Pensioenfonds Zorg & Welzijn

Stewardship Report 2023

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1 Introduction

At PFZW, we are committed to providing healthcare and welfare workers and their employers with a secure and stable pension both now and in the future. We believe in investing for the long term, which means investing sustainably. For example, by contributing to the transition from fossil fuels to renewable energy sources. After all, companies are healthier on a healthy planet.

In 2023, PFZW and its asset manager, PGGM Investments ("PGGM"), jointly wrote the Strategic Vision 2030. The new investment policy considers financial return, risk, and sustainability together. By doing so, we can create long-term value for pension fund participants.

We firmly believe in the power of capital to drive positive change. As shareholders, we actively engage with the companies we invest in. Through our influence, we seek good financial returns and meaningful contributions to environmental protection, human rights, and responsible corporate governance. This is based on the belief that future-proof companies contribute to a better pension.

We actively encourage companies to embrace sustainability by opening up dialogues, exercising our voting rights at shareholder meetings, and, when necessary, pursuing legal action. This report outlines PFZW's stewardship activities in 2023 as executed by PGGM. We examine thematic engagement programs on climate, health care, and human rights. After that, we will discuss asset class-specific engagements, collaborative initiatives, and how we work to mitigate negative impact. Lastly, we will discuss our voting behaviour on environmental, social, and governance proposals. Next year, we will extend our stewardship report by discussing engagement programs that started in 2024, including biodiversity & nature and transportation.

2023 Highlights

- 82 meetings with companies in our thematic climate, healthcare, and human rights engagement programs.
- Seven listed oil and gas companies were retained after the two-year oil and gas engagement program, and 310 companies were divested, representing EUR 2.8b.
- Voted on 57,726 proposals, including 790 shareholder proposals.
- Voted against the re-election of board members at 370 companies because they lacked a CO_2 reduction target.
- Supported 80% of environmental, 75% of social, and 52% of governance-related shareholder proposals.

Interview with Piet Klop, Head of Responsible Investment at PGGM

What is engagement, and why do you do it?

Engagement, simply put, is about having a constructive dialogue with companies in our investment portfolio or market participants about their policies and activities. Through these discussions, we aim to make predefined environmental, social, and governance improvements. As PFZW's asset manager, engagement is our way of expressing the views of PFZW and its participants on critical sustainability issues. When companies tackle these issues, we believe it aligns with PFZW's ultimate goal: securing a good pension in a liveable world.

What was your engagement highlight in 2023?

We wrapped up a two-year engagement program with companies in the oil and gas sector on behalf of PFZW. We had many conversations with big players like Shell and BP. We even took things up a notch by filing a shareholder proposal at TotalEnergies. Using our voice as a shareholder can pack a bigger punch in influencing companies than just selling off our shares. But we cannot keep talking forever. Only seven oil and gas companies convinced PFZW they were investing sufficiently in alternatives like solar energy and biofuels. So, PFZW parted ways with the others. But the door remains open. PFZW will reconsider investing in them if they come back with better plans.

How do you measure engagement success?

That's a tough nut to crack. We're one voice among many talking with portfolio companies. It's tricky to prove that our conversations led to specific changes. Other investors might be pushing for the same changes, too, and we want to be genuine about what we've contributed. This stewardship report contains several case studies. Sometimes, companies make changes that are aligned with our requests. Other times, companies show little progress. We're exploring new ways to get company feedback to see where our engagements hit the mark and where they miss. Over time, we'll learn from this and increase our effectiveness further.

What are the next steps for PFZW's engagements?

PFZW is extending its engagement efforts to the major fossil-fuel-consuming companies. Therefore, we are launching a fresh climate engagement program in 2024, focusing on the transportation value chain. That means companies like Lufthansa, Caterpillar, and Toyota are in our sights. While climate change remains a hot topic, PFZW is also broadening its scope to address companies' impacts and dependencies on the natural world. Loss of nature and biodiversity is their next big environmental theme. We're eyeing several industries for a new nature and biodiversity engagement program, including chemicals, food, and metals & mining.

2 Thematic ngagement

We run four thematic engagement programs: climate change, access to healthcare, human rights, and biodiversity and nature. These engagements are with listed companies we invest in. The following sections include an overview of the first three thematic programs. Since this engagement program started in 2024, biodiversity and nature will be covered in future reports.

Climate Active Ownership

Climate change will have decades-long, wide-ranging impacts on countries, companies, and individuals. As a pension fund, we are concerned about the long-term implications for our portfolio but also feel the responsibility to contribute to mitigate the effects through our role as active owners in investee companies. As such, we implement a climate change engagement program. The program encourages companies to align with the Paris Agreement's objective and supports our climate plan.

In 2023, our climate program included 58 engagement meetings with companies whose operations and/or supply chains have significant carbon footprints. This includes companies in the following sectors: oil and gas, materials, utilities, and food & agriculture. Hence, we focus on the producers and consumers of fossil fuels and companies involved in food production and retail, whose activities significantly impact deforestation and global emissions.

We develop a scorecard for each company consisting of approximately 10-15 indicators. These indicators focus on the targets set by companies to reduce their material scope 1, 2, and 3 emissions and the strategy to reach them. When a company does not progress on our engagement requests, we can use several escalation measures. These measures include, for example, a private letter to the company's board, a public statement, filing a shareholder proposal, or voting against the re-election of incumbent board members.

The following subsections include an overview of each program, including information about the companies we engage and their progress. The progress indicator is based on the scorecard, where each indicator is evaluated as "yes" (1 point), "partially" (0.5 points), or "no" (0 points). We calculate a total score by giving each indicator equal weight. We report positive progress when this total score has improved over the past year, neutral when the score remains the same, and negative when the score has declined.

Oil and Gas

The energy transition is the shift from fossil fuels to renewable energy sources. Fossil fuels include oil, natural gas, and coal, while renewable energy includes, for example, solar, wind, and green hydrogen. It is essential to bring more renewable energy onto the market because fossil fuels cause significant damage to the environment and will eventually run out.

Companies in the oil and gas sector have the scale, capital, and expertise to contribute to the energy transition. However, many companies within this sector are not doing enough. From 2022 to 2024, we implemented an engagement program targeting listed oil and gas companies, urging them to increase investment in renewable energy. Companies that fail to do so adequately are no longer investable. We engaged with 12 large oil and gas companies throughout the two-year program.

In early 2024, we announced that we would only continue investing in seven listed oil and gas companies. These seven companies (Cosan S.A., Galp Energia, Granuul Invest, Neste Oyj, OMV A.G., Raízen S.A., and Worley Limited) are leading the way in the energy sector. They are working towards providing or facilitating renewable alternatives to oil and gas, helping consumers transition from fossil fuels. Ultimately, this could reduce or avoid global emissions by lowering demand for oil and gas.

Expectations for companies in this sector
We are committed to the Paris Agreement and demand the same from the oil and gas companies in public markets where we invest. Therefore, we request 2030 targets in line with climate scenarios that align with the Paris Agreement. Specific climate scenarios from the International Energy Agency and the Intergovernmental Panel on Climate Change are good examples. Companies engaged in oil and gas production and/or refining are investable if, by 2030, they derive at least 30% of their energy production from low-carbon alternatives to oil and gas. We determine this based on the targets these companies publish. For companies solely active in oil and gas services, we expect that by 2030, at least 30% of their revenue will come from facilitating alternatives to fossil fuels. Lastly, we do not impose the above requirements on companies solely transporting or storing natural gas because they are not involved in fossil fuel production. They are consumers rather than producers.

Engagement overview 2023

Company	#Meetings	Progress	Status
BP PLC	2	Positive	Not investable
Enbridge Inc	2	Neutral	Not investable
ENEOS Holdings Inc	1	Positive	Not investable
Eni SpA	2	Positive	Not investable
Equinor ASA	2	Positive	Not investable
Galp Energia SA	3	Positive	Investable
Neste Oyj	2	Positive	Investable
OMV AG	1	Positive	Investable
Origin Energy Ltd	1	Positive	Not investable
Repsol SA	2	Neutral	Not investable
Shell PLC	6	Neutral	Not investable
TotalEnergies SE	2	Neutral	Not investable
Total	**26**		

The status is based on our expectation that at least 30% of energy production should come from low-carbon solutions by 2030, while progress is based on a detailed scorecard that includes several indicators. Some companies improved on one or more indicators of the scorecard but did not meet the 30% low-carbon expectation. Therefore, despite showing positive progress, these companies are not investable anymore.

