

GES and UN Global Compact - Communication on Progress 2017-2018

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.

In 2018, GES decided to change its UN Global Compact membership status from signatory to participant. We expect that with over 25 years of experience in the field of responsible investing, we would like to share our experience and knowledge within the UN Global Compact arena and advance sustainability efforts globally.

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®.

Our external practical actions and outcome 2017-2018

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 1.7 trillion of investments worldwide, and monitors 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:

GES engages with companies through GES Business Conduct Engagement (BCE) based on reported violations of international norms relating to human rights, labour rights, environment and corruption. During the reporting period, as part of the BCE service, we exchanged almost 1.900 different communications, including over 120 meetings and conference calls related to over 380 cases. In addition, the following engagement activities have been undertaken:

- In October 2017, GES published a new report *Combatting child labour – Investor expectations and corporate good practice*, which is a part of GES longstanding engagement to fight child labour in the cocoa sector. Numerous meetings with cocoa companies and stakeholders have been held over the years, and GES has, together with a group of investor clients also visited the world's number one cocoa producing nation – Côte d'Ivoire. The report got a very good take-up in the investor community, with more than 60 institutional investors in various countries supporting the included investor expectations 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. Even though a lot of work remains, cocoa companies benchmarked in the report also strengthened their efforts on the topics above during the last year. GES is now preparing a follow-up report and more engagement with the companies.
- During our engagement trip to South Korea in December 2017, GES and a participating investor client met with some of the largest companies in the country. The engagement topics included a variety of issues such as health and safety management; responsible sourcing; developing and improving companies' anti-bribery programmes; and pushing for more transparency in reporting.

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 ESG risk issues. The different themes cover different spectrum of SDGs, but ultimately the entire Stewardship & Risk Engagement (S&R) programme addresses all of the SDGs. Currently, GES offers the following proactive impact-oriented engagement themes:

- Business ethics and culture
- Climate transition *
- Children's rights
- Cybersecurity

* These themes were added to the S&R programme in the reporting period.

- Emerging markets
- Food supply chain *
- Japan stewardship
- Pharmaceutical industry
- Plastics and the circular economy *
- Sustainable seafood *
- Taxation
- Water

Below are some selected developments during the reporting period.

- Since September last year, GES visited 89 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.
- GES has continued its engagement on water risks and stewardship with 19 companies from food and beverage, garment and mining sectors. The engagement is closely linked to Sustainable Development Goals, particularly SDG 6 and the underlying targets therein. Our ultimate engagement goal is to ensure that companies' approach to assessing and managing water risks proactively and efficiently contributes to long-term operational continuity; is environmentally sustainable; and respects the development needs of the applicable countries. During the reporting period, we delved deeper into the company-specific aspects where we had identified particular engagement potential or shortcomings. To complement these dialogues, GES has also engaged with four companies identified as sector leaders. These discussions have enabled us to broaden our understanding of best practices and explore more advanced topics than with the laggard companies, and we use them to encourage leaders to further improve their approach with the view of raising standards on sector and watershed level and prompting others to follow suit.
- In 2018, GES concluded its Carbon Risk engagement, in which we engaged with 20 of the world's biggest carbon emitters within the power utilities sector. The engagement goal was 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 responded to GES efforts positively and significant progress was documented throughout the engagement period. As a form of continuation, GES launched its Climate Transition engagement in the second half of 2018;

the new theme is focused on the carbon intensive Cement and Steel sectors which are both large industrial emitters and will face challenges to reduce a CO2 equivalent footprint in the context of growing infrastructure and demand for both materials.

- In February 2018, GES initiated a collaborative Sustainable Seafood Engagement, aligned with the Sustainable Development Goals 12 (Responsible consumption and production) and 14 (Life below water). In GES' view, it is important for investors and companies to ensure the risks associated with seafood consumption are proactively managed to secure a steady supply that can meet the increasing demand. A responsible approach both reduces risk and can help drive performance. The engagement is running for three years and focusses on key players in global seafood production (both wild fisheries and aquaculture) addressing environmental issues including overfishing, biodiversity loss, energy use, chemicals and antibiotics, impacts on marine ecosystems and coastal communities, by strengthening company policies, due diligence, management systems and disclosure.
- In 2018, as part of Food Supply Chain Engagement, GES conducted a pre-study which identified the most crucial labour rights issues to engage the food, beverage and food retailing sectors on. Subsequently, in Q2 2018, GES commenced engaging 20 companies in the sectors in order to elevate their efforts against child labour and forced labour (with particular focus on migrant workers in vulnerable positions). The engagement also advocates for a living income for smallholders and agricultural workers in agricultural supply chains.

GES Corporate Governance Engagement and Proxy Voting:

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

- From August 2017 to August 2018, we had 41 conference calls or meetings with 32 companies as part of the GES Corporate Governance Engagement. We targeted companies for engagement based on a number of criteria, including general meeting voting-related issues, event-driven concerns and portfolio characteristics, and focused on materiality when evaluating companies and their risks.

GES also provides proxy voting services to institutional investors, providing vote recommendations and executing votes on behalf of its clients.

- 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 four clients.


GES also aimed to spread best practice by responding to five consultations from September 2017 to August 2018 on governance-related issues and responsible investment.

- In September 2017, we responded to the EU High-Level Expert Group’s Interim Report on Sustainable Finance.
- In February 2018, we responded to the UK Financial Reporting Council’s consultation on revisions to the UK Corporate Governance Code. More information [here](#).
- In March 2018, we responded to the Hong Kong Stock Exchange’s consultation on a listing regime for companies from emerging and innovative sectors. More information [here](#).
- In April 2018, we responded to the French association’s AFEP and MEDEF on the revisions to the French Corporate Governance Code. More information [here](#).
- In July 2018, we responded to the EU’s Fitness Check on Public Company Reporting. More information [here](#).



