For professional investors/qualified investors only

Stewardship Quarterly

Q2 2024

Welcome

Our report outlines our global active ownership (engagement and voting) activity during the quarter, including a selection of engagement case studies.

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).

Where appropriate, 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

4,880
meetings voted

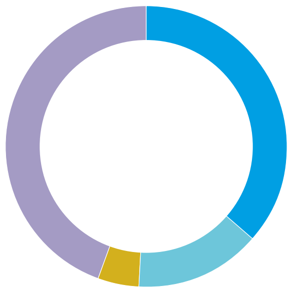
57,232
proposals voted

11.86%
of all proposals where we voted against management

51
markets voted in

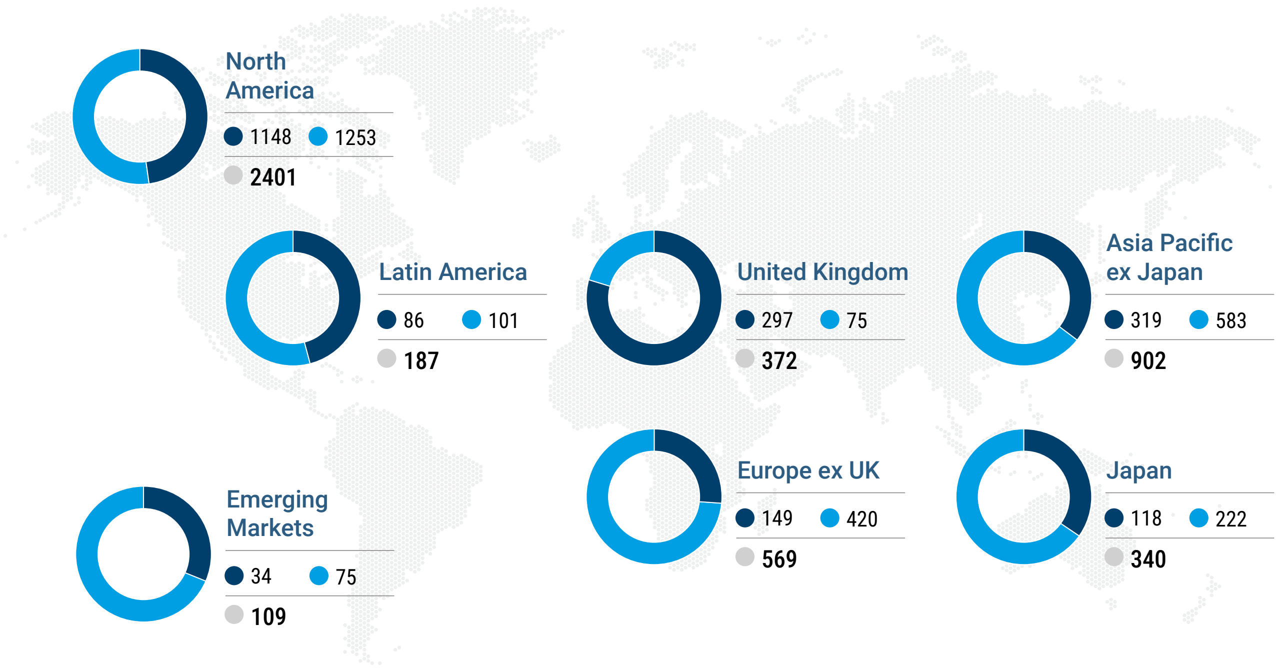
Votes against management by topic:

Director	3713	36.53%
Remuneration	1472	14.48%
Capitalisation	477	4.69%
Other	4502	44.29%
Total	**10164**	**100%**



Meetings voted by region

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



This data applies to all Columbia Threadneedle Investments (excluding ***reo***®) accounts globally.

Our engagement activity highlights

237 Engagement activites

208 Companies engaged

40 Milestones achieved

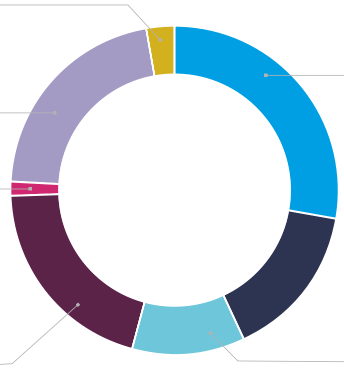
32 Countries covered

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.

