PLASTICS EXECUTIVE COMPENSATION

A report card for plastic - related companies

Planet Tracker

September 2023

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KEY TAKEAWAYS

- The good news is that all 39 companies in Planet Tracker's universe of plastic-related companies have sustainability policies. Also, all of them have performance-based pay structures. But assuming a link between these two items would be foolhardy.

- 95% of these companies fail to reveal a material and quantitative link between executive compensation and sustainability factors.

- If we accept a simple nod to materiality and a quantitative link to sustainability in the pay structure, a further four companies make the grade, meaning that 85% still fail.

- 54% of these companies do have not science-based targets while 41% of these companies reveal no clear link between compensation and sustainability factors at all.

- Only Ahold Delhaize and Danone make the top category providing a quantitative link between sustainability and compensation as well as sharing material targets.

- In many countries, shareholders have a 'say-on-pay' either as a requirement or in an advisory capacity. Investors appear to be waving through pay packages even when grandiose statements are unsupported by the pay metrics. This should be reconsidered before the next proxy season.

- And if investors are concerned that sustainability will undermine their total returns, Planet Tracker set an initial hurdle of only 10% of pay being linked to sustainability factors in order to make the top grade.

EXECUTIVE SUMMARY

In previous research papers,[i,ii] Planet Tracker has identified that companies and investors in **the plastic industry face one of the longest risk registers of any sector.** It is in the financial institutions' interest to reduce their own risk profile or ensure these risks are adequately priced, instead of waiting for new policies or litigation to set the tone. Therefore, if meaningful action is to be taken by **investors and financiers, they should insist on some link between executive compensation and sustainability.**

For shareholders, engagement on this issue is relatively simple. **Many countries require management teams to hold a vote on executive compensation – a 'say-on-pay'.** An analysis by the OECD of 50 countries demonstrated that **'***92% of jurisdictions have introduced general criteria on the structure of remuneration'*.[iii] So investors do not need to negotiate with company management or seek regulatory approval for a shareholder proposal, as **compensation will be voted upon as a matter on course. And it is relatively simple for asset managers' engagement professionals to check whether management statements on sustainability topics align with the pay metrics.**

Planet Tracker's view is that executive directors with significant exposure to plastic, should be preparing for a credible transition which involves **upstream** – i.e. the use of fossil fuel alternatives for **midstream** – the development and manufacture of sustainable packaging and labelling and **downstream** changes – such as reuse, refill and recycle. And relying on just the last of these – recycling – is an implausible strategy.

In this analysis, **Planet Tracker analysed 39 large plastic-related companies** in three segments of the plastic value chain: the upstream single-use plastic producers, the midstream containers and packaging converters and the downstream fast moving consumer goods (FMCG) & food retailers. We focused on the link between executive pay and sustainability initiatives. **What was clear is that rarely was the rhetoric supported by quantifiable metrics**.

We measured this link by examining the **materiality** of the sustainability metric – i.e. how much of the executive pay was impacted and the **structure** – e.g., was the link to sustainable measures revealed and, if so, was it qualitative or quantitative. Planet Tracker defined material as 10% or more of overall compensation, so not a particularly high bar.

Although all 39 plastic-related companies have performance-based pay, **16 (41%) had no link between sustainability deliverables and pay,** despite all having a sustainability report. **A further 4 companies (10%) had no quantifiable link between sustainability and pay, while a further 8 (21%) may have a quantifiable link**, although from the information provided to shareholders this could not be proven.

When we analyse the better performers – i.e. those that have a quantitative link between compensation and sustainability, for **4 companies (10%) the materiality of that link is unknown, and a further 1 (Costco) has an immaterial allocation.**

This leaves **only 6 of the 39 plastic-related companies (15%) with a quantitative link that is either noticeable or material** – Ahold Delhaize, Coca-Cola, Danone, Huhtamaki, Nestlé and Unilever. In terms of a material payout, **only Ahold Delhaize and Danone make the grade -** see Figure 1.

Materiality (Score: 1-5)	Structure (Score: A-D): No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantitative (C)	Link between sustainability and compensation possibly quantitative (B)	Quantitative link between sustainability and compensation (A)
Material (1)				Ahold Delhaize Danone
Noticeable (2)				Coca Cola Huhtamaki Nestle Unilever
Immaterial (3)		Mondelez Procter & Gamble	Alimentation Couche Tard Berry Global Dow Chemicals LyondellBasell	Costco
Unknown (4)		Amcor Sealed Air	ExxonMobil PepsiCo Saudi Aramco Sinopec	Mars Philip Morris Seven & I Holdings Toppan Printing
None (5)	Aptar Dai Nippon Dollar General Dollar Tree Ferrero FP Corp Indorama Venture INEOS Intertape Polymer Kroger PetroChina Reliance Industries Rengo Target Woodworths			

***Figure 1** - Overall ranking, by structure and materiality (Source: Planet Tracker)*

Change needs to happen, and it is in investors' interest that it does. Analysis for all the companies along with more detailed scrutiny to help support change is contained in this report.

INVESTOR ASKS

Planet Tracker's analysis shows that the 39 plastics companies' leading investors are **Vanguard, BlackRock, State Street, Capital Group and FMR.**

The top 25 independent shareholders combined have USD 1.1 trillion invested in these companies[1]. Their holdings account on average for over 30% of the total value, ex-Saudi Aramco. 10 investors have investments in 34 or more of the 36 listed companies. These are material numbers and suggest a real ability to influence.

On the debt financing side, Citigroup, JPMorgan Chase, Bank of America, HSBC and Wells Fargo dominate, accounting for nearly 60% of estimated debt financing.

Planet Tracker strongly advocates:

- **Performance-based pay**
- **Sustainability as a key deliverable for executive teams**
- **Linking the two together**

Shareholders and financiers, including but not limited to those featured in this report, should require all companies in the sector to extend their executive compensation for performance policy beyond purely financial metrics and include a sustainability-linked performance pay element.

Planet Tracker also believes these financial entities should apply the appropriate level of scrutiny and hold these companies to account when it comes to the actual mechanics of sustainability-linked performance pay. This includes:

- **Performance-linked pay that is material** (e.g. Ahold Delhaize and Danone)– so NOT a 10% portion of a cash pay-out which accounts for 20% of total remuneration…an effective 2% pay for performance. Rather we would like to see a meaningful percentage of compensation (10%+) at risk based on sustainability performance.

- **Independently verified targets and results** (e.g., Alpek, Aptar, Berry Global, Dai Nippon, Huhtamaki, Toppan Printing, Coca Cola, Danone, Mars, Mondelez, Nestlé, Pepsi Co, Philip Morris, Procter and Gamble, Unilever, Ahold Delhaize, Target and Woolworths)– independently verified targets on sustainability provide a defence against greenwashing and allow comparisons between companies. A good example is the "*Science Based Targets"* initiative which requires firms to set independently verified targets for emissions reduction and report on these in a set format.

1 Based on data as of 11 May 2023.

- **Quantitative targets where possible** (e.g., Dow Chemicals, ExxonMobil, LyondellBasell, Huhtamaki, Toppan Printing, Coca-Cola, Danone, Mars, Nestlé, Philip Morris, Unilever, Ahold Delhaize, Costco and Seven & I) – financial performance accounts for the bulk of pay and typically links to clearly defined quantitative targets – for instance profit margin. Sustainability targets should align with this transparent, quantitative approach.

- **Targets for sustainability rewards should be annual as well as longer term** (e.g., Ahold Delhaize, Danone, Nestlé, Dow, Couche-Tard, ExxonMobil, Mars, Philip Morris, Saudi Aramco, Sinopec)- there is a tendency for sustainability awards to use longer-term direction-of-travel targets, i.e., evidence that things are improving towards a medium-term goal. We believe annual (cash) awards need annual sustainability targets not just vague indications of travel.

- **Independent payment triggers** - financial targets often trump sustainability ones making them potentially obsolete, for instance, when a profitability target must be achieved before any sustainability-linked targets are considered (e.g. Aptar, Dai Nippon Printing, Dollar General, Dollar Tree, Dow, Mondelez, Procter & Gamble, Sealed Air, Seven & I Holdings). Sustainability delivery needs independent reward.

- **Clear disclosure** of what has and hasn't been achieved (e.g., ExxonMobil, Coca Cola, Philip Morris, Unilever, Ahold Delhaize, Seven & I). Direction-of-travel and qualitative targets can lend themselves to opaqueness. Clear delivery links are needed.

Of the "plastics" companies examined in this report, Danone provides a blueprint of what good looks like; good, but not perfect. We include a write-up on the key features of the Danone sustainability compensation scheme in the 'Best Practice' Guide linked to this report.

Finally, Planet Tracker believes it is time for consultants, and the other "actors" in executive compensation (directors, shareholders etc.), to get on the same page and help generate a consistent, relevant and material outcome when it comes to linking executive compensation to sustainability.

SUSTAINABILITY should be part of the **fabric** of **EXECUTIVE COMPENSATION**

INTRODUCTION – ALL WRAPPING, NO SUBSTANCE

"We consider climate change as a Board-level strategic issue. We know the actions we take today, together with our partners, are opportunities to have a positive impact on the future generations to come".
Woolworths Group/ Score: D5

"We know the climate crisis is urgent... we will continue to actively work toward a more sustainable future for all".
Aptar / Score: D5

"Our mission is to coexist with nature and pass on the Earth to the next generation without wasting its limited resources".
Dai Nippon Printing / Score: D5

"The protection of the environment is a priority for Dollar Tree, Inc. and we are committed to reducing our impact on the environment and the impact of climate change on our business".
Dollar Tree / Score: D5

"Our goal is to ensure economic prosperity and sustainability to all our stakeholders. We measure our success not just by economic gains but by our achievements in preserving the environment, thereby benefiting the society".
Indorama Ventures / Score: D5

"Climate change is a global issue for all humanity and requires the combined efforts and response of the whole world".
PetroChina / Score: D5

"We have a responsibility to lead with purpose and create positive change for billions of people and the planet we call home".
Kroger / Score: D5

"It's imperative for the health of both our business and our planet that we embrace new ways to move forward. We know sustainability is tied to business resiliency and growth, and that our size and scale can drive change that is good for all".
Target / Score: D5

"Rengo establishes targets for each core issue which has been identified and strives to achieve all targets towards the realisation of a sustainable society".
Rengo / Score: D5

These comments are typical and unsurprisingly show a strong realisation of the environmental sustainability issues facing corporates today. But none of the above plastics companies exhibit a clear link between performance on sustainability matters and performance-based compensation: in a nutshell, sustainability doesn't pay.

SUSTAINABILITY-LINKED PAY

In a similar manner to Planet Tracker's recent report Textile Compensation – *"The Sustainability-Pay Disconnect"* [iv] – we analysed 39 companies in the plastics space. These consist of 10 each from four sub-sectors:

- **SUP producers** (Upstream)
- **Containers & packaging** (Midstream)
- **FMCG** (Downstream)
- **Food retail** (Downstream)

Our analysis focused on:

1. Whether there is a sustainability policy with specific goals for all 39 companies? The answer is yes.
2. Whether there is a compensation policy with pay-for performance dynamics? For 37 companies there is; the other two are private companies with low levels of disclosure.
3. Whether there is a link between sustainability and performance-based pay? For 23 companies there is.
4. Whether this link is based on quantitative targets rather than qualitative criteria? For 14 companies there is and for a further 5 companies there may be.
5. Whether the targets are clearly disclosed, and performance reported annually? Only six companies meet these and all the previous criteria.

The six companies that achieve all the above criteria are: Seven & I Holdings, Ahold Delhaize, Coca-Cola, Unilever, Philip Morris from the downstream segment and ExxonMobil from upstream. None of the midstream companies fulfil all six criteria. These companies also encompass our three geographic categories (North America, Europe and Asia Pacific & the Middle East).

We do however note, as outlined in our comments elsewhere, that linkage of sustainability performance to the typically larger long-term element of compensation is often required to achieve materiality status. This results in a longer-term goal and achievement over a longer time which potentially results in a ““failure”” on the above “annual” criteria.

What a company should be aiming for, and the financial community demanding, is both clear accountability, regardless of timeframe, where a quantifiable performance-based link has been made (including that for sustainability) and a material outcome for performance or non-performance.

MATERIALITY

We view a material outcome as a key component of any credible performance-based compensation scheme. Amongst the 23 companies in our analysis that have a sustainability performance linked to a compensation element, we observe 11 companies rewarding sustainability performance as part of just the short-term incentive (STI) component.

With incentive structures in North America and Europe typically geared to longer-term incentive (LTI) schemes, linking sustainability pay to just short-term performance-based compensation automatically creates a potential materiality mismatch - see Figure 2.

To illustrate, Berry Global's sustainability-linked performance pay accounts for 10% of named executive officer (NEO) STI. However, with STI only accounting for 14% of target CEO remuneration, this implies sustainability-linked performance pay comprises just 1.4% of total compensation, an immaterial amount.

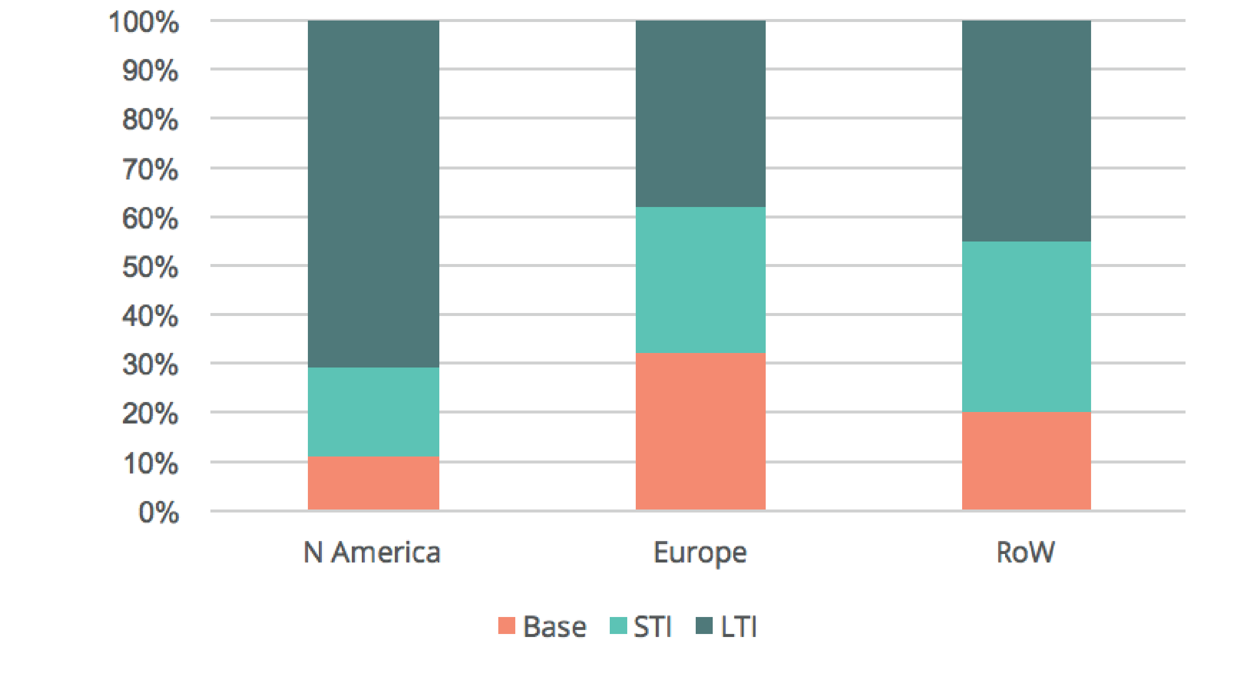

Figure 2 *- Target CEO Compensation structure by region (Source: Planet Tracker)*

The same fixation on rewarding sustainability as part of just the STI is true for five of the six companies, including Berry Global, that we identify as having an immaterial (<5% of total remuneration) link (actual or estimated) between sustainability and performance-based pay. Planet Tracker views this immateriality as a form of greenwashing.

In contrast, six of the seven companies we identify as having a material or noticeable link between sustainability and compensation, have payouts as part of LTI or both STI and LTI. The exception is Hutamaki, where the payment link is part of STI, but in this case there is no LTI.

Despite this, our preference remains linkage to both STI and LTI. The two companies out of the total of 39 that we classify as having a material link have sustainability-linked payments as part of both STI and LTI. These are Ahold Delhaize and Danone.

Table 1 - Materiality table (Source: Planet Tracker)

Company	Base renumeration	Short-term Incentive (STI)	Long-term Incentive (LTI)	Link STI based	Link LTI based	As a portion of STI	As a portion of LTI	Linked pay Materiality	Actual/ Estimate
Ahold Delhaize	21%	21%	58%	✓	✓	10%	25%	Material	Actual
Danone	25%	25%	50%	✓	✓	20%	10%	Material	Actual
Coca Cola	12%	24%	64%	×	✓	-	10%	Noticeable	Actual
Huhtamaki	68%	32%	0%	✓	×	20%	-	Noticeable	Actual
Nestlé	25%	38%	38%	✓	✓	?	20%	Noticeable	Estimate
Unilever	22%	33%	45%	×	✓	-	?	Noticeable	Estimate
Berry Global	11%	14%	75%	✓	×	10%	-	Immaterial	Actual
Dow	9%	16%	75%	✓	✓	?	?	Immaterial	Actual
LyondellBasell	10%	16%	74%	✓	×	10%	-	Immaterial	Actual
Mondelez	10%	18%	72%	✓	×	2%	-	Immaterial	Actual
Procter & Gamble	12%	22%	66%	✓	×	6%	-	Immaterial	Actual
Costco	15%	5%	80%	✓	×	?	-	Immaterial	Estimate
Couche-Tard	17%	27%	56%	✓	✓	?	?	Immaterial	Estimate
Amcor	19%	34%	47%	✓	×	?	-	Uncertain	N/A
ExxonMobil	5%	19%	76%	✓	✓	?	?	Uncertain	N/A
Mars	?	?	?	✓	✓	?	?	Uncertain	N/A
PepsiCo	8%	17%	75%	✓	×	?	-	Uncertain	N/A
Philip Morris	11%	22%	67%	✓	✓	?	?	Uncertain	N/A
Saudi Aramco	36%	35%	29%	✓	✓	?	?	Uncertain	N/A
Sealed Air	14%	16%	70%	✓	×	?	-	Uncertain	N/A
Seven & I	35%	30%	35%	×	✓	-	?	Uncertain	N/A
Sinopec	?	?	?	✓	✓	?	?	Uncertain	N/A
Toppan Printing	70%	20%	10%	✓	×	?	-	Uncertain	N/A

Our assessment of materiality is based on the information disclosed by each of the companies and is summarised in Figure 3.

