

# Global ESG Investment

Q1 ESG Report 2020



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## Voting and engagement summary 2020

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“Our quarterly ESG report provides a summary of our research, company engagement and voting activities. The report’s objective is to inform, disclose and create discussion. We welcome comments and observations.”



# ESG investment in uncharted waters



**Andrew Mason**

Stewardship Director, Editor

This quarter has been one of the most challenging that we have experienced in a generation. It is possibly the first time that the world has been consumed by a single event so swiftly and unexpectedly. The outbreak of Covid 19 has presented global challenges across societies. Stable economies are built upon stable social and environmental foundations, which have been rocked but not toppled by the pandemic. The recent volatility on financial markets is a reflection of this. The need for foundations to be stable and resilient furthers the case for ESG investment.

During the quarter we have engaged extensively with our investee companies to understand how they are adapting their near-term strategies, what the potential impacts on their longer-term strategies will be, and what we can do to support them. We are encouraging investee companies to ensure the safety and wellbeing of their employees, support their clients and suppliers and to ensure affected stakeholders receive the appropriate assistance. We have seen companies taking positive steps across many sectors. These include mining companies supporting communities local to their operations, pharmaceutical companies sharing resources and knowledge to create a vaccine and manufacturers adapting their processes to create new products to fight the pandemic.

We have produced research on the macro impacts of the coronavirus crisis and how it has highlighted the need for sustainable and equal societies. Job losses, lower earnings, eroded savings and impaired credit access due to lockdown are more likely to affect those with lower-paying jobs. The virus is also more likely to infect people in this group who are less likely to have the ability to work from home. We have seen positive moves from governments. Several have responded quickly to the crisis through additional spending and the creation of infrastructure. More needs to be done, however, as governments attempt to manage an unprecedented global crisis. The virus has magnified the need for cleaner, more sustainable and more inclusive growth. This is the case not just for ethical reasons, but because it would better insulate individuals and the global economy from future shocks.

At the start of the quarter we experienced bush fires in Australia. They followed the country's hottest and driest year on record and a clear trend of longer and more severe fire weather. The bushfires led to the tragic loss of human life, and the damage and destruction of thousands of houses, businesses and farms. Research found that the worst of the fires, which occurred in January 2020, affected almost 80% of Australians, whether directly or indirectly. These devastating effects have brought climate change to the forefront of Australian public and political discourse. Environmental issues were reported as the top or second-most important issue facing Australia compared with three months earlier in October 2019. Aberdeen Standard Investments has an important role to play in understanding the investment implications of climate change, mitigating the risks, and allocating capital to solutions. We are actively fulfilling our role at both a macro and company level. In this report, we give details of our engagement with the insurance company IAG following the bushfires.

“the Covid pandemic is possibly the first time that the world has been consumed by a single event so swiftly and unexpectedly.”

This quarter we have also produced details of our private equity team’s approach to ESG. We assess and monitor ESG progress in our investments via due diligence, investor advisory board representation, and regular one-to-one meetings with the private equity firms themselves. Our annual ESG survey is one method by which we can monitor and assess the ESG practices of private equity managers and drive change. In 2019 our survey found some interesting results, notably the variance between ESG practices in Europe compared with their US and Asian peers. 88% of European respondents indicated that they have an ESG policy, with the remaining 12% indicating a desire to implement such a policy in the near future. Conversely, only 53% and 15% of Asian and US private equity firms, respectively, had an ESG policy. This represents an increase on the 2018 survey results and reflects the growth of ESG globally within private markets. We continue to drive better ESG practice across all of private equity strategies. We believe that responsible investing in private equity will only continue to gain in momentum as private equity managers seek to differentiate themselves and to add value to companies above and beyond traditional methods.

Within the report, we have detailed the total number of engagements with an ESG focus that we have had over the quarter. We have also given details of our voting over the period. Finally, the report offers details on company engagements from different geographies over the quarter. This includes discussions with the oil company Shell on climate change, with the gaming operator Flutter on regulation and with Russia’s largest banking institution, Sberbank, on its governance. Further details of the areas raised above can be found at <https://www.aberdeenstandard.com/en/responsible-investing>

I hope you find this report of value. Its objective is to inform, disclose and create discussion. I welcome comments and observations.

## Our responsible investing capabilities

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients’ capital, environmental, social and governance (ESG) considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

“The coronavirus crisis has highlighted the need for sustainable and equal societies.”



## Examples of engagement

Throughout the quarter, we have engaged on a range of issues across multiple geographies.

The following section of the report offers further detail on the companies that we have engaged with and the topics discussed.



Companies chosen are for illustrative purposes only to demonstrate our ESG Investment process and is not intended to be an indication of performance, investment recommendation or solicitation.

