

# GES and UN Global Compact - Communication on Progress 2018-2019

## **Our Commitment**

GES joined the United Nations Global Compact in 2004 and has since been strongly committed to its Ten Principles on human rights, labour rights, environment and anti-corruption. In January 2019, GES was acquired by Sustainalytics, a leading independent environmental, social and governance (ESG) and corporate governance research, ratings and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 20 years, Sustainalytics has promoted responsible business practices through our products and services, including a UN Global Compact Compliance offering.

Sustainalytics is committed to making the Global Compact and its principles part of our company's strategy, culture and day-to-day operations. This is reflected in our Vision, Mission and Values, in our Code of Conduct 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 ESG considerations, to a large extent based on the UN Global Compact's principles.

Due to the acquisition in January 2019 and the GES reporting cycle for COP, this will be the final report from GES International as a standalone report. As of next year, we will be integrated into the Sustainalytics' Annual Sustainability report – aligned with the UN Global Compact COP reporting.

## **Our external practical actions and outcome 2018-2019**

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.

## **Business Conduct Engagement/Global Standards Engagement**

GES engaged with companies through GES Business Conduct Engagement (BCE) based on reported violations of international norms relating to human rights, labour rights, environment and corruption/business ethics. In 2018, as part of this service, we exchanged almost 1.800 different communications, including over 110 meetings and conference calls related to over 380 cases at 280 companies. We successfully resolved more than 30 issues and almost 50 significant milestones were identified at companies. This service has since been integrated into Sustainalytics' service offering and rebranded as Global Standards Engagement – an engagement overlay for the Global Standards Screening tool. This engagement services remains the largest program with approximately 50 clients involved.

In October 2018, GES published a follow-up report to its 2017 report 'Combatting child labour – Investor expectations and corporate good practice', as a part of GES longstanding engagement to fight child labour in the cocoa sector. The follow-up report presents significant further roll-out of child labour monitoring and remediation systems in the two main cocoa producing countries globally, Ivory Coast and Ghana. It also reports a lot more movement from corporates on the topic of living income for cocoa-growing farmers. As an example, several cocoa and chocolate companies were involved in conducting living income benchmarks for cocoa-growing farmers in Ivory Coast and Ghana, finalised in 2018/19. In summary, even though a lot of work remains, cocoa companies benchmarked in the report and engaged by GES/Sustainalytics, strengthened their efforts on the topics above during the last year. The engagement continues, with several engagement meetings, stakeholder dialogues and cocoa conference participation by Sustainalytics and its investor clients in the pipeline.

## Stewardship & Risk Engagement

Sustainalytics continued to work on thematic engagements focusing on raising standards across industries and creating positive change on some of the most challenging ESG issues globally. The different themes cover different spectrum of SDGs, but ultimately the entire Stewardship & Risk Engagement (S&R) programme addresses all of the SDGs. Currently, Sustainalytics offers the following proactive impact-oriented engagement themes<sup>1</sup>:

- Child labor in cocoa\*
- Children's rights in media and marketing
- Climate transition
- Cybersecurity in healthcare\*
- Food supply chain
- Japan stewardship
- Localized water management\*
- Mining tailings legacy risk\*
- Plastics and the circular economy\*
- Sustainable seafood
- Taxation

Below are some selected developments during the reporting period:

In January 2019, Sustainalytics initiated a three-year engagement programme on **Plastics and the Circular Economy**. The programme focuses on how companies in consumer-facing sectors such as automotive, electronics, consumer goods and packaging are managing plastics within their sourcing and waste management strategies. The ultimate objective is to encourage companies to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products so as to enable a transformation of the plastics market towards sustainability. The work so far has been focused on establishing an initial engagement with 21 companies across the automotive, electronics, and consumer and packaging goods sectors. The target companies are measured up against six key performance indicator categories including governance and reporting, input in the production process and utility during use, risk and impact assessment, recycling practices and after-use, innovation, and stakeholder cooperation. Using these metrics enables investors to track and compare the development of individual companies in applying circular economy solutions to the issue of plastic waste.

-Sustainalytics has also continued its engagement on **Sustainable Seafood**, closely linked to SDGs 12 (Responsible consumption and production) and 14 (Life below water). The ultimate engagement goal is to ensure that companies approach to managing seafood sustainability risks proactively and efficiently contributes to long-term operational continuity and is environmentally sustainable. During the reporting period, substantial engagement dialogues with the companies have proceeded, and they all some level of commitment to sustainable seafood although gaps in performance are visible. Several of the companies in the engagement have expressed that the dialogue with Sustainalytics has contributed to highlighting the importance of sustainable seafood management for investors, which has resulted in increased efforts to create policies and programmes. In June 2019, Sustainalytics participated in a sustainable seafood engagement trip to the Faroe Islands together with investors. Apart from meeting with companies and other stakeholders, several onsite visits at aquaculture farms were carried out to study real-life management practices.