Planet Tracker rates materiality as the level of payment linked to sustainability compared to overall compensation. The five categories are:

- Material - > 10% of total compensation (3 companies)
- Noticeable - > 5% of total compensation (4 companies)
- Immaterial - < 5% of total compensation (6 companies)
- Unknown – not enough information to assess materiality (10 companies)
- None – no link between sustainability and compensation (13 companies)

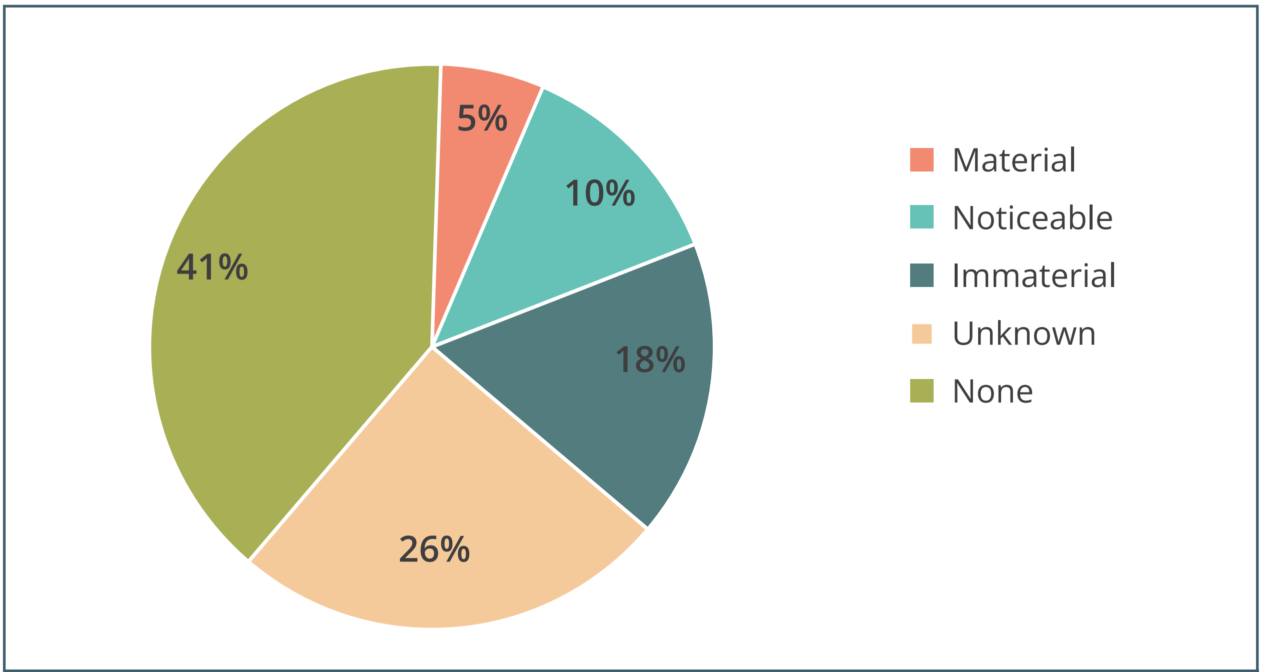

Figure 3: *Materiality rate as the level of payment linked to sustainability compared to overall compensation (Source: Planet Tracker)*

There remains significant opacity when it comes to assessing materiality. For 10 of the 23 companies with sustainability linked remuneration, there is uncertainty as to what the level of compensation linkage is, often because while an explicit link is described, a quantity is not. This is unsatisfactory, and Planet Tracker ranks such companies as unknown.

In a couple of instances, while specific levels are not revealed, there is enough information to make an estimate of the overall level of materiality. This has been used in four instances: Nestlé , Unilever, Costco and Couche-Tard.

RANKING – COMBINING STRUCTURE AND MATERIALITY

Planet Tracker has combined a structural assessment (from no structure to a quantitative link) and a materiality analysis (from none to material) to arrive at a ranking for the plastic value chain and for each of the four plastics segments.

We have summarised our company level performance analysis using letters (structure) and numbers (materiality). This "score" gives a quick indication of where a company sits on the sustainability-compensation link pathway – see Figure 4.

For structure, the following ratings apply:

'A" - a link between sustainability and compensation definitely with quantitative target(s)
'B" - a link between sustainability and compensation possibly with quantitative target(s)
'C" – a link between sustainability and compensation but without quantitative target(s)
'D" – no link between sustainability and compensation

For materiality, the following ratings apply:

'**1**" – a material link (>10%) between performance and reward
'**2**" – a noticeable link (>5%) between performance and reward
'**3**" – an immaterial link (<5%) between performance and reward
'**4**" – an unclear quantum of the link between performance and reward
'**5**" – no link / not relevant

For example, a company with a link between sustainability and pay that is not based on quantitative targets ('**C**" score) and that accounts for 8% of target total compensation ('**2**" score) would rate"**C2**".

Materiality (Score: 1-5)	Structure (Score: A-D)			
	No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantitative (C)	Link between sustainability and compensation possibly quantitative (B)	Quantitative link between sustainability and compensation (A)
Material (1)				Ahold Delhaize Danone
Noticeable (2)				Coca Cola Huhtamaki Nestle Unilever
Immaterial (3)		Mondelez Procter & Gamble	Alimentation Couche Tard Berry Global Dow Chemicals LyondellBasell	Costco
Unknown (4)		Amcor Sealed Air	ExxonMobil PepsiCo Saudi Aramco Sinopec	Mars Philip Morris Seven & I Holdings Toppan Printing
None (5)	Aptar Dai Nippon Dollar General Dollar Tree Ferrero FP Corp Indorama Venture INEOS Intertape Polymer Kroger PetroChina Reliance Industries Rengo Target Woodworths			

***Figure 4** – Overall ranking, by structure and materiality*

Only two companies exhibit a clear quantitative link and a material outcome relative to overall compensation assuming that the performance criteria are met.
These are:

- Ahold Delhaize
- Danone

They represent two of the four segments (FMCG companies and food retailers) from Europe only. Are “industry” or “geography” not barriers to appropriate structures or is it that directors, consultants and the status quo are? Owners (investors) are in a position to deliver on positive change.

There is, however, a superior ranking bias within the FMCG segment with four of the seven companies having a materiality ranking of material or noticeable (see Fast Moving Consumer Goods). This can perhaps be explained by the need to do the right thing to protect the brand and the customer relationship (important stakeholders). These factors could and should feature in the thinking of other companies.

The profiles of the remaining three segments (SUP Producers, Containers & Packaging converters and Food Retailers) are more alike, suggesting similar “values”. Each segment has half of its constituent companies having no link between sustainability and compensation. For those companies that do show a link, its value tends to be either uncertain or immaterial.

WHAT DO WE LIKE / DISLIKE?

We have outlined some of the features that we like or believe are necessary when it comes to sustainability-linked performance pay. We have also outlined some of those that we don't like. Examples are contained throughout this report.

Likes

- **A *"Pay for performance philosophy"* –** with an appropriate mix of short- and long-term goals and rewards and a performance benchmark that extends beyond purely financial metrics.

- **Pay linked to sustainability performance** – these companies claim sustainability is a risk so executive pay should feature as a link to addressing this risk.

- **Performance-linked pay that is material –** so NOT a 10% portion of a cash pay-out which accounts for 20% of total remuneration…an effective 2% pay for performance. Rather we would like to see a meaningful percentage of compensation (10%+) at risk based on sustainability performance.

- **Independently verified targets and results** – Independently verified targets on sustainability provide a defence against greenwashing and can allow a comparison between companies. A good example is the *"Science Based Targets"* initiative which requires firms to set independently verified targets for emissions reduction and report on these in a set format.

- **Quantitative targets where possible –** financial performance accounts for the bulk of pay and links to clearly defined quantitative targets. Sustainability should align with this.

- **Annual targets for rewards that are granted annually** - there is a tendency for longer-term direction-of-travel targets. We believe annual (cash) awards need annual sustainability targets.

- **Clear disclosure of what has and hasn't been achieved** - direction of travel targets and qualitative targets lend themselves to opaqueness. Clear delivery links are needed.

Dislikes

- **Structures that incentivise financial targets as the priority –** this can be in the form of needing to clear a financial hurdle before sustainability "top-up" occurs or a structure where maximum financial performance can make achieving the sustainability part irrelevant.

- **Shareholders who don't use their holdings to support positive change** when the current structure is sub-optimal**. "***Say on pay votes: 90% approval the normal…how/why?" tackles this.*

- **An *"Inward looking"* approach, such as peer benchmarking or heavy reliance on** *executive compensation consulting, which lends itself to "greencrowding"*[2], a greenwashing sub-category.

2 "Greencrowding is built on the belief that you can hide in a crowd to avoid discovery; it relies on safety in numbers. If sustainability policies are being developed, it is likely that the group will move at the speed of the slowest, Planet Tracker (2023), Greenwashing Hydra

Based on these likes and dislikes, we show how the 39 companies analysed are placed in Figure 5

Leaders	Runners-up	Middle of the Field	Back Markers	Left behind
Ahold Delhaize	Coca-Cola	Berry	amcor	Aptar
DANONE	Huhtamaki	COSTCO WHOLESALE	aramco	Kroger
	Nestlé	Couche-Tard	ExxonMobil	alpek
	Unilever	Dow	MARS	エフピコ
		lyondellbasell	PEPSICO	FERRERO
		Mondelēz International		DNP
		P&G	Sinopec	DOLLAR GENERAL
			SEE Automation • Digital • Packaging	DOLLAR TREE
			SEVEN & i HOLDINGS	RENGO PACKAGING, INC.
			TOPPAN	INEOS
				intertape polymer group
				INDORAMA VENTURES
				PetroChina
				Reliance
				Woolworths

Figure 5 - *How the 39 companies analysed are placed on sustainability-linked pay*
Source: Planet Tracker

MATERIALITY UNDONE – BEWARE OF THE SMALL PRINT

As outlined above, one of two "material / good framework" companies, Danone, is good but has scope to improve further. However, we don't reach the same conclusion for Dow Chemical..

In this instance, however, our issue lies with the fact that the maximum pay out for both STI and LTI performance-based compensation payments can be achieved without needing to reach any sustainability (or wider ESG) targets. This is a function of

a) the capping of pay out at 200% of target (not a bad thing given the sums involved)
b) the use of an "overall" multiplier on payments where individual component payout is already at 200%

We are not suggesting that the structure was set up to achieve a full-pay out irrespective of the sustainability compliance performance situation. But the flaw is worth a) being aware of and b) rectifying.

In the case of Dow Chemical, the details are shown in Table 2. Achieving targets consummate with maximum payment (200%) for just two of the STI goals (Operating EBIT and Free Cash Flow) when multiplied by the maximum "individual factor", would mean that "ambition metrics", which we understand includes sustainability factors amongst others, would result in a 200% pay out of target bonus.

The same is true for the LTI, or at least the performance share programme part which accounts for 65% of LTI, although in this instance the multiplier is linked to the level of total shareholder return ("TSR"). The result is that the more explicit carbon emission reduction incentive payment is not required to hit the maximum pay out level of 200% of target – see Table 2.

Table 2 *- Dow performance pay details (Source: Planet Tracker)*

STI	**Mix**	**Target**	**Min**		**Max**	**So**
Operating EBIT	**40%**	**100%**	**0%**		**200%**	**80%**
FCF	**40%**	**100%**	**0%**		**200%**	**80%**
Ambition metrics	**20%**	**100%**	**0%**		**200%**	**0%**
SUM	**100%**					**160%**
Individual factor (including safety)		**100%**	**0%**		**125%**	
STI Bonus						**200%**
LTI	**Mix**	**Target**	**Min**	**Threshold**	**Max**	**So,**
Operating ROC	**40%**	**100%**	**0%**	**35%**	**200%**	**80%**
Cash from Operations	**40%**	**100%**	**0%**	**35%**	**200%**	**80%**
SUM						**160%**
Relative TSR modifier		**100%**	**75%**		**125%**	
						200%
Plus carbon emissions reduction	**20%**		**0%**	**35%**	**200%**	**0%**
LTI Performance Share Programme						**200%**

In short:

- STI capped at 200%, so no need to achieve 'ambition' metrics.
- LTI capped at 200%, so no need for achieve 'carbon emission reduction' metrics.

Another company that scores well on our matrix, albeit with a lower materiality score, is Coca-Cola. This also falls foul of the multiplier impact. In this case however, it is only an issue for the STI element, which includes a diversity, equality and inclusion ("DEI") component, but not a sustainability element. With STI pay out capped at 200%, the achievement of a 234% pay out becomes a) irrelevant as the most that can be paid is 200% and b) no need to achieve DEI targets for full pay out to be made – see Table 3.

***Table 3** – Coca-Cola performance pay details (Source: Planet Tracker)*

Coca-Cola STI	Mix	Target	Min		Max	So,
Op rev growth	45%	100%	0%		200%	90%
op inc growth	45%	100%	0%		200%	90%
DEI	10%	100%	0%		200%	0%
SUM	100%					180%
Individual performance factor		0%	70%		130%	
STI Bonus						234%

PROBLEMS AND PROGRESS

This report involves bottom-up company-based case studies on forty companies in the wider plastics space (see Company analysis). The results support the views shared by EY in its "Linking Executive Pay to Sustainability Goals"[v] which was published in the Harvard Business Review in 2023.

Namely, that '*Global businesses have reached a sustainability inflection point:*

- '*Stakeholder expectations and heightened investor scrutiny are putting organizations under pressure to articulate their societal roles more clearly, prioritize environmental and social objectives, and demonstrate progress to stakeholders.*

- *'Yet for the most part, corporations have been neglecting a powerful lever for advancing their sustainability agendas: executive compensation*.

- '*A gap has opened up between pay and purpose in most executive suites…a disconnect between the purpose of an organization (its contribution to society) and executive pay (what type of "performance" gets rewarded)…*

- *'By realigning these two things, corporations have the opportunity to transform executive compensation from a reputational risk factor to a catalyst for change'*.

Planet Tracker concurs with the EY/Harvard Business Review conclusions. It is time for the sustainability-compensation loop to be closed…particularly in North America which is a clear laggard – see: **Location: does it matter?.**

However, credit is acceptable when credit is due, and we note a positive momentum in a number of companies when it comes to linking sustainability and compensation. A good example is Dow Chemical with a significant change in the materiality of its linkage in 2022. Another is Berry Global which currently shows as having no link. It has, however, flagged that this will change in 2023.

LOCATION: DOES IT MATTER?

Of the 39 companies covered in this report, seven are European, 11 are from Asia Pacific and the Middle East and 22 are from North America. We observe very different attitudes towards sustainability-linked pay by region – see Figure 6.

With the exception of two private companies (Ferrero and INEOS, who do not disclose remuneration data) all the European companies have a quantitative link between sustainability and performance-based compensation that is either material (>10%) or notable (>5%).

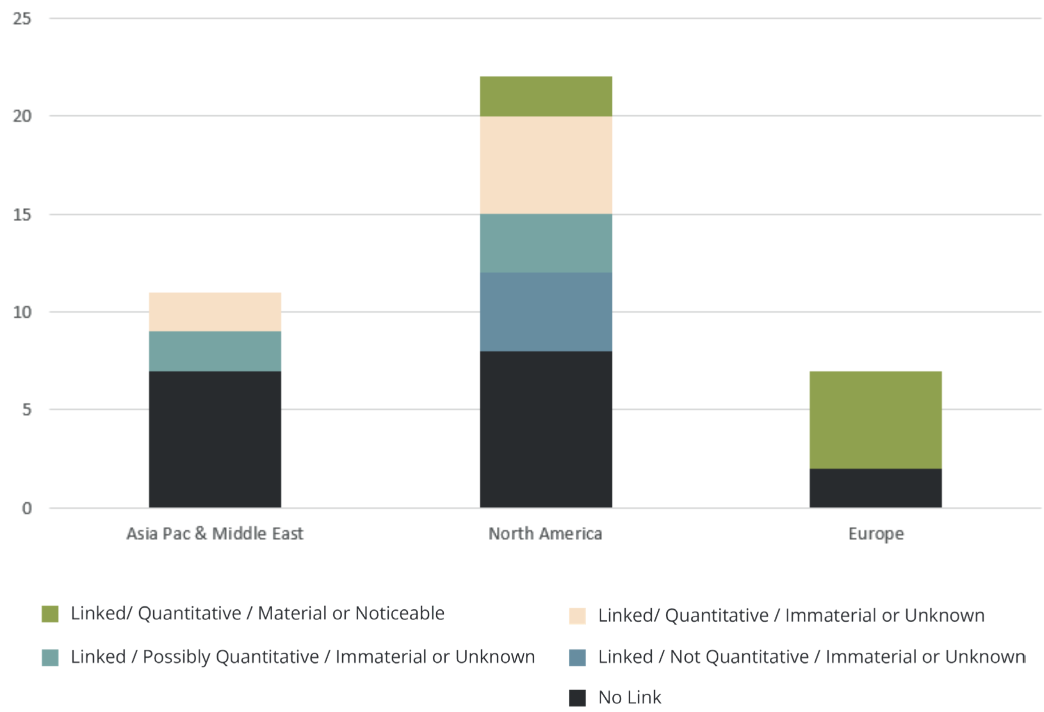

Figure 6 *– Sustainability pay linkage and materiality by geographic region (Source: Planet Tracker)*

In contrast 33% of North American companies (seven of 21) have no link between sustainability and performance pay. This rises to 64% for Asia and the Middle East (seven of 11).

