

# Quarterly Engagement Report

## Q4 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.

## Your contacts

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# **Quarterly Engagement Report**

## **Q4 2022**

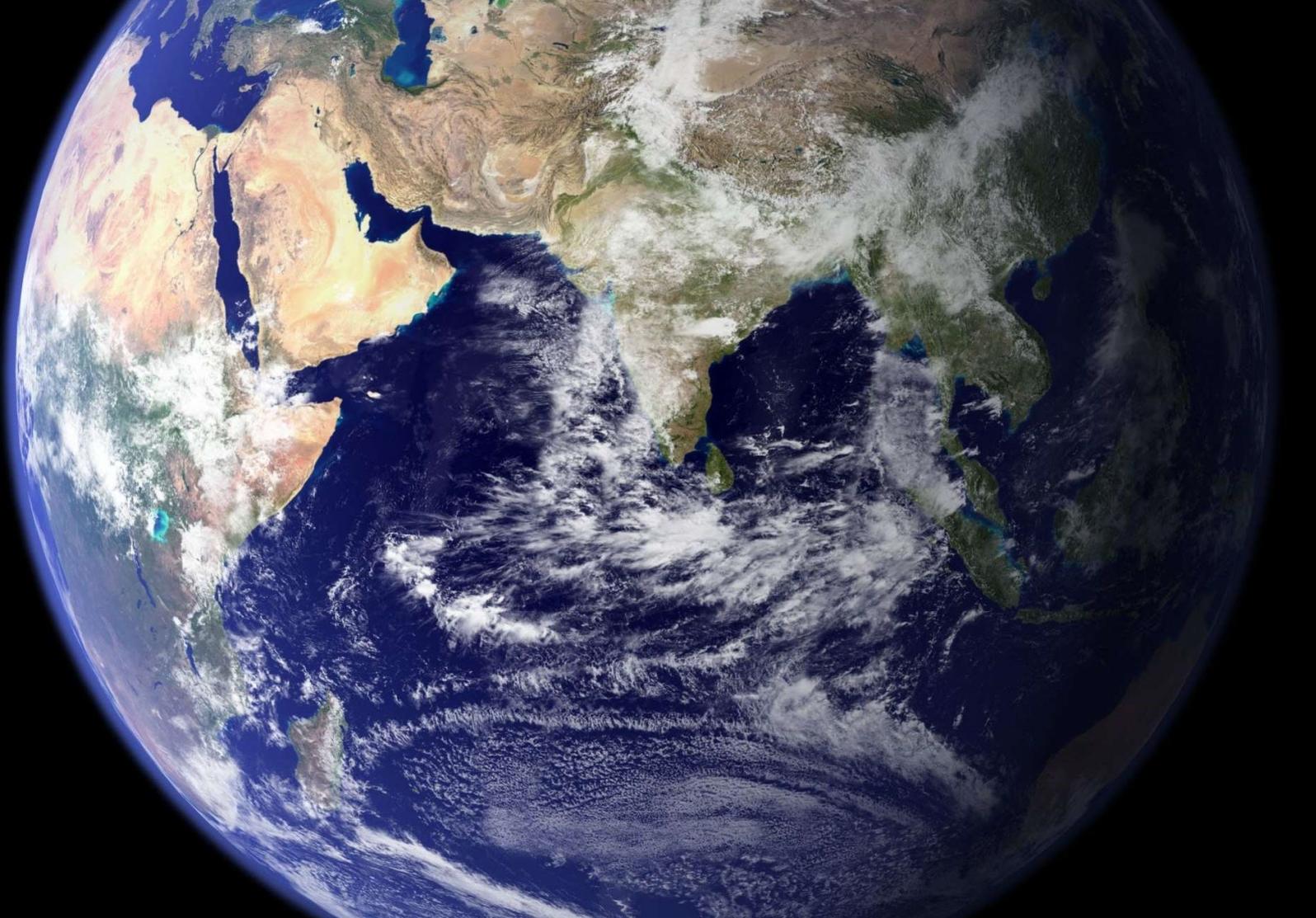
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This report summarizes the shareholder engagement activities that Sustainalytics performed on behalf of Swisscanto. Use of and access to this information is limited to clients of Sustainalytics and is subject to Sustainalytics' legal terms and conditions.

For this Global Standards Engagement Quarterly Engagement Report, the engagement status updates and statistics cover a period of three months, i.e. from September to November 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

Between September and November 2022, Global Standards Engagement initiated engagement with 2 companies and resolved two cases.

## New engage cases

- **Blackstone, Inc.** is a US investment company focussed on real estate, hedge funds, private equity, leveraged lending, senior debts, and rescue financing. In June 2022, Blackstone acquired Crown Resorts, an Australian hotel-casino operator that has been facing accusations since 2019 of deficient anti-money laundering (AML) controls, resulting in exposure to money laundering in Australia. Sustainalytics has been engaging with Crown Resorts on the issue since May 2021.
- **Koninklijke Philips NV**, a Dutch technology company engaged in the healthcare, lighting and consumer well-being markets, has been accused of health risks associated with 5.5 million of its sleep apnoea and respiratory care devices. In September 2022, French prosecutors revealed that they had launched a criminal investigation into the company.

## Resolved cases

- **Mitsubishi Materials Corp. (MMC)**, a Japanese company, disclosed in 2017 and 2018 that a number of its subsidiaries had falsified quality inspection data for products supplied to the aerospace, automotive and electric power industries and that the falsification might have lasted for two decades. Sustainalytics has held a productive dialogue with the company, which was willing to acknowledge and tackle the issues. The company conducted a detailed analysis of the failures in the quality control framework that allowed the data falsification issues to occur in the first place. Since 2018, there have been no new allegations of MMC falsifying quality data of its products, and the company's manufacturing sites have regained external certifications, as well as significantly enhanced relevant processes and procedures.
- **Swedbank AB**, a Swedish bank, has been involved in a money laundering scandal. In 2019, an investigative report by Swedish television alleged that 50 of the company's clients transferred at least USD 4.3 billion in questionable transactions between the Baltic accounts at Swedbank and another bank from 2007 to 2015. In 2020, the Swedish Financial Supervisory Authority concluded its investigation into Swedbank, and imposed an administrative fine of USD 360 million on the bank for deficiencies in its management of money-laundering risks in its Baltic operations. The company has demonstrated significant progress via public disclosures and has implemented robust risk management systems and internal controls addressing financial crime and money laundering.

We trust you will find the summaries shared in this Quarterly Engagement report insightful and look forward to continuing our work together.

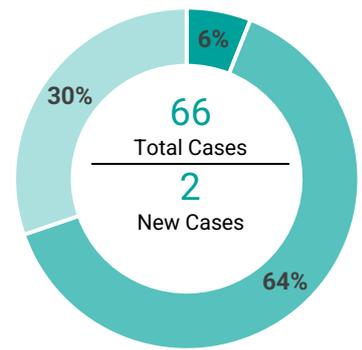
# Quarterly Statistics September – November 2022

During September – November 2022, Sustainalytics has continued our dialogue to track specified engagement goals and to seek measurable results of business conduct changes in relation to 66 Engage and Resolved cases<sup>1</sup>.



## Cases by Theme

Environmental	4
Social	42
Governance	20

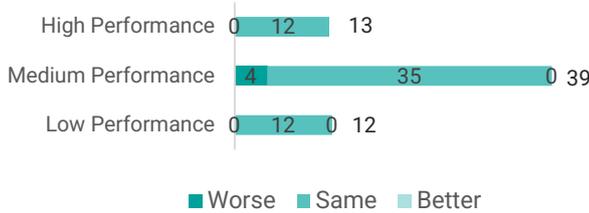


## Case Status Overview

	Engage	Associated	Disengage	Resolved	Archived
<b>New Status in this Quarter</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>
<b>Total</b>	<b>64</b>	<b>8</b>	<b>1</b>		



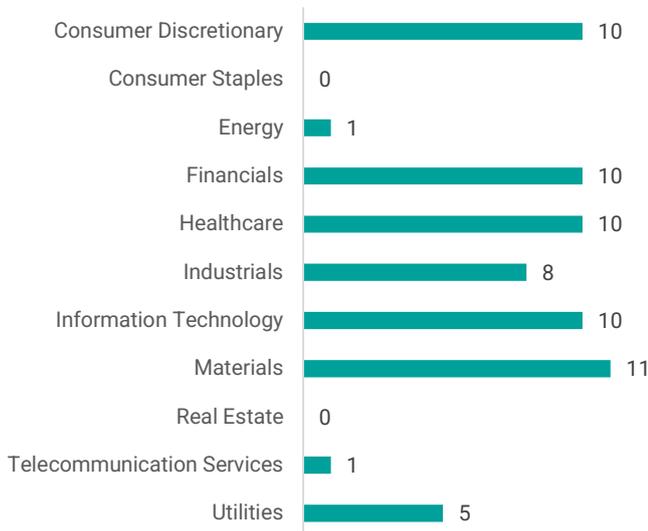
## Engagement Performance Overview<sup>2,3</sup>



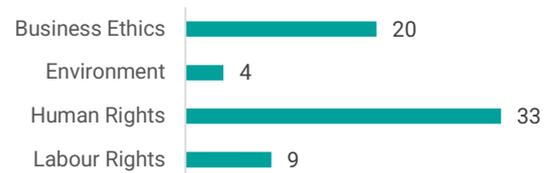
## Milestone Overview<sup>4</sup>



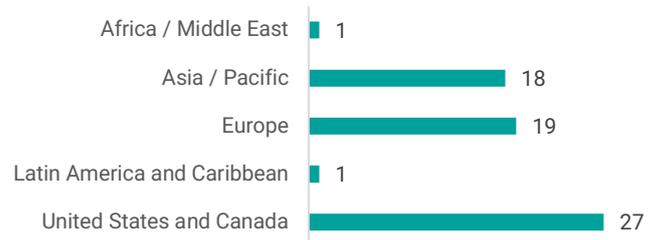
## Cases by Sector



## Cases by Norm



## Cases by Headquarter



<sup>1</sup> 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.

