New Zealand Crown Financial Institutions:

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.

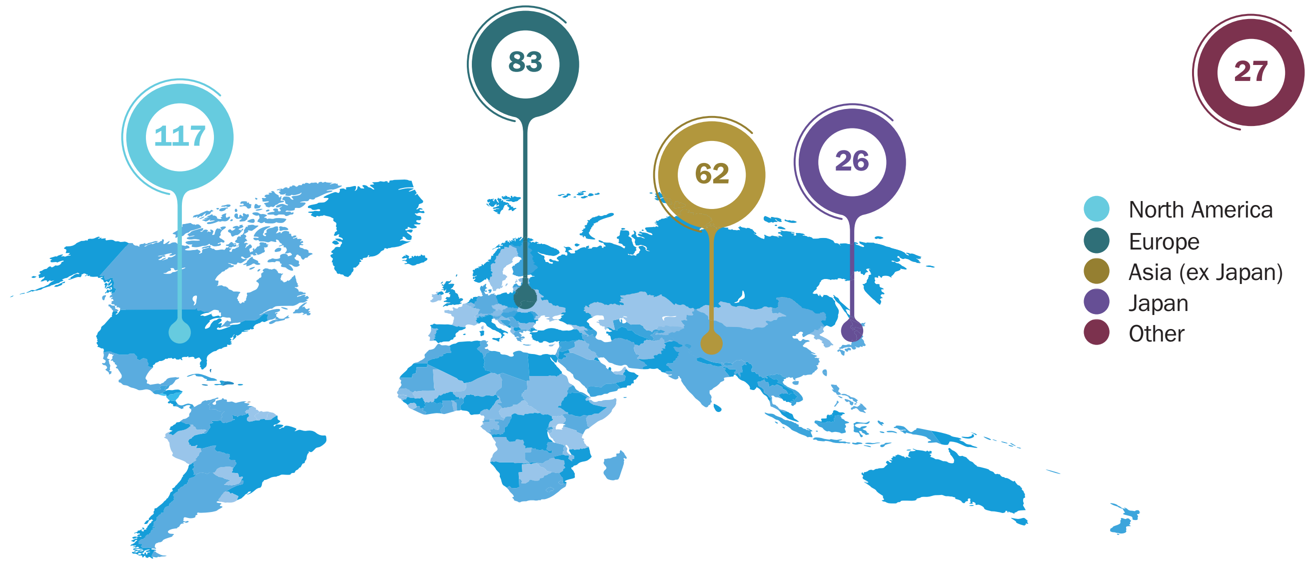
Q2 2022

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.

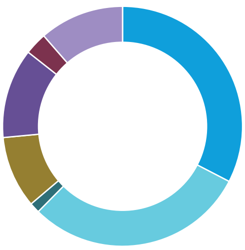
Engagement this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
435	315	23	34

Companies engaged by region

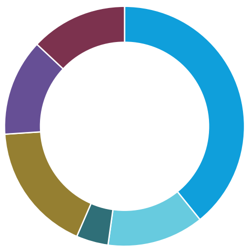


Engagement by theme **



Climate Change	231
Environmental Stewardship	211
Business Conduct	10
Human Rights	69
Labour Standards	86
Public Health	21
Corporate Governance	81

Milestones achieved by theme



Climate Change	9
Environmental Stewardship	3
Human Rights	1
Labour Standards	4
Public Health	3
Corporate Governance	3

* ***reo***® is currently applied to €1.05tn / £883bn / US$1.16tn* as at 31 March 2022.
** Companies may have been engaged on more than one issue.

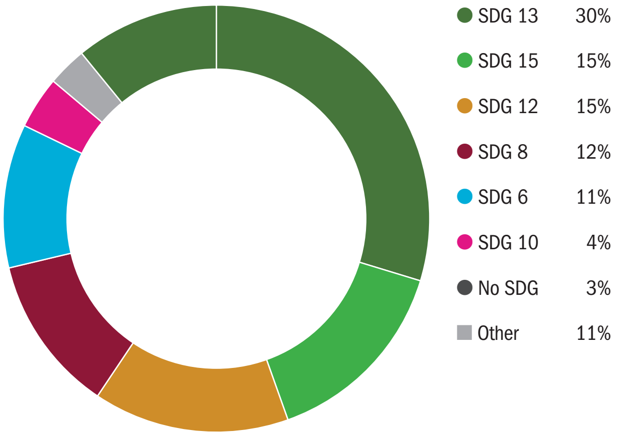
COLUMBIA THREADNEEDLE INVESTMENTS

Engagements and Sustainable Development Goals (SDGs)

