

# Active Investor Social Update

## First Quarter, 2018

### March 2018: News from Japan

#### ADVANCING IMPACT THROUGH ENGAGEMENT

- 5 GENDER EQUALITY** We have established a **robust engagement program in Japan** over the past eight years, given our significant investments in that country. Members of our team travel regularly to meet with portfolio companies, monitor corporate governance and stewardship trends, and engage with regulatory and industry groups. Reflecting on this year's meetings in Japan, we are encouraged by several significant strides in policy reform, corporate ESG disclosure, ambitious goal-setting, but also concerned by shortfalls in actual implementation of carbon reduction and the advancement of women within corporations.
- 13 CLIMATE ACTION**
- 17 PARTNERSHIPS FOR THE GOALS**

Mandatory disclosure requirements have increased since 2015, when **Japan's Corporate Governance Code** was updated. Areas of increased focus include board effectiveness and evaluation. By July 2017, **more than 1,800 companies listed on the Tokyo Stock Exchange (TSE)** had conducted a board evaluation—**up from 52 two years ago**, though only a few had used external facilitators. Some 300 companies in Japan now provide Integrated Reporting on Financial and ESG matters; and more companies are adopting **Science-based Targets** to achieve carbon footprint reductions.

**Gender diversity goal-setting** has advanced, spurred on by disclosure requirements since 2016 and by Japan's 2015 Woman Advancement Act before that. However, increasing the proportion of women in management remains challenging. Encouragingly, the number of women on corporate boards in Japan now exceeds 900, up from about 100 in 2011. *(continued, pg. 2)*

#### Inside the Issue

*Our engagement work this quarter aligns with several **Sustainable Development Goals (SDGs)**, adopted by the UN to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda to be achieved over the next 15 years.*



#### Active Engagement Spotlight: International Collaboration in Japan

**17 PARTNERSHIPS FOR THE GOALS** As part of an investor delegation organized by the **Asian Corporate Governance Association (ACGA)**, Lauren met with regulators and industry groups to discuss the effectiveness of current corporate governance regulation and to find out where investors felt more needed to be done to raise Japanese governance practices to be in line with global peers. These meetings included the **Tokyo Stock Exchange (TSE)**, **Keidanren**, **Institutional Investors Collective Engagement Forum (IICEF)**, the **Financial Service Agency (FSA)** and the **Ministry of Economy, Trade and Industry (METI)**.

#### CLIMATE CHANGE THREATENS WATER SECURITY

**6 CLEAN WATER AND SANITATION** This World Water Day, March 22, we [reflected on the importance of water and the risks that scarcity presents to society](#). We already feel the impacts of climate change on water, through irregular rainfall, droughts and floods.

**14 LIFE BELOW WATER** This winter, major storms pushed ocean water into the streets of Northeastern coastal cities, bringing the threat right to Boston Common's front door.

Holding overall global temperature increases **below 2°C, ideally 1.5°C, is the cornerstone of the Paris agreement—and a critical step toward mitigating climate risk and increasing water security for all**. Even at 1°C warming, scientists agree that the impacts on the environment and humans are evident, as extreme weather conditions, droughts and floods **endanger human life and disrupt economic activity**.<sup>1</sup> Missing the 2°C goal will affect water availability even more. **It is critical for all sectors to see themselves as caretakers of this precious resource**. Only 3% of the world's water is freshwater!

At Boston Common, we believe that **companies must use water responsibly for the health of society and for their own financial health**. *(continued, pg. 3)*

<sup>1</sup>OECD Environmental Outlook to 2050 Climate Change Chapter, Nov 2011, <https://www.oecd.org/env/cc/49082173.pdf>

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## Japan's 2018 Sustainability Leadership Profile