And, except for Dow Chemical and Coca-Cola, the US and Asian companies that do show a link between sustainability and performance-based pay are paid based on qualitative and/ or result in an immaterial or uncertain payment based on full performance. Neither are satisfactory.

The difference in approach based on geography is stark. As is the "attitude" towards stakeholders which is effectively illustrated by the contrast between Ahold Delhaize (Europe) and Couche-Tard (N America) comments on performance disclosure.

For European Ahold Delhaize, '*A recurring topic in our dialogue with stakeholders has been the call for increased transparency about the performance targets and intervals in our incentive plans. We carefully considered this feedback and have committed to full, ex-post disclosure of all targets and performance intervals for all metrics in both the short-term and long-term incentive plans starting with this year's Annual Report'.*

Whereas for Canadian company Couche-Tard the narrative is starkly different: '*We do not disclose the details of the results compared to measures for competitive reasons'.*

WHAT VALUE CHAIN SEGMENTS TELL US

There are stark differences between the four segments (SUP Producers, Containers & Packaging, FMCG companies and Food Retailers) in the value chain of the plastics companies when it comes to linking performance on sustainability and variable compensation – see Figure 7.

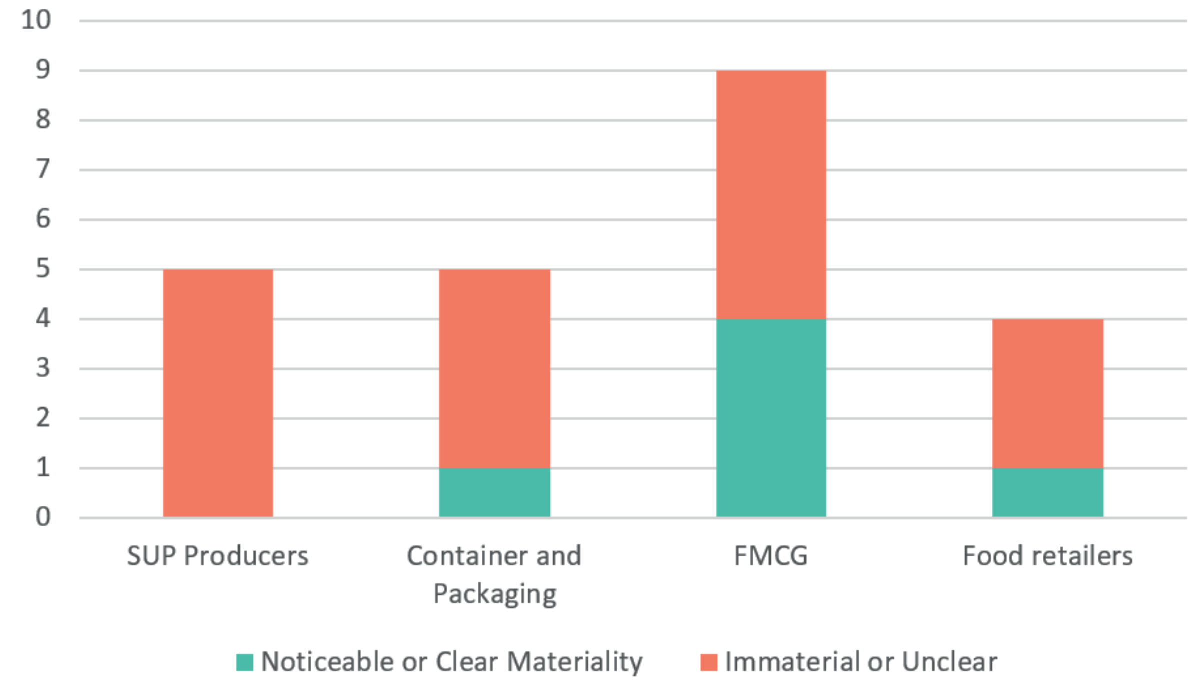

Figure 7 *- Links between sustainability and compensation by sub-sector and materiality (Source: Planet Tracker)*

FMCG, at close to double the rate of the other segments, shows the highest incidence of a linkage between sustainability performance and performance-based compensation. Only one company, privately held Ferrero, fails to show a linkage, possibility because of lack of disclosure requirements. For the remaining nine companies, just under half of these exhibit either noticeable (>5%) or material (>10%) linkage (relative to overall target compensation). This is a much higher follow through rate than for the other three sub-sectors.

Each segment, apart from SUP producers, has at least one company which shows a noticeable or material quantitative link between sustainability performance and performance-based compensation. These help refute the argument that “it isn’t appropriate/necessary for this particular sub-sector” and provide a “good practice” example to their peers. The companies are:

- Food retail: Ahold Delhaize
- FMCG: Danone, Coca-Cola, Nestlé, and Unilever
- SUP producers: none
- Containers & packaging: Huhtamaki

SAY-ON-PAY VOTES: 90% APPROVAL THE NORM

Large, listed corporates actively engage with the large institutional shareholders, both existing and potential owners. The structure and size of executive remuneration is a common topic, particularly in the US where Section 14A of the Exchange Act, requires companies listed in the US to ask stockholders to approve, on an advisory basis, the compensation of NEOs. This is commonly referred to as 'Say-on-Pay'.[vi]

19 of our 39 companies are subject to shareholder say-on-pay votes. The 18 predominantly American companies include representatives of all four sub-sectors.

16 out of these 18 companies achieve say-on-pay approval ratings of 90% or above. This includes the five companies that exhibit no sustainability-remuneration link – see Figure 8. To Planet Tracker this is hard to comprehend.

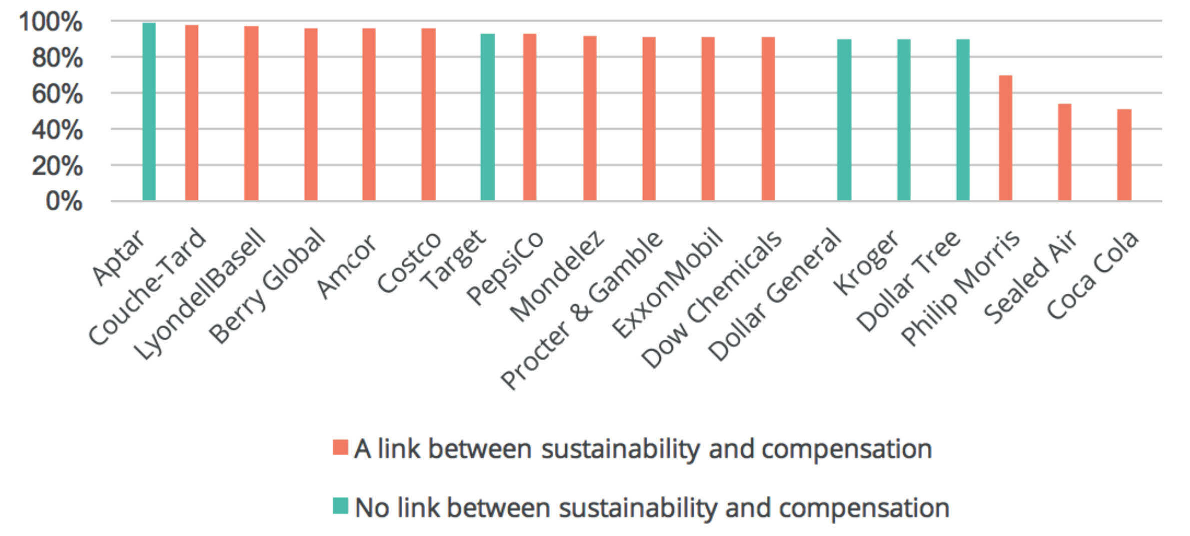

Figure 8 *- Say-on-pay voting summary (Source: Planet Tracker)*

Further analysis of the 10 companies with sustainability-linked performance pay and an approval rating of 90% or above, reveals that only one, Dow Chemical, has an element of compensation based on sustainability delivery – see Figure 9. The link for the rest is either unknown or immaterial and in a number of cases based on qualitative assessment.

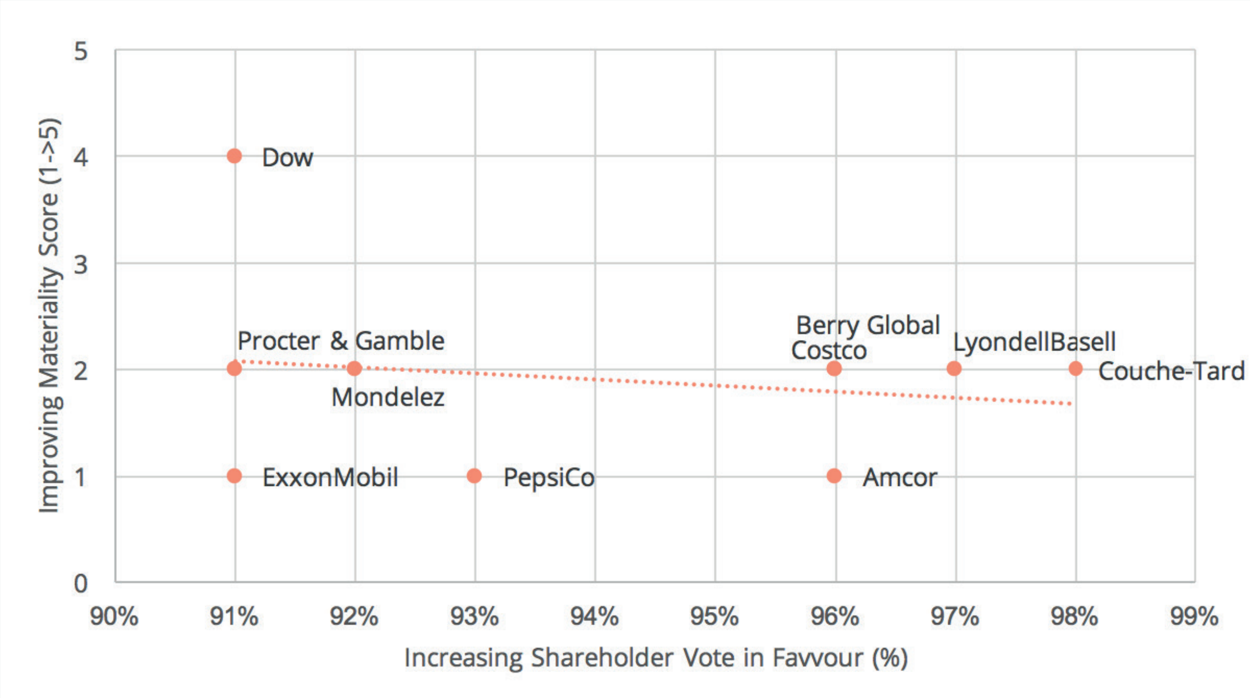

***Figure 9** - Say-on-pay outcomes (%) and materiality score (1-4) (Source: Planet Tracker)*
Note – 1 = uncertain, 2 = immaterial, 3 = noticeable, and 4 = material

For those asset managers and investors which struggle to deal with the large number and complexities of proxy voting – e.g. monitoring all their holdings, compiling a proxy proposal and winning the support from other investors – a say-on-pay is an easier way to make clear their beliefs. If the compensation package fails on the sustainability test, vote against it.

We should also take the opportunity to evaluate the remuneration consulting firms. We delve deeper into this question below.

EXECUTIVE COMPENSATION CONSULTING

Costco doesn't currently retain an executive compensation consultant, but the remaining 18 companies that are subject to shareholder say-on-pay votes do. A significant number that are not subject to such a vote also retain a consultant.

Dow Chemical, which is the only one to have a material sustainability-compensation link and an approval rating above 90%, retains Mercer as its independent executive compensation consultant and part of its role is:

- *'Advising the Committee on **trends and issues** in executive compensation"*
- *'Providing advice and recommendations related to the **compensation and design** of Dow Chemical's compensation programs"*

These defined engagement roles for executive compensation consultants are pretty common amongst the companies. We have performed a quick analysis of the outcome by company on a consultant-by-consultant basis. The results are summarised in Table 4.

***Table 4** Consultant linked outcomes (Source: Planet Tracker)*

Consultant	S-o-P clients	Sustainability-Compensation link			No Link	
Pearl Meyer & Partners	4	IM	?	?		N/A
FW Cook	3	?	?	?		
Wills Towers Watson	3	IMe	IM	?		
Meridian Consulting Partners	2	AM	IM			
Pay Governance LLC	2				N/A	N/A
Semler Brossy	2	IM			N/A	
Korn Ferry Hay	2				N/A	N/A
Mercer	1	YM				
No consultant appointed	1	IMe				

Note: YM = Material, AM = Noticeable, IM = Immaterial, e = Estimate, ? = uncertain, N/A = Materiality not applicable

There is some consistency in the outcomes. All companies which engage FW Cook have a link between sustainability performance and compensation, but the quantum is unclear. Likewise, all the companies that engage either Pay Governance or Korn Ferry Hay show no linkage between sustainability and executive compensation. Companies advised by Pear Meyer and Semler Brossy occupy both camps: sustainability-comp link and no such link.

Planet Tracker believes it is time for consultants, and the other "actors" in executive compensation (directors, shareholders etc.), to help generate a consistent, relevant and material outcome when it comes to linking executive compensation to sustainability.

QUANTITATIVE TARGETS

While there is scope to co-exist with a qualitative approach, we view quantitative targets as a key component of any sustainability-linked compensation scheme. Those quantitative targets, where possible, should be independently verified.

In Planet Tracker's recent report, "Textile Compensation – The Sustainability-Pay Disconnect",[vii] we observed a strong link between those companies with a quantitative based sustainability-compensation link and those companies which have become part of the independently verified Science Based Target initiative (SBTi).

In the case of the four plastic segments we observe that this linkage is not as strong. Instead we note a number of the instances where the SBTi has been adopted but where there is no quantitative link between sustainability and performance-based compensation (e.g. containers & packaging), and vice-versa where there is a quantitative link, but the company isn't signed up to SBTi (e.g. SUP producers) - see Table 5.

Table 5 *SBTi targets and quantitative link between sustainability and compensation (Source: Planet Tracker)*

SUP Producers	SBTi	Quantitative
Alpek	✓	×
Dow Chemical	×	✓
ExxonMobil	×	✓
Indorama Ventures	×	×
INEOS	×	×
LyondellBasell	×	✓
PetroChina	×	×
Reliance Industries	×	×
Saudi Aramco	×	?
Sinopec	×	?

FMCG	SBTi	Quantitative
Coca Cola	✓	✓
Danone	✓	✓
Ferrero	×	×
Mars	✓	✓
Mondelez	✓	×
Nestle	✓	✓
PepsiCo	✓	?
Philip Morris	✓	✓
Procter & Gamble	✓	×
Unilever	✓	✓

Containers & Packaging	SBTi	Quantitative
Amcor	×	×
Aptar	✓	×
Berry Global	✓	?
Dai Nippon	✓	×
FP Corp	✓	×
Huhtamaki	✓	✓
Intertape Polymer	×	×
Rengo	×	×
Sealed Air	✓	×
Toppan Printing	✓	✓

Food retailers	SBTi	Quantitative
Ahold Delhaize	✓	✓
Costco	×	✓
Couche-Tard	×	?
Dollar General	×	×
Dollar Tree	×	×
Kroger	×	×
Seven & I	×	✓
Target	✓	×
Woolworths	✓	×

That said, there is a noticeable widespread sign-up (9 out of 10) to SBTi within the FMCG sub-sector. This is the segment that also tops the materiality scoring, which suggests a "willing to be judged" mind-set.

Our key takeaway however remains the same. That a credible, ideally externally verified, quantifiable target is needed to add robustness to any framework.

INVESTOR CALL TO ACTION

The companies analysed in this report are majority equity funded, with an average capital structure of roughly 75% equity and 25% debt[3]. As a result, our main focus is on the equity investors when it comes to calling for action.

Four of the companies covered in this report are private companies: Ferrero, Mars, INEOS and Intertape Polymer (acquired by private equity firm Clearlake Capital in 2022).

Equity funding

The remaining 36 companies have a combined equity market value of USD 5.7 trillion as of 11 May 2023. By excluding the world's largest company, Saudi Aramco, the combined market cap is still a very significant USD 3.7 trillion.

We have analysed the holdings of the top 25 equity investors, both on an aggregated basis and as a segment (SUP producers, containers & packaging, FMCG and food retailers) level. Combined the holdings of these 25 investors in the 36 listed companies total USD 1.15 trillion – see Figure 10.

