



# NORDIC ENGAGEMENT COOPERATION

Annual Engagement  
Report, 2020

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A collaborative engagement  
network between

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## ABOUT THE NORDIC ENGAGEMENT COOPERATION

Launched in 2009, the Nordic Engagement Cooperation (NEC) consists of three Nordic institutional investors: The Folksam Group from Sweden, Ilmarinen Mutual Pension Insurance Company from Finland, and PFA Pension from Denmark. To complement our individual engagement strategies, we have made the strategic decision to collaborate, by coordinating engagement activities on environmental, social and governance issues at commonly held companies, in order to create a greater opportunity to drive positive results. Collectively we have approximately EUR 182 billion in assets under management as of the end of 2020.

## SUMMARY OF 2020

The year of 2020 and the Covid-19 pandemic brought along new challenges for society and companies worldwide. Despite this the NEC continued its engagement work and pivoted to online meetings and calls, as physical meetings with companies or between the three NEC members were not possible. Despite this, NEC still successfully completed two company dialogues, and introduced a new engagement theme, in collaboration with Sustainalytics:

- **Enbridge INC.**

Sustainalytics has, on behalf of NEC and other investors, had substantial engagement with Enbridge since 2017, as one of its norm-based engagements. With regards to aligning company policies and procedures with international norms on indigenous peoples' rights and security and human rights, Enbridge has made substantial progress during the course of the engagement. And in Q4 2020, the engagement was resolved.

More details related to the dialogue, its objective and developments can be found on page 11.

- **Danone S.A.**

NEC has been engaging with Danone concerning its Taskforce on Climate-related Financial Disclosure (TCFD) disclosure and climate action since 2019. The company has progressed quickly in terms of climate disclosure and ambition. It has developed a comprehensive strategy to assess its highest ESG risks, incorporating carbon risk, plastics, and other material issues. Furthermore, Danone is continuing to work on its global strategy, including delivering its science-based targets and aligning this to its most recent commitment to 1.5 °C -degree alignment. Having achieved the engagement objective, this dialogue was concluded in Q4 2020.

More details related to the dialogue, its objective and developments can be found on page 10.

- **Introducing a focus on water issues**

Another noteworthy development from the year was NEC's decision to introduce a focus on water issues by joining Sustainalytics' new Localised Water Management project. With the World Economic Forum's 2020 Global Risk Report identifying water crises as a top 10 risk from both a likelihood and impact perspective, NEC decided to join the project which reviews the local

application by businesses of their global water management strategies. More information about the water initiative and the selected companies can be found on page 7.

## OUR APPROACH

The NEC partnership is built on the belief in dialogue as the most efficient tool to achieve change. We engage with companies in collaboration with our service provider Sustainalytics<sup>1</sup>. However, if the engagement goals are not achieved, other tools are also available.

NEC is an integrated part of the members' regular engagement work. NEC engages with companies that are, or have been, involved in systematic incidents or an isolated incident that has severe consequences for the environment or humans. The engagement process is based on a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on environmental, social and governance (ESG) issues within the framework of the UN Global Compact and OECD Guidelines for Multinational Enterprises.

NEC can also initiate proactive engagement to support the development of best practice within an industry, such as the meat and dairy industry to encourage TCFD disclosure. In 2020, NEC joined dialogues with companies in the Tiete (Brazil) and Vaal (South Africa) river basins on local water management. The proactive engagement activities are mapped to the UN's Sustainable Development Goals.

The collaboration strives to cover a broad range of issues focusing on non-Nordic companies in which all three NEC members have holdings. Companies that the NEC collaboration has agreed to engage with to achieve progress are put on **NEC Focus List**. Companies are selected based on:

- NEC's ability to influence;
- potential for NEC to gain in-depth understanding of an issue; and
- material issues where monitoring of developments, including company's response and progress, are essential to NEC.

