Global ESG Investment

Q3 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."

Andrew Mason
ESG Stewardship Director

Voting and engagement summary Q3 2020

Company	Topics discussed
UK	
Just Eat Takeaway	Gig Economy and Rights of Workers
Rio Tinto	Indigenous Rights
EU	
Knorr Bremse	Low-carbon Rail Transport
Banco Santander	Board Oversight and Remuneration
US	
J.B. Hunt Transport Services	Health and Safety Standards and GHG emissions
Equifax	Data Security
EM	
Petrobras	Climate Transition
AC Energy	Green Bond Framework
NARI Technology	Corporate Disclosure
Korea Electric Power Corporation (KEPCO)	Coal Exposure

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Introduction

Andrew Mason
ESG Stewardship Director

Over recent months, the impact of Covid-19 has dominated our engagement. Different geographies are considering a second lockdown that balances economic benefits with health considerations. We consider what short and long-term effect this may have for companies. In the longer term, traditional agglomeration of economies may change, specifically in large cities. We continue to engage with our investee companies on these issues and broader environmental, social and governance (ESG) areas that affect their operations.

We published a document detailing our voting approach over the quarter to September 2020. This covers the bulk of our voting over the year. Within the report, we outline our approach to voting on corporate governance matters and environment and social approaches. We adopt a nuanced approach to our voting research and outcomes. We review resolutions and engage with stakeholders, including the filers of resolutions, proxy advisors and investee companies, before reaching a decision. This helps us to harness a wide range of expertise and include all material factors in our decision-making process. We recognise that voting issues are often complex and need thorough investigation to ensure the best outcome for both our clients and investee companies.

Also during the quarter, we detailed our views on access to finance in emerging markets. Around one-third (31%) of the world's population still had no access to a bank account in 2017, according to a World Bank study. And it's no secret that the problem affects some areas disproportionately. The same study showed that 58% of the people in developing nations are 'unbanked'. We believe that technology innovation can, and is, addressing this. In many markets across Latin America and Asia, mobile money and e-wallets are leap-frogging traditional banking. The process is creating a wide range of investment opportunities as well as positive social outcomes.

Finally, we published our latest global ESG index. It provides a macro level view of how countries are approaching Environmental, Social, Political & Governance (ESGP) issues. The top performers in our index are largely European and Anglo-Saxon countries (though the US is absent). Japan and South Korea are the only Asian economies in our top 20. Political and governance levels are strong among this group of top performers, while environmental performance tends to be the weakest area overall. There has been deteriorating political and governance indicators across some markets. Social indicators have shown the greatest improvement, with education the most improved area for almost half of these countries.

You can find out more about the topics listed above, as well as a series of podcasts outlining our views on ESG issues, on our website.

Within this report, we provide details on our engagement in areas ranging from impacts on indigenous communities to supporting low-carbon rail transport. I hope you find it useful and 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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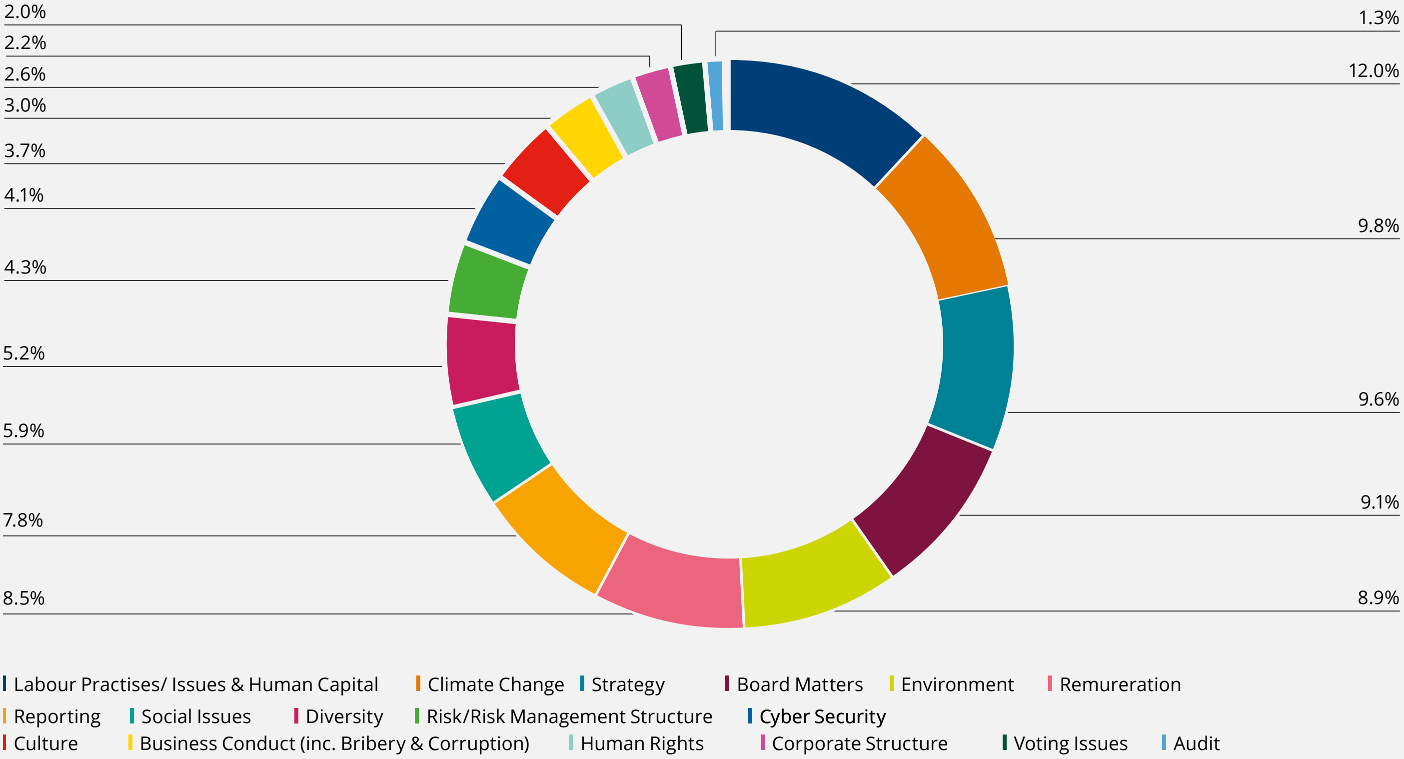
ESG voting and engagement summary

