

GES and UN Global Compact - Communication on Progress 2015-2016

Our Commitment

GES joined the United Nations Global Compact in 2004 and we are strongly committed to its Ten Principles on human rights, labour rights, environment and anti-corruption. This is reflected in our Mission Statement, Code of Conduct and Independence Policy, as well as in our overall dedication to sustainable development, since the company was founded in 1992. In practice, this is demonstrated in our daily work of supporting asset owners and asset managers develop and implement integrated investment strategies with environmental, social and governance (ESG) considerations, to a large extent based on the UN Global Compact's principles.

GES is a signatory of the Principles for Responsible Investment (PRI) and the UN Caring for Climate. Furthermore, we actively promote the Global Reporting Initiative (GRI) amongst investors and companies and have certified our business services against the Responsible Investment Research Standard ARISTA®.

As part of our commitment, at the beginning of 2016, GES joined the Ethics Officers Coalition launched by the UN Global Compact Poland. The main goal of the initiative is to promote and implement principles of business ethics in Polish companies and institutions. The Coalition consists of more than 70 businesses entities and organisations including the National Bank of Poland, the National Fund for Environmental Protection, and the Social Insurance Institution. At the core of the initiative is a long-range programme whose first phase is planned for 2014-2020. In 2016, in close cooperation with the Polish Ombudsman, experts, representatives of public administration and business partners, the coalition defined the main challenges and discussed possible strategies to create a uniform ethical standard and its implementation in Polish enterprises. GES hopes that by joining this initiative and being an active member, we will contribute to raising ESG awareness among Polish companies and society as a whole.

Our external practical actions and outcome 2015-2016

Our premier opportunity to make a difference is through our services. They are based on international norms as expressed in the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for

Business and Human Rights as well as the UN Sustainable Development Goals. The philosophy behind GES' services is essentially that all international norms agreed upon between countries and their multilateral organisations are of importance to companies operating in those countries and that they eventually will be judged in accordance with these norms by the authorities, the public and their representatives, NGOs, media, etc. Therefore, these agreements serve as a reasonable foundation for evaluating companies.

During the reporting period, we represent more than EUR 1 trillion of investments worldwide, and monitor on daily basis over 20,000 securities, including listed companies from major world indices, as well as private equities and bonds.

GES' Business Conduct Engagement:

It has been another busy year for the Engagement team at GES, during which the following engagement activities have been undertaken:

- After the countries of the United Nations General Assembly adopted Sustainable Development Goals (SDGs) in September 2015, GES has been looking into how to integrate these into our work. We have mapped the SDGs against the issues already covered in our various engagement activities and concluded that these are already much aligned with the overarching purpose of the SDGs. GES has included SDGs framework into our engagement dialogue with companies where we try to find out more about how companies understand and work towards contributing to the SDGs. Also, GES highlights the goals during various meetings and conferences. By way of illustration, in May 2015 GES participated in the CSR conference in Bangkok which was focused on the practical side of the SDGs goal 5: *achieving gender equality in the context of social enterprises*. We hope that such efforts will raise awareness around the goals in the corporate world.
- At the beginning of 2016, GES commenced the second phase of Burma Engagement which will run for three years until 2019. For this round of engagement, we decided to include two new high risk sectors: textile and commercial banking, which resulted in many new companies being added to the engagement process, while others have been removed due to good progress. In recent years, there has been a lot of positive development in the country with the first parliamentary elections held in November 2015. However, the new government faces many challenges and the risk for investors remains high, which motivates further engagement with companies operating in Burma.
- Since September last year, GES visited 82 companies within the GES Emerging Markets Engagement programme. The engagement meetings were conducted in Russia, South Africa, Hong Kong, Brazil, Mexico, South Korea, India, Thailand and Malaysia. The onsite visits are important to build trust and

understanding of the purpose and process of GES' engagement work. GES recommends these companies to comply with the UN Global Compact principles and use the UNGC as a framework to structure policies, practices and disclosure on sustainability. Every year, we experience that several companies sign up to UNGC based on our recommendations. Furthermore, the companies show increased awareness of the importance of mitigating ESG risks and adopt relevant best practices.

- During 2015, GES developed its Carbon Risk Engagement Service, where we engage with 20 power utilities which are among the world's biggest carbon emitters. The engagement goal is to achieve improvements in carbon risk management within the companies, resulting in long term shifts towards carbon emissions in line with the Paris Agreement of December 2015. Overall, the companies have responded to GES efforts positively and significant progress has been documented. The experience from the carbon risk engagement is integrated into other GES' engagements as well to further increase positive climate impact.
- GES continues its efforts to raise investor awareness of and support practical action on children's rights. During the reporting period, we moderated a session at the Global Child Forum, held two webinars, launched a thematic engagement project focusing on children's rights in media and marketing, and issued Investor Guidelines for Children's Rights Integration.
- In May 2016, GES co-signed a letter to the Government of Turkmenistan as part of a collaboration urging the country to address the reported problem with forced labour in cotton cultivation. The Turkmen government controls the country's cotton industry and forces farmers and private and public sector workers to contribute to cotton farming under threat of reprisals such as losing their jobs or land. GES is requesting relevant clothing brands to work towards achieving full visibility throughout their supply chain. In addition, GES has long been cooperating with other stakeholders to raise awareness of and tackle the root problem itself.
- For the fourth year in a row GES is taking part in the Polish ESG Transparency Project, run in cooperation with the Association of Stock Exchange Listed Companies under the auspices of the Polish Government. As part of the project, GES provides ESG ratings of largest Polish listed companies (approx. 500 companies in 2016). The conclusions about ESG performance and transparency of Polish companies are later summarised in a report, followed by a conference held in Warsaw. By contributing to this project, GES feels it can influence Polish listed companies to better address environmental and social issues, and attract attention to Corporate Social Responsibility on the Polish market.

