



NORDIC  
ENGAGEMENT  
COOPERATION

## Annual Engagement Report, 2021

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A collaborative engagement  
network between

**PFA** **Folksam**

**ILMARINEN**

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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.

**PFA** is an independent pension company that was founded in 1917 by the labour market operators to create mobility in the Danish labour market and ensure pensions for those no longer able to work. Today, we have more than 1.3 million individual and 6,000 corporate and organisational customers and around EUR 80 billion in customer funds making us the largest commercial pension company in Denmark. To preserve the trust our customers have placed in us we invest with a view towards managing our customers' interests as best as possible. PFA manages the vast majority of its total investment funds internally and with knowledge-sharing, we regard these as good prerequisites for wielding influence via ownership dialogues. Fundamentally, we would rather be invested in a transition than waiting for it to have already taken place. PFA thus prioritises being an active owner that influences companies to choose a sustainable direction and thus ensure long-term value creation via a reduction of the sustainability risks associated with PFA's investments. For more on PFA and responsible investments, please see [pfa.dk](http://pfa.dk)

Founded in 1908, **Folksam** is one of the largest insurance and pension providers in Sweden. We insure every second family home and person in Sweden and are also one of the largest asset owners in the country with more than 556 billion SEK in assets under management at the end of 2021. As a pioneer within responsible investments, Folksam has spent more than two decades engaging with our portfolio companies on issues related to climate change and the environment, human rights and anti-corruption. We are one of the co-founders of the UN convened Net Zero Asset Owner Alliance, which means that we have committed to transitioning our investment portfolios to net zero by 2050. Folksam is headquartered in Stockholm, Sweden. For more details, please visit [www.folksam.se](http://www.folksam.se).

**Ilmarinen** is the largest private earnings-related pension insurance company in Finland with around EUR 59 billion assets under management. As a mutual pension insurance company, Ilmarinen is wholly owned by our customers. Ilmarinen offers statutory employee and entrepreneur pension insurance for employers and entrepreneurs operating in Finland. Ilmarinen also promotes a better working life and thus help customers succeed. In total, Ilmarinen is responsible for the pension security of almost 1.2 million people. Ilmarinen's mission is to invest pension assets in a profitable, secure and responsible manner. Ilmarinen is a long-term investor and it is its duty to act in the best interests of its clients and pensioners. Responsibility is an integral part of Ilmarinen's investment activities. Ilmarinen was the first Finnish investor to sign the UN's Principles for Responsible Investment (UNPRI) in 2006 and one of the co-founders of Finsif – Finland's Sustainable Investment Forum in 2010.

We have made the strategic decision to cooperate by knowledge sharing and coordinating engagement activities, to complement our individual engagement strategies on environmental, social and governance (ESG) issues.

Our purpose is to drive positive change and results in our selected engagements' goals, and to provide knowledge sharing that supports our engagement strategies.

Collectively we have approximately EUR 182 billion in assets under management as of the end of 2021.

## SHARED FOUNDATIONS AND BELIEF

The NEC partnership is built on the belief in constructive dialogue as the most efficient tool to achieve change. Our cooperation flows from shared foundations in the members' values and principles as responsible investors, material ESG-risks and opportunities to our investment strategies and / or commonly held companies. While not necessarily universal for all individual members of NEC, as Nordic institutional investors we share a common background and understanding as:

- 1) Pension companies with long-term investment horizons
- 2) Customer-owned or profit-sharing business models
- 3) Holistic and ambitious approach to sustainability, striving to be leading investors in terms of managing ESG issues through
  - a. collaborative engagement (proactive and reactive)
  - b. active knowledge sharing to deepen our understanding of complex ESG-issues
- 4) Emphasis on human rights and workers' rights as core principles
- 5) Acknowledgement of our societal role and potential positive and negative impacts from our investments
- 6) Signatories / integration of well-established, international conventions and standards, including UN Global Compact, UN PRI, OECD Guidelines for Multinational Enterprises, the Paris-agreement and responsible tax practices with regards to tax evasion and avoidance

## OUR APPROACH

NEC is an integrated part of the members' regular engagement work. We engage with companies in assistance with our service provider Sustainalytics. However, if the engagement goals are not achieved, other tools are also available.

