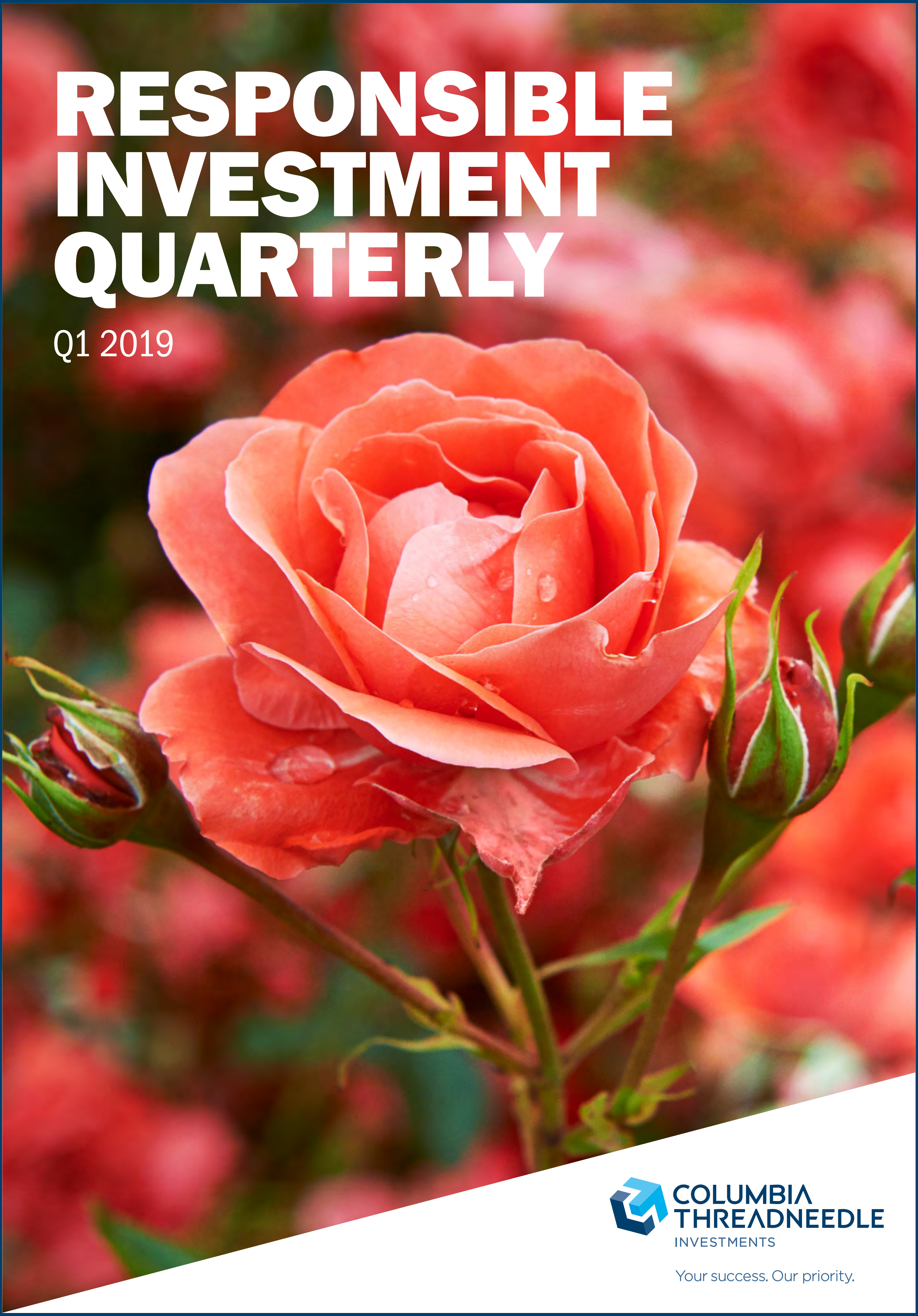
RESPONSIBLE INVESTMENT QUARTERLY

Q1 2019



COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

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01 Foreword

Iain Richards
Head of Responsible Investment

The first quarter of the year is a time to prepare for the year ahead, refining plans to address strategic priorities and allocating resource to ensure we are well positioned to execute on these. In March, we launched our own RI ratings system that harnesses our company's data science and technology capabilities to provide a forward-looking rating that combines an assessment of a company's financial stewardship with a view on how well it manages its environmental, social and governance risks. Our equity portfolio management teams have been using the tool since late 2018 and it is being rolled out to our fixed income investment teams during the course of this year.

We have also had one eye firmly fixed on the fast-developing backdrop provided by the European Commission's Sustainable Finance Package. The draft proposals emanating from the European Commission foreshadow significant reform. At the core, there is a welcome acceleration for the consideration in investment practice of issuers' environmental, social and governance risk performance, but there is plenty more besides. Funds marketed in Europe and aligned to the specific delivery of environmental objectives appear likely to be subject to increased levels of scrutiny. Managers of mainstream funds meanwhile may find their performance benchmarked to ESG-adjusted indices. Given that the impact has potential to be as broad and significant as that introduced under MIFID II, we continue to monitor the situation extremely closely to ensure we are ready to react to the final recommendations given that they appear likely to materialise in the form of Delegated Acts.

Client interest in ESG continues to grow rapidly at the same time and notwithstanding the potential impact of the EU agenda we remain focused on helping all our clients, old and new alike, to implement solutions to meet their particular needs in responsible investment. Our response to the annual member survey of the UN PRI provides an opportunity for us to effect a 'stocktake' of our activities and review what constitutes current and emerging best practice in responsible investment. This year's survey has been no less exhaustive than those gone by but, by keeping our heads up and maintaining focus on supporting our clients in achieving their objectives, we ensure that our overall investment process remains robust.

