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GES STEWARDSHIP & RISK ENGAGEMENT

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The themes

GES' team of research analysts, engagement managers and advisors are forward-thinking and engage extensively with many stakeholder groups across sectors, markets and regions. To stay well informed of pertinent trends as well as regulatory and industry developments we attend responsible investment and industry events, participate in working groups and are members of relevant associations. Drawing on our extensive experience and knowledge of the emerging ESG issues, GES has developed a selection of proactive, impact-oriented engagements that focus on raising standards across industries and on creating positive change with regards to some of the most challenging ESG issues.

GES' Stewardship and Risk Engagement focuses on the following themes:

- Business ethics and culture
- Climate risk
- Children's rights
- Cyber security
- Emerging markets
- Food supply chain
- Japan stewardship
- Pharmaceutical industry
- Plastics and the circular economy
- Sustainable seafood
- Taxation
- Water

This brochure sets out each of the themes and briefly presents GES' methodology. The brochure also includes a mapping of the UN Sustainable Development Goals (SDGs) and their correlations with particular themes. The contact details of GES staff responsible for each theme are listed at the end of each description and you are also welcome to contact your client manager if you would like to discuss any aspects of our engagement work.

Hanna Roberts, CEO

BUSINESS ETHICS AND CULTURE

The 2013 independent review of Barclay's business practices highlighted a number of uncomfortable truths. The review's terms of reference were to examine the bank's values, principles and standards of operation – the historical culture – and to make recommendations for change. The ambition was to set a new standard for the industry, where business decisions are based on sustainable growth over the long-term, rather than to increase short-term profits. Regulators have since continued to target unethical behaviour at a number of financial institutions. High profile cases include Citigroup, RBS, UBS, Deutsche Bank, HSBC, JP Morgan Chase, BNP Paribas, Bank of America and Credit Suisse.

The pharmaceutical sector has always been considered among the most respected industries. However, a number of unethical business practices, such as questionable marketing practices in various jurisdictions, have tainted the industry with a negative reputation. Cases include GlaxoSmithKline, Sanofi, Johnson & Johnson and Servier.

The food sector has been plagued by abuses from producers (particularly meat producers) and processors that led to a number of concerns in relation to violations of food safety, corruption, environmental pollution and a significant increase in the number of recalls in the industry. Companies, such as Yum and Tesco, have faced increased scrutiny over their practices.

Finally, the Volkswagen emissions scandal and Petrobras' bribery and corruption scandal in Brazil are examples of the impact a lack of business ethics has. Violations of business ethics have as such severe governance and financial consequences that impact growth and business performance and, in particular, stock performance.

WHY?

The lack of business ethics and culture is problematic primarily because of two reasons:

1. It can damage both corporate reputation and profitability: Stakeholders and public attention on business ethics issues can negatively impact companies' profitability by damaging their corporate and brand reputation. Many see the gap between companies' articulated values and behaviour – or operations in practice – as one of the key risks facing companies. As a result, companies have been subject to consumer boycott and regulatory fines over their practices and have had millions wiped off their value. A 2015 Morgan Stanley research report indicated that the waves of fines and lawsuits that have swept through the financial industry since 2007 have cost large banks USD 260 billion, with a prediction that the 25 largest banks in Europe and the US will incur another USD 60 billion of litigation costs. Conduct costs include fines or financial penalties imposed by regulators; product recalls; loss of significant contracts; barring from participating in tenders; and increased legal and compliance costs.

2. It can create corporate governance risks: Pay levels within the financial sector have been considered as one of the most pernicious cultural problems. Banks' boards and management have been accused of focusing too much on short-term return instead of long-term sustainable growth. This has led to a vacuum in culture and values, which has been reinforced by remuneration policies. Banks have been seen as trying to increase profits at all costs to the detriment of their stakeholders. This has left companies with increased regulatory intervention, stakeholder scrutiny and shareholder revolt. Moreover, the lack of sufficiently experienced directors could result in companies adopting the wrong strategies and pay policies. Investors, in particular, continue to question whether companies have a robust board of directors and/or supervisory board structures that reinforce business conduct and ethics.

Business ethics is at the core of companies' operations. Companies have to rebuild trust, accelerate a cultural shift and set standards for themselves and the industry where business decisions are based on sustainable growth over the long-term. Governments, investors and other stakeholders are increasingly challenging companies and expecting them to contribute to an effective regulatory system; integrate and communicate openly and transparently about culture and values; and adopt pay principles that are aligned with the values and behaviour aimed at achieving sustainable long-term growth – all in an effort to herald the return of the *Affectio Societatis.*

WHAT?

Key aspects that we will consider in this engagement include:

- **Governance** – Does the board have oversight of the company's business ethics approach? What is the adopted remuneration policy and does it align with the business' ethics and values?

- **Culture and values** – How does the company intend to integrate all its values into all critical aspects of managing its employees and their performance? What set of metrics and associated targets does the company use to judge its ability to meet the needs of its stakeholders?

- **Learning from mistakes** – Does the company understand and address underlying root causes in relation to business ethics issues?
- **Risk management** – What are the top business ethics related risks for the company?
- **Control functions and independence** – What is the company's oversight of compliance functions?
- **Audit methodology** – Does the company have an audit methodology covering business ethics issues?
- **Issue escalation** – What is the company's arrangement for raising concerns? For example, does the company have a whistleblowing policy and how is its effectiveness monitored?
- **Implementation** – Does the company publicly and annually report progress on implementation against its objectives?

HOW?

This engagement will run for two years and focus initially on approximately 15 companies in the financial services sector. Thereafter, we will roll the engagement out to companies in the pharmaceutical, retail, manufacturing, telecommunications and/or food production sectors. Business ethics, or a lack thereof, presents a material risk to companies in all these sectors. All companies included in this engagement will be selected from the MSCI All Country All World Index.

The five KPIs which we will measure include:

I. Board oversight of business ethics and culture;
II. Measurement of the progression of embedding business ethics and culture;
III. Policies that reinforce an effective business culture, such as whistleblowing procedures and remuneration policies;
IV. Internal controls and audit procedures that take business ethics and culture into account; and
V. Reporting on the implementation of business ethics policies against the company's objectives.

GES will provide bi-annual reporting that assesses engagement progress. This will include an analysis of developments with regard to business ethics and culture and how companies are responding to any developments, and an update of the companies involved in the engagement, including an assessment of the progress with the KPIs indicated above.

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CLIMATE RISK

Climate risk management is one of the overarching challenges facing members of society, including investors. The urgency to act on man-made climate change is expressed in the 2015 Paris Agreement which has broad international backing and expectations are growing on all actors to mobilise their leverage in support of the agreement. At the same time, investors are striving to understand and integrate the financial impact of climate-related risks and opportunities in investment decisions.

