Stewardship Quarterly

Q2 2023

COLUMBIA THREADNEEDLE INVESTMENTS

Welcome

Our report outlines our active ownership (engagement and voting) activity during the quarter, including a selection of engagement case studies. We also signpost our latest responsible investment thought leadership available on our website.

Targeted Environmental, Social and Governance (ESG) engagement with issuers is an important part of our investment approach as active investors and responsible stewards of our clients' assets. Consistent with client expectations, our primary driver for engagement is to support long-term value creation by mitigating risk, capitalising on opportunities linked to ESG factors, and reducing any material negative impact that our investment decisions could have on these factors. We believe that, by engaging in this way, we can play a part in building a more sustainable and resilient global economy by encouraging issuers to improve their ESG practices. This can also help drive positive impacts for the environment and society that are in line with the achievement of the United Nations Sustainable Development Goals (SDGs).

We seek to exercise voting rights on our clients' behalf at all shareholder meetings associated with the holdings of the investment mandates we manage.

This provides the opportunity to express our preferences acting for our clients on relevant aspects of an issuer's business and to promote good practice, or express our concerns identified through research and engagement, including when escalation becomes necessary.

Proxy voting in review

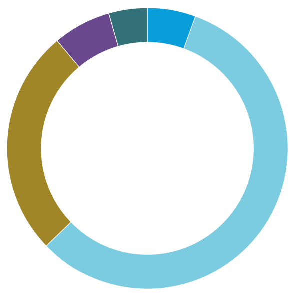
4,552
meetings voted

71,561
proposals voted

16.8%
of all proposals where we voted against management

Votes against management by topic:

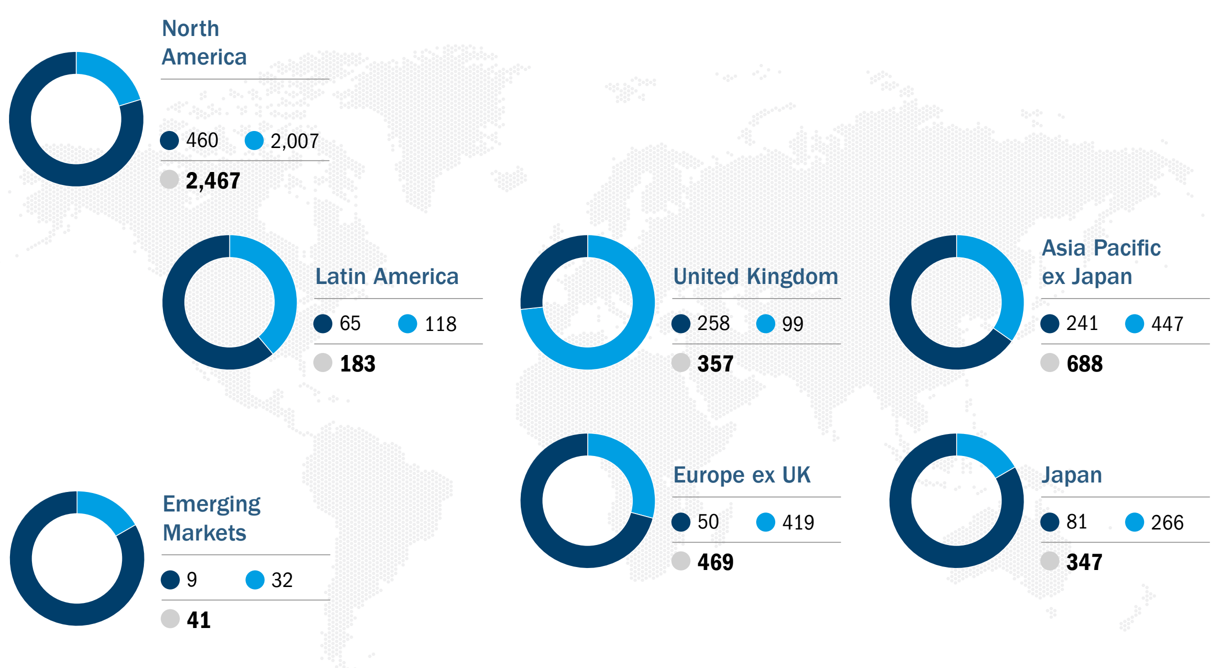
Capital related	677	5.60%
Director related	6,936	57.40%
Remuneration	3,154	26.10%
Shareholder	785	6.50%
Other	532	4.40%



41 markets voted in

Meetings voted by region

Support management on all items — Dissent from at least one item — Total meetings



All figures subject to rounding.

