

2015 Engagement Report

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This report has been co-produced with our engagement service provider GES.



Highlights 2015

Our long-term engagement efforts again bore fruit in 2015 and we can conclude that, combined with the engagement by others, our efforts have resulted in significant improvements amongst several of the companies we engaged with.

As outlined already in our 2014 Engagement Report, BP Plc (BP) and Anadarko Petroleum Corp (Anadarko) have been making concrete improvements in their respective health, safety and environmental (HSE) management after the Macondo oil spill in 2010. We are pleased to report that this positive trend continued in 2015.

BP prepared and published an incident report soon after the Macondo incident and committed to improving the management of HSE issues company-wide. It also ensured that adequate clean-up and remediation of the environment and compensation for the affected communities took place. BP received a substantial fine for its involvement in the Macondo oil spill but the final court ruling in 2015 did not provide any significant or adverse new information on the company's sustainability practices. Importantly, BP's HSE performance is now comparable to peer companies.

Likewise, Anadarko has been notably strengthening its sustainability management since 2013, including establishing a CSR committee as well as engaging consultants to evaluate performance and design a pathway for improvement. In addition, a new Manager of Corporate Responsibility role was created and a programme of health, safety and environmental management system improvements initiated. This new approach is published on Anadarko's website and company documents verify that upgraded standards and routines are in place. Additionally, there have been no serious incidents reported at the company since the Macondo incident.

As a consequence of these measures, the engagement with both BP and Anadarko was successfully concluded in 2015 and IPM was pleased to remove the companies from IPM Focus List.

Also progressively enhancing its ESG risk management over the past years has been Yahoo! Inc (Yahoo), which has made significant improvements in addressing freedom of expression and user privacy through its collaboration with the Global Network Initiative (GNI) and the launch of Yahoo's Business and Human Rights Program. The latter will be implemented at all of the company's current and future operations in high risk countries, including China, which is a commendable step toward a responsible approach to human rights, especially freedom of speech.

A further positive development is that Yahoo now discloses in an annual transparency report the number of government requests it receives, along with how many requests it rejects based on the government not having the proper legal jurisdiction or approval and the type of content it provides to governments. In light of these improvements, IPM concluded that no further engagement with the company is needed at this stage and decided to re-include Yahoo in its investment universe in 2015.

Our Responsible Investment Approach

It is an essential component of IPM's philosophy and corporate social responsibility to support the principle that companies have a duty to comply with international norms, even though they are not legally obliged to do so. Specifically, we do not want to invest in companies that violate such norms. We believe that Environmental, Social and Corporate Governance (ESG) incorporation will lead to long-term benefits for our clients as well as the financial markets and the society more broadly.

The objective of IPM's responsible investment initiative is to:

- Generate long-term benefits for our clients in terms of risk reduction and potentially higher returns;
- Positively impact the focus on environmental, social and corporate governance issues amongst the companies we invest in;
- Complement IPM's other efforts within corporate social responsibility (e.g. donations);
- Develop a sense of pride and corporate social responsibility among IPM's staff.

At IPM we integrate ESG factors into the equity investment process. A part of our active weights comes from the Governance & Quality screen that in a systematic fashion penalizes companies with aggressive accounting standards and other signs of lax corporate governance.

Additionally, we screen the equity portfolios for their compliance with international guidelines and conventions on environment, human rights and business ethics such as UN Global Compact. Non-compliance is dealt with through an engagement and exclusion process.

To mitigate the lost exposure due to exclusions, IPM has developed an optimizer that identifies and overweights companies with similar characteristics as the excluded ones but that comply with the norms, thus applying a 'best-in-class' approach.

We are active owners. IPM engages in a dialogue with all companies in our investment universe that violate UN Global Compact principles or other well-established international guidelines and conventions. We do this through joining collaborative engagement efforts, by engaging on our own and through the use of an engagement service provider.

As active owners we also exercise our right to vote by voting according to best corporate governance standards in the companies in which we hold shares.