Our engagement meetings focused on the companies in the overview table. Still, we also had activities with all other oil and gas companies we invested in via letters and voting at their annual meetings. Some of these other 2023 stewardship activities included:

- Voting against the board of 122 oil and gas laggards and sending a letter explaining our decision to the 45 largest of them.
- Filing a shareholder resolution at TotalEnergies asking the company to set Paris-aligned emission reduction targets with other investors.
- Co-leading Climate Action 100+ engagement with Shell and giving a statement at the annual general meeting of Shell with the other co-leads.
- Publishing a letter in the Financial Times about exercising voting rights to fight the climate crisis.
- Sponsoring a report by Accela Research on the climate transition strategies of large European oil and gas companies.
- Participating in a panel discussion at the World Energy Council Assembly about what investors expect of oil and gas companies.

PFZW board members participating in the dialogue with Shell
In June 2023, Shell held its first annual presentation for shareholders under its new CEO. We appreciate that Shell disclosed its expected oil and gas production between now and 2030. However, it was unclear how Shell planned to achieve its target of reducing emissions by 20% per unit of energy sold by 2030. Moreover, it was unclear to us what percentage of Shell's energy production would come from alternatives to oil and gas in 2030.

PFZW board members and PGGM met Shell Netherlands' CEO in July 2023. We explained that we appreciate Shell's significant investments in low-carbon solutions in The Netherlands, including Ecowende (i.e., offshore wind) and Holland Hydrogen I. However, we expressed that we believe Shell should take more decisive steps to contribute to the global energy transition and that we lacked information about Shell's 2030 plans.

At the end of the oil and gas program, we concluded that Shell did not demonstrate a sufficient contribution to the Paris Agreement. We decided to divest our interests in Shell. However, if Shell meets our requirements in the future, the company will be investable again.

Neste demonstrating leadership in low-carbon fuels
Neste is a Finnish company that is increasingly focusing on producing biofuels. In 2022 and 2023, we spoke multiple times with Neste's sustainability director.

One topic of discussion was the target to reduce scope 3 emissions per unit of energy by 50% between 2020 and 2040. This is referred to as an emission intensity target. For Neste, scope 3 refers to emissions released during fuel combustion by their customers.

We have expressed the need for medium-term targets (2030-2035) since action in the coming years is necessary to keep the Paris Agreement goals within reach. Additionally, long-term goals often fall outside companies' planning periods, resulting in no clear strategy to achieve them.

In 2023, Neste announced a new target to reduce its scope 3 emission intensity by 30% by 2030 compared to 2020. We appreciate that the company has taken steps to set medium-term targets.

Materials
Companies in the materials sector produce the building blocks of our modern economy, from metals and minerals to plastics, cement, glass, and paper products. The production of all these materials requires burning large quantities of fossil fuels, resulting in high emissions. In 2022, we initiated an engagement program with high-emission companies in the materials sector.

Expectations for companies in this sector
We ask companies in the materials sector to align their scope 1, 2, and 3 emissions with the objectives of the Paris Agreement. We also ask these companies to develop a credible climate strategy. We evaluate the climate goals and strategies of companies by examining several indicators. For example, renewable energy consumption, the production and sales of sustainable products, the usage of more emission-free or recycled raw materials, and improving the recyclability of products.

Engagement overview 2023

Company	#Meetings	Progress
Boliden AB	1	Positive
Braskem S.A.	2	Positive
Dow Inc.	3	Positive
LG Chemical	2	Negative
LyondellBasell Industries N.V.	1	Positive
Orbia Advance Corporation S.A.B. de C.V.	2	Positive
Rio Tinto Ltd	2	Positive
Sasol Ltd	2	Positive
Total	**15**	

Boliden adopting a climate target certified by the Science-Based Targets initiative
Since 2022, we engaged with Boliden, a Swedish mining company. At the start of our engagement, we urged Boliden to set comprehensive scope 1, 2 and 3 targets, develop a credible climate action plan to show how it would reduce its direct emissions from mining, transport and smelting and its indirect emissions, use of fuels and electricity and its value chain.

Since then, Boliden has gradually become one of the energy transition leaders within the mining sector. In 2022, Boliden set improved targets for reducing scope 1, 2, and 3 emissions. These targets were submitted to the Science-Based Targets initiative (SBTi) for validation. By the end of 2023, the climate goals were validated. However, the strategy behind these targets is most important.

For years, Boliden has been experimenting with electrifying its mining vehicles. In 2018, Boliden started a trial at the Aitik mine, where they installed a 700-meter electric trolley line and converted four diesel dump trucks to electric vehicles. This trial reduced emissions and improved productivity; the electric dump trucks were twice as fast as the diesel variant and required less maintenance.

Since the trial in Aitik, the electric trolley line has been extended by three kilometres, and another ten dump trucks have been converted to run on electricity. Boliden has done the same at the Kevitsa mine, where a 1.8-kilometre-long electric trolley line has been installed, and 13 dump trucks are being converted. Boliden currently has electric dump trucks operating at two of its five mines, a sign that the company is heading in the right direction. We will continue engaging with Boliden to accelerate its journey toward net zero.

Supporting a resolution about single-use plastics at Dow Inc

Dow Chemical Company is one of the world's largest single-use plastics producers, and most of the plastics they produce come from crude oil (i.e., virgin plastics). Countries and consumer brands increasingly seek ways to reuse plastics to support climate and biodiversity goals, which can lead to financial risks for plastic producers like Dow.

In 2023, we voted in favour of a shareholder proposal requesting a report on the effects of a significant reduction in the demand for virgin plastics on Dow Chemical Company's financial position. Such a report would inform investors about the risks of fossil-based products and the opportunities for sustainable alternatives, thus motivating them to encourage change at Dow.

Ultimately, the proposal was not adopted: 30.2% of the votes favoured the proposal. Nevertheless, this represents a significant portion of investors showing their disapproval and provides the foundation for further engagement with the company.

Utilities

We actively engage with several electric utility companies, as most of the electricity we use today comes from fossil fuel sources. As the International Energy Agency (IEA) predicts that global electricity demand will grow significantly between now and 2050, the goals of the Paris Agreement will not be reached without the decarbonisation of the electric utility sector.[1]

Expectations for companies in this sector

We ask electric utility companies to set company-wide emission reduction targets. Based on the IEA's Net Zero Emissions scenario, we want electricity generation emissions to reach net zero by 2035 in advanced economies and 2040 in emerging markets. Robust strategies and credible investments in low-carbon energy sources should support these targets.

Engagement overview 2023

Company	#Meetings	Progress
Engie SA	4	Positive
Naturgy Energy Group SA	2	Neutral
Sempra Energy	3	Neutral
Veolia Environnement SA	1	Neutral
Total	**10**	

1. IEA. (2023). World Energy Outlook 2023. Available at: World Energy Outlook 2023 (windows.net)

Co-filing a resolution at Engie

Engie, one of Europe's major electric utilities, strongly relies on natural gas for electricity production. We engage with Engie in collaboration with multiple participants within Climate Action 100+ (CA100+).

Engie has relatively strong emission reduction targets, which the SBTi has certified as 'well below 2°C'. However, Engie's climate strategy has gaps, and we asked the company for more detailed disclosures. For example, it was unclear how Engie's targets compare to a 1.5 °C scenario, how its electricity generation mix would develop, and how it would align its capital expenditures with its climate targets.

Because of these shortcomings, we, and other shareholders, filed a proposal asking for a 'Say on Climate'. This entails a consultative vote on the company's climate strategy once every three years. Moreover, we asked for an annual vote on the company's progress.

