

New Zealand Crown Financial Institutions:

Q3 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
113	101	15	25

Companies engaged by region



Engagement by theme *



Milestones achieved by theme



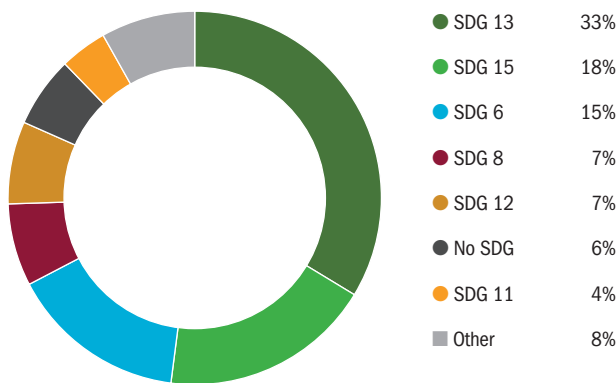
* Companies may have been engaged on more than one issue.

Engagements and Sustainable Development Goals (SDGs)

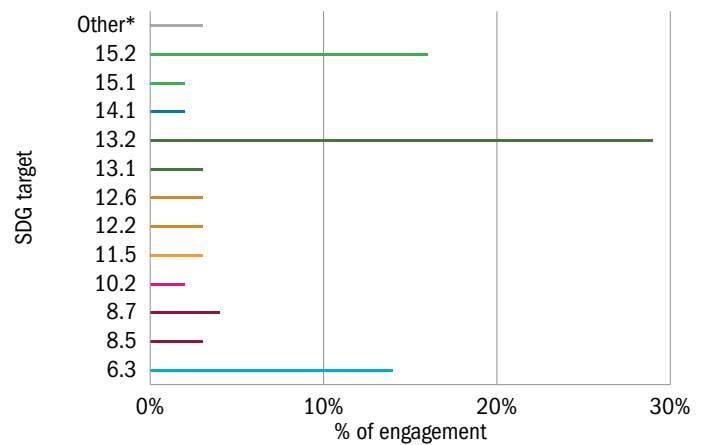
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

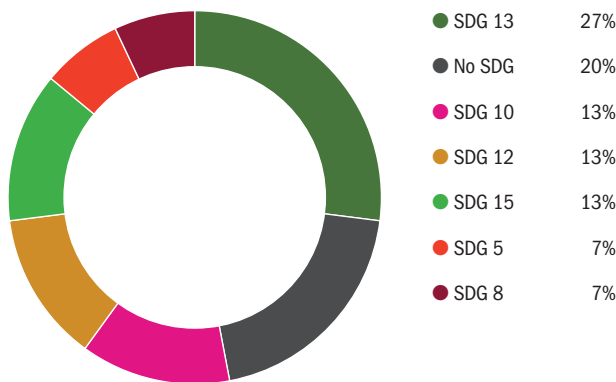
Engagement: SDG level



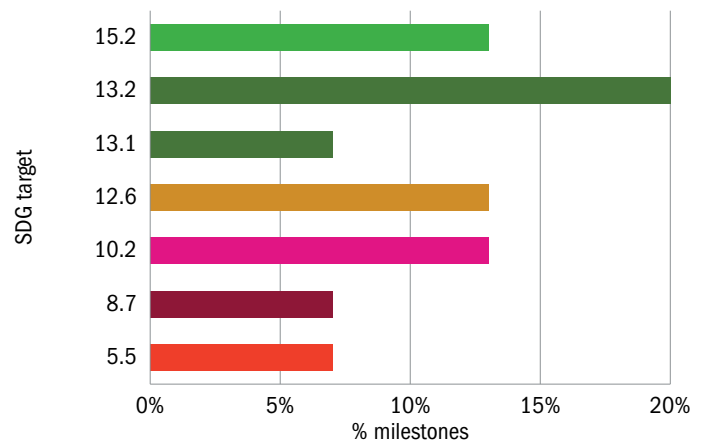
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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



Engagement case studies

Company: Alibaba Group Holding Ltd

Mailing Country: China

Sector: Information Technology

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Good

Theme: Corporate Governance

Engagement Case Study Name: A fully independent Nominating and Corporate Governance Committee

Background

Alibaba Group is the second largest e-commerce retailer in the world. We have concerns that its governing structure allows Alibaba Partnership to appoint a simple majority of members to the Board. By controlling the Partnership, the founder (Jack Ma) can control the Board while only holding as little as 4% of shares in the company. According to the company's Articles, the Nominating and Corporate Governance Committee only has the right to nominate the rest of the candidate seats on the Board. Hong Kong Stock Exchange (HKEX) deemed Alibaba as having unequal weighted voting rights and barred Alibaba from IPO in 2013. However, after Alibaba raised US\$ 25 billion on the New York Exchange, HKEX changed its own listing rules and welcomed a secondary listing in 2019.