IPM is a signatory to UN Principles for Responsible Investment since.

Our Engagement Working Model

Background

We are active owners. IPM engages in dialogue with all companies in our investment universe that violate UN Global Compact principles or other well-established international guidelines and conventions. We do this through joining collaborative engagement efforts, by engaging on our own and through the use of an engagement service provider.

The objective of our engagement efforts is to improve the conduct and policies of the affected companies. During our engagement work we urge them to stop the violation, to adopt a responsible course of action and to take a proactive and precautionary approach to improve routines and prevent future violations. These are our requirements to keep these companies as eligible for investment in our portfolios. The companies failing to respond to our engagement efforts in a satisfactory manner are excluded from our investment universe.

GES Global Ethical Standard

The engagement process is based on results from the GES Global Ethical Standard analysis model – a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on ESG issues. Among other things, these include:

- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- ILO Core Labour Conventions
- Human rights conventions
- Environmental conventions
- Weapons-related conventions

Two factors are critical when deciding whether to proceed with the analysis of a reported incident: incident criteria and reporting criteria. Incident criteria include one or more of the following:

- An association on the basis of systematic actions;
- An association on the basis of isolated actions leading to severe negative consequences.

Reporting criteria includes one or more of the following:

- Examination by an official and credible body that confirms the connection between the company and the reported violation;
- Sanctions against the company issued by regional/national courts or an official body;
- The company has admitted responsibility for the incident(s);
- Several independent and credible sources confirm the connection between the company and the reported violation.

Companies that have incidents fulfilling the above-mentioned criteria need to take positive action meeting the following four criteria in order for the case to be resolved:

- The reported violation has ceased;
- The company has adopted a responsible course of action regarding the assessed violation;
- The company has taken a proactive and precautionary approach to improve routines and prevent future similar violations;
- The company's action is verified.

IPM ESG Committee

The IPM ESG Committee is responsible for overseeing all responsible investment efforts at IPM. The objective of the IPM ESG Committee is to provide advice and guidance on IPM's activities within the area of responsible investment and to decide on engagement, exclusion and re-inclusion cases at IPM.

The basis for the analysis and decisions made by the Committee is the GES Global Ethical Standard research process, provided by GES. However, the Committee will also consider other relevant information in their analysis of GES' recommendations (including results of IPM's own and collaborative engagement efforts).

IPM Focus List

Companies that have been officially documented systematically or severely breaching any of UN Global Compact's ten principles or other well-established international conventions and guidelines are put on special watch – IPM Focus List. The IPM ESG Committee carefully studies these companies in order to verify any signs of progress in improving their conduct. Lack of improvements over a period of 1 year (neither satisfying 1 out of 4 GES revision criteria per year, nor presenting any documented proof that confirms significant improvements) or remaining on the GES Engage Cases List for more than 3 years is deemed a sufficient reason for the IPM ESG Committee to decide on exclusion of that company from the investment universe.

IPM Exclude & Engage List

The companies that do not respond to the engagement and continue to breach well-established international norms on ESG issues are excluded from the investment universe if so decided by the IPM ESG Committee. All companies excluded from the investment universe will remain excluded until they are recommended for re-inclusion by GES, unless the Committee decides there are extraordinary circumstances that warrant an earlier re-inclusion. Only circumstances related to an improvement in company's conduct will be taken into account. Even though IPM excludes the companies, both IPM and GES will continue with the engagement process.

All companies involved in cluster munitions and anti-personnel land mines according to GES will be directly excluded.

On the following pages, we present in detail IPM's 2015 Resolved Cases, cases from IPM Focus List together with the companies excluded during the year.