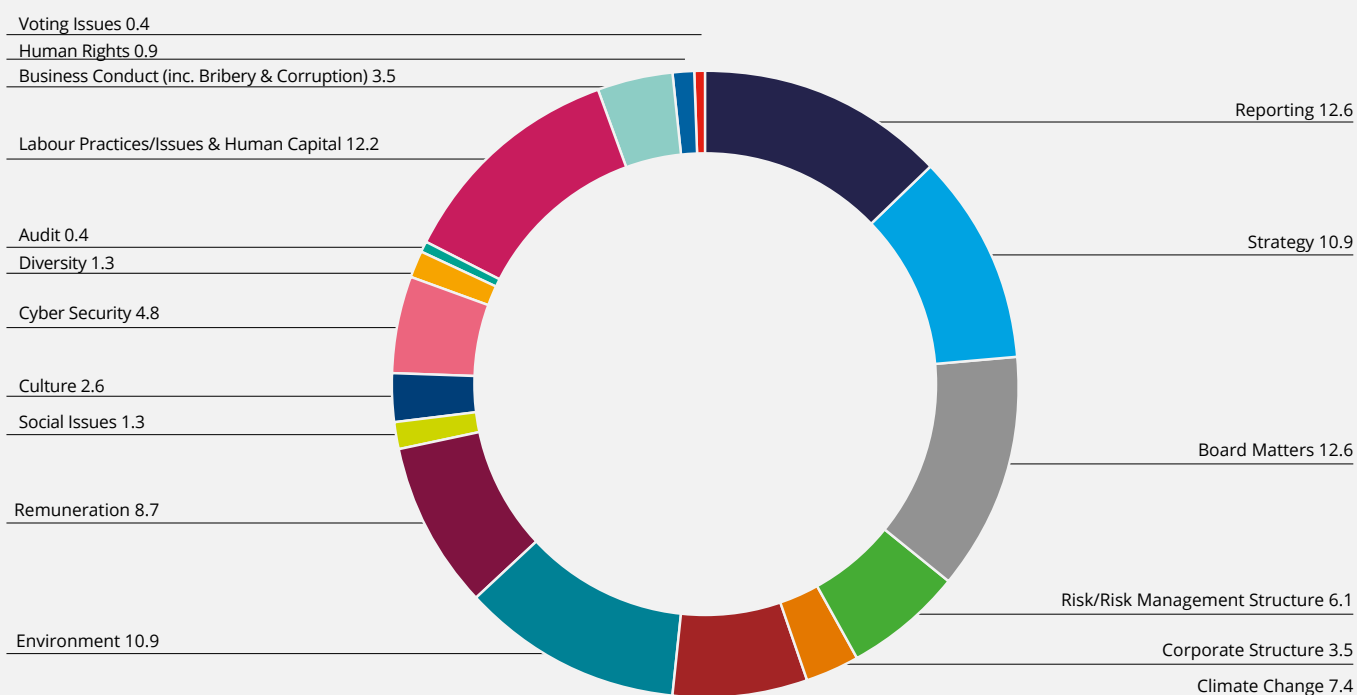
# ESG voting and engagement summary

## Voting summary Q1 2020

	Total
Shareholder meetings at which our clients' shares were voted	644
Percentage of meetings with at least one vote against or abstention	47.2%
Number of resolutions voted	5,493
Percentage of resolutions voted with management recommendations	88.9%
Percentage of resolutions voted against management recommendations	8%
Percentage of abstentions	3.1%

During the quarter, we met with and discussed ESG issues with over 100 companies. The chart below and table opposite offer examples of companies that we engaged with and the specific ESG topics discussed.