Voting summary Q3 2020

	Total
Shareholder meetings at which our clients' shares were voted	1,294
Percentage of meetings with at least one vote against or abstention	37.7%
Number of resolutions voted	11,454
Percentage of resolutions voted with management recommendations	88.3%
Percentage of resolutions voted against management recommendations	9.6%
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 Q3 2020 (% of meetings where topic discussed)



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

Engagement summary Q3 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
ABBVIE INC			•	•	•							•			•		
ADYEN NV			•					•		•			•				
ALPHABET INC-CL A												•		•	•	•	
ALSTRIA OFFICE REIT-AG		•															•
ALTIUM LTD		•	•														
AMPHENOL CORP-CL A			•		•									•			
ANTOFAGASTA PLC						•	•	•				•		•			
ARB CORP LTD	•							•		•				•			
ARCELORMITTAL		•				•		•						•			
AREZZO INDUSTRIA E COMERCIO														•			
ASCENDAS REAL ESTATE INV TRT	•		•					•	•				•				
ASGN INC			•	•				•			•						
ASHMORE GROUP PLC			•					•		•	•			•			
AT&T INC			•						•		•			•	•		
ATLANTIA SPA		•	•												•		
AVEVA GROUP PLC							•			•				•			
AZURE POWER GLOBAL LTD	•	•	•			•											
BANCO SANTANDER SA			•					•	•	•		•					
BARCLAYS PLC			•	•		•		•									•
BARRICK GOLD CORP	•				•		•		•					•			
BAYER AG-REG	•	•	•					•							•		
BHP GROUP PLC		•				•		•	•				•		•		
BIM BIRLESIK MAGAZALAR AS	•																
BLUE PRISM GROUP PLC	•			•		•					•						
BOLIDEN AB		•				•	•										
BOOHOO GROUP PLC	•								•					•		•	
BRITISH AMERICAN TOBACCO PLC	•	•		•					•								
BRITVIC PLC		•					•							•			
CASELLA WASTE SYSTEMS INC-A						•	•	•				•		•			
CCL INDUSTRIES INC - CL B	•					•	•					•					
CENTRICA PLC		•				•	•							•			
CK HUTCHISON HOLDINGS LTD	•		•			•					•						
CLEANAWAY WASTE MANAGEMENT L			•					•		•				•			
CLINIGEN GROUP PLC	•	•								•				•			
CRODA INTERNATIONAL PLC	•	•					•	•						•			
CROMPTON GREAVES CONSUMER EL								•									
DAVIDE CAMPARI-MILANO NV		•			•		•		•								
DECHRA PHARMACEUTICALS PLC			•				•	•				•		•			
DELL TECHNOLOGIES -C		•	•											•			
DETSKY MIR PJSC							•							•			
DEUTSCHE WOHNEN SE			•									•					
DIGITAL REALTY TRUST INC			•			•						•		•			

*List of companies above is for illustrative purposes only to demonstrate ASI engagement with the companies on ESG issues and is not intended to be an indication of performance, investment recommendation or solicitation.

