

Pædagogernes Pension

Q1 2022

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.

Companies engaged this quarter

Engagement	Companies Engaged	Milestones achieved	Countries covered
75	53	10	16

Companies engaged by region



Engagements by theme ***



Milestones achieved by issue



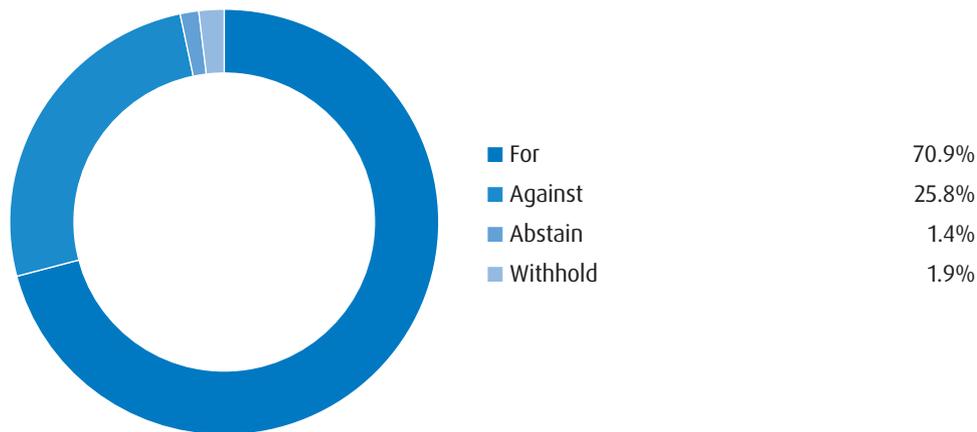
* **reo**[®] is currently applied to €1.02tn / £866bn / US\$1.12tn* as at 31 December 2021.

** Companies may have been engaged on more than one issue.

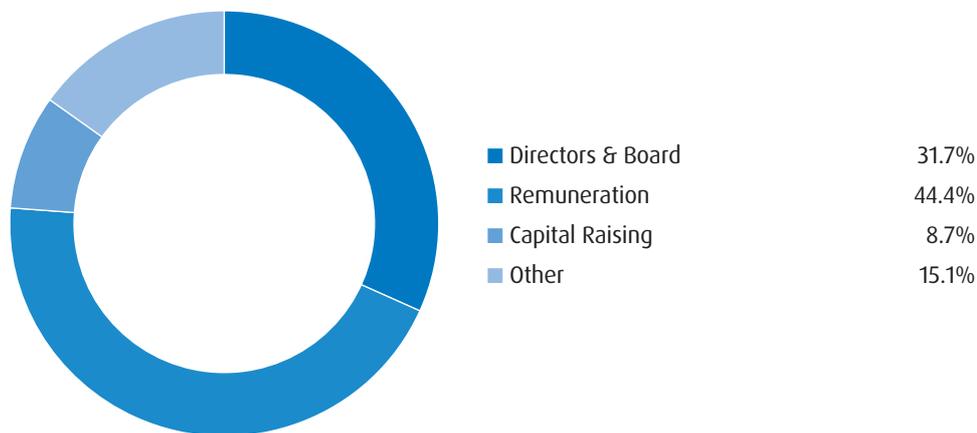
Share voting results ***

Company meetings voted	41
Items voted	430

Items voted



Votes against and abstentions by category



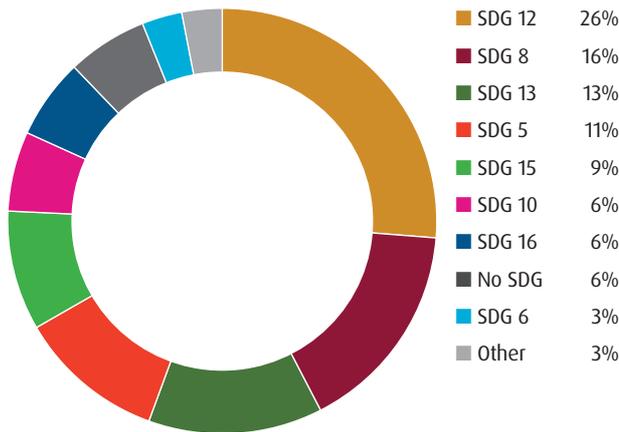
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where 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.

