Aberdeen Standard Investments

Global ESG Investment

Q2 ESG Report 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."

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.

Introduction

Andrew Mason
ESG Investment Director

In our first-quarter report, we highlighted the unprecedented impacts that Covid-19 has had and the challenges that it presents to companies globally. Over this quarter, we have continued to engage with our investee companies and, on the whole, have been encouraged by the significant steps that they have taken, both to adapt their near-term strategies and to consider the potential impacts on their longer-term strategies. The majority of companies that we engaged with displayed a strong focus on supporting both employees and customers.

During the quarter, we produced a statement detailing what we expected of companies and the steps that ASI would take as an investee company to support them during the crisis. ASI took a number of steps to ensure that it plays its part in meeting this challenge. These included, but were not limited to, allocating additional capital where appropriate, recognising the need for reduced dividend payments in many circumstances and, where necessary, working with companies and regulators to allow firms to issue new shares faster. We requested that companies applied prudence to capital management, prioritised the health and safety of employees, supported customers and supply chains and considered how they could support the wider community. In this report, we offer further details of the engagement we have had with companies from various sectors in relation to the Covid pandemic.

We also witnessed a significant market crash driven by the pandemic. The majority of trends indicated that companies with strong performance with respect to environmental, social and governance (ESG) issues have generally outperformed the broader market. We should be cautious, though, in making any claims about this short-term performance – or in attaching any particular importance to it. After all, the essential attraction of funds that incorporate ESG factors is their focus on the long term, through good governance and societal and environmental sustainability.

The pandemic has also highlighted the impacts that human activities have on our environment: in particular, climate change and air pollution. Daily carbon-dioxide emissions have fallen by around a third in the UK since lockdown began. Nitrogen-dioxide emissions in Chinese cities have fallen by as much as 25% and in New York, carbon-monoxide emissions have been reduced by nearly 50%. This has brought clarity to the debate over climate and other anthropogenic impacts on the environment. It has bolstered the argument for a green recovery as economies emerge from the pandemic.

In addition to managing the impacts of the pandemic, we also had the peak in our voting season this quarter. We voted on a range of issues over the quarter and continue to see a growth in the number of resolutions tabled that have a specific focus on environmental and social issues. Although dwarfed by the number of votes taken on governance issues, environmental and social resolutions continue to increase in number and complexity.

The pandemic has been the key focus of the quarter. It is important to note, however, that we have continued review various issues to inform our investment insight. These have included the following:

- The possibility of deep-sea mining as a future commercial activity and the associated potential negative environmental and social impacts, which could be significant.
- The impacts that modern slavery has globally and the mounting efforts being taken by companies and governments to tackle the issue.
- The challenges pharmaceutical companies face to develop drugs for high-burden diseases and to ensure that vulnerable populations have access to these drugs.
- The continued growth of technology and how to address the lack of access to the internet globally to bring both economic and social benefits.

Further details on our approach and view on the Covid-19 pandemic and our voting during the quarter are available on our website. Details of our engagement with companies on these issues are housed within the report.

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

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.

Source: Aberdeen Standard Investments.

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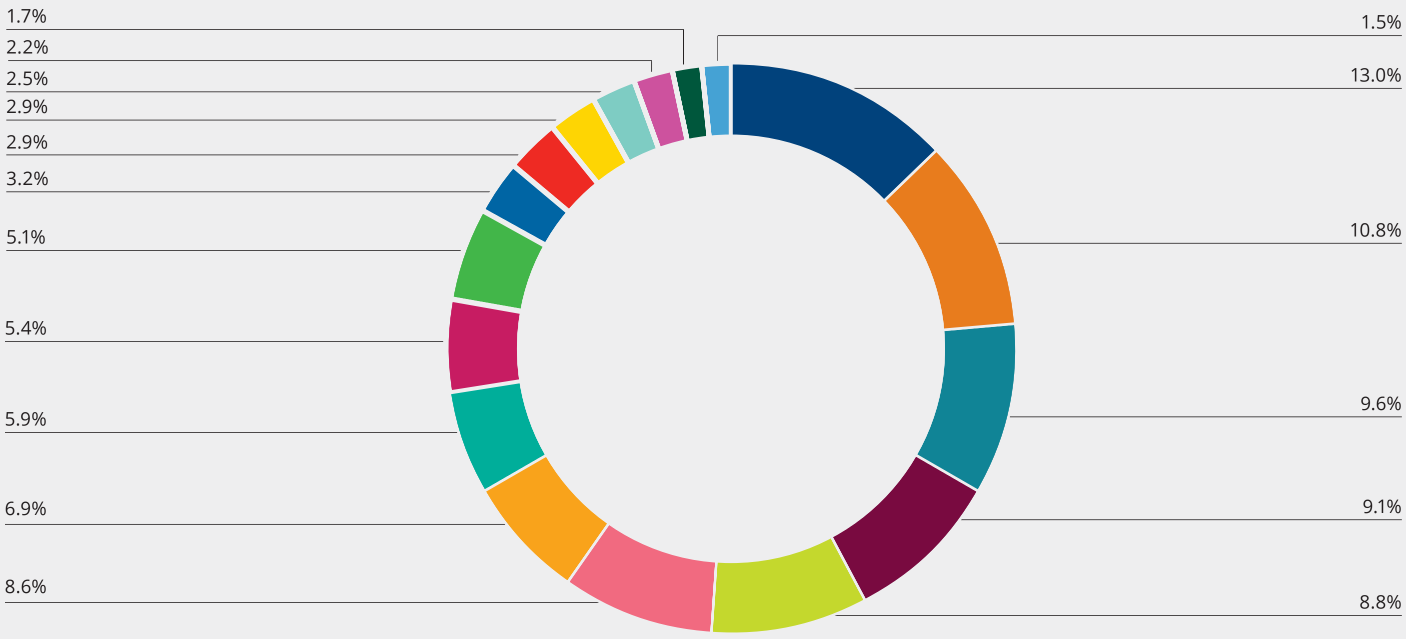
ESG voting and engagement summary