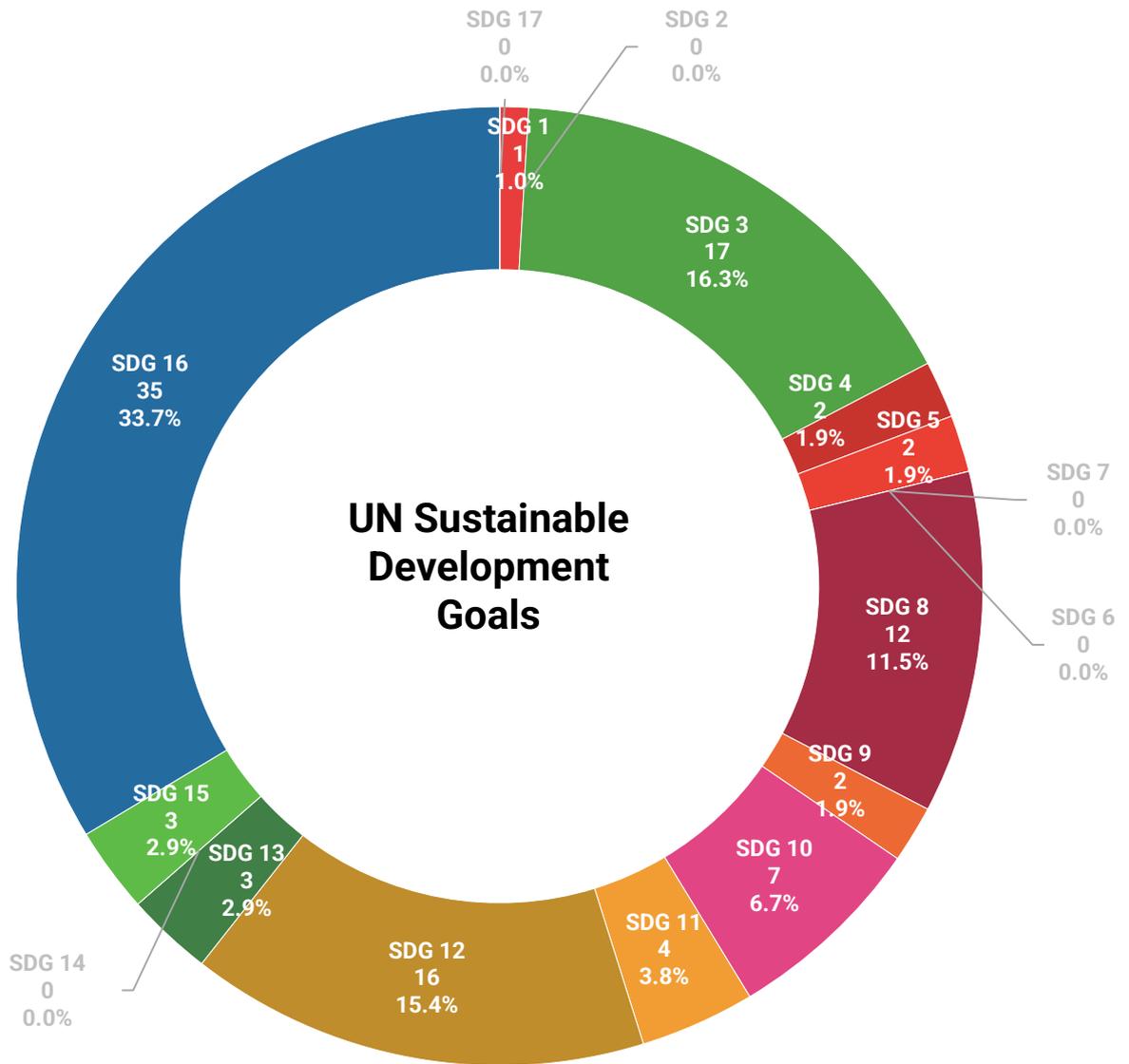
<sup>2</sup> At the beginning of November 2022, we adjusted our calculation of Performance, the combination of Progress and Response to better reflect that Standard Progress or Response implies Medium Performance. Affected companies have performance marked as ‘Recalibrated’ in the Engage list. The adjustments also affect the graphs above.

<sup>3</sup> 2 new cases were opened at the end of Q4, 2022. Within the next quarter, their performance and milestone assessments will be available and included in the statistics.

<sup>4</sup> At the beginning of November 2022, we redefined our milestones to offer more granularity on company progress and implementation of engagement objective. As such the new framework does not refer to engagement activities and some cases are without any milestones, despite initiated dialogue.

 **UN Sustainable Development Goals Attribution**

66 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.



- SDG 1 - No Poverty
- SDG 3 - Good Health And Well-Being
- SDG 5 - Gender Equality
- SDG 7 - Affordable And Clean Energy
- SDG 9 - Industry, Innovation And Infrastructure
- SDG 11 - Sustainable Cities And Communities
- SDG 13 - Climate Action
- SDG 15 - Life On Land
- SDG 17 - Partnerships For The Goals
- SDG 2 - Zero Hunger
- SDG 4 - Quality Education
- SDG 6 - Clean Water And Sanitation
- SDG 8 - Decent Work And Economic Growth
- SDG 10 - Reduced Inequalities
- SDG 12 - Responsible Consumption And Production
- SDG 14 - Life Below Water
- SDG 16 - Peace, Justice And Strong Institutions

## Companies Mentioned in this Engagement Brief

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● Engage    ● Associated    ● Disengage    ● Resolved    ● Archived

● BLACKSTONE, INC.....	8
● KONINKLIJKE PHILIPS NV .....	9
● MITSUBISHI MATERIALS CORP.....	13
● SWEDBANK AB.....	15

## Engage Cases

### Blackstone, Inc.

#### Background

In June 2022, BLACKSTONE, INC. (Blackstone) completed its acquisition of Crown Resorts Ltd (Crown), which has been criticized since 2019 for poor governance and numerous deficiencies that has resulted in investigations into its operations across Australia. The company was accused of having deficient anti-money laundering (AML) controls, resulting in exposure to money laundering. Crown has been under investigation by three Australian states, including the federal regulator, AUSTRAC. Crown was found unfit to hold gaming licences for its new Sydney casino (in New South Wales) and its Perth casino (in Western Australia). Regulators in all three Australian states, in which Crown operates, cleared Blackstone to hold a casino licences in June 2022 due to Crown's advances in AML controls.

#### Engagement Objective and Activity

The engagement objective is to ensure that Blackstone has a robust governance framework to enable effective oversight of the implementation of Crown's anti-money laundering programme and remedial plan. The company should have an adequate risk management framework covering AML, reporting and monitoring. The company should demonstrate strong leadership on financial crime issues.

#### Next Step

Sustainalytics has been in dialogue with Crown since 2021 and plans to reach out to Blackstone to clarify who should be a party in this engagement. The primary focus of this new case will be to assess progress with the implementation of Crown's remedial plan and identify gaps in the governance framework of Blackstone and areas of weaknesses in Crown's AML programme and compliance processes.

#### STATUS

Engage

#### ISSUE(S)

► Money Laundering

#### ENGAGEMENT MANAGER



**Nigel Rossouw**  
Associate Director  
Amsterdam

#### CONTRIBUTION TO SDGs



### Koninklijke Philips NV

#### Background

KONINKLIJKE PHILIPS NV (Phillips) is facing a criminal investigation and legal action over alleged health risks associated with 5.5 million of its sleep apnea and respiratory care devices. Since April 2021, the US Food and Drug Administration has received more than 69,000 medical device reports, including 168 reports of deaths potentially associated with a breakdown of polyester-based polyurethane (PE-PUR), which is built into sleep apnea and respiratory care devices in order to reduce device vibration and sound. Risks to health potentially include cancer. From June 2021 until September 2022, more Phillips devices were issued Class-I recalls, unrelated to the PE-PUR foam. In September, Philips also issued a recall for over 17 million CPAP/BiPAP masks distributed between 2015 and 2021, due to their magnetic clips. In September 2022, French prosecutors revealed that they had launched a criminal investigation into the company. The company had reportedly been aware of the potential adverse health impacts from the degradation of the foam since 2015. In October 2022, Philips announced plans to reduce its workforce by 4,000, due to the financial strain of the recall processes.