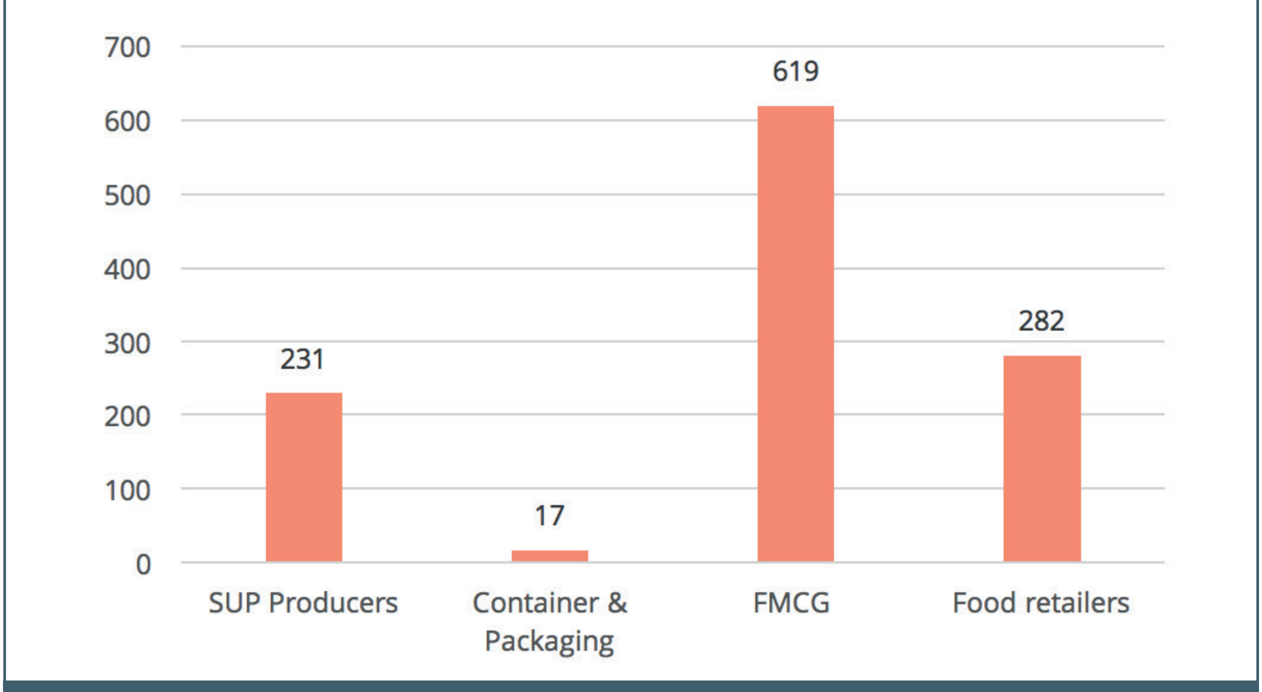

Figure 10 *- Holdings of Top25 investors by sub-sector – combined total of USD 1.15 trillion (Source: Planet Tracker)*

The top five investors are Vanguard, BlackRock, State Street, Capital and FMR. These alone have combined holdings of USD 667 billion – see Figure 11.

3 Derived from an average EV/market capitalisation ratio of 1.34

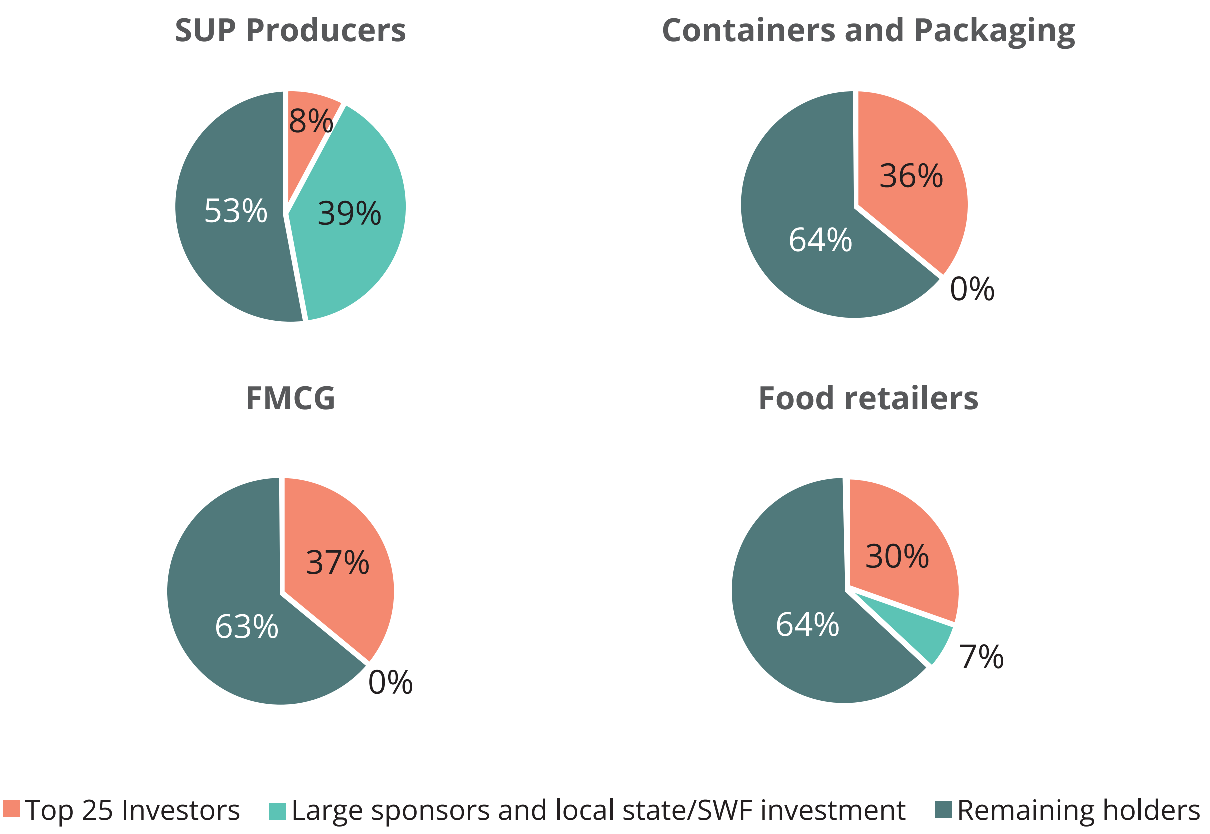

Figure 11 - *top 25 investors: ownership profile by sub-sector (Source: Planet Tracker)*

The combined value of the holdings of the top 25 investors account for over 30% of the total value ex-Saudi Aramco. This level of ownership/influence is illustrated in Table 6.

Ownership by financial institutions across the 35 listed companies is widespread, further compounding this ownership/influence dynamic. Namely:

- Two investors – BlackRock and State Street -own all 35
- Five investors – Vanguard, Bank of New York Mellon, Charles Swab, Legal & General, and Dimensional Holdings – own 34 of the 35
- Three investors – Geode Capital, JP Morgan Chase, and Invesco – own 33 of the 35 companies

Table 6 *Top 25 investors: investment profile, maximum number of investments = 36 (Source: ADV Ratings, Planet Tracker)*

Rank by amount invested	Global Ranking	Investor	Retail sub-total	Product sub-total	Feedstock sub-total	Packaging sub-total	Number of investments	Amount invested (USD bn)
1	2	Vanguard Group Inc	10	8	8	9	35	233
2	1	BlackRock Inc	10	8	9	9	36	213
3	4	State Street Corp	10	8	9	9	36	113
4	10	Capital Group Companies Inc	7	8	3	3	21	58
5	3	FMR LLC	8	7	6	8	29	49
6	35	Geode Capital Holdings LLC	10	8	7	9	34	46
7	5	Morgan Stanley	8	7	7	8	30	41
8	N/A	Norway, Kingdom of (Government)	9	7	5	9	30	37
9	6	JP Morgan Chase & Co	10	8	7	9	34	32
10	23	T Rowe Price Group Inc	10	7	4	6	27	29
11	N/A	UBS Group AG	10	8	7	8	33	27
12	24	Northern Trust Corp	9	8	8	9	34	27
13	N/A	Berkshire Hathaway Inc	1	3	0	0	4	26
14	12	Bank of New York Mellon Corp	10	8	8	9	35	25
15	17	Invesco Ltd	9	8	8	9	34	23
16	N/A	Charles Schwab Corp	10	8	8	9	35	21
17	28	Wellington Management Group LLP	8	8	7	7	30	21
18	19	Bank of America Securities LLC	6	5	3	4	18	19
19	26	TIAA Board of Governors	10	8	5	9	32	18
20	N/A	Capital International Investors	4	4	3	0	11	18
21	18	Legal & General Group PLC	10	8	8	9	35	16
22	32	Ameriprise Financial Inc	9	7	5	5	26	15
23	52	Dimensional Holding Inc	10	7	9	9	35	15
24	N/A	Credit Agricole SA	10	7	9	7	33	14
25	42	Royal Bank of Canada	9	7	5	5	26	14

As shown in Table 6, in total 18 of the 25 investors own 30 or more of the 36 companies. Only three – Berkshire Hathaway, Banc of America, and Capital International own less than 20.

We can also compare the asset managers against their ranking of total assets under management. We can note than many broadly rank in similar positions suggesting their size is a significant reason for the amount invested. For example, of the top 5 ranked by amount invested, 4 are 5 of the largest asset managers globally.

Morgan Stanley, the 5th largest asset manager globally ranks as number 7 in Table 6. Asset managers that have larger exposures to these plastic companies than their total asset ranking would imply include Northern Trust – ranked 12th in Table 6 but 24th by total assets and Royal Bank of Canada – 25th and 42nd respectively. The opposite is true of Credit Agricole which ranks 24th in Table 6, but 8th by total assets, while Amundi does not appear in Table 6 but is the 11th largest asset manager globally.

Tables 7-10 show the granularity of holdings of the top 25 investors by institution at a sub-sector level. Food retail and FMCG are most widely held. SUP producers is the least owned, although the amounts involved are still large.

Table 7 *SUP producers sub-group: ownership by financial institution (Source: Refinitiv, Planet Tracker)*

Investor	Sinopec		Reliance		Alpek	Saudi Aramco	Indorama Ventures	Dow Chemicals		Total Invested (USD bn)
Vanguard Group Inc	✓	✓	✓	✓	✓	✓	×	✓	✓	50
BlackRock Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	40
State Street Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	28
FMR LLC	✓	×	✓	✓	×	✓	×	✓	✓	18
Geode Capital Holdings LLC	✓	✓	✓	✓	×	✓	×	✓	✓	10
Capital Group Companies Inc	×	×	✓	✓	×	×	×	✓	×	9
Norway, Kingdom Of (Government)	×	×	✓	✓	✓	×	×	✓	✓	7
JPMorgan Chase & Co	✓	✓	✓	✓	×	✓	×	✓	✓	7
Morgan Stanley	×	✓	✓	✓	✓	✓	×	✓	✓	7
Bank of New York Mellon Corp	✓	✓	✓	✓	✓	✓	×	✓	✓	6
Northern Trust Corp	✓	✓	✓	✓	✓	✓	×	✓	✓	6
Dimensional Holding Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	5
T Rowe Price Group	×	×	✓	✓	×	×	×	✓	✓	5
Gpg Partners LLC	×	×	✓	✓	×	×	×	×	×	4
Charles Schwab Corp	✓	✓	✓	✓	✓	✓	×	✓	✓	4
Banc of America Securities LLC	×	×	×	✓	×	×	×	✓	✓	4
Invesco Ltd	✓	✓	✓	✓	✓	✓	×	✓	✓	4
UBS Group AG	✓	✓	✓	✓	×	✓	×	✓	✓	4
State Farm Insurance Co	×	×	×	✓	×	×	×	✓	×	4
Legal & General Group PLC	✓	✓	✓	✓	✓	✓	×	✓	✓	3
Singapore, Republic of (Government)	×	×	✓	×	×	×	×	×	×	3
Franklin Resources Inc	✓	✓	✓	✓	✓	✓	×	✓	✓	3
Credit Agricole SA	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Ameriprise Financial Inc	✓	×	✓	✓	×	×	×	✓	✓	2
TIAA Board of Governors	×	×	✓	✓	×	✓	×	✓	✓	2
Number of top 25 invested	16	15	23	24	13	17	4	23	21	238

***Table 8** Containers & packaging sub-group: ownership by financial institution (Source: Refinitiv, Planet Tracker)*

Investor	Huhtamaki	FP Corp	Dai Nippon Printing	Toppan	Rengo	Aptar	Sealed Air	Berry Global	Amcor	Total Invested (USD bn)
BlackRock Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	4.0
Vanguard Group Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	3.6
State Street Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	2.3
Nomura Holdings Inc	✓	✓	✓	✓	✓	✓	×	×	✓	0.9
EdgePoint Investment Group Inc	×	×	×	×	×	×	×	✓	×	0.8
Geode Capital Holdings LLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.8
T Rowe Price Group Inc	×	×	✓	✓	✓	×	✓	✓	✓	0.7
Morgan Stanley	×	✓	✓	✓	✓	✓	✓	✓	✓	0.7
Mitsubishi UFJ Financial Group Inc	×	✓	✓	✓	✓	✓	✓	×	✓	0.7
Charles Schwab Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.6
Norway, Kingdom Of (Government)	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.6
Dimensional Holding Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.6
Sumitomo Mitsui Trust Holdings Inc	×	✓	✓	✓	✓	✓	✓	×	✓	0.5
State Farm Insurance Co	×	×	×	×	×	✓	×	×	×	0.5
Invesco Ltd	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.5
Crestview Partners II GP LP	×	×	✓	✓	✓	✓	✓	✓	×	0.4
Federated Hermes Inc	✓	×	✓	×	×	✓	×	✓	✓	0.4
JPMorgan Chase & Co	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.4
Janus Henderson Group Plc	✓	×	✓	✓	×	×	✓	×	✓	0.4
Northern Trust Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.4
FMR LLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	44
TIAA Board of Governors	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.3
Nippon Life Insurance Co	✓	✓	✓	✓	✓	×	×	×	×	0.3
Bank of New York Mellon Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	0.3
SEI Investments Co	×	×	✓	✓	✓	✓	✓	✓	✓	0.3
Number of top 25 invested	17	18	23	22	21	21	20	19	21	65.0

***Table 9** FMCG sub-group: ownership by financial institution (Source: Refinitiv, Planet Tracker)*

Investor	Danone	Nestle	Unilever	Mondelez	Coca Cola	Procter & Gamble	PepsiCo	Philip Morris	Total Invested (USD bn)
Vanguard Group Inc	✓	✓	✓	✓	✓	✓	✓	✓	120
BlackRock Inc	✓	✓	✓	✓	✓	✓	✓	✓	120
State Street Corp	✓	✓	✓	✓	✓	✓	✓	✓	52
Capital Group Companies Inc	✓	✓	✓	✓	✓	✓	✓	✓	34
Geode Capital Holdings LLC	✓	✓	✓	✓	✓	✓	✓	✓	24
Berkshire Hathaway Inc	×	×	×	✓	✓	✓	×	×	24
Morgan Stanley	✓	✓	×	✓	✓	✓	✓	✓	23
Norway, Kingdom of (Government)	✓	✓	✓	✓	✓	✓	✓	×	20
JP Morgan Chase & Co	✓	✓	✓	✓	✓	✓	✓	✓	19
UBS Group AG	✓	✓	✓	✓	✓	✓	✓	✓	18
FMR LLC	×	✓	✓	✓	✓	✓	✓	✓	17
Wellington Management Group	✓	✓	✓	✓	✓	✓	✓	✓	16
Northern Trust Corp	✓	✓	✓	✓	✓	✓	✓	✓	14
T Rowe Price Group Inc	×	✓	✓	✓	✓	✓	✓	✓	14
Capital International Investors	×	×	×	✓	×	✓	✓	✓	13
Charles Schwab Corp	✓	✓	✓	✓	✓	✓	✓	✓	12
Bank of New York Mellon Corp	✓	✓	✓	✓	✓	✓	✓	✓	12
Invesco	✓	✓	✓	✓	✓	✓	✓	✓	11
Credit Suisse Group AG	✓	✓	✓	✓	✓	✓	✓	✓	9
Legal & General Group PLC	✓	✓	✓	✓	✓	✓	✓	✓	9
TIAA Board of Governors	✓	✓	✓	✓	✓	✓	✓	✓	9
Banc of America Securities LLC	×	×	×	✓	✓	✓	✓	✓	9
Ameriprise Financial Inc	×	✓	✓	✓	✓	✓	✓	✓	9
Sun Life Financial Inc	✓	✓	×	✓	×	✓	✓	✓	8
Deutsche Bank AG	✓	✓	✓	✓	✓	✓	✓	✓	8
Number of top 25 invested	**19**	**22**	**20**	**25**	**23**	**25**	**24**	**23**	**624**

***Table 10** Food retail sub-group: ownership by financial institution (Source: Refinitiv, Planet Tracker*

Investor	Woolworths	Couche-Tard	Seven & I	Ahold Delhaize	Dollar General	Kroger	Dollar Tree	Target	Costco	Total Invested (USD bn)
Vanguard Group Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	59
BlackRock Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	49
State Street Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	31
Capital Group Companies Inc	×	×	✓	×	✓	✓	✓	✓	✓	14
FMR LLC	×	✓	✓	×	✓	✓	✓	✓	✓	13
Geode Capital Holdings LLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
Morgan Stanley	✓	✓	×	×	✓	✓	✓	✓	✓	10
T Rowe Price Group Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
Norway, Kingdom of (Government)	✓	×	✓	✓	✓	✓	✓	✓	✓	9
Invesco	✓	✓	×	✓	✓	✓	✓	✓	✓	7
Bank of New York Mellon Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	7
Northern Trust Corp	✓	✓	×	✓	✓	✓	✓	✓	✓	7
JP Morgan Chase & Co	✓	✓	✓	✓	✓	✓	✓	✓	✓	6
TIAA Board of Governors	✓	✓	✓	✓	✓	✓	✓	✓	✓	6
UBS Group AG	✓	✓	✓	✓	✓	✓	✓	✓	✓	6
Banc of America Securities LLC	×	×	×	×	✓	✓	✓	✓	✓	6
Nomura Holdings Inc	✓	✓	✓	✓	✓	✓	✓	✓	✓	5
Wells Fargo	×	×	×	×	✓	✓	✓	✓	✓	5
Equitable Holding Inc	✓	✓	×	✓	✓	✓	✓	✓	✓	5
Dimensional Holding Inc	✓	✓	✓	×	✓	✓	✓	✓	✓	4
Royal Bank of Canada	✓	✓	✓	×	✓	✓	✓	✓	✓	4
Charles Schwab Corp	✓	✓	✓	✓	✓	✓	✓	✓	✓	4
Goldman Sachs Group Inc	✓	✓	×	✓	✓	✓	✓	✓	✓	4
Sumitomo Mitsui Trust Holdings Inc	✓	✓	✓	×	✓	✓	✓	✓	✓	4
Legal and General Group PLC	✓	✓	✓	✓	✓	✓	✓	✓	✓	4
Number of top 25 invested	**21**	**21**	**18**	**17**	**25**	**25**	**25**	**25**	**25**	**291**

From our review, **Planet Tracker cannot identify any one investor who has a consistent policy of not owning companies where there is a failure to link sustainability performance to performance-based pay.**

We do however note a bias **for two investors towards investing in companies that have a positive sustainability performance pay linkage.** This may be simply co-incidental, but it is worth flagging. They are:

- **Berkshire Hathaway:** three out of four investee companies have a link.
- **Capital International:** four out of six investee companies have a link.