Our engagement activity highlights

486
Engagement activites

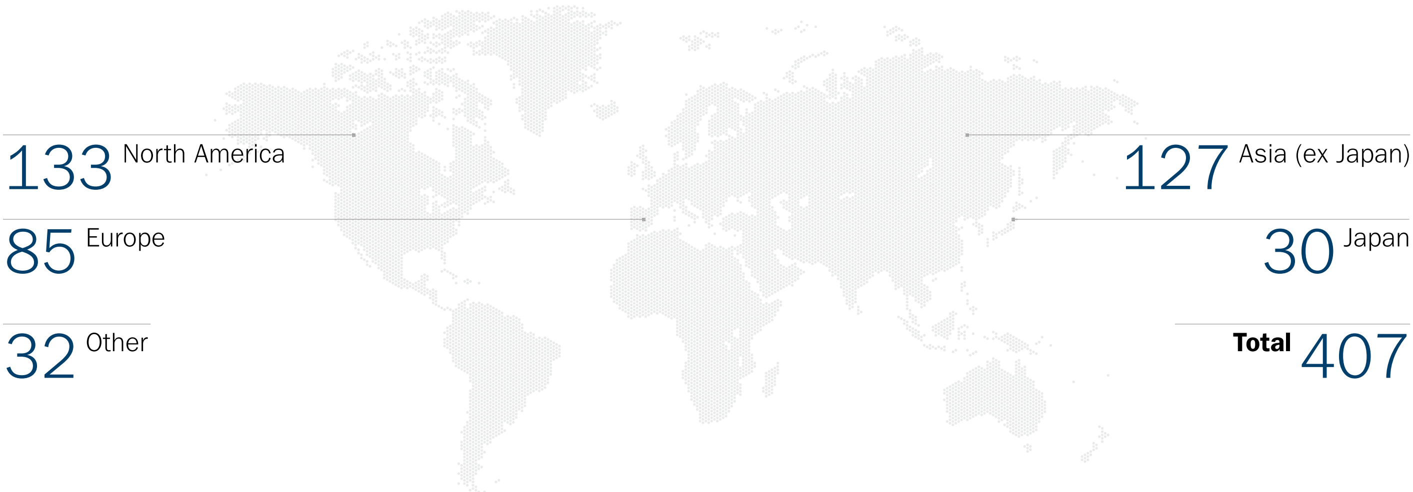
407
Companies engaged

25
Milestones achieved

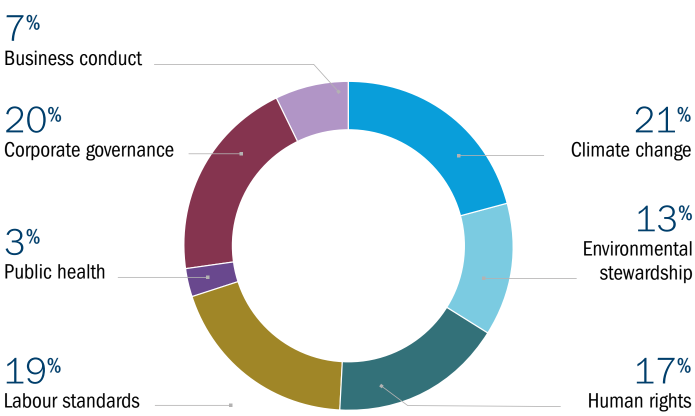
38
Countries covered

We measure and report on the success of engagement through the assignment of Milestones, which recognise improvements in issuers' ESG policy, management systems or practices against the Objectives that were set.

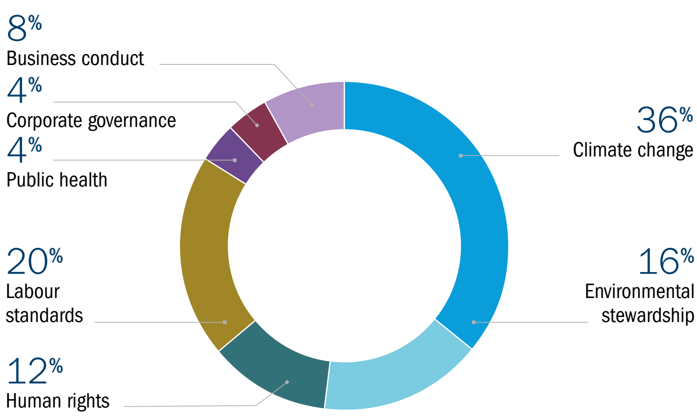
Companies engaged by country



Engagements by theme



Milestones achieved by theme



All figures subject to rounding.

