

Triodos Sustainability Research

Company Engagement Report, January - June 2010

Triodos Sustainability Research provides high-quality research for the investments of Triodos sustainable investment funds and Triodos Bank Private Banking clients and engages with stock-listed companies at various research stages.

Contact during analysis & monitoring

Description	
Total contacts	46
Most frequent theme	Animal testing
Companies selected	13
Companies not selected	16
Still engaging	17

INTRODUCTION

Dialogue with companies is an important part of the Triodos investment strategy and one of the ways we encourage sustainable business performance of stock listed companies. We discuss issues with regard to social, environmental and corporate governance performance and aim to raise awareness, convince, and motivate change. Companies usually welcome engagement with Triodos and it often stimulates them to take action.

This report demonstrates our engagement efforts during the first half of 2010, and the impact these efforts have had. Key engagement with companies occurs during selection and monitoring of companies, responsible share ownership activities, and maintenance and development of our minimum standards. In the first half of 2010 we have had 402 engagement actions with companies, as described in the table below. Details of the actions from January to June 2010 are contained in this report.

During selection analysis	46
Monitoring our sustainable investment universe	2
Performance and reporting feedback	270
Pushing the sustainability agenda	1
Proxy voting	77
Responsible share ownership (AGMs plus other)	6
Engagement on themes	0
Total	402

ENGAGEMENT DURING SELECTION ANALYSIS

During analysis of a company we often question policies, programmes and performance. By engaging with companies throughout the research process, we give companies an opportunity to share their perspective on particular issues and to provide additional information that is not in the public domain.

During January to June 2010 we concluded 84 assessments and many other assessments were underway – 46 companies were asked questions for further clarification on our minimum standards. All engagement activities undertaken during selection analysis in the period January to June 2010 are summarized in Annex 1.

During the first half of 2010 we followed up on outstanding engagement activities reported in the July-December 2009 report with the following results:

- We concluded that the following companies meet all Triodos minimum standards and are now part of, or remain in, our sustainable investment universe:
 - Hain Celestial (us, Food products) – remains selected
 - PVATePla (DE, Semiconductors) – newly selected
 - Whole Foods Market (us, Food retail) – remains selected

Engagement by theme

Minimum standard	
Alcohol	0
Arms	17
Animal testing	22
Blacklist projects	3
Corruption	1
Environmental damage	10
Factory farming	3
Fur	0
Gambling	0
Genetic engineering	6
Basic labour rights	8
Human rights	8
Nuclear power	3
Other	4
Precautionary principle	2
POPs and pesticides	4
Pornography	0
Tobacco	0
Violation of legislation	2

- The following companies were not selected on the basis of dialogue:
 - Ansell (AU, Healthcare equipment & supplies) due to non-compliance with our standard on animal testing
 - Barry Callebaut (CH, Food products) due to non-compliance with our standards on animal testing and environmental damage
 - Casino (FR, Food retail) due to non-compliance with our standards on animal testing and genetic engineering
 - Imtech (NL, Construction & engineering) due to involvement in nuclear power
 - Nedbank (ZA, Commercial banks) due to non-compliance with our standard on arms
 - Tesco (GB, Food retail) due to violation of legislation
 - TFS Corp (AU, Paper & forest products) due to products and services not meeting the Triodos definition for pioneer fund.
- Dialogue with Kroger (us, Food retail) failed. Questions were asked regarding animal testing, arms, and environmental damage and the company did not respond.
- Dialogue with the following companies is ongoing:
 - Asian Bambo (DE, Food products) regarding environmental damage
 - SIG (GB, Trading companies) regarding products and services
 - Lifeway Foods (us, Food products) regarding products and services

MONITORING OUR SUSTAINABLE INVESTMENT UNIVERSE

We actively monitor companies that have been selected for our investment universe. When there is potential breach of our minimum standards we investigate in depth and often enter into dialogue with the company. It can and does sometimes result in companies being de-selected from our universe.