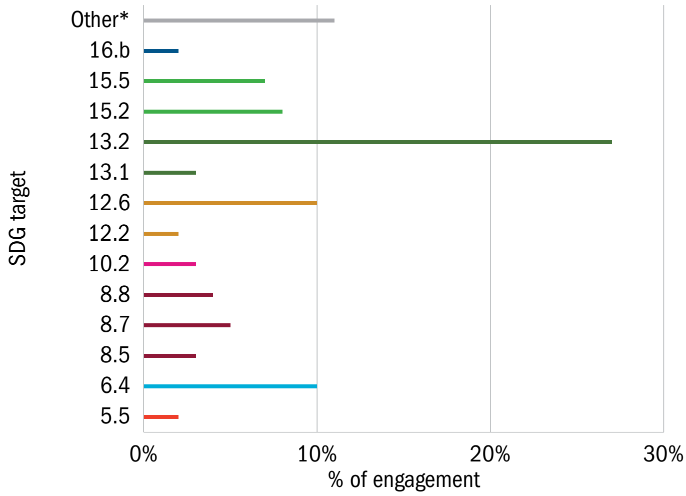
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

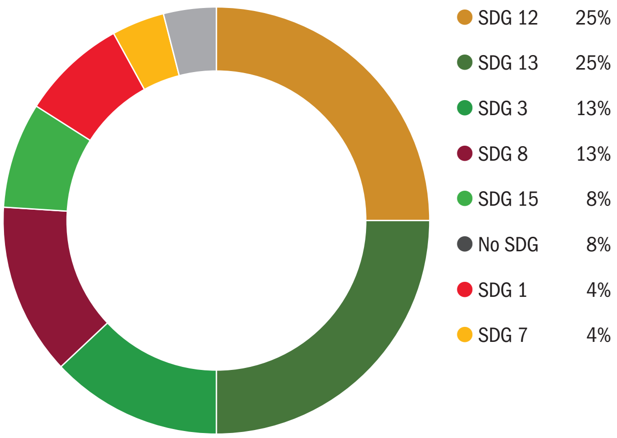
Engagement: SDG level



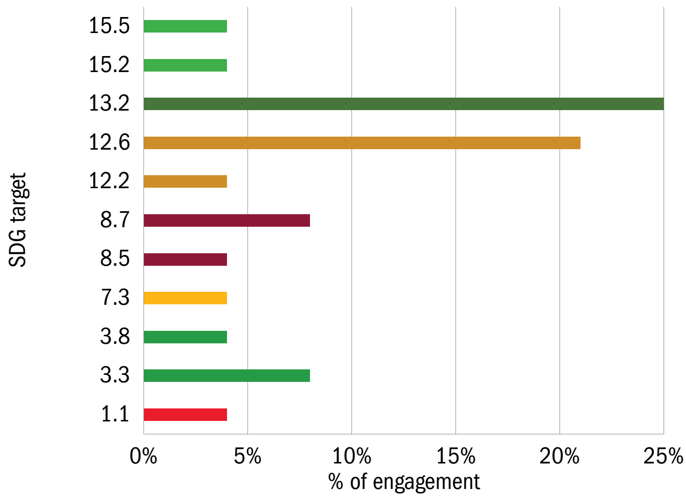
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Bayerische Motoren Werke AG	**Country:** Germany	**Sector:** Consumer Discretionary
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Labour Standards	**Issue:** Supply chain management and just transition at BMW	
SDG: 8 DECENT WORK AND ECONOMIC GROWTH 8.5		

Background

BMW is a German car maker, and like the rest of the industry is increasingly switching to the production of electrified vehicles. As car manufacturers switch from internal combustion engine (ICE) vehicles to electric vehicles (EVs) the increased demand for minerals for EV batteries, such as cobalt, lithium and nickel, is causing many car makers to alter the structure of their upstream supply chains to secure sufficient supply. In addition, the shift from ICE to EV production has profound consequences for workers in automotive supply chains and production facilities. EV production lines are often simpler and can be automated to a higher degree. Automakers need just transition strategies to mitigate the social fallout of the EV transition.

Action

We visited BMW at their head office in Munich to discuss their supply chain management and just transition planning. BMW have a direct sourcing system for cobalt, lithium and nickel which improves traceability, and have well developed ESG due diligence systems. They are also investing in circularity to reduce their dependence on virgin materials by 2030. We had a tour of BMW's Munich plant to see how they are adjusting the production line to manufacture EVs. Currently they produce EVs and ICE vehicles on the same production line, but as ICE vehicles are phased out there will be a loss of certain roles. BMW are looking to retrain personnel to retain them in other roles where possible. We requested additional details, asked them to appraise how the EV transition will impact their suppliers, and pointed them to other just transition resources.

Verdict

BMW has been open to engagement with us on these topics. On managing the ESG risks and impacts in its upstream supply chain, we would like BMW to set a stronger upstream Scope 3 emission target, improve collaboration with peers and NGOs in sourcing regions, and establish clear responsible sourcing strategies for additional materials. On just transition, additional details on their retraining strategy and plans to support suppliers to transition are required. We believe they are ahead of their peers in these areas, particularly circular economy, and there is an opportunity for BMW to set a path for the rest of the industry to follow.