National and regional developments continue as well. Whilst the UK's Prudential Regulation Authority (which oversees banks and insurers) has recently become the first regulator globally to publish a supervisory statement on climate risk for consideration, the Benelux region remains a notable centre for responsible investment activity. A summary note of recent events in the region, including as regards the issuance of sovereign green bonds, is provided later in this report.

Of course, other nations have moved to issue sovereign green bonds in recent years but many major economies are yet to do so. We can only hope that the increased focus on RI that is soon to fall across the EU will provide the sovereign green bond market the boost it so badly needs.

02 Portfolio Manager Viewpoint

Nicolas Janvier
Portfolio Manager,
US Equities

Ann Steele
Senior Portfolio Manager,
European Equities

Our proprietary responsible investment ratings is an innovative tool that combines ESG and financial stewardship data to create a single company rating for 5,500 listed equities globally. So how do our PMs use it?

How do the ratings help you analyse your portfolio/better research potential companies to invest?

Nicolas Janvier: The RI ratings represent another source of potential alpha. They help portfolio managers (PMs) and analysts to better focus on crucial responsible investing topics that need to be addressed when interacting with companies and their management teams. The back-testing that has been performed gives us confidence that the ratings will help us find those companies that are better positioned to deliver sustainable future cashflows.

Are there specific themes/issues in your portfolio, or in any given sectors, that you might pay closer attention to as a result of the ratings tool?

Nicolas Janvier: We approach RI from a holistic perspective and there are no specific issues of concern. Where the tool has been particularly useful is in giving us a greater understanding of a company before we speak to them, with particular regard to their carbon footprint among other risk factors.

For example, portfolio managers and analysts can now use the tool to quickly understand what a company's risk factors are and analyse its carbon footprint so that we can then prepare questions from a more informed standpoint.

The unique model combines financial stewardship with ESG factors to arrive at a single company rating between 1 and 5. Why do you think this combination is beneficial to the analysis of the companies you invest in/would like to invest in?

Nicolas Janvier: The 1-5 ratings scheme is consistent with our approach to both fundamental and quantitative ratings and is easily understood by PMs and analysts. Traditional models generally focus on one component, but our model incorporates all potential risk factors to the sustainability of future cashflows.

Will you be using the ratings as part of your risk management toolset going forward?

Nicolas Janvier: We have fully integrated the RI ratings into our approach to research and portfolio construction, and we think of ESG risk in the same way as we think of risk to the income statement or the balance sheet. We consider these risks to be part of the holistic analysis and understanding of the future direction of a business. Integration is key.

Ultimately, the RI ratings are an additional tool that allow me to perform my role more effectively, rather than differently. They give me a greater understanding of the risks as well as the knowledge and opportunity to drill down further to establish where a company's future cashflows might be going.

How do the ratings improve portfolio management?

Ann Steele: A company's financial sustainability is linked to the sustainability of its business model and the quality of its management.

RI ratings provide evidence of this – back-testing shows that better-rated companies outperform and worse-rated underperform. The ratings give us a consistent, detailed dataset to assess the quality and sustainability of the companies we hold. These concepts – quality and sustainability – lie at the heart of our approach. The logical and necessary evolution is to include RI factors in the analysis.

What is the particular advantage in the combined nature of the ratings – looking at both traditional ESG metrics and financial stewardship?

Ann Steele: The third-party ESG ratings originated in a vacuum and are not designed to help investment decision-making. Material ESG issues – the ones most likely to drive a share price – are often clouded by peripheral distractions or legacy controversies. They don't address the quality and prudence of accounting and capital management: these fall outside traditional ESG analysis but are key to the stewardship of a business.

By contrast, our RI ratings focus on the most material ESG issues as well as accounting and financial stewardship models. They use frameworks agreed by industry experts and supported by academic research; likely outcomes can be derived from robust back-testing.

Are there specific themes or issues which the ratings have highlighted to you?

Ann Steele: Climate-related risks are highlighted in more than 90% of the industry models within the RI ratings. We analyse complimentary data, for instance carbon emissions and water intensity, as this helps us optimise portfolio management, meeting clients' objectives, as well as helping us monitor and report to clients.

Will you use the ratings as part of a risk management toolset?

Ann Steele: The ratings help us in the risk discovery process. They are insightful not only for fund management but across other areas of our business, for instance portfolio and risk monitoring.

Clients and regulators are increasingly focused on this area, and there is an underlying dynamic at play. Sustainability-related risks increasingly shape economic reality. Investment firms with the awareness and information to anticipate them will be best placed for the future.

03 The future of food: eat or be eaten

Ben Kelly
Senior Thematic Analyst,
Responsible Investment

Jess Williams
Portfolio Analyst,
Responsible Investment

Key to Future Prosperity and Development

The food value chain is vital to the success of many economies, global financial markets, and sustainable development.

Thus UN Sustainable Development Goal 2, Zero Hunger, emphasises the importance of nutrition, food security and sustainable agriculture to global development and prosperity.[1] Whilst other goals also relate to food either directly such as 14, Life Below Water (which includes a focus on sustainable fishing), 3, Good Health and Wellbeing (given the rise of food-related non-communicable diseases) or indirectly such as goals 13 Climate Action, and 15, Life on Land (given the impact of global farming on emissions and forestry).

Figure 1: Food-aligned SDGs

Source: UN.

In terms of global GDP, the share from agriculture, forestry and fishing is relatively modest at 3.5% globally, but this masks a considerable range – for instance for low income countries this is over 25%.[2] When related areas such as food staples, retail and services are taken into account – the impact of the food value chain to the global economy is of course much greater.

This picture is similar for financial markets, which are not only impacted to food through asset classes such as Commodities but also through exposed areas within conventional asset classes. For instance, we estimate that around 7% of the most commonly used global equity index, the MSCI All Country World Index, are exposed to food related health and nutrition issues through their business models.[3]

Critically Challenged

Yet our food systems are facing fundamental changes and challenges on multiple fronts.