As a response, investors are starting to address portfolio climate risks using a variety of tools. These tools include, but are not limited to, divesting from high carbon intensive companies, formulating climate related voting policies, expanding cleantech investments and supporting government policy changes. One key climate risk management tool is active ownership through engagement with portfolio companies. In mainstream investment portfolios there is potential for successful climate engagement in practically all sectors, but resources need to be allocated efficiently. Several sectors have already entered a transitional phase to a low carbon future. The high carbon intensity materials sector is however not yet one of those sectors and it is therefore a natural target for investor engagement in the coming years.

WHY?

Materials, including steel and cement, play a fundamental role in society and, as such, companies in this sector have the potential to be key enablers in the transition to a low carbon economy. Currently, the steel and cement industries are major emitters of greenhouse gases. In 2015, around five percent of worldwide greenhouse gas emissions came from the steel industry, while cement-related emissions are estimated to account for 5-6 percent of global emissions.

There are several factors which indicate strong potential for constructive and productive engagement dialogue, but historically, there has been relatively little climate risk engagement from investors with this sector. It is a challenge to find low carbon technical solutions for steel and cement production and this is one of the reasons that the sector has not yet entered a transition phase similar to other high emission sectors such as power utilities and car manufacturers.

However, significant improvements can be made in areas such as energy efficiency, use of renewables, development of new refinement technologies and development of enabling technologies. Carbon risk management for steel and cement also closely relates to financial risk management since companies in the sector have a relatively high carbon intensity, relatively low profit margins and the potential to make use of a strong financial upside by capturing opportunities. Furthermore, low carbon enabling product solutions from the steel and cement sectors will have significant multiplier effects in other sectors such as real estate and infrastructure.

WHAT?

A pre-engagement mapping exercise will be carried out by GES to establish key climate challenges and opportunities in the materials sector, and accordingly identify the most appropriate engagement objectives.

The engagement objectives and KPIs will take into consideration and be aligned with:

- CDP
- TCFD (Task Force on Climate-related Financial Disclosures)
- Climate Action 100+
- The Science Based Targets initiative
- The Paris Agreement
- Other investor initiatives such as the Transition Pathway Initiative
- SDGs:
    - 9 Industry, Innovation & Infrastructure
    - 11 Sustainable Cities & Communities
    - 13 Climate Action
    - 15 Life on Land

The engagement will target up to 20 companies with the selection based on factors such as:

- Current performance: Primarily laggards combined with some sector leaders will be targeted. Experiences from high performance companies can be utilised to push low performing companies up to speed.

- Geography: To the extent possible and relevant, companies in both developed and emerging markets will be included.

- Size: The aim is to combine individual target companies and the target group as a whole in order to maximise market cap and carbon footprint coverage. As such, both market leaders and carbon intensive companies will be included.

HOW?

GES will lead a 3-year collaborative engagement (Q3/2018 – Q3/2021) providing participating investors with an opportunity to be actively involved.

A framework of quantifiable engagement objectives and KPIs will enable us to measure and illustrate company progress and the impact of engagement efforts. The engagement strategy will also leverage the experiences and good corporate practices gathered from the GES Carbon Risk Engagement with power utilities. Biannual update reports will be provided by GES.

Anticipated focus areas and topics would include:

- Enhancing transparency in line with mainstream systems such as CDP and TCFD.
- Both absolute and efficiency-related carbon emission targets with corresponding incentive programmes; science-based to the extent possible.
- CAPEX plans aligned with a 2-degree-scenario.
- Transparency on industry association activity to ensure policy work aligned with investor expectations.
- Product development process to accelerate a low carbon society (products that enable customers' carbon efficiency).

Please note – the exact focus and scope is subject to the findings from GES' mapping exercise as outlined above.

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CHILDREN'S RIGHTS

Children make up almost a third of the world's population and are pertinent for business in various ways: as customers, employees' family members, workers, and key stakeholders in local communities and society at large. They are often the invisible, yet most significantly affected, group with unique vulnerabilities and needs.

WHY?

It is possible that business activities that have no negative impact on adults may be very harmful to children's rights and well-being. Still, while the links between business and human rights are becoming increasingly acknowledged and addressed, the attention to children's rights specifically is still rather low. At the same time, failing to mitigate and manage child-related risks – not to mention missing out on the opportunities – can have material consequences for companies. Universal ownership, responsible investment, fiduciary duties and long-termism are all inherently linked to ensuring that the children of today are taken into account.

WHAT?

It is important to broaden and deepen our understanding of children's rights beyond child labour. Children's Rights and Business Principles, developed by the United Nations Global Compact, UNICEF and Save the Children, were launched in 2012 and underline the variety of other ways that companies' operations can affect children. This includes products and services as well as marketing and advertising, among others, and indeed the public discourse has increasingly been calling on businesses to take greater responsibility for related aspects. Irresponsible or negligent corporate behaviour can be linked to issues such as childhood obesity, unrealistic body image, sexualisation of children and online safety. Accordingly, GES has chosen to initiate a stewardship engagement that proactively targets companies for which child-related issues within media and/or the marketing of their products pose concrete business risks and opportunities. The engagement will cover both negative and positive impacts: avoiding doing harm and protecting children from detrimental influences, as well as empowering them and providing products and services that further children's rights.

HOW?

This engagement will run for two years and focus on approximately 15-20 companies selected from the MSCI ACWI (All Country All World Index) depending on the interests and holdings of the participating investors. They will fall into three clusters:

1. Companies which offer products targeted at children, particularly food producers and clothing retailers, and should consider children's rights in both their product design and marketing messages;

2. 'Traditional' media companies which have special responsibilities in how they portray children and produce content aimed at them; and

3. Social media and ICT companies which must protect children from abuse and inappropriate content on the one hand, and wish to cater for their needs as consumers on the other.

The ultimate engagement goal is to ensure that the targeted companies' approach to children's rights is carefully considered and implemented, and hence beneficial to business strategy and outcomes in the long-term. To an extent, this will look slightly different for each cluster, whereby each company is expected to proactively mitigate child-related challenges applicable to its specific operations and demonstrate deliberate awareness of the nascent opportunities.

To specify engagement objectives and measure progress along the way, companies will be assigned five KPIs corresponding to different aspects of children's rights management as relevant to the cluster that company is in. Using these metrics will enable us to both track the development of individual companies and compare those within the same target group.