During January to June 2010, Triodos engaged with two companies as a result of alerts and monitoring activities. Engagement activities and related themes are summarised below.

Company	Topic	Engagement outcome	Eligible for investment
Roche (CH, Pharmaceuticals)	Human rights and organ harvesting in China	Company shared its view of the issue and management dilemma	Engagement continues
Telefonica (ES, Telecommunication services)	Violation of legislation (anti-trust)	Company provided information regarding pending and new lawsuits, newly developed compliance programme, and training programme	Yes

On the basis of the alert on Swiss pharmaceutical company Roche, we also had contact with non-governmental organisations Amnesty International and Wemos in June. The dialogue concerned the pharmaceutical company's clinical trials and organ harvesting in China. Roche had already provided its viewpoint to Triodos, however we consider that the NGO perspective is also of value and dialogue with such organisations helps to make a balanced assessment. The conclusion regarding Roche's eligibility for investment will be drawn in July and reported in the next company engagement report.

During the first half of 2010 we also followed up on outstanding engagement activities regarding alerts that had been reported in the July to December 2009 company engagement report. These were:

- Nokia (FI, Communications equipment) regarding human rights, and specifically a subsidiary's sale of mobile telecommunications technology to Iran. Dialogue led to a conclusion of minor involvement: see case study below.
- Dexia (BE, Commercial banks) regarding human rights, and specifically a subsidiary's activities in Israeli occupied territories. Triodos continues to engage with the company on the issue.

PERFORMANCE AND REPORTING FEEDBACK

Results of assessments are shared with the companies. This includes a full overview of their performance on key sustainability themes. In addition, companies are informed whether or not they are eligible for investment by Triodos Bank. Many companies seek further dialogue based on assessments.

In the first half of 2010 Triodos Research sent results of assessments to 270 companies, with the majority being for results of 2009 investigations. During this period, 14 companies actively responded to our feedback and provided additional information or requested further dialogue. None of the additional engagement activities led to changes in selection status.

During January to June 2010, feedback was received from the following four companies, which are eligible for investment by Triodos: Essilor (FR, Healthcare equipment & supplies), Metro AG (DE, Food & staples retailing), Precious Woods (CH, Paper & forest products), and Wainwright Bank & Trust Company (US, Commercial banks).

Feedback was received from the following nine companies, which are not eligible for investment by Triodos: AIG (US, Insurance), Asahi Co Ltd (JP, Speciality retail), British Sky Broadcasting Group (GB, Media), Fondiaria (IT, Insurance), Konica Minolta (JP, Office electronics), National Grid (GB, Multi-utilities), Safeway (US, Food & staples retailing), Toyota Industries (JP, Auto components), and Wacker Chemie (DE, Chemicals).

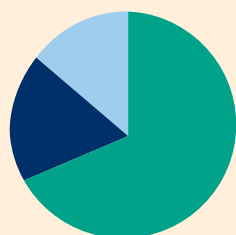
As a result of our assessment feedback, Toyota Motor Corporation (JP, Automobiles) requested a meeting with us to discuss our conclusions. Extensive dialogue was had regarding human rights, basic labour rights and product safety. The meetings did not result in any changes to our conclusions and the company remains ineligible for investment by Triodos.

PUSHING THE SUSTAINABILITY AGENDA

Being committed to sustainable development means that we try to help companies that do not meet our standards to become more sustainable.

In March 2010 we engaged with Dutch construction and engineering company BAM Group in order to help raise awareness of sustainability issues. At a stakeholder meeting Triodos challenged the company to address gender imbalance of management and to take a leading role in sector initiatives for prevention, processing and recycling of waste.

Voting behaviour



- For
- Opposite
- Abstain

RESPONSIBLE SHARE OWNERSHIP

By exercising our rights as a shareholder and voting at shareholder meetings, as well as attending other shareholder and stakeholder meetings, we believe we are able to further challenge companies we already invest in to remain sustainable and to become even more so.

