

OUTCOMES
BEYOND
PERFORMANCE



TRAWLING FOR TRASH:

WHY WE ARE ENGAGING FOR SUSTAINABLE OCEANS

Hermes SDG Engagement Equity Fund Commentary,
Q2 2019

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HERMES
INVESTMENT MANAGEMENT



Why we are engaging for sustainable oceans

Key points:

- Marine pollution is a topic of engagement with a number of our portfolio companies in the Hermes SDG Engagement Equity Fund.
- With more than 8m tonnes of plastic dumped in our oceans every year, we must tackle the issue of packaging waste. We have been engaging on this issue to encourage greater levels of resource efficiency and circularity at multiple points along the value chain.
- Discarded boats are another plastic pollutant in our oceans due to the difficulty of recycling or even terminating refused boating products. We are engaging with a manufacturer of recreational boats to advance maritime sustainability.

Oceans cover three quarters of our planet and sustain life on earth as we know it, providing most of the oxygen we breathe. But today, our oceans are at grave risk: they are detrimentally affected by human activities – including pollution, such as plastic packaging waste and agricultural fertiliser run-off; overfishing, which has depleted stocks; and coastal development, which has resulted in the loss of wildlife habitats and biodiversity.

Every year, more than 8m tonnes of plastic ends up in oceans, costing at least \$8bn in damage to marine ecosystems¹. And according to some estimates, there will be more plastic than fish (by weight) in the sea by 2050². Careful management of this precious environmental resource is therefore a key feature of a sustainable future – and it is aligned to SDG14, Life Below Water.

Within the Hermes SDG Engagement Equity Fund, marine pollution is a topic of engagement with a number of portfolio companies. These span discussions with international nutritional products company Glanbia regarding its influence over practices at its dairy-farm suppliers through to the issues facing plastic packaging and boat manufacturers.

Plastic pollution – not just a drop in the ocean

The packaging sector is the primary producer of plastic globally, accounting for 42% in 2016³. For example, the humble bottle cap, is commonly among the top five most found littered item on beaches⁴.

To tackle the issue of packaging waste, appropriate investments in research & development and product development are needed – and large consumer goods companies need to make meaningful commitments to change their procurement decisions too.

Since the inception of Hermes SDG Engagement Equity, we have been engaging on this issue alongside our engagement colleagues in Hermes EOS, in order to encourage greater levels of resource efficiency and circularity at multiple points along the value chain.

8M+

tonnes of plastic ends up in the ocean every year

\$8BN+

worth of damage to marine ecosystems every year

We have investments in Huhtamaki and AptarGroup – two companies that provide packaging for many of the world's largest consumer goods companies. Huhtamaki is a leading manufacturer of paper cups and flexible packaging, while AptarGroup makes a number of dispensing systems – such as bottle caps and spray pumps – for consumer products in the beauty, personal care and consumer healthcare markets.

To date, we have had lengthy discussions with both companies around the environmental challenges posed by the prevalent use of single-use plastics, the lack of recycling infrastructure in many countries, and the responsibility on the packaging industry to deliver appropriate solutions.



To tackle the issue of packaging waste, appropriate investments in research & development and product development are needed.

¹ Source: United Nations – World Oceans Day – as at April 2019.

² "New plastics economy report offers blueprint to design a circular future for plastics," published by the Ellen MacArthur Foundation in January 2016.

³ "FAQs on plastics," published by Our World in Data as at 2016.

⁴ "Building a clean swell," published by the Ocean Conservancy's International Coastal Cleanup in June 2018.

Encouragingly, both companies have strong credentials in this area. AptarGroup has proactively developed a water-bottle cap that remains tethered to the bottle. In addition, it has signed the Ellen MacArthur New Plastics Economy Global Commitment, which was established in 2018 to eliminate plastic waste and pollution at its source. Already, it has been signed by over 250 businesses, governments and other organisations, including companies that together account for 20% of all plastic packaging produced worldwide⁵.



