

Supply Chain Management

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Agenda

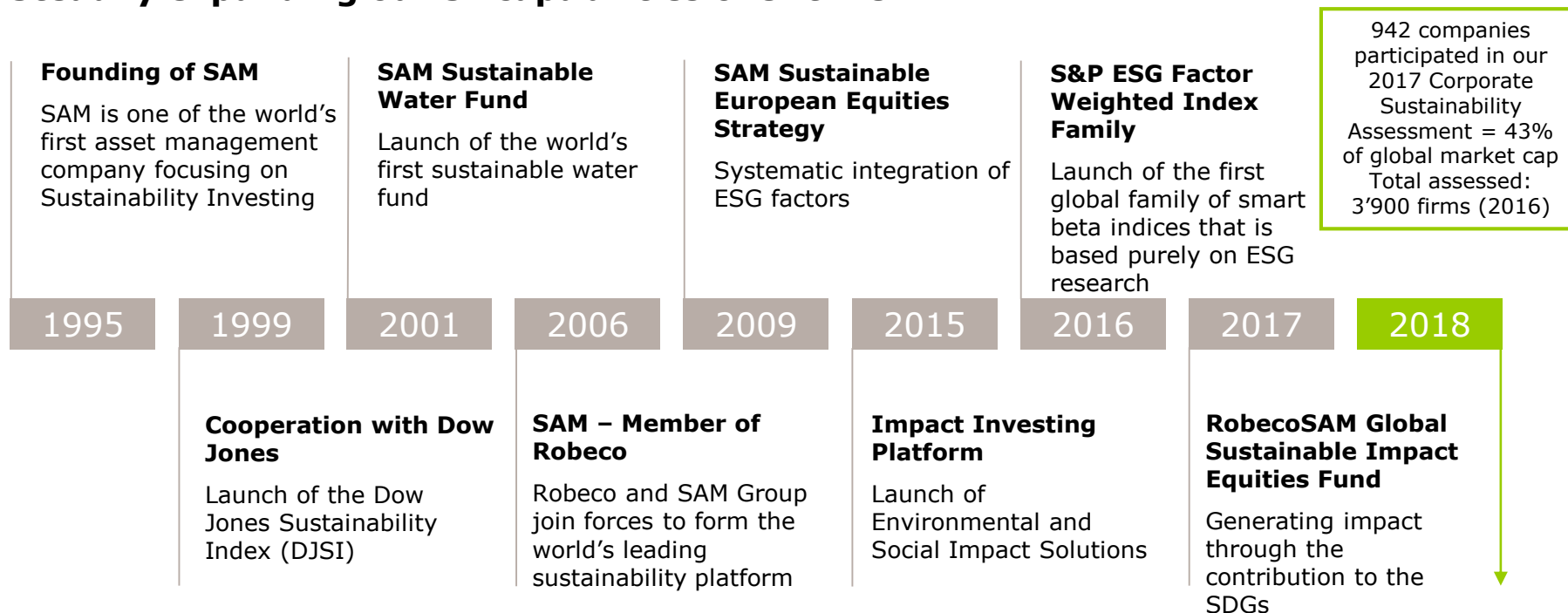
- 01 RobecoSAM & Corporate Sustainability Assessment (CSA)
- 02 Supply Chain Management – An Overview
- 03 RobecoSAM's Expectations on Companies
- 04 Companies' Performance in Supply Chain Management
- 05 Key Challenges
- 06 Q&A



RobecoSAM & the Corporate Sustainability Assessment (CSA)

RobecoSAM: The Global Benchmark for Sustainability Investing (SI)

Steadily expanding our SI capabilities over time



Holistic Analysis: RobecoSAM's Integrated Research Approach



- **RobecoSAM Indices**
Cooperation with S&P Dow Jones Indices
- **RobecoSAM Asset Management**
Theme Equity Strategies
Core Equity Strategies
- **RobecoSAM Sustainability Services**
Company Benchmarking
- **RobecoSAM Publications**
Industry Studies
Sustainability Studies
- **Robeco**
Responsible Investment Products
- **3rd Party Cooperation**
Research Cooperation