Voting summary Q2 2020

	Total
Shareholder meetings at which our clients' shares were voted	3,268
Percentage of meetings with at least one vote against or abstention	61.9%
Number of resolutions voted	40,398
Percentage of resolutions voted with management recommendations	85.8%
Percentage of resolutions voted against management recommendations	12.1%
Percentage of abstentions	2.1%

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 Q2 2020 (% of meetings where topic discussed)



Source: Aberdeen Standard Investments, as at 30 June 2020.

Engagement summary Q2 2020

Name	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
58.COM INC-ADR		●	●	●										●			
AEM HOLDINGS LTD								●									
AIR LIQUIDE SA	●	●				●	●							●			
ALTIUM LTD		●	●														
AMAZON.COM INC														●			
APPEN LTD																	
ASML HOLDING NV						●	●	●		●				●			
ASTRA INTERNATIONAL TBK PT													●				
ASTRAZENECA PLC		●					●		●								
AUSNET SERVICES		●				●	●										
AXON ENTERPRISE INC			●		●			●				●	●				
B3 SA-BRASIL BOLSA BALCAO								●									
BANK OF NOVA SCOTIA				●					●						●		
BAYER AG-REG	●	●	●					●							●		
BAYER AG-REG		●	●			●			●							●	
BEIJING CAPITAL INTL AIRPO-H	●		●	●											●		
BELLWAY PLC		●					●	●						●		●	
BIM BIRLESIK MAGAZALAR AS	●														●		
BOOHOO GROUP PLC	●						●		●					●		●	
BP PLC		●					●			●							
BRITISH AMERICAN TOBACCO PLC	●	●					●	●	●								
BURLINGTON STORES INC	●					●								●			
CENTRE TESTING INTL GROUP-A				●							●			●			
CHEGG INC			●		●			●				●		●			
CHINA MOBILE LTD													●		●		
CHINA OIL AND GAS GROUP LTD	●	●				●			●								
CHINA RESOURCES GAS GROUP LT			●			●	●							●			
CHINA RESOURCES LAND LTD	●		●			●	●								●		
CIE AUTOMOTIVE SA			●									●		●	●		
CIE AUTOMOTIVE SA			●					●				●					●
COCA-COLA HBC AG-DI		●		●			●							●			
COUNTRYSIDE PROPERTIES PLC	●													●		●	
CROWN RESORTS LTD		●	●											●	●		
CUBIC CORP		●	●	●						●		●					
CYBERARK SOFTWARE LTD/ISRAEL			●					●					●				
DEUTSCHE BANK AG-REGISTERED				●	●					●					●		
DIALOG GROUP BHD	●						●								●		
DOLLAR TREE INC	●					●					●						●
ECOLAB INC			●									●		●			
EQUINOR ASA						●	●										
FACEBOOK INC-CLASS A									●		●				●		
FERRARI NV						●	●							●			

