

New Zealand Superannuation Fund

Q1 2020

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 in review

Going forward, we will be assessing how companies respond to the Coronavirus, including measures they take to protect and support their staff and provide society with solutions to help face threats to their wellbeing. We have signed the Investor Statement on Coronavirus Response urging companies to take steps to protect workers and maintain financial prudence.

We engaged with several of the world's largest extractives companies on their ambitious commitments to decarbonise, added our name to a number of collaborative engagements on human and labour rights, and had discussions with food companies on their management of various ESG risks and opportunities.

Engaging with the primary industries on decarbonisation

The beginning of 2020 has seen a number of big players in the extractives industries announce significant decarbonisation pledges. Companies like BP, BHP, Rio Tinto and Teck Resources, all of which we have actively engaged for over a decade on carbon management issues, have made net-zero emissions pledges. Both BP and BHP took a leading stance and included scope 3 emissions in their pledges. This effectively means that they committed to tackle carbon emissions from the use of their products.

We support these pledges, but are aware of the fact that they do not necessarily mean that the companies are de-risked from possible financial impacts.

We, therefore, don't take decarbonisation pledge as the finishing line of our engagement, and will continue to urge companies to reduce their emissions before considering the last resort of carbon offsetting.

Deforestation challenges for the Brazilian beef industry

We participated in a joint investor call with Brazil's three largest meat processors and packers, to discuss their actions to curb deforestation and land clearance.

Cattle ranching in Brazil is the leading driver of deforestation emissions across Latin America.

Over the past few years, the three companies have stepped up their efforts to establish environmental, labour and land tenure supplier standards and monitor compliance against these standards. However, these efforts are to a large extent limited to what they refer to as their 'direct suppliers'. Purchases from these suppliers account for less than 50% of total purchases.

We encouraged the companies to be more transparent about the nature and scope of their supply chains and to continue exploring ways to develop comprehensive traceability systems. We also discussed the possibility of the investor group actively engaging with relevant government actors to push for action on cattle-related deforestation.

Protein Diversification Strategies

We joined FAIRR's collaborative engagement on sustainable protein. The initiative will target 15 global food retailers and 10 global food manufacturers.

We will ask companies to publicly disclose information on their long-term approach to protein diversification, including board-level support to transition protein portfolios towards lower impacts and more sustainable sources in line with climate science.

BMO GAM will lead discussions with US retailer Walmart and Canadian retailer Loblaws.

Collaborating to promote better social practices

This quarter, we provided our support to a number of investor initiatives calling companies as well as governments to protect and respect human and labour rights.

We signed the Investor Alliance for Human Rights' statement asking all governments to develop and enforce mandatory human rights due diligence requirements for companies headquartered or operating within their own jurisdictions.

We also signed up to the "Find it, Fix it, Prevent it" multi-stakeholder coalition, on addressing modern slavery risks. The initiative combines public policy outreach, company engagement and the development of metrics that can be incorporated into ESG ratings. On company engagement, the initiative will initially target 16 companies in the UK hospitality industry.

Finally, we signed an investor statement calling for increased transparency around material ESG issues in the luxury fashion industry, including efforts on living wage. The statement was produced by The Platform Living Wage Financials (PLWF), an alliance of 13 primarily Dutch financial institutions.

SEC launches attack on responsible investment

In November 2019 the SEC formalised its efforts to rein in responsible investment by releasing two proposed sets of rule amendments to increase the regulatory burden on proxy advisers and further restrict the ability for investors to file shareholder proposals. The SEC's motivation for each is to address concerns over the accuracy and transparency of proxy voting advice and to amend shareholder proposal thresholds to avoid misuse of the process. These proposals reflect the SEC's pro-corporate agenda of removing what it deems to be unnecessary burdens for companies, often irrespective of the consequences for investors.

