

Etica Sgr - 2015 Shareholder engagement

DIALOGUE WITH COMPANIES

News, analyses and results of initiatives in Shareholders' Meetings



Editorials
**Our mission
alongside ICCR**

Engagement
**A strategy for creating
long-term value**

Focus
**New goals for controlling
climate change**

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Our mission alongside ICCR

Ugo Biggeri, *Chairman of Banca Popolare Etica and Etica Sgr*

I am writing this introduction from ICCR's autumn shareholders' meeting.

It is a significant event for Etica Sgr's shareholder engagement. We have followed the Interfaith Center on Corporate Responsibility for 10 years: a decisively significant time for our company. Along with more than 200 members we discuss engagement and interventions to bring to the attention of companies involved in specific intervention sectors that include environmental issues, the use of water, human trafficking, health, climate change and human rights.

We have learned a lot over the years from this centre that primarily unites American religious investors, but that has a constancy and professionalism that even with its arrival in the sector of mainstream finance companies, it is still an essential voice in engagement at a global level.

One of the things that convinces us of ICCR is a focus on corporate responsibility which is much more profound than a trend or business opportunity. The companies that are present are involved in engagement because they believe in it, because there are convinced of its usefulness in solving world problems, reinforced in this choice by the recent papal encyclical "Laudato Si". That is what can also be said of Etica Sgr regarding its commitment to ethical finance. It is not a business sector: it is the company's mission. It is certainly

not a negligible fact that pushes our company to always improve its work, look for new procedures and paths to increase and improve the engagement we carry out in Italy and abroad.

This total commitment of Etica Sgr's is also a guarantee for our clients. They know they are dealing with a company that is consistent with the principles of ethical finance that it promotes: belonging to the Banca Popolare Etica group, an exclusive commitment to create ethical finance products and an innovation and leadership ability of the sector.

The work on corporate responsibility is linked to finance that does not think in terms of "products" but rather processes, supply chains and analyses of the non-economic consequences of economic and financial actions.

The work on corporate responsibility is tied hand and glove to the history of ethical finance, i.e. finance that does not think in terms of "products" but rather processes, supply chains and analyses of the non-economic consequences of economic and financial actions.

ICCR like EIRIS, our partner who supplies the database on companies and states, can trace their roots back to the commitment of citizens and institutions for critical consumption, aimed at changing unjust situations at a worldwide level.

We need to remember these roots and the resulting vision: change all of finance to have a better world. With our research, with our international partnerships, with our mutual funds and with our engagement, we at Etica Sgr are doing our part: we recount part of our work below along with our engagement and dialogue with the companies we have followed directly.

We hope you will join is on this path.

We believe strongly in the power of voting rights and speaking out

Alessandra Viscovi, General Manager of Etica Sgr

A constructive dialogue generates more responsible conduct: we have always been convinced of this and time proven us right.

The commitment to sustainability we are asking from the companies we invest in is continuous and progressively increasing. We have achieved many improvements compared to previous years, especially in terms of transparency and focus on environmental impacts.

The year 2015, the year of the Expo, was brimming with great changes on environmental issues: the Conference on climate change that will be held at year end in Paris is a unique opportunity for reaching a universal agreement on climate change and it is our job, as socially responsible investors, to push companies to adopt increasingly attentive and virtuous behaviour.

In this context, we are very proud to be the first Italian run company to have adopted the Montreal Pledge, an initiative of PRI which requires a commitment to measure and publicly disclose the carbon footprint of investment portfolios.

The addition of controls on energy consumption and ozone emission from company activities to every development programme is no longer just an option, it has become a clear-cut duty, as a real contribution to sustainable development, in part and above all in light of possible legislative changes in Europe and the rest of the world. This focus is not just on the specific companies we dialogue with but on the entire supply chain: for us it is important to make companies aware so that they become diligent and responsible not just towards society as a whole but also internally, in their relations and governance.

With our engagement we are not just acting in the interest of the more than 100,000 customers of our mutual funds but in the interest of Society as a whole.

With our engagement we are not just acting in the interest of the more than 100,000 customers of our mutual funds but in the interest of Society as a whole to benefit from long-term results; these are the ambitious goals of a pioneer who has never stopped believing in the strength of dialogue to prevent and mitigate potential negative impacts.

Once again it is our pleasure to give you some ideas for reflection!

We hope you enjoy reading this!



ENGAGEMENT IS ONE OF THE MOST EVOLVED PRACTICES OF SUSTAINABLE AND RESPONSIBLE INVESTMENT.