## Engagement summary Q1 2020 (% of meetings where topic discussed)



Source: ASI, as at 31 March 2020

## Engagement summary Q1 2020

	Reporting	Strategy	Board Matters	Risk/Risk Management Structure	Corporate Structure	Climate Change	Environment	Remuneration	Social Issues	Culture	Cyber Security	Diversity	Audit	Labour Practices/Issues & Human Capital	Business Conduct (Inc. Bribery & Corruption)	Human Rights	Voting Issues
Name																	
ABU DHABI NATIONAL ENERGY CO	●	●				●								●			
ADANI GREEN ENERGY LTD			●			●									●		
AIR LIQUIDE SA	●	●				●			●					●			
AMAZON.COM INC														●			
AMGEN INC		●	●				●							●			
AVAST PLC			●				●				●	●		●			
BANCO SANTANDER SA			●				●	●				●					
BANK RAKYAT INDONESIA PERSER		●					●				●				●		
BANKINTER SA		●	●					●									
BAYER AG-REG		●	●			●			●							●	
BHP GROUP PLC	●			●			●							●			●
BJ'S WHOLESALE CLUB HOLDINGS							●		●								
BOOHOO GROUP PLC							●		●					●			
BRITVIC PLC	●						●							●			
CHINA GAS HOLDINGS LTD				●		●	●							●	●		
COMMONWEALTH BANK OF AUSTRALIA				●		●	●	●		●							
CRH PLC			●	●		●		●		●							
CRODA INTERNATIONAL PLC		●				●	●										
DAVIDE CAMPARI-MILANO SPA			●														●
DETSKY MIR PJSC	●						●							●			
DOLLAR TREE INC		●		●										●			
DRAX GROUP PLC	●	●				●								●			
EASTERN WATER RESOURCES DEV		●				●	●										
ELI LILLY & CO	●	●							●								
ENVESTNET INC			●	●				●			●						
EVO PAYMENTS INC-CLASS A		●	●		●								●	●			
FEVERTREE DRINKS PLC	●	●	●											●		●	
FINECOBANK SPA		●	●					●									
FIRST REPUBLIC BANK/CA			●					●			●	●		●			
GLOBETRONICS TECHNOLOGY BHD	●						●								●		
HALMA PLC	●	●		●										●			
HAMMERSON PLC	●					●	●										
HEADHUNTER GROUP PLC-ADR											●			●			
HOYA CORP	●				●									●	●		
HUB GROUP INC-CL A	●		●				●	●			●						
IMPERIAL BRANDS PLC	●	●						●						●		●	
INDOCEMENT TUNGGAL PRAKARSA	●			●		●	●										
INSIGHT ENTERPRISES INC	●					●								●			
INTEL CORP		●	●				●		●		●						
JPMORGAN CHASE & CO						●	●			●							
JSW ENERGY LTD	●		●		●		●										
KAISER ALUMINUM CORP	●					●	●	●				●					
LARSEN & TOUBRO LTD				●				●		●		●			●		
LONGI GREEN ENERGY TECHNOL-A	●																
LUKOIL PJSC			●														
MAPLE LEAF CEMENT FACTORY	●		●														
MCCARTHY & STONE PLC	●	●					●							●			
MEGAPORT LTD			●					●									



[illegible]

# J D Wetherspoon

Peter Silver  
ESG Analyst



J D Wetherspoon is a leading owner and operator of over 900 pubs and 40 hotels throughout the UK and Ireland, employing around 43,000 people. The pubs operate under a variety of different names and are often found in non-traditional locations, such as former banks, post offices and cinemas. The company seeks to provide customers with good-quality food and drink at reasonable prices.

We chose to engage with J D Wetherspoon after learning about its labour management practices and some of the unique factors that sets them apart from peers. Although the annual report provided some detail in this space, we arranged a meeting with the company's HR director to learn more.

The company is proud of its employees' length of tenure. On average, pub managers have been with the business for over 12 years, and the average across all employees is two years – leading a number of its peers. This is largely driven by their internal promotion system; we learned that it is rare that any senior positions are filled externally. Overall, this helps to lower employee turnover, reduce recruitment and training spending, and lead to higher levels of employee engagement.

Key Driver	Key Outcome
 Internal mandate	 On track to meet objectives

J D Wetherspoon has stepped away from the traditional six-monthly employee engagement surveys as it was felt this only provided a snapshot of employee sentiment. Instead, the 'Tell Tim' suggestion scheme was introduced, providing all employees with a venue to raise any issues as well as ideas that might benefit their individual pubs. Management noted it has been receiving around 200-300 ideas a week, largely around improving efficiencies and ideas for new locations, with a good number of these being adopted. There are also weekly senior management meetings where a selection of pub employees are invited along to feed in their thoughts. This has helped to ensure management are up to speed with what is happening on the front line.

Finally, the company introduced its graduate scheme in 2019 and provided around 700 placements across the business. It has also been helping staff to gain professional qualifications for the past 10 years and has linked up with local universities to provide teaching facilities. The company continues to grow across the UK and noted the creation of around 2,000 jobs in the past year.

The engagement helped support our decision to start a position in our UK Employee Opportunities Impact Fund, as it highlighted areas of strength in promoting job growth, investment into training and development, and providing work in more socially deprived areas of the country. Whilst this remains an active holding, we will continue to engage with J D Wetherspoon to ensure that these standards continue to be upheld.

**“The engagement helped support our decision to start a position in our UK Employee Opportunities Impact Fund.”**

# National Grid

**Andrew Mason & Peter Silver**  
ESG Analysts



National Grid plc transmits and distributes electricity and natural gas. Its principal activities are in the United Kingdom and the north eastern United States.

We questioned the company on Board oversight of its sustainability strategy. The Group advised the Board has a strong focus on its three key strategic areas climate commitment, responsible resource use and enhancing the value of land assets. It advised that the application of this strategy by the executive is financially driven, and sustainability is integrated throughout the business. The company's Chair has announced his intention to step down after nine years with the business. It is likely that he will seek re-appointment at the company's AGM in Q2 to support with succession planning and maintain continuity as the company meets new regulatory demands. We welcome this approach and will monitor the company's succession planning.

