# Ageas Pensões

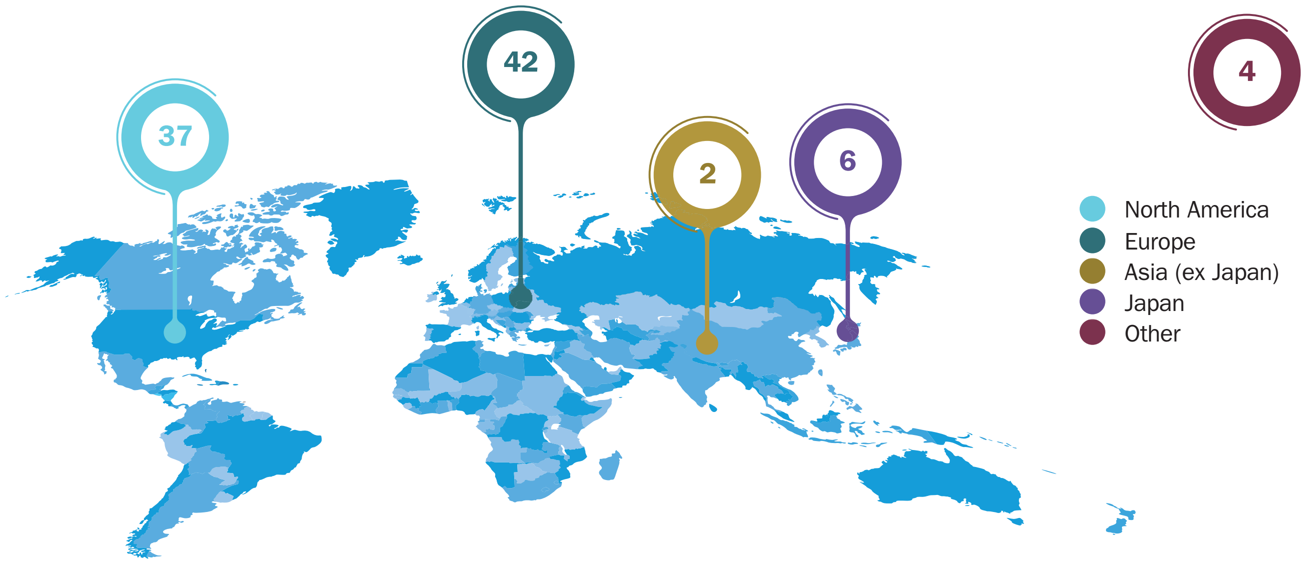
## Q3 2023

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.

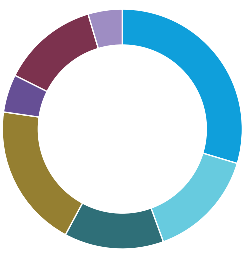
### Engagement this quarter

| Engagement | Companies Engaged | Milestones achieved | Countries covered |
|---|---|---|---|
| 117 | 91 | 8 | 17 |

### Companies engaged by region




### Engagement by theme *



- Climate Change 64
- Environmental Stewardship 32
- Human Rights 29
- Labour Standards 42
- Public Health 11
- Corporate Governance 28
- Business Conduct 10

