Shropshire County Council

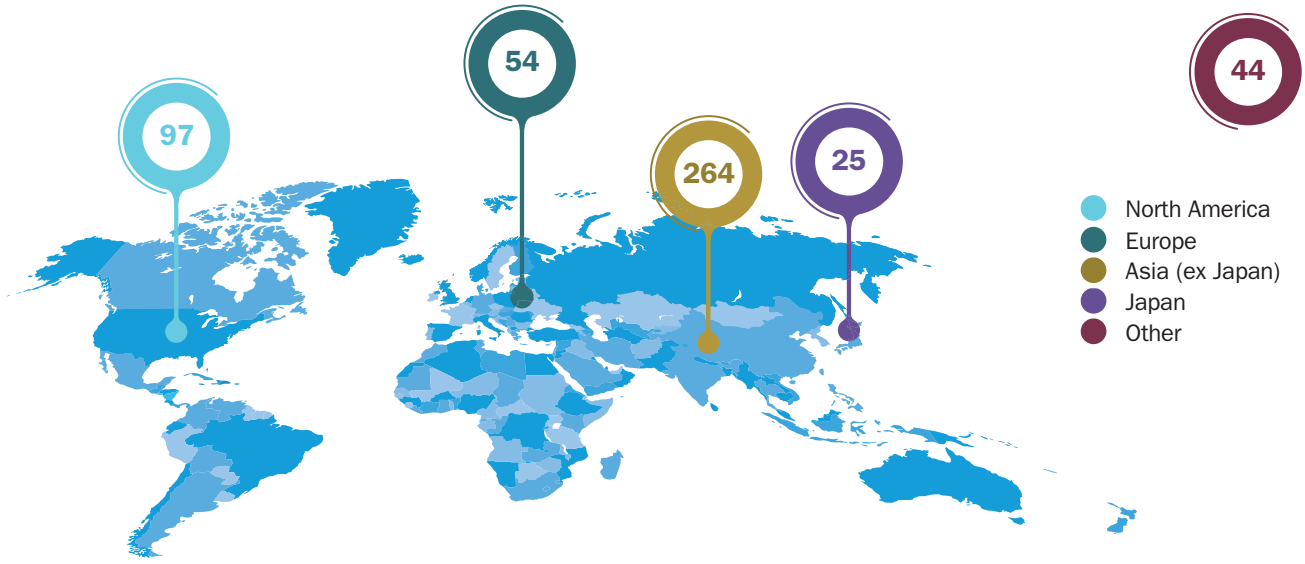
Q2 2023

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.

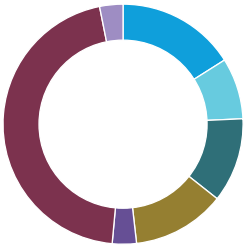
Engagement this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
590	484	23	38

Companies engaged by region



Engagement by theme *



Climate Change	138
Environmental Stewardship	71
Human Rights	98
Labour Standards	108
Public Health	28
Corporate Governance	391
Business Conduct	27

Milestones achieved by theme

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

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

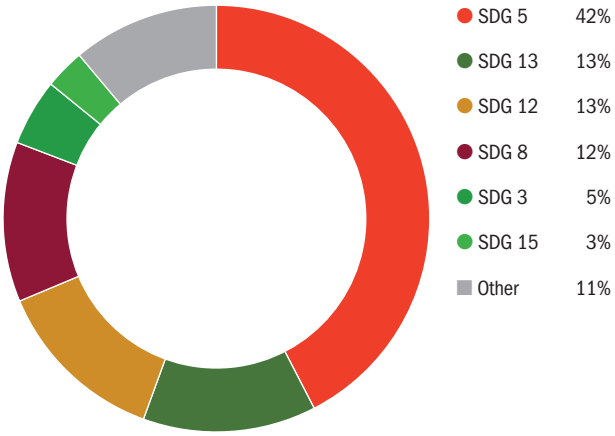
COLUMBIA THREADNEEDLE INVESTMENTS

Engagements and Sustainable Development Goals (SDGs)