The engagement will run for two years. We will provide bi-annual reporting to assess progress. This will include an analysis of how the companies are responding to both engagement and to any external developments in this field, as well as an update of the companies' progress towards meeting the engagement goals and KPIs.

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CYBERSECURITY

The Digital Age offers a range of opportunities for both individual and corporate users, but at the same time poses numerous risks and challenges to companies operating in various sectors. Today there is no such thing as a non-data-driven company, and the way these companies handle data – whether big or small – influences various aspects of their operations. Any shortcomings in this area can mean losses for both the companies and their customers.

WHY?

Data breaches have been on the rise in recent years, and hackers will target any sector, as long as the attack can bring gains. While the number of hacking incidents dropped by 25 per cent in 2017, cybercriminals are increasingly shifting focus to ransomware attacks where instead of stealing large amounts of data, they prevent users from accessing their files, demanding ransom to restore this access. Estimates put the ransomware attacks cost to companies at more than USD 8 billion last year. Furthermore, the so-called injection attacks nearly doubled in 2017. Injection attacks accounted for 79 per cent of the malicious activity on enterprise networks.

However, financial loss is not the only risk associated with cyberattacks. In 2017, more than 2.9 billion records were leaked from publicly disclosed incidents, compared to 429 million in 20154. What is concerning is the fact that many companies still choose not to reveal the full extent of the attacks that they have experienced. Damage to reputation and clients' trust can be far greater and more difficult to assess and remediate than the financial costs. Another significant threat to companies is the loss of intellectual property (IP), in particular in the case of manufacturing companies.

Cybersecurity has, therefore, become an issue of concern not only to companies that are directly exposed to the attacks, but also to investors and other stakeholders who seek stable and trustworthy investing environments.

The UN recognises the threats related to cybercrimes. In 2013, UN Secretary-General Ban Ki-moon said: "Cyberattacks have the potential to destabilize on a global scale. Cybersecurity must therefore be a matter of global concern. The United Nations is promoting dialogue and cooperation among Member States to ensure an open, secure, peaceful and accessible ICT [information and communications technology] environment."

The UN Group of Governmental Experts (UN GGE) submits annual reports by the Secretary-General to the General Assembly with the views of UN Member States on the issue of information and telecommunications in the context of international security.

Moreover, already in 1999, the UN General Assembly adopted a resolution in which it recognised that "it is necessary to prevent the misuse or exploitation of information resources or technologies for criminal or terrorist purposes," and called upon Member States to "promote at multilateral levels the consideration of existing and potential threats in the field of information security".

WHAT?

Cyberattacks can be conducted not only by external parties but also insiders, and the exact nature and motivations for their actions can vary. In 2017, insiders were responsible for almost 70 per cent of recorded data breach incidents. In 2015, outsiders were responsible for 40 per cent of recorded data breach incidents.

While cyberattacks are most commonly associated with the attackers seeking profit and financial gain, they can also serve as a protest, way of satisfying intellectual curiosity, revenge or simply be a malicious act with no specific motivations.

Key issues and examples of affected business value drivers associated with cybersecurity include:

- Financial crime – financial losses and subsequent decline in shareholder value;
- Fraud and identity theft – reputational damage and financial losses due to compensation;
- Theft of sensitive data – loss of competitive advantage and reputational damage; and
- Theft of intellectual property – loss of competitive advantage and financial losses.

Examples of recent high-profile cybersecurity incidents include:

- The city of Atlanta, Georgia, US (2018)
- Equifax (2017)
- Kmart (2017, 2014)
- Verizon (2017)
- The Democratic Party (2016)
- Yahoo (2016)

CYBERSECURITY

HOW?

This engagement will run for three years and focus on up to 20 companies in the healthcare, telecommunications, manufacturing, financial services and transportation sectors. These sectors have the highest number of data breach incidents and the breaches are all material, leading to impact on stock performance. All companies included in this engagement will be selected from the MSCI All Country All World Index.

We have identified five KPIs which we will measure throughout the engagement to track the development of the companies included and compare them with those within a target group.

The five KPIs which we will measure include:

- Board oversight of cybersecurity;
- Readiness to meet and compliance with legal, regulatory and contractual demands/requirements;
- Cybersecurity awareness and culture amongst employees, contractors and third parties;
- Key drivers in cybersecurity risk management and their development; and
- If relevant, root causes and actions taken in relation to high-impact incidents.

We will provide bi-annual reporting on the engagement to assess its progress, which will include an analysis of developments with regard to cybersecurity and how companies are responding to any developments and an update of the companies involved in the engagement, including an assessment of the progress with the KPIs indicated above.

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EMERGING MARKETS

The Emerging Markets Engagement (EME) programme is the oldest and largest Stewardship & Risk engagement programme at GES. It started with a pilot project in 2009 and has since expanded to cover engagement processes with more than 120 companies in 15 different emerging markets. Since 2009, GES has conducted more than 500 face-to-face meetings in these markets.

WHY?

Emerging markets present big opportunities for investors. The growth potential for companies in these markets is significant, but so are the risks. As a result, share prices are more volatile than those of companies listed in more mature markets. Emerging market companies typically face more ESG-related risks than developed market companies because they operate in countries with lower levels of regulation, reduced rule of law, corruption and more wide-spread social and environmental challenges. Secondly, most emerging market companies are lagging behind in terms of developing policies, strategies and management systems to mitigate these risks. Finally, the ESG-related disclosure to investors is, in many cases, limited and relatively one-sided, often focusing on the corporate social responsibility (CSR) initiatives of the companies and not including much on the outcomes of these initiatives. Investors need therefore to make a special effort to understand and mitigate ESG risks in emerging market holdings.

Taking the elevated ESG risks into account, the focus on emerging markets makes perfect sense for institutional investors who want to align with the OECD Guidelines on Responsible Business Conduct for Institutional Investors. The OECD Guidelines stress the importance of taking a risk-based approach to prioritising resources for due diligence, taking into account the severity and significance of adverse impacts.

WHAT?

The purpose of the programme is to encourage companies through engagement to build up better risk mitigation strategies that address material ESG risks and opportunities. Additionally, we help clients to make more informed investment decisions through providing analysis on the full scope of ESG risks that are material to a company and the engagement potential associated with a company. The key topics that we engage with companies on include:

- **Regulatory compliance**: Companies should identify and comply with legislation in the country in which it operates. Furthermore, companies should endeavour to respect relevant international standards and conventions, in particular when these are more stringent than national legislation.

- **Risk assessment**: Companies should identify and assess risks, opportunities and the impacts of its operations.

- **Policy development and implementation**: Companies should adopt and implement a policy addressing the most significant impacts relevant for the company and its stakeholders.

