

New Zealand Crown Financial Institutions:

Q4 2024

- New Zealand Superannuation Fund
- Accident Compensation Corporation
- Government Superannuation Fund
- National Provident Fund

*Companies represented in this report may not be held by each Crown Financial Institution.

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.

Companies engaged this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
81	71	16	17

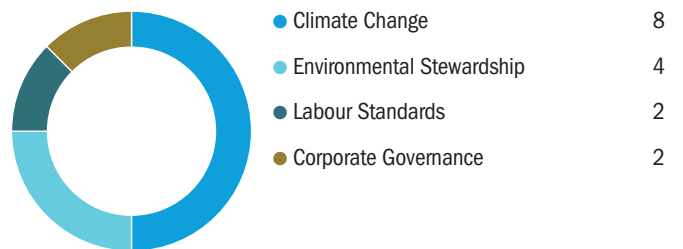
Companies engaged by region



Engagement by theme *



Milestones achieved by theme



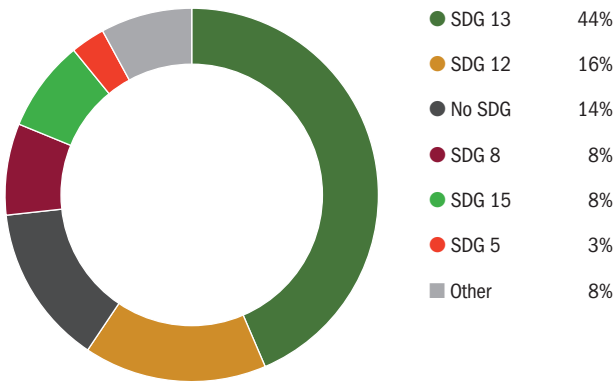
* Companies may have been engaged on more than one issue.

Engagements and Sustainable Development Goals (SDGs)

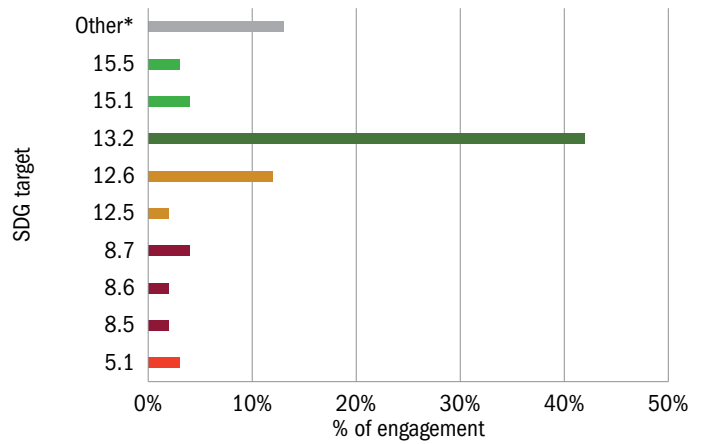
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

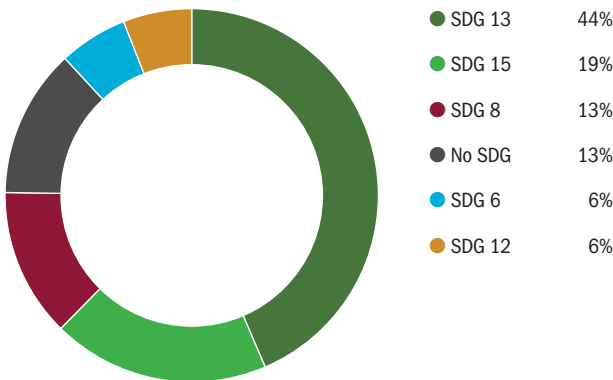
Engagement: SDG level



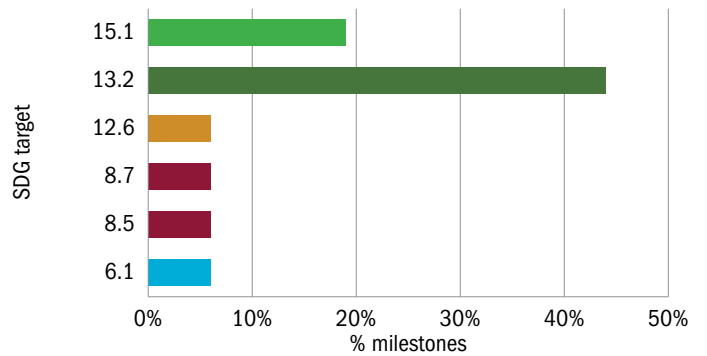
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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