Once selected, a case is kept on the NEC Focus list of engagement for three years. As all members of NEC invest with a long-term horizon, we have the opportunity to have a long-term dialogue with companies. If deemed relevant, the dialogue can be extended beyond that period.

The NEC structure includes quarterly meetings, a clear delegation of responsibilities and a secretariat who is responsible for the operational work. NEC is not a closed cooperation – it has from time to time collaborated with other investors. As determined on a case-by-case basis, the NEC members welcome the addition of other investors as regular members.

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<sup>1</sup> [Sustainalytics](https://www.sustainalytics.com/esg-investing-news/morningstar-inc-completes-acquisition-of-sustainalytics/) became part of Morningstar in July 2020, <https://www.sustainalytics.com/esg-investing-news/morningstar-inc-completes-acquisition-of-sustainalytics/>

# ENGAGEMENT BRIEF

The NEC Focus List for 2020 is comprised of companies that were involved in incidents that violated international norms and companies that were connected to proactive engagement themes.

The NEC has been engaging with companies regarding incidents that violate international norms since 2009. In 2020, no new norms-based cases were added to the Focus List. However, as mentioned above, we resolved the norm-based engagement with one company, namely **Enbridge**, relating to the violation of indigenous peoples’ rights in the planning and implementation of the Dakota Access Pipeline.

In recent years, a proactive engagement approach has been introduced as a complement to the incident-based approach. During the year, we concluded engagement with one company under the TCFD disclosure theme, namely **Danone** (see page 10). A new engagement theme was introduced relating to localized water management, so far, with two companies (see page 8).

In summary, there were ten companies in total that were engaged with on the NEC Focus List in 2020.

## NEC FOCUS LIST 2020

### Norm-Based Engagements – based on incidents

COMPANY	GLOBAL COMPACT PRINCIPLE	INCIDENT	ENGAGEMENT PERIOD
Atlantia		Quality and Safety Violations	2019-
Enbridge		Violations of indigenous peoples' rights	2017- 2020
Johnson & Johnson		Product-related injuries	2018-
Volkswagen		Violations of emissions standards	2015-

### Proactive Engagements

COMPANY	TOPIC	ENGAGEMENT PERIOD
Danone	TCFD disclosure	2019-2020
Glanbia	TCFD disclosure	2019-
Kerry Foods	TCFD disclosure	2019-
Tyson Foods	TCFD disclosure	2019-
Akzo Nobel	Localized Water Management	2020-
Anheuser-Busch InBev	Localized Water Management	2020-

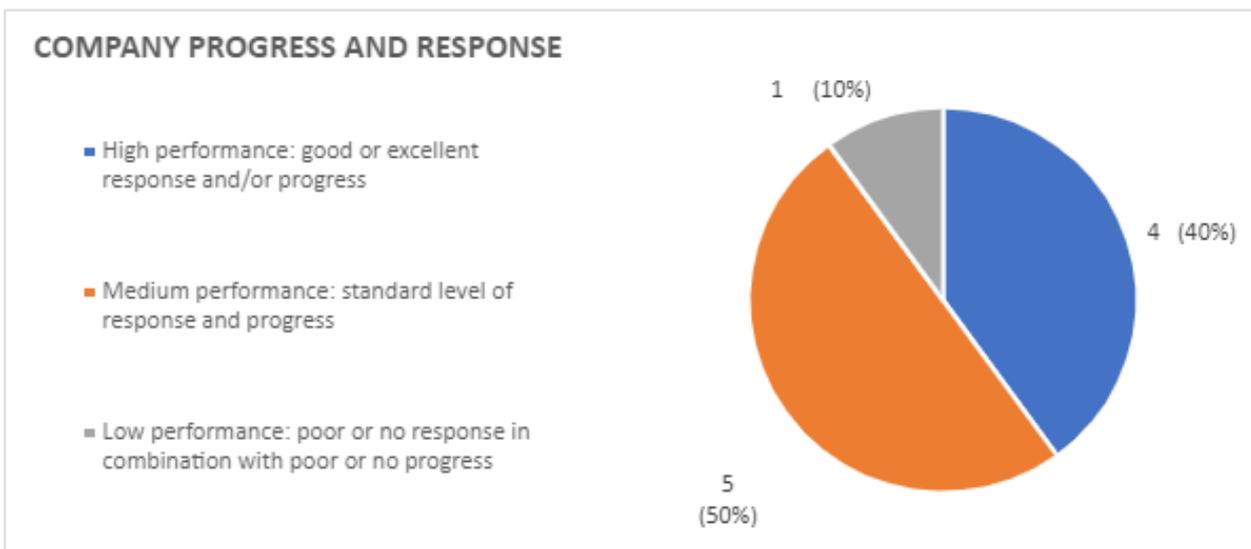
 - Human rights     - Labour rights     - Corruption     - Environment

