Shropshire County Council

Q2 2025

The purpose of the ***reo***® (responsible engagement overlay) service is to engage with companies through constructive interactions about environmental, social and governance (ESG) practices that could have a material impact on financial results. The ***reo***® approach focuses on enhancing long-term investment performance by helping companies ensure continuity in business operations and supply chains and maintain their reputation and social licence to operate.

Companies engaged this quarter *

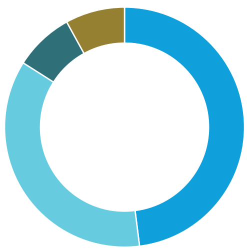
Engagement	Companies Engaged	Milestones achieved	Countries covered
161	122	25	18

Companies engaged by region

Engagement by theme

Climate Change	69
Environmental Stewardship	41
Human Rights	23
Labour Standards	28
Corporate Governance	78
Business Conduct	29

Milestones achieved by theme



Climate Change	12
Environmental Stewardship	9
Labour Standards	2
Corporate Governance	2

* Companies may have been engaged on multiple issues. Data reflects all engagements recorded during the period. Any additional engagements will be recorded in the following quarter's report.

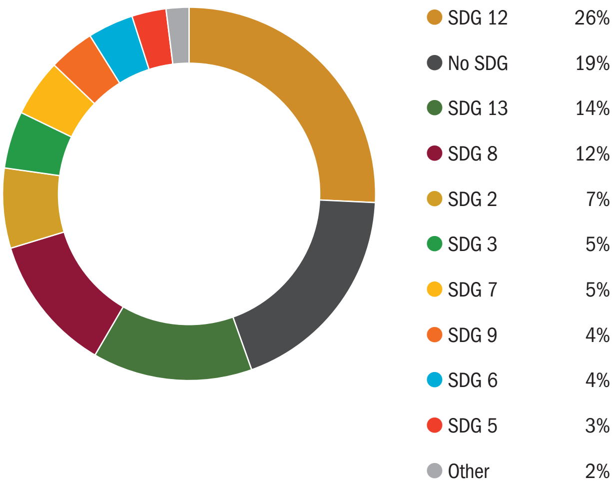
COLUMBIA THREADNEEDLE INVESTMENTS

Engagements and Sustainable Development Goals (SDGs)

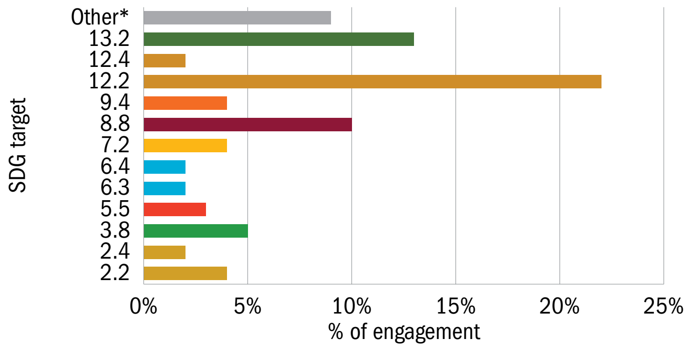
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy.

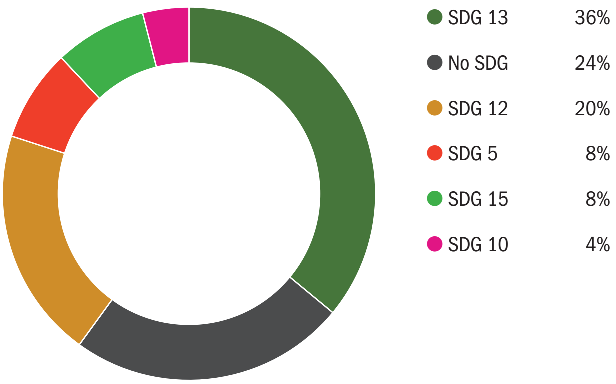
Engagement: SDG level



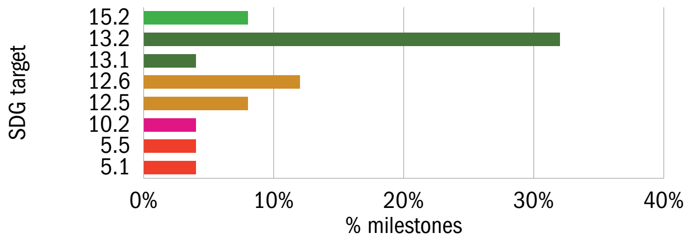
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Chevron Corp	**Mailing Country:** United States	**Sector:** Energy
Priority Company: ✔	**ESG Risk Rating:**	**Response to Prior Engagement:** Good
Theme: Climate Change, Corporate Governance	**Engagement Case Study Name:** Addressing concerns through enhanced governance and sustainability oversight	
SDG: 13.2		

Background

Chevron is one of the world's largest integrated energy companies, operating across the entire oil and gas value chain from exploration and production to refining and retail distribution. The company faced three significant shareholder proposals concerning human rights, anti-Net Zero Emissions (NZE) scenario planning, and special meeting threshold requirements. The company's approach to these proposals reflected broader challenges in balancing traditional energy operations with evolving environmental and social expectations. The human rights proposal highlighted the need for enhanced oversight and disclosure, while the anti-NZE scenario proposal demonstrated ongoing tensions between climate commitments and operational strategy. The governance proposal regarding special meeting threshold represented continuing shareholder interest in strengthening accountability mechanisms.

