

OUTCOMES  
BEYOND  
PERFORMANCE

# QUARTERLY HIGHLIGHTS

Stichting Algemeen Pensioenfonds  
Unilever Nederland Kring Progress

## Contents

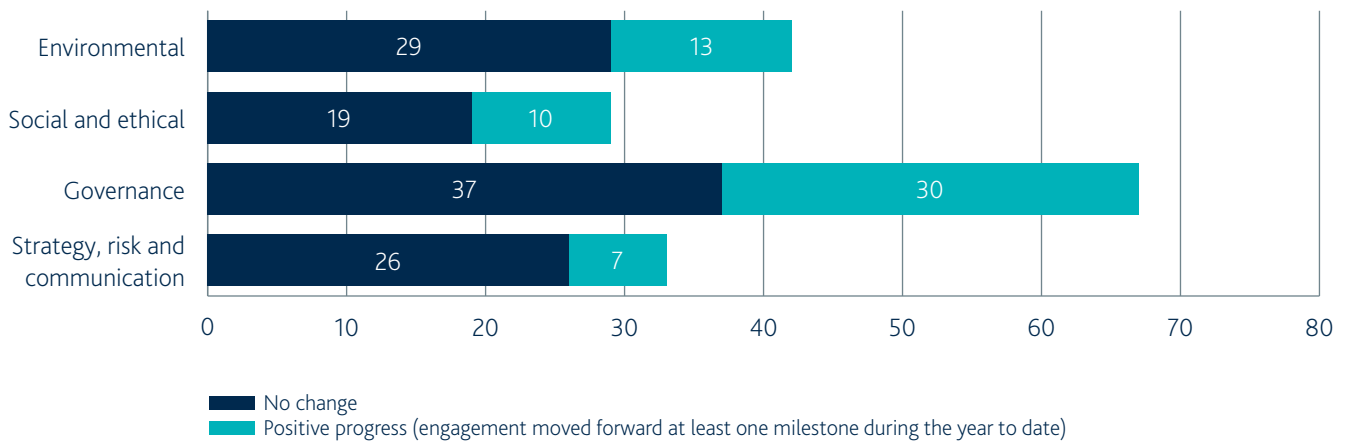
- 2 Engagement progress
- 3 Engagement highlights
- 3 Voting and public policy highlights

Q3 2018

Our Quarterly Highlights outline some of the more significant engagements undertaken by Hermes EOS on your behalf over the last quarter. The monthly updated [EOSi](#) client portal provides user-friendly access to these and other engagement activities and gives greater insight into the progress made at the companies on which we focus.

### Engagement progress 1 January – 30 September 2018

We made significant progress in delivering engagement objectives across regions and themes during the quarter. At least one milestone was moved forward for 35% of our engagements during the year to date. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



### Milestone progress over the quarter as per completion

- M1** = Concerns raised
- M2** = Acknowledgement of issue
- M3** = Develop credible strategy/Set stretching targets
- M4** = Strategy implemented
- E** = Environmental
- S** = Social and ethical
- G** = Governance
- SRC** = Strategy, risk and communication

### Sustainable Development Goals

- 1 = No poverty
- 2 = Zero hunger
- 3 = Good health and well-being
- 4 = Quality education
- 5 = Gender equality
- 6 = Clean water and sanitation
- 7 = Affordable and clean energy
- 8 = Decent work and economic growth
- 9 = Industry, innovation and infrastructure
- 10 = Reduced inequalities
- 11 = Sustainable cities and communities
- 12 = Responsible consumption and production
- 13 = Climate action
- 14 = Life below water
- 15 = Life on land
- 16 = Peace, justice and strong institutions
- 17 = Partnerships for the goals