- **Management systems**: Through formal company-wide management systems, companies should prevent, minimise and remedy adverse impact of its activities, products and services.

- **Transparency and reporting**: Companies, through communications on progress, should report openly about its strategy and management approach, as well as risks and dilemmas.

Addressing the risks and responsibilities outlined above, we will target companies from the mining, food, beverage and garment sectors.

HOW?

The EME programme adopts a risk-driven approach to selecting companies for engagement. With a starting point in client holdings, we assess ESG risks and opportunities for the holding companies, given the industry and locations of operations, and target those companies with the most severe ESG risks. This makes the EME programme well aligned with the OECD Guidelines on Responsible Business Conduct for Institutional Investors that recommend a risk-based approach to prioritising resources for due diligence, taking into account severity and the significance of adverse impacts.

Having selected the companies, we initiate a dialogue to set up meetings – preferably face-to-face meetings. We pay a lot of attention to building trust in the engagement process, which is achieved through respectful communication, comprehensive meeting preparation and consistent follow-up. Part of the first meeting is spent on developing a common understanding of the most material ESG risks and opportunities for the company. Next step is to define objective(s) with the engagement and these are calibrated with the stage of the ESG journey that the specific company is at. We aim to define actionable and achievable engagement objectives, so we do not frustrate companies with unrealistic expectations. Later in the engagement process, the objectives will be revised to reflect the expectation of continuous improvements.

Every meeting is followed up with meeting minutes and assessment shared with the company, who is given an opportunity to comment. This document includes GES' recommendations for how the company can improve its ESG risk mitigation. GES follows up with the company 6-12 months later, where the previous recommendations combined with another comprehensive review of existing ESG disclosure make a new starting point for further encouraging change towards the engagement objectives.

During the engagement process, GES rates engagement response and progress towards achieving the objectives, compliance with UN Guiding Principles on Human Rights, tracks milestones and positive/negative cases, and maps engagement focus against SDGs.

Every six months, in January and July, EME clients receive a report on the EME-companies that they follow. In addition, clients regularly receive an EME Newsletter highlighting latest and upcoming engagements, including the country risk assessments that GES prepares before each engagement trip.

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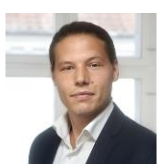

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FOOD SUPPLY CHAIN

Most of the world's farmers are smallholders and plantation workers. They feed the world, many of them through the supply chains of major multinational companies. We are dependent on them for our food supply, but many live and work under poor conditions, and the farmers often struggle to earn a sufficient livelihood to support themselves and their families.

WHY?

Poor working conditions and/or the absence of a living income are contrary to international human rights norms, such as the UN Guiding Principles on Business and Human Rights, several of the SDGs, ILO core conventions and the Universal Declaration of Human Rights. It is also a material issue for the companies which are dependent on this workforce for their supply. Faced with challenging conditions and better opportunities in urban areas, there is a significant risk that farmers leave rural areas. This will increase companies' difficulties to secure long-term stable supplies.

WHAT?

A pre-engagement mapping exercise is carried out by GES in cooperation with AP7 to establish key challenges in global food production, and accordingly identify the most appropriate commodities and companies to focus engagement efforts on. The mapping will be based on the following international norms:

- SDGs - particularly SDG 1 (no poverty), SDG 2 (zero hunger), SDG 4 (quality education), SDG 8 (decent work and economic growth) and 10 (reduced inequalities);
- ILO core conventions; and
- The Universal Declaration of Human Rights

The specific engagement objectives and KPIs will be determined by the pre-mapping findings and aligned with Investor Expectations on Labour Practices in Agricultural Supply Chains and the UN Guiding Principles on Business and Human Rights. The engagement strategy will also leverage the experiences and good corporate practices from GES' cocoa engagement.

The engagement will target up to 20 companies and take into account factors including:

- priority sectors: food producers, retailers and beverages;
- industry laggards;
- key players in global food production and retail (in terms of market share);
- engagement potential;
- if appropriate, low performers from the Corporate Human Rights Benchmark.

Expected results to include:

- Target companies improve their approach to procurement, supply chain management and labour rights resulting in reduced reputational and operational risks;
- Raising standards at the sector level, resulting in more sustainable and fair supply chains globally; and
- Improving corporate respect for human rights by aligning company practices to the UN Guiding Principles on Business and Human Rights
- Supporting the progress towards the fulfilment of SDGs 1, 2, 4, 8 and 10.

HOW?

GES will lead a 2,5-year collaborative engagement (Q2/2018 – Q4/2020) in cooperation with AP7 and Öhman. All participating investors have the opportunity to be actively involved.

A framework of quantifiable engagement objectives and KPIs will enable us to measure and illustrate company progress and the impact of the engagement efforts. Biannual update reports will be provided by GES.

Anticipated focus areas and topics would include:

- issues such as child labour, forced labour, living income, the vulnerable position of migrant workers;
- strengthening company policies, due diligence, management systems and disclosure;
- traceability, certification and other remedial measures;
- multi-stakeholder collaborations towards corporate alignment with the UN Guiding Principles on Business and Human Rights;
- possibly commodities such as sugar, vanilla, hazelnuts, tea, coffee, rice, tomatoes.

Please note – the exact focus and scope is subject to the findings from GES' mapping exercise as outlined above.

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JAPAN STEWARDSHIP

Japan has the third largest economy in the world and its stock markets account for about 8 per cent of global equities, the second largest after US markets. However, Japanese corporates face challenges from a sustainability perspective. They are not as conspicuous as issues of poor return on equity or low board independence, yet companies must properly address these less obvious challenges. The Japan Corporate Governance Code was introduced to promote the sustainable growth of Japanese corporates. The period of superficial compliance should now be over, and investors need to ensure that companies are implementing measures necessary to achieve sustainable growth. Investors are the key stakeholder, with a strong interest in encouraging companies to make progress.

WHY?

A sustainability lens reveals key issues that Japanese companies have yet to address:

Effective oversight: The board of directors exercises oversight over various corporate matters from business strategy and capital policy to environmental and social initiatives. Given the poor financial performance of many Japanese companies in the past, the emphasis of oversight has been more on business and financial strategies. In recent years, however, we have witnessed more and more cases where the lack of effective oversight on intangible values such as ethics, culture and diversity have a material impact on the sustainability of Japanese corporates. A culture of long work hours is one such example, and the suicide of a young female employee at Dentsu in 2016 turned the spotlight on this topic. Working long hours has been a norm at Japanese companies without effective oversight.