Engagement case studies

Company: Alibaba Group Holding Ltd

Mailing Country: China

Sector: Information Technology

Priority Company: ✓

ESG Risk Rating: 

Response to Prior Engagement: Good

Theme: Climate Change, Human Rights, Corporate Governance

Engagement Case Study Name: Enhancing climate resilience and data governance practices

SDG:



13.2



8.7

Background

Alibaba Group is the world’s second largest e-commerce retailer. We spoke to the Head of ESG to discuss their climate strategy, physical risk impact assessment, impact of AI on jobs, and human rights due diligence. We were encouraged by the company's targets and initiatives around key emission drivers - i.e., their e-commerce, logistics, and cloud business. However, we sought more clarity on Alibaba's approach to assessing and mitigating physical and data privacy risks in its data centers and its supply chain risk management practices.

Action

On climate strategy, Alibaba highlighted initiatives such as the use of recyclable packaging, piloting sustainable aviation fuel for international cargo delivery, energy-efficient hardware/software, and liquid immersion cooling to reduce energy consumption. The company is also sourcing c39% of its energy needs from clean energy as part of its carbon neutrality strategy. Regarding physical risks, Alibaba discloses water usage efficiency by site for its self-operated data centers and conducts thorough risk assessments while carefully siting data centers to protect against acute weather events. It also addresses water scarcity through air cooling. With regards to data privacy, we were encouraged by the company’s recent update of its supplier code of conduct obligating supplier to comply with internal data protection guidelines. We believe disclosure on data security breaches would be key to assess the effectiveness of their strategy. Finally, we discussed Alibaba's human rights due diligence in its supply chain. The company highlighted its updated supplier ESG Code of Conduct signed by 14,000 suppliers, mapping and disclosure of Tier 1 suppliers, and increased audits (now at 30% of suppliers) to verify labour practices, recruitment, fair wages, safety, and business ethics.

Verdict

Alibaba's climate strategy and initiatives are commendable, but we would encourage greater transparency on physical risk mitigation strategies for water-stressed regions in particular. We encouraged Alibaba to publish a site-wide water risk map and mitigation strategies adopted to adequately estimate investment risk. The company's human rights due diligence efforts are progressing, but disclosing audit findings and remediation actions would enhance transparency. Overall, Alibaba demonstrates a commitment to addressing material ESG issues, but we believe ongoing engagement is necessary to drive further improvements and transparency.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile:  GREEN Second quartile:  YELLOW Third quartile:  ORANGE Bottom quartile:  RED

Engagement case studies

Company: Amazon.com Inc

Mailing Country: United States

Sector: Consumer Discretionary

Priority Company: ✓

ESG Risk Rating: 

Response to Prior Engagement: Good

Theme: Climate Change, Environmental Stewardship, Human Rights, Labour Standards

Engagement Case Study Name: Amazon's approach to energy management, water and human capital management

SDG:  8.7  13.2

Background

Amazon is a leading online retailer and web service provider that offers a range of products and services to customers from electronic devices, media content and on-demand technology services. As a leading e-commerce and cloud computing company, Amazon faces various environmental and social risks across its operations and supply chain. We met with ESG Engagement Specialists to discuss their views on the impact of potential trade policies, their human capital strategy, and their water and energy strategy for Amazon Web Services (AWS) data centres.

Action

Regarding potential import tariffs on Chinese goods in the US, Amazon believes that compliance would primarily lie with third-party sellers in their supply chain, potentially affecting supply chain resilience to some extent. On human capital management, Amazon has implemented several feedback channels and robotics to improve working conditions in fulfilment centres. However, we encouraged the company to identify and disclose metrics to assess the effectiveness of these measures, such as tracking and resolving material grievances. In relation to AWS data centres, Amazon considers siting decisions aligned with customer expectations and resource availability. On energy management, the company works on the principle of additionality (i.e. it aims to add renewable and clean power capacity where it is most impactful and cost-effective and offset that against energy usage) versus 24/7 matching of energy usage to renewable energy generated on the local grid. Amazon has also built a water risk dashboard based on assessments in order to prioritize regions for greater water saving and recycling intervention.

