

Quarterly Engagement Report

Q3 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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- Engagement@swisscanto.ch
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Quarterly Engagement Report

Q3 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 June to August 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

The negative trends emerging at the end of 2021 such as raising energy and commodity prices, high inflation as well as rising interest rates continued in the first half of 2022. These trends have been amplified by the war in Ukraine. In response to Western sanctions against Russia, high energy prices and threats of natural gas supply reduction to Europe have materialized through the summer months. In such an environment, companies are facing acute challenges, still recovering from pandemic impacts, and at the same time managing inflated prices, market volatility, and more.

With regard to Global Standards Engagement case developments, between June and August 2022, we initiated six new engage cases and concluded one long-standing engagement. We also disengaged from three cases due to a lack of progress and poor or no response over a two-year period. In addition, as a result of the situation in Ukraine, we have decided to issue 'Disengage' statuses for an already paused engagement case with a Russian company linked to environmental pollution, as well as a newly opened case regarding consumer interest breaches.

New engage cases

- **Glencore PLC**, a Swiss-based company, whose subsidiaries pleaded guilty in May 2022 in a settlement with the US, UK and Brazilian authorities to corrupt practices between 2007 and 2018, in multiple countries. The company is still under investigation by the authorities in Switzerland and the Netherlands.
- **Hino Motors, Ltd.**, a Japanese automobile manufacturer and subsidiary of **Toyota Motor Corp.**, admitted in March 2022 that it had falsified emissions and fuel performance data for some of its vehicles manufactured in Japan. The company reported that it had been using fraudulent data since at least 2016.
- **Xinjiang Zhongtai Chemical Co., Ltd.**, a Chinese state-owned enterprise based in the Xinjiang region, and the largest producer of polyvinyl chloride plastic (PVC) in the country. The company is involved in China's state-sponsored labour transfer programme, which, according to various human rights organizations, contains multiple elements of coercion and exposes minority populations in Xinjiang to forced labour.

Resolved engagements

- **Walmart Inc.**, for more than two decades, has been at the centre of controversies over low wages, overtime pay abuses and discrimination. Engagement with Walmart has been longstanding and included conference calls at regular intervals in recent years, as well as email communication. Though the engagement process was challenging at first, Walmart has become more open to engaging in dialogue with stakeholders. Most importantly, it has improved its preparedness to mitigate impacts and manage risks with regard to labour and working conditions.

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

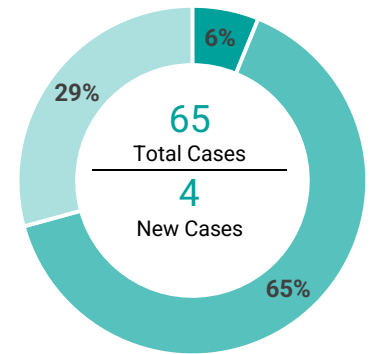
Quarterly Statistics June – August 2022

During June – August 2022, Sustainalytics has continued our dialogue to track specified engagement goals and to seek measurable results of business conduct changes in relation to 65 Engage and Resolved cases¹.



Cases by Theme

Environmental	4
Social	42
Governance	19

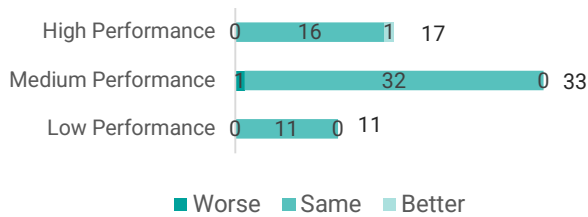


Case Status Overview

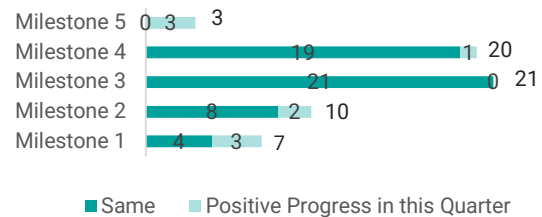
	Engage	Associated	Disengage	Resolved	Archived
New Status in this Quarter	4	0	0	1	0
Total	64	8	0		