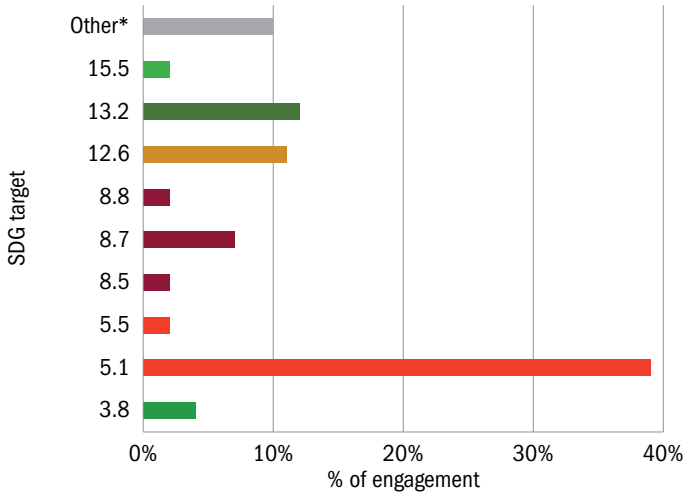
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

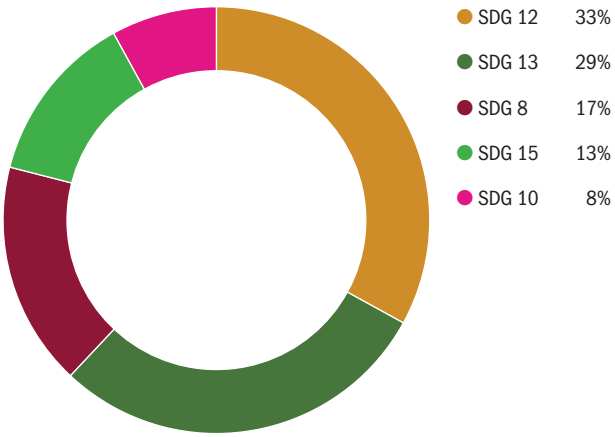
Engagement: SDG level



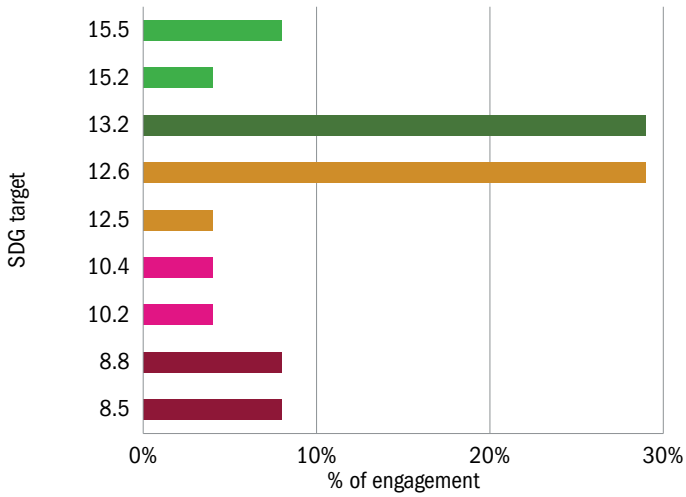
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: CoStar Group Inc | **Country:** United States | **Sector:** Information Technology

Priority Company: - | **ESG Risk Rating:** | **Response to engagement:** Good

Theme: Climate Change, Corporate Governance | **Issue:** Value found in pre-Annual General Meeting engagement

SDG:  13.2

Background

CoStar is a US based company within the professional services industry. We reached out to the company ahead of the AGM to discuss the company's board composition, as we consider them to have excessive tenure with an average board tenure of 16 years vs our threshold of 13 years. Their last director was added in 2019. The company also received a shareholder proposal on adopting GHG emissions reduction targets aligned with Paris Agreement Goals – we discussed their approach to addressing the concerns raised by the proponent.

Action

The company emphasized they are looking to add new directors as well as update the mandates of the Gov. Committee by adding more responsibilities and incorporating an additional level of scrutiny , a gap analysis on skills, when assessing the board quality to inform their board refreshment. Regarding the shareholder proposal, while the company had begun its first steps in disclosing on climate risk mitigation, as it released its first emissions report in February and added ESG responsibilities to the board in December, we expressed that given their lack of reduction targets (failing our Net Zero Model expectations), they lag their peers. The company noted they were likely to move towards setting targets—the ask of the proposal—but also expressed hesitancies. We underscored that companies should improve their public disclosure and strategy setting in relation to climate change in a timely manner and signaled we would likely support the proposal.

