

ENGAGEMENT REPORT

ETICA SGR'S DIALOGUE
WITH COMPANIES AND
VOTING IN SHAREHOLDERS'
MEETINGS IN 2017



etica SGR
Responsible Investments

ENGAGEMENT REPORT

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A WORD FROM MANAGEMENT



UGO BIGGERI,
CHAIRMAN AT BANCA ETICA AND
ETICA SGR

A handwritten signature in black ink that reads "Ugo Biggeri".



For Etica Sgr shareholder activism is an integral and crucial part of its work in ethical finance. Individuals or institutions that invest in companies to some extent become their owners and as such, have powers entrusted in them by the markets and the regulations. Etica Sgr believes in this power and engages in dialogue in the name of all its clients on issues relevant to ethical finance. It is a path that requires patience, but one that is effective in helping businesses **to behave increasingly responsibly**, and investors to fully understand what it means to invest sustainably. In carrying out our work we continue to extend our in-house skills and collaborate with the **international shareholder activism networks**. We are proud to be the key sponsor of "Shareholders for Change", the European institutional investors network founded in late 2017 to influence firms and press for best practices and sustainable behaviours in the next engagement season - a step forward to becoming increasingly effective."



The 2017 AGM season closed with some important results for Etica Sgr, a pioneer in Italy in the adoption of engagement and shareholder activism as a strategy for **responsible investment**. We believe that building lasting dialogue with companies is a vital component of responsibility which delivers **added value to our investments**, especially in the long-term. We are convinced that it is crucial to **urge boards to think about and act on environmental, social, governance issues** and embark on the path to improvement. This is especially true today, when governments, companies and the public are called **to do more to achieve sustainable development**.

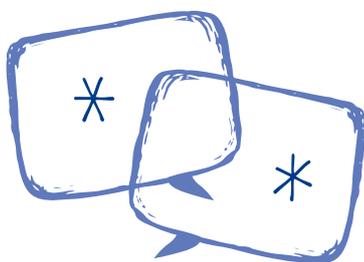


LUCA MATTIAZZI,
GENERAL MANAGER
AT ETICA SGR

A handwritten signature in black ink that reads "Luca Mattiazzi".

WHAT IS ENGAGEMENT

By the term “engagement” we refer to the activity of dialogue between investors and businesses and the exercise of voting rights relating to our equity investments, with specific focus on questions of sustainability.



Etica Sgr is an asset management company that, from the outset, has demonstrated its commitment to sustainable and responsible investment (SRI). In this sense engagement is seen as **vital element** of our work and a genuine **SRI strategy** with precise targets which we continue to monitor.

Etica Sgr performs its engagement activities in line with the Italian Principles of Stewardship promoted by the Assogestioni Corporate Governance Committee¹ and the Principles for Responsible Investments² (PRI), of which it has been a signatory since 2009.

Etica Sgr’s voting at the shareholders’ meetings of the companies in which it invests is defined by the Etica Sgr engagement Policy³, approved by the company’s Board of Directors on the recommendation of an external independent Ethics Committee made up of individuals known for their ethical principles and acknowledged experience in social, environmental, civil, faith and academic fields.

Engagement is not limited to exercising our voting rights in individual **shareholders’ meetings**, but involves a continual **dialogue with issuers** throughout the year. It is therefore a long-term process designed to **encourage businesses to adopt more virtuous, sustainable and transparent practices**.

Dialogue is conducted either independently or in conjunction with networks of active investors, such as the PRI, ICCR⁴ (Interfaith Center on Corporate Responsibility) and SFC (Shareholders for Change)⁵, to foster environmental, social and governance (ESG) improvements in business, enabling Etica Sgr to make a real difference.

Etica Sgr is the first Italian asset management company to accredit company engagement: our dialogue and voting quality management system is certified to UNI EN ISO 9001:2015 standards.

¹ The principles are targeted at companies that provide asset management or wealth management services and are intended to stimulate dialogue and cooperation between Italian investment managers and the issuers in which they invest in order to create added value for clients and investors regarding important issues such as: shareholdings’ strategy and performance, corporate governance, corporate social responsibility and risk management. The Principles are based on the *European Fund and Asset Management Association (EFAMA) Code for External Governance*. See <http://bit.ly/stewardship-assogestioni>.

² *Principles for Responsible Investment* (www.unpri.org) is a United Nations initiative whose purpose is to promote the incorporation of ESG factors within traditional wealth management and actively contribute to the development of a more sustainable global financial system. There are six principles to be adhered to. Principle 2 states “We will be active owners and incorporate ESG issues into our ownership policies and practices”, while Principle 3 states “We will seek appropriate disclosure on ESG issues by the entities in which we invest.” As of June 2017 PRI had 1,754 signatories (of which 67% are investment managers) representing over USD 60 trillion AuM. See <https://www.unpri.org/signatories/who-has-signed-the-principles>. Etica Sgr is the second Italian SGR to have signed the initiative in 2009.

³ The document is available on the Etica Sgr web site. See <https://www.eticasgr.it/il-nostro-investimento-responsabile/engagement/>.

⁴ ICCR (*Interfaith Center on Corporate Responsibility*), is a network of around 300 religious and non-religious US investors who own or manage more than USD 100 billion in assets. They influence companies’ management strategies and promote social justice in shareholders’ meetings. Etica Sgr has been an ICCR affiliate since 2005.

⁵ Shareholders for Change is a network of European institutional investors who, in their role as shareholders, perform engagement activity to influence and urge best practices and sustainable, responsible behaviours in the medium-long term. The founding members represent € 22 billion in assets under management.

For more information: <https://www.eticasgr.it/blog/shareholders-for-change/>

GUIDING PRINCIPLES

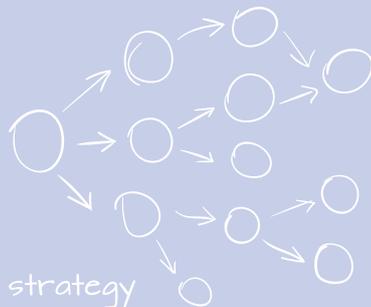
In line with Etica Sgr's engagement Policy the choice of which companies with which to engage is decided on the basis of a number of specific parameters.



PROXIMITY: 
we favour Italian companies.



CONTINUITY:
we prefer to work with companies in which we have already voted the previous year or where dialogue has begun.



COLLABORATION:
we prefer action, motions and initiatives presented jointly with other sustainable / responsible investors (e.g. ICCR or PRI).



DISPUTES:
we always take into account the severity of any adverse news.

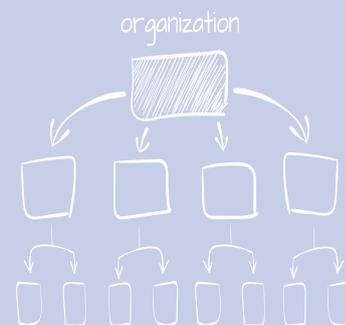
In addition, in establishing a fruitful dialogue designed to reinforce firms' commitment to sustainability, Etica Sgr considers the following aspects of particular importance.



SECTOR:
some sectors are more exposed to specific issues, which have a greater impact on the business (e.g. food, automotive and materials in relation to climate change).



GEOGRAPHICAL AREA OF OPERATION:
certain geographical areas are more exposed to certain issues (e.g. some emerging economies in relation to respect for human rights).



COMPANY SIZE IN TERMS OF MARKET CAPITALIZATION:
bigger companies in general are more exposed to ESG-related risks.

ENGAGEMENT IN 2017

A new point of reference: the United Nations Sustainable Development Goals

Engagement activity in 2017 pursued the themes of 2016, in line with the United Nations **Sustainable Development Goals (SDGs)**.

WHAT ARE THE SDGs

The global framework for sustainable development, the **2030 Agenda**, was signed in September 2015 by the governments of the 193 UN Member States, and came into force at the beginning of the 2016.

With the 2030 Agenda the United Nations identified **17 Sustainable Development Goals** to be achieved by 2030 through **169 more specific targets** to promote **global economic, social and environmental development**.

The Goals concern issues such as health, education, gender equality, combating poverty and hunger and environmental safeguards.

The Sustainable Development Goals regard all countries and individuals, and set out to give continuity to the preceding Millennium Development Goals and reinforce their results.



ENGAGEMENT BY ETICA SGR

As mentioned above, Etica Sgr's engagement activity falls into two categories:

VOTING
AT SHAREHOLDERS' MEETINGS
(SHAREHOLDER ACTIVISM).

DIALOGUE
WITH COMPANIES.