The engagement process is based on the identification of at least one of the following:

- a) **Conflict areas:** areas of conflict, its central dynamic sand risks – and how they materialise on a company level
- b) **Incidents:** systematic screening of companies regarding their compliance with well-established international conventions and guidelines within the framework of the UN Global Compact and OECD Guidelines for Multinational Enterprises.
- c) **Proactive thematic engagements:** selected proactive themes with material or principal value to NEC, and considered to be positive ESG opportunities

NEC engages with companies that are, have been or are at risk of being involved in systematic or isolated incidents that have severe consequences for NEC cf. the foundations of our cooperation.

Further than risk mitigation, proactive engagement activities aim to influence companies, with an opportunity to realise positive ESG contributions to the environment, stakeholders or communities through their actions and operations.

Companies that the NEC collaboration has agreed to engage with are included in the **NEC Focus List**. Companies are selected based on:

- NEC's ability to influence the specific company;
- Potential for NEC to gain and share in-depth knowledge of an issue; and
- Material or principal issues where the development of risks / opportunities are essential to NEC, including the involved company's response and progress

Once selected, a case is kept on the NEC Focus list for a specific time period, pending on the purpose, and lasting up to three years. As all members of NEC invest with a long-term horizon, the dialogue can be extended beyond that period if deemed relevant.

The NEC structure includes quarterly meetings, a clear delegation of responsibilities and a secretariat who is responsible for the operational work. In addition, the NEC members also meet sporadically between quarterly meetings to discuss particular issues. NEC is not a closed cooperation and 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 like-minded Nordic investors as regular members.

## NEC 2021: LAYING THE FOUNDATION FOR NEC 2.0

A cornerstone of the NEC partnership is joining forces to increase the ability to influence, as well as knowledge sharing. Thus, in 2021 NEC decided to focus on how the collaboration could contribute to even more positive impacts and how learnings and insights could be shared amongst and beyond the members.

As a result, apart from having regular quarterly NEC meetings, additional sessions took place, laying the foundation for the next steps of the partnership. It was clear that the common foundations and principles which had unified the members over twelve years ago, when the partnership was formed, are still highly relevant and important. The collaboration between members with strong ESG commitments, where engagement dialogues play a pivotal role in achieving change remains at the core of NEC.

NEC wishes to further leverage the partnership and therefore decided that NEC 2.0 will be launched in 2022. As part of NEC 2.0, the collaboration will focus more on engagement activities which create the most impact by prioritizing neglected issues with engagement potential. One of those areas are human rights issues which have often received less attention from investors compared to environmental topics, and even more so from a proactive approach. Therefore, there will be an increased focus on human rights issues going forward and proactive dialogues will be more prevalent. NEC will also consider narrowing the dialogues to fewer and deeper engagements. Beyond influencing via company dialogues, NEC aims to contribute to increased awareness about these topics in the investor community.

From a practical aspect, the Covid-19 pandemic continued to have an impact on the collaboration and the dialogues in 2021. No physical meetings with companies were possible, nor for the three NEC members to meet in person for any of the quarterly meetings. The collaboration took place online instead and it still managed to invite and host external speakers and guests to share their expertise. Despite the circumstances, there are several positive engagement outcomes from 2021 where NEC successfully contributed to relevant improvements and these are further described in the coming sections.

# ENGAGEMENT BRIEF

The NEC Focus List for 2021 was comprised of companies that were involved in 1) incidents that violated international norms and 2) companies that were connected to proactive engagement themes.