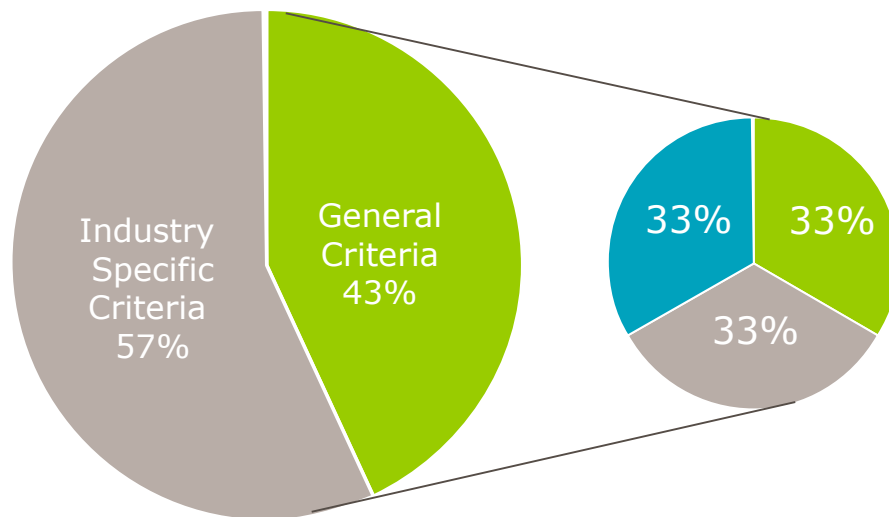
RobecoSAM Corporate Sustainability Assessment

Systematic and consistent measurement of corporate sustainability performance

- Access to corporate information via web-based questionnaire, management meetings and public information.
- Integrated assessment of economic, environmental and social criteria with focus on long-term value creation.
- Assessment of more than 3'900 companies yearly based on broad range of general and industry-specific criteria.
- 60 industry-specific questionnaires-
- Emphasis on performance over management systems and policies.
- Assessment complemented by a Media & Stakeholder Analysis.
- Process audited annually by independent third-party firm.

Sustainability Assessment Criteria

Over 75 cross- and industry-specific criteria



The breakdown between industry-specific and general criteria and the dimension weights are indicative only and may deviate for each of the 60 different industries analyzed by RobecoSAM.

Economic Dimension

- Corporate governance
- Risk & crisis management
- Codes of conduct & corruption
- Impact Measurement & Valuation
- **Supply Chain Management**
- Materiality

Environmental Dimension

- Environmental reporting
- Environmental Policy/Management systems
- Climate Strategy
- Operational Eco-Efficiency

Social Dimension

- Social reporting
- Labor practice indicators and human rights
- Human capital management
- Talent attraction & retention
- Corporate citizenship & philanthropy

Financial Materiality of ESG Factors

The questions we seek to answer:

- How is value created in the industry?
What are the sources of value creation?
- What long-term trends could impact these sources of long-term value creation?
- What are the intangible aspects that need to be managed by companies to continue to create value?
- WHY ? How are these intangible aspects related to long-term competitiveness and value creation?
- What KPIs can be used to assess the relative performance of companies in the industry?
- Which companies stand out as high quality companies?



Industry value drivers



Megatrends



Long-term intangible factors



Link / Rationale



KPIs



Opinion

Supply Chain Management – An Overview

Supply Chain Management – Regulatory Environment

Recent developments highlighting the increasing importance of SCM

- California Transparency in the Supply Chain Act (signed 2010, effective 2012)
 - Requirements to make public disclosures about efforts to eradicate slavery and human trafficking in supply chain.
- UK Modern Slavery Act (2015)
 - Requirement to publish a “slavery and human trafficking statement” in annual report, outlining the steps to ensure that slavery and human rights abuses do not take place in operations and supply chain.
- Conflict Minerals Regulations
 - New EU Conflict Minerals Regulation (coming into full force in 2021)
 - New SEC Conflict Minerals Rules (Dodd-Frank, section 1502, enforcement still discussed)
 - OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Supply Chain Management - Materiality

Supply Chain Management is financially material...