“As active owners, engagement with the issuers we invest in on behalf of our clients is an integral part of our approach to research and investment, and as stewards of client capital.

Engagement case studies

Discover in-depth examples of our engagement with companies during Q2 2023.

CoStar Group

CoStar Group Value found in pre-Annual General Meeting engagement

Response to engagement:
Good

Themes:
Corporate Governance, Climate Change

Subthemes:
Emissions Management, Board Effectiveness

13 CLIMATE ACTION

SDG Target(s): 13.2
Integrate climate change plans into policies and strategies

Background

CoStar is a US-based company within the professional services industry. We reached out to the company ahead of the AGM to discuss the company's board composition, as we consider them to have excessive tenure with an average board tenure of 16 years vs our threshold of 13 years. Their last director was added in 2019. The company also received a shareholder proposal on adopting greenhouse gas (GHG) emissions reduction targets aligned with Paris Agreement Goals – we discussed their approach to addressing the concerns raised by the proponent.

Action

The company emphasised they are looking to add new directors as well as update the mandates of the Governance Committee by adding more responsibilities and incorporating an additional level of scrutiny, a gap analysis on skills, when assessing the board quality to inform their board refreshment. Regarding the shareholder proposal, while the company had begun its first steps in disclosing on climate risk mitigation, as it released its first emissions report in February and added ESG responsibilities to the board in December, we expressed that given their lack of reduction targets (failing our Net Zero Model expectations), they lag their peers. The company noted they were likely to move towards setting targets – the ask of the proposal – but also expressed hesitancies. We underscored that companies should improve their public disclosure and strategy setting in relation to climate change in a timely manner and signaled we would likely support the proposal.

Verdict

Two days after our engagement, the company signed a public commitment letter to set near-term and long-term science-based GHG emission reduction targets in accordance with Science Based Targets Initiative (SBTi). We believe the company demonstrated receptivity to our feedback on climate risk disclosure in subsequently signing the SBTi commitment letter. After our dialogue with the company, we voted against two heavily tenured directors, one serving CoStar for 36 years and another serving CoStar for 21 years, as they also lead two key committees. We will continue to monitor the evolution of the board composition and the mandates of the Governance Committee.

Volkswagen Shining a light on climate change lobbying disclosures

Response to engagement:
Adequate

Theme:
Climate Change

Subthemes:
Net Zero Strategy, Climate Change Lobbying

SDG Target(s): 13.2
Integrate climate change plans into policies and strategies

Background

Germany's Volkswagen (VW) is the largest automotive company globally, with significant influence on automotive climate policy, especially in Europe. However, VW has been very reluctant to provide investors with more transparency on its positioning on public policies, and its lobbying on climate-related policies directly and through industry associations. Many peers have published lobbying reports, including General Motors, Ford, Mercedes, BMW, Volvo and Toyota. This lack of transparency is especially concerning given the role that the Porsche CEO and Volkswagen Chairman played in successfully advocating for an e-fuel exemption in the EU's 2035 combustion engine ban.

Action

We have engaged the company bilaterally and through CA100+ on this topic since 2019. In 2022 we sent a letter to the company together with the other Climate Action 100+ (CA100+) co-leads to flag that we would seek escalatory action if the company did not begin to demonstrate progress on this topic. Towards the end of 2022 and 2023 we had a series of calls with investor relations and the external affairs team. We reviewed early drafts of the company's lobbying disclosures, and due to our concerns with the level of detail, we sent an email to the Chairman to clearly articulate our expectations. We had another call in Q2 2023 in which we discussed updates to the draft report that VW would make to better align with our expectations, and to encourage them to publish the report well in advance of the AGM. As VW could not commit to publishing the report before the AGM, and we have experienced the company over-promising and under-delivering in the past, we escalated our engagement by choosing to vote against several items on the company's ballot, including the Actions of the Board of Management, Actions of the members of the Supervisory Board and Re-election of members of the Supervisory Board.

