Responsible Investment Solutions | For professional investors only

Engagement Review

2023 Engagement Projects

COLUMBIA THREADNEEDLE INVESTMENTS

Contents

Introduction

At Columbia Threadneedle we view engagement and proxy voting as powerful levers that can help create investor value. Proactive engagement on behalf of our clients is an integral part of our approach.

On an annual basis, the active ownership analysts conduct a high-level assessment of a wide range of current and emerging Environmental, Social, Governance (ESG) issues and their potential impacts on long-term investment returns, and on the economy, environment, and society. The results of this assessment determine the specific ESG issues on which we will focus our engagement activities going forward. Project-based engagements on specific issues normally run for two to three years and are concluded by a final assessment of progress.

This report provides a summary review of the engagement projects we undertook in 2023, and the progress we made within.

We publish this report alongside our Engagement Outlook, which details our thematic outlook and engagement projects for 2024.

Claudia Wearmouth

Global Head of Responsible Investment

2023 projects in review

Discover the progress we made with our thematic engagement projects over the past year.

Coal Phase out

SDG goal(s)

During the course of 2023, we conducted 50 engagement activities with 26 companies regarding their phase out of thermal coal. This was primarily with electric utilities, as well as issuers involved in thermal coal mining.

In many developed markets, the year has been marked by continuation in the structural decline in thermal coal consumption and generation, following a small rebound in coal-fired generation in 2022, in light of energy security concerns raised by Russia's invasion of Ukraine.

During the year we have seen several governments bringing forward their coal phase-out timelines, for example Spain brought their phase-out date forward to 2025 from 2030. While the US, alongside 8 other countries, joined the Powering Past Coal Alliance during COP28, committing to no new unabated coal plants and to phasing out existing unabated coal power generation.

We have spoken with several European and US utilities regarding their progress and management of the phase-out of thermal coal units, encouraging further disclosure on plans for the end-of-life of these units and gaining greater understanding of impairment risks from changes in government phase-out dates.

For example, during the year we have engaged seven times with **RWE**, one of the largest European electric utilities. The company have brought forward their thermal coal generation phase-out date to 2030, and disclosed asset-by-asset timelines

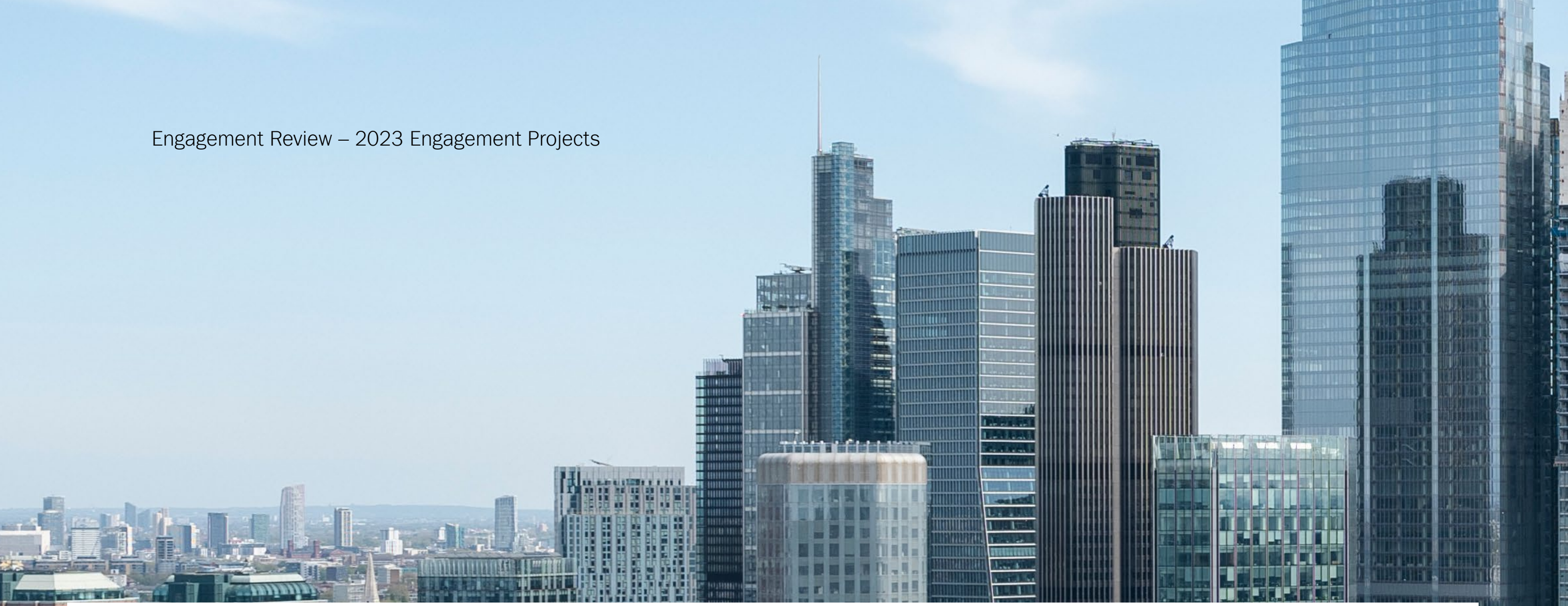
[1] See more on our engagement with Japanese utilities in our ESG viewpoint 'A deep dive on Japan's love carbon transition', October 2023.