#### 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 disclosure of product-related data.

#### Next Step

The next step is to open a dialogue 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 the nature of the gaps 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



## Resolved Cases

### Mitsubishi Materials Corp.

#### Background

In 2017, MITSUBISHI MATERIALS CORP. (MMC) announced that two of its subsidiaries had falsified quality inspection data for products supplied to the aerospace, automotive and electric power industries. In February 2018, MMC announced that it had found more instances of product data falsification at three other subsidiaries. The total number of impacted companies exceeded 750. The subsidiaries had been falsifying data until January 2018. MMC's CEO resigned in December 2017, and its then chairperson, stepped down in April 2018. In June 2018, MMC said it had found additional misconduct at its copper smelter and refinery. In September 2018, the Tokyo District Public Prosecutor indicted the subsidiaries on charges of violating the Unfair Competition Prevention Law. In February 2019, the subsidiaries received fines, totaling USD 734,000, for falsifying quality data. As of August 2022, there have been no reports of safety issues among customers and end-users in relation to the falsely certified products.

#### Engagement Objective

The engagement objective was for Mitsubishi Materials Corp. to ensure that it has in place suitable board-level oversight of quality control and to take steps to strengthen its quality control culture throughout the business. It should obtain independent verification of the steps taken to improve its quality control framework.

#### Engagement Activities

Sustainalytics held a productive dialogue with MMC. Due to language challenges, the dialogue was conducted entirely in written form. However, the company provided a good response, including 16 substantial exchanges. The company was willing to acknowledge and tackle the issues, which it had proactively self-reported. The company conducted a detailed analysis of the failures in the quality control framework that allowed the data falsification issues to occur in the first place. It also disclosed multiple steps to address these shortcomings, for example: enhancement of the framework and authority of its quality control department, an expansion of quality training, promotion of automated inspection equipment, and enhancement of quality audits.

#### Outcome

Mitsubishi Materials Corp. has shown a willingness to engage with Sustainalytics and address these issues. The 2022 report shows independent board membership and a greatly improved governance structure. In its responses to our questions, the company confirmed that all relevant, continuing businesses have now regained ISO and JIS certifications. The company has undergone several external audits, and no further incidents or falsification of data has been identified. The company now has in place a robust quality management system and a significantly improved governance and oversight structure. These systems should be sufficient to prevent any recurrence of similar controversies, to protect customers, and to maintain quality.

#### STATUS

Resolved

#### ISSUE(S)

► Consumer Interests - Business Ethics

#### ENGAGEMENT MANAGER



**Eliot Bianco**  
Manager  
London

#### CONTRIBUTION TO SDGs



#### DIALOGUE STATISTICS

	<b>38</b>	Number of Contacts
	<b>0</b>	Conference Calls
	<b>16</b>	Correspondence
	<b>0</b>	Meetings in Person

#### CASE TIMELINE

	Engagement Since	May 2019
	Milestone 1	Jun 2020
	Milestone 2	Jun 2020
	Milestone 3	Sep 2021
	Milestone 4	Oct 2022
	Milestone 5	Nov 2022
	Case Resolved	Nov 2022

## Swedbank AB

### Background

Money laundering allegations against SWEDBANK AB (Swedbank) escalated in early 2019, when reports alleged that at least USD 4.3 billion in questionable transactions had occurred between the Baltic accounts at Swedbank and Danske Bank between 2007 and 2015; there was also speculation that “high-risk non-resident” flows through Swedbank accounts amounted to USD 150 billion over a 10-year period. In March 2019, Swedbank’s CEO was dismissed, and its chairperson resigned the following month. In March 2020, the Swedish Financial Supervisory Authority (FSA) concluded its investigation into Swedbank and imposed a warning and an administrative fine of USD 400 million for deficiencies in its management of money-laundering risks in its Baltic operations. Since then, Swedish and Estonian authorities have resolved their investigations into Swedbank, as has the Nasdaq OMX.

### Engagement Objective

The engagement objective was for Swedbank to ensure that it had implemented risk management systems and internal controls that aimed to prevent financial crime and money laundering and demonstrated that they were robust and universally applied. It was also expected to have ensured that the board had sufficient and effective oversight of the business.

### Engagement Activities

Sustainalytics initially commenced dialogue with Swedbank in 2019 and held a substantive conference call in March 2020. The dialogue stalled in the middle of 2020, though, so we focused our efforts on verifying that the company had a comprehensive strategy for addressing anti-money laundering (AML) and know-your-customer (KYC) issues; we checked that it had appropriate AML and KYC-related programmes and policies, control measures, sufficient dedicated financial and human resources, good reporting lines, enhanced investments in AML technology, effective corporate governance, effective training, collaboration in industry-wide initiatives, and that it had worked on enhancing its corporate culture.

### Outcome

Despite the stalled dialogue, Swedbank has demonstrated significant progress via public disclosures. It has implemented robust risk management systems and internal controls addressing financial crime and money laundering. Since 2019, Swedbank has changed most of executive team and board (with a strengthened AML background). Its Risk and Compliance functions have been separated and strengthened. Swedbank established three lines of defence, including a dedicated Anti-Financial Crime division; these lines have a good reporting structure (risk and compliance functions report directly to the board and CEO). The board also has an Ethics Committee. The company launched and fully executed its 144-point Anti-Financial Crime plan between 2019 and 2021. It subsequently launched its Anti-Money Laundering/Combating the Financing of Terrorism & Sanctions Transformation Programme, which is aimed at adhering to best practices over the long term. Swedbank’s training programmes appear thorough, and it conducted a comprehensive review of its corporate culture.

### STATUS

Resolved

### ISSUE(S)

► Money Laundering

### ENGAGEMENT MANAGER



**Angela Flaemrich**  
Associate Director  
Toronto

### CONTRIBUTION TO SDGs



### DIALOGUE STATISTICS

	<b>58</b>	Number of Contacts
	<b>3</b>	Conference Calls
	<b>12</b>	Correspondence
	<b>1</b>	Meetings in Person

### CASE TIMELINE

	Engagement Since	Feb 2019
	Milestone 1	Feb 2019
	Meeting in Person	Apr 2019
	Conference Call	Nov 2019
	Milestone 2	Nov 2019
	Conference Call	Mar 2020
	Milestone 3	Oct 2020
	Conference Call	Feb 2021
	Milestone 4	Feb 2021
	Milestone 5	Sep 2022
	Case Resolved	Nov 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.

- ▲ **High Performance** - good or excellent Response in combination with good or excellent Progress.
- ▶ **Medium Performance** - standard level of Response and Progress.
- ▼ **Low Performance** - poor or no Response in combination with poor or no Progress.

**New, Same, Better or Worse Performance** - indicates the change in either Response or Progress since the last quarterly report.

**Low Performance Tracker (Tracker)** The indicator describes the time elapsed with Low Performance. One piece equals three months.



After two years, the case will be reviewed by Sustainalytics and a Disengage status can be selected if all other engagement options are ineffective.

**Milestones** The indicator describes the milestone achieved from 1 to 5.



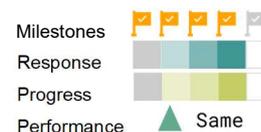
# Engage

## AFRICA / MIDDLE EAST

### MTN Group Ltd. (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 Ltd. (Australia, 2019)

#### ► Consumer Interests - Business Ethics

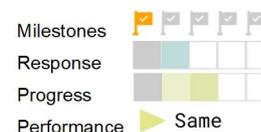
**Change Objective:** AMP should ensure that robust policies and internal controls addressing product governance and business ethics are implemented, universally applied and where appropriate, disclosed.



### 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.



### Hino Motors, Ltd. (Japan, 2022)

#### ► Consumer Interests - Business Ethics

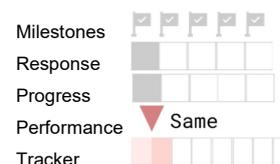
**Change Objective:** Hino Motors should improve its compliance and operations integrity management system for emissions testing and engine performance. The company should have adequate internal controls, training and communication focused on compliance, ethics, integrity and culture. Furthermore, the company should transform its risk and integrity culture.



### 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.



**Oil & Natural Gas Corp. Ltd.** (India, 2019)

## ► Involvement with Entities Violating Human Rights

**Change Objective:** Oil and Natural Gas Corporation Limited should follow international best practice for respecting human rights. While operating in conflict-affected countries, it should undertake due diligence adapted to the specific situation of the region and act adequately on the findings. The company should also engage with governments and other relevant stakeholders to encourage open and accountable management of the revenues it provides and contribute to local peace efforts.

**Rio Tinto Ltd.** (Australia, 2020)

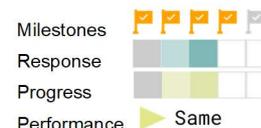
## ► Community Relations - Indigenous Peoples

**Change Objective:** RioTinto should agree on a compensation package with the Puutu Kuntj 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)

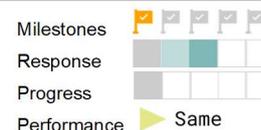
## ► Bribery and Corruption

**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 Co. Holdings, Inc.** (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.

**Toyota Motor Corp.** (Japan, 2022)

## ► Consumer Interests - Business Ethics

**Change Objective:** Toyota should improve its global subsidiary governance framework. The company should have an adequate risk management framework and have robust oversight of its global subsidiaries. Furthermore, the company should explore emissions mitigation and offset options for its subsidiary's non-compliant excess emissions.

**Vedanta Ltd.** (India, 2019)

## ► Community Relations

**Change Objective:** Vedanta should analyze the root causes of the protests in Tuticorin and address the identified issues in cooperation with the local communities. It should develop a framework for improving its communication with stakeholders with the aim of applying it across operations. The company should also launch the process of becoming a signatory of The Voluntary Principles on Security and Human Rights.