	<b>Access Strategies; Responsible Marketing</b>	Actively supports <b>Access to Medicine Index (ATMI)</b> process and will participate in data-gathering for 2018. <b>Achieved higher level of oversight at the board on ESG/CSR issues and adoption of an internal carbon price. Encouraged Astellas to disclose more information</b> on its implementation of the Medical Affairs and Commercial Activities (April 2017) to ensure responsible marketing policy, which we advocated for in 2016.
	<b>Responsible Sourcing; Chemical Safety</b>	Efforts on <b>diversity and promotion of women</b> acknowledged with <b>third Nadeshiko Brand Award</b> . Close to achieving its goal of <b>100% traceability on palm oil and palm kernel oil, down to the palm mills by 2020 (90% as of the end of 2017)</b> . Recently added <b>ethical recruitment to supplier policies</b> ; 800 suppliers have completed Sedex supplier self-assessment. <b>Encouraged Kao to: 1) be more transparent on chemical safety approach, 2) publicly disclose chemicals of high concern, 3) adopt a Restricted Substances List.</b>
	<b>Integrated Reporting; Banking on a Low Carbon Future; TCFD Disclosure</b>	<b>Produced first Integrated Report in 2017</b> , combining reporting on financial and ESG. Signed the <b>Women's Empowerment Principles</b> to address diversity and inclusion. Our core dialogue remains focused on: <b>Banking on a Low Carbon Future</b> engagement, <b>alignment with TCFD</b> , environmental and social impacts outside Japan, and ways to <b>improve CDP carbon score (C)</b> .
	<b>Board Structure; Responsible Sourcing</b>	Reduced board from 17 to 12 and added more meeting time to address <b>board effectiveness and long-term strategic issues</b> . Joined the <b>Responsible Mining Initiative in 2017</b> to address cobalt sourcing. <b>Committed to Science-based Targets</b> to further reduce carbon footprint. <b>Encouraged Panasonic to: 1) consider joining the RE100, 2) set an internal carbon price, 3) enhance responsible sourcing of cobalt from the DRC.</b>
	<b>Responsible Sourcing; Supply Chain Oversight</b>	Advanced some responsible sourcing practices by joining the <b>Responsible Mica Initiative</b> . <b>Striving to eliminate microbeads in shampoo and conditioner products</b> . Joined Sedex to <b>improve supplier oversight related to labor and human rights</b> . <b>Encouraged Shiseido to: 1) adopt more robust responsible sourcing practices and disclosure, 2) further reduce carbon footprint by adopting medium/long term GHG reduction targets beyond 2020, 3) consider adopting Science-based Targets and use more low-carbon energy, 4) improve chemical safety approach.</b>

**Japan's Stewardship Code** (revised in 2017) takes a principles-based approach, encouraging formal investor-company dialogue and collaborative engagement among domestic investors. It also requires robust proxy voting and disclosure by pension funds. We are excited by these changes, as they support our quest for meaningful impact through Engaged Ownership.

### Meetings with Portfolio Companies in Japan

On this trip, Lauren met with five portfolio companies (**Astellas, Kao, Orix, Panasonic, and Shiseido**). Discussions at each meeting were linked to **material ESG risks and opportunities**, focusing on the progress made since our 2016 meetings. We had common questions across all dialogues in the areas of: **board diversity and evaluation, governance of sustainability, advancement of women in the workplace, responsible sourcing**, and results and potential next steps related to their **2017 CDP (formerly Carbon Disclosure Project) responses**.

### Climate Change and Sustainability Metrics

We were encouraged by companies' interest in the **Sustainable Development Goals (SDGs)** and Integrated Reporting addressing both financial and ESG matters. However, we noted that companies lack awareness of the **Taskforce on Climate-related Financial Disclosure (TCFD)**, which will put them at a disadvantage given the 2018 CDP carbon survey will be 100% aligned with these recommendations. In our meeting with **Orix**, we encouraged them to establish **more robust sector-specific guidelines related to high-carbon sectors**. We recommended that Orix review the TCFD guidance to inform its risk assessment and disclosure process for 2018.

In each company meeting, we also focused on companies' **CDP scores across carbon, water, forests, and supply chains**. In the case of CDP Carbon, we balanced our discussions by commending company progress, such as the adoption of Science-based Targets, while encouraging adoption of internal carbon pricing and renewable energy targets. **We challenged companies to work with suppliers to increase disclosure in financial reporting.**

### Women and the Workplace

Despite significant progress, Japanese companies continue to face challenges in the promotion of women into management. Lack of access to sufficient daycare and nursing facilities continues to prevent mothers from returning to work quickly.

Encouragingly, our portfolio companies continue to be leaders in innovative practices to address these challenges. **Panasonic** joined the **Women's Empowerment Principles** and is improving its human capital management programs through training programs on sexual harassment and LGBT awareness. Given the **rising numbers of Karoshi or "death by overwork"** in Japan including last year at advertising company Dentsu, we have prioritized efforts by companies to tackle this critical employment issue. Portfolio companies **Kao** and **Panasonic** have begun shutting off lights and electricity at 8 PM to encourage employees to go home, in addition to promoting "early leave" Fridays!

Read our full report on [Advancing Impact Through Active Engagement in Japan](https://www.bostoncommonasset.com/news/advancing-impact-through-active-engagement-in-japan) at [news.bostoncommonasset.com](https://www.bostoncommonasset.com).