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DOLLAR TREE INC						●					●	●		●			
DOOSAN INFRACORE CO LTD		●	●			●			●								
DOW INC	●					●						●					
DRAX GROUP PLC	●	●					●							●			
DUPONT DE NEMOURS INC		●			●	●	●										
EASYJET PLC								●									
ENN ECOLOGICAL HOLDINGS CO-A		●				●	●								●		
EQUIFAX INC			●	●				●			●						
ESSITY AKTIEBOLAG-B		●				●	●	●						●			
EUROMONEY INSTL INVESTOR PLC		●	●	●				●									
EVERQUOTE INC - CLASS A					●						●	●		●			
FACEBOOK INC-CLASS A				●					●							●	
FALABELLA SA														●			
FINECOBANK SPA		●	●							●	●	●		●	●		
FIRST REPUBLIC BANK/CA	●					●	●		●					●			
FOX WIZEL LTD														●			
GALP ENERGIA SGPS SA			●			●		●									●
GENERAL MOTORS CO			●			●						●					●
GLAXOSMITHKLINE PLC	●	●				●				●							
GLENCORE PLC		●				●	●	●						●			
GLOBALDATA PLC			●		●					●				●			
HANGZHOU TIGERMED CONSULTI-A	●								●					●			
HANNON ARMSTRONG SUSTAINABLE		●		●					●								
HEATHROW AIRPORT HOLDINGS LT	●					●	●							●			
HIGHTECH PAYMENT SYSTEMS SA			●					●									
HUNT (JB) TRANSPRT SVCS INC	●					●			●			●		●			
INTERPUMP GROUP SPA	●	●	●			●		●									
JCDECAUX SA		●				●	●		●		●						
JD SPORTS FASHION PLC									●					●		●	
JPMORGAN CHASE & CO			●					●				●					
JUST EAT TAKEAWAY	●						●		●		●			●			
KB FINANCIAL GROUP INC	●					●		●			●						
KINGSPAN GROUP PLC			●									●					
KNORR-BREMSE AG	●	●	●														
KOREA ELECTRIC POWER CORP		●	●			●			●								
KOTAK MAHINDRA BANK LTD			●														
LEGAL & GENERAL GROUP PLC		●					●	●		●							
LINX SA		●	●					●			●			●			●
LOJAS RENNER S.A.														●			
MAKEMYTRIP LTD			●										●				
MARKS & SPENCER GROUP PLC		●		●										●			
MASTERCARD INC - A	●				●											●	●
MAVI GIYIM SANAYI VE TICA-B														●			
MEDIOBANCA SPA			●					●					●				●
MOSCOW EXCHANGE MICEX-RTS PJ		●					●	●		●				●			
NASPERS LTD-N SHS	●		●					●									
NEWCREST MINING LTD	●						●									●	
NICE LTD - SPON ADR			●								●	●	●	●			
NOVATEK PJSC				●	●		●										
ORIGIN ENERGY LTD						●			●					●			
PARSLEY ENERGY INC-CLASS A			●			●		●				●			●		
PATRIZIA AG			●	●			●	●						●			
PERUSAHAAN PERSEROAN PERSERO		●				●	●							●			

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PETROBRAS - PETROLEO BRAS						●	●										
PHILIP MORRIS INTERNATIONAL		●					●		●								
PJT PARTNERS INC - A											●	●		●	●		
QANTAS AIRWAYS LTD		●				●			●								
RAIA DROGASIL SA		●		●				●			●			●			
RAPID7 INC	●						●			●	●	●					
RATHBONE BROTHERS PLC	●																
RENAULT SA		●	●			●	●										
RIO TINTO PLC				●		●	●					●				●	
RITCHIE BROS AUCTIONEERS								●									
SAFARICOM PLC		●						●		●	●				●		
SBI LIFE INSURANCE CO LTD						●					●				●		
SCATEC SOLAR ASA	●					●	●		●					●			
SCHIBSTED ASA-CL A		●					●			●				●	●		
SHENZHOU INTERNATIONAL GROUP						●	●		●					●		●	
SIGNIFY NV	●	●				●	●										
ST JAMES'S PLACE PLC		●						●		●		●		●			
STORA ENSO OYJ-R SHS	●					●	●							●		●	
SWEDISH MATCH AB	●			●		●			●							●	
TOP GLOVE CORP BHD														●		●	
TRUWORTHS INTERNATIONAL LTD														●			
TURKCELL ILETISIM HIZMET AS					●												●
UBISOFT ENTERTAINMENT				●					●			●		●			●
ULTRATECH CEMENT LTD	●		●			●	●										
UMICORE		●				●	●	●	●								
UNITED UTILITIES GROUP PLC		●							●								
VALE SA				●			●			●							
VPOWER GROUP INTERNATIONAL H	●			●											●		
WOLTERS KLUWER				●				●									
YOUGOV PLC																●	
YUM CHINA HOLDINGS INC	●			●		●	●										

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Just Eat Takeaway

Peter Silver
ESG Investment Analyst

Georgina Cooper
Investment Manager

Just Eat Takeaway is one of the world's largest and ever-growing online food delivery platforms. It acts as a digital intermediary between restaurants and customers, with a leading position in the UK, Germany and the Netherlands.

As a widely held stock across our funds, including our ethical range, engaging with the company became a higher priority. Food delivery platforms routinely receive negative press from concerns surrounding the gig economy and the rights of workers. However, we wanted to explore further on how the integration of Just Eat and Takeaway.com may affect the business's sustainability strategy.