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FIRST REPUBLIC BANK/CA	●					●	●							●	●		
FLUIDRA SA			●				●							●			●
GAMUDA BHD		●												●	●		
GAZPROM PJSC-SPON ADR						●	●										
GDS HOLDINGS LTD - ADR																	
GEORGIA CAPITAL PLC			●			●		●									
GLENCORE PLC		●	●				●							●	●		
GLOBALTRA-SPONS GDR REG S			●				●	●						●			
GLOBALWAFERS CO LTD	●									●				●			
GODREJ AGROVET LTD							●										
GOLDMAN SACHS GROUP INC						●		●							●		●
GRUPO AEROPORT DEL SURESTE-B			●														
GRUPO AEROPORTUARIO DEL CENT		●	●		●												
HANGZHOU TIGERMED CONSULTI-A	●													●	●		
HONG LEONG FINANCIAL GROUP			●				●								●		
HSBC HOLDINGS PLC	●		●	●					●						●		
INTER RAO UES PJSC				●		●	●										
INTERMEDIATE CAPITAL GROUP		●									●	●		●			
JARDINE STRATEGIC HLDGS LTD																	
JOHNSON & JOHNSON									●					●			●
JUMBO SA	●												●				
KNORR-BREMSE AG			●			●									●		
KONINKLIJKE DSM NV									●								
KRKA				●							●			●	●		
LINDE PLC	●	●		●		●		●									
MANHATTAN ASSOCIATES INC								●									
MEDIKALOKA HERMINA TBK PT											●				●		
MEITUAN DIANPING-CLASS B				●	●												
MJ GLEESON PLC	●																
MMC NORILSK NICKEL PJSC				●		●	●	●									
MMC NORILSK NICKEL PJSC				●			●	●						●			
MONDELEZ INTERNATIONAL INC-A		●							●					●			
MOWI ASA		●				●	●		●								
MTN GROUP LTD																●	
NAKED WINES PLC		●	●	●						●							
NARI TECHNOLOGY CO LTD-A	●						●								●		
NEENAH INC	●					●								●			
NETEASE INC-ADR					●												
NEUROCRINE BIOSCIENCES INC	●						●					●					
NEXTERA ENERGY INC							●										
NOVARTIS AG-REG		●		●					●	●							
OMV AG		●				●		●						●			
ON THE BEACH GROUP PLC		●	●	●				●					●				
ORIGIN ENERGY LTD						●			●					●			
ORPEA			●														●
PANDORA A/S		●			●	●	●										
PEGASYSTEMS INC	●							●			●	●		●			
POLYUS PJSC	●					●	●										
PRA GROUP INC									●					●	●		
QTS REALTY TRUST INC-CL A			●		●			●									●
QTS REALTY TRUST INC-CL A					●						●			●			
REC LTD	●					●											
RECRUIT HOLDINGS CO LTD								●									

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REPSOL SA				●		●	●										
RIO TINTO PLC				●			●		●							●	
ROLLS-ROYCE HOLDINGS PLC		●		●			●							●	●		
ROYAL DUTCH SHELL PLC-A SHS		●		●			●										
RWE AG	●	●	●			●											
SAIC MOTOR CORP LTD-A	●													●	●		
SAP SE	●	●				●					●			●			
SCATEC SOLAR ASA	●					●	●		●							●	
SCHNEIDER ELECTRIC SE		●				●	●							●			
SERCO GROUP PLC														●		●	
SERVICE CORP INTERNATIONAL						●	●							●	●		
SHANGHAI CONSTRUCTION GROU-A			●											●			
SIEMENS HEALTHINEERS AG	●	●	●						●					●			
SONIC HEALTHCARE LTD														●			
STANDARD CHARTERED PLC	●														●	●	
SWISS RE AG	●					●											
TELEPERFORMANCE	●								●					●		●	
TENCENT HOLDINGS LTD	●				●									●	●		
TOTAL SA		●				●	●										
TRANSMISSORA ALIANCA DE-UNIT	●	●															
UBISOFT ENTERTAINMENT			●					●	●			●					●
VERIZON COMMUNICATIONS INC		●									●					●	
VESUVIUS PLC	●	●					●							●			
VIDRALA SA			●				●					●		●			●
VISTA GROUP INTERNATIONAL LT																	
VODAFONE GROUP PLC			●													●	
VOLKSWAGEN AG	●					●	●							●			
WD-40 CO	●					●	●										
WETHERSPOON (J.D.) PLC									●					●			
WH SMITH PLC		●					●				●	●		●			
WSFS FINANCIAL CORP											●			●			
X 5 RETAIL GROUP NV-REGS GDR			●	●							●			●			
XPO LOGISTICS INC	●													●			
YUM CHINA HOLDINGS INC							●	●									

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AstraZeneca

Peter Silver
ESG Investment Analyst

Louise Kernohan
Investment Director

Key Driver
Internal mandate

Key Outcome
Influential in achieving change

AstraZeneca is a global business that researches, manufactures and sells pharmaceutical and medical products. It focuses its operations on eight key therapeutic areas, including gastrointestinal, oncology, cardiovascular, respiratory, central nervous system, pain control, anaesthesia and infection.

It is a company held across a wide range of our portfolios, which made it a higher priority for engagement. We arranged a meeting to discuss some of the recent news stories regarding a Covid vaccine and also the company's new environmental strategy, which had been set out earlier in the year.

Covid-19 has had devastating effects around the world. A key area of focus in combating the virus is the successful development of a vaccine. AstraZeneca is particularly well placed to do this because of its global presence and high levels of R&D spend, which amounted to over $6m in 2019. It has been widely reported that AstraZeneca has partnered with Oxford University to work on a potential vaccine. Should tests prove successful, a rollout of the vaccine will commence. As of June 2020, commitments have been made to manufacture and distribute around 30 million doses in the UK by September and over 100 million by the end of the year. Commitments have also been made with the US and Europe to distribute many millions of doses.