In the build-up to the annual meeting, the shareholder coalition held talks with Engie's board. These discussions were constructive, and the board was willing to provide more insight and address some of the investors' asks. For example, the company committed to adding a supplement to its climate report and disclosing the breakdown of its electricity generation mix between now and 2030, which was one of the indicators we requested. The board also committed to consulting its shareholders on the company's climate strategy every three years through a 'Say on Climate' vote. However, it disagreed with an annual vote on the company's progress report.

Ultimately, the proposal gained 24% of votes in favour, which does not meet the required 66% threshold to pass. However, with almost a quarter of investors supporting the proposal, shareholders gave the company a strong signal. We consider this a success, especially given that the company already committed to improvements during our engagements leading up to the AGM.

Food and Agriculture

According to the UN Food and Agriculture Organization, approximately 31% of global emissions caused by humans can be linked to activities in the food and agriculture sector.[2] We consider the sector's whole value chain, which includes packaged food producers and processors, food distributors, restaurants, and supermarkets.

Decreasing the emissions of this sector is challenging, given that global agricultural production is expected to increase by 50% by 2050. This increase is needed to provide the growing world population with sufficient supplies. Besides emissions, the sector has a material impact on nature and biodiversity through its activities. According to measurements by ENCORE, the food products industry has a very high impact on four drivers of biodiversity loss: use of land & freshwater, use of natural resources, pollution, and climate change.[3]

Emissions in the food and agricultural sector can be decreased by stopping deforestation and land conversion, decreasing peat fires and forest degradation, lowering agricultural emissions, and reducing emissions through a shift in product demand. Additionally, the sector can start implementing regenerative agricultural practices throughout its value chain.

2. United Nations. (2021). New FAO analysis reveals carbon footprint of agri-food supply chain. Available at: https://news.un.org/en/story/2021/11/1105172.
3. ENCORE (Exploring Natural Capital Opportunities, Risks and Exposures) is an online tool that helps organisations explore their expose to nature-related risks. It was developed by Global Canopy, the UN Environment Programme Finance Initiative, and the UN environment Programme World Conservation Monitoring Centre.

Expectations for companies in this sector
We engage with target companies to set 2030 targets that are in line with the Paris Agreement. These targets must, at least, include medium-term reduction targets on direct and indirect emissions (scopes 1, 2, and 3). Additionally, we ask the target companies in this sector to commit to reaching a deforestation-free supply chain by 2030 for their high-risk commodities (e.g., soy, palm oil, and rubber). Clear and transparent implementation and capital expenditure plans must support these commitments.

Engagement overview 2023

Company	#Meetings	Progress
Bunge Limited	2	Positive
Danone SA	1	Neutral
Kerry Group plc	2	Neutral
Koninklijke Ahold Delhaize N.V.	1	Positive
McDonald's Corporation	1	Positive
Total	**7**	

Collaboratively engaging Bunge

Bunge is a leading global agribusiness, food, and ingredients company. Our engagements focused on enhancing transparency in their sustainability efforts across the supply chain and advancing decarbonisation initiatives.

In 2023, we were invited to participate in a collaborative initiative involving Bunge, the NGO Ceres, and other investors. The company initiated this collaboration in which we regularly provided feedback on Bunge's climate transition plan. The goal of the company and investors was to ensure that the plan would be aligned with a 1.5°C warming scenario. We provided views on how the plan could incorporate research & development, emissions profiling, and investor expectations on short-term cost investments versus long-term payback periods. Furthermore, we stressed the importance of transparency regarding the definition of regenerative agriculture. Lastly, we asked for more clarity on requirements for engagement with suppliers and the publication of a time-bounded grievance mechanism.

Bunge is still developing its 1.5°C-aligned transition plan and expects to publish it in late 2024.

Supporting a resolution about water management at Kraft Heinz

Climate change and population growth are causing growing pressure on water supplies. Therefore, virtuous water management is important for companies operating in sectors highly dependent on water supply. Shareholders of Kraft Heinz, a packaged foods company, requested that the company conduct and report an assessment to identify the water risk exposure of its supply chain and how it plans to manage this exposure.

We voted in favour of this proposal as the topic is material to the food sector and predeclared our voting intentions on our website. The proposal did not receive a majority vote; however, we still view the risks associated with water scarcity as a crucial issue for suppliers in areas of high water stress and will continue to press on this issue. A complete picture of the supply chain is needed to achieve other environmental and social goals, such as a deforestation-free supply chain.

Access to Health Care

Besides engaging on climate issues, we also focus on social issues like access to health care. We want healthcare companies, such as pharmaceutical companies, to consider the affordability and availability of medicines worldwide. People live healthier lives when pharmaceutical companies make their medicines available at lower prices in poorer countries.

Improving access to healthcare is not philanthropy. It helps emerging countries develop further by ensuring that the impact of diseases on people and families is much smaller. Additionally, emerging countries are the markets of the future. Their potential economic growth is significant. As these countries become wealthier, they will increasingly be able to invest in good healthcare. Ultimately, healthcare companies can also benefit.

In recent years, our engagement efforts have contributed to pharmaceutical companies paying more attention to the interests of people in poorer countries and considering the price and manner in which medicines are used to develop medicines. This improvement is, for example, evident from the generally good scores in the Access to Medicine Index.[4]

Most companies can do more to improve access to healthcare in emerging countries and maintain excellent and affordable healthcare in wealthier countries. Ensuring accessibility and affordability across all markets is precisely the focus of our engagement program on this topic.

Expectations for companies in this sector

PFZW signed an investor statement on the Access to Medicine Index many years ago. In addition to supporting this initiative, we have had an engagement program for many years to improve access to medicines. Traditionally, our starting point was that companies had to improve their score by adopting an adjusted pricing policy tailored to local purchasing power and moving towards a more systematic approach that was less reliant on the free donation of products. In recent years, we have asked companies to consider the accessibility and affordability of medicines more during the development phase (e.g., by taking into account how drugs are administered in more challenging healthcare environments where medical professionals or cooling may be absent) and to increase the number of markets in which they are active.

We are now improving our engagement on health by formulating a new long-term strategy and linking this strategy to transparent and challenging objectives. These objectives should not only be focused on output in the long term (e.g., how many patients a company aims to treat) but also on impact (e.g., how many lives or life years they aim to save). Finally, we ask companies to include their sustainability goals and ambitions regarding healthcare access in their remuneration policy. We expect that executives will be encouraged to achieve a positive impact through their remuneration. By making this connection, we hope that affordability and availability of medicines will be better ensured in the long term.

4. The Access to Medicine Index (AtMI) is a biennial index which evaluates the 20 largest pharmaceutical companies' performance regarding their policies and programmes on access to medicines. The objective of the Index and the AtM Foundation is to stimulate and guide pharmaceutical companies to improve access and affordability of medicines for people living in low- and middle-income countries. PGGM (on behalf of PFZW), along with a large number of investors, is a long-time signatory to the Access to Medicine Index Investor Statement.

Engagement overview 2023

Company	#Meetings	Progress
Astellas Pharma	1	Positive
Bristol-Myers Squibb Inc.	1	Neutral
Daiichi Sankyo	1	Neutral
Eisai Co	2	Neutral
Merck & Co. Inc.	2	Neutral
Novartis AG	2	Positive
Roche Holding AG	2	Positive
Sanofi	1	Neutral
Takeda Pharmaceutical	3	Positive
Total	**15**	

Positive reactions at Novartis

Novartis is a Swiss pharmaceutical company that produces medicines for various diseases, including heart disease. In 2023, we spoke with the sustainability team and the Head of Rewards.

In late 2022, Novartis announced its intention to spin off its generic medicine division (Sandoz). Because Novartis also used Sandoz's medicines for its Access to Medicine program, we were concerned that this program might suffer from this spin-off. We shared this concern with the company. In October 2023, Novartis informed us they intend to keep several important resources in their portfolio, alleviating our concerns sufficiently.

Furthermore, we expressed our desire for access to healthcare objectives to be included in the board's remuneration. Novartis reacted positively to this. In the coming year, we will closely monitor this matter's progress.