## ENGAGEMENT PROGRESS AND RESPONSE

Multiple indicators are used to measure engagement activity and performance.

During 2020, 13 meetings and conference calls on ESG issues were held with companies on the NEC Focus List. Additionally, an investor letter was sent to one company.

Response and progress on the engagement cases are measured and combined to create a performance score. Of the ten cases on NEC’s Focus List during the year, five had medium performance, four had high performance, and one had low performance.



## ONGOING PROJECTS AND COMPANY DIALOGUES

NEC had ongoing dialogues with all companies on the NEC Focus List, with the exception of Tyson, during 2020. No physical meetings with companies were possible during 2020 due to Covid-19. However, specific actions taken within NEC included conference calls, investor letters, contacts with NGOs and labour unions.

Presented below are the proactive and the norm-based engagements on NEC’s Focus List, with concluded engagement cases presented in more detail at the end of their respective section.

# PROACTIVE ENGAGEMENTS

## LOCALIZED WATER MANAGEMENT THEMATIC ENGAGEMENT

*In 2020, NEC joined Sustainalytics’ three-year thematic ‘Localized Water Management’ engagement. While this program targets up to twenty companies in total, the NEC has chosen to initially focus its attention on two companies that were identified as being of common interest to all NEC members, with the plan to further select two companies in 2021. These companies are **Anheuser-Busch InBev (AB InBev)** and **AkzoNobel**, which operate in water scarce regions. Both companies already acknowledge the dependence of their operations on sound water management and have been responsive to the engagement. First calls were held in 2020 and the dialogue will continue in 2021, aiming for meaningful progress in the companies’ water risk management efforts and related reporting.*

Sustainable management of water resources and securing water supply is increasingly an important commercial issue for companies. Reputational risks are mounting related to local tensions over water access and rights. Regulatory scrutiny is intensifying as governments grapple with funding ageing infrastructure and ensuring safe and reliable access to water. However, while water risks are global, water impacts vary by location. The LWM engagement has a geographic focus, targeting companies that are dependent on water from the Tiete river basin in Brazil and/or the Vaal river basin in South Africa. The below listed engagement focus areas aim to reduce company risks, enhance operational stability and water security.

- improve companies’ awareness of the importance and benefits of adapting their water management to the local context
- provide opportunities for inter-basin collaboration
- encourage tangible on-the-ground impacts
- strengthen the role of investors as a stakeholder in integrated responses to water crises - all with the view of reducing company risks, enhancing operational stability and water security.

Engagement aims to contribute to the UN Sustainable Development Goal(s):



### DEVELOPMENTS IN 2020

Water crises were ranked as a top 10 risk for both impact and likelihood in the World Economic Forum’s 2020 Global Risk Report. The report further cites water scarcity as increasing and already affecting a quarter of the world’s population. In South Africa, declining rainfall between 2015 and 2018 led to the worst drought on record and resulted in Cape Town approaching Day Zero, the point at which the municipal water supply would be shut off. Rainfall has since returned and is predicted to be above average for the summer of 2021. Similarly, a lack of rainfall in the Tiete basin threatened to close the waterway as a transportation corridor in 2018. This was followed by torrential downpours in early 2020 resulting in flooding, mudslides and the river overflowing its banks.