for this phase-out. We have been seeking further information on the end-of-life plans for these assets, and the company is looking to disclose 'green conversion roadmaps' for these. With plans to close their three existing open-cast lignite mines, the Just Transition has been a key theme of this engagement, and it was positive to see that they have agreements in place regarding early retirement and re-skilling of employees with the local governments and trade unions.

We have also engaged with several asian companies, where we have seen the opposite trend, with thermal coal consumption increasing during 2023 as China, India and Indonesia continued to commission new thermal coal capacity. This has been driven by growing electricity demand, government concerns over energy security and affordability, and a growing need to provide reliable baseload power and grid resiliency, given the risk of intermittent energy supply from renewables sources as their share of the power mix increases.

With high reliance on coal-fired power generation and a plant fleet with an average age below 15 years, the conversations with these companies have been focused more on their plans to convert these assets, with several utilities focusing on retrofitting existing units with carbon capture and storage, or to co-fire with ammonia or biomass. We have engaged with **Kansai Electric**, one of Japan's largest electric utilities, four times during the year. We have sought greater understanding of the technical and economic feasibility of co-firing ammonia and hydrogen into these units, the lifecycle emissions reduction associated with these technologies, and their strategy to use offshore and overseas carbon storage sites for Carbon Capture, Utilisation and Storage (CCUS)[1].

There remains a range of approaches to managing the coal phase-out, including decommissioning, conversion and sale of assets. These are determined by several local and regional factors, including government policy and access to financing. We will seek to continue engaging companies on this theme in 2024.



Climate change and banks

SDG goal(s)

During the year, we have conducted over 50 engagements with more than 30 banks on their climate risk management.

Through the course of this engagement, we have seen enhancements in banks' governance and management of climate risks, with many now incorporating climate risks into their risk appetite statements and continuing to strengthen their climate scenario analysis. We have also seen an expansion of the sectors and portion of banks' loan books covered by financed emissions targets, and greater detail on their strategy to achieve these. For example, banks continue to tighten their fossil fuel lending policies, whilst also introducing frameworks to assess their clients' transition plans.

These trends are in part being driven by the evolving landscape of voluntary initiatives, as well as continued prudential regulation. Membership of the Net Zero Banking Alliance continues to grow, with over 130 banks now involved. We have seen the Institutional Investors Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI) launch the Net Zero Standard and Assessment Framework for Banks, with an accompanying assessment of 27 banks. As members of the IIGCC Banks Working group, we have provided input into the development of this standard and have sought to engage collaboratively on the outcomes of the assessment.

Central banks and prudential regulators have continued to introduce and enhance the enforcement of climate-related supervisory expectations, while also introducing and improving climate scenario analysis and stress testing exercises. For example, in January this year the US Federal Reserve announced their climate risk stress test for several large US banks, and more recently in October released their Principles for climate-related financial risk management for large financial institutions[2]. In some markets, this is slowly starting to have implications for banks capital requirements, notably in the EU where the European Central Bank (ECB) has highlighted banks' climate risk management is now feeding into firm-specific capital add-ons.

We continue to see divergence in how banks are managing climate-related risks, with some banks still in the earlier stages. For example, we have engaged five times in the year with **Bank Mandiri**, the largest Indonesian bank by assets, and while not as advanced as some other developed market banks, during the year they have responded to the Climate Disclosure Project (CDP) climate change questionnaire for the first time, aligned their reporting with the Taskforce on Climate-related Financial Discloures (TCFD) recommendations and have committed to disclosing their financed emissions. It is also worth noting that their peer, **Bank Rakyat Indonesia**, has become the first Indonesian bank to publish a standalone TCFD report and commit to setting financed emissions targets.