TABLE 1: ETICA SGR ENGAGEMENT ACTIVITY IN 2017

COMPANY	COUNTRY	SECTOR	INDUSTRY	VOTING	DIALOGUE				
				VOTING IN AGM	POST AGM LETTER - VOTING FEEDBACK	ESG ENGAGEMENT LETTER	ESG ENGAGEMENT QUESTIONNAIRE - ITALIAN FIRMS	ESG ENGAGEMENT CALL AND/OR MEETINGS	TOTAL DIALOGUE
A2A SPA	ITALY	Utilities	Multi-Utilities	Yes	1	1	1	2	5
ABB	SWITZERLAND	Industrials	Electrical Equipment					2	2
ABERTIS INFRAE-STRUCTURAS SA	SPAIN	Industrials	Transportation Infrastructure					1	1
ALSTOM	FRANCE	Industrials	Machinery					1	1
ATLANTIA	ITALY	Industrials	Transportation Infrastructure					2	2
BASTOGI	ITALY	Industrials	Commercial Services & Supplies				1	1	2
BMW	GERMANY	Consumer Discretionary	Automobiles					1	1
BREMBO SPA	ITALY	Consumer Discretionary	Auto Components	Yes	1	1	1	1	4
BUZZI UNICEM SPA	ITALY	Materials	Construction Materials	Yes	1	1	1		3
CAMPBELL SOUP CO	USA	Consumer Staples	Food Products			1		1	2
CARREFOUR SA	FRANCE	Consumer Staples	Food & Staples Retailing					2	2
CISCO SYSTEMS INC	USA	Information Technology	Communications Equipment			1			1
COCA COLA	USA	Consumer Staples	Beverages					1	1
CONAGRA BRANDS INC	USA	Consumer Staples	Food Products	Yes				2	2
DAVIDE CAMPARI-MILANO SPA	ITALY	Consumer Staples	Beverages	Yes	1	1	1	3	6
DIASORIN SPA	ITALY	Health Care	Health Care Equipment & Supplies	Yes	1	1	1		3
EDENRED	FRANCE	Industrials	Commercial Services & Supplies					1	1
EDP-ENERGIAS DE PORTUGAL SA	PORTUGAL	Utilities	Electric Utilities					1	1
ERG	ITALY	Utilities	Independent Power and Renewables					2	2
GENERAL MILLS INC	USA	Consumer Staples	Food Products	Yes	1	1		2	4
HAMMERSON PLC	UK	Real Estate	Equity Real Estate Investment					1	1
HERA	ITALY	Utilities	Multi-Utilities				1	1	2
ICADE	FRANCE	Real Estate	Equity Real Estate Investment					1	1
IREN	ITALY	Utilities	Multi-Utilities				1	1	2
ITALGAS SPA	ITALY	Utilities	Gas Utilities					2	2
KERING	FRANCE	Consumer Discretionary	Textiles, Apparel & Luxury Goods					1	1
KLEPIERRE	FRANCE	Real Estate	Equity Real Estate Investment					1	1
LAFARGEHOLCIM LTD	SWITZERLAND	Materials	Construction Materials					1	1
LEGRAND SA	FRANCE	Industrials	Electrical Equipment					1	1
LUXOTTICA GROUP SPA	ITALY	Consumer Discretionary	Textiles, Apparel & Luxury Goods	Yes	1	1		2	4
MEDTRONIC PLC	USA	Health Care	Health Care Equipment & Supplies	Yes					0
NISSAN MOTOR CO LTD	JAPAN	Consumer Discretionary	Automobiles	Yes	1	1			2
NOVO-NORDISK	DENMARK	Health Care	Pharmaceuticals					1	1
PANASONIC CORP	JAPAN	Consumer Discretionary	Household Durables	Yes	1	1		2	4
PERNOD RICARD SA	FRANCE	Consumer Staples	Beverages		1	1		1	3
PFIZER	USA	Health Care	Pharmaceuticals					1	1
PIAGGIO	ITALY	Consumer Discretionary	Automobiles				1		1
PRYSMIAN SPA	ITALY	Industrials	Electrical Equipment	Yes	1	1	1	2	5
PUBLICIS GROUPE	FRANCE	Consumer Discretionary	Media					1	1
REXEL SA	FRANCE	Industrials	Trading Companies & Distributors					1	1
SABAF SPA	ITALY	Consumer Discretionary	Household Durables				1		1
SAP	GERMANY	Information Technology	Software					1	1
SCHNEIDER ELECTRIC	FRANCE	Industrials	Electrical Equipment					1	1
SNAM SPA	ITALY	Energy	Oil, Gas & Consumable Fuels	Yes	1	1		3	5
SOL SPA	ITALY	Materials	Chemicals	Yes	1	1	1	1	4
SONY CORP	JAPAN	Consumer Discretionary	Household Durables					1	1
SYSCO CORP	USA	Consumer Staples	Food & Staples Retailing			1		1	2
TECHNOGYM	ITALY	Consumer Discretionary	Leisure Products				1	1	2
TELENOR ASA	NORWAY	Telecommunication Services	Diversified Telecommunication					1	1
TERNA SPA	ITALY	Utilities	Electric Utilities	Yes	1	1		1	3
TOYOTA MOTOR CORP	JAPAN	Consumer Discretionary	Automobiles	Yes	1	1			2
VALEO	FRANCE	Consumer Discretionary	Auto Components					1	1
YOOX NET-A-PORTER GROUP	ITALY	Consumer Discretionary	Internet & Direct Marketing Retailing	Yes	1	1	1	1	4
TOTAL				17	16	19	14	60	109

VOTING

In 2017 Etica Sgr directed its shareholder activism at 17 firms, of which 11 Italian, 3 Japanese and 3 American.

For Etica Sgr dialogue and direct talks on questions of company responsibility and governance are extremely important occasions for shareholder activism, to urge businesses to adopt more responsible practices.

Intervention and voting at shareholders' meetings represent a critical moment in engagement because they enable us to obtain precise and timely answers on the issues faced during the year, at the same time drawing management's attention to new and particularly important questions.

This explains Etica Sgr's commitment to **physically attending** the shareholders' meetings of Italian companies in which Etica Sgr invests. This is by no means trivial, putting pressure on companies to try to do better and making dialogue more fruitful and concrete with each year that passes.



On 8 December 2017 Etica Sgr went beyond the frontiers of Italy, meeting for the first time with the Board of the US firm **Medtronic**, a US medical technologies and devices company, at its European head office in Dublin.

Etica Sgr, represented by Laura Berry, Vice President of the Ethics Committee, voted as follows: abstention on the re-election of a director, vote against approving the remuneration policy and new stock options plan, vote against ratification of the external auditor. The company voted in favour of the election of eleven out of twelve directors.

Laura Berry's intervention concerned two matters in particular:

PRICE TRANSPARENCY:

demand for publication of a report on **product pricing increases**.

TAX POLICY:

demand for a published **Country-by-Country Report** indicating items such as revenues and tax rate for each country in which the company operates.

During the Shareholders' Meeting the company gave its answers to Etica Sgr's requests, anticipating them by email.

In deciding its voting intentions, Etica Sgr gave specific attention to governance, in particular in relation to the following topics:

Gender diversity

- for example the presence of women on boards of directors.

Remuneration

policy.

Independence

of the members of the Board of Directors.

Policy on **dividends**.

Purchase of **own shares**.

TABLE 2: ETICA SGR VOTING ACTIVITY IN 2017

COMPANY	COUNTRY	SECTOR	INDUSTRY	VOTING IN AGM
A2A SPA	ITALY	Utilities	Multi-Utilities	PRESENT AT AGM
BREMBO SPA	ITALY	Consumer Discretionary	Auto Components	PRESENT AT AGM
BUZZI UNICEM SPA	ITALY	Materials	Construction Materials	PRESENT AT AGM
CONAGRA BRANDS INC	USA	Consumer Staples	Food Products	ELECTRONIC VOTE
DAVIDE CAMPARI-MILANO SPA	ITALY	Consumer Staples	Beverages	PRESENT AT AGM
DIASORIN SPA	ITALY	Health Care	Health Care Equipment & Supplies	PRESENT AT AGM
GENERAL MILLS INC	USA	Consumer Staples	Food Products	ELECTRONIC VOTE
LUXOTTICA GROUP SPA	ITALY	Consumer Discretionary	Textiles, Apparel & Luxury Goods	PRESENT AT AGM
MEDTRONIC PLC	USA	Health Care	Health Care Equipment & Supplies	PRESENT AT AGM
NISSAN MOTOR CO LTD	JAPAN	Consumer Discretionary	Automobiles	ELECTRONIC VOTE
PANASONIC CORP	JAPAN	Consumer Discretionary	Household Durables	ELECTRONIC VOTE
PRYSMIAN SPA	ITALY	Industrials	Electrical Equipment	PRESENT AT AGM
SNAM SPA	ITALY	Energy	Oil, Gas & Consumable Fuels	PRESENT AT AGM
SOL SPA	ITALY	Materials	Chemicals	PRESENT AT AGM
TERNA SPA	ITALY	Utilities	Electric Utilities	PRESENT AT AGM
TOYOTA MOTOR CORP	JAPAN	Consumer Discretionary	Automobiles	ELECTRONIC VOTE
YOOX NET-A-PORTER GROUP	ITALY	Consumer Discretionary	Internet & Direct Marketing Retailing	PRESENT AT AGM

TOTAL

17



DIALOGUE



Regarding dialogue activities, the strategic areas identified by Etica Sgr are:

- Climate change
- Human rights in the supply chain
- Tax optimization

The table below shows the issues that were discussed with companies.

TABLE 3: DETAILS OF THE KEY STRATEGIC AREAS OF DIALOGUE

AREA	SDG	ISSUE	ENGAGEMENT ISSUES
Climate change		Greenhouse gas emissions	Emissions reporting Presence of emissions reduction targets Presence of emissions reduction Science Based Targets, emissions reduction targets in accordance with Paris Agreement Investments in schemes to facilitate transition to low carbon economy (energy efficiency, non fossil/renewable fuels)
		Water management	Efficient use of water resources
		Deforestation	Palm oil
Human rights in the supply chain		Decent work	Dignified employment (incl. no fees) ⁶
		Peace and justice	Conflict minerals ⁷
Tax optimization		Social inequality	Country-by-Country Report ⁸

In the governance area, a further question that has special importance for Etica Sgr is the publication of sustainability-related information.

More and more businesses, either alongside or inside their financial statements, publish a sustainability report and/or integrated balance sheet. The goal is to show shareholders the results of their efforts to protect the environment and workers' rights or progress in relations with various stakeholders such as customers, providers or employees. Beginning in 2018, this trend will be given a boost in Italy by the coming into force of Legislative Decree no. 254 of 30/12/2016, which requires public interest entities and big firms to draft an annual non-financial statement on their efforts on environmental and social protections, workers' rights, human rights and anti-corruption.