Debt funding

Planet Tracker's database shows debt financing, over a ten-year period, of USD 2.5 trillion spread across 37 of the 39 companies. Assuming an arbitrary 2.5 year average refinancing cycle, this would suggest debt financing outstanding at any one time of roughly USD 610 billion. We recognise that only a small proportion of debt financing is transparent to the markets. Ten financial institutions provide 75% of this financing. Citigroup is the largest by some margin, accounting for 19% of the total – see Figure 12.

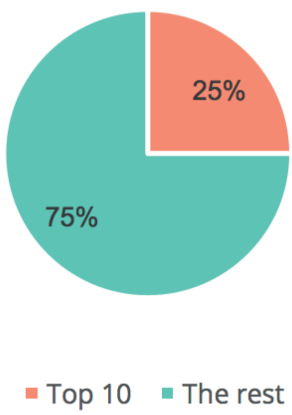

Figure 12 *- Financiers exposure to total USD 2.5 billion of funding (Source: Refinitiv, Planet Tracker)*

Our analysis points to all ten providing financing to companies with and without a link between sustainability performance and executive compensation. However, as shown in Figure 13, the mix by financial institutions varies widely.

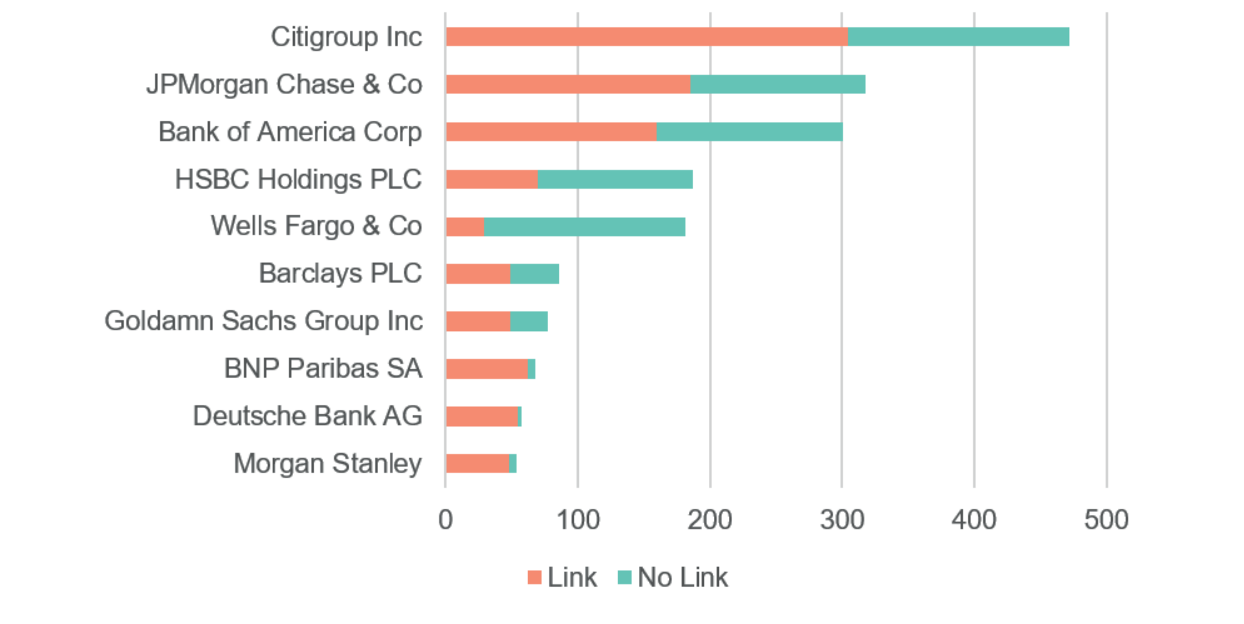

Figure 13 *- Financing by top 10 institutions, with mix of linked and non-linked funding (Source: Refinitiv, Planet Tracker)*

- Wells Fargo, at 84%, has the highest relative exposure to companies with no link between sustainability and executive compensation. This is followed by HSBC at 63% and Bank of America at 47%.

- On the other more positive end of the scale, the mix of Deutsche Bank's exposure to companies that display a link is 96%, closely followed by BNP Paribas at 92% and Morgan Stanley at 90%.

In a similar manner, our database shows USD 95 billion of bond funding; considerably lower than equity or other financing caused by the lack of transparency in bond trading. This is spread over 32 companies, with 40% of these displaying no link between sustainability performance and pay. These holdings are more dispersed with the top 10 bond holders accounting for 42% of the total – see Figure 14.

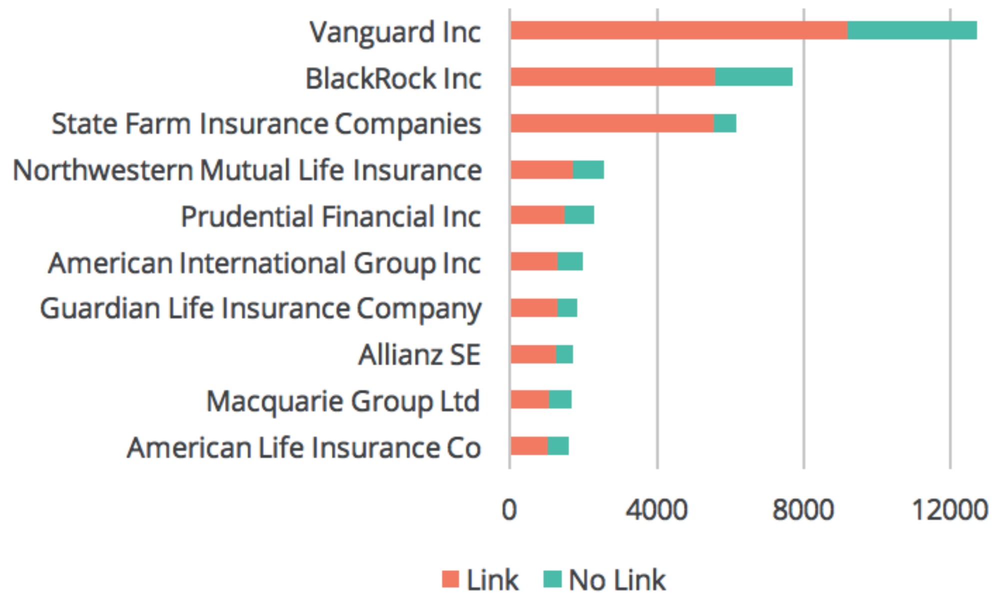

Figure 14 *– Bond holders: top 10 institutions, with mix of linked and non-linked funding (Source: Refinitiv, Planet Tracker)*

Vanguard, BlackRock and State Farm Insurance dominate bond ownership, with a long tail following these three. Across the board holdings show exposure to bonds of companies with and without a link between sustainability and executive compensation.

Only six companies have a funding structure where debt accounts for more than one-third of capital which is made transparent to capital markets – see Figure 15. Of these, three have no link between performance on sustainability targets and executive compensation; Rengo, Indorama Ventures and Alpek.

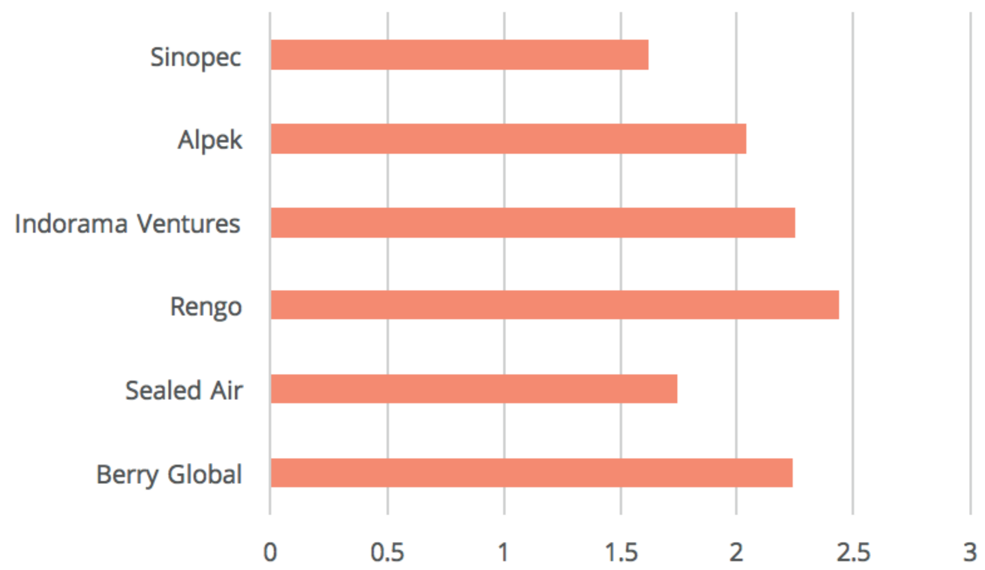

Figure 15 *- Companies where debt accounts for >1/3rd of funding - via EV/mkt cap ratio. (Source: Refinitiv, Planet Tracker)*

COMPANY ANALYSIS

SUP Producers

SUP producers (single-use plastic producers) represent the upstream feedstock material providers. They are made up almost entirely of fossil fuel-based manufacturers. Our ten companies (presented in this section in alphabetical order) have been selected based on the top 10 SUP virgin polluters according to the latest Plastic Waste Index (2023) from Minderoo Foundation.[vii] Figure 16 shows the overall ranking by structure and material for this segment.

Materiality (Score: 1-5)	Structure (Score: A-D): No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantitative (C)	Link between sustainability and compensation possibly quantitative (B)	Quantitative link between sustainability and compensation (A)
Material (1)				
Noticeable (2)				
Immaterial (3)			Dow Chemicals LyondellBasell	
Unknown (4)			Saudi Aramco Sinopec	
None (5)	Alpek Indorama Ventures INEOS PetroChina Reliance Industries		ExxonMobil	

Figure 16 *- SUP producers' segment: ranking, by structure and materiality (Source: Planet Tracker)*

Alpek[viii]

Structure/materiality score **D5**

Alpek SAB CV [BMV: ALPEKA] is the only one of the 10 SUP producer companies covered in this report to have "completed" the Science Based Target initiative process. We also note its clear outline of its ESG process, which includes:

- Define Key Performance Indicators ("KPIs") and set targets to measure success for each initiative,
- Measure the impact obtained,
- Establish proper incentives for targets to be achieved.

Alpek also operates a performance-based pay policy: remuneration and benefits received by the top officers of the company comprise *"base salary and social security benefits and supplemented by a variable consideration program based on the Company's results and the market value of the shares thereof and of its holding company".*

Alpek	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	×	×	×	×

The variable element consists of both short and long-term incentive structures. These are linked to achieving both quantitative and qualitative metrics derived from the following measures: a) improved share price, b) improvement in net income, c) permanence of the executives in the company. No reference can be found that links the variable compensation to delivery on sustainability linked matters. Given its "leadership" on SBTi and its clear ESG measurement-reward roadmap, this lack of "next-step" linking of sustainability performance to pay is disappointing.

Dow Chemical[ix] Structure/materiality score **B3**

We view Dow Inc (known as Dow Chemical company) [NYSE: DOW] as a good example of a corporate with an improving compensation structure linked to sustainability issues. In 2022, it had an opaque and immaterial link between sustainability and performance-related pay. It has since upped its game, although an analysis of the details suggests all is not as it may seem at first glance. We expand on these issues below.

Pre 2022

Sustainability-linked performance pay, with ESG criteria accounting for 20% of the short-term cash incentive payment. With the cash element accounting for 16% of targeted CEO compensation and 19% of other NEOs, this gives ESG a theoretical impact on overall compensation of 3.2% and 3.8% respectively – relatively small.

Furthermore, Dow Chemical's ESG component consists of three criteria: customer experience / sustainability / inclusion & diversity. This further dilutes the sustainability impact.

In terms of being quantitative and visible, Dow Chemical adopted what looks like an in-house index (World Leading Operations index, "WLO") for the sustainability part. This also included safety, worker health as well as environmental and transport stewardship. While subsequent targets were given for a variety of environmental elements and performance against targets it does not seem to be possible to reconcile between these and the WLO index, nor the targets for this index and actual performance.

These short-term cash ESG metrics have been renamed Ambition Metrics as of 2023.

Dow Chemical	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	✓	×	×

Post 2022

In 2022, Dow Chemical introduced a sustainability component (carbon emission reduction metrics) to 2022-24 performance share programme. This programme accounts for the bulk (targeted 87%) of its long-term incentive scheme. This is based around Scope 1, 2 and 3 GhG emission reduction efforts, including a cumulative GhG emission reduction target (3MM Mt) as measured against the 2020 baseline. This quantitative target supports compensation equivalent to an estimated 13% of CEO total compensation, but this cannot be overwritten by financial metrics (see below). There is a further downside that this is a three-year goal which negates annual tracking.

The intention when revising the compensation structure was "*To align the LTI programs to the Company's strategy to decarbonize and grow, and based on feedback from investors, benchmarking, management's recommendation and input from the Independent Compensation Consultant*".

Although an improvement, on closer examination we observe that, of the five ESG metrics for the STI, only one includes sustainability. The 'sustainability' component includes diverse measures such as safety, worker health and transportation stewardship. The other four metrics are for customer experience and inclusion & diversity. We conclude that emission reduction performance is, at best, about 5% of the STI.

Although LTI is 20% on 'carbon metrics' this means that the CEO should establish carbon emission reduction plans – these were achieved but not revealed, define scope 3 emission exposures and achieve cumulative carbon emission targets for scopes 1 & 2.

In reality, Dow management has minimal financial incentive to reduce carbon emissions. The STI has only 5% allocated to emission reduction. The LTI has a higher proportion at 20% but most of this relates to establishing plans and exposures, not to reducing emissions. We have one further concern. When capping long-term incentive payout at 200% of target, the environmental element becomes irrelevant when financial targets are maxed out. We would prefer a separate bucket approach rather one where finance trumps sustainability structure. So what at first sight appears like a substantial upgrade, we judge on closer scrutiny to be a step in the right direction, but more robust measures are necessary to gain access to the top flight.

ExxonMobil[x]	Structure/materiality score	**B4**

Exxon Mobil Corp's ("ExxonMobil") [NYSE: XOM] remuneration structure contains a fixed component, an annual cash bonus and a long-term (longer than typical at 10 years) element. The fixed component typically accounts for less than 10% and the long-term component for more than 70%.

Based on proxy statements, it would "appear" that delivery on common performance factors drive both the short-term and long-term incentive schemes.

This is important given the relative size/materiality of the long-term element. Planet Tracker says "appear" as this is not explicitly stated.

ExxonMobil has four strategic objectives: operations performance, financial performance, energy transition and business portfolio.

Progress against these, on an equally weighted basis, is used to drive performance-based pay decisions. The "operations performance" quadrant includes delivery of *"industry leading performance in safety, emissions-intensity reductions, environmental performance, and reliability"*. ExxonMobil's 2030 plans are expected to result in a 20-30% reduction in corporate wide greenhouse gas intensity, including reductions of 40-50% in upstream intensity, 70-80% in corporate wide methane intensity, and 60-70% in corporate wide flaring intensity. Annual progress on each of these is disclosed.

Exxon Mobil	**Sustainability policy**	**Explicit sustainability goals**	**Science based targets**	**Sustainability - Compensation link**	**Quantitative target(s)**	**Clear target disclosed**	**Clear annual performance**
	✓	✓	×	?	✓	×	✓

This provides a quantitative link between sustainability performance and performance-based pay. However, the grouping of sustainability with other "operations performance" items clouds the level of linkage – in essence there are three components within operations: 1) safety, 2) emissions, environmental, and 3) reliability. This creates a level of opaqueness, leaves us questioning the actual level of linkage and dilutes what otherwise would be a positive structure.

For illustration, if it were a straightforward one third (one of three operating performance factors) of one quarter (one of four common performance factors) of 90% (variable pay component), then materiality would be 7.5% of total compensation. However, investors are unable to determine this from the publicly available information.

Indorama Ventures[xi]

Structure/materiality score **D5**

In 2022, the CEO of Indorama Ventures Public Company Limited [IVL], received 43% of their remuneration as a base salary and 57% as a performance bonus. This bonus, as was the case for other executives, was paid purely in cash.

KPIs are set by the board on the recommendation of the Nomination, Compensation and Corporate Governance Committee ("NCCG"). This takes the form of a balanced scorecard. At the end of each year, their performance is used in the calculation of the compensation of the CEO and other executive directors.

Indorama Ventures	**Sustainability policy**	**Explicit sustainability goals**	**Science based targets**	**Sustainability - Compensation link**	**Quantitative target(s)**	**Clear target disclosed**	**Clear annual performance**
	✓	✓	×	×	×	×	×

Despite Indorama Ventures having clear environmental sustainability goals, there is no reference to a linkage between these and the KPIs used to determine performance-based pay amounts. We therefore assume there is none.

INEOS[xii] Structure/materiality score **D5**

As a private company, disclosure on compensation is sparse.

INEOS	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

In contrast, disclosure on sustainability policies and targets is readily available.