Proxy voting

As of 30 June 2010, we voted at 77 shareholder meetings. Approximately 14% of votes were against management recommendations and we abstained on only 3% of resolutions, less than half compared to the 7% for the same period in 2009. Agenda items for which we voted against management include those related to (re-) appointment of directors and auditors, director compensation and share issues. We voted against remuneration policies or related resolutions when compensation was potentially excessive, or when we considered remuneration targets to be unclear or not challenging enough. In line with our corporate value of transparency, all companies are informed about our voting behaviour.

As in 2009, remuneration policies remain very important items on most annual general meeting (AGM) agendas. This year many companies have proposed changes to their remuneration policies as a result of the financial crisis and criticism of excessive pay. Of the 77 meetings at which we voted, 39 of them included resolutions on remuneration – 54 resolutions on the topic in total. In most cases approval was sought for the remuneration report but in numerous AGMs changes were proposed. In total, Triodos voted against 39 of the 54 resolutions, approved 13, and abstained on two.

Some examples in favour of remuneration resolutions are:

- The remuneration report of Swisscom – The company asked for a consultative vote on its policies, specifically its ‘Say on Pay’ resolution. Although Triodos had some remarks, overall the remuneration report was transparent, the structure was clear and reasonable and the level of remuneration paid was not excessive. Triodos did additionally recommend that Swisscom include sustainability targets in its remuneration policies.
- The new remuneration policy of DSM – The company has increased the emphasis on long-term value creation in its revised policy. This approach has resulted in a proposal to include a number of non-financial indicators, with a significant focus on sustainability performance. In the beginning of 2010 Triodos engaged with DSM on the draft of its new remuneration policy (in cooperation with Eumedion and its members). An impressive 99.9% of shareholder votes supported the proposal at the AGM.

Some examples where we opposed remuneration resolutions are:

- The remuneration report of 3i Group – Triodos considered that the company report lacks transparency regarding targets, and that the combined awards under the company’s bonus scheme and the Discretionary Share Plan are excessive.
- The remuneration system of Adidas – Triodos has concerns about transparency, potential excessiveness of the bonus (no cap), and the relatively high termination provisions. Only 10% of voting shareholders opposed to this resolution and it was adopted by 90%.

Annual general meetings

Company	Remuneration	Climate change	Illegal forestry	Water management
Ahold	•			
BG Group	•	•		•
Henkel	•			
Reed Elsevier	•		•	
Wolters Kluwer	•		•	

Annual general meetings

We also attended four AGMs – two in the Netherlands (Reed Elsevier and Wolters Kluwer), one in Germany (Henkel) and one in the UK (BG Group). Two more AGMs are planned for the second half of the year, namely BT Group and Johnson Matthey, both UK companies.

At the shareholder meetings we raised questions related to sustainability performance with a view to having future dialogue with the companies. This year, issues raised included linking management remuneration to long-term sustainability targets, as well as new topics such as illegal forestry products and renewable energy. As a courtesy, we send our questions to the companies several weeks in advance of the meetings. This resulted in one meeting ahead of the AGM to discuss the issues in more detail. The meeting was with British gas company BG Group, which in May invited Triodos to participate in a telephone meeting prior to its AGM. During the call, the company’s Company Secretary and other management representatives answered our questions regarding the linking of remuneration with sustainability performance, investment in renewable energy, and water management. It was clear during the call that BG Group’s strategic decision not to invest in renewable energy is unlikely to change in the near future, and we intend to continue dialogue with them on this topic. Despite having discussed them with management, we raised the questions on remuneration and water management at the AGM in order to raise awareness with the Board of Directors. Whilst the company already links remuneration and sustainability targets, we think that it could be more transparent and should consider long-term as well as short-term incentives. Regarding the development of a water management strategy, Triodos pushed BG Group and requested that specific targets be set. Although the company did not commit to any changes, it welcomed our suggestions and constructive criticism, and remains open to further dialogue on these topics.