Verdict

With just two days before the AGM, VW did in fact publish its Association Climate Review 2023. This report is the joint-highest rated automotive company lobbying report assessed by InfluenceMap (the climate-lobbying focused NGO). We welcomed this report and believe that our close work with VW's external affairs team delivered a marked improvement in its quality. Although VW has an especially developed method to assess industry association alignment vs its peers, we have still identified several areas for improvement such as evaluating their direct lobbying, and appraising more industry associations and rating associations on their activities (rather than stated positions). We will continue engaging with the company to secure these improvements.

Pepsi Addressing child labour risk in Pepsi's supply chains

Response to engagement:
Good

Theme:
Labour standards

Subthemes:
Forced Labour and Child Labour; Social Supply Chain Management

8 DECENT WORK AND ECONOMIC GROWTH

SDG Target(s): 8.7
Decent Work and Economic Growth, 8.8 Decent Work and Economic Growth

Action

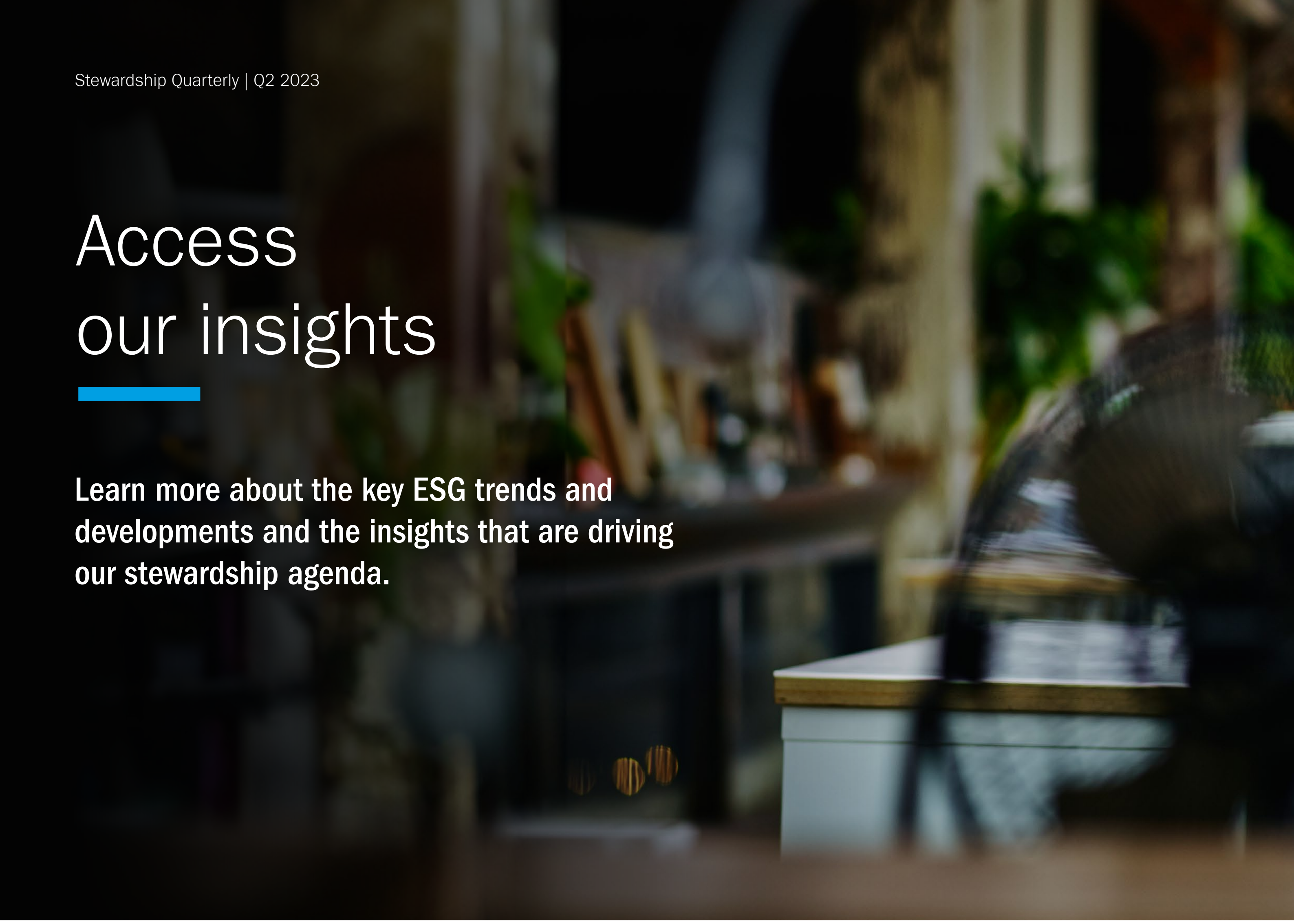
We wrote to Pepsi to express our concerns and requested a dialogue to understand the company's reaction to the case, the remediation efforts focused on the underage individuals involved, and the strengthening of due diligence processes to avoid a reoccurrence. In our dialogue with the Head of Human Rights, it was explained that the factory in question had been audited for several years but without indication of this type of risk. Pepsi also reported that Hearthside was unable to provide individual remediation as the individuals in question had not returned to the site. This highlights the importance of readiness to act quickly when cases are identified in order to provide victim-focussed remediation.