Increasing resources for sustainability at Astellas Pharma

The Japanese company Astellas Pharma is an innovative pharmaceutical company that produces cancer medication, among other things. In recent years, while Astellas was undoubtedly willing to engage in discussions, there seemed to be little ambition to go the extra mile. This was also often reflected in the Access to Medicine Index scores, where Astellas performed relatively poorly compared to other Japanese pharmaceutical companies.

In our recent contacts with Astellas, the company seems to have become much more communicative and has appointed more specialists to deal with sustainability issues, including access to medicines. Astellas also appears to be more committed to making progress on Access to Medicine. They were very constructive in our discussions, which was a positive change compared to before.

Although we still have to see how this translates into better policies and scores, we are hopeful that Astellas will perform better in this area in the coming years.

Human Rights

In respecting human rights, PFZW adopts standards such as the UN Guiding Principles on Business and Human Rights. We ask companies to identify salient human rights risks and ensure a robust policy and implementation plan for their operations and supply chains.

We identified land and labour rights as the primary focus areas for human rights engagement. In 2023, we launched a time-bound human rights program with a three-year engagement cycle.

Expectations for companies in this sector

Within our human and labour rights engagement, we identify high-risk companies using different data sources, including commercial data providers and human rights benchmarks. We prioritise our engagement efforts for companies operating in high-risk sectors like agriculture and apparel. In addition, we consult relevant stakeholders, including NGOs, to identify potential high-risk companies that are not flagged in the screening process due to data limitations.

Our engagement asks can vary by company. Sometimes, we ask companies to identify human and labour rights risks in their supply chain. In other cases, we ask companies to remediate workers negatively impacted by substandard working conditions.

To set our engagement asks, we identified vital outcomes and activity indicators focusing on tangible outcomes for land and labour rights and effective actions to reach those outcomes (e.g., evidence of improvements in purchasing practices and robust human rights due diligence). This approach looks beyond a company's policy commitment and focuses on actual results and implementation quality.

Engagement overview 2023

Company	#Meetings	Progress
Fast Retailing	1	Neutral
Nike	1	Neutral
Prada S.p.A.	1	Neutral
Shenzhou	2	Neutral
Starbucks	1	Neutral
Tesco	1	Neutral
The Kraft Heinz Company	1	Neutral
Unilever	1	Neutral
Total	**9**	

The progress is neutral for all companies because the engagement program started in 2023. From next year onwards, we can compare the companies' performance to the 2023 baseline.

Protecting labour rights in Nike's supply chain

Ramatex and Hong Seng Knitting, two large garment manufacturers contracted by Nike, have not paid their employees legally owed wages and benefits in full. This amounts to a collective $2.2 million for more than 4,500 garment workers in Cambodia and Thailand. Both companies are part of Nike's vast supply chain. Attempts to seek remedy have failed for three years.

Since Nike operates in the high-risk apparel sector, with several human rights controversies, we see the need to mitigate the risks in its supply chains further. We engaged alongside like-minded peers for two years, asking Nike to close the living wage gap. Although Nike has strong human rights commitments, human rights controversies continue.

Nike is supplied by 490 factories involving more than one million workers. This makes a clean supply chain a big challenge. The key, however, is how the company remediates the adverse impacts and how the remediation process leads to a proper review of the root cause – be it policy, governance, or even company culture. We deemed the response by Nike regarding the case of Ramatex and Hong Seng Knitting not satisfactory, which led us to support an investor letter that calls for full repayment of the wages to the workers.

Nike has been hesitant to engage with us on this subject. Given the lack of progress in our dialogue with Nike, we will consider escalation options in 2024.

Addressing forced labour allegations at Volkswagen

We engaged Volkswagen to solve the issues surrounding the forced labour allegations at the Xinjiang site in China. We had two sessions with Volkswagen. The first session focused on better understanding the situation and the timelines and actions Volkswagen would take to address this topic. Given the matter's importance for many investors, Volkswagen was already considering hiring an external auditor. We stressed that independence was vital to giving credibility to the outcome.

Volkswagen released a statement at the beginning of December claiming that the audit found no signs of forced labour at the Xinjiang site. The second session focused on the results of this audit and provided a better understanding of the choice of auditor and the steps taken. The audit was carried out by the reputable German human rights due diligence firm Loening GmbH.

3 Actively Managed Equity

Besides the thematic engagement programs, we also have asset class-specific engagements. For example, for our actively managed equity, some of our investments in this asset class are geared towards companies that provide solutions for the world's biggest challenges, such as climate change or healthcare. Such Sustainable Development Goals (SDG)- aligned investments are investments in companies with at least 10% of their revenues from products and services contributing to the United Nations SDGs.

Therefore, the main topic of engagement is the positive impact of products and services. We engage with companies to explore opportunities to increase their positive impact, improve measurement and reporting of impact, integrate impact into their business strategy, and relate their impact to the SDGs.

Engagement overview 2023

Company	Topic	#meetings	Progress
Abbott Laboratories	Impact measurement, product quality and safety	1	Positive
Albemarle	Carbon targets	1	Positive
ALK-Abello	Biodiversity and climate risk	2	Positive
Arcadis	Impact measurement	1	Positive
Archer Daniels Midland	OECD - human rights in supply chain	1	Neutral
CF Industries	CO2 emissions	1	Negative
Corteva	Biodiversity	1	Neutral
Danone	Deforestation	1	Positive
Fleury	Impact measurement	1	Positive
FMC	Biodiversity	1	Neutral
Fresenius Medical Care	Impact measurement	1	Positive
Genmab	Executive remuneration	1	Positive
Iberdrola	Impact measurement	1	Positive
Illumina	Governance	2	Positive
Infineon	Impact measurement	1	Neutral
Kerry	Climate and deforestation	1	Neutral
Lonza	Impact measurement	1	Positive
Mueller Water	Impact strategy	1	Positive
Philips	OECD - governance and product quality and safety	2	Negative
Sunrun	PAIs	1	Neutral
Total		**23**	

Product safety and governance issues at Philips

Koninklijke Philips is an international medical technology company headquartered in the Netherlands. Philips has been involved in significant quality and safety issues connected to some of its respiratory care devices.

The engagement process commenced in 2021 with Philips's former executive management. Our primary objective was to investigate the root causes of the issues at hand, particularly focusing on product quality and patient safety risks, and to explore avenues for future mitigation. Additionally, we expressed our dissatisfaction with the company's chosen communication strategy.

By the conclusion of 2022, Philips announced its intention to terminate the contract of the former CEO prematurely. Disappointingly, the company did not explicitly link the product quality and patient safety issues to this decision. The new management promptly introduced a significant cost-cutting initiative, including dismissing 6,000 employees.
We believed that neither the departing CEO nor the executive management team were entitled to their bonuses for 2022. We urged the company to address the lack of accountability, particularly given the adverse impact of past management decisions on numerous stakeholders.

In 2023, PFZW voted against granting discharge to the board of Philips. By granting discharge, a company waives its right to bring a legal claim against (former) directors. We did this for the following reasons:

- We believe that the former CEO did not take decisive action in patient safety and quality management and did not properly communicate these issues to stakeholders.
- We relate the redundancy of 10,000 jobs to poor management by the previous board.
- Additionally, we believe that the former CEO's behaviour regarding last year's variable remuneration was not in line with shareholders' interests, especially considering the disappointing financial performance in 2022.

Ultimately, 76% of votes were cast against granting the Philips board discharge for their activities in 2022.

4 Listed Real Estate

PFZW also undertakes engagements for its listed real estate investments. The real estate industry is a significant consumer of energy and material resources. To effectively advance the energy transition, the real estate sector must comprehensively transform its operational and construction paradigms. We actively collaborate with real estate companies to promote higher energy efficiency standards and the gradual shift away from fossil fuel-based energy sources.

Expectations for companies in this sector
We view corporate target setting as a strategic imperative to safeguard asset values for the long term. We believe that setting and implementing science-based targets effectively protects against risk in a more demanding real estate market that increasingly considers sustainability in investment and leasing decisions. Therefore, we request all listed real estate companies to set a science-based carbon reduction target using the Carbon Risk Real Estate Monitor (CRREM) or SBTi criteria as soon as possible.

