## **Environmental, Social and Governance Reporting**

## **Q3 2021**

**Voting and engagement 1st July to 30th September 2021**

# Executive summary

Responsible Investment (“RI”) is a subject that the Fund’s Pension Committee (“the Committee”) take seriously. Environmental, social and governance factors are considered throughout the Committee’s decision-making process.

This report sets out voting and engagement activity carried out during the last quarter.

## Investment strategy

The Fund invests its assets, with the help of its advisers, across a range of asset classes such as equities, bonds, and real estate. The Funds responsibility is to generate financial return as its primary concern when investing, asset allocation decisions are expected to be the main driver of returns and risk over the long term rather than manager selection. ESG factors including climate change risk are taken into account when considering the Fund’s investment strategy as these can have financial consequences to the Fund’s investments.

## Investment managers

The Fund uses mostly active managed strategies, with the Committee seeking to achieve a balance between cost and return. Active and passive managers have a duty to act as responsible investors and are expected to act as good stewards for the companies they invest in or lend to.

All of the Fund’s managers are required to report their engagement activity on a regular basis and exercise the voting rights in relation to the Fund’s investments as far as practical, this report summarises those activities.

## Policies and approach

The Fund have a number of policies published that outline the Investment Strategy and approach to Responsible Investments. These policies are available on the Funds website at www.eastsussexpensionfund.org/resources

## Collaborations

The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties such as the ACCESS pool or the LAPFF (Local Authority Pension Fund Forum). Participation in the pool will increase the Fund’s ability to influence positive action among the companies it invests in and accelerate the transition to a sustainable pathway, but the need to bring other pool members along the journey will be paramount. The Fund is additionally a signatory to the PRI, IIGCC and to Climate Action 100+ along with its Active and Passive Managers.

## VOTING AND ENGAGEMENT BY MANAGER

### For the period 1st July to 30th September 2021

# LONGVIEW (Listed Equity)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 1 | 20 | 17 | 3 | 0 | 17 | 3 |

## Engagement

For the purposes of anonymity, companies’ names have been redacted where appropriate

**Company A – July 2021**

On 7 July 2021, Longview spoke to Company A. The call was arranged so that we could discuss the company’s remuneration practices and its approach to diversity and inclusion, which will be reported on separately.

Longview pointed out that in the past, Company A had faced significant dissent from shareholders over its executive pay packages and wondered how the company had responded to this. Company A agreed that this is not a new topic of engagement and is one that the Board has considered carefully. In their last remuneration plan, a five-year plan implemented in 2017, the Board decided to halve management pay compared to the prior plan. Longview recognised this but highlighted that the total paid to executives over five years was still very high at US$107million.

Company A defended this figure and explained the targets underpinning it. Firstly, they noted that it covers the full five years and so works out at $20 million a year, assuming all targets are met, which is not dissimilar to peers. They commented on the seven underlying targets, advising that six of them had both an operational and market-cap component with the final target requiring the stock price to double. The rationale behind the market-cap component, which is adjusted for any stock issuance or acquisition, was to reflect the idea that shareholders will be the ultimate judge of operational performance. If the operational and market-cap targets are met and deemed to add value, this should be reflected in the share price. To date, only one of the seven targets has been achieved and therefore executives have only unlocked a small percentage of the total compensation.

Longview asked whether return on capital was taken into account as we believed that it is an important measure of the success of a business. Company A said that it is not an explicit target - the Board felt that growing revenues and margins were more relevant as the company transitions into a cloud business.

Longview sought to understand how the Board determined the correct amount to pay Company A’s executives and how we as investors and stewards of our clients’ capital can evaluate their appropriateness. They conceded that it is very challenging for individual investors to judge whether targets are reasonable and stressed the importance of the market-cap target to let investors vote collectively.

Finally, Longview asked for an update on the next remuneration plan, which Company A was unable to provide as it had not yet been released publicly. Longview will evaluate the plan once published and, if necessary, reaffirm our views on the importance of appropriate management incentivisation.

**Glass Lewis – September 2021**

In April 2021, Longview engaged with its proxy voting service provider, Glass Lewis, regarding its stance on Say on Climate proposals. Specifically, this followed Glass Lewis’s recommendation against the Say on Climate non-binding advisory shareholder proposal tabled at Company B’s 2021 Annual General Meeting (AGM). Glass Lewis presented its reasons for recommending voting against the proposal. In summary, these concerns focused on the complexity of the climate transition plans, the question of the accountability of company Boards and the potential impact on the legal rights of shareholders.

Longview requested that Glass Lewis reconsider its position on the Say on Climate movement, emphasising that the proposals being included at AGMs are a positive step in creating dialogue on this important topic and are likely to lead to better disclosure and planning.

