

Quarterly Engagement Report

Q2 2022

Global & Thematic Engagement

Our Engagement Activities

As global investor with a strong Swiss heritage and pioneering role in sustainable investing, the asset management of Zürcher Kantonalbank with its Swisscanto brand recognizes that environmental, social, and corporate governance (ESG) factors can present material risks to portfolio investments and opportunities for better risk-adjusted returns.

Responsible and sustainability investing is our conviction and forms an integral element of our overall asset management strategy. We are convinced that integrating ESG factors result in better-informed investment decisions and generates value for investors and as a result for the society at large. Capital is allocated responsibly, sustainably and in a climate-friendly way with a focus on generating returns. Our investment stewardship activities complement our ESG-integrated investment focus and sustainability strategy.

Through our investment stewardship, we seek to promote sustainable business practices advocating for the compliance within renowned international principles and widely accepted ESG best-practice standards. This includes promoting compliant practices, check-and-balance principles, adequate pay-for-performances, stewardship of environmental protection and climate change, supporting biodiversity, fair labor practices, non-discriminatory work and the protection of human rights and other best-practice ESG topics. Our investment stewardship comprises the following active ownership elements:

- With **proxy voting**, we cast actively and responsibly our votes along our sustainable oriented mindset and strategy.
- By **engaging** actively with issuers, we promote best-practice ESG standards and convey our climate change message and strategy.

Engagement is primarily driven and led by our active, fundamental capabilities, mostly equity related but comprising also fixed income, as engagements drive both perspectives and benefits issuers overall irrespective of their listed securities. Our engagement activities are based on three major pillars as set out hereafter:

- **Direct dialogue with Swiss issuers:** Our focus is to create visibility among companies as an active and sustainable investor by promoting best-practice ESG in the interest of our investors by leveraging on our home base expertise.

- **Collaborative engagements:** The focus is to promote best-practice ESG on entire industries as well as to achieve environmental and/or social goals (i.e. 17 UN SDGs). These collaborative engagements are mostly driven by the UN PRI platform, but opportunistic direct interactions with companies by us alone or selectively with other investors also take place. In addition, we support various ESG initiatives such as ClimateAction100+, TCFD, TNFD, Climate Bond Initiative et al.
- **Global & Thematic engagements:** The focus is to promote best-practice ESG standards and our climate strategy on a global scale in our investors' interest. In addition, we focus within the thematic engagements on climate change, cleantech and biodiversity et al. We mandated Sustainalytics to leverage existing resources and to convey our key sustainability messages globally. Depending on relevance and materiality, we do also participate in these corporate dialogues.

We believe that the best way to promote improved market practices and ESG best-practice standards is through direct dialogues (engagements).

An important element is to convey our climate change strategy to issuers globally. We actively ask issuers to:

- Formulate ambitious and transparent climate strategy to reduce greenhouse gas emissions.
- Clearly define responsibilities and accountability for the definition, control and implementation of the climate strategy.
- Establish incentive systems for implementing the climate strategy (e.g. ESG KPIs in compensation schemes).

Besides our climate-related engagement, we do prioritize our engagements in general according to breaches against the UN Global Compact Principles and focus on promoting the UN SDGs. We believe that investors are well positioned to influence ESG best-practices among their investments, especially in material holdings. This document provides an overview of our global and thematic engagements.

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Quarterly Engagement Report

Q2 2022

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This report summarizes the shareholder engagement activities that Sustainalytics performed on behalf of Swisscanto. Use of and access to this information is limited to clients of Sustainalytics and is subject to Sustainalytics' legal terms and conditions.

For this Global Standards Engagement Quarterly Engagement Report, the engagement status updates and statistics cover a period of three months, i.e. from March 2022 to May 2022. The reporting period is dictated by the underlying Global Standards Screening, of which investors receive an update one month prior to the start of each new quarter. The Global Standards Screening identifies violations of international standards (such as UN Global Compact Principles et al.) and this determines which new Global Standards Engagement cases are opened.

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Global Standards Engagement

Executive Summary

On 24 February 2022, Russian troops invaded Ukraine from Russian and Belarusian territories. At the beginning of March, the United Nations General Assembly, in an Emergency Special Session under its 'Uniting for Peace' mechanism, adopted a resolution that severely condemned the Russian Federation's aggression against Ukraine as a violation of international law. Additionally, on 16 March, the UN's highest court, the International Court of Justice (ICJ), made an unprecedented verdict under the 1948 Convention on the Prevention and Punishment of the Crime of Genocide and ordered Russia to immediately suspend all of its military operations within Ukraine and its internationally recognized borders. The ICJ's verdict constitutes an exceptional ruling as it is the first judgement in the ongoing legal battle between Russia and Ukraine since Crimea's annexation.

Beyond the many casualties and other humanitarian tragedies, the conflict's direct impacts and the global response to it have resulted in severe repercussions for the global economy, as well as Russian and Belarusian issuers and investors. The magnitude of EU and US sanctions that have been imposed in the last few months is unprecedented in recent memory. There are no doubts that the war's economic, social, and environmental effects will be long lasting.

We have been monitoring the evolving situation for potential impacts on the assessments of companies in the Global Standards Screening and Global Standards Engagement coverage universe. This resulted in status changes for Russian and Belarusian controlled or state-owned enterprises (SOEs) in sectors identified as playing a central role in the conflict; we assigned Disengage status to a number of Russian and Belarusian entities.

In addition to this decision, during the last period, we initiated four new engage cases and concluded three engagements.

New engagement cases

- **Li Ning Co Ltd**, a Chinese sportswear and sports equipment company linked to forced labour of Uyghur people in the Xinjiang region of China through its supplier.
- **Medtronic PLC**, a medical device company, which develops and manufactures therapeutic medical devices for chronic diseases, involved in repeated quality and safety issues related to its medical devices.
- **Starbucks Corp.**, a US company operating as a roaster, marketer, and retailer of specialty coffee, allegedly interfered with its workers' right to organize or join unions at several of its stores in the US.
- **Tesla Inc**, a US company specialized in electric cars production, accused of repeated workplace racial discrimination and harassment at its Fremont plant in California (US).

Resolved engagements

- **Dow, Inc.**, formed in April 2019 after spinning off from DowDuPont (itself formed by the merger of Dow Chemical and DuPont in August 2017). The company was involved in several controversies related to the health impacts of its crop protection and other products, including the pesticide chlorpyrifos. The engagement dialogue was meaningful, and the company has significantly enhanced its product safety policies and procedures and has not experienced any new serious incidents related to the adverse health impacts of its products.
- **DuPont de Nemours, Inc.**, and its former parent company, involved in the systematic under-reporting of several long-term pollution incidents arising from their operational practices. The engagement was ongoing since 2018 and the company has considerably improved its internal 'responsible care management system'. The company also confirmed that all of its contamination liabilities fall under another company - The Chemours.
- **Volvo AB**, a Swedish commercial vehicle manufacturer, whose products have allegedly been involved in significant incidents relating to alleged human rights violations in Egypt, Myanmar and the Occupied Palestinian Territories. Since 2019, the company was open to our feedback and recommendations to align with the United Nations Guiding Principles on Business and Human Rights (UNGPs). As a result, it has demonstrated leadership in the industry by adopting a responsible sales policy framed by the UNGPs and embedded across the company.

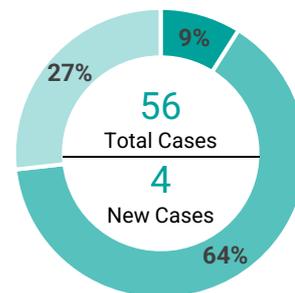
Quarterly Statistics March – May 2022

During March – May 2022, Sustainalytics has continued our dialogue to track specified engagement goals and to seek measurable results of business conduct changes in relation to 56 Engage and Resolved cases¹.



Cases by Theme

Environmental	5
Social	36
Governance	15

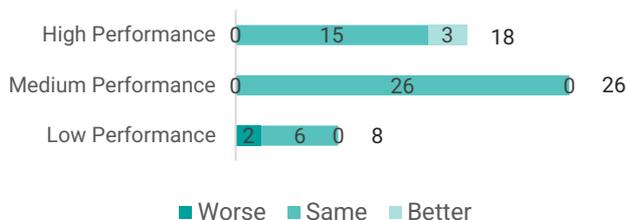


Case Status Overview

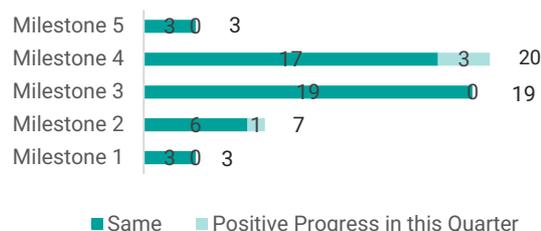
	Engage	Associated	Disengage	Resolved	Archived
New Status in this Quarter	4	0	0	3	0
Total	53	1	1		



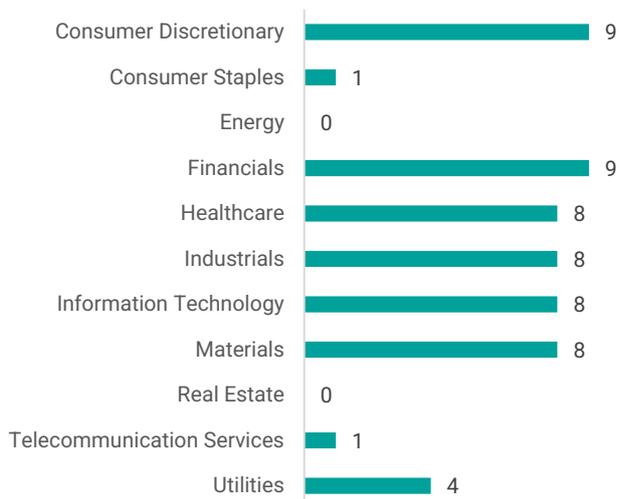
Engagement Performance Overview²



Milestone Overview



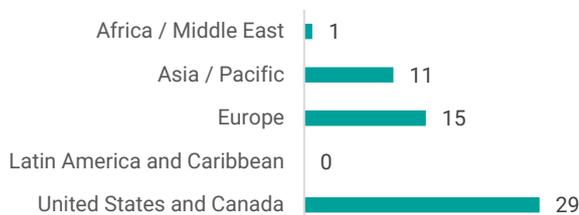
Cases by Sector



Cases by Norm



Cases by Headquarter

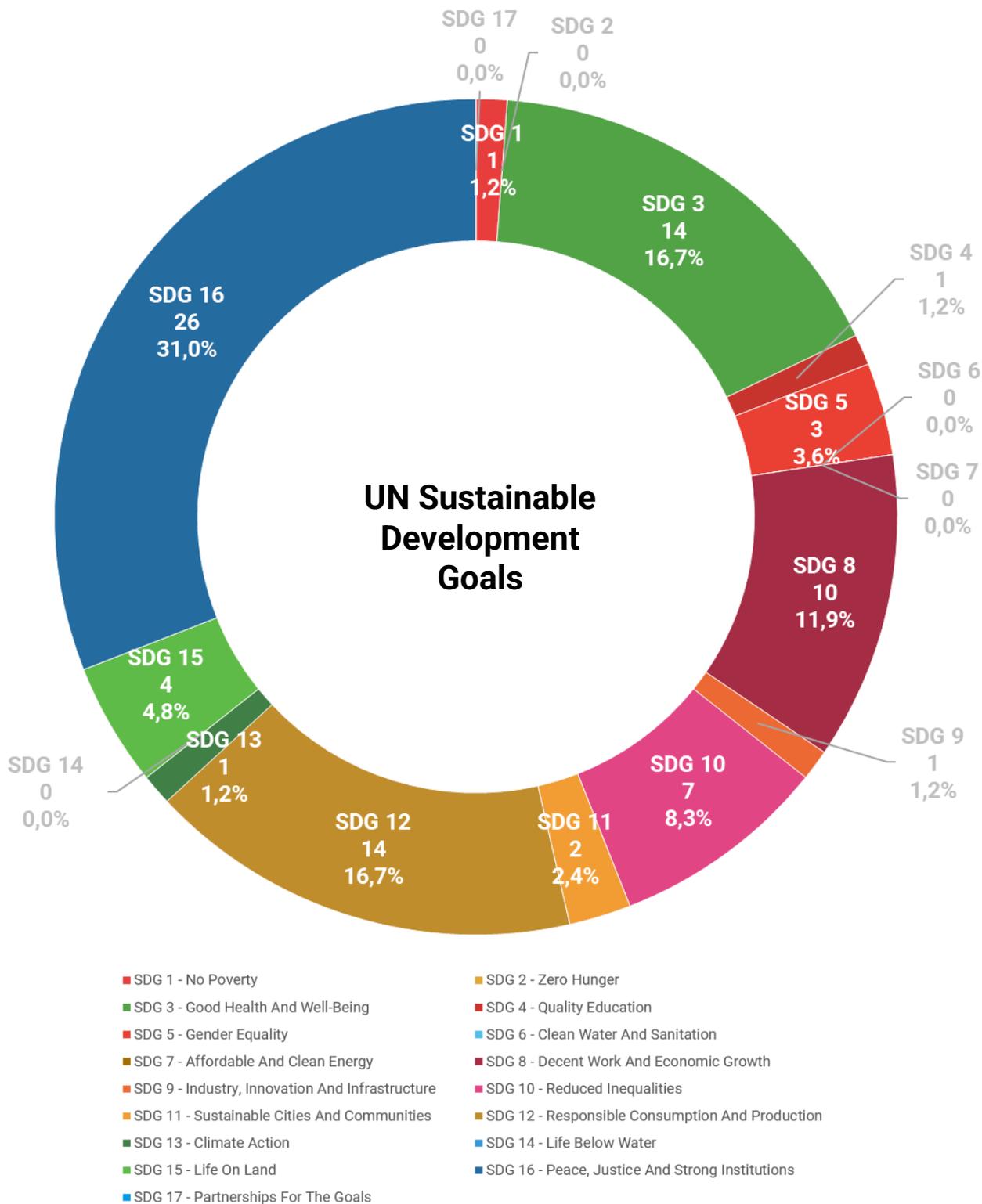


¹ The quarterly statistics is mapped according to Swisscanto's portfolio focus list which is updated on quarterly basis. Therefore, the statistics is refreshed every quarter.