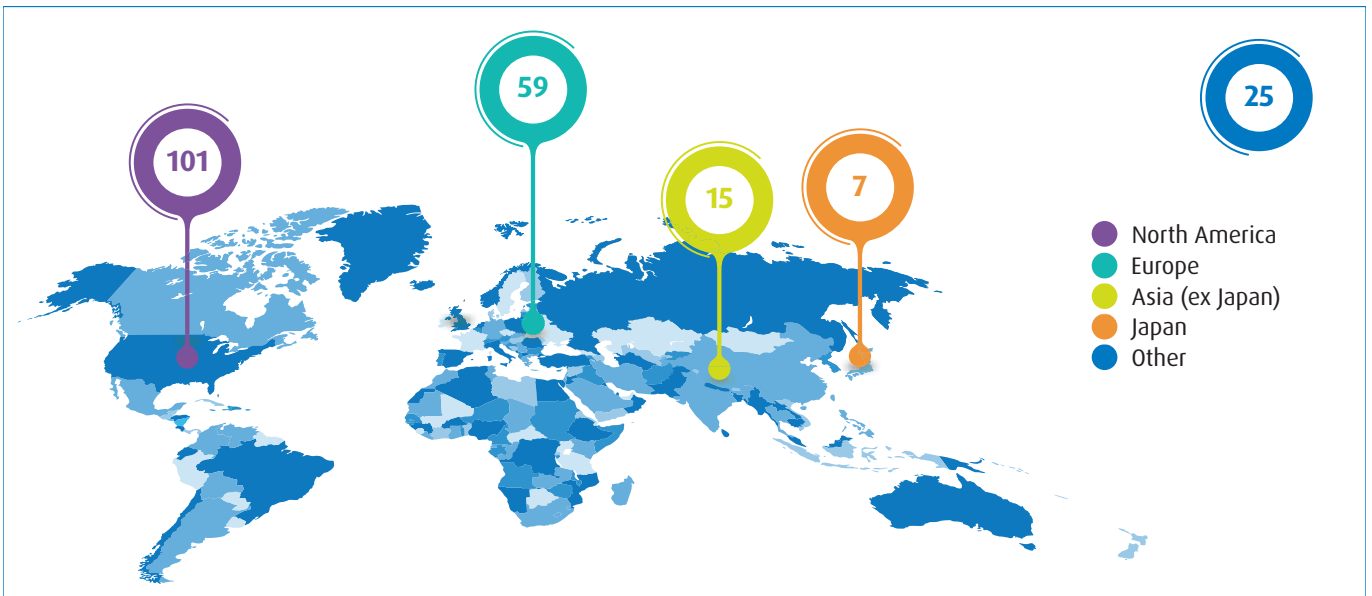
We expressed to the SEC our overall concern that the proposed changes to the process will make it more difficult to submit and sustain proposals and, therefore, discourage their use in the future.

We expect the SEC to make a final decision on these proposals in Q2 this year. With a significant strong level of opposition having been expressed by the investor community, it does seem that there could be the potential for the final proposals to be somewhat amended, but it is unlikely that they will be scrapped outright.

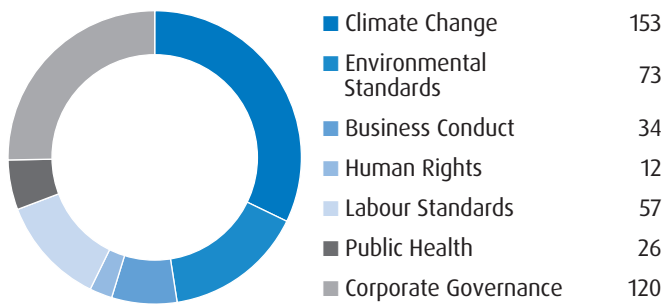
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
207	66	22

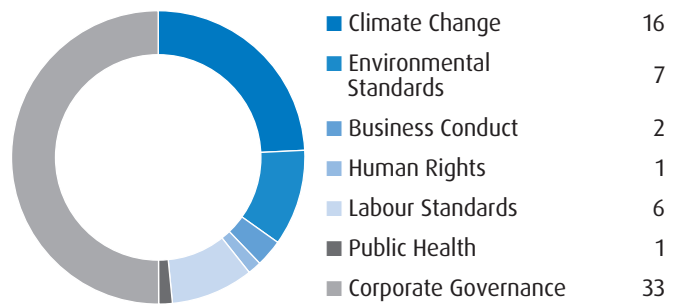
Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue



* reo® is currently applied to £165bn (\$218billion / €195billion) of assets as at 31st December 2019.