Further to this discussion, in September 2021, Longview requested an update from Glass Lewis, when Longview suggested the company may wish to consider a survey of their client base to better understand their clients’ views on Say on Climate proposals. Longview noted that ISS, Glass Lewis’s competitor, had initiated such a survey. Longview believes gathering this information could help Glass Lewis and its clients be better prepared in the run up to the 2022 AGM season, where such proposals will likely be more common and the outcomes subject to greater scrutiny. Glass Lewis assured Longview that the views of investors will be considered in its revised policy guidelines due to be published in Q4 2021.

Longview encouraged Glass Lewis to continue engaging closely with investors on this issue. Longview expects that Glass Lewis’s conversations with asset managers will continue to highlight the merits of Say on Climate proposals, their value to shareholders and society more generally in driving much needed improvement in the disclosure of climate data. Longview will continue to monitor Glass Lewis’s approach as it develops and, if necessary, may engage further on this topic following the release of its next set of policy guidelines.

**Company C – September 2021**

During the quarter, Company C published their 2020 Sustainability Report, which Longview reviewed in September 2021. The report addressed two issues where Longview had previously engaged with the company’s management for more information. Longview conducted a review of the report and considered its potential next steps in light of this information.

Firstly, Longview has been concerned about manufacturing problems at one of Company C’s factories. The company has an outstanding Warning Letter from the US Food and Drug Administration (FDA) for the factory. Whilst the warning letter remains outstanding, we were pleased to see Company C include a section on Product Quality within the Sustainability Report. Company C provided more detailed information on remediation actions. We note that Company C has achieved a 60 percent reduction in FDA product recalls in 2020. However, we were interested to understand how the company benchmarks itself against its peers.

Secondly, internally Longview discussed Company C’s Diversity and Inclusion (D&I) policies. We were pleased to see the company start to report metrics on D&I. As at 31 December 2020, women made up 36.1% of total employees and 23.2% of positions at director level or above. People of colour made up 24.5% of total employees and 13.9% at director level or above. Company C is currently working to establish 2026 representation goals for women and people of colour. In addition, the company has provided cultural awareness and inclusion training to its employees, has invested $1m in promoting D&I internally and has pledged to donate a further $5m over the next five years to try to combat racism and support diversity, equality and justice. We would like the company to take a broader view of diversity and are interested to understand how the company is promoting diversity in its widest sense, not just limited to gender or colour of skin. We will follow up with Company C to discuss how they may consider widening the definition of diversity.

Finally, we intend to follow up with Sustainalytics to discuss the company’s rating. Company C is currently rated as high risk for ESG. We believe this rating is too high given the progress made in this report and have contacted Sustainalytics to discuss this further. Previously, they had suggested that they would not undertake a review until the 2020 Sustainability Report had been published.

**Company D – September 2021**

Longview met virtually with Company D’s CFO in September 2021 following the failed merger with Company E to better understand the reasons for the merger collapse and any implications for Company D’s future capital allocation. The CFO confirmed Company D’s capital allocation policy remains unchanged with the company continuing to allocate free cash flow based on return on capital, with share buy-backs currently the company’s highest return on capital opportunity, and therefore an implicit hurdle. This reaffirmed our comfort around capital allocation, which is an important part of our assessment of Quality.

**Diversity and Inclusion**

Longview’s Diversity and Inclusion Committee recognises the responsibility we have to promote good D&I practice within the firm and our portfolio companies. As such, the Committee initiated engagement with the portfolio companies, with 24 of 31 planned calls conducted so far. Discussions have focused on definitions, investments and initiatives, measurements of improvement, and current ratings from Sustainalytics, Longview’s chosen data provider. Once the remaining company engagements are completed and analysed, we will re-engage where necessary and monitor for any concerns going forward. As we invest in large global companies, we expect them to be leaders in D&I. The Committee will use the knowledge gained from the engagements to improve our own initiatives and practices, holding ourselves and the portfolio companies accountable in this key area.

# Newton (Diversified Growth Fund /Absolute Return)

## Voting

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| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 1 | 20 | 17 | 3 | 0 | 17 | 3 |

## Engagement

ESG Issues specific to the UK have been reproduced in this report. A full list of ESG issues (11) can be found on Newton’s website under “Responsible investment report Q3 2021”

**Associated British Foods**

We spoke with the chair of the company’s board as part of our annual engagement on corporate governance and the group-level approach to ESG. We continue to believe that the company takes a pragmatic approach, where ESG considerations are integrated well into the business, with the view to improving its operations and resiliency. The chair emphasised that even where consumers have little interest in specific ESG matters, the company understands the potential long-term impact for the business of managing these. The company’s devolved structure means that group-level communication is challenging and that full credit is not always given for its robust, risk-focused approach. This said, the company’s sugar business remains contentious from a sustainability perspective.