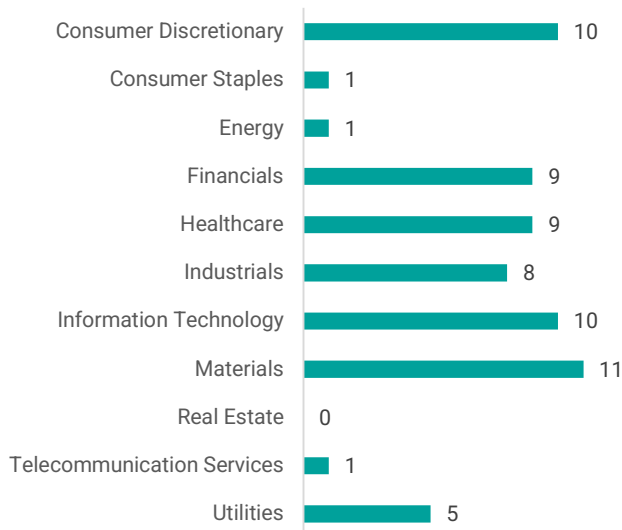
Engagement Performance Overview



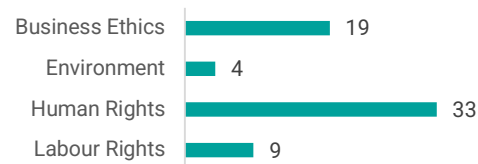
Milestone Overview



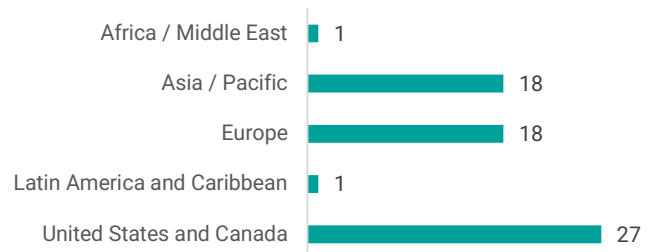
Cases by Sector



Cases by Norm



Cases by Headquarter

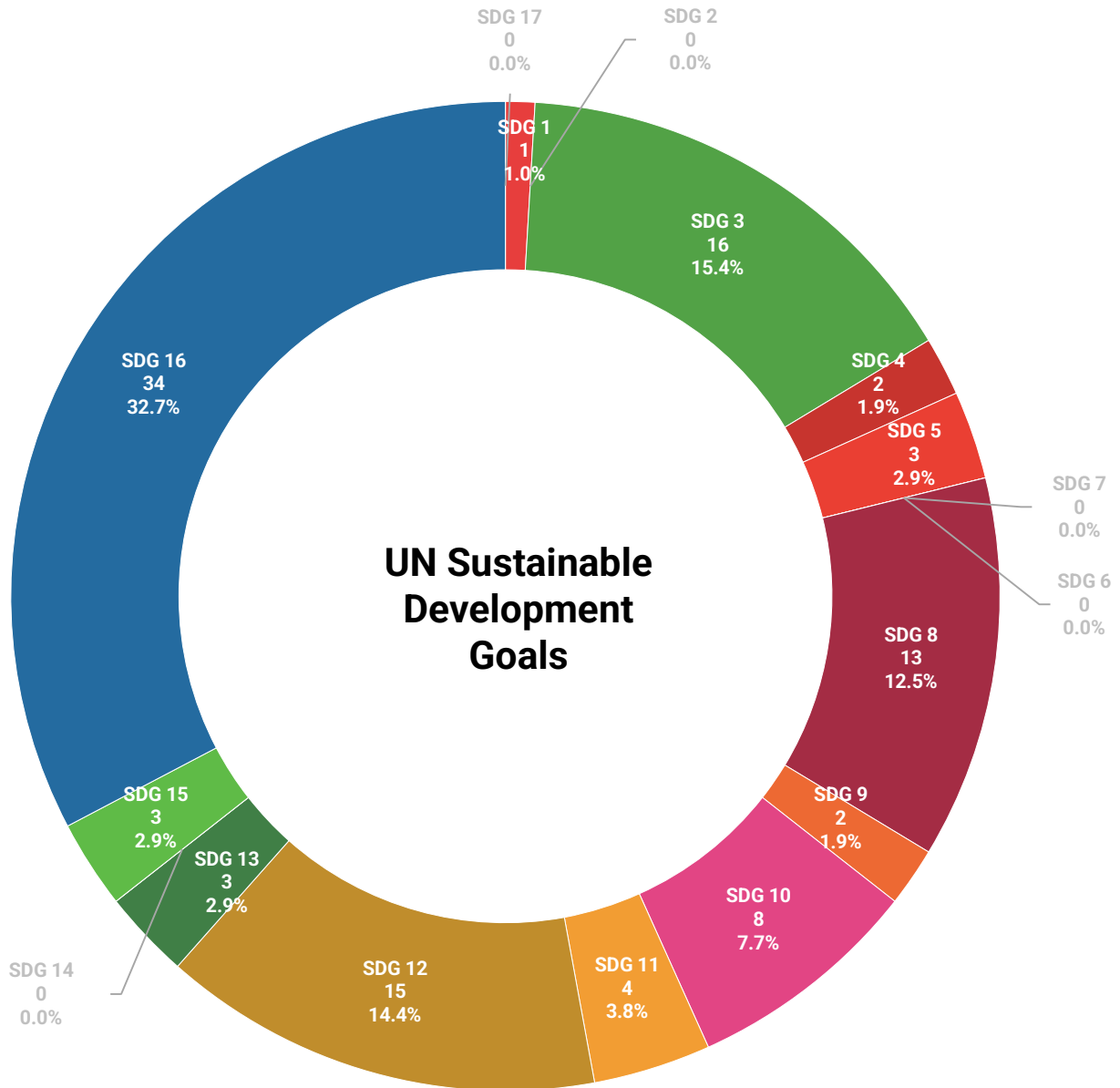


¹ The quarterly statistics is mapped according to Swisscanto's portfolio focus list which is updated on quarterly basis. Therefore, the statistics is refreshed every quarter.

² Four new cases were opened at the end of Q3, 2022. Within the next quarter, their performance and milestone assessments will be available and included in the statistics.

 **UN Sustainable Development Goals Attribution**

65 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 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

● Engage ● Associated ● Disengage ● Resolved ● Archived

●	GLENCORE PLC	8
●	HINO MOTORS, LTD.	9
●	TOYOTA MOTOR CORP.	9
●	WALMART INC.	14
●	XINJIANG ZHONGTAI CHEMICAL CO., LTD.	10

Engage Cases

Glencore PLC

Background

According to the US Department of Justice (DOJ), GLENCORE PLC (Glencore) and its subsidiaries made and concealed corrupt payments and bribes through intermediaries for the benefit of foreign officials across multiple countries, including the US, Nigeria, Cameroon, Ivory Coast, Equatorial Guinea, Brazil, Venezuela and the Democratic Republic of the Congo. In May 2022, the company pleaded guilty and agreed to pay more than USD 1.1 billion to resolve the US government's investigations into violations of the US Foreign Corrupt Practices Act and a commodity price manipulation scheme. The guilty plea is part of co-ordinated resolutions with criminal and civil authorities in the US, the UK and Brazil. Glencore Ltd, a wholly owned subsidiary of Glencore, admitted that between 2011 and 2019, employees engaged in price manipulation of fuel commodities at the Port of Los Angeles and the Port of Houston. The company, acting through its employees and agents, engaged in a scheme for over a decade to pay more than USD 100 million to third-party intermediaries, with the intention that a significant portion of these payments would be used to pay bribes. Between 2007 and 2018, Glencore and its subsidiaries paid approximately USD 79.6 million to intermediary companies in order to secure improper advantages to obtain and retain business with state-owned and state-controlled entities in Africa. Glencore also admitted to bribing officials in Brazil and Venezuela. Sentencing in the US for the bribery and corruption case has been set for the beginning of October 2022. As part of the plea agreement, Glencore has agreed to retain an independent compliance monitor for three years.

Engagement Objective and Activity

The engagement objective is to ensure that Glencore implements ongoing systematic controls related to business ethics, corruption and bribery, and that it discloses these controls whenever appropriate.

Next Step

The initial focus of this case will be to develop a detailed understanding of Glencore's approach to delivering an effective anti-corruption and bribery compliance system. We will also send emails to request engagement dialogues on this issue.

Hino Motors, Ltd. Toyota Motor Corp.

Background

In March 2022, HINO MOTORS, LTD. (Hino), a truck-making subsidiary of TOYOTA MOTOR CORP. (Toyota Motor), admitted that it had falsified emissions and fuel performance data for some of its vehicles manufactured in Japan. Hino initially reported that the use of fraudulent data had been ongoing since at least 2016, with the company having sold at least 115,526 vehicles (trucks and buses) with engines certified by the government based on rigged data. At the end of March, the Japanese transport ministry revoked Hino's "type" certification for eight vehicle models equipped with deficient engines manufactured by Hino. As a result, Hino can no longer manufacture any vehicles with those engines. Investigations have been launched in Japan and the US. In August 2022, Hino published a report from its Special Investigation Committee investigating the issue, which concluded that the company had falsified emissions data on some engines going back to at least 2003, more than a decade earlier than previously indicated. News media reported that the list of affected models may total nearly 300,000 vehicles. The report additionally recommended that the parent company, Toyota Motor, undertake a review of its subsidiary corporate governance framework.

Engagement Objective and Activity

The engagement objective is to ensure that Hino and its parent company Toyota Motor, improve their compliance management and operations integrity management systems. The companies should have adequate internal controls, training and communication focused on compliance, ethics, integrity and culture. The boards and executive teams should define expectations and set the tone for compliance, integrity and ethics standards to prevent future violations. Furthermore, the companies should transform their risk and integrity cultures.

Next Step

The initial focus of this new case will be to identify gaps in the companies' compliance management systems and their code of conduct programmes. We will also send an initial communication to request engagement dialogues with the two companies.

STATUS

Engage

ISSUE(S)

► Consumer Interests - Business Ethics

ENGAGEMENT MANAGER



Nigel Rossouw
Associate Director
Amsterdam

CONTRIBUTION TO SDGs



STATUS

Engage

ISSUE(S)

► Consumer Interests - Business Ethics

ENGAGEMENT MANAGER



Nigel Rossouw
Associate Director
Amsterdam

CONTRIBUTION TO SDGs



Xinjiang Zhongtai Chemical Co., Ltd.

Background

XINJIANG ZHONGTAI CHEMICAL CO., LTD. (Zhongtai) is a Chinese state-owned enterprise funded by the government of Xinjiang and is strategically important to the government. Zhongtai owns at least 43 subsidiaries and 38 joint-stock companies. Its main product is polyvinyl chloride (PVC), a form of plastic, and it is the largest producer of this substance in China, producing 2 million tonnes per year. It is also involved in various other products (including cotton) and its involvement in forced labour is allegedly spread over its operations. In June 2022, Sheffield Hallam University released a report on forced labour in the Xinjiang PVC industry, which noted that Zhongtai has transferred more “surplus labourers” (Uyghurs and other Muslim minorities) than any other company described in academic or journalistic accounts of labour transfers.

