

ESG Engagement Example

Q2 2023

BACKGROUND

This quarter, we met with a European Tobacco company. Article 6 and Article 9 of the EU's Sustainable Finance Framework do not explicitly mention tobacco; however, tobacco companies are implicitly excluded from ESG funds under the "do no harm" principle.

Although some of our funds cannot hold names involved in Tobacco products, there are others that can. As a result, we are motivated to engage with these issuers and others in industries with lower performing ESG scores to challenge their ESG ambitions and attempt to support them in pushing those ambitions as far as they can.

ENGAGEMENT FOCUS

We met with the company's treasury team in May to have a high-level discussion about their ESG strategy, key focus areas, and financial impacts. We recognize the company's strong ESG reporting including double materiality assessment, which are significantly superior to their industry peers.

Our conversations regarding the company's ESG strategy centred around three main themes:

- **Harm Reduction:** The issuer claims that studies reveal how Next Generation Products (NGPs) produce 90-95% less harm than cigarettes. The company targets 20-25% of total revenue from NGPs by 2025. As the case for NGPs becomes more compelling with less harm and more opportunities, regulator and consumer buy-in will be vital.
- **Emissions Controls:** Emphasis on biodiversity and investment in circular economy such as solar panels.
- **Human Rights:** Working with sourcing farmers around the world and applying pressure to eliminate the use of child labour.

PROGRESS & MONITORING

This issuer has been affected by exclusionary mandates, especially in the context of doing no harm. We see the potential for a long-term transformation story as this industry shifts away from cigarettes, provided they can convince the market on the massive harm reduction of these new products.

We believe there is value in further engaging to identify and address key issues to better understand the relative opportunity that may be missed by implicit exclusion. We plan on scheduling a follow-up meeting with their ESG specialist using the RP Barometer to address more specific ESG issues and continue to encourage transition on important ESG factors.

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