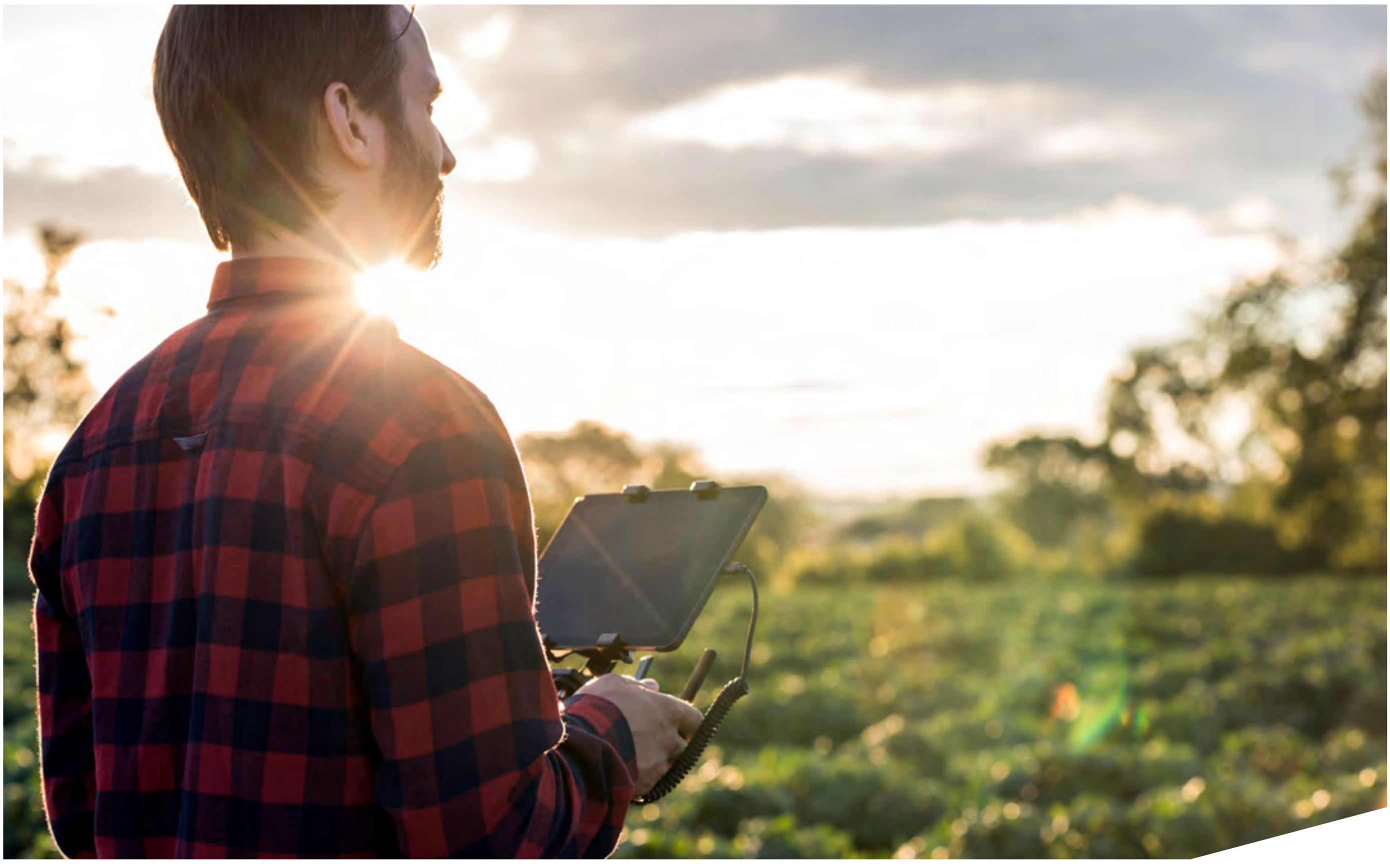
- **Climate change poses risks to global food and health:** In 2017 alone, climate-related disasters caused acute food insecurity for c.39 million people across 23 countries.[4]
- **Unsustainable past practices threaten the future:** Nearly 1/3 of fish stocks are overfished and 1/3 of freshwater fish species assessed are considered threatened.[5]
- **Demographic growth increases pressure:** it is expected that there will be around 10 billion people on the planet by 2050, around a 30% increase from today.[6]
- **The health impact of food is increasingly of concern:** one in eight adults are obese and 8.5% have diabetes.[7]

Given these challenges, there is a critical need for not only greater risk awareness, but innovation, and scaling up of alternative models and improved practices. We explore three of the challenges and solutions.

Sustainability Challenges

Current food systems are both threatened by and a threat to environmental shocks. For instance, it is estimated that at global warming of 1.5°C above pre-industrial levels (the most conservative and ‘best case’ estimate of future warming), 35 million people would be exposed to crop yield changes. At 3°C (increasingly seen a BAU scenario) this is expected to be 1.8 billion.[8]

Yet agriculture is exacerbating the problem. It is estimated that agriculture and land use has accounted for 24% of Global GHG emissions, and dairy & cattle around 40% of this total.[9] At a time of increasing drought risk, agriculture is also the largest consumer of the Earth’s available freshwater: 70% of “blue water” withdrawals from watercourses and groundwater are for agricultural usage.[10]



Technology & Innovation

Importantly, new models and techniques can help reduce the impact of agriculture on the environment – including those offered by investable companies.

One avenue is through the use of precision techniques: farm management based on observing, measuring and responding to conditions, with the goal of optimizing returns while preserving resources. Through offering these solutions, US firm Trimble helps improve farm yields by up to 30% whilst concurrently reducing water use by up to 20%.[11]

One new development addressing climate impact is from the Dutch company DSM, which has developed a feed additive for cows that reduces internal fermentation and hence their methane emissions by 30%.[12]

Despite the pockets of innovation within public markets, many of the news solutions are being developed by start-ups of varying size and focus. These range from Californian Indigo (a late stage Venture backed by The Investment Corporation of Dubai amongst others, developing crops capable of surviving climate change) to Small Robots Company (a small, UK based and equity crowdfunded firm aiming to replace much of the work done by tractors with a series of highly accurate, smart, lightweight robots).