- Reputational risks, e.g. involvement in a big controversy due to suppliers' violations of human rights, labor issues, environmental regulations etc.
- Operational risks, e.g. supply chain disruptions due to delays, poor production quality etc.
- Economic risks, e.g. country risk, business ethics, corruption & bribery
- Environmental risks, e.g. hazardous substances, water scarcity, energy consumption
- Social risks, e.g. child labor, working conditions, talent attraction & retention

By affecting the risk profile of a company, Supply Chain Management affects its long-term competitiveness and its capacity to create value

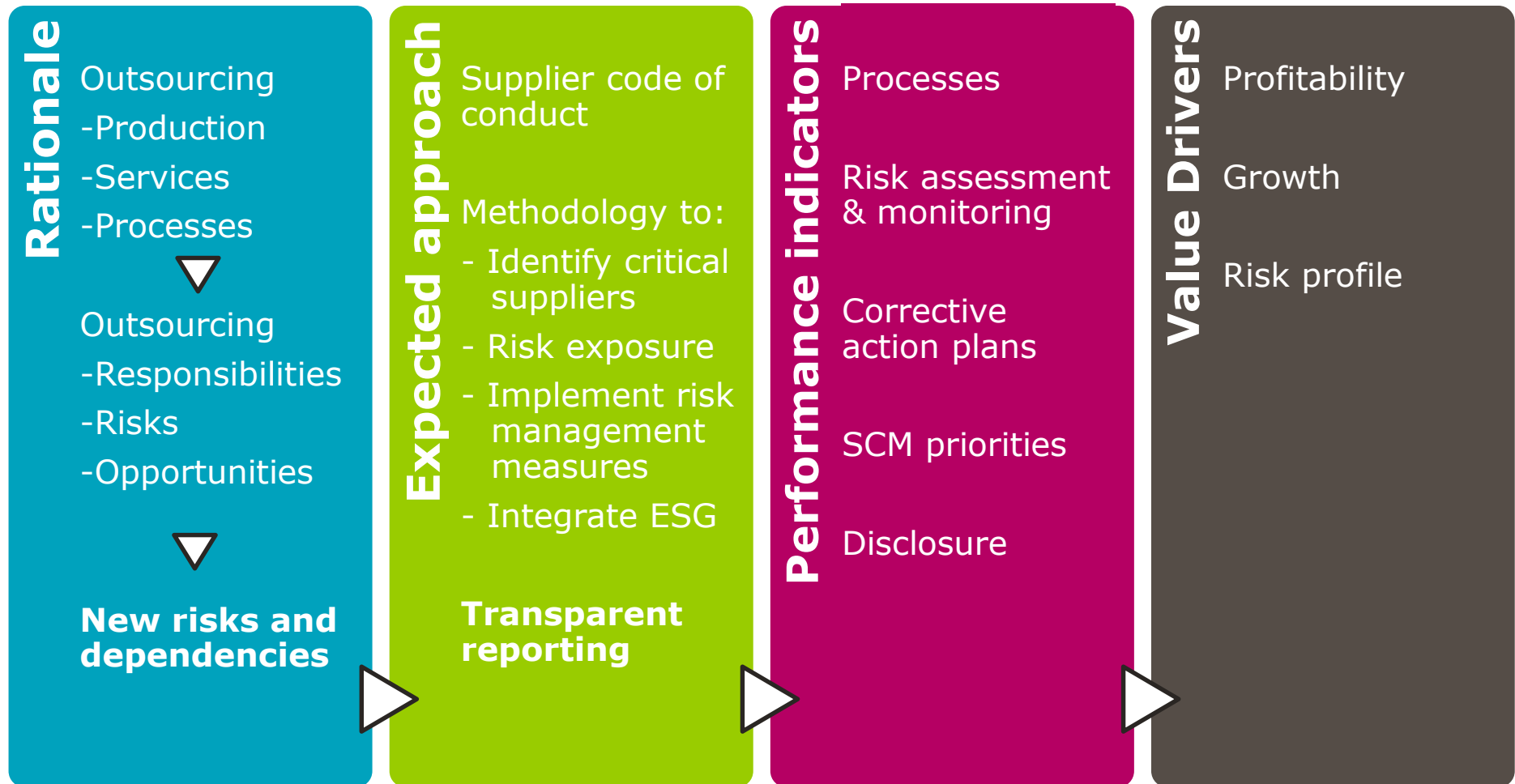
Supply Chain Management - Rationale

Rationale

- Companies not only outsource production, services and business processes but responsibilities, risks and opportunities as well.
- Risks become less apparent, new dependencies arise, and the identification, monitoring and management of risks and opportunities become more difficult.
- Companies are confronted with the need to minimize costs and time of delivery to satisfy suppliers' demand and increase profitability without negatively impacting product quality or incurring high environmental or social costs.