Moreover, during the past year, South Africa and Brazil have had a high number of positive Covid-19 cases. In our company calls, we attempted to understand how businesses were adapting to the impacts and restrictions caused by the pandemic, including those on water management. Many

employees were working from home, and in most cases, corporate resources were dedicated to philanthropy related to the provision of healthcare supplies or necessities for community members including access to drinking water and sanitation. Sustainalytics found companies with more material ties and head offices within the focus basins willingly committed to the engagement, suggesting companies that already understand their water risks recognize the value of these dialogues, even during a global pandemic.

## **ENGAGEMENT UPDATE**

We have observed that high water stress within a river basin does not automatically translate into a high risk experienced by all companies dependent on the basin. Indeed, it is common for companies to perceive low urgency if their local water withdrawal and discharge are currently secure or limited, irrespective of the water stress experienced by other local stakeholders. A clear trend is the prioritization of water efficiency and decreasing water withdrawal under the overarching theme of water security. There is less focus on reducing water discharges and improving the quality of the effluent. Most disclosure related to water quality is strongly driven by regulatory compliance and few companies actively plan to go above and beyond this.

In Sustainalytics' conversations to date, it is evident that there are significant differences in corporate water management. For some companies, the focus is clearly on the immediate security of water supply for the company, while for others water security for various stakeholders at a more regional scale is already top of mind.

## **AB INBEV**

AB InBev is the world's largest beer brewer with a global presence and operates in both the Vaal and Tiete basins/catchment areas. The company clearly recognizes the interconnected nature of water challenges and the importance of partnering and attention to communities. One of its 2025 goals is to measurably improve water availability and quality for 100% of its communities in high-risk areas. The Sustainability department has been incorporated in the Procurement department, demonstrating that its largest sustainability impact is sourcing ingredients for its beverages. Water and barley are the largest ingredients by volume. AB InBev sources both from farmers directly and through traders. It has been easier to engage where there are direct relationships with farmers. An aquifer-wide approach is needed, as any saved water just goes to the next farmer.

The engagement is expected to yield more insight into the consequences of AB InBev's efforts to improve water quality and availability in water-stressed basins, and we intend to discuss more facility-specific water challenges and solutions.

## **AKZO NOBEL**

AkzoNobel is one of the world's largest producers of decorative paints and various types of performance coatings. It is headquartered in the Netherlands and has 130 production sites around the world, including the Tiete basin/catchment area. Several hundred project initiatives throughout the organization have helped reduce freshwater withdrawal and intensity. AkzoNobel has reduced its freshwater use (both absolute and relative) every year since 2015. Furthermore, the company has committed to reuse water at 100% of its water-intensive sites by 2030; and with an interim target of 50% by 2025. The company regards approximately 40 out of its 130 production sites to be water intensive.

The engagement is expected to yield more insight in the consequences of the water reuse target, and we intend to discuss more facility-specific water challenges and solutions.

## ENGAGEMENT ON TCFD DISCLOSURE

During 2020, NEC continued its proactive engagement concerning the agricultural sector and expanding and implementing increased transparency and alignment with the Taskforce on Climate-related Financial Disclosure (TCFD) reporting standards, a theme that was started in 2019.

The TCFD has developed voluntary climate-related financial risk disclosures for companies provide information to investors, lenders, insurers, and other stakeholders. To date, more than 1,500 organizations have expressed their support for the TCFD recommendations, representing an increase of over 85% since the organization’s 2019 status report. The engagement continued to target **Danone**, **Glanbia**, **Kerry** and **Tyson Foods**. Follow up dialogues were held with all companies except Tyson Foods, that unfortunately continued to decline our offer for dialogue. An investor letter was sent to Tyson to encourage the company to be open to have a call. There will be continued efforts to open a dialogue with Tyson in 2021.