**Covid-19**

The switch to remote working was described as seamless, with regular board meetings and communications to keep employees informed. This said, the chair described frustrations with not being able to meet in person. The board met physically for the first time since the beginning of the pandemic in July 2021.

Food production and the supply chain have held up well despite the pressures of shifting consumption and stockpiling. This was only possible with employees going the extra mile. Retail stores faced challenges with requirements to close and the need to order nine months in advance, while making sure there was limited stale stock.

**Board effectiveness**

The chair explained that he has participated in boards of varying sizes in terms of number of members. His preference is for smaller boards which can more effectively challenge and support the executives. However, he was keen to emphasise a recent addition to the board, who has brought significant experience and enhanced its diversity.

The board has recognised that external understanding on the evolution and challenges of digital marketing and e-commerce could be valuable for the company’s retail business. While this expertise does not exist explicitly on the board, it is thinking about this skill gap and there is a suggestion that a separate board for its retail business could be a solution.

**Succession planning**

We recognise that there is evidence of a good succession planning policy for non-executive board members. However, we noted that many of the company’s executives have been at the group for significant periods of time. We sought assurances surrounding executive succession planning. The chair explained that internal and external candidates are identified for key roles and he believes the company has strong internal candidates. He also understands that balance and communication are important when managing the expectations of internal candidates.

**BAE Systems**

**Feedback on supply-chain and environmental management**

Ahead of the company’s annual ESG investor event, we provided feedback as to the areas and topics that the company should address. We suggested that it would be beneficial to hear executives’ and non-executive directors’ views on matters relating to supply-chain management and the company’s environmental impact, which were absent from last year’s event. We also asked for the company to address openly certain controversial exposures.

**Linde**

**Remuneration**

Having once again voted against the proposed compensation arrangements at this year’s AGM, we shared our feedback with the company. We described our approach to assessing compensation practices and encouraged the compensation committee to consider increasing the proportion of long-term pay awards that are subject to the achievement of performance hurdles.

In its response, the company argued that share-option awards should be considered performance-based as these are attached to share-price appreciation, which the company considers to be an important parameter for investors. We agreed that the share price was important but disagreed with the significance that was being placed on share-price movements. We explained that share price is often a weak key performance indicator that could easily become a disincentive for executives should macro factors outside of management’s control affect the share price. We also shared that an uneven focus on share-price movements promotes short-termism, a practice that is out of sync with the horizon of long-term investors.

**Tesco**

We met the company’s investor relations to discuss key sustainability issues, such as healthy products, employee engagement and climate change. Overall, this reaffirmed that the company is a leader in ESG versus other UK food retailers and has a clear pathway for improved future performance.

**Health and nutrition**

The company reiterated the challenges surrounding its target for 65% of food and drink products to be healthy (aligned to the UK government definition), and that it will need to go above regulatory requirements to achieve this. Consumer behaviourhas continued to fluctuate during the Covid-19 pandemic and it is hard to draw conclusions from this or suggest which changes may be permanent. The company is supportive of regulation in this space to level the playing field –it removed confectionary from checkouts (as will soon be required) in 1994. In terms of the shareholder resolution by ShareAction, it felt this sped up its commitments and forced it to be more public, but this work was otherwise ongoing.

Pricing remains the key determinant of consumer demand but almost all consumers are somewhat interested in product healthiness. The company is working on how to use promotions effectively to further incentivisehealthy purchases. Unlike its approach to increasing alternative protein sales, where it felt it had to incentive manufacturers to offer such products, the company believes it could have strong engagements with suppliers around healthy products in the future.

**Human capital**

The company is not a living wage-accredited employer but does pay an hourly rate that is above the living wage outside of London and close to the living wage in London. It is in regular negotiations with employees and union representatives in relation to pay –71% of employees believe their compensation is competitive, which is positive. Interestingly, most employees do not cite pay during employee engagements but instead their managers and job purpose, where sentiment has been increasingly positive since the Covid-19 outbreak.

There is ongoing legal action against the company in relation to claims of unequal pay. Understandably, while the company was not able to comment on the case itself, it anticipates this will continue for multiple years. It believes that warehouse staff are paid differently for valid reasons and that this is not an issue of gender.

**Net zero**

Positively, the company has brought forward its UK net-zero commitment to 2035 (2050 at group level). It now uses 100% renewable energy and is the largest unsubsidisedpurchaser of renewable energy in the UK, with five wind farms and four solar farms. Its next focus will be on Scope 3 emissions –data around agriculture has been difficult to obtain and certain areas are challenging to address, being outside of its direct control. Further details on its net-zero commitment should be published in the coming months.