Verdict

We are encouraged by Amazon's long-term net-zero and water-positive goals, as well as its efforts to improve working conditions and human capital management. However, we believe these commitments should be validated by interim, publicly disclosed targets in order to more effectively assess progress. Amazon's approach to energy and water management for AWS data centres is commendable. We intend to continue our engagements in order to drive further transparency and accountability on material ESG issues across the company's operations and supply chain.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile:  GREEN Second quartile:  YELLOW Third quartile:  ORANGE Bottom quartile:  RED

Engagement case studies

Company: Analog Devices Inc

Mailing Country: United States

Sector: Information Technology

Priority Company: ✓

ESG Risk Rating:

Response to Prior Engagement: Good

Theme: Corporate Governance

Engagement Case Study Name: A proactive approach to remuneration and talent management

Background

Analog Devices Inc (Analog) is a multinational semiconductor company that designs and manufactures analog, mixed signal, and Digital Signal Processor (DSP) integrated circuits used for data conversion, signal processing, and power management. We engaged with several operational specialists at the company to discuss proposed changes to their remuneration policy, such as annual short term incentive measurements, more challenging short term incentive targets, and reduction of maximum payout. These changes were in response to investor feedback received earlier in the year after shareholder dissent at the previous AGM.

Action

We discussed these proposals during our engagement and appreciated the company's responsiveness to investor feedback as the improvements made to the remuneration practices are a positive step in our view. We provided additional feedback to improve their remuneration policy further, such as changes to the vesting schedule and change-in-control provisions. We also discussed the company's succession planning processes, which signaled a strong awareness of risk management and capitalizing on opportunities.

Verdict

Analog's proactive approach to addressing investor concerns and implementing changes to its remuneration policy demonstrates a commitment to good corporate governance practices. The company's responsiveness to investor feedback and willingness to engage on remuneration and succession planning issues are positive developments. However, we believe that ongoing engagement may be necessary to monitor the implementation of the proposed changes and ensure alignment with best practices in executive compensation and talent management.

ESG Risk Rating:

Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagement case studies

Company: Smurfit WestRock PLC

Mailing Country: Ireland

Sector: Materials

Priority Company: ✓

ESG Risk Rating: GREEN

Response to Prior Engagement: Good

Theme: Climate Change, Environmental Stewardship, Human Rights

Engagement Case Study Name: An update on sustainable forestry and community engagement in Colombia

SDG:  13.2  15.5

Background

Smurfit Westrock is an Irish-American supplier of paper-based packaging. The company is vertically integrated, spanning forestry assets (mainly in Colombia), mills and plants, and is one of the largest paper and board producers in the world. We conducted a two-day site visit to Smurfit Westrock's forestry assets and pulp mill in Colombia, accompanied by the company's Chief Sustainability Officer. The visit aimed to assess the company's sustainable forestry practices, community engagement efforts, and the environmental and social impacts of its operations.

Action

During the visit, we toured Smurfit Westrock's forest research unit, forestry plantations, and the Cali pulp plant. We witnessed the company's scientific rigor and collaborations with universities in forestry research. The plantations are established on degraded cattle pastures; we observed evidence of heavy soil erosion on similar cattle assets, indicating the positive impact of afforestation in controlling erosion. Additionally, we toured the new biomass boiler under construction at the Cali plant, which will replace coal. We encouraged the company to ensure that any third-party sourced biomass is certified. From a social perspective working with local communities, we also visited two primary and secondary schools funded by Smurfit Westrock in the local area. Alumni from these schools are often recruited into Smurfit Westrock roles, providing employment opportunities in impoverished regions of Colombia.

Verdict

We were impressed by Smurfit Westrock's sustainable forestry practices, community engagement efforts, and the scope of the mill revamp in Cali. In particular, we were pleased to see the improvements that Smurfit has made on its management of operational impacts on biodiversity, which has been a focus of our engagement for the past two years. The company has taken on board our recommendations and is appraising some of the eDNA providers we suggested they assess. Moving forward we will focus our engagement on ensuring that the company sustainably sources feedstocks for the biomass boiler, and continues to maintain productive relationships with local indigenous communities.

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
SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
SDG3	3.8	Access to medicines and health-care
SDG5	5.1	End all forms of discrimination against women and girls
SDG6	6.1	Achieve universal access to safe & affordable drinking water
SDG7	7.3	Double the global rate of improvement in energy efficiency
SDG8	8.5	Achieve full and productive employment for all
SDG8	8.6	Reduce the proportion of youth not in employment or education
SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
SDG9	9.3	Increase access to finance for SME's
SDG10	10.2	Empower and promote inclusivity for all
SDG11	11.2	Provide access to safe and affordable transport systems
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.4	Manage chemical usage and waste throughout their life cycle
SDG12	12.5	Reduce waste through prevention, reduction, recycling and reuse
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG13	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.a	Address climate change mitigation for developing countries
SDG14	14.1	Prevent and reduce marine pollution of all kinds
SDG15	15.1	Ensure sustainable usage of terrestrial freshwater ecosystems
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG15	15.5	Take urgent action to reduce degradation of natural habitats

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