NEC has been engaging with companies regarding incidents that violate international norms since 2009. In 2021, no new norms-based cases were added to the Focus List. We resolved the norm-based engagement with two companies. Firstly, Atlantia, whose case related to the Morandi bridge in Genoa, Italy that partially collapsed. The collapse caused 43 deaths, injured 16 others and forced over 600 people to relocate from their homes. Secondly, the Volkswagen case, also known as ‘Dieselgate’ which opened in 2015 was resolved after engaging on the company’s violations of emissions standards. In recent years, proactive engagements with a thematic focus have become an important complement to the incident-based approach. During the year, thematic engagements were held with five companies on TCFD disclosure and three companies on Localized Water Management.




There were eleven companies in total that were engaged with on the NEC Focus List in 2021.





## NEC FOCUS LIST 2021

### Proactive Engagements - thematic

| COMPANY              | TOPIC                      | ENGAGEMENT PERIOD |
|----------------------|----------------------------|-------------------|
| Ahold Delhaize       | TCFD disclosure            | 2021-             |
| Carrefour            | TCFD disclosure            | 2021-             |
| 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 -            |
| Crown holdings       | Localized Water Management | 2021 -            |

### Norm-Based Engagements – based on incidents

| COMPANY           | GLOBAL COMPACT PRINCIPLE  | INCIDENT                          | ENGAGEMENT PERIOD |
|-------------------|---|-----------------------------------|-------------------|
| Johnson & Johnson |  | Product-related injuries          | 2018 –            |
| Atlantia          |  | Quality and Safety Violations     | 2019 – 2021       |
| Volkswagen        |  | Violations of emissions standards | 2015 – 2021       |

 - Human rights     - Labour rights     - Corruption     - Environment

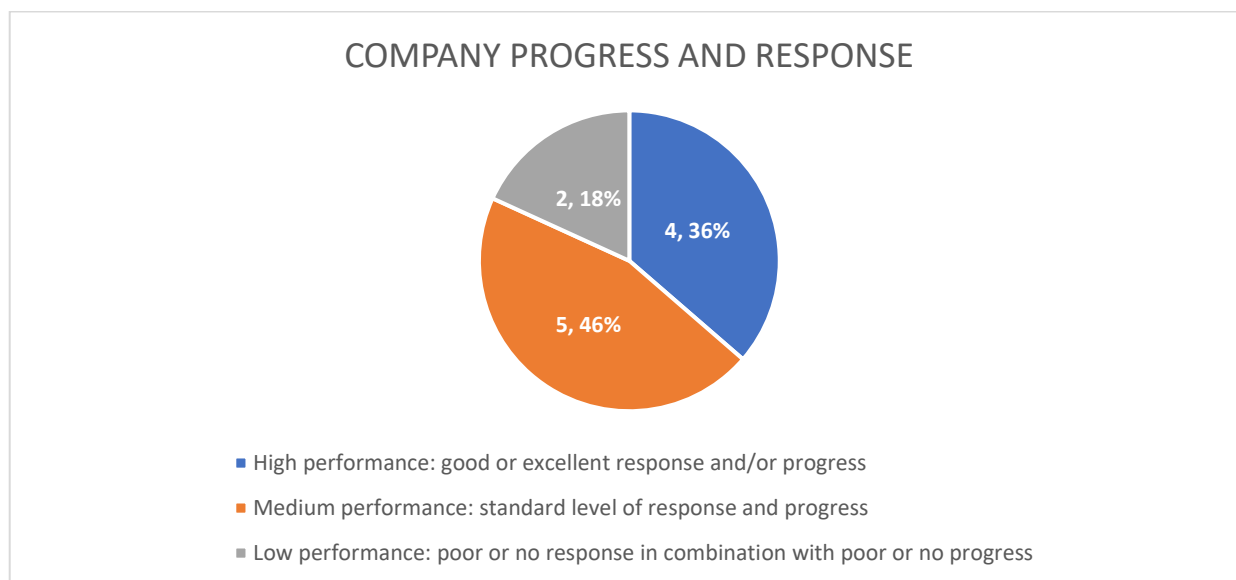
## ENGAGEMENT PROGRESS AND RESPONSE

NEC had ongoing dialogues with all companies on the NEC Focus List, with the exceptions of Tyson who was also unresponsive in 2020 and Volkswagen as the dialogue was concluded in 2021. No physical meetings with companies continued to be possible during 2021 due to Covid-19. However, specific actions taken within NEC included conference calls and contacts with NGOs.