600BN plastic cups are distributed worldwide every year

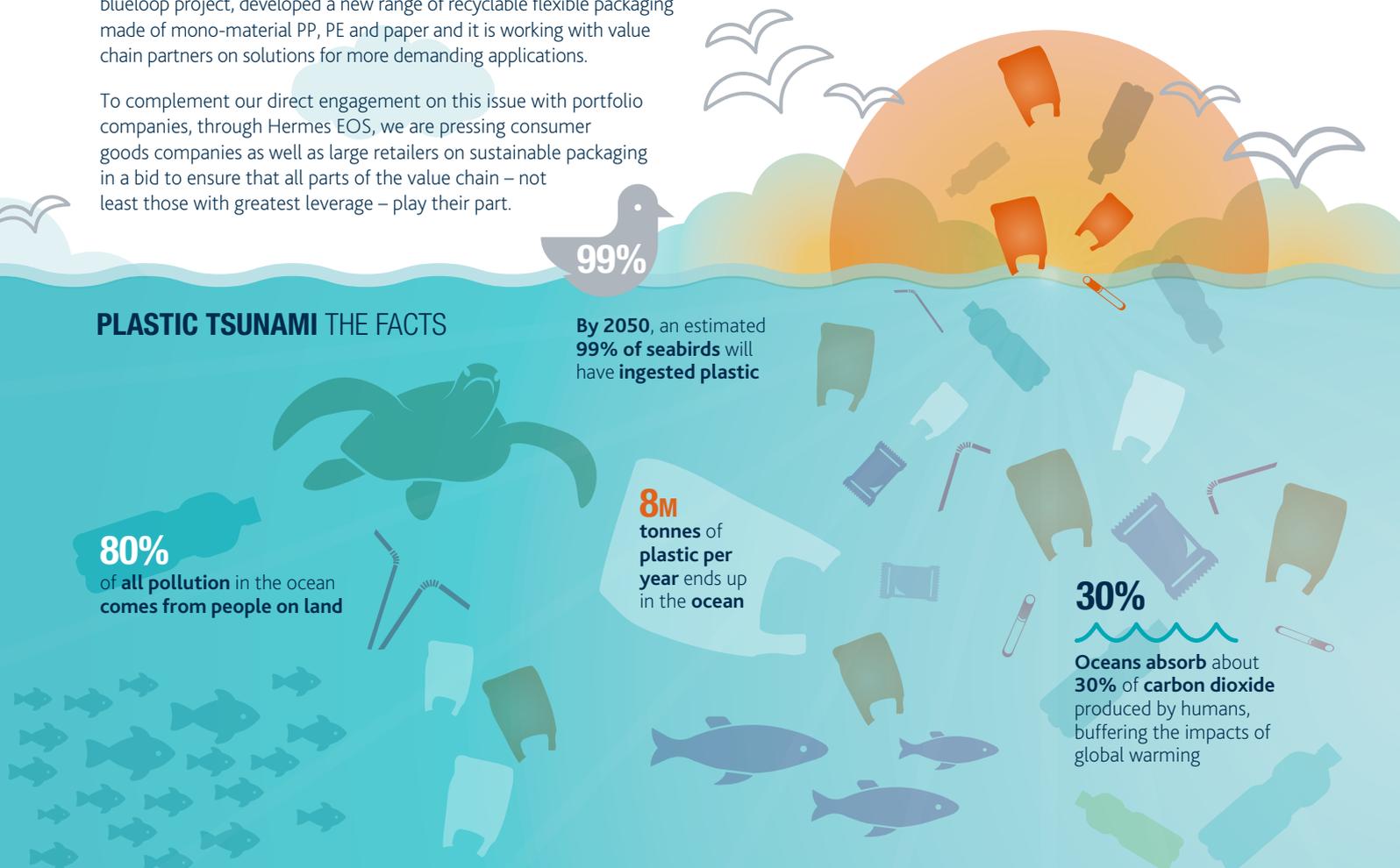
1 in every **400** takeaway coffee cups in the UK are recycled

Every year, more than 600bn paper and plastic cups are distributed worldwide⁶, but in the UK, only one in every 400 takeaway coffee cups are recycled⁷. While Huhtamaki introduced its first 100% renewable paper cup solution made entirely from plant-based materials (including a plant-based polyethylene as a moisture barrier coating) in 2017, it also acknowledges that this has failed to receive much take-up by consumer goods companies in part because it does not address the littering/recycling challenge – a hurdle the company is endeavouring to resolve. More immediately, Huhtamaki is in the late stage of a consumer trial of a new fibre-based ready-meal tray that is bio-based and biodegradable and has the potential to replace black plastic ready-meal food trays, which are among the most difficult to recycle. It has also, through its blueloop project, developed a new range of recyclable flexible packaging made of mono-material PP, PE and paper and it is working with value chain partners on solutions for more demanding applications.

To complement our direct engagement on this issue with portfolio companies, through Hermes EOS, we are pressing consumer goods companies as well as large retailers on sustainable packaging in a bid to ensure that all parts of the value chain – not least those with greatest leverage – play their part.