² Four new cases were opened at the end of Q2, 2022. Within the next quarter, their performance and milestone assessments will be available and included in the statistics.

UN Sustainable Development Goals Attribution

56 Engage and Resolved cases in this quarter can be attributed to the following SDGs. The count within the chart below might add up to more than these cases as a case can relate to more than one SDG. We map the Global Standards Engagement cases with relevant SDGs and our engagement dialogue aims to work toward achieving the sustainable outcomes.



Companies Mentioned in this Engagement Brief

● Engage ● Associated ● Disengage ● Resolved ● Archived

● DOW INC.	10
● DUPONT DE NEMOURS INC.	11
● LI NING CO LTD	8
● MEDTRONIC PLC	8
● STARBUCKS CORP.	9
● TESLA INC	9
● VOLVO AB	12

Engage Cases

Li Ning Co Ltd

Background

Chinese sportswear and sports equipment company LI NING CO LTD (Li Ning) has been linked to forced labour of Uyghur people in the Xinjiang region of China through its supplier, Xinjiang Jinfujie Clothing (Jinfujie). According to various news reports, from 2016 to 2018 the company recruited and trained around 6,000 'minority peoples' from different areas of Xinjiang. In 2018, 54% of its workforce consisted of ethnic minorities. The company has reportedly conducted ideological, language and military-style work training with these workers. Images online show Uyghur workers marching and singing under 'military-style' management, apparently separated from other workers. Jinfujie also reportedly stated in 2018 that it manufactured its products inside the Kashgar Education and Training Center, which the Australian Strategic Policy Institute and other sources have reported to be a re-education camp.

Engagement Objective and Activity

Li Ning should undertake due diligence activities and provide disclosure on relevant policies on labour rights. It should also improve its overall transparency and provide disclosure on its supply chain to ensure its suppliers commit to respecting labour rights. The company should also adopt a grievance mechanism that is accessible to all workers.

Next Step

Sustainalytics will request a conference call with Li Ning to discuss the working conditions of the Uyghur people and the changes we would like to see the company make.

STATUS

Engage

ISSUE(S)

► Forced Labour – Supply Chain

ENGAGEMENT MANAGER



Eliot Bianco
Manager
London

CONTRIBUTION TO SDGs



Medtronic PLC

Background

Between 2018 and 2021, MEDTRONIC PLC (Medtronic) issued 25 Class I recalls. According to the United States Food and Drug Administration's (FDA) communications, Medtronic's faulty devices across different product categories resulted in 21 deaths and over 2,000 injuries. The company has disclosed that one of its subsidiaries (Covidien), which supplies pelvic mesh products, is currently undergoing litigation involving an estimated 16,200 claimants. Since 2008, about 10,000 patient lawsuits have claimed that Medtronic marketed its Infuse product for off-label uses that contributed to patient injuries and, in some cases, death. In December 2017, Medtronic paid USD 12.5 million to settle a lawsuit. As of spring 2022, several law firms are investigating cases of faulty HeartWare pumps, indicating that litigation is pending in relation to these products. The product recalls and FDA involvement contradict what appears to be a strong product quality and safety programme, highlighting potential gaps in the company's management of its product quality and safety.

Engagement Objective and Activity

Engagement will focus on two main aspects: ensuring that the company takes appropriate actions to address the negative impacts of its products and developing a strong culture of adherence to quality and safety. Furthermore, the company will need to be more comprehensive with its disclosures of product-related data.

Next Step

To commence engagement with the company in order to seek greater clarity in regard to the existing culture of quality and safety. This engagement will seek to understand where the gaps are that led to the FDA recalls, and then map out responses to those gaps.

STATUS

Engage

ISSUE(S)

► Quality and Safety

ENGAGEMENT MANAGER



Joe Attwood
Associate Director
London

CONTRIBUTION TO SDGs



Starbucks Corp.

Background

Between March and May 2022, the National Labor Relations Board’s offices in Buffalo, Phoenix and Memphis, US, issued complaints against STARBUCKS CORP. (Starbucks) for unfair labour practices and violations of the National Labor Relations Act. Since 2021, individual Starbucks stores in the US have seen increased union activity, leading to more than 50 US Starbucks cafes having elected to join a union. Workers and the union reported that Starbucks has used anti-union tactics at several US stores. According to the allegations, Starbucks has threatened to close unionized stores, laid off seven pro-union workers, tried to drive out pro-union workers by reducing their hours and surveilled workers. Moreover, the company has allegedly regularly sent anti-union text messages to workers, launched an anti-union website, forced workers to attend mandatory ‘captive audience’ meetings, and tried to pack bargaining units with newly hired employees, training them separately from pro-union workers.

Engagement Objective and Activity

Starbucks should ensure no anti-union practices take place within its operations. Alongside co-operating with investigations by authorities, the company should take appropriate steps to identify barriers to unionization and to introduce corrective actions. The company should ensure its policies and practices addressing freedom of association and labour rights are aligned with international standards and implemented throughout its operations. Relevant policies and reporting should be transparent.

Next Step

Sustainalytics will take steps to establish a dialogue with Starbucks. Through the engagement, Sustainalytics will work with the company to understand the steps it is taking to uphold expectations of free association, specifically, and labour rights, broadly.

STATUS

Engage

ISSUE(S)

► Freedom of Association

ENGAGEMENT MANAGER



Matthew Barg
Associate Director
Toronto

CONTRIBUTION TO SDGs



Tesla Inc

Background

Over the past few years, employees from TESLA INC (Tesla)’s Fremont, California plant in the US have accused the company of repeated workplace racial discrimination and harassment. Workers have reported discrimination in job assignments, discipline, pay and promotion. There are also individual lawsuits alleging female workers experienced sexual harassment. In August 2021, a former employee at the plant won a court ruling and received more than USD 1 million, after claiming that his supervisors had regularly referred to him using a racial slur. In October 2021, a jury ruled that Tesla must pay USD 137 million to a contractor who said he had suffered racist abuse while working at the plant in 2015 and 2016. In February 2022, following an investigation, the California Department of Fair Employment and Housing (DFEH) said it had received complaints from hundreds of workers and found evidence that Tesla’s Fremont plant is a ‘racially segregated workplace.’ As a result, the agency filed a lawsuit against Tesla alleging systematic racial discrimination and harassment.

Engagement Objective and Activity

Tesla is expected to have the incidents investigated by an independent third party with which it should fully participate. Tesla should reinforce anti-discrimination policies by conducting related sensitization training to move towards a culture of gender equality, diversity and inclusion. The company should also enact a grievance mechanism and appoint senior-level anti-discrimination and human resource experts.

Next Step

Sustainalytics will request a conference call with Tesla to discuss the discrimination issues and the changes we would like to see the company make.

STATUS

Engage

ISSUE(S)

► Discrimination and Harassment

ENGAGEMENT MANAGER



Eliot Bianco
Manager
London

CONTRIBUTION TO SDGs



Resolved Cases

Dow, Inc.

Background

DOW INC. (Dow) was formed in April 2019 after spinning off from the then-DowDuPont (itself formed by the merger of Dow Chemical and DuPont in August 2017). The company was involved in several controversies related to the health impacts of its crop protection and other products, including the pesticide chlorpyrifos. The chemical is classed as a potential carcinogen and has been subject to a number of class actions as a result of its presence (at significant levels) in drinking water at a number of locations in the US.

Engagement Objective

The overall objective of the engagement was to understand from the company how it addressed the environmental and health legacies associated with the long-term production, marketing and associated use of its chlorpyrifos chemical. Furthermore, the engagement was to focus on an understanding of what changes it had introduced to its research and development protocols to mitigate the potential impacts of future products.

Engagement Activities

Sustainalytics has been in dialogue with Dow since it was formed in 2019, as a consequence of the de-merger of the DowDuPont chemical company. The engagement was led by the investor relations team with input from a number of senior-level technical staff members. The company was responsive to providing a level of detail in the meetings that was constructive and meaningful.

Outcome

Chlorpyrifos is no longer produced nor purchased by Dow, resulting in a complete removal of the risks associated with its production and usage, as well as potential impacts arising from the disposal of waste products associated with its production. Waste effluents are monitored and the concentration at which chemicals are discharged from their production processes are lower than those approved by the regulator. Dow has also committed to producing chemicals that are ‘sustainable for people and our planet’, meaning that it is focusing on the production of benign chemicals, which although still posing a risk, indicates a move towards a greater degree of awareness and responsibility for managing hazardous chemicals.

The company employs strong product stewardship. Decision making for the release of new chemicals involves a number of company ‘gatekeepers’, with sustainability being one of the key measures. The company monitors exposure of its products to end users and trains suppliers in safe usage. Restrictions are imposed on the use of more hazardous chemicals to members of the public through prevention of sale.

STATUS

Resolved

ISSUE(S)

- ▶ Quality and Safety - Human Rights

ENGAGEMENT MANAGER



Joe Attwood
Associate Director
London

CONTRIBUTION TO SDGs



DIALOGUE STATISTICS

	78	Number of Contacts
	5	Conference Calls
	16	Correspondence
	0	Meetings in Person

CASE TIMELINE

	Engagement Since	Aug 2018
	Milestone 1	Aug 2018
	Milestone 2	Nov 2018
	Conference Call	Mar 2019
	Conference Call	May 2019
	Milestone 3	May 2019
	Conference Call	Dec 2019
	Conference Call	Nov 2020
	Milestone 4	May 2021
	Conference Call	Dec 2021
	Milestone 5	Mar 2022
	Case Resolved	May 2022

DuPont de Nemours, Inc.

Background

According to US authorities and media reports, THE CHEMOURS CO (Chemours) and its former parent company, E.I. du Pont de Nemours, now known as DU PONT DU NEMOURS INC. (DuPont), have been involved in the systematic under-reporting of several long-term pollution incidents arising from their operational practices, which might have adversely affected the health of local residents. In April 2018, a legal complaint against Chemours and DuPont was filed, stating that the companies were responsible for unlawful releases of chemical products, intermediaries and by-products from their manufacturing processes into the environment, resulting in the contamination of groundwater and surface waters. DuPont and Chemours agreed to pay about USD 330 million each to settle over 3,500 personal injury claims arising from a leak of perfluorooctanoic acid (PFOA a.k.a. C-8) from a plant in West Virginia, US. Similar pollution issues were reported at the Chamber Works factory in southern New Jersey, US and overseas in the Netherlands, where three local authorities are seeking compensation from Chemours and DowDuPont over pollution of soil and water sources with PFOA.

Engagement Objective

The overall objective of the engagement was to understand from the company how it addressed the legacy environmental and health issues arising from contamination at a number of its sites. Additionally, the objective aimed to learn what measures the company was taking to ensure responsible stewardship of the chemicals in production.

Engagement Activities

Sustainalytics has been in dialogue with DuPont since 2018, the original engagement being with DowDuPont, which became DuPont De Nemours (DuPont) following the de-merger. A number of conference calls were attended by representatives of the company and whilst being facilitated by investor relations, the meetings were chaired by its legal counsel, with a number of technical managers in support.

Outcome

The company confirmed that Chemours is responsible for all legacy contamination liabilities. Furthermore, the company does not produce PFAS, the main family of chemicals of concern. The company disclosed a strong internal 'responsible care management system' that is externally audited. It has also adopted an internal risk screening process to evaluate and screen out products that are considered to have an unacceptable impact on the environment and human health.