In follow up to the 2009 AGMs, both Dutch chemicals company DSM and British publishing company Reed Elsevier invited Triodos, together with other Dutch institutional investors, to provide feedback on their draft remuneration policies. The new policies were on the agenda of the company’s AGMs and were put to shareholder vote. The companies sought insight on shareholder opinion with a view to developing the policy based on feedback received. With regards to Reed Elsevier, Triodos raised concerns about the complexity, height of the potential reward and aggressive nature of the company’s remuneration policy. We therefore voted against the remuneration policy proposal at the shareholder meeting. With regards to DSM (see also above), Triodos was in favour of the proposed changes and voted in line with the proposal.

As with last year, a fellow Eumedion member raised questions at an AGM on behalf of Triodos – this year with Dutch food retailer Ahold. The questions concerned remuneration and sustainability targets.

By attending AGMs and proxy voting, we challenge companies to become more sustainable. A summary of the themes addressed at each AGM is provided below.

Company	Topic	Engagement outcome	Eligible for investment
Ahold	Remuneration and sustainability targets	The company responded by stating that it will consider our proposals.	Yes
BG Group	Remuneration, renewable energy and water management	Triodos will follow up.	Yes
Henkel	Remuneration and sustainability targets	The Supervisory Board responded that a portion of executive pay is based on short- and mid-term sustainability targets. The company did not provide details on specific targets or the percentage of pay linked to them. Triodos will follow up.	Yes
Reed Elsevier	Remuneration, sustainability reporting and illegal forestry and paper	The company informed Triodos that it aims for 100% of all production paper graded according to the UK Publishers Database for Responsible and Environmental Paper Sourcing (PREPS) by the end of 2010. Regarding remuneration, see details above. The company intends to seek further input from Triodos on this topic.	Yes
Wolters Kluwer	Remuneration, sustainability reporting, environmental targets and illegal forestry and paper	The company's Board did not provide any additional information to that which can be found in its latest CSR report. The company will consider adding sustainability performance conditions to its remuneration policy, and intends to seek further input from Triodos.	Yes

ENGAGEMENT ON THEMES

Triodos has strict sustainable investment standards. We closely monitor changes in best practice and regulation, and consult with companies, non-governmental organisations and governments.

In June 2010 Triodos met with the Programme for the Endorsement of Forest Certification schemes (PEFC) to discuss its certification programme. Interestingly, the PEFC has a global complaint mechanism, whereby stakeholders can register concerns regarding PEFC or certification holders. As a result of the dialogue, we concluded that the PEFC certification is acceptable as a Triodos minimum requirement within its standard on deforestation, although Forest Stewardship Council (FSC) certification is preferable. Other certification schemes Triodos considers relevant are FSC, and two standards incorporated into the PEFC programme – the Canadian Standards Association's Sustainable Forest Management Standard (CSA) and the Sustainable Forestry Initiative (SFI).

In 2009 we also reported on our engagement activities with financial institutions regarding their involvement in arms. In the first half of 2010, we concluded on the last two outstanding companies: Dutch Rabobank remains eligible for investment, whilst Australian banking group Westpac did not meet our standards and is therefore not eligible for investment.

OTHER ENGAGEMENT ACTIVITIES

During the first half of 2010, Triodos formed part of Eurosif's Steering Committee for its Extractive Industries sector report. The report, which will be published in 2010, intends to help the general public as well as policy makers, mainstream asset managers, companies, and pension fund trustees understand risks that lie outside the realms of traditional financial analysis, specifically relating to social and environmental issues. Triodos was able to contribute its knowledge on the sector, relevant issues and minimum standards.

In May, Triodos updated its response to Eurosif's European SRI Transparency Code. The code aims to create clarity on the principles and processes of socially responsible investment (SRI) funds to enable consumers (investors) to make informed choices, to encourage best practice among fund managers, and to pre-empt legislation on SRI mutual funds that would not integrate the view of practitioners.

Triodos also completed its first United Nations Principles of Responsible Investment (PRI) Annual Reporting & Assessment Survey. Whilst the PRI is a voluntary and aspirational framework, the annual online questionnaire is the one mandatory requirement for all signatories. Those signatories that do not fulfil this requirement will be publicly delisted from the Initiative.