The company detailed an environmental strategy that focused on three key areas: climate transition, responsible resource use and enhancing the value of land assets. Its climate transition programme is extensive and the company intends to reduce its own direct greenhouse gas emission to net zero by 2050. To achieve this company will apply a range of programmes, including:

- an ongoing gas mains replacement programme in the US to reduce methane leakage;
- replacing SF6 (Sulfur hexafluoride) gas – which has a higher climate change impact than CO<sub>2</sub>; and
- the replacement of commercial vehicles with electric vehicles

Key Driver	Key Outcome
 Internal mandate	 On track to meet objectives

The company has also applied a new carbon baseline to ensure that its strategy is aligned with existing operations. The use of offsets will be required but limited to achieve its targets and the company has the ability to utilise the sustainability of its non-operational land assets to meet its goals.

We questioned the company on its approach to upcoming UK regulation RIIO-2 (Revenue = Incentives + Innovation + Outputs). The regulation is geared to ensure that operators maintain a reliable and secure network which is delivered at a fair price for consumers. It will come into effect in April 2021 for a five-year period. The company has publicly disclosed its business plan to meet the regulation. We are broadly supportive of the steps it is taking to ensure appropriate pricing for customers and transition to low carbon economy.

Finally, we questioned the company's approach to its employees. The company is facing a challenge as it needs to create new 'green jobs', has an aging workforce and is competing for new employees with appropriate qualifications. The company is taking steps to manage these areas. However, we believe that they could present future risks.

Overall this was a positive meeting and National Grid and we will continue to monitor its progress on Chair succession, climate transition, supporting customers and managing employees.

**“Overall this was a positive meeting with National Grid and we will continue to monitor its progress on climate transition, supporting customers and managing employees.”**

# Flutter Entertainment plc



Rosie French & Jonathan Allison  
ESG Analysts



Flutter Entertainment plc is a global sports betting and gaming operator, with a portfolio of brands including Paddy Power, Betfair, Sportsbet and FanDuel.

We met with the Flutter Chairman, Gary McGann, shortly after the UK government’s announcement to ban credit card use in online gambling and the group’s receipt of a letter from the NHS regarding the tackling of gambling addiction in the UK. Given clear regulatory and reputational headwinds facing the industry, with potential material revenue and share price impacts, the meeting focused on the group’s approach to responsible gambling and its role in addressing gambling addiction.

Mr McGann stressed CEO, Peter Jackson’s focus on developing a leading Responsible Gambling (RG) approach with increased staff, controls and tools. These have been introduced across the business in recent years with the aim of taking the initiative to identify, monitor and address problem gambling and supporting at-risk customers. One such tool is the Customer Activity Awareness Programme (CAAP). This tool uses 114 metrics linked to customer behaviour to identify at-risk users in order to set triggers for intervention, restriction and support. Flutter has also increased collaboration with peers and the UK Gambling Commission, and work to self-regulate has accelerated, for example, the ban in pre-watershed advertising introduced last year. Increased collaboration should lead to more positive outcomes both for gambling companies and future users.

Key Driver	Key Outcome
 Internal mandate	 Escalation candidate

Whilst we recognise the group’s focus on responsible gambling, reflected in stronger third-party ESG ratings than peers, we encouraged Flutter to further develop this in the coming years to ensure its continued license to operate. Our recommendations included disclosure of CAAP data, such as the number of restrictions of at-risk customers and number of customers supported after the event; the sharing of this data with other industry players to collaborate on addressing problem gambling; the introduction of a reduction-target that is linked to publicly recognised rates of problem gambling; inclusion of RG metrics into executive remuneration; and the application of the RG approach to all its businesses.

In the most recent annual report, we saw an increased focus on responsible gambling within the group’s core strategy. This was demonstrated by the inclusion of an RG measure in key corporate performance indicators and an explicit ambition to be best-in-class from a responsible gambling perspective. RG performance indicators were positive, for example, there was an 84% increase in customers choosing to set deposit limits. Additionally, the business is planning to increase the contribution of its UK gross gambling yield (GGY) to the research, education and treatment of problem gambling from 0.1% to 1% over the next few years. Following our engagement on including RG metrics in executive remuneration, we welcomed the proposed introduction of a metric on reducing revenue from at-risk customers to the remuneration policy. This is meaningful, in our view, as it demonstrates a willingness to forgo income in order to protect at-risk customers.

We support Flutter’s progress on responsible gambling. Notwithstanding this, we will continue to encourage ever more ambitious tools, targets and contribution to engender a more responsible gambling industry. This should strengthen the group’s license to operate, thus better protecting our clients’ investments.

“We support a responsible gambling industry that will strengthen Flutter’s license to operate thus better protecting our clients investments over the long-term.”



# Bawag

Kathleen Dewandeleer  
ESG Analyst





Bawag Group AG is the listed holding company comprising the bank, BAWAG P.S.K. The bank was founded in 1922, and has gone through several transformations. It is the third biggest bank in Austria with an 8% share of the mortgage market. It has invested in direct banking with its subsidiary Easygroup and has increased its building society presence with the Bausparkasse.