Investors increasingly see the importance of supply chain risk management and the negative consequences if it is not managed effectively

Supply Chain Management - Overview



RobecoSAM's Expectations on Companies

RobecoSAM's Approach to Supply Chain Management

| General Criteria | | Sector Specific |
|--|---|---|
| Supplier Code of Conduct | Publicly available supplier code of conduct that covers a list of defined issues (e.g. environmental standards, child labor, human rights, OHS, etc.) | <ul style="list-style-type: none"> • Conflict minerals • Suppliers' exposure to water risk • Suppliers' water risk management • Different type of certifications: E.g. Forest certifications |
| Awareness | Definition of critical suppliers, number of critical tier 1 and critical non-tier 1 suppliers. | |
| Risk Exposure | Risk identification process, sustainability risk assessment definition, scope and targets (tier 1 and critical non-tier 1 suppliers assessed in the last 3 years) | |
| Risk Management Measures | Frequency of sustainability monitoring for critical suppliers (tier 1 and non-tier 1) and suppliers with high sustainability risk. Corrective action plans. | |
| ESG Integration in SCM Strategy | Quantitatively and qualitatively quantify business benefits of integration of ESG factors in SCM strategy. Thresholds for new and existing suppliers. | |
| Transparency | To what extent companies publicly report on SCM aspects and have relevant quantitative KPIs reported over time in place. (all of the above) | |

Supply Chain Management – Performance Indicators

Performance Indicators

- Well defined processes
- Breadth and depth of risk assessment and monitoring
- Corrective action plans
- Clear SCM priorities
- Documented evidence
- Disclosure

Supply Chain Management – Recent Updates

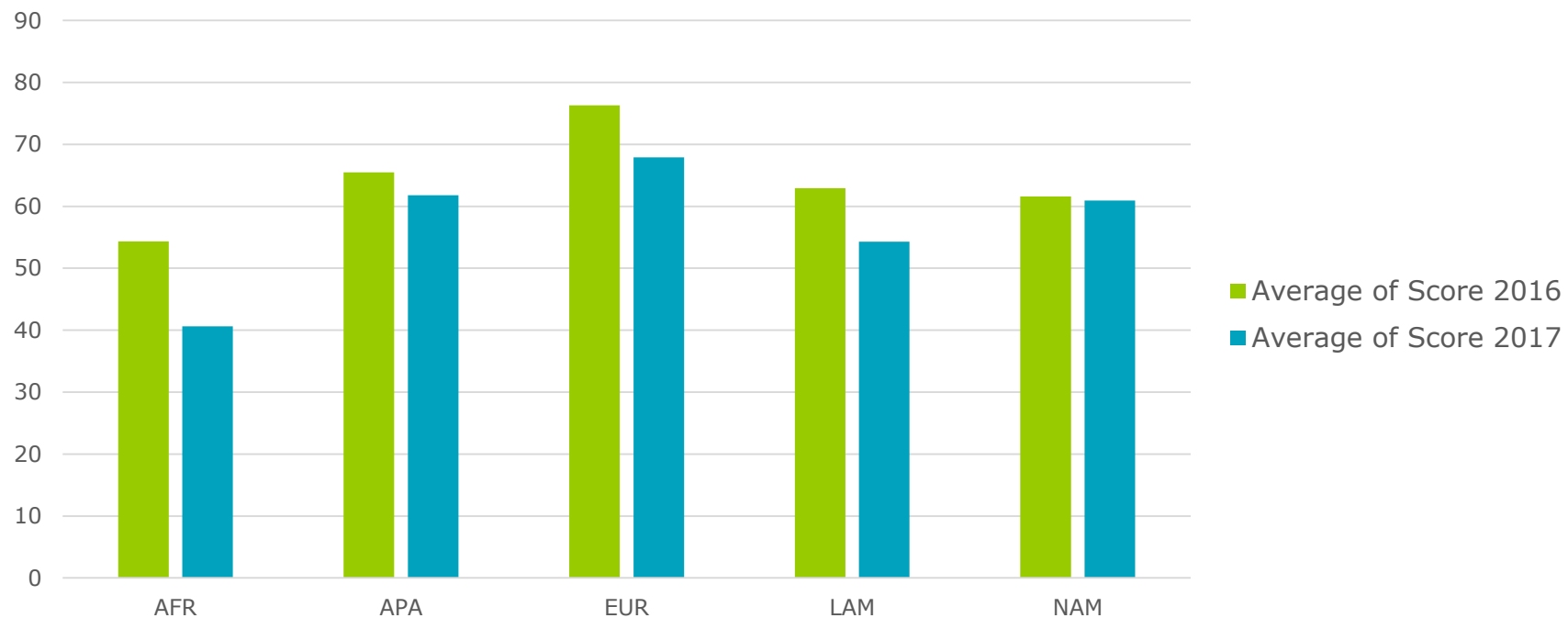
Recent updates to differentiate good performers from sustainability leaders