Verdict

Two days after our engagement, the company signed a public commitment letter to set near term and long-term science-based greenhouse gas emission reduction targets in accordance with Science Based Targets Initiative (SBTi). We believe the company demonstrated receptivity to our feedback on climate risk disclosure in subsequently signing the SBTi commitment letter. After our dialogue with the company, we voted against two heavily tenured directors, one serving CoStar for 36 years and another serving CoStar for 21 years, as they also lead two key committees. We will continue to monitor the evolution of the board composition and the mandates of the Gov. Committee.

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: Kansai Electric Power Co Inc/The	**Country:** Japan	**Sector:** Utilities
Priority Company: ✔	**ESG Risk Rating:**	**Response to engagement:** Adequate
Theme: Climate Change	**Issue:** Engaging on an uncertain Japanese low carbon transition	
SDG:  13.1		

Background

In February 2021, Japan's Kansai Electric published a zero carbon vision, highlighting high-level supply and demand-side actions they would take to reduce GHG emissions. They followed this in March 2022 with a zero carbon roadmap with more detail on their efforts to support the Japanese government's 2050 carbon neutrality goal. This included a target to reduce Scope 1 emissions from their domestic operations by 50% by 2025 vs 2013 levels, and to increase installed capacity of renewable energy by 50% to 6million kW.

Action

We engaged with the company most recently in June 2023 to seek more information on the implementation of their zero carbon roadmap. While they have made good progress on their Scope 1 emissions reduction target with a 48% decrease by FY22, we highlighted areas for further improvement such as expanding the scope to cover all global operations, beyond just Japan, as well as to cover CO_2-equivalents instead of just CO_2 emissions. Although their target is currently aligned with the government's commitment, we encouraged the baseline year to be updated in order to increase its ambition. The company also stated that they would consider setting a science-based target. Regarding their decarbonisation strategy, they have entered into MoUs and feasibility studies with several companies to test the technical and economic feasibility of producing and importing hydrogen and ammonia to use in co-firing at domestic gas and coal-fired power plants. We discussed the estimated costs associated with power generation using these technologies, and how they are assessing the life-cycle emissions. They are also exploring carbon capture, usage and storage, and we discussed how they are looking to overcome the limited domestic storage sites, and the costs associated with offshore and overseas storage options.

Verdict

It has been difficult to get access to the company historically, however the company has responded positively to recent engagements with us. Significant uncertainty remains regarding their decarbonisation strategy, and particularly the apparent reliance of their strategy on imports of ammonia and hydrogen to co-fire into existing coal and gas-fired power plants. We followed up with the company to further encourage them in setting a science-based target. We also requested additional transparency into the outcomes of their feasibility studies. We will monitor future updates on their emissions reduction targets and decarbonisation strategy.

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: Mitsubishi UFJ Financial Group Inc	**Country:** Japan	**Sector:** Financials
Priority Company: -	**ESG Risk Rating:**	**Response to engagement:** Good
Theme: Climate Change	**Issue:** Including client engagement in effective climate risk management	
SDG:  13.2		

Background

In May 2021, the Japanese banking group MUFG announced their Carbon Neutrality Declaration, and followed this in June as the first Japanese bank to join the Net Zero Banking Alliance (NZBA). In April 2022, the company published a progress report which included an updated fossil fuel lending policy prohibiting financing to new thermal coal mining projects, a coal power corporate financing phase out by 2040, and 2030 financed emissions targets for the power and oil and gas sectors. These are positive steps, but we believe there are further areas for improvement as they start to implement these commitments.

Action

We engaged several times with the company in 2022 on a range of issues including climate risk management, biodiversity, and corporate governance. These included individual meetings, and collaborative engagements through our involvement in the Asian Corporate Governance Association and Asia Research & Engagement. We have had two meetings with MUFG on climate risks since the start of this year. In April 2023, the company expanded their financed emissions targets to cover commercial and residential real estate, shipping and steel, and expect 70% of their loan book to be covered by targets by June 2024. They also noted that they will enhance their climate risk management and disclose more information on their client engagement. Through our engagements we have sought information on their approach to setting financed emissions targets, and their fossil fuel lending policies. Our engagement has also focused on the implementation of these targets. This includes further understanding of how they assess the credibility of their clients' transition plans as they develop a transition finance framework, further information on their client engagement and expectations they have for clients regarding climate risks, and additional transparency on the ESG component of their executive remuneration.