STATUS

Resolved

ISSUE(S)

► Activities Resulting in Adverse Environmental and Human Rights Impacts

ENGAGEMENT MANAGER



Joe Attwood
Associate Director
London

CONTRIBUTION TO SDGs



DIALOGUE STATISTICS

	83	Number of Contacts
	5	Conference Calls
	7	Correspondence
	1	Meetings in Person

CASE TIMELINE

	Engagement Since	Dec 2017
	Milestone 1	Dec 2017
	Milestone 2	Aug 2018
	Conference Call	Mar 2019
	Milestone 3	Mar 2019
	Conference Call	May 2019
	Conference Call	Dec 2019
	Meeting in Person	Aug 2020
	Conference Call	Apr 2021
	Milestone 4	May 2021
	Conference Call	Dec 2021
	Milestone 5	Feb 2022
	Case Resolved	May 2022

Volvo AB

Background

VOLVO AB (Volvo)'s products have allegedly been involved in significant incidents related to alleged human rights violations in Egypt, Myanmar and the Occupied Palestinian Territories (OPT). In Egypt, an Amnesty International report in September 2018 revealed that armoured vehicles, made by Arquus, a wholly owned subsidiary of Volvo, were used by Egyptian security forces to suppress political opposition between 2012 and 2015, leading to civilian deaths and injuries. In Myanmar, reports by Swedwatch between 2018 and 2020 revealed that Volvo's products have been used on a large scale in jade mines. As for the OPT, in January 2017, the NGO Danwatch revealed that Volvo delivered products and services to the Israeli military, including products for use in the demolition of houses and the construction of checkpoints and settlements.

Engagement Objective

The engagement objective was to ensure that Volvo used its leverage with importers and distributors in high-risk locations to reduce the risk of its products being implicated in human rights violations. It was expected to establish clear criteria to identify high-risk countries and collaborate with local business partners to conduct human rights due diligence.

Engagement Activities

Sustainalytics has been in dialogue with Volvo since 2019. Conference calls were chaired by the sustainability team and attended by other representatives of the company, including a number of technical managers. The company has been open to feedback and recommendations to align, as closely as it currently has the capacity to, with the United Nations Guiding Principles on Business and Human Rights (UNGPs).

Outcome

Volvo has shown continuous improvement and has demonstrated leadership in the industry by adopting a responsible sales policy framed by the UNGPs and embedded across the company. This has prompted the escalation of over 170 deals for human rights assessment and risk mitigation activities in the last 12 months and increased collaboration and engagement with business partners, particularly in areas identified as higher risk.

In Myanmar, Volvo engaged a reputable external organization to assess human rights risks in the country. Since 2020, Volvo's dealer in Myanmar no longer sells to the jade mine sector and, following the country's military coup, and together with the local dealer, the company has intensified due diligence of sales deals, focusing on the end-user and intended end-use.

In all jurisdictions, Volvo performs human rights due diligence that considers country risk levels (assessed by a third party), inherent risks in sales and customer segments, end-users, intended end-use of Volvo products and concerns brought to its attention by internal and external stakeholders. Findings are assessed, described and escalated to relevant internal teams for action, which typically would include engagement with customers to assist them in mitigating identified risks, and with other third parties as relevant. Volvo is also drafting a company-level Business Partners Code of Conduct and some of the internal business areas are already putting in place policies and contract clauses to frame their engagement and relations with business partners within the UNGPs.

STATUS

Resolved

ISSUE(S)

▸ Involvement With Entities Violating Human Rights

ENGAGEMENT MANAGER



Justine Autour
Manager
Amsterdam

CONTRIBUTION TO SDGs



DIALOGUE STATISTICS

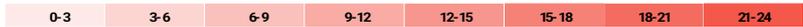
	91	Number of Contacts
	4	Conference Calls
	18	Correspondence
	0	Meetings in Person

CASE TIMELINE

	Engagement Since	May 2019
	Milestone 1	Jul 2019
	Conference Call	Sep 2019
	Milestone 2	Sep 2019
	Milestone 3	Apr 2020
	Conference Call	Sep 2020
	Conference Call	May 2021
	Milestone 4	Jul 2021
	Conference Call	Mar 2022
	Milestone 5	Apr 2022
	Case Resolved	May 2022

Company Dialogue & Progress Summary

Legend

Country	The country in the list indicates where the business conduct issue occurred. The breakdown into the regions: Africa/ Middle East, Asia/ Pacific, Europe, Latin America and Caribbean and United States and Canada is based on where the company headquarter is.
Year	The year shows when the case was downgraded to Engage status.
Response	The indicator describes how the company responds to Sustainalytics' inquiries. 
Progress	The indicator describes whether or not the violation continues, or how the company's work to prevent future violations is developing. 
Performance	The indicator describes the combined company progress and response performance. <p>▲ High Performance - good or excellent Response in combination with good or excellent Progress.</p> <p>▶ Medium Performance - standard level of Response and Progress.</p> <p>▼ Low Performance - poor or no Response in combination with poor or no Progress.</p> <p>New, Same, Better or Worse Performance - indicates the change in either Response or Progress since the last quarterly report.</p>
Low Performance Tracker (Tracker)	The indicator describes the time elapsed with Low Performance. One piece equals three months.  <p>After two years, the case will be reviewed by Sustainalytics and a Disengage status can be selected if all other engagement options are ineffective.</p>
Milestones	The indicator describes the milestone achieved from 1 to 5. 

Engage

AFRICA / MIDDLE EAST

MTN Group Limited (South Africa, 2019)

► Involvement with Entities Violating Human Rights

Change Objective: MTN Group should implement a robust human rights due diligence programme to improve its business policies and practices in line with internationally accepted standards. The programme should provide clear guidance criteria to identify high risk jurisdictions and manage that heightened exposure. The company should also provide transparent reporting on human rights issues that provides insight into its management of these issues and exposure in high-risk markets.



ASIA / PACIFIC

AMP Limited (Australia, 2019)

► Consumer Interests - Business Ethics

Change Objective: AMP should ensure that robust policies and internal controls addressing product governance and business ethics are implemented, universally applied and where appropriate, disclosed.



Baidu, Inc. (China, 2021)

► Involvement with Entities Violating Human Rights

Change Objective: Baidu should take steps to manage human rights risk exposure and limit impact on its users where possible. The company should show efforts to establish human rights due diligence practices, define policies relevant to digital rights, and report on external data requests and/or content moderation requirements.



China Gas Holdings Ltd (China, 2021)

► Quality and Safety - Human Rights

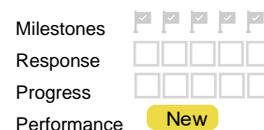
Change Objective: China Gas should provide clarification of the remediation, and provide support in a timely manner for victims, besides the compensation promised. China Gas need to implement industry standard safety practices and quality controls across their infrastructure network, including regular inspections of the gas pipe system, and real-time monitoring of gas line pressure.



Li Ning Co Ltd (China, 2022)

► Forced Labour – Supply Chain

Change Objective: Li Ning should implement a robust due diligence programme to provide disclosure on relevant policies on labour rights. The company should implement transparency, audit and disclosure of supply chain to ensure suppliers commit to respect labour rights. It should also adopt a grievance mechanism accessible to all workers.



Mitsubishi Materials Corporation (Japan, 2019)

► Consumer Interests - Business Ethics

Change Objective: Mitsubishi Materials Corporation should ensure that it has in place suitable board-level oversight of quality control and take steps to strengthen the quality control culture throughout the business. It should obtain independent verification of the steps it has taken to improve its quality control framework.



Rio Tinto Ltd. (Australia, 2020)

► Community Relations - Indigenous Peoples

Change Objective: RioTinto should agree on a compensation package with the Puutu Kunti Kurrama and Pinikura (PKKP), the Traditional Owners of the destroyed rock-shelters. The company should ensure that it rebuilds community relations with the PKKP and has suitable community relations mechanisms across all its operations that inform communities of important findings in a timely manner. The company should ensure that its community relations teams are fully integrated into its operations to ensure that all operational decisions are made in conjunction with the community relations teams to prevent similar incidents in the future.

**Samsung Electronics Co., Ltd.** (South Korea, 2017)

► Bribery and Corruption

Change Objective: Samsung should adopt detailed policies for political, charitable contributions, facilitation payments, gifts and travel expenses. The company should further ensure that its anti-corruption policies are properly implemented and monitored. Samsung should increase independence of its board of directors and assure its audit and related party committees are fully independent.

**Tencent Holdings Ltd** (China, 2021)

► Involvement with Entities Violating Human Rights

Change Objective: Tencent should take steps to manage human rights risk exposure and limit impact on its users where possible. The company should demonstrate efforts to establish human rights due diligence practices, define policies relevant to digital rights, and to report on external data requests and content moderation requirements.

**Tokyo Electric Power Company Holdings, Incorporated** (Japan, 2011)

► Incident(s) Resulting in Negative Environmental and Human Rights Impacts

Change Objective: TEPCO should ensure it operates its nuclear power plants safely, that any contamination is contained to the affected area and monitoring is in place to measures both environmental and health effects and that a compensation programme is in place as and when the effects of accidents are identified. In addition, TEPCO should report on the security measures taken at all of its facilities following reports of inadequate security at its Kashiwazaki-Kariwa nuclear plant.

**Toshiba Corp.** (Japan, 2020)

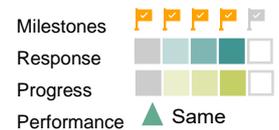
► Accounting and Taxation

Change Objective: Toshiba should ensure that robust policies and internal controls addressing business ethics – and accounting fraud especially – are implemented effectively throughout the organization, including subsidiaries.

**Westpac Banking Corporation** (Australia, 2020)

► Money Laundering

Change Objective: Westpac should ensure it is not complicit in any money laundering. The company should strengthen its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) processes and implement all improvements in accordance with the Response Plan. The company should ensure it has robust internal controls, risk management, sufficient and effective board oversight.



EUROPE

Barclays PLC (United Kingdom, 2019)

► Business Ethics

Change Objective: Barclays should ensure on-going implementation of whistle-blower policies as mandated by regulators, as well as relevant international organizations and global banking industry best-practices. The company should also implement best practices regarding whistle-blower protections and procedures, ensure that whistle-blower bodies have the appropriate independence and provide disclosures regarding the on-going enforcement of whistle-blower policies. To the extent possible, Barclays should disclose all relevant material regarding whistleblowing protections, business ethics at the executive level, and corporate culture.

**Bayer AG** (United States, 2018)

► Quality and Safety

Change Objective: Bayer (formerly Monsanto) should ensure that it has a policy and procedure for the disclosure of health, safety, and environmental data to both regulators and consumers.

**Bolloré SA** (Cameroon, 2019)

► Activities Resulting in Adverse Human Rights Impacts

Change Objective: Bolloré should ensure that affected communities are consulted according to the principle of free, prior and informed consent. The company should also implement its human rights policy and demonstrate due diligence in its different business relationships to prevent adverse human rights impacts.

**boohoo group Plc** (United Kingdom, 2020)

► Labour Rights - Supply Chain

Change Objective: Boohoo should ensure that it no longer sources from suppliers that violate workers' rights. It should also put in place a human rights due-diligence programme that includes robust audits and addresses the root-causes of illegal practices in its supply chain (e.g. purchasing practices and unauthorized sub-contractors). In addition, the company should adopt an effective grievance mechanism accessible to supply chain workers.

**Credit Suisse Group AG** (Switzerland, 2019)

► Business Ethics

Change Objective: Credit Suisse should ensure that it reviews all of its operations with regard to anti-money laundering. Credit Suisse should implement robust policies, programs, compliance processes and risk management systems that prevent anti-money laundering (AML) and corruption throughout the entire company and where appropriate, disclose these policies.

**Danske Bank A/S** (Estonia, 2018)

► Money Laundering

Change Objective: Danske Bank should ensure that it has implemented risk management systems and internal controls that aim to prevent financial crime and money laundering and demonstrate that they are robust and universally applied. Danske Bank should ensure that the board has sufficient and effective oversight of the business. To the extent possible, Danske Bank should disclose all changes related to its AML program.

**Deutsche Bank AG** (Russia, 2019)

► Money Laundering

Change Objective: Deutsche Bank should ensure that robust policies, programmes, compliance processes and risk management systems addressing anti-money laundering (AML), Know-Your-Customer (KYC), and sanctions issues are in place. The bank should publish comprehensive disclosures on how it is managing AML risks, how it trains employees in different ways, and how the board is set up to prevent financial crime.

**Indivior PLC** (United States, 2019)

► Consumer Interests - Business Ethics

Change Objective: Indivior should develop and implement ethical practices within its marketing and sales programmes. The company should also demonstrate the preventative measures it has undertaken are to be in compliance with regulatory requirements.



