

Engagement Highlights

Between April and June, we engaged with the 58 issuers listed below, some on multiple occasions.

Environmental, social and governance discussions

Air Liquide, Amazon.com Inc., Argo Group International Holdings Ltd, AT&T Inc., Barco NV, Baxter International Inc., Bluebird Bio Inc., Chevron Corp., Dassault Systemes SA, Mack-Cali Realty Corporation, Mondelez International Inc., PepsiCo Inc., Takeaway.com NV, Total SA, Valero Energy

Specific social focus

Pernod Ricard, Moncler, Royal Mail plc, Teleperformance, Vale SA

Specific environmental focus

ArcelorMittal, Coca-Cola European Partners, DS Smith, Essity, Ferrari, Moncler, Pernod Ricard, Total SA, Vale SA

Specific governance focus

Advanced Micro Devices Inc., AIA Group Limited, Alexion Pharmaceuticals Inc., Alexion Pharmaceutical, Inc. (DISSIDENT), Amundi SA, Applus SA, AVEVA Group Plc, AXA SA, Belimo Holding AG, BT Group plc, Burberry plc, Collaborative – JDW, CompuGroup Medical SE, DiaSorin SpA, easyJet plc, EBAY, Inc., Exxon Mobil Corp, Fidelity National Information Services Inc., Huhtamaki Oyj, ITV plc, Kingspan, Knorr Bremse, M&G plc, Marks & Spencer plc, Morrison (WM.) Supermarkets plc, Qualcomm Inc, Rentokil Initial plc, Royal Mail plc, SAP SE, SSP Group plc, Stillfront Group AB, Ted Baker plc, Teleperformance, Tesco plc, Wetherspoon (J.D.) plc

Case studies

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

Amazon.com Inc, USA, Consumer

Employee welfare

- We met with Amazon.com management to assess the company's response to the Covid-19 pandemic, with a focus on employee welfare.
- With nearly a million employees in hundreds of locations around the globe Amazon's task to protect workers is significant, and it has been criticised. The company also serves as a critical cog in the global economy, a role made especially acute by pandemic-driven shifts to ecommerce. The bar is high given the CEO's recent shareholder letter setting sustainability as a business priority.
- During Q2 the company announced \$4 billion in investments for pandemic response, including personal protection equipment, thermal temperature scanners and 175,000 additional workers. Our engagement assessed warehouse and store practices and determined that they were better than prevailing media stories portrayed.
- Amazon was among the first employers to take on-premise temperature scans, provide mandatory masks and set protocols for managing infections. The company also employed its analytical focus to develop sophisticated contact tracing and employee communications tools. While infections still occurred, the company reported infection rates were consistent with their local communities and, in many cases, were lower. We encouraged the company to disclose aggregated infection figures, and agreed to follow up on engagement. While much work remains, the company demonstrated a solid approach and commitment to employee welfare and risk management.

Baxter International Inc, USA, Healthcare

Corporate governance

- We met with the Lead Independent Director and the Audit Committee Chair of Baxter International ahead of its AGM to assess risks presented by recent events. The company is in the early stages of rebounding from prior production and quality issues and is presently under an SEC accounting investigation related to the booking of income from foreign exchange gains.
- The company has concluded its own internal investigation and undertaken remediation steps, as well as clawed back CEO and CFO incentive compensation related to earnings restatements.
- We decided to cast dissenting votes against the directors in view of the accounting failures and also supported two shareholder proposals, one of which sought to separate the combined Chair/CEO dual role. The latter proposal, we believe, will help establish more independent board oversight during a critical time in the company's history. We note that the proposal received majority support from investors.

Valero Energy Corporation, USA, Energy

Sustainability disclosures

- The company operates in a sector maligned for its involvement in carbon, but is among the more progressive of the oil refiners in its approach to emissions reduction and energy transition. We engaged to better understand the current state of the company's sustainability efforts and to encourage enhanced disclosures to improve its profile. We believe the company and marketplace underestimates these strengths.
- The company is the largest renewable fuels producer in North America, and no other company exceeds its capital expenditures on renewable diesel.
- Its Port Arthur refinery has a large-scale carbon capture and storage (CCS) operation – 1 million tons of carbon dioxide per year – which is the only refinery with this well-developed technology. Its reclamation and recycling efforts enable it to be the lowest cost refiner.
- We encouraged the use of the disclosure frameworks advanced by TCFD and the Sustainability Accounting Standards Board, and encouraged a restart to reporting to CDP (formerly the Carbon Disclosure Project) which the company has shunned for several years. The company has committed to publishing a SASB-focused report in late 2020, and intends to enhance its TCFD reporting and to build the aforementioned strengths into investor calls so the market better understands where the company falls on the risk/opportunity spectrum.

Air Liquide, France, Materials

Environmental

- The company produces and distributes gases for industry and healthcare applications. We wanted to learn more about the company's plans around hydrogen, which can play a key role in a future net zero carbon economy, so we met the CEO and members of the sustainability team at separate meetings during the quarter.
- Hydrogen is a big focus, but currently a small proportion of sales. The company is positioning itself as an enabling player in energy transition via the production and distribution of hydrogen. The opportunities are significant. The Hydrogen Council estimates that by 2050 a hydrogen economy could be developed – saving 2.5 trillion tonnes of emissions. The potential addressable market is large.
- The company aligns with our theme of Energy and Climate Transition, and contributes to themes on Sustainable Resource Management & Transformation, and Regeneration, by enabling greener industrial production, transport and heating for buildings. There is ongoing internal research, and this will be discussed at our September Investment Themes meeting.

Kingspan, Ireland, Industrials

Governance

- Although a sector leader in terms of ESG and sustainability practices, over the past few years we have held regular meetings with board directors and management and have used voting action as a signal to emphasise our concerns relating to board composition.
- During the quarter, we were pleased to note that the focus on corporate governance continues and that succession planning remains robust. At the annual general meeting, we therefore voted in support of relevant items.

Teleperformance, France, Industrials

Employee welfare

- Teleperformance is a French outsourcing company, running call centres, back-office services and providing digital services for many multinational companies. There have been negative press articles on working conditions for employees affected by Covid-19. We held a teleconference with the CFO and General Counsel.
- The company has been providing support across all of its locations, with 92% of employees covered by sick pay. The firm has also purchased 6.3 million face masks.
- We gained comfort from our improved understanding of the firm's approach but see an increased reputational risk due to the scale of the company. We also encouraged the company to undertake a more proactive communications strategy while we continue to monitor our investment.

ITV, UK, Communication Services

Board remuneration

- We frequently engage with ITV on various topics, including ESG and corporate governance, and have been an active participant in the company's remuneration consultation. During the quarter, the company held its AGM.
- Our assessment of companies' executive pay practices focuses on quantum, strength of variable pay metrics, the link between pay and performance, and alignment with shareholders. We encouraged ITV to keep a total shareholder return element in its long-term variable pay to strengthen this alignment. The company did this, and we voted in support of all items at the general meeting.

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