



ESG Report Global Equities Ethical

Q2 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	52	37
	Exposure		
Management	Low	Medium	High
Strong	34%	28%	3%
Average	10%	24%	0%
Weak	0%	0%	0%

Source: Sustainalytics, June 2021

QUARTERLY HIGHLIGHTS

The debate on environmental issues, excluding climate, has been moving from being mostly single issue focused (e.g., deforestation, water, plastic waste etc.) to increasingly being seen through a more holistic and systemic lens. This has largely been driven by rising acknowledgement of the importance of biodiversity and more broadly natural capital and its interconnectedness with climate change and the inherent feedback loop between these.

Over the past year we have seen several developments and new initiatives pointing in this direction. In June last year, De Nederlandsche Bank became the first central bank to highlight biodiversity as a material financial risk, estimating that the Dutch financial sector alone has USD 600 billion of exposure to biodiversity risks.

We have also seen key tools and frameworks, like those increasingly adopted for climate change, being designed for natural capital. Most prominent examples include:

- 1) The Taskforce on Nature-related Financial Disclosures (TNFD) launched in June 2021 with the goal to build a framework similar to the TCFD (Taskforce on Climate-related Financial Disclosures) to measure and address financial risks derived from biodiversity loss.



2) The Science Based Targets Network initiated the creation of science-based targets for nature, like the science-based climate targets (SBTi) that have become the gold standard when it comes to setting climate targets.

3) Finally, we have also seen an emergence of tools to help investors assess biodiversity risk and natural capital footprint at the investment and portfolio level. One of the more popular is the ENCORE framework developed by the Natural Capital Finance Alliance.

We think it is inevitable that we will see an increase in the adoption and push for the use of tools like this, much like calculating portfolio carbon footprints is common today. Based on our own initial (and fairly simple) analysis using the ENCORE tool we present a few observations:

- The idea behind ENCORE is quite powerful. Assessing investments at the sub-industry level on the degree of dependency on ecosystem services on the one hand (e.g., surface water, soil quality), and on the other hand, the environmental impact resulting from the output from production processes on natural resources (e.g., emissions, and waste).
- However, from a practical perspective it is still too early for the analysis to be directly applicable to our portfolio. Firstly, the model does not cover all sub industries (~70% of the portfolio covered) and secondly, many environmental factors are very company specific and dependent on the geographic location (e.g., high water stress areas) of the company's operations, which is not captured in the model.
- That said, one conclusion to be drawn is that water is one of the most important nature-based inputs to the portfolio at the aggregate level.

FOCUS: WATER RISK

This is not that surprising, as our consumer staples companies (e.g., **Nestlé and Unilever**) are significant contributors to this, but also companies such as **TSMC** and **Samsung Electronics**, as water is a critical input in semiconductor manufacturing (though not covered in the ENCORE model).

The importance of water in semiconductor production and the increased need to mitigate the risk of disruption to water supply has been highlighted this year. Taiwan experienced its worst drought in 50 years which on 1st June led the government to start rationing water supply for the major chip hub Taichung.

TSMC has seen its water consumption increase by more than 80% over the past 5 years and today uses more than 200,000 tons of water per day. While TSMC has not had any disruption to operations due to the current water crisis, as it has been able to secure supply by trucking in water from other regions.



This is an issue that is only set to become more material in the future. Taiwan belongs to the high climate risk group according to Swiss Re and exposure to water shortage is expected to increase dramatically due to climate change. Aside from the short-term truck solution, TSMC is continuously taking steps to mitigate longer-term water resource risk including both short- and long-term target setting on reduction of water intensity and increase water reclamation.

Samsung Electronics is another example of a company that has been directly impacted by water shortage. Its semiconductor plant in Austin, Texas was shut down following the power outage and extreme cold weather conditions earlier this year. The company has continuously taken steps to improve its water management and recycling of wastewater generated in the production process.

Other companies in the portfolio that have recently launched new initiatives to improve water usage include **Nestlé** that end of June announced new targets for its Water business to become water positive by 2025. Nestlé will invest CHF 120 million to advance the regeneration of local water cycles through the implementation of more than 100 projects for its 48 sites. Specific projects include restoration of rivers and helping farmers adopting more efficient irrigation methods.

When assessing the companies in the portfolio at the higher level, specifically on water management and water related disclosures, the conclusion and direction is overall positive. Based on CDP disclosures (cdp.net) where companies are measured on progress towards water stewardship, 12 of the companies in the current portfolio are ranked as A or B on a scale from A-F, while **Ecolab, Microsoft, Samsung Electronics, Sony, TSMC, and Unilever** all are among the 106 companies ranked A indicating leadership in water stewardship and use of strategic best practice.