IPM 2015 Cases

IPM Resolved Cases

Company	Country of Incorporation	Violation	Status	Engagement Activities	Portfolio
Anadarko Petroleum Corp	US		Resolved		G·E·S [®] Resolved
BP Plc	UK		Resolved		G·E·S [®] Resolved
Yahoo! Inc	US		Resolved		G·E·S [®] Re-included

IPM Focus List

FMC Corporation	US		Engage		G·E·S [®] New
Lonmin Plc	UK		Engage		G·E·S [®] New

IPM Exclude & Engage List

Aes Corp	US		Exclude & Engage		G·E·S [®]	
Agrium	Canada		Exclude & Engage			G·E·S [®] Excluded
Alstom	France		Exclude & Engage		G·E·S [®]	
Andritz AG	Austria		Exclude & Engage		G·E·S [®] Excluded	
Barrick Gold Corp	Canada		Exclude & Engage		G·E·S [®]	
Chevron Corp	US		Exclude & Engage		G·E·S [®]	
Freeport McMoRan Copper & Gold	US		Exclude & Engage		G·E·S [®]	
Gencorp Inc	US		Exclude		G·E·S [®]	
General Dynamics Corp	US		Exclude		G·E·S [®]	
L-3 Communications Hldgs Inc	US		Exclude		G·E·S [®]	
Lockheed Martin Corp	US		Exclude		G·E·S [®]	
Motorola Solutions	US		Exclude & Engage		G·E·S [®]	
POSCO	South Korea		Exclude & Engage		G·E·S [®]	
Potash Corporation of Saskatchewan Inc	Canada		Exclude & Engage		G·E·S [®] Excluded	
Rio Tinto / Rio Tinto Ltd	UK / Australia		Exclude & Engage		G·E·S [®]	
Singapore Technologies Engineering	Singapore		Exclude		G·E·S [®]	
Textron Inc	US		Exclude		G·E·S [®]	
Tokyo Electric Power Company	Japan		Exclude & Engage		G·E·S [®]	
Transocean	US		Exclude & Engage		G·E·S [®]	
Wal-Mart Stores Inc	US		Exclude & Engage		G·E·S [®]	
Wesfarmers	Australia		Exclude & Engage		G·E·S [®]	
Vedanta Resources	UK		Exclude & Engage		G·E·S [®]	

Legend:**Problem Areas**

Labour Rights



Inhumane Weapons



Environment



Human Rights

Engagement Activities

Collaborative: IPM joined a collaborative initiative with other investors in a form of a letter, a phone conference or a physical meeting.



Independent: IPM sent one or more letter(s) to the company.



Service Provider: GES engaged with the company on behalf of IPM.

Resolved: Anadarko Petroleum Corp

Industry: Oil, Gas & Consumable Fuels

Head Office: United States

Country: Unites States

Norm area: Labour Rights

Response: Standard

Progress: Excellent

Incident

Anadarko Petroleum (Anadarko) was a 25 per cent joint venture partner in the BP operated the Macondo oil prospect in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of large quantities of oil into the sea. As a partner with a significant vested interest, Anadarko had a responsibility to ensure that the project was planned and executed in a safe and environmentally responsible way. Despite this, there was a lack of partner due diligence and proactive risk management on Anadarko's part, which helped contribute to the incident.

Goal

Anadarko should demonstrate that it has met its remediation responsibilities for the Gulf of Mexico spill. The company should also improve its HSE policies and commence annual sustainability reporting.

This year's development

Since 2013, Anadarko has been making significant improvements to its sustainability management, including establishing a CSR committee and engaging consultants to evaluate performance and design a pathway to improvement. In addition, a new Manager of Corporate Responsibility role was created and a programme of health, safety and environmental management system improvements initiated. This new approach is published on Anadarko's website and our service provider, GES, has viewed company documents which verify that improved standards and routines are in place. Additionally, there have been no serious reported incidents at the company since Macondo. In late 2015 Anadarko was ordered to pay almost USD 160 million in fines for its role in the accident. Nevertheless, on the basis of the improvements made since the incident took place, the case is considered to have been resolved and the engagement with Anadarko was successfully concluded in 2015.

Consequently, IPM was pleased to remove the company from IPM Focus List in 2015.