- Increased analysis depth (e.g. critical non-tier 1 suppliers, monitoring frequency, separate thresholds for new and existing suppliers) and extra focus on risk identification.
- Going beyond tier-1 suppliers and expanding the scope to critical non-tier 1 suppliers.
- Expectations on companies to increase transparency and report publicly about specific issues.
- Introduction of industry-specific issues (e.g. conflict minerals).
- Integration of SCM in other relevant overlapping criteria such as: corruption and bribery, and human rights.

Companies' Performance on Supply Chain Management

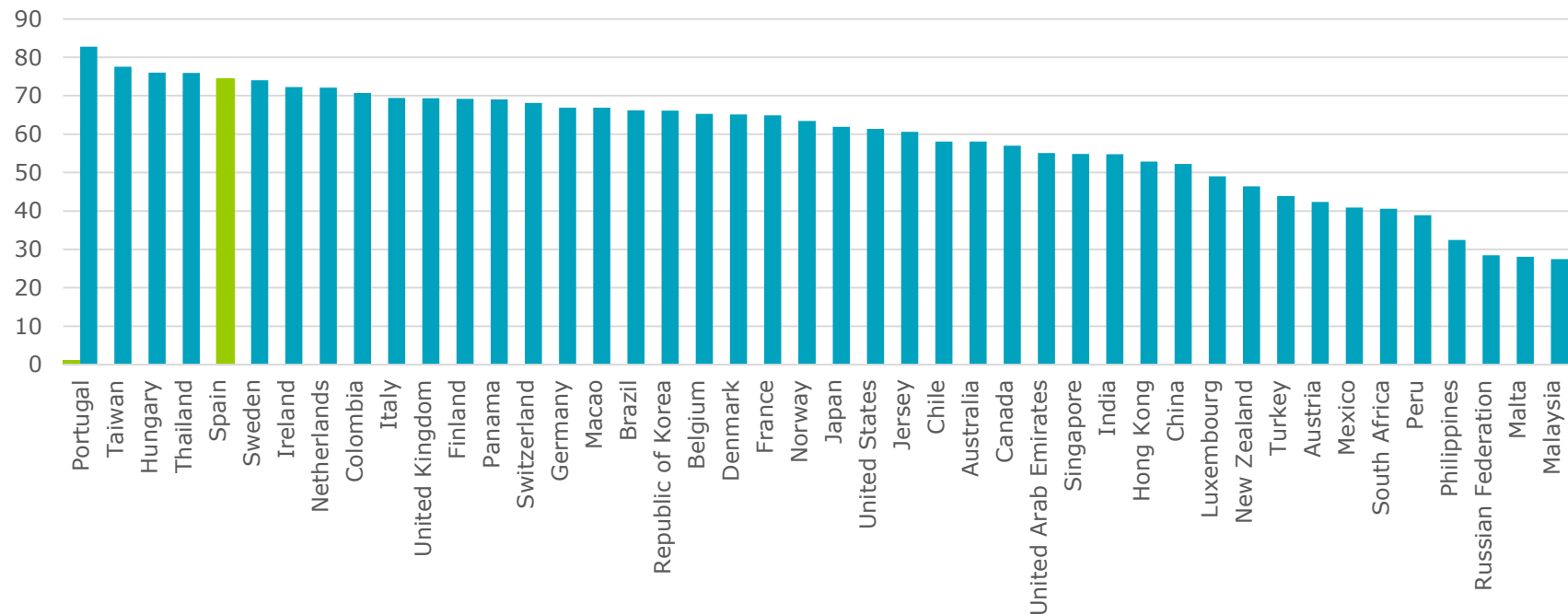
Supply Chain Management – Average Scores