Throughout our engagement, NEC continues to see, steady improvement in commitments and disclosure related to climate change. That said, there is still significant movement required from a couple of engagement companies to reach our engagement objective. There is a continuing need for progress in improving levels of TCFD-aligned disclosures given the urgent demand for consistency and comparability in reporting, especially disclosure on the potential financial impact of climate change on companies’ businesses and strategies remains low.

Of all companies in the engagement, Danone has reached the objective of the engagement, by taking the most action to address the need for improved TCFD-aligned disclosures thus far. In its most recent integrated reporting from last year, the company has disclosed in line with the TCFD requirements. Incorporated into its climate disclosure is a comprehensive strategy to assess its highest ESG risks, incorporating climate risk and continuing to work on its global strategy and is currently working on 1.5 degrees aligned science-based target. Meanwhile, Kerry and Glanbia continue to progress in the right direction, Kerry has worked to develop its internal strategy to meet its Science Based Targets (SBTs). It is also working to develop several aspects relating to TCFD and expects to develop this further over the next two reporting cycles. While Glanbia is expecting to launch its own SBTs shortly and is beginning to look at certain aspects required by TCFD disclosure, of which they are both required to comply with by 2025 due to the new requirements for UK listed companies. In terms of specific disclosures, both companies have significant progress to make in working to reduce emissions and improve reporting on climate risk but continue to be committed to doing so. NEC will be continuing the dialogue here to encourage the companies to increase ambition in this respect.

The engagement will continue throughout 2021 with follow-up dialogues expected to take place in March 2021.

Engagement contributes to the UN Sustainable Development Goal(s):



## COMPLETED PROACTIVE ENGAGEMENTS 2020

### DANONE S.A.

Danone S.A. is a French multinational food-products corporation based in Paris.

In the first half of 2018, 29% of sales came from specialized nutrition, 19% came from waters, and 52% came from dairy and plant-based products.

As detailed above, NEC has been engaging with Danone concerning TCFD disclosure and climate action. The company has now achieved the engagement objective, disclosing in line with TCFD reporting standards. This is also set to increase in granularity in upcoming reporting.

Danone was very positive in dialogue and progressed quickly in meeting investor demands in terms of climate disclosure and ambition, the company is taking a holistic approach to the issue. It has developed a comprehensive strategy to assess its highest ESG risks, incorporating carbon risk, plastics and other material issues. Danone is continuing to work on its global strategy and is currently working on delivering its SBTs and aligning this to its most recent commitment to 1.5 °C -degree alignment. The company has outlined the depths of its scenario analysis and utilized scientific basis to understand risks posed on both water and carbon in transitioning. Danone has also been accelerating its progress and increasing the depth of its transformation actions to put climate further at the core of its growth model. This will translate into an accelerated investment plan through 2020-2022 on brands, climate and agriculture, packaging and digitalization, all key aspects of Danone's climate approach. As part of its strategy Danone is also working on regenerative agriculture using the 'cool farm tool', this gives reporting on soil health, carbon and water risk etc. to help provide a comprehensive overview and understanding of the supply chain. Further, the company has worked to report on the financial impact of climate change, something highlighted in the latest TCFD status update as not yet being disclosed by the majority of companies.

As Danone has met the engagement objectives, the dialogue was concluded in Q4 2020.

## NORM-BASED ENGAGEMENTS

Case profiles for ongoing norm-based cases on the NEC Focus List can be found in the appendix.

### COMPLETED NORM-BASED ENGAGEMENTS 2020

NEC closed norm-based engagement with Enbridge during 2020, and the case is described below.

#### **ENBRIDGE INC.**

Enbridge is an energy generation, distribution, and transportation company in the U.S. and Canada. Its pipeline network consists of the Canadian Mainline system, regional oil sands pipelines, and natural gas pipelines. The company also owns and operates a regulated natural gas utility and Canada's largest natural gas distribution company. Additionally, Enbridge generates renewable and alternative energy. NEC added Enbridge to its focus list in 2017.