As each building is unique, we recognise that there is no one-size-fits-all method for target setting. However, we generally ask companies to focus on energy efficiency first, as reducing energy demand is critical for the energy transition. On-site renewable power generation and off-site power purchase agreements that enable new/additional renewable power production should be integrated into the strategy. Renewable energy credits/procurement and carbon offsets are considered measures of last resort.

The climate strategy for our listed real estate investments primarily leverages engagement and active ownership as the key drivers of climate enhancements. Through this strategy, we encourage real estate firms to take action while ensuring we remain accountable for driving greater efforts toward our climate goals. As part of this program, all listed real estate companies that do not have science-based targets were sent a letter formally requesting them to set one.

Companies were asked to complete a survey to communicate the challenges they face in setting a science-based target, areas where investors can support them in making progress, and other details about their intention to set a target soon. These correspondences were followed up with selective one-on-one meetings to continue the discussion and engagement process. Based on this approach, we had 148 letter and email correspondences and 27 meetings with 99 companies in 2023.

Through fundamental analysis, we evaluate companies' likelihood of adopting science-based targets by the end of 2025. These probabilities guide our engagement efforts, with most attention given to companies with low or medium probability. The listed real estate engagement program formally runs through the end of 2025 and is evaluated yearly.

Engagement overview 2023

Company	#Meetings	Progress
Aedifica SA	1	Positive
Agree Realty Corporation	2	Positive
CapitaLand Ascendas REIT	1	Positive
CapitaLand Investment Limited	1	Positive
Chartwell Retirement Residences	1	Negative
City Developments Limited	1	Positive
Dexus	1	Neutral
GPT Group	1	Positive
Invitation Homes, Inc.	1	Positive
Keppel DC REIT	1	Positive
Keppel REIT	1	Neutral
Mapletree Industrial Trust	1	Positive
Mapletree Logistics Trust	1	Positive
Mapletree Pan Asia Commercial Trust	1	Positive
MERLIN Properties SOCIMI, S.A.	1	Positive
NNN REIT, Inc.	1	Neutral
Omega Healthcare Investors, Inc.	1	Negative
Realty Income Corporation	1	Neutral
Rexford Industrial Realty, Inc.	2	Positive
Safestore Holdings plc	1	Neutral
Sun Communities, Inc.	1	Positive
Suntec Real Estate Investment Trust	1	Positive
UDR, Inc.	1	Positive
UOL Group Limited	1	Positive
VICI Properties Inc	1	Neutral
Total	**27**	

Engaging with the triple-net real estate market - Agree Realty

We try to help companies overcome structural barriers to decarbonising. While most real estate companies have made considerable progress over the last decade, the triple-net real estate market has several challenges that make it notoriously difficult for landlords to implement sustainability initiatives. In 2023, we applied our real estate investment and sustainability expertise to help triple-net real estate companies develop creative solutions to overcome these barriers. Agree Realty is one of the several companies we engaged with on this topic.

A triple-net lease is a type of real estate lease in which tenants are responsible for all expenses related to the property (e.g., taxes, insurance, and maintenance). Due to their passive investment style and legal limitations per the triple-net lease, landlords cannot change the properties' physical structure or operations. Therefore, to improve the sustainability of their buildings, triple-net landlords need to work with tenants with sustainability ambitions. Alignment between tenant and landlord is always important for sustainability improvements in real estate, but it is evermore so critical for the triple-net lease domain.

We engaged Agree Realty to increase the percentage of its tenants with science-based targets. Managing the exposure to tenants with such targets holds the company accountable for pursuing business relationships with companies that share their climate ambitions. We also believe exposure to tenants with science-based targets is material to these companies' financial results. Science-based targets demonstrate sound management and governance abilities, often correlated to credit health. Overall, we believe buildings rented to tenants with science-based targets will improve their carbon footprint over time and see steadier and longer-term income.

As passive investors, triple-net landlords are functionally capital providers. Therefore, steering on the percentage of tenants with science-based targets enables them to concentrate on where they can most effectively drive market transformation. Agree Realty recognises the materiality of this metric and has started reporting on it in its annual disclosures. The company has not yet set a formal target but is actively considering the feasibility of doing so. We will continue engaging triple-net companies on this topic, with the ambition for them to use their role as capital providers to drive change with real estate occupants.

5 External Collaborative Initiatives

We believe that collaboration with like-minded asset managers and owners can increase the likelihood of engagement success. Although we generally represent a small fraction of a company's total shareholding, teaming up with others puts more weight behind our message. Throughout 2023, PFZW was involved in several different collaborative engagement initiatives via the participation of its asset manager, PGGM.

Asia Energy Transition Platform

We joined the Asia Energy Transition Platform in 2021, which aims to engage banks and utility companies in East and Southeast Asia, focusing on the former. We consider it critical that our active ownership activities extend to emerging markets because they will play a significant role in the global economy in the coming decades. Furthermore, targeting Asian banks allows us to influence those financing fossil fuels despite having sold most of our direct investments. The active ownership activities in this initiative are outsourced to Asia Research & Engagement, a service provider based in Singapore. In 2023, the initiative engaged eight banks and two power companies.

CA100+

CA100+ is the largest climate change collaborative engagement initiative, covering 170 companies and over 700 investors. In 2023, we were part of the lead engagement group for Shell, together with two other investors, one of which is MN. They were also part of the supporting investor group for BP plc, Equinor ASA, and TotalEnergies SA.

Carbon Disclosure Project (CDP)

CDP is a non-profit that runs a global disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts. We encourage companies to disclose annually via the CDP because it provides vital information about companies' emissions, impact on nature, and water usage.

In 2023, we participated in CDP's Non-Disclosure Campaign, together with 287 other CDP signatories representing nearly $US 29 trillion in assets. Throughout this campaign, 1590 companies who had declined to respond to CDP in 2022 received a letter. The letter expressed the wish for the company to disclose to CDP via its climate change, forests, and water surveys. 317 of the 1590 targeted companies (20%) responded to the letter and disclosed to CDP in 2023.

Dutch Climate Coalition

In August 2022, PFZW (via its asset manager PGGM) and MN co-founded the Dutch Climate Coalition (DCC) with seven other founding members: Achmea Investment Management, APG Asset Management, a.s.r. vermogensbeheer, Cardano, NN Group, Rail & OV Pension Fund, and Van Lanschot Kempen. DCC was formed to act as a platform to support its members' climate change active ownership activities, all of which are Dutch financial institutions whose beneficiaries share similar values and objectives. As such, DCC members can act quickly and take uniform positions. An example of this is their position on oil and gas. DCC is intended to complement existing collaborative engagement initiatives.

Eumedion

Eumedion is the representative body of institutional investors in corporate governance and sustainability. PFZW and many other large Dutch institutional investors participate in Eumedion. Together with Eumedion and the other participants, we engage in dialogue with Dutch-listed companies to improve corporate governance in the Netherlands and accelerate sustainability.

Every year, Eumedion, in consultation with its participants, prepares a focus letter containing the two or three most important points for the next AGM season of Eumedion's participants. In 2023, there were two focus points: i) natural capital and the protection and restoration of biodiversity and ecosystems, and ii) the effectiveness of corporate systems and policies for preventing and addressing human rights violations. In addition to these focus points, discussions were held with Dutch companies on climate change, remuneration policy, exposure to Russia, and demonstrations during shareholder meetings.

For the first focus point, natural capital and the protection and restoration of biodiversity and ecosystems, we requested companies to:

I) Identify, measure, and assess the company's dependencies and impacts on biodiversity and ecosystems, including risks and opportunities.

II) When a dependency and/or impact is material, publicly disclose the company's policy to limit and restore negative impacts.

For the second focus point, we request that companies extensively report how they monitor, manage, limit, and restore human rights violations.

Engagement overview 2023

Company	#Meetings
ABN AMRO Bank N.V.	2
ASR Nederland NV	1
ING Groep N.V.	2
IMCD N.V.	2
NN Group NV	2
Koninklijke Philips N.V.	3
Shell Group Plc	1
Total	**13**

These engagements are not part of our thematic engagement programs, where we track companies' performance on key indicators over time. Therefore, we do not report a progress indicator.