DIRECT ENGAGEMENT

We participated in several engagement calls during the quarter. These include meetings with **Amazon.com, ASML, Nestlé, and Unilever**.

Amazon.com

The call with Amazon was our first dedicated ESG call with the company, giving us the chance to talk to the newly appointed Head of ESG. Over the past five years, Amazon has grown its revenue by almost 30% p.a. and at the same time the number of employees by 40% p.a. This also means that Amazon has a higher exposure to various ESG issues today, whether it is health and safety or other social issues, or its environmental footprint, and at the same time has come under increased scrutiny from regulators, media, as well as investors.

We discussed the controversy surrounding the warehouse workers union vote earlier this year. While Amazon has followed the rules, we expressed that part



of Amazon's campaigning leading up to the vote, from our point of view, has been too aggressive. Another social issue discussed was potential exposure to forced labour in Xinjiang, which Amazon said was a challenging area when it comes to auditing. It recently stopped sourcing from one of four factories used in Xinjiang due to links to use of forced labour – despite Amazon having completed several audits on the factory without finding anything wrong.

Amazon has improved in several areas over the last couple of years both on disclosures (initial sustainability report in 2019) but also with strong commitments such as the Climate Pledge that it founded in 2019 which commits the company (and +100 other companies that have joined since) to carbon net zero by 2040.

That said, we still see room for improvement. One area where we encourage Amazon to improve is on health and safety. Amazon has been extremely successful building on its vision to becoming the world's most customer-centric company. However, one can argue that this to some degree has been at the expense of safety and worker conditions, and we therefore need to see more disclosure around these issues going forward.

Nestlé

In our direct engagement call with Nestlé, we had the chance to take a deep dive into its coffee business. Representing Nestlé was their Head of Green Coffee Development and Global Farmer Connect Manager giving us the chance to cover areas such as climate change, regenerative agriculture, human rights, and packaging.

Nestlé sees its coffee operations as an important part of its net zero roadmap that it announced last year and the use of regenerative agriculture to decarbonise. Nestlé is working with farmers across its supply chain to help them adopt good agricultural practices e.g., organic fertilisers, crop rotation, agroforestry, i.e., planting trees and other plants around and among crops. For farmers there must be a business case for adoption, and Nestlé's Farmer Connect Programme is designed to educate and train farmers on how those practices not only are good for the climate and soil quality, but also increases productivity and yields.

From a climate change and risk perspective, coffee is one of the crops most sensitive to climate change. In the short-term, increased CO₂ concentrations could increase coffee yields by 20%, however high temperatures combined with water shortage would in the longer-term reduce both coffee yield and quality, as land suitable for coffee globally is estimated to be reduced by up to 50% by 2050.

Nestlé highlighted the importance of understanding the local context, as the impact from climate change is a very diverse issue and highly dependent on local factors, as well as potentially secondary effects such as changing weather patterns and risk of diseases. Working with farmers to identify local context



and farming issues are also important aspects of the Farmer Connect Programme.

Unilever

We participated in two calls with **Unilever** in the second quarter, where one was through our engagement efforts with the **Climate Action 100+** network. Both calls largely confirmed our view on Unilever as a leader when it comes to integration of sustainability across its operations. On climate, the discussion was focused on Unilever's climate transition action plan published earlier this year and alignment with the new Climate Action 100+ Net Zero Company Benchmark.

ASML

A key take-away talking point from the call with ASML was culture. ASML sees losing its DNA and becoming too arrogant as the biggest cultural risks to the future sustainability of its business model. The company is very focused on onboarding and protecting its existing "down-to-earth" culture. They have seen declining numbers in culture related KPI metrics after very high growth in number of employees. However, these are now improving again with attrition rates below 4% and employees' engagement score improving to 80% from 77% in 2019.

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 follow up with the company in June 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 in June 2020, 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. Since May 2021, Sustainlytics has made several attempts to make contact and book a meeting without response from the contact at the company. The efforts will continue. Sustainlytics wants to focus on the company's lack of disclosure and management of health and safety.

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. Sustainlytics will continue to monitor news about any recommendations provided by the Samsung Group and follow up on the latest enhancements implemented to strengthen the compliance program management system.

NEW POSITIONS DURING Q2 2021

There were no new positions to the portfolio during the second quarter.