Triodos continued its role in the Round Table for Corporate Social Responsibility (CSR) and Animal Testing in the Netherlands. In June we gave a presentation to the informal groups of stakeholders to explain our position on animal testing and how we apply this position via our minimum standards. The focus was on pharmaceutical companies and interesting discussion followed.

CASE STUDY: NOKIA

In 2008, Nokia Siemens Network (NSN), a 50%-owned subsidiary of Nokia, sold mobile phone network technology to the Iranian government. In the aftermath of the Iranian presidential elections in June 2009, political dissidents were traced and subsequently arrested using the company's mobile phone technology. During the political unrest, mobile phone and text messaging services were stopped or difficult to use. At the end of 2009 and the beginning of 2010, Triodos engaged with Nokia and concluded that, despite the human rights violations inflicted by Iranian authorities, the company itself was not at fault, and that its products provide a gateway for communication that improves social and economic participation. The company remains selected for our sustainable investment universe.

The technology in question, known as 'lawful intercept technology', allows authorities to monitor communications across networks, including calls, text messaging and instant messages. It also enables voice monitoring of local calls on fixed and mobile networks. The technology has a legitimate purpose and is used in many countries to combat terrorism, child pornography, drug trafficking and other criminal activities. Telecommunication networks in EU member states and the US are even legally required to have the technology.

Nokia informed Triodos that it 'strongly believes mobile technology should be made available to everyone in the world, to give them a voice and keep them connected to what matters to them'. They also claim that without mobile phone technology the rest of the world would be less aware of the political unrest in Iran. Nokia further informed us that ethical issues are taken into consideration when deciding to undertake business in certain countries, including human rights. According to the company, 'only predefined phone numbers can have their communications monitored' and 'it is not possible with NSN supplied technology to scan network traffic'. Nokia stated that it does not condone any abuse of the technology or its use in contravention with International standards and laws.

In March 2009, NSN had divested the division that manufactures the lawful intercept and does not provide monitoring capabilities beyond legally required passive capability. The company does not provide support or services to the facility in Iran and has no employees working with Iranian law enforcement. NSN is furthermore considered by Triodos to have been transparent concerning this issue. In June 2010 an NSN spokesperson told an EU human rights hearing that it regretted supplying the technology that was used to suppress dissidents. It admitted that it had committed an error providing active surveillance technology

for monitoring centres. On its own website it has published a blog with many critical comments posted by the public. In general Nokia's sustainability performance is considered to be strong. Regarding social issues, its human rights policy and labour standards meet all Triodos requirements, and it has a strong policy on the sourcing of Coltan, which is not yet common in the industry. Its subsidiary NSN has a code of conduct aligned with that of Nokia.

We believe that, in general, Nokia technology has a legitimate use for Iranian people, and that it opens up communication channels that can support improved social and economic welfare. The dialogue with Nokia allowed us to gain insight into the company's approach helped us to determine that it still meets all Triodos minimum standards and should remain eligible for investment.

ANNEX 1: COMPANIES ENGAGED WITH DURING SELECTION ANALYSIS

The companies in the table below responded to our engagement efforts during the first half of 2010. In some cases dialogue still continues.