Medtronic PLC (United States, 2022)

► Quality and Safety

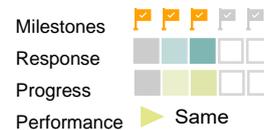
Change Objective: Medtronic should take appropriate actions to responsibly address the negative impacts of its products to compensate those affected and ensure no repeat of quality failures. The company should continue to improve quality and safety of its devices to achieve industry recognized good practice and improve the disclosure of all product-related data to ensure that relevant information is communicated to the public.



Sanofi (Philippines, 2020)

► Quality and Safety - Human Rights

Change Objective: Sanofi should have a robust governance, compliance, and risk management system in place with respect to its research and development of new products. Sanofi should also ensure appropriate levels of disclosure on the risks and side-effects of its products.



Siemens Gamesa Renewable Energy, S.A. (Western Sahara, 2018)

► Involvement with Entities Violating Human Rights

Change Objective: Siemens Gamesa Renewable Energy should demonstrate how its activities in Western Sahara are in line with the interests and wishes of Saharawis, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights. Should this not be possible, the company should withdraw from Western Sahara.

*Associated company: **Siemens Energy AG**



Swedbank AB (Sweden, 2019)

► Money Laundering

Change Objective: Swedbank should ensure that it has implemented risk management systems and internal controls that aim to prevent financial crime and money laundering and demonstrate that they are robust and universally applied. It should also ensure that the board has sufficient and effective oversight of the business.



Telefonaktiebolaget LM Ericsson (Sweden, 2020)

► Bribery and Corruption

Change Objective: Ericsson should continue to strengthen its anti-corruption and ethical compliance processes in accordance with commitments its public commitments and the settlement with US authorities. Ericsson should maintain transparency regarding the implementation of these improvements or any new concerns that arise.



Teleperformance SA (France, 2021)

► Freedom of Association

Change Objective: Teleperformance should ensure no anti-union practices or other labour rights violations are occurring and should provide any remediation of issues, as appropriate. It should demonstrate that across its operations its labour practices align with international standards, enable freedom of association, and that due diligence practices are sufficient to manage concerns.



UNITED STATES AND CANADA

3M Co (United States, 2019)

► Activities Resulting in Adverse Environmental and Human Rights Impacts

Change Objective: 3M Co. should provide greater clarity and public disclosure on its PFAS stewardship initiative and how it is mitigating potential liability from the historic sale/use of its products outside of the US. In addition, the company should explain how it is applying the lessons learnt from PFAS to its product development.



Activision Blizzard, Inc. (United States, 2021)

► Discrimination and Harassment

Change Objective: Activision Blizzard should cooperate with ongoing investigations and, if found guilty, compensate plaintiffs. Furthermore, the company should reinforce anti-discrimination policies by conducting related sensitization training, to move towards a culture of gender equality, diversity and inclusion. Moreover, the company should assure a robust grievance-mechanism is in place and appoint a senior level anti-discrimination expert to lead such activities with a strong mandate from the executive team and company board, and with sufficient resources. The company should disclose regularly on such efforts, along with external assurance.



Amazon.com Inc (United States, 2021)

► Freedom of Association

Change Objective: Amazon should ensure no anti-union practices take place within its operations. The company shall ensure union elections are performed in a fair and impartial manner. Amazon should demonstrate how its Global Human Rights Principles, addressing ILO standards and freedom of association, is implemented throughout its entire operations.



Amazon.com Inc (United States, 2020)

► Occupational Health and Safety

Change Objective: Amazon should take steps to understand the health and safety risks faced by its workers. It should introduce appropriate improvements involving H&S policies and practices aligned with international standards, including proactively mitigating hazards and improving working conditions. The company should report on its H&S performance and consider independent third-party verification of its management system.



Caterpillar Inc (Myanmar, 2020)

► Involvement with Entities Violating Human Rights

Change Objective: Caterpillar should use its leverage with importers and distributors in high-risk locations to reduce the risk of its products getting implicated in human rights violations. It should establish clear criteria to identify high-risk countries and collaborate with local business partners to conduct human rights due diligence and report transparently on these processes.



Citigroup, Inc. (United States, 2019)

► Business Ethics

Change Objective: Citigroup should implement on-going systematic controls related to money laundering, financial crime risk management; implement strong oversight mechanisms to govern those systems and disclose these systems and changes whenever appropriate. The company should adopt a robust strategy to positively influence the corporate culture into one that results in less regulatory challenges and accusations.



FirstEnergy Corp. (United States, 2021)

► Bribery and Corruption

Change Objective: FirstEnergy should cooperate with all related investigations and implement the recommendations from them. The company should ensure anti-bribery and corruption management system including anti-bribery training for staff are robust. The company should adopt a suitable grievance and whistleblower mechanism. The company should demonstrate transparency and integrity in its lobbying activities.



Johnson & Johnson (United States, 2018)

► Quality and Safety - Human Rights

Change Objective: Johnson and Johnson should ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures, to minimize the risk of future litigation.



Mattel, Inc. (United States, 2021)
 ▶ Quality and Safety - Human Rights

Change Objective: Mattel should undertake a complete review (and commission an independent validation of the appropriateness of any review) of all infant sleep / soothing products it has on the market, in production and in design process against the relevant safety standards for potential recall and compensate the affected families. To prevent reoccurrence, Mattel should have in place robust safety standards and processes, in line with the potential risks identified with the products it puts on the market.



McDonald's Corp (United States, 2015)
 ▶ Labour Rights

Change Objective: McDonald's should actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to relevant stakeholders.



McKesson Corp (United States, 2019)
 ▶ Consumer Interests - Human Rights

Change Objective: McKesson should implement the necessary enhancements to its anti-diversion systems in compliance with regulatory requirements. McKesson should also demonstrate how it has implemented the preventative measures in response to the FDA's warning letter.



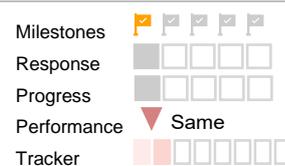
Meta Platforms, Inc. (United States, 2018)
 ▶ Data Privacy and Security

Change Objective: Facebook should implement its commitments to privacy and data security by ensuring that it has in place adequate internal controls systems and risk management procedures to manage the cybersecurity risks. Specifically, the company should ensure an adequate protection level for personal data. Facebook should increase transparency in reporting on the management of data security and users' privacy.



Meta Platforms, Inc. (United States, 2021)
 ▶ Social Impact - Products

Change Objective: Meta should undertake human rights due diligence of its policies and business impact on users. The company should increase transparency of enforcement of content moderation policies and provide insight into their implementation by country. The company should demonstrate governance structures and competency to oversee implementation of human rights standards in the company's products and practices.



Pan American Silver Corp. (Guatemala, 2019)
 ▶ Community Relations - Indigenous Peoples

Change Objective: Pan American Silver should align policies and practices to international human rights norms, in particular with regards to security and human rights and community relation, and in particular with regards to the Escobal mine.



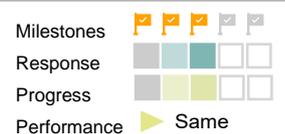
PG&E Corp (United States, 2019)
 ▶ Quality and Safety - Human Rights

Change Objective: PG&E should address the impacts of the incident and ensure that suitable remedial measures have been put in place. The company should also develop a comprehensive, risk-based, safety strategy. The company-wide strategy should address the employee, contractor and public safety and consider future potential risks, including those related to changing climate conditions. The company should also establish a process for monitoring the execution of the strategy.



Raytheon Technologies Corp. (Saudi Arabia, 2020)
 ▶ Involvement with Entities Violating Human Rights

Change Objective: Raytheon should establish clear criteria to identify high-risk destination countries and develop human rights due diligence procedures to be applied to military equipment sales deals.



Southern Copper Corporation (Mexico, 2020)
 ▶ Freedom of Association

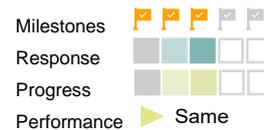
Change Objective: Southern Copper Corporation should improve its labour practices in accordance with international standards. The company should demonstrate how it is meeting these obligations by improving its external disclosure on the implementations of the measures and its effectiveness.



Southern Copper Corporation (Mexico, 2020)

► Leaks, Spills and Pollution - Environmental and Human Rights Impacts

Change Objective: Southern Copper Corporation should consult with affected communities and authorities to address concerns over shortcomings in the remediation and compensation measures taken. The company should mitigate any remaining negative impacts of the spill and address shortcomings in compensation measures. Southern Copper Corporation should strengthen its management of its tailings storage facilities to meet international tailing dam standards.



Starbucks Corp. (United States, 2022)

► Freedom of Association

Change Objective: Starbucks should promote good labour relations and ensure no anti-union practices take place within its operations. The company should cooperate with investigations and take appropriate steps to identify any barriers to dialogue with its workforce and introduce corrective actions. Starbucks should ensure it respects its commitments to international standards are implemented throughout its operations. Relevant actions should be transparent.



Stryker Corporation (United States, 2019)

► Quality and Safety - Human Rights

Change Objective: Stryker should take appropriate actions to responsibly address the negative impacts of its products. The company should continue to improve quality and safety of its devices and improve the disclosure of all product-related data to ensure that relevant information is communicated to the public.



Tesla Inc (United States, 2022)

► Discrimination and Harassment

Change Objective: Tesla should have the reported incidents investigated by an independent third party and fully participate with the investigation. The company should reinforce anti-discrimination policies by conducting related sensitization training, to move towards a culture of gender equality, diversity and inclusion. The company should ensure a robust grievance-mechanism is in place and appoint senior level anti-discrimination and human resource experts to lead such activities with a strong mandate from the executive team and company board, and with sufficient resources. The company should disclose regularly on such efforts, along with external audit.



The Boeing Company (United States, 2019)

► Quality and Safety - Human Rights

Change Objective: Boeing should accomplish the safe return of the 737 MAX aircraft to commercial flight (i.e. re-certified and flight bans lifted). It should ensure that the people affected by the two accidents are appropriately supported and compensated. Boeing should adopt a robust, precautionary approach to product quality management at all of its commercial aircraft manufacturing facilities.



The Chemours Co (United States, 2018)

► Activities Resulting in Adverse Environmental and Human Rights Impacts

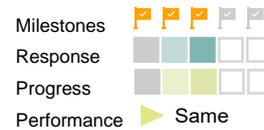
Change Objective: Chemours should ensure that it has a strategy in place for each legacy issue and to show that its current waste practices comply with international best practice, in order to prevent future liabilities arising from potential detrimental human health or environmental impacts. The company should also show that it is addressing PFAS contamination where it is applicable to its sites.



Thermo Fisher Scientific Inc. (China, 2021)

► Involvement with Entities Violating Human Rights

Change Objective: Thermo Fisher should improve its human rights due diligence and disclosure, especially in relation to its products/services and business relationships. The company should also demonstrate efforts to support internationally accepted human rights standards as well norms governing the collection, use and storage of human genetic data.



Uber Technologies, Inc. (United States, 2019)

► Data Privacy and Security

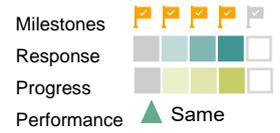
Change Objective: Uber Technologies should improve its privacy programme in line with regulatory requirements and international norms including implementation of measures to ensure and monitor compliance with global privacy and data protection laws and standards, respect for customer privacy, security of user data, and appropriate processing and use of data. Uber should also improve public disclosure to provide transparency on its progress toward improvement and preparedness to manage its related risk exposure.



Walmart Inc. (United States, 2006)

► Labour Rights

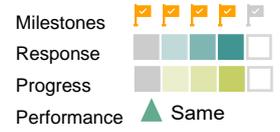
Change Objective: Walmart should cease and mitigate non-compliance in areas related to labour rights and strengthen its policies and guidelines on these issues.



Wells Fargo & Company (United States, 2019)

► Business Ethics

Change Objective: Wells Fargo should ensure that it implements adequate risk management processes and internal controls meant to reduce compliance breaches, and regulatory action, and disclose the results where appropriate.



Disengage

Disengage due to low performance

UNITED STATES AND
CANADA

Motorola Solutions, Inc.
▶ Operations in Occupied Territories

Palestinian Authorities

Resolved

EUROPE

Volvo AB (Israel, 2019)

Volvo has demonstrated leadership in the industry by adopting a responsible sales policy framed by the UNGPs and has embedded it across the company. With its UNGP aligned policy framework and comprehensive risk assessment processes, including for high risk and conflict affected regions, Volvo has demonstrated substantial progress. The company has also taken specific actions in conflict-affected areas. Although such measures do not exclude all possible human rights-related risks and impacts, we assess such risks as having been reduced and deem measures sufficient to resolve the case.