AstraZeneca prides itself on providing access to medicine in regions in which healthcare is far less developed, and it has had a wide number of initiatives embedded into the business for many years. In June, AstraZeneca announced that it had reached an agreement with the Serum Institute of India to supply one billion doses for low and middle-income countries, with a commitment to provide 400 million before the end of the year.

The company also released its environmental strategy earlier this year, with three core pillars: Access to Healthcare, Environmental Protection and Ethics and Transparency. The central pillar will commit the company to being carbon neutral by 2025 and carbon negative by 2030. Both these targets are ambitious and will require a significant amount of work within the value chain, but these are positive steps, and we look forward to following the progress being made.

We remain positive in AstraZeneca's long-term growth and don't believe that the market appreciates the volume of product launches coming through, which help to underpin this growth. Although a successful vaccine will not increase profits, it will help set the company up well should we see recurring waves of Covid-19 over the coming months and years, and pricing can be reviewed to allow the company to benefit in the future.

"AstraZeneca is particularly well placed to develop a Covid-19 vaccine given the company's global presence and high levels of R&D spend."

Royal Dutch Shell

Eva Cairns
Senior ESG Investment Analyst

Bill Hartnett
Stewardship Director

Iain Pyle
Investment Director

Royal Dutch Shell is a multinational oil and gas company. We have held multiple engagements with Shell's chairman, directors and executives over recent years to provide input on the company's strategy to manage its business through the low-carbon energy transition. In our view, to help achieve the ambitions of the 2015 Paris Agreement on climate change, oil majors need to take responsibility for Scope 3 emissions and commit to net zero by 2050.

Our discussions with Shell focus on the need to set short, medium and long-term carbon-emission reduction targets, aligning the company's capital expenditure and executive remuneration to these targets and ensuring that its climate-related lobbying activities are also entirely consistent with these goals. At its Responsible Investor Day in April 2020, Shell upped the ante on its previous climate-change commitments with a new level of ambition to become a net-zero energy company, which includes Scope 3 emissions.

Climate change represents a significant strategic issue for oil and gas companies. Firstly, the carbon emissions from the energy used and energy purchased in Shell's production, processing and distribution and sales (collectively known as Scope 1 and 2 carbon emissions) were 70 million tonnes in 2019. Shell has committed to net-zero operational emissions (Scope 1 and 2) by 2050.

However, the greatest difficulty for oil and gas companies with regard to climate change, but ultimately the most important element if we are to meet the Paris goals, is setting targets for its Scope 3 emissions – those emitted by its customers. These Scope 3 emissions represent 85% of Shell's total greenhouse-gas emissions.

Key Driver

Internal mandate

Key Outcome

Influential in achieving change

Shell has increased its commitments to reduce its net carbon footprint (NCF – i.e. the carbon intensity of its energy products) over the short term (3–4% by 2022 from 2016 levels), medium term (30% by 2035, previous 20%) and long term (65% reduction by 2050, previous 50%).

We have also seen other UK and European oil and gas companies such as BP and Repsol make significant carbon-reduction commitments in recent months. With these new announcements, Shell is aiming to bolster and improve its climate-change strategy and ambitions and re-assert its climate leadership status in the oil and gas sector.

A recent report by the Transition Pathway Initiative highlights Shell as leading in its 2050 ambition.

Shell reasoned that its 65% NCF reduction target by 2050 is aligned to the 1.5°C ambitions of the Paris Agreement. Shell disclosed updates of its sophisticated climate-scenario work to confirm this. Finally, to help tackle absolute Scope 3 emissions, Shell also stated that it would pivot its business towards serving businesses and sectors that will also be net-zero emissions by 2050, and that it would help those industries get there. This is a novel and significant step forward, but it needs to be underpinned by clear absolute Scope 3 targets and action plans.

It is encouraging to see how constructive engagement between investors and a major oil and gas company can lead to much stronger carbon-emission-reduction commitments. Our engagements are also a key input to our voting process.

The key question for us is whether Shell's commendable ambitions will be put into practice with relevant projects and investments. We will continue to engage with Shell on its climate-change commitments and challenges for the foreseeable future.

"Shell ups the ante with 'net zero' carbon commitments."

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CIE Automotive

Kathleen Dewandeleer
Stewardship Manager

Anjli Shah
Investment Director

Key Driver

Internal mandate

Key Outcome

Influential in achieving change

CIE is a tier-2 auto supplier. Typically its peers and competitors are small to mid-sized family companies that focus on a particular region and specialise in one technology. CIE's strength is its diversification across technology, geographies and customers.

CIE Automotive was founded in 1996 in the Basque Country (northern Spain) by a group of families, who were associated with the auto sector, to begin a project with a focus on diversification.