Hermes is not only engaging with companies on their approach to plastic, but has joined a number of investor initiatives too, including:

- The PRI's working group on plastics to foster a better understanding of the complexity of the issue in light of the evolving regulatory environment and the viability of alternatives
- Plastic Solutions Investor Alliance led by non-profit foundation As You Sow (this brings together investors engaging with consumer goods companies on the threat posed by plastic pollution and the associated corporate brand risk).
- An Investor Forum initiative focused on improving the handling of microplastic pellets or 'nurdles' in the plastics supply chain by engaging with standard-setting bodies.



Source: UN (World Ocean's Day and SDGs), the Ocean Conservancy's International Coastal Cleanup (Building a clean swell: 2018 Report) and the Ellen MacArthur Foundation.

Shipwrecks no more: recycling end-of-life boats

Discarded boats are another plastic pollutant in our oceans. The difficulty of recycling or even terminating refused boating products is an increasing environmental problem, as many of these discarded goods become ocean debris.

There are few, if any, incentives for the end-of-life dismantling of fibreglass vessels given the low intrinsic value of the material. This means that boats are typically dumped and become not only pollutants – as disintegrating plastic and paint fragments enter the ecosystem – but also navigational hazards.

One of our holdings, Brunswick Corp is a prominent manufacturer of recreational boats, engines and components – and our engagement is largely driven by its potential to advance maritime sustainability (see case study).

With 10m registered boats and 200,000 new ones sold annually, we believe incorporating end-of-life considerations into Brunswick's product-development process and working with the businesses in its value chain to develop recycling solutions could help mitigate the problem with derelict boats.

In addition, boating is inherently pollutive due to the outboard emissions – hydrocarbons and nitrogen oxide – and noise generated by these products. The new V6 and V8 engines produced by Mercury Marine, Brunswick's marine engine division, are lighter (100lb lighter than predecessors and peers); more fuel efficient (12-16% more efficient than peers) and therefore less environmentally harmful than those produced by its peers (both received three-star ratings, "Ultra Low Emissions" from California's Air Resources Board – signalling 45% and 65% lower emissions than many two- and one-star outboard engines in use). As the market leader, Mercury has the ability to continue to raise standards across the industry in terms of sustainable design and in so doing have an outsized positive impact.

The last straw: it's time for a sea-change

Plastic pollution is devastating the world's oceans – and it is time for the industry to clean up its act.

Alongside Hermes EOS, we will continue to engage on SDG 14, encouraging companies to focus on product development, in particular, developing more readily recyclable products, and deliver appropriate solutions. That way, less single-use plastic will settle on the ocean floor – and by combating these issues, we can help promote ocean sustainability.

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Will Pomroy
Lead Engagement Manager,
Hermes SDG Engagement Equity Fund

⁵ "New plastics economy," published by the Ellen MacArthur Foundation in 2018.

⁶ Source: International Coffee Organisation

⁷ "Disposing packaging: coffee cups," published by the House of Commons Environmental Audit Committee in January 2018.

\$8BN

Plastic causes **\$8bn** in damage to marine ecosystems each year

2050

According to some estimates, by **2050** oceans will carry **more plastic than fish**

100,000

Plastic pollution costs the lives of **100,000 marine mammals** per year

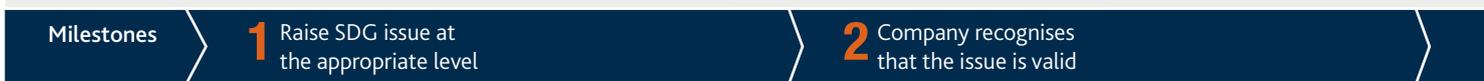
Top ten items polluting our beaches and waterways (and they are all made from plastic):

-  1. Cigarette butts (contain plastic filters)
-  2. Food wrappers
-  3. Plastic drinks bottles
-  4. Plastic bottle caps
-  5. Plastic grocery bags
-  6. Other plastic bags
-  7. Straws, stirrers
-  8. Plastic take out/away containers
-  9. Plastic lids
-  10. Foam take out/away containers

CASE STUDY
ENGAGEMENT PROGRESS: BRUNSWICK CORP

Brunswick Corp, a holding in our portfolio, is a global leader in recreational marine products, producing marine engines, parts and accessories, and a range of recreational boats across 14 brands. Brunswick has about 16,000 employees.