Verdict

MUFG have responded well to both our private and collaborative engagements, making important improvements in their disclosure and climate risk management policies. However, they do not currently have thermal coal mining phase-out or financed emissions targets, which we will continue to engage with them on. They assess their exposure to high transition risk sectors, as part of their climate risk management framework, and we will encourage them to include an assessment of their client's management of transition risk within this. We will also continue to engage with them on their environmental & social policy and risk management framework.

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: PepsiCo Inc | **Country:** United States | **Sector:** Consumer Staples

Priority Company: - | **ESG Risk Rating:** | **Response to engagement:** Good

Theme: Labour Standards | **Issue:** Addressing child labour risk in Pepsi's supply chains

SDG: 8.8, 8.7

Background

Pepsi, headquartered in New York, is one of the world's largest snacks and beverage companies. Aside from its eponymous cola, it owns a portfolio of well-known brands including Mountain Dew, Lay's, and Doritos. In February, the New York Times reported that migrant children had been working in US factories run by Hearthside - one of Pepsi's suppliers - allegedly working long hours, overnight shifts, and being exposed to hazardous conditions. Outsourcing of labour is widespread in food manufacturing, with companies relying on agencies to match workforce size with production demand. This flexibility can result in reduced visibility of processes to ensure legal compliance and responsible recruitment. In 2022, the US saw a 37% rise of child labour violations, reinforcing the importance of companies conducting due diligence along their value chains and frequently monitoring all markets, even those previously considered lower risk. Labour within both their direct operations as well as their suppliers should be included in this assessment.

Action

We wrote to Pepsi to express our concerns and requested a dialogue to understand the company's reaction to the case, the remediation efforts focused on the underage individuals involved, and the strengthening of due diligence processes to avoid a reoccurrence. In our dialogue with the Head of Human Rights, it was explained that the factory in question had been audited for several years but without indication of this type of risk. Pepsi also reported that Hearthside was unable to provide individual remediation as the individuals in question had not returned to the site. This highlights the importance of readiness to act quickly when cases are identified in order to provide victim-focussed remediation.

Verdict

Labour provision into supplier factories had not received sufficient scrutiny at Pepsi, despite a robust governance structure for labour standards in both operations and supply chain, as well as third-party labour providers being explicitly in scope of supplier policies. This highlights the need for a regular examination of the shifting risk landscape, as well as the need to challenge assumptions and test operational readiness. We believe Pepsi has taken concrete steps to mitigate risk, including revising policies to mandate stronger age verification during recruitment. The sustainability team has also engaged the procurement function to assess the link between short lead times and the risk of quick recruitment without necessary checks.

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: TotalEnergies SE **Country:** France **Sector:** Energy

Priority Company: - **ESG Risk Rating:** **Response to engagement:** Good

Theme: Climate Change, Environmental Stewardship **Issue:** Engaging holistically on the climate-nature nexus

SDG: 13.2 15.5 7.2

Background

The French energy company Total was one of the first in the oil and gas sector to set a scope 3 target in 2020. They remain a global leader, although their strategy can seem unclear at times due to an apparent "two speed" approach between European operations and the rest of the world. We believe their approach still has room for improvement, as highlighted below.

Action

We have engaged the company bilaterally and through CA100+, and they have gradually improved the clarity of their reporting on their future energy mix and forecast capex across green and brown assets, in line with our engagement. The company's approach touches all of the constituent parts of our proprietary net zero model, showing a strong foundation. Total upgraded their interim targets earlier in 2023: · Improved 2025 scope 1, 2 and 3 intensity reduction target to 15% from 10%, and 2030 target to 25% from 20% · Upgraded targets to reduce scope 3 emissions from oil sales by 30% by 2025 and 40% by 2030 · Maintaining scope 3 total emissions at <400 mt in 2025 and 2030 Despite these improvements their strategy is still misaligned with a 1.5C scenario, primarily due to the absence of significant absolute emissions reductions. Carbon Tracker, an energy focused financial thinktank, has highlighted several projects that Total are supporting which are misaligned with even a 2.5C scenario, such as their oil and gas expansions in Uganda, Angola and Norway. We also engaged the company specifically on their project in Uganda, highlighting the reputational importance of living up to their claims around community engagement and biodiversity protection. In addition, Total's plans to significantly scale up Nature Based Solutions (NBS) is a concern due to questions around their permanence and additionality as well as the reputational risks from accusations of land grabbing for some projects.