### Milestones achieved by theme

- Climate Change 3
- Environmental Stewardship 1
- Labour Standards 4

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

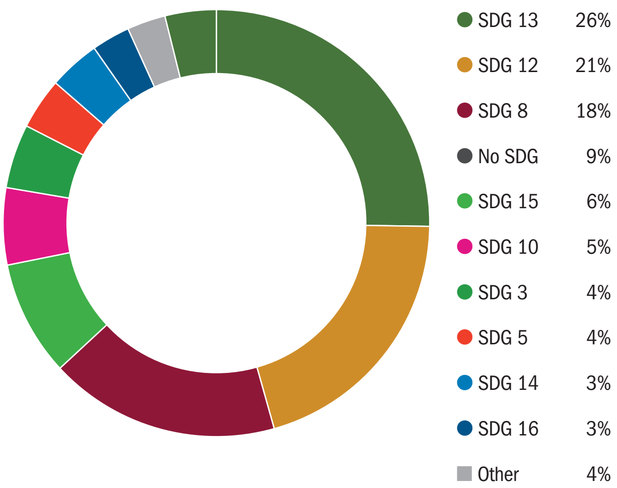
COLUMBIA THREADNEEDLE INVESTMENTS

## Engagements and Sustainable Development Goals (SDGs)

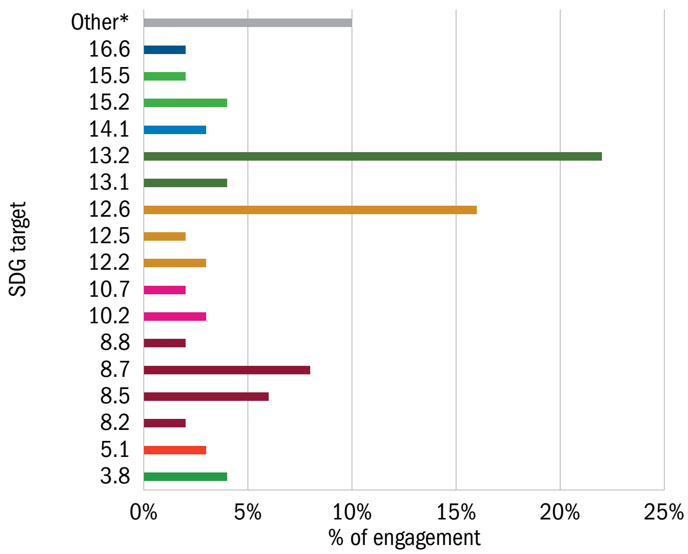
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

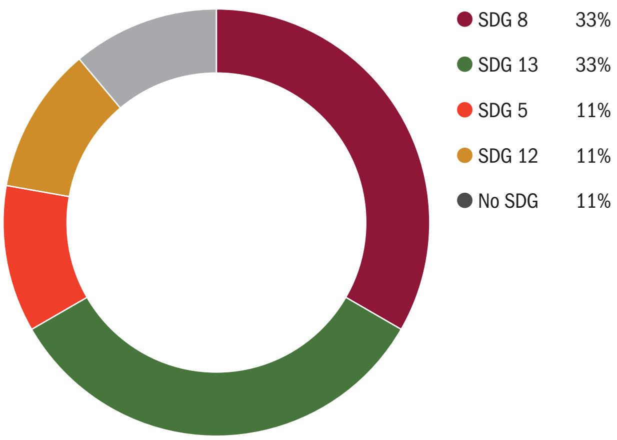
### Engagement: SDG level



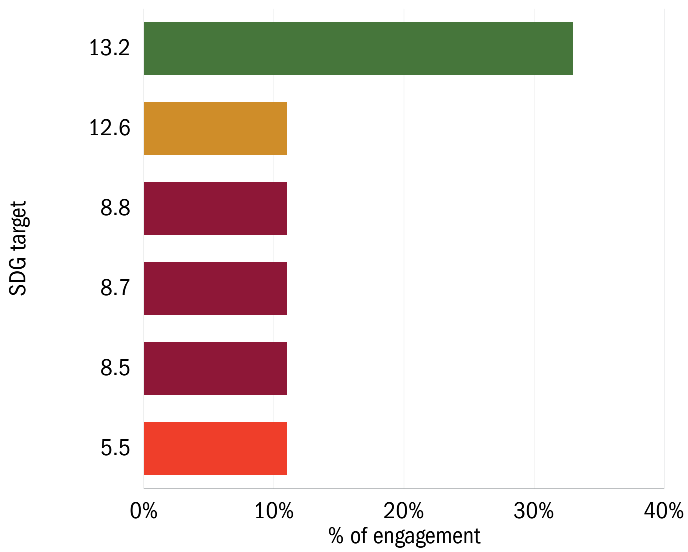

### Engagement: SDG target level




### Milestone: SDG level




### Milestone: SDG target level




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

## Engagement case studies

| | | |
|---|---|---|
| **Company:** Fresenius SE & Co KGaA | **Country:** Germany | **Sector:** Health Care |
| **Priority Company:** ✔ | **ESG Risk Rating:** | **Response to engagement:** Good |
| **Theme:** Human Rights, Labour Standards, Public Health, Corporate Governance | **Issue:** Fresenius SE group restructuring – enhanced ESG oversight to be expected | |
| **SDG:** 3.8, 8.5, 16.6 | | |

### Background

Fresenius SE is a German healthcare group that has historically operated four specialised business segments. In an effort to improve oversight and control, the company is currently being restructured which will include the deconsolidation of its business segments focused on service provision and dialysis. Our engagement focus has been on ensuring the restructuring process results in a more sustainable business model that embeds enhanced oversight on the material ESG issues into corporate strategy.

### Action

We met with the company's sustainability leads to discuss the company's restructuring process and the impact this will have on key ESG topics such as product quality and animal welfare. The Fresenius sustainability department has struggled for a long time to be effective with limited resources and a fragmented business structure, with little group level target setting and oversight. There has been a relative lack of centralised management information, including the absence of a single human resources database. This has resulted in implications for business strategy setting and oversight. From our discussions with the company, we believe that progress should be forthcoming as the business structure is being simplified. The group is on a clear path to quantified ESG-related KPIs for material issues of medical quality/patient satisfaction and employee engagement being embedded in performance incentive plans. Fresenius also explained that they are now aligning corporate strategy around a newly articulated central mission of "advancing patient care".

