Pædagogernes Pension

Q2 2021

The purpose of the ***reo***® (responsible engagement overlay) * service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The ***reo***® approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities.

Engagement in review

Ten years ago, the United Nations formalised the responsibility of business, including institutional investors, to respect human rights via the launch of the Guiding Principles on Business and Human Rights. Since then, expectations from employees, suppliers, clients, governments and wider society have only increased. The climate emergency, widening economic inequality and the global COVID-19 pandemic have played a significant role in driving those expectations even higher in the past year.

Considering investors' role in helping prevent and mitigate actual and potential negative outcomes for people, BMO GAM has in the past year increased its engagement activities around human rights. This quarter alone, we participated in a handful of collaborative engagement projects addressing issues such as human rights due diligence, impacts of facial recognition technologies, potential human rights abuses from operations in Myanmar, and challenges staff in nursing homes face. Read below to learn more about these initiatives.

On climate, big oil faced a day of reckoning on May 26, 2021. That day, **ExxonMobil**, **Chevron** and **Royal Dutch Shell** received blows, led by shareholders in the cases of Exxon and Chevron, that could force them to re-think their business models. After years of engaging with these companies on their approach to decarbonisation and wider climate change management issues, we joined the chorus of investor discontent by escalating our engagement at the ballot box.

Collaborating for robust human rights due diligence

Engagement collaboration

All companies should have a robust approach to minimizing and remediating adverse human rights impacts, in alignment with the UN Guiding Principles for Business and Human Rights. However, the 2020 Corporate Human Rights Benchmark (CHRB) found that 95 out of 230 companies failed to score any points on the human rights due diligence indicator. As such, we joined 208 institutional investors representing $5.8 trillion in AUM in signing a statement expressing concern for these low CHRB scores, calling on companies to improve their human rights due diligence approaches and setting out investor expectations. Coordinated by the Investor Alliance for Human Rights, where we serve on the Advisory Committee, this letter was sent to the 95 companies in May 2021.

My face, my rights

Engagement collaboration

Robust human rights due diligence is especially important to prevent unintended human rights consequences of emerging technologies, many of which develop so rapidly that regulators have a hard time catching up. Facial recognition technologies' accuracy rates can be questionable, yet they are increasing used for surveillance purposes. They can have built-in ethnic and racial biases and be misused by authoritarian regimes, adversely impacting already vulnerable people. Some of the world's big tech companies have developed their own facial recognition products and services over the last few years, such as Amazon's Rekognition. With this context in mind, we joined 50 investors with over $4.5 trillion in AUM by signing an Investor Statement on Facial Recognition[1], calling on companies to proactively assess, disclose, mitigate and remediate human rights risks related to their facial recognition products and services.

COVID 19 – the precarious position of staff at nursing homes

Engagement collaboration

In March 2021 we signed an investor expectations statement[2] for labour standards in the nursing home sector with 94 other investors with a combined US$3.34 trillion in assets under management. The statement was initiated by UNI Global Union, a global union federation for the skills and services sectors. On the back of the statement, we have reached out to 13 health care providers and real estate companies that are running nursing homes, requesting dialogues to discuss adequate staffing levels, expanded collective bargaining, improved health and safety, liveable wages, as well as enhanced quality of care.

Big Oil's Bad Day

May 26, 2021 might go down in history as a day of climate reckoning for the traditional fossil fuel industry, when three of the world's largest oil companies received blows that could force them to re-think their business models. In a watershed moment, investors at Exxon and Chevron voted with overwhelming majority for measures that should prompt the companies to take responsibility for lowering the emissions of its products (Scope 3). In an unprecedented proxy fight driven by climate action concerns, Exxon investors voted in three dissident candidates to the Exxon board hoping to push the company in a more sustainable direction. On that same day, a court in the Netherlands ordered Shell to set much higher emission reduction targets.

The shareholder activism success at Exxon in particular could set a precedent for US oil majors that generally tend to lag European peer companies in addressing climate change. The proxy fight was launched by Engine No. 1, a small hedge fund, which proposed four independent director candidates with experience in oil and gas, climate change, renewable energy and business transformation. We have been voting against Exxon directors for climate-related concerns and unresponsiveness to shareholder engagement for the past three years. As three of the four Engine No. 1 candidates have now been confirmed to the board, we are curious to see what Exxon will do next.

Meanwhile, Shell was ordered to reduce emissions from its operations and customers by 45% by 2030, 5 years earlier than the company planned in its *Powering Progress* strategy. The strategy, which the company submitted for an advisory vote at the AGM, includes targets to reduce the carbon intensity of energy products it sells by 6-8% by 2023, 20% by 2030, 45% by 2035 and 100% by 2050.