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

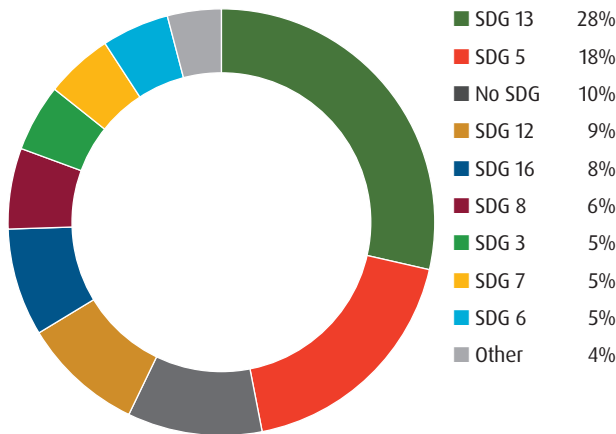
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. This document is for professional advisors only and should not be circulated to other investors. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest.

Engagements and Sustainable Development Goals (SDGs)

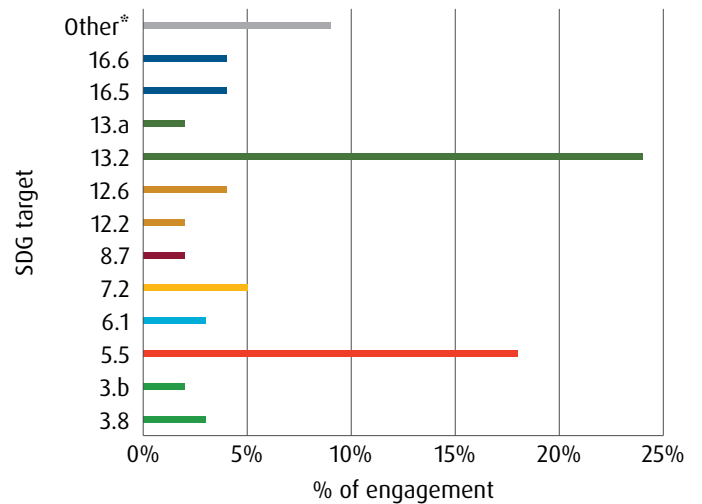
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

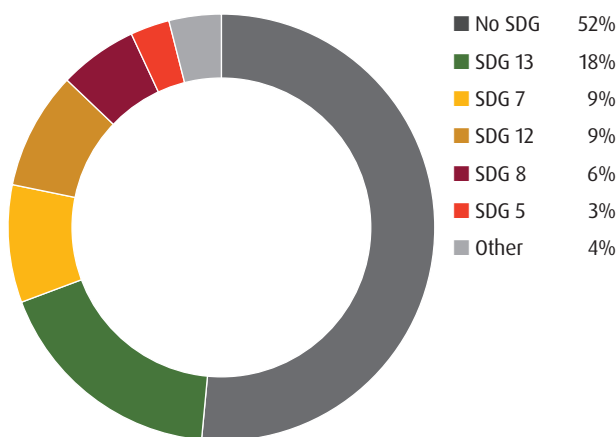
Engagement: SDG level



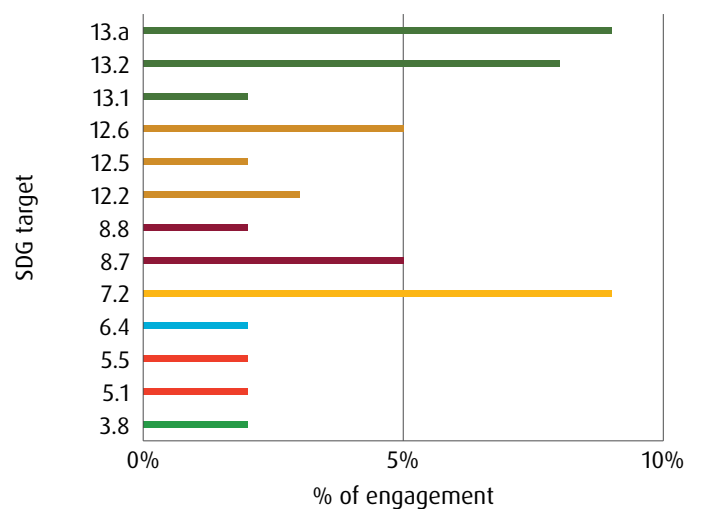
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: Facebook Inc