Engagements and Sustainable Development Goals (SDGs)

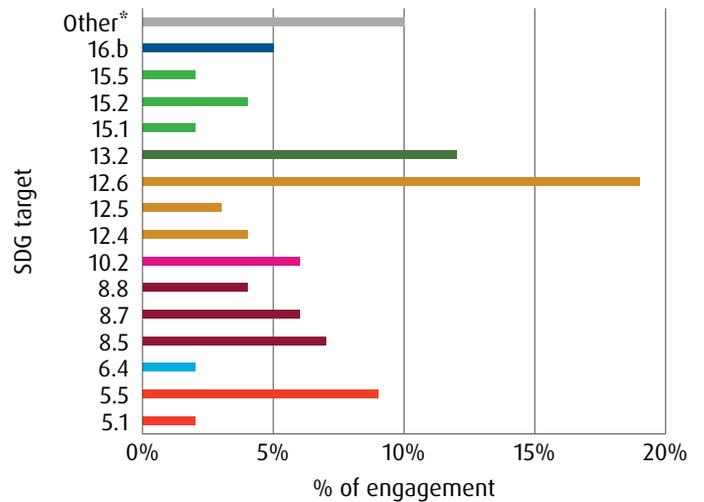
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

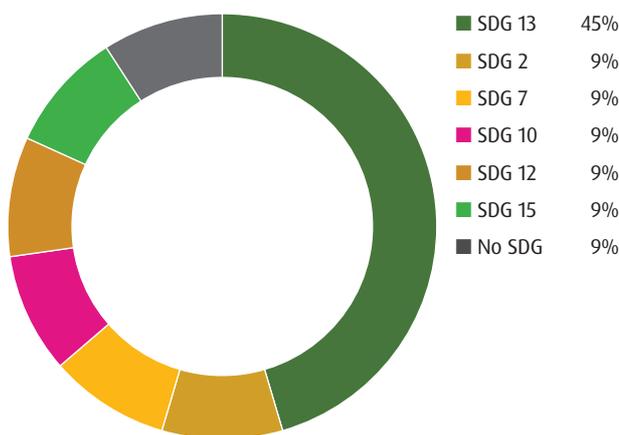
Engagement: SDG level



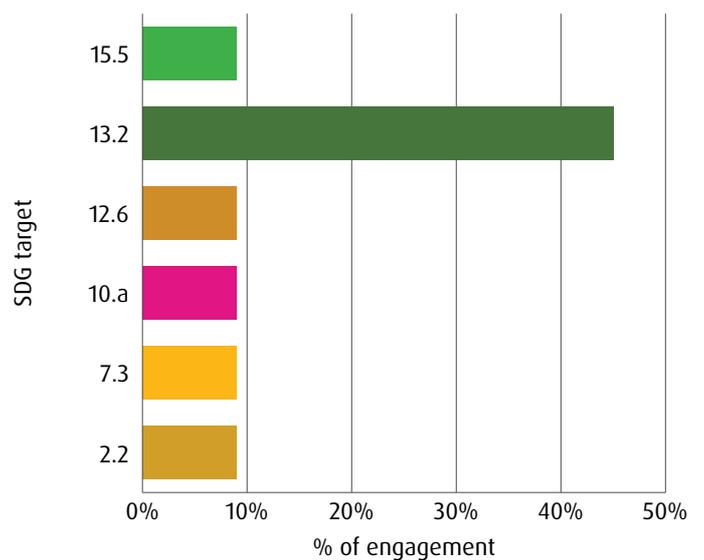
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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

Engagement case studies

Company: ASML Holding NV	Country: Netherlands	Sector: Information Technology
Priority Company: -	ESG Risk Rating: 	Response to engagement: Good
Theme: Labour Standards	Issue: Diversity and discrimination	
SDG:  5.5  8.5		

Background

ASML, headquartered in the Netherlands, is a vital player in the semiconductor supply chain, it makes the machines to manufacture semiconductors. Each machine contains over 100,000 parts and costs \$150 million USD. Its main customers include TSMC, Samsung and Intel. It has a near monopoly on extreme ultraviolet lithography technology, which uses advance light to print circuits onto silicon wafers. These EUV machines are required to make the most complex semiconductor chips to power processors. Therefore, downstream semiconductor companies are extremely dependent on ASML.

