WORLDWIDE
ASSET MANAGEMENT

# ESG Report
# Global Equities Ethical

Q1 2021

## ESG RISK RATING

The table below includes ESG Risk scores on the current holdings in the portfolio. The ESG Risk scores are the ESG rank assigned by Sustainalytics on a 1-to-100 scale (1 being the highest score and 100 being the lowest score).

Risk Management and Risk Exposure are the two main components of the overall score, assessing the ESG risk of the individual company and how well the company addresses and manages these risks. The table illustrates the aggregated portfolio scores, as well as the distribution of the holdings scored by Risk Exposure and Risk Management as a percentage of the total portfolio.

| | ESG Risk Rating | Risk Management | Risk Exposure |
|---|---|---|---|
| **Average Score** | 19 | 51 | 37 |
| | | **Exposure** | |
| **Management** | Low | Medium | High |
| Strong | 34% | 25% | 3% |
| Average | 9% | 28% | 0% |
| Weak | 0% | 0% | 0% |

*Source: Sustainalytics, March 2021*

## QUARTERLY HIGHLIGHTS

During the first quarter of 2021, Climate Action 100+ released its first Net-Zero Company Benchmark. While we have clearly seen growing momentum in terms of companies setting climate targets and commitments the assessment also highlights that companies still have a long way to go delivering on those promises.

The benchmark focuses on nine key indicators which includes net-zero emissions by 2050 (or sooner) ambition, long-term (2036-2050) emission reduction target(s), medium-term (2026-2035) emission reduction target(s), short-term (up to 2025) emission reduction target(s), decarbonisation strategy, capital allocation alignment, climate policy engagement, climate governance, and TCFD disclosure.

The overall conclusion is that no company assessed performed at a high-level across all indicators and furthermore, that no company has fully disclosed how it will achieve its goals to reach net zero by 2050 or sooner.

Looking at the four companies in the portfolio (Nestlé, P&G, Philips, and Unilever) assessed as part of the benchmark, the conclusion is that results are better than the average, but also that there is room for improvement. While we agree with the overall conclusion – that there is room for improvement – we also like to highlight, based on our own observations and company engagements, that the direction of change is positive.

Nestlé comes to mind as a recent example, of a company not just setting targets, but also taking meaningful action. Nestlé has been working on its climate initiatives for more than a decade and committed to Science-Based Targets back in 2019. At that time, it also committed to lay out a more detailed plan within two years, which it now has done focusing on the most ambitious 1.5-degree target including interim targets.

With 90% of emissions being scope 3 this is not an easy task and Nestlé plans to invest CHF 3.2 billion until 2025 in climate initiatives and carbon reduction projects, of which CHF1.2 billion will be invested in regenerative agriculture. Nestlé views the additional expenditures as taking a leadership role in future-proofing the company but also that there is increasing evidence that consumers would be willing to pay a premium for sustainable brands. Retailers are also showing more interest and are taking more action which could be the catalyst.

As an example, Amazon recently launched its Climate Pledge Friendly initiative, which will help consumers make more informed choices based on stringent sustainability criteria. We expect to have the chance to discuss Nestlé's 'Our road to net zero' plan at an engagement call during the second quarter of 2021.

On nature and deforestation matters there are a couple of dedicated initiatives, which can be useful when assessing companies on this matter and can be used as a reference point in engaging with companies. One of them is Forest500, which also published its most recent results during the first quarter.

Forest500 identifies and ranks the most influential companies on commitments and actions on deforestation. Of the companies in the portfolio, Unilever, and Nestlé are among the best ranking companies, while Amazon, Home Depot, and P&G receive less impressive scores.

Deforestation, and more broadly biodiversity, gets significantly more attention today than just a year ago. The launch of the Taskforce for Nature Related Financial Disclosures (TNFD) last year demonstrates this and more recently The Economics of Biodiversity: The Dasgupta Review and the call for natural capital to become a central pillar of global economic decision making is seen as important as the Stern report from 2006 was on climate change.

As alluded to earlier, during the first quarter we became signatory to Climate Action 100+. We see this as a natural next step in our own ESG efforts, as it complements our direct engagement with the companies and the collective engagement we have through Sustainalytics. What Climate Action 100+ has proven over the past couple of years is that collective engagement can be very successful in accelerating the sustainability agenda at companies.

## DIRECT ENGAGEMENT

We participated in several engagement calls during the quarter. These includes meetings with First Republic Bank and S&P Global.

S&P Global is one of the new additions to the portfolio and is a leading provider of financial information services. The company has relatively low risk when it comes to ESG. At the call we discussed a broad range of issues including the integration of ESG across the organisation and how this has evolved over the past 10 years, as well as recent initiatives including increased stakeholder engagement, and the process of reviewing key materiality issues. We also discussed lessons learned from the financial crisis and reputational risk from the inherent conflict of interest in its credit ratings business. Human capital is among the key materiality issues for S&P Global which has only grown in importance during the pandemic and is furthermore a key focus point in the upcoming merger with IHS Markit. We also discussed the arguments and rationale for bonuses paid in relation to the IHS Markit merger.