ISSUE

► Involvement with Entities Violating Human Rights

MILESTONES

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UNITED STATES AND CANADA

Dow, Inc. (United States, 2019)

Chlorpyrifos is no longer produced nor purchased by Dow, resulting in a complete removal of associated health and safety and waste management risks. In general Dow adopts a lower acceptable level of contaminants in effluent discharge than required by the regulator. Dow also has committed to producing chemicals that are 'sustainable for people and planet', meaning that it is focusing on the production of benign chemicals, which although still posing a risk, indicate a move towards a greater degree of awareness and responsibility for managing hazardous chemicals. In terms of risk management, the company adopts a hands-on approach to ensure products are managed appropriately cognizant of the health and safety risks. This includes banning certain products, training of suppliers and subsequent auditing to ensure compliance with the required practices. Internally, the company employs strong product stewardship with decision making for the release of new chemicals involving a number of company 'gatekeepers', sustainability being one of the key measures. Therefore, Sustainalytics considers the case is resolved.

ISSUE

► Quality and Safety - Human Rights

MILESTONES

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DuPont de Nemours, Inc. (United States, 2018)

DuPont has provided a significant level of disclosure. The company has committed to green chemistry principles for delivery by 2030 and is compliant not only with the American Chemical Council but also the European REACH organization, providing oversight of the use of chemicals of concern in the products DuPont produces. The company has disclosed a robust approach to product stewardship and risk assessment, activities that are third party audited. The company confirmed that all its contamination liabilities sit with another entity arising from the de-merger, Corteva (Chemours). Furthermore, it does not produce PFAS (the main family of chemicals of concern). The company has also disclosed a strong internal 'responsible care management system', which is externally audited. It has also adopted an internal risk screening process to evaluate and screen out products that are considered to have an unacceptable impact on the environment and human health. Therefore, Sustainalytics considers the case is resolved.

ISSUE

► Activities Resulting in Adverse Environmental and Human Rights Impacts

MILESTONES

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Global Standards Engagement Overview

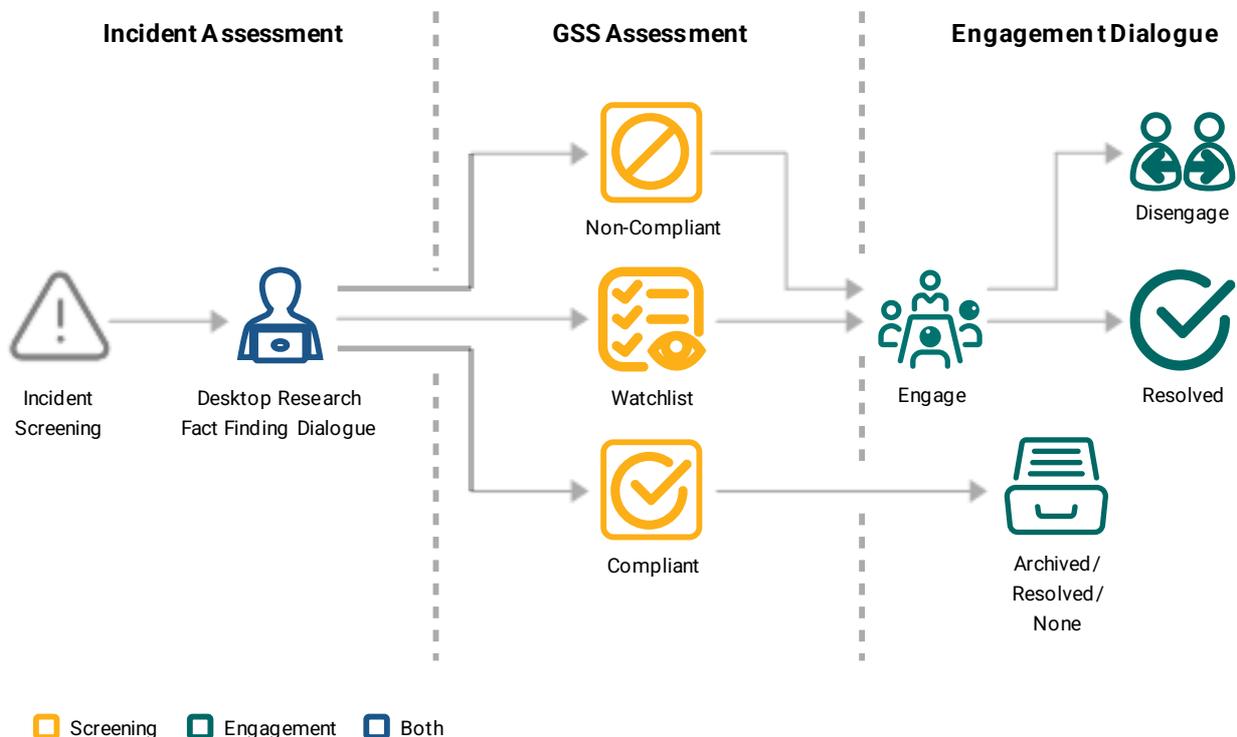
Global Standards Engagement (GSE) is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment of the incident as well as the company's role in mitigating the related repercussions and recurrence. The aim of Global Standards Engagement is not only to verify how a company addresses the incident, but also to effectuate change in the company's policies and/or processes, in order to ensure that it has proper policies and programmes in place to avoid future reoccurrences as well as improve its ESG disclosure.

The Global Standards Engagement is based on our Global Standards Screening (GSS) analysis of more than 20,000 companies. The engagement scope is global and spread across all sectors. Company size ranges from small to large cap.

GSS provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes to or is linked to violations of international norms and standards. The basis of the GSS' assessments are the United Nations (UN) Global Compact Principles. GSS company assessments reflect several dimensions, including:

- Severity of Impacts on Stakeholders and/or Environment – scale, scope and irremediability.
- Company Responsibility – accountability, exceptionality and systematic nature.
- Company Management – response, management systems and implementation.

We start engaging with the companies that are assessed as **Watchlist** or **Non-Compliant** in the Global Standards Screening.



Global Standards Engagement Status

Evaluate

- Cases with potential systematic incidents or an isolated incident that has severe consequences in relation to the environment or humans.
- Verification of the severity and company's responsibility takes between three-six months.
- The fact-finding dialogue and desktop research aims to assess companies' responses to the incident and preparedness to address the problem.

Engage

- Issue identified by Global Standards Screening (assessed as Watchlist or Non-Compliant) such as cases with systematic incidents or an isolated incident that has severe consequences in relation to the environment or society.
- Companies with clear gaps in their policies and management systems.
- Using a variety of engagement activities, the dialogue aims to effect change at the company, to be evidenced by it making a commitment and developing a strategy to address the identified shortcomings.

Associated

- This status flags to clients when the company or case is related to another company or case (for instance a non-autonomous subsidiary), where engagement will take place at the parent company and/or the company involved in the issue. We might engage with other companies in the corporate group if the engagement dialogue with the company closest to the incident is not willing to engage. This also means that some of the companies that are Watchlist/Non-Compliant will receive the engagement status 'Associated'.

Disengage

- Poor or no progress and/or poor or no response from the company within a period of two years after the start of engagement.
- Companies whose business models rely on activities where engagement would likely be not fruitful (such as involvement in controversial weapons or State-Owned Enterprises complicit in human rights abuses).
- Companies classified as non-engageable due to no or limited publicly traded securities or under significant distress

Resolved

- The change objective has successfully been met, and the engagement has been concluded.

Archived

- Engagement is currently not warranted, and the case will be continuously assessed for any future changes.



Thematic Engagement Child Labour in Cocoa

Executive Summary

The Issue at Hand

Ivory Coast and Ghana are the world's leading cocoa producing countries³, accounting for almost 70% of cocoa production worldwide. However, it is estimated that in these countries combined, over 1.5 million children work in hazardous conditions in the cocoa supply chain alone⁴.

This issue is not new, but it is persistent. The Harkin-Engel protocol⁵ (a commitment from the cocoa industry to combat child labour in its supply chain) was introduced in 2001 and in 2010, the industry reaffirmed its commitment in a joint declaration to reduce the worst forms of child labour by 70% by 2020. Various programmes aimed at increasing productivity and improving the livelihood of cocoa-growing farmers have been scaled up over the years and targeted measures to combat cases of child labour have been developed. Across the supply chain, the cocoa industry, governments and others continue to deploy significant efforts. Despite these developments, child labour remains widespread at the millions of small-scale farms involved in cocoa farming in West Africa and efforts must therefore continue, and be scaled up, so that commitments to eradicate child labour can be met.

Investee companies linked to child labour represent a reputational risk, not only for the companies themselves, but also for their investors. This is particularly the case in cocoa production, where there are widespread and well documented instances of child labour. Cocoa and chocolate companies must also secure a stable farmer base. In recent years, macro trends such as urbanization and aging farmer population in cocoa-producing countries have put a strain on the sector. In order to attract and retain a workforce and a stable supply, the cocoa industry needs to ensure that cocoa farming is lucrative by paying farmers adequately so that they can sustain themselves and their families.

Developments and Engagement Efforts October 2021 – March 2022

Sustainalytics' revamped thematic engagement on Child Labour in Cocoa started in Q3 2019. Together with a group over 30 institutional investors, we have engaged major cocoa and chocolate companies in the three focus areas of this engagement: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers. Since the last biannual report, we have held several bilateral dialogues with cocoa and chocolate companies. Moreover, we reconnected with a number of key stakeholders, spoke at a cocoa sustainability conference and provided advice on corporate guidance materials on living income. Lastly, we coordinated an investor endorsement of IDH's living income and living wage roadmaps. A large group of 45 investors from a number of countries, with an AUM of 6.3 trillion Euro joined as endorsing organizations. The endorsement was announced by Sustainalytics at a living income event in March 2022, with participation from 50+ companies and investors, including a number of cocoa and chocolate companies.

Connected to previous reporting on the topic of an EU-level mandatory corporate human rights and environmental due diligence legislation, a substantial development was recently announced.

In late February 2022, the European Commission adopted a highly anticipated proposal for a Directive on corporate sustainability due diligence. According to the proposal, companies in scope of the legislation will be required to 'identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss.'⁴ A number of cocoa and chocolate companies have publicly expressed their support of the legislation, arguing that it will create a level playing field in the private sector.

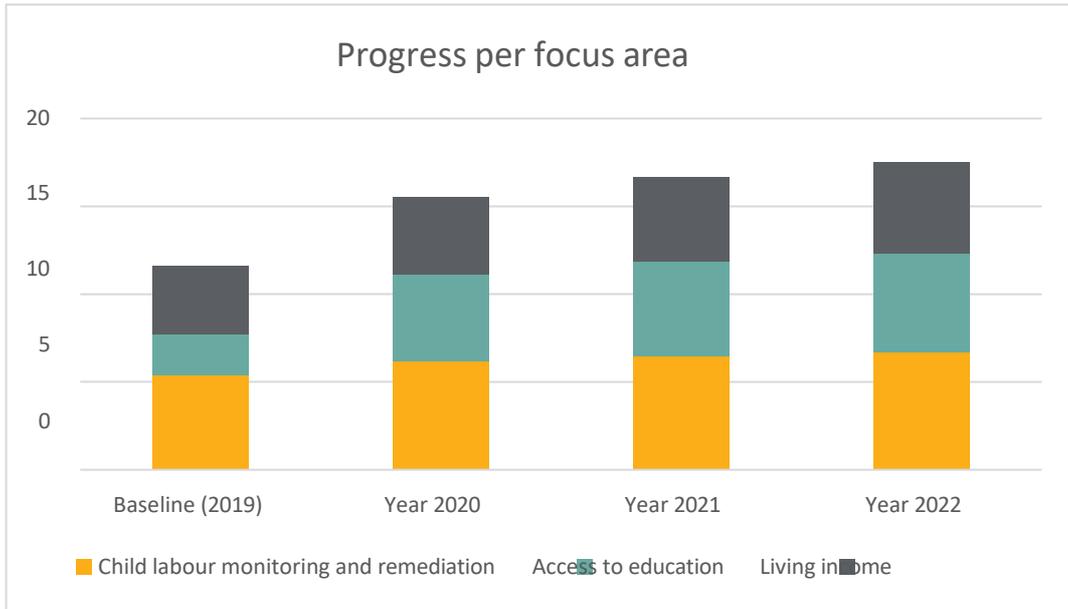
The Child Labour Cocoa Thematic Engagement has continued to focus on improved income for cocoa-growing farmers. Most notably from the last few months, one company has announced a scale-up of an innovative premium payment scheme where cocoa-growing farmers receive additional payments in exchange for specified social and environmental practices, such as sending the household's children to school. The premium is paid per households and not based on the volume of cocoa sold, thereby benefitting smaller (and generally more vulnerable) cocoa farming households equally as their peers with larger land areas. Another company has helped to actively shape the debate on living income by publishing the report 'Balancing the living income challenge' together with the Wageningen University in the Netherlands. The report thoroughly discusses the advantages and limitations with a variety of income drivers.