Verdict

Despite clear disclosure on where the company intends to be in 2030, Total is misaligned with a 1.5C path and were the subject of a case brought under the French Duty of Vigilance law regarding the EACOP (East African Crude Oil Pipe Line) project. Based on their plans to increase gas production, we expect Total to become the largest EU hydrocarbon producer by 2030. With their low carbon capex projected to be a third of their total spending by 2030, they lag peers including bp, Shell and Equinor, who all aim for 50%. We will continue to engage Total to encourage capex alignment and consistency between their actions in Europe and elsewhere, as well as on ensuring their NBS plans are implemented responsibly from a climate, nature and community perspective.

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Engagement case studies

Company: Volkswagen AG	**Country:** Germany	**Sector:** Consumer Discretionary
Priority Company: ✔	**ESG Risk Rating:**	**Response to engagement:** Adequate
Theme: Climate Change	**Issue:** Shining a light on climate change lobbying disclosures	
SDG:  13.2		

Background

Germany's Volkswagen (VW) is the largest automotive company globally, with significant influence on automotive climate policy, especially in Europe. However, VW has been very reluctant to provide investors with more transparency on its positioning on public policies, and its lobbying on climate related policies directly and through industry associations. Many peers have published lobbying reports, including General Motors, Ford, Mercedes, BMW, Volvo and Toyota. This lack of transparency is especially concerning given the role that the Porsche CEO and Volkswagen Chairman played in successfully advocating for an e-fuel exemption in the EU's 2035 combustion engine ban.

Action

We have engaged the company bilaterally and through CA100+ on this topic since 2019. In 2022 we sent a letter to the company together with the other CA100+ co-leads to flag that we would seek escalatory action if the company did not begin to demonstrate progress on this topic. Towards the end of 2022 and 2023 we had a series of calls with investor relations and the external affairs team. We reviewed early drafts of the company's lobbying disclosures, and due to our concerns with the level of detail, we sent an email to the Chairman to clearly articulate our expectations. We had another call in Q2 2023 in which we discussed updates to the draft report that VW would make to better align with our expectations, and to encourage them to publish the report well in advance of the AGM. As VW could not commit to publishing the report before the AGM, and we have experienced the company over-promising and under-delivering in the past, we escalated our engagement by choosing to vote against several items on the company's ballot, including the Actions of the Board of Management, Actions of the members of the Supervisory Board and Re-election of members of the Supervisory Board.

Verdict

With just two days before the AGM, VW did in fact publish its Association Climate Review 2023. This report is the joint-highest rated automotive company lobbying report assessed by InfluenceMap (the climate-lobbying focused NGO). We welcomed this report and believe that our close work with VW's external affairs team delivered a marked improvement in its quality. Although VW has an especially developed method to assess industry association alignment vs its peers, we have still identified several areas for improvement such as evaluating their direct lobbying, and appraising more industry associations and rating associations on their activities (rather than stated positions). We will continue engaging with the company to secure these improvements.

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	3.8	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	6.3	Improve water quality by reducing pollution
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	8.5	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	9.1	Develop resilient and sustainable infrastructure
SDG9	9.4	Upgrade and retrofit industries to increase sustainability
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.3	Ensure equal opportunity and legislation for all
SDG10	10.4	Adopt policies to progressively achieve greater equality
SDG10	10.7	Facilitate safe migration through managed policies
SDG10	10.a	Implement the WTO's special rights provisions
SDG11	11.1	Ensure universal access to safe and affordable housing
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

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
SDG13	13.a	Address climate change mitigation for developing countries
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
SDG16	16.5	Reduce corruption and bribery in all their forms
SDG16	16.6	Develop effective, accountable and transparent institutions
SDG16	16.10	Ensure public access to information and protect fundamental freedoms
SDG16	16.b	Promote non-discrimination laws for sustainable development