Resolved: BP Plc

Industry: Oil, Gas & Consumable Fuels

Head Office: United Kingdom

Country: Unites States

Norm area: Labour Rights

Response: Good

Progress: Excellent

Incident

BP Plc (BP) is the operator of the Macondo oil prospect in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of large quantities of oil into the sea. The environmental and economic impacts to the Gulf coast were serious and may be ongoing for decades. As the operator, BP was responsible for the safe design and execution of the project, and for stopping the flow of oil in the event of a blowout. The cause of the blowout was attributed to the breaching of multiple barriers and human errors. BP was furthermore not in possession of sufficient technology for quickly stopping the oil flow. The incident confirmed that there were systemic safety management deficiencies at BP which needed to be addressed.

Goal

BP should properly remediate the environmental and social impacts of the Gulf of Mexico spill, and should achieve significant improvements in risk and safety management and culture within the company. The company should also ensure that it has sufficient technology for bringing well blowout situations rapidly under control.

This year's development

BP prepared and published an incident report soon after the Macondo incident and committed to improving the management of health, safety and environment (HSE) company-wide. It also ensured that adequate clean-up and remediation of the environment and compensation for the affected communities took place. BP received a substantial fine for its involvement in the Macondo oil spill but the final court ruling in 2015 did not provide any significant or adverse new information on the company's sustainability practices. Importantly, BP's HSE performance is now comparable to peer companies. On the basis of the company improvements, the case is considered resolved and the engagement with BP was successfully concluded in 2015.

Consequently, IPM was pleased to remove the company from IPM Focus List in 2015.

Resolved: Yahoo! Inc

Industry: Internet Software & Services

Head Office: Unites States

Country: China

Norm area: Human Rights

Response: Standard

Progress: Good

Incident

Yahoo! Inc. (Yahoo) was criticised for releasing personal user data to China's state security in order to identify a Chinese journalist in 2004, a step taken by its subsidiary Yahoo Holdings. This led to a ten-year imprisonment of the journalist in 2005 for sharing a document of the Communist party to an overseas Chinese democracy site. In 2005, Yahoo Holdings was renamed Yahoo Mail China and overtaken by the Chinese company Alibaba, in which Yahoo had around 40 per cent of shares at that point and which operated Yahoo Mail China until it was closed down in 2013. In 2014, Yahoo sold most of its shares in Alibaba with plans of slowly divesting from the rest.

Goal

Yahoo should develop a clear set of policies and guidelines on human rights, preferably for its operations globally, but at a minimum for its joint venture operations in China. The measures should include adequate protection against the release of user data to governments when it risks being used to prosecute users who exercise their freedom of speech.

This year's development

On a conference call with the company in March 2015, GES learned about Yahoo's initiatives to protect user privacy and freedom of expression, such as introducing its Business and Human Rights Program to all existing and future markets, including potential Chinese operations.

As Yahoo Mail China has been closed down and Yahoo no longer has a major stake in Alibaba, the company cannot be held responsible for the Chinese operations. What is more, Yahoo has shown great progress in addressing freedom of expression and user privacy through its collaboration with the Global Network Initiative (GNI) as well as putting in place relevant policies and programmes.

Another positive development is that the company annually discloses the number of government requests it receives by country, how many requests it rejects based on the government not having the proper legal jurisdiction or approval, and the type of content it provides to governments.

Consequently, IPM was pleased to remove the company from IPM Exclude & Engage List in 2015.

Focus: FMC Corporation

Industry: Chemicals

Head Office: Unites States

Country: Western Sahara

Norm area: Human Rights

Response: Good

Progress: Good

Incident

In October 2009, Norwatch reported that FMC Corporation (FMC), through its subsidiary FMC Foret, was importing phosphate rock from Western Sahara. In an opinion, issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people. While FMC in 2011 confirmed the closure of its phosphates plant in Spain, resulting in the company exiting the phosphates business and therefore also ceasing the imports from Western Sahara, the lack of relevant due diligence left it exposed to further human rights violations.