**Weibo Corp.** (China, 2021)

► Involvement with Entities Violating Human Rights

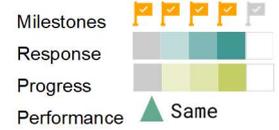
**Change Objective:** Weibo should take steps to manage human rights risk exposure and limit impact on its users where possible. The company should demonstrate efforts to establish human rights due diligence practices, define policies relevant to digital rights, and to report on external data requests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



**Westpac Banking Corp.** (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.



**Xinjiang Zhongtai Chemical Co., Ltd.** (China, 2022)

► Forced Labour

**Change Objective:** Zhongtai should adopt international human rights practice within its labour force, particularly the right to freedom from forced labour. The company should carry out appropriate due diligence and implement effective policies and practices.



**ZTE Corp.** (Iran, 2019)

► Involvement with Entities Violating Human Rights

**Change Objective:** ZTE should take steps to ensure its technology products and services, particularly those providing surveillance or monitoring capabilities, are not complicit in the violation of human rights. The company should implement a robust human rights due diligence programme to improve its business policies and practices in line with internationally accepted standards, particularly for its activities in high-risk countries. 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.

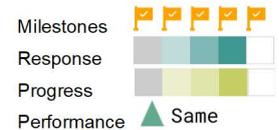


**EUROPE**

**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 SE** (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.



**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)

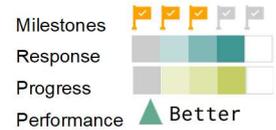
## ► Money Laundering

**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.

**EDP-Energias de Portugal SA** (Portugal, 2020)

## ► Bribery and Corruption

**Change Objective:** EDP should commission an independent investigation into the allegations, it should disclose the findings and show how it plans to enact any recommendations. The company should also ensure that executive contracts have both malus and clawback provisions.



\*Associated Company: **EDP Renováveis, S.A.**

**Glencore Plc** (Switzerland, 2022)

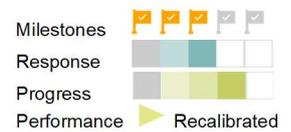
## ► Bribery and Corruption

**Change Objective:** Glencore should implement on-going systematic controls related to business ethics, corruption and bribery and disclose these controls whenever appropriate.

**Glencore Plc** (Bolivia, 2021)

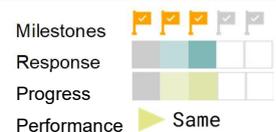
## ► Child Labour

**Change Objective:** Glencore and its subsidiaries should cease purchasing ore from cooperatives which practice child labour. It should work with the authorities to assist in fulfilling the government's pledge to eradicate child labour by 2025; and should have programmes to improve health and safety in the mines that extend to co-operatives.

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

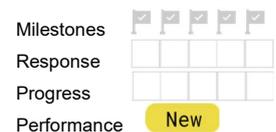
## ► Consumer Interests - Business Ethics

**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.

**Koninklijke Philips NV** (United States, 2022)

## ► Quality and Safety

**Change Objective:** Koninklijke Philips NV 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. It must address issues preventing effective product recall.

**Medtronic Plc** (United States, 2022)

## ► Quality and Safety - Human Rights

**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.



**Orpea SA** (France, 2022)

## ► Quality and Safety - Human Rights

**Change Objective:** Orpea should cooperate with authorities to aid investigations, resolve outstanding proceedings if necessary, and make meaningful public disclosures. Orpéa should take steps to align its policies, governance, risk management framework and grievance mechanisms to international quality and safety standards. The company should measure effectiveness of its efforts via robust monitoring, reporting and communicating, and take steps to transform its corporate culture to avoid similar issues in the future.

**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 SA** (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.

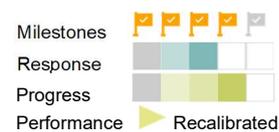


\*Associated company: **Siemens Energy AG**

**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.



## LATIN AMERICA AND CARRIBEAN

### Vale SA (Brazil, 2019)

► Incident(s) Resulting in Negative Human Rights Impacts

**Change Objective:** Vale should commission an external technical review into the causes of the collapse; strengthen its management of its tailings storage facilities using best available technology; adopt a policy of designing tailings facility based upon safety first and cost second; ensure remedial programmes are in place and improve the technical knowledge of its board with reporting lines are in place to ensure potential concerns are addressed appropriately.

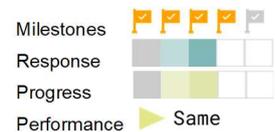


## UNITED STATES AND CANADA

### 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.



### Blackstone, Inc. (Australia, 2022)

► Money Laundering

**Change Objective:** Blackstone should have a robust governance framework to ensure effective oversight of the implementation of Crown Resorts anti-money laundering (AML) programme and remedial plan. The company should have an adequate risk management framework covering AML, reporting and monitoring. The company should demonstrate strong leadership on financial crime issues.



\* Sustainalytics also engages with Crown Resorts Ltd. which was acquired by Blackstone in June 2022.

**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

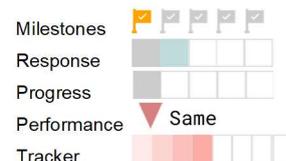
**Change Objective:** Johnson and Johnson should ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures, to minimize the risk of future litigation.



**Mattel, Inc.** (United States, 2021)

► Quality and Safety - Human Rights

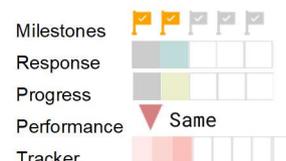
**Change Objective:** Mattel should undertake a complete review (and commission an independent validation of the appropriateness of any review) of all infant sleep / soothing products it has on the market, in production and in design process against the relevant safety standards for potential recall 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

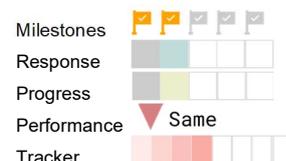
**Change Objective:** McDonald's should actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to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

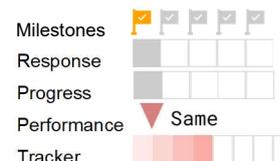
**Change Objective:** Facebook should implement its commitments to privacy and data security by ensuring that it has in place adequate internal controls systems and risk management procedures to manage the cybersecurity risks. Specifically, the company should ensure an adequate protection level for personal 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 Corp.** (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 Corp.** (Mexico, 2020)

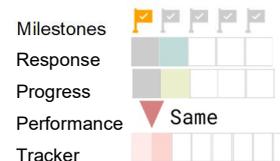
## ► Leaks, Spills and Pollution - Environmental and Human Rights Impacts

**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 Corp.** (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.



\*Previously as **Stryker Corporation**

**Tesla, Inc.** (United States, 2022)  
 ▶ Discrimination and Harassment

**Change Objective:** Tesla should have these incidents investigated by an independent third party and fully participate with the investigation. 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 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.



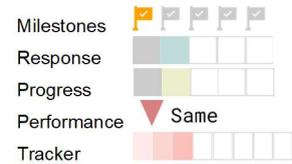
**The Boeing Co.** (United States, 2019)  
 ▶ Quality and Safety - Human Rights

**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 has stated that it wishes to eradicate the discharge of persistent chemicals from its operations; however, there are a number of legacy issues in relation to pollution from its operations, therefore, we wish to ensure that Chemours 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

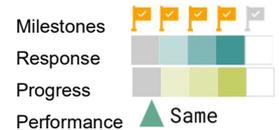
**Change Objective:** Thermo Fisher should improve its human rights due diligence and disclosure, especially in relation to its products/services and business relationships. The company should also demonstrate efforts to support internationally accepted human rights standards as well norms governing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



\*Associated company: **PPD, Inc.**

**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.



**Wells Fargo & Co.** (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

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### Disengage due to low performance

UNITED STATES AND  
CANADA

**Motorola Solutions, Inc.**  
▶ Involvement With Entities Violating Human Rights

Palestinian Authorities

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## Resolved

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### ASIA / PACIFIC

#### **Mitsubishi Materials Corp.** (Japan, 2019)

Sustainalytics decides to resolve the case as the company has shown significant progress with addressing its quality control structures. The company has regained its ISO 9001 certification and the Japanese JIS certification. Requiring audit by third-party assessors to regain these certifications demonstrates that MMC obtained independent verification of the steps it has taken to improve the quality control framework. The company achieved this by refreshing and restructuring the board, including improving oversight and linking board remuneration to controls.

#### ISSUE

► Consumer Interests -  
Business Ethics

#### MILESTONES

 5/5 Achieved

### EUROPE

#### **Swedbank AB** (Sweden, 2019)

This is an unusual case whereby the dialogue between Sustainalytics and the company has been poor, but via Swedbank's relatively transparent public disclosures, we were able to determine that it has implemented sufficient risk management systems and internal controls that address financial crime and money laundering and demonstrate that they are robust and universally applied. The board appears to have sufficient and effective oversight of the business. Thus, Sustainalytics has decided to resolve this case.