Engagement Objective and Activity

Zhongtai should adopt international human rights practices 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.

Next Step

Sustainalytics will reach out to the company to establish a dialogue and ask how the company monitors human rights within its labour force. Multiple channels will be used and communications will be in both English and Chinese.

STATUS

Engage

ISSUE(S)

► Forced Labour

ENGAGEMENT MANAGER



Eliot Bianco
Manager
London

CONTRIBUTION TO SDGs



Resolved Cases

Walmart, Inc.

Background

For more than two decades, WALMART INC. (Walmart) has been at the centre of controversies over low wages, overtime pay abuses and discrimination. Walmart is frequently subject to employee lawsuits claiming violations of labour rights, including recurring allegations of discrimination and violations of wage and hour regulations. Employees in the US have filed several lawsuits alleging discrimination from Walmart with regard to gender, disability, race and age. According to the company’s 2021 annual report, Walmart was a defendant in a number of class-action cases under US federal and state wage and hour laws. Employees in non-US operations have also sought better pay. Over the years, a significant number of cases have been resolved through the company and the plaintiffs reaching settlements or through US courts ordering Walmart to pay substantial compensation.

Engagement Objective

The engagement objective was to ensure that Walmart ceased and mitigated its non-compliance in areas related to labour rights and that it strengthened its policies and guidelines on these issues.

Engagement Activities

Engagement with Walmart has been longstanding, and prior to 2011 was conducted in collaboration with an investor forum. Since 2011, dialogue has been bilateral between Walmart and Sustainalytics. In recent years, this has included conference calls at regular intervals as well as email communications. Efforts to engage meaningfully with Walmart required escalation in July 2013. A letter was sent to Walmart’s CEO from Sustainalytics’ engagement director (then GES International AB) highlighting Walmart’s poor response and flagging the importance of ESG issues to investors. In 2014, the lack of performance led to a “Disengage” status. However, in the past several years Walmart’s willingness to discuss labour rights issues has exhibited a positive trend, as has its broader management of labour risk. These positive developments in Walmart’s performance and responsiveness led to a revision of the engagement recommendation to “Engage” in May 2017. Regular and constructive engagement discussions has since then taken place confirming the company’s continuous work to improve working conditions in its stores and supply chain.

Outcome

Walmart has moved from a point where it was a lightning rod for controversy on labour rights issues, among other topics, to one where it discusses not only its own challenges and management approach, but also its work to contribute at the sector level. Though the engagement process was challenging at times, Walmart now shows sincerity when it comes to engaging in dialogue with stakeholders and improving its preparedness to mitigate impacts and manage risks with regard to labour and working conditions. Walmart has strengthened its labour rights policies, including via its human rights policy statement released in 2018, and has also improved its disclosure. Walmart now provides detailed human capital disclosures that are updated annually and offer insight into its metrics, strategy and ongoing challenges. It has further settled several legal actions and is not facing significant new incidents, though we note that some legal issues remain.

Overall, Walmart’s rhetoric concerning its labour issues has improved in recent years, and its performance in the engagement has progressed well since dialogue was re-established in 2017. Sustainalytics therefore considers the case to be resolved.

STATUS

Resolved

ISSUE(S)

► Labour Rights

ENGAGEMENT MANAGER



Matthew Barg
Associate Director
Toronto

CONTRIBUTION TO SDGs



DIALOGUE STATISTICS






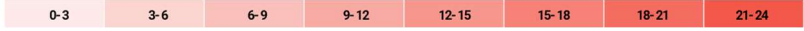

	285	Number of Contacts
	19	Conference Calls
	56	Correspondence
	2	Meetings in Person

CASE TIMELINE

	Engagement Since	May 2003
	Milestone 1	May 2003
	Conference Call	Sep 2005
	Meeting in Person	Oct 2008
	Conference Call	Sep 2011
	Conference Call	Nov 2012
	Conference Calls	Aug, Sep, Nov 2013
	Conference Call	May 2014
	Milestone 2	Jul 2015
	Conference Call	Oct 2015
	Conference Call	Jan 2016
	Conference Call	Apr 2017
	Milestone 3	May 2017
	Conference Call	Oct 2017
	Conference Calls	Jan, Aug, Oct 2018
	Conference Call	Apr 2019
	Milestone 4	May 2019
	Conference Call	Sep 2019
	Meeting in Person	Oct 2019
	Conference Call	Jun, Oct 2020
	Conference Call	Jul 2021
	Conference Call	Jun 2022
	Milestone 5	Aug 2022
	Case Resolved	Aug 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	<p>The indicator describes how the company responds to Sustainalytics' inquiries.</p> 
Progress	<p>The indicator describes whether or not the violation continues, or how the company's work to prevent future violations is developing.</p> 
Performance	<p>The indicator describes the combined company progress and response performance.</p> <ul style="list-style-type: none">  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. <p>New, Same, Better or Worse Performance - indicates the change in either Response or Progress since the last quarterly report.</p>
Low Performance Tracker (Tracker)	<p>The indicator describes the time elapsed with Low Performance. One piece equals three months.</p>  <p>After two years, the case will be reviewed by Sustainalytics and a Disengage status can be selected if all other engagement options are ineffective.</p>
Milestones	<p>The indicator describes the milestone achieved from 1 to 5.</p>  3/5 Achieve

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

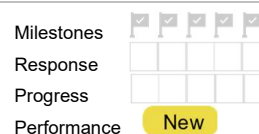
Change Objective: China Gas should provide clarification of the remediation, and provide support in a timely manner for victims, besides the compensation promised. China Gas need to implement industry standard safety practices and quality controls across their infrastructure network, including regular 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.



Mitsubishi Materials Corp. (Japan, 2019)

► Consumer Interests - Business Ethics

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

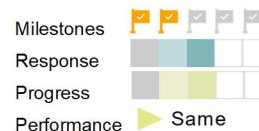
**Previously as Mitsubishi Materials Corporation*



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

► Involvement with Entities Violating Human Rights

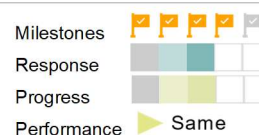
Change Objective: Oil and Natural Gas Corporation Limited should follow international best practice for respecting human rights. While operating in conflict-affected countries, it should undertake due diligence adapted to the specific situation of the region and act adequately on the findings. The company 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: Rio Tinto should agree on a compensation package with the Puutu Kuntjirra and Pitjantjatjara (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

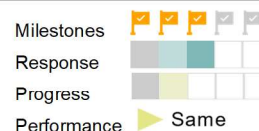
Change Objective: Tencent should take steps to manage human rights risk exposure and limit impact on its users where possible. The company should demonstrate efforts to establish human rights due diligence practices, define policies relevant to digital rights, and to report on external data requests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



**Previously as Tokyo Electric Power Company Holdings, Incorporated*

TOSHIBA Corp. (Japan, 2020)

► Accounting and Taxation

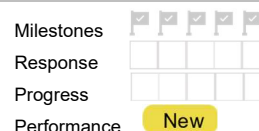
Change Objective: Toshiba should ensure that robust policies and internal controls addressing business ethics – and accounting fraud especially – are implemented effectively throughout the organization, including subsidiaries.



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.



**Previously as Westpac Banking Corporation*

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

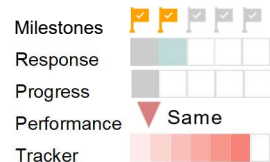
Change Objective: Bayer (formerly Monsanto) should ensure that it has a policy and procedure for the disclosure of health, safety, and environmental data to both regulators and consumers.