We have also seen several banks across different markets publishing inaugural transition plans, for example **Deutsche Bank** and **DNB**, widening the scope of their financed emissions targets and elaborating on their strategy to achieve these. Meanwhile, other banks are revising their transition plans, for example **Mizuho**, who have developed and disclosed their framework for assessing client transition readiness, to guide their transition finance and client engagement, and provide aggregate disclosure on client progress within this framework.

As the project timeline has now ended, engagement on this topic will now transition into our broader engagement activities as we continue to engage with banks on climate risk management.

[2] Federal Reserve website, 'Agencies issue principles for climate-related financial risk management for large financial institutions' press release dated 24 October 2023

Physical risks of climate change

SDG goal(s) 13 CLIMATE ACTION

In 2023 we engaged companies in the utilities, infrastructure, food and (re)insurance sectors on how they are building resilience to climate impacts, by both quantifying the risk exposure and developing adaptation measures. These sectors were selected based on an assessment using data from Moody's 427 physical risk tool – one of the most comprehensive datasets on climate risk that is available, enabling us to focus our engagement on companies where these risks were the most material. 2023 was the hottest year ever recorded, with extreme weather experienced globally as a result, making this project particularly topical when we reached out to issuers.

Overall, the project case-studies were invaluable in developing our approach to appraising physical risk disclosure and management. The questions we developed for the project – and the examples of best practice – were directly transferred into our broader climate engagement agenda throughout the year. Therefore, it is worth noting that the **16 issuers** targeted within this project are only the core-project names engaged on the topic, as we spoke much more broadly to a range of issuers on physical risks throughout the year.

The project refined our view on best practice on the topic, particularly when considering that adaptation expectations and Key Performance Indicators (KPIs) are both extremely broad and context specific, requiring a much more sector-specific approach. This is in marked contrast to climate transition/mitigation where Greenhouse gas (GHG) emissions is predominantly the key KPI. Physical risk is now a core pillar of our engagement strategy, drawing on lessons learnt in this project.

- In the **food sector** we engaged **Kerry Group**, **Carlsberg**, **Casino**, **Ebro Foods** and **Sonae**. Due to the diversity of sectors and companies' supply chains, the ways in which companies assess the magnitude of the risks in their value chains varied, however, all conversations clearly illustrated the current and increasing materiality of the topic to the sector.
- In the **utilities sector** our conversations with **Enel**, **A2A**, **Fortum OYJ**, **SNAM** and **Engie** also produced mixed responses. It was evident that some companies – such as **A2A** who have conducted risk assessments and outlined the 10-year capital expenditure needs for adaptation – are leading the pack. Other issuers have not yet conducted or published basic asset risk assessments, leaving investors with a much harder task in assessing overall resilience.
- In the **construction sector** we engaged 4 European majors; **Skanska**, **Ferrovial**, **Eiffage** and **Barratt Developments**. Overall, the construction sector does not yet seem to have quantified or constructed a 'narrative' on its role in making society more resilient to climate change impacts. There is diversity in the impact to the sector due to the variety in business models, hence also very context-specific methods for measuring impact and mitigation.
- Finally, we spoke to insurance providers **Munich Re** and **Hannover Re** on their natural catastrophe modelling capabilities, considering the increasing insured losses from climate events which are leading to growing insurance premiums for corporates. These engagements focused on their process for reviewing and updating their internal natural catastrophe models, and how they are looking to incorporate forward looking climate risks into these models. Both companies provide good insights and reassurance over their ability to model and price different physical climate risks.