**Biodiversity**

The company has a strong approach to deforestation, including a partnership with the World Wildlife Fund and high-profile engagements in relation to deforestation within the Amazon. The company appears to be in the earlier stages of understanding biodiversity risks from its agricultural practices but has taken first steps, including engaging with the TNFD (Taskforce on Nature-related Financial Disclosures). It highlighted that it would like to see outcomes-focused data (e.g. soil quality) but this is challenging to obtain and so most of its data collection is focused on inputs.

# Ruffer (Diversified Growth Fund /Absolute Return)

## Voting

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| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 3 | 61 | 59 | 2 | 0 | 59 | 2 |

## Engagement

**Barclays**

**Barclays** is a global bank with domestic and European banking exposures, a global investment banking franchise and a US credit card business.

*Meeting with Nigel Higgins (Chair of the Board), Stephen Shapiro (Group General Counsel) and James Ankers (ESG Investor Relations Director)*

Issues: Environmental and governance – climate change and board structure

This was our first meeting with the Chairman and was arranged following the 2021 Annual General Meeting (AGM) in May, where Ruffer supported the Board and voted against a shareholder resolution brought by Market Forces, an Australian environmental campaign group. We felt this binding resolution, which required, among other things, the company to phase out its provision of financial services to certain sectors, was too onerous at this stage in the context of Barclays’ global business activities. Instead, we felt there was a strong argument for monitoring the execution of the existing plan the company introduced last year. Management acknowledged our need to better understand their targets and plans.

By way of background, Barclay’s progress on their climate change policies began with a benchmarking exercise in autumn 2019, followed by several meetings with activist group ShareAction ahead of the 2020 AGM. This allowed the company to propose and pass their own resolution to further their commitment to tackling climate change.

The aim of this meeting was to better understand the company’s timeline to developing its climate change policies, the impact of the last two shareholder resolutions at the 2020 and 2021 AGMs, their current policies on the issue and how they aim to take these forward.

We discussed the financing of certain sectors, where it was explained the company take an engage rather than disinvest approach, which Ruffer is supportive of. This applies to lending in the energy and power sectors currently, with the aim of extending the reporting and data analysis to all sectors covered by their financing portfolio, including metals. Management acknowledged the need for more detailed data and targets which will be the aim for the second half of 2021.

Barclays also accepted it needs to provide more interim targets to provide internal impetus and benchmarking to their initial net-zero 2050 commitment, however, it is unclear whether these will be 2025 or 2030 targets. The company made the point the acceptable frontier of policy and action had been brought forward, and it aims to be a leader in the area with the understanding this will require significant internal resources. It was noted Sasha Wiggins, Group Head of Public

Policy and Corporate Responsibility, leads the development here and there is a Climate Committee of the Executive board.

We also discussed succession planning for the CEO, and historic engagements the board has had with activist investor Edward Bramson, via Sherborne Investors.

This was an initial, exploratory meeting and we intend to continue our engagement including through involvement in future discussions on setting additional targets and further refining climate change policies later in the year.

**Mitsubishi Electric**

**Mitsubishi Electric** is a Japanese industrial that develops, manufactures, and sells electronic equipment including factory automation systems and air-conditioning systems.

*Meeting with Tadashi Kawagoishi (Chief Financial Officer) and Michiko Inoue (Investor Relations)*

Issues: Social and governance – business practices and board structure

We engaged with Mitsubishi Electric following a whistleblowing scandal that revealed the disclosure of fabricated inspection data for air conditioning units and the subsequent resignation of the CEO. The main purpose of this meeting was to understand the nature of the scandal, the company’s culture and the timeline with respect to further investigations and corrective actions. Mr Kawagoishi assured us an external investigative committee has been formed to explore the matter of improper testing and inspections and provide recommendations to the board. The results of this investigation are expected to be released by the end of September. We also encouraged Mitsubishi Electric to take this opportunity to reform the company’s working culture, which was taken on board.

We have previously engaged with the company on its cross-shareholdings, as well as board structure and the importance of independent, external directors with relevant business experience and we asked for an update on the progress on these. Mitsubishi Electric acknowledge the need for change in its board composition and has been studying examples of other Japanese companies in order to elect independent board members. We were reassured the company is intent on finding the right candidates, although this may take time.

The inspection scandal is the company’s opportunity to make meaningful internal controls and changes to working culture and governance. We will be continuing our engagement with the new CEO, Kei Uruma, in November.

**The UK Financial Conduct Authority (FCA)**

**The UK Financial Conduct Authority (FCA)** is the conduct regulator for nearly 60,000 financial services firms and financial markets in the UK.