LyondellBasell[xiii] Structure/materiality score **B3**

For 2022, LyondellBasell Industries NV [NYSE: LYB] exhibited a clear link between sustainability and performance-based pay. 30% of its short-term incentive scheme was linked to non-financial measures: 20% for safety and 10% for sustainability. On the sustainability front this was linked to the achievement of four clear quantitative targets, each carrying an equal weighting. These were:

- *Execute Power Purchase Agreements with cumulative value from January 1, 2021, of 700 GW of renewable electricity capacity.*
- *Progress CO_2 reduction projects at Wesseling and Botlek sites; Complete the Channel view Olefins roadmap.*
- *Develop Circulen marketing plan and achieve 150kt sales in 2022.*
- *Demonstrate MoReTec technology scalability through steady state operation (1 month) of pilot plant phase 2.*

However, while the introduction of a 10% sustainability factor for the short-term bonus in 2022 was flagged in the 2022 proxy statement (published April 2022) the actual targets weren't revealed until the 2023 proxy statement (published April 2023). We believe they should be disclosed upfront.

Lyondell Basell	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	✓	×	✓

The same situation is now in place for 2023: we know that 10% of short-term bonus will relate to sustainability. We just don't know what the targets will be. On a more positive note, clear performance against each of the four targets for 2022 was disclosed in the 2023 proxy statement: three exceeded and one failed to be reached.

Our second concern is on materiality. Short-term bonus payments are targeted to contribute 16% of CEO total compensation (18% for other NEOs); 10% of 16% equals 1.6%, an immaterial amount. Long-term equity incentives account for a much larger element of discretionary pay. Awards of these are linked to share price performance and financial metrics, with no link to sustainability.

PetroChina[xiv] Structure/materiality score **D5**

PetroChina Company Limited [SSE: 601857], part of the state-owned China National Petroleum Corporation (CNPC), has included low-carbon and green development into its corporate strategies, mapped out a three-step approach of "clean alternative, strategic replacement and green development", and set out the timetable and roadmap for carbon peak and carbon neutrality: *"We aim to peak carbon dioxide emissions by 2025, supply more zero-carbon energy than fossil energy consumed by 2035, strive for near zero emissions by 2050 and achieve carbon neutrality by 2060*".

We know that PetroChina has in the past implemented a performance-based pay structure, with variable components in their compensation accounting for approximately 70% to 75% of senior management officers' total potential compensation (roughly 1/3 short-term cash and 2/3 long-term share based). This form, if not exact mechanics, clearly still exists today with the 2021 annual report referring to both targets, assessment against targets and *"rewards and punishments were made on the basis of the performance evaluation*".

Petro China	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

In particular, Planet Tracker notes that "*Focusing on the shift to the low-carbon and green development model, the Company has restructured its business operations and reformed its organizational structure"*. What we don't know is whether this translates into a link between performance on sustainability matters and performance-based compensation. Until this is made explicit, it has to be assumed there is not.

Reliance Industries[xv] Structure/materiality score **D5**

Reliance Industries Limited [NSE: RELIANCE] remuneration policy for directors was approved by the board in January 2015. Given its vintage it is perhaps unsurprising that there is no direct reference to sustainability when arriving at performance-linked pay. There is, however, recognition of "*the importance of aligning the business objectives with specific and measurable individual objectives and targets". Linked to this, the "Annual Plan and Objectives for Executive Directors and Senior Executives (Executive Committee) shall be reviewed by the HRNR Committee and Annual Performance Bonus will be approved by the Committee based on the achievements against the Annual Plan and Objectives".*

Reliance Industries	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

Alas, what these targets are and what performance was achieved against them is not disclosed. Without this information, and without an explicit reference to the contrary, Planet Tracker has assumed sustainability is not yet part of the equation. Either way, given this opaqueness, we would question the company's statement that *"the remuneration policy is in consonance with existing industry practice".*

Saudi Aramco[xvi] Structure/materiality score **B4**

The Saudi Arabian Oil Group's ("Saudi Aramco") [Tadawul: 2222] annual report discloses aggregated data for the five highest paid employees. This comprises the CEO, CFO and three others. Aggregate fixed, short-term and long-term term compensation was 36%, 35% and 29% respectively in 2022. No individual details are provided.

According to the notes to the accounts, both the short-term and long-term performance-based compensation payments include links to sustainability:

- STI plan, an annual cash-based plan designed to reward performance in three areas (financial, operational, and safety and sustainability).
- LTI plan designed to reward key financial, strategic and environmental/sustainability performance over a three-year period.

Saudi Aramco	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	?	×	×

Unfortunately, no further details are provided. As a result, Planet Tracker cannot establish whether the targets are quantitative or qualitative, nor the level of materiality involved (i.e., what portion of each incentive is linked to the sustainability element), nor any other scheme quirks (i.e., if there is a profit-first hurdle to be cleared before the sustainability element is paid). In summary it is very unclear.

Sinopec[xvii] Structure/materiality score **B4**

China Petroleum & Chemical Corporation ("Sinopec") [SSE: 600028], sustainability report reveals a direct link between sustainability and performance-based pay: the company has *"linked the annual performance bonus of the leadership team to their appraisal result on response to climate change. For each point deducted, a certain percentage of his/her annual performance bonus will be reduced accordingly, up to 20% of the total amount". These and other ESG measures are obligatory targets and include "workplace safety (including but not limited to safety violations, accidents), energy conservation and environmental protection (including but not limited to greenhouse gas emission, pollutant discharges and emissions, energy efficiency management, environmental protection violation), anti-corruption management, operation compliance, risk management, etc".*

Sinopec	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	?	×	×

What is not clear is what quantum of the 20%-point deduction is linked to environmental sustainability, nor what the exact targets are, and whether they are quantitative or qualitative. The level of disclosure on the structure (i.e., target level of fixed and performance-based pay and performance against target) is also weak, with only aggregate actual amounts of total compensation by director disclosed in the company's annual report.

Containers & Packaging

The "containers and packaging" segment represents the midstream "converter" segment, taking raw SUP materials and forming them into packaging product. The ten selected companies are taken from Planet Tracker's own report, Paying for Transition,[xviii] and presented below in alphabetical order. Figure 17 shows the overall ranking by structure and material for this segment.

Materiality (Score: 1-5)	Structure (Score: A-D): No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantitative (C)	Link between sustainability and compensation possibly quantitative (B)	Quantitative link between sustainability and compensation (A)
Material (1)				
Noticeable (2)				Huhtamaki
Immaterial (3)			Berry Global	
Unknown (4)		Amcor Sealed Air		Toppan Printing
None (5)	Aptar Dai Nippon FP Corp Intertape Polymer Rengo			

Figure 17 *- Containers & packaging segment: ranking, by structure and materiality (Source: Planet Tracker)*

Amcor[xix]

Structure/materiality score **B4**

For Amcor Plc [NYSE: AMCR], *"efforts on sustainability are embedded in everything* they *do".* This includes embedding sustainability into its executive performance-linked compensation structures. However, Planet Tracker questions both the structure and the quantum:

- Strategy and Organization Development Goals ("SODGs") include progress on talent and organisational matters, delivery of strategic projects, and advancement of sustainability agenda. There is no clarity on what is being judged when it comes to sustainability, whether this is quantitative or qualitative, and what proportion of the total that it accounts for.

- SODGs account for 10-15% of short-term incentives. STIs account for a targeted 34% of CEO compensation and 27% for other NEOs. Assuming one third of SODGs relate to sustainability (there are three stated factors) then implied materiality, using the high end of the range figure of 15%, would be 1.7% for the CEO and 1.4% for the NEO. Planet Tracker views this as immaterial.

Amcor	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	×	×	×

In 2022 Amcor committed to join the SBTi. Perhaps this will be a catalyst for a move to a clearer and more material linkage?

Aptar[xx]

Structure/materiality score **D5**

Planet Tracker would expect a 99% say-on-pay approval rating, as achieved by Aptar Group [NYSE: ATR] in 2022, to come with compensation bells and whistles. We are therefore surprised to find that while Aptar has performance-linked compensation, extensive externally verified sustainability data, and wins on multiple sustainability accolades, the only link when it comes to compensation is with financial and share price performance.

Aptar	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	×	×	×	×

In the words of the company a *"mix of performance metrics supportive of our business strategy and compensation objectives".* Alas, under the status quo the two (metrics and compensation) do not meet.

Berry Global[xxi] Structure/materiality score **B4**

Berry Global Group Inc [NYSE: BERY] has committed to reducing absolute scope 1, 2 and 3 GhG emissions by 25.2% by 2025. It has a pay for performance culture, with 89% of CEO compensation performance based. Historically this has been purely financial performance. Despite this, its most recent say-on-pay vote came in at 96%.

In a positive step, for FY2023 onwards, Berry Global has decided that "*in order to tie executive compensation with the Company's climate-related goals" …" the short-term annual performance-based cash incentive will be comprised of three components that are tied directly to the financial and climate-related performance of the Company":*

- Adjusted EBITDA target (70% of the target award),
- Free cash flow target (20% of the target award), and
- Greenhouse Gas emissions target (10% of the target award).

With the short-term annual performance-based cash incentive accounting for 14% of CEO compensation and 18% for other NEOs, the inference is that the climate-related performance payment is worth 1.4% and 1.8% of CEO and NEO total compensation respectively.

Berry Global	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	?	×	×

Planet Tracker would hope that the GhG emissions target is quantitative – it certainly has the capacity to be - and linked to independently verified results. We would also hope that both the annual target and annual level of achievement is clearly communicated. However, at this stage, possibly because of its recent implementation, we are not aware of what target has been set.

Dai Nippon Printing[xxii] Structure/materiality score **D5**

Dai Nippon Printing Co Ltd ("DNP") [TYO: 7912] has a pay for performance policy, albeit proportionately much more modest than many of its western peers; the current structure aims for 70% fixed and 30% variable and this moves to 55% fixed and 45% variable with the introduction of a stock compensation component.

Dai Nippon	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	×	×	×	×

The current performance-based component is linked purely to delivery on financial targets. However, the introduction of a restricted stock compensation system (for executive directors and executive officers) *"reflects an intention to adopt a system that provides incentives for improving corporate value". Furthermore, "in the future, DNP* ***will consider introducing*** *non-financial indicators such as* ***environmental indicators*** *in addition to consolidated operating income and ROE".* Steps in the right direction, but not there yet.

FP Corp[xxiii] Structure/materiality score **D5**

Japanese packaging company FP Corp [TYO: 7947] has made a clear medium- and long-term decarbonisation targets. These include: i) by the fiscal year ending 31st March 2031, reducing annual CO_2 emissions from all business activities (Scope 1 and 2) by 31% compared to the fiscal year ended 31st March 2020, ii) increasing the reduction of annual CO_2 emissions from the use of Eco Products (Eco Trays, Eco APET, and Eco OPET) to 272,000 tonnes by the fiscal year ending 31st March 2031 (up 170% compared to FY2021), and iii) aim to achieve net zero CO^2 (Scope 1 and 2) emissions from all business activities by FY2051.

FP Corp	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

While it *"has built a structure for Board of Directors oversight with regard to climate-related policies, strategies and initiatives* (FP Corporation Eco Action 2.0)" Planet Tracker cannot find a link between this and variable compensation of executive directors.

Huhtamaki[xxiv] Structure/materiality score **A2**

'*Sustainability is a key element in Company's strategy and thus it's important that our pay is also linked to sustainability...In 2021 the Company introduced Huhtamaki Global Sustainability Index as one business objective in the short-term incentive plan".*

The index tracks Huhtamaki Oyj's [Nasdaq Helsinki: HUH1V] progress towards its 2030 sustainability ambition. KPIs within the index are linked to the company's sustainability dashboard and relate to items like the share of renewable or recycled materials, the share of renewable electricity and the share of non-hazardous waste recycled. This quantifiable approach is to be applauded.

Safety metrics are added to the sustainability elements to create the Huhtamaki Global Sustainability and Safety Index (GSSI). Performance against index targets then account of 20% of short-term incentive compensation.

Huhtamaki	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	×	×

Despite what looks like a very sensible and positive structure, there are still some issues. The first is visibility. Without disclosure of the actual index components, the scores achieved on each element and the weighting between sustainability and safety considerations, the process and results become opaque. The second is that with STI accounting for 32% of compensation and GSSI making up 20% of this, materiality starts becoming questionable: 32% x 20% = 6.4%...especially as part of this relates to safety.

Intertape Polymer[xxv] Structure/materiality score **D5**

Following its acquisition in 2022 by Clearlake Capital, we add a caveat that the below information relates to Intertape Polymer Group's ("IPG") [Private] prior life as a listed public company.

While IPG has committed to SBTi it has not yet had its pathway goals verified. It does however report extensive information on sustainability-linked items. This however does not translate into sustainability-linked performance pay.

Intertape Polymer	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

This is more disappointing as 20% of the annual short-term incentive payment is linked to what IPG terms *"higher business objectives"*, which *"consist of quantitative and/or qualitative objectives specific to the individual".* Furthermore, IPG also states that these typically include goals related to talent management, diversity, equity and inclusion as well as cross-agency collaboration". There is no mention of sustainability.

Rengo[xxvi] Structure/materiality score **D5**

Rengo Co Ltd's [TYO: 3941] motto is "less is more": less energy consumption, less carbon emissions and high-quality products with more added value. Perhaps unsurprisingly disclosure related to sustainability issues is good.

The company also operates a performance-based pay structure for executive directors. This includes both cash and share-based payments. However, Planet Tracker cannot identify the logic used to determine the level of at-risk reward and therefore it is assumed that there is no link between sustainability and performance-based pay.

Intertape Polymer	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

Sealed Air[xxvii]

Structure/materiality score **C4**

Sealed Air Corp [NYSE: SEE] emphasises the link it makes between sustainability and performance-based pay: *"Sustainability and Environmental, Social and Governance are strategic business imperatives at Sealed Air"*...and...*"In deciding these compensation elements, the Compensation Committee also considers the collective performance of the executive leadership team with respect to certain key strategic and operational goals, including Sealed Air's sustainability and environmental, social and governance priorities".*

Sealed Air	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	×	×	×

The reality, however, is that all the disclosed performance targets for both short- and long-term incentive schemes are financial in nature. The only sustainability consideration is an opaque adjustment factor decided on by the committee. The adjustment was 0% in 2021 and 0% in 2020. Vague, opaque and immaterial schemes are not particularly useful.

In 2022, the Compensation Committee determined that "*the current compensation programs were aligned with their long-term growth strategy and effectively reflect their progress on ESG priorities and long-term value creation for their stockholders".*

Planet Tracker believes the mechanics and communication could be significantly improved upon and indeed wonder what its compensation consultants are saying on the matter. Sealed Air engaged with 64% of its shareholders following a very weak say-on-pay vote of 54%. Topics discussed include "*business priorities and approach to sustainability issues—including inclusion of ESG metrics within incentive plans". It does however say they "will continue to review the opportunity to include specific ESG metrics in the Company's incentive plans". Hopefully this will happen soon, as at the moment it smacks more of greenwashing than any real attempt to incorporate sustainability into executive compensation.*

Toppan Printing[xxviii]

Structure/materiality score **A4**

Toppan Printing Co Ltd [TYO: 7911] provides highly granular sustainability disclosure, including quantitative sustainable development goals ("SDG") targets for a number of areas. It uses the level of attainment of SDG targets as one of two factors in determining director contribution to business performance, which is used when arriving at the level of short-term performance -related compensation. The other business factor is business segment consolidated operating profit. This quantitative link between sustainable performance and compensation is good.

Toppan Printing	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	×	×	×

However, it is not perfect. Firstly, the actual level of linkage is opaque. Business performance, which sustainability is part of, is secondary to overall operating profit. Secondly, the level of materiality is questionable. The target is that short-term incentives account for 20% of total compensation. If it is assumed that sustainability accounts for half of the business performance metric and that business performance is 40% (secondary) of the overall performance score, then sustainability is worth 4% of total compensation.

Fast moving consumer goods

The FMCG companies, also known as consumer staples, represent the downstream component of the plastic stream; containers & packaging, including plastic packaging, is an integral part of their products. Our 10 FMCG companies, shown in alphabetical order, were taken from the Break Free From Plastic Brand Audit 2022 Report[xxix], based on the analysis of five years of brand audit data which revealed these corporations as the Top 10 Global Corporate Plastic Polluters. Figure 18 shows the overall ranking by structure and material for this segment.

Materiality (Score: 1-5)	Structure (Score: A-D): No Link between sustainability and compensation (D)	Link between sustainability and compensation - not quantitative (C)	Link between sustainability and compensation possibly quantitative (B)	Quantitative link between sustainability and compensation (A)
Material (1)				Danone
Noticeable (2)				Coca-Cola Nestle Unilever
Immaterial (3)		Mondelez Procter & Gamble		
Unknown (4)			PepsiCo	Mars Philip Morris
None (5)	Ferrero			

Figure 18 *- FMCG segment ranking, by structure and materiality (Source: Planet Tracker)*

Coca-Cola[xxx] — Structure/materiality score **A4**

A very low 51% say-on-pay rating in 2022, compared to a five-year average of 92%, coincided with the decision by the compensation committee to tie certain sustainability goals to Coca-Cola Company's [NYSE: KO] short and long-term NEO incentive plans in 2022. Significantly, outreach feedback, including that from 13 out of 15 investors, pointed to other factors influencing this.

Most noteworthy, shareowners *"expressed support for recent compensation initiatives, and in particular, supported the incorporation of sustainability measures into* their *annual and long-term incentive programs*". Maybe it is time they started requiring this in other companies then!

Coca Cola	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	✓	✓

So, what does Coca-Cola's revised sustainability linked pay structure look like? For the short-term cash incentive element, 10% of this now relates to performance against DE&I targets. So, nothing for environmental sustainability.

For the longer-term three-year performance share unit component, 10% links to company sustainability targets. These are the achievement of predefined goals related to

1) the Company's World Without Waste packaging strategy (5% for global recycled polyethylene terephthalate (rPET) usage rate) and
2) its 2030 Water Security Strategy (5% for watershed leadership locations replenishment rate).

Targets for these have been clearly communicated (at 25% and 75% respectively), along with minimum and maximum target levels (to trigger 50% or up to 200% payout levels).

With long-term incentives accounting for a targeted 64% of total CEO compensation and with sustainability accounting for a targeted 10% of this the resulting implied sustainability payout is 6.4%. Just enough to start being meaningful.