Engaged companies continue to report further roll-out of child labour monitoring and remediation systems (CLMRS). Most companies are currently well above 50% roll-out of CLMRS, or similar, in cocoa-growing communities in their direct supply chains in Ivory Coast and Ghana. There is also an industry level commitment by the sustainable cocoa industry organization the World Cocoa Foundation (WCF) to have CLMRS, or similar systems, rolled out by 2025 or earlier in companies direct cocoa supply chains. The talks to roll-out large-scale school programmes in Ivory Coast, led by the Jacobs Foundation, noted in our previous reports, looks increasingly constructive and is likely nearing a roll-out. Individual companies also continue to contribute to school constructions, making birth-certificates available (a prerequisite to start school), providing school kits etc.

³ <https://www.icco.org/>

⁴ <https://www.norc.org/NewsEventsPublications/PressReleases/Pages/increase-in-hazardous-child-labor-in-cocoa-production-amid-an-expansion-of-cocoa-farming-in-cote-d-ivoire-and-ghana.aspx>

⁵ https://cocoainitiative.org/wp-content/uploads/2016/10/Harkin_Engel_Protocol.pdf



Average score per focus area for all targeted companies, from latest scores in March 2022

2022 Q2 Update

Sustainalytics’ Thematic Engagements follow a biannual reporting scheme. The Child Labour in Cocoa theme’s next and final biannual report is issued on 31 August 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.



Thematic Engagement

Climate Change – Sustainable Forests and Finance

Executive Summary

Climate Risks and Forest Value Chains

Climate change continues to be ever-present as one of the largest risks to both the world, investors and companies globally. Meanwhile the understanding of key links between, deforestation, emissions and nature continues to be better understood. With agriculture linked emissions and deforestation experiencing continuous increases, also continues to be the main driver of deforestation, forest fragmentation, and the associated loss of biodiversity. As demand for food and other resources continues to grow, forests are often cleared to make way for new fields and plantations, mostly for commodities, such as cattle, soy, palm oil, timber, etc. Deforestation also significantly exacerbates climate change, currently contributing approximately 24% of all GHG emissions from land-use activities, more than that emitted by the world's entire transport sector⁶

The complexity of the forest value chain—where a large number of companies are involved across sourcing, trading to processing and consumption, as well as the financiers—represents a challenge to reform. Unless urgently addressed, emissions from agriculture could become the dominant source of global emissions by 2050 while only 3% of climate finance today is currently aimed at forests and land use.

Developments and Engagement Activities from September to February 2022

This first bi-annual report covers the period of engagement that took place between September to February 2022, following the publication of the baseline report in September 2021. Sustainalytics has been actively pursuing company participation in this initiative, through introductory and initial engagement meetings. The focus of our first engagement calls was on understanding the respective companies' current practices and clarifying their disclosure, advising in relevant cases investor expectations on developing material issues, on climate, nature and deforestation. Many companies were keen to hear an investor's perspective and were receptive to suggestions.

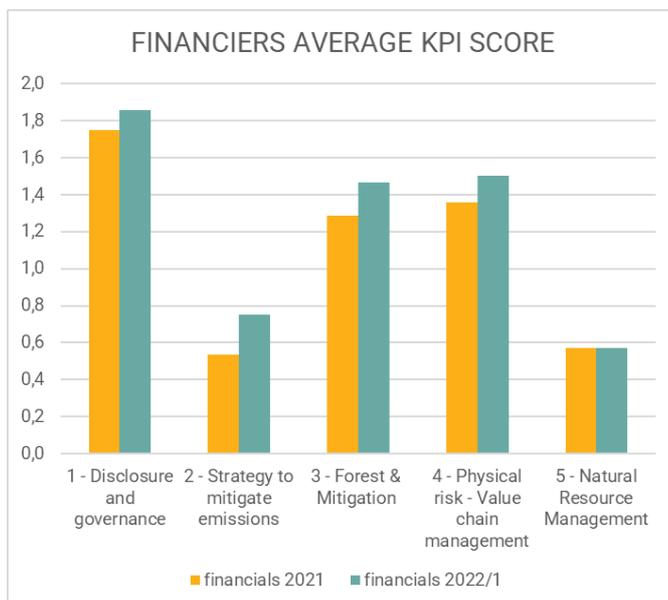


Figure 1 – Graphs showing the average KPI score across the financiers in the value chain, the minimum score being 0, while the maximum score is 3.

Throughout the engagement, Sustainalytics assesses the engaged companies on 5 key performance indicators (KPIs) that cover, Disclosure and governance, Strategy, forests & mitigation, physical risk, Natural resource management. We have observed some improvement in scoring across the board, at this stage it was largely driven by increased disclosure, announcements and commitments in the run-up to and during COP 26 last November, with three companies laying out strategies for reaching climate targets, while another increased the ambition of its science-based target. We have also seen increases in ambition and strategic direction on tackling the issue of deforestation in engaged companies through collaborative efforts, via initiatives such as the **Soft Commodities Forum (SCF)**. This initiative is being driven by the mid-value chain commodities companies to support industry-wide change and achievement of targets. In our initial rounds of dialogue, the engagement has continued to further identify key challenges across the value chain, positively with potential solutions developing but yet to be adopted in a more widespread nature. Regarding specific engagement with financiers, Sustainalytics has seen an expansion of portfolio accounting and assessment concerning climate emissions, although largely linked to heavy emitting industries only thus far. We have also seen an increase in interest in updating and improving upon existing deforestation approaches beyond current practices. This is likely driven by the strong anticipation of nature-related disclosure, however, there is also limited clarity at this stage on how to approach such disclosure, that said, one engaged bank noted it was already working to develop this as well as being actively involved in TNFD working groups. This indicates a similar trend to what was seen with TCFD, with a group of early movers setting the benchmark, while the wider industry seeks to learn from the progress of more ambitious peers.

⁶ <https://www.greenclimate.fund/stories/forests>

In terms of the overall average scores, the financiers have seen a shift from 5.5 to 6.1, while mid-value chain commodities continue to score lowest with an average KPI score of 4.9 an improvement from 4.6, however, this is skewed by the palm oil sector included in the engagement with an average score of 2.25, while those involved in soy and beef show positive movement through the previously highlighted SCF and other individual ambitious programs. While the companies making up the end of value chain group have seen a shift in average score from 6.6 to 6.9, while likely able to learn from those in the middle of the value chain in relation to deforestation, many of these companies face significant challenges in working with their suppliers to reduce scope 3 emissions and hit 2030 targets.

Looking Ahead

The coming six months of the thematic engagement will focus on the second round of engagement sessions where we seek to continue and deepen the dialogue with the companies and wider stakeholders and to enlist the participation of further companies. In particular, the dialogue will be focusing on science-based targets, including targets relating to deforestation and importantly how companies will establish transparent strategies to achieve such targets.

2022 Q2 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Climate Change – Sustainable Forests and Finance theme's next biannual report is issued on 31 August 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.

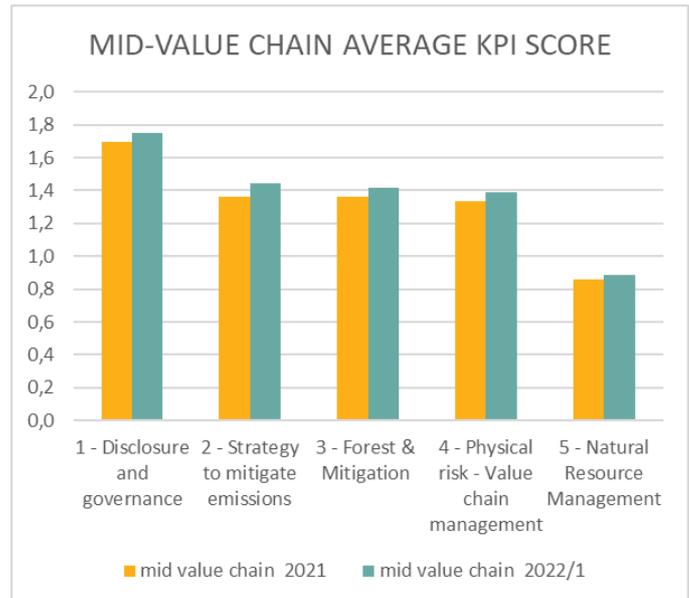


Figure 2 – Graphs showing the average KPI score across the Commodity companies in the value chain, the minimum score being 0, while the maximum score is 3.

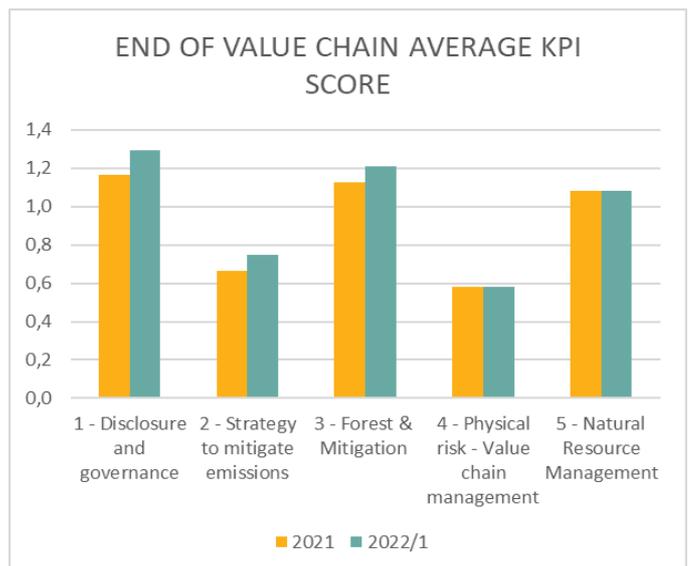


Figure 3 – Graphs showing the average KPI score across the end of value chain companies in the value chain, the minimum score being 0, while the maximum score is 3.



Thematic Engagement

Feeding the Future

Executive Summary

The Issue at Hand

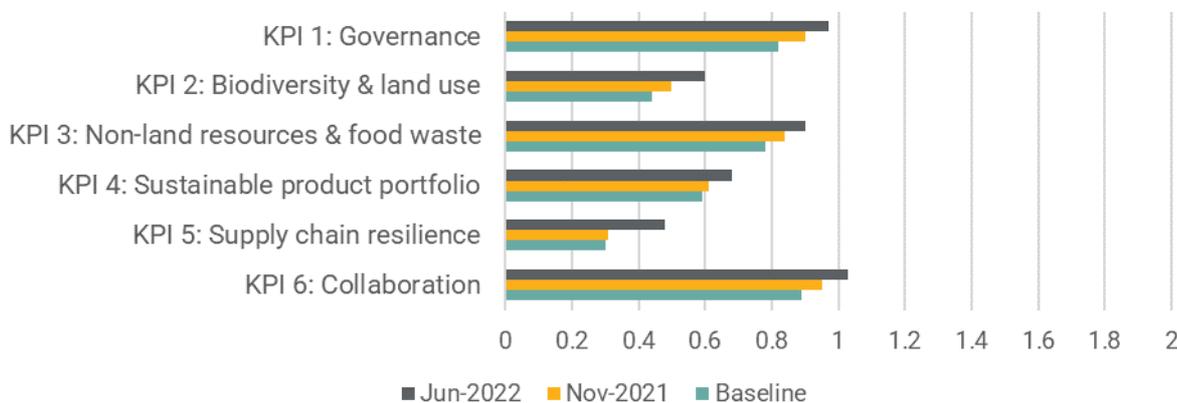
Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population will reach 9.1 billion (34% higher than today), putting more pressure on already constrained resources. Food production will need to increase by 70% to feed the larger population⁷, meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

Sustainalytics' Feeding the Future Thematic Engagement aims to contribute to more sustainable food production by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It targets the entire value chain including companies from the agriculture, agricultural chemicals, packaged foods, and food retailer sectors. This engagement was initiated in Q2 2021 and has just marked the first year of engagement. Through this programme, we expect to contribute to a sector-wide transition to more sustainable agriculture practices.

Developments and Engagement Efforts from November 2021 to June 2022

In the first half of 2022 Sustainalytics has sought to continue and/or commence dialogue with all 20 companies in the engagement programme. We have exchanged 229 emails, made 16 telephone calls and sent two investor letters, resulting in 12 introductory and content-based calls with engagement companies.

