



Environmental, Social and Governance (ESG) Quarterly Engagement Update 1Q|2020

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Executive Summary

Rockefeller's approach to Environmental, Social and Governance (ESG) investing within the Touchstone Global ESG Equity Fund focuses on managing publicly traded equities in an effort to provide competitive returns and have an impact on the sustainability of a company's operations. Though it is important to support solutions to ESG issues, the power of a business to impact wider society also comes from its practices, its behavior and processes: not just the product, but its modes of production. Essential to Rockefeller's ESG approach, is the belief that a commitment to sustainable investing does not have to compromise competitive alpha generation.

Rockefeller combines its collaborative culture with the rigor and insight characteristic of its equity research. Analysts apply a proprietary Four Pillar Method to understand a company's performance in the context of interconnected ESG-related criteria, to practice an integrated, financial-first approach. The Four Pillars include the categories of Governance, Products and Services, Human Capital Management and Environment.

Rockefeller's ESG Equity – Four Pillars

Governance

Rockefeller begins their analysis by assessing the **quality, integrity, transparency** and **accountability** of a company's management and board. It considers board composition and independence, executive compensation, diversity, transparency and other key issues that affect all levels of a business. Due to Rockefeller's global investment focus, it pays particular attention to the country of operation and country-specific best practices.

Human Capital Management

The management of a company's **human capital** has the potential to impact employee productivity and the long-term growth of the business. Rockefeller assesses how companies promote safety, diversity and positive relations in the workplace and in communities in which they operate.

Products & Services

Rockefeller seeks to invest in companies with **business models, products** and **modes of production** that are aligned with the sustainable development of the world's economy. Under this pillar, Rockefeller also assesses a company's marketing practices, its relationship with customers and supply chain transparency.

Environment

Under this pillar, Rockefeller assesses how a company is preparing for **climate change** and the **transition to a low-carbon economy**. It looks for the management and reduction of greenhouse gas (GHG) emissions and other environmental liabilities. It also considers a company's consumption of natural resources and seeks to understand the lifecycle impacts of manufacturing and production.

Progress

Medtronic PLC (1.46 percent)

Continued to monitor Medtronic's actions in response to COVID-19. To address the shortage of ventilators globally the organization has expanded its production efforts and publicly shared the design specifications for its PB560 Ventilator. This decision will allow manufacturers across industries to ramp up production of ventilators and aid public health efforts.

Regeneron Pharmaceuticals Inc. (1.00 percent)

In partnership with Sanofi, Regeneron continued to advance testing of its rheumatoid arthritis drug Kevzara as a treatment for COVID-19.

Fifth Third Bancorp (0.65 percent)

With economic uncertainty surrounding COVID-19, banks have begun to provide additional financial flexibility to consumers and employees. Fifth Third has announced multiple initiatives including 90-day fee waiver programs for consumers and small businesses, as well as a moratorium on foreclosures and vehicle repossessions. The company also issued a \$1K special payment to on-site employees providing essential services.

Total SA (2.53 percent)

Formed a COVID-19 Crisis Team in response to the global pandemic, led by the Global Environmental Health & Safety Director. Leveraged the company's robust Environmental Health and Safety protocols and processes to institute additional safety measures and distributed personal protective equipment where necessary.

Aflac Inc. (1.71 percent)

Continued to engage with Aflac about internal controls on sales practices. Discussed opportunities to strengthen disclosures around talent attraction and retention and climate risk. At Aflac's request, we shared our feedback on the latest Corporate Social Responsibility Report and discussed the launch of its new ESG platform and Task Force for Climate-related Financial Disclosures reporting.

Shenzhou International Group Holdings Ltd. (0.92 percent)

Engaged with the organization about labor and environmental management. Gained insight on the company's strategy to maintain low employee turnover, which includes paying competitive wages and offering other on-site amenities. Learned of its progress with wastewater treatment and expressed our interest in seeing more robust greenhouse gas (GHG) emissions and water related disclosures. The company agreed to improve its disclosure and requested further guidance in this area.

Amazon.com Inc. (3.03 percent)

Continued to engage with Amazon after a visit to its fulfillment center in Madrid. Discussed how environmental and social performance indicators could be integrated into site manager compensation, as well as actions at individual sites that contribute to the Climate Pledge.

Ubisoft Entertainment SA (0.74 percent)

Engaged with Ubisoft on talent attraction and retention, user safety, and content. Discussed efforts to mitigate employee stress during the "Crunch" period before games are released, reporting features embedded in its games to promote safe user interaction, and the company's focus on making gaming a social and educational experience. Encouraged the company to publish a corporate social responsibility (CSR) report.

KT Corp. (0.81 percent)

Discussed a labor union incident in 2019, governance systems to avoid risks related to anti-competitive behavior and data privacy systems. Learned that the firm has strong relations with the labor union covering the vast majority of employees, and that it is currently working to apply Sustainability Accounting Standards Board (SASB) principles to its upcoming reporting on data privacy and protection.