Deforestation

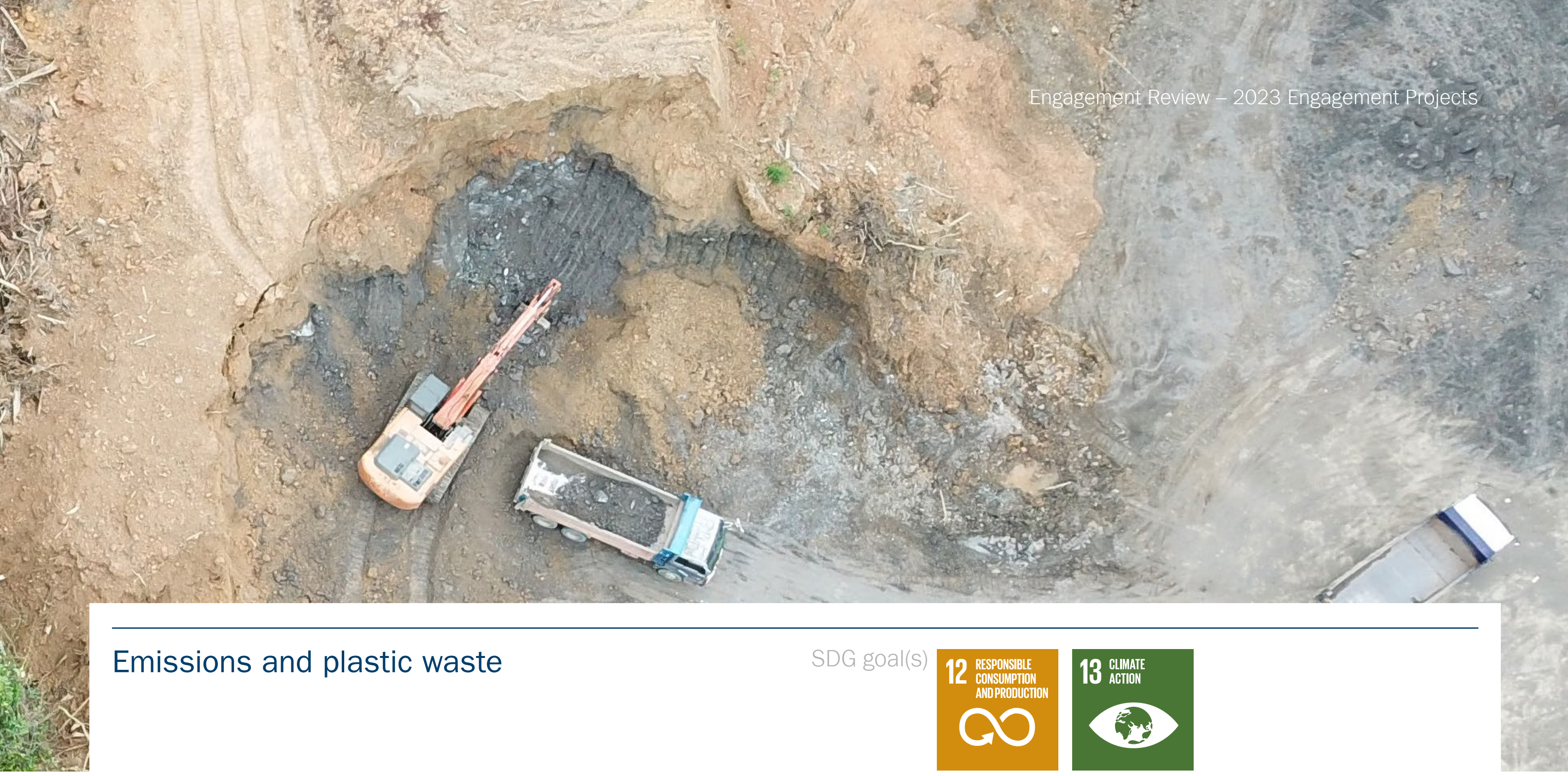
SDG goal(s)

Deforestation is a major driver of the twin crises of biodiversity loss and climate change. The destruction and fragmentation of forests is the biggest driver of extinctions across the world, and the deforestation and forest degradation contribute up to 15% of the carbon dioxide emissions caused by human activity. This is primarily linked to the production of commodities including palm oil, soy, cattle products, timber, cocoa, coffee and rubber. Countries that import these commodities are increasingly enacting deforestation regulation – the EU Deforestation Regulation is the most substantial and extensive, and entered into force in June 2023.

We launched our deforestation project at the start of 2023. We prioritised issuers for engagement using a bespoke tool that we have developed to appraise the quality of deforestation management of issuers involved in soft commodity value chains. We combine datasets from sources including Forest 500, CDP Forests, ZSL SPOTT, Forests & Finance and MSCI to identify holdings with material exposure to deforestation impact and risk with poor quality management. Through our analysis we discovered that the most common criteria which issuers fail against are targets and traceability. Our key asks of the issuers we engage with through this project were to commit to no conversion of natural ecosystems and/ or zero deforestation, and to trace at least 90% of the total production/consumption volume of all high-risk commodities down to the relevant production site or processing facility level. We also sought to engage issuers on policy and procedures, certification, due diligence, indigenous and smallholder support and risk assessments.

Over the past year we have conducted 59 engagements with 35 issuers on deforestation. We achieved notable progress in our engagements with **Lear Corporation** and **Adient**, these companies are both linked to deforestation through the leather they procure for use in car seats and interiors. We have been engaging with these companies on deforestation for the past two years, and they both published deforestation policies for the first time this year and began working with respected nongovernmental organizations (NGOs) (such as Rainforest Foundation Norway and the World Wide Fund for Nature (WWF)) to enhance their deforestation due diligence. 2023 also saw **China Mengniu Dairy** take a credible step forward, as the company announced its Forest Protection Policy which includes a commitment to zero-deforestation and to eliminate the practice from its value chain by 2030. We have engaged the company on this topic for a number of years and were encouraged that it became the first company in China to make this commitment. We have also engaged financial institutions, for example we have had several conversations with **Banco do Brasil**, the largest agribusiness lender in Brazil, regarding their environmental and social risk management process in relation to deforestation and their provision of rural credit to support sustainable agriculture production and hope to see progress in the coming year.