Overall there were some significant outcomes from the engagements. We believe the dialogues contributed to positive influence on large corporates such as Volkswagen and Atlantia (please find more information under each case description) who demonstrated important improvements and several milestones were reached in the TCFD dialogues. Key activities and achievements for 2021 include:

- 12 meetings and conference calls on ESG issues were held with companies on the NEC Focus List.
- 2 norm-based cases on the focus list were resolved, meaning that the change objectives for these engagement dialogues met.
- Within the TCFD engagement, two companies set Science-Based Targets and a third company implemented Initial TCFD alignment in its reporting.

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



Presented below, in the next section, are descriptions for each of the engagement found on NEC’s 2021 Focus list.



# ENGAGEMENT THEMES AND CASES

## PROACTIVE ENGAGEMENT: LOCALIZED WATER MANAGEMENT

NEC joined Sustainalytics' three-year thematic 'Localized Water Management' (LWM) engagement in 2020. While this program targets up to twenty companies in total, NEC focused its attention on two companies in 2020. **Anheuser-Busch InBev** (AB InBev) and **AkzoNobel** were identified as being of common interest to all NEC members. In 2021, NEC added **Crown Holdings** to its list of engaged companies. All three of these companies operate in water-scarce regions. **AB InBev** and **AkzoNobel** already acknowledge the dependence of their operations on sound water management and have been responsive to the engagement. **Crown Holdings** recognizes that it is not a major water user, however its value chain is dependent on the mitigation of water risk. Two calls were held in 2021 with each of the three companies and dialogue will continue in 2022, 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 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.

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



### DEVELOPMENTS IN 2021

Water is life, yet this precious resource is under increasing pressure. According to WWF, in 2021, 17 percent of the global population and 10 percent of the world's GDP (Gross Domestic Product) came from regions of high-water risk – and by 2050 this could increase to 51 percent and 46 percent respectively<sup>1</sup>. In our two basins, dam storage levels can be used as a proxy for basin health. In 2021, the Vaal dam averaged 108%

<sup>1</sup> <https://www.wwf.de/fileadmin/fm-wwf/Publikationen-PDF/WWF-Climate-Report-2021-EN.pdf>

storage<sup>2</sup>. This positive trend was created by above-average rainfall over the course of the year and the South African Weather Service is predicting above-average rainfall for the Vaal Basin in 2022<sup>3</sup>. In contrast, reservoirs in South-Eastern Brazil are at a 91-year low. Storage capacity at major dams in this area is at less than 20%<sup>4</sup>. The trend is expected to continue into 2022 with below-average rainfall predictions.

The ongoing pandemic has continued to influence the engagement. Companies are expressing the pandemic has not had impacts related to water management. Specific to South Africa, the need for corporate support of water and sanitation systems has continued but interestingly, has not increased from the perspective of our engaged companies. Licensing requirements are also continuing, albeit often adapted to pandemic conditions. For example, stakeholder engagement continues in a virtual format.

## ENGAGEMENT UPDATE

The focus of the Localized Water Management engagement calls in 2021 was on encouraging companies to add further commentary to their disclosure, or lack of disclosure on the topics of Integrated Water Resources Management and Public Water Management. It can also be challenging to discover what companies are already doing based on the available public disclosure as this information is not required by major standards. In addition, previously discussed gaps were reiterated, and the companies were challenged on whether their reporting meaningfully discloses localized water risk to investors. Identification and mitigation of water risk in the value chain is an area of improvement for companies on a global scale. Overall, the dialogues continue to demonstrate incremental improvements across the discussion points.

