Stewardship activities in Q3 2020

ARCELORMITTAL is one of the world's leading steel and mining companies. It is headquartered in Luxembourg and is Europe's largest steel producer.

Climate Action 100+ group call with Alan Knight (General Manager Corporate Responsibility and Sustainability), Nicola Davidson (Vice President Corporate Communications and Corporate Responsibility) and Annie Heaton (Head of Sustainability Reporting)

Issues: Environmental and governance – climate change, remuneration

The leads of the Climate Action 100+ working group for ArcelorMittal reiterated the aims of the initiative and stressed the urgency of these given that we are half way through the five year timeframe. We focussed the discussion on the setting of commitments to reduce greenhouse gas emissions across the company as a whole. ArcelorMittal committed in a group Climate Action 100+ meeting in May that it will set a 2030 target and a 2050 ambition for its global operations by the end of 2020. We are encouraged by these commitments and the depth of analysis which is being undertaken.

We discussed the practicalities of setting targets and ambitions, what difficulties the company was facing and whether shorter-term targets would also be beneficial. We also had a lengthy discussion about linking the achievement of the targets to executive remuneration, building on the conversation in May. While we acknowledge some of the difficulties, including that technological progress is not linear, we stressed that there are many different possibilities and it was important that the company identifies the best option to meaningfully incentivise management to reduce emissions.

CREST NICHOLSON is a housebuilder based in the United Kingdom, founded in 1963.

Conference call with Jenny Matthews (Head of Investor Relations)

Issues: Environmental, social and governance – sustainability policy

Following our engagement with Crest in Q2, we had an initial meeting initiated by the company to discuss the development of their sustainability strategy. We provided insight into our approach on responsible investment and gave feedback on what we look for in investee companies in terms of framework, strategy and reporting and what we consider to be best practice among their peers.

We discussed the issue of climate change in the context of the UK housebuilding industry, and how we would look for emissions reductions targets and reporting on their progress, which the company plans to do in the future. We discussed how a materiality assessment would be a good start, and that this should provide an input into the company's viability statement and annual report. We also discussed the company's ESG team resource and how they plan to develop this.

FUJI ELECTRIC is a Japanese electrical equipment manufacturer.

Conference call with Yoshitada Miyoshi (General Manager Investor Relations)

Issues: Governance – director independence and cross shareholdings

We expressed our concern regarding three members of the board which the Company considers to be independent. Two of the directors have worked at companies linked by cross shareholding within the past five years, and one has a recent connection with an important lender to the company. We reminded the company of our concerns about cross shareholdings more generally, and how they increase the need for truly independent outside directors. We also pushed the company to provide greater clarity and transparency around the skills and experience of these board members. We see improvements in governance within the business as a potential catalyst and will therefore continue to engage on these issues.

HENNES & MAURITZ GROUP (H&M) is a global fashion, accessories and homeware retailer with significant scale, operating stores in 73 countries and directly employing 177,000 people.

Conference call with Hendrik Alpen (Sustainability Engagement Manager)

Issues: Environmental and social – sustainability policy and supply chain management

We discussed the culture of sustainability at H&M. The company explained that sustainability is one of four key performance indicators on its internal integrated score cards and that there is a 250-strong sustainability team. We discussed the perception of H&M as a sustainable fashion retailer versus its peers, its desire to be an industry leader in this area, and the reputational risks which accompany this. The company explained that customers increasingly expect products to be made sustainably, but are not necessarily willing to pay more for this. In light of this, we encouraged the company to focus on the communication surrounding its sustainability efforts.

We discussed the implications of the Higg Index for H&M and its supply chain, and recent progress on the roll out of this tool. The company explained that they have good visibility of first tier suppliers but going further down the supply chain there are a number of challenges. The company has a roadmap to increase disclosure of its suppliers and targets in place for 2021. We emphasised the importance of transparency and explained that whilst a target for 100% supply chain disclosure is challenging, we encouraged the company to continue on this path. We discussed how the company have managed their relationship with suppliers during the covid-19 pandemic. We got confirmation that the company continued to pay for orders, were flexible with suppliers when they could not fulfil orders in time and placed new orders to sustain the financial liquidity of their suppliers.