*Meeting with Mark Manning (Technical Specialist, Sustainable Finance and Stewardship), Federico Cellurale, Louisa Chender*

Issues: Environmental, Social and Governance (ESG) regulation

A meeting to discuss the FCA’s recently proposed sustainable finance and climate disclosure regulations. We welcomed the desire to mobilise listed companies, insurers and asset managers into thinking more about their climate risk and to accelerate the transition to a less carbon-intensive economy. Given the proposed mandatory disclosures are based on the TCFD framework, we gave feedback based on our recent experience of voluntarily producing a TCFD climate report. We talked about the challenges of analysing climate data across asset classes, where gaps occurred, the reliance on estimates and importance of providing additional context (not just headline data) to ensure investors are given the full picture of a firm’s activity and climate considerations.

We praised the proposal’s support of active stewardship, but suggested further emphasis on the importance of engagement was needed to address climate risk more directly in the real economy. The risk of investment ‘greenwashing’ was also highlighted, with potential for investors to become misled by the relevance and materiality of specific climate metrics. We also expressed a desire for the FCA to push listed firms into reporting more on their climate transition plans, with tangible near-term targets and milestones so investors can better incorporate this information into their own investment analysis, alongside climate reporting.

# Storebrand (Smart beta listed equity)

## Voting

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| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 52 | 231 | 226 | 3 | 2 | 223 | 8 |

## Engagement

**Nordic forestry dialogue**

The forestry industry in the Nordics is often described as an important and positive contributor to tackle climate change; a growing forest binds carbon dioxide, biofuel from the forest can replace fossil fuels, the forest can supply building materials that act as a carbon dioxide sink and forest materials can be used to phase out fossil raw materials e.g. replace oil-based plastics. However, it is also important that all this does not come at the cost of biodiversity loss.

The UN expert panel IPBES stated in their latest report that biodiversity loss is a just as great of a threat to humanity as climate change.

At the same time, it is a challenge for the forest industry to balance the two goals; to preserve the biological diversity in the forest and at the same time address the increasing demand for timber and other forest-related products. There is currently a widespread debate about what is a sustainable use of the forest and how much of forest should be completely protected and exempt from felling.

In Q3, SAM met with several stakeholders such as academic institutions, certification organizations and representatives from indigenous peoples, to get a better understanding of what they see as challenges and opportunities going forward. During the coming months, SAM will work to develop a set of expectations, as well as communicate these expectations and initiate a dialogue with a number of Nordic forestry companies, with a particular focus on how they could assess and lessen their impact on biodiversity.

Additional topics found in Q3 sustainability Insight document

[Sustainable Investments Reports - Storebrand](https://www.storebrand.no/en/asset-management/sustainable-investments/document-library)

# Wellington (Listed Equity – Impact fund)

## Voting

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| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votesagainst | Abstained/ Withheld/ DNV | With management | Against management |
| 86 | 778 | 715 | 32 | 31 | 702 | 31 |

## Engagement

**COMPANY HIGHLIGHTS & ENGAGEMENTS**

Engagement continues to be key in understanding the companies in your portfolio better, particularly as the pandemic persists. These conversations help us to understand the less tangible drivers of a company’s impact and financial performance. Here are some examples of our discussions across existing positions in the quarter:

**Phillips (Health, The Netherlands)** is a health technology provider whose diagnostics and connected care solutions are driving better patient outcomes and improving quality of life. Access to health care and innovative solutions can improve both longevity and quality of life. We engaged with Philips following the company’s voluntary recall of a respiratory device within their sleep division after customers reported foam degradation when the device was cleaned with an unapproved cleaning product. Our dialogue gave us confidence that Phillips has responded prudently to this unexpected event. The company has set up an internal investigation to reduce the risk of this type of outcome reoccurring, provided a reasonable sum to account for potential liabilities, opened an ongoing, cooperative with dialogue with regulators, and assisted consumers to activate device repair or replacement. We added to our investment as we continue to believe that the company has acted appropriately and prudently with the recall.

We met with members of **Darling Ingredients (Resource Efficiency, US)** management team, including the CEO, CFO, and members of the operations team for the company’s joint venture focused on renewable biofuel (Diamond Green Diesel). We initiated a position in the company given Darling’s leadership in developing innovative biodiesel solutions from used cooking oil and meat-by-products. We believe that Diamond Green’s geographic location and access to feedstock on the Gulf Coast is a competitive advantage for the business, but through our work with the Woodwell Climate Research Center, we recognize there is significant and increasing hurricane and flooding risk associated with that region of the US. It was important for us to hear management’s perspective on how they consider and respond to the increasing and evolving threat of extreme weather events and used the recent Hurricane Ida as a case study (the most damaging hurricane to Louisiana since Katrina in 2005). We believe the company’s assets are more resilient than expected and that the company is active in long term planning for climate events. The operation sustained minimal damage from what was a historic direct impact from the hurricane. We also confirmed that the management team continues to believe the coastal sites for Diamond Green Diesel offer optimal economics. Please see below for more information on Darling Ingredients.