## AB INBEV

AB InBev is the largest brewer in the world and has a presence in both target basins. The company has a watershed goal in that 100% of communities in all 36 water-stressed areas will have measurably improved water availability and quality by 2025. Even though AB InBev is the world's most efficient brewer, the company also has an operational water target to further reduce water consumption to 2.5 hL/hL in all breweries and 2.0 hL/hL for breweries facing high risk for water stress by 2025. The 2021 engagement calls focused on value chain initiatives, wastewater, and public water management. The company has smart agriculture goals and conducts long-term risk assessments for its sourcing regions. The company recognizes the enormous opportunity to reuse wastewater and cited a case study in South Africa using constructed wetlands. On watershed-level partnerships, in August 2021 AB InBev published a document co-authored with the Nature Conservancy on Measuring and Evaluating the Impact of Corporate Watershed Projects. The document generously makes public the company's experience and process for collaborating on basin-level management programs. The company's momentum has been very strong over the past year, not because of new programs but due to additional disclosure outlining how the company intends to meet its previously disclosed commitments.

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<sup>2</sup> [https://www.reservoir.co.za/flow/2022/BarrageFlow\\_27Dec2021-02Jan2022.pdf](https://www.reservoir.co.za/flow/2022/BarrageFlow_27Dec2021-02Jan2022.pdf)

<sup>3</sup> [https://www.weathersa.co.za/Documents/SeasonalForecast/SCOLF202109\\_01102021112432.pdf](https://www.weathersa.co.za/Documents/SeasonalForecast/SCOLF202109_01102021112432.pdf)

<sup>4</sup> <https://media.nature.com/original/magazine-assets/d41586-021-03625-w/d41586-021-03625-w.pdf>

## AKZO NOBEL

AkzoNobel is one of the world's largest producers of decorative paints and various types of performance coatings. It operates 130 production sites across the globe, including one in each of the target basins. The company aims to reuse washing water at 50% of 40 water-intensive sites by 2025 and 100% of these sites by 2030. Only 10% of its overall water withdrawal is used for washing and this is the category that is targeted for reuse. AkzoNobel has been on track with its low impact targets. AkzoNobel has not shown an appetite to address Integrated Water Resources Management and looking beyond the physical boundaries of its own operations. AkzoNobel's approach to sustainability focuses on the core business and competitive advantage opportunities. Water has not been a top priority ESG issue as it is an inexpensive resource and reuse is expensive, although the 'de-risking' of operations supports the company's resilience to climate change impacts. The company has shown an interest in exploring more ambitious strategies and water-related opportunities to reinforce the social license to operate through engagement with stakeholders at basin level.

## CROWN HOLDINGS

Crown Holdings is one of the world's largest producers of metal packaging with over 200 sites in 47 countries including one in the Tiete River basin. The company's diverse geography means no one facility contributes more than 1% of revenue and this translates into difficulty in terms of finding large 'quick win' type projects for ESG issues. However, the company is doubling its "sustainability" capex in 2022 to \$110 million. Payback on water projects is low because water is cheap, so the company is clear that the driving factors are environmental, not financial. Specifically, Crown aims to reduce operational water usage by 20% by 2025 by targeting can washers at 59 sites that are responsible for 75% of the company's total water withdrawal. Furthermore, there is a progressive long-term goal to replenish water at 53 of its over 200 sites. Crown recognizes its water risk is largely in its value chain and it has responded by assessing water scarcity risks at 252 supplier sites. The assessment found one-third of these supplier sites have high exposure and 13 extremely high exposure to water risks. The company notes its Brazilian operations have had the strongest water management practices and served as a benchmark for its operations in other countries.

## PROACTIVE ENGAGEMENT: TCFD DISCLOSURE

During 2021, NEC continued its proactive engagement concerning the agricultural sector on expanding and encouraging increased transparency and alignment with the Taskforce on Climate-related Financial Disclosure (TCFD) reporting standards, a theme that was started in 2019.