Action

We engaged with management to discuss these proposals, examining each systematically. Regarding human rights, the company demonstrated that they have codified board oversight and implemented a strong human rights policy integrated into their Enterprise Risk Management process. On the anti-NZE scenario proposal, our analysis indicated that the proponent misunderstood the company's usage of scenario planning in their strategy development. The company's 15% special meeting threshold was found to be aligned with, or better than strategic peers. Management also addressed compensation matters, explaining increased perquisites due to executive security needs, particularly following specific incidents like protests at their Oakland facility in January 2024. The company maintained strong pay-versus-performance ratio metrics.

Verdict

The engagement revealed Chevron's methodical approach to addressing shareholder concerns through enhanced governance frameworks and operational oversight. Their human rights policy integration and board-level oversight demonstrate commitment to systematic risk management. While some shareholders may desire more aggressive climate action, the company's approach to scenario planning appears well-reasoned within their operational context. The strong pay-performance alignment and justified security-related compensation adjustments indicate appropriate board oversight of executive compensation.

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: Microsoft Corp	**Mailing Country:** United States	**Sector:** Information Technology
Priority Company: ✔	**ESG Risk Rating:**	**Response to Prior Engagement:** Good
Theme: Human Rights	**Engagement Case Study Name:** Balancing AI innovation with responsible governance, healthcare transformation	
SDG: 3.8		

Background

Microsoft is addressing two critical priorities in the healthcare AI landscape: implementing robust AI governance while advancing healthcare innovation through their commercial cloud platform. On the governance front, they maintain comprehensive oversight frameworks for sensitive technologies, with accountability at the executive level under President Brad Smith. Their responsible AI approach was recently validated when an independent third-party human rights expert confirmed their internal investigation finding no evidence of Microsoft cloud offerings being used in Gaza surveillance operations. Simultaneously, they are tackling the healthcare knowledge explosion challenge—where medical information doubles every 73 days, exceeding human cognitive capacity—by positioning their commercial cloud platform with specialized AI solutions to improve workflow efficiency and clinical decision support.

Action

Our engagement focused on Microsoft's approach to healthcare AI innovation and governance. The company maintains strict controls over AI deployment, particularly in sensitive contexts, with mandatory impact assessments and enhanced scrutiny for sensitive use cases. In healthcare specifically, they are enhancing their cloud platform with specialized solutions, notably through the Dragon acquisition for ambient clinical documentation. This technology directly addresses frontline healthcare worker productivity challenges by automating clinical note-taking and evidence summarization, allowing providers to spend more time with patients. Their differentiated approach combines broad cloud capabilities with industry-specific solutions, positioning them within our "AI in Healthcare: Workflow Efficiency" and "Clinical Decision Support" investment categories. The company remains committed to responsible AI deployment while addressing both clinical outcomes and sustainability goals.

Verdict

Microsoft balances healthcare AI innovation with responsible governance. Their investments in ambient clinical intelligence and workflow automation align with our view that AI will increasingly support healthcare, potentially improving diagnostics and reducing administrative burdens. The Dragon Copilot solution fits our near-term focus on workflow efficiency. The company's proactive governance frameworks and transparent handling of sensitive issues indicate effective management of both opportunities and risks in AI deployment. Their approach aligns with our investment framework's emphasis on solutions that integrate validated AI into existing healthcare workflows while ensuring regulatory compliance and measurable outcomes.

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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Engagement case studies

Company: Nomura Holdings Inc

Mailing Country: Japan

Sector: Financials

Priority Company: ✔

ESG Risk Rating:

Response to Prior Engagement: Adequate

Theme: Labour Standards

Engagement Case Study Name: Balancing entrepreneurial culture with robust risk management frameworks

SDG: 8.8 8.7

Background

Nomura is a global financial services group headquartered in Tokyo, with a significant presence in Asia, Europe, and the Americas. In our view, Nomura's entrepreneurial culture is central to achieving their business objectives but their approach to risk management and cultural alignment appears more reactive than strategic. While they have implemented comprehensive control frameworks - including dual employee rating systems, conduct committees, and enhanced monitoring - there is less evidence of fundamental cultural transformation that would prevent future issues. The emphasis on monitoring and compliance, while necessary, suggests they are still working to find the right balance between their entrepreneurial DNA and robust risk management, particularly following recent cybersecurity incidents. We met with them to discuss their culture and risk management.

Action

The company has implemented a dual rating system for employees combining performance and ELCC (Ethics, Leadership, Conduct and Compliance) ratings from A-E, with low ratings negatively impacting compensation and promotion. They've enhanced hiring practices with specific conduct/compliance questionnaires and strengthened first-line supervision following previous conduct incidents. Regarding the recent cybersecurity incident, Nomura's online brokerage accounts were compromised through sophisticated phishing attacks (the company has since made two-factor authentication mandatory). While initially resistant to compensation for customer losses, they are now working with the Japanese Securities Dealers Association to determine appropriate remediation.