GES' Corporate Governance Engagement:



- GES' Corporate Governance team submitted a total of approximately 2,200 votes on behalf of four clients. In some cases, this means pre-AGM engagement with companies on significant issues. During the reporting period, GES held dialogue with a broad range of companies around the world in a variety of sectors, including finance, automotive and healthcare, on a range of topics, including board leadership, company strategy and remuneration.
- This year, the Aiming for A shareholder coalition started to expand its campaign on climate change reporting to include coal companies. It put forward resolutions at the AGMs of three UK-listed coal companies, calling for further information about topics such as resilience of the company's assets to changes in the energy system, research and development on low-carbon energy sources and public policy on climate change. GES believes that such information is important to allow shareholders to evaluate whether coal mining will be a viable activity in a low-carbon world and thus assisted a client to co-file these resolutions at two companies. In the face of a strong shareholder base, and well-tested arguments on climate change transparency, company management came out in favour of these proposals. The AGMs of both companies approved them with a resounding majority of over 95 percent. We envisage that improved reporting should help to encourage better long-term decision-making about addressing the risks of climate change.
- Fossil fuel companies were also the target of shareholder activism on water issues, in particular in relation to shale energy operations. Accordingly, the AGM of a number of US companies saw proposals that they should report the results of policies and practices to minimise potential adverse environmental and community impacts from hydraulic fracturing operations. In line with the principle that 'what gets measured gets managed', GES supported these proposals on behalf of a client at the meetings of three US companies, and were pleased to note the significant support at two meetings in particular. This should help to drive best practice at these shale energy operators, which, due to their public profile, set the tone for their peers in what has become a huge industry in the US.



Positive impacts of GES engagement:

GES is continuously conducting extensive engagement with hundreds of companies in order to make them improve ESG performance. The engagement activities consist of e.g. company dialogue and meetings, resolutions and voting, as well as coordination of the work of several of our clients.

During the reporting period notable progress has been achieved in GES'

engagement efforts with a number of companies regarding several of the UN Global Compact principles, for example:

Human rights	
	<p>Following engagement by GES:</p> <ul style="list-style-type: none"> - a hydropower company in Latin America updated its social responsibility policy in 2016 to explicitly recognise the rights of indigenous peoples. - a European forestry company made several improvements in the area of human rights during 2015/2016. Among other things a corporate-wide human rights assessment and board level training on human rights were conducted, as well as operational level actions against child labour and land rights abuses. - two companies, a Russian chemicals company and a French oil company, have confirmed to GES that they had terminated business links to the Western Sahara territory in the first quarter of 2016, because of human rights and reputational risks involved. Another one, American chemical company, aside from exiting the business, has taken a proactive and precautionary approach to improve routines and prevent future violations. The company has, among other things, updated its Code of Ethics, implemented compulsory human rights training for all employees, joined the UN Global Compact and consequently revised its key policies to be in line with the initiative's principles.
Labour rights	
	<p>Since 2015, GES has been focusing on the issue of the widespread forced labour in Thai fishing industry. As a result of our engagement efforts, one of the largest food companies in the world took measures to address the issues in its supply chain in Thailand. The company implemented a new management system that improves traceability and developed training programme for workers and boat owners, which includes topics such as best practices and emergency response process.</p> <p>GES has also been in dialogue with key players in the electronics industry on labour rights and supply chain-related topics. Some of the companies associated with inadequate labour rights and/or poor working conditions prefer not to</p>

	disclose their efforts publicly, therefore dialogue with GES is often the main channel of communication with the investors.
Environment	
	<p>GES has contributed to improved environmental performance at a large controversial mine in Peru linked to serious negative impacts on water accessibility and water quality in the region. The company implemented North American water monitoring standards and undertook a water monitoring programme with the community members taking part in the water sampling and analysis, as well as a separate independent sampling and analysis undertaken by the Peruvian national authorities. The company's serious approach to water concerns was confirmed during GES on-site visit to the mine.</p> <p>As a result of our clients continued persistence and active ownership, as well as other investors pushing for this change, a leading global resources company has amended its policy on the usage of riverine tailing disposal (RTD) with a declaration that the company will in the future build mines that rely on other methods of disposal of mining and processing material, and avoid RTD methods.</p>
Anti-corruption	
	<p>In 2015, GES broadened the scope of its corruption reporting, in consequence increasing its impact on companies in the field of corruption prevention. Including the business-to-business bribery in our monitoring and analysis was the most prominent change, which resulted in a robust increase in the number of companies engaged with, as well as in a more in-depth approach within the already existing engagements: for example, problems such as favouritism, nepotism and embezzlement have been highlighted.</p>

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