First Republic Bank is s company we had several constructive calls with over the past couple of years, and where we have seen a positive shift in acknowledging the need for increased disclosure and reporting on sustainability related issues. At the meeting we discussed a range of relevant issues including diversity, climate risk, cyber security, succession planning, and lessons learned, and longer-term impact from the pandemic.

First Republic Bank is one of the few companies in the portfolio that is still led by its founder, Jim Herbert. We see his influence and the corporate culture he has built since 1985 as an extremely important factor of the success of First Republic Bank, hence his eventual retirement is an important dimension assessing the future prospects of the company. The succession planning is a topic we have discussed with the company several times, and where we are very comfortable with how this is managed. The succession planning started already 10 years ago, and Jim Herbert will January next year transfer from his current role as CEO to a role as Executive Chairman.

First Republic Bank also highlighted climate risk as a new prominent topic being in the early days of an internal assessment considering TCFD and CDP as reporting frameworks, and more broadly adopting the SASB framework for materiality analysis.
On cyber security, one interesting takeaway was that First Republic Bank has previously highlighted how they have been very proactive in engaging with their suppliers on cyber risk, whereas more recently they have started to engage with its clients assisting them on highlighting and mitigating potential cyber risks.

## NEW POSITIONS DURING Q1 2021

**Fiserv**
Fiserv (USA) provides integrated information management and electronic commerce systems and services. Fiserv has relative low risk when it comes to ESG and is involved in no significant controversies. Key issues to consider in ongoing engagements with the company however include data security and privacy, as well as human capital.

## COLLECTIVE ENGAGEMENT

Through our cooperation with Sustainalytics, we are currently actively engaging with the following companies in the Global Equities Ethical portfolio.

**Nestlé**
*Child labour in the cocoa industry*
For more than ten years, the cocoa industry has been criticised for its association with child labour in its supply chain, especially in Ghana and Côte d'Ivoire. As of May 2020, the company collaborates with the research institute KIT, which looks at farmer databases with the aim at segmenting farmers based on income levels and other factors and subsequently to understand what measures are needed to support farmers on different levels to a living income. Sustainalytics will schedule a follow-up meeting with the company in May 2021 focusing on the rollouts of child labour monitoring and remediation systems, living income and more broadly what the future of cocoa farming would ideally look like to ensure resilient farming practices and farmers.

**Amazon.com**
*Labour Rights – Workplace Accidents*
Over the past year, the company has repeatedly been involved in controversies related to workers health and safety. The United States Department of Labor Occupational Safety and Health Administration (OSHA) has investigated and fined the company for repeatedly failing to maintain and enforce OSHA safety requirements in its operations. During the initial conference call, Amazon acknowledged the worker protests it faces regarding Covid-19 and workplace safety in general, but stated that it had implemented safeguards and, according to its metrics, was not seeing wide outbreaks of infection among its workers. The company also acknowledged that its social disclosures did not match its environmental ones and that this was a challenge within the company. At upcoming calls in 2021, Sustainalytics will focus more on the company's lack of disclosure and management of health and safety beyond only the pandemic situation and its statements that it is doing a lot to protect workers.

**Samsung Electronics**
*Corrupt Practices*
In 2017, the vice chairman of Samsung was arrested in a corruption scheme involving the impeached president of South Korea. In 2020, Samsung

presented an external Compliance Committee to provide recommendations to the Board. Samsung updated its internal anti-corruption policy and provides tailor-made compliance training to employees and executives covering awareness and compliance risks. The external Compliance Committee is operating an independent whistle-blower channel and is reviewing the effectiveness of the compliance program. Sustainalytics will continue to monitor outstanding gaps and/or any recommendations provided by the external Compliance Committee.

## CLIMATE IMPACT

Our approach to a more sustainable future matters now more than ever. We use data from Science Based Targets Initiative (SBT) and the Transition Pathway Initiative (TPI) to assess the impact of climate risk in our portfolio.

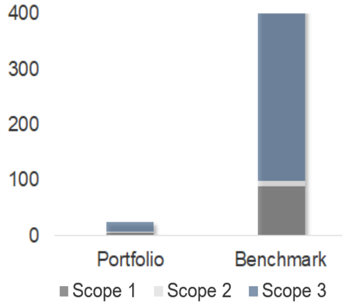
To accelerate our contribution to change, we recently joined the Climate Action 100+ (CA100+). CA100+ is an active ownership network, led by shareholders, to improve the world's largest emitters' effort in addressing climate change. Our membership is aligned with our support of the Taskforce on Climate-related Financial Disclosure (TCFD), of which we became official supporter in June 2020.

The following tables summarize the current climate risk assessment of the portfolio.