[1] https://collaborate.unpri.org/system/files/2021-06/investor_statement_-_facial_recognition_human_rights_0.pdf

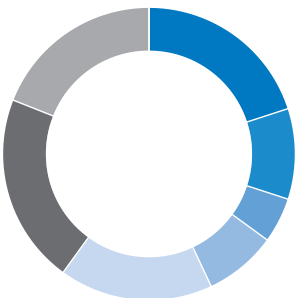
[2] https://www.uniglobalunion.org/sites/default/files/imce/investor_statement_for_quality_care.pdf

Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
42	13	16

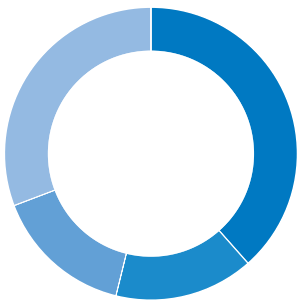
Companies engaged by region

Companies engaged by issue **



Climate Change	20
Environmental Stewardship	10
Business Conduct	5
Human Rights	8
Labour Standards	17
Public Health	21
Corporate Governance	19

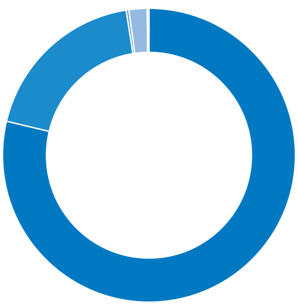
Milestones achieved by issue



Climate Change	5
Labour Standards	2
Public Health	2
Corporate Governance	4

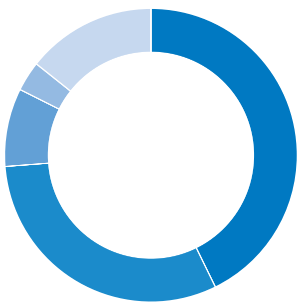
Share voting results ***

Company meetings voted	164
Items voted	1998



For	78.8%
Against	18.8%
Abstain	0.3%
Withhold	2.0%
Do Not Vote	0.2%

Votes against and abstentions by category



Directors & Board	42.7%
Remuneration	31.0%
Capital Raising	8.6%
Shareholder Proposals	3.3%
Other	14.3%

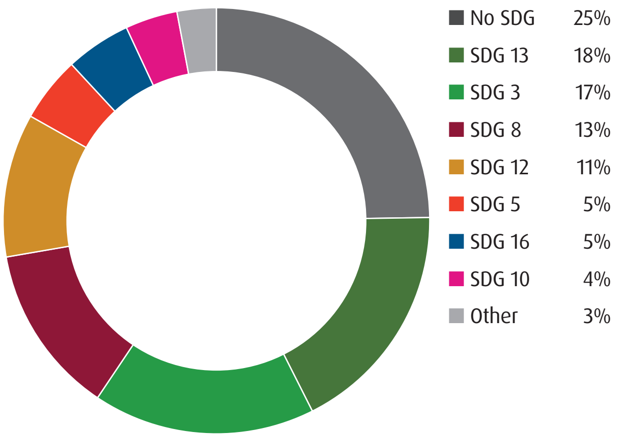
* ***reo***® is currently applied to £269bn / €316bn / US$370bn* as at 31 March 2021.
** Companies may have been engaged on more than one issue.
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest.

Engagements and Sustainable Development Goals (SDGs)

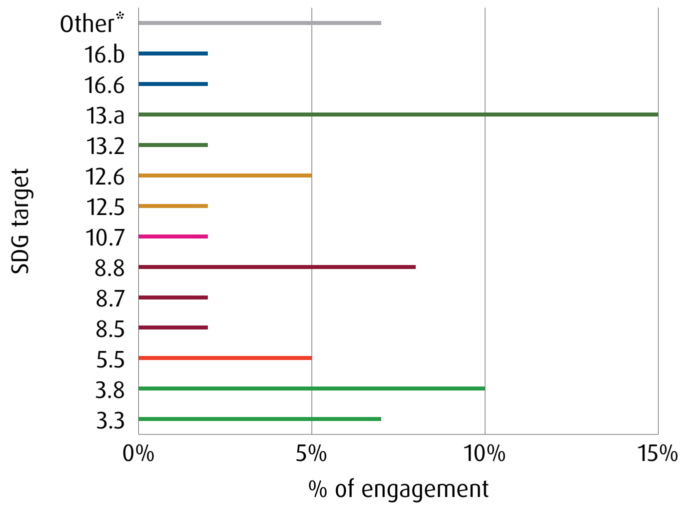
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.