From our company analysis and engagement, we learned that all Takeaway.com's drivers are permanent employees and paid a fair wage. The company also provides insurance and employees can buy e-bikes or scooters at cost-price through the company's internal shop. On the other hand, Just Eat has a greater mix of fully employed, contractors and third-party drivers. One of the first changes the combined business looks to action is to move all workers onto permanent contracts and provide further incentives. We very much support this.

Food delivery traditionally links itself to unhealthy eating and fast food. We gained a sense that Just Eat Takeaway wants to change this perception by widening its healthy-eating options and increasing visibility on the platform. Although consumer demand will drive this, taking these first steps could help the company widen its customer base and its revenue growth.

Key Driver

Internal mandate

Key Outcome

Influential in achieving change

ESG reporting and disclosure is just as important. Investors are seeking an increasing level of detail on how companies seek to mitigate the material ESG risks they face. Just Eat and Takeaway.com have very different approaches which we believe stems from their geographical origins. Where Just Eat has much greater sustainability disclosure, Takeaway.com is more aligned with core values. A combination of the two approaches could provide a complete and integrated view of sustainability for the business.

In the near term, we await the outcome from the ongoing integration of the two sustainability approaches. We feel that this 'best-of-both-worlds' approach could truly make them leaders in the sector. We will engage with the company again early next year as part of our ongoing engagement process.

"Food delivery platforms routinely receive negative press from concerns surrounding the gig economy and rights of workers."

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Rio Tinto

Camille Simeon
Investment Director

Key Driver	Key Outcome
Performance-based engagement	Escalation candidate

Rio Tinto is a multinational mining company that produces a range of minerals including iron ore, aluminium and copper. The mining sector offers various ESG challenges and we have engaged with the sector on a range of issues over time. ESG analysis plays a key role in the way we approach investing because of the impact on investment risk.

During the quarter, the company's mining activity destroyed a group of ancient aboriginal rock shelters as it began to develop an iron ore mine in Western Australia's Juukan Gorge. Rio Tinto had legal permission to do so and the company had made some efforts to consult the traditional landowners, the Puutu Kunti Kurrama and Pinikura people. Even so, the destruction of these rock shelters caused a public outcry. The site is considered by many people to be of significant cultural significance. Archaeologists recently found evidence at the location of continuous human habitation spanning 46,000 years.

Immediately after the news broke, we reached out to Rio Tinto. We have had multiple meetings since with various senior leaders within the company to gain clarity on the governance and operational decisions that led to the destruction of the caves. We questioned the company on its relationship with traditional owners as well as internal processes, governance frameworks and corporate culture. Although this incident may have been within legal bounds, it highlighted the repercussions of not adequately managing this risk.

After the incident, the company carried out an internal Board-led review which identified the internal failures that led to the destruction and recommended areas of improvement to strengthen cultural heritage processes, controls and governance. The company's CEO, Executive of Iron Ore and Head of External Affairs later chose to leave the business.

Subsequently the company has bolstered its approach to cultural heritage management and published details of these initial changes. Our engagement with Rio Tinto on indigenous rights continues, and we are assessing the recent changes to cultural heritage management proposed by the company to gauge whether they are sufficient to strengthen processes. Ultimately, the culture within Rio Tinto will also need to change, a process that will take time. We will continue to work with the company as it develops these areas and encourage greater transparency on how it manages relationships with affected communities, including third-party assurance of its approach.

Ensuring free prior and informed consent (FPIC) from affected communities is a key part of a mining company's operations. It is also paramount to ensure a continued licence to operate. In addition to engaging with Rio Tinto, we engaged with mining company BHP, which also operates in the area. Building upon our existing research, we have launched a programme of engagement with mining companies to assess their approach to cultural heritage management and ensure that they are respecting indigenous rights.

"We have launched a programme of engagement with mining companies globally, including Rio Tinto, to assess and ensure that they are respecting indigenous rights."

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Knorr Bremse

Rosie French
ESG Investment Analyst

Stuart Brown
Investment Director

Key Driver	Key Outcome
Internal mandate	Escalation candidate

Founded in 1905, Knorr Bremse is the global leader in safety-critical braking systems to rail and truck industries. The company also manufactures safety critical systems, fuel efficiency systems in transport and offers after-market services.

This was our first engagement with the company. Discussion focused on the company's sustainability strategy and its positioning for green tailwinds linked to its rail end-market exposure. We also discussed corporate governance.

Carbon emissions per passenger are between three and 10 times less carbon intensive than road and air transport[1]. As a result, governments are looking to invest in rail transport as they decarbonise their economies. Recent announcements in Europe show support for rail transport. For example, the EU committed €177 million in projects to develop cross-border railway links. The French government also bailed out Air France on the condition that it did not compete with rail journeys of less than 2.5 hours. Knorr Bremse has reinforced its commitment to supporting low-carbon rail transport. This includes incorporating eco-design into all new product developments, furthering energy efficiency and emissions savings for the transport sector. A carbon neutrality target for 2021 and 50% reduction in Scope 1 & 2 emissions by 2030 compared to 2018 supports this.