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## Active Ownership Updates

### CLIMATE CHANGE THREATENS WATER SECURITY

#### Businesses as Water Stewards

Without water, businesses will be unable to grow product offerings in the long run. **Companies that fail to manage water efficiently and those that do not protect water access for local communities endanger their license to operate.**

Limiting water pollution is also crucial for ensuring safe and secure freshwater supplies for the future. A significant portion of this freshwater is already contaminated with pollutants from farming, energy generation, and other industries.<sup>2</sup>

The importance of water is reflected in the UN Sustainable Development Goals (SDGs), which designate “**access to clean water and sanitation**” and “**oceans conservation**” as key priorities (SDG6 and SDG14).

Boston Common **advocates for companies to adopt a comprehensive approach to water risk management by encouraging them to:**

- ▶ Develop policies to manage the company’s operational water footprint

- ▶ Engage with their supply chains in order to assess their total exposure to water risks
- ▶ Evaluate the company’s and supply chain’s water footprint through water risk assessments
- ▶ Identify water risk priority areas (sites or basins), develop actions plans, and work with local communities and stakeholders to ensure local water management and equitable access to water.

Agriculture is the world’s largest user of water, so Boston Common has been working with the **Principles for Responsible Investment (PRI) Water Risks in Agricultural Supply Chains Working Group** for the past three years to affect change in this area. The group targets companies that are highly dependent on agriculture, looking at improving companies’ direct operations and supply chains. **Our engagement with VF Corporation was highlighted by PRI as a case study in “[Growing Water Risk Resilience, an Investor Guide on Agricultural Supply Chains.](#)”** This engagement led the company to adopt a global water strategy and assess water risks in its supply chain.

Read [our perspective on Water Security](#) at: [news.bostoncommonasset.com](https://news.bostoncommonasset.com)

## Taking Stock: Reflecting on the Quarter

<p>Milestones</p>	  	<p><b>Banks &amp; Climate Change:</b> We published a new report, <a href="#">Banking on a Low-Carbon Future</a>, which examines <b>climate management by 59 of the world’s largest banks; urgent shortcomings threaten to undermine efforts to support the transition to a low-carbon economy.</b> The report, the latest in our <a href="#">series of analyses undertaken since 2014</a>, finds that: <b>Only 54%</b> of banks support the <b>Taskforce on Climate-related Financial Disclosures (TCFD)</b>. <b>Less than half (49%)</b> of banks are implementing climate risk assessments or <b>2°C scenario analysis</b>. <b>A majority of banks (61%) have failed to restrict the financing of coal</b> – the most carbon intensive energy source. However, as a result of this collaborative engagement led by Boston Common, <b>95% of Banks</b> have now <b>adopted some degree of governance for climate issues and provide some disclosure</b> on low-carbon products and services.</p> <p><b>Eco-Efficiency:</b> We negotiated successfully two agreements related to Eco-Efficiency and climate change: In March, <b>Lowe’s Companies</b> announced its commitment to explore <b>expanding its renewable energy use in 2018</b> for its US and Canadian operations to further its <b>goal of reducing total carbon emissions by 20% from its stores by 2020</b>. In February, <b>Kansas City Southern</b> committed to <b>expand its reporting in 2018</b> on its efforts to <b>improve energy efficiency and reduce GHG emissions of its freight rail operations</b> in US and Mexico, following withdrawal of a shareholder proposal by Calvert and Boston Common.</p>
<p>Work in Progress</p>	 	<p><b>Gender Diversity:</b> In 2018, we updated <a href="#">our proxy voting guidelines on Gender Diversity</a> in accordance with the <b>30% Coalition</b> to vote against company boards in Australia, Canada, Europe, and the US <b>unless women comprise at least 30% of the Board after the election</b>. Women hold only <b>21%</b> of board seats among the largest listed companies in the US as of 2017. We hosted a conference call with <b>Northern Trust</b> as part of our ongoing engagement on Gender Equality with key portfolio holdings. Among Northern Trust’s top executives, women make up 38%, a level significantly higher than the <b>27%</b> observed among S&amp;P 500 companies. At the board level however, women represent only 14% of directors. The company is a founding member of the <a href="#">CEO Action for Diversity and Inclusion initiative</a>, the largest CEO-driven business commitment to advance diversity and inclusion in the workplace.</p> <p><b>Shareholder resolutions:</b> Given the ongoing <b>threat to the shareholder resolution process</b> under the current Administration, companies have been emboldened to submit a record number of no-action letters to the SEC to ask that shareholder resolutions be omitted from their proxies. Our resolutions with <b>Gilead Sciences</b> (renewable energy targets) where we are the lead filer and with <b>Johnson &amp; Johnson</b> (separation of chair and CEO), which we co-filed met this fate. However, co-filed resolutions with <b>Bristol Meyers Squibb</b> and <b>Biogen</b> on drug pricing transparency will be on the ballot (after the SEC would not allow them to be omitted) and thus far, <b>our lead filer resolutions on lobbying disclosure with American Water Works and Verizon Communications will come to a vote.</b></p>
<p>New Initiatives</p>		<p><b>Climate Change:</b> As part of the <a href="#">Climate Action 100+</a> that was launched in December, Boston Common has committed to actively engage <b>ConocoPhillips, Cummins, Daikin Industries, Ford, Panasonic, PepsiCo, Philips, Repsol and Statoil</b> with other investors.</p>

