

General expectations of companies

Unilever APF invests in companies directly or indirectly through a range of different asset class allocations, including through equities, corporate bonds/loans, real estate and private equity funds. The pension fund expects these companies to act in accordance with its principles/goals. This expectation is breached where the company:

1. Is systematically and repeatedly involved in violations of a fundamental principle; and
2. Has taken insufficient measures to prevent similar cases arising in the future. This occurs in one of the following two cases:
 - The company lacks an appropriate enterprise-wide management system covering the relevant area and containing the following elements:
 - Policy principles;
 - An operational approach to put these principles into practice;
 - Appropriate procedures for dealing with problems and issues which arise from time to time;
 - Information flows that enable effective monitoring of the implementation of the policies and procedures;
 - Adequate training and education for relevant staff to enable them appropriately to implement the policies and procedures;
 - Regular feedback to management; and
 - Appropriate reporting on these matters, including where relevant public reporting.
 - The company does have such a management system but delivery in practice indicates that either the policies or procedures have significant unremedied defects.

The principles to be adhered to are derived from UN and OESO principles. With the inclusion policy, companies are identified which do not meet the principles and cannot be improved by dialogue. Unilever APF does not invest in these companies. This is explained in more detail below per principle/theme. Additionally, companies that potentially do not adhere to these principles are flagged as watch-listed companies. Depending on the situation, there will be a targeted dialogue to either understand the context and/or to attempt to improve the situation.

General expectations of governments

By investing in government bonds, Unilever APF finances governments and their activities. It expects these public authorities to act in accordance with its principles/goals. This expectation is breached where the public authority:

- Systematically and repeatedly violates a fundamental principle; and/or
- Has insufficient measures in place to limit or end structural violations of the fundamental principles by individual or corporate citizens.

1. Respecting human rights

In implementing this goal the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to violations of human rights, where indications are that it is due to systemic issues which affect the majority of the industry and over which the company has no direct responsibility – monitor and encourage company to consider developing standards for suppliers, including monitoring; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.

- Indirect exposure through supply chain or otherwise to violations of human rights where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers. Likely to be classified as **Medium** to **High**, depending on history and seriousness of allegations and nature of the company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.
- Direct company responsibility for violations of human rights – press company to develop immediately stronger policies and practices, including, where appropriate, to offer rapid and appropriate remediation to victims and (as relevant) families. Likely to be classified as **High**.
- For direct company responsibility for violations of human rights, Federated Hermes EOS will include a list for the APF to consider for **Exclusion** where a company fails effectively to address the issues through enhanced policies and processes or where issues persist, or a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

2. Respecting labour rights

In implementing this goal the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to violations of labour rights where indications are that it is due to systemic issues which affect the majority of the industry and over which the company has no direct responsibility – monitor and encourage company to consider developing standards for suppliers, including monitoring; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.
- Indirect exposure through supply chain or otherwise to alleged forced or child labour assess scale of exposure and prevalence across sector; press for clear standards for suppliers, clear and effective monitoring of compliance; if prevalent across sector encourage industry collaborations to develop better practice and change behaviours.
Likely to be classified as **Medium** to **High**, depending on quality of company standards and monitoring, escalate if company response insufficiently proactive, particularly if weak in comparison with peers.
- Direct employment breaches regarding labour rights – encourage company to develop stronger policies and approaches, protect and enhance worker rights. Likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.
- Direct employment breaches regarding alleged forced or child labour – press company to develop immediately stronger policies and safeguards for workers, offer rapid and appropriate remediation to victims and (as relevant) families. Likely to be classified as **High**.
- For direct employment breaches regarding labour rights Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where approach appears reckless or ill-considered and company fails effectively to address them through enhanced processes, or where company unresponsive to engagement. For alleged forced or child labour Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where issues persist and a company fails effectively to address them through enhanced processes and policies or where a company is unresponsive to engagement.

- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

3. Combating bribery and corruption

In implementing this goal the APF makes the following choices:

- Weak or non-existent policies within a sector or where operate in region prone to bribery and corruption – monitor and encourage to develop appropriate policies and procedures. Likely to be classified as **Low** but escalate if failure to develop policy persists.
- Company facing specific allegations of bribery and corruption – press for enhancement of policies and procedures, clear processes for ensuring that staff (and agents as relevant) adhere to standards and have whistle-blowing mechanisms available. Likely to be classified as **Medium** but escalate if failure to develop policy or problems persist.
- Company facing fine or settlement for bribery and corruption, or individual (current or former) staff face prosecution – press for complete overhaul of policies and procedures, and of processes for ensuring that staff (and agents as relevant) adhere to standards and whistle-blowing mechanisms. Likely to be classified as **High**.
- Federated Hermes EOS will include a list for the APF to consider for **Exclusion** where a company has been associated with severe or repeated breaches and does not act with appropriate vigour to change policies and procedures, or where problems persist, or where a company is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

4. Avoiding involvement in controversial weapons

In implementing this goal the APF makes the following choices:

- Sometimes companies are erroneously linked with controversial weapons due to their providing services or products to a related industry which are not necessarily directly linked to arms production or controversial weapons. Where such uncertainties exist, Federated Hermes EOS seeks to contact companies to gain clarity on their activities and, where appropriate, press for greater public disclosure and transparency on the extent and nature of any involvement. One of the questions to be answered also is if the type of weapon a company has links to does fall under the definitions of the conventions mentioned.
- Such dialogue is not always possible, however, and often occurs in relation to companies based in countries which have limited disclosure requirements. We also note that in many cases where a company is involved in these activities, the work undertaken is an integral element of state defence programmes, which renders engagement unfeasible. Federated Hermes EOS will include a list for the APF to consider for **Exclusion** where involvement is confirmed and there is no prospect of change.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

5. Respecting corporate governance standards

In implementing this goal the APF makes the following choices:

- While governance issues may easily in themselves be a cause for concern and engagement, our classification of a company as controversial due to governance issues will often be related to incidents where the governance shortcomings have resulted in poor/failed management of significant risks which may have been flagged in a norm-based screening. Certain breaches of corporate governance standards may however in themselves lead to a controversy assessment if the breach is sufficiently severe, particularly where accountability to shareholders is demonstrably lacking. Key areas of focus include board leadership/independence, accountability to shareholders, remuneration, related-party transactions, conflicts of interest and audit/accounting.
- Failure to adhere to basic corporate governance standards, in particular where significant deviation from local/regional standards. Likely to be classified as **Low** but escalate if deviations have already resulted in poor/failed management of significant risks.
- Ongoing and severe deviations from basic corporate governance standards where breaches have resulted in poor/failed management of significant risks. Likely to be classified as **Medium** but escalate if lack of responsiveness to shareholders' concerns.
- Ongoing and severe deviations from basic corporate governance standards and lack of responsiveness to shareholders' concerns. Likely to be classified as **High** but escalate if deviations have resulted in significant impact on share price or financial performance.
- Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where ongoing and severe deviations from basic corporate governance standards have resulted in poor/failed management of significant risks and significant impacts on share price or financial performance.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.

6. Protecting the environment and climate

In implementing this goal the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications are that it is due to systemic issues which affect the majority of the industry – monitor and encourage company or other investee asset, where relevant, to consider industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive.
- Direct company involvement with controversial practices (e.g. hydraulic fracturing, oil sands, drilling in the Arctic) with uncertainties regarding impacts on the environment. Likely to be classified as **Low** but escalate to **Medium** if indications that the company is not to a sufficient degree seeking assurances, where possible, regarding the risks. Where incident with environmental impact, such as spill or breach of (inter)national legislation, but indication that due to circumstances beyond the company's control, likely to be classified as **Low** but escalate to **Medium** if, in view of the severity of the issue, the company could be more proactively addressing/remediating.
- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications that it is due to systemic issues which affect the majority of the industry but where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers or industry collaborations. Likely to be classified as **Medium** to **High**, depending on history and seriousness of allegations and nature of the

company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.

- Direct company involvement with activities suspected of significant environmental impacts where company is not sufficiently proactive in restricting established impacts on the environment or where company is not sufficiently proactive in seeking assurances and disclosing/communicating the risks. Likely to be classified as **Medium** or **High** but escalate if company unwilling to acknowledge responsibility or the need for comprehensive risk management. Where incident with environmental impact, such as spill or breach of (inter) national legislation and company is not proactively seeking to address/remediate, likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.
- Direct company involvement with activities suspected of significant environmental impacts where company is not acknowledging the need for comprehensive risk management or actively seeking to mitigate/manage the environmental impacts of the activities. Likely to be classified as **High**. Where multiple incidents or sufficiently severe single incident, such as a spill or breach of (inter)national legislation and company response appears inadequate. Likely to be classified as **High**.
- Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where sustained and significant involvement in activities or incidents with significant environmental impacts where the company is not sufficiently seeking to manage or remediate or is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.
- Furthermore, Unilever APF longs for creating impact alongside this theme. This will be done through **impact** investing.