Harnessing the potentially disruptive power of these private businesses – whether through investing in them or partnering with them – is an area which larger companies will need to explore. One example is Campbell Soup which has launched its own VC fund Acre Venture Partners, investing in new agricultural business models such as Inari – focused on developing climate resilient, less resource intensive, and more nutritious crops.

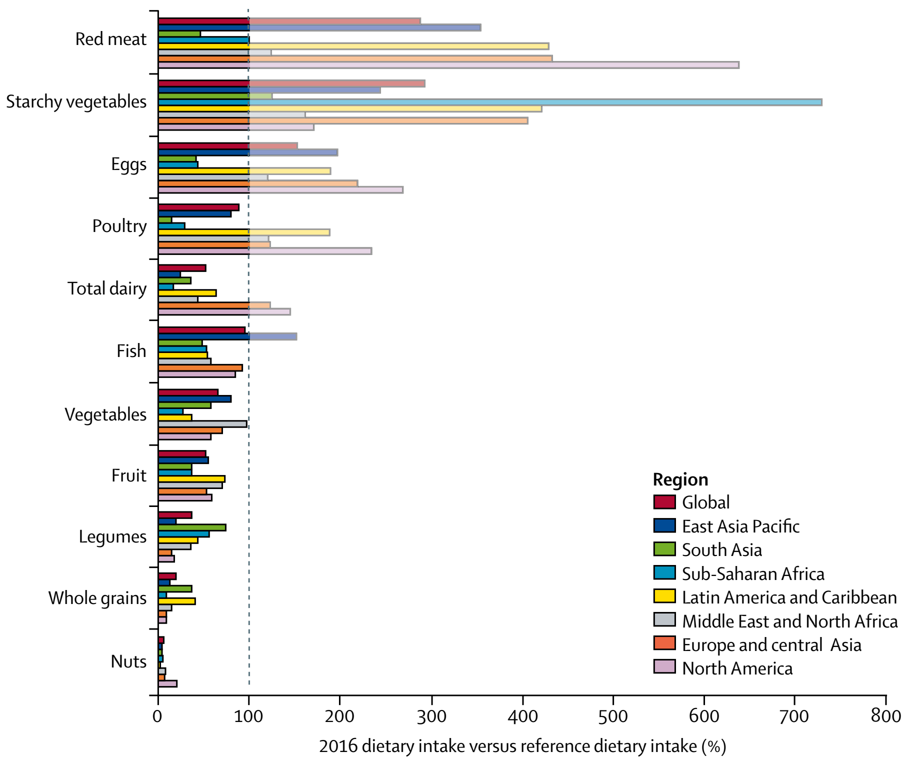
Health & Consumers

Another challenge faced by the food value chain, is around health and nutrition, and related shifts towards alternatives especially in developed markets.

For instance, greater understanding of the relationship between sugar consumption and lifestyle diseases – from obesity (now impacting one in eight adults) to diabetes (which has risen threefold over the past 15 years) – has catalysed a range of policy shifts and consumer demand for healthier alternatives.[13] Now 28 countries, across developed and emerging markets, have sugar taxes in place. Sugar is not the only area of focus, with growing concerns raised about the overconsumption of meat.

This was one of the key findings of the EAT-Lancet Commission on Food, Planet, & Health – formed of over 30 world-leading scientists, which quantitively describes a reference diet. The findings showed the need for a substantial increase in consumption foods such as vegetables, fruits, whole grains, and a decrease in consumption of red meat, sugar, and refined grains in order to provide major health benefits, and also increase the likelihood of attaining the Sustainable Development Goals. Strikingly, they found that globally meat consumption was over 2.5x the recommended amount, whilst in North America this was over 6x.[14]

Figure 2: Overconsumption: an issue in all geographies



Source: Food in the Anthropocene: the EAT-Lancet Commission on healthy diets from sustainable food systems.

Whilst demand for sugary products and red meat has persisted to date, the accelerating demand for alternatives is even more striking. For instance, plant-based food sales growth was 10x that of all food sales growth in 2018 in the US.[15] Whilst a recent survey the UK, 45% of shoppers were actively looking for healthy snacks and 41% want snacks with less sugar.[16]

This poses a risk for companies with less healthy product lines and portfolios, particularly in a digital era when the barriers to entry for insurgent brands are lower than ever. Yet some companies have responded proactively to these shifts. Unilever, for instance, has 26 sustainable living brands (which are healthier and/or more sustainable) which have delivered 70% of its recent sales growth. Examples include organic food and tea brands as well as their recent acquisition: The Vegetarian Butcher. Other interesting developments include the acquisition of WhiteWave by Danone – giving them access to plant-based alternatives – and even Amazon's diversification into healthier food retail through Wholefoods.

Here venturing has also been pursued as a strategy, especially by those with less healthy portfolios. For instance Coca-Cola has ventured into the company behind Dirty Lemon – a direct-to-consumer brand which offers premium functional drinks featuring ingredients such as turmeric, matcha and collagen.[17] Similarly General Mills has developed a venture arm 301 Inc, specifically identifying emerging brands usually with a specific health angle (such as plant-based meal and snack company Urban Remedy).[18]

Conclusion

As the impacts of climate change, natural resource constraints, health and new consumer demands, increase – companies will need to continue to innovate and adapt.

Harnessing new technologies, proactively looking for alternatives, and staying close to regulatory and consumer shifts will be increasingly critical for public companies.

We have identified some specific, investable opportunities with solutions to enhance the sustainability and health of our food systems. Mainstream financial markets can already play a role in supporting these as they seek to scale up, broadening their impact.