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.



boohoo group Plc (United Kingdom, 2020)

► Labour Rights - Supply Chain

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



Credit Suisse Group AG (Switzerland, 2019)

► Business Ethics

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



Danske Bank A/S (Estonia, 2018)

► Money Laundering

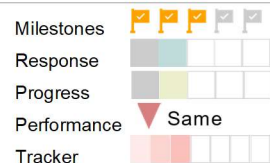
Change Objective: Danske Bank should ensure that it has implemented risk management systems and internal controls that aim to prevent financial crime and money laundering and demonstrate that they are robust and universally applied. Danske Bank should ensure that the board has sufficient and effective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



Deutsche Bank AG (Russia, 2019)

► Money Laundering

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



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

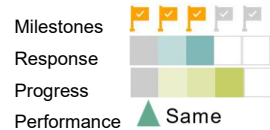
Change Objective: Glencore should implement on-going systematic controls related to business ethics, corruption and bribery and disclose these controls whenever appropriate.



Glencore Plc (Bolivia, 2021)

► Child Labour

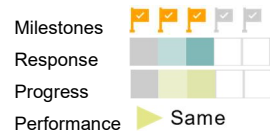
Change Objective: Glencore and its subsidiaries should cease purchasing ore from cooperatives which practice child labour. It should work with the authorities to assist in fulfilling the government's pledge to eradicate child labour by 2025; and should have programmes to improve health and safety in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



Medtronic Plc (United States, 2022)

► Quality and Safety

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



Orpea SA (France, 2022)

► Quality and Safety - Human Rights

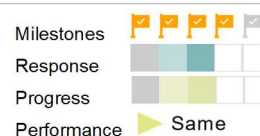
Change Objective: Orpea should cooperate with authorities to aid investigations, resolve outstanding proceedings if necessary, and make meaningful public disclosures. Orpéa should take steps to align its policies, governance, risk management framework and grievance mechanisms to international quality 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

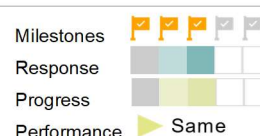
Change Objective: Sanofi should have a robust governance, compliance, and risk management system in place with respect to its research and development of new products. Sanofi should also ensure appropriate levels of disclosure on the risks and side-effects of its products.



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**

Swedbank AB (Sweden, 2019)

► Money Laundering

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



Telefonaktiebolaget LM Ericsson (Sweden, 2020)

► Bribery and Corruption

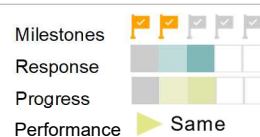
Change Objective: Ericsson should continue to strengthen its anti-corruption and ethical compliance processes in accordance with commitments its public commitments and the settlement with US authorities. Ericsson should maintain transparency regarding the implementation of these improvements or any new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



Teleperformance SA (France, 2021)

► Freedom of Association

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



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

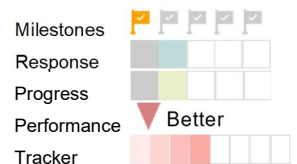
Change Objective: Activision Blizzard should cooperate with ongoing investigations and, if found guilty, compensate plaintiffs. Furthermore, the company should reinforce anti-discrimination policies by conducting related sensitization training, to move towards a culture of gender equality, diversity 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.



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

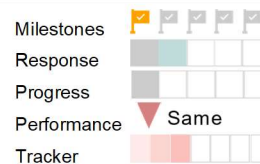
Change Objective: Johnson and Johnson should ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures, to minimize the risk of future litigation.



Mattel, Inc. (United States, 2021)

► Quality and Safety - Human Rights

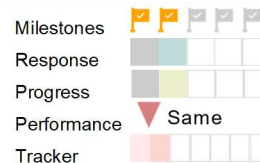
Change Objective: Mattel should undertake a complete review (and commission an independent validation of the appropriateness of any review) of all infant sleep / soothing products it has on the market, in production and in design process against the relevant safety standards for potential recall and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

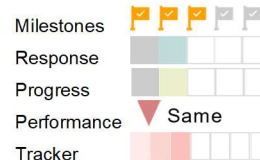
Change Objective: McDonald's should actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to relevant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

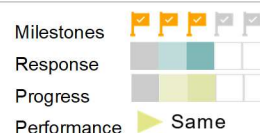
Change Objective: PG&E should address the impacts of the incident and ensure that suitable remedial measures have been put in place. The company should also develop a comprehensive, risk-based, safety strategy. The company-wide strategy should address the employee, contractor and public safety and consider 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

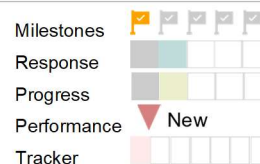
Change Objective: Southern Copper Corporation should consult with affected communities and authorities to address concerns over shortcomings in the remediation and compensation measures taken. The company should mitigate any remaining negative impacts of the spill and address shortcomings in compensation 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.

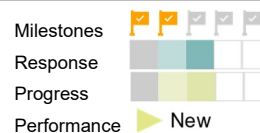


**Previously as Stryker Corporation*

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.

**Previously as The Boeing Company*



The Chemours Co. (United States, 2018)

► Activities Resulting in Adverse Environmental and Human Rights Impacts

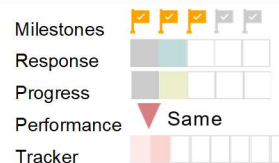
Change Objective: Chemours has stated that it wishes to eradicate the discharge of persistent chemicals from its operations; however, there are a number of legacy issues in relation to pollution from its operations, therefore, we wish to ensure that Chemours has a strategy in place for each legacy issue 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

Disengage due to low performance

UNITED STATES AND
CANADA

Motorola Solutions, Inc.
► Operations in Occupied Territories

Palestinian Authorities

Resolved

UNITED STATES AND CANADA

Walmart, Inc. (United States, 2006)

Walmart has strengthened its labour rights policies, including via its human rights policy statement released in 2018, and has also improved its disclosure. Walmart now provides detailed human capital disclosures that are updated annually and offer insight into its metrics, strategy and ongoing challenges. It has further settled several legal actions and is not facing significant new incidents, though we note that some legal issues remain. Overall, Walmart's rhetoric concerning its labour issues has improved in recent years and therefore Sustainalytics considers the case to be resolved.

ISSUE

► Labour Rights

MILESTONES

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Global Standards Engagement Overview