> "Knorr Bremse has reinforced its commitment to supporting low-carbon rail transport, including the incorporation of eco-design into all new product developments, furthering energy efficiency and emissions savings for the transport sector."

While we support Knorr Bremse's focus on its role in climate change mitigation, corporate governance was the key focus of our engagement. In particular, the company's ownership structure and recent management turnover raised some flags for further discussion. The company advised that its initial public offering had taken place to future-proof the legacy of the business. Mr Thiele, majority owner of the company with 59% of shares, is looking to step back and reduce his shareholding.

The meeting raised some concerns relating to Mr Thiele's role, described as a minister of external affairs important in retaining industry and customer relationships. We encouraged the Supervisory Board (SB) to disclose the nature of his role and company relationship, as well as any pay linked to this role. We also pushed the SB to look into succession planning to ensure greater independence on the Board. Since the meeting, Mr Thiele was elected back to the SB to help guide the company through the Covid-19 crisis. While he is fully aligned to shareholders, given his majority stake in the company, this change did raise concerns over succession planning and the company's governance and strategy.

We also discussed recent management turnover. We gained comfort in the rationale behind the departures of the CEOs and CFO, and that the SB is looking for suitable candidates. That said, the decentralised nature of its businesses has supported continued strong execution in spite of changes at management and board level.

Overall, we like the long-term positioning of the company with its focus on safety and efficiency for the rail sector. However, we have a few concerns over governance. We will continue to engage on these topics.

[1] https://uic.org/IMG/pdf/facts_and_figures_2014_v1.0-4.pdf

Banco Santander

Kathleen Dewandeleer
Stewardship Manager

Vicki Cockbain
Investment Director

Key Driver	Key Outcome
Internal mandate	Influential in achieving change

Banco Santander is a Spanish bank with a global reach. Its activities are in retail and commercial banking and asset management services. It is active in Europe and North and South America, serving 146 million customers worldwide. The company also maintains strong leadership positions in its 10 core markets.

As active stakeholders, we have engaged with the Lead Independent Director, who represents minority shareholders. In our recent engagement, we discussed Board matters. The Board consists of the Executive Committee and 12 non-executive directors. The Chair of the Board, Ana Botin, is the fourth generation of the founding family. Botin is an influential figure in the banking world. However, the Board has proven it is comfortable challenging her where appropriate. For example, they rejected her candidate for CEO in early 2019. Initially, Andrea Orcel, an Italian investment banker, was offered the position of CEO at Santander. This offer was later withdrawn as the new CEOs pay would be too high. The Board felt the amount required (including €35 million compensation for lost future earnings foregone as a result of leaving UBS) was inappropriate. The CEO, Jose Antonio Alvarez, has been in place since then. Banco Santander uses a matrix to highlight board skills and diversity. It scores well on both with 60% independence and 40% diversity on the Board. Non-executive directors are from Spain, the US, Portugal, Brazil and the UK.

We also focused on pay and voting issues. The directors have so far received 22% of gross salary each year as fixed pension contributions. We have not been comfortable to support this amount in the past. This year, the Remuneration Committee exercised discretion to reduce outcomes due to poor share price performance. It reduced the variable amount. The Executive Chair and CEO also reduced total pay by 50%. Given this positive trend, we supported the Remuneration Policy at the AGM. However, the vesting of long-term pay below performance targets remains a focus.

In past engagements, we also focused on climate-related issues, including relating to operations and lending portfolios. Santander introduced 10 'commitments' for a more responsible bank, and is aiming to implement them by 2025. As part of this, it raised €18.6 billion in green finance and is targeting €120 billion by 2025. Santander is the top bank for renewable financing and its policies prohibit financing in new thermal coal and coal power plant projects.

Banco Santander has also introduced several initiatives to ease the effects of Covid-19 on stakeholders. The Chair took a pay cut this year to back the €25 million medical equipment fund to help counter the pandemic. Elsewhere, the 'All Together Fund' raised €54 million to provide essential equipment and the Santander Universities Fund raised €30 million to provide online education.

Overall, the bank has made great progress and we continue to engage with the Board.

> "The Bank has made great progress with regards to all aspects of ESG."

J. B. Hunt Transport Services Inc

Fionna Ross
Senior Analyst, Responsible Investing

Jason Kotik
Senior Investment Director

J. B. Hunt provides logistics services, transporting products including car parts, department store merchandise, food and drinks, as well as manufacturing materials and supplies.

As a logistics company, J.B. Hunt operates over 12,000 trucks throughout the US, Canada and Mexico. Given this exposure, we wanted to better understand how the company addresses its carbon footprint and ensures the safety of its drivers.

Fuel is the second largest cost for J.B. Hunt. The company has been taking steps to increase efficiencies to reduce overall costs and benefit the environment through lower carbon emissions. J.B. Hunt uses biodiesel, natural gas and electric vehicles in its fleet to reduce emissions, and also takes advantage of intermodal conversion. The company has also long been open to testing. It has been working with original equipment manufacturers to look at ways that it could apply alternative vehicles for its business. The company has also recognised other ways to cut its greenhouse gas emissions, including addressing truck idling and running a newer fleet.