#### ISSUE

► Money Laundering

#### MILESTONES

 5/5 Achieved

## Global Standards Engagement Overview

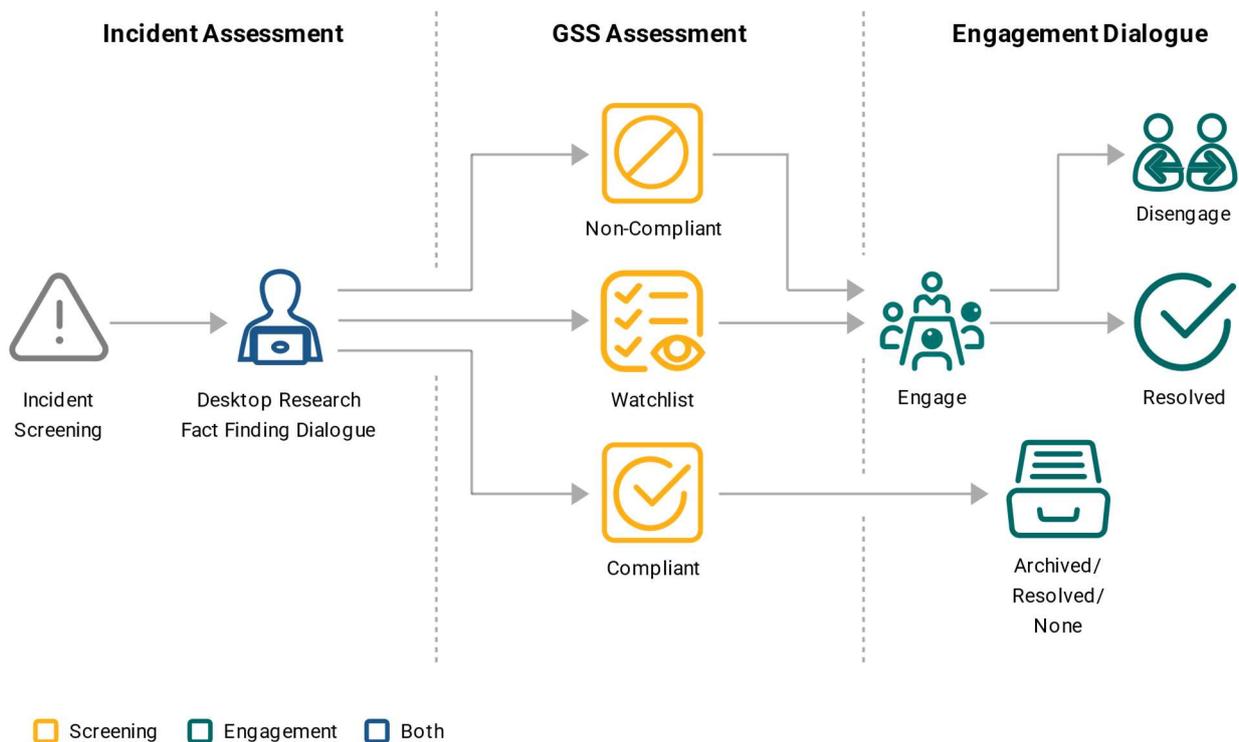
Global Standards Engagement (GSE) is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment 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 is 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 classified as non-engageable due to no or limited publicly traded securities or under significant distress.
- 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).
- Regular engagement case on Russian or Belarusian company, where we pause our engagement due to the situation in Ukraine.

### 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 Climate Change – Sustainable Forests and Finance**

# EXECUTIVE SUMMARY

## Climate Risks and Forest Value Chains

The Sixth Assessment **Report** by the UN's Intergovernmental Panel on Climate Change (IPCC) from April 2022 concluded with the starkest warning of 'now or never' regarding limiting global warming to 1.5-degrees Celsius. News reports from around the world illuminate the climate breakdown with unprecedented flooding, megadroughts, and widespread wildfires. At the same time, the connections between carbon emissions, deforestation, and nature continue to be developed. The clearing of forests is driven by increased demand for food and resources. Further **research** has urged immediate action on deforestation, without which reaching net zero is impossible. The rising climate change risks have also resulted in increased regulatory action.

Still, the companies making up the forest value chain, with a significant number involved in the sourcing, trading, processing, and consumption of commodities result in a complex environment, one which is ultimately underpinned by financiers and remains difficult to change.

## Update on Our Engagement Efforts Since February 2022

The second bi-annual report covers the period of engagement that took place between February and August 2022, following the publication of the first bi-annual report at the beginning of March 2022. Sustainalytics' focus moved from getting acquainted with the companies in the three sectors (financiers, mid-value chain companies, and end-of-value chain companies) and exploring the initial gaps into addressing the major goals of the engagement theme, creating a stronger dialogue, outlining investor expectations, and recognizing potential issues. In this period, Sustainalytics conducted 13 engagement calls, 116 outgoing emails, and 75 incoming emails. In addition, for the first time since the beginning of this programme, we prepared and sent out an Investor Letter to nine companies that had either insufficient responses or were unresponsive to the invitation for dialogue. Four companies agreed to continue the dialogue, and we escalated our engagement efforts with two low-response companies by issuing voting recommendations against specific related items on their annual shareholder meeting agendas. The five remaining companies have been replaced with others while taking into consideration both the geographic and value chain location, size, and business lines to be as close to the original list, as possible. A baseline assessment has been conducted on the new companies.

### FINANCIERS AVERAGE KPI SCORE

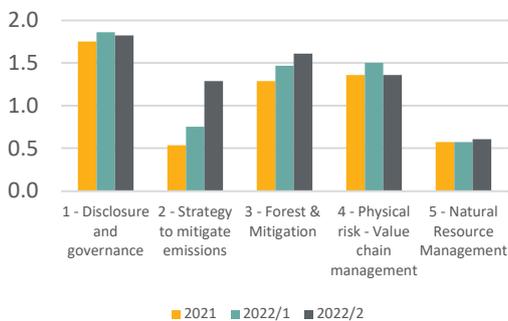


Figure 1: Graphs showing the average KPI score across the financiers in the value chain, the minimum score being 0, while the maximum score is 3.

Throughout the engagement, Sustainalytics assesses the engaged companies on 5 key performance indicators (KPIs) that cover: Disclosure and Governance; Strategy; Forests and Mitigation; Physical risk; and, Natural Resource Management.

We have continued to observe some improvement in scoring across the board, and as in the previous report it was largely driven by increased disclosure, but also by establishing strategies for reaching climate targets. Many companies are seriously considering increasing the ambition of their targets and having them validated by third parties in line with 1.5 degrees, something that will be helped with the expected September release of the SBTi FLAG methodology. Most companies believe that tackling this crisis needs to be a joint effort which indicates a willingness to collaborate via different initiatives, something we have seen an increase in throughout agricultural supply chains. Regarding specific engagement with financiers, climate emissions accounting has continued at a steady pace. These companies are also preparing for the next stage which would encompass less heavy emitting industries i.e. Agriculture. Still, the highest improvement has been in financiers establishing strategies on how to decrease the carbon emissions in their portfolios in the short and medium term, ensuring they could reach net zero largely led through the Net-Zero Banking Alliance. Commodity companies have gradually increased their scoring due to enhanced disclosure, but also by providing more

information on how they mitigate their deforestation risks and their approach to physical risks and nature. The end-of-value chain companies have also begun to disclose their strategies and their measures to reach zero deforestation but there is still much to be done to bring further clarity.

In terms of overall average scores, the financiers have seen a shift from 6.1 to 6.7 while mid-value chain commodities continue to score lowest with an average KPI score of 6.3, which is an improvement from 4.9, mostly due to the inclusion of the new companies. As with the other groups, the average score for the companies making up the end of the value chain group has shifted from 6.9 to 7.4 driven by publishing better climate change strategies. We have seen an increased focus on physical risks and efforts to understand how these companies can prevent deforestation. Nevertheless, the challenges in working with suppliers to map and reduce scope 3 emissions remain.

### MID-VALUE CHAIN AVERAGE KPI SCORE

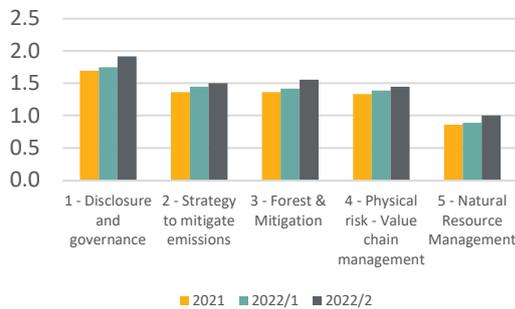


Figure 3: Graphs showing the average KPI score across the Commodity companies in the value chain, the minimum score being 0, while the maximum score is 3.

### END-OF-VALUE CHAIN AVERAGE KPI SCORE

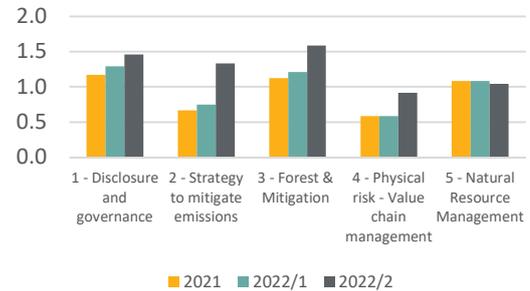


Figure 2: Graphs showing the average KPI score across the end of value chain companies, the minimum score being 0, while the maximum score is 3.0

## Looking Ahead

The next six months of the thematic engagement will focus on the third round of engagement sessions where the challenges of the companies will be examined further, particularly pertinent given the expected finalization around emissions account with the SBTi FLAG release, which we expect will provide momentum for science-based target verification of the next year or so of the engagement. At the same time, we will seek to deepen the dialogue with the five new replacement companies that we will establish engagement with and continue our discussions with stakeholders to stay ahead of the trends and be able to drive meaningful change with the theme.