Business ethics and culture: Business ethics is an integral part of sound corporate activities and crucial for the sustainable growth of a company. Japan has witnessed significant accounting scandals in recent years at Olympus, Toshiba and Fujifilm Holdings. The root cause of these incidents has been failures of business ethics in corporate culture. In Toshiba's case, for example, there was a corporate culture of placing short-term earnings above anything else and the corporate department placing excessive pressure on business departments to meet this short-term end. Preventive mechanisms will work to stop misconduct, but they can also be evaded by motivated individuals. Business ethics and culture serve as the ultimate safeguard against corporate scandals.

Diversity: To survive in the rapidly changing global market, Japanese companies have to make an extra effort to increase diversity. They are far behind global peers in awareness of the value of diversity. Diversity encompasses gender, nationality, skill-set, and independence. More diverse and independent boards should be able to make more sound and transparent business judgements and a more diverse group of employees should be able to generate more creative business ideas to cope with a continuously changing business environment. It is also important to ensure that the more diverse organisational structures put into place function effectively.

Human capital: The competitiveness of a company depends more and more on 'soft' knowledge rather than on how much the company can spend on physical capital. Human capital has never been more important to corporate value. Business knowledge, know-how, skills, and customer relations need to be passed down from one generation to the next. Companies need to have robust succession planning not only for the CEO but for corporate managers who are responsible for business execution. It is essential to maintain the appropriate pipeline of talented and well-trained employees for companies to achieve sustainable growth.

WHAT?

The key issues are not necessarily limited to governance, but we believe that as investors we can address the above issues most effectively through governance. The main areas that we will focus on in this engagement include:

1. Effectiveness of the board - Is the board of directors exercising an effective oversight function with a sufficient level of board independence? Its scope should not be limited to business strategies and financials but also cover corporate culture and business ethics. How does the board evaluate its effectiveness? To that end, what set of metrics and associated targets does the company use to evaluate its ability to meet the needs of its stakeholders?

2. Compensation structure - Against which metrics are managers compensated? Are they solely financial parameters or does the company also utilise metrics that integrate all critical aspects of a company's businesses, including environmental and social (E&S) factors? Are managers incentivised to respect business ethics within the organisation?

3. Diversity - How does the company promote diversity at board level as well as in the work place? Diversity here could include gender, nationality, and skill-sets. Promoting gender diversity in particular will contribute to closing the gender pay gap, which is an important social issue in Japan.

4. Succession planning - Is the board of directors aware of the importance of succession planning, and how does the board prepare for leadership change? The scope does not have to be limited to management but can include succession planning of employees, investing in human capital and promoting talented employees to sustain growth.

5. Escalation of issues - What is the company's arrangement for raising concerns? For example, does the company have a whistleblowing policy and how is its effectiveness monitored?

6. Implementation - Does the company publicly and annually report progress on implementation against its objectives in these areas?

HOW?

Our business partner, Governance for Owners Japan (GOJ), will undertake this engagement. The engagement will run for three years and focus initially on 7 large-cap companies, based on three criteria: 1) they are members of the MSCI All World Index; 2) they account for a significant proportion of Japanese equities; and 3) GOJ believes they can make an impact through engagement with them. We also welcome request for specific engagement companies from clients and will add them to our list of target companies with the aim of covering 12 companies over time.

We will provide bi-annual reporting on the engagement, which will cover developments with regard to critical issues at Japanese companies, how companies are responding to any developments and an update on the companies involved in the engagement, including an evaluation of progress against the five KPIs.

We will evaluate each company against five KPIs:

1. Implementation of regular board evaluation on relevant metrics,
2. Remuneration not only on financial metrics but also on metrics to integrate all its values, including E&S considerations, into critical aspects of the company's businesses,
3. Measurement of progress in promoting diversity at the board level and in the wider company,
4. Policies that reinforce business ethics, such as whistleblowing procedures and remuneration policies,
5. The quality of the company's reporting on these and other measures it takes to achieve sustainable growth.

Governance for Owners Japan is an engagement service provider specialising in the Japanese market. It has 10 years of experience of providing global responsible investors with stewardship services in relation to their investee companies in Japan. GOJ is a joint venture that was established in Tokyo in 2007 and owned 60% by GO Investment Partners, a London-based independent investment partnership founded in 2004, and 40% by Tokio Marine Asset Management, a wholly-owned subsidiary of Tokio Marine Holdings.

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PHARMACEUTICAL INDUSTRY

The current global revenue from the worldwide pharmaceutical market is estimated at USD 1 trillion and is expected to grow to USD 1.4 trillion by the year 2020. The ten largest pharmaceutical companies are based in the developed world and account for 30 per cent of global market share. It is estimated that 85 per cent of the drugs sold in the world are sold to the 20 per cent of the global population who live in developed countries. There currently is a growing disparity in accessing medicine in the developing and developed world.

WHY?

SDG 3 specifically relates to ensuring healthy lives and promoting well-being for all at all ages, with specific targets of ending preventable deaths of new-borns and children under five years old and ending the epidemics of AIDS, tuberculosis and other communicable diseases.

It also aims to "achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all"[1].

A number of pharmaceutical companies are in the top 100 listed companies, at least in the developed world. As a result, many investment funds will hold shares in pharmaceutical companies.

Based upon GES' recent research[2], there are a number of areas of potential risk including:

- Business ethics and responsible marketing practices;
- Access to medicine;
- Product quality, safety and traceability; and
- Cybersecurity, including the protection of drug development work, which in turn has financial implications for the business.

WHAT?

Below are some of the key issues for the pharmaceutical industry. Our engagement strategy will in particular focus on the **topics in bold**.

Issue	Business Value Driver
1. Marketing practices and ethical sales	
▪ corruption and bribery	→ avoiding reputational and financial damage and loss of market share
▪ rational selection and use of medicines	→ profitability and efficiency
2. Access to medicine	
▪ affordability and fair pricing	→ profitability and avoiding reputational damage
▪ reliable health and supply lines	→ efficiency
▪ rational selection and use of medicines	→ profitability and efficiency
3. Product safety and traceability	
▪ licencing and counterfeit drugs	→ profitability
▪ rational selection and use of medicines	→ profitability and efficiency
▪ safety of clinical trials	→ avoiding reputational damage
4. Cybersecurity	
▪ Protection of research data	→ growth, efficiency and profitability
▪ Protection of personal data	→ avoiding reputational and financial damage and loss of market share

[1] https://sustainabledevelopment.un.org/sdg3

[2] Exane BNP Paribas Research/SRI-ESG Integration, 11 April 2016, and Societe Generale Cross Asset Research, 1 October 2015.

HOW?

Given the nature of this engagement, we will engage with a large number of stakeholders, including:

- pharmaceutical companies; and
- governments and healthcare professionals in emerging markets.