J.B. Hunt's investments and leading approach to testing alternative vehicles are already benefiting the business. The company also seems unfazed by potential future regulations around carbon. This is because of its efforts to transition its fleet. It should also be able to pass on any potential future carbon tax costs to its customers.

Key Driver	Key Outcome
Internal mandate	On track to meet objectives

Despite efforts made to address its carbon footprint, J.B. Hunt has not yet published its greenhouse gas emissions targets. We supported a recent shareholder proposal at its AGM asking for increased disclosures. We also asked the company to set and publish targets and explore future reporting in alignment with the Task Force for Climate-Related Financial Disclosures (TCFD).

We had a follow-up meeting with the company during the quarter. We met J.B. Hunt's VP of Safety, Security and Driver Safety, who discussed the company's approach to safety. J.B. Hunt's Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR) have both dropped over recent years. This was due to the company taking steps including extensive safety training, job safety analysis, and scheduled and random drug testing. These all helped strengthen the safety culture of the group. J.B. Hunt has set internal safety-related KPIs but does not publish externally. We have requested that the company show these in its future reporting.

Overall, our recent engagement has given us confidence that the company is taking adequate steps to address its key risks around carbon and safety. We plan to follow up with the company again to see what progress it has made on the reporting front.

"We wanted to better understand how the company addresses its carbon footprint and ensures the safety of its drivers."

Equifax

Nick Duncan
Senior Manager Stewardship

Virgilio Aquino
Investment Director

Equifax Inc. is an American multinational consumer credit reporting agency. It is one of the three largest, along with Experian and TransUnion. Equifax collects and aggregates information on over 800 million consumers and more than 88 million businesses worldwide. In March 2017, identifying data on hundreds of millions of people was stolen from Equifax.

We discussed the fact that six members of the Board (including the CEO) have changed in the last three years. The remaining board members have an average tenure of over 10 years. We are usually keen to avoid directors with long tenure. In this case, however, it seems prudent to provide continuity, especially given recent upheaval after the data breach. The next director to leave will be Siri Marshall (Nominations Committee Chair). She will hit the mandatory retirement age of 72 years.

The board has 30% female representation, which is very good and ahead of the rest of the US market. The company considers gender and ethnic diversity important, with 70% of senior executives either women or from different ethnicities. In total, 40% of all executives are women.

There has been a shift in culture at the firm post 2017. Now there is a strong focus on data security, which is ingrained in all aspects of the company. Data security is a modifying factor in the workforce and executive bonus pools. Transparency and communications are also part of the culture. Senior leaders keep the wider workforce updated and the CEO delivers a weekly update. Pre-Covid, the CEO was very visible at all the company offices.

Key Driver	Key Outcome
Performance-based engagement	On track to meet objectives

On pay, we asked about the use of total shareholder return as the sole metric for the long-term incentive plan. The company said it did not want anything to be a disincentive to investment given the large change program ($1.25 billion). The annual bonus scheme uses adjusted earnings per share. However, we were concerned the Board excluded expenses related to the security breach from incentive plan results used to decide executive bonuses.
The company explained these as one-off unique costs which would be ending this year.

The company explained that it was looking to rebuild trust by working with other companies and government organisations to learn from their experiences. The key concern is whether customers still want to do business with the company.
The company also agreed to implement business practices related to information security. These include third parties assessing its information security program.

"ASI interested in the recent developments post the 2017 data breach."

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Petrobras

Fraser Harle
ESG Investment Director

William Scholes
Investment Director

Petrobras is Brazil's national integrated oil company. The majority of its exploration and production activities take place in the country's offshore deep-water pre-salt reserves.

After a turbulent period, the company is midway through a structural change of strategy. Named the 'Resilience Plan', the strategy sets out a program of scheduled asset divestitures. These aim to shift the shape of the business and conclude with Petrobras focusing on exploration and production.

We first engaged Petrobras on its environmental performance and approach to the climate transition in the first half of 2019. After our meeting, we wrote to the company highlighting the areas where we believed it lagged best practice. This included adopting a 'comply or explain' approach to the Task Force on Climate-related Financial Disclosures (TCFD). We also suggested greater granularity of how resilient its assets were in the face of accelerated climate transition.

During the quarter, we spoke to Petrobras's Chief Financial Officer and the Corporate Emissions & Climate Change Manager. This came after the company announced it was endorsing TCFD. This made Petrobras the second emerging market oil company to become a signatory; a clear milestone we had set for the company. As part of its new TCFD compliant disclosures, the company has published potential net present value (NPV) impairment from its climate scenario modelling. In the most stringent scenario, which assumes a 1.6~1.8°C warming of global temperatures, Petrobras could face a 10% drop in NPV over 2020~2024. Alongside these disclosures, the company shared refreshed five-year carbon emission reduction targets for the business.