Improved climate action plan at NN Group

In July 2023, NN Group published its updated climate action plan. The updated Climate Action Plan includes additional reduction targets for scope three emissions and increasingly aligns with our climate-related expectations of listed financial institutions. In collaboration with Eumedion, we have been in dialogue with NN regarding climate change since 2019, alongside other topics such as biodiversity, human rights, and management remuneration policy.

Over the years, we have had multiple meetings with NN and attended NN's AGMs to discuss its climate strategy. In May 2023, during a corporate dialogue, we asked NN to develop insurance-related emission reduction targets in line with the Paris Agreement, have its climate goals verified by an independent third party, and put a Climate Voting proposal to a vote.

In July 2023, we learned that NN had updated its climate action plan to include emission reduction targets for insurance underwriting, real estate, and mortgages, in line with our request to develop insurance-related emission reduction targets. The updated plan includes a new Net Zero target for insurance-related emissions by 2050. It also includes interim targets for direct and indirect real estate, mortgage, and commercial insurance activities. In the updated climate action plan, NN also introduces an insurance coal policy and broadens exclusions for unconventional oil and gas activities.

Institutional Investors Group on Climate Change (IIGCC) Net Zero Engagement Initiative

In mid-2023, the IIGCC launched the Net Zero Engagement Initiative (NZEI), which includes companies not part of the CA100+ target list, with a focus on the consumers of fossil fuels. PFZW actively participates in this initiative and leads the engagements with six companies: Akzo Nobel N.V., Deutsche Lufthansa, Galp Energia, International Consolidated Airlines Group SA, Koninklijke Ahold Delhaize N.V., and Neste Oyj.

Platform Living Wage Financials

Earning a living wage or living income is a human right. A living wage or income should fulfil elements of a decent standard of living, including food, water, housing, education, healthcare, transportation, clothing, and other essential needs, including provisions for unexpected events. In many countries, such a level of compensation exceeds the legally required minimum wage. Therefore, we ask companies to share responsibilities in promoting living wages and living incomes in their operations and supply chains.

As a Platform Living Wage Financials (PLWF) member, PFZW conducts collective engagement with like-minded peers. Over the years, the platform has evaluated a set of companies in the garment, agriculture, and food sectors that significantly impact living wages and living income. Although the assessment methodology differs per sector, PLWF's engagement strives to improve policy, stakeholder engagement, impact assessment, action plan, tracking performance, and remediation concerning living wages and income. We include the assessment results in our voting decisions.

Satellite-based engagement towards no-deforestation

In 2023, Cardano led a collaborative engagement group on deforestation using data from Satelligence, an external data provider. PFZW is part of this engagement group.

Satelligence uses satellites to provide data on potential deforestation in the companies' supply chains in scope of the group. The group receives 25 company reports based on the locations of the plantations or mills of the companies related to palm oil. Engagement focuses on two groups of companies. The first group does not exercise control over traceability or disclose supplier lists. We ask them to set measurable goals in collaboration with their suppliers to combat deforestation and provide clarity on steps taken to make the supply chain more transparent. The second group of companies is linked to the palm oil sector and is associated with cases of deforestation in the past year, as seen in the satellite images. We request this group to take action and minimise the consequences.

Valuing Water Finance Initiative

In August 2022, Ceres launched the Valuing Water Finance Initiative (VWFI) as a global investor-led effort to engage companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to protect water systems better. PFZW joined this initiative from the start and has been engaging on the topic of water with the support of Ceres before this initiative's launch. We joined the initiative as water risk is highly related to other topics of our engagement, such as climate.

The initiative uses the developed benchmark and corporate expectations to engage with target companies. PGGM has been engaging with McDonald's Corporation through this initiative.

6 Mitigating Negative Impact

Like many Dutch pension funds, PFZW signed the International Responsible Business Conduct Agreement (or in Dutch: IMVB-Covenant), together with the Dutch Pension Federation (Pensioenfederatie), non-governmental organisations (NGOs), trade unions and the Dutch government. This agreement aims to help pension funds better understand the international investment chain. The agreement's primary goal is to identify, mitigate and prevent negative impact within the investment portfolio, such as human rights violations and environmental damage. We identify such negative impacts using the Economic Co-operation and Development for Multinational Enterprises (OECD) guidelines, which include a human rights chapter aligned with the UN Guiding Principles on Business and Human Rights.

We incorporate the OECD Guidelines into its policies. We have developed the 'OECD-Screening' to identify and assess the negative impact of companies in the investment portfolio on people and the environment. For this screening, we use data from Sustainalytics. We avoid investments that are in very severe violation of the mentioned guidelines. For large companies with a 'severe' score, we use engagement to convince each company to remedy the damage it has done and ensure measures are in place to prevent future damage. We remain invested in these large companies when we believe that engagement can contribute to improvement. However, small companies with a 'severe' score are divested because the engagement effort outweighs the expected added value.

We have a dedicated engagement program on the OECD guidelines. Some engagements are done by Sustainalytics, while PGGM executes the others. During 2023, the program had 45 companies in scope. Developments throughout the year include:

- Five companies have shown significant improvement, leading to improved scores. These companies have been removed from the engagement program ("Resolved").
- Two companies were removed from the program and portfolio due to a significant decrease in benchmark weight ("Removed from the universe").
- One company (ArcelorMittal) was divested because its controversy score deteriorated ("Divested").
- For all other companies, engagement is ongoing ("Ongoing").

OECD Overview 2023

Company	#Meetings	Progress
Activision Blizzard, Inc.	Resolved	Employee Incidents
Alibaba Group Holding Ltd.	Ongoing	Customer Incidents
Alphabet, Inc.	Ongoing	Customer Incidents
Amazon.com, Inc.	Ongoing	Customer Incidents
Apple, Inc.	Ongoing	Social Supply Chain Incidents
ArcelorMittal SA	Divested	Employee Incidents; Social Supply Chain Incidents
Archer-Daniels-Midland Co.	Ongoing	Environmental Supply Chain Incidents
Barrick Gold Corp.	Ongoing	Operations Incidents; Society & Community Incidents
BHP Group Ltd.	Ongoing	Operations Incidents
Bunge Ltd.	Ongoing	Social Supply Chain Incidents
Capital One Financial Corp.	Resolved	Operations Incidents
Caterpillar, Inc.	Ongoing	Society & Community Incidents
FAST RETAILING CO., LTD.	Ongoing	Social Supply Chain Incidents

Company	#Meetings	Progress
Freeport-McMoRan, Inc.	Ongoing	Operations Incidents
General Motors Co.	Ongoing	Customer Incidents
Holcim Ltd.	Ongoing	Society & Community Incidents
Honda Motor Co., Ltd.	Ongoing	Customer Incidents
Industria de Diseño Textil SA	Ongoing	Social Supply Chain Incidents
Koninklijke Philips NV	Ongoing	Customer Incidents
Li Ning Co., Ltd.	Removed from universe	Social Supply Chain Incidents
Mastercard, Inc.	Ongoing	Customer Incidents
Meta Platforms, Inc.	Ongoing	Customer Incidents
Minerva S.A.	Ongoing	Social Supply Chain Incidents
Mondelez International, Inc.	Ongoing	Environmental Supply Chain Incidents; Social Supply Chain Incidents
Nestlé SA	Ongoing	Environmental Supply Chain Incidents; Social Supply Chain Incidents
NIKE, Inc.	Ongoing	Social Supply Chain Incidents
Panasonic Holdings Corp.	Ongoing	Social Supply Chain Incidents
PepsiCo, Inc.	Ongoing	Social Supply Chain Incidents
Procter & Gamble Co.	Ongoing	Environmental Supply Chain Incidents; Social Supply Chain Incidents
Reckitt Benckiser Group Plc	Resolved	Social Supply Chain Incidents
Rio Tinto Plc	Ongoing	Society & Community Incidents
Samsung Electronics Co., Ltd.	Ongoing	Business Ethics Incidents
Sanofi	Ongoing	Customer Incidents
Shell Plc	Ongoing	Operations Incidents
SolarWinds Corp	Ongoing	Customer Incidents
Target Corp.	Ongoing	Social Supply Chain Incidents
Telefonaktiebolaget LM Ericsson	Ongoing	Business Ethics Incidents
Tesco Plc	Ongoing	Social Supply Chain Incidents
Teva Pharmaceutical Industries Limited	Removed from universe	Business Ethics Incidents
The Hershey Co.	Ongoing	Social Supply Chain Incidents
TOSHIBA Corp.	Resolved	Business Ethics Incidents
Tyson Foods, Inc.	Ongoing	Customer Incidents
Uber Technologies, Inc.	Ongoing	Customer Incidents
Unilever Plc	Resolved	Social Supply Chain Incidents
VINCI SA	Ongoing	Social Supply Chain Incidents

7 Voting

By voting at Annual General Meetings (AGM), we exert our influence as shareholders on the companies we invest in. As long-term investors, voting allows us to express our views on various issues: strategic, financial, and societal. It gives us a voice in crucial decisions made by company management.