Companies

The engagement will concentrate initially on business ethics and access to medicine. We will examine the differences in companies' policies and procedures and consider any outstanding allegations of wrong-doing.

We will approach companies of different sizes and market share as we envisage that smaller companies will have similar issues as bigger ones. All companies included in this engagement will be selected from the MSCI All Country All World Index.

Governments and healthcare professionals in emerging markets

We will approach governments, legislators and health-care providers in a range of developing countries to understand their perspective on the issues.

Other stakeholders

We may also ask for assistance or input from:

- The World Health Organisation;
- The Access to Medicine Foundation; and
- NGOs involved in developing countries' medical systems.

We have identified five KPIs which we will measure throughout the engagement to track the development of the companies included and compare them with those within a target group. The five KPIs which we will measure include:

I. Board oversight of a pharma sustainable strategy;
II. Accountability for access to medicine, including the management and incentivisation of associated performance;
III. Stakeholder engagement;
IV. Management of people and ethics, including monitoring that ethical standards are upheld; and
V. Publication of explicit guidelines and a code of conduct.

GES will provide bi-annual reporting to assess engagement progress. This will include an analysis of developments with regard to the pharmaceutical industry and how companies are responding to any developments and an update of the companies involved in the engagement, including an assessment of the progress with the KPIs indicated above.

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The plastic waste issue is currently one of the fastest growing environmental topics on the political agenda. Governments and consumers are becoming increasingly aware of the substantial impact of plastic on our environment and our health. For the first time, the EU has committed to a holistic plastics strategy, and similar agreements are being made internationally. Given this momentum, it is essential for companies to take immediate action to prevent and mitigate the damage caused by plastic in society.

WHY?

Plastic is a vital product to the global economy; however, the way it is being produced, used, and managed is unsustainable, especially at the use and after-use phases. Each year, at least 8 million tonnes of plastic waste ends up in the ocean. If business as usual continues, the ocean is expected to contain more plastics than fish by 2050[1].

The carbon impact of plastics is also a key challenge. Currently, plastics are 90 per cent dependent on virgin fossil feedstocks and responsible for around 6 per cent of global oil consumption (the equivalent of the entire aviation industry). If plastic production continues to grow, it will make it more difficult to reach the goals of the Paris Agreement.

Also, although the link between plastics and health issues is still being debated, the presence of microplastics in food and its effect on the human body is a growing concern. Furthermore, air emissions and water toxicity from waste are increasingly linked to the plastics and consumer goods industries.

In addition, there are financial implications to plastics mismanagement. Only 14 per cent of plastic packaging is collected for recycling and annually around EUR 68-103 billion is lost due to material plastic waste in packaging alone. With improvements in recyclability and after-use collection and recycling practices, a significant portion of this value could be saved.

This range of factors underpins a powerful business case for investors and companies to promote a more sustainable approach to plastics. An improved plastics economy will:

- reduce reliance on fossil feedstocks, which will become scarcer over time and may become more expensive due to the Paris Agreement and local carbon regulation;
- reduce supply costs associated with virgin raw materials and recapture the massive value currently being lost after the first use of plastic products;
- anticipate government policy and regulation requiring responsible design, production and consumption of plastics;
- minimise the risk of fines and/or reputational damage to companies arising from damage to human health and/or ecosystems;
- respond to a likely rise in consumer demand for more responsible plastic products.

This agenda is also aligned with the Sustainable Development Goals, where business has a strong role to play. Plastics are clearly linked to Goal 12 (Responsible Consumption and Production), as well as Goals 14 (Life Below Water) and 17 (Partnerships for the Goals).

WHAT?

In light of the above challenges, a business-as-usual consumption pattern cannot continue. The alternative is a ‘circular economy’ approach, which focuses on maximising resource value (through such means as reuse and recycling), making resource use more efficient and extending product value during use. GES agrees with the view of the Ellen MacArthur Foundation[2] that there are three primary steps for companies and other stakeholders to take, aligned with circular economy principles *(next page)*:

1. Decouple from fossil feedstocks

Decoupling from fossil fuels protects companies from raw materials price volatility, safeguards their reputation and prepares them for new regulations. With the increased use of renewable energy and materials becoming common practice, it is likely that these resources will play a larger role in plastics.

2. Create an effective after-use economy

Improving the quality of after-use infrastructure will be key in recovering the material value of plastics. Collaborations across industries and with public institutions will help create a more effective after-use economy.

3. **Reduce leakages**

The costs of leakages include negative externalities, aesthetic value and impact on marine life. Furthermore, landfill bans and fines have been adopted in an increasing number of regions. Companies may not be legally required to take responsibility for all leakages, but plastics are a real problem for marine life and since society is aware of leakages to the ocean this could become a large reputational risk. These risks and costs can be minimised through improved handling and reporting of leakages.

While the plastics debate tends to place the spotlight on the packaging industry and consumer goods companies that use packaging extensively, plastic is also used in industries such as textiles, electronics, and the automotive industry. GES' engagement will therefore also focus on businesses in consumer-facing sectors, which are susceptible to increased reputational and regulatory risks associated with plastics waste. Accordingly, the priority focus areas for this engagement are packaging, automobiles and electronics.

HOW?

The ultimate objective of this engagement will be to encourage companies to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products that will enable a transformation of the plastics market towards sustainability.

To specify engagement objectives and measure progress throughout the engagement, companies will be assessed on six KPIs corresponding to different aspects of plastics use and management. Using these metrics enables us to track and compare the development of individual companies.

The six KPI categories include:

I. Governance and reporting
II. Input in the production process and utility during use
III. Risk and impact assessment
IV. Recycling practices and after-use
V. Innovation
VI. Stakeholder cooperation

The engagement programme is to last for three years and GES will provide biannual reporting. This will include an analysis of how the companies are responding to engagement and to any external developments in this field, as well as an update of the progress the companies are making in relation to our KPIs and engagement goals.

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SUSTAINABLE SEAFOOD

With the world's population growing at a rate of minimum 80 million people every year, experts predict that by 2050, it will have reached 10 billion[1]. A growing population puts additional demand on natural resources and implies an increased demand for food and protein, and as such, the world needs to develop a strategy to meet this demand in a sustainable way, as well as mitigate risks related to climate change and food security. Producing protein in a sustainable manner has become an important challenge for the food industry, capital markets and society as a whole and many perceive seafood to be more sustainable and healthier than other animal proteins. Yet, this is not uncomplicated; Seafood consumption has doubled over the last 40 years and it is expected to continue to grow, however, the industry faces a number of environmental and social challenges which require the involved stakeholders to develop sustainable seafood strategies as a cornerstone of their sustainable sourcing.