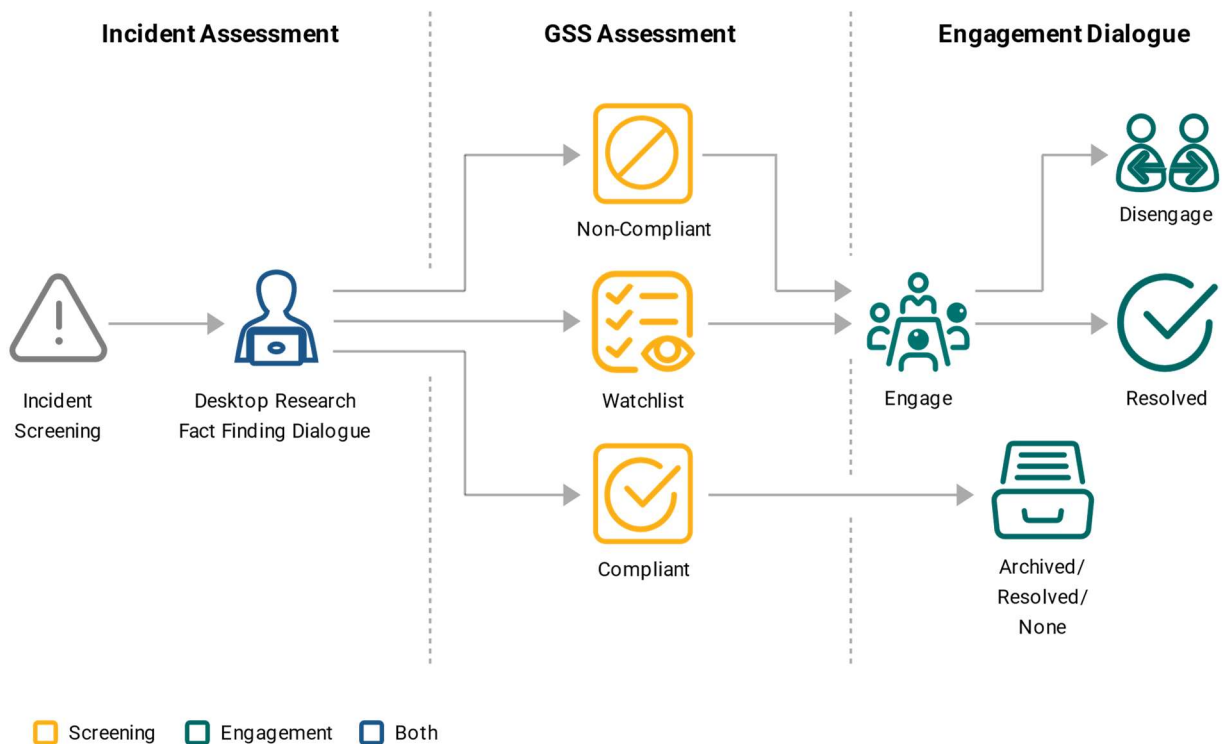
Global Standards Engagement (GSE) is an incident-driven engagement with focus on companies that severely and systematically violate international standards, such as the UN Global Compact Principles and the OECD Guidelines for Multinationals. The engagement is based on a thorough and continuous assessment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

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

GSS provides an assessment of a company's impact on stakeholders and the extent to which a company causes, contributes to or is linked to violations of international norms and standards. The basis of the GSS' assessments 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 Child Labour in Cocoa

Executive Summary

The Issue at Hand

Ivory Coast and Ghana are the world's leading cocoa producing countries¹, accounting for almost 70% of cocoa production worldwide. However, it is estimated that in these countries combined, over 1.5 million children work in hazardous conditions in the cocoa supply chain alone.²

This issue is not new, but it is persistent. The Harkin-Engel protocol³ (a commitment from the cocoa industry to combat child labour in its supply chain) was introduced in 2001 and in 2010, the industry reaffirmed its commitment in a joint declaration to reduce the worst forms of child labour by 70% by 2020. Various programmes aimed at increasing productivity and improving the livelihood of cocoa-growing farmers have been scaled up over the years and targeted measures to combat cases of child labour have been developed. Across the supply chain, the cocoa industry, governments and others continue to deploy significant efforts. Despite these developments, child labour remains widespread at the millions of small-scale farms involved in cocoa farming in West Africa and efforts must therefore continue, and be scaled up, so that commitments to eradicate child labour can be met.

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

Developments and Engagement Efforts September 2019 – August 2022

Sustainalytics' revamped thematic engagement on Child Labour in Cocoa started in Q3 2019. Together with a group of more than 30 institutional investors, we engaged major cocoa and chocolate companies in the three focus areas of this engagement: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers. Since 2019, we conducted more than 40 engagement meetings, aligned more than 30 global institutional investors to sign and support investor letters on, and an investor endorsement of, corporate living income and living wage roadmaps. In addition, we organized a roundtable named 'Accelerating farmer livelihoods' as well as webinars on living income, all with very good level of participation by companies and leading topic experts. Furthermore, we developed good practice materials, and spoke at various sector and topic relevant events and a podcast. We are also represented in multistakeholder expert groups on living income.

It is probably fair to say that the challenges the world is facing are probably larger today, than they were three years ago at the inception of this thematic engagement, not the least negative global developments with regards to poverty and child labour. On the latter, a June 2021 report from the ILO and UNICEF points to the first increase in child labour in 20 years. According to the statistics, there are 160 million children in child labour in the world, accounting for nearly 10% of the world's children. Most, 70%, of child labour happens in the agricultural sector. Child labour is increasingly concentrated to Sub-Saharan Africa. A large portion, but not all, is explained by the economic downturn following the COVID-19 pandemic, in particular income losses among vulnerable families. School closures is another related impact from the pandemic. According to the ILO, there is also a knock-on effect on child labour when poverty levels increase. Based on historical data, a 1% increase in poverty equals to at least a 0.7% increase in child labour.⁴ According to estimates by the World Bank, poverty levels are increasing globally. It estimates that an additional 75 million to 95 million people could be living in extreme poverty in 2022 compared to pre-COVID-19 projections.⁵ With the correlation between poverty and child labour, it means increases in poverty globally will lead to an estimated increase in child labour globally of about 52million to 67 million children.

A child labour in cocoa specific survey was also released during the course of this thematic engagement, commissioned by the US Department of Labour and conducted by the NORC research institute at the University of Chicago (often referred to as the NORC study) and released in October 2020. It concludes that the number of children working in cocoa farming in Ivory Coast and Ghanahas not decreased, but remained stable amid an increase in cocoa production. On a positive note, the report states that school attendance among children in agricultural households increased. A separate study by NORC, commissioned by the World Cocoa Foundation (WCF), suggested that hazardous child labour has been reduced by one-third in communities where company programs are in place.

We can conclude that at the time of our baseline assessment in November 2019, the overall KPI fulfilment rate for all companies combined was at 43%. By the time of the final report in August 2022, this had improved to 70%. All three KPIs/focus areas: child labour monitoring and remediation, access to education and living income, improved.

¹ <https://www.icco.org/>

² <https://www.norc.org/NewsEventsPublications/PressReleases/Pages/increase-in-hazardous-child-labor-in-cocoa-production-amid-an-expansion-of-cocoa-farming-in-cote-d'ivoire-and-ghana.aspx>

³ https://cocoainitiative.org/wp-content/uploads/2016/10/Harkin_Engel_Protocol.pdf

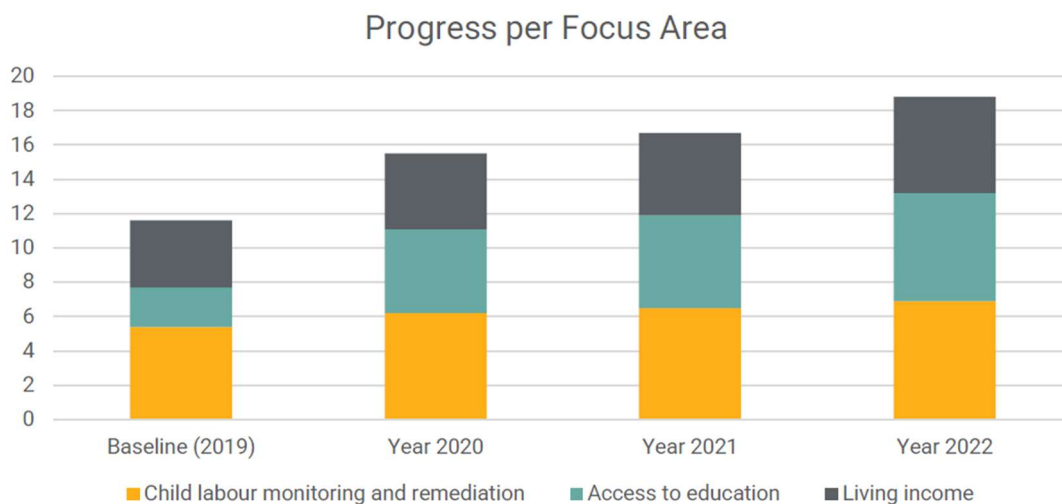
⁴ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_747421.pdf

⁵ <https://www.worldbank.org/en/topic/poverty/overview>

In terms of child labour monitoring and remediation, companies have improved both on effectiveness, i.e. having a robust methodology in implementing CLMRS, and in terms of scale of CLMRS roll-out. With regards to access to education, a major announcement was made in spring 2020, with several cocoa companies committing to support two new programmes by the Jacobs Foundation in Ivory Coast.⁶ The main programme aims to reach five million children in cocoa-growing areas and beyond, focusing on access to quality primary education.