Danone[xxxi] Structure/materiality score **A1**

Since 2018, Danone SA's [Euronext Paris: BN] long-term performance-linked share compensation (GRO) has included an environmental performance condition. In 2022, 30% of GRO was based on an "environmental" condition linked to its CDP rating. For the current year (2023) this has changed to three social and environmental criteria for 10% each, a health criterion, a nature criterion and a social criterion.

This links to Danone's reframed sustainability journey, articulated around 3 pillars: Health, Nature and People.

Danone	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	×	×

While qualitative and quantitative criteria are agreed by the board in advance, these are not disclosed until after the year has been completed for "confidentiality" reasons. We view this secrecy surrounding ESG type performance measures as unnecessary. Despite this, Danone achieved an 86.38% approval score at the Shareholders" Meeting on the 26th of April 2022 and annual retrospective performance is disclosed.

2023 also saw a change to Danone's short-term cash incentive drivers. 10% of this is now linked to the reduction of greenhouse gas emissions across the value chain (Scopes 1, 2 and 3) in 2023 against 2022 and a further 10% is linked to the percentage of Danone's sales covered by B-Corp certification in 2023. This compares to 10% employee engagement 10% and 10% gender pay gap in 2022 against 2021.

With short-term cash compensation accounting for 25% of targeted total compensation and long-term share-based compensation 50%, the inclusion of environmental sustainability elements in each result in a material linkage overall: 20% x 25% + 10% x 50% = 10% - something Planet Tracker views as positive.

Ferrero[xxxii] Structure/materiality score D5

While Ferrero International SA [Private] provides extensive detail on its policies relating to sustainability, its status as a private company means that it does not have to disclose named executive officer compensation detail.

Ferrero	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	×	×	×	×	×	×

As a result, it is unknown whether there is a link between sustainability actions and performance-linked compensation at the company. There is also no pressure that shareholders can apply to encourage change if there is not. The same is not true for providers of other forms of financing, including lending banks where it has a relationship.

Mars[xxxiii] Structure/materiality score A4

Similarly to Ferrero, for Mars Inc as a private company, details on executive compensation are scarce and difficult to corroborate. The company is, however, very clear on its sustainability policies and goals and is on record as of 2021 stating that it is linking executive pay to delivering greenhouse gas value chain reduction emissions. These are linked to the science-based climate target to achieve net zero greenhouse gas emissions across its full value chain by 2050, including all Scope 3 emissions (as defined by SBTi) such as those created by agriculture and suppliers.

Mars	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	×	×

Planet Tracker has given the company the benefit of the doubt that this has been both implemented and continued. The net result is a profile that puts many of the publicly listed companies to shame.

Mondelez[xxxiv] | Structure/materiality score **C3**

Mondelez International Inc [Nasdaq: MDLZ] has operated a link between sustainability and performance-based pay for several years. This results from ESG factor(s) featuring in the nine strategic KPI objectives that combined account for 20% of short-term cash incentive payout. Without digging into the detail, the initial reaction would be a positive one.

However, the first gripe is materiality. As of the last proxy statement, the nine KPI objectives were split into three "growth", three "execution and three "culture". Within execution one of the three KPIs is sustainability. All eight other KPI's relate to other "non-sustainability" items. If it is assumed that a 1/9th share for sustainability, then 1/9th x 20% weight x 18% target short-term incentive as a portion of total targeted compensation implies a sustainability link of just 0.4%. This is immaterial.

The larger long-term share-based incentive scheme (72% of CEO / 62% of NEO targeted total compensation) along with the remaining 80% of the short-term incentive are driven purely by financial and share price levers.

Mondelez	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	×	×	×

The second issue is opacity. In the words of the company, *"It is important to the Company that progress on the KPIs be assessed annually to stay on track to achieve our long-term strategic goals"*. Planet Tracker would agree with that; however, it cannot be established what the actual annual KPI for sustainability is.

The compensation committee views performance at the last time of reporting as "*in line with expectations on recyclability as approximately 95% of our packaging is now designed to be recyclable and the percentage of cocoa volume for our chocolate brands sourced through our Cocoa Life program grew to 75%*". It is not clear if they are the only two metrics and if changes, have been made to this past year's targets.

Furthermore "*the region strategic KPI ratings are a weighted average (on a net revenue basis) of the final KPI rating for each business unit in the region*" and this is before any guidance on whether the nine KPIs including sustainability carry equal weighting. So, examining the small print reveals important shortcomings.

Nestlé[xxxv] Structure/materiality score **A2**

15% of Nestlé SA's [SIX: NESN] short-term executive incentive payment is linked to ESG related KPIs. For 2022, these are related to deforestation, plastic packaging designed for recycling, reduction of water use in factories, affordable nutrition with micronutrients and the global youth initiative. Sustainability is clearly included but is only part of the criteria. With no clarity on weighting nor indeed on actual annual target or annual result for each KPI, the picture becomes unclear.

For 2023, the addition of GhG emissions reduction KPIs to the group's long-term share-based incentive scheme adds a clearer sustainability linkage. These GhG targets carry a weighting of 20%, giving an implied target materiality of 7.6% for the CEO and 6.6% for other NEOs. We assume they are quantitative in nature, are linked to Nestle's publishing goals, and are covered by EY's independent assurance programme. We have to assume however, as we do not have explicit details of what the KPIs actually are.

Nestle	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	×	×

So, Nestlé scores as having a material link between sustainability and executive compensation. Disappointingly, especially given the group's extensive disclosure on sustainability, the detail on actual targets, results and sub-weightings is lacking.

PepsiCo[xxxvi] Structure/materiality score **B4**

PepsiCo's [Nasdaq: PEP] long-term incentives, which account for 75% of targeted CEO total compensation and 65% for other NEOs, have no linkage to sustainability performance. They are based solely on financial and share price metrics.

Short-term incentives (17% and 21% of CEO and NEO targeted compensation respectively) do however have a link to sustainability. This is the result of the function of the "individual multiplier" factor. This factor ranges from 0% to 150% and is applied to the "business performance" score, which is based on financial targets.

So, if sustainability were the only factor in the "individual multiplier" then it could have a very material swing factor on performance-based compensation – up to 25.5% for the CEO and up to 31.5% for other NEOs, very material numbers.

However, more detailed analysis is needed. The company refers extensively to sustainability factors within executive pay disclosure, including the following:

'*Reducing greenhouse gas emissions is a critical part of our PepsiCo Positive (pep+) framework, a strategic end-to-end transformation with sustainability and human capital at the center of how we will create growth and value. Implementing solutions to address climate change is important to the future of our company, customers, consumers and our shared world".*

'As pep+ is integrated into our core business strategy, executive officers are held accountable for strategic imperatives which drive action and progress towards our long-term sustainability goals. As such, all executive officers have ESG goals incorporated into their individual performance objectives, generally tailored to the scope of their respective responsibilities".

'Holistic accomplishments pertaining to each stage of our value chain are considered including, but not limited to: agriculture, climate, water, packaging, people, expanded portfolio offerings, and/or innovative packaging solutions. These outcomes are taken into consideration by the Compensation Committee, in conjunction with the executive officer's broader contributions to PepsiCo's business imperatives, translating into their Individual Performance Multiplier, which ranges from 0% to 150% to allow for enhanced differentiation in pay-outs".

PepsiCo	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	?	×	×

The problem is, it is not known what actual items are included, how material a sustainability factor is in arriving at the "*individual multiplier*" factor, nor indeed what this multiplier, and the targets (quantitative or qualitative?) behind it, are for each executive officer. As a case in point, for 2022 the short-term incentive pay-out relative to target ranged from 103% for the CEO of PepsiCo Beverages North America to 216% for PepsiCo Foods North America. Externally, it is difficult understand how these pay-outs were calculated. The net result is a far from ideal opaque structure, exposing the company to potential accusations of greenwashing.

Philip Morris[xxxvii] Structure/materiality score **A4**

Philip Morris International ("PMI") [NYSE: PM] has sustainability linked factors as part of both its short-term cash incentive scheme and, since 2022, its long-term equity incentive scheme. In both cases these are just part of a wider set of non-financial factors which, despite extensive data disclosure, creates an element of opacity.

In the case of the short-term cash incentive scheme, which accounts for 22% of CEO and 27% of NEO targeted total compensation, "*championing sustainability*" is grouped with *"shaping tobacco harm reduction"* and these two combine to form one of five sets of targets to create pre-determined *"qualitative performance targets and analysis".* The resulting scores are aggregated to drive 15% of targeted short-term cash incentive payout. In the case of the CEO, this points to sustainability being (a small?) part of an amount equivalent to 3.3% of total targeted payout.

Long-term equity incentives account for a larger slice of target CEO and NEO compensation (67% and 46% respectively). Since 2022 sustainability's materiality in the pay equation has been significantly enhanced by the introduction of an "*operational sustainability"* score worth 10% of target long-term equity incentive compensation. This *"operational sustainability"* score is defined as *"an aggregation of key performance indicators pertaining to social and environmental impacts generated by the Company's business activities; it measures progress on the Company's efforts to tackle climate change, preserve nature, improve the quality of life of people in its supply chain, and foster an empowered, and inclusive workplace".* Again, sustainability is just one part of a group of ESG factors.

'Operational sustainability" and "Product sustainability" (a grouping of criteria that links more to the shift to smokeless product) combined account for 30% of long-term equity incentives. These two also combine to mirror PMIs "Sustainability Index" which is "*comprised of 19 KPIs across our most material sustainability issues, weighted toward product health impact".* The intention is that the index "provides additional transparency on how we define success and measure ESG performance". These create quantitative targets, with clear targets and annual reporting on progress...the net result is a tick in all our initial scan boxes.

Philip Morris	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	✓	✓

However we struggle with transparency. Not only is the wording confusing (with a risk that the headline sustainability word is taken at face value), but despite reporting on the 19 performance indicators, we struggle to link this back to the actual score used in generating a full, partial or over payout. Cross references between the proxy statement and the integrated report both seem to point to the other being the main source of information. We conclude that over complication breeds confusion and a lack of clarity; neither are helpful.

We do, however, recognise that the introduction of sustainability elements into the larger long-term equity incentive scheme is a positive. A view that some of PMI's shareholder's echoed when providing post say-on-pay interactive feedback: "*A number of shareholders singled out the incorporation of our Sustainability Index into our PSU performance metrics as a positive development".* However, we do wonder if they have subsequently tried to follow through the detailed workings. We have tried and still struggle to determine how much true sustainability elements drive the compensation outcome.

Procter & Gamble (P&G)[xxxviii]

Structure/materiality score **C3**

Performance-based pay accounts for an average of 88% for Procter & Gamble Company's ("P&G") [NYSE: PG] named executive officers' remuneration. It actively engages its shareholders: "*This year, we spoke with many of our shareholders, including most of our top 20 institutional holders, on matters of importance to them... they shared feedback on our efforts, impact, and disclosures across several aspects of ESG".* P&G achieved a 91% say-on-pay approval rating.

In 2021, P&G introduced a link between performance-based pay and progress on sustainability. This took the form of an ESG (adjustment) factor to the company's STAR award programme. The STAR award programme generates the short-term (option to take all of this in cash) compensation amount for senior executives. It consists of two parts: a "*business-based element"* and a *"company-based element".* These carry a 70% and a 30% weighting, respectively.

The ESG factor ranges between 0.8 and 1.2x and is applied solely to the smaller "company-based element". The targets to determine the ESG factor are set at the beginning of the year. For 2021-22 these were:

- greenhouse gas emission reduction
- sustainable packaging
- responsible sourcing of palm oil and certified fibre
- women and US ethnic representation at management and executive level

Procter & Gamble	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	×	×	×

While considerable emphasis is placed on the ESG-compensation linkage, there are two important flaws.

The first is that there is no granularity when it comes to the actual targets, the importance placed on each one (is it an equal weighting for the four?) and, aside from disclosure of the overall adjustment factor, the real level of achievement by target.

The second is materiality. With the STAR award accounting for 20% of total compensation, this equates to a very small reward for even full delivery on ESG items: 20% x 30% x 20% = 1.2%! Using actual figures for the Executive Chair, and the actual uplift of 1.1x (10%) in 2021, we calculate it added 0.5% to total compensation.

Both the opaqueness and the immateriality hardly justify the strong emphasis placed on linkage by the company. There is a risk that instead this appears more like a box ticking exercise.

Unilever[xxxix] Structure/materiality score **A2**

In 2017, Unilever Plc [LSE: ULVR] introduced a "Sustainability Progress Index" (SPI) factor to its executive officer compensation structure; an early adopter of linking sustainability and performance-based pay. The company has publicly stated that the remuneration policy is due for renewal in 2024. There will be much interest in what changes it makes.

As for the current system, the SPI factor accounts for 25% of targeted long-term performance share plan (PSP) based compensation. This long-term compensation has a target contribution of 44% to overall executive compensation, implying SPI accounts for 11% of total compensation. This is a material amount but encompasses three main "progress" areas: 'improve the health of the planet' / 'improve people's health, confidence and wellbeing' / 'contribute to a fairer and more socially inclusive world'. Eight quantitative KPIs are chosen by the compensation committee to capture these.

Unilever	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	✓	✓

For 2022, these included three in the "planet" area, two in the "people" area and three in the "fairness" area. It is not clear if the three progress areas carry equal weightings, or if the eight KPIs carry equal weightings, or if the weighting between sub-sets varies. This creates an element of opaqueness.

Furthermore, *in making their rounded assessment, the Compensation Review Committee and the Committee will also review both qualitative and quantitative progress across the wider Compass targets as well as delivery against the respective KPIs*. We are unsure what this means precisely.

Because of this, the actual amount of performance-based pay linked to environmental sustainability action cannot be established. However, Planet Tracker credits the disclosure of annual targets and results for each of the eight KPIs.

Food retailers

The "Food Retailers" (grocers/supermarkets) represent the B2C part of plastic's journey. This interaction and relationship with the end user/buyer is a significant part of the plastics chain. We identified the top 10 food retailers based on Bloomberg market share data. Figure 19 shows the overall ranking by structure and material for this segment.

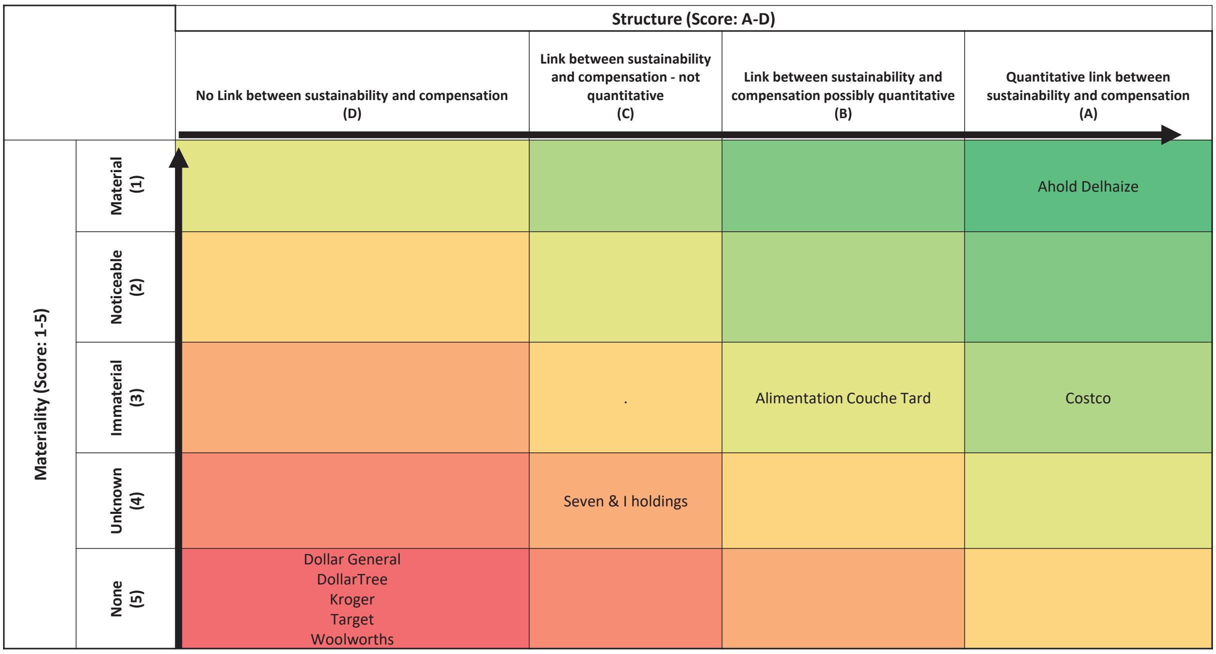

Figure 19 *- Food retail segment ranking, by structure and materiality (Source: Planet Tracker)*

Ahold Delhaize[xl] Structure/materiality score **A1**

We view Koninklijke Ahold Delhaize NV ("Ahold Delhaize") [Euronext Amsterdam: AD] as an excellent example of positive direction of travel to the point that it represents what the current level of best practice looks like among this universe of plastic-related companies. In short, its sustainability-linked performance pay structure is clear, quantitative and material.

Ahold Delhaize	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	✓	✓	✓	✓

This has been an evolving process. An ESG factor has been a feature of Ahold Delhaize"s performance-based pay for a number of years. Changes in 2022 include increasing the weighting of ESG factors in both the short-term cash (executive incentive plan (EIP)) payment and the longer-term three-year (global reward opportunity (GRO)) share-based incentive reward plan. These were increased from 20% to 25% for the EIP and from 15% to 25% for the GRO.

Another positive change actioned in 2022 came about because of dialogue with stakeholders where a recurring topic has been "*the call for increased transparency about the performance targets and intervals in our incentive plans.*" As a result, Ahold Delhaize is now *"committed to full, ex-post disclosure of all targets and performance intervals for all metrics in both the short-term and long-term incentive plans"*.