### Verdict

The operational challenge of organisational change will still dominate resourcing for the coming months, but for the first time there is broad agreement of goals and direction across the Management and Supervisory Boards. We look forward to more granular data and targets being published in due course and will revisit progress in the coming months.

**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:** General Mills Inc | **Country:** United States | **Sector:** Consumer Staples |
| **Priority Company:** - | **ESG Risk Rating:** | **Response to engagement:** Adequate |
| **Theme:** Corporate Governance | **Issue:** Capital Structure and Shareholder Rights | |

### Background

General Mills is an American based food manufacturer. Over the years, our engagements with the company have led to positive improvements in environmental stewardship, in particular on water management and plastics packaging. Most recently we have focused on Governance topics – at its 2023 Annual General Meeting, General Mills tabled a management proposal to allow shareholders holding 25% of common stock to request a special meeting. This was shortly followed by a shareholder proposal of a 10% threshold.

### Action

We engaged with the company to discuss the management proposal and implications for shareholder rights. We highlighted that given the company's by-laws currently do not allow shareholders the right to call a meeting, we view this proposal as a positive step. However, we inquired about the considerations the company took in determining the 25% threshold and underscored that it would be unlikely for shareholders to reach such a high percentage, given the more passive investment strategies of their largest institutional investor shareholders.

### Verdict

We view special meetings as a positive shareholder right, allowing shareholders displeased with the company or the board to request a meeting to enact change. While our view is that 10% is a more suitable threshold than 25%, we believe that General Mills opening this avenue to shareholders is nonetheless a positive development. As such, we chose to support both the management and shareholder proposals, thereby underscoring the suitability of the 10% threshold. Both proposals passed, with management receiving c71% support and the proponent receiving c60%. In these circumstances, we anticipate the Board adopting the 10% threshold, leading to a significant step forward in shareholders rights at General Mills.

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## Engagement case studies

| | | |
|---|---|---|
| **Company:** Johnson & Johnson | **Country:** United States | **Sector:** Health Care |
| **Priority Company:** - | **ESG Risk Rating:** | **Response to engagement:** Good |
| **Theme:** Public Health, Corporate Governance, Business Conduct | **Issue:** Engaging with Johnson & Johnson on the value of transparency | |
| **SDG:** 3.8, 12.2 | | |

### Background

Pharmaceutical giant Johnson & Johnson (J&J) has been grappling in recent years with more than 38,000 lawsuits alleging that its talc products, including Johnson's Baby Powder, can contain asbestos and caused cancers including ovarian cancer and mesothelioma. J&J has attempted to resolve this litigation, offering $8.9 billion to end all current and future lawsuits alleging that talc causes cancer. The company's Senior Director of Sustainability and Engagement as well as the Company Secretary attended an in -person investor meeting in London to address investor concerns and queries regarding litigation, drug pricing, and ESG metrics.

### Action

A key theme of the engagement was transparency. Regarding the lawsuits, we encouraged increased transparency and communication around changes in corporate practices and processes implemented to mitigate current and future harm. In relation to drug pricing, we acknowledge that companies such as J&J must strike a balance between expensive drug discovery and development processes and setting final drug prices. While noting the complexities involved, we urged the company to create more transparency (where feasible) on price increases in order to understand how these align with input costs and added patient value. Along with other investors, we recommended increased clarity around ESG metrics, such as how they are implemented and how they align with the company's ESG materiality assessment. J&J stated that while they currently only have qualitative ESG metrics, they are cognisant of differences in regional regulations and sentiment around ESG targets and disclosures which they must take into consideration when considering disclosure.

### Verdict

In our view, J&J displayed a willingness to listen to our recommendations and we anticipate increased disclosure from the company as a result. We will continue our dialogue with the company on access to medicine and litigation in the next quarter, as well as discussing board renumeration and climate disclosure.

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## Engagement case studies

| | | |
|---|---|---|
| **Company:** Rio Tinto Ltd | **Country:** Australia | **Sector:** Materials |
| **Priority Company:** - | **ESG Risk Rating:** | **Response to engagement:** Good |
| **Theme:** Climate Change | **Issue:** Meeting climate commitments – A rocky road ahead | |
| **SDG:** 13.2 | | |

### Background

Rio Tinto (Rio) is the world's second largest metals and mining company. It announced in July that it is unlikely to achieve its 2025 climate targets; largely due to the scope 1 and 2 emissions from its Australian Aluminium refineries, stating that the target could only be reached if it 'resorted' to buying carbon credits. As a result, we engaged with Rio Tinto on this recent announcement, aiming to understand the barriers that the company had identified and any plans to address them.