Lastly, on living income, living income benchmarks are in place, conducted by ISEAL, GIZ and the Sustainable Food Lab, and have been updated during the course of the engagement. Based on the living income benchmarks, calculations have been made by Fair Trade on what would constitute a “Living Income Reference Price”, i.e. the price needed for an average farmer household with a viable farm size and an adequate productivity level to make a living income from the sales of their crop.⁷ A couple of years ago, the government of Ivory Coast and Ghana also introduced a “Living Income Differential (LID)”, i.e. an additional premium to the normal (farm-gate) cocoa price, with the aim to enable farmers to earn a living income. The LID was generally accepted and welcomed by the industry and other cocoa stakeholders, although it was widely deemed as insufficient to enable farmers to earn a living income and is lower than Fair Trade’s living income reference price. Also, after it was tested in a first harvest season, farmgate prices in Ivory Coast were lowered by the national governing body, Le Conseil Cafe-Cacao, by as much as 25% due to decreasing demand. However, after negotiations with cocoa and chocolate companies earlier this year, an agreement was reached in June (2022). Companies will pay the extra premium, the LID, on all cocoa contracts sold by Ivory Coast or Ghana. Buyers will also pay a country premium, enabling the countries to reach a target floor price, of which farmers would earn a minimum of 70%.⁸

Some companies have living income commitments in place and all companies we have engaged with communicates a number of activities in relation to the enablement of living income for cocoa-growing farmers. Several companies are explicitly measuring farmer income as a part of monitoring their respective farmer programmes in West Africa and some companies have reported initial income related data of farmers in communities reached by their farmer programmes. As part of its recently initiated Human Rights Accelerator Thematic Engagement, Sustainalytics will continue engaging the cocoa sector on the issues of child labour and living income.



⁶ <https://jacobsfoundation.org/en/activity/clef-elan/>

⁷ https://files.fairtrade.net/2019_RevisedExplanatoryNote_FairtradeLivingIncomeReferencePriceCocoa.pdf

⁸ <https://www.reuters.com/world/africa/cocoa-buyers-subsidise-ivory-coast-ghanas-cocoa-premium-2022-07-09/>



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

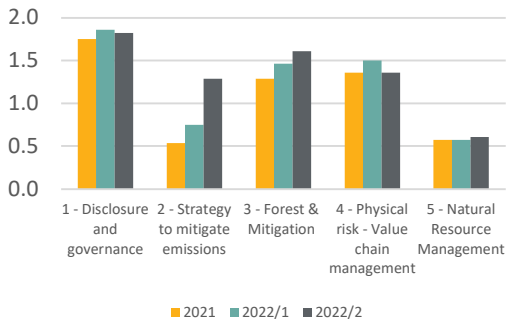


Figure 1: Graphs showing the average KPI score across the financiers in the value chain, the minimum score being 0, while the maximum score is 3.

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.

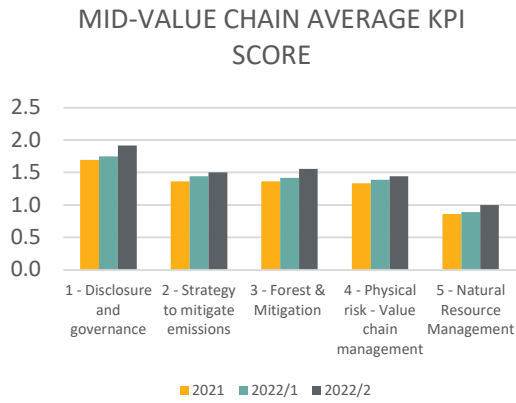


Figure 3: Graphs showing the average KPI score across the Commodity companies in the value chain, the minimum score being 0, while the maximum score is 3.

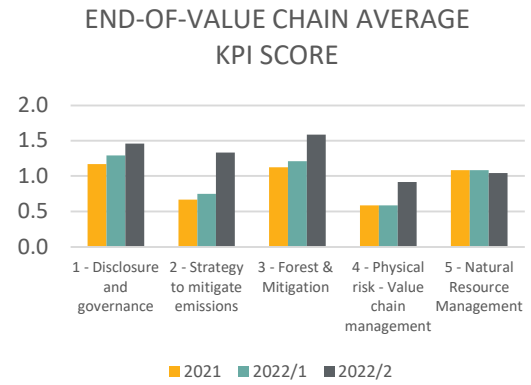


Figure 2: Graphs showing the average KPI score across the end of value chain companies, the minimum score being 0, while the maximum score is 3.0

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.



Thematic Engagement Feeding the Future

Executive Summary

Feeding the Future Thematic Engagement

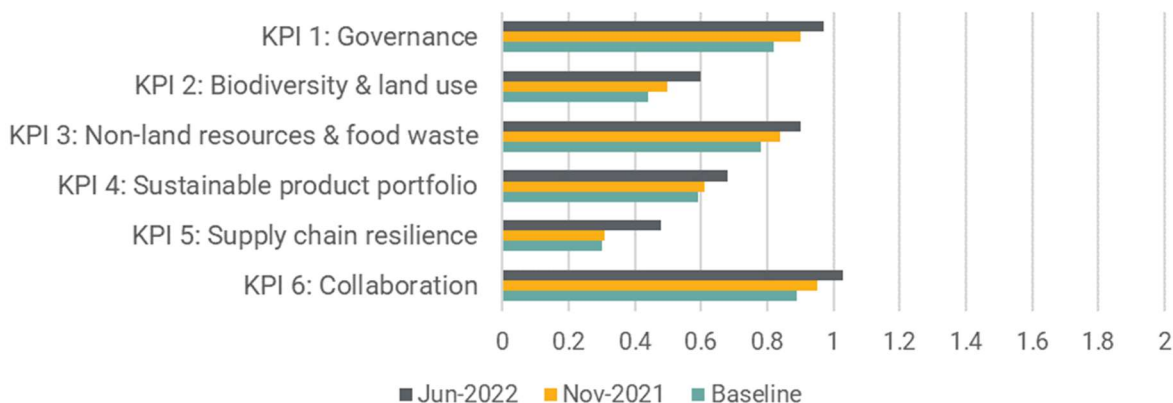
Ensuring a sustainable supply of food for the world's fast-growing population is a major challenge. As with other man-made activities, food production contributes to climate change, water scarcity, soil degradation and the destruction of biodiversity. It is estimated that by 2050 the world's population 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 population⁹, meaning that more food will have to be produced using less land. In addition, energy and water will become limiting factors.

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

Developments and Engagement Efforts from November 2021 to June 2022

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

Feeding the Future: Average KPI scores



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

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

⁹ <https://www.eufic.org/en/food-production/article/food-production-3-3-a-sustainable-food-supply>

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

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

Looking Ahead

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

2022 Q3 Update

Sustainalytics' Thematic Engagements follow a biannual reporting scheme. The Feeding the Future theme's next biannual report is issued in mid-December 2022. Meanwhile, engagement dialogues continue to take place. The next issue of this Quarterly Engagement Report will include a full update of the latest progress made.