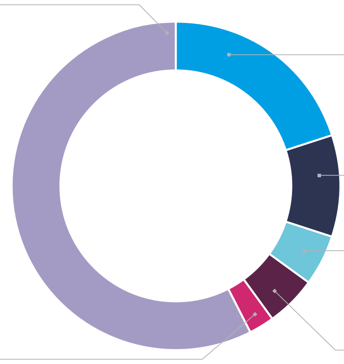
Companies engaged by country

North America	67
Europe	67
Other	7
Asia (ex Japan)	54
Japan	13
Total	67

Engagements by theme



Milestones achieved by theme

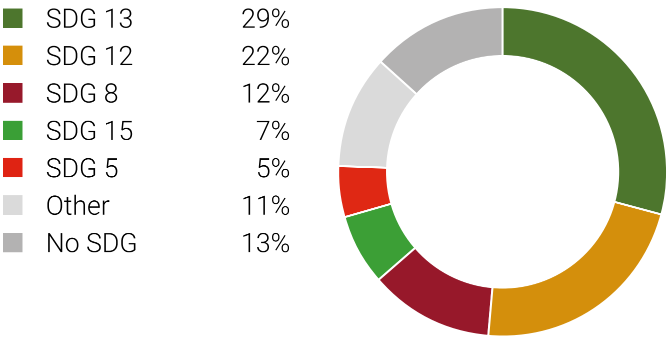


All figures subject to rounding. This data covers the Active Ownership team engagements using the global policy across all holdings.

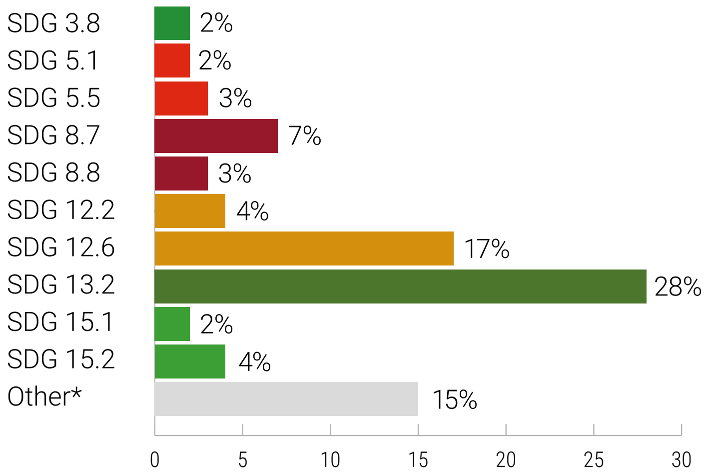
Engagements and Sustainable Development Goals (SDGs)

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.