In 2006, the private equity group Cerberus bought a 90% stake in the Group. It has gradually been reducing this, finally selling out completely at the end of 2019. The current next biggest shareholder has a 21.8% stake. Given the private equity ownership of the group, there was minimal corporate governance in place. We had an initial engagement with the bank last year where several issues were discussed: board independence, board balance and composition, remuneration practices, weak disclosure and related party transactions. We encouraged Bawag to consider improvements in these areas.

As long term investors, our engagement is based on continuing the dialogue and encouraging better practices and better disclosure. We had another engagement with Bawag to follow up on the items previously raised. At our initial engagement there were two significant shareholders, Cerberus (25.7%) and Golden Tree (21.8%). Both shareholders had the right to nominate one member of the Supervisory Board. In December 2019, Cerberus sold its remaining stake.

Bawag has a two-tier corporate structure, with a Management Board that is chosen by the Supervisory Board. At the initial assessment, the Supervisory Board had a non-independent chairman; the shareholder representative was from the controlling shareholder. As Cerberus has sold out, Bawag will propose at the next Annual General Meeting (AGM) to abolish the nomination right of the respective Cerberus shareholders.

Key Driver	Key Outcome
 Internal mandate	 Escalation candidate

Three members (chair, deputy chair and works council) left the Supervisory Board at the end of December 2019. We have also seen an improvement in board independence. The board now consists of six members, four independent non-executive directors (NED) and two employee representatives (works council).

We have also seen an improvement in the independence of the Board Committees. Committees are majority independent now: Audit and Compliance Committee, Risk and Credit Committee and Nomination and Remuneration committee.

From the 2019 Annual Report, there were no related party transactions with entities with joint control of, or significant influence over, the entity. At our initial engagement we highlighted poor remuneration disclosure. Bawag will now present for the first time its Remuneration Policy at the AGM this year. Documents will be posted 21 days ahead of the AGM. The 2019 Annual Report provides information on Supervisory Board and Management Board Remuneration.

Diversity remains an issue, as there are no women on the Supervisory Board. The focus on diversity will not arise until the tenure of current board membership ends in March 2021.

The current term of the supervisory board members terminates in March 2021. We will continue our dialogue with the bank, and hope that the focus will be on installing a diversified and majority-led independent board. This will contribute to better governance of Bawag overall.

**“The current corporate structure is a reflection of private equity having been a major shareholder in the bank until recently. Changes are taking place, and bank is open for engagement.”**

# Visa

**Nick Duncan**  
ESG Analyst



Visa Inc. is an American multinational financial services corporation that facilitates electronic funds transfers throughout the world.

We had a call with Doug Stewart (VP Securities & Assistant Company Secretary) where we discussed the move by CEO Alfred Kelly in April 2019 to take on the additional role of Chairman. Robert Matschullat stepped down as Chairman but remained on the board as a director. The board informally rotate the Chairs of the various committees every five years. As such, Matschullat thought this would be a good time to step down as Chair and let the CEO take over. Matschullat would take over the Chair of the Finance Committee where he could help on M&A. At various points, Visa has had a separate CEO & Chairman but at this time a combined CEO/Chair is viewed by the company as the most appropriate arrangement. ASI prefers companies to separate the role of CEO and Chairman to avoid too much power being concentrated in one person.

As a result of this role combination, the Lead Independent Director (LID), John Lundgren, becomes more important, as the LID has the responsibility of being the main check and balance on the power of the CEO/Chair. The role and responsibilities for this position have been recently expanded. The LID has to approve both the agenda and the information going to the board. However, now the LID will also take on more responsibility for engaging with shareholders and will also take the lead in evaluating the CEO.

**“ASI prefers companies to separate the role of CEO and Chairman to avoid too much power being concentrated in one person.”**

## Key Driver



Performance-based engagement

## Key Outcome



On track to meet objectives

We also discussed the proxy advisors' recommendation this year to vote against Lloyd Carney due to over-boarding. Carney is the CEO of ChaSerg Technology Acquisition, Chair at Nuance Communications and board director at Vertex Pharma, in addition to serving on the Visa board. In normal circumstances, this would indeed be too many commitments to be able to adequately discharge his fiduciary responsibilities to each company. However, on closer inspection, Carney is CEO of a special purpose acquisition company which is non-operating, and which will wind up in April 2020 following a recent acquisition. The company takes over-boarding seriously and limits non-executive directors to four boards.