For established companies, however, these challenges are risks to business as usual. Some proactive companies are further ahead in mitigating these issues – and evolving products and practices which form part of the solution.

The question remains as to whether more traditional companies have the capacity to evolve at sufficient pace, and whether or not they will contribute towards the achievement of the UN SDGs by their 2030 deadline.

Sources:
1 https://sustainabledevelopment.un.org/sdg2
2 https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?year_high_desc=false
3 CTI 17 April 2019, drawing from data provided by MSCI ESG Research
4 World Economic Forum, Global Risk Report 2019
5 FAO report on Biodiversity, 2019
6 UN
7 WHO
8 FAO
9 IPCC. Barclays
10 https://www.globalagriculture.org/report-topics/water.html
11 https://www.trimble.com/Corporate/RCC/Our-Solutions.aspx
12 https://www.dsm.com/corporate/science/climate-energy/methane-reduction.html
13 WHO
14 https://www.thelancet.com/commissions/EAT
15 Sugar, fat, salt and Obesity HSBC, Feb 2019
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17 https://dirtylemon.com/
18 htps://www.foodbev.com/news/general-mills-301-inc-leads-17m-investment-urban-remedy/

04 Benelux – RI Spotlight

Jess Williams
Portfolio Analyst,
Responsible Investment

Prosper van Zanten
Head of Benelux

The Netherlands' plans to issue its inaugural sovereign green bond (expected May 2019) provide further underpinning, as if it was needed, for the longstanding interest in responsible investment across the Benelux region (Belgium, Netherlands, Luxembourg). That said, if local leaders are serious about maintaining this leadership position, now is not the time to be resting on laurels; with the EU's Technical Expert Group on Sustainable Finance due to publish its findings in the near future, the rest of the European bloc will soon be catching up.

History of Innovation

The Benelux region leads by example in terms of furthering its sustainable finance ambitions, having developed wide ranging practices. One of the most prominent innovations is the Luxembourg Green Exchange (LGX), launched in 2016. The LGX is a dedicated platform, launched and maintained by the Luxembourg Stock Exchange, for green securities that meet eligibility criteria closely aligned with ICMA's Green Bond Principles.[19] The Luxembourg Stock Exchange was the first listing authority globally to introduce such a platform for green financial instruments and now has an approximate 50% market share of listed green bonds.[20] In addition, the LGX has started an initiative to facilitate and streamline access to Chinese domestic green bonds listed on the Shanghai Stock Exchange or traded on the Chinese Interbank Market. This is a much-needed bridge; whilst the market has very different operating standards (most notably in terms of disclosure), it will nonetheless be a key player in achieving the ambitions of the Paris Agreement.

Sustainable Bonds

Companies registered in the Benelux region have (at the time of writing) issued over 60 labelled bonds (green, social or sustainable). Of these bonds, the majority are from Dutch issuers such as TenneT and NWB, respectively a transmission system operator focusing on renewables and a Bank particularly focusing on financing the Dutch water boards. In fact, the Netherlands was the 5th largest issuer of green bonds in 2018 issuing a total of $7.4 billion over the course of the year.[21] Belgium's existing sovereign green bond and the Netherlands' anticipated issuance in May 2019 will see the region account for two out of a global total of 11 sovereign green bonds (18% of the sovereign green bond universe) which is particularly remarkable given that the region accounts for only ~1.5% of global GDP.[22] Aside from its sovereign green bond, Belgium has also been a prominent issuer of sustainability bonds. Sustainability bonds are bonds that finance a mix of green and social projects. A notable Belgian issuer is The Flemish Community, a regional authority in Flanders, whose sustainability bonds aim to finance: energy efficiency in buildings, affordable housing, access to education and pollution prevention and control.

Labelling

A further innovation from Luxembourg is the LuxFlag suite of labels for financial products which provide the end consumer with assurance around the products' non-financial goals. Currently LuxFlag provides three accreditations: the ESG Label, the Microfinance label and the Climate Finance label. Febelfin, the Belgian federation of the financial sector, is also in the process of designing an ESG accreditation which is expected to launch in the Autumn of this year. The 'eco label' concept has been picked up by the EU in its sustainable finance action plan, where retail investors are again the center of attention.

Impact

The question of measuring the impact of investments is currently at the forefront of responsible investment. The central bank of the Netherlands, DNB, along with several large Dutch investors has developed a system for mapping impact indicators to the UN Sustainable Development Goals (SDGs). The indicators allow investors to assess how their investments and loans contribute to the SDGs and therefore start to gauge their impact, the end goal being to scale up sources of investment that deliver a measurable contribution to the SDGs. SDG impact mapping is a theme that we have also been focusing on at Columbia Threadneedle Investments where such analysis now forms part of our evaluation process in social bond strategies.

Microfinance

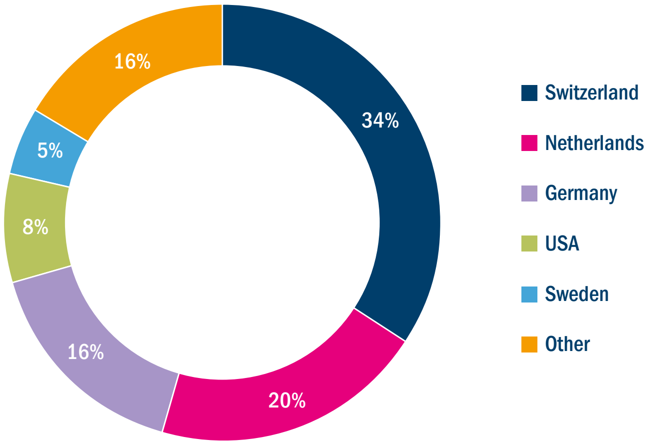
Outside of the traditional capital markets, the Benelux region is a major hub for inclusive finance. Over 20% of the market for Microfinance Investment Vehicles (MIVs)[23] is domiciled in the region. These MIVs act as a link between multilateral financial institutions, who on-lend funds to the end recipients, and the capital markets. Although still in its infancy, MIVs having emerged as a viable instrument only 15-20 years ago, the market looks set to grow substantially given the increasing interest in impact investing.