Goal

FMC should proactively and at the practical level mitigate the risk of becoming associated with further instances where its operations are not in line with international human rights norms. To this end, the company should acknowledge its related impacts and responsibilities beyond the rights of the employees, and ensure that its policies and supplier screening process reflect this.

This year's development

FMC has taken concrete steps to improve its understanding of the risks in its supply chain and to scrutinise suppliers' and contractors' compliance with its ESG standards. For instance, the company has updated the relevant key policies and provided GES with sample copies of its supplier screening questionnaires, and it also completed the pre-screening of all significant suppliers and contractors in 2015. Furthermore, compulsory human rights training was rolled out across the company. In July, FMC became a member of the UN Global Compact (UNGC) and subsequently committed to reviewing its Supplier Code to ensure alignment with the UNGC principles.

Focus: Lonmin Plc

Industry: Metals & Mining

Head Office: United Kingdom

Country: South Africa

Norm area: Labour Rights

Response: Standard

Progress: Standard

Incident

Lonmin Plc (Lonmin) is the operator of the Marikana platinum mine located near Johannesburg, South Africa, where about 3,000 workers went on strike in August 2012 over pay and working conditions. Violent clashes occurred over several days between rival unions, mine security and police, resulting in 44 fatalities and over 70 people injured. In the worst incident, 34 Lonmin workers were shot dead by police in an action intended to break the strike.

The Marikana Commission of Inquiry was set up under Judge Farlam (the “Farlam Commission”) and the transcripts and e-mails it released in October 2013 indicated that Lonmin executives encouraged and assisted the police intervention.

Goal

In securing its operations the protection of human rights should be Lonmin’s primary objective. This should be reflected by policy and top management commitment and achieved through the implementation of the Voluntary Principles on Security and Human Rights.

This year’s development

The Farlam Commission's final report was released by President Jacob Zuma in June 2015. It indicated that Lonmin's practices for assessing and managing the risk of the strike-breaking action were highly deficient. The Commission also levelled criticism at the company over its implementation with regards to social and labour plans which were said to be root causes of the strikers’ dissatisfaction.

Nevertheless, Lonmin has made considerable efforts in repairing workers relations. This can be seen by the fact that even though Lonmin has had to reduce its workforce at Marikana by approximately 6,000 (of its former 28,000 employees) due to low market prices, it has done so with minimal disruption and with the participation of the union.

Lonmin still needs to address two issues: firstly, its relationship with the South African Police Department whereby the company should seek an agreement that lethal force should be avoided in any further strike situations, and secondly the lack of affordable housing for mineworkers and their families.

Excluded: Agrium

Industry: Chemicals

Head Office: Canada

Country: Western Sahara

Norm area: Human Rights

Response: Standard

Progress: None

Incident

Agrium signed a contract with the Moroccan state-owned company Office Chérifien des Phosphates (OCP) in September 2011 to import phosphate rock for a period up to 2020. The trade started two years later and Agrium has confirmed that it includes rock originating from Western Sahara, a territory occupied by Morocco since 1975. In an opinion, issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people.

Goal

Agrium should devise and implement a plan for how to entirely cease its imports of phosphates from Western Sahara, or demonstrate how the trade is in line with the interests and wishes of the Saharawi people.

This year's development

Following the issue of its new supplier code of conduct at the end of 2014, Agrium has amended approximately 150 contracts to align them with the updated guidelines. Additionally, the company's overall compliance training has been expanded to include the new code, and the key groups of employees, e.g. legal and procurement departments, have received targeted training. Towards the end of 2015, Agrium confirmed to GES that it continues to evaluate options for longer-term rock supply sources. More definitive information is not yet available, however, and given the current lack of satisfactory alternatives, Agrium continues to source phosphate from Western Sahara.

Due to the lack of sufficient engagement progress, IPM decided to exclude Agrium during 2015.