Engagement timeline: 2018 to March 2019



Group-level sustainability plan

2

12 March 2018: Brunswick's engines division, Mercury Marine, has an impressive sustainability plan. In a meeting with the group's Chief Financial Officer (CFO), we encouraged the replication of this report across the entire business. The CFO agreed, and said the group aimed to provide similarly robust disclosures.

Decent pay and working conditions

1

25 May 2018: Visiting Mercury Marine's manufacturing site, we were impressed by its low employee turnover, high level of gender diversity and consistent firm-wide healthcare policy. We asked Brunswick whether this approach was applied consistently across the group.

2

6 March 2019: We wrote to the company's CEO to emphasise our belief that workplace practices and benefits are a critical component in recruiting, retaining and motivating employees. We continued to refer to Mercury Marine's practices as an example of best practice, and scheduled another meeting to discuss these matters.

14 March 2019: In response, the company confirmed that it takes these matters very seriously and has a positive enterprise-wide story to tell.

Green products

1

30 October 2018: We discussed the potential for manufacturing electric boats, and learned that Brunswick developed a hybrid model five years ago and that many of the barriers slowing electric-car adoption, such as charging infrastructure and the need for lower weight, were less obstructive for boats. But the economics and level of perceived demand are not currently compelling. However, given the increasing consumer preference for electric transport, the company is open to considering entry-level electric boats as a way to expand their customer base.

2

9 January 2019: The company acknowledges the importance of sustainable products in supporting the delivery of the SDGs.

End-of-life recycling

1

25 Jan 2018: We wrote to the company Chairman to explain the objectives of SDG Engagement Equity and the potential to apply circular-economy principles to boat production in order to increase the recycling or repurposing of fibreglass.

2

9 January 2019: Brunswick has confirmed that this issue is being monitored. Our engagement will promote this topic in 2019.

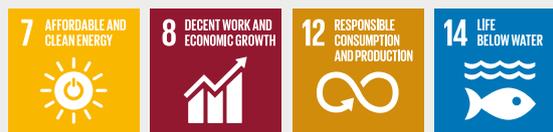
Engagement context

- Brunswick’s manufacturing processes, while fully vertically integrated, are nonetheless energy intensive. Its products are more energy-efficient than those of its peers, but still generate pollution when used and the fibreglass vessels it creates are difficult to recycle, re-use, or dispose of without causing pollution or navigational hazards. Brunswick’s engine business has embraced resource-efficiency principles, showing the potential for the group to extend this approach to boat structures and assume greater responsibility for their end-of-life disposal or repurposing.
- With a significant workforce and network of external suppliers, Brunswick directly influences the quality of work and living standards of its employees and, through external contracts, people working in its supply chain.

Engagement themes

- Group-level sustainability plan
- Decent pay and working conditions
- Green products
- End-of-life recycling

SDG alignment



3 Develop and commit to a credible plan for change

4 The plan succeeds and relevant impact metrics are disclosed

3 **4**



2 January 2019: The company develops a plan to establish a group-wide sustainability plan.

14 February 2019: Brunswick has publicly committed to establishing a company-wide sustainability programme, with the announcement being made at its analyst day. At the event, the management team stated: “We have had one for Mercury. It’s been very successful. We’ll build that for the whole company.”

3

Engagement commentary

Our engagement in 2018 was comprehensive. We met with the company’s management team, visited its principal manufacturing facility and exercised our voting rights. We were impressed by the human-capital management and sustainability practices of specific divisions, notably engine business Mercury Marine, and are encouraging Brunswick to extend them across the group.

Theory of change: Brunswick Corp

- Brunswick employs about 16,000 people across its operations, with more than half outside its Mercury Marine business, which has demonstrated an impressive commitment to human-capital management and resource-efficient manufacturing. By replicating sustainability reporting already undertaken by Mercury’s business, we see potential for the broader Group to significantly reduce energy and material usage, and to improve the physical and financial wellbeing of thousands of workers.
- Boating can pollute the marine environment. Mercury Marine’s engines are significantly lighter and more fuel-efficient than those produced by competitors, but further innovations have the potential to reduce environmental impacts to a greater extent, thereby raising standards across the industry.
- Human-made marine debris is an intensifying environmental problem, exacerbated by the difficulties of end-of-life dismantling of fibreglass vessels, given the low intrinsic value of the material. Vessels are typically dumped and then become navigational hazards, with inherent pollutants – such as disintegrating plastic and paint fragments – entering the ecosystem. With 10m registered boats and 200,000 new ones sold annually, incorporating end-of-life considerations into Brunswick’s product-development process and working with value-chain suppliers to develop recycling solutions should help embed circular-economy principles that can mitigate these problems.

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