Overall Performance Across Regions



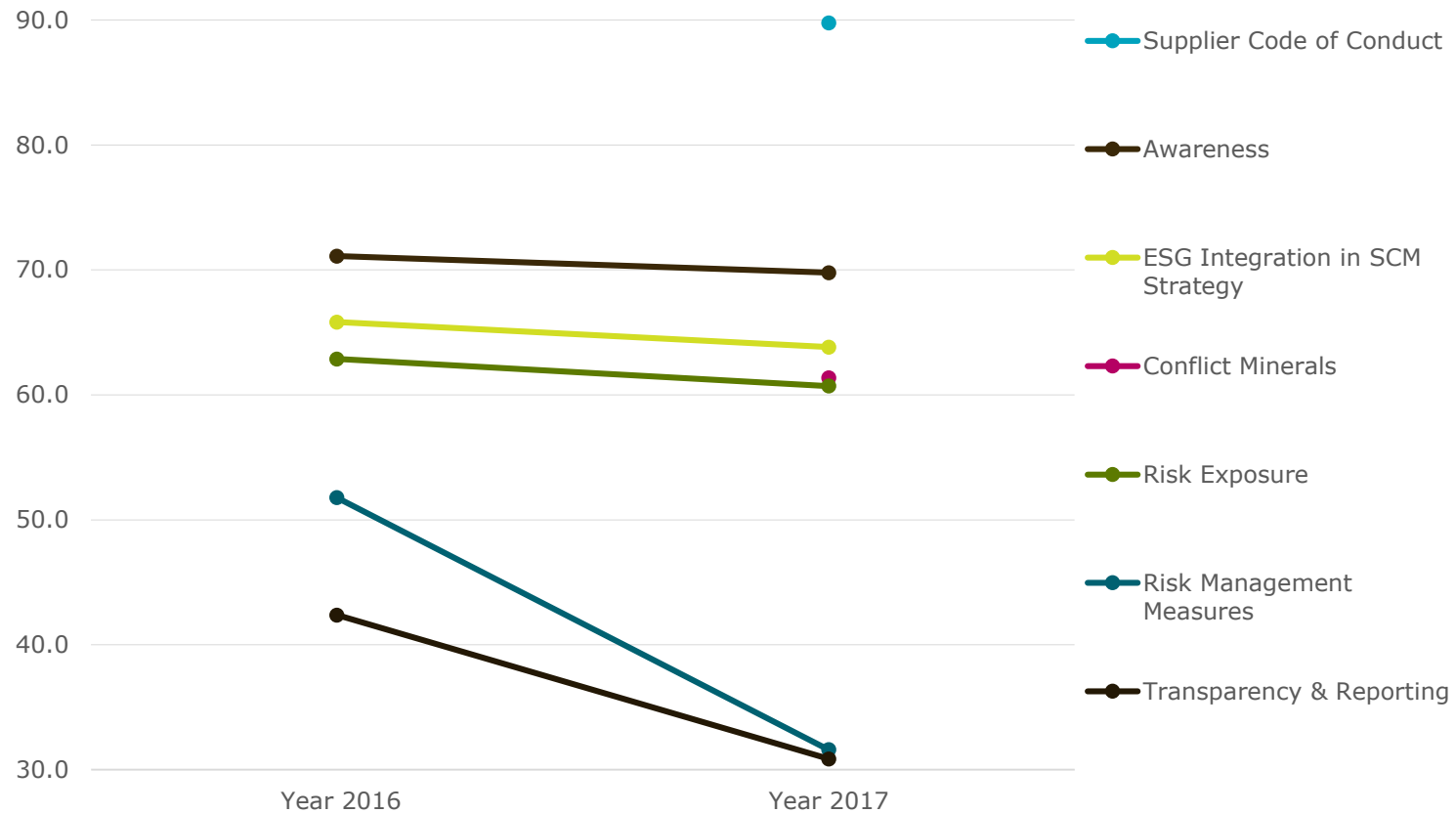
Supply Chain Management – Average Scores