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the Dakota Access Pipeline (DAPL) posed significant risks to the Standing Rock Sioux tribe. The DAPL transports crude oil from North Dakota to Illinois and was developed by Energy Transfer LP, also holding the largest ownership stake in the pipeline. The remaining partners include Enbridge Energy Partners LP, an affiliate of Enbridge Inc, Phillips 66 and Marathon Petroleum. The pipeline passes close to the tribe's reservation and beneath the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. It has also been alleged that the tribe was not meaningfully consulted and did not give its consent to the routing of the pipeline. US authorities granted all necessary permits, and the pipeline became operational in June 2017. In March 2020, a federal judge ordered the US Army Corps of Engineers to conduct a full environmental review of the DAPL. According to the judge, the easement approval for the pipeline remains "highly controversial" under federal environmental law, and a more extensive review is necessary than the environmental assessment that was done.

For NEC to conclude this engagement, Enbridge was expected to use its leverage to enable a reconciliation dialogue between Standing Rock, and the developer and operator of the pipeline, Energy Transfer LP. Furthermore, the company was expected to adopt a human rights policy and establish a due diligence process to align with international norms on indigenous peoples' rights across its operations, as well as on security and human rights.

Sustainalytics has, on behalf of NEC and other investors, had substantial engagement with Enbridge, including in 2020. Enbridge has discussed indigenous rights issues and stakeholder engagement with Energy Transfer LP. With regards to aligning company policies and procedures with international norms on indigenous peoples' rights and security and human rights, Enbridge has made substantial progress during the course of the engagement. In doing so, it has been transparent and open to input from Sustainalytics and investors. A key improvement has been the implementation of a 'life-cycle engagement' approach with indigenous communities, i.e., continuous engagement throughout a project's lifecycle. It is aligned with international norms and goes beyond a more limited one-off consultation process in the early development stages of a project. In 2020, the company adopted new Security Principles, aligned with the Voluntary Principles on Security and Human Rights. During the year, Enbridge also adopted its Joint Venture Guidelines, including provisions on indigenous peoples' rights.

COMPANY NAME  
**ATLANTIA**

SECTOR: Highways & Railroads  
HEAD OFFICE: Italy

COUNTRY  
Italy

#### INCIDENT

On 14 August 2018, the Morandi bridge located in Genoa, Italy, and operated by Autostrade per l'Italia (API), a subsidiary of Atlantia SpA (Atlantia), collapsed, killing at least 43 people and injuring 16 others. Separate investigations into the collapse were launched by the general prosecutor of Genoa, the Ministry of Transport and the company. API said that it had done regular checks on the structure and that the bridge was overhauled in 2016. The company has set up a EUR 500 million fund for the victims' families and to help relocate hundreds of people living close to the bridge. The cause of the collapse has not been established yet. At the end of September 2018, the Ministry of Transport published a report saying that API failed to take sufficient safety measures to prevent the bridge collapse.

NORM AREA  
Human Rights

RESPONSE AND  
PROGRESS  
Excellent, Excellent

#### GOAL

Atlantia needs to identify the cause of the bridge collapse, assess projects within its control to prevent similar failures in the future, develop a remedial strategy for the affected people, ensure project monitoring and maintenance systems and emergency procedures are in place.

#### DEVELOPMENTS IN 2020

During 2020, Atlantia has further reinforced measures to strengthen its quality and safety work. By year-end, the company has extended monitoring by double-checking its entire infrastructure portfolio of close to 2,000 bridges and tunnels. The company has also developed a 2020 - 2023 strategic plan committing to invest EUR 13.5 billion on development and improvement of roads and networks. This includes a major digitalization process, new systems for real-time control of traffic conditions, and the implementation of cameras and drones for the surveillance of infrastructure projects.