Key Driver	Key Outcome
Internal mandate	Milestone achieved

Within an emerging markets context, we feel Petrobras's environmental performance versus closest peers stacks up well. A ~5% reduction in carbon intensity per annum over the last five years has propelled this. Becoming a signatory to TCFD evidences Petrobras's commitment to being transparent with investors on its positioning for the energy transition. We welcome these changes in disclosure and including emission reduction in management KPIs. Looking forward, our engagement will centre on the measurement, disclosure and inclusion of Scope 3 carbon emissions within future reduction targets.

Petrobras's shift to a pure exploration and production company marks it out versus oil majors who use growth capex to balance portfolios with lower carbon energy sources. However, we cannot ignore the very different stakeholder pressures on national oil companies, especially in emerging markets. We view the release of capital from the rest of the company's oil value chain as a necessary step ahead of a more radical transition. In turn, this enables investment into the highest quality assets in the upstream and repair of the balance sheet.

> "We view the release of capital from the rest of the company's oil value chain as a necessary step ahead of a more radical transition."

AC Energy

Petra Daroczi
Investment Analyst - ESG, Fixed Income

Li-Yian Tai
Investment Manager

Key Driver	Key Outcome
Client mandate	On track to meet objectives

AC Energy is a Philippine company that develops and operates conventional and renewable power generation across the Philippines, Indonesia and Vietnam. It has further pipelines in Australia, India and Myanmar.

We first met with the company during its green bond roadshow. As part of our green evaluation, we sought to understand the use of proceeds, credibility and transparency of the green issuance. The bond would be financing solar, wind and geothermal energy projects. The company engaged an independent second-party opinion provider to review alignment with the ICMA's Green Bond Principles. AC Energy also committed to report on proceeds allocation, as well as on the positive environmental and social impacts of the green investment. Based on this, we deemed that the green bond issuance was credible, transparent and impactful.

In our follow-up engagement, we wanted to dive deeper into the overall sustainability strategy and roadmap of the issuer. This included:

- its exposure to conventional power generation
- project management that aligns with the 'Do No Significant Harm' criteria
- its corporate governance practices given that it is part of a larger, family-owned conglomerate.

While the company derives most of its power from conventional fossil fuel sources (coal and gas), its decarbonisation is well underway. It has set ambitious targets to grow renewable capacity to 30% of energy output by 2020 and 50% by 2025. It then aims to divest from coal-fired generation by 2030. The coal phase-out strategy is already underway as AC Energy has divested from some large-scale coal power plants. It has also pledged that it will not pursue a project which had previous approval. The highest levels of the organisation support the strong commitment for a Paris-aligned portfolio. The Board approved the most recent Environmental and Social Policy Statement (April 2020). The entire group (Ayala Corporation) has also pledged to exit coal by 2030. We encouraged the company to implement the TCFD reporting guidelines at the AC Energy level.

The complexity of development means that a project is likely to have broader socio-economic and environmental implications beyond the project boundaries. This is why we need to ensure that our investments align with the 'Do No Significant Harm' criteria. AC Energy appeared to be proactive on this front. The group implemented a new Environmental Management System in 2020, which aligns with the IFC performance standards and the Asian Development Bank guidelines. We encouraged the group to report on social and community-related aspects in the future.

Lastly, we strove to understand the level of AC Energy's independence from its parent. We wanted to gauge to what extent AC Energy can set its own policies on ESG, capital allocation, risk management and strategy. We deemed it important that the Audit Committee is independent and that the parent company's ambition to implement the TCFD influences how AC Energy incorporates climate risk into the long-term strategy.

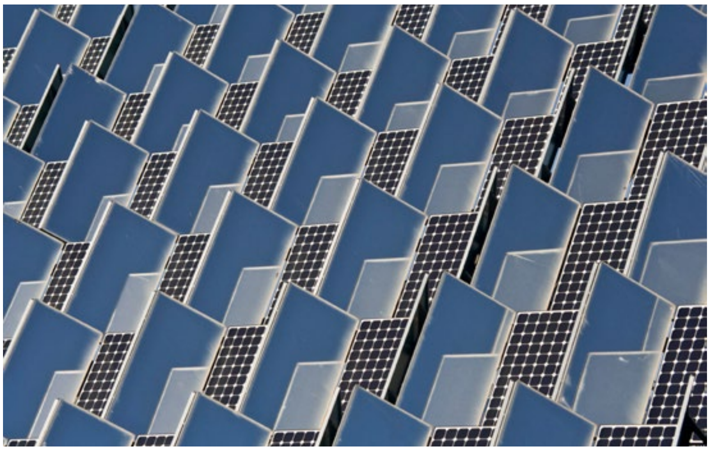
As a result of the engagement, we felt comfortable that the green bond framework aligns with the group's overall sustainability vision. We will continue to check its progress on reaching the key milestones for full decarbonisation.

> "We felt comfortable that the green bond framework is in alignment with the group's overall sustainability vision."