Among the Italian companies with which Etica Sgr spoke about these questions in 2017 are **Brembo, Campari and Luxottica**.

Etica Sgr's dialogue activities are designed to influence and drive businesses towards best practices and sustainable behaviours. This is why Etica Sgr dialogue does not stop at the company in which it invests or which make up the Investable Universe, but reaches out to a series of entities.

Working with networks of responsible investors creates conditions for dialogue with businesses to optimize its ESG results. For example, Etica Sgr backs initiatives by the institutional investor networks to which it belongs, such as ICCR (Interfaith Center on Corporate Responsibility) and PRI (Principles for Responsible Investments), which allow Etica Sgr to have a real impact on business internationally. In this area in 2017, Etica Sgr and the other members of the ICCR had a meeting in New York with Coca-Cola, a company which is does not belong to Etica Sgr's Investable Universe.



⁶ The ICCR No Fees Initiative sets out to encourage the large brands and resellers to adopt responsible recruitment policies, and ban recruitment fees (obliging people to pay money just to get a job).

⁷ "Conflict minerals" refers to metals (such as tin, tantalum, tungsten and gold - known as 3TGs) from so-called "conflict regions", notably the Democratic Republic of Congo and neighbouring countries, where conflicts are often caused by the sourcing and trade of natural resources, used to finance armed groups guilty of violence against the local population.

⁸ Country-by-Country Reporting (CbCR) requires large multinationals to disclose key economic data for their activities in each country in which they operate, thus enhancing tax transparency.

TABLE 4: ETICA SGR DIALOGUE ACTIVITY IN 2017

COMPANY	COUNTRY	SECTOR	INDUSTRY	POST AGM LETTER - VOTING FEEDBACK	ESG ENGAGEMENT LETTER	ESG ENGAGEMENT QUESTIONNAIRE - ITALIAN FIRMS	ESG ENGAGEMENT CALL AND/OR MEETINGS	TOTAL DIALOGUE
A2A SPA	ITALY	Utilities	Multi-Utilities	1	1	1	2	5
ABB	SWITZERLAND	Industrials	Electrical Equipment				2	2
ABERTIS INFRAE-STRUCTURAS SA	SPAIN	Industrials	Transportation Infrastructure				1	1
ALSTOM	FRANCE	Industrials	Machinery				1	1
ATLANTIA	ITALY	Industrials	Transportation Infrastructure				2	2
BASTOGI	ITALY	Industrials	Commercial Services & Supplies			1	1	2
BMW	GERMANY	Consumer Discretionary	Automobiles				1	1
BREMB0 SPA	ITALY	Consumer Discretionary	Auto Components	1	1	1	1	4
BUZZI UNICEM SPA	ITALY	Materials	Construction Materials	1	1	1		3
CAMPBELL SOUP CO	USA	Consumer Staples	Food Products		1		1	2
CARREFOUR SA	FRANCE	Consumer Staples	Food & Staples Retailing				2	2
CISCO SYSTEMS INC	USA	Information Technology	Communications Equipment		1			1
COCA COLA	USA	Consumer Staples	Beverages				1	1
CONAGRA BRANDS INC	USA	Consumer Staples	Food Products				2	2
DAVIDE CAMPARI-MILANO SPA	ITALY	Consumer Staples	Beverages	1	1	1	3	6
DIASORIN SPA	ITALY	Health Care	Health Care Equipment & Supplies	1	1	1		3
EDENRED	FRANCE	Industrials	Commercial Services & Supplies				1	1
EDP-ENERGIAS DE PORTUGAL SA	PORTUGAL	Utilities	Electric Utilities				1	1
ERG	ITALY	Utilities	Independent Power and Renewables				2	2
GENERAL MILLS INC	USA	Consumer Staples	Food Products	1	1		2	4
HAMMERSON PLC	UK	Real Estate	Equity Real Estate Investment				1	1
HERA	ITALY	Utilities	Multi-Utilities			1	1	2
ICADE	FRANCE	Real Estate	Equity Real Estate Investment				1	1
IREN	ITALY	Utilities	Multi-Utilities			1	1	2
ITALGAS SPA	ITALY	Utilities	Gas Utilities				2	2
KERING	FRANCE	Consumer Discretionary	Textiles, Apparel & Luxury Goods				1	1
KLEPIERRE	FRANCE	Real Estate	Equity Real Estate Investment				1	1
LAFARGEHOLCIM LTD	SWITZERLAND	Materials	Construction Materials				1	1
LEGRAND SA	FRANCE	Industrials	Electrical Equipment				1	1
LUXOTTICA GROUP SPA	ITALY	Consumer Discretionary	Textiles, Apparel & Luxury Goods	1	1		2	4
MEDTRONIC PLC	USA	Health Care	Health Care Equipment & Supplies					0
NISSAN MOTOR CO LTD	JAPAN	Consumer Discretionary	Automobiles	1	1			2
NOVO-NORDISK	DENMARK	Health Care	Pharmaceuticals				1	1
PANASONIC CORP	JAPAN	Consumer Discretionary	Household Durables	1	1		2	4
PERNOD RICARD SA	FRANCE	Consumer Staples	Beverages	1	1		1	3
PFIZER	USA	Health Care	Pharmaceuticals				1	1
PIAGGIO	ITALY	Consumer Discretionary	Automobiles			1		1
PRYSMIAN SPA	ITALY	Industrials	Electrical Equipment	1	1	1	2	5
PUBLICIS GROUPE	FRANCE	Consumer Discretionary	Media				1	1
REXEL SA	FRANCE	Industrials	Trading Companies & Distributor				1	1
SABAF SPA	ITALY	Consumer Discretionary	Household Durables			1		1
SAP	GERMANY	Information Technology	Software				1	1
SCHNEIDER ELECTRIC	FRANCE	Industrials	Electrical Equipment				1	1
SNAM SPA	ITALY	Energy	Oil, Gas & Consumable Fuels	1	1		3	5
SOL SPA	ITALY	Materials	Chemicals	1	1	1	1	4
SONY CORP	JAPAN	Consumer Discretionary	Household Durables				1	1
SYSCO CORP	USA	Consumer Staples	Food & Staples Retailing		1		1	2
TECHNOGYM	ITALY	Consumer Discretionary	Leisure Products			1	1	2
TELENOR ASA	NORWAY	Telecommunication Services	Diversified Telecommunication				1	1
TERNA SPA	ITALY	Utilities	Electric Utilities	1	1		1	3
TOYOTA MOTOR CORP	JAPAN	Consumer Discretionary	Automobiles	1	1			2
VALEO	FRANCE	Consumer Discretionary	Auto Components				1	1
YOOX NET-A-PORTER GROUP	ITALY	Consumer Discretionary	Internet & Direct Marketing Retailing	1	1	1	1	4
TOTAL				16	19	14	60	109

TABLE 5: ETICA SGR ENGAGEMENT BY SDG AND VOTING ISSUE

AREA	SDG	ISSUE	ENGAGEMENT ISSUES	% OF TOTAL REQUESTS	AREA %
Climate change	  	Greenhouse gas emissions	Emissions reporting	4%	25%
			Presence of emissions reduction targets	2%	
			Presence of emissions reduction Science Based Targets , emissions reduction targets in accordance with Paris Agreement	7%	
			Investments in schemes to facilitate transition to low carbon economy (energy efficiency, non fossil/renewable fuels)	9%	
		Water management	Efficient use of water resources	2%	
		Deforestation	Palm oil	1%	
Human rights in the supply chain	 	Decent work	Dignified employment (incl. no fees)	20%	21%
		Peace and justice	Conflict minerals	1%	
Tax optimization		Social inequality	Country-by-Country Report	7%	7%
Strategic voting issues			Remuneration policy Independence of the members of the Board of Directors Gender diversity on boards of directors Policy on dividends Purchase of own shares	25%	25%
Other				22%	22%

Notes:
the table refers to data on Etica Sgr's requests to 25 companies.

ETICA SGR ENGAGEMENT AND THE SUSTAINABLE DEVELOPMENT GOALS: UNITED WE ARE STRONGER

As we have seen, at 2017 shareholders' meetings Etica Sgr chose for the first time to associate the issues discussed at meetings, in the post AGM letters and in dialogue with companies, with the United Nations Sustainable Development Goals to try and stimulate dialogue with companies on the broader, more global and shared question of sustainable development.

In the 21st century humanity faces a twin challenge: **to preserve nature in all its variety and biodiversity and at the same time render a planet with limited resources fit for humanity.**

The United Nations' goals for sustainable development embrace all the economic, social and ecological dimensions required to sustain society. These challenges are interconnected and must therefore be met with an integrated response.

Thus far we have seen much progress on the 2030 Agenda, especially on issues relating to energy, biodiversity, sustainable cities and health.

However we still see significant delays in the reduction of inequality, the struggle against hunger and poverty and jobs creation.

These are the conclusions of the 2017 report on Sustainable Development in the European Union: Overview of progress towards the SDGs in an EU context⁹, which provides a thoroughgoing analysis of the current position in Europe with respect to the 17 SDGs.

Below are the main areas covered by Etica Sgr and examples of some of its activities in 2017.

⁹ See Eurostat, "Sustainable Development in the European Union: Overview of progress towards the SDGs in an EU context" <http://bit.ly/sustainable-development-in-EU>.