A blueprint for Europe?

With the EU Sustainable Finance action place high on the horizon, we believe that the Benelux region may soon face some stiff competition from other EU nations in terms of promoting responsible investment. That said, the commitment of the Benelux finance industry to fostering and growing responsible investment shows no signs of wavering, a recent example being the Dutch Pension Funds Agreement on Responsible Investment which was signed by over 70 pension funds with $1.4 trillion of assets in December 2018. We look forward to seeing what initiatives will emerge in the region in 2019.

Sources:
19 International Capital Markets Association
20 https://www.greenlit.lu/luxembourg-green-exchange/
21 https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf
22 Statista
23 http://www.impactinvestingguide.com/impact-investing-microfinance/

Figure 3: MIV % total assets



Source: Impact Investing Guide.

05 Vale's Brumadinho dam collapse – the tip of the tailings iceberg?

Olivia Watson
Senior Analyst,
Responsible Investment

The collapse of the tailings dam at Vale's Córrego de Feijão dam in Brumadinho, Brazil in January was a tragedy on a massive scale. As of April 2019, over 220 people have been confirmed to have been killed, and nearly 70 people are still missing following the collapse. Beyond the immense human toll, it is clearly concerning for Vale to experience such a significant disaster so close on the heels of the 2015 collapse of the dam at Samarco, which was operated as a joint venture between Vale and BHP.

The frequency of these disasters in Brazil, along with the tailings collapse at Mt. Polley in Canada in 2014, has placed a renewed spotlight among investors, companies, and civil society on the underlying risks which tailings dams present, particularly when they are located near to local populations and environmentally sensitive areas. The risks remain even where dams are no longer in active use, as was the case in Brumadinho, where Vale had applied for a license to decommission the facility.

There are estimated to be at least 3,500 active tailings dams around the world, as well as dormant facilities. The large number of legacy dams, built over the last century to contain mining wastes, have varying degrees of construction standards and record keeping surrounding their design and the environmental conditions at the time of their construction. Safety standards and disclosure are also variable.

These latent risks have been compounded by the increasing volumes of tailings being produced by the extractives industry – as remaining minerals and ores are becoming more difficult to extract, a larger quantity of tailings waste is produced, leading to more, and larger, dams. Climate change is expected to bring additional risks, as changes in rainfall may lead to less predictable conditions and changing water levels within the dams which may affect their stability.

Improved safety standards and disclosure are needed

In this context, we welcome the request, spearheaded by the Church of England Pensions Board and Sweden's Council on Ethics, to call for improved disclosure by extractives companies of the tailings facilities they operate or control. The proposed creation of a new, and independent, standard to assess tailings dam safety in the context of their location and the impact of a failure would also be a helpful development. The initial positive response from several large extractives companies has been welcome.

Although we have a relatively small exposure to the mining sector, we have reviewed our extractives holdings across equity and fixed income. Over the coming months we will be engaging with companies around their disclosures on tailings facilities and the steps companies are taking to ensure safety standards.

The Brumadinho case

In the aftermath of the dam collapse in Brumadinho, we spoke with Vale to understand more about their initial response to the disaster, including their emergency management response, their initial investigations, and the certification processes which the dam had undergone. We felt that the company's appointment of an independent expert committee to investigate the causes of the failure is a positive step. While we await the findings from the committee later this year, the reports in the media surrounding allegations as to the status of the dam and safety lapses are clearly of significant concern.

Vale plans to manage an increasing proportion of future tailings through dry processing, rather than tailings dams. This will reduce health, safety and environmental risks, but is not a sufficient measure given the large number of legacy dams that will remain.

We also took part in a collective investor call with Vale, and we welcomed the company's acknowledgement that significant governance and organisational changes will be needed to rebuild trust. The issues at Vale are compounded by the significant lack of independence on the board. A lack of independent scrutiny of safety measures adopted in the wake of Samarco may have contributed to the failure to foresee the disaster at Brumadinho.

In prior years we have voted against the re-election of non-executive directors whom are not independent. In 2019 we voted against the financial statements as a result of concern on the lack of adequate risk management and disclosure. The responsible investment team and relevant PMs and analysts will continue to monitor the investigation and to engage with the company on the results of the investigation and the actions it plans to take as a result. It will be important to continue to work alongside other investors, and we will continue to engage with the company collectively through the group investor dialogue facilitated by the PRI.

STEWARDSHIP IN ACTION

Columbia Threadneedle Investments views an integrated approach to stewardship as an integral part of its responsible approach to investment.

We vote actively at company meetings, applying our principles on a pragmatic basis. We view this as one of the most effective ways of signalling approval (or otherwise) of a company's governance, management, board and strategy. We classify a dissenting vote as being where a vote is cast against (or where we abstain/withhold from voting) a management-tabled proposal, or where we support a shareholder-tabled proposal not endorsed by management.

While analysing meeting agendas and making voting decisions, we use a range of research sources and consider various ESG issues. The RI team makes final voting decisions in collaboration with the firm's portfolio managers and analysts. Votes are cast identically across all mandates for which we have voting authority.

All our voting decisions are available for inspection on our website seven days after each company meeting.

We engaged with numerous issuers throughout the quarter. In prioritising our engagement work, we focus our efforts on the more material or contentious issues and the issuers in which we have large holdings – based on either monetary value or the percentage of outstanding shares.