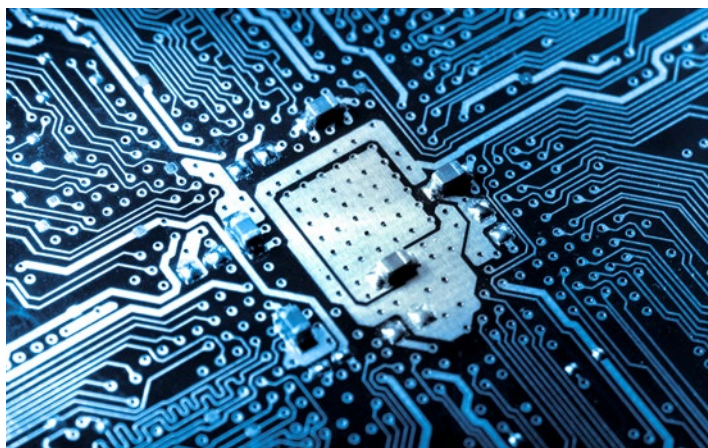
The company still has several classes of share: Common stock has A, B & C classes; preference shares have B & C classes. This structure has been used to protect shareholders from the effects of historic anti-trust litigation. Common class B shares are held by US financial institutions, while common class C shares are held by foreign banks. The class B holders are liable for the historic litigation costs. Both B & C common holders have limited voting ability.

We asked whether the company would consider allowing the shareholders the right to call a special meeting. The company was aware it was lagging behind current thinking on this topic. However, they mentioned that this would involve changing the certificate of incorporation which, given the legacy ownership structure, is no easy task.

Visa has a number of unusual governance structures in place as a result of its past history. During our discussion, the company was open to discussing these issues and was forthcoming in answering our questions. We will have to monitor the combined CEO/Chair's performance in the future to decide whether we can support this structure.

# Insight Enterprises Inc

Fionna Ross  
ESG Analyst





Insight is a technology company which offers information technology, hardware, software and services to large enterprises, small to medium businesses and public-sector institutions.

We engaged with Insight to discuss its plans and progress towards increasing transparency around its carbon footprint and related greenhouse gas (GHG) emissions. The company was identified for engagement as part of a wider exercise to identify companies across our portfolios ranking the weakest in terms of climate-related disclosures. This was also part of our efforts to encourage fuller, more reliable and consistent disclosure of data from our holdings.

Insight does not have a large carbon footprint compared to some industries, with its biggest exposure coming from its buildings footprint. However, the company lacks detail on any efforts it is taking to address its physical and transitional climate risks.

The company is very much at the beginning of its environmental journey and has not yet begun to monitor its current carbon impacts, or set any carbon-reduction goals or limits. It has, however, begun to reduce its buildings-related footprint. It is currently in the process of moving into new corporate headquarters, as part of its efforts to drive more sustainable solutions through the use of solar and other energy-conservation means. As its new headquarters are owned (as opposed to leased), the company will have more control over activities such as monitoring its environmental performance and ultimately setting targets. Although it does not have dedicated internal resources to drive its environmental efforts (as is typical for many small-cap names), Insight has been using external consultants and sub-consultants to help drive its efforts.

Key Driver	Key Outcome
 Internal mandate	 Escalation candidate

We have encouraged Insight to look at SASB as a starting point to help guide its reporting. The company does currently publish a Citizenship report. However, this is more reflective of its charitable and employee-volunteering efforts and does not address its material ESG risks or how it is handling those. We also made clear our recommendations to the company to explore the TCFD (Task Force on Climate-related Financial Disclosures) framework. This will give guidance on how to begin looking at and reporting its carbon-related disclosures. We have also encouraged Insight to consider reporting to the Carbon Disclosure Project (CDP).

Insight is very much in the early stages of its reporting journey and has limited resources at present to drive its corporate sustainability program. We will continue to engage with Insight to help encourage and guide the company towards disclosing more relevant and quantitative performance data in its Citizenship report.

**“Insight was identified for engagement based on its lack of climate-related disclosures as part of our efforts to encourage fuller, more reliable and consistent disclosure from our holdings.”**



# NLMK

Petra Daroczi & Andrew Mason  
ESG Analysts





Novolipetsk Steel is a vertically integrated steel company, the largest by output in Russia. Its products are used in a variety of industries, such as construction, machine-building, and the manufacture of power generation equipment and offshore windmills.

We met with the company twice over the quarter. Our first meeting related to coal exposure, bribery & corruption, health & safety, and the management of tailings dams. Our second meeting solely focused on its management of tailing dams and formed part of ongoing engagement with the company on the issue in collaboration with other investors. We welcomed the fact that the company had been publishing a sustainability report, disclosing its targets and progress in the areas of environment and health & safety.

Coal is an important aspect of steelmaking: the manufacturing process relies on coking coal as a primary energy source for steel furnaces, resulting in high emissions and environmental pollution. It is not uncommon for steel producers to be vertically integrated by owning their own coal assets/mines. The company confirmed that it no longer has active coking coal facilities. It does not develop its own coal deposits and has returned coal exploitation licenses it previously held to the state due to environmental and financial considerations.