CLIMATE IMPACT

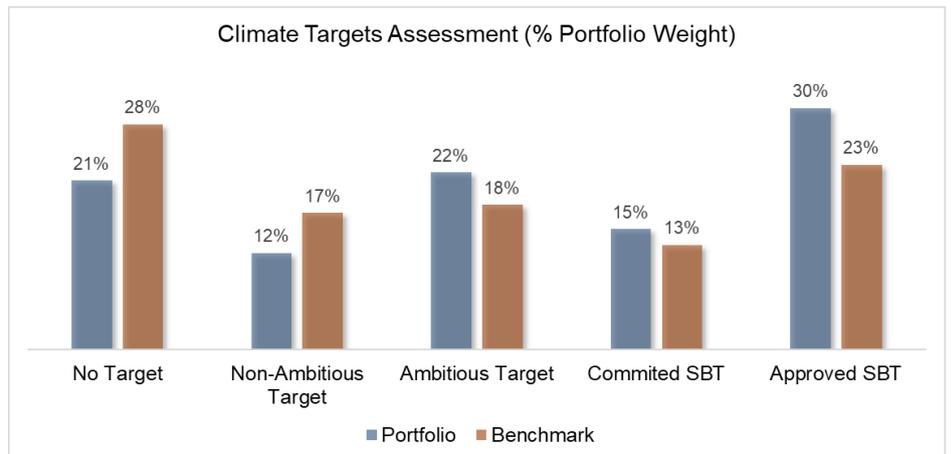
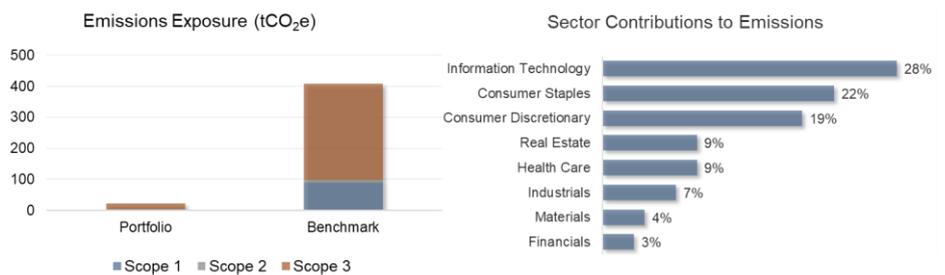
Our approach to a more sustainable future matters now more than ever. We use data from Science Based Targets Initiative (SBT) and the Transition Pathway Initiative (TPI) to assess the impact of climate risk in our portfolio.

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.



	Emission Exposure tCO ₂ e		Relative Emission Exposure tCO ₂ e/mill. USD revenue	Sustainable Development Scenario
	Scope 1 & 2	Incl. Scope 3	Carbon Intensity	2050 Target Paris Aligned
Portfolio	5	23	24.4	-55.8%
Benchmark	96	406	207.9	+194.9%
Net Performance	94.3%	94.2%	88.3%	-



Source: ISS, June 2021

Currently 67% of the portfolio’s value is aligned with international climate goals (up 9% since last quarter). This includes ambitious targets set by the companies as well as committed and approved Science Based Targets (SBT).

QUARTERLY VOTING STATUS

The second quarter of the year is traditionally the proxy voting season. This was not the case last year due to Covid-19, but for sure this was the case this year. The majority of our portfolio companies held their AGMs during the quarter.

Ecolab

As last year, we voted against management and for the shareholder proposal to support the proposed amendment on Proxy Access Rights as it would



enhance Ecolab's existing proxy access right for shareholders while maintaining safeguards on the nomination process.

Fiserv

We voted against management on the advisory vote to ratify named executive officers' compensation, as this proposal has problematic features included in the former CEO transition agreement. The current compensation programme should be modified.

Thermo Fisher Scientific

We voted for the shareholder proposal requesting the board adopt a lower ownership threshold to call a special meeting, as a reduction where the threshold is moved from 25% to 15% would enhance shareholder rights.

Home Depot

For the AGM in Home Depot there were three shareholder proposals and we supported all of them. Besides enhancing shareholder rights, we also think supporting further transparency on alignment between policies/values and political expenditures is warranted. Additionally, while Home Depot has improved its reporting on prison labour in its supply chain in recent years, we like to support further positive improvement.

American Tower

In line with our votes for Thermo Fisher, we voted for the shareholder proposal to reduce the ownership threshold for shareholders to call special meetings, as this would enhance shareholder rights.

Amazon.com

Like last year, there were several shareholder proposals on the agenda for Amazon.com. Of the 11 shareholder proposals, we voted for 10 of these.

Some of the proposals were also on the agenda last year, and thus as last year we voted for further reporting and disclosure on surveillance and recognition products contribution to human rights violations. Amazon has been involved in several controversies around surveillance and facial recognition.

Additionally, we support the proposals of an independent board chairman, and that transparency on lobbying can be improved.