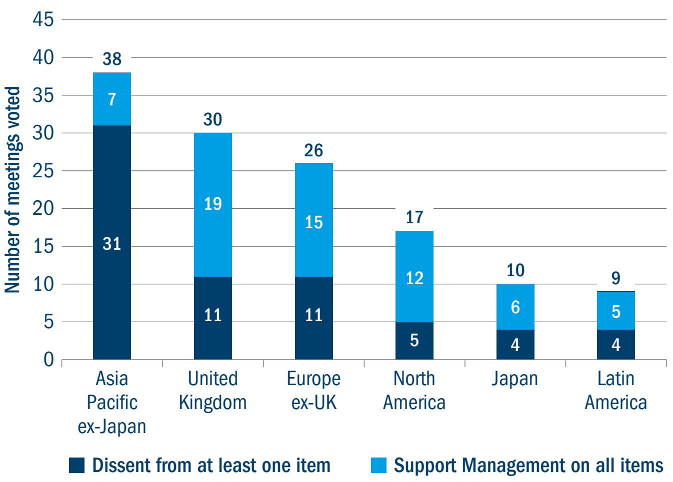
There are many companies with which we have ongoing engagements, as well as a number that we speak to on a more ad hoc basis, as concerns or issues arise.

We actively participate in several investor networks, which complement our approach to engagement. Along with other investors, we raise market and issuer-specific environmental, social and governance issues, share insights and best practice.

06 Voting Q1

Between January and March 2019, we voted at 130 meetings across 22 global markets. 96 of these were annual general meetings, 32 special meetings and two bondholder meetings. Of the 130 meetings, we cast at least one dissenting vote at 66 (51%).

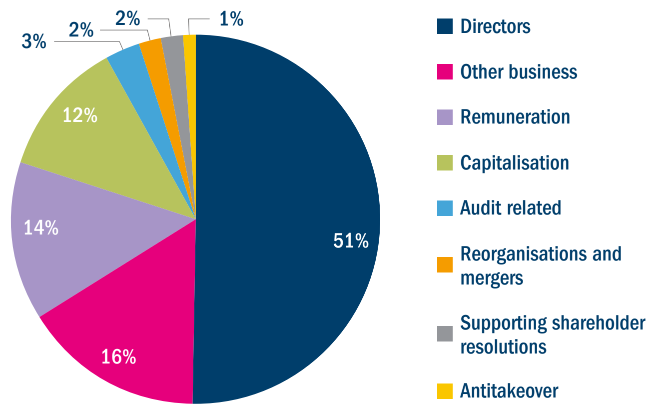
Figure 4: Meetings voted by region



Source: Columbia Threadneedle Investments, ISS ProxyExchange, 31 March 2019.

We voted in 22 separate markets in the first quarter. Most meetings were voted in the UK (30), followed by South Korea (17), the US (16), India (14), Japan (10) and Brazil (6).

Figure 5: Proportion of dissenting votes per category



Source: Columbia Threadneedle Investments, ISS ProxyExchange, 31 March 2019.

We did not support 133 individual voting items throughout the quarter, the majority relating to directors' elections and executive pay. Two votes were also cast against management recommendations in support of shareholder proposals.

07 Engagement Highlights

In the first quarter, we engaged with the 62 issuers listed below, some on multiple occasions.

Environmental, social and governance discussions
Alexion Pharmaceuticals, Inc., Applus Services SA, Britvic Plc, Breedon Group plc, Brunello Cucinelli, Continental AG, Croda International plc, Deutsche Telekom AG, easyJet plc, Edenred, Evonik Industries AG, Iberdrola, Innogy SE, Kingspan Group plc, Koninklijke Philips, Korian, Lar Espana Real Estate Socimi SA, Mondelez International, National Grid plc, Nintendo Co. Ltd., Nordea Bank AB, Pennon Group plc, Schneider Electric SE, Vale S.A.

Specific environmental focus
Total SA

Specific social focus
Becton, Dickinson & Co.

Specific governance focus
Barclays plc, British American Tobacco plc, Burberry Group plc, Cargotec Oyj, Coats Group plc, Cobham plc, Cognex, Crest Nicholson Holdings plc, CRH plc, Domino's Pizza Group plc, Elementis plc, Epiroc, GlaxoSmithKline plc, Greene King plc, Howden Joinery Group Plc, IMI plc, Imperial Brands PLC, Informa plc, ITV plc, London Stock Exchange Group plc, Pearson plc, Pernod Ricard, Prudential plc, Rathbone Brothers plc, Rentokil Initial plc, Sika AG, SimCorp A/S, Spirent Communications plc, SSP Group plc, Standard Chartered PLC, Stock Spirits Group plc, Ted Baker PLC, Thai Beverage Public Co., Ltd., Vectura Group plc, Weir Group plc, XP Power Ltd

Case studies

The following case studies describe ESG-focused engagement led by members of the RI team.

Becton Dickinson, USA, Health Care Equipment

Social, strategy

- Access to healthcare, and good ESG management, highlighted as core to Becton Dickinson's business model. Sustainability an increasingly important issues for their employees – considering sustainable pension plan options. They have a proactive approach to new EU medical regulation, which will be material. They must produce new evidence for some products and relabel others.
- Issues around litigation are considered as part of due diligence around M&A activity. Potential cash flow impacts for 8-10 years are considered alongside the natural life span of any impacted products.
- Cyber risk is an important issue with a direct report to the CFO. They examine business relationships based on cyber risk e.g. banking. The company was caught in the WannaCry attack but updated customers in 24 hours and fixed the issues within 48. The company continues to work with the FDA on best practice.