We are conscious that to achieve meaningful change on deforestation we need to collaborate with experts in the field and bring other investors with us. We are active participants in the Investor Policy Dialogue on Deforestation (IPDD) in both the Brazil and consumer countries working groups. In April we took part in an IPDD delegation visit to Brazil to engage with the new Lula administration and push for reform. We continue to lead the Investor Working Group for a Deforestation-Free Automotive Industry, and work closely with NGOs including Rainforest Foundation Norway, Zoological Society of London and Tropical Forest Alliance on deforestation.



Emissions and plastic waste

SDG goal(s) 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION

In its second year, we delved deeper into research and engagement within the chemicals industry, to continue our initial goal of promoting a sustainable transition. 2023 served as an opportunity to learn what steps companies are taking to reduce their GHG emissions and scrutinise their approach to product stewardship. Through the former, we expect to see Paris-aligned climate strategies, whilst the latter should see the transition to a greener and safer portfolio of chemicals. Befitting of such a complex and heterogeneous industry, our project companies span a range of different sub-industries with varying global regulations. For 2023, we reached out to 17 of the largest chemicals companies globally.

We found receptiveness to our engagement has been, overall, positive. As the third-highest industrial emitter of carbon dioxide in the world, the chemicals sector is working hard towards managing its GHG emissions profile. We were pleased to see an increase in companies fleshing out their approach to reducing their Scope 3 emissions, with many companies setting goals and providing some roadmaps on achieving this, with many companies partnering with external working groups to assess how to approach such a difficult task. Specialty chemicals company **Sika AG** informed us they are partnering with Together for Sustainability (TfS) to come together with other companies in the industry, share knowledge, and work towards providing suppliers guidance to help manage their emissions. Industrial gas and services provider **Air Liquide** has undertaken its first Scope 3 objective to have, within two years, 75% of its Top 50 customers committed to 2050 Carbon Neutrality. We also witnessed some caution from some companies on setting medium-term Scope 1 and Scope 2 reduction goals as they are awaiting the development of new technology to ensure they are able to meet new targets. Leveraging findings from the Swedish governmental organisation, ChemSec's ChemScore initiative's Report cards, we pushed companies on their management of hazardous chemicals. We received a welcome update from American multinational chemical company **DuPont de Nemours**, the lowest ranked company, who informed us they are looking to make improvements for their next iteration of reporting and increase transparency on their production portfolio.

We observed many companies experiencing large structural changes, including new management and mergers, however these disruptions did not hinder companies from meeting their ambitions. This year, **DSM** and **Firmenich International** completed their merger to form **DSM- Firmenich**. The new company is working towards integrating two separate sets of sustainability targets but is still working towards legacy goals until this is finalised. **PPG Industries**, the largest coatings company in the world by revenue, appointed a new CEO and in our engagement, they emphasised that they are looking to grow the sales of their sustainable products. We will continue to pulse companies on their progress on meeting their reduction goals and encourage additional transparency around product stewardship efforts.

Mandatory human rights due diligence

SDG goal(s) 8 DECENT WORK AND ECONOMIC GROWTH 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Investors face increasing scrutiny to evidence how the negative impacts associated with the operations of investee companies are mitigated, particularly in relation to social risk management, which has gained prominence. A lack of disclosure is a key hurdle. We continue to be reliant on data from ESG data providers and more in-depth analysis on human rights, conducted by NGO groups. Access to disclosure, normative and controversy-based indicators provide an effective way to conduct an initial screening of potential exposure to human rights risks. We are cognisant that until there are widely accepted international standards of social disclosure, bottom-up analysis on a company-by-company basis, coupled with robust engagement strategies, will continue to be the most effective way to assess risk.

We initiated our Mandatory Human Rights Due Diligence (MHRDD) project in Q1 2022, where our initial focus was on 26 companies from both developed and emerging markets, covering the extractives, automotive, technology, food retail, agriculture, and apparel sectors. Under this project, we specifically sought to engage with companies that scored zero on the human rights due diligence indicator of the Corporate Human Rights Benchmark (CHRB) – provided by the World Benchmarking Alliance. In Q2 2022, given Russia's war with Ukraine and international sanctions, we removed Russian companies from the project and moved forward with 22 companies.