Company	Topic	Eligible for investment
A123 Systems (US, Electrical equipment)	Arms, human rights	No
Abiomed (US, Healthcare equipment & supplies)	Animal testing	No
Agence Française de Développement (FR, Development agency)	Arms, black list projects	Engagement continues
Asahi Co Ltd (JP, Speciality retail)	Basic labour rights	No
Assa Abloy (SE, Building products)	Human rights	No
Axfood AB (SE, Food & staples retailing)	Animal testing, environmental damage, factory farming, genetic engineering	Engagement continues
Barry Callebaut (CH, Food products)	Animal testing, environmental damage, basic labour rights	No
Société BIC (FR, Commercial services & supplies)	Animal testing, environmental damage, human rights	Yes
Biolase Technology (US, Healthcare equipment & supplies)	Animal testing	Yes
BNG (NL, Commercial banks)	General sustainability	Engagement continues
Bunzl (GB, Trading companies & distributors)	Animal testing	Yes
Caisse Centrale Desjardins (CA, Diversified financial services)	Arms	No
Caisse des Depots et Consignations (FR, Diversified financial services)	Arms, Nuclear power	No
Dai Nippon (JP, Commercial services & supplies)	Animal testing, Environmental damage	No
DekaBank (DE, Capital markets)	Arms	No
DZ Bank (DE, Diversified financial services)	Arms, black list projects	No
Getinge (SE, Healthcare equipment & supplies)	Animal testing	Yes
Grupo Ferrovial (ES, Construction & engineering)	Nuclear power, Violation of legislation	Engagement continues
HeartWare (AU, Healthcare equipment & supplies)	Animal testing	No
Itron (US, Electronic equipment)	Human rights	Yes
K + S (DE, Chemicals)	Precautionary principle, Animal testing, environmental damage, genetic engineering, other, POPs & pesticides	Engagement continues
Landesbank Baden-Wuerttemberg (DE, Commercial bank)	Arms	Engagement continues
Michelin (FR, Auto components)	Arms, Environmental damage, Basic labour rights, Human rights	Engagement continues

Murata Manufacturing (JP, Electronic equipment)	Basic labour rights, Human rights (Coltan)	Yes
Nike (US, Textiles, apparel & luxury goods)	Basic labour rights	Engagement continues
Nordic Investment Bank (FI, Development agency)	Arms, Black list projects, Nuclear power	Engagement continues
NORD/LB (DE, Commercial banks)	Arms	Engagement continues
NxStage Medical (US, Healthcare equipment)	Animal testing	Yes
Omron (JP, Electronic equipment)	Animal testing	Yes
OraSure Technologies (US, Healthcare equipment)	Animal testing	Yes
Orkla (NO, Industrial conglomerates)	Animal testing, Arms, Biodiversity, Deforestation, Genetic engineering, Basic labour rights, POPs and pesticides, Factory farming,	Engagement continues
Philips Electronics (NL, Industrial conglomerates)	Animal testing, Arms, Genetic engineering	Engagement continues
Pirelli & C (IT, Auto components)	Environmental damage, Other	Yes
Plant Health Care (UK, Chemicals)	Animal testing	Yes
PotashCorp (CA, Chemicals)	Animal testing, Arms, Environmental damage, Genetic engineering, Human rights, Other, POPs & pesticides, Precautionary principle	Engagement continues
RZB Raiffeisen Zentralbank Österreich (AT, Diversified financial services)	Arms	No
Skanska (SE, Construction & engineering)	Corruption, Violation of legislation	Engagement continues
TDK (JP, Electronic equipment)	Animal testing	Yes
The Co-operative Bank (UK, Diversified banks)	Arms	Engagement continues
Tomkins (UK, Industrial conglomerates)	Basic labour rights	Engagement continues
Toppan Printing (JP, Commercial services & supplies)	Animal testing, Environmental damage	No
Toyota Industries (JP, Auto components)	Human rights (Burma)	No
Wessanen (NL, Food products)	Animal testing, Factory farming, basic labour rights	Yes
Yara International (NO, Chemicals)	Arms, animal testing, genetic engineering, Other, POPs and pesticides	Engagement continues

Further information

Triodos Sustainability Research produces engagement reports twice per year. You can find more up to date information about our research activities at www.triodos.com. If you would like to provide feedback on this report or other engagement activities, please contact Triodos Sustainability Research.

Triodos Sustainability Research
 Nieuweoordweg 1
 P.O. Box 55
 3700 AB Zeist
 The Netherlands

T +31 (0)30 694 2683
E research@triodos.com

In the first half of 2010 two companies formally declined to respond. These were German auto component company Robert Bosch, which was questioned on involvement in arms, and US healthcare equipment company Thoratec Corp, which was questioned on animal testing.