Brunello Cucinelli, Italy, Textiles

Environmental and sustainability, social, strategy

- We held a call with the company's Director of Investor Relations and Corporate Planning during the first quarter to discuss a number of material ESG issues. We concluded that the quality of the company's ESG risk management does not appear to be reflected in its external reporting and therefore not captured in ESG data.
- All production takes place in Italy, rather than developing countries, mitigating supply chain risk. The company values its close relationship with direct suppliers. Circa 340 'Artisan laboratories' – with no subcontractors – produce the company's goods and are paid 20% more than the market rate.
- The company also has a close relationship with its raw material suppliers and can trace cashmere and cotton to their origin. The company's growth plans avoid supply chain stress or loss of brand exclusivity.
- Brunello Cucinelli is the company's founder, majority owner, chairman and CEO. Positively, his succession was openly discussed. He, along with all senior management, are subject to both a long-term and short-term succession plan.

easyJet, UK, Airlines

Strategy, Brexit

- easyJet believes it is well-prepared for Brexit. The referendum result led to a structural change at the company, with a new European airline set up in Austria. With 40% of its flights intra-Europe, monitoring and preparing for Brexit developments has been a huge draw on resources. Brexit-related activities have dominated the CEO's first year.
- When former CEO Carolyn McCall left, the board realised the succession plan wasn't good enough. This has been an area of focus and there has been significant change at the senior management level; the new team is establishing itself.
- The company highly values its workforce and has good relations with the c20 unions – it was last affected by industrial action in 2016.
- The company have been working more with data, including establishing an organisational temperature chart to identify where resources should be focused. Though flight punctuality was worse this year, customer satisfaction levels increased.

Greene King, UK, Beverages

Governance, human capital

- We discussed changes to the governance structure resulting from the departure of the CEO, including succession and transition plans, and remuneration proposals. We noted that the pension arrangements for the incoming CEO have been reduced as compared to his predecessor.
- We also discussed board and senior management diversity. A new non-executive director has been appointed, bringing the level of female representation to 25%. The company recognises that further work is needed to address gender diversity at senior management level.
- We discussed the company's ongoing efforts surrounding employee engagement, including among pub management. There has been some improvement in employee metrics including engagement and retention rates, and the company has formalised an employee liaison role within the Board.

Total SA, France, Integrated Oil & Gas

Environment and sustainability, strategy

- We attended Total's results and climate strategy presentation. The company has set a 15% GHG reduction target for operational emissions (Scope 1 and 2) for 2025, which we welcome as a positive step. The company emphasized that they have a number of cost-neutral options to meet the target, including a focus on natural gas, efficiency improvements, and their low-carbon electricity business, among others.
- They believe with their 3 strands of oil, gas and low-carbon electricity that the company will be able to adjust as climate policy tightens. The company is making small investments in R&D into carbon capture and storage, looking at potential to commercialise this in the North Sea if carbon prices increase, as well as biofuels, and carbon sinks (forest carbon credits).
- We note that future executive compensation will also include targets aligned with emissions reductions, and we will await the detail of these.

Breedon Group, UK, Construction Materials

Environment and health and safety, strategy

- Breedon Group is a construction materials firm based in the UK and Ireland focussed on aggregates, and more recently, cement.
- We spoke with the company about their strategy and expansion plans, including the outcomes following the acquisition of Lagan, an Irish construction and cement business. We also discussed how company culture is maintained and how safety standards are addressed and maintained following acquisitions.
- We discussed the increase in the company's injury rate during the year. This is above their target, though it is not significantly out of range as compared to peer companies. The increase appears to relate to an increase in minor accidents.
- We also discussed sustainability reporting and plans to improve disclosure in the future. As an AIM-listed company, disclosures on many ESG issues such as GHG emissions are lacking as compared to larger peers. The company has recently joined the Global Concrete and Cement Association and will improve its reporting in line with requirements. We will continue to engage with the company in this area.

Pennon Group, UK, Water Utilities

Environment and sustainability, strategy

- Pennon is a UK based utility group focused primarily on water and wastewater services and waste management.
- We spoke with the company about their environmental strategy, given the growth of their GHG emissions in recent years, which has resulted from an increased focus on Energy Recovery Facilities (ERFs) alongside landfill, within their waste management business.
- The company is modelling its future carbon emissions and developing a group level carbon strategy, which will include 3-year targets. The company is also seeking to improve its CDP rating.
- The company has community consultation programmes and liaison groups surrounding planned and existing ERF facilities. Community concerns have resulted in delays to the planning process for some new facilities, particularly those sited near to urban areas.
- We encouraged the company to report on its other air emissions, particularly those from ERFs, outside of detailed reporting to the Environment Agency. They are seeking a common reporting format to be adapted across the sector.

Alexion Pharmaceuticals, USA, Pharmaceuticals

Business ethics, human capital, governance

- Alexion is a US pharmaceuticals company focused on the development of therapies for rare autoimmune and cardiovascular diseases. It has recently undergone a restructuring and a headquarters move from Connecticut to Boston, as well as investigations around business ethics and marketing practices.
- We discussed corporate culture and employee engagement following the reorganisation. The company's 'net promoter score' an indicator of employee engagement, has increased significantly following the office move. The company plans to increase their disclosure around employee issues in the future and will produce a separate sustainability report.
- In relation to business ethics, the Code of Ethics has been expanded, and all employees now have compliance/integrity related goals linked to compensation. This had led to some positive changes in corporate culture and it was noted that the 'tone from the top' has had a stronger focus on integrity.
- On the issue of board diversity, the company will publish a board skills matrix which will include gender and ethnicity and will be used in board composition discussions. We noted that although only 20% of the board is comprised of women, over half of the senior management team are women.

Mondelez, USA, Food and Beverage

Strategy, remuneration, nutrition

- Mondelez is a global food and beverage company focused primarily on snack foods including chocolate, biscuits, and gum.
- Following the release of their updated strategy in late 2018, we discussed the focus for their next phase, including consolidation into core product lines and a focus on high growth geographies with a more decentralized structure.
- We also discussed shareholder concerns around executive pay in 2018, and their plans for remuneration in 2019 including changes to the peer group comparison for the CEO.
- We sought their views on how ESG issues such as health and nutrition might affect the company, given consumer trends and the greater focus on regulation and sugar taxes in many markets. We discussed how these trends are overseen and discussed by the Board, as well as some of the changes that have been introduced to improve the nutritional profile of some of the company's products.

To find out more visit

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