Thematic Engagement 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

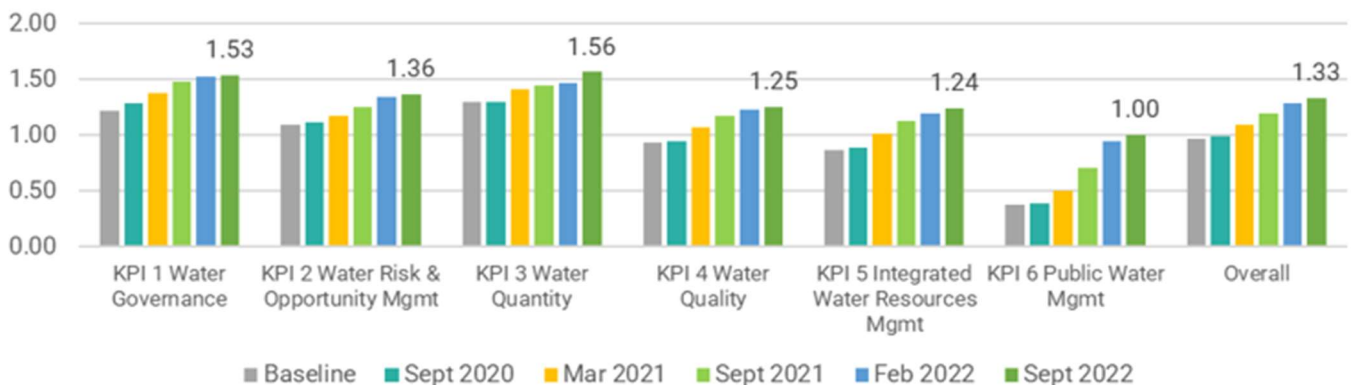


Chart 1: Overall Average KPI Scores Baseline vs Biannual Updates

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.



Thematic Engagement Responsible Cleantech

Executive Summary

The Issue at Hand

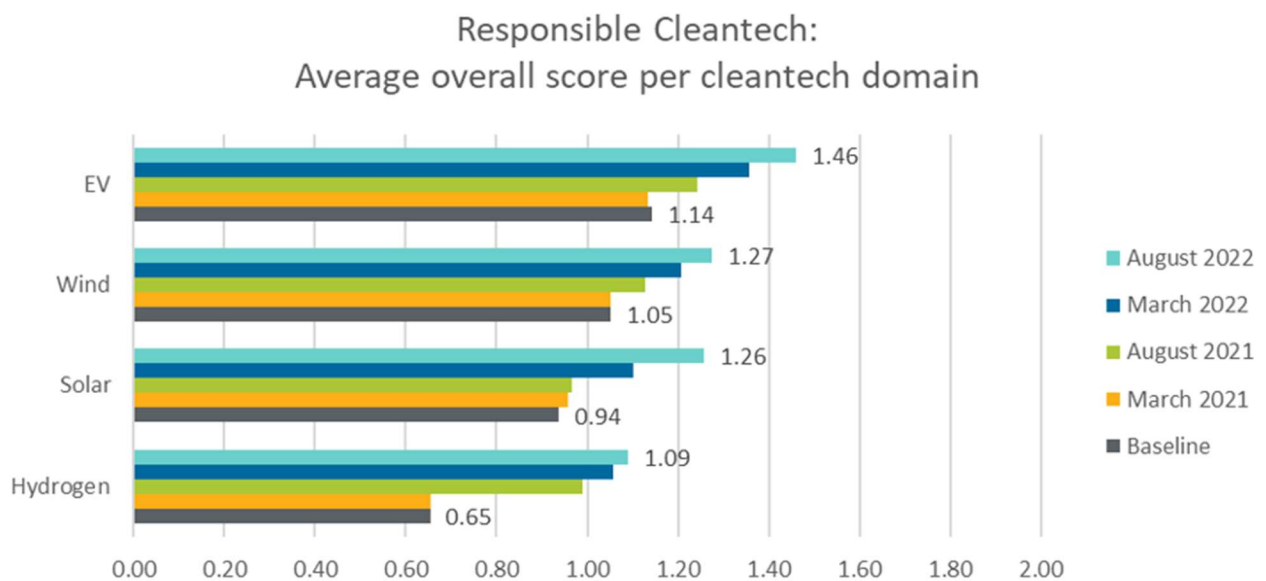
Just like the products it aims to replace or make more efficient, cleantech requires space and natural resources. Companies have a responsibility to respect local communities’ human rights and consider the environmental impacts in and around sites where raw materials are sourced, where products are made, 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 programme 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.



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.



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 September 2021 to February 2022

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

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

On the negative side, all of the 17 SDGs have been deeply affected by the COVID-19 crisis. The pandemic threatened decades of development gains and further delayed the transition to a more sustainable world¹⁰. The recent Russian invasion of Ukraine along with current humanitarian, economic and energy crises are only deepening the problem. According to UNCTAD, the financial fallout from the war in Ukraine could widen the already huge USD 3.6 trillion annual gap in financing needed to achieve SDGs and lead to cascading credit downgrades and debt defaults in developing countries¹¹. The need to achieve the 2030 Agenda - a blueprint for a more sustainable, resilient system - is now more vital than ever.

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

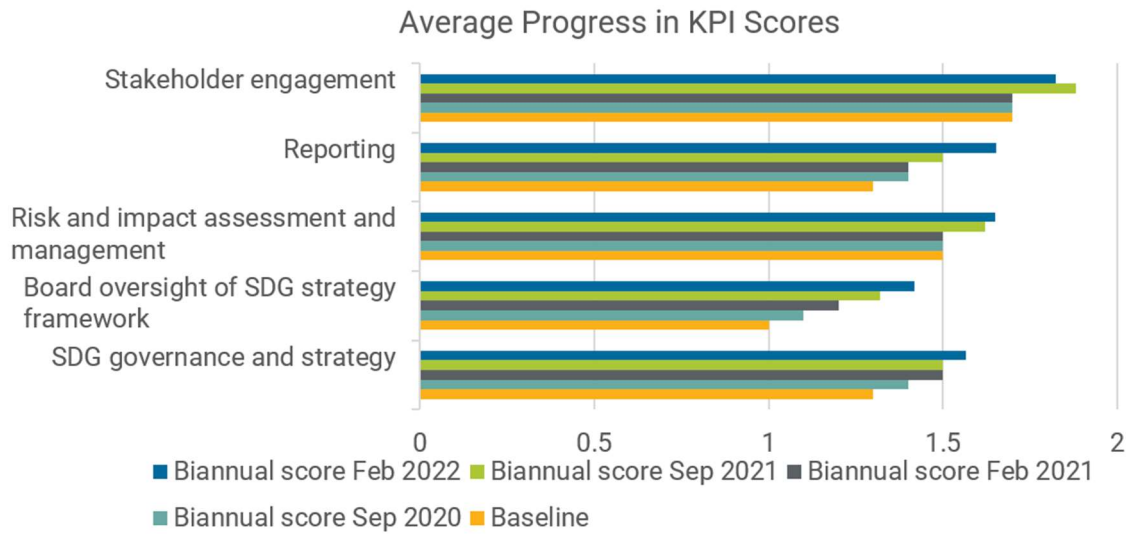
Despite the growing acknowledgement of the importance of SDGs, we note that the goals rarely reach board-level discussions, as they are more often a subset of a wider sustainability discussion. The oversight of sustainability has increased with the establishment of specific sustainability board committees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