As part of our ongoing engagement, we recently spoke to CIE on several topics. We discussed board composition. The founding partners still have a significant stake in CIE and with that a seat on the board. The chair of the board is also one of the founding members. CIE has grown through acquisitions, which resulted in the acquired companies at times gaining a seat on the board too. As a result, the free float is small at 35%. It is therefore important to focus on the lead independent director (LID) in the company. We will seek further engagement with the LID to hear how the rights of the minority shareholders are represented. We will also seek further improvement in board independence in general and aim for a more diverse board. At the recent AGM, the company was proposing a new female, independent member to the board. This is a positive and a commitment by CIE to gradual change.

The company has adjusted well to the effects of Covid-19. According to CIE, its employees were the most affected of the stakeholders in the business. Through various measures, CIE has tried to mitigate the effects of Covid. It has taken time to redesign the work floor, taking into account social distancing. It has also restarted production in all regions. The factories are not producing at full workload, however, and CIE is also providing personal protective equipment. For instance, it is making plastic screens to protect the face in one of its factories in Portugal. It offered these screens to the Spanish government.

During lockdown, CIE also voluntarily covered the difference in salary for its employees with what was provided by governments. In Germany, employees were paid 70% of their salary by the government, but in Spain this was only 35–40%. The company supported employees in Spain by topping up to 80-85%. In India, it employs more than 8,000 people, 40% of whom are temporary employees. Indian law does not oblige payment of those employees when not working, but CIE decided to pay the salaries of the temporary workers during lockdown.

The company's strategy is based on local suppliers, and 90% of products are supplied locally. CIE is one of the few companies not to have experienced any supply-chain problems. It has prepared for a re-start by increasing its working capital. It invested in its stock during a period of tight liquidity so that its clients would not be negatively affected.

"CIE automotive is a conservative managed, family founded company. We are engaging with the CIE to improve independence and diversity of the Board."

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Total SA

Bill Hartnett
Stewardship Director

Jamie Mills O'Brien
Investment Manager

Key Driver	Key Outcome
Internal mandate	Influential in achieving change

The Paris Climate Agreement shareholder resolution filed at the 2020 AGM of French oil and gas major Total SA deservedly received a lot of our analytical and engagement attention in this voting period. Despite our strong commitment to the Paris Agreement, we ultimately voted against the resolution. This followed detailed internal dialogue as well as multiple meetings with other investors and, of course, with the company itself. Instead of voting for the resolution, we signed the Climate Action 100+ investor letter presented at the AGM and have outlined our own climate-related expectations to the company.

Resolution A at the Total 2020 AGM asked that all the company's future management reports include a climate-change action plan that would set, and thereafter report upon the progress in attaining, short, medium and long-term targets for absolute carbon-emission reductions. These targets were not only for Total's own direct (Scope 1 and 2) emissions but also for its customers' emissions (Scope 3). These targets are to be aligned to the 'net zero carbon by 2050' goals of the Paris Climate Change Agreement in order to limit average global temperature rises to a maximum of 2°C. This resolution is further evidence of the escalation of investor stewardship activities concerning climate change at European oil and gas companies.

Although ASI has supported the majority of these climate-change resolutions, as an active manager driven by fundamental research and with an extensive stewardship and voting capability, we will look at all resolutions on a case-by-case basis. For Total, we had two separate one-to-one engagements with the company in the run-up to the AGM at which we determined that the company had previously set some challenging Scope 1 and 2 goals. But the company's climate disclosure was lacking, and its peers had more recently set more ambitious climate targets. We conveyed to Total that our climate-change expectations were similar to the asks of the resolution, but we preferred to frame them around setting Paris-aligned targets on areas such as capital expenditure, executive remuneration, lobbying practices and disclosure via the approach set out by the Task Force on Climate-related Financial Disclosures (TCFD).

Our discussions with other investors via the CA100+ initiative resulted in Total's releasing a much strengthened climate-change ambition before the AGM. This included net-zero ambition across Scopes 1 and 2 by 2050, as well as on Scope 3 for customers in Europe – which accounts for 60% of its business. Total promised a doubling of its capital expenditure devoted to renewable energy and many of the Paris-aligned practices that we had been seeking.

Although Total has not committed to absolute net-zero Scope 3 emissions as requested in the resolution, it is now close to leading the European oil and gas sector on climate ambitions. Given some concerns about the legal implications of the proposal in practice, we decided to vote against the resolution, which still received a healthy vote in support at 16.8% with 11.1% abstentions.

Undoubtedly, the resolution triggered these welcome and increased climate commitments from Total, yet the engagement shaped them into a form that will hold the company more accountable. Paris-aligned engagements are a marathon, not a sprint, and will inevitably comprise different pathways for companies and industries. We look forward to continuing engagement with Total on implementing its net-zero carbon ambitions.

> "The resolution triggered these welcomed increased climate commitments while the engagement holds them to greater account."

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Johnson & Johnson

Fionna Ross
Senior Analyst, Responsible Investing

Scott Eun
Investment Director

We have had extensive engagement with Johnson and Johnson over the years with regards to its involvement in and sales of opioids, and we have also been involved with collaborative work on this front through the Investors for Opioid and Pharmaceutical Accountability (IOPA). Every day, 128 people in the US die after overdosing on opioids,
and misuse of prescription opioids is estimated to cost the US some $78.5 billion a year in healthcare costs, lost productivity, addiction treatment and criminal-justice involvement.