Feeding the Future: Average KPI scores



We have seen improvement in the average score for all KPIs in our framework, as illustrated in the chart above. The three KPIs demonstrating the best performance are governance (1), non-land resources and food waste (3) and collaboration (6), which all have a medium average score. We are seeing encouraging examples of high-level commitments to sustainable agriculture, which are in turn linked to board-level responsibility and executive pay structures. Similarly, companies are taking a proactive approach to GHG management, and we will follow the development of the **Forest, Land and Agriculture (FLAG) methodology** for target-setting by the Science-based Targets Initiative (SBTi). Collaboration is the best-performed KPI, suggesting that companies are seeing the benefits of working with stakeholders in multiple categories, such as civil society organizations and sectoral peers, to deal with the complexities of sustainable food production.

On the other hand, biodiversity and land use (2), sustainable product portfolio (4) and supply chain resilience (5) all exhibit a low average score. March 2022 saw the publication of the **beta version** of the Taskforce on Nature-related Financial Disclosures (TNFD) framework. We anticipate that this framework will help to drive transparency, which should in turn incentivize improvements to systems for monitoring and managing biodiversity impacts. Likewise, we would like to see greater engagement on developing products with a lower environmental impact, including alternative proteins, although progress on innovation based on a wider set of sustainability criteria is more pronounced. Supply chain resilience remains the most under-performed KPI on our framework, indicating that companies have up till now prioritized the sustainability of their own operations.

⁷ <https://www.eufic.org/en/food-production/article/food-production-3-3-a-sustainable-food-supply>

Comparing performance across sectors, we note a continuing disparity between the earlier and later links in the food value chain, with agriculture and agricultural chemicals companies attaining a medium overall score on average, while packaged food and food retail companies remain in the low scoring band. It seems that the differentiator is primarily the leading KPIs noted above (1,3 and 6), with performance more uniform on the lagging KPIs. We suggest that the greater direct exposure of agricultural businesses to issues such as climate change, water pollution and soil health, as well as legal pressure on the use of agrochemicals, is driving more advanced sustainability governance, resource strategy and stakeholder cooperation.

A key theme that has surfaced, which cuts across different sectors, is the *interconnectedness* of sustainability issues associated with food production, such as climate change mitigation, biodiversity and soil health. Various companies have observed that: limiting deforestation helps to mitigate climate change; likewise, healthy soil sequesters carbon; and climate change mitigation is beneficial for flora and fauna. When it comes to practical action, we are increasingly seeing the adoption of digital tools by companies to monitor and manage their environmental impacts, for example to analyze soil health and facilitate digital application of fertilizer.

Looking ahead to the next six months, we will continue previously established dialogues and, where appropriate, move from broad-based information-gathering to a deeper exploration of specific, material topics and recommendations for improvement. We will also track emerging currents, such as responses to TNFD, and gather further examples of stakeholder collaboration, given its importance to embedding sustainability in complex value chains.



Thematic Engagement

Localized Water Management

Executive Summary

The Issue at Hand

The water crisis is a global challenge, that needs local solutions. The growing scarcity of freshwater resources is a risk to the economic, social and environmental well-being of communities around the world, in addition to being a material issue for companies. Company-wide water strategies are therefore essential, but because water security challenges are experienced at the local level, and water basin conditions are unique, there is no one-size-fits-all solution for companies to implement. Ensuring a sustainable freshwater supply for all basin users for the long-term is an extremely complex challenge that requires collaboration between various stakeholders including communities, authorities, and companies. The purpose of Sustainalytics’ Localized Water Management engagement is to have positive impacts on water management and stewardship on a company and basin level, and more broadly where possible. Reaching far beyond Sustainable Development Goal (SDG) 6, dedicated to access to clean water and sanitation, water is paramount for the achievement of most other SDGs.

Developments and Engagement Efforts September 2021 – February 2022

This thematic engagement focuses on 18 companies with operations in the Tiete basin in Brazil and/or the Vaal basin in South Africa. This is the fourth biannual report of the Localized Water Management engagement. Overall, the intent of the engagement calls since our last biannual report in September 2021 was to continue to build and preserve relationships while challenging the companies on their water stewardship gaps. The majority of calls encouraged further commentary KPI 6 Public Water Management, an area that is not covered well in public disclosure. Sustainalytics also challenged the companies to take an investor lens and consider whether their reporting meaningfully discloses localized water risk and mitigation measures.

This report shows incremental improvements across the KPIs (see chart below), and Sustainalytics can often point to specific company disclosure or programs as new or improved since the baseline assessment was completed. Most companies have continued to display strong performance on KPI 1 Water Governance. Two companies marginally improved their scores since September 2021 due to increased public commitments on water and increasing board accountability. Five companies made marginal improvements in KPI 2 Water Risk & Opportunity Management by either using industry-accepted tools such as WRI Aquaduct or TCFD modelling to evaluate their exposure to water risks or by improving water risk identification at suppliers. The average scoring on KPI 3 Water Quantity is high. However, in contrast to KPI 1 Water Governance, KPI 3 has demonstrated the most consistent scoring or the fewest improvements since the baseline. This is understandable because global reporting standards cover water quantity and therefore disclosure tends to be stable and more readily available. In terms of gaps, the majority of companies are not providing detailed context-based management disclosure and targets for all high-risk sites. Companies tend to disclose corporate-wide information, however, miss the opportunity to provide investors with a clearer picture of where the water risk is geographically within the company. Performance on KPI 4 Water Quality is more diverse between companies. Since the last biannual report some limited scoring improvements occurred in the areas of monitoring and reporting, programs, and ecosystem restoration practices. On KPI 5 Integrated Water Resources Management, four companies showed marginal improvements since September 2021. Shifting a company’s management perspective to a basin level from a facility level (or corporate-wide) approach can be difficult. Companies are willing to work hard to secure business continuity, but stewardship requires more serious consideration of other stakeholders’ interests which can be difficult to model and quantify internally. KPI 6 Public Water Management, demonstrates the largest score increase since the baseline report, by a significant margin. Improvements at nine companies was noted in the areas of crisis management and risk identification in infrastructure. Interestingly, two companies, have limited to no exposure to public infrastructure as they manage most/all of their own water sourcing and wastewater disposal without the involvement of public utilities.

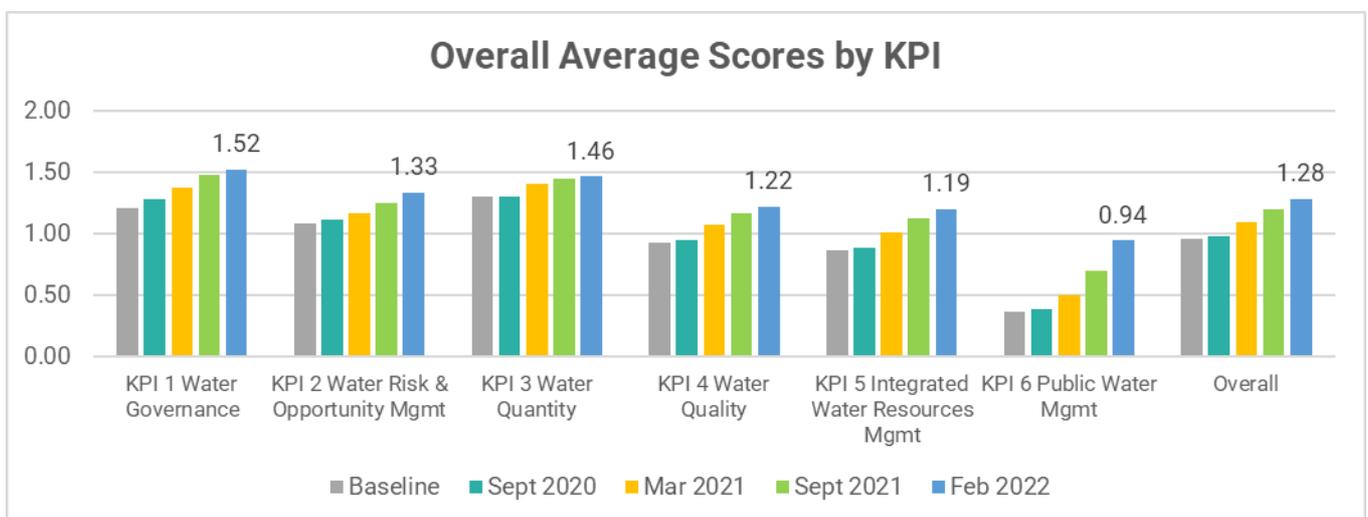


Chart 1: Overall Average KPI Scores Baseline vs Biannual Updates

It is pertinent to note that companies that score low on both KPIs 5 and 6 are the lowest-scoring companies overall. This is relevant when determining where to focus our future engagement efforts. In some cases, advancing other foundational elements of water stewardship such as KPIs 1-4 will be prioritized over advancements in KPI 5 and 6 because Sustainalytics views this approach as a more likely way to impact change within the companies. Integrated water resources management and public water management may be too much of a stretch for the low and medium-performance companies, although this will be evaluated on a company-by-company basis.

In this second year, the Localized Water Management engagement program has begun to focus on specific areas of improvement as we deepen the dialogues. As a next step, we intend to intensify our engagement and coordination with relevant stakeholders from the global water stewardship community as we plan a collaborative basin-level forum. Some companies have expressed explicit interest in exchanging knowledge and are open to exploring collaboration not only within their industry but among industries. This is a positive step towards on-the-ground impacts.

2022 Q2 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Localized Water Management theme's next biannual report is issued on 30 September 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.



Thematic Engagement

Responsible Cleantech

Executive Summary

The Issue at Hand

Just like the products it aims to replace or make more efficient, cleantech requires space and natural resources. Companies have a responsibility to respect local communities' human rights and consider the environmental impacts in and around sites where raw materials are sourced, where products are made, and/or where renewable energy is generated. Similarly, the cleantech supply chain relies on human resources. The labour rights of workers in mines and factories need to be respected, including healthy and safe working conditions, freedom of association and collective bargaining, and avoidance of child and forced labour. Furthermore, the recycling of products such as solar photovoltaic (PV) systems, wind turbines and vehicle batteries has received less attention than the benefits of these technologies. It is advantageous to promote circular business models for recovering materials when products reach the end of their life cycle. These products are truly sustainable only if all stages in the value chain are environmentally and socially sustainable. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains – solar panels, wind turbines, battery electric vehicles and hydrogen – and aligns with multiple Sustainable Development Goals, namely: SDG 7 Affordable and clean energy, SDG 8 'Decent work and economic growth', SDG 9 'Industry, innovation and infrastructure', SDG 12 'Responsible consumption and production', and SDG 13 'Climate action'.



Developments and Engagement Efforts from September 2021 to March 2022

The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. This third biannual report accounts for the progress made between September 2021 and March 2022. Furthermore, this report marks the midpoint of the second year of this thematic engagement as well as the point where all engaged companies have passed the overall score threshold from the Low to the Medium category. According to plan, Sustainalytics shifted the focus from onboarding companies to developing the dialogue with the engaged companies. It was possible to increase the number of engagement calls significantly, i.e., from 12 in the previous round to 18 this round.

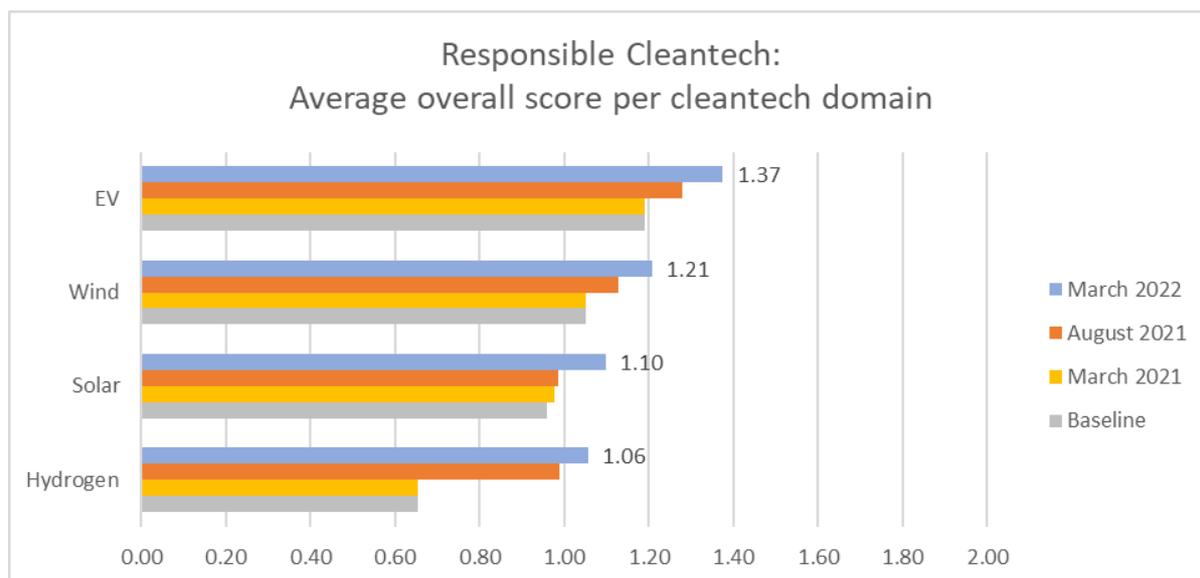
There has been active dialogue with the following 18 companies: Daqo New Energy, First Solar, Ford Motor, Gurit, Hanwha Solutions, Honda Motor, Hyundai Mobis, Johnson Matthey, LONGi Green Energy Technology, Nordex, Plug Power, Schneider Electric, SunPower, Tesla, TPI Composites, Vestas Wind Systems, Volkswagen, and Xinjiang GoldWind Science & Technology.