At the start of the project, the most recent iteration of the CHRB was published in 2020. Since then, benchmarks covering companies in the Automotive, ICT, Food and Agricultural sectors were updated in November 2022 and this was followed by the Apparel and Extractives sectors in November 2023. In terms of performance on the CHRB, we note that 8 out of 22 companies improved their score on the human rights due diligence indicator of the CHRB – **BRF**, **Carlsberg**, **Shoprite**, **Ralph Lauren**, **Starbucks**, **Yum Brands**, **Capri** and **Costco**. Overall, the benchmark notes progress on human rights risk management given that the share of companies scoring zero on key human rights indicators has decreased since the benchmark's inception in 2017. Nonetheless, there are clear differences in progress at a sector level.

Consumer companies improved the most. Regarding the CHRB human rights due diligence indicator, we saw the most improvement across food and apparel companies. As we highlighted earlier in the year, **Ralph Lauren**- one of the most engaged companies in the project, improved its disclosure on human rights risk management and we are pleased to see them recognised by the CHRB as one of 12 companies that had showcased "transformative change" since the benchmark began. We will continue to encourage progress on these topics in 2024. Improved performance across food/beverage companies was mainly driven by better transparency on accountability for human rights within the business. At **Carlsberg**, this was reflected through disclosure of senior management responsibility for the human rights policy through the company's SVP Group HR. For the 4 extractives companies covered by the project, we saw no improvement on their MHRDD performance per the CHRB framework, with only **EOG Resources** improving its overall rank amongst the extractives companies in our project. This is out of step with the overall performance of the sector whereby 70% of extractives companies have improved their performance on the benchmark since their inclusion.

Key learnings from the project include a need to ensure investee companies evidence the effectiveness of their risk mitigation approaches, moving from policy to action. For consumer-based sectors, an understanding of the untoward effects of operational programs on supply and value chains should be reflected in their efforts to address human rights risks. Finally, holistic due diligence frameworks are essential, and companies can no longer rely solely on audits to identify human rights and labour standards risks.

Social audit assurance

SDG goal(s) 8 DECENT WORK AND ECONOMIC GROWTH

In 2022 we began a two-pronged project focusing on the audit practices of retailers and food service companies alongside social audit and assurance providers. The project has allowed us to gain a better understanding of the drivers of social audit practices, for consumer companies with extensive supply chains and in addition, to understand the sentiments held by ESG audit and assurance service provider "testers". Now that we have reached the end of the project, below we reflect on the outcomes and learnings that can be applied to future engagement programs.

There is a clear need for implementation of holistic frameworks of due diligence. Through our engagement, a key theme has been a perceived over-reliance on audits, which do not present holistic frameworks of due diligence. A core aim of our engagement has been to encourage more robust and holistic due diligence strategies. This involves companies undertaking efforts to identify, mitigate and remedy any adverse impacts their operations may have on people and the planet. In the context of the consumer companies in the project, there is a direct applicability to supply chain risk management. In this regard we have asked companies to broaden their due diligence approach beyond audits. We view this as particularly important given the proliferation of supply chain due diligence legislation we have seen in recent years. Here we value the interactions we had with catering and support services company **Compass Group** as part of the project. The company displayed a more mitigative approach by applying learnings taken from supply chain issues faced in the Middle East relating to working conditions and the recruitment of migrant labour, to its UK supply chain.

Vertically integrated brands are better able to manage risks. Where companies benefit from heavily vertically integrated supply chains, they are able to more easily utilise their leverage to ensure non-compliances are remediated. At apparel manufacturer **Hanes Brands**, we noted the application of the company's own audit scorecard to both own-operated factories and those of sourcing partners. This allows them to track ESG risks across the supply chain and helps inform purchasing decisions.

Emerging market companies are catching up. In our dialogues with **Shenzhou International**, a major Chinese manufacturer, it became apparent that supply chain risk assessment is not just a western concept. Cognisant that the company's own employees are the tier 1 supply chain workers of many well-known brands, Shenzhou understands that it must manage its own human capital risks to attract and retain the best talent and therefore its clients. Brands expect the company to cascade expectations over working standards and additional due diligence to suppliers. In addition, they have incentives for this in terms of supply chain resilience.

There must be responsibility for corrective action and remediation. Earlier in the year, we highlighted particular sentiment amongst audit providers that audits generally only provide an indication of risk to clients but corrective actions to resolve issues are solely the responsibility of those commissioning the audit. This rang true in our discussions with **Intertek**, where it was highlighted that due to the voluntary nature of ESG disclosures, clients may request only basic levels of service. Beyond training on best practice for client employees or suppliers, it is not the role of testers to provide remedy for issues identified.