<sup>2</sup>Cotton and climate: Supply chain risks and opportunities from water stress, HSBC Global Research, July 2016

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## Metrics & Scorecards

### New Report: Banking on a Low-Carbon Future



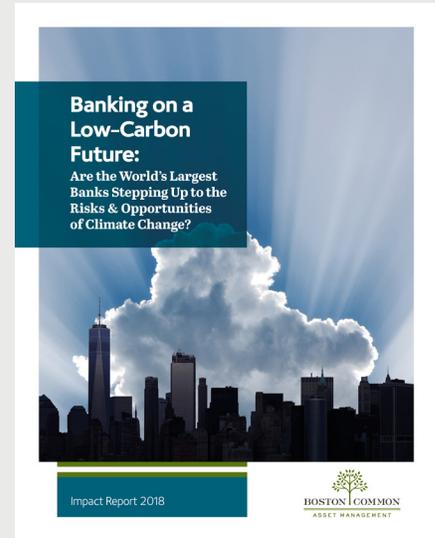
*Are the World's Banks Stepping Up to the Risks and Opportunities of Climate Change?*

We are pleased to share our new report, [Banking on a Low-Carbon Future](#), which examines climate management by 59 of the world's largest banks in their lending and financing activities. This report, the latest in a [series of analyses undertaken since 2014](#), examines the progress of 59 of the world's largest banks in making this critical business shift. We find that despite progress in some areas and several examples of individual best practice, the sector is failing to capture the risks and opportunities of climate change. Serious shortcomings threaten to undermine global efforts to transition to a low-carbon economy; our Report provides valuable data on this key sector. In a concluding Call to Action, the Report supports the engagement letter, sent to over 60 banks last September, and backed by over 100 investors with almost \$2 trillion in assets under management, urging alignment with the Taskforce on Climate-Related Financial Disclosures (TCFD).

**We call on banks to take four actions:**

- ▶ **Disclose their climate risk in line with TCFD recommendations**
- ▶ **Publish a company-wide, forward-looking strategy aligned with the Paris Agreement**
- ▶ **Set clear targets to increase and promote low-carbon products or services**
- ▶ **Disclose public policy positions related to climate change, and to influence their trade associations to take progressive positions on climate legislation.**

To download the full report, visit: <http://news.bostoncommonasset.com/banking-on-a-low-carbon-future/>



### FIVE SUSTAINABILITY TRENDS FOR 2018



*Predictions by Lauren Compere*



A year ago, we [predicted](#) that low-carbon, human rights and corporate governance of sustainability would rise up the investment agenda, despite strident positions taken by the Trump administration in the US. What are five environmental, social and governance (ESG) trends that could shape capital markets [in the year to come?](#)



**1) The low carbon transition will gather pace**

This year expect the pace of the low carbon transition to quicken, thanks in large part to increasing standardization of environmental disclosure such as the G20-backed Task Force on Climate-Related Financial Disclosures (TCFD).

**2) Investors and consumers to come together**

From food to fragrances to football, both shoppers and shareholders increasingly care about what is in their products and how they are made. This is a force that could radically shape 2018. Chemicals, such as those that go into perfumes, are a good example of this; our work with the [Chemical Footprint Project](#)

takes on the measurement of corporate progress toward safer chemicals.

**3) Shareholder engagement may at last go deeper and wider**

PRI announced that it would delist asset owners and investment managers who do not meet new [minimum requirements](#) for putting responsible investment into practice starting in 2020.

**4) Taking diversity beyond the boardroom**

As more women speak out on sexual harassment, shareholders are starting to pay attention, driving work on diversity as a whole. In 2018, we will [raise our focus on discriminatory workplace practices and sexual harassment](#) through support of the Women's Empowerment Principles and direct engagement with portfolio companies.

**5) Growth in SDG investing**

Finally, expect to see more and more investors look to align their investments with the UN's Sustainable Development Goals (SDGs). According to CalPERS, the largest US public pension plan, the SDGs are a moral imperative and an economic necessity; and the PRI has now established two SDG working groups covering asset allocation and active ownership.

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