2017 Overall Performance Across Countries



Supply Chain Management – Average Score

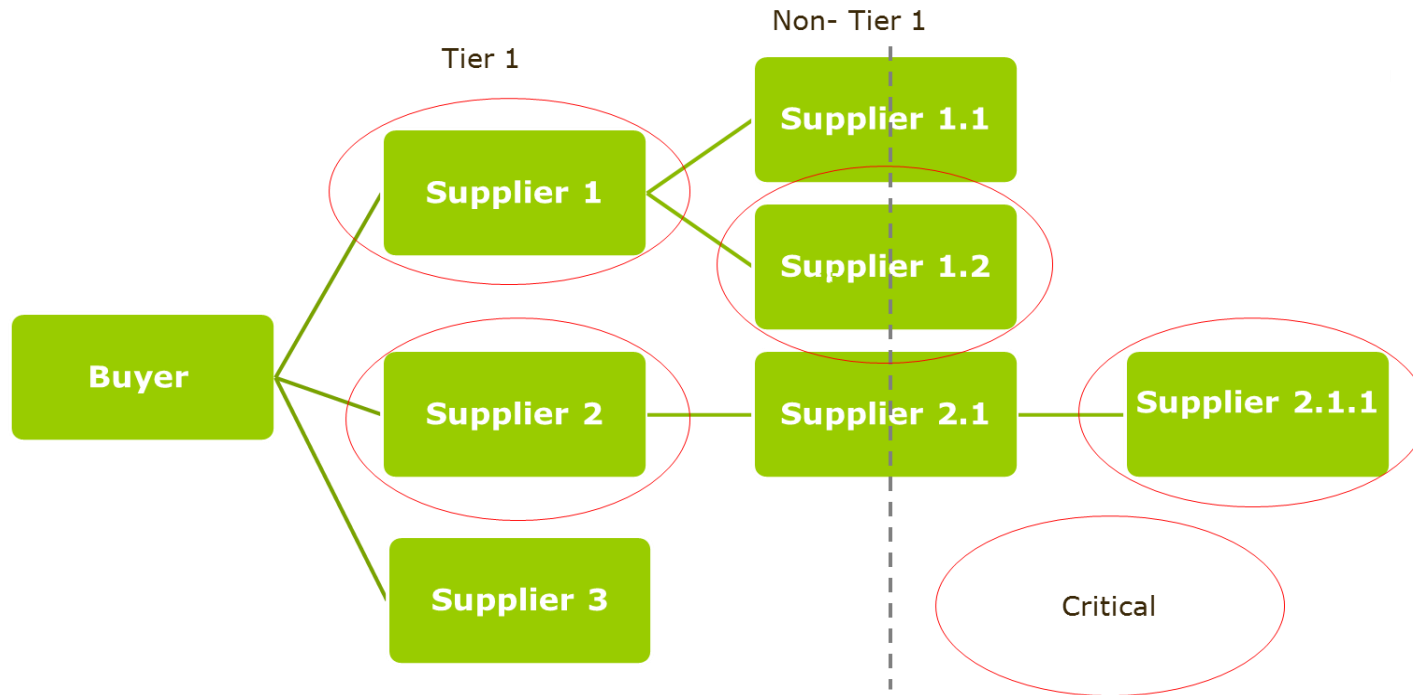
2017 Overall Performance Across Questions



Key Challenges

Key Challenges – Identification of Critical Suppliers

50% of companies are not able to identify critical non-tier 1 suppliers



Identification and reporting on critical non-tier 1 suppliers is a challenge

Key Challenges – Transparency and Reporting

- Most companies have a public sustainability policy and report on risk management mechanisms in supply chain management, such as audits, collaborative initiatives and capacity building.
- Only about 20% of participating companies publicly report on spend analysis and on the identification process of critical suppliers.
- Over 40% of participating companies had no KPIs in place related to SCM, around 25% were able to provide 3 KPIs, and only around 15% of companies were able to provide three public targets for each of those specified KPIs.
- More than 60% of the participating companies have zero targets in place.

Public reporting on supply chain KPIs and targets is a challenge

Q&A

Questions?



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