During the reporting period, Sustainalytics completed its three-year project on **Water**, which included engagement with approximately 20 companies in food and beverage, garment and mining industries with a particular exposure to water-stressed developing countries. The engagement objectives and KPIs were aligned with SDG 6 targets and the dialogue consisted of over 800 emails and 40 conference calls and meetings. In the course of the engagement, the target companies made most progress on evaluating water-related risks and developing mitigation measures, as well as assessing and addressing water pollution. Conversely, we saw least progress in connection to integrated water resources management. The engagement was preceded and followed by benchmarking assessments of a wider universe of companies in the three focus sectors in 2017 and

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<sup>1</sup> Themes marked by asterisk (\*) were added to the S&R programme in the reporting period.

2019 respectively, aimed at establishing the status and tracking developments in corporate water management in our three focus sectors. The 2019 results found that, as a whole, the companies we had engaged with displayed a greater improvement in water management over the two years of the programme than the 282 other companies in the universe. In summer 2019, Sustainalytics launched a new thematic engagement on water, focused on localised risks and interlinkages.

During 2018/2019, Sustainalytics engaged with 101 companies within the **Emerging Markets Engagement (EME)** programme, of which 76 were onsite meetings. The engagements covered companies in Argentina, Brazil, China, Hong Kong, India, Malaysia, Mexico, Russia, South Africa, South Korea, Poland, Thailand and The Philippines. Onsite visits serve to build trust and understanding of the purpose and process of Sustainalytics' engagement work. The EME programme is designed to give participating investors an in-depth and up-to-date insight into engagement companies' management of material ESG risks, while also supporting and encouraging companies to focus on the right issues to drive positive change. Company risk assessments are based on Sustainalytics' flagship product ESG Risk Rating, which enables impact through a focus on highest unmanaged ESG risks.

For 2019/2020, the EME programme is on track to exceed the activity level of the previous year. During the first half of the year, the ESG Risk Rating has been integrated into the engagement process, which has also led to a transition towards engagement selections based on highest unmanaged ESG risks. This approach is well aligned with the OECD Responsible Business Conduct for Institutional Investors.

In our **Food Supply Chain Engagement**, focused on raising the bar against child labour and forced labour in the food and beverage and food retailing sectors, about 20 companies were engaged during 2018/19. We saw general improvements labour rights due diligence, including mitigation and collaboration efforts. One company made substantial progress by publishing its new human rights strategy, to which GES (and later Sustainalytics) provided feedback. A focus area for this thematic engagement in 2019/2020 will be living income/living wages, among other issues.

In July 2018, Sustainalytics launched its **Climate Transition** engagement with the Cement and Steel sectors. The climate debate has shifted dynamically to transition, gaining urgency with the release of the 2018 Intergovernmental Panel on Climate Change report. The cement and steel sectors represent over 10% of anthropogenic emissions, and form a core element of built infrastructure and transportation. The engagement seeks to align with objectives of Climate Action 100+ and Task Force for Climate-related Financial Disclosures. It is closely linked to Sustainable Development Goals 6, 9, 11 and 13. The three-year engagement focuses on furthering financial and risk disclosure, science-based target setting, industry roadmaps, scenario analysis, technological innovation, resilient infrastructure, physical risk management, water stewardship, and industry positions consistent with climate objectives. Sustainalytics commenced selection and baseline reporting for 20 companies globally with a combined sizeable emissions footprint and comparatively high emissions intensity. The first round of conversations with engagement companies commenced in December 2018.

## **GES Corporate Governance Engagement and Proxy Voting**

Sustainalytics Corporate Governance Engagement is focused on corporate governance issues, such as board composition, succession planning, remuneration, shareholders' rights, approach to cybersecurity and ESG strategy integration within the context of the company's global strategy.

From August 2018 until August 2019, we had 34 conference calls and met with 28 companies as part of the Sustainalytics Corporate Governance Engagement. We have also attended two annual general meetings. 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.

Sustainalytics 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, Sustainalytics submitted votes to approximately 3,000 general meetings of companies in developed and emerging markets on behalf of four clients.



Sustainalytics also continued spreading best practice and knowledge sharing by taking part in discussions over changes in national governance codes on the European level and by attending governance-related conferences.

## Positive impacts of GES engagement

We are 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:

<b>Human rights</b>	
	<p>Following GES engagement efforts, two companies in the extractive sector made their first public human rights commitments in 2019. Sustainalytics is continuing the engagement with both companies on human rights due diligence and remediation.</p> <p>Sustainalytics has been engaging with several companies involved in imports of phosphate rock from Western Sahara for nearly a decade. During 2018, we engaged with a company that was a result of a merger between two of the largest importers of phosphate rock from Western Sahara. The company ended its legacy imports of phosphate rock at the end of 2018 and would no longer import phosphate rock. Furthermore, the company improved its human rights approach and responsible sourcing framework. Also, GES engaged with two other companies that had ceased its imports from Western Sahara but were still working in its responsible sourcing approach. During 2018 and 2019, these companies developed policies and processes regarding ethical sourcing and human rights due diligence across its business units and supply chain.</p> <p>Sustainalytics has engaged for a number of years with a major oil and gas producer regarding oil pollution in the Niger Delta and its related human rights impacts. We have encouraged the company to enhance disclosure as to the steps it has taken, both on its own and with other stakeholders, to address the recommendations of an environmental assessment issued by an international organisation. This has entailed producing a detailed 'gap analysis' of the company's reporting, evaluating progress against over 30 operational, technical and other recommendations. Over the course of the dialogue, we were able to discuss the issues with senior management and observed that the majority of the recommendations had been partly or completely fulfilled. For example, the company states that it has reassessed and/or remediated priority sites, made improvements to its remediation system and supported education, training and surveillance activities to prevent illegal tapping of pipelines. Although challenges remain, we believe that the engagement has helped to drive greater transparency and create momentum towards full implementation of the independent assessment.</p>
<b>Labour rights</b>	
	<p>Sustainalytics has concluded its engagement with a textile company regarding allegations of labour rights violations in its supply chain, including substandard working conditions such as lack of personal protective equipment, freedom of association and excessive overtime. Sustainalytics has had a constructive dialogue with the company, which has made progress related to the allegations and now has a human rights policy based on relevant international conventions, and a human rights committee in place. The company has also informed that it</p>

	<p>conducts regular monitoring of textile suppliers, covering 70 per cent of the production. At the same time, it has increased transparency in its public reporting by releasing a list of its main partners and publicly disclosing a list of fabric mills at the end of 2018.</p> <p>Sustainalytics concluded its engagement with a company in relation to allegations of human and labour rights violations in the company’s seafood supply chain in Thailand. As a response to the allegations, the company terminated business ties with those suppliers which might have been linked to improper labour practices and developed a strategy to address the above-mentioned issues. Over the course of the engagement, Sustainalytics discussed, among other things, traceability enhancement, supplier risk assessment, grievance mechanisms, as well as an education programme provided to migrants. In 2018, the company implemented its Fishing Vessel Improvement Programme and Vessel Code of Conduct (VCoC) to provide guidance to the fishing vessels from which the company sources. This also improved labour and ethical performance in the fishing sector. The VCoC is an extension of the Business Labour and Ethics Code of Conduct, which is based on 12 principles that are aligned with the UN Global Compact principles. Due to the measures taken by the company to address human and labour issues, Sustainalytics decided to resolve the case.</p> <p>Sustainalytics continues its engagement with another company over improper labour practices at Indonesian palm oil plantations owned by and supplying to the company. The engagement focuses on social topics including wages, temporary workers, child labour and forced labour. Over the course of the engagement, the company has developed a dedicated sustainability dashboard on the corporate website with information on traceability, supply chain management, grievance mechanisms and sustainability reports. The company provides details on the grievances logged through its own grievance procedure and the Roundtable on Sustainable Palm Oil Complaints System. The company has also formalized and continued collaboration with different non-profit organisations focused on improving labour practices across supply chains.</p>
<b>Environment</b>	
	<p>Sustainalytics has engaged a number of banks over involvement in financing of controversial hydropower projects related to environmental and human rights risks. Although banks often have limited leverage to influence hydropower projects once they are up and running, the engagement has led to some of the banks strengthening their internal credit policies and processes to also include non-financial factors such as environmental and social into the credit approval process. One bank has implemented a screening checklist based on International Finance Corporation standards, consisting of 25 environmental and social areas that need to be accounted for before approving a loan. Another bank has an exclusion list specifying the types of business it will not finance, to ensure addressing environmental and social risks.</p>
<b>Anti-corruption</b>	
	<p>Sustainalytics engaged with a Brazilian company over its alleged involvement in a corruption scheme that was uncovered as part of the Operation Weak Meat investigation. Sustainalytics has been in dialogue with the company and met them in person in June 2019. After the investigation started, the company has strengthened its ethics and compliance programme including the creation of a transparency committee, the incorporation of a Chief Compliance Officer and a new compliance and investigation team, and the implementation of a new compliance system, which includes employee training in conflict of interests, anticorruption and integrity; a robust whistleblower system to be used by both customers and suppliers; global policies and guidelines on anti-bribery and anti-</p>

	<p>corruption; and business partners monitoring. The company is still working in its ethics and compliance work, but it has substantially improved its anti-corruption procedures.</p> <p>Sustainalytics engaged with a South Korean company over its alleged involvement in a corruption scandal involving the impeached president of South Korea. Since the corruption scandal involved the top management, the company has made meaningful changes in its corporate governance and now all donations and sponsorships of a significant amount require approval from the Board. Furthermore, the company has strengthened the independence of the Board of Directors and its ethics and compliance program. The company is still working in its ethics and compliance work, but it has substantially improved its corporate governance and anti-corruption procedures.</p>
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Hanna Roberts, Engagement Director/Sustainalytics, previous CEO of GES  
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