**Square (Financial Inclusion, US)** is a cloud-based point-of-service payment solution for small businesses. Through innovations like the Square card readers and Square Capital, the company is helping small businesses grow and access capital. Square is building a platform that brings enterprise scale to small businesses. We engaged on a number of topics with them including climate and social inclusion. Square made an aggressive 2030 Net Zero commitment at end of 2020, comprehensive across Scopes 1-3. We discussed how they were going about this including reforestation, bio-oil, as well as actively reducing their carbon footprint by working with hardware team on projects focused on supply chain and the energy efficiency of devices and how they think about reducing the environmental impact related to cryptocurrency activities

Importantly, Square is ensuring that the company’s Net Zero commitment underscores and links to the company’s mission of economic empowerment. Therefore, it maintains targeted initiatives to improve financial inclusion – specifically, their integration of inclusion considerations into the product launch process of some efficiency initiatives and an emphasis on closing the wealth gap for underserved minorities and communities stood out.

We also engaged with **Signify (Resource Efficiency, The Netherlands)**, which produces smart-lighting technologies and LED products that enable energy-efficiency and sustainability for businesses and cities. In our engagement with them this quarter we discussed the innovation they provide outside the LED space, for example through “LiFi” which reduces the amount of cabling on planes helping fuel efficiency, while also improving safety. From a biodiversity perspective, we also discussed the horticultural lighting solutions they are developing to support growing sustainable food production that use less energy, water, and land than traditional farming methods.

# WHEB (Listed Equity – Impact fund)

## Voting

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| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votesagainst | Abstained/ Withheld/ DNV | With management | Against management |
| 4 | 52 | 35 | 17 | 0 | 35 | 17 |

## Engagement

**Orpea - Social issues in the nursing home sector**

**COVID-19 impact on nursing homes**

The COVID-19 pandemic has laid bare a number of social issues in the nursing home sector including staff shortages, unfavourable working conditions and low wages. These issues can in turn lead to poor quality of care and high staff turnover. While these are long-standing problems which pre-date the pandemic, the pandemic has nonetheless further exacerbated many of these issues. We began working with UNI Global Union (“UNI”) in March 2021, which is a global union federation for the skills and services sectors. It represents two million care workers worldwide. Through the help of UNI, we collaborated with other investors and fiduciaries, representing a combined $3.34 trillion assets under management. Together we have engaged with Orpea on these and related social issues. We started off by sending an Investor Statement to the company in April to clearly state our expectations on working conditions and quality of care.

**Lack of industry metrics**

The major challenge for this engagement has been a lack of common industry metrics. This has made comparisons across the industry problematic in part due to inconsistent data disclosure by industry players. The investor group decided to focus on six areas in this engagement including governance, staffing, health & safety, wages & contract, freedom of association and quality of care. We drew up a list of key indicators and metrics that we expect to collect from the 17 companies in the sector for each of these areas.

**Collaborative engagement**

We had our first engagement meeting with Orpea in July. The objective of this intial meeting was to understand where the company stands on these 6 areas and the policies that they have in place to manage them. The company showed reasonable openness in our discussion and provided several rather anecdotal answers to our questions. These included trying to adopt the highest food safety standards across their facilities in multiple European among countries and offering a one-off bonus to all employees in France during the pandemic as an incentive for staff retention.

While it is hard to judge purely based on these anecdotal examples, we are inclined to believe that the company is doing a good job overall based in how it handled the pandemic compared to its peers. For example, Orpea had less than 0.2% of positive COVID case among its residents between July and September this year and more than 98% of its facilities were COVID free in September. However, we would hope to see more firm-wide data in the future to assess if progress is being made which the company has so far declined to do. This engagement is still an ongoing process. We will continue to collaborate with other investors to explore in more depth specific areas where we continue to have concerns.

**China Everbright Environment Group**

**Is waste to energy an environmetal solution?**

We started a position in China Everbright Environment Group in January 2017. The company is a major operator of waste to energy facilities in China. It also operates water treatment facilities as well as renewable energy generation plants. The company is widely regarded as a leader in its overall approach to susainability and describes itself as ‘devoted to ecology and environment for a beautiful China’.

The company has been held in our Cleaner energy theme where we have typically regarded waste to energy as a cleaner source of power compared to traditional fossil fuel power generation. It has also been seen as a preferable way of managing the growing volume of municipal waste in the country. This is particularly true in emerging economies which have tended to have less mature waste management infrastructure. Alternative treatment options in these countries have typically involved landfilling or even just dumping waste in the natural envrionment.