## 2022 Q4 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Climate Change theme's next biannual report is issued in February 2023. 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 Feeding the Future**

# EXECUTIVE SUMMARY

## Feeding the Future Thematic Engagement

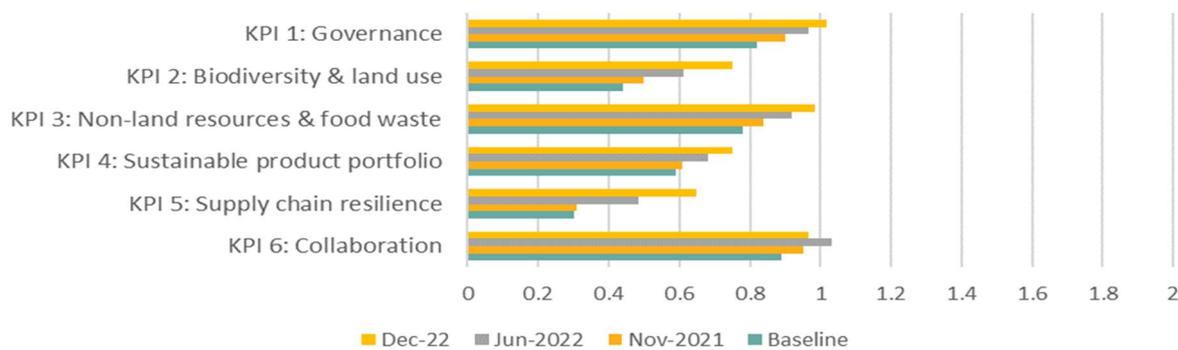
Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population 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 population<sup>5</sup>, 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.

## Engagement Efforts and Developments: June to December 2022

In the last six months, Sustainalytics has sought to continue or commence dialogue with all 20 companies in the engagement programme. We have exchanged 255 emails, made 12 telephone calls and sent one investor letter, resulting in 13 content-based and 3 introductory calls with engaged companies. We have seen varying developments in the average scores of the six areas of our KPI framework during this period. Governance (KPI 1) and collaboration (KPI 6) remain the best-performing indicators. Non-land resources and food waste (KPI 3) and sustainable product portfolio (KPI 4) have remained at similar levels, while biodiversity and land use (KPI 2) and supply chain resilience (KPI 4) have displayed significant increases.

Feeding the Future: Average KPI scores



Governance continues to be the KPI displaying the best average performance. This may in be part be because one of the sub-indicators, board-level responsibility for sustainable agriculture does not require the creation of new systems but the enhancement of existing structures. Companies are also taking a high-level view of risks and impacts related to climate and nature, analyzing physical and transitional risks and opportunities in line with TCFD and engaging with the process of setting Science-Based Targets for Nature.

On a related note, biodiversity and land use have been a significant focus of our engagement efforts over the last six months, and the average score on this KPI has improved from low to medium. One component of this KPI is sustainable production and sourcing practices to preserve and improve soil health and increase agrobiodiversity. Several ambitious corporate programmes to promote regenerative agriculture represent positive progress in this area. At the same time, companies are recognizing the connection between avoiding deforestation and protecting biodiversity. Furthermore, they are deploying geospatial mapping as a tool to identify suppliers associated with tree clearance.

On the management of GHGs, water and food waste (KPI 3), the average score has remained flat at 0.9 (medium), but we have learnt more about corporate commitments. Several companies have published carbon neutrality targets going up to 2050 or earlier and interim carbon reduction

<sup>5</sup> <https://www.eufic.org/en/food-production/article/food-production-3-3-a-sustainable-food-supply>

targets. Some are assessing the carbon footprint of individual products to develop a baseline and disclosing carbon reduction measures, both within their own operations and developed with suppliers or customers to generate carbon credits.

We have observed more limited discussion of product innovation, but there have been a few prominent examples, associated with the sustainability of food products and the environmental impacts of agricultural chemicals. In June 2022 we observed that supply chain resilience was the lowest-performing KPI. It has therefore been an area of focus during the last six months, and, although the overall average remains in the low band, we have seen some positive signs. These include support for third party growers by agricultural companies on technical, practical and sustainability issues, including certification. We have also seen engagement by packaged food and food retail companies with suppliers on management of soil, pests, water and land.

Collaboration (with experts, peers and multi-stakeholder initiatives) remains the second best-performing KPI, with an overall score of medium. Agricultural and agricultural chemicals companies have announced milestones in major collaborations with peer companies or academic institutions on reducing biodiversity impacts or expanding regenerative agriculture.

Looking ahead to the first half of next year, we will set up first calls where needed and feasible, prioritize arranging follow-up calls with companies where the last call was before June 2022 and identify new engagement candidates for companies to be replaced or potentially replaced. We will also evaluate options for peer-to-peer collaboration within the framework of the programme, such as a virtual roundtable. In addition, we will gather good practice examples fulfilling engagement programme KPIs into a collection of good practice to leverage during dialogues.



# **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 February 2022-September 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 fifth biannual report of the Localized Water Management engagement. Overall, the intent of the engagement calls since our last biannual report in February 2022 was to continue to emphasize the gaps that Sustainalytics perceived and push for company-appropriate strategies and solutions. Supply chain was the largest area of focus along with wastewater quality. Moreover, we continue to challenge 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 1), linked to changes at 11 companies. Most companies have continued to display strong performance on KPI 1 Water Governance. Four companies marginally improved their scores since February 2022 related to approved plans to link executive compensation to water metrics, expansion of its environmental management system certification, and completion of a value chain pilot programme for ESG among other improvements. One company made an improvement in KPI 2 Water Risk & Opportunity Management by completing a physical climate risk scenario analysis. The average scoring on KPI 3 Water Quantity has been consistently high since the baseline. Interestingly, KPI 3 saw the largest improvements of all the KPI this round due to improvements at five companies in water quantity management programs and increased localized reporting. Since the last biannual report some limited scoring improvements occurred within KPI 4 Water Quality at two companies related to recognizing the interconnected and interdependent nature of water resource management. Although most companies do not have public wastewater quality goals, several have implemented or are planning to implement municipal wastewater recycling. The current ineffective state of wastewater treatment is well documented in our target basins and by both increasing the capacity and efficiency of municipal wastewater and reusing it in industrial operation, companies are able to improve local water quality and water security for all basin users. Wastewater reuse agreements tend to make financial sense while also decreasing reputational risk related to localized competition for water. On KPI 5 Integrated Water Resources Management, two companies showed marginal improvements since February 2022. KPI 5 is the second lowest performing overall in the framework, however, it also has the second most improved score since the baseline assessment. 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 basin-level 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, yet it remains the lowest scoring KPI overall. Improvements at two companies were noted recently, both in the area of crisis management.

Overall Average Scores by KPI



Chart 1: Overall Average KPI Scores Baseline vs Biannual Updates

## Next Steps

In this last year, the Localized Water Management engagement programme will focus dialogues on individual gaps while ensuring companies have a strategic position on impact and basin-wide efforts. As a next step, we intend to host a collaborative basin-level forum to bring companies together to share their current and future basin-level projects. 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 the inter-company networking that will be needed to facilitate concrete on-the-ground impacts.

## 2022 Q4 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Localized Water Management theme's next biannual report is issued in March 2023. 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 either avoidance or mitigation 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 PV 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 13 ‘Climate action’.

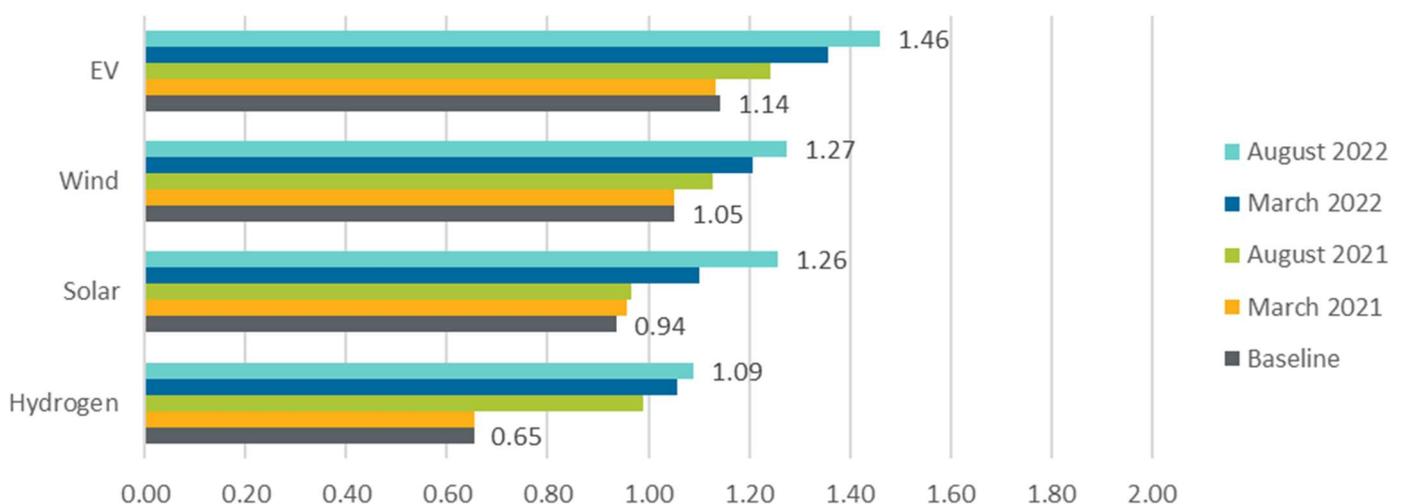


## Update on Our Engagement Efforts since March 2022

The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. The fourth biannual report accounts for the progress made between April and August 2022. Furthermore, it marks the end of the second year of this thematic engagement as well as the point where the remaining two engaged companies also passed the score threshold from the Low to the Medium category for the first two KPIs, governance and operational management. The room for further improvement is still more significant for the other three KPIs, supply chain management, circularity and stakeholder engagement.