WHY?

Meeting the Paris agreement target of limiting climate change to below 2° C has presented significant challenges to the food industry as the impact of food production has become a major concern. It is now suggested that the world should follow different health guidelines such as cutting down meat consumption as this would reduce emissions significantly. Equally, this would inevitably lead both companies and consumers to change their patterns of production and consumption and put a greater focus on other sources of protein, such as seafood. There are also other considerations that lead consumers to turn to seafood.

The world's seas are the most important common resource. Seafood is a significant source of protein and an important industry contributing to economic development and local communities in many countries.

Thus, sustainable seafood has vast potential. At the same time, marine resources are becoming overexploited. Indeed, according to a 2016 FAO report, 31.4 per cent of global fisheries have been fished beyond sustainable limits and the size of the marine population has declined by almost half between 1970 and 2012. This has led to increased financial, environmental and social risks and jeopardised the very possibility of seafood acting as a long-term alternative to meat. Hence, it is important for investors and companies to ensure these risks are proactively managed to secure a steady supply that can meet the increasing demand. Indeed, the opportunities in catering for the anticipated global demand create a major business incentive for companies to implement mitigation measures through a sustainable seafood management policy. A responsible approach both reduces risk and can help drive performance.

WHAT?

The engagement will be based on GES' research establishing the key challenges in global seafood production and identifying the most appropriate companies to focus engagement efforts on. The engagement objectives and KPIs will be aligned with the SDG framework - particularly SDG 12 (Responsible consumption and production) and 14 (Life below water).

HOW?

GES will lead a 3-year collaborative engagement (Q1/2018 – Q1/2021) in co-operation with Öhman, providing other participating investors the opportunity to also be actively involved.

A framework of quantifiable engagement objectives and KPIs will enable us to measure and illustrate company progress and the impact of the engagement efforts. Bi-annual update reports will be provided by GES.

Subject to the pre-engagement research, the likely focus areas include:

- environmental issues including overfishing, biodiversity loss, energy use, chemicals and antibiotics, impacts on marine ecosystems and coastal communities;
- strengthening company policies, due diligence, management systems and disclosure;
- traceability, certification and other remedial measures; and
- multi-stakeholder collaborations towards better global governance of marine resources and corporate alignment with SDG 12 and 14.

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Öhman

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There has been an increasing focus on business taxation and 'companies paying their fair share' in recent years. A number of high profile cases include Amazon's, Google's and Starbucks' tax structures that enabled them to avoid paying tax in the UK despite reporting high profits, as well as the more recent Panama Papers leak, which concerns more than 200,000 companies registered in a number of tax havens.

As a result, aggressive tax planning and avoidance is increasingly under scrutiny by governments, with many taking steps to regulate against this behaviour. Examples include the OECD's work on Base Erosion Profit Sharing (BEPS) and the EU's recent proposal for country-by-country reporting of tax paid in different jurisdictions by public interest entities in the EU Accounting Directive.

GES will be engaging proactively with a number of companies to encourage companies to approach tax as a governance and risk management issue and ensure that companies have an appropriate tax policy in place to ensure that shareholder value is preserved and grown sustainably.

WHY?

Aggressive corporate tax planning and avoidance is problematic because:

1. It can cause economic and societal distortions and perpetuate inequality:

Tax payments from corporates are an important revenue stream for governments both in developed and developing countries. These payments enable governments to provide investment in infrastructure and social programmes, such as healthcare, education and research, which in turn can benefit the companies themselves. The European Union estimates that it loses EUR 50-70 billion in tax revenues each year due to the corporate income tax avoidance.

Furthermore, aggressive tax planning can distort competition in markets by providing an unfair advantage for those with cross-border operations (who can shift profits to avoid paying taxes in jurisdictions with higher tax rates) over those with only domestic operations.

2. It can create corporate governance risks

Companies that attempt to aggressively minimise their tax bill can be subject to strategic and earnings risks, as those that are overly reliant on tax planning rather than organic growth are more exposed to changes in tax regulation and the approach of tax authorities. It can leave them open to tax authority investigations and penalties; criminal penalties; increased legal and compliance costs; delays to mergers; loss of key projects; loss of the ability to tender for Government projects; requirements to restructure their organisations (such as the location of subsidiaries); effective tax rate volatility and more. Furthermore, certain remuneration structures could inadvertently incentivise management to focus on minimising tax paid, for example, such as including a metric on earnings after tax in a short-term incentive plan.

2. It can damage corporate reputation

Increased media and public attention on tax can negatively impact companies' profitability by damaging their corporate and brand reputation. Whilst companies may be complying with rules in terms of tax planning, many view the amount of tax paid subjectively, as a moral and ethical issue rather than one that is purely compliance-based. As a result, companies subject to consumer boycotts over their tax arrangements could have millions wiped off the value of their company. The UK Reputation Dividend Report indicates that 30 per cent of the market value of the FTSE 100 is attributable to reputation. In the US, corporate reputations are contributing USD 3,329 billion of shareholder value across the S&P 500, 17 per cent of the total market capitalisation.

In an increasingly globalised society, taxation is a complex issue. Much tax legislation is country-specific and reliant on nation-state borders, which are now becoming increasingly less relevant as businesses continue to expand their cross-border operations. Companies routinely argue that they have a fiduciary duty to investors to ensure that the tax that is paid is minimal and often place the burden on government to come up with an appropriate framework. However, governments are now making changes to tax and legal frameworks, and investors and other stakeholders increasingly are challenging this viewpoint and approaching a company's tax arrangements as a corporate governance and risk management issue due to regulatory changes and reputational impacts.

WHAT?

Key aspects that GES is considering in this engagement include:

- **Governance** – Does the board have oversight of the company's tax strategy?
- **Risk management** – What are the top tax-related risks for the company?
- **Tax policy** – Has the company published its approach to tax?
- **Tax planning** – To what extent does the company's profit rely on its presence in low-tax jurisdictions?
- **Effective tax rates** – How has the company reached its effective tax rate? Is there a gap between the company's effective rate and its weighted statutory rate?
- **Country-by-country reporting** – Is the company preparing for country-by-country reporting? If so, how? What effect will this have on the company, its strategy and its tax arrangements?

HOW?

This engagement started in Q1 2017 and will run for two years (provisionally Q4 2019). GES is engaging with ten companies in the technology, pharmaceutical, retail and food production sectors. Taxation presents a material risk to companies in these sectors, which tend to be highly mobile industries that operate cross-border and have a global reach. All companies included in this engagement have been selected from the MSCI All Country All World Index and our participating clients' portfolios.