We arranged a call with the company ahead of its AGM to get additional detail around a shareholder proposal, in order to better inform our voting decision. The shareholder proposal requested that JNJ enhance its disclosure around steps that the board is taking to mitigate risks related to the manufacture and marketing of opioid-related products. We wanted to better understand both the proponent's request and the efforts that JNJ takes to address its related risks.

Today, the group's opioid-related business in the US is minimal, and JNJ has not marketed opioids for many years. The products that the group did previously provide, were designed in a way to minimise addiction: for example, one product was slow release, and the other had an anti-tampering element. Currently, JNJ provides extensive disclosure on this topic, which includes an additional website on facts, as well as a semi-annual disclosure within its citizenship report. The company has also been working extensively with communities outside of ongoing opioid-related litigation to provide further responses.

Key Driver	Key Outcome
Internal mandate	Escalation candidate

On receipt of the shareholder proposal, JNJ engaged with the proponent along with a number of other members of IOPA.
After this engagement, the company provided details of all its existing disclosures on the topics being requested, as well as a draft enhanced disclosure, which has since been published in its 2020 Proxy Statement.

Following our additional engagement and taking into account efforts made by the company to disclose additional amounts of reporting, as well as its current minimal business exposure, we felt comfortable to vote against the proposal, with the caveat that JNJ again follows up with the proponent and continues to expand on its current disclosures. Although we strive to push companies for additional disclosure, we did not feel that the publication of a separate report would be a beneficial exercise in this instance, but instead would be backward-looking. We do plan to follow up again with the company to ensure that it addresses any outstanding concerns with the proponent, and this is a topic to which we continue to pay very close attention.

> "We arranged a call with Johnson and Johnson ahead of its AGM to get additional detail on a shareholder proposal, in order to better inform our voting decision."

Cubic Corporation

Nick Duncan
Senior Manager

Anjli Shah,
Investment Director

Key Driver

Performance-based engagement

Key Outcome

On track to meet objectives

Cubic Corporation, through its defence group, provides instrumented air and ground combat-training systems, battle-command training and simulation support for military forces. The company also produces avionics, data links and communications products. Cubic's transportation group provides intermodal ticketing systems for public transit projects worldwide.

We had a call with the CEO and chairman, Brad Feldmann, to discuss the rationale behind the combination of both roles. When there is a combined CEO/chair, we are keen to understand more about the role and authority of the lead independent director (LID). In this case, the role is held by David Melcher, who has CEO experience and a background with companies in the defence sector.

The draft board agenda is prepared by the CEO, helped by the company secretary, and then shared with the LID to get his input. There is always an executive session at every board meeting where the independent directors meet without the CEO present. The CEO thought Melcher was very active on the board but also views him as a type of mentor. We wanted to ensure that the LID has sufficient influence on the board meetings so that they are not dominated by management. In this case, we were reassured that the LID had sufficient experience and stature to stand up to the CEO/chair if required.

The CEO was happy to take on the role of chairman after the founder died, in order to ensure that the board was focused on discussing relevant topics. The company founder dominated the board for 61 years as CEO/chairman. His family owned 43% of the company, which gave him almost absolute control.

The CEO was also keen to change the old governance provisions that the founder had put in place. These allowed him to stay on the board as long as he was alive. Feldman was keen to refresh the board to ensure that the skills and experience of the directors were in line with the company's strategic direction.

On the whole, the company has good governance practices. In 2019, it changed the supermajority voting requirement to amend the company charter and by-laws back to a majority provision. It uses the majority voting standard for director elections and puts each director up for re-election each year, and there is only one class of share. We mentioned that to further improve governance the company could enact proxy access and also allow shareholders to call a special meeting. It is unlikely that these provisions will ever be used, but it is beneficial for shareholders to have those abilities.

On diversity, the company is quite progressive, with four women on the board (44%) and a number of different ethnicities. The CEO mentioned that having a diverse board and workforce leads to diversity of thought and attitude. The latest additions to the board are Denise Devine and Caroline Flowers, both female and both with a wealth of experience. Denise has financial, audit and innovations skills, with Caroline bringing knowledge of the US mass-transit market. Forbes voted Cubic "Best for diversity" recently; the company has a robust diversity and inclusion strategy, encouraging various special-interest groups within the company, e.g. veterans, LGBT, etc.

> "ASI prefers companies to separate the role of CEO and chairman to avoid too much power being concentrated in one person."

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Verizon

Andrew Mason
ESG Investment Director

Qie Zhang
Investment Director

Key Driver

Client mandate

Key Outcome

Influential in achieving change

Verizon is one of the largest communication technology companies in the world. It provides communications, information and entertainment products to consumers worldwide.