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 shows the average overall score per cleantech domain. The EV domain continues to lead. The solar domain has been catching up with the wind domain. The hydrogen domain still lags behind, although also here there continue to be incremental improvements.

Responsible Cleantech:  
Average overall score per cleantech domain



The 19 companies that are presently engaged are Daqo New Energy, First Solar, Ford Motor, Gurit, Hanwha Solutions, Honda Motor, Hyundai Mobis, Johnson Matthey, LG Energy Solution, LONGi Green Energy Technology, Nordex, Plug Power, Schneider Electric, SunPower, Tesla, TPI Composites, Vestas Wind Systems, Volkswagen, and Xinjiang GoldWind Science & Technology. The latest reporting period, from April to August 2022, yielded engagement calls with nine of these companies. Several more calls could only be scheduled after the closing date of this biannual report. Many engaged companies have published a new sustainability report since we issued the previous biannual report in March 2022. The updated disclosures have helped inform the agendas of the new round of calls. In addition to the company engagements, Sustainalytics attended two online conferences and interviewed various subject matter experts. 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.

Multiple engaged companies have expressed acknowledgement that the Responsible Cleantech thematic engagement dialogue as well as various serious multi-stakeholder initiatives are useful. With many dialogues now well established, many companies dare to trust us, share dilemmas, ask for feedback and they are okay with being held to account on live calls with little room for scripted responses. While some investor relations and sustainability managers prepare thoroughly for the dialogue every time, some dialogues have actually benefited from people from a different department getting involved, such as procurement or human resources.

## High-Level Insights and Outcomes

Sustainalytics aims for engagement that benefits both the companies and the investors. Tangible environmental and social impacts remain challenging to measure and claim but we know that stewardship engagement makes companies ready for mitigating ESG risk and this creates long-term value. Engagement also helps reinforce broader developments and complimentary efforts of other stakeholders. The Responsible Cleantech thematic engagement's outputs are plentiful, including conference calls that are open to investors and complementary information exchanges by email and phone. Here is a selection of high-level insights and outcomes:

- The engaged companies are headquartered in China, Japan, South Korea, the U.S. and various European countries. Geopolitical tensions and cultural differences aside, the engaged companies share a sense of urgency to take more initiative on corporate sustainability and support a transition towards a low-carbon, circular and socially just economy.
- The Responsible Cleantech thematic engagement has four focus domains: solar, wind, EV and hydrogen. The EV domain appears to be ahead of the other domains when it comes to making progress with raw material traceability and teaming up in multi-stakeholder initiatives to improve environmental and social conditions in the supply chain. Some companies have really been stepping up by adopting already established standards and tools but there are also companies that establish yet new alliances. This is not easily efficient, but it is still better than no chance of meaningful collaboration at all.
- China is accused of large-scale forced labor practices in the Xinjiang Uyghur Autonomous Region. China's dominance in many metal supply chains is so significant that it is hard for companies to circumvent. Chinese companies have already been offshoring some of their production to preserve overseas market access but this does not guarantee that forced labour does not occur further upstream. Most companies still do not have much visibility beyond the first or second tier of their supply chains. It is common practice among the engaged companies to prohibit forced labour, but it is unclear how this is enforced beyond direct suppliers.
- Responsible material sourcing remains a significant area for further improvement. Most companies still have very limited visibility beyond the first one or two tiers of their supply chains and supplier due diligence and engagement efforts are mostly still generic. Mainly some companies in the EV value chain have started to trace specific materials back to their source, identify sustainability risks and develop action plans.
- Whilst the ambitions are there, the wind energy industry still has a long way to go when it comes to delivering recyclable, 'circular' blades at an industrial scale and decarbonizing the supply chain of turbine towers, which is dominated by steel. Innovations with concrete and wood have only been serving niche markets so far and steel production with green hydrogen has only just begun.
- In the latest round of engagement calls, two companies were represented by human resource managers who explained what it takes to retain staff, involving re- and/or upskilling, and to advance with employee diversity, equity and inclusion. It is still common that strategic decisions are made by male staff members in the home country of a company. There is more attention for inclusive leaderships skills now and recognition of the added value of gender diversity and internationalization.

## Next Steps

Now that we have an understanding of each engaged company's business and sustainability strategy, Sustainalytics would like to suggest at least one specific improvement for the company to deliver in the short term. Besides continuing to invite the companies' own experts, Sustainalytics can start bringing in some external experts as well. Shortly after the publication of this report, we have scheduled two company calls that will also involve a representative of a multi-stakeholder initiative in which the company participates.

## 2022 Q4 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Responsible Cleantech theme's next biannual report is issued in March 2023. 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 Governance of SDGs Thematic Engagement

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 March to September 2022

Since we started the engagement programme in April 2020, we observe positive developments and steady progress towards the programme's goals across all sectors. Companies' average performance rose from medium (1.4/2) to high (1.7/2). We determine that most companies in the programme now exhibit satisfactory governance of SDGs. However, the purpose of this engagement is also to produce positive outcomes in line with the 2030 Agenda, contributing to a more stable, long-term operating environment for business. This goal proves to be a challenge. Global progress towards the achievement of the SDGs has stalled and, in some cases, reversed for the second year in a row as a result of the prolonged pandemic; the war in Ukraine; and growing climate, food, energy, humanitarian and refugee crises.<sup>6,7</sup> The global economic outlook is pessimistic, with the economic growth slowing even more than anticipated, from 3% in 2022 to 2% in 2023 and high widespread inflation.<sup>8</sup> Therefore, despite the engagement companies improving their governance of SDGs, there are questions around how their positive impact can be maximized in this context.

Measuring companies' impact on the SDGs continues to be a challenge. The official UN 2030 Agenda indicators were created for governments. Translating them for businesses has proven to be problematic. This is the topic that has been running through our engagement conversations. No common, standard business framework of SDG indicators has emerged yet, despite intensified efforts in this area. Engagement companies are using different frameworks or developing their own ways to measure their impact, which makes it hard to compare them and create benchmarks. The variable quality of disclosures compounds this issue – even within standard frameworks.

According to the SDG progress reports, one of the main obstacles to fulfilling the 2030 Agenda is insufficient funding. The United Nations Conference on Trade and Development (UNCTAD), warns that the financial fallout from the war in Ukraine could widen the already huge USD 3.6 trillion annual gap in financing needed to achieve the SDGs and lead to cascading credit downgrades and debt defaults in developing countries.<sup>9</sup> The poorest half of the world (the low-income and lower-middle-income countries) lacks market access to capital on acceptable terms, and rich countries still generate negative international spillovers. As the Inter-agency Task Force on Financing for Development states in its newest report: "Finance is both a contributor to the divergence we are seeing between developed and developing countries and a key to overcoming it".<sup>10</sup> There is a general consensus that a global plan on how to move forward with sustainable financing is urgently needed.

<sup>6</sup> United Nations (UN) (2022), "The Sustainable Development Goals Report 2022", UN, accessed (03.10.22) at: <https://unstats.un.org/sdgs/report/2022/>

<sup>7</sup> Sustainable Development Solutions Network (SDSN) (2022), "Sustainable Development Report 2022. From Crisis to Sustainable Development: the SDGs as Roadmap to 2030 and Beyond", SDSN, accessed (03.10.22) at: <https://www.sustainabledevelopment.report/reports/sustainable-development-report-2022/>

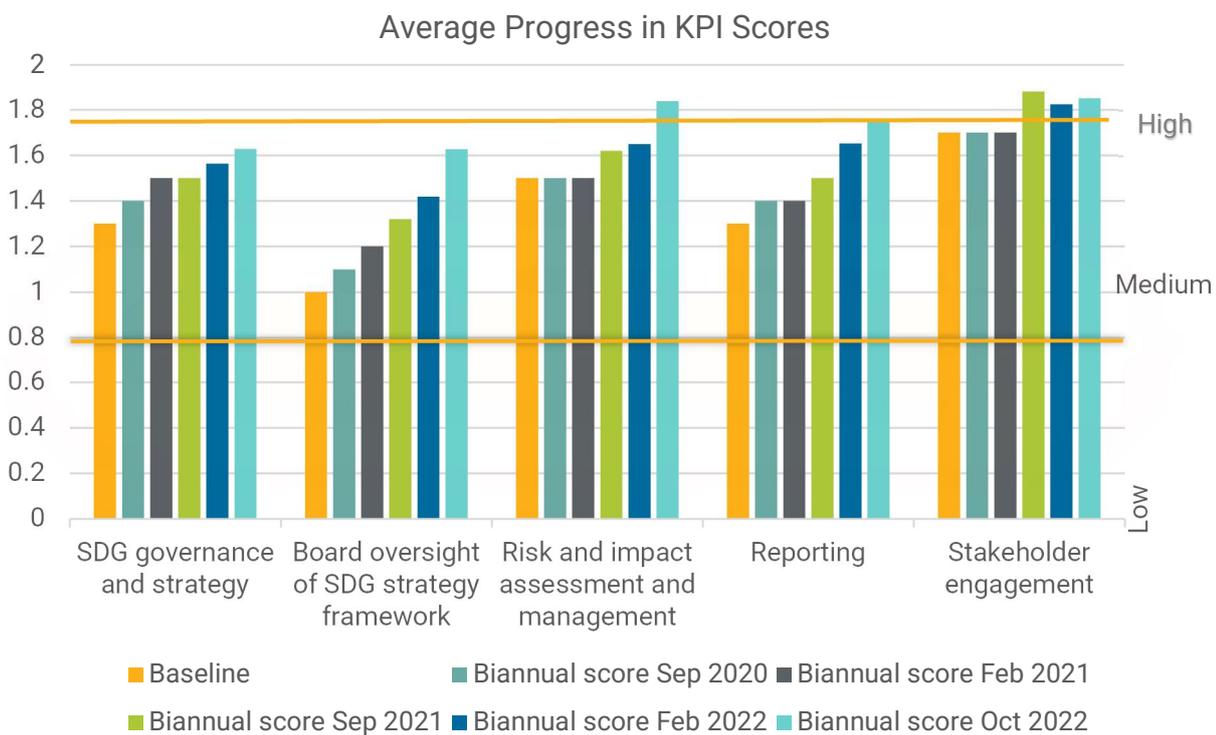
<sup>8</sup> Organisation for Economic Co-operation and Development (OECD) (2022), "Paying the Price of War. Economic Outlook. Interim Report", OECD, accessed (03.10.22) at: <https://www.oecd.org/economic-outlook/september-2022/>

