

GES and UN Global Compact - Communication on Progress 2016-2017

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, ever 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®.

At the beginning of 2016, GES joined the Ethics Officers Coalition launched by the UN Global Compact Poland and in 2017 GES continues to participate in the coalition. The main goal of the initiative is to promote and implement principles of business ethics in Polish companies and institutions. Presently, the Coalition comprises 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 and its first phase has been planned for 2014-2020. In 2017, in close cooperation with the Polish Ombudsman, experts, representatives of public administration and business partners, the coalition defined the main challenges and created a uniform ethical standard that is now being implemented in Polish enterprises.

Our external practical actions and outcome 2016-2017

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

(SDGs). The philosophy behind GES' services is essentially that all international norms agreed upon between countries and their multilateral organisations should be upheld by companies operating in those countries and that they 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.

GES represents more than EUR 1.5 trillion of investments worldwide, and monitors on daily basis close to 20,000 securities, including listed companies from major world indices, as well as private equities and bonds.

GES Business Conduct Engagement:

GES engages with companies through GES Business Conduct Engagement (BCE) on topics either directly or indirectly related to all 17 SDGs. During the reporting period, as part of BCE service, we exchanged over 2,200 different communications, including over 150 meetings and conference calls related to over 350 cases. In addition, the following engagement activities have been undertaken:

- In November 2016 GES participated and presented its work at an International CSR Conference in Tel Aviv. The conference had more than 700 participants from both public and private global enterprises. GES presented its engagement work together with a company with whom GES has engaged with for several years to improve its environmental and social preparedness and compliance when financing large infrastructure projects. GES contribution to the conference was recognised by both local and global participants and have led to further engagement regarding ESG in general.
- In 2017, GES published its new report *Combatting child labour in cocoa – investor expectations and corporate good practice*. The report is a part of GES Business Conduct Engagement focused on the child labour issue in the cocoa sector. The report sets specific investor expectations on cocoa companies to 1) roll-out systems to identify and remediate cases of child labour in the cocoa supply chain, and; 2) provide support to cocoa-growing farmers for them to move towards a living income. The report and the related investor statement will soon be shared with the cocoa industry and made publicly available during Q3 2017.
- In May 2017, GES responded to the consultation process on updating the Electronic Industry Citizenship Coalition's Code of Conduct. Our proposed changes to the Code included strengthening the practices and reporting on sourcing of minerals, enhancing the humane treatment of workers as well as the use of hazardous substances, among other things. We also proposed to add to the Code more transparency in the company's reporting.
- Throughout 2017, GES has been in dialogue with the Indonesian Tin Working Group (TWG) created by the Sustainable Trade Initiative (IDH), the Electronic Industry Citizenship Coalition (EICC) and Friends of the Earth (FoE) to address

the sustainability challenges of tin mining and smelting in Bangka and Belitung islands in Indonesia. GES has been discussing the different environmental and human rights aspects of sourcing and purchasing tin from the islands to more effectively engage with the companies involved in the process and to influence a responsible approach to the issue.

- GES continues its awareness rising efforts in Poland by participating in the sixth edition of the Polish ESG Transparency Project, run in cooperation with the Association of Stock Exchange Listed Companies and the Polish division of Ernst and Young. To help Polish companies relate to the rating results, for the 2017 edition of the project GES has altered the rating methodology and aligned it with the Polish standard for disclosing non-financial information. The rating covers approximately 150 listed on core Warsaw Stock Exchange indices. As previously, the screening results and conclusions will be summarised in a report and presented during a conference in Warsaw in November 2017.

GES Stewardship & Risk Engagement:

- GES continued to work on thematic engagements focusing on raising standards across industries and creating positive change in regard to some of the most challenging environmental, social and governance (ESG) risk issues. GES has ten proactive thematic engagement themes, including Burma (SDG 8, 9, 16, 17); Business ethics and culture (SDG 16); Carbon risk (SDG 7, 9, 13, 14); Children's rights (SDG 3, 5, 12); Cybersecurity (SDG 4, 5, 9, 17); Emerging markets (SDG 6, 7, 8, 9, 11, 12, 13); Palm oil (SDG 1, 2, 12, 13, 15); Pharmaceutical industry (SDG 3, 5, 6, 10, 12); Taxation (SDG 8, 10, 16, 17); and Water (SDG 6, 12, 17). Five of these themes (Business ethics and culture; Cybersecurity; Pharmaceutical industry; Taxation; and Water) were launched in 2017.
- In 2017, GES started engaging proactively with ten companies across the pharmaceutical, retail, food and IT sectors as part of its Taxation Stewardship & Risk Engagement. Our engagement focuses on encouraging companies to approach tax as a governance and risk management issue and to have an appropriate tax policy in place to ensure the shareholder value is preserved and grown sustainably.
- GES has continued the second phase of Burma Engagement which will run for three years until 2019. Halfway into this second round of engagement, some trends are visible. The best-in-class performing companies all belong to very high-risk industries (oil & gas and textiles). Facing the largest risks seems to create a necessity to be a frontrunner, with solid risk management in place. Several companies have global policies in place in areas such as human rights, third-party responsibility and anti-corruption. In many cases, the companies believe that having a strong global policy is sufficient, and do not see any need to implement a high-risk country approach. However, it is apparent that among several of the companies, there is a clear awareness of

risk in relation to doing business in Burma; demonstrated by local human rights due diligence and engagement with the government and other stakeholders.