NARI Technology

David Smith
Senior Investment Director

Karl Li
Analyst, Equities Investments



During the quarter, we continued to engage with NARI Technology, a company listed onshore in China. NARI Technology manufactures and sells products that improve the energy efficiency of China's grid. In particular, NARI is a leading secondary power equipment and technology provider. Secondary power equipment refers to power equipment that does not directly interact with electricity (e.g. power meters, relay protection) but controls or interfaces with primary power equipment directly exposed to electricity (e.g. power generation, transmission lines).

NARI focuses on providing upgrades needed to accommodate renewables. China has installed the primary infrastructure in recent years (building UHVDC transmission lines to enable long-distance evacuation of renewable energy). Now, attention is shifting to what's beyond infrastructure. We believe there will be a focus on upgrading grid dispatch systems and distribution networks. These will become stronger and more robust to accommodate greater penetration of renewable energy into the grid. This is important as China moves towards its plan for net-zero emissions by 2060.

NARI heritage comes from a research institute under State Grid, and State Grid is the controlling shareholder of NARI. We believe that this is positive in terms of the company's business. However, we are also aware of the risks from related-party transactions, and the interactions between listed entities and state-owned enterprise (SOE) parents.

Key Driver	Key Outcome
Internal mandate	On track to meet objectives

During the quarter, we spoke with the company on various issues. In particular, we wanted to discuss the group finance company structure, which is common in many SOEs. This entity is owned or controlled by a parent company, and which makes loans to, and receives deposits from, listed subsidiaries. There are benefits to listed subsidiaries. These entities can receive attractive rates on deposits and loans versus those they would otherwise receive from commercial banks. However, while these entities are regulated, there are risks involved with all related-party transactions.
We spoke to NARI to better understand the structure. We took comfort that:

a) the Chinese Banking Regulatory Commission regulates and State Grid owns this group finance company

b) interaction between NARI and the group finance company only includes loan/deposits as opposed to other financial transactions

c) there is a modest quota set for these transactions.

We also discussed ESG disclosure by the company. Generally, there is a lower level of disclosure by onshore listed companies than Chinese companies listed offshore. We believe NARI to be very strong in term of policies and practices. However, when it comes to ESG (and this was a large part of our engagement before investing) NARI could do more to show this. We took the opportunity to outline some areas in which we felt the company could disclose more. These focused on the disclosure of policies and whistle-blower programmes, bribery and corruption, and supply chain management. Our conversation was constructive and we look forward to seeing more expansive disclosure by the company in the future.

"Our conversation was constructive and we look forward to seeing more expansive disclosure by the company in the future."

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

Korea Electric Power Corporation (KEPCO)

Petra Daroczi
Investment Analyst - ESG, Fixed Income

Marvin Yee
Investment Analyst

Key Driver	Key Outcome
Client mandate	Further monitoring needed

Korea Electric Power Corporation (KEPCO) generates, transmits and distributes electricity in South Korea. It operates nuclear, fossil fuel and alternative power plants via its six subsidiaries. It is 51% owned by the government. We are holders of green bonds issued by both KEPCO and one of its subsidiaries, Korea South-East Power (KOSEP). Our engagement focused on coal exposure, decarbonisation strategies, both at home and overseas, as well as health & safety.

Coal-fired power generation is one of the largest contributors to greenhouse gas emissions. We questioned KEPCO on its alignment with the Paris Agreement to keep the global temperature rise to well below two degrees by 2050. Currently, 41% of generation is from coal-fired plants and the company aims to reduce coal capacity by ~15% by 2030. While this is a step in the right direction, we also learnt that KEPCO is still progressing coal-related projects overseas. This includes the potential acquisition of a coal mine in Australia, and active investment in coal-fired power plants in Indonesia and Vietnam. We felt that there was a lack of coherence and transparency in KEPCO's sustainability strategy. It could not confirm its intention to dial down on coal overseas, as well as in its domestic market. As a result, we sent a letter to the Chairman encouraging the Board to clarify its domestic and overseas coal policy. We also want the Board to make fuller and clearer public disclosures on the company's risks related to ESG.

KEPCO employs over 22,000 full-time and third-party employees, and so incurs health & safety risks. We noted that accident rates have increased over the years, as well as fatalities linked to outsourced construction projects. The Safety and Security Department has responsibility for safety management. It analyses the types of accidents and prepares preventive measures. For improved transparency, we encouraged KEPCO to publish a detailed breakdown of health & safety metrics (using standardised, industry-wide accepted metrics) and the full scope of operations. This includes domestic, overseas, full-time employees and third-party contractors.

In terms of corporate governance, the Audit Committee is the only Board committee at KEPCO. To ensure integration of ESG into the investment and sustainability strategy, we encourage proper board oversight of issues such as carbon transition and health & safety. We also encouraged the company to set up a subcommittee. This would help give sufficient time to explore these topics and make recommendations to the Board.

It is positive that the company is taking steps toward decarbonisation by issuing green bonds and setting a target for renewable energy provision domestically. As a result of the engagement, we will monitor KEPCO's overseas coal activities. We will also continue the dialogue with the leadership team to ensure that investments are Paris-aligned.

> "We sent a letter to the Chairman of the Board encouraging the Board to clarify its domestic and overseas coal policy."

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