Verdict

While Nomura has made substantial improvements in their risk management frameworks, we would welcome more concrete evidence that their risk mitigation culture has changed. While structural elements exist (eg whistleblowing channels or conduct reviews), there is limited evidence that these are creating lasting behavioural change, particularly in high-risk areas like wealth management which had previous issues. The key challenge remains integrating risk and compliance frameworks into their entrepreneurial culture in a way that feels authentic rather than imposed. If they continue to demonstrate consistency and operate without further incidents whilst showing sustained adherence to their improve risk frameworks, we may review our verdict.

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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Engagement case studies

Company: Pfizer Inc	**Mailing Country:** United States	**Sector:** Health Care
Priority Company: ✔	**ESG Risk Rating:**	**Response to Prior Engagement:** Adequate
Theme: Corporate Governance	**Engagement Case Study Name:** Navigating compensation and board diversity during strategic transition	
SDG: 5.5, 12.2		

Background

Pfizer is one of the world's largest pharmaceutical companies, with global operations in over 125 countries. The company's compensation committee made significant modifications to in-cycle Long-Term Incentive (LTI) awards in July 2024, extending vesting periods and performance periods for Performance Share Awards (PSAs) and 5-year Total Shareholder Return Units (TSRUs) by two years. These modifications affected approximately 9,000 employees and were implemented after zero payouts of 2021 performance shares and 2019 TSRUs. The changes were particularly notable as they occurred amid challenging market conditions and strategic repositioning. Additionally, the company's board gender diversity declined from 30% to 18% following Helen Hobbs' retirement, raising concerns about board composition and succession planning.

Action

We engaged with Pfizer to understand more. The company explained that the compensation modifications were necessary to address retention challenges, as they were seeing issues with zero payouts affecting multiple award cycles. The changes were made after two awards paid out at zero, with expectations that 2022 and 2023 awards would also likely settle at zero without intervention. To strengthen board composition, two male directors with financial expertise were added, though the company acknowledges the gender diversity gap created by these appointments.

Verdict

While Pfizer's compensation modifications represent an unusual step in adjusting in-cycle awards, the company provided clear rationale linked to retention challenges and business circumstances. However, the decline in board gender diversity remains a concern that requires attention in future appointments, while keeping the required skills mix in mind. Continued monitoring of both compensation practices and board diversity will be important for ensuring long-term governance effectiveness.

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: Smurfit WestRock PLC	**Mailing Country:** Ireland	**Sector:** Materials
Priority Company: ✔	**ESG Risk Rating:**	**Response to Prior Engagement:**
Theme: Climate Change, Environmental Stewardship	**Engagement Case Study Name:** Progress on sustainability integration post-merger while addressing disclosure	
SDG: 15.5 13.2		

Background

Smurfit Westrock is one of the world's largest paper-based packaging manufacturers. The company continues to show signs of improving the quality of legacy Westrock assets. The rationalization of the portfolio is positive from both a financial and sustainability perspective, with less efficient, older, and more emitting assets being divested. The company continues to see good internal rate of return from decarbonization projects, and customer demand for sustainable packaging shows no signs of slowing down. The company focuses on decarbonization projects that have a clear business case. Major structural changes include closure of facilities in the US (500,000 tons of containerboard capacity reduction), Mexico, and Netherlands (total c600,000 tons) - this helps reduce emissions on an absolute basis, and should be supportive of EVIC carbon intensity coming down.

Action

We engaged with the Head of Sustainability to discuss progress in integrating sustainability across both legacy businesses. The company expects to publish new sustainability targets by the end of 2024, including a new SBTi verified climate target. The integration of sustainability data systems is ongoing, with challenges around different metrics between legacy companies. Their climate scenario analysis project commenced in 2024 across all sites, with additional climate risk modelling expected in 2025. Smurfit is working with a consultancy to combine physical risks with a Natural Catastrophe overview to quantify risk increase, and use it to understand the payback period for adaptation actions. Smurfit is also working on water risk assessment using the Aqueduct tool combined with weather research and forecasting models, with plans to extend this to all Westrock mills. They are aiming to develop TNFD disclosures in 2026 to report in 2027, with 2025 focused on combining data systems and developing company-wide sustainability targets.

Verdict

While Smurfit is making progress in integrating sustainability, some areas require continued monitoring. The company has demonstrated meaningful progress in addressing both product safety and supply chain challenges, though economic constraints continue to influence the pace of decarbonization in the US market. Their approach to sustainability reporting shows promise, with plans for combined TCFD/TNFD reporting. We will continue to monitor the development of their TNFD disclosures and the implementation of their combined sustainability targets.

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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
SDG2	2.4	Implement climate-resilient and sustainable food production
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	6.4	Increase water-use efficiency to address water scarcity
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	8.8	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
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
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG16	16.6	Develop effective, accountable and transparent institutions