ROBUST CORPORATE GOVERNANCE

The question of corporate governance, in terms of the independence of the board, segregation of duties between the Chairman of the Board of Directors and the Chief Executive Officer/Managing Director, gender diversity on boards and in remuneration systems, has central importance in Etica Sgr's analysis, because a **well governed business is more likely to produce healthy economic results in the long-term.**

Goal 5



GENDER EQUALITY

Achieve gender equality and emancipate all women and girls.

The Sustainable Development Goal relating to female empowerment – a stronger perception among women of their competence, greater awareness and self esteem – has a crucial role that runs through all other objectives of the 2030 Agenda. The principal barrier to change is the persisting gender gap, seen in the fact that women are often still under represented in managerial positions or paid less for doing the same job.

According to the *Global Gender Gap Report 2017*¹⁰, while there has been a slight improvement globally, in half the world's countries the gap between women and men has increased. The report shows that, worldwide, the gender gap in access to healthcare services and education is 4% and 5% respectively. Meanwhile there remains a very wide divide, again in favour of men, on participation in the economy and empowerment in politics: 42% for economic participation and around 77% for politics, a figure that is unchanged compared with last year. According to the report, overcoming gender inequality is essential, not only as a question of social justice, but also to improve overall economic conditions.

A study of gender equality by Morgan Stanley¹¹ which surveyed around 1,600 companies in the MSCI index worldwide, points out Japan's bottom ranking in terms of female participation in companies, the presence of women on boards or in other executive positions, equality of pay between men and women, and the presence of policies to further gender diversity in business and work/life balance. The study also highlights how **still too little being done in Japan to promote gender equality** in companies through future plans and investments.

The presence of women on Japanese boards of directors is a very topical engagement issue, particularly in light of the measures introduced by the Japanese Code of Corporate Governance. The prevailing corporate governance system in the country also foresees a Code of Conduct, to be periodically revised by the board. This code, which takes into consideration the independence and diversification of the shareholder structure, also touches on the theme of diversity, stressing the importance of promoting diversity both of professional experience and of gender to favour the active participation of women. However it does not lay down a legal requirement for the number of women on boards. Etica Sgr thus engaged several companies in the portfolio in dialogue on these topics.

Engagement with Nissan, Panasonic and Sony on greater female presence on boards

Etica Sgr discussed the issue with **Panasonic, Nissan Motor Corporation** and **Sony Corporation**.

Panasonic, a Japanese maker of electronic and electrical equipment, was sensitive to these aspects: it has put in place an equal opportunities policy with a specific focus on non-discrimination. However Panasonic stated it had

¹⁰ See World Economic Forum, "Global Gender Gap Report 2017" <https://www.weforum.org/reports/the-global-gender-gap-report-2017>.

¹¹ See Morgan Stanley, "An Investor's Guide to Gender Diversity" <https://www.morganstanley.com/ideas/gender-diversity-investor-guide>

only one woman on the board of directors because, as a manufacturing company, only 10% of the workforce is female. Nevertheless there is an evident commitment to improve the working conditions of women and promote gender diversity.

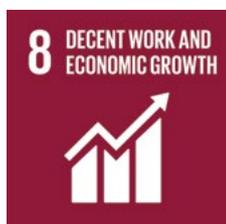
Nissan Motor Corporation, a Japanese car maker, has taken steps forward on this issue by setting up a Diversity Steering Committee (DSC). The role of this body is to promote diversity within the corporate organizational structure. The 2016 Sustainability Report lays out Nissan's commitment to increase the proportion of women in managerial positions from 13% to 14% worldwide by the end of 2017. For its Japanese facilities, this figure stands

at 10.1%, of which 8.1% consist of general managers. However the board of directors that has been in office since last year has no women on it.

Sony Corporation currently has one woman independent director on the board and two women in executive positions on the management board. The company's recruitment policy does not stipulate the number of women directors and, therefore, there are no specific plans to increase the number in the future.

Etica Sgr intends to continue to engage with the companies in which it invests, in particular the Japanese, to promote greater gender equality.

Goal 8



DECENT WORK AND ECONOMIC GROWTH

Promote inclusive and sustainable economic growth, employment and decent work for all.

Regarding Sustainable Development Goal number 8, Etica Sgr has been actively involved in the governance issues relating to corporate remuneration. The United Nations calls for fair salaries. But it is difficult to objectively measure the fairness and propriety of remunerations, in particular of top management. The fundamental question is that salaries must be effectively linked to performance through the achievement of **clear and measurable corporate targets, set in advance** by the board of directors and the remunerations committee. The **distinction between fixed and variable salary components** must be clear and objectively determinable.

Variable salary must be well defined based on objectively measurable **performance targets** linked to the creation of medium-long term value for all stakeholders.

Recent studies¹² count among corporate best practices remuneration policies that include ESG targets in the determination of performance.

It is also recommended that firms identify (minimum and maximum) thresholds for short and long-term variable salaries. However, in some cases the gap between average employee and executive salaries has widened considerably, generating conflict situations and creating a need for specific measures.

Etica Sgr asks companies to ensure their remuneration policies are linked to predefined targets and actual company results.

Engagement with Buzzi Unicem and DiaSorin: greater transparency on remuneration

In 2017 Etica Sgr attended the Shareholders' Meeting of **Buzzi Unicem**, an Italian company that produces and processes cement, ready-mix concrete and natural aggregates. Etica Sgr welcomed the positive progress in environmental and work safety indicators linked, since 2016, to the variable salary of Executives with Strategic Responsibility. However, the company still lacks a remuneration committee and, regarding variable bonuses, has no minimum and maximum limits on targets for their calculation or the targets to be achieved for their award. We opened a dialogue on these issues with the company, which has stated that it is prepared to provide further details.

¹² See PRI, "Integrating ESG issues into executive pay" https://www.unglobalcompact.org/docs/issues_doc/lead/ESG_Executive_Pay.pdf

At the Shareholders' Meeting of **DiaSorin**, a leading biotech company specializing in immunodiagnostics and molecular diagnostics, Etica Sgr abstained from voting on the resolution relating to Remuneration Report - Section I, owing to certain persisting critical issues, partly in relation to a failure to adopt improvements suggested by the SGR in previous years. Of particular importance for the decision was the absence of targets in calculating variable incentives and the lack of ESG parameters in the determination of variable salaries. Etica Sgr did however stress the positive aspects of DiaSorin's remuneration policy, such as a remuneration committee made up of a majority of independent directors, disclosure of the ratio of the CEO's salary to average employee pay, the presence of claw-back clauses¹³ and the presence of a vesting period¹⁴ Etica Sgr declared itself willing to meet with the appropriate departments of DiaSorin to clarify its recommendations on the question of remuneration.

The result achieved with A2A: ESG indicators included among top management objectives

Again following dialogue with Etica Sgr, the **A2A** Remuneration and Nominations Committee, in concert with the Committee for the Territory and Sustainability and top management, set out a new model for executive pay, beginning in 2017. The new feature is the definition of a measurable sustainability target, in line with the 2020 Sustainability Plan and the 2030 Sustainability Policy. Within the framework of this model, the Board of Directors also set a specific target for the Chief Executive Officer, measured as the average of the individual targets reached by the directly reporting executives, and counts for 5% in the calculation of annual variable salary.

There are also a number of specific issues that are important for the sustainability of corporate practice which do not fall under any particular sustainable development goal, but which are worth pointing out as examples of action taken.



INDEPENDENCE OF THE GENERAL MILLS BOARD OF DIRECTORS

At the 2017 Shareholders' Meeting, Etica Sgr did not vote in favour of the re-election of one director held to be independent of the company despite sitting on the board for 18 years. In accordance with our Engagement Policy and the New York Stock Exchange Corporate Governance Guide, Etica Sgr deemed this too long a period for the director to be considered independent.

DIALOGUE WITH BUZZI UNICEM ON DIVIDENDS POLICY

At the 2017 Shareholders' Meeting Etica Sgr did not vote in favour of the point on the agenda regarding the distribution of reserves. Given the net result, Etica Sgr believed it prudent to retain part of the dividend reserve inside the company to strengthen its financial position and future investments for business purposes.

DIALOGUE WITH CAMPARI ON SHARE BUY-BACKS

At the 2017 Shareholders' Meeting Etica Sgr did not vote in favour of the point on the agenda regarding the request for authorization to purchase or sell own shares. In the Shareholders' Meeting Etica continued to express an unfavourable opinion on this matter because there is a possibility that derivative instruments may be used for such purchases and there appears to be no indication of the maximum number of shares.



¹³ Claw-back clauses are special clauses in the contract which entitle the company to demand the total or partial refund of a manager's variable salary for just cause.

¹⁴ The vesting period is the length of time that an employee must wait in order to be able to exercise his or her stock options as part of the long-term variable salary component.