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	
	<ul style="list-style-type: none"> - GES engaged with a company over its payments to Indonesian military forces to protect its mine and related concerns that such payments facilitate human rights abuses against the local West Papuans. The dialogue with us had been open and constructive and GES concluded that the company had sought to minimise the potential for human rights violations occurring and recognises the need to influence the previously poor behaviour of the Indonesian security services in relation to human rights. - GES has concluded it years-long engagement with a company over repeated complaints about alleged human rights violations as well as environmental pollution related to a mine situated in the indigenous highlands of

	<p>Guatemala. In the course of the engagement, GES held a number of conference calls with the company, visited the mine twice and met with the company in Guatemala, London, Copenhagen and Stockholm. The company adopted a new human rights policy that explicitly expresses commitment to respecting indigenous rights and engaged in a multi-stakeholder group in order to address human rights impacts related to water. In GES' view, the company has made significant progress and is committed to stakeholder transparency and inclusion.</p> <ul style="list-style-type: none"> - Since 2014 GES has been engaging with a company that through its subsidiaries had stocks in two companies operating in Western Sahara. GES expected the company to prove the mentioned operations were in line with the interests and wishes of the local Saharawi people as stipulated by the International Court of Justice resolutions, or to withdraw from the territory. In December 2017 the company informed GES that it had fully exited the territory and it no longer has any oil exploration licences in Western Sahara.
<p>Labour rights</p>	
	<ul style="list-style-type: none"> - GES has been engaging with the biggest global electronics' manufacturers on their labour rights practices for many years. Through the constructive dialogue with GES and other stakeholders, one of the key producers of electronics improved its routines and policies, and significantly enhanced the reporting on labour rights' issues, as well as committed to continuously working towards improving its own and the industry standards. GES continues to engage with other companies in the sector to achieve the goal of improving the working conditions. - During the course of GES' engagement with a company linked to repeated labour rights violations at its suppliers in China, the number of issues related to inadequate management of the supply chain and human capital went down dramatically, which, in turn, made the company less exposed to reputational damage and scrutiny. The company has recognised the importance of many labour issues discussed, which led to a quicker response to problems and lessened the possibility of operational stoppage or generating cost and liabilities. - GES engaged with a company over accusations that it, along with its subsidiaries in Turkey, Canada, Ghana and Morocco, has violated workers' rights to organise and be represented by a union of their own choice. Since the

	<p>beginning of the engagement, the disputes in Canada and Turkey have been resolved and the operations in Ghana and Morocco closed and the workers received delayed redundancy packages. The company communicated to GES that about 74 per cent of their operations had union representation.</p>
<p>Environment</p>	
	<ul style="list-style-type: none"> - GES continues to engage with one of the largest conglomerates in India on its transitioning into sustainable strategy and operations. The primary focus of the engagement is on the environmental issues, but it also includes the human rights aspect through the relations with local communities. Our dialogue ranges from the stakeholder outreach and improving environmental practices to ensuring that the companies have in place mechanisms to conduct the environmental and human rights due diligence for the future projects. - GES engaged with several companies involved in a copper and gold mine in Indonesian West Papua, Indonesia. The mine has been subject to criticism due to the nature and scale of environmental impacts from its waste practice of riverine tailings disposal (RTD). GES managed to meet with some of the companies and after extensive dialogue learned that even though the practice is controversial, the continued use of RTD at the mine will have a less adverse impact than the use of a conventional tailings storage facility and that through responsible management the negative impacts on the environment have decreased significantly. - GES also engaged with a company allegedly involved in several pollution incidents in its mining operations in Argentina, Chile and the Dominican Republic. GES learned through extensive dialogue as well as ‘investor day’ meetings, that the company invested in improving the infrastructure in Chilean operations; improved a community consultation and introduced an investment programme to train local community members to work at the mine or set-up supply companies to the operations.
<p>Anti-corruption</p>	
	<ul style="list-style-type: none"> - GES engaged with several companies in Brazil over their alleged involvement in a corruption scheme that was uncovered as part of the <i>Operation Car Wash</i> investigation. GES has been in dialogue and met with one company in São Paulo in June 2017. Since the company was charged for conspiring to violate the US Foreign Corrupt Practices Act and pleaded guilty, it has

	<p>implemented a robust ethics and compliance programme, which includes a third-party operated ethics channel, as well as strengthened its internal control mechanisms and risk assessments of suppliers, including suitable mitigation measures regarding high-risk suppliers. Another company, after initially denying allegations and refusing to engage with GES, opened up for dialogue. GES also engaged with a company central to the allegations which during a conference call with GES communicated, among other things, that a joint Code of Ethics is being developed together with other oil companies within the Brazilian Petroleum Institute. It is likely to be finalised by the end of 2018. The companies are still operating in high-risk contexts from a corruption point of view, but they have substantially improved their anti-corruption procedures and thus lowered the risk of new involvement.</p> <ul style="list-style-type: none">- GES has concluded its engagement with another company from Brazil over allegations of corruption, money laundering, and influence peddling. GES engaged with the company to strengthen parts of its compliance system. Based on the information obtained from the company and Transparency International assessment, GES concluded that the company has improved its ethics and compliance systems.
--	---

Hanna Roberts, CEO
September 1, 2018