## Engagement

### Apple (US)



#### E Conflict Minerals

#### G Responsible supply chain management

The company has improved its supplier practices over the last decade to have achieved a 24 hour onsite response to a supplier health and safety issue and a 48 hour onsite response to any other supplier code violation. Its increased efforts to enforce mandatory mental health programmes and practices at its suppliers are set to reach one million workers by 2020. With regard to supplier assessments, we learned that it works with suppliers that it has suspended to help them become re-eligible. Regarding responsible cobalt mining, the company has mapped the chain into the segments of industrial mining – which it has good oversight of, and artisanal mining – which it is finding harder to impact but has chosen not to abandon since it believes the social and economic impact would be worse to do so. Although the company now powers its own operations with 100% renewable energy and has made strides in reducing carbon emissions, we were less impressed by its vague answers in response to our questions about physical risk from climate change and Task Force on Climate-related Financial Disclosures reporting progress. The company is in its first cycle of reporting against its own goals around the circular economy and knows that it needs to improve “take-back” programmes from customers. We will follow up for a future meeting with the environmental initiatives leadership.

### Link REIT (Hong Kong)



#### S Deliver positive social impact in real estate management and asset sale

#### S Improvement in social impact assessment

We had a positive meeting on strategy, contracting arrangements, stakeholder engagement and waste management. Gearing has been fairly low to maintain a strong balance sheet and cash flow for mergers and acquisitions. Pleasingly, the company is committed to charging affordable rent, using low rental delinquencies and rent-to-turnover ratio as performance indicators. It also has a tenant academy which provides learning opportunities on finance, investments and regulations. To mitigate the risk that tenants may create oligopolies, the company directly manages 50% of the wet market portfolio, sub-letting the remaining to contractors. On sustainability, we were pleased to learn that the company is targeting green building management for future projects and is an active participant in The United Nations Environment Programme Finance Initiative programme for real estate. It is also focused on its Task Force on Climate-related Financial Disclosures, setting science based targets including a 35% energy consumption reduction. The company is working with the government to improve organic waste recycling, crucial for its tenant mix which includes significant food and beverage businesses, which should facilitate its disclosures on this topic which we have pushed for.

### ING Groep (Netherlands)



#### E Reporting against TCFD recommendations

#### SRC Due diligence controls

During a meeting with the head of business ethics, we asked whether there is room for improvement regarding the company's control processes, to which it agreed, highlighting that policies have to be constantly updated to reflect evolutions in requirements and that expectations for due diligence processes can vary. The bank announced in March 2017 that it is the subject of criminal investigations regarding requirements related to the on-boarding of clients, money laundering,

and corrupt practices. We gained reassurance that company has been improving control processes, such as the creation of an expert centre where employees are trained on anti-money laundering and investments in data analytics. In response to our questions around its enhancement programme to address shortcomings identified in the ‘know your customer’ processes, we learned that it is improving employee training, using scenarios to help with the identification of dilemmas. We also touched on human rights issues and climate change but since it was announced a couple of days after our meeting that the bank had agreed to pay a substantial fine for a failure to prevent money laundering for several years, this will now be our priority focus for engagement.

### State Street (US)



#### E Climate change featured in quarterly reporting

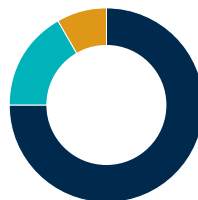
#### E Integration of ESG into asset management business, in particular climate change

#### E The company to report against TCFD recommendations

The company's new ESG tool was the focus of our engagement with State Street. While this is a positive development, we highlighted our concerns about the insufficient volume of forward looking data, which is critical for understanding the future capital risks which companies are exposed to. We believe that the real value of creating an ESG tool does not stem from the provision of data itself, but comes from how the data is subsequently used by asset managers. It is unclear to us how far the company intends to go beyond simple data provision.

## Voting

We made voting recommendations at **12 meetings** (155 resolutions) over the last quarter.



■ Total meetings in favour **75.0%**  
 ■ Meetings against (or against AND abstain) **16.7%**  
 ■ Meetings with management by exception **8.3%**

We recommended voting against or abstaining on **six resolutions** over the last quarter.



