



# AB Sustainable Global Thematic Equities Fund

## ESG Engagement Report: July 2023—December 2023

During the six-month period ending in December, AB portfolio managers and analysts conducted 35 engagements with the senior management and/or boards of directors of 24 distinct companies held by Sustainable Global Thematic on a range of material ESG risks and opportunities, including water safety, access to healthcare and compensation.

Research is the core of investing at AB, and we believe that consideration of material ESG factors can drive better research and outcomes for clients. It's important to engage directly with company management to understand the material ESG factors a company faces and incorporate them into the risk/return assessment for securities we analyze. AB engages companies where it believes the engagement is in the best financial interest of its clients. As active investors, we also use engagement to encourage firms to advance their business activities and practices to better manage these material risks and opportunities.

In the Appendix is a full summary of our engagements in each ESG category during the past 12 months ending on December 31, 2023. Summary reports of a selection of our engagements with companies during the six-month period follow.

## Example Engagements on Environmental, Social and Governance Issues

**American Water Works** (utilities). We recently engaged with American Water Works to gain insight into the company's outlook on various ESG issues.

The American public utility company provides water and wastewater services in the US. American Water has high standards for health and safety, and collaborates closely with the Environmental Protection Agency (EPA)—when compared with the EPA's drinking water quality database, American Water's water systems consistently outperform the industry average. PFAS (perfluoroalkyl and polyfluoroalkyl substances) also known as forever chemicals because they are extremely persistent in our

environment and bodies. The company does not see itself to be in a position to dictate what appropriate levels should be but we are pleased to see they have been remediating at a higher level.

On DEI issues, American Water aims to mirror the communities it serves. When we asked, the company acknowledged it can disclose more on DEI and racial equity and has recently expanded its diversity demographics data.

With regard to climate, the company disclosed that approximately 10% of its capital expenditure plan targets resiliency towards floods and droughts. American Water is also using a ten-year weather model, adjusted as weather patterns change, compared to a thirty-year model previously. It is investing money in lower height pipes ahead of drought conditions to mitigate the amount of water taken from rivers. Electricity consumption to operate water pumps contributes to about 80% of American Water Works' carbon footprint; however, the company's three-year average emissions intensity is lower than its industry peer group.

We have opined that the board is overboarded and long-tenured directors. The company responded that private company seats are more consultant work than board work.

**Aptiv** (consumer discretionary). We recently engaged with Aptiv to gain insight into the company's progress towards its sustainability goals and targeted compensation improvements.

Our most recent engagement with the Irish-American automotive technology supplier was part of Aptiv's annual shareholder outreach, however, we also used this as an opportunity to revisit compensation issues discussed earlier in the year.

Aptiv has made significant progress on the health and safety front. They have increased the number of ISO45001-certified sites, a health and safety certification. They have reached 78% in 2023 compared to 51% last year, and have a goal of 100% by

2025. Safety is a foundational metric in manufacturing and key to employee productivity and engagement.

The company disclosed that pay equity reached parity in 2023 compared to a 2.3% gap in 2022—closing the gap required an iterative compensation adjustment in 2023 with select back adjustments in four countries. The company also built an internal toolset to track pay by level and location, while additionally evaluating each new hire for impact and any required adjustments. The company has been making efforts to achieve 30% gender diversity at the management level. They reached 27% in 2023 compared to 24% in 2022.

On the issue of renewable energy sourcing, Aptiv saw an increase from 10% in 2022 to 29% in 2023, making good progress to its 2025 goal of 25%. The company described the path forward as focused first on reducing energy consumption before converting to renewable sources.

We were pleased that Science Based Targets (SBTi) approved Aptiv's emission targets for 100% Scope 1 and 2, and 50% Scope 3 reduction by 2030. The company expects key drivers for Scope 3 emission reductions to be customer migration to electric vehicles (EVs), and improved sourcing in cooperation with original equipment manufacturing customers. The AB investment team further encouraged Aptiv to begin highlighting Scope 4 impacts—avoided emissions—which the company already discloses at a high level.