We also supported further reporting on gender and racial pay gaps, as Amazon has been involved in controversies in this area, as well as the proposals to enhance shareholder rights such as to reduce the threshold for shareholders to call special meetings, which was also seen at the AGMs of Thermo Fisher and Home Depot.

Furthermore, we agree that Amazon can do more to disclose the impact of plastic packaging.



As we addressed in a previous ESG report, there are some concerns for anti-competitive behaviour from large American companies. The proposal to report on board oversight of risks related to anti-competitive practices thus supports our view and is particularly relevant considering regulatory developments and Amazon's involvement in anticompetitive related controversies.

The proposal we did not vote for, was to report on promotion data. Unlike the other proposals around ESG reporting/disclosures this proposal does not seem to be best practice.

For management proposals, we voted against the say-on-pay proposal, as we think the relatively large incentives should be based on objective performance criteria.

Atlas Copco

We voted for all items on the agenda for Atlas Copco, which also mean we voted against recommendations from ISS to not support specific re-elections of directors and approving the remuneration report.

We think the main investor, Investor AB, and represented on the board, is serving the company well with a generational mindset. Hence, we supported the nomination committee's suggestion of re-election.

In addition, and more specifically, we disagree with ISS' view that Staffan Bohman have a non-independent status and hence the company board structure is complying, as over half of the shareholder-elected board members are independent (excluding employee representatives).

The outstanding strategic work and progress makes the increase in Mats Rahmströms salary understandable. We see his package as fair in a global comparison.

For further details on the abovementioned voting items, please see the table 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
Ecolab Inc.	06/05/2021	Annual	Share Holder	4	Yes	Amend Proxy Access Right	Against	For	For	Yes
Fiserv, Inc.	19/05/2021	Annual	Management	2	Yes	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	Against	Yes
Thermo Fisher Scientific Inc.	19/05/2021	Annual	Share Holder	4	Yes	Provide Right to Call A Special Meeting	Against	For	For	Yes
The Home Depot, Inc.	20/05/2021	Annual	Share Holder	4	Yes	Amend Shareholder Written Consent Provisions	Against	For	For	Yes
The Home Depot, Inc.	20/05/2021	Annual	Share Holder	5	Yes	Report on Political Contributions Congruency Analysis	Against	For	For	Yes
The Home Depot, Inc.	26/05/2021	Annual	Share Holder	6	Yes	Report on Prison Labor in the Supply Chain	Against	For	For	Yes
American Tower Corporation	26/05/2021	Annual	Share Holder	4	Yes	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Management	3	Yes	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Against	Against	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	4	Yes	Report on Customers' Use of its Surveillance and Computer Vision Products Capabilities or Cloud Products Contribute to Human Rights Violations	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	5	Yes	Require Independent Board Chair	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	6	Yes	Report on Gender/Racial Pay Gap	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	8	Yes	Report on the Impacts of Plastic Packaging	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	9	Yes	Oversee and Report on a Civil Rights, Equity, Diversity and Inclusion Audit	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	10	Yes	Adopt a Policy to Include Hourly Employees as Director Candidates	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	11	Yes	Report on Board Oversight of Risks Related to Anti-Competitive Practices	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	12	Yes	Reduce Ownership Threshold for Shareholders to Call Special Meeting	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	13	Yes	Report on Lobbying Payments and Policy	Against	For	For	Yes
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	14	Yes	Report on Potential Human Rights Impacts of Customers' Use of Rekognition	Against	For	For	Yes
Atlas Copco AB	27/04/2021	Annual	Management	9.a1	Yes	Reelect Staffan Bohman as Director	For	Against	For	No
Atlas Copco AB	27/04/2021	Annual	Management	9.a3	Yes	Reelect Johan Forssell as Director	For	Against	For	No
Atlas Copco AB	27/04/2021	Annual	Management	9.a7	Yes	Reelect Hans Straberg as Director	For	Against	For	No
Atlas Copco AB	27/04/2021	Annual	Management	9.a8	Yes	Reelect Peter Wallenberg Jr as Director	For	Against	For	No
Atlas Copco AB	27/04/2021	Annual	Management	9.b	Yes	Reelect Hans Straberg as Board Chairman	For	Against	For	No
Atlas Copco AB	27/04/2021	Annual	Management	11.a	Yes	Approve Remuneration Report	For	Against	For	No
Amazon.com, Inc.	26/05/2021	Annual	Management	1a	Yes	Elect Director Jeffrey P. Bezos	For	Against	For	No
Amazon.com, Inc.	26/05/2021	Annual	Share Holder	7	Yes	Report on Promotion Data	Against	For	Against	No

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