

Case studies

Labour - Living Wage

Through 2014 the Convener of the Fund, in collaboration with other UK asset owners, co-signed letters to the constituent companies of the FTSE 100 index that called on these publicly listed companies to embed social sustainability in their businesses by paying employees and contracted staff the Living Wage.



ShareAction, the organiser of the Living Wage Campaign, sent these collaborative letters to the CEOs and other relevant executives of FTSE 100 companies as their AGM approached. In total, these letters reached 103 companies as the constituents of the FTSE 100 altered over the course of the year. ShareAction coupled these letters with AGM questions at 45 companies about the issue of the Living Wage, including 5 of these questions raised by institutional investor signatories to these letters. Over the course of the year, the number of FTSE 100 firms accredited with the Living Wage Foundation increased from 6 to 18. 12 additional firms committed to provide the Living Wage to all staff, including those employed through contractors on their UK sites. 57 of the 103 FTSE 100 companies written to entered into dialogue on the issue and 16 of these have held or offered meetings with the institutional investor signatories. Because of the effectiveness of this model of engagement, ShareAction are now seeking to build upon the progress this year with an expansion of this initiative for 2015.



In November 2014 officers of the Fund attended a ShareAction seminar to mark the launch of 2014 Living Wage Week.

Child Labour

In October 2014 the Fund attended a GES engagement roundtable in Copenhagen to discuss child labour in the cocoa industry. The event was run in tandem with the World Cocoa Foundation conference and offered an opportunity to discuss cases and engage directly with the attendee companies including Nestle, Lindt, Olam and Cloetta and provided an important opportunity to meet and engage with other European investors in the GES Engagement Forum.



The cocoa industry has been criticised for its association to child labour in the supply chain for many years with particular focus on West Africa, where 70 per cent of the world's cocoa beans are produced. The beans are grown by millions of small scale farmers and then passed through a complex supply chain. Hundreds of thousands of children are believed to work on such farms, some of them engaging in hazardous tasks such as carrying heavy loads and using pesticides. By default this work also prevents children from attending school. Child labour is not an isolated issue, but exists in poor farming communities where the labour of all inhabitants is required for families to survive. The lack of economic opportunities in the communities has also resulted in a wave of young people leaving the land and migrating to the cities. A challenge for the cocoa industry is therefore not only to combat child labour, but also to make cocoa farming attractive for the next generation. Today the average age of a cocoa farmer in West Africa is well over 50 years. During the discussions it was apparent that the cocoa industry needs to focus on having a real impact on the livelihoods of farmers. A hot topic of conversation at the conference was a new industry wide framework for programmes aiming to increase productivity and improve social standards in the communities.



'Cocoa Action', which has already been adopted by twelve companies, is an industry commitment to reach 300,000 farmers in Ivory Coast and Ghana by 2020. However, it was clear from the discussions that while collaboration is needed to tackle the common challenges in the industry, investors and other stakeholders need to be clear that Cocoa Action is not the end of the issue. More farmers need to be reached and issues additional to those covered by Cocoa Action need to be tackled. This will require further community programmes and a scale-up of certification, monitoring and remediation systems to ensure alignment with international human rights norms. GES' continued engagement with cocoa grinders and chocolate manufacturers will emphasise the package of

interventions described above and follow up on the progress of their implementation. Farmer focused programmes and product certification are not enough to eliminate child labour in the cocoa supply chain, increased collaboration between the industry and host governments is crucial.



<http://www.nestlecocoaplan.com/infographic-tackling-child-labour-in-our-cocoa-supply-chain>

<http://www.lindt.co.uk/world-of-lindt/sustainability/education-and-training>

<http://olamgroup.com/sustainability/>

<http://www.cloetta.com/en/corporate-responsibility/sustainability-commitment/sustainable-sourcing>

Oil & Gas Exploration in the Arctic

In July 2014 the Fund co-signed letters, facilitated by the PRI Clearinghouse engagement platform, to international oil and gas companies that are involved (or plan to be involved) in offshore oil exploration in the Arctic.



ExxonMobil

This collaborative approach was initiated by the French public service pension schemes and is supported by global investors including PGGM, F&C, BNP Paribas and Nordea.

Hydrocarbon exploration in the Arctic presents both acute technical challenges and key uncertainties around the future economic and political trajectory of these projects, including the scale of hydrocarbon resources, the forecasted price of oil and gas, as well as the predictability of changing Arctic regulation and taxation regimes. These risks are further exacerbated for offshore oil extraction, where oil exploration has not yet started. The main objectives of this engagement were:

- Transparency of the ESG risk-management approach of the scheduled projects.
- Disclosure of practices to limit the environmental damage of potential oil spills.
- Specification of risk and cost-sharing agreements in joint-ventures, particularly with Russian partners with little exploration activity.
- Disclosure of economic viability of the project: price assumptions, rate of returns, forecasted lead time for the projects and consequent project evaluation.

Follow-up letters and engagements followed through 2014 and into 2015



<http://www.shell.com/global/future-energy/arctic.html>

<http://corporate.exxonmobil.com/en/environment/environmental-performance/managing-arctic-resources/managing-arctic-resources>

http://www.eni.com/en_IT/sustainability/case-studies/2013/eni-technologies-challenges-arctic.shtml

Protection of endangered species

Officers of the Fund liaised with JPMorgan, Baillie Gifford and GES regarding allegations of illegal activity at Japanese internet company Rakuten.



In March 2014 GES alerted the Fund to a report from the UK-based Environmental Investigation Agency which alleged Rakuten Ichiba, a Japanese subsidiary of Rakuten, was profiting from the killing of endangered species through online sales of a wide range of whale meat and ivory products.



Additionally, according to EIA, many of the products were mislabelled and might be contaminated with high levels of mercury, which carries health risks to the potential consumer. Officers requested the relevant investment managers, JPMorgan and Baillie Gifford engage with Rakuten as a matter of urgency. Investigations quickly established that, under current rules, only whole elephant tusks must be registered with Japan's Environmental Agency and a lack of rules regulating the registration of raw ivory and the lax licensing of importers has allowed illicit stocks into its domestic market, notably for the manufacture of carved personalised signature seals (hanko). Similarly, immediately after the International Whaling Commission (IWC) established a moratorium on whaling for commercial purposes in 1986, Japan started to issue special permits authorising large-scale whaling for 'scientific purposes', saying its research can only be conducted by lethal means. Japan has taken more than 13,000 whales since the start of the moratorium, the majority of which ended up on supermarket shelves.



As a postscript to this incident, on 1st April the International Court of Justice in The Hague ruled that Japan's whaling programme, which allowed for the killing of about 1,000 whales a year in the Southern Ocean, was illegal and must cease. The court said Japan's current research programme, known as JARPA II, was not for purposes of scientific research, as originally argued. Japan agreed to abide by the judgment of the court, and Rakuten issued a statement the following day confirming that it would ban the sale of whale and dolphin meat on its online shopping site and take down the ads. JPMorgan, Baillie Gifford and GES will continue to engage with Rakuten on the ivory issue.

<http://news.nationalgeographic.com/news/2014/08/140818-elephants-africa-poaching-cites-census>

Fire and building safety in the Bangladesh garment industry



The collapse of Rana Plaza, an eight story commercial building housing five garment factories in Savar, Bangladesh, combined with other industrial accidents saw worker fatalities in the USD 22 billion garment production industry in Bangladesh total over 1,500 in the last six years.



In Q2 2013 the Fund co-signed a letter in co-operation with over 200 institutional investors that called on apparel brands and retailers that manufacture and source their products from Bangladesh to implement systemic reforms that will ensure worker safety and welfare, and to adopt zero tolerance policies on global supply chain abuses. As an immediate response to the crisis in Bangladesh the letter requested companies to join the multi stakeholder initiative the **Accord on Fire and Building Safety in Bangladesh** that includes the International Labor Organization, non-governmental organizations, trade unions and companies, to implement plans with measurable goals to address all aspects of fire and building safety in a timely manner.

ACCORD

on Fire and Building Safety in Bangladesh

Through 2014 the Funds engagement overlay provider, GES, has continued to work on the issue and provide oversight of the asset owner collaborative initiative and the industry initiatives. GES have also had direct engagements cases open to many of the international brands involved in Bangladesh.

The initial dialogue with companies involved in tragedies in Bangladesh including Sears Holdings Corp., Wal-Mart Stores, Associated British Foods and its subsidiary Primark, Benetton Group, Inditex, Loblaws, Carrefour, GAP, NEXT, Hennes & Mauritz, VF Corp., and Groupe' Auchan varied. Some companies stood by their policies and reiterated previous commitments of improving factory auditing, extending training in fire safety, and declaring zero tolerance on unauthorised subcontracting of orders. Other companies were quicker to understand that this was not enough. Those companies committed significant resources to investigating the situation on the ground, engaged with local NGOs, and reviewed their modus operandi.

Following the tragedy at Rana Plaza initiatives by retailers and brands to use their combined power to effect change emerged. Two bodies were formed for this purpose: the Accord on Fire and Building Safety, which now has over 170 international brands and 10 worker unions as signatories, and the Alliance for Bangladesh Worker Safety, which has 26 members mostly from Northern America. In addition to continuing the dialogue with the companies GES has closely monitored the progress made by both initiatives. They both have a five year time frame. The first success was agreeing on minimum fire safety and structural integrity standards and accepting each other's inspection results. Although this was recently challenged by the Accord as some of the Alliance inspections on factories used by companies from both initiatives were allegedly conducted before the standard was agreed upon, the results of inspections have now been made available. Both initiatives took action when shortcomings, which posed immediate threat to workers' safety, were found during inspections.



Enough time has passed to assess if there is genuine, permanent progress made on the ground in Bangladesh or if the companies count on the situation gradually returning to 'business as usual'. It is GES' opinion that the work done by both the Accord and the Alliance is tangible and despite their differences there is genuine progress. The Bangladeshi garment production industry is getting substantially safer and more sustainable.

<http://bangladeshaccord.org/>

<http://bangladeshaccord.org/wp-content/uploads/Quarterly-Aggregate-Report-2-May-2015.pdf>