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

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

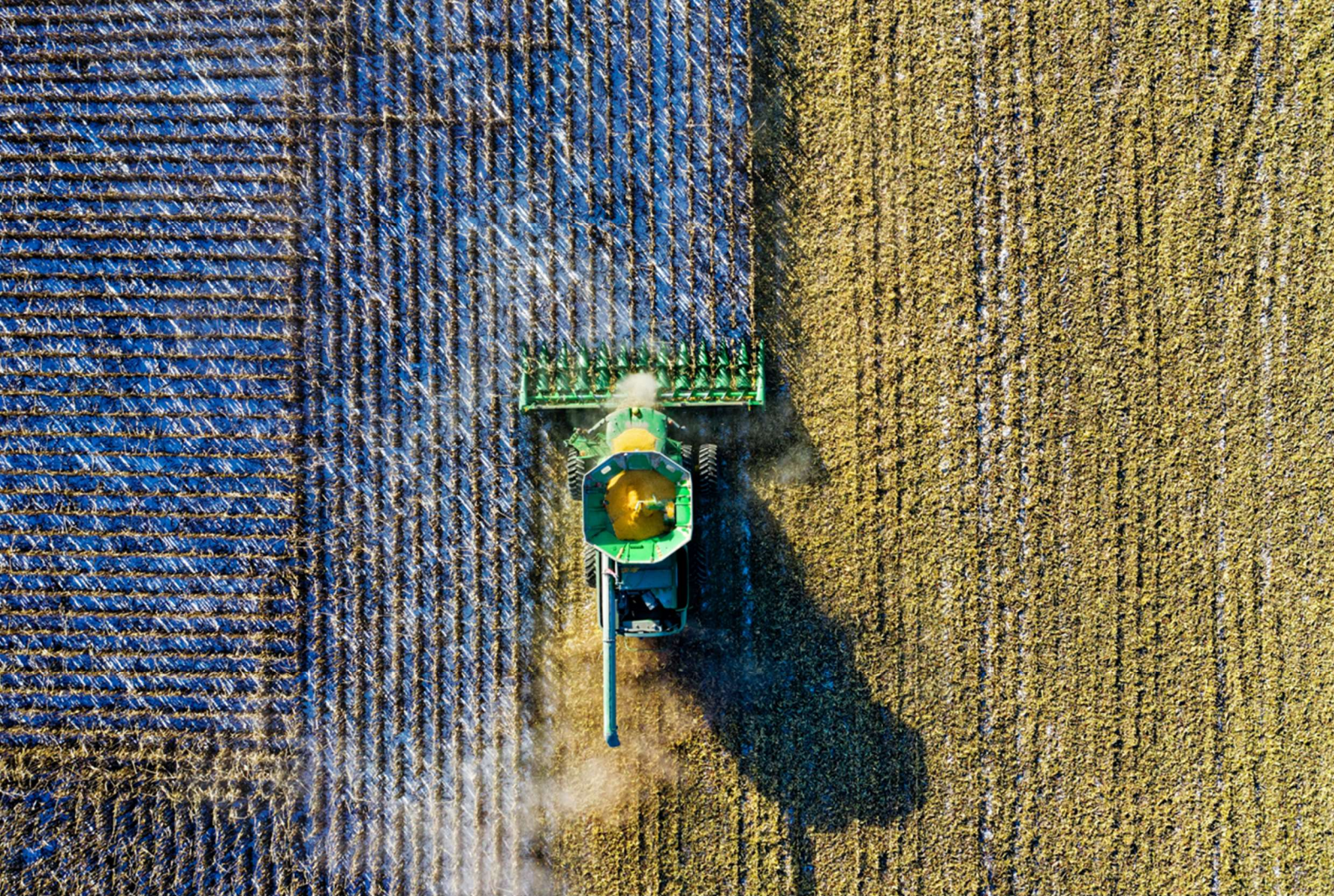
¹⁰ UN (2021), "The Sustainable Development Goals Report 2021", at: <https://unstats.un.org/sdgs/report/2021/The-Sustainable-Development-Goals-Report-2021.pdf>

¹¹ UNCTAD (03.2022), "Ukraine war risks further cuts to development finance", at: <https://unctad.org/news/ukraine-war-risks-further-cuts-development-finance>



2022 Q3 Update

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



Thematic Engagement 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 in relation to biodiversity, identifying and formalizing our outcome assessment framework, which is utilized to assess progress on our overall engagement objectives. The program'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 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 2022, the programme targeted 50 national and multinational companies in the agricultural value chain— from financiers and retailers to traders, agrochemicals, and producers. As the programme develops, we will look to expand the selection of issuers to include other sectors. 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 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

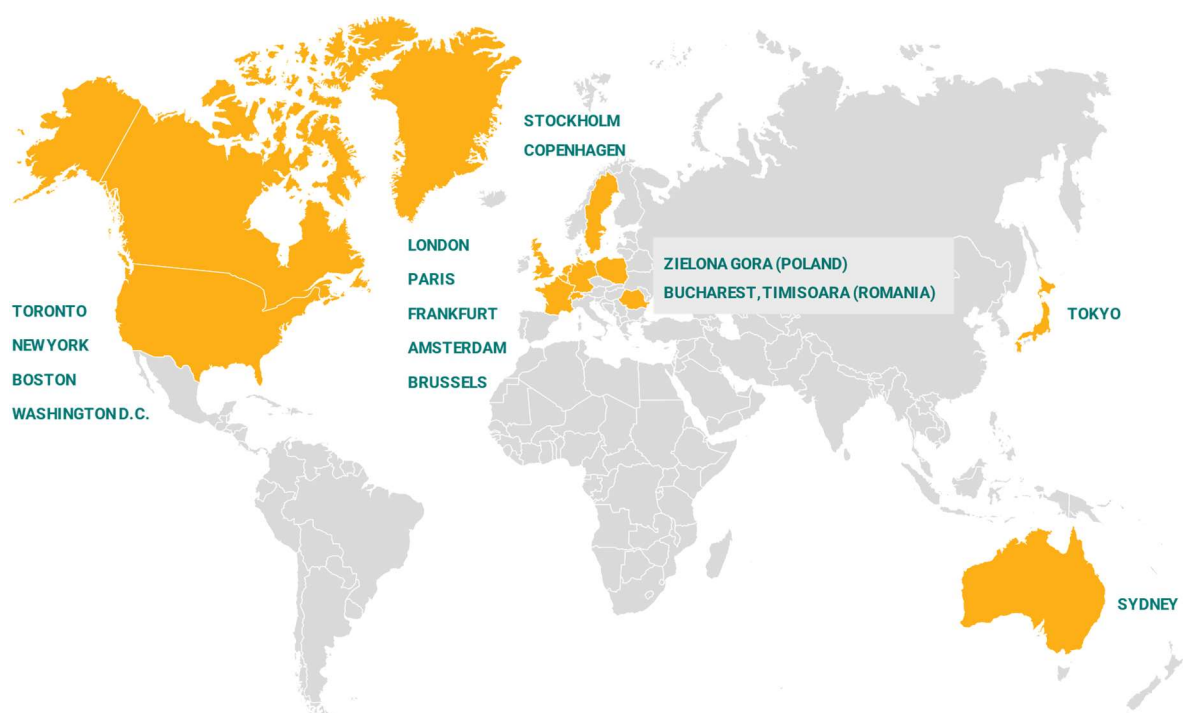
We have continued to identify circularity as one of the fastest growing environmental topics on the political and business agenda. With representatives from UN Member States endorsing a historic resolution at the UN Environment Assembly (UNEA-5) in Nairobi earlier this year and agreement to forge an 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.

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