagement and victim compensation programs will be critical to fully restore its social license. Proactive management of emerging legal cases and social risks will remain an area of focus for the company. We will continue monitoring Vale's progress through ongoing engagement.

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
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	6.5	Implement water resource management at all levels
SDG7	7.2	Substantially increase the global share of renewable energy
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
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	10.4	Adopt policies to progressively achieve greater equality
SDG11	11.2	Provide access to safe and affordable transport systems
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	12.5	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.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

Appendix (continued)



SDG	Target	Target Summary
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG16	16.6	Develop effective, accountable and transparent institutions
SDG16	16.b	Promote non-discrimination laws for sustainable development

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