However, our view on waste to energy has evolved since 2017. Waste management infrastructure has been maturing rapidly. In 2010, for example, 40% of municipal solid waste was disposed of in uncontrolled landfill, 30% was uncollected and only 4.5% was incinerated.16 By the end of the decade, nearly 50% was being landfilled and nearly 40% was being incinerated.17 Incineration – even with energy recovery – was no longer replacing uncontrolled waste disposal in the waste management industry. Instead there was evidence that it may have even begun to undermine markets for recycling.18 What is more, while a significant proportion of municipal waste is composed of plant-based materials and is arguably a renewable source of energy, a major proportion of municipal waste include plastics which is based on fossil hydrocarbon and is not therefore renewable.

**Engagement on carbon emissions**

Over the past two years, we have been engaging with the management of China Everbright Environment to encourage them to set a demanding carbon emissions reduction target. This is a challenging propostion for a business that is focused on incineration! However, our view has been that it should be possible to put in place systems to filter out fossil based materials leaving plant-based materials (wood and food waste for example) that could still be considered as a source of renewable power.

China Everbright Environment Group on its own accounted for nearly 60% of the carbon footprint of WHEB’s strategy (measured in terms of tonnes of CO2e per £1m of revenue).19 We were particularly keen therefore to see if the company would respond positively to our engagement.

Our engagement has involved voting against Board Directors due to a lack of action on greenhouse gas emissions as well as writing to senior executives in connection with our voting positions and seperately on the need for ambitious net-zero carbon targets. We have also had the opportunity to talk directly with employees responsible for investor relations and sustainability.

The company has been responsive to our engagement and has argued that the level of fossil-based carbon emissions lies largely outside of their control. In fact, fossil-based carbon emissions have increased in recent years because of the growing proportion of plastics in municipal waste streams. We do have some sympathy with this position, but also believe that the company has not aggressively pursued strategies to filter out and recycle plastic wastes. They admitted that filtering out plastic waste would not necessarily cause problems in terms of power generation and the company has now started to trial plastic waste recovery at some facilities.

**Conclusion**

The company indicated to us that they are keen to set a carbon reduction target, but that this will take upto three years to agree. They were not willing to accelerate this timeline, nor were they willing to prioritise plastic waste recycling. Overall, combined with other concerns that we had with the business, we concluded that management was not giving these issues the high priority that we believe they deserve. We think that this will ultimately undermine the position of waste incineration in the market and consequently chose to sell our position in the business.

**Public policy and standards**

**Climate change**

In the run-up to the Conference of the Parties (COP) 26th meeting in Glasgow in November, we have been supporting a range of investor initiatives aimed at putting pressure on national governments to commit to ambitious action on climate change. This involved co-signing letters to administrations in Korea (with the Asia Investor Group on Climate Change) and the UK20 (with WWF-UK) as well as co-signing a ‘Global Investor Statement to Governments on the Climate Crisis’. This last has the support of over 580 other investors representing US$46 trillion in assets under management.21

WHEB will be attending and speaking at a series of events at COP26 and will report back in our next quarterly review on the outcomes of the conference.

# Atlas (Infrastructure)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 3 | 170 | 164 | 6 | 0 | 168 | 2 |

## Engagement

During the third quarter ATLAS Infrastructure engaged formally with the Board and/or management of four of its portfolio companies. In one case this engagement centred on governance and social issues; in the other three cases the engagement centred on the disclosure and reporting of carbon emissions and the linking of remuneration with explicit climate transition objectives.

# UBS (Passive Listed Equity)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 814 | 7,113 | 6,048 (85%) | 1,012 (14.3%) | 53 (0.7%) | 6,076 (85.4%) | 1,037 (14.6%) |

## Engagement

Due to disclaimer concerns, the Q3 engagement cannot be reproduced on this report. In place of this, please visit [Sustainability and impact | UBS Global](https://www.ubs.com/global/en/sustainability-impact.html) for a 2020 report on Sustainability, as well as continual engagement information.

# Schroders (Property)

## Engagement

No engagement provided for this quarter

# Infracapital (Infrastructure)

## Engagement

No engagement provided for this quarter

# Pantheon (Infrastructure)

## Engagement

No Notable engagement for this quarter.

# M&G (Fixed Income)

## Engagement

**Net Zero, TCFD and PRI**

We announced in March 2020 that, as an asset owner and asset manager, we commit to net zero carbon emissions on our total book of assets under management and administration by 2050. This includes all investments made by M&G Investments, the asset manager within M&G plc. Reflecting this commitment, we became a founding signatory of the Net Zero Asset Managers initiative in December 2020. This leading group of asset managers supports net zero GHG emissions no later than 2050, and supports investing aligning with this goal. As part of the initiative, we also commit to prioritising the reduction of real economy emissions within the sectors and companies in which we invest. As well as allocating capital towards lower emissions sectors and technological solutions that mitigate the impact of climate risk, we are working to support the transition to a low-carbon economy through active engagement with company management. We engage with investee companies on climate change and use our votes, where we are shareholders, to drive change.