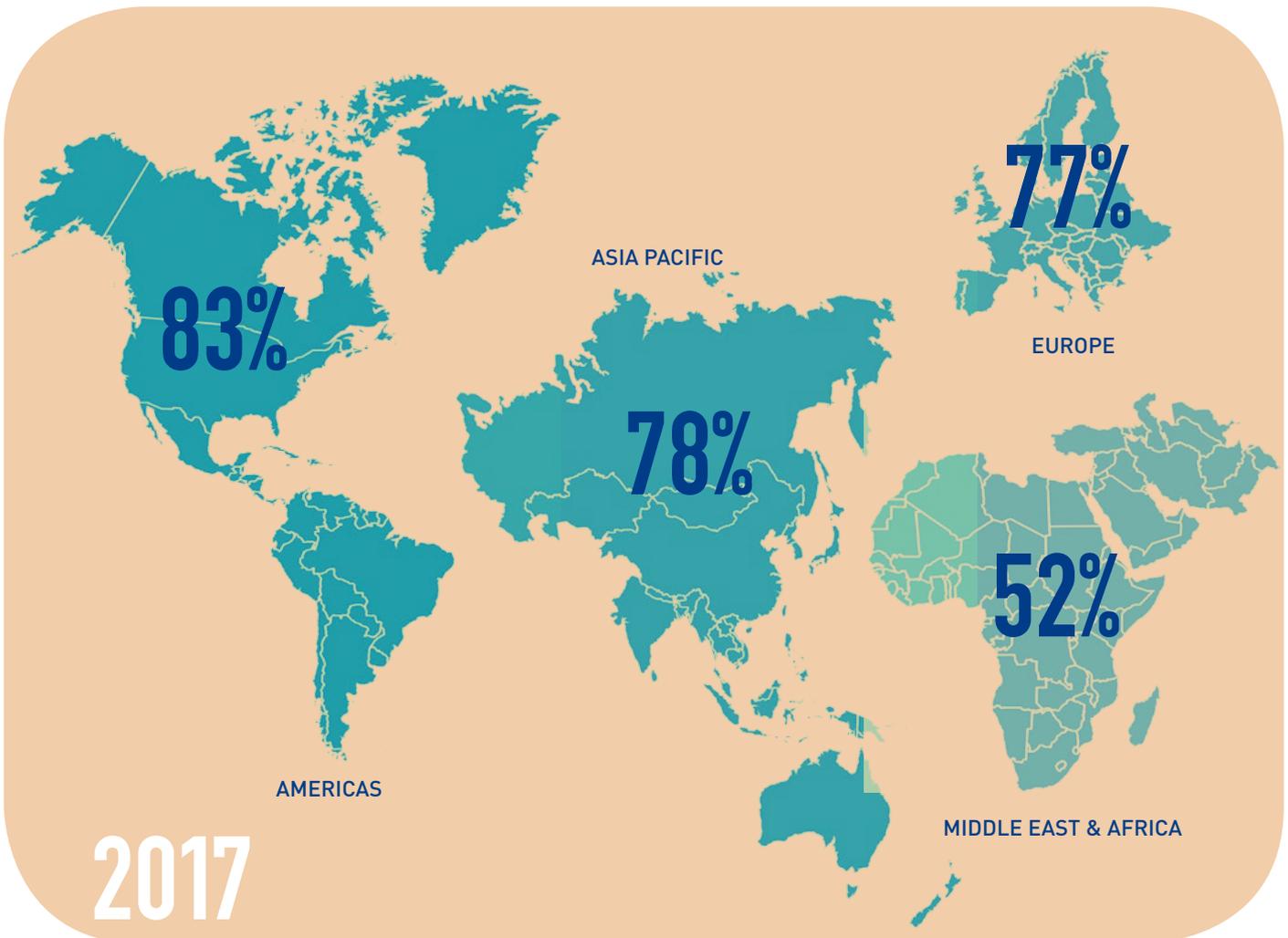
RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns

One of the aims of Sustainable Development Goal number 12 is to encourage businesses, in particular large multinationals, to include information on sustainability in its annual statements.

The *KPMG Survey of Corporate Responsibility Reporting 2017*¹⁵, surveyed 4,900 firms around the world, and found an increase in the publication of sustainability reports in America and Europe.

Corporate responsibility reporting rates by region



Source: *The KPMG Survey of Corporate Responsibility Reporting 2017*

The GRI (*Global Reporting Initiative*), of which Etica Sgr has been an Organizational Stakeholder since 2013, remains the most popular standard for sustainability reporting worldwide: two-thirds of reports analyzed follow the G4 GRI Guidelines.

In Italy since 2018 company reports have incorporated a Consolidated Non-Financial Statement, as required

by Legislative Decree no. 254 of 30 December 2016, enacting Directive 2014/95/EU on “non financial and diversity information.” This new statement must be included in the financial statements of public interest entities and big corporations for years beginning after 1 January 2017. The statement must cover topics relating to environmental and social issues, workers rights,

human rights and active and passive corruption, taking into account the company's activities and characteristics.

Sustainability reporting is central to Etica Sgr's company analysis, which aims to encourage firms to establish a dialogue with all stakeholders in the drafting and publication of their reports.

Engagement with Campari on tighter compliance in sustainability reporting

Since 2013 **Campari Group** has reported its social, environmental and economic impact in its document Sustainable Campari. Etica Sgr welcomed this development and the closer reference to the Global Reporting Initiative G4 Guidelines, the global standard for sustainability reporting. However, to bring the document more in line with international best practice, Etica Sgr hopes Campari will fully comply with the GRI Guidelines in adopting the "In Accordance – Core" or "In Accordance – Comprehensive" levels¹⁶ based on the latest Global Reporting Initiative standards. For this reason we set up a working group with Campari to discuss how to make their sustainability reporting more transparent and GRI compliant.

A significant result: A2A's first Integrated Financial Statements

Etica Sgr welcomed the publication of **A2A's first Integrated Financial Statements**, which brings together - in a way that is coherent and comparable - the economic, social, environmental and governance aspects of its

core business. This is a sign of how far Corporate Social Responsibility has come to be seen as a competitive factor for the company. The document was submitted to a vote at the shareholders' meeting, a rare case among Italian listed companies hitherto, and a development also welcomed by the proxy advisors. Etica Sgr invites A2A to set itself ever more challenging targets for its Sustainability Plan with a view to achieving continual improvements.

Other significant results: first Sustainability Report for Brembo and Italgas

At the 2017 Shareholders' Meeting, **Brembo's** CSR Officer addressed Etica Sgr and the other shareholders present to announce the company's first sustainability report, for 2016, drafted in accordance with GRI G4. Information was given describing the process behind the drafting of the document, the functions involved, the topics seen as material and the SDGs identified for future strategies (SDGs 8, 9 and 12). A "Sustainability" section has been created on the website to present the most important content each year during the Shareholders' Meeting. Etica Sgr particularly welcomed the inclusion in the document of data for 2015, making it possible to examine the trends and analyse the company's activities more closely.

At a meeting in June, **Italgas** told Etica Sgr it had published its first sustainability report (after 13 years of absence from the stock exchange, in 2016 Italgas was once again quoted on the Milan Electronic Stock Market (Mercato Telematico Azionario), following its separation from SNAM). Italgas's principal objectives regard personnel, technology and occupational health and safety.

¹⁵ See KPMG, "The road ahead" https://home.kpmg.com/content/dam/kpmg/campaigns/csr/pdf/CSR_Reporting_2017.pdf

¹⁶ Companies following the G4 Guidelines or the new SRI standards have two options to choose from: "Core" and "Comprehensive", depending on the level of alignment of its reporting with the guidelines. A "Core" report contains information on all items deemed essential to the sustainability report, as well all aspects considered material. A "Comprehensive" report must also include additional information on the integrity, ethics, governance and strategy of the organization.

COMMITMENT TO TACKLING CLIMATE CHANGE

Etica Sgr has long taken an active interest in climate change, excluding from its investments those industries with a particular impact in terms of gas emissions such as petroleum or mining, preferring to invest in environmentally friendly companies. Etica Sgr's engagement activity reinforces and amplifies its efforts as a sustainable and responsible investor, encouraging the companies in which it invests to adopt more efficient strategies in line with the Sustainable Development Goals linked to climate change.

Goal 6



SANITATION AND HYGIENE

Ensure access to water and sanitation for all.

According to the report by the World Health Organization's joint monitoring programme with Unicef Progress on Drinking Water, Sanitation and Hygiene: 2017 Update and Sustainable Development Goal Baselines¹⁷, a billion people lack access to drinking water at home and more than twice as many have no sanitation, living in water-stressed areas.

The availability and quality of water today are strictly related to people's socio-economic development and health.

Water purification and treatment are viewed as the most effective public sanitation measures in raising average life expectancy and reducing disease caused by contamination with microorganisms, parasites or chemicals. Meanwhile, scarcity of water makes it difficult to achieve adequate conditions of hygiene. This is why water is often referred to as "blue gold".

The United Nations calls for greater responsibility in the use of water resources, urging adequate and fair access to hygiene and sanitation services for everyone, improved water quality through reduced pollution, protection and restoration for water-related ecosystems.

Science and technology are helping to optimize use of water resources, with increasingly effective purification treatments. National and international regulations are focused on reducing pollution, **combating practices like uncontrolled discharges and the release of chemical substances**. But a shared and coordinated effort is needed at all levels.

Engagement with Campari and Brembo: managing water resources and the importance of quantitative targets

Again this year Etica Sgr has pursued a dialogue begun in previous years on the question of water by speaking at the **Campari** Shareholders' Meeting. Operating in the drinks industry, **water is strategic** to the company, and we urged it to set ambitious targets to reduce its water consumption. In its Sustainable Campari 2016 report the company announced that it has reduced the quantity of water it uses per bottle by 11% over the last year. Etica Sgr invited Campari to consider innovative methods to increase the use of treated waste water in its production processes.

At the Shareholders' Meeting of **Brembo**, world leader and innovator in the field of disc brake technology for high performance vehicles, Etica Sgr expressed its appreciation for the progress made in efficient water management and

¹⁷ See WHO – Unicef JMP, "Progress on Drinking Water, Sanitation and Hygiene: 2017 Update and Sustainable Development Goal Baselines" <http://bit.ly/water-sanitation-hygiene>.

for the data in its Sustainability Report on consumption and savings achieved in 2016. But it pointed out that, unlike greenhouse gas emissions, Brembo has not set

any quantitative targets for the coming years, especially for facilities in water-stressed areas, such as those near the Rivers Yangtze (China) and Bravo (Mexico).