We previously met with Verizon in the fourth quarter of 2019 with a focus upon its labour management and discussed allegations that it had been involved in union busting and poor labour management. We encouraged the company to disclose detail on its employee practices, employee opinion survey (EOS) and number of unionised employees. After the meeting, the company has disclosed detail of its EOS and numbers of unionised employees. It also highlighted that its CEO and board have identified quarterly pulse surveys of employees as a key priority. Pulse surveys are shared on a quarterly basis, and their results are shared among employees. This is in addition to the steps that management will take to address the areas raised. These are positive developments, but further disclosure on EOS would be welcome, and we have requested this.

Before the meeting, the company faced a voting resolution calling on the company to report on the feasibility of integrating user-privacy protections into the performance measures of senior executives under the company's compensation incentive plans. We supported the resolution, which received support from 31% of the votes cast. As part of our discussion, we encouraged the company to consider the application of the resolution.

We questioned the company on its management of the Covid-19 pandemic. Its focus is on three areas: employees, customers and community. The majority of employees are now working from home, and the company has retrained staff with customer-facing roles. It is also offering support to employees who are ill and facing childcare challenges. At present, 90% of employees have the ability to work from home; this is an increase of 50% from before the pandemic. The company is supporting its customers with access to internet services and is offering extensions to those with difficulty paying. It has continued to provide philanthropic support to schools with IT access and is supporting communities with parental controls to keep children safe.

We questioned the company on its approach to the environment and the use of proceeds from its green bond issued in 2019. The company has committed to becoming carbon neutral by 2035 for its Scope 1 and Scope 2 emissions. It has also committed to set an approved science-based emissions-reduction target by September 2021. The group issued a $1 billion green bond in 2019, of which $500 million has been allocated. This allocation has included $133 million in renewable-energy purchase agreements, an LED-lighting project, $319 million in green building projects and $0.77 million in biodiversity and reforestation projects.

This was a positive meeting with the company and has bolstered our overall investment view. It has also led to the inclusion of the company in one of our funds with a specific set of ESG standards.

> "Following our request, the company has bolstered its approach to employee management."

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Polyus

Fraser Harle
ESG Investment Analyst

Sam Griffiths
Investment Analyst

Key Driver

Internal Mandate

Key Outcome

On track

Polyus is the largest gold miner in Russia and the fourth largest globally. The company commands over a 20% share of the Russian gold market in terms of production and has c.70% of Russian gold reserves. It has contributed over 50% of the total production growth in Russia over the past five years. The company's asset base comprises four clusters across Siberia and the Far East of Russia.

Our engagement this quarter was initiated after news of a Covid-19 outbreak at Polyus's Olimpiada mine in Siberia. Domestic media reported that of the c.6,000 employees at the site, around 20% had contracted the virus and were being housed in sub-optimal conditions for quarantine. Separately, speculation of local authorities being brought in to quell unrest sought us to request greater transparency from the company. We addressed our concerns in writing to the Polyus Board of Directors and received a response from Edward Dowling, the Independent Chairman of the Board of Directors. Polyus stated that we were the sole shareholder at the time of writing to seek clarity on these reports and greater insight into the company's approach to Covid-19.

As one of the largest companies operating the Russian Far East, Polyus took the initiative in March to co-fund activities aimed at preventing the spread of Covid-19, investing 250 million roubles in a partnership with the Far East Development Fund. The company has also donated 45 medical ventilators to hospitals in the regions in which it operates.

Polyus was the first Russian mining company to launch rigorous testing and repeat-testing programmes, procuring c.64,000 testing kits. Paired with this, the company has implemented continuous daily- onsite health checks and screening, mandatory application of personal protective medical equipment and segregation of workers into smaller groups with enforced social distancing. Overall, the management estimates that c.US$70 million has been allocated to Covid-19-related expenses.

Subsequent to our engagement, we have entered into a wider dialogue with Polyus on ESG. We hold a constructive forward-looking view on the company's environmental and social performance. Their membership of the International Council of Mining and Metals signals a robust commitment to ESG and places them alongside best-in-class Developed Market Peers. We note that Polyus is the only Eastern European member and one of only three companies from Emerging Markets, demonstrating its relative leadership.

Despite some challenges over its initial response to the Covid-19 outbreak at Olimpiada, the response by Polyus to the crisis was strong, both at the operating level and in terms of shareholder dialogue. At the operating level, the company has maintained production guidance for the year, a testament to the quality of the assets and management oversight. In our view, this is evidence that Polyus will be able to continue generating value for its shareholders.

Our engagement left us with evidence and confidence about the integration of ESG at Polyus. We will continue our broader engagement with the company, driving for constructive change.

> "Despite some challenges over its initial response to the Covid-19 outbreak at Olimpiada, the response by Polyus to the crisis was strong, both at the operating level and in terms of shareholder dialogue."

Mersin Port

Petra Daroczi
ESG Investment Analyst

Andrew Mason
ESG Investment Director

Kevin Craig
Investment Manager

Key Driver	Key Outcome
Client mandate	Sustainability reporting and joining the TCFD considered

Mersin Port is a port-terminal operator in Turkey. As of July 2019, it was the largest port in Turkey in terms of container throughput. It is a subsidiary of the Singapore-based global operator PSA International.