The fourth TCFD status report was released in October 2021, with over 1,000 additional organizations pledging support for the TCFD recommendations. As of October 2021, the Task Force had over 2,600 supporters globally, including 1,069 financial institutions, responsible for assets of \$194 trillion. TCFD supporters now span 89 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of over \$25 trillion — a 99% increase on the previous year. The engagement itself continued to target, **Glanbia**, **Kerry** and **Tyson Foods**, while adding two new companies to the focus list including **Ahold Delhaize** and **Carrefour**. Follow up dialogues were held with all companies except Tyson Foods, which continued to decline our offer for dialogue.

Throughout our engagement, NEC continues to see, steady improvement in commitments and disclosure related to climate change. All companies have either undertaken at least initial TCFD disclosure or have indicated a commitment to do so. That said, there is still significant movement required from a couple of engaged 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, highlighted again in the latest TCFD status report.

Progress made throughout 2021 includes advancements in science-based targets set by both Carrefour and Kerry. With Kerry increasing its targets for Scope 1 and 2 carbon emissions reduction, the revised targets will require the introduction and acceleration of several initiatives across the company, including moving to 100% renewable electricity within 12 months, implementing energy efficiency programmes, reducing onsite fuel consumption by 2030, as well as decreasing emission intensity by 30% across the supply chain covering important Scope 3 emissions. Meanwhile, Carrefour improved on its targets committing to reducing emissions resulting from the Group's activities by 50% by 2030 (compared with 2019 levels) and then by 70% by 2040 (compared with 2019 levels), a target aligned with the SBTi's 1.5°C scenarios. An initial engagement dialogue, with Ahold Delhaize also proved fruitful with disclosure transitioning to meet the change objective expected within the first half of 2022. Due to a number of regulatory developments, including UK legislation making TCFD disclosure mandatory for all premium listed UK companies NEC will look to halt engagement with Kerry and Glanbia who are both UK listed and thus are expected to complete the change objective by the deadline for 2023. NEC will also discontinue the engagement efforts with Tyson as the company has remained unresponsive since the engagement was initiated. As such NEC will be continuing the dialogue with Ahold Delhaize and Carrefour to encourage the companies to increase ambition in this respect. The engagement will continue throughout 2022 with follow-up dialogues expected to take place in the second half of 2022.

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



## **NORM-BASED ENGAGEMENT: JOHNSON & JOHNSON**

### *Quality and Safety, Product-related injuries*

- ENGAGEMENT STATUS: Ongoing
- SECTOR: Pharmaceuticals
- HEAD OFFICE: United States
- INCIDENT LOCATION: United States
- NORM AREA: Human Rights
- RESPONSE AND PROGRESS: Standard, Standard

### **INCIDENT**

Johnson & Johnson (J&J) faces thousands of lawsuits over its talc powder products and their alleged link to causing various forms of cancer. It has been ordered by US courts to pay billions in settlements to various parties. In Oct 2021, J&J announced plans to put its talc products into a separate subsidiary and file it for Chapter 11 bankruptcy. This will in effect block some 38,000 lawsuits. The company has offered to put \$2 billion in a trust for this new entity for the settlement of talc cases, which is much less than the \$4 billion it proposed in earlier attempts to settle. J&J also allocated to the subsidiary certain royalty revenue streams with a present value of over \$350 million.

J&J has been implicated for its role in the US opioid epidemic. 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. In mid-2021, a \$26 billion settlement was made between J&J and three distributors and the US states and some smaller jurisdictions. J&J will pay up to \$5 billion. So far the vast majority of US states have signed it, and some smaller jurisdictions have signed it. In Nov 2021, a judge in California and the Oklahoma Supreme Court made rulings in favour of J&J, which could accelerate settlements with counties and cities that have been holding out.

The company has also historically been involved in product quality and safety issues involving its hip replacement device (Pinnacle Acetabular Cup System), pelvic mesh product, and Risperdal drug, which it has largely resolved and paid large legal settlements for.

### **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 2021**

In early 2021, we had an extensive email exchange with J&J, through which it confirmed the nature of the testing it conducts to detect asbestos in its talc products. It also provided details of the governance structures in place to oversee product quality and to prevent potential reoccurrences. Between August - October 2021, we had several email exchanges, in which we pushed for greater disclosure on processes that

should apply broadly across many products: On standard operating procedures (SOPs) governing escalation procedures from product quality issues, on clinical trial transparency, on statistics related to complaints, on its management review process (that is built into the quality system) and on its Quality Planning process.