There are also **key opportunities for the 'testers'**. According to industry research, there is an estimated $5 billion market opportunity linked to testers assisting their clients in fulfilling the requirements of the EU's Corporate Sustainability Reporting Directive and other regulations mandating supply chain due diligence. In particular, our engagement has highlighted 3 main areas of focus, 1) client education and awareness of the regulatory requirements, 2) gap analysis and 3) independent audit work. Given this, we believe the efficacy of audit and assurance services will be key to capitalising on the market opportunity. There is a risk that negligence on the part of ESG audit providers in failing to identify egregious labour standards and human rights risk could negatively impact brand value and their ability to win new clients. Therefore, we believe ESG audit providers may need to apply more scrutiny over their clients' implementation and oversight of remedy and supplier rectification of non-conformances in order to insulate themselves from liability.

Responsible governance of Artificial Intelligence (AI)

SDG goal(s) 10 REDUCED INEQUALITIES

The development of Artificial Intelligence (AI) is becoming increasingly widespread as companies look to automate their decisions and create new opportunities in a data-centred world. While there are vast benefits to AI, including increased efficiencies, there are also risks and harms associated with misuse, which raises questions about the accuracy, fairness, privacy, and security of these AI systems. This project seeks to engage companies that did not have a commitment to ethical AI principles as assessed in the 2021 findings of the World Benchmarking Alliance's Digital Inclusion Benchmark. At the time of the launch, only 20 out of 150 companies had evidenced a public commitment. As at Q3 2023, 52 of an increased cohort of 200 companies have adopted ethical AI principles, highlighting the increased willingness and demand for companies to adopt AI in a responsible manner. The breakout of Generative AI in 2023 has spurred stakeholder interest in exploring the benefits of AI, including increased efficiencies and cost reduction. Equally, there has been more interest in exploring how companies should seek to safeguard AI risks ranging from inaccuracy to cybersecurity and regulatory compliance.

The companies in the responsible governance of AI project are at various stages of their Responsible AI journey. This is primarily due to the wide scope of companies' use cases of AI but also the level of companies' comfort with disclosure on the topic. We reached out to companies for initial dialogues to understand how they define AI in their business and business strategy, their responsibility for ethical considerations of AI, and whether companies would consider making a public commitment to ethical AI. With some more mature companies, we also asked how they assess ethical AI risks and operationalise AI principles in practice.

While we saw some progress being made by companies in the project, other companies were more reluctant to share information:

- **PayPal** is one of the companies that has a more mature approach to Responsible AI. The payment services company has a risk-based approach and has identified credit underwriting and fraud use cases have the largest impact on customers. It has a control and check point in place to assess whether AI models meet its ethical AI principles. AI governance is overseen by the Chief Risk Compliance Officer who reports to the board annually on the progress of responsible AI.
- Korean internet site and web portal services company **NAVER** has published ethical AI principles and states it reviews all AI services prior to launch to prevent potential risks. In our view, further detail is required on its impact assessment and its AI governance process.
- Chinese internet and technology company **Tencent** stated that ethical AI is integrated as part of its privacy impact assessment for its products and services. AI governance is overseen by its ESG governance body which includes the Board. It ensures humans are kept in the loop to conduct reviews of AI decisions to train the model.
- **Amazon** has committed to the White House's commitments to advance the responsible and secure use of AI. It is seeking to explain to customers how it uses AI and states that it does not see high risks with its use of AI.
- **eBay** is internally working on building out a governance structure for ethical AI which will include a cross functional working group.
- We were disappointed to note that online travel marketplace **Airbnb** did not respond to requests for engagement on Responsible AI.

Diversity in clinical trials

SDG goal(s)

The Covid-19 pandemic has highlighted the need to ensure vaccine uptake in ethnic minority and underrepresented communities by building trust through fully representative clinical trials. There is an increasing body of research recognising that there can be a differential response to treatments across diverse populations. No change in practice brings potential risk of lower confidence in treatments and vaccines, and overall reputational and commercial risk for companies involved. Existing and upcoming regulatory requirements will push the industry to include diversity planning in their trial protocol or justify why this is not necessary. Being unprepared for this might result in novel drugs and therapies not being approved by the FDA, which poses a very material risk to drug manufacturers and Contract Research Organisations (CROs).

In 2023 we kicked off an engagement project on diversity in clinical trials with the objective to assess issuers' awareness of the importance of inclusion in clinical trials, to understand the challenges they are facing, to understand existing strategies and encourage efforts to improve diversity and disclosure. In May 2023, we attended a two-day Summit on Diversity in Clinical Trials in Philadelphia which brought together companies, patient advocacy groups and other experts to discuss the necessity of diverse clinical trials, best practices, and challenges.