To reflect the strengthened focus on sustainability and new mindset in the company, Atlantia has also made changes in relation to corporate governance. A new CEO is in place since early 2020, and during the year 80% of top management has been replaced to ensure safety is the key value and having the right company culture to tackle challenges. Further, Atlantia has also reviewed its whistleblowing tool and Ethics Officer process, to ensure it is properly implemented and provides accessible opportunities for anyone to raise concerns.

An interesting development during the year was the announcement in July 2020, whereby Atlantia has agreed to sell its stake in API to the Italian government. A broad level agreement has been made, but the two parties are still working on finalizing the details of the transaction.

The outcome of the formal investigation into what caused the collapse was expected to be finalized early 2020 but has been further postponed due to COVID-19.

The efforts taken by Atlantia to strengthen its quality and safety work indicates a very positive case development, but we will monitor the outcome of the formal investigation and the sale of API stakes.

COMPANY NAME:  
**JOHNSON & JOHNSON**

SECTOR: Pharmaceutical and Healthcare  
HEAD OFFICE: United States

## COUNTRY

United States

## INCIDENT

As the media reported in December 2016, a US federal jury ordered Johnson & Johnson (J&J) to pay over USD 1 billion in damages to six plaintiffs who alleged that they were injured by a faulty hip replacement device, Pinnacle Acetabular Cup System (Pinnacle), manufactured by a subsidiary of the company, DePuy. Reportedly, the plaintiffs experienced tissue death, bone erosion, and other health problems. In December 2016, due to constitutional considerations, a US District Judge halved the damages award that the company was previously ordered to pay. Prior to that, in March 2016, the company paid USD 150 million in punitive damages to patients who were implanted with the DePuy Pinnacle device. In November 2017, J&J was ordered to pay 247 million to six patients who claimed that the company hid defects in its hip replacement system. In May 2019, J&J settled the bulk of lawsuits regarding the sale of the Pinnacle hip implants. In October 2019, J&J agreed to pay nearly USD 117 million to resolve hip replacement claims in 41 US states and the District of Columbia.

## NORM AREA

Human Rights

RESPONSE AND  
PROGRESS

Poor, Poor

In January 2020, J&J was ordered by a jury to pay USD 8.8 billion to a plaintiff in a Risperdal case, only for the judge to cut the damages to some USD 6.8 million a few days later.

In October 2020, J&J began to settle the talc cases, with some 1,000 cases settled for USD 100 million, then in November 2020, the company failed to overturn a USD 2.12 billion damages award to 22 plaintiffs.

In August 2019, J&J was found guilty under a public nuisance offence, in Oklahoma for its role in the so-called "opioid epidemic" in the US. The company was the first to be found guilty in relation to the alleged aggressive marketing and fuelling of the opioid crisis in the US. It was fined some USD 572 million but has publicly stated that it will appeal. In October 2020, J&J agreed to pay a further USD 1 billion that alleged it had contributed to the opioid crisis in the US; this was in addition to an earlier USD 4 billion payment.

## GOAL

J&J should ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures to minimise the risk of future litigation.

## DEVELOPMENTS IN 2020

J&J refused any attempts to hold a call in 2020 and only provide generic responses and links to publicly available information when asked for further details. This data provides an overview, but very little detail and few examples of how they are implemented, monitored, or reviewed. Following a review of all the data provided by J&J in this manner, we identified numerous

areas requiring significantly more detail. The company has yet to provide the requested detailed answers.

The company has continued to be the subject of court action during 2020, the most significant rulings being:

- Regarding talc, a November 2020 ruling in Missouri, which failed to overturn a USD 2.21 billion award to 22 women. A month earlier J&J settled 20,000 lawsuits on talc for USD 100 million.
- Two state filings regarding J&J's role in the opioid crisis by Washington and New York. A month later J&J announced a multi-state settlement to resolve filed and future opioid claims for USD 1 billion, which is in addition to a USD 4 billion agreement announced in October 2019.
- In January 2020, J&J was told to pay USD 344 million to thousands of claimants in California due to its deceptive marketing of pelvic mesh implants. In June, J&J settled claims in the UK for GBP 50 million. Whilst in November, it lost an Australian class action, the damages have not yet been announced.