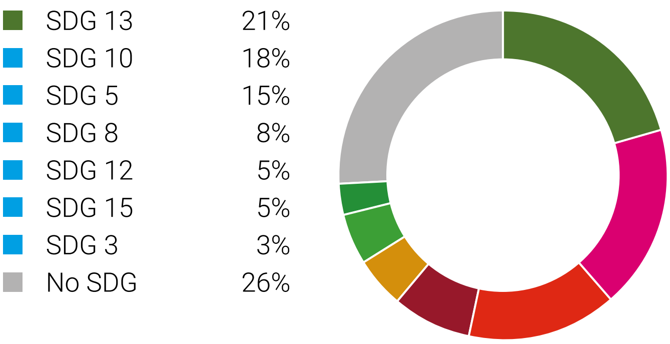
Engagement: SDG level



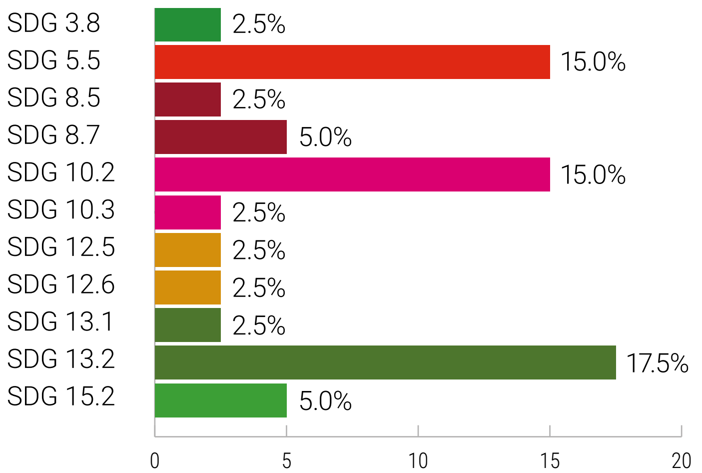
Engagement: SDG target level



Milestones: SDG level



Milestones: SDG target level



*Other represents SDG targets less than 2% of the relevant SDG Goal.
This data covers the Active Ownership team engagements using the global policy across all holdings.

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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 2024.

Chevron Corp

Chevron's plastics strategy continues to factor in resilient long-term demand

Response to engagement:
Good

Themes:
Environmental Stewardship, Human Rights

Subthemes:
Product sustainability

SDG Target(s):
12.5 Substantially reduce waste generation

Background

Chevron is one of the world's largest integrated oil and gas companies. Through its own activities and the use of its products, the company has a large influence on global CO2 emissions and the environment. For example, together with Phillips 66, Chevron co-owns Chevron Phillips Chemical (CP-Chem), which has been cited as the 16th largest producer of resins bound for single-use plastics (SUPs), resulting in an estimated 1.8m tons of plastic waste annually. Given its exposure to plastics, a 2024 shareholder proposal asked Chevron to issue a report addressing how a significant reduction in virgin plastic demand could impact them financially. This proposal asked Chevron to make use of a specific scenario – the Systems Change Scenario (SCS) produced by a global NGO, the Pew Charitable Trusts, in their Breaking the Plastic Wave report. This report, last updated in 2020, demonstrates how global plastic flows could be reduced by 80% through a combination of improved waste management, reduced plastic production and significant increases to recycling.

Action

We engaged the Head of Sustainability to inform our voting decision. This proposal was an evolution of a similar proposal faced by Phillips 66 in 2022, which received majority support but was not explicit in requesting the use of the SCS scenario. In response to the previous 2022 proposal, CP-Chem conducted scenario analyses to assess its resilience under three scenarios from Bloomberg New Energy Finance (BNEF). In all scenarios, their assets reportedly showed long-term resilience and increased revenue growth. In our recent engagement, rather than mandating the use of specific scenarios, we made it clear that we expect companies materially exposed to plastics to undertake analysis using a reasonable range of scenarios from robust data sources. Therefore, we asked how management came to identify the BNEF scenarios as the most appropriate. They explained they followed Chevron's overall approach to scenario selection, focussing on credible data from trusted third parties. We were satisfied with this response but made it clear that we expect the analysis to be updated on a regular cadence, noting it was performed in 2021. Management indicated they plan to update the analysis once BNEF update the data in the next 1-2 years.

Verdict

We have some reservations over CP-Chem's existing analysis in that there is relatively limited disclosure of the exact strategic response to conclusions. Through engaging with management, we understand that there is still a disconnect between this analysis and central business planning given capital allocation still primarily relies upon the company's supply/demand outlook. However, the company has made progress in recent years by setting objectives related to plastics management and increasing investment into relevant initiatives (e.g. CPChem has an annual production target of 1 billion pounds of its circular polyethylene product, Marlex Anew, by 2030). While further improvements can be made in disclosure and strategy, we concluded that the specificity of this resolution limited its usefulness to investors. Therefore, we voted against the proposal. The proposal failed to pass, gaining only 7.5% support.