<sup>9</sup> United Nations Conference on Trade and Development (UNCTAD) (03.2022), "Ukraine war risks further cuts to development finance", UNCTAD, accessed (2022) at: <https://unctad.org/news/ukraine-war-risks-further-cuts-development-finance>

<sup>10</sup> Inter-agency Task Force on Financing for Development (IATF) (2022), "Financing for Sustainable Development Report", IATF, accessed (03.10.22) at: <https://developmentfinance.un.org/fsdr2022>

Sustainable investment is, therefore, crucial to achieving the SDGs, but the question is how to ensure the investments are flowing in the right direction, particularly when measuring companies’ impacts on the SDGs is a challenge? We believe it is one of the crucial issues for investors currently and, therefore, this is the topic we would like to explore in our engagements going forward. In particular, we plan to discuss with the programme companies, firstly, how measuring their impact on the SDGs can be improved and, secondly, how their impact can be maximized. To evaluate these questions, we will prolong The Governance of SDGs thematic engagement until the end of 2023.

Since the last biannual update in March 2022, we continued to hold conversations with companies in the Consumer Goods, Information and Communications Technology (ICT), and Financial sectors. We have held ten meetings, scheduled six more for Q4, and exchanged written communications (82 emails) with all the companies in the programme. Of the three sectors, companies in the Financial and ICT sectors continue to be most responsive and open to meetings, while Consumer Goods companies have been least responsive overall, despite making good progress on the programme’s KPIs.





# Thematic Engagement Biodiversity and Natural Capital

# New Engagement Programme Overview

## Issue at Hand

Biodiversity loss is accelerating at a global scale. Because the global economy is dependent on a biodiverse landscape to perform critical functions such as climate regulation and pollination, reductions in biodiversity threaten global economic stability and negatively affect industries ranging from agriculture to pharmaceuticals. It is estimated that more than half of the world's GDP (equal to USD 44 trillion) is moderately or highly dependent on contributions from nature. In short, biodiversity loss leaves the world less resilient to the worsening impacts of global climate change. Sustainalytics' Biodiversity & Natural Capital Impact Engagement addresses this issue head-on by leveraging the power of investors to engage directly with corporations and other stakeholders to positively and materially address biodiversity loss and nature degradation.

## Update

Throughout 2022, we have successfully launched our engagement efforts concerning biodiversity, identifying and formalizing our outcome assessment framework, which is utilized to assess progress on our overall engagement objectives. The programme's outcome framework consists of five outcomes, four of which correspond to the core pillars of the Task Force for Nature-related Financial Disclosures (TNFD): Governance, strategy, risk management, and metrics and targets. An additional outcome, disclosure, ensures material information is disclosed to stakeholders in accordance with the TNFD. Combined, the five outcomes embody what we expect to be best practices within the management of biodiversity-related risks and opportunities. We also sought to identify and finalize our list of issuers targeted as part of the engagement. In Q4 of 2022, the programme held 15 engagement calls and one in-person meeting with our target companies, alongside 8 telephone calls and 286 communications via email.

Agriculture is highly dependent on natural capital including biodiversity. It is also a key driver of biodiversity loss by expanding into key biodiversity areas, degrading soil health, polluting water bodies, and introducing invasive species. The agricultural sector is a major emitter of greenhouse gases thereby indirectly affecting biodiversity. Critically, agriculture is highly dependent on the natural capital it is degrading. The program's value-chain approach enables opportunities for shared learning among engaged companies during roundtables and for the engagement managers to share insights with issuers that represent a broad range of perspectives. Similarly, the diversity of issuers allows for knowledge sharing across industries and geographies.

## Looking Ahead

Looking ahead, we will continue to establish further dialogues throughout Q1 with our targeted issuers and continue ongoing ones on the topic of biodiversity. Our initial rounds of dialogue have centered broad-based information-gathering, as we follow up, we will seek to build a deeper exploration of specific, material topics and recommendations for improvement. We will also track emerging trends and initiatives, such as the TNFD, and will seek to follow up with our additional dialogues with key stakeholders, given their importance to embedding sustainability in complex value chains and advancing biodiversity as a material topic for investors. We will also look to release our initial full report outlining the above activities and our findings in early 2023.



# **Thematic Engagement Circularity**

## New Engagement Programme Introduction

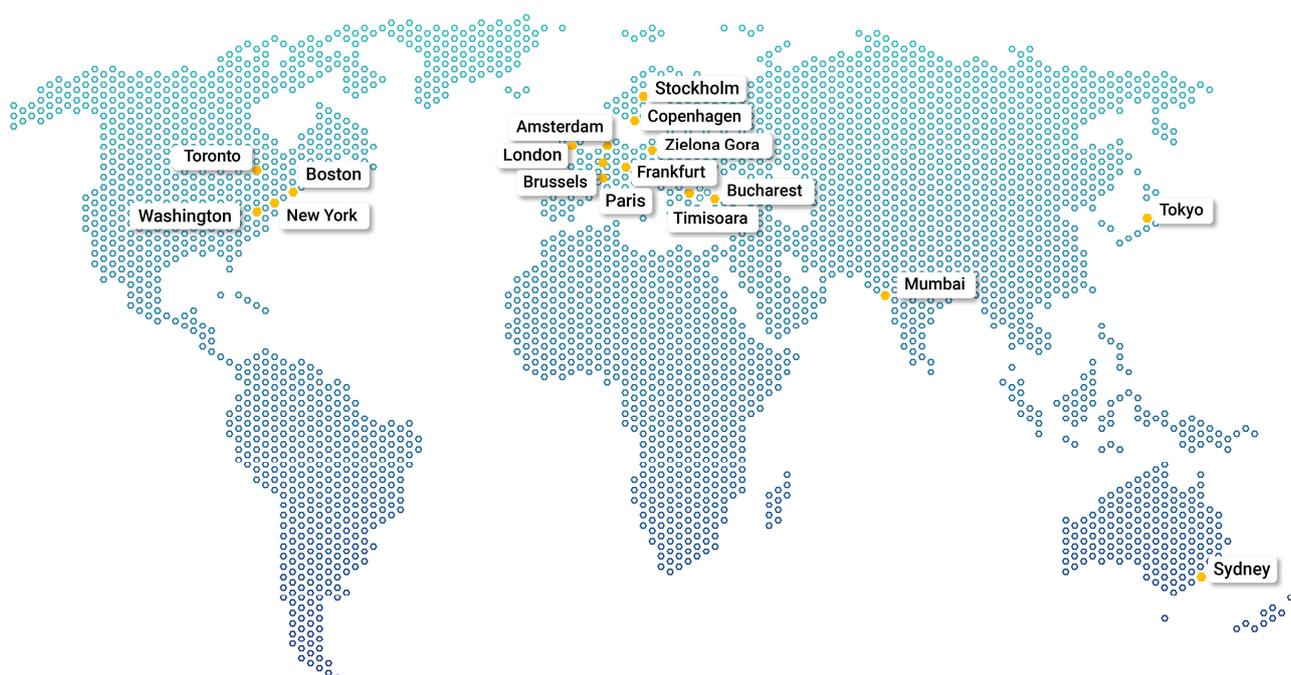
We have continued to identify circularity as one of the fastest growing environmental topics on the political and business agenda. With representatives from UN Member States endorsing a historic resolution at the UN Environment Assembly (UNEA-5) in Nairobi earlier this year and agreement to forge an international legally binding agreement by 2024. Production of products and materials such as plastic are essential to the global economy; however, the way these are being produced, used, and managed is unsustainable, especially at the use and after-use phases. The environmental effects of the mismanagement of these value chains are significant and of growing concern among investors due to potential future regulatory and reputational risks. In line with this, throughout 2023 we will seek to identify our strategy to expand engagement in this area, seeking to develop a framework for engagement and identifying a target list of companies that will be approached through dialogue on these issues.

# 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 30 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 1,600 staff members, including more than 775 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com).



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