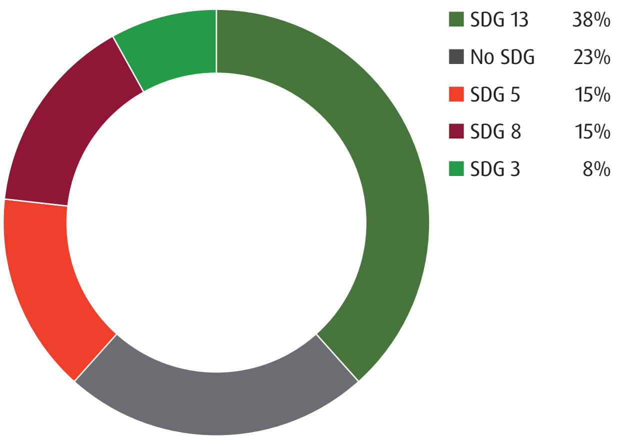
Engagement: SDG level



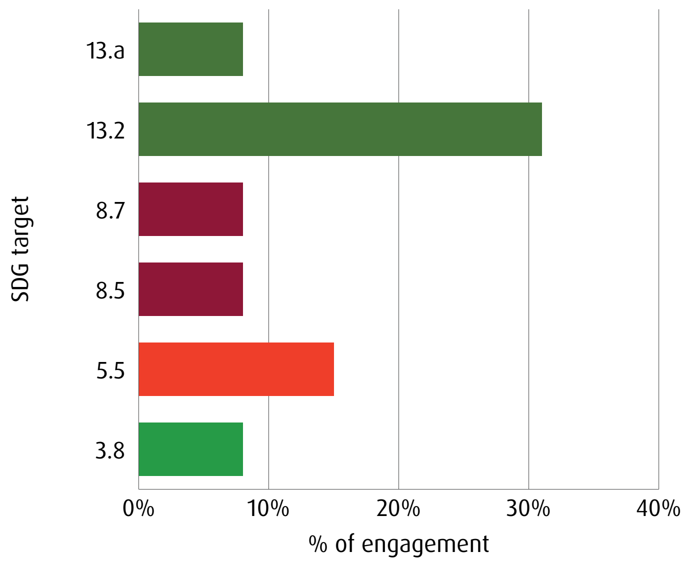
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



*Other represents SDG targets less than 2% of the relevant SDG Goal.

Engagement case studies

Company: SSP Group Plc	Country: United Kingdom	Sector: Consumer Discretionary
Priority Company: -	ESG Risk Rating:	Response to engagement: Good
Theme: Labour Standards	Issue: Modern Slavery	
SDG: 8.7		

Background

BMO GAM is part of the "Find it, Fix it, Prevent it" investor coalition. This group of investors is engaging companies across sectors on the implementation of the UK's Modern Slavery Act. UK Listed hospitality companies have been the focus of the project over the past year. We have led on engagement with SSP Group plc. SSP is a British multinational contract foodservice company, headquartered in London, England. It operates more than 2,800 branded catering and retail units at over 180 airports and 300 railway stations across 35 countries as a concessionaire. Operations in high risk countries around the world make SSP of particular interest for the coalition. Due to the near global lockdown on travel, the company has faced significant operational challenges.

Action

We were able to hold a meeting with the newly appointed sustainability manager and the former consultant that provided oversight on the issue of modern slavery. This allowed us to hear about work undertaken historically as well as share thoughts and expectations on the issue going forward. SSP explained that significant autonomy is given to regional business units and it has started a process to standardise expectations around the globe regarding HR policies, including modern slavery initiatives. The company also carried out a review several years ago to assess high risk areas and to ensure that training is provided not only to managers but employees also. It was acknowledged by the company that more need to be done once operations commence post COVID-19. We were satisfied that several basic preventative measures are in place, particularly in high risk markets, such as local language whistleblowing helplines. Basis supply chain assessments have also been undertaken, and it will continue to be an area of focus going forward.

Verdict

We recognise that the company is currently facing a period of unparalleled uncertainty due to the pandemic, which has resulted in significant employee redundancies around the world. The risks faced by SSP going forward, particularly when rebuilding teams in tight high-risk labour markets, may be significant. We welcome the appointment of an internal sustainability manager to oversee internal modern slavery initiatives. The candid responses on the topic allowed us to have a realistic view on the current state of play. We will arrange a follow up meeting for the autumn with the sustainability manager. By this time, projects and processes on the topic should have been crystallised and ideally rolled out in some markets.

Appendix

SDG	Target	Target Summary
SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
SDG3	3.8	Access to medicines and health-care
SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
SDG8	8.5	Achieve full and productive employment for all
SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
SDG8	8.8	Protect and promote safe working environments for all workers
SDG9	9.4	Upgrade and retrofit industries to increase sustainability
SDG10	10.4	Adopt policies to progressively achieve greater equality
SDG10	10.7	Facilitate safe migration through managed policies
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.3	Halve global food waste at the production and consumer level.
SDG12	12.4	Manage chemical usage and waste throughout their life cycle
SDG12	12.5	Reduce waste through prevention, reduction, recycling and reuse
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.a	Address climate change mitigation for developing countries
SDG15	15.1	Ensure sustainable usage of terrestrial freshwater ecosystems
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG16	16.6	Develop effective, accountable and transparent institutions
SDG16	16.b	Promote non-discrimination laws for sustainable development