THROUGH ENGAGEMENT INVESTORS START A MEDIUM-LONG TERM STRUCTURED DIALOGUE WITH THE MANAGEMENT OF THE INVESTEE, CONTINUOUSLY MONITORING ENVIRONMENTAL, SOCIAL AND GOVERNANCE ASPECTS RELATED TO THE COMPANY'S BUSINESS, IN ORDER TO STIMULATE A LONG-TERM SUSTAINABLE AND RESPONSIBLE CONDUCT, THAT CONTRIBUTES TO CREATING VALUE FOR THE ECONOMY AND SOCIETY AS A WHOLE.

ENGAGEMENT: A STRATEGY FOR CREATING LONG-TERM VALUE

There are two engagement macro categories: soft engagement and hard engagement. The first is practised through dialogue with management, planning opportunities for periodic encounters to discuss specific topics or conference calls, sending requests for more information on certain subjects or investment policies or sending guidelines; the second includes exercising the

voting right (shareholder engagement) and submitting motions. The United States and Canada are among the most active countries in terms of engagement and exercising the voting right, due to a less "concentrated" ownership structure of corporations. The United Kingdom and Nordic countries are the leaders in Europe. By analysing the study performed by Eurosif (European Forum for sustainable investments), "European SRI Study 2014", which identifies engagement as one of the responsible investment strategies, the growth

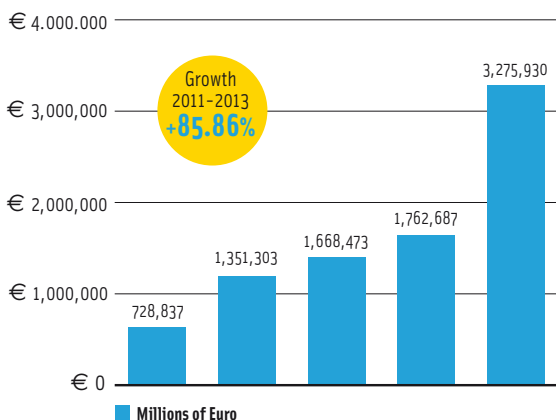
in Europe of dialogue activities and shareholder engagement is sustained (+85.8%). In Italy it is attracting more and more interest and has registered significant growth (annualised growth rate totalling 71%).

**Results obtained
thanks to requests from
Etica Sgr:**

- Some companies have prepared their first sustainability report
- other have introduced ESG criteria in their supplier selection process
- and others still have adopted the CDP initiatives in the "water" and "climate change" areas

Continuous and positive dialogue with companies helps. Various results, even if minor have been reached thanks to

Vote and engagement in Europe



Vote and engagement in per country

Country (€ million)	2011	2013	CAGR
Austria	€ 1,191	€ 2,060	32%
Belgium	€ 19,586	€ 38,006	39%
Finland	€ 44,870	€ 50,565	6%
Germany	nm	€ 55,304	nc
Italy	€ 18,531	€ 54,372	71%
Holland	€ 472,019	€ 649,198	17%
Norway	€ 55,652	€ 321,245	140%
Poland	0	578	nc
Spain	€ 11,094	€ 9,103	-9%
Sweden	€ 11,094	€ 9,103	-9%



requests from Etica Sgr: some companies have prepared, their sustainability reports, others have introduced specific ESG criteria in their supplier selection process and others still have adopted the CDP initiatives in the "water" and "climate change" areas.

The following chapters will cover the topics dealt with during the 2015 engagement season of Etica Sgr, primarily linked to "Food" and "Climate Change", i.e. the issues of the Expo 2015 event and also the centre of the dialogue activities conducted by ICCR, CDP (Carbon Disclosure Project) and PRI. Other significant aspects for Etica Sgr regarded ESG measurement, the adoption of specific policies and management and monitoring systems for issues

related to the respect of human rights, selection and monitoring of the supply chain, remuneration policies and best corporate governance practices. Once again this year Etica Sgr's commitments to engagement and shareholders' meeting voting was high: Etica Sgr actively dialogued with 27 companies, both Italian and foreign.

The sensitivity of investors has changed and the focus is increasingly on non-financial impacts: thus it is necessary to guide the companies to face the new challenges and orient development in that direction.