Novolipetsk employs over 53,000 employees worldwide and it operates in geographies with elevated risk of bribery and corruption. We questioned how the board tackles these issues and the biggest challenge in applying existing anti-bribery policies. There is a publicly available anti-bribery and corruption policy in place, with risk identification sitting with the risk management department. Novolipetsk detailed the steps that it was taking to manage corruption risk. However, currently this does not include methodologies to identify and prioritise risks in different

Key Driver	Key Outcome
 Client mandate	 On track to meet objectives

geographies. We encouraged the company to develop this area.

Health and safety is a key ESG risk in steelmaking: the heavy industrial manufacturing processes in steel production can result in severe worker injuries and fatalities. The company reported three fatalities in 2018. While the company is a signatory to the initiative “Vision Zero”, they do not currently disclose a categorical breakdown of accident severities. We encouraged them to do so going forward, and will be monitoring their progress towards greater transparency in this regard.

We have actively participated in an investor-led coalition focusing on tailing dams since its inception following Brazil’s Brumadinho tailing dam disaster in 2019. As part of this group, we are supporting the creation of a global tailing’s portal which encourages companies to disclose their management of tailing dams. Novolipetsk currently has limited exposure to tailing dams and had not taken part in the initiative. Nevertheless, following our suggestions, the company is now disclosing details of tailing dam management as part of the initiative. This is a welcome step and we were encouraged by the company’s willingness to take part in the initiative.

Both our meetings with the company were positive. Although it operates in an industry with numerous ESG risks, we were encouraged by its willingness to develop its ESG strategy and act upon our recommendations. The company still has more to do on its ESG journey and we will continue to collaborate and support its efforts in this regard.

“Although it is in an industry with numerous ESG risks we were encouraged by its willingness to develop its ESG strategy and act upon our recommendations.”



# Sberbank

Fraser Harle  
ESG Analyst



Sberbank is the largest banking institution in Russia, with c.70% of the Russian population a client of at least one of its banking services. Outside of Russia, Sberbank's operations extend across 20 other countries, predominantly in Central/Eastern Europe and the Commonwealth of Independent States.

McKinsey estimates that c.60% of growth in global banking revenues will originate from emerging markets (EMs) in the coming decade. While much focus is given to governance across these institutions, management of emerging risks and opportunities can be in danger of going unnoticed when assessing ESG credentials. Our conversation with Sberbank was part of an ongoing benchmarking exercise across the financial companies held in our Global EM equity portfolios.

Extractive industries play a dominant role in the economies that Sberbank operates in. Ensuring that the bank has a well-articulated criteria of ESG expectations for corporate and project financing is pertinent. This allows shareholders to better understand the materiality by which ESG is embedded in the credit risk process at Sberbank.

Associated energy and materials sector exposure as a proportion of the Sberbank's loan book is c.14.7%, closely mirroring Russia's GDP structure. The company is looking to increase lending across other sectors too however, such as in agriculture. Credit risk assessments have begun to incorporate ESG elements for more standardised lending products, and is fully embedded for larger corporates requiring tailored solutions.

From an EM standpoint, Russia in comparison to the majority of the investable universe has a more robust legislative and regulatory framework with respect to the commercial application and usage of personal data. This includes legislation focusing on the domicile of data, data protection and data privacy. Sberbank over recent years

Key Driver	Key Outcome
 Internal mandate	 On track to meet objectives

has undergone a renaissance of technological development, with a focus on new data driven, tech-ventures. Given this, and the relatively stringent regulatory backdrop, we spent a portion of our engagement discussing their control environment in this respect.

An internal Sberbank assessment suggested a c.90% similarity of Russian legislation with the EU's General Data Protection Regulation (GDPR). The deviation resulted largely from the theoretical quantum of regulatory sanctions. Sberbank has introduced a dedicated team within their cyber-security department covering confidential and personal information. Sberbank is also working towards applicable International Organization for Standardization (ISO) certifications as a priority, and expects to achieve certification in 2020.

Digital penetration of services at the company are now a notable proportion of aggregate business. Sberbank services account for c.50% of customer loans online, and c.33% of mortgages online. Despite this, Sberbank continue to see meaningful foot traffic of customer branch visits monthly across the Russian provinces. Sberbank does not have any targets for reduction of its branch network, as their rural clientele comprises c.27% of Russia's total rural population and the bank plays an important role in its financial inclusion at the national level. Further growth into currently unserved regions will be done via the bank's agent network.

Our engagement with Sberbank left us with greater confidence regarding the integration of ESG criteria at the bank. While the bank is not as mature in this respect compared to leading EM peers, it is open to receiving investor feedback and views ESG as an area of priority going forward. We remain committed to future dialogue with Sberbank and will continue to advocate for constructive changes at the bank.

**“The bank is not as mature as leading emerging market (EM) peers on ESG, however it is continuing to develop on this front and is open to receiving investor feedback.”**

# Insurance Australia Group

**Matthew Macreadie**  
ESG Analyst



Insurance Australia Group (IAG) is an Australia-based international general insurance group. It operates in New Zealand and Asia, as well as Australia. The group provides a range of personal and commercial insurance products, primarily motor vehicle and home insurance. IAG is a signatory to the UN's Principles for Responsible Investment and had US \$7.8 billion of Assets under management (AUM) as of June 2019.