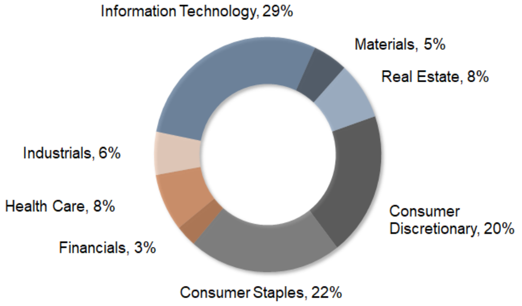
| | Disclosure *Number/weight* | Emission Exposure *tCO2e* | | Relative Emission Exposure *tCO2e/mio USD revenue* | |
|---|---|---|---|---|---|
| | Share of disclosing holdings | Scope 1 & 2 | Incl. Scope 3 | Relative Carbon Footprint | Carbon Intensity |
| **Portfolio** | 79.3%/78.6% | 6 | 24 | 5.7 | 24.8 |
| **Benchmark** | 58.3%/81.2% | 99 | 409 | 99 | 206.4 |
| **Net Performance** | 21 p.p/-2.6 p.p | 94.2% | 94% | 94.2% | 88% |

*Relative Carbon Footprint calculated as tCO2e/USD mill invested*
*Carbon Intensity calculated as tCO2e/USD mill revenue*
*Based on a portfolio value of USD 1.000.000*
*The carbon metrics are based on the TCFD recommended calculation methods*

Emission Exposure (tCO2e)

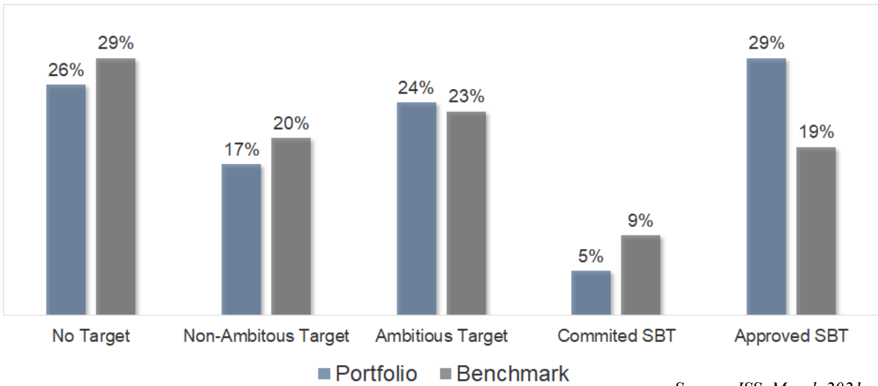



Sector Contributions to Emissions*




**Emissions contributions for all other portfolio sectors is less than 1% for each sector*

Climate Targets Assesment (% portfolio weight)




*Source: ISS, March 2021*

Currently 58% of the portfolio's value is aligned with international climate goals. This includes ambitious targets set by the companies as well as committed and approved Science Based Targets (SBT).

## QUARTERLY VOTING STATUS

The first quarter of the year lightly kicks off the proxy season. Below are a few highlights of the votes we cast.

**Visa**
We supported the shareholder proposal for the right to act on written consent given this would enhance shareholder rights.

**Samsung Electronics**
We voted against management on election of the proposed outside directors. We find that the inaction towards removing convicted directors is not in line with proper governance oversight.

**Ping An Insurance**
As in previous years, we voted against management on issuance of equity or equity-linked securities. The need for flexibility must be balanced with providing reasonable protection for shareholder interests. As such, the aggregate share issuance limit (inclusive of share reissuance limit, if any) should be no more than 10% of the relevant class of shares and the discount limit should not exceed 10%.

Please see highlighted voting below. A full list of all votes cast during the quarter is available upon request.

| Company | Date | Type | Proponent* | Proposal number | Votable proposal | Proposal text | Management recommendation | Voting policy recommendation | Vote instruction | Vote against management |
|---|---|---|---|---|---|---|---|---|---|---|
| Visa Inc. | 1/26/2021 | Annual | Share Holder | 6 | Yes | Provide Right to Act by Written Consent | Against | For | For | Yes |
| Samsung Electronics Co., Ltd. | 3/17/2021 | Annual | Management | 3 | Yes | Elect Kim Sun-uk as Outside Director to Serve as an Audit Committee Member | For | Against | Against | Yes |
| Samsung Electronics Co., Ltd. | 3/17/2021 | Annual | Management | 2.1.1 | Yes | Elect Park Byung-gook as Outside Director | For | Against | Against | Yes |
| Samsung Electronics Co., Ltd. | 3/17/2021 | Annual | Management | 2.1.2 | Yes | Elect Kim Jeong as Outside Director | For | Against | Against | Yes |
| Novo Nordisk A/S | 3/25/2021 | Annual | Management | 8.6a | Yes | Allow Shareholder Meetings to be Held Partially or Fully by Electronic Means | For | Against | Against | Yes |
| Ping An Insurance (Group) Company of China, Ltd. | 3/25/2021 | Annual | Management | 11 | Yes | Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights for H Shares | For | Against | Against | Yes |

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