This was our first ESG discussion with the company, and we were particularly interested in its response to the Covid-19 pandemic, in its sustainability performance and in how it is aiming to digitalise its operations.

The company affirmed that it does not see a very significant slowdown in trade as a result of Covid-19. From a financial point of view, it has sufficient liquidity and expects revenue to hold up well given the nature of the contracts with its customers. From a social perspective, the company has medical and life insurance in place with healthcare benefits for all its employees. It has also implemented safety measures for staff working on site, such as masks, temperature screening and gloves.

On the sustainability front, we sought to understand the board-level oversight of environmental risks, such as water pollution, noise and emissions. This exercise is done only at the parent PSA level, and management does not see any requirement for more granular disclosure related to Mersin Port itself. The management affirmed that it is in the process of obtaining a green port certificate and that cost savings could be derived from electrifying more of the company's equipment and by procuring renewable energy. As the company is highly exposed to environmental and safety risks, we would expect it to disclose its performance and future commitments – in terms of targets – in the form of an annual ESG report.

Digitalisation is a key strategic pillar for Mersin. The aim is to improve customer service and gain efficiencies in areas such as payment atomisation, vessel scheduling, gate automation, container loading/unloading and predictive maintenance. The group was also able to articulate key risks related to a more automated and digital business, including the potential for cybercrime, privacy challenges and vulnerabilities due to remote working prompted by Covid-19.

Lastly, we discussed recent claims that had appeared in global news outlets, alleging that controversial weapons had been shipped through Mersin Port. This was an important aspect for us to clarify given the high risk of potential reputational damage and financial liabilities should the port operator be found guilty of facilitating shipments to countries under international embargo. However, Mersin assured us that the company would not face legal challenges as the customs authority is responsible for verification and approval of the contents of the containers.

As a result of the engagement, the group appeared to understand the importance of communicating with investors on all aspects of ESG. In response to our request, the company sought our advice on how to embark on the sustainability reporting journey and how to incorporate climate-related risks into its strategy by joining the TCFD initiative. We will be monitoring improved communication and will also encourage the business to consider issuing a green or sustainability-labelled bond.

> "The company sought our advice on how to embark on the sustainability reporting journey and how to incorporate climate-related risks into its strategy by joining the TCFD initiative."

China Resources Land

David Smith
Head of Corporate Governance
Asian Equities

Alec Jin
Investment Manager

Key Driver	Key Outcome
Internal Mandate	Continued improvement in disclosure

China Resources Land is a diversified property developer and landlord in China, with a focus on residential property development and investment properties, and retail malls in particular.

The Chinese real estate sector has a significant environmental footprint, and our longstanding conversations with the company on this topic have centred on how it can further improve and better disclose its environmental performance. China Resources Land has a strong focus on sustainability. Given the environmental footprint of real estate in China as well as the attention on the sector as part of the country's drive towards environmental sustainability, we think the company is well positioned in this regard.

A frequent theme in our engagements in China is our belief that disclosure in China is seldom a full and fair reflection of the quality of our portfolio companies or the progress they are making, and we spend considerable time with companies on this issue. Indeed, this quarter, our conversation with the company came on the back of the release of its most recent sustainability report. The latest report is a continued improvement on last year's report in terms of the quality and depth of disclosure, and we were encouraged that the company has listened to investors in continually developing its disclosure. Nonetheless, we discussed ways that the company could further improve and enhance disclosure, in both the form and granularity of data, as well as ways that it can communicate its behaviour. We discussed global peers that are leaders in sustainability disclosure while also reinforcing the importance of public disclosure of certain operational policies, including for example its approach to supply-chain management. This is a particular issue in China; many companies do indeed have the kinds of policies that investors prefer to see disclosed, but do not disclose them publicly. This is particularly important when it comes to the scores that external ESG-ratings companies assign, given the emphasis on disclosure.

On top of our discussions around disclosure, we encouraged the company to set stretching targets for reducing carbon and energy intensity in its business, and for the use of renewable energy in its investment-property portfolio. While the company performs well on these metrics, we would prefer it to set stretching targets. This would further reinforce its leadership in this area, and we believe that there would be clear business benefits in making meaningful reductions in these areas. We will continue our conversations on this issue.

Our dialogue with the company continues to be positive and productive, and reinforces our belief that the company is the leader in sustainable real estate in China. Given the focus on environmental sustainability in China, and in real estate in particular, we think that the company's performance in this regard is a very positive aspect of its business model and will reinforce its licence to operate. Although this most recent conversation was positive, we will continue to encourage the company to disclose more on these issues and to set stretching targets around environmental performance.

> "China Resources Land has a strong focus on sustainability. Given the environmental footprint of real estate in China as well as the attention on the sector as part of the country's drive towards environmental sustainability, we think the company is well positioned in this regard."

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