Momentarily, Planet Tracker was concerned to discover that whilst ESG for the EIP element had increased its share of performance, the actual ESG components had changed with carbon emission reductions (a feature in 2021) dropping out of consideration leaving just two factors for consideration: a) healthy sales (15%): the percentage of healthy own-brand food sales as a proportion of total own-brand food sales, and b) food waste reduction (10%): tonnes of food waste per €1 million food sales. The latter at least still has a sustainability angle.

However, the dropping of carbon emissions from the EIP element is more than made up for by the fact it is now the sole target for the increased (from 15% to 25%), and much more substantial, GRO performance-based pay component (58% of targeted total compensation versus 21% for EIP). Previously, the ESG element for GRO comprised the same three components as EIP: carbon emissions, healthy sales, and food waste reduction.

The net result is that sustainability-linked performance-based pay elements now account for a very material 16.6% of total targeted compensation: 2.1% via EIP (21% x 10%) and 14.5% via GRO (58% x 25%).

We view both the structure, clarity and materiality as a leading example.

Costco[xli]

Structure/materiality score **A3**

For FY2022, the Costco Wholesale Corp ("Costco") [Nasdaq: COST] changed its executive bonus structure to include environmental and social objectives. These account for 20% of non-equity incentive plan compensation. The remaining 80% is linked 40% to pre-tax income targets and 40% to sales targets. This is all the more remarkable given that CostCo unlike nearly all the other companies with a sustainability-compensation link, has not signed up to the science-based target initiative.

Costco	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	✓	×	×

For the CEO, the 20% relating to environmental and social objectives is based on "the achievement of quantitative performance metrics (including metrics concerning diversity equity and inclusion, resource consumption, and other environmental related areas)". This is paid out on an all-or-nothing basis depending upon whether a majority of the quantitative metrics are satisfied.

For the other NEOs, the 20% relating to environmental and social objectives is split into two parts: 12% on the same basis as the CEO is measured, also on an all-or-nothing basis, and 8% based on discretionary assessment by the CEO of the NEO's environmental and social achievements (including, without limitation, progress in controlling emissions).

Thus, there are two elements that need to be satisfied:

- a link between sustainability and performance-based pay and
- a quantitative measure of sustainability performance, if only in part for NEOs.

While applauding this step forward, Planet Tracker has two major reservations:

- Opaqueness – both in terms of what the different quantitative targets for environmental and social are and how they arrive at a conclusion that a majority have been satisfied.

- Materiality – these 20% pay-outs relate solely to non-equity incentive plan compensation, or in other words cash. Cash, we estimate, accounts from just 5% of targeted CEO and NEOs compensation. 20% of 5% is just 1% of total compensation, and only part of this 1% links to sustainability.

Given the above two criticisms, it is perhaps surprising that "*discussions by certain directors and management with a number of shareholders since the 2022 Annual Meeting have not revealed significant concerns about the structure or operation of the Company's compensation programs.*" Hopefully that will change, and the mechanics and materiality will be refined.

Couche-Tard[xlii] Structure/materiality score **B3**

With a new Sustainability Framework, guided by the three core pillars of "People", "Planet" and "Prosperity", launched in fiscal 2021 and a "*belief in the transparent disclosure of all facets of* their *executive pay programs",* Planet Tracker had high hopes for Canadian headquartered Alimentation Couche-Tard Inc ("Couche-Tard") [TSE: ATD]. Alas, these have proven to be unfounded.

The company claims to have incorporated an ESG element to its executive performance-linked compensation for several years. This is in the form of five equally weighted performance targets used to generate 65% of its long-term equity-based incentive payment. One of these five is "employee engagement", which the company deem ESG. Whatever it is, "employee engagement" certainly is not "sustainability", which is what Planet Tracker is looking for.

In 2022, Couche-Tard conducted a review of its executive compensation programmes with the assistance of an outside consultant, Willis Towers Watson. In the company's own words "*ESG is core to our long-term business strategy and has always been a key element of our success"*... and...*"to ensure ESG remains a key focus for our leadership team, we have included ESG goals in the determination of short-term compensation awards".*

As a result, short-term cash incentive compensation is now based 75% upon the achievement of the company-wide financial target (net income), and 25% upon the achievement of five individual key result areas (KRAs). All executive committee members are said to have KRAs that include elements relating to the company"s ESG ambitions.

Couche-Tard	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	?	×	×

We are informed these include both quantitative and qualitative measures, but not what they are (they may be sustainability-linked and they may not) and not what the specific performance against these is. We are however provided with a (weighted?) overall KRA performance level; in 2022 this was 86.86% of target. This level of opaqueness is disappointing.

If it is assumed that equal weighting for each of the five KRAs and that one does actually relate to sustainability, then there is an implied link between sustainability and total compensation of 1.3% for ACT"s CEO and 1.1% for other NEOs (27% and 21% STI/total compensation ratio respectively x 25% non-financial x 1/5th sustainability linked KRA). This is immaterial.

When combined with opacity, this points to possibly greenwashing - and for this it achieves a 98% say-on-pay approval rating - why shareholders are approving this structure, is puzzling.

Dollar General[xlii]

Structure/materiality score **D5**

After active shareholder interaction (>53% engaged) the 2021 say-on-pay vote generated a 90% approval rating. In the words of Dollar General Corp [NYSE: DG]:

"Because we view this outcome as very supportive of our compensation policies and practices, we do not believe the vote requires consideration of changes to the [compensation] program".

Dollar General	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

While 90% of CEO compensation is performance-based, unfortunately the company's pay for performance program includes no linkage to anything other than financial metrics (adj. EBIT, EBITDA and ROIC) and share price performance.

Shareholders are getting what they voted for and what the company's compensation consultant potentially supported…there is lack of linkage to performance on sustainability issues and indeed wider ESG matters.

Dollar Tree[xliv]

Structure/materiality score **D5**

Dollar Tree Inc's [Nasdaq: DLTR] compensation programme is "*grounded in a pay-for-performance philosophy to align pay outcomes with the interests of our shareholders*"…with…"*the ultimate goal that achievement of performance goals will drive long-term, sustainable shareholder value growth". So*, a reference to sustainable, but not with the desired meaning / linkage.

Instead, all of the company's executive officers' performance-based pay is linked to delivery on financial metrics: operating income for short-term cash payments / sales and EBITDA for long-term share-based schemes.

Dollar Tree	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

On a more positive note, it was only as recently as 2021 that Dollar Tree defined and measured their baseline carbon emissions footprint, set their first-generation goals to reduce the intensity of their greenhouse gas (GhG) emissions, and prepared a formal climate disclosure report. While it has yet to participate in the science-based target initiative, this first step of measurement and disclosure gives it an ability to add a quantitative sustainability metric to performance-based pay should it wish.

Kroger[xlv] Structure/materiality score **D5**

According to The Kroger Company ("Kroger") [NYSE: KR]: *"Our Aspiration: Protect and restore natural resources for a brighter future"..." Kroger is committed to reducing the impact of our business on our changing climate and assessing the potential future risk of a changing climate to our business operations"..."We also support the transition to a lower-carbon economy by investing in energy efficiency and renewable energy and by reducing refrigerant emissions and food waste"... Kroger is committed to strong corporate and ESG governance. Business and functional leaders are engaged in our ESG strategy and accountable for results".*

...and...

"Components of compensation should be tied to an evaluation of business and individual performance measured against metrics that directly drive our business strategy and progress toward our corporate ESG priorities"..."Compensation plans should provide a direct line of sight to company performance"..."In response to our shareholder feedback, we incorporated an ESG metric focused on diversity and inclusion into our 2022 individual performance management program"...."Our core values of Diversity, Equity & Inclusion are incorporated into compensation decisions made for our associates who supervise a team of others, which range from store department leaders through our senior officers".

...but...

Kroger	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	×	×	×	×

Despite a performance-based pay culture (target CEO "at risk" pay is 81% of total compensation), prior to 2021, there was no link to sustainability or any ESG factor when arriving at performance-based pay. While reference is made to the introduction of a company wide diversity, equity, and inclusion element for 2022 , this cannot be seen to follow through at the CEO and NEO level. Even if this is in place, it clearly does not cover environmental sustainability. This is disappointing given the emphasis placed on these by Kroger in its external communication based on interaction with shareholders and other stakeholders.

Seven & I Holdings[xlvi] Structure/materiality score **A1**

This is what Planet Tracker wants to see: *"The Company, aiming for a balance of corporate value and social value, **added a target to reduce the amount of CO_2 emissions** under the environmental declaration called "GREEN CHALLENGE 2050" made in May 2019, **as the KPI for performance-based and stock-based compensation** from the fiscal year ended February 28, 2021".*

The CO_2 emissions reduction target is set based on equal annual reductions to achieve the Seven & I Holdings' [TYO: 3382] goal of reducing emission from Group store operations by 50% compared to 2014 levels by February 2031. These targets and annual performance are disclosed.

Seven & I Holding	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	×	✓	✓	✓	✓

The resulting performance-based score (coefficient) is used as an adjustment factor to the primary long-term performance based and stock-based compensation pay-out based on performance against financial objectives (ROE and EPS). For fiscal 2023 onwards another adjustment coefficient in the form of employee engagement has been added.

The resulting long-term performance-based and stock-based compensation payout calculation is: (60% ROE delivery + 40% EPS delivery) x (CO_2 emissions performance plus employee engagement coefficients).

Long term performance-based and stock-based compensation accounts for 35% of representative directors' target compensation and 25% for directors, making them material amounts. Short-term cash performance incentives (30% and 25% respectively) remain purely financial driven.

While the move to clear and direct incorporation of a simple quantitative sustainability metric into the performance-based pay structure is to be applauded, there are still a couple of 'could do better' areas. These include:

- Opaqueness:
  - While the mechanics, targets and performance numbers are given, it is not possible using the disclosed information to tie this into the "coefficient" numbers that drive performance-based pay.
  - The addition of another metric (employee engagement) without disclosure of weighting considerations has clouded materiality.
- Prioritising financial performance:
  - If the financial performance is so weak that no pay-out is forthcoming, then the performance on non-financial matters (including CO_2 emissions) becomes meaningless in the context of performance linked pay (0 x 150% = 0).

Target[xlvii] Structure/materiality score **D5**

Outside of a 33% weighting to a "team scorecard" for short-term incentive payment, financial and share price (absolute and relative) dominate performance-based pay for Target Corp [NYSE: TGT]. The "team scorecard" covers progress toward strategic priorities.

Target	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	×	×	×	×

The last "team scorecard" indicators included: hold 2020 market share gains, advance progress on three-year enterprise DE&I goals, maintain strong team engagement, increase utilization of same-day fulfilment services, and increase guest engagement with Target Circle.

Disappointingly, environmental-linked sustainability has not made the list of strategic priorities; off-target and equally disappointing, Target still achieving a 93% positive say-on-pay score from shareholders.

Woolworths[xlix] Structure/materiality score **D5**

Woolworths Group Limited [ASX: WOW] "*considers climate change to be a material sustainability issue" and they "consider climate change as a Board-level strategic issue".* The company operates an executive remuneration structure that targets 1/3 fixed pay, 1/3 short-term incentive pay, and 1/3 long-term incentive pay. Both the short and long-term components contain non-financial components (40% and 20% respectively).

Woolworths	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
	✓	✓	✓	×	×	×	×

Neither are composed of explicit sustainability targets, although the company views sustainability as part of its long-term reputation metric, which accounts for all of the non-financial portion. This is measured using data from RepTrak, and measures brand reputation across four key metrics: trust, admiration, positive feeling, and esteem. While we like an externally verified score-based structure, we view the linkage to sustainability of this particular metric as too unclear (diluted and woolly) to count as a meaningful link.

CONCLUSION

This report highlights the immateriality of sustainability metrics in many executive compensation packages of plastic-related companies.

Investors, whether debt or equity, should not assume that corporate sustainability reports, environmental policies or positive environmental statements from management are reflected in executive compensation packages.

Secondly, even when pay structures reference sustainability metrics, do not assume it is material until a more detailed analysis has been undertaken. Do not take sustainability statements at face value. This analysis suggests that some corporates should proceed with caution to ensure that they do not fall foul of greenwashing regulation.

Thirdly, shareholders have, at a minimum, an annual opportunity to vote on executive remuneration. No special effort is required to formulate and win support for such a shareholder proposal to be tabled as it is a requirement in many countries that there is a pay-on-say. All that is needed is to ensure management compensation aligns with minimising risks and maximising returns. And for investors in plastic-related companies, a drive towards sustainable practices would appear prudent and a fiduciary duty.

Planet Tracker encourages debt and equity investors to ensure that plastic-related companies have management teams incentivised to deliver on sustainable targets and that these targets are material and quantifiable.

APPENDIX

Tables

***Table 11** Full Company scoreboard (Source: Planet Tracker)*

Segment	Company	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitive target(s)	Clear target disclosed	Clear annual performance	Score
SUP Producers	**Alpek**	✓	✓	✓	×	×	×	×	D5
SUP Producers	**Dow Chemical**	✓	✓	×	✓	✓	×	×	B3
SUP Producers	**ExxonMobil**	✓	✓	×	✓	✓	✓	✓	B4
SUP Producers	**Indorama Ventures**	✓	✓	×	×	×	×	×	D5
SUP Producers	**INEOS**	✓	✓	×	×	×	×	×	D5
SUP Producers	**LyondellBasell**	✓	✓	×	×	✓	×	✓	B3
SUP Producers	**PetroChina**	✓	✓	×	×	×	×	×	D5
SUP Producers	**Reliance Industries**	✓	✓	×	×	×	×	×	D5
SUP Producers	**Saudi Aramco**	✓	✓	×	✓	?	×	×	B4
SUP Producers	**Sinopec**	✓	✓	×	✓	?	×	×	B4
PC&P	**Amcor**	✓	✓	×	✓	×	×	×	C4
PC&P	**Aptar**	✓	✓	✓	×	×	×	×	D5
PC&P	**Berry Global**	✓	✓	✓	✓	?	×	×	B3
PC&P	**Dai Nippon**	✓	✓	✓	×	×	×	×	D5
PC&P	**FP Corp**	✓	✓	×	×	×	×	×	D5
PC&P	**Huhtamaki**	✓	✓	✓	✓	✓	×	×	A2
PC&P	**Intertape Polymer**	✓	✓	×	×	×	×	×	D5
PC&P	**Rengo**	✓	✓	×	×	×	×	×	D5
PC&P	**Sealed Air**	✓	✓	×	✓	×	×	×	C4
PC&P	**Toppan Printing**	✓	✓	✓	✓	✓	×	×	A4
FMCG	**Coca Cola**	✓	✓	✓	✓	✓	✓	✓	A2
FMCG	**Danone**	✓	✓	✓	✓	✓	×	×	A1
FMCG	**Ferrero**	✓	×	×	×	×	×	×	D5
FMCG	**Mars**	✓	✓	✓	✓	✓	×	×	A4
FMCG	**Mondelez**	✓	✓	✓	✓	×	×	×	C3
FMCG	**Nestle**	✓	✓	✓	✓	✓	×	×	A2
FMCG	**Pepsi Co**	✓	✓	✓	✓	?	×	×	B4

Segment	Company	Sustainability policy	Explicit sustainability goals	Science based targets	Sustainability - Compensation link	Quantitive target(s)	Clear target disclosed	Clear annual performance	Score
FMCG	**Philip Morris**	✓	✓	✓	✓	✓	✓	✓	**A4**
FMCG	**Procter & Gamble**	✓	✓	✓	✓	×	×	×	**C3**
FMCG	**Unilever**	✓	✓	✓	✓	✓	✓	✓	A2
Food retailers	**Ahold Delhaize**	✓	✓	✓	✓	✓	✓	✓	A1
Food retailers	**Costco**	✓	✓	×	✓	✓	×	×	A3
Food retailers	**Couche-Tard**	✓	✓	×	✓	?	×	×	B3
Food retailers	**Dollar General**	✓	✓	×	×	×	×	×	D5
Food retailers	**Dollar Tree**	✓	✓	×	×	×	×	×	D5
Food retailers	**Kroger**	✓	✓	×	×	×	×	×	D5
Food retailers	**Seven & I**	✓	✓	×	✓	✓	✓	✓	A4
Food retailers	**Target**	✓	✓	✓	×	×	×	×	D5
Food retailers	**Woolworths**	✓	✓	✓	×	×	×	×	D5

List of Abbreviations

Abbreviation	Meaning
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DE&I	Diversity, Equity and Inclusion
EBIT	Earnings before interest and taxes
	Earnings before interest, taxes, depreciation, and amortization
EIP	Executive incentive plan
EPS	Earnings per share
ESG	Environmental, Social and Governance
FMCG	Fast-moving Consumer goods
GHG	Green House Gas
GPS	Group Performance Shares
GRO	Global Reward Opportunity
GSSI	Global Sustainability and Safety Index
GW	GigaWatt
HRNR	Human Resources, Nomination and Remuneration
KPI	Key Performance Indicators
KRAs	key result areas
LTI	Long Term Incentive
NCCG	Nomination, Compensation and Corporate Governance
NEOs	Named Executive Officers
PSP	performance share plan
ROE	Return on Equity
ROIC	Return on invested capital
SBTi	Science based targets initiative
SBTs	Science based targets
SDG	Sustainable development goals
SODGs	Strategy and Organization Development Goals
SPI	Sustainability Progress Index' (Unilever)

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ABOUT PLANET TRACKER

Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. Our mission is to create significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a Net-Zero, nature-positive and just economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

PLASTIC TRACKER

The goal of Plastics Tracker is to stem the flow of environmentally damaging plastics and related-products that are creating global waste and health issues by transparently mapping capital flows and influence in the sector starting from resins production through to product-use. By illuminating risks related to natural capital degradation and depletion, investors, lenders and corporate interests across the economy will be enabled to create more sustainable plastics products.

ACKNOWLEDGEMENTS

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WITH THANKS TO OUR FUNDERS

Suggested citation:
Foulger A., Willis J., Bofiliou T., Plastics Compensation: Planet Tracker (2023).

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xlv Kroger: Link 1 & Link 2

xlvi Seven & I Holdings

xlvii Target

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