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Vale SA

Mining giant aims to rebuild trust through enhanced risk oversight

Response to engagement:
Good

Theme:
Environmental Stewardship, Climate Change, Human Rights

Subthemes:
Community Relations; Disclosure and Transparency; Grievance Mechanisms and Remediation, Net Zero Strategy, Energy Transition

13 CLIMATE ACTION

SDG Target(s):
13.2 Integrate climate change plans into policies and strategies;
6.3 Improver water quality by reducing pollution

Background

Vale is a diversified global mining company, headquartered in Brazil, producing iron ore, nickel, copper, coal, and other minerals and metals. We have engaged the company consistently in the last 2 years on the remediation and mitigation efforts following the catastrophic tailings dam collapses at Brumadinho in 2019 and Samarco in 2015. Both tragedies resulted in loss of life, environmental damage, and widespread community impacts.

Action

We met with Vale's Climate and Social lead this quarter. We spoke about how the company is improving its risk management practices and, crucially, what Vale is doing to restore its social license to operate. We also asked for an update on its victim compensation. Vale has been prioritizing the elimination of its highest-risk tailings dams, while building out new global safety standards. The company is making progress on compensating victims and restoring communities, though the Samarco reparations process remains complex, with lawsuits still threatening the company's bottom line. On the environmental front, Vale is taking firm steps towards net-zero, announcing $6-8 billion in investments to achieve its Scope 1 and 2 emissions targets and is evaluating approaches for Scope 3 emissions.

Verdict

While Vale still has significant work ahead, we appreciate the openness of our dialogue and the company's intent to learn from the disasters. Enhancing governance transparency, tightening safety oversight, and prioritizing environmental resiliency are crucial to regaining investor confidence. In our view, Vale's community engagement and victim compensation programs will be critical to fully restore its social license. Proactive management of emerging legal cases and social risks will remain an area of focus for the company. We will continue monitoring Vale's progress through ongoing engagement.

Taiwan Semiconductor Manufacturing Company (TSMC)

Disappointing steps backward in corporate governance

Response to engagement:
Poor

Theme:
Governance

Subthemes:
Board Effectiveness; Capital structure and Shareholder Rights

Background

TSMC is the largest independent semiconductor foundries and the second most valuable semiconductor company in the world. We have concerns around their governance structures and policies. For example, TSMC initiated a key 2018 Company Act amendment in Taiwan to push for more frequent cash dividend payout from annually to quarterly. While we welcome timelier returns to shareholders, this development also removes the shareholder's right to vote on the cash dividend at AGMs. We have already seen the first foreign shareholder proposal filed in Taiwan to contest this amendment. In addition, before the founder Morris Chang stepped down in 2018, he introduced a robust corporate governance legacy as part of his succession plan – separating the CEO and Chair roles –a rare and welcome development in a market with many family-run businesses. However in December 2023, Chairman Dr. Mark Liu suddenly announced his retirement, leaving Dr C.C. Wei holding both CEO and Chair roles after the June 2024 AGM.

Action

We voted against all the proposals that remove shareholder's rights to vote on cash dividend in Taiwan. We engaged with TSMC in person in 2023 to express concerns about this amendment and encourage it to support the development of better corporate governance structures with the regulators. TSMC acknowledged its influence on amending the law, but it asked us to engage with the regulators instead. We also asked the company for a meeting after the announcement of Dr Liu's retirement plan. This meeting was to further understand its succession plan and the arrangement of combining the CEO and Chair roles. However, we were disappointed to note that the company was only willing to communicate via email, providing very limited information and not commiting to improve.

Verdict

In our view, corporate governance risks are increasing at TSMC with one person holding both the highest executive and supervisory roles possibly compromising the board quality and increasing key person risk. We expect TSMC to justify why the roles are combined and how it can ensure a proper balance of authority for shareholders' interests at the board level. Moreover, as one the most valuable companies in the world, we believe investors increasingly will need to pay attention to the decline in corporate governance standards at this company while pursuing higher stock performance.

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 2024 publications:

Thematic Insight: Regulation set to supercharge push on plastics

Quick view: Voluntary recycled plastic goals haven't really worked, but markets representing 30% of global GDP now have firm targets. How will companies and investors cope?

Download the thematic insight

ESG Viewpoint: Decarbonising Steel: redefining the value chain and the role of iron ore miners

Quick view: The need to decarbonise is driving innovation in the steel sector, which in turn is reshaping the global value chain for one of its key inputs – iron ore.

Download the viewpoint

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