GES' key objective in conducting this engagement is to encourage companies to approach tax as a corporate governance and risk management issue. We have identified five KPIs that we are measuring throughout the engagement to track companies' progress throughout the engagement.

The five KPIs are:

I. The publication of an effective tax policy;
II. Board oversight of tax strategy and the associated risks;
III. The company's effective tax rates;
IV. The use of aggressive tax strategies (in relation to, for example, corporate structure, areas of operation, transfer pricing, profit-shifting and intra-company debt); and
V. The publication of country-by-country reports of tax paid in various jurisdictions.

We provide bi-annual reporting on the engagement to assess its progress, which includes an analysis of developments with regard to business taxation, how companies are responding to any developments and an update on the companies involved in the engagement, including an assessment of the KPIs.

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WATER

Water crises represent one of the top global risks for the next ten years as identified by the World Economic Forum. Moreover, water issues are inherently connected to various other key challenges such as climate change, food security, infectious diseases, biodiversity loss and energy production. Lack of water or disputes over access can quite feasibly spur social instability and even interstate conflict and contribute to large scale migration. Without an appropriate supply of water and sanitation, fundamental societal functions cannot be fulfilled and development is likely to stall. Indeed, *ensuring availability and sustainable management of water and sanitation for all* is goal number 6 in the UN's 2030 agenda for sustainable development.

WHY?

Severe water stress can create an extremely inhospitable operating environment for companies: it could become very difficult, more expensive or outright impossible to carry on with business as usual. Users in the same river basin or catchment area competing for scarce water resources can easily lead to winners and losers, and cooperation and respecting the human right to water is not only a responsible way to conduct business but also likely to contribute to operations running smoothly.

As outlined above, water stress and/or failure to mitigate the related risks can have material consequences for companies. Most affected are those industries which directly withdraw a lot of water, such as agriculture, mining, utilities and beverages, and many are already facing two choices: investing significant amounts of capital expenditure or abandoning certain sites. Furthermore, many governments will have to act on water scarcity and find financing for the ageing or otherwise substandard utilities infrastructure, whereby introducing fines and price increases for corporate water users is easier politically than charging households more. Across the world, more regulation and scrutiny looms ahead.

WHAT?

Accordingly, the sustainable management of water supplies is emerging as a key commercial issue for companies. In milder cases, it will be enough for companies to adjust operational costs upwards and production levels and revenues downwards, compared with the business-as-usual scenario. Moreover, companies which think that they are not exposed to water risks because they are not located in water-stressed areas or are not consuming a lot of it themselves need to broaden their view. Big users in the same watershed may decrease the availability for others; supply chains may be far more dependent on water than the company selling the end product; and, without water, there is unlikely to be electricity or hygienic working conditions for employees.

As illustrated by the targets under the SDG 6, sustainable development and responsible corporate water management are closely linked. Companies are expected to play a role in objectives relating to, for example, water quality, freshwater supply, sanitation and hygiene, capacity-building, water-related ecosystems and integrated water resources management. While the goals are global, the need for action and improvements are often most acute in developing countries, and hence the companies present in or sourcing from those regions should be particularly mindful of their related responsibilities. They must be aware of the impacts that their activities can have locally on access to water, livelihoods and socioeconomic development.

This engagement therefore focuses on the companies where these pressure points converge: companies with notable water needs which have exposure to countries in earlier stages of development that are facing water-related challenges. The engagement is underpinned by the importance of companies' role in realising the SDGs. Addressing the risks and responsibilities outlined above, we target companies from the **mining, food and beverage (F&B) and garment sectors.**

HOW?

The Water Stewardship Engagement combines both scale and detail: wide-reaching sector level analysis is complemented by a focus on selected companies identified as priorities for engagement. GES uses measurable metrics and benchmarking to enable clear assessment of progress and the impact of the engagement efforts.

The three-year engagement is divided into three stages as follows:

Stage I: Pre-engagement benchmarking

Focusing on F&B, mining and garment sectors, GES first created a screening universe of 299 companies within the MSCI ACWI index. We mapped the quality of the companies' policies and practices in relation to water, and their operational exposure to developing countries experiencing water stress or other problems with access to water. The assessment was based on publicly available information, along with water performance data from GES' strategic partner oekom research, as well as other data from CDP Water.

A benchmark report summarising the findings was produced in March 2017 in cooperation with AP7 and ACTIAM and dialogue with relevant stakeholders commenced to raise awareness and explore collaboration opportunities.

Stage II: Focused engagement

This stage runs for two years from spring 2017 to spring 2019 and focuses on 19 companies, selected on the basis of the Stage I benchmarking findings and engagement potential. All target sectors are represented, and the engagement companies have a broad geographic spread.

GES' ultimate engagement goal is to ensure that the targeted companies' approach to assessing and managing water risks:

- proactively and efficiently contribute to long-term operational continuity;
- is environmentally sustainable; and
- respects the development needs of the applicable countries.

To specify engagement objectives and measure progress along the way, companies have been assigned six KPIs corresponding to different aspects of water management and aligned with SDG 6:

1. Governance of water risk
2. Risk and impact assessment
3. Water use efficiency
4. Water pollution
5. Integrated water resources management
6. Sector-specific KPI: local community impacts (mining)/ supply chain water management (F&B and garment)

In parallel to this, we continue to raise awareness about the issue and collaborate with other stakeholders. In addition, GES may support participating investors' other stewardship activities with companies covered by the mapping, but not included in the focus group.

GES provides bi-annual reporting on engagement progress and company responses.

Stage III: Evaluation and conclusions

The pre-engagement mapping exercise will be repeated in 2019 to trace developments in the relevant sectors during the two-year engagement period.

A final report will be produced, summarising the findings from the mapping exercises, assessing the impact of the engagement efforts, outlining the lessons learned and providing recommendations for next steps.

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UN SUSTAINABLE DEVELOPMENT GOALS

The UN Sustainable Development Goals (SDGs) and their correlations with the themes.

G·E·S

GES is a leading provider of responsible investment and engagement services to institutional investors. We support asset owners and asset managers in developing and implementing integrated investment strategies with regard for environmental, social and governance (ESG) considerations.

Representing €1.5 trillion of investments worldwide, GES acts as an owner-advocate by evaluating material ESG risks in clients' portfolios, providing voting support at general meetings, and engaging with company representatives.

GES is an independent company founded in 1992 with over 60 employees globally, of which 40 are dedicated to corporate engagement.

We have offices in the UK, Sweden, Denmark, Poland and Switzerland with engagement professionals based in a number of other European countries.

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