The company has also developed new supply chain tools aimed at risk management and resilience. Aptiv described a “supply chain digital twin” that has expanded from operational risk, such as natural disasters or weather, to include potential political unrest and labor risks. This tool is also used in screening for risks deeper in the supply chain.

Following our prior engagement during which we discussed compensation with Aptiv, sustainability metrics are now an explicit part of the annual incentive plan. Aptiv re-weighted the annual incentive plan metrics and added a 25% weighting on metrics tailored to strategic goals, including sustainability. Participants of the annual incentive plan include the executive team and managers down to the plan level.

**Haleon** (healthcare). We recently engaged with Haleon to gain insight into the company's position on various ESG issues.

We met with the British multinational consumer healthcare company's Head of Sustainability, Teri Lyng, a biochemist and

scientist, formerly holding various positions at GSK. Her group is charged with driving sustainability goals across categories and countries and consists of people recruited from Unilever and other competitors, along with former GSK employees with supply chain specialties. Haleon also has an Environmental and Social Sustainability Committee on the board, chaired by Marie-Anne Aymerich.

As a new company, Haleon has yet to launch its first sustainability report, but it has started to disclose more metrics, data and information on its website. The company just released its first set of full-year results, and admitted delivering a high quality sustainability report shortly after would have been too big of an undertaking.

The company is working to bolster its data and establish a master data set to get baseline numbers. It also takes a different approach on Scope 3 emissions where the number does not include consumer use; instead, the company has identified the top 20 materials having the biggest impact on purchased goods and will use this as a roadmap for further Scope 3 reductions.

Haleon is also focused on health inclusivity, with programs aimed to empower 59 million people per year to make better health decisions. The AB investment team provided the company with different ways to measure the impact of its programs, along with centralizing it all in one place.

On DEI issues, median gender pay gap is at 5.3%, well below the industry average at 15%. The company also employs more than 24,000 people globally. We are impressed that Haleon is committed to following the UN Guiding Principles on Business and Human Rights (UNGPs), the Organization for Economic Co-Operation and Development's (OECD) Guidelines for Multinational Enterprises and obligations imposed by the Modern Slavery Act 2015 in the UK and Modern Slavery Act 2018 in Australia. Haleon is also committed to upholding the Universal Declaration of Human Rights and the core labor standards set out by the International Labor Organization.

Please refer to the following legal disclosures.

## Appendix

### Engagement statistics\* for the 12 months ending December 31, 2023

Details regarding AB analysts' engagements within each ESG category for Sustainable Global Thematic are provided below.

Theme/Category	Engagements
<b>Environmental</b>	
Biodiversity & Land Use	1
Carbon Emissions	33
Climate Change Vulnerability	1
ESG-Labeled Bonds	2
Net Zero	13
Opportunities in Clean Tech	12
Opportunities in Green Buildings	1
Opportunities in Renewable Energy	7
Packaging Waste	1
Product Carbon Footprint	2
Resource Management	6
Supply Chain - Environmental	5
Toxic Emissions & Hazardous Waste	9
Water Management	7
Other	1

<b>Social</b>	
Diversity & Inclusion	31
Employee Health & Safety	2
Financial Product Safety	1
Human Capital Development	37
Insuring Health & Demographic Risk	1
Labor Management	14
Modern Slavery	5
Opportunities in Education	1
Opportunities in Financial Inclusion	4
Opportunities in Healthcare	5
Opportunities in Nutrition & Healthier Products	2
Privacy & Data Security	6
Product Safety & Quality	9
Responsible Investment	7
Supply Chain - Social	5
Other	4
<b>Governance</b>	
Accounting	1
Board Independence	8
Board Level Diversity	8
Business Ethics	5
Combined CEO Chair	2
Corruption & Instability	4
Entrenched Board	5
One Share One Vote	3
Organizational Culture	15
Pay	34
Other	7

\* All engagement statistics are based on the previous 12 months and reflect the absolute number of engagements with individual issuers during the period. Multiple key issues may be discussed during one engagement. The topics and amount of engagements are subject to change in the future.

These examples are provided for the sole purpose of illustrating how the research process can be used to help identify investable ideas in the portfolio management process. It should not be assumed that investments in any specific security were or will be profitable.

E: environment, S: social and G: governance. Source: AB

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