■ Board structure **50.0%**  
 ■ Remuneration **33.3%**  
 ■ Shareholder resolution **16.7%**

### Berkeley Group (UK)

We opposed the company's remuneration report, due to concerns about excessive quantum and a high ratio of variable to fixed pay. We also opposed the re-election of a director, due to concerns about his external time commitments.

## Nike (US)

We recommended a vote against the re-election of the governance committee chair, as a result of the dual class share structure which disenfranchises ordinary shareholders from the election of all directors. We recommended a vote by exception for the say on pay proposal as pay practice conforms to many of our ideas on long term ownership and alignment and the quantum of pay is beneath its peer group. However, the pay arrangements also contain some practices that we do not favour such as share options that vest within three years.

## Public policy

We attended a conference at the Taiwan Stock Exchange, where we took part in a panel discussion and delivered two stewardship workshops for board directors of listed companies and other corporate representatives. The theme of the workshops was **effective and outcome-oriented engagement**, focusing on the importance of corporate culture and the conduct-led governance changes that are conducive to good governance practice. We addressed questions from the audience on how to promote ESG awareness within companies and about the importance of board-level sustainability oversight.

We joined a roundtable convened by the Investment Association (IA), with representatives from legal and governance advisers, Deloitte, PwC and Freshfields, as well as other investors, to discuss investor expectations on implementation of the **new UK Corporate Governance Code**. We discussed a number of areas requiring clarification and greater alignment, including those relating to pension provisions, post-employment shareholdings and use of remuneration committee discretion. We shared our views, reflecting our corporate governance principles and policies, and will continue to contribute to IA guidance on these topics.

We attended a roundtable event organised by The European Bank for Reconstruction and Development and Aviva Investors, called 'Superbugs and super risks: the role of the private sector', where we shared our **insights on antimicrobial resistance**. Other contributors and participants included the chief medical officer for England and representatives from the World Health Organisation, OECD and The Wellcome Trust. Discussions were in depth and wide ranging, with topics including the need for companies to demonstrate resilience planning for conducting business in a 'post-antibiotic world'.

In the regular AMEC (Associação de Investidores no Mercado de Capitais) stewardship working group call, we expressed our concern about the **integrated reporting framework**. While there is a trend

among companies in Brazil to adopt this, in many cases what they are actually producing is a consolidation of financial and sustainability reports, rather than an integrated report. We also discussed the forthcoming report on the application of corporate governance code recommendations, which companies will be required to file in the fourth quarter of 2018, for the first time. The working group agreed to engage with companies on the preparation of a 'comply or explain' report, focused on the substance of the code.

In our introductory call with the World Wildlife Fund's (WWF's) sustainable finance engagement manager, we learned about the work of the organisation, particularly with regard to its research on banks which lend to palm-oil growers. We were encouraged to hear that some Singapore banks have addressed the **risks of financing palm oil businesses**, which have been linked to deforestation and loss of biodiversity, although they have not made as much progress as their European peers. We heard that Indonesian and Malaysian banks also wish to address the issue, although they lack resources. The WWF highlighted the importance of investor pressure on banks to address environmental and social risks in their lending activities.

We attended the Principles for Responsible Investment roundtable on **human rights in the extractive sector**, where we exchanged views with companies, investors, non-government organisations and industry associations. We discussed the challenges associated with risk identification, and monitoring and tracking the effectiveness of remediation and training. In addition, we considered how companies and investors manage and mitigate human rights controversies and allegations.

Having welcomed the revision of the Tokyo Stock Exchange's (TSE's) corporate governance code earlier this year, which includes stronger wording on the **reduction of strategic holdings**, we discussed remaining challenges. We learned that since the stock exchange is officially neutral about strategic shareholdings, it received some criticism about the changes to the code. We proposed that the TSE's definition of independent directors, referenced in the corporate governance code should be tightened. In particular, it does not make any reference to shareholders, resulting in a number of companies designating directors representing significant shareholders as independent. In addition, we suggested a clearer definition of the role of the chair.



Dr Hans-Christoph Hirt, Head of Hermes EOS

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