Regarding its talc products, we are concerned, given recent legal maneuvers to limit talc liabilities by spinning its talc products into a separate vehicle, about whether the remediation process will be thorough and are engaging on this. We are also engaging with the company to consider discontinuing its talc-based products worldwide in favour of replacements made of other ingredients.

While J&J discloses information providing an overview of quality and safety-related policies and initiatives and it appears that key mechanisms exist, there is limited detail around how they are implemented.

In 2022, we will continue the email dialogue and focus on improving disclosure related to implementation. This will continue to be a challenging topic due to the company having a wide array of products and we continue to encourage J&J to increase transparency and disclosure. NEC and Sustainalytics will also continue to try and convince J&J to hold conference calls with its investors and their representatives.

## **NORM-BASED ENGAGEMENT: VOLKSWAGEN**

Activities Resulting in Adverse Environmental and Human Rights Impacts, Violations of emissions standards

- ENGAGEMENT STATUS: Closed
- SECTOR: Automobiles
- HEAD OFFICE: Germany
- INCIDENT LOCATION: United States
- NORM AREA: Environment
- RESPONSE AND PROGRESS: Excellent, Good

NEC closed the norm-based engagement with Volkswagen during 2021, and the case is described below.

### **INCIDENT**

Volkswagen is one of the world's largest automotive manufacturers running multiple passenger car as well as truck brands, and a financial services business. The company was accused by US authorities in 2015 of having installed so-called 'defeat devices' in several diesel car models to manipulate emissions tests. On behalf of NEC and other investors, Sustainalytics undertook substantial engagement with Volkswagen between 2016 and 2021. The company's responsiveness improved over time. In 2019, Sustainalytics held one meeting and one conference call with representatives in investor relations and attended the company's second annual ESG convention in Berlin. In 2020, Sustainalytics had two conference calls and very active email correspondence. After already reporting significant progress in August 2019, the Independent Compliance Auditor, Larry D. Thompson, concluded in July 2020 that no new violations were found and

Volkswagen has met its obligations under the Third Partial Consent Decrees with the United States Department of Justice and California Attorney General. Mr. Thompson also served as the Independent Compliance Monitor under the terms of Volkswagen's 2017 plea agreement with the US Department of Justice (DOJ). The monitorship was also concluded successfully.

## GOAL AND PROGRESS

For NEC to conclude this engagement, Volkswagen was expected to implement adequate risk management systems and internal controls, ensure that the Supervisory Board has sufficient oversight, independence and skills in order to prevent future violations, and to demonstrate that it has improved its corporate culture. The company has adopted Real Driving Emissions testing; advanced with its code of conduct training; improved its whistle-blower system reporting; it has been incentivizing a speak-up culture; and it is implementing ESG-tied remuneration and claw-back clauses. The lack of independent board oversight has remained a serious gap. Sufficient board independence proved to be too much to ask as a prerequisite to resolve the case. However, it is positive that there have been internal efforts to elevate this concern. Furthermore, the engagement's resolution was complicated by the European Commission alleging that VW, Daimler and BMW had colluded to delay the development of NOx emissions cleaning technology for new diesel passenger cars between 2009 and 2014. In July 2021, the verdict was that this had indeed been the case. Volkswagen's full cooperation with the authorities entitled the company to a settlement discount. Volkswagen received and accepted its EUR 0.5 billion fine.