Engagement Highlights

Amazon.com Inc. (3.03 percent)

- ▶ Multiple touchpoints with Amazon have built on a relationship that began in June of 2019. After labor concerns at fulfillment centers led the ESG Team to visit a facility in New Jersey, Amazon offered to lead the Team along with institutional investors on visits to additional facilities in Europe.
- ▶ Visited a fulfillment center in Madrid, bringing 17 people from European institutional asset allocators to ask questions about ESG management at the facility level including how the accident rate is tracked, and whether it is included among the performance metrics considered in management compensation.
- ▶ Discussed observations from the visit with the General Counsel and Investor Relations Team, offering feedback on how corporate level ESG initiatives can be more deeply integrated at the facility level. This includes things like the incorporation of health and safety metrics into the facility manager's compensation structure as well as communication with facility staff about local environmental practices linked to the Climate Pledge goal to achieve carbon neutrality by 2040.
- ▶ Amazon's General Counsel shared information about the shareholder resolutions filed for the 2020 Annual General Meeting and sought our feedback on how we will vote and how they might respond.
- ▶ Will continue to discuss labor management practices with Amazon in efforts to further improve working conditions for its employees.

Shenzhou International Group Holdings Ltd. (0.92 percent)

- ▶ Had numerous conversations with the Corporate Secretary of Shenzhou International. After a period of non-responsiveness from Shenzhou, the ESG Team escalated its efforts by sending a formal letter requesting a call to discuss ESG risks and opportunities. This was successful in igniting a deeply constructive dialogue.
- ▶ As an apparel supplier based in China with a vertically integrated business model that includes fabric milling, weaving and dyeing, the company has a heavy environmental footprint. Have asked Shenzhou to set GHG emission and water reduction targets, and to improve reporting on impacts and progress in these two areas.
- ▶ After developing a better understanding of the reasons why Shenzhou was reluctant to increase its transparency on carbon and water, the ESG Team was able to dispel many of their concerns. Conducted a presentation providing information about best practices as well as examples of other companies that improved their ESG performance records over time. The Corporate Secretary then committed to improving Shenzhou's reporting over the coming year.
- ▶ Maintained dialogue about the impact of COVID-19 on working conditions and steps the company is taking to return to full production while protecting its workers.

Ubisoft Entertainment SA (0.74 percent)

- ▶ Spoke with the Senior VP of IR at Ubisoft regarding governance matters related to the Board and social issues, such as heavy working hours in the run-up to game launches and the turnover rate.
- ▶ Encouraged them to publish their first CSR report which they are considering. Will continue dialogue over the upcoming months.

KT Corp. (0.81 percent)

- ▶ Engaged with the ESG Manager at KT Corp. about concerns related to a labor union incident in 2019, governance systems to avoid risks related to anti-competitive behavior and data privacy systems.
- ▶ Learned that the firm has strong relations with the labor union covering the vast majority of employees, and is currently working to apply SASB principles to its upcoming reporting on data privacy and protection.

Sustainable Development Goals are 17 global goals set by the United Nations in 2015. Each comprises separate targets covering social and economic development. Issues include poverty, hunger, health, education, global warming, gender equality, water, sanitation, energy, urbanization, environment and social justice.

Sustainable Development Goal Case Study:

Microsoft Corp. (4.62 percent)

Microsoft is a multinational company that develops, manufactures, licenses, supports and sells computer software, consumer electronics and personal computers and services. The company has integrated ESG considerations not only throughout its operations but also in its products and services.

- ▶ While a number of its products are used in the healthcare space, one new and innovative initiative has been Microsoft's AI for Health, which is a \$40 million, five-year program to empower researchers and organizations with artificial intelligence (AI) to improve the health of people and communities around the world. (SDG #3)
- ▶ Microsoft has helped develop and sponsor an e-learning tool, which provides online training for business leaders, managers and employees to help them understand the risks and best-practice measures in dealing with human trafficking in their operations and supply chain. This tool was created in collaboration with End Human Trafficking Now and United Nations Global Initiative to Fight Human Trafficking (UN. GIFT). (SDG #8)
- ▶ Microsoft has an 'Affordable Access Initiative' which helps close the digital divide for rural and unconnected communities. Microsoft has expanded this program globally and now works with communities in rural America, as well as in Kenya, Ghana, India and others to get them access to broadband. (SDG #9)

***SDG #3:** Ensure healthy lives and promote well-being for all at all ages: Many more people today are living healthier lives than in the past decade. Nevertheless, people are still suffering needlessly from preventable diseases, and too many are dying prematurely. Overcoming disease and ill health will require concerted and sustained efforts, focusing on population groups and regions that have been neglected.*

***SDG #8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all: Inclusive and sustainable economic growth can drive progress and generate the means to implement the Sustainable Development Goals. More progress is needed to increase employment opportunities (particularly for young people), reduce informal employment and the gender pay gap, and promote safe and secure working environments to create decent work for all.*

***SDG #9:** Build resilient infrastructure, promote sustainable industrialization and foster innovation: Investments in infrastructure including transport, irrigation, energy and information and communication technology, are crucial to achieving sustainable development and empowering communities in many countries. It has long been recognized that growth in productivity and incomes, and improvements in health and education outcomes require investment in infrastructure.*

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