Background

Headquartered in New York, Pepsi is one of the world's largest snacks and beverage companies. Aside from its eponymous cola, it owns a portfolio of well-known brands including Mountain Dew, Lay's, and Doritos. In February, the New York Times reported that migrant children had been working in US factories run by Hearthside – one of Pepsi's suppliers – allegedly working long hours, overnight shifts, and being exposed to hazardous conditions. Outsourcing of labour is widespread in food manufacturing, with companies relying on agencies to match workforce size with production demand. This flexibility can result in reduced visibility of processes to ensure legal compliance and responsible recruitment. In 2022, the US saw a 37% rise of child labour violations, reinforcing the importance of companies conducting due diligence along their value chains and frequently monitoring all markets, even those previously considered lower risk. Labour within both their direct operations as well as their suppliers should be included in this assessment.

Verdict

Labour provision into supplier factories had not received sufficient scrutiny at Pepsi, despite a robust governance structure for labour standards in both operations and supply chain, as well as third-party labour providers being explicitly in scope of supplier policies. This highlights the need for a regular examination of the shifting risk landscape, as well as the need to challenge assumptions and test operational readiness. We believe Pepsi has taken concrete steps to mitigate risk, including revising policies to mandate stronger age verification during recruitment. The sustainability team has also engaged the procurement function to assess the link between short lead times and the risk of quick recruitment without necessary checks.



Access our insights

Learn more about the key ESG trends and developments and the insights that are driving our stewardship agenda.

Discover a selection of our Q2 2023 publications:

Going global with a proven formula

Quick view: Global Social Bond fund lauch

Download the viewpoint

Conflict risk: an engagement update

Quick view: an engagement update

Download the update

Global sustainable outcomes Q1 2023

Quick view: Is our ‘stolen focus’ one reason for the world’s slow response to the climate crisis?

Download the update

ESG Viewpoint: Health matters

Quick view: the importance of public health for investeors

Download the viewpoint

ESG Viewpoint: What makes supply chain due diligence effective

Quick view: Understanding how companies can manage supply chain risks and why they matter to investors. Read more in our latest ESG Viewpoint.

Download the viewpoint

Thematic insight: Investment implications: the US Inflation Reduction Act is a wake-up call for the EU

Quick view: The US IRA and the EU's Green Deal Industrial Plan share many common themes, but what are the investment implications as the two go head-to-head, and what China might do in response?

Download the insight

Interested in reading more?
Visit our website.

Contact us

clientsupport@columbiathreadneedle.com
columbiathreadneedle.com

To find out more visit **columbiathreadneedle.com**

Important Information

For use by professional clients and/or equivalent investor types in your jurisdiction (not to be used with or passed on to retail clients). This is an advertising document. This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Investing involves risk including the risk of loss of principal. Your capital is at risk. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. International investing involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. Risks are enhanced for emerging market issuers.

The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable. The views expressed reflect those of the respective contributing parties as of the date given, may change as market or other conditions change and the parties disclaim any responsibility to update such views, and views expressed herein may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. The views expressed are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, so actual outcomes and results may differ significantly from the views expressed. This information may not be relied upon as an indication of trading intent on behalf of any fund, other investment product or strategy, is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either.

Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed.

This is an advertising document. This document and its contents have not been reviewed by any regulatory authority.

In the UK: Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority.

In the EEA: Issued by Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Societes (Luxembourg), Registered No. B 110242, 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In Switzerland: Issued by Threadneedle Portfolio Services AG, Registered address: Claridenstrasse 41, 8002 Zurich, Switzerland.

In the Middle East: This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). **For Distributors:** This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com. 5972566 | WF442933 (10/23).