- Since September last year, GES visited 92 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, The Philippines and Taiwan. 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 the UNGC based on our recommendations. Furthermore, the companies show increased awareness of the importance of mitigating ESG risks and adopt relevant best practices.
- During 2016 and 2017 GES continued 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. Incrementally, more investors have joined the engagement and the engagement has become increasingly sophisticated and specific. 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.
- In September 2016, GES travelled to Southeast Asia to meet with different stakeholders in the palm oil industry. One of the main events was the Innovation Forum conference in Singapore on deforestation in Asia, which had a strong focus on how palm oil producers and buyers, as well as NGOs and investors, can tackle the issue of unsustainable palm oil production. During the trip GES met with several palm oil producers including Indonesia's second largest trading plantation company by crude palm oil volume.

GES' Corporate Governance Engagement:

GES Corporate Governance Engagement is focused on corporate governance issues, such as board composition, succession planning, remuneration, shareholders' rights and ESG strategy.

- In the first half of 2017, we had 28 conference calls or meetings with 31 companies as part of the GES Corporate Governance Engagement. We targeted companies for engagement based on a number of criteria, including voting-related issues, event-driven concerns and portfolio characteristics, and


focused on materiality when evaluating companies and their risks. We also engaged with a number of companies on an ongoing basis that are dealing with controversies or crises, and we continued to engage with financial institutions that have been dealing with the fall-out from the financial crisis, particularly with regard to corporate culture.



- As part of its Proxy Voting service GES submitted votes to approximately 2,800 general meetings of companies in developed and emerging markets on behalf of three clients.
- GES also aimed to spread best practice by responding to two consultations on governance-related issues. In December 2016, we commented on the proposals to amend the German Corporate Governance Code. We welcomed many of the changes and pushed for greater transparency and disclosure from companies, focusing on independent directors, an explanation as to what each individual director brings to the Supervisory Board and additional disclosures on board evaluation, succession planning and how directors are selected. In February 2017, we responded to the UK government’s Corporate Governance Reform Green Paper, where we supported the introduction of reporting on pay ratios – a ratio comparing CEO pay to pay in the wider company workforce – and an explanation from the company about why the ratio is appropriate given the business and its strategy.


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"> - During a meeting in December 2016, a mining company agreed to increased transparency in its sustainability reporting in 2017. - A company involved in a hydropower project affecting indigenous communities in Panama confirmed to GES that the company has agreements in place with all families in the communities directly affected by the operation.

	<ul style="list-style-type: none"> - Two Chinese construction companies allegedly involved in forced eviction in Ecuador have reengaged with GES after a long period of none-responsiveness which resulted in a face-2-face meeting in Beijing in November 2016 with one of them and a legal representation of the other one. GES learned the latter company added further guidance to its risk assessment processes.
Labour rights	
	<ul style="list-style-type: none"> - A mining company GES has engaged with after some fatal police shootings at its mining site in South Africa requested biannual updates with GES, in order to inform GES and its investors on how its implementation of the Social and Labour Plan is progressing and in order to discuss any other issues. - A tobacco company alleged of improper labour practices in its supply chain in Bangladesh has expressed to GES its commitment in addressing labour issues in its supply chain. - GES revived the engagement dialogue with a global retail company after a coordinated action supported by a group of our investor clients. Consequently, GES arranged a constructive call in April 2017 in which the company recognised the value and effectiveness of reaching several investors through the GES-coordinated dialogue. - A food industry company informed GES of actions the company has taken to address allegations of improper labour conditions in the company's seafood supply chain in Thailand. Through constructive dialogue, GES has identified gaps and will monitor for developments.
Environment	
	<p>Since 2013, GES has been assessing several companies which are mining, processing and buying tin and tin-products from the islands of Bangka and Belitung (BB) where there are adverse effects of tin mining both on the environment and local communities. Several of the companies assessed by GES have joined the IDH Indonesian Tin Working Group (TWG) and embraced their responsibility for the situation. The initiative has been working on multiple levels towards finding solution to the negative effects of tin mining in BB. In 2016, the Roadmap of Sustainable Tin Mining Operations in Indonesia and the Incentives Guide for companies were published.</p>

Anti-corruption	
	<ul style="list-style-type: none"> - Due to the seniority of the personnel implicated, GES upgraded the engagement level with one of the world's largest diversified mining companies over illicit payment to Guinean government to secure the rights to the biggest untapped iron ore deposit in the world. GES will assess the company's anti-corruption policies and their enforcement, request a wider remit to their investigation and, request the enforcement of clawback provisions within the individual's remuneration packages. - GES continuously monitors the implementation of anti-corruption programme by a company central to a high-profile corruption scheme in Brazil. GES intends to continue dialogues with anti-corruption experts with regard to corporate operations in high-risk contexts.

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