### Action

Rio Tinto has been hit hard by the revisions to the Australian 'safeguarding mechanism' which taxes the country's largest industrial sites (ie those that emit more than 100,000 tons of direct (scope 1) carbon dioxide emissions annually). In July, Rio reported a US$1.2bn write down of its Australian aluminium refiners due to the mechanism's new rules. We engaged with Rio on its reaction to this policy, as well as its preparedness for any future punitive measures. According to the Investor Relations team, the company were actually aware of the risks to the aluminium refineries and had planned for this eventuality. As a result, we encouraged the company to provide better scenario analyses and risk assessments to investors around the potential for further regulatory shifts in any of the countries it operates refineries in, as the actions taken by the company did not indicate that Rio had embedded this potential write-down risk into its climate strategy and financial planning. We also gauged Rio's confidence in achieving its 2030 targets – while the company continues to appear confident in our view, more details are expected at an upcoming capital markets day in December.

### Verdict

Rio is being transparent about its current struggles with net-zero, which we commend. However, we are keen to see clearer evidence of it aligning its financial accounts and risks with its net-zero strategy. We will continue to engage with Rio on its decarbonisation target and have already reached out to set up a follow up conversation on its offsetting strategy –now its last resort for achieving its 2025 targets.

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## Engagement case studies

| | | |
|---|---|---|
| **Company:** RWE AG | **Country:** Germany | **Sector:** Utilities |
| **Priority Company:** - | **ESG Risk Rating:** | **Response to engagement:** Good |
| **Theme:** Climate Change | **Issue:** Engaging on RWE's decarbonisation strategy | |
| **SDG:** 13.2 | | |

### Background

RWE is a German utility company engaged in the generation, transmission and distribution of electricity and gas and is one of the last European utility players with coal mine and power assets. RWE has emissions targets in place covering Scope 1, 2 and 3 emissions which have been validated as well-below 2°C aligned. They submitted a new set of 1.5°C targets to the Science-based Targets initiative in May and are hoping these will be verified by year end. As a result, the focus of our engagement has been on their decarbonisation strategy to meet these targets.

### Action

We discussed RWE's coal phase-out timelines and strategy for the end-of-life for these assets, their natural gas strategy, and their approach to hydrogen and Carbon Capture, Usage and Storage (CCUS). We also discussed the climate component of their executive remuneration and the progress towards their renewables targets. RWE stated that the coal foundation model (ie establishing a foundation to organise the dismantling of coal-fired power generation) which had been discussed within the German government is unlikely to materialise. However, they confirmed that they have agreed with the government to a 2030 coal phase-out, bringing this forward from 2038. RWE has previously highlighted developing 'green conversion roadmaps' for these assets, and we encouraged additional disclosure on the end-of-life plans for these. They noted policy uncertainty, particularly regarding support for the conversion of some of these assets to hydrogen-ready gas-fired plants, as a reason for limited disclosure. Regarding their renewables strategy, RWE highlighted the recent EU emergency permitting measures and revisions to the EU Renewables Directive, in part now incorporated into German law, will speed up the permitting process for renewables. They believe this should help them meet their renewables capacity targets for onshore, offshore and solar energy.

### Verdict

RWE have been very open to engagement and have taken onboard many of our requests for additional disclosure regarding their climate risk management. They are currently in the process of revising their 'Growing Green' strategy, following several government policy updates, and highlighted that they will look to provide more public disclosure on the topics above during their capital markets day in November. We plan to attend this and review the strategy and additional disclosures before further engagement.

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## Appendix


| SDG | Target | Target Summary |
|---|---|---|
| SDG2 | 2.4 | Implement climate-resilient and sustainable food production |
| SDG3 | 3.8 | Access to medicines and health-care |
| 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 | 6.3 | Improve water quality by reducing pollution |
| SDG6 | 6.4 | Increase water-use efficiency to address water scarcity |
| SDG8 | 8.2 | Achieve greater productivity through innovation. |
| 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 | 9.1 | Develop resilient and sustainable infrastructure |
| SDG9 | 9.4 | Upgrade and retrofit industries to increase sustainability |
| SDG10 | 10.2 | Empower and promote inclusivity for all |
| SDG10 | 10.3 | Ensure equal opportunity and legislation for all |
| SDG10 | 10.7 | Facilitate safe migration through managed policies |
| SDG10 | 10.a | Implement the WTO's special rights provisions |
| SDG12 | 12.2 | Sustainably manage and make efficient use of natural resources |
| 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 | 15.2 | Promote the implementation of sustainable management of forests |
| SDG15 | 15.5 | Take urgent action to reduce degradation of natural habitats |
| SDG16 | 16.6 | Develop effective, accountable and transparent institutions |
| SDG16 | 16.10 | Ensure public access to information and protect fundamental freedoms |