As only a few of the engaged companies published new sustainability reporting before the closing date of this report, the engagement calls were mostly used to inquire more about progress opportunities with respect to programs and targets, performance accounting and industry collaboration. Tangible positive environmental and social impacts remain challenging to measure and even more challenging to claim. Most of the time the engagement helps reinforce broader developments and complimentary efforts of other stakeholders. Yet, the Responsible Cleantech engagement's outputs have been plentiful (including many conference calls and content-related emails) and there are various noteworthy positive outcomes to account for, such as:

- In the solar domain, international concerns about forced labour risks in China's Xinjiang Uyghur Autonomous Region have posed a challenge due to the solar industry's reliance on China for crystalline silicon. The engaged companies, including some in China, do not tolerate forced labour in their own operations and there are opportunities in the engagement to get companies to expand their supply chain due diligence efforts.
- In the wind domain, momentum for creating a circular economy for the composite blades is increasing. Original equipment manufacturers (OEMs), specialized suppliers and technical universities have been teaming up to discover commercially viable solutions.
- In the EV domain, the procurement departments of various manufacturers are really stepping up when it comes to assessing and addressing sustainability risks, especially in the supply chains of battery materials such as '3TG', aluminium, cobalt, lithium, manganese and nickel.
- In the hydrogen domain, the most discussed material has been platinum, which is applied in both electrolyzers to produce green hydrogen from water and fuel cells to produce electricity from hydrogen. Due to the high financial cost of this precious metal, it has been easier to make a business case for circular product design and recycling. There is also increased attention for the mines' environmental and social performance.

In addition to the company engagements, Sustainalytics attended various relevant webinars and spoke with subject matter experts. These events provide avenues to bring relevant expertise into the dialogue and harness synergies where they exist. This engagement's efforts to cross-pollinate the various cleantech domains and to leverage existing multi-stakeholder initiatives could drive further improvement of all companies including the more advanced ones. With the Responsible Cleantech thematic engagement now well into its second year, we have come to appreciate the value of engaging not just laggards but also leaders. Once strategy and reporting have been well established, the hard work continues with implementation, turning aspirations into accomplishments with tangible environmental and social impacts.

Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below illustrates how the EV domain continues to lead, followed by the wind domain. The solar domain reduced its backlog (mainly resulting from one company having published its first sustainability report). The hydrogen domain is singled out here for the first time. The underlying scores at the company level mainly serve to structure the dialogues.



Next Steps

To inform the agendas of the next round of engagement calls, Sustainalytics will assess the new sustainability reporting that is becoming available for the majority of the engaged companies. We can continue to focus on overall improvement for laggards and dig deeper into specific topics with leaders. Sustainalytics would also like to carve out some more significant time to leverage existing multi-stakeholder initiatives, getting more companies to commit and influence their suppliers all the way up to the mines. The theme was meant to be holistic from the outset, so there will also be opportunities to address other topics such as Science-Based Targets, the need for a circular economy and navigating the workforce of automobile manufacturers through the transition. As a way of concluding the second year of the Responsible Cleantech theme, we will identify at least one specific improvement for each company to deliver in the third year.

2022 Q2 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Responsible Cleantech theme's next biannual report is issued on 31 August 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.



Thematic Engagement

The Governance of SDGs

Executive Summary

The Issue at Hand

The Sustainable Development Goals (SDGs), launched in 2015, recognised the private sector as a key agent in closing the development gap and achieving a more sustainable future by addressing global challenges such as climate change, poverty, environmental degradation and inequality. The SDG framework has provided companies with tools which they can use to translate global needs into business solutions, and investors with new investment strategies, opportunities and products. Meaningful SDG strategies aligned with companies' business plans have the potential to produce positive outcomes in line with the 2030 Agenda and contribute to a more stable and sustainable world – and can link profit with sustainability.

That is why this thematic engagement focuses on encouraging companies to define meaningful SDG strategies that align with their business plans and to seek out opportunities that produce positive outcomes in line with the 2030 Agenda. The ultimate goal is to ensure that the companies' decision-making process considers SDG impacts, guides their culture, maintains their license to operate, and is geared towards achieving concrete impacts by turning SDG-related goals into competitive advantages. Our engagement strategy focuses on eliciting meaningful dialogues with companies concentrating on their business strategies and how they respond to global challenges targeted by SDGs.

Developments and engagement efforts from September 2021 to February 2022

Since the last biannual update in September 2021, Sustainalytics has continued conversations with companies in the information and communications technology (ICT), financial, and consumer goods sectors. We have arranged 12 meetings and exchanged written communication (121 emails) with all the companies in the programme. The first two sectors continue to be responsive and open to discussing various aspects of SDGs, and the latter remains the least eager to agree to meetings on this topic.

Overall, we consider that our engagements are gaining momentum and producing some interesting outcomes. We have seen numerous positive developments across the sectors, and across all KPIs in our framework, as illustrated in the chart below. The total score of all companies in the programme improved to 8.1 from 6.8 at the beginning of the engagement in April 2020.

On the negative side, all of the 17 SDGs have been deeply affected by the COVID-19 crisis. The pandemic threatened decades of development gains and further delayed the transition to a more sustainable world⁸. The recent Russian invasion of Ukraine along with current humanitarian, economic and energy crises are only deepening the problem. According to UNCTAD, the financial fallout from the war in Ukraine could widen the already huge USD 3.6 trillion annual gap in financing needed to achieve SDGs and lead to cascading credit downgrades and debt defaults in developing countries⁹. The need to achieve the 2030 Agenda - a blueprint for a more sustainable, resilient system - is now more vital than ever.

We continue to include the topics of the effects of the COVID-19 pandemic and response to the Ukraine crisis in our engagement. Most of the companies that we have engaged with have indicated that the crisis reinforced their commitments to the SDGs that they consider material. The evaluation phase or risk and impact assessment still continue, but hopefully, companies are now better prepared for disruptions. We will keep exploring those topics going forward.

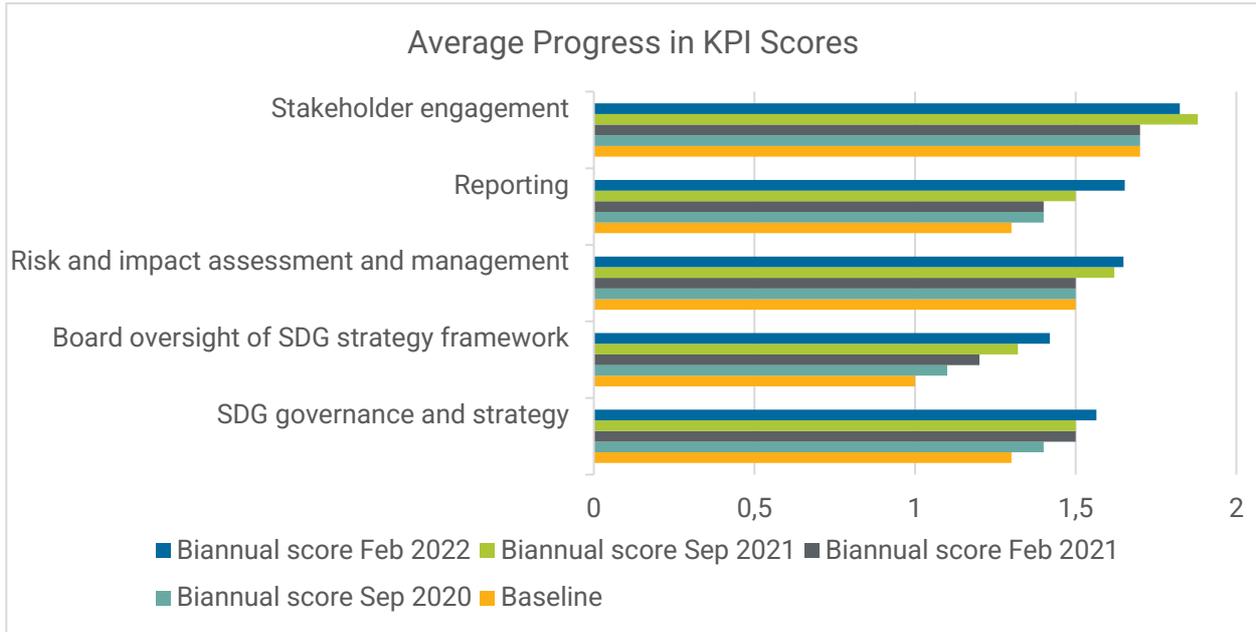
Despite the growing acknowledgement of the importance of SDGs, we note that the goals rarely reach board-level discussions, as they are more often a subset of a wider sustainability discussion. The oversight of sustainability has increased with the establishment of specific sustainability board committees in many organizations, however, this is still the area that requires improvements the most, which is reflected within the engagement's KPIs progress as well.

Another challenge is that SDG reporting has not moved closer to a unified standard, and we do not expect this to happen any time soon. We do, however, note developments on this front, including adopting reporting standards on certain topics such as climate, thanks to The Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Looking ahead to the next six months, we will arrange 2022 engagement calls with the rest of the companies participating in the theme. We will also plan a roundtable focused on sharing challenges and opportunities.

⁸ UN (2021), "The Sustainable Development Goals Report 2021", at: <https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf>

⁹ UNCTAD (03.2022), "Ukraine war risks further cuts to development finance", at: <https://unctad.org/news/ukraine-war-risks-further-cuts-development-finance>



2022 Q2 Update

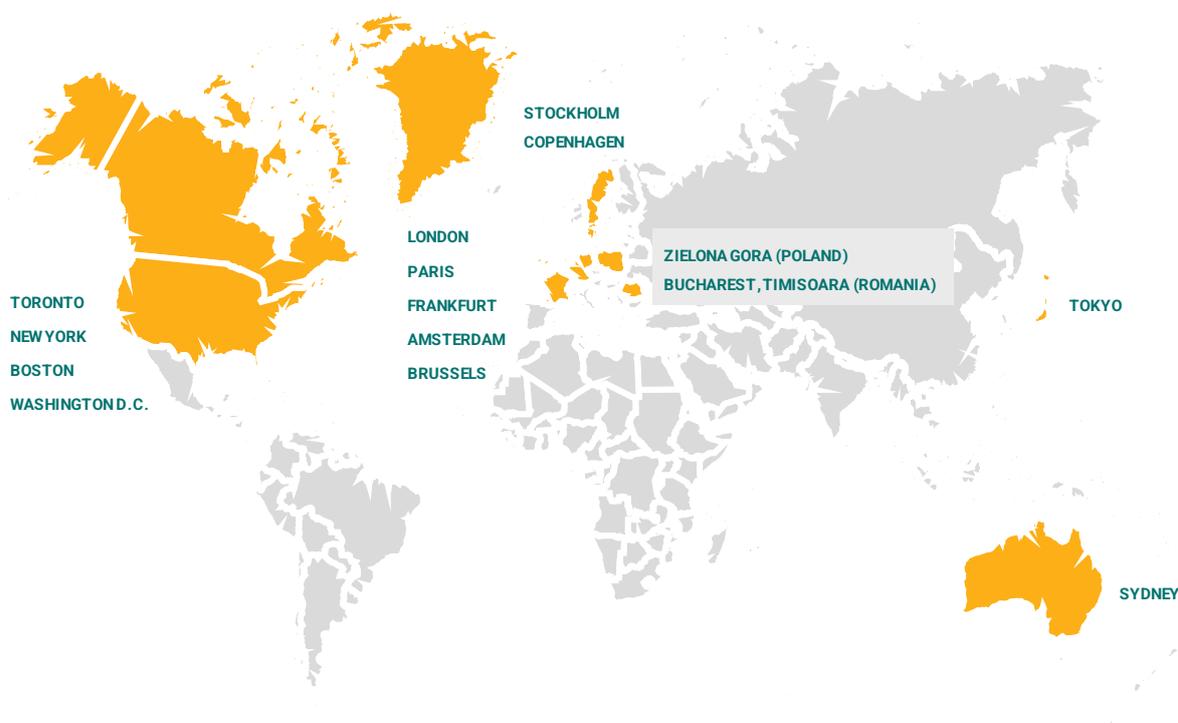
Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Governance of SDGs theme's next biannual report is issued on 30 September 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.

About Sustainalytics

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1,200 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

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