As a basis for our voting behaviour, we collaborate with our asset manager, PGGM, to establish the Voting Guidelines, which outline our stance on common voting points at shareholders' meetings. Given the number of shareholders' meetings, our voting execution is largely automated. The principle is that we vote as advised by our proxy voting service provider (Glass Lewis). These recommendations are based on the Voting Guidelines. However, we vote manually on all shareholder proposals related to sustainability, given the wide variety of topics.

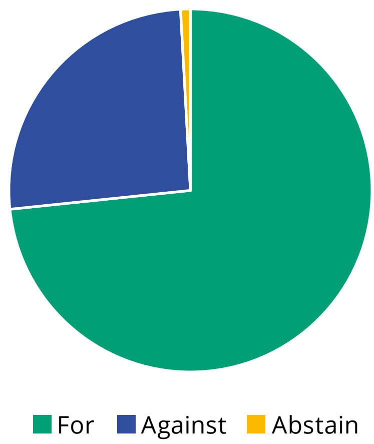
Sometimes, we also speak at AGMs to reinforce our vote and publicly debate with the companies we invest in. For example, we gave a statement at Shell's 2023 AGM with other investors. Additionally, we can submit shareholder proposals. This was the case at TotalEnergies this year.

We want to be transparent about how we use our voting rights. Therefore, all our votes are publicly available on a dedicated website. In 2023, we voted on 57.726 proposals at 5.538 AGMs. 790 of these proposals were filed by shareholders, and the others were filed by management.

Management proposals

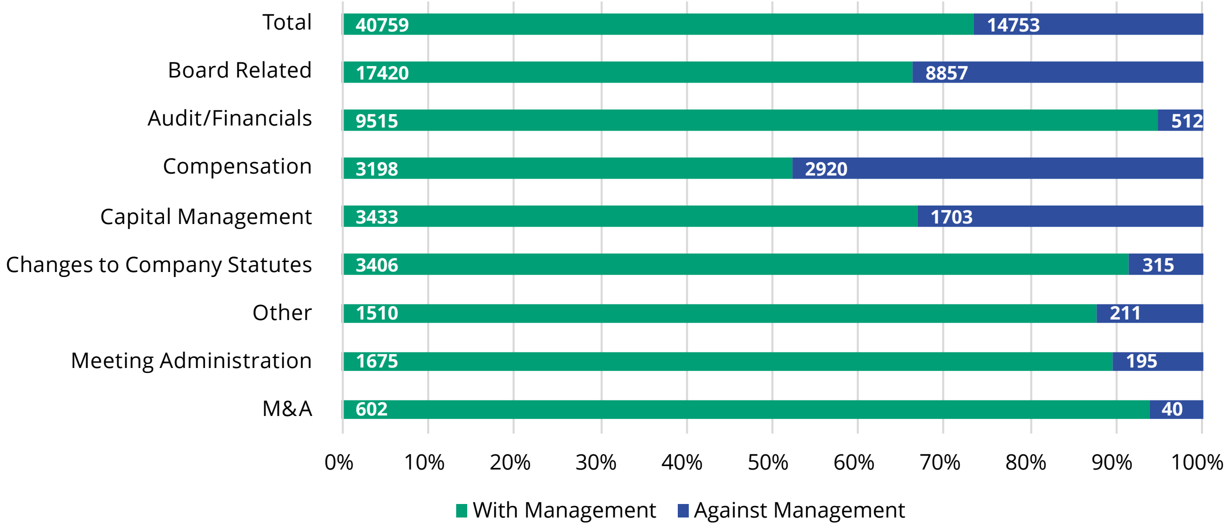
Management proposals, for example, include director elections, approval of the financial statements, and votes on the companies' remuneration policy. Of all the management proposals on which we voted in favour, against, or abstained, we supported 73% (Figure 1).[5] Figure 2 shows that we most often voted against the recommendations by management on compensation and board-related proposals.[6] This is primarily due to our stringent guidelines on executive pay (e.g., not allowing for the use of options) and our definition of director independence, which considers tenure.

Figure 1: For, Against, and Abstain votes on management proposals.



5. We only included the categories "For" (40929 instances), "Against" (14384), and "Abstain" (487) to ensure readability. We removed the other Glass Lewis categories "1 Year" (6), "3 Years" (504), "Mixed" (73), "Take No Action" (418), and "Unvoted" (135). Therefore, the figure includes 98% of all votes.
6. We only included the categories "With Management" (40759) and "Against Management (14753) to ensure readability. We did not include the Glass Lewis categories "Take No Action" (418), "Unvoted" (135), "N/A" (798), and "Mixed"" (73). Therefore, the figures includes 97% of all votes.

Figure 2: Votes With and Against Management on management proposals.



Director elections

We expect the boards of companies in carbon-intensive industries to consider climate action a strategic priority. Therefore, PFZW votes against the re-election of board members when we deem a company a climate transition laggard. In 2023, we voted against the board of 370 companies in carbon-intensive industries (Food, Energy, Industrials, Materials, and Utilities) because they did not have an emissions reduction target. We voted against boards in the energy sector when emission reduction targets significantly lagged peers.

Since there can be multiple reasons to vote against a director's re-election, we send a letter to each laggard explaining why we voted against its directors. The letter explains our climate plan and the resulting expectations for portfolio companies. We invite each company to accelerate its climate ambitions by adopting science-based decarbonisation targets supported by a credible energy transition strategy.

Say on climate

Sometimes, boards put their corporate climate transition plans on the agenda of the AGM for an advisory vote. They are called 'Say on Climate' proposals. By voting on these proposals, we can signal to the company whether we support its climate plan or would like to see improvements. We vote in favour whenever the company has set emission reduction targets aligned with a 1.5°C pathway and supplements this with a credible implementation strategy. Whenever we believe implementing the proposed decarbonisation plan does not sufficiently contribute to the goals of the Paris Agreement, we will vote against it.

The decarbonisation plan should include, amongst others, the following elements:

- Science-based emission reduction targets for all material scope 1, scope 2, and scope 3 emissions. The company minimises reliance on offsets and nature-based solutions when meeting its emission reduction targets.
- A capital expenditures plan that supports the company's emission reduction targets.
- Sufficient board oversight on climate, including climate-related key performance indicators in executive compensation.
- Disclosure of climate-related risks and opportunities, preferably via the Task Force on Climate-Related Financial Disclosures (TCFD) framework.

During 2023, PFZW supported 10 out of 19 say on climate proposals. For example, we supported the plan of Energias de Portugal SA, a Portuguese utility company, because they set 1.5°C-aligned science-based emission reduction targets. However, we voted against the plan of UBS Group, a Swiss multinational investment bank and financial services company. Even though we appreciate the company's sector-level decarbonisation targets, we could not support the plan because the company had not committed to phasing out thermal coal lending.

Shareholder proposals

Besides management, shareholders also have the right to put proposals on the agenda of AGM in many countries. In recent years, these shareholder proposals have often concerned environmental, social, and governance (ESG) issues. In 2023, we voted for 80%, 75%, and 52% of E, S, and G proposals.