While ESG impact tends to be challenging to attribute to engagement, there has certainly been added value for both investors and issuers. Investors use engagement to voice their concerns, make suggestions, and inform the investment process. Issuers use engagement to manage investor expectations and to improve performance. In the case of Volkswagen, there are some specific achievements that could be claimed:

1. The aftermath of the Dieselgate scandal has taken years. The engagement helped keep up close shareholder scrutiny, really seeing to it that the company delivered the necessary remedy and reform.
2. The engagement helped reinforce the need for Volkswagen to improve its ESG risk management capacity. The IR department has really developed a much more proactive attitude, making critical inquiries internally and communicating more externally.
3. The company's IR department was able to leverage Sustainalytics' engagement to influence top management as well. Sustainalytics attended several of the company's ESG investor events and asked questions.
4. In the course of the engagement, the company developed a positive 'never waste a good crisis' attitude, really looking to change from an industry ESG laggard into a leader, reforming its corporate culture and shifting the focus aggressively from Internal Combustion Engine to Battery Electric Vehicle technology.
5. Volkswagen has discovered the benefits of building strong relationships with responsible investors. This is also evidenced by the fact that the company has agreed to participate in Sustainalytics' thematic engagement program focused on making the production of Battery Electric Vehicles environmentally and socially sustainable. In 2021, the procurement department published its first Responsible Raw Materials Report.

## **NORM-BASED ENGAGEMENT: ATLANTIA**

### Quality and Safety Violations

- ENGAGEMENT STATUS: Closed
- SECTOR: Highways & Railroads
- HEAD OFFICE: Italy
- INCIDENT LOCATION: Italy
- NORM AREA: Human Rights
- RESPONSE AND PROGRESS: Excellent, Excellent

NEC closed the norm-based engagement with Atlantia during 2021, and the case is described below.

#### **INCIDENT**

Atlantia is an Italian industrial company that primarily operates motorways and airports. In August 2018, the Morandi bridge in Genoa, Italy partially collapsed, leading to the deaths of 43 people and injuring 16 others. Additionally, over 600 people had to be relocated from their homes near the bridge, which was operated by Autostrade per l'Italia (API), a subsidiary of Atlantia.

In the aftermath of the event, separate investigations into the collapse were launched by the general prosecutor of Genoa, the Ministry of Transport and Atlantia. At the end of September 2018, the transport ministry published a report that stated API had failed to take sufficient safety measures to prevent the bridge's collapse. According to Atlantia's own investigation, the company had fulfilled all contractual obligations and done regular checks on the bridge. In June 2021, the Italian prosecutors ordered 59 defendants, including Autostrade, Spea Engineering, and Atlantia's ex-CEO to stand trial, a process which is expected to take several years. The same month, Atlantia signed a deal to sell its entire stake in Autostrade to a consortium led by state-backed investment bank CDP for EUR 9.3 billion.

#### **GOAL AND PROGRESS**

For NEC to conclude this engagement, Atlantia was expected to strengthen safety measures and assess all projects within its control to prevent similar failures in the future. Furthermore, the company was expected to develop a remedial strategy for people affected by the incident and ensure project strong monitoring and maintenance systems and emergency procedures are in place.

Sustainalytics has, on behalf of NEC and other investors, had substantial engagement with Atlantia, including in 2021. During the engagement dialogue, Atlantia reinforced measures to strengthen its quality and safety work. In 2021, the company had extended monitoring by double-checking its entire infrastructure portfolio of close to 2,000 bridges and tunnels. Atlantia also developed a 2020-2023 strategic plan, committing to invest EUR 13.5 billion on development of and improvements to 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 to its corporate governance. A new CEO was put in place in early 2020, and during that year, 80% of its top management was replaced to ensure safety is the key value and that the company's leadership is well positioned to manage any challenges. Atlantia has also reviewed its whistleblowing tool and ethics officer process, to ensure that these are properly implemented and provide accessible opportunities for anyone to raise concerns.

Atlantia has continued contributing to the rebuilding in Genoa after the collapse, by not only paying compensation to the victims' families but also by making financial contributions to commercial activities affected by the incident. The company has also committed to implementing additional non-remuneration contributions, such as offering discounts to commuters and drivers who were affected and delayed by roadwork during construction of the new bridge in 2020.



**NORDIC  
ENGAGEMENT  
COOPERATION**

A collaborative engagement  
network between

**PFA 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  
<https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services>