Goal 13



ACTION ON CLIMATE

Take urgent action to combat climate change and its impacts.

Climate change is a global challenge that knows no bounds. Greenhouse gas emissions caused by human activity are currently at the highest historical levels and, according to the United Nations, represent the biggest driver of climate change. The Intergovernmental Panel on Climate Change says that **global CO2 emissions have increased by 50% since 1990¹⁸**. Without governmental and technological change, average global temperatures will continue to rise, with major consequences for the oceans and glaciers, and profound implications for the world's population and for agriculture.

Climate change will alter the quality of the air, the availability of drinking water and food production. The **World Health Organization** (WHO) has indicated in a recent study¹⁹ that we will see hundreds of thousands of extra deaths between 2030 and 2050 due to malnutrition and diseases.

For 2030 the United Nations will push for all governments to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

#ClimateChange

WHETHER YOU LIVE IN A...

- Rural village**
- Small island or coastal town**
- Big city**

CLIMATE CHANGE THREATENS YOUR HEALTH

- Drought, floods and heat waves** will increase.
- Vector-borne diseases**, like malaria and dengue virus will increase with more humidity and heat.

Basic necessities will be disrupted...

- FOOD**: Hunger and famine will increase as food production is destabilised by drought.
- AIR**: Pollution and pollen seasons will increase leading to more allergies and asthma.
- WATER**: Warmer waters and flooding will increase exposures to diseases in drinking and recreational waters.

Between 2030 and 2050 climate change is expected to cause **250 000 ADDITIONAL DEATHS PER YEAR** due to malaria, malnutrition, diarrhoea and heat stress.

World Health Organization

¹⁸ See United Nations Regional Information Centre (UNRIC) <http://bit.ly/cambiamento-climatico-UN>.

¹⁹ See WHO website, "Climate change and health" <http://www.who.int/mediacentre/factsheets/fs266/en/>.

Source: WHO, Infographics on health and climate change (<http://www.who.int/globalchange/climate/infographics/en/>)

in every country, but above all **impose climate change measures in domestic policies, strategies and planning** to encourage signatories to the UN Framework Convention on climate change to honour their commitments.

Engagement with Terna: transition to a low carbon economy

Etica Sgr has always been sensitive to low carbon transition and its analysis focuses on various aspects of the question. Etica Sgr shares **Terna's** vision of an acceleration in the use of renewable sources by the electricity industry in Italy and in Europe.

In its dialogue with the company Etica Sgr asked for information on its investment plans to integrate renewable sources into the network, exploring activities to facilitate the storage of renewable energies. As renewable sources are unpredictable, energy distribution involves the optimization of storage management to share local surpluses dynamically with adjacent areas and in real time. To fully exploit generation from renewable sources and also guarantee greater security for the electricity grid, Terna has identified energy storage as an investment area. The company is therefore planning to install new (distributed generation) storage technologies as part of a move to realize a smart grid linked to the National Electricity Transmission Network. The innovative nature of introducing such systems on the NETN has led Terna to launch a first phase of trials using a new plant, new transmission backbones and new systems to measure energy transportation capability in different climate conditions.

Engagement with SOL and efforts on reporting emissions and reducing consumption

Etica Sgr congratulated **SOL** at its Shareholders' Meeting on its 2016 environmental performance in terms of reduced power consumption, increased self-generation, reduced emissions of Scope 1 and Scope 2 greenhouse gases, and improvements in indirect Scope 3 emissions²⁰. It also emerged that the company has promised to invest in efficient technologies that will enable it to steadily reduce certain forms of power consumption and indirect CO₂ emissions.

Etica Sgr is urging the company to consider signing up to disclosure initiatives such as that of the **CDP** (formerly the Carbon Disclosure Project) and the **SBT** (Science Based Target) to set targets in line with Paris COP21 decarbonization levels. Such moves will be increasingly important in the near-term and joining such initiatives is seen as a long-term investment.

Engagement with A2A and the commitment to renewable energies

In dialogue between Etica Sgr and A2A there emerged a growing interest by the company in the development and diffusion of renewable energies. In relation to the phasing out of coal by 2025, we welcome the creation of **A2A Rinnovabili**, a dedicated A2A subsidiary, following the purchase of PV plants which it will continue to run, and the big investments in renewable energies described in its Business Plan published in April.

Engagement with Snam: commitment to decarbonization

For the fifth year running Etica Sgr has voted at the Shareholders' Meeting of **Snam**, the Italian company which manages the country's natural gas distribution infrastructure. Snam is deeply committed to environmental protection, giving particular attention to climate change and decarbonization. Snam's goal is to reduce methane emissions by 10% by 2021. Etica Sgr has urged the company to disclose its results and the goals achieved as soon as possible.

Engagement with Buzzi Unicem and attention to the use of Secondary Solid Fuels

Dialogue between Etica Sgr and **Buzzi Unicem** on the environmental impacts of cement production also touched on Secondary Solid Fuels (CSS)²¹ and in particular their use in older cement plants to reduce the CO₂ produced by energy generation. Embracing the requests and concerns of the local community, in particular of a Territorial Committee, Etica Sgr has begun a dialogue with the company, expected to last throughout 2018, to discover its intentions with regard to using CSSs in its Vernasca plant (Piacenza) and other Italian facilities.



LIFE ON EARTH

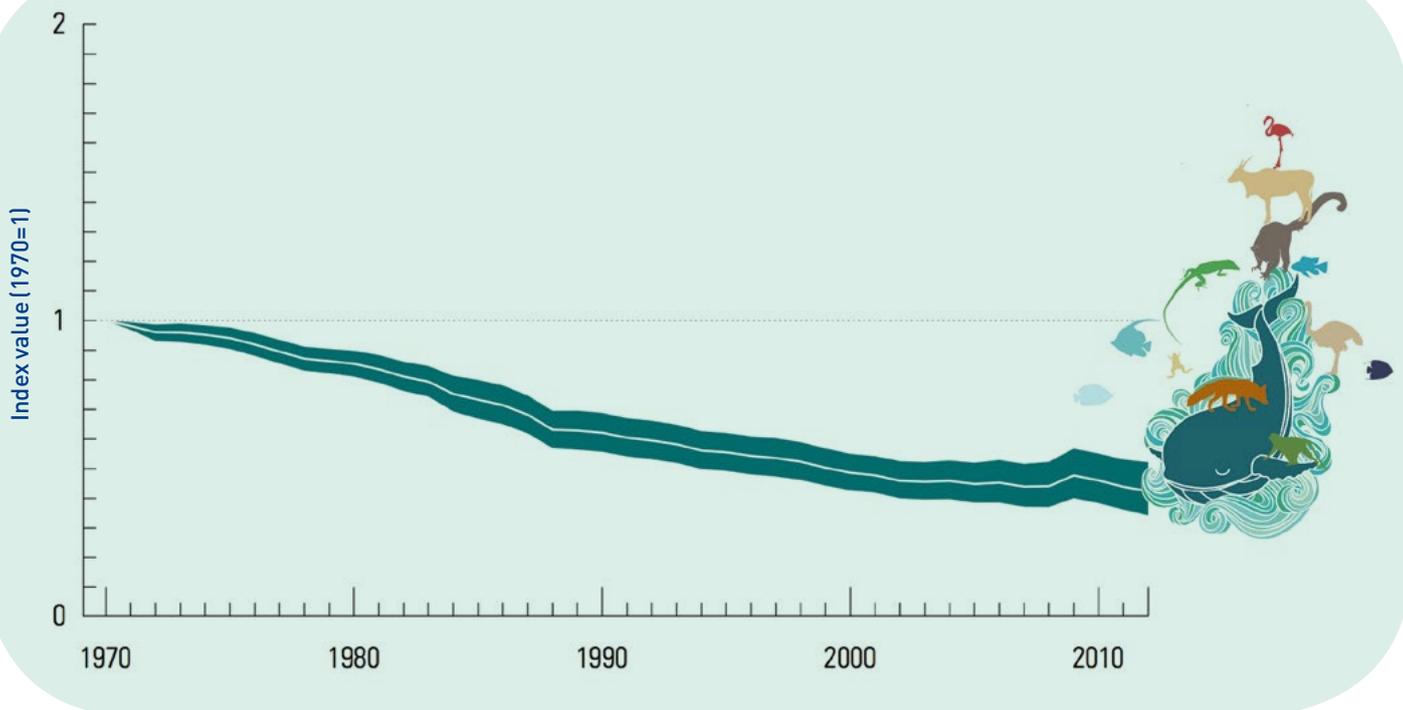
Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.

The United Nations believes that it is important to mobilize sizeable financial resources to preserve biodiversity and ecosystems. Among its 2030 goals is the adoption of urgent and significant measures to reduce deterioration of the natural habitat and arrest loss of biodiversity. A more pressing need, to be met by 2020, is to protect and prevent the extinction of threatened species.

In its latest two-yearly report, **Living Planet Report 2016**²², the WWF takes stock of the condition of the Earth's natural systems based on a study of 14,000 vertebrate populations in more than 3,700 species. The report presents some disturbing findings: in just over 40 years, from 1970 to 2012, the Living Planet Index or LPI (a global indicator

of biodiversity that calculates the average variation in abundance of species over a period based on data on various vertebrate populations) fell by 58%. The data reveal an average annual drop of 2% and there is still no sign that this trend may be halted.

The global LPI index shows a 58% decline (range: -48% to -66%) between 1970 and 2012



Source: WWF, Living Planet Report 2016

²⁰ Scope 1 emissions are the direct greenhouse gas emissions by the company or its subsidiaries (fossil fuels used in the production process, vehicle emissions of its corporate fleet, etc.). Scope 2 emissions are the indirect greenhouse gas emissions, not generated by the company, but a direct consequence of its business (emissions from the generation of electricity, heating / cooling, etc.). Scope 3 emissions represent the remaining indirect greenhouse gas emissions.

²¹ A CSS is a type of fuel obtained from treating non-hazardous urban refuse and special wastes.

²² See WWF, "Living Planet Report 2016" http://www.wwf.it/il_pianeta/sostenibilita/one_planet_economy/living_planet_report_2016/.

The most common threat to declining populations is the loss and deterioration of habitat (among the main causes: non sustainable agriculture, deforestation, mining), as well as climate change. The United Nations highlight that 52% of land used for agriculture is moderately or seriously affected by soil deterioration and that 12 million hectares of land are lost to drought and desertification each year (23 hectares a minute).

Among the biggest causes of deforestation is the huge demand for palm oil and its large scale production. In February 2017 the Rainforest Action Network (RAN) produced a report which describes how massive deforestation in Indonesia for palm oil production threatens the survival of the region's ecosystem and biodiversity, and with adverse consequences for elephants (a species already threatened by extinction). The biggest entities involved in the sourcing of palm oil from these areas are the large food industry multinationals.

Engagement with General Mills and Conagra Brands on deforestation-free sourcing

Etica Sgr actively backs international campaigns that stress the importance of responsible sourcing that respects the rights of local communities, also focusing attention on the issue at the shareholders' meetings of the companies in which its invests.

This is the case with **General Mills** and **Conagra Brands**, two US food multinationals. Palm oil has an impact on a wide range of issues. Etica Sgr examines company practices on various fronts, including **polluting emissions and sustainable and traceable sourcing**, monitoring the entire supply chain with regard to environmental and human rights protections.

General Mills responded to Etica Sgr's inquiries that its commitment to cut Scope 3 emissions by 2025 is mainly focused on reducing deforestation by palm oil suppliers. The company has already reached the target of aligning 100% of its palm oil supplies with the Roundtable on Sustainable Palm Oil (RSPO) standards (set for 2020) and is working with the NGO ProForest to monitor the palm oil supply chain with regard to environmental and human rights violations. Where suppliers fail to comply with corporate policy, General Mills states that it immediately suspends any business until the supplier has resolved the issue. Etica Sgr is exploring this question in talks with the company.

In 2017 **ConAgra Brands** declared that 93% of its palm oil was RSPO certified. In its Citizenship Report 2017, the company reiterates its commitment to urge its suppliers to use RSPO certified palm oil, in that it sees responsible sourcing as strategic for the sustainability of the business from an environmental and social standpoint.

Etica Sgr intends to focus attention on these issues at every opportunity for talks with the companies, including in collective dialogue.

Engagement with YNAP on the company's respect for animal rights

At the 2017 Shareholders' Meeting Etica Sgr met **YNAP**, market leader in luxury fashion e-commerce. Already active on sustainability, the company has made further progress: the recent adoption of a fur free policy, banning any garments or accessories containing animal furs. YNAP has also signed up to the International Fur Free Retailer Program with the backing of the Fur Free Alliance (FFA), an international coalition of large organizations supporting the protection of animals and the environment worldwide. This decision backs YNAP multibrand online stores in the promotion of commercial policies in favour of animal rights.

²³ See Rainforest Action Network, "Profits over people and planet" <http://bit.ly/profits-over-people-and-planet>.

HUMAN RIGHTS IN THE SUPPLY CHAIN

The question of human rights is of vital importance, especially in countries with slack legislation, where many businesses often operate indirectly through their suppliers. Etica Sgr has always focused attention on respect for human rights in the selection and monitoring of the supply chains of the businesses in which it invests. Engagement is designed to remind company boards of the values of social and environmental responsibility, also with respect to its suppliers, and encourage internal processes like supply chain audits to prevent cases of discrimination or exploitation such as child or forced labour. Any issuer that is shown to have violated ILO (International Labour Office) agreements or cannot provide adequate responses, is automatically ruled out from investment. **Policies for more transparent and effective supply chain management and monitoring involves efficient management of delocalization risks** and protecting the company's reputation through investment in the sustainability of the whole supply chain.

Goal 8

8 DECENT WORK AND ECONOMIC GROWTH

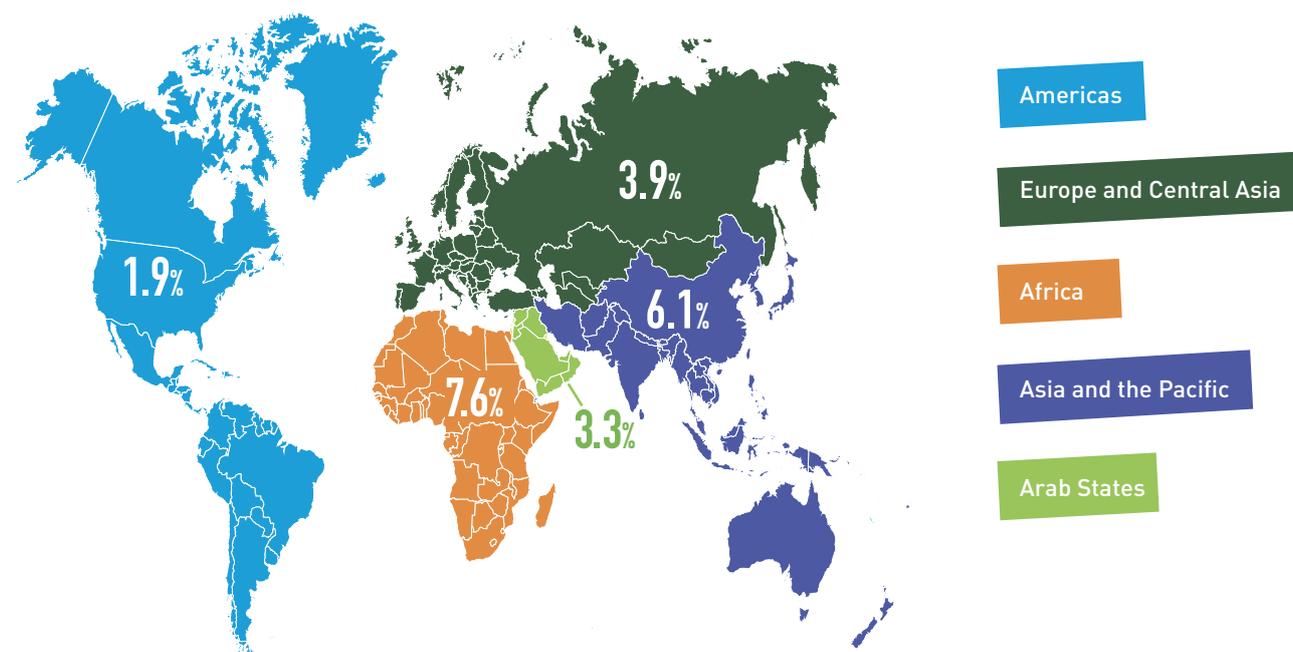


DECENT WORK AND ECONOMIC GROWTH

Promote inclusive and sustainable economic growth, employment and decent work for all.

According to the latest ILO report, Global Estimates of Modern Slavery²⁴, in 2016 over 40 million people were victims of modern slavery, 71% of such cases involved women and girls and one in four cases involved children. Africa is the worst offender in this area.

Prevalence of modern slavery in region



²⁴ See ILO, "Global Estimates of Modern Slavery"
<http://bit.ly/modern-slavery-ilo>.

Source: Global Estimates of Modern Slavery, ILO, 2017

One of the United Nations' targets in achieving this goal is: "Take immediate and effective action to eradicate forced labour, put an end to modern slavery and human trafficking and enforce the prohibition and elimination of the worst forms of child labour."

In this context the creation of quality jobs remains one of the biggest challenges and this is why it is priority to make employment central to economic and social policy.

For Etica Sgr a sustainable supply chain is both necessary and at the same time extremely rewarding. Etica Sgr occupies the front line in campaigns against human rights violations, drawing firms' attention to the question of sustainability particularly within their own value chain, specifically regarding their supply chain policies and recruitment practices to protect respect for the environment and human rights along the whole chain.

NO FEES INITIATIVE



In the face of **modern forms of slavery that force workers to pay for work**, accept often underpaid jobs in which they are exploited and have no real labour contract, Etica Sgr has become a mouthpiece for the ICCR's No Fees Initiative. The goal of the initiative is to influence the behaviour of the big brands and retailers, urging them to adopt responsible recruitment policies, so that we can eliminate modern slavery, one of the most striking violations of human rights in today's world.



Engagement with Luxottica

At this year's **Luxottica** Shareholders' Meeting, Etica Sgr congratulated the company on its efforts in monitoring the supply chain via its Responsible Sourcing programme²⁵, working with an external company to carry out an audit of its suppliers and adopt a zero tolerance target for child labour and forced labour.

²⁵ Cfr. Luxottica, "Luxottica Responsible Sourcing Principles" http://eprocurement.luxottica.com/attach/responsible_sourcing_principles.pdf.

Etica Sgr invited the company to publish a sustainable sourcing policy on minerals and what action it intends to take if a case of non-compliance is found by the audit. We also requested details on the criteria they use to select their suppliers.

Engagement with Brembo: occupational health and safety

In the materiality matrix illustrated in the company's Sustainability Report 2016, health and safety of workers is clearly one of the most important issues for **Brembo** and for its stakeholders. The positive trends in the indices for accident severity and frequency over the last three-year period is testimony to the company's efforts in this crucial area. Bearing in mind the labour intensity and the complexity of the production and technology processes involved in the activities of the firm and its suppliers, Etica Sgr also drew attention to the contracted workers and subcontractors, and asked to see the accident indices for the last two years for these categories.

In 2016 the global workforce grew by more than 1,000, a sign of Brembo's efforts and capacity to invest in human capital. One of the main reasons for the growth in the workforce was the opening of the Escobedo plant in Mexico. Etica Sgr requested details on the reasons for the sharp net fall in South America personnel revealed by analysis of the difference between new hirings and job losses in the region.





PEACE, JUSTICE AND STRONG INSTITUTIONS

Promote just, peaceful and inclusive societies.

The United Nations is calling for governments to reduce illicit flows of finance and weapons and step up measures to combat all forms of organized crime by 2030. It is vital that national institutions are strengthened, even through international cooperation, to enable them to prevent violence and combat terrorism and crime. These are some of the aims linked to Sustainable Development Goal 16, which strives to promote the rule of law and non discrimination.

According to data from various organizations, **around 60% of armed conflicts are probably connected with the sourcing and trade of natural resources**, often a cause of violence and human rights violations against local populations by armed groups. Often at the centre of these violations are the so-called “conflict minerals”, specifically gold, tin, tantalum and tungsten, obtained from cassiterite, columbite-tantalite and wolframite, found in the Democratic Republic of the Congo (RDC) and neighbouring countries (currently Angola, Burundi, Central African Republic, Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, Zambia), frequently used by armed groups to finance acts of violence and insurrection. The European Union is one of the biggest markets for these materials. For this reason in March 2017 the European Parliament approved a new Regulation²⁶ on “supply chain due diligence obligations for importers of minerals and metals originating from conflict-affected and high-risk areas.” This new EU legislation on conflict minerals retraces the rules introduced in the United States. It requires all European importers of minerals and metals containing tin, tungsten, tantalum and gold, excluding the

very smallest, to enact controls to make sure that their suppliers fulfil their obligations of due diligence. Etica Sgr is in the forefront in backing campaigns against human rights violations and degradation deriving from the extraction and trading of these minerals from geographical areas defined as “conflict regions”. It therefore monitors carefully the supply chains of issuers operating in sectors potentially engaged in sourcing these materials.

Engagement with YNAP and compliance with the UK Modern Slavery Act

Etica Sgr welcomed **YNAP’s** commitment to abide by the UK’s 2015 Modern Slavery Act in all its operations. The Act’s clause on transparency in the supply chain concerns the duty of firms to prevent modern slavery practices in its structures and supply chains.

YNAP publishes an annual statement that lists the actions taken by YOOX NET-A-PORTER GROUP and its future undertakings to ensure that modern slavery and human trafficking are entirely absent in its business and supply chain²⁷.

²⁶ See Luxottica, “Luxottica Responsible Sourcing Principles” <http://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/>.

²⁷ See Modern slavery statement for FY 2016: http://cdn3.yoox.biz/cloud/ynap/uploads/doc/2017/MSA-_YNAP_final_ITA.pdf.

TAX OPTIMIZATION

Investors are increasingly taking an interest in the conduct of the companies in which they invest. **Unjust, short-sighted or excessively risky decisions can have direct consequences on the firm's reputation** and financial valuation. This means that good corporate governance is vital to the creation of long-term value.

As a consequence, companies have a strategic interest in reconciling economic growth with a fair distribution of resources, managing their tax affairs transparently and in accordance with the law, adequately rewarding all stakeholders, and fully disclosing all their activities.

Goal 10

10 REDUCED INEQUALITIES



REDUCE INEQUALITY

Reduce inequality within and among countries

Reducing national and international inequality is probably one of the world's most challenging goals, because the poorest countries have few means available to improve their situation.

The latest Oxfam report, *An Economy for the 99%*²⁸, describes a worrying trend in the concentration of wealth and highlights how the poorest half of the planet is even poorer than was thought in the past. On top of this is the burden of corporate tax evasion, which costs the poorest countries USD 100 billion each year.

Faced with this situation, the UN is calling for all countries to commit to reducing inequality among rich and poor nations and within individual countries.

Sustainable Development Goal 10 draws attention to this issue measured by various indicators including the social, economic and political inclusion of citizens.

Reducing inequality is also especially important in that, beyond a certain threshold, it is damaging to economic growth.

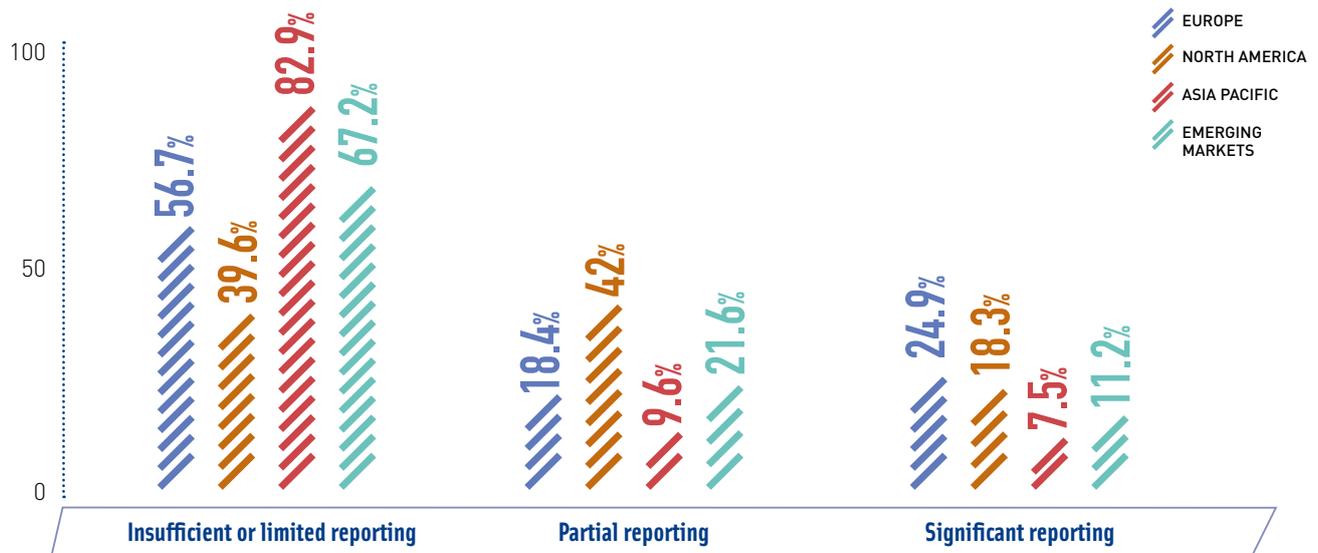
One of the targets towards this goal is to "Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations".

A recent study by Vigeo-Eiris²⁹ points out that only a small minority of listed companies fully report their tax payments, giving a country by country breakdown of information on the number of employees, operations, turnover and profits.

²⁸ See Oxfam Briefing Paper "An Economy for the 99%"
<http://bit.ly/economia-99>.

²⁹ See Vigeo-Eiris, "To what extent do companies report on their tax payments?"
<http://bit.ly/tax-payments-vigeo-eris>.

Corporate tax reporting: comparison by zone (%)



Source "To what extent do companies report on their tax payments?" – Vigeo-Eiris – October 2017

Aggressive tax planning is a hot topic today and is set to become even hotter for European and Italian legislators. Country-by-Country Reporting (CbCR), introduced by the OECD in 2015, represents a first major step towards international tax reporting, especially with respect to the struggle against tax evasion. Under CbCR companies are required to report all entities in the group that carry out activities in particular tax jurisdictions and give an indication of the activities they perform. According to the World Bank, the reporting requirement should not be excessively burdensome for firms, since this is information that they must already possess for tax accounting purposes in the various jurisdictions. Over the year Etica Sgr continued to focus firms' attention on these issues with a view to tax optimization.

Buzzi Unicem and the publication of data on payments to foreign governments

Etica Sgr has learned that from 2017, in fulfilment of Legislative Decree no. 139 of 18/08/2015, which requires companies operating in the mining industry to publish a report with information on payments to governments regarding mining activities in the countries in which it performs such activity, **Buzzi Unicem** is publishing a *Consolidated Report on Payments to Governments*³⁰. Etica Sgr is hopeful that this document represents a first step towards the publication of a broader set of data on payments to governments in the countries in which it operates.



PRI COLLABORATIVE ENGAGEMENT ON CORPORATE TAX RESPONSIBILITY

In 2017, Etica Sgr signed up to the PRI initiative regarding collaborative engagement on corporate tax responsibility aimed at a group of firms in the healthcare and tech sectors. The initiative, to be developed mainly throughout 2018, represents an opportunity for dialogue with companies that are particularly exposed to risks on this issue, aimed at improving disclosure of tax payments and encouraging the development of responsible strategies in this area.



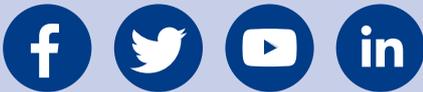
³⁰ See Buzzi Unicem, Report for FY 2016: <https://bit.ly/2GUtlmv>

WHO WE ARE

Etica Sgr is the only Italian asset management company that exclusively offers sustainable and responsible mutual funds. The securities making up Etica Sgr's funds are the result of a rigorous screening process designed to identify the most virtuous companies and countries from an ESG (environmental, social and governance) standpoint and create value over the medium-long term. Etica Sgr is member of Banca Etica Group and represents ethical values in financial markets.

TO FIND OUT MORE

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