Country: United States

Sector: Information Technology

Priority Company: -

ESG Risk Rating: 

Response to engagement: Poor

Theme: Labour Standards

Issue: Content moderation

Background

As a social media platform with more than 2.5 billion monthly active users, the equivalent to one in three of the world's population, the content that Facebook hosts can have unprecedented levels of influence. Following the Cambridge Analytica scandal that broke in 2018, there has been growing distrust over the company's role in society and concerns with spreading disinformation on its platforms and its messaging service WhatsApp. In a recent report that the company commissioned it admitted that it had failed to keep its platform from being used to "foment division and incite offline violence" contributing to the Rohingya genocide in Myanmar in 2017. More recently it has enabled the live-streaming of terrorist attacks such as the Christchurch shootings last year. This is all in the context of poor corporate governance and company culture that shields its founder and CEO Mark Zuckerberg from accountability to minority shareholders and broader society.

Action

In early 2019 we met with the company to discuss its proposals to introduce a 'Content Oversight Board' ('COB') as part of its broader operation to better moderate its platform. We noted at the time that the company seemed to be undertaking an open and extensive consultation with a wide range of stakeholders on how the COB should operate in practice. However, given that Facebook CEO Mark Zuckerberg said that the COB would launch in early 2019, we were surprised to see how little they had in place at the time of consultation. In our formal response we expressed overall support but pushed for the publication of a transparency report that should also cover other areas of their content moderation programme so that investors and other stakeholders can actively monitor progress. In addition to this, we joined and have been assisting in the work of an investor coalition looking to engage Facebook, Alphabet and Twitter on introducing better moderation of livestreams on their respective platforms.

Verdict

This quarter the company published a draft charter for the COB, detailing its decision-making and public reporting processes. We are particularly pleased that the COB will operate independently from Facebook itself, including having its own dedicated staff, and that its decisions will be binding on the company. At the same time, its roll-out remains too slow, with no one expected to be appointed until the summer. There seems to have been no change in remit with the actual board of directors, who we consider should be ultimately be responsible. Like other social media companies, there continues to be few clear lines of accountability on content moderation, insufficient resources to tackle the issue and little public reporting. For this reason, we co-signed an open letter by 100 global investors released in the anniversary of the Christchurch shootings asking these companies to do more.

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
SDG1	1.4	Ensure equal rights to resources and basic services
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	3.3	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
SDG3	3.b	Support research into vaccines and medicines for diseases primarily in developing countries
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	6.2	Achieve access to adequate & equitable sanitation and hygiene
SDG6	6.3	Improve water quality by reducing pollution
SDG6	6.4	Increase water-use efficiency to address water scarcity
SDG6	6.a	Develop water and sanitation related WASH policies
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	8.5	Achieve full and productive employment for all
SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
SDG8	8.8	Protect and promote safe working environments for all workers
SDG9	9.4	Upgrade and retrofit industries to increase sustainability
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.4	Adopt policies to progressively achieve greater equality
SDG11	11.1	Ensure universal access to safe and affordable housing
SDG11	11.6	Reduce the negative environmental externalities of cities
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.3	Halve global food waste at the production and consumer level.
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

Appendix (continued)



SDG	Target	Target Summary
■ SDG13	13.2	Integrate climate change plans into policies and strategies
■ SDG13	13.a	Address climate change mitigation for developing countries
■ SDG14	14.1	Prevent and reduce marine pollution of all kinds
■ SDG14	14.4	Regulate harvesting and end overfishing to restore fish stocks
■ 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