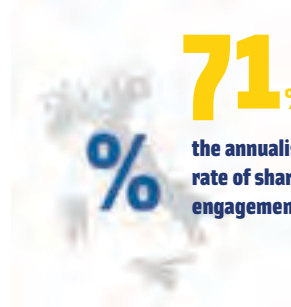
85.8%

the growth in Europe of dialogue activities and shareholder engagement



71%

the annualised growth rate of shareholder engagement in Italy



FOR ETICA SGR, THE ONLY ITALIAN ASSET MANAGEMENT COMPANY THAT ESTABLISHES, PROMOTES AND MANAGES EXCLUSIVELY SUSTAINABLE AND RESPONSIBLE MUTUAL INVESTMENT FUNDS, ESTABLISHING A CONSTRUCTIVE DIALOGUE WITH COMPANIES IS A FUNDAMENTAL OPPORTUNITY FOR PROMOTING LONG-TERM SUSTAINABLE DEVELOPMENT AND STIMULATING COMPANIES TOWARDS A PROGRESSIVE IMPROVEMENT OF THEIR CONDUCT IN THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE AREAS.

ENGAGEMENT

AND ETICA SGR'S VOTE IN THE SHAREHOLDERS' MEETING



These activities, certified according to the ISO 9001:2008 standard, are conducted in the name of and exclusive interest of the subscribers of Etica Sgr mutual funds and based on a positive and long-term approach.

The dialogue established with the companies allows Etica Sgr to obtain precious information useful for completing a social responsibility assessment.

Etica Sgr's sustainable and responsible investment entails assessing listed companies based on a proprietary method which involves different steps (exclusion criteria, analysis criteria and "best in class" approach) which then determines the list of companies where Etica Sgr can invest.

Therefore, engagement activities are closely tied to the assessment phase of issuers: everything is performed hand in hand with the support of the Ethics Committee, an independent and autonomous body which plays an advisory and proactive role for the Board of Directors of SGR.

With the investable universe companies, Etica Sgr has started a constant and long-lasting dialogue organised in the activities described below, governed by the specific policy published on the website www.eticasgr.it and reviewed various times over the years.



FOR MORE INFORMATION

Visit the
[Etica Sgr website](http://www.eticasgr.it)

Types of engagement

Soft engagement

Starting from a need to discuss a specific problem with a company or based on results of the ESG assessment conducted on the company, Etica Sgr sends written requests for information and organises conference calls and meetings with the companies. For Italian companies Etica organises specific workshops for discussing the adopted assessment methods, significance of a specific ESG issue for an active investor or certain aspects that emerge during shareholders' meetings.

It is normal practice to dialogue with the Investor relator or with the company's CSR manager, who often ask Etica Sgr to repeat the topics already discussed in these meetings during the shareholders' meeting. The identification of win-win topics (i.e. of mutual interest) and dialogue with management during the shareholders' meeting makes Etica Sgr's engagement activity effective and long-lasting. In addition, collaboration with other active investors creates conditions which facilitate the dialogue with companies and their improvement in terms of ESG. For example, Etica Sgr has adopted and is a promoter of initiatives developed by the institutional investor networks where it is a member, such as ICCR (Interfaith Center on Corporate Responsibility) and PRI (Principles For Responsible Investments), which allow Etica Sgr to act concretely towards companies on an international level.

Shareholder engagement

Etica Sgr personally attends the shareholders' meetings of Italian companies and votes using the electronic platform in foreign shareholders' meetings supporting, if opportune, the motions of non-controlling interest investors. Taking part in the shareholders' meetings and exercising voting rights represent the most important time of all of the engagement because they are an arrival point (i.e. precise and accurate answers are obtained on issues that have been shared to a varying extent during the year) and a starting point (i.e. the attention of the board and management is raised on new particularly relevant issues).



CLIMATE CHANGES ARE CHANGING OUR ECONOMY, OUR HEALTH AND SOCIETY AND THEY CAUSE IS GREENHOUSE GAS (CO) EMISSIONS. IN THE MONTH OF MARCH THE NATIONAL OCEANIC ATMOSPHERIC ADMINISTRATION (NOAA) REVEALED THAT THE CONCENTRATION OF CARBON MONOXIDE, DUE TO THE MASSIVE USE OF COAL, EXCEEDED 400 PPM - PARTS PER MILLION - AGAINST THE LEVEL CONSIDERED OPTIMAL OF 350 PPM.

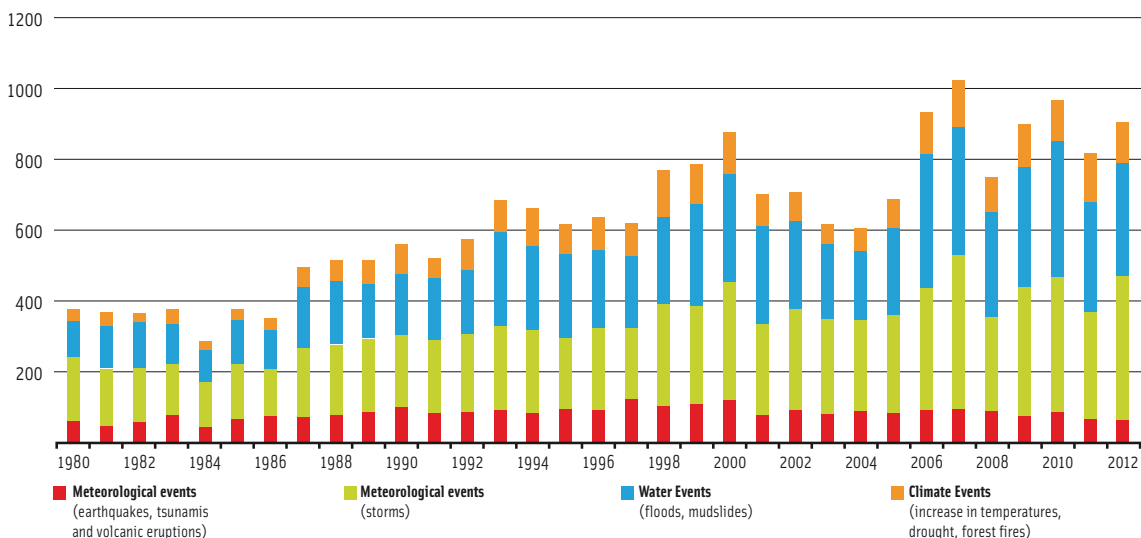
NEW GOALS FOR CONTROLLING CLIMATE CHANGE

The uncontrolled increase of these emissions risks compromising the planet's ecological balances; the temperature of the planet increases at the same pace as CO₂ emissions, resulting in glacier melting and consequent raising of the level of

oceans, exposing many species to the risk of extinction, by irreversibly altering their natural habitat (e.g. effect of ocean acidification on coral reefs).

Changing all of the ecological balances on the planet results in a series of small and large disasters that change our life in an unnatural way (infestations, droughts and floods).

Natural disasters in the world 1980-2012 (number of events)



Source: Portfolio Carbon-UNEP FI Investor Briefing



350 ppm



the National Oceanic Atmospheric Administration (NOAA) reported that the concentration of carbon monoxide has exceeded 400 ppm – parts per million – against the optimal level considered as 350 ppm

2 degrees Celsius



Maintain the increase of global temperature within 2 degrees Celsius compared to pre-industrial levels is the main objective signed by the G7 countries

32%



The Clean Power Plan aims to cut CO₂ emissions of the energy sector by 32% by 2030 and generate 28% of the electricity consumed by Americans from renewable sources



Keep the increase in global temperature within the limit of 2 degrees Celsius compared to pre-industrial levels is the main objective signed by the G7 countries that meet last June: the need emerged to reduce total CO₂ emissions between 40% and 70% compared to 2010 levels by 2050, with the development and implementation of innovative technologies and targeting a transformation of the energy sectors to low emissions.

Not just the G7 meeting, but also the latest Environmental Council of the European Union focussed on the major air pollution issues, discussing a draft Directive concerning the reduction of national emissions of certain air pollutants (part of the "Clean air for Europe") programme, which deals with the various risks for health and the environmental consequences resulting from air pollution, in line with the objectives of Europe 2020 related to an intelligent, inclusive and sustainable growth.

The Council also reported on progresses made by international negotiations related to climate in the preparatory framework for COP 21 (Conference of the Parties on Climate Change to be held in Paris in November 2015) asking the representatives of various countries to disclose their national contributions in terms of INDC (Intended Nationally Determined Contribution) emissions before the conference.

Many regions and states have signed commitments for multilateral agreements like the "Compact of States and Regions" or the "Below 2°C Memorandum of Understanding", making reduction commitments for the years 2020, 2030 and 2050. These commitments were reported on a specific page of the Convention on Climate website.

The aim of the Invitation to sign the Investor Expectations on Corporate Climate Lobbying of PRI is to encourage the signatory investors to search for a greater involvement with the companies in this important economic decarbonisation phase, to have the companies involved in lobbies adopt the best practices and to request greater transparency in CDP related lobbying activities.



FOR MORE INFORMATION
Visit the official page of clean power plan

The United States has also taken action. The Clean Power Plan presented by President Obama on 3rd August has an

important and ambitious objective: cut CO₂ emissions by 32% by 2030 energy sector, in particular the most polluting power plants such as coal and to generate 28% of the electricity consumed by Americans by renewable sources.

Thus it is the responsibility of governments and companies to control and reduce their CO emissions through correct environmental policies. In particular even the actions of Regions and cities, if coordinated with national actions in a comprehensive manner, can make commitments to fight global warming even more substantial.

In this context companies are becoming increasingly aware of the importance of managing and monitoring their own activities on climate change: increase the focus on strategic actions to reduce emissions and increase the communication of strategies and measurement of quantitative data. According to the report "*CDP Italy 100 Climate Change Report 2014 – Tackling climate change – Recent developments in the strategic vision of Italian companies*", published by CDP (Carbon Disclosure Project) and SDA Bocconi, Italian companies are increasingly focused on monitoring their carbon footprint.



FOR MORE INFORMATION
Read the report "*CDP Italy100 Climate Change Report 2014-Tackling climate change-Recent developments in the strategic vision of Italian companies*"

For a company working on the carbon footprint means making production processes more sustainable by identifying the areas to optimise to

achieve better performance. Moreover, a commitment to the environment has a value in terms of reputation and marketing and contributes to raising awareness also in end consumers.

ETICA SGR'S APPROACH

Etica Sgr, in its capacity as a socially responsible investor, is active in the climate change area, and is committed so that companies measure their CO₂ emissions and adopt a risk assessment resulting from climate change.

Etica Sgr's commitment

- *Promote more sustainable investments and with a low carbon footprint*
- *Push for increased measurement of emissions*
- *Integrate a climate change risk assessment in investment strategies*

Most of Etica Sgr's efforts and in general, of socially responsible investors are concentrated in two directions: on one hand promote more sustainable investments and with a low carbon footprint (for example the renewable energy sector) divesting from the most impacted sectors, and on the other push for a greater reporting of emissions, incorporating climate change risk assessment in investments strategies.

Since 2014, in a two year period characterised by growing focus on the Conference of the COP21 Parties in Paris, Etica Sgr has actively participated in the global mobilisation of players in the financial sector, aimed at making the

public and policy makers aware of the importance of considering climate change as a crucial point when devising medium/ long-term sustainable development policies.

In August 2014, Etica Sgr, together with certain members of ICCR and PRI, signed a memorandum of

understanding with the aim of giving a voice to the financial community for the United Nation's climate change summit held in September 2014: the *"Global Investor Statement on Climate Change"*. Specifically, the statement expresses the support of institutional investors for national and international policies aimed at decreasing the impacts of climate changes and supporting investments in clean energy.

The actions proposed by investors include, as the initiative states: the identification of investments with low carbon use, integration of in-depth environmental assessments of investments and the engagement with investee companies, all widely implemented by Etica Sgr.

II Global Investor Statement on Climate Change

Etica Sgr aims at identifying investments with low carbon use, integration of in-depth environmental assessments of the investments and engagement with the investee companies.

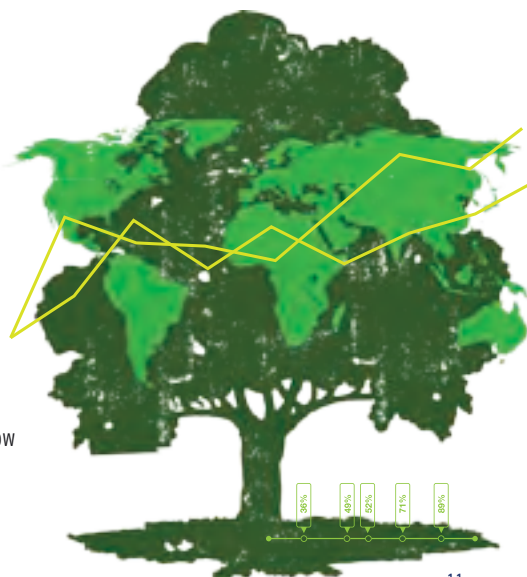
The group of signers of the statements, reaching more than 370 institutional investors representing 24 trillion dollars of managed assets, also underlines how

these initiatives are necessary for fully responding to fiduciary requirements to its signers, the memorandum of understanding lastly underlines the importance of reaching a new global agreement on climate changes to be reached by the end of 2015, precisely at the same time as COP21.

Etica Sgr, along with the PRI members, signed a new memorandum of understanding in 2015 with the objective of encouraging various companies, through direct engagement to develop, in collaboration with all international policy makers, their own climate change policies in all the geographic areas where they work, for long-term protection of the value of investments and to

maintain a sustainable conduct which can favour all stakeholders. The initiative entitled Investor Expectations on Corporate Climate Lobbying, includes the creation of work groups focused on various markets (United States, Canada, Australia and Europe).

Etica Sgr became a member of CDP in 2015 (it has been a signatory since 2012) and will thus be able to better use the wealth of information and data made available by the network in relation to possible sector or specific topic



studies and research (environmental management policies, strategies to reduce emissions, etc.), as well as the quantitative information made available by the companies in relation to their environmental management.

The Montreal Carbon Pledge is part of this area. It is an initiative that originated during PRI's annual meeting in Montreal, aimed at supporting institutional investors in measuring the carbon footprint of their investments.

The initiative, also supported by the *"United Nations Environment Programme Finance Initiative"* (UNEP FI), proposes that the investors who want to adopt it provide annual disclosures and indicates some organisations that offer this service. Etica Sgr is the first Italian asset management company to adopt it, and it will therefore calculate the carbon

footprint of its investment portfolios and communicate it to its stakeholders.

Etica Sgr is the first Italian asset management company to adopt the Montreal Carbon Pledge, calculating the carbon footprint of its investment portfolios and communicating it to its stakeholders.



Etica Sgr is also moving to promote an assessment of risks connected to climate changes resulting from financed projects in the banking sector.

The *"Financing Climate Change – Bank Initiative"*, promoted by the Boston Common Asset Management (member of ICCR and signatory of PRI) is part of this area. It addressed to 63 banks to identify the best practices already implemented in the sector and any long-term strategies they have.

Divestment of fossil fuels by institutional investors is a tangible proof of the relevance climate change has acquired. A movement for fossil fuel divestment was started at the end of 2012. Starting from American universities (Stanford was one of the most representative), the request to divest from investment portfolios in the fossil fuel sector has spread to a worldwide level. One of the most representative cases at an institutional level was the Norwegian sovereign fund (managed by Norges Bank), which, with a total value of around 900 billion dollars, is currently one of the main sovereign

funds as well as among the top ten investors in the carbon industry. As of 1 January 2016, the fund will divest all of the companies which obtain 30% of turnover or 30% of energy produced from coal, pursuing an environmentally friendly policy.

At the end of 2012 a fossil fuel divestment movement started, including the Norwegian sovereign fund – one of the largest in the world with a total value of around 900 billion dollars and managed by Norges Bank – today it is one of the main supporters thanks to its commitment. As of 1 January 2016, it will pursue an environmentally friendly policy by divesting from all of the companies which obtain 30% of turnover or 30% of energy produced from coal.

However, ICCR has different positions on divestment, defined as a "blunt instrument that leaves investors with no voice at corporate tables".

This issue is very complex: many analysts point out that engagement strategies can turn out to be more effective since with a vote and direct dialogue with the companies it is possible to more effectively influence the conduct of issuers.

One of the most expert organisations on the subject is ICCR which has rejected divestment requests various times, defining divestment as a "blunt instrument that leaves investors with no voice at corporate tables". A positive and constructive approach is also normally applied by Etica Sgr, which actively collaborates with ICCR.



Case studies

The approach of Toyota, Nissan and Denso to climate change

For the first year with **Nissan Motors**, a Japanese car manufacturer of the Renault Group, and for the second year in a row with **Toyota**, Etica Sgr took part in the shareholders' meetings to raise management's awareness of certain aspects related to corporate sustainability. In this occasion Etica Sgr congratulated Toyota and Nissan for their commitment and the excellent results achieved in managing climate altering gas emissions. CDP in its report "*No room for passengers*", where the measurements of greenhouse gas emissions are linked to the profits of automotive sector companies, nominated Nissan Motor and Toyota "best performer" from a group of 14 companies.

There is still much room for improvement, especially in terms of disclosure, and in relation to the supply chain, but we can confirm that the Companies in question have already obtained excellent results.

Etica Sgr also participated in the shareholders' meeting of **Denso**, a Japanese manufacturer of built-in systems and components for the major international car manufacturers. In a letter following the vote, Etica Sgr encouraged the company to apply the best practices resulting from the aforesaid report regarding the automotive sector produced by CDP.

Requests to Italian companies

For the second year in a row Etica Sgr participated and voted in the shareholders' