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2017 RobecoSAM Corporate Sustainability Assessment - Annual Scoring and Methodology Review

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RobecoSAM AG

www.robecosam.com/csa

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1 Introduction

This year a record 942 companies participated in the RobecoSAM Corporate Sustainability Assessment (CSA), an 8.7% increase over 2016's participation. It was the 19^{th} time the questionnaire was sent to the world's largest companies. For the 2017 methodology, we focused on aligning our methodology with both our own view on the most financially material topics as well as accepted sustainability reporting frameworks such as GRI and SASB, in order to improve clarity and data consistency for companies. This helped to align the questionnaire and address the growing reporting burden companies face. Of course, we also introduced new criteria and questions to further challenge companies on new risks and opportunities.

The major updates to the methodology in 2017 that affected a majority of companies were in the areas of Policy Influence, Impact Measurement & Valuation, Human Rights, Supply Chain Management, and Corporate Governance. All three areas have been at the center of sustainability discussions around the world as new initiatives and frameworks come into play. For example, initiatives like the Natural Capital and Social Capital initiatives are challenging companies to measure the true impact of their operations on the planet, people and society, while the new reporting framework developed for the UN Guiding Principles on Business and Human Rights challenges companies to identify, address, mitigate and report on human rights issues.

This document focuses on the major changes to the 2017 CSA methodology and shares observations on how companies performed on these new topics while further explaining RobecoSAM's view on the topics. More information about the CSA methodology can be found in our comprehensive CSA Resource Center:

www.robecosam.com/csa/resource-center

This year, we will be hosting a series of webcasts on the newly introduced criteria with our sustainability experts to discuss this year's findings and answer questions from corporates.

We would like to take this opportunity to thank all participating companies and other stakeholders for contributing to the continued evolution of the CSA. The invaluable feedback and expert insights that we receive are essential to maintaining a methodology that will continue to drive sustainability thinking and strategies that deliver real impact.

2 General Scoring Information

2.1 Question scoring

The maximum score for each question is 100. The various answer options within a question are scored individually or in combination, with the total sum resulting in a maximum of 100 points. As a result, removing or adding options to a question may impact the overall weight of each question component and thus the overall scoring of the question. Therefore, it is **important to carefully review each question**, as new elements may have been added, or other options removed. Examples of the major changes to questions will be discussed in the following pages.

2.2 Criterion scoring

Criterion scores are determined by the weighted sum of question scores. As already described above, adding or removing questions within a criterion will change the weight of the individual questions, and therefore impact the criterion score. Therefore, it is possible that **a criterion score may change, even if the answers provided to the individual questions have not changed from one year to the next**, given that a new question may have been added, a previous question deleted or if the underlying scoring scheme at the question level has changed.

2.3 Criterion Percentile Rankings

In addition to the absolute criterion score, companies receive their percentile ranking for each criterion. The percentile ranking represents the percentage of assessed companies that have received a lower score than the company in question. For example, if a company has a percentile ranking of 95 for a specific criterion, this means that it received a higher score than 95% of the companies in its peer group. Considering that the methodology is continuously developed and that weightings of questions and criteria may change over time, the percentile ranking is a useful tool to track performance against the industry peers as it shows the relative performance rather than the absolute performance of the company.

2.4 Weights

As part of our effort to increase transparency towards companies, RobecoSAM publicly discloses the criteria weights for all industries on the Corporate Sustainability Assessment website. The weightings of both individual questions and criteria are subject to annual review, based on the materiality of each topic to an industry and question introduction or deletion. As a result, criteria scores may change due to a change in the underlying question weights. When introducing new criteria, RobecoSAM aims to set the weight of these criteria low in the initial years, as to allow companies to adjust to the new concepts and improve their data collection and reporting systems in these areas.

2.5 Scoring variations

a. **Transparency / Disclosure vs. Performance Scoring.** Changes in scores can result from a change in scoring approaches, moving from "disclosure" scoring to "performance" scoring. "Disclosure" scoring awards points for qualitative or quantitative information without placing any value judgment on the answer. For example, if the questionnaire asks for the share of female managers, the score could be driven by the company's ability to report the number of women in management, indicating that this is something the company is actively tracking (disclosure). Alternatively, with "performance" scoring, the score would be driven by the actual number of female managers, measured against the total number of managers (performance). When introducing new questions asking for quantitative information, the initial focus is generally on disclosure scoring, awarding points to companies that are able to disclose relevant information. As data collection and reporting mature over time, performance scoring may be introduced to capture a trend over time or measure a company's performance relative to peers.

b. **Public vs. Non-public information.** In line with the growing demand for accountability and transparency, our methodology increasingly focuses on information that is publicly available. When a question asks for either a public or internal document, preference is given to publicly available information.

c. **Linear Peer Group Scoring.** Introduced in 2014, linear performance scoring was added to some questions in order to measure a company's relative performance against its industry peers. Previously, a company's performance over time was measured based only on the company's own relative or absolute improvement.

Below is an overview of different types of scoring used. Please note that "transparency" and "performance" refer to the scoring approach used for that specific question. One specific question can include either transparency, performance, or a combination of the two elements, but ultimately one Total Sustainability Score will be calculated, consisting of both transparency and performance components.

Figure 1: Overview of Scoring Types

Scoring Type	Description	Sample Questions
Transparency	Public disclosure	• Human Rights Disclosure
	Availability of qualitative or quantitative information	• Tax Strategy • Largest Contributions and Expenditures
Performance	Scoring of qualitative or quantitative data based on pre-defined thresholds or expectations.	• Materiality Disclosure • Board Structure
	Trend scoring on company's own performance over time	• Operational Eco-Efficiency
	Linear peer group scoring	• Lost Time Injury Frequency Rate • Employee Turnover Rate

Source: RobecoSAM

3 Methodology Changes: New Criteria in 2017

3.1 Company Information - Denominators

While it may seem trivial, pulling the denominators "question" into a new company information section of its own expanded its utility. This year, select companies were asked to select the denominator most appropriate as a normalization factor for their business model.

Less noticeably, but equally important, the reporting currency set in the company information section unified the figures reported throughout the questionnaire, ensuring comparability and enabling revenue-adjusted scoring for criteria such as Operational Eco-Efficiency. For this reason, we requested that entire figures were written out, and companies should avoid using multiple currencies throughout the questionnaire.

This section will be expanded upon in the future for select industries (as appropriate) in order to further tailor the CSA's content towards their business model, enabling more dynamic scoring.

3.2 Policy Influence

Civil society, consumer and investor awareness of companies' influence on policy is growing, and with the addition of this criterion, RobecoSAM evaluates the amount of money companies are allocating to organizations whose primary role is to create or influence public policy, legislation and regulations: both directly and indirectly. We also ask for the largest contributions to such groups, and we assess the public disclosure on these two aspects.

Although companies legitimately represent themselves in legislative, political and public discourse, excessive contributions to political campaigns, lobbying expenditures and contributions to trade associations and other tax-exempt groups may damage a company's reputation and create risks of corruption. Elevating the bar for companies' disclosure recognizes leadership by companies with lower reputational and corruption risk through superior transparency for investors and stakeholders. While we solely scored on disclosure in 2017, scoring in future assessments will be adjusted to scored companies based upon the amount companies spend in seeking policy influence.

Scoring note: in 2017, as with the introduction of all new criteria, RobecoSAM has kept the overall weight of this criterion low, scoring solely on transparency and disclosure.

RobecoSAM observed that many companies did not report on contributions beyond political contributions, disclosures which are often legally required. Moreover, on the whole, we largely found that companies used a much narrower definition of policy influence than that which we clearly articulated in the question and information text, and although companies *do* report publicly on their political contributions, there is considerably less transparency when the scope extended beyond solely political contributions to membership expenditures for industry trade associations over the last four years. Regardless of the direction an association is pushing policy – whether "positive" or "negative"—is not at issue here: simply greater transparency is necessary regarding contributions to any organization that may seek to steer policy. We will continue to emphasize that ALL contributions should be reported.

3.2.1 Contributions and Other Spending

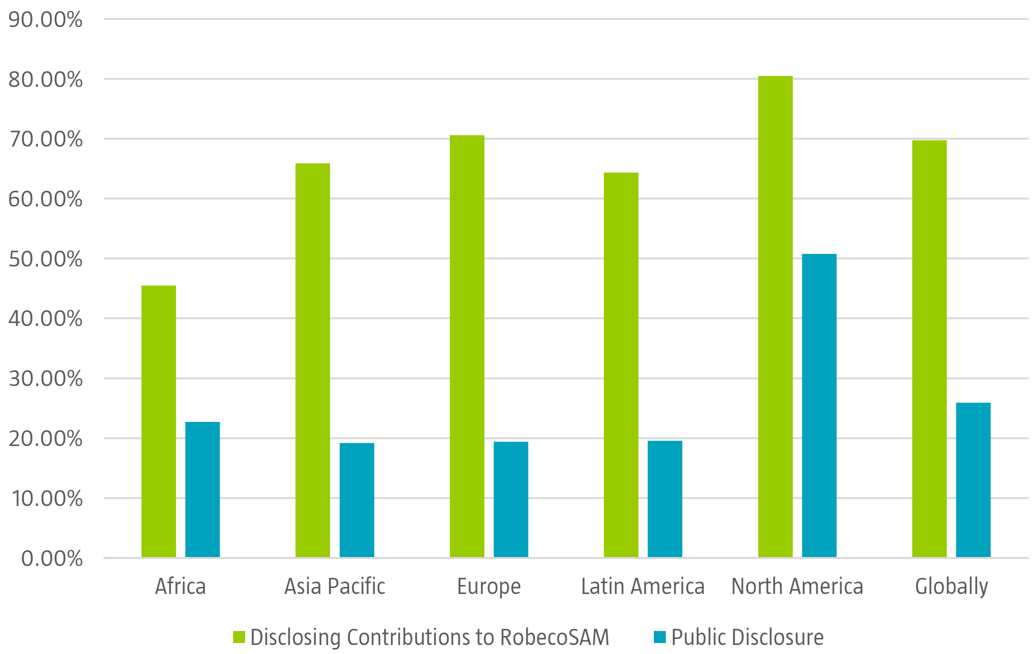
The question on Contributions and Other Spending asks companies to delineate spending over the last four years on political campaigns, political organizations, lobbyists and lobbying organizations, trade associations and other tax-exempt groups. Importantly, we asked companies to indicate whether these figures are publicly available. As always, with coverage, we asked companies to indicate the extent of their company for which they are reporting in order to ensure that companies that reported political contributions for a greater proportion of their business would not be penalized for having a higher figure.

RobecoSAM Expectations

RobecoSAM expects companies to report on the following:

- We expect a company's response to include *all* expenditures even indirectly related to policy. For example: a trade association may seem an innocuous force for policy, however most advocate for members' interests at many levels and the interest representation cannot be cleanly and completely separated from policy influence. Many companies made it clear that the figure they disclosed did not cover *all* expenditures, therefore not fulfilling our expectations in terms of data.
- Revealing these expenditures (including trade associations) in the public domain is a crucial component of what we are looking for as it provides evidence of the company's commitment to transparency with stakeholders.

Figure 2: Contributions & Other Spending – Regional Breakdown



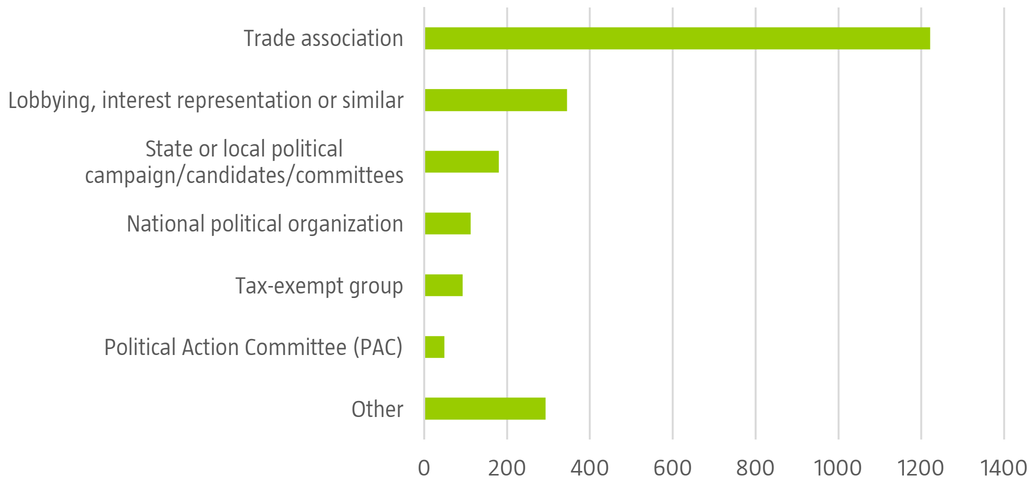
Source: RobecoSAM

The figure above shows that, among the 942 participating companies, 70% shared their spending on political campaigns, political organizations, lobbyists and lobbying organizations, trade associations and other tax-exempt groups. However, only 26% of the companies disclose these figures publicly.

3.2.2 Largest Contributions and Expenditures

The second question in the Policy Influence criterion asks companies to disclose their five largest contributions to and expenditures on political campaigns, political organizations, lobbyists and lobbying organizations, trade associations and other tax-exempt groups in 2016. We asked companies to indicate the name and type of organization, as well as the total amount paid in FY 2016.

Figure 3: Largest Contributions & Expenditures – Recipient Organizations



Source: RobecoSAM

The figure above shows that, among the five largest types of contributions disclosed by 942 participating companies, contributions to trade associations predominated.

3.3 Impact Measurement & Valuation

This criterion comprises two or three questions, the purpose of which is to assess if companies are measuring and valuing their broader societal impacts and if companies (in select industries) have business programs for social needs. In the context of the UN Sustainable Development Goals (SDGs), impact measurement is becoming increasingly relevant: both companies and investors want to understand both the positive and negative externalities inherent in companies' business models. How do the company's products, services and operations contribute to, or detract from, the achievement of the SDGs? How do they complement or detract from the reported financial returns to shareholders?

Our criterion on Impact Measurement & Valuation addresses a growing focus area within corporate sustainability. This criterion was piloted with a selected set of industries in 2016, and a revised version was rolled out to all (non-utility) companies in 2017. Companies are increasingly looking for more sophisticated ways to measure the impact of their products and services on society and the environment. As a result, companies have begun to transcend the boundaries of "Corporate Social Responsibility" and "philanthropy" frameworks per se to explore new approaches to impact assessment .

Companies now see their products and services as sources of shared value, benefiting the companies and their capacity to innovate, while also providing mutual benefits to society or the environment. The recently launched UN Sustainable Development Goals offer companies a compass to guide their own sustainability ambitions. The questions in this criterion are aligned with the concepts put forth by the Sustainable Development Goals, as well as initiatives such as "Natural Capital" and social concepts such as shared value.

Although companies have begun to adopt a more strategic approach to developing their sustainability programs to address global issues, measuring the true value of these impacts is still in its infancy. Among the 896 participating companies who had the Impact Measurement & Valuation criterion in their questionnaire, only 20% are able to measure the value of their social and environmental impacts monetarily, quantitatively, and qualitatively, or are at least working on a pilot project to do so, and less than half of the companies who do so disclose these measured impacts publicly. However, there is increasing momentum and companies are recognizing the importance of moving beyond measuring *outputs* and understanding not only the financial value, but also the social and environmental value they deliver the *outcomes*. Through these questions, we recognize and reward leadership in this emerging area.

Companies' measurement and valuation of their broader environmental, and social and socio-economic impacts must focus on outcomes. These include the impacts of externalities that are currently not reflected in financial accounting, but which, over time, might have the potential of being priced in. Such valuation may be qualitative, quantitative or monetary.

Business Programs for Social Needs are programs that specifically generate business value through addressing social needs. Such concepts include calculating the Social Return on Investment (SROI), Social Return on Education (SROE), Creating Shared Value (CSV) and Inclusive Business.

3.3.1 Impact Valuation

In this question, we ask if companies have measured the impact of their social and/or environmental externalities not currently reflected in financial accounting. An externality can be described as a consequence (cost *or* benefit) of an activity which affects other unrelated parties without being reflected in market prices. A positive externality is an economic, social or environmental benefit that a company creates for society, which is not directly or fully reflected in the price of its goods and services. A negative externality is an economic, social or environmental cost that a company inflicts on society, and for which it does not directly pay a price.

We look for impact measurement and valuation programs that are systematically implemented on an enterprise level, beyond single site-level activities or one-off revenue generation or cost-saving activities. For companies reporting on *outcomes* and not *outputs*, approaches to impact valuation include but are not limited to social/environmental profit and loss accounting, true value, total impact measurement, true price, true cost, true profit, natural capital protocol, and social capital protocol. We also acknowledge those companies that are in the process of developing or pilot testing an impact valuation approach.

RobecoSAM Expectations

For this question, we expect companies to provide:

- Information that is active and current
- An indication that coverage is company-wide, not limited to a single product, location, or business unit
- 1 (or more) externality has been identified and valued
- An indication that some form of impact valuation (monetary, qualitative, quantitative) was conducted, going beyond units of output
- An explanation of the methodology or results of the analysis
- For companies that indicated that they were in the process of developing impact measurement tools, we expected companies to provide a clear description of the methodology being used or developed, as well as a clear indication that testing of the methodology has begun as well as an expected roll-out date of the valuation framework.

Some examples of things we accepted include:

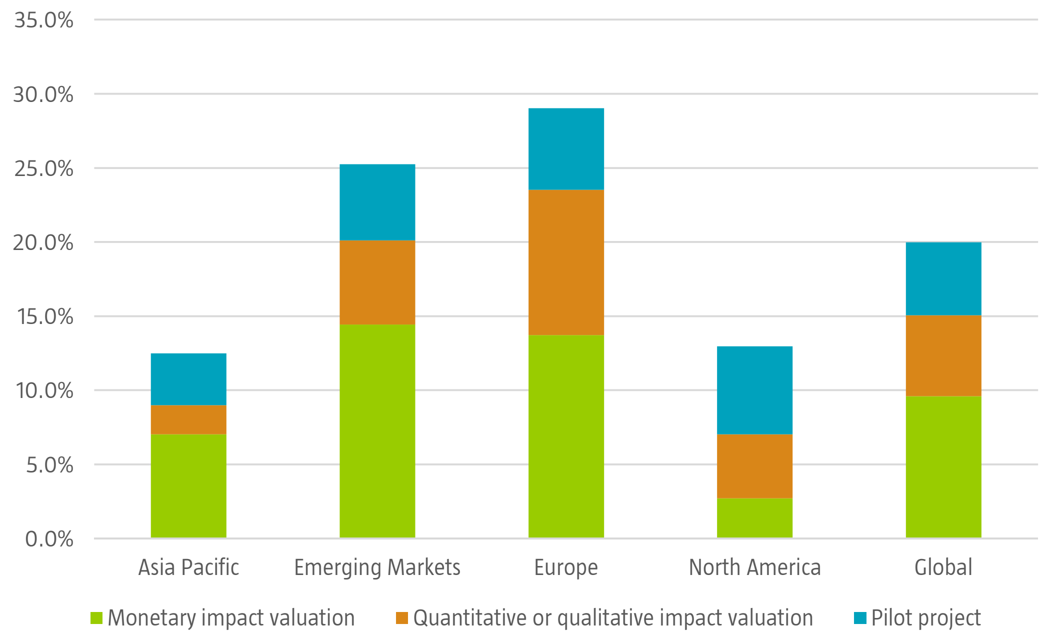
- Social/environmental profit loss statements that measured *outcomes* and estimated social and environmental costs, rather than only input costs or costs using current market prices (e.g., carbon price based on European Union's Emission Trading System instead of the *social cost* of carbon)
- Application of existing methodologies such as True Value, TIMM, etc.
- Pilot testing of frameworks like the Natural Capital Protocol
- Positive externalities (e.g. quality of life improvements from access to medication, improved social cohesion due to redevelopment of dilapidated buildings, increase in earning potential from skills training, improved ecosystems through restoration and rehabilitation)
- Negative externalities (e.g. environmental and health impacts caused by GHG or other air emissions, soil and groundwater pollution from landfilling waste, reduction in wellbeing due to injury or illness, decline in health from overconsumption of products containing sugar)
- Environmental / social return on investment methodologies, where the outcomes were based on estimated social and environmental benefits instead of current market prices

We did not accept if:

- Program was not from the two most recent fiscal years
- Program is isolated to one example (one country, one product, one business unit)
- Environmental and/or social impact assessments that are conducted typically for new locations, site expansions, permitting requirements or funding requirements

- Only LCA, Human Rights Assessment, or risk analysis conducted
- Investments to reduce company's environmental footprint (e.g. avoided/reduced emissions, material/energy efficiency, or CapEx/OpEx to improve environmental performance)
- Philanthropy or community engagement (e.g. volunteering activities, monetary investments or donations to social, community or philanthropy projects)
- Environmental clean-up or remediation costs
- Revenues from more sustainable products and services (e.g. recyclable, degradable, reduced raw materials, reduced hazardous substances, increased recycled or renewable content)
- Cost savings (e.g. medical savings, water savings, energy savings)
- Attributing direct costs (e.g. monetization of GHG emissions using the carbon price of the European Union's Emissions Trading System (ETS) instead of the *social* cost of carbon, which would reflect the actual costs of 1 ton of CO2 on society at large (in terms of health costs, environmental remediation costs, etc.)
- Economic Value Add or Gross Value Add (e.g. economic benefit from jobs created, paying wages, dividends, taxes, contribution to GDP)
- Direct beneficiaries or number of people reached

Figure 4: Impact Valuation – Participating Companies' Progress in 2017



Source: RobecoSAM

The figure above shows that among the 896 participating companies who had the Impact Measurement & Valuation criterion in their questionnaire, only 20% are able to measure the value of their social and environmental impacts monetarily, quantitatively, and qualitatively, or are at least working on a pilot project to do so. European companies leading in this topic, with 29% of companies measuring the value of their social impact or working on a pilot project to do so.