7. Ensuring a sustainable food supply

In implementing this goal the APF makes the following choices:

- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment or local populations where indications are that it is due to systemic issues which affect the majority of the industry – monitor and encourage company or other investee asset, where relevant, to consider industry collaborations to develop better practice and change behaviours. Likely to be classified as **Low** but escalate to **Medium** if indications that company could be more proactive. Direct company involvement with controversial practices (e.g. peat development, land grabbing, forest fires) with uncertainties regarding impacts on the environment. Likely to be classified as **Low** but escalate to **Medium** if indications that the company is not to a sufficient degree seeking assurances, where possible, regarding the risks. Where incident with environmental impact, such as spill or breach of (inter)national legislation, but indication that due to circumstances beyond the company's control, likely to be classified as **Low** but escalate to **Medium** if, in view of the severity of the issue, the company could be more proactively addressing/remediating.
- Indirect exposure through supply chain or otherwise to activities with severe impacts on the environment where indications that it is due to systemic issues which affect the majority of the industry but where indications that company is not sufficiently proactive in addressing the issues, e.g. through appropriate standards for suppliers or industry collaborations. Likely to be classified as **Medium** to **High**, depending on history and seriousness of allegations and nature of the

company's response (including disclosure/communication with stakeholders), in particular in comparison with peers.

- Direct company involvement with activities suspected of significant environmental and social impacts where company is not sufficiently proactive in restricting established impacts on the environment and local communities or where company is not sufficiently proactive in seeking assurances and disclosing/communicating the risks. Likely to be classified as **Medium** or **High** but escalate if company unwilling to acknowledge responsibility or the need for comprehensive risk management. Where incident with environmental and social impact, such as spill or breach of (inter)national legislation and company is not proactively seeking to address/remediate, likely to be classified as **Medium** but escalate to **High** if history or seriousness of allegations suggest underlying systemic problems.
- Direct company involvement with activities suspected of significant environmental impacts where company is not acknowledging the need for comprehensive risk management or actively seeking to mitigate/manage the environmental and social impacts of the activities. Likely to be classified as **High**. Where multiple incidents or sufficiently severe single incident, such as a series of forest fires or breach of (inter)national legislation and company response appears inadequate. Likely to be classified as **High**.
- Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where sustained and significant involvement in activities or incidents with significant environmental impacts where the company is not sufficiently seeking to manage or remediate or is unresponsive to engagement.
- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.
- Furthermore, Unilever APF longs for creating impact alongside this theme. This will be done through **impact** investing.

8. Improving health and hygiene

In implementing this goal the APF makes the following choices:

- Weak or non-existent policies within a sector – monitor and encourage to develop appropriate policies and procedures. Likely to be classified as **Low** but escalate if failure to develop policy persists.
- Company facing specific allegations of endangering the health of its employees or the local community or the company is ranked in the lower half of the Access to Medicine ranking – press for enhancement of policies and procedures, clear processes for ensuring that staff (and agents as relevant) adhere to standards. Likely to be classified as **Medium** but escalate if failure to develop policy or problems persist.
- Company facing fine or settlement for endangering the health of its employees or the local community or the company is ranked at the bottom of the Access to Medicine ranking – press for complete overhaul of policies and procedures, and of processes for ensuring that staff (and agents as relevant) adhere to standards and whistle-blowing mechanisms. Likely to be classified as **High**.
- Federated Hermes EOS will include on list for the APF to consider for **Exclusion** where a company has been associated with severe or repeated health issues and does not act with appropriate vigour to change policies and procedures, or where problems persist, or where a company is unresponsive to engagement.

- As always, this approach depends on available information, and engagement is always approached on a holistic basis covering a range of issues and recognising important changes can only be made over an appropriate time-frame.
- Furthermore, Unilever APF longs for creating impact alongside this theme. This will be done through **impact** investing.