Action

Both the founders, Jack Ma and Joe Tsai, have been involved with the nominating committee since listing with their committee memberships also allowing them to influence the nomination of independent directors on the Board. We expect to see a nomination committee without any founding member's interference to ensure a certain degree of Board independence. Therefore, we have been engaging with Alibaba on director nomination rights since November 2022. We raised this concern with ACGA's investor group focused on Alibaba, and also mentioned our expectation of having a fully independent nomination committee to Alibaba in September 2023. Many minority shareholders' and proxy advisors have also expressed reservations related to Joe Tsai's nomination committee involvement.

Verdict

Joe Tsai, the current executive chair, stepped down from the nomination committee after the recent AGM in August, with the result that the committee is now fully independent. Despite his departure from the committee, we still have concerns about the Partnership's ability to appoint up to a simple majority of Board members, and will continue to engage on this point. Alibaba has also recently successfully upgraded the secondary listing status in Hong Kong to a primary listing, but it was able to acquire exemptions from HKEX which prohibits other shareholders from proposing new director's for election or existing director's be dismissed. We will continue to advocate for shareholder's rights and monitor this development.

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: Costco Wholesale Corp

Mailing Country: United States

Sector: Consumer Staples

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Poor

Theme: Environmental Stewardship, Human Rights, Corporate Governance

Engagement Case Study Name: A holistic approach to sustainability risks

SDG:

 13.3	 15.2	 8.7
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Background

Costco is an American multinational corporation operating in over 800 locations. As a major retailer with a global supply chain, Costco faces various environmental and social risks, including climate change, deforestation, and labour standards issues. We engaged with the company to understand its strategies for mitigating these risks and ensuring responsible business practices.

Action

We spoke with Costco's investor relations directors about how the company manages social and environmental risks in its operations and supply chain. The discussion covered topics such as climate risk assessment, supply chain monitoring, and board oversight of sustainability issues. Costco highlighted its comprehensive supply chain risk assessment and monitoring processes, which involve internal teams and third-party auditors taking a risk-based approach. The company is involved in initiatives addressing modern slavery in various industries and has implemented additional age verification measures following recent cases of child labour in the U.S. market. Finally, we also discussed Costco's efforts to integrate sustainability aspects into purchasing practices, such as collecting greenhouse gas data from suppliers, addressing deforestation and human rights issues, and improving traceability in commodity supply chains.

Verdict

Costco's sustainability program appears well-tailored to the risks it faces, with a holistic approach to managing environmental and social issues across its operations and supply chain. However, we encouraged the company to provide additional reporting on the relative investments and contribution of energy efficiency measures in its climate transition plan. While the board receives briefings from the sustainability director, we suggested further exploring ways to strengthen board oversight and exposure to sustainability issues. Overall, we believe that the company is responding well to risks but we would encourage further integration into purchasing practices and a focus on identifying nature-specific metrics.

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: Procter & Gamble Co/The

Mailing Country: United States

Sector: Consumer Staples

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Good

Theme: Environmental Stewardship

Engagement Case Study Name: Innovations in sustainable product design, but questions remain

SDG:  13.3  14.1  15.2

Background

Procter & Gamble (P&G) is a multinational consumer goods company specializing in a wide range of personal health, personal care and hygiene products. As a leading consumer goods company, P&G faces significant environmental challenges, including climate change, plastic waste, and deforestation risks in its supply chain. We engaged with the company to understand its strategies for addressing these issues and promoting sustainable practices.

Action

We attended P&G's ESG investor update, led by the CEO, CFO, sustainability, and legal leads, to review progress on a range of material topics, including plastics, deforestation, and climate change. The company presented examples of embedding sustainability into product design, such as dissolving facial tissues and low-temperature, dry detergent pods, which can help reduce energy, water use, and greenhouse gas emissions during use. P&G also discussed its efforts to address plastic waste, including conducting a life-cycle assessment of its plastics sourcing and finding considerable advantages for recycled materials. However, the company acknowledged challenges in securing sufficient volumes of recycled materials. On deforestation, P&G stated that it is engaging with suppliers and is confident in complying with the new European Union deforestation regulation, although specific details were not provided.

Verdict

It was positive to note that product development is providing a range of improvements through substitution and light-weighting, contributing to reducing environmental impacts. However, we have concerns over the effectiveness and scalability, particularly regarding securing sufficient recycled plastic feedstock and assessing nature impacts from plastic pollution. For a company highly exposed to deforestation risk, we would have welcomed more detail on its assessment of coming regulation. While the company update was welcome, we plan to engage on the details of its strategies and progress in addressing these critical environmental issues. Nonetheless, P&G demonstrates a commitment to sustainable product design and responsible sourcing practices.

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
SDG2	2.1	End hunger and ensure access to safe and nutritious food
SDG3	3.8	Access to medicines and health-care
SDG3	3.a	Strengthen the WHO's framework convention on Tobacco Control
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	6.5	Implement water resource management at all levels
SDG7	7.1	Ensure universal access to modern energy services
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
SDG9	9.5	Encourage technological innovation and scientific research
SDG10	10.2	Empower and promote inclusivity for all
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	12.4	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
SDG13	13.a	Address climate change mitigation for developing countries
SDG14	14.1	Prevent and reduce marine pollution of all kinds

Appendix (continued)



SDG	Target	Target Summary
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
SDG16	16.5	Reduce corruption and bribery in all their forms

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