Action

In our Q1 engagement with the company, we first had a discussion with its CFO, where we discussed the company’s ESG strategy, remuneration, diversity, chip shortage and innovation. ASML improved its alignment of executive compensation with specific material ESG metrics to ensure senior-level accountability. To address the ongoing challenge with the chip shortage, it identified four key drivers and set specific goals to increase capacity while remaining conscious workers’ labour conditions. The company agrees that diversity is an area where progress is required. Given the inflow of female new hires regressed in 2021, ASML is investigating and conducting root cause analysis to understand how the dynamic will support future hiring & retention plans. On water management, ASML conducted a TCFD analysis in 2020 and added a scenario analysis in 2021. To tackle physical risks associated with the Netherlands and San Diego, ASML plans to disclose further detail in 2023.

Verdict

The company is a clear leader in ESG practices and continues to evolve. However, the company must strengthen its efforts on diversity; its current target of women in leadership positions is weak compared to peers. We urged the company to set ambitious targets at the Board of Management, where it has currently no females and in its broader workforce to build up the talent pipeline. We followed up with best practices examples and recommendations on workforce diversity, supply chain transparency, water management and conflict minerals to help ASML bolster its ESG leadership position.

ESG Risk Rating: Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile:  GREEN Second quartile:  YELLOW Third quartile:  ORANGE Bottom quartile:  RED

Engagement case studies

Company: Rio Tinto Ltd

Country: Australia

Sector: Materials

Priority Company: ✓

ESG Risk Rating: 

Response to engagement: Good

Theme: Human Rights

Issue: Indigenous Rights

SDG:  10.2

Background

Rio Tinto are one of the largest mining companies in the world, extracting a range of commodities in six continents. Multiple mining assets are situated on land traditionally owned or used by Indigenous Peoples, leading to many mining sites being near culturally significant sites. This is a particular challenge in Australia, where weak state protection of cultural heritage sites and poor application of Rio Tinto's human and indigenous rights due diligence processes led to the company's destruction of several significant aboriginal rock shelters in Juukan Gorge in 2020.

Action

We have had frequent and ongoing engagements with the company in relation to this specific catastrophe and their reaction, which included the CEO and several senior executives resigning and the chair stepping down. Throughout 2020 we discussed the company's remediation and succession plans. We also voted against their Remuneration Report at the 2021 AGM due to malus and clawback provisions not being sufficiently applied to the former CEO's compensation, and against the Chair of the Sustainability Committee due to their accountability for the failure in governance and risk management that led to the incident. Our recent engagements have focused on how the company is implementing widespread reforms on how they manage projects, engage communities, and ensure indigenous representation in decision making. We also sent the company our expectations on Indigenous Rights in the extractives sector and discussed them in light of the company's plans to launch country-specific indigenous advisory groups that advise management teams on all indigenous affairs.

Verdict

The leadership change appears to have precipitated a wholesale reformation of the company's culture, as demonstrated by the bold step of publishing an independent report on their workplace culture in full. This report revealed widespread issues with sexism and bullying as well as racism. However, engagement with the Chief People Officer showed that the leadership and broader employee base is fully committed to implementing all recommendations in the report and publicly disclosing the results. The company has already started to strengthen their engagement with and awareness of indigenous rights; we believe the wider cultural changes will only assist in this regard and will continue to engage on the transformation.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

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Appendix



SDG	Target	Target Summary
SDG2	2.2	End all forms of malnutrition, particularly for children and women
SDG3	3.5	Increase the prevention and treatment of substance abuse
SDG3	3.8	Access to medicines and health-care
SDG5	5.1	End all forms of discrimination against women and girls
SDG5	5.2	Eliminate all forms of violence against women
SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
SDG6	6.1	Achieve universal access to safe & affordable drinking water
SDG6	6.4	Increase water-use efficiency to address water scarcity
SDG7	7.2	Substantially increase the global share of renewable energy
SDG7	7.3	Double the global rate of improvement in energy efficiency
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
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.a	Implement the WTO's special rights provisions
SDG11	11.6	Reduce the negative environmental externalities of cities
SDG12	12.2	Sustainably manage and make efficient use of natural resources
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
SDG15	15.5	Take urgent action to reduce degradation of natural habitats
SDG16	16.5	Reduce corruption and bribery in all their forms
SDG16	16.10	Ensure public access to information and protect fundamental freedoms
SDG16	16.b	Promote non-discrimination laws for sustainable development

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