NEC and Sustainalytics shall continue to urge J&J to hold conference calls with its investors and their representatives in 2021.

## APPENDIX

COMPANY NAME  
**VOLKSWAGEN**

SECTOR: Transportation  
HEAD OFFICE: Germany

COUNTRY  
Germany

*The Volkswagen case is an engagement case held on the NEC Focus List for more than the usual three-year period which was judged to be appropriate action since the dialogue is progressing on this complex and severe incident which in its nature, takes time to resolve.*

NORM AREA  
Environment

RESPONSE AND  
PROGRESS  
Excellent, Good

### INCIDENT

In September 2015, the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) revealed that Volkswagen AG (Volkswagen) used illegal software, a so-called "defeat device", in several diesel car models to bypass US environmental standards. According to the regulators, the company installed a device that boosted emissions controls during testing. It turned them down during normal driving, which resulted in exceeding the pollution limits allowed under federal clean air rules by up to 40 times. As a result, the EPA ordered a recall of over 480,000 cars produced in the years 2009-2015 and Volkswagen announced at the end of September 2015 that it would refit 11 million cars. In November 2015, several engineers at Volkswagen admitted to about 800,000 vehicles sold in Europe being affected by irregularities.

Ultimately, VW had to recall 11 million cars. VW was put on a three-year probationary period, with a court-appointed monitor overseeing the necessary compliance systems changes. This was successfully concluded in 2020. Furthermore, VW managed to settle the charges against its former CEO and chairman for withholding information about the Diesel Gate affair, as well as class action lawsuits on behalf of motorists in several European countries. VW continues to progress with vehicle recalls and settlements with claimants. However, the company is still subject to allegations by the European Commission of colluding with BMW and Daimler to delay the development of clean emissions technology between 2006 and 2014. The companies have responded to the allegations and are waiting for the Commission to decide on next steps.

### GOAL

VW should ensure that it has adequate risk management systems and internal controls and that the Supervisory Board has sufficient oversight, independence and skills to prevent future violations. Furthermore, VW should demonstrate that it has improved its corporate culture.

### DEVELOPMENTS in 2020

In 2020, Sustainalytics focused on independence of oversight, review of the third report by the Independent Compliance Auditor, results of real driving emissions tests, enhancement of whistle-blower programs, and roll-out of cultural transformation. Sustainalytics has also emphasised board independence and a position paper or other solution to address future concerns

tied to obstruction of emissions reduction or long-term carbon neutrality objectives.

VW continued to progress with compliance training and developed ESG-tied compensation to become applicable for lower levels of management throughout the company. Board independence remains a significant concern at VW. However, it is positive that there have been internal efforts to elevate this discussion.

Sustainalytics had two conference calls with Volkswagen in 2020 and attended Volkswagen's online Investor Relations ESG event. The company's responsiveness has been, excellent and the progress on the engagement objective has been good – also confirmed by the concluding reports of the Independent Compliance Auditor and Monitor.

In 2021, the engagement is entering its concluding stage, where we will monitor if the company is able to continue its improved practices and avoid new breaches.

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**Folksam**

ILMARINEN

The Folksam Group  
Bohusgatan 14  
106 60 Stockholm, Sweden  
[www.folksam.se](http://www.folksam.se)

Ilmarinen  
Porkkalankatu 1  
00018 Ilmarinen, Finland  
[www.ilmarinen.fi](http://www.ilmarinen.fi)

PFA Pension  
Sundkrogsgade 4  
2100 Copenhagen, Denmark  
[www.pfa.dk](http://www.pfa.dk)

Sustainalytics  
Birger Jarlsgatan 32B  
114 29 Stockholm, Sweden  
[www.sustainalytics.com/active-ownership/](http://www.sustainalytics.com/active-ownership/)