We are also encouraging greater climate-related disclosures. This reflects M&G’s support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), which call for businesses to disclose better information about the climate risks they face.

We are a Principles for Responsible Investment (PRI) signatory.

Furthermore, as a company, M&G plc announced its commitment to reduce operational carbon emissions to net zero by 2030, at the latest.

**AES Argentina Generacion SA**

During the quarter, M&G held a call with AES’s lead counsel, Investor Relations and Sustainability teams. AES, the American utility, is going through a rapid transition from coal power to renewables. Coal generation has dropped from 14.6 GW in 2015 to 5.8 GW in 2021, with an ambition to drop to under 10% of generation by 2025 and added 9.9 GW of renewable power in that time . The company has announced a Net Zero 2050 target and a 70% reduction in carbon intensity by 2030. The company is adding 3-4 GW of renewable power per annum. The purpose of the engagement was two fold – from a coal perspective to request the company to phase out coal by 2030 in North America and rest of world by 2040 and ask the company to set short, medium and long term targets for absolute carbon emission reductions (currently 64mt per annum). In terms of coal in North America and Europe there are 3 sites still open and generating coal power – two have PPAs that expire in 2026 and 2027 and in the third site in Indiana the company is in the process of converting 2 of the 4 units to renewable power. The company cannot currently guarantee that these sites will all be coal free by 2030 as this is in part dependent on state regulations. We await further developments on this. In the rest of the world, their Chilean operations have pledged to end coal by 2040, while Argentina is not material and Vietnam is in the process of being sold. In terms of setting carbon emission reduction targets they will consider this in addition to the carbon intensity targets already set.

**The Southern Company**

M&G met with 4 members of the Investor Relations and Sustainability team to persuade Southern Company to commit to phasing out coal by 2030 in line with M&G’s coal policy. Southern Company is clearly on a transition path: it has reduced its reliance on coal from 70% to below 30% of production, has built 5GW of wind and solar capacity and has committed to a Net Zero 50 target and to phasing out coal but they have not disclosed a timetable. The company supplies 3 different states: Georgia, Alabama, Mississippi and their supply is regulated by the states’ public service commissions. The company is very reluctant to make any public commitments on phasing out coal ahead of any agreements with their regulators. There will be new filings in October 2021 so we should expect some further phase out news over the winter but it is unlikely that the 4 coal units in Alabama (generating 2GW electricity) will be phased out by 2030 at this stage.

**NRG Energy**

M&G had a meeting with the Head of Investor Relations at NRG to persuade the company to phase out coal by 2030 so that it will comply with M&G’s coal policy. NRG is on a rapid transition pathway. It has reduced carbon emissions from 63 metric tonnes (mT) per annum to 28 mT. It has coal plants in Texas and in the East of the USA. The economics of burning coal to produce electricity is poor in the Eastern states, so 4 units are being retired (4GW) and a final one will be reviewed shortly. These plants are used as back up for stabilisation purposes and are only used less than 5% of the time. Texas is harder – solar is coming but there will still be a need for coal. One of the plants 2.5GW/ 3.7GW in Texas could be converted to natural gas. As a group, Coal revenue is less than 10% total revenue and will fall below 5% and coal purchased was 11 mT, so it will fall below M&G’s exclusion threshold.

**Fortis**

M&G met with the Head of Sustainability and Investor Relations at Fortis. Fortis is an American utility which generates and transmits electricity. The purpose of the engagement was to ask the company to phase out coal from its generation activities by 2030. The company explained that generation represents less than 5% of the company’s assets. Currently, Fortis fails M&G’s coal policy with coal representing more than 30% of electricity output. However, the company has an aggressive phase out policy to scale back all coal (just over 1 GW capacity) by 2032 combined with an aggressive roll-out of 4GW of renewables. It is unlikely that there will be any new phase out news before March 2022, but coal is expected to drop below 25% of output during 2022/23.

# Adams Street (Private Equity)

## Engagement

Over the second quarter of the year, Adams Street actively engaged with 7 managers in the East Sussex portfolio. The nature of these interactions were as follows:

* 5 Operational Due Diligence calls (covering all operational aspects, including ESG & RI)
* 1 Investment Due Diligence call between the ESG Director of a large European private equity manager and Adams Street, in order to review their policy pre-investment
* 1 call with one of Europe’s largest venture capital firms and existing Adams Street investment, during which we discussed their ESG program and provided feedback on areas for improvement, following assessment of their procedures and policies by Adams Street

# Harbourvest (Private Equity)

## Engagement

No Notable engagement for this quarter, however yearly ESG report lists overview for ESG: <https://viewpoints.harbourvest.com/2020-esg-report/cover/>.