This was our first engagement with IAG. After the Australian bushfires in late 2019/early 2020, we were concerned about the country's insurance sector. We weren't sure whether the industry had the capacity to manage the filling of claims or whether insurance pricing was going to become unaffordable for the average Australian. The effects of the bushfire events may quickly be reflected in premium prices. Insurance companies might face more stakeholder scrutiny and regulatory action, however, to make sure they provide options for vulnerable consumers. If insurance becomes unaffordable, it could stop customers retaining policies and lead to a higher level of lapse rates.

**We spoke to the company about these concerns. We were comforted by the fact that it is dedicated to providing support to customers and that it is also focusing on climate change research.**

- **How is the company dealing with the filling of claims?** IAG has drawn on resources/staff from around the country to help with filling of claims and assessing claim impact. It has also established a customer support line to offer additional assistance.

Key Driver	Key Outcome
 Internal mandate	 On track to meet objectives

- **What products is it using to address affordability issues?** The company gave the InsureLite as an example. This is a discount insurance product for rebuilds of smaller homes, up to the value of AUD 200,000. It is designed to ensure homeowners are able to attain some level of cover.
- **How is the company incorporating responsible investment within its investment book?** Through its subsidiary, NRMA, IAG it became an inaugural investor in the NSW Government Social Benefit Bond Trial. While its community investment amounts remain minor relative to peers such as QBE, the company has committed AU \$100 million to social impact investments over a three year period.

IAG has also signed up to various committees and councils, which have been established to promote affordable insurance for customers. Finally, it is part of the Australian Business Roundtable for Disaster Resilience & Safer Communities aimed at developing disaster resilience framework and policies for the Australian Government.

In future, we would like to see IAG investing in companies that contribute to transitioning towards a low-carbon economy. We see this as a way for it to differentiate itself from its insurance-sector peers.

We remain overweight on the company's bonds and will follow up after its full-year results.

**"IAG amongst a number of insurers dealing with climate change risks."**

# LONGi Green

David Smith & Jerry Goh  
ESG Analysts



LONGi Green, a leading manufacturer of monocrystalline silicon wafers, is listed on the Shanghai Stock Exchange. The company is well positioned to benefit from the transition to a low-carbon economy, particularly the growth in solar installations.

Since LONGi Green is an “A-Share” company, part of our ongoing engagement involves discussing ways in which it can improve disclosure. Constituents of China’s onshore market typically receives lower ESG scores from third party research firms than similar companies listed in Hong Kong, for example. In many cases, disclosure around ESG issues is relatively lighter than it could otherwise be. Our view is that this lighter level of disclosure rarely reflects the actual policies and processes, at least for our portfolio companies. With this in mind, we encourage “A-Share” companies to disclose more, to enable international investors to better understand and better appreciate the progress they are making on ESG issues.

While we have discussed issues around environmental sustainability with LONGi in the past, we wanted to spend more time with the company to fully understand its processes. In particular, we wanted to know about its approach to water use and reuse, human capital development and retention, and supply-chain management. Given the relatively water-intensive nature of its business, we felt the company could do more to disclose the ways it is managing water risk through reduction and reuse of water. The company shared the ways it has implemented water-recycling efforts, as well as the way it monitors water consumption. It’s clear that LONGi has a strong focus on the issue, but it could improve disclosure.

Key Driver	Key Outcome
 Internal mandate	 On track to meet objectives

The solar manufacturing ecosystem in China is extremely competitive. Given the company’s focus on research and production excellence we wanted to better understand its approach to human capital management. The company assured us that it has moved to ensure that staff salary and benefits remain competitive. On top of this, it has focussed efforts on strengthening corporate culture. LONGi proactively monitors employee satisfaction, with employee satisfaction metrics included in management KPIs. In addition, training (both internal and external) ensures that employees are apprised of developments in the industry. The result is a very modest staff turnover ratio, something from which we took comfort, given how competitive the industry is.

We also spoke with the company about supply chain management. While the production of mono ingots, wafers, cells and modules is relatively less exposed to controversial materials, we wanted to better understand its approach to sourcing. We discussed the ways in which it monitors supply chains, and its sourcing policy, as well as the way it monitors compliance with best practice. While the company appears to have a relatively robust approach, we will continue to engage with it on this issue.

The engagement gave us more comfort on the approach to environmental sustainability at LONGi, as well as the ways it is developing and retaining staff. While the conversation was positive, we’ll keep discussing these issues with the company. We will also continue to encourage LONGi to disclose more on these issues.

**“The company is well positioned to benefit from the transition to a low carbon economy, and in particular the growth in solar installations.”**



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GB-270520-117932-2

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