Figure 3: For, Against, and Abstain votes on shareholder proposals.

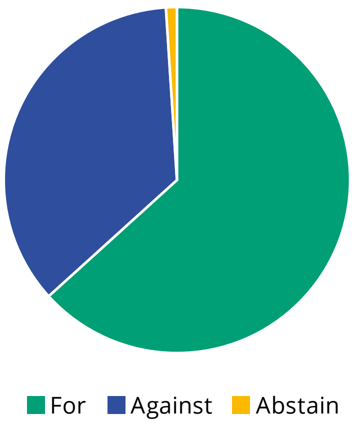
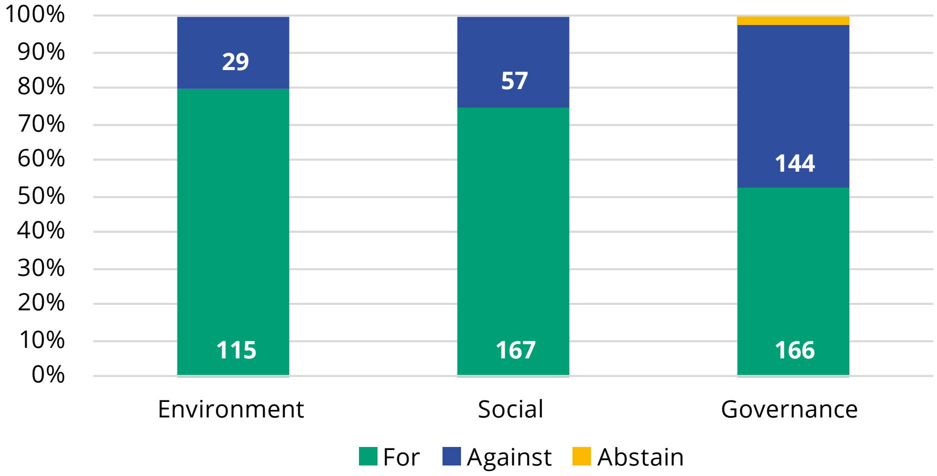


Figure 4: For, Against, and Abstain votes on ESG proposals by topic.



Voting for clarity on how Hershey Company is eradicating child labour in its supply chain

Hershey Company is one of the largest chocolate producers worldwide. We voted in favour of a shareholder proposal asking the company to issue a public report describing if and how its Living Wage & Income Position Statement and planned implementation steps will put the company on course to eradicate child labour in all forms from its West African cocoa supply chain by 2025.

We recognise that the company has progressed in the essential areas of human rights and child labour. For example, it achieved its target of using 100% Fair Trade-certified cocoa in its products globally. However, the company's Living Wage and Income Positions statement can improve by setting more concrete, timebound commitments and an accompanying action plan to realise them.

Anti-ESG resolution at Microsoft

At the AGM of U.S. IT company Microsoft, several shareholder proposals were on the agenda, which can be considered anti-ESG. One of these proposals asked the company to report on risks associated with Microsoft having an equal employment opportunity (EEO) policy in place. EEO policies safeguard the rights and interests of groups who traditionally have been in disadvantaged positions. The proponent, the National Center for Public Policy Research, has a reputation for pushing for this type of shareholder proposal aimed at targeting ESG-friendly policies. As we believe companies must include workers from various backgrounds and promote diversity as a strength instead of a potential risk, we voted against all anti-ESG proposals.

Asking TotalEnergies to set Paris-aligned emission reduction targets

With Follow This and a large group of investors, PFZW submitted a proposal to the French company TotalEnergies. In this proposal, we advised the board to set a target in line with the Paris Agreement, aiming to reduce scope three emissions between now and 2030. We discussed this proposal with the company but could not reach an agreement. Therefore, the shareholders voted on the proposal during the annual meeting.

The proposal received 30% of votes in favour. Although this is not a majority, it is commendable that this was the best-performing proposal of its kind at a major oil and gas company. The proposal submission by a large group of investors may have contributed to this result.

Unfortunately, TotalEnergies did not change its climate targets after the annual meeting. Therefore, we divested our interests in the company in early 2024.

Some climate proposals at Equinor were too prescriptive

We support many climate proposals, but not all. Sometimes, a proposal gives the company too little room to determine its strategy. For this reason, we did not support several proposals at Equinor, a Norwegian oil and gas producer.

For example, one of the proposals asked Equinor to spend 50% of their gross investments on low-carbon alternatives to oil and gas by 2025. We did not support this proposal. We ask oil and gas companies to derive at least 30% of their energy production from low-carbon solutions by 2030. Significant investments in these solutions are needed in the short term, and we support that. However, the required investment depends on the type of solutions a company focuses on. Therefore, we do not want to impose an exact percentage of low-carbon investments on a company.

Glossary

Active ownership	We encourage companies to improve their sustainability performance through voting and/or engagement.
Climate change	A change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods (UNFCCC, 1992, Art. 1)
CO_2 (emissions)	When we talk about CO_2 (emissions) we almost always mean CO_2 equivalents (CO_2e). The greenhouse gas effect of the other greenhouse gases has been converted into a CO_2 equivalent to provide insight into the total effect. CO_2 equivalents include all greenhouse gases as recognized in the Kyoto Protocol: carbon dioxide, methane, nitrogen dioxide, hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride.
Engagement	Having a constructive dialogue with companies in the investment portfolio or market parties such as regulators, supervisors, and sector organizations. The aim of this dialogue is to realize a predetermined (behavioural) change.
ESG	Abbreviation for Environmental, Social, and Governance.
Long-term value creation	Creating long-term value. We are convinced that this is only possible if risk, return and sustainability are all taken into account in investment choices.
Net zero	Net zero means that the total global emissions of all greenhouse gases minus the total greenhouse gases removed amount to a maximum of zero. In the Paris Agreement it was agreed to limit global warming to well-below 2°C and to aim for a maximum temperature increase of 1.5°C. Global emissions must be net zero by 2050 to meet the 1.5°C target.
Paris Agreement	The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well-below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.
Paris-alignment	The extent to which companies have a reduction target and/or plan to reduce their emissions in line with the agreements in the Paris Agreement. The exact criteria for this differ per category and sector.
Principle Adverse Impacts (PAI)	A Principal Adverse Impact (PAI) is any impact of investment decisions or advice that results in a negative effect on sustainability factors, such as environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters. EU financial institutions are required to disclose an annual PAI statement that explains how the institution considers relevant PAIs in its investment decisions.
Scope 1, 2, and 3	A company's CO2 footprint can be divided into scope 1, 2 and 3: • Scope 1: direct emissions from own sources or resources within the management of it company. • Scope 2: indirect emissions from the generation of purchased or consumed energy. • Scope 3: indirect emissions arising from the rest of the value chain. Here we follow the definition of the Greenhouse Gas Protocol (GHGP)
SDG	Sustainable Development Goals (SDG) are the 17 goals that the United Nations has set and that it wants to achieve by 2030.
Sustainability Accounting Standards Board (SASB) Standards	The SASB Standards identify the sustainability-related risks and opportunities most likely to affect a company's cash flows, access to finance and cost of capital over the short, medium or long term and the disclosure topics and metrics that are most likely to be useful to investors.
Sustainable	In essence, 'sustainable' is a certain state that can continue for a long time. In the context of sustainable investing and/or a sustainable world, sustainable refers to a world or an investment that develops towards or contributes to an economic, social and environmental future for the earth and for current and future generations. We further concretize this definition by linking it to the United Nations Sustainable Development Goals (SDGs). We use the SDG framework as a framework for sustainability. 1 Oxford English Dictionary. (n.d.). Sustainable, adj. sense 3.a. Retrieved September 2023, Oxford English Dictionary (oed.com).
Sustainable Finance Disclosure Regulation (SFDR)	The Sustainable Finance Disclosure Regulation contains the sustainability requirements for EU financial institutions that apply from March 2021.
Sustainable or liveable world	A world in which the 17 United Nations Sustainable Development Goals have been achieved.