MITSUI FUDOSAN

MITSUI FUDOSAN is a Japanese real estate business.

Conference call with Atsuro Uchida (Executive Manager of Investor Relations department)

Issues: Governance – board structure, cross shareholdings and remuneration

Following the AGM in June, we recognised the positive steps that the company has taken in terms of improving its board structure and effectiveness, and encouraged the company to consider the transition to a three-tiered board structure in order to extend this further.

We highlighted the importance of having independent chairs for the nomination and compensation committees, and pushed the company to consider this in addition to having an independent majority on the committees. We also discussed our concerns surrounding the independence of two of the directors. In response, we were encouraged to hear that the cross shareholdings with the company at which one of the directors is employed have been unwound meaning the director can now be considered fully independent.

On the topic of remuneration, we communicated that the introduction of a restricted stock plan is a positive step in improving the alignment of interests between the managing directors and shareholders. However, we explained that we would like to see more detailed disclosure of the metrics being used and the performance hurdles they will need to meet.

NEWMONT is a gold producer operating mines in North America, South America, Australia and Africa. In 2019, Newmont and Goldcorp merged, creating one of the largest gold mining companies in the world.

Conference call with Steve Gottesfeld (Chief Sustainability Officer), Dean Gehring (Chief Technology Officer), Eric Colby (Vice President, Strategic Communications) and Jessica Largent (Vice President, Investor Relations)

Issue: Environmental and social – tailings dams

We discussed the progress the company has made on tailings dams management. In particular, we spoke about how the company plans to comply with the new Global Industry Standard on Tailings Management which was released in August. We stressed the importance of robust company culture for strong tailings dam management. We were encouraged to hear that Newmont has started updating their operating model in the last two years. This includes establishing a clearer line of accountability connecting the mine level operators to the executive.

We were encouraged by the progress the company has already made in relation to the new Global Industry Standard, having started a gap assessment and made a commitment to full compliance within five years. We inquired into the details of the plan and its focus on sites with extreme or high categories of risk. We highlighted the importance of communication with local communities to keep them informed throughout the lifetime of the mines. We also discussed the opportunities of using dry stack tailings as a technology to prevent future dam collapses.

ORIX is a diversified Japanese financial services firm engaging in leasing, insurance, asset management, real estate and banking activities.

Conference call with Shinichi Tomioka (Investor Relations) and Paddy Hogan (Investor Relations)

Issues: Governance – board structure and composition

We engaged with the company leading up to their AGM in June. We had some concerns about the academic background of a proposed new board member, especially given multiple members of the existing board have academic backgrounds. Following our discussion, we were reassured that the new board member could be considered independent and offered relevant experience. Given this, we voted in favour of the appointment. Moving forward, we encouraged the company to provide detailed evidence regarding the relevant knowledge and experience of academic members of the board.

We also expressed concern regarding the size of the board (currently composed of 12 members) and encouraged the company to consider reducing the number of board members whilst at the same time increasing the proportion of independent members. The company confirmed their plans to increase the proportion of external directors over time, with a focus on enhancing the diversity of the board. To enable this, management stated that they would not shy away from making adjustments to internal appointments.

ROYAL DUTCH SHELL is a global energy and petrochemicals company operating in more than 70 countries.

Climate Action 100+ group call with Harry Brekelmans (Projects and Technology Director), John MacArthur (Vice President, Group Carbon), and other colleagues

Issue: Environmental – climate change

We discussed the significant commitments the company made earlier this year when it tightened its medium- and long-term ambitions to reduce its greenhouse gas emissions. Specifically, the company now aims to reduce the net carbon footprint of the energy products it sells by 30% by 2035 and 65% by 2050, up from 20% and 50% respectively. We discussed in depth the process the company went through and we praised the raising of these ambitions, particularly given the difficult backdrop of the covid-19 pandemic.

In particular, the discussion focussed on the net carbon footprint ambition for 2050 and how this is compatible with other commitments, including to become a net-zero emissions energy business. While these ambitions are important, so far insufficient detail has been published to enable investors to understand how these emission reductions will be achieved. At the time of the announcement in April, the company stated that more information would be available in September. However, this has now been pushed back until February 2021 as the company is undertaking a strategy review. We pressed the company to release this information earlier if possible.

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