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: Shell PLC	**Country:** United Kingdom	**Sector:** Energy
Priority Company: ✔	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Climate Change	**Issue:** Net Zero Strategy at Shell	
SDG: 13.2		

Background

Royal Dutch Shell (“Shell”) were one of the first companies in the oil and gas sector to set a net zero target and remain a global leader in the field. However, their approach still has room for improvement, especially on the subjects of capex alignment, absolute emissions reductions and reliance on nature-based solutions (NBS) to offset emissions.

Action

We have had frequent and ongoing engagements with the company on the key aspects of their net zero plan, which have seen them gradually increase their level of ambition, aided by the Dutch court’s ruling that they must increase their emissions reduction targets. In several engagements the CEO and specialists have reiterated their belief that their capex spending is aligned with a 1.5C scenario and is leading to their fossil fuel segment shrinking annually overall. However, they continue to resist disclosing a clear methodology for how this assessment is made and their financial reporting still does not fully reflect this assertion.

In addition, despite having intensity targets covering scope 3 emissions they will not lead to absolute emissions reductions in line with a 1.5C scenario. However, Shell has improved its commitments on biodiversity, which include having a net positive impact on biodiversity at new sites and from NBS projects. We welcomed these commitments and encouraged more disclosure of how they measure impacts and progress.

Verdict

Despite being a sector leader and open to engagement, Shell’s climate plans still fall short of alignment with a 1.5C scenario and their resistance on key issues hinders progress. This led us to vote against their climate progress report and for the Follow This resolution on improved climate targets. They have proved willing to update their plans as the policy, regulatory and economic environments change, and stated that they see the current energy crisis as a tailwind for the transition, so we remain hopeful of continued improvements. We will also continue to engage on environmental stewardship issues, especially as nature loss comes to the fore of ESG conversations through the launch of Nature Action 100 and COP15 this year.

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: Sika AG	**Country:** Switzerland	**Sector:** Materials
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Climate Change	**Issue:** Net-Zero Strategy at Sika	
SDG: 13.2		

Background

Decarbonising the buildings and construction sector – responsible for almost 40% of global carbon emissions – will be integral to achieving a 1.5C aligned future. Sika is ideally positioned to support this drive through product reformulation and innovative technologies. Sika AG manufactures and sells speciality chemical-based products, with the majority of the company's revenue coming from the construction industry. The firm’s product line includes additives for concrete, sealants for roofing and flooring, waterproofing systems, as well as light-weighted components for the automotive and wind-generation industries.

Action

Our engagement with Sika has predominately focused on its journey towards lowering carbon emissions and its approach to product stewardship. In support of the former, Sika is pushing ahead with its assessment of Scope 3 emissions. First results, using FY21 data, are likely to be published within the coming months, informing their net zero roadmap and updated emissions reduction targets. The issuer plans to announce these on its Capital Markets Day in October.

With around 65% of products bought by Sika being petroleum-based chemicals, we pushed to company to commitment to a timeline to phase out fossil-based chemicals. Whilst Sika admitted this is still a long way off, R&D is going into alternative raw materials such as biowaste. Of the remaining 35% of purchased goods, the largest part is cement/cementitious products. A quick route to minimise emissions here is limiting the cement content. Sika is making headway on this, having reduced the clinker content in its mortars by around 30%.

Verdict

Sika continues to be open to engagement and our dialogue with the company is encouraging, particularly the work around Scope 3 assessments. The company is part of industry collaborations to develop a methodology to calculate carbon footprint of chemical products. Looking at the supplier landscape as it currently stands, this is not possible, though larger chemicals companies (especially in Europe) within the issuer’s supply chain are heading in the right direction. Sika is a sustainability leader within its field, through both the management of its own environmental impacts and its product offering. Its upcoming commitment to SBTi along with the publication of its net-zero roadmap will further bolster this claim.

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	2.1	End hunger and ensure access to safe and nutritious food
SDG2	2.2	End all forms of malnutrition, particularly for children and women
SDG2	2.c	Reduce food price volatility from commodity markets
SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
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	6.3	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
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	8.6	Reduce the proportion of youth not in employment or education
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	10.1	Achieve a higher rate of income growth for the bottom 40%
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.3	Ensure equal opportunity and legislation for all
SDG11	11.4	Strengthen efforts to safeguard the world's natural heritage
SDG11	11.5	Reduce social and economic losses caused by disasters

Appendix (continued)

SDG	Target	Target Summary
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
SDG12	12.c	Removal of market distortions such as fossil-fuel subsidies
SDG13	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
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	15.8	Reduce impact of invasive species on land and water ecosystems
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