Drawing on the Summit, research, and our conversations with 12 investee companies, we have identified an initial 5 key elements of a diversity in clinical trials strategy:

1. Policy commitment and strategy – Most companies we spoke with have a commitment to diversity in clinical trials. However, disclosure on how they aim to achieve this varies significantly.

2. Governance of diversity in clinical trials – Companies that have committed to diversity in clinical trials have senior level involvement and dedicated resources to ensure successful execution of diversity in clinical trials commitments and targets. An example is healthcare products provider **Johnson & Johnson**, who have a dedicated Diversity, Equity & Inclusion in Clinical Trials team.

3. Target setting and progress tracking – The most robust diversity in clinical trial commitments are backed up by targets to ensure immediate action and a clear direction of travel. A number of pharmaceuticals companies have publicly disclosed targets, such as **GSK**, **AbbVie**, and **Bristol-Myers Squibb**. For most companies, we have not found evidence of publicly available targets.

4. Stakeholder and community engagement – Close collaboration with patients, patient advocacy groups and trusted leaders is crucial to incorporate the patient perspective into the strategy. Working with patient advocacy groups is very common in the industry.

5. Address systemic challenges – There exist systemic barriers that impact attraction and retention rates, for instance trust. A historical lack of trust in the pharmaceutical sector remains an important reason why many under-served and under-represented communities are reluctant to participate in clinical trials. All companies we spoke with are fully aware of the necessity of trust-building for long-term financial success.

Improving board gender diversity in Asia

SDG goal(s) 5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

This three-year project aims to engage the most influential Asian companies with all-male boards, as empirical evidence shows that an inclusive and diverse company – especially at the highest leadership level – often outperforms other less diverse peers. At the end of 2022, we reached out to all of the companies in the project to inform them of our gender diversity expectations – currently set at 13.5% in developing markets – and that we will vote against directors where we view it as necessary.

In 2023, we saw good progress, having engaged 26 companies in the project on this topic across 34 engagement activities, and observing 13 companies adding a female director to the board. Due to market pressures, many regulators in Asia have also begun to enhance their board gender diversity requirement, leading to positive developments at some of our target companies.

- Hong Kong listed companies are required to appoint at least one director of a different gender no later than the end of 2024. We were pleased to note that **Baidu**, **Meituan**, **BYD**, **Yankuang Energy Group Company Limited**, **COSCO SHIPPING Holdings**, and **China Minsheng Banking Corp** met this requirement a year early.
- Taiwan issued a new Sustainable Development Action Plan in March 2023, which called for listed companies to add at least one female director starting in 2024. In light of this, we welcome **MediaTek** adding its first female director in May.
- Around 150 non-financial issuers in South Korea with total assets exceeding two trillion Korean Won needed to comply with “no single gender” board requirements in 2023 set out by the Financial Investment Services and Capital Markets Act. We saw progress being made by **L&F**, **Ecopro BM**, and **Doosan Enerbility**.
- Japan also intends to set a target for Prime Market listed companies to have at least 30% female board representation by 2030 with **Shin-Etsu Chemical** and **Sumitomo Realty & Development Co.** responding by adding their first female directors.
- In China, we also saw an early mover from **Will Semiconductor Co., Ltd. Shanghai**, despite not having any regulatory requirement as yet.

However, there are many companies that still have all-male boards. Various issuers in Hong Kong and China did not make any improvement or respond to our engagement. We also had the same difficulty with a lower number of companies in in Japan.

Two Indian state-owned companies in the project – **Power Grid Corporation of India** and **State Bank of India** – did not comply with the requirement for at least one female independent director, but given the fine is set at a seemingly low maximum of INR 350,000 (c$4,250), there is little financial cost to their non-compliance. **Yang Ming Marine Transport Corp** in Taiwan, which aimed for 15% board gender diversity by 2027, also explained the difficulties in the industry and the impact of the government having a final say on candidates. Korean companies such as **HMM** do not have to face any penalty or disclosure obligations for non-compliance.

In 2024, we will continue with this three-year project by inviting companies to enter into dialogue with us, sharing good case studies and research, as well as escalating our concern through voting against directors we deem responsible for the shortfall in gender diversity. We will continue to focus on engaging with companies that still have an all-male board, encouraging them to consider a time-bound target and have a robust gender diversity policy in place.

[3] Diversity matters even more: The case for holistic impact McKinsey

Overall, there is a strong correlation between diversity in influential company leadership roles and multiple indicators of holistic impact across workforce, community, and environmental components[3].

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