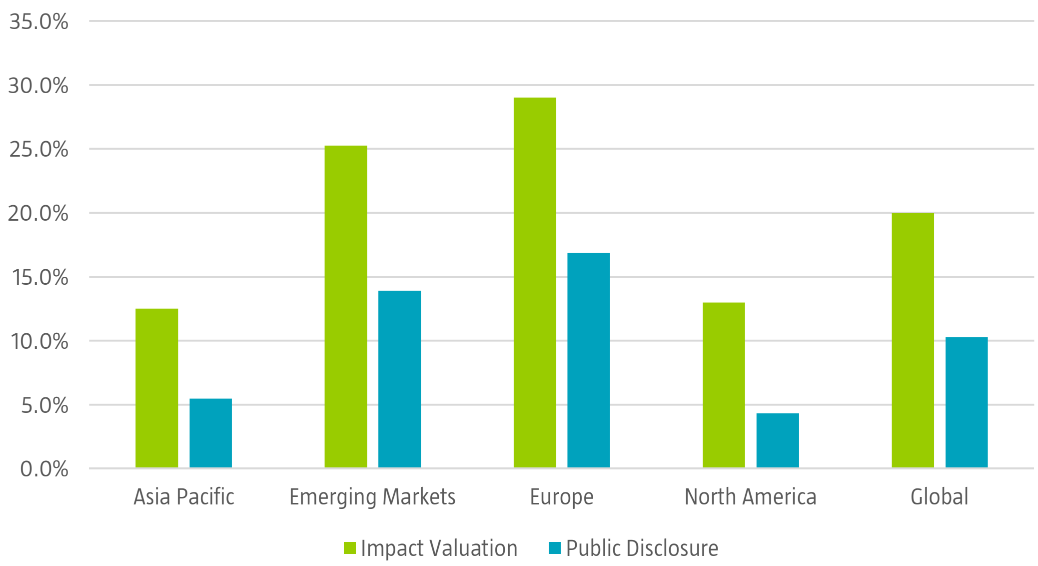
Overall, we observed that many companies are beginning to explore the optimal ways of measuring their real impact on society and the environment. Many companies have begun using existing methodologies to pilot these programs. RobecoSAM recognizes that this topic is in its infancy, and that many different approaches exist built upon a variety of company-specific assumptions. We also observed that while many companies consider themselves to be measuring impact, they are in fact measuring the cost of inputs or outputs, but have not begun measuring actual outcomes nor the potential financial implications of these impacts. Overall, we see these developments as part of a positive trend and expect that many companies who are not yet fully reporting on impacts as such will begin to do so in the coming years.

3.3.2 Valuation Disclosure

For those companies that have valued their impacts with a method that was accepted in the previous question, we ask whether they are disclosing what they are doing. For this question we expect companies to publicly disclose:

- That the program is current and active
- That the program has broad company-wide coverage encompassing multiple products, countries, or business units
- 1 (or more) externality has been identified and valued
- Some form of valuation (monetary, qualitative, quantitative) was calculated
- An explanation of the methodology used or results of analysis (valuation of individual impacts, and/or aggregated total impacts)

Figure 5: Impact Valuation Disclosure by Participating Companies



Source: RobecoSAM

The figure above shows that among the 896 participating companies with the Impact Measurement & Valuation criterion in their questionnaire, 20% are valuing their impacts with a methodology in line with our expectations (or at least piloting their methodology to do so), approximately half of those companies publicly disclose these efforts.

3.3.3 Business Programs for Social Needs

The first question in the criterion, which remains applicable to a select subset of 25 industries, assesses whether companies have adapted their corporate citizenship and philanthropy approaches towards creating programs that specifically generate business value through addressing social needs. This can be through areas of business operations, products or services, or through business relationships. We have used the UN Sustainable Development Goals as well as various initiatives including Social Return on Investment Network/Social Value UK, European Venture Philanthropy Association, Corporate Social Impact Strategies, Creating Shared Value, and the WBCSD Inclusive Business, as references to define social and environmental objectives that need to be addressed on a global scale to ensure sustainable development. We look at how companies are redesigning their business models to meet societal needs.

RobecoSAM Expectations

Based on our observations, it is clear that a fine line remains between what companies define as specific programs to address societal needs and their philanthropic activities. A key difference between the two is whether benefits are one-way or two-way.

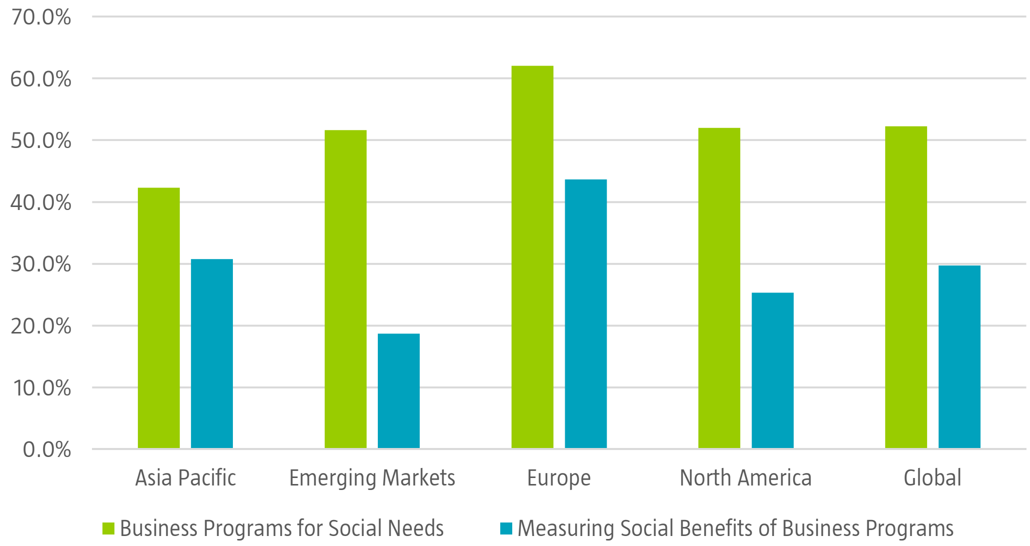
For this question, we expect companies to provide examples or programs that:

- Are currently being carried out by the company, not programs that were implemented in the past but no longer continued.
- Provide broad company-wide coverage encompassing multiple products, countries, business units, or programs
- Show clear, measurable business benefits to the company (such as developing new products, increasing sales, entering new markets, etc.)
- Address a clear societal need through the business model
- Are aligned with the company's business drivers – leveraging existing capabilities, strengths and resources

We did not accept:

- Programs undertaken in the past and is not ongoing
- Corporate citizenship programs such as donations, charitable contributions, scholarships, volunteering, etc.
- Examples that provided an implied or intangible business benefit (such as a maintaining a social license to operate or improving reputation)
- Programs where an external social or environmental benefit was a side effect, and the main goal was to improve the company's own operations (for examples investments to improve energy efficiency in the manufacturing process, reduce waste, etc.)
- Programs implemented to comply with legal requirements or commitments in order to obtain needed permits

Figure 6: Business Programs for Social Needs



Source: RobecoSAM

The figure above shows that among the 333 participating companies having the Business Programs for Social Needs question in their questionnaire, 52% have business programs addressing social needs in place but only 30% of those are able to calculate the full social benefit of these programs.

4 Methodology Changes: Criteria Revised in 2017

4.1 Corporate Governance

Corporate boards are tasked with monitoring companies' management teams on behalf of those companies' shareholders and other stakeholders. Boards are the direct representatives of these stakeholders and form one of the most important components of corporate governance. It is therefore important that the board members selected have the right experience and skills, are sufficiently independent, and act in the best interests of all stakeholders. To that end we added two new questions and modified two existing questions. As always, when we add new questions there is a redistribution of question weights. Taken together, these changes led to average score change for the criterion from 68.8 to 62.8 – a decline of six points.

4.1.1 New Questions

Average Tenure: Board tenure reflects retention and continuity on one hand, and refreshed skills and perspectives, and independence on the other. Research strongly supports the assertion that optimal board tenure is in the 7 to 12-year range, and that firm value declines as average tenure deviates therefrom. The average value for assessed companies was 7.07 years.

Board Industry Experience: This question focuses on industry and audit experience, two of the most important skill sets for setting strategy and effectively monitoring and evaluating management's performance.

4.1.2 Updated Questions

Board Structure: Board independence is one of the most important corporate governance indicators, and so we updated the question on board structure to better capture leading governance models. We no longer assess the percentage of independent and non-executive directors, but rather the number of independent directors in relation to the overall board size. In order to ensure comparability, we held to a strict definition of independence.

Independent directors are non-executive directors that are independent by meeting at least 4 of the 9 criteria (of which at least 2 of the 3 first criteria) listed below: RobecoSAM uses a definition in line with NYSE requirements for listed companies, which we feel is one of the most robust definitions globally.

1. The director must not have been employed by the company in an executive capacity within the last five years.
2. The director must not accept or have a "Family Member who accepts any payments from the company or any parent or subsidiary of the company in excess of $60,000 during the current fiscal year or any of the past three fiscal years", other than those permitted by SEC Rule 4200 Definitions.
3. The director must not be a "Family Member of an individual who is, or during the past three years was employed by the company or by any parent or subsidiary of the company as an executive officer."
4. The director must not be (and must not be affiliated with a company that is) an adviser or consultant to the company or a member of the company's senior management.
5. The director must not be affiliated with a significant customer or supplier of the company.
6. The director must have no personal services contract(s) with the company or a member of the company's senior management.
7. The director must not be affiliated with a not-for-profit entity that receives significant contributions from the company.
8. The director must not have been a partner or employee of the company's outside auditor during the past three years.
9. The director must not have any other conflict of interest that the board itself determines to mean they cannot be considered independent.

Other ***non-executive directors*** are directors that are not executives but also do not qualify as independent as defined above. They are all other members of the board not already accounted in the executive and independent categories. They might be employed by the organization.

RobecoSAM Expectations

We expect companies to be transparent about the definition of independence they are using. The definition can vary from country to country, between stock exchange requirements or guidelines, and even between different versions of listing requirements. Therefore, RobecoSAM encourages companies to be transparent on this matter, explaining the definition of impendence they themselves use, or clearly referencing the guidelines or requirements on which their company relies.

Diversity Policy: we have simplified this question in order to place a stronger focus on the elements of diversity we consider to be most important.

4.2 Supply Chain Management

We updated our Supply Chain Management criterion this year, deleting selected questions and simplifying the content of the current questions while increasing our focus on risk monitoring and the depth of risk assessment (for example, with the inclusion of critical non-tier 1 suppliers). We also added a question to see if companies have a Supplier Code of Conduct, and if it is publicly available: applicable to 683 participating companies, we found a median score of 80, and an average score of 66.6, clearly brought down by the 144 companies who scored zero points for the question.

The benefit of this increased level of challenge to participating companies was recognizing leadership by companies who have more holistically examined and addressed issues in their supply chains, including assessing risks further down the supply chain, beyond their immediate suppliers. Due to these changes, we saw an overall decline in scores for this criterion of 11.2 points: from an overall average score of 70.2 to 59. As is to be expected, in digging deeper into companies' supply chains, we saw that companies' visibility on risks declines, and so does the availability of reliable data to report.

Figure 7: Supply Chain Management Performance

Source: RobecoSAM

As explained above, and evidenced by Figure 7, for the participating companies with the Supply Chain Management criterion in their questionnaire, the increased challenge and detail in the new questions led to an overall score decline in each question, resulting in the overall decline in the criterion score of 11.2 points.

4.3 Human Rights

Recognizing the importance of Human Rights issues within and beyond corporate practices, we spun off the Human Rights section from the Labor Practice Indicators criterion to make it a standalone criterion with strong expectations of companies' commitments. With this change, we also increased the depth of the questions, which cover the following aspects of human rights and their disclosure to the public: companies' commitment, assessment, due diligence processes and disclosure. Frameworks such as the UN Guiding Principles Reporting Framework challenge companies to systematically address any potential human rights issues in their operations.

This split led to some score changes: the average score for the combined criterion in 2016 was 38.3, and this year, we saw an average score for Human Rights of 33.3 and an average Labor Practice Indicators score of 57.9.

RobecoSAM Expectations

- **Commitments** - should be specific and detailed, in line with international standards and clearly extending throughout the supply chain – to suppliers, contractors, business partners, etc. Simply "encouraging" third-parties to act in accordance with the company's own policies is no longer enough: companies should enforce high standards in those areas where they have an impact.
- **Due diligence process** – needs to clearly include human rights, not just a company's overall risk framework. This due diligence process should be clearly described, not just mentioned.
- **Assessment** – we expect all companies to have assessed their own operations for potential human risks, regardless of their region(s) of operations.
- **Disclosure** – we only accepted disclosure on specific points if minimum requirements were met in the previous questions.

4.3.1 Human Rights – Commitment

In this question, we assess whether companies have put in place comprehensive human rights policies in their own operations, joint-ventures, partnerships and in their supply chain. Ideally, these commitments are aligned with internationally accepted best practices as laid out in UN Guiding Principles on Business and Human Rights or ILO frameworks.

RobecoSAM Expectations

This year we saw a wide range of responses to this question, reflecting varying degrees of understanding of human rights commitments. Overall, we expected companies to provide us with their actual policies or detailed descriptions of their commitment to human rights. Only referring to or being a signatory to external entities such as the UN Global Compact (UNGC) or International Labour Organization was not sufficient, nor was letter from the company to the UNGC. The commitment needs to be companywide and not just for a subsidiary, single site, business unit, project, region, or country.

What we accepted:

- One or more documents with a policy statement to commit to protect or respect human rights.
- Commitment can be based upon or reference international standard such as International Bill of Human Rights or UNGC, UN guiding principles- it needs to be broad to human rights and NOT limited to just an issue (e.g., child labour or fair wages).
- Human rights policy must at least refer to any of the following International standards:
    - The Universal Declaration of Human Rights
    - The International Covenant on Civil and Political Rights
    - The International Covenant on Economic, Social and Cultural Rights
- Demonstration of *how* the company complies with the principles of the UN Global Compact

We did not accept:

- General statements about respecting human rights
- Being aware of the UN guiding principles
- Solely being a signatory to UNGC or other entities
- Reporting according to the UN Global Compact is not enough
- Recognizing ILO standards or complying with ILO standards alone
- Complying with the UK Modern Slavery Act is not sufficient
- Complying with labour laws (e.g., US Equal Employment Opportunity regulations)
- Statements referring to not supporting one aspect of human rights (e.g., we do not support child labour) or covering only single site, or project, or country, or business unit
- Only examples of initiatives are provided

Figure 8: Human Rights Policy Coverage

Source: RobecoSAM

As shown in the figure above, among the 575 participating companies with acceptable human rights commitments, roughly 87% have a Human Rights policy or commitment in place covering expectations in their own operations, and at 71% of companies, this policy extends to expectations of suppliers as well.

4.3.2 Human Rights – Due Diligence Process

The human rights due diligence process is a key step that enables companies to systematically identify potential risks in their operations and supply chain. In this question we build upon the commitments discussed in the previous question and assess how company policies are translated into real action. The question asks companies whether they are currently carrying out due diligence on human rights issues, and asks about the elements of this process, including:

- The identification of potential human rights issues
- The identification of **where** potential human rights issues could occur in the company's own operations or in its value chain
- The identification of **what** actual or potential human rights issues could be of concern
- Whether the company undertakes **systematic periodic review** of the risk mapping of potential issues

A second option within the question allows companies to describe due diligence processes that are currently being developed but that have not yet been implemented.

RobecoSAM Expectations

For each option marked, we expected companies to provide adequate documentation or detailed comments showing how this due diligence is being conducted. This could include examples of audit reports or process documentation. Simple mentions of due diligence processes without sufficient evidence to verify that they indeed covered all the marked options were not accepted. For example, a simple statement that "we conduct due diligence on an annual basis" would not have been sufficient for the purpose of this question.

For companies to receive points for marking the second option indicating that a due diligence process was being developed, sufficient detail had to be provided about the methodology or approach being used as well as the expected completion date.

4.3.3 Human Rights – Assessment

The third human rights question evaluates the outcomes of the due diligence process. In some cases, companies may not have official due diligence processes in place, but have conducted some degree of assessments on their operations or supply chains in areas where human rights topics are relevant. Therefore, having a due diligence process in place was not a prerequisite for the purpose of our assessment. In 2017, we modified the layout of the question to improve clarity on the data we were looking for. Specifically, we looked at human rights assessments across three areas:

- A company's own operations (including subsidiaries and managed joint ventures)
- A company's supply chain
- A company's non-managed joint ventures

We asked companies if they have conducted an assessment of potential human rights issues across their business activities in the past three years, to determine whether they have carried out systematic due diligence focusing on the areas of their business activities with potential exposure to human rights issues. We ask companies to quantify the parts of the business that have been assessed for exposure to human rights issues and to further quantify what percentage has been determined to be at risk. Finally, we ask companies to quantify the portion of at risk areas for which mitigation or remediation process has been implemented.Lastly, we ask companies to report the vulnerable groups that have been identified through this assessment process and to provide supporting evidence showing that these groups have indeed been a part of the assessment process.

RobecoSAM Expectations

We expect companies to clearly describe the assessment process, to indicate the scope of the assessment and to explain the figures provided to better help us understand the accuracy of the response.

Companies had the opportunity to mark "not applicable" for the parts of its operations or value chain that it did not find relevant. For example, if the company does not have a complex supply chain or any non-managed joint ventures. RobecoSAM carefully reviewed company responses when "not applicable" had been marked for the company's own operations, as human rights risks related to labor practices, etc. may still exist even if a company only has operations in a developed market.

For example, some companies reported that 100% of their operations had been assessed AND determined to be at risk. The information in this section is to be provided in a cascading manner, so that each quantitative figure represents a percentage of the previous figure provided. For example, if a company has reported that 80% of its operations with potential exposure to human rights issues have been assessed, then perhaps only 50% of those have actually shown real human rights risks. Of those determined to be at risk, it is plausible that mitigation plans have been put into place for 100%, or for only a fraction. We also did not accept answers that indicated that 100% of a company's business activities had been assessed for human rights issues if it was clear that only a portion of its areas of influence had been assessed, for example only its own operations or its supply chain.

4.3.4 Human Rights – Disclosure

In the last human rights question, we assess companies' transparency in publicly reporting on the elements identified in the previous questions.

RobecoSAM Expectations

Companies should be precise in their public reporting, not only mentioning key themes but actually providing detailed information on the various topics. We only considered companies to sufficiently be disclosing on the following areas if enough evidence was given to accept the answers in the previous questions. For example, for the Human Rights Commitment question, we only awarded points for disclosure if at least three of the five criteria for a good human rights policy had been fulfilled.

We expect companies to publicly report on the following areas:

- Human rights commitments
- Process to identify and mitigate risks
- The number of sites with mitigation plans
- The main issues and vulnerable groups identified
- Remediation actions taken

5 General Remarks

For the 2017 assessment, we primarily focused on reducing the overall number of questions within the questionnaire, removing questions or criteria we felt were no longer of material significance to companies, or that addressed topics that have become common practice over the last few years. This allowed us to introduce new general and industry-specific criteria, to ensure that our assessment continues to raise the bar and challenge companies in their thinking about long-term risks and opportunities.

Overall, we saw companies struggle to provide information for the questions on policy influence and impact measurement and valuation indicating to us that these are indeed leading edge topics which would benefit from greater illumination from our side: for such questions in the future, we intend to provide additional clarification on new questions, use clearer definitions and better explain our expectations. We look forward to receiving your feedback on these topics over the coming months. We hope that our analysis of the data and responses we have received will provide us with a solid starting point to fine tune these questions and extend them to additional industries.

We would like to conclude with a few general additional observations that we have made this year and suggestions for responding to the Corporate Sustainability Assessment in 2018.

5.1 Data Quality

As global reporting measurement and reporting standards develop, we adapt our definitions where necessary in an effort to capture more comparable and precise data. Increasingly, sustainability data is being used by investors to measure the impact of their investments. For example, RobecoSAM uses aggregated data from selected questions in the Operational Eco-Efficiency criterion in the CSA to measure the overall carbon, energy or water or waste intensity of an investment portfolio. This helps us show our clients how investing in a group of sustainability leaders can have a real positive environmental impact.

In order to provide investors with meaningful sustainability data to inform their investment decisions, this data needs to be precise and comparable. Therefore, we would like to remind companies to ensure that the provided quantitative data meets the definitions provided by RobecoSAM in the question information texts, and if not, that this is clearly explained in the provided comment fields. Make sure you use the specified units given in the question, and that any conversions to these units are done correctly. If you are unsure about anything please do not hesitate to contact our dedicated helpline: assessments@robecosam.com

Finally, make sure you consult the information texts each year, and read the question texts carefully to ensure that nothing has changed from one year to the next. Reporting and collecting high quality sustainability information is the first step to ensuring that sustainability information is more widely accepted and used by the investment community!

5.2 Supporting References

Supporting documents are required in some questions so that we can verify the answers provided. We have gradually tried to reduce the overall number of references we require while at the same time asking for more references to be publicly available. This reflects the general shift in investor demand for greater transparency and more readily available information in the public domain. In many cases, we ask for comments to describe the answers that have been provided.

RobecoSAM continues to receive tens of thousands of documents each year from companies as supporting evidence, even when not required. Examples are always welcome, but we kindly ask you to carefully review the documents you attach, ensuring they are relevant to the questions being asked. For questions where we don't explicitly require evidence, you may attach documents in the document library, but we do not guarantee we will read them. Therefore, please make sure you focus on attaching the documents that you **want** us to read and **are essential** for understanding your response, and be as specific as possible in terms of the page number and sections of the documents that are of interest.

5.3 Non-English Documents

We recognize that a large number of CSA participants are based in non-English speaking countries, and that often their base of operations may also be focused in these countries. Nevertheless, the official language of the CSA is English and we rely on translations and summaries of foreign-language texts to verify your answers in some cases. In cases where we specifically ask for **public information**, we expect this to be in English, so that it is accessible by all investors globally.

6 Outlook for 2018

We continuously develop our methodology to ensure that our Corporate Sustainability Assessment remains an insightful and challenging way to benchmark your company against peers. For 2018, we have focused our attention on further aligning our questionnaire – as we deem appropriate – with global reporting standards and frameworks. For a number of years we have been internally mapping our questionnaire to standards such as the GRI G4, and continue to engage in discussions with our colleagues at CDP to ensure that we are aligned on important topics, and that we can leverage each other's expertise. As we further develop the methodology for 2018, we will keep this alignment in mind to ensure that we can benefit from the growing amount of sustainability information available in the public domain, while encouraging companies towards greater transparency and disclosure. Of course, our focus remains on financial materiality, as a result, we will endeavour to make the CSA more focused, more financially relevant and more differentiating on those sustainability topics we feel are most important.

We look forward to engaging with you **via this fall's webcast series**, and as always, we welcome your feedback and your suggestions which ensure that we continue to develop the CSA in a way that creates value for you and your stakeholders.

For any additional questions, please do not hesitate to contact us:

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