Excluded: Andritz AG

Industry: Machinery

Head Office: Austria

Country: Turkey

Norm area: Human Rights

Response: Standard

Progress: Poor

Incident

Andritz AG (Andritz) is the main contractor of electro mechanic equipment to the Ilisu hydropower dam under construction in southern Turkey. The project has been criticised for many years for its expected vast and serious environmental and social impacts. In 2008, an independent Committee of Experts concluded the project to be non-compliant with the World Bank Safeguard Policies on environment, cultural heritage and resettlement. The World Bank has refrained from financing the dam and several construction companies, commercial banks and European export credit agencies have abandoned the project consortium. In 2010, the European Parliament adopted a resolution urging the Ilisu project to be halted until impacts on the cultural and environmental heritage, as well as the displacement of the local population, are further assessed. In 2013, The Turkish Superior Administrative Court ruled in favour of the legal case filed by the Chamber of Architects and Engineers (TMMOB) against the construction of the dam, ordering an immediate halt to construction. The dam was originally planned to be in operation during 2015, however it has been reported that due to political instability in the region the project has not been able to proceed as planned. In September 2015, the project was reportedly 90 per cent completed. As a main contractor to the Ilisu project, Andritz has a responsibility to ensure that the project complies with international environmental and social standards. The company is also one of the main suppliers to the criticised Xayaburi hydropower dam in Laos and the Belo Monte hydropower dam in Brazil.

Goal

Andritz should ensure that the impacts from the Ilisu dam are in line with international environmental and social standards, e.g. World Bank Safeguard Policies, before continuing with the project. If this cannot be assured the company should withdraw, as that would lead to a halt of the project. Andritz must actively monitor the project planning process and engage in stakeholder dialogue, including direct dialogue with key NGOs. Deficiencies and uncertainties regarding the dam's impacts should be raised with the responsible Turkish agency DSI. To prevent involvement in future similar projects the company should adopt policies that address environmental and social risks in infrastructure projects. These policies should advocate a precautionary approach and require that projects comply with internationally proclaimed standards.

This year's development

The company published its first Sustainability Report in 2015, however Andritz did not address the issue of social and environmental risk assessment in a satisfactory way. The reporting is according to GRI (Global Reporting Initiative) standards, however there is still room for improvement in the company's disclosure as well as in its policies and processes to manage ESG risks.

Andritz was reluctant to meet with GES during the year and has recently pointed to its upcoming Sustainability Report as its main channel to communicate with investors on ESG issues.

Due to the lack of sufficient engagement progress, IPM decided to exclude Andritz AG during 2015.

Excluded: Potash Corporation of Saskatchewan Inc

Industry: Chemicals

Head Office: Canada

Country: Western Sahara

Norm area: Human Rights

Response: Standard

Progress: Poor

Incident

In October 2009, the Norwegian NGO Norwatch reported that Potash Corporation of Saskatchewan (PotashCorp) was importing phosphate from Western Sahara and thus indirectly funding Morocco's occupation of the territory. The company has admitted that the trade continues to this day and it has no plans of ending it. In an opinion issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people of Western Sahara.

Goal

PotashCorp should cease its imports of phosphate from Western Sahara, or demonstrate how the trade is in line with the interests and wishes of the Saharawi people.

This year's development

In November 2015, PotashCorp shared an updated position statement on its Western Sahara activities. In comparison with the previous version of the statement, from April 2014, the company's stance remains virtually unchanged. PotashCorp maintains that "[a] small group of politically-motivated individuals claim that OCP's Phos-Boucraâ operations are not in conformity with international law, and have directly challenged the legality of our importation of phosphate rock produced by OCP in the region." According to the company, the compliance of its Western Sahara activities is supported by legal opinions, reports necessary to provide such opinions, and PotashCorp's senior management team's experiences from visiting the territory. The most recent legal opinion was obtained and reviewed by the company in July 2015. Stressing that it is "an ethical but non-political company," PotashCorp reassures that it acts in line with the 2002 UN opinion regarding the legality under international law of the exploration and extraction of mineral resources in Western Sahara.

Due to the lack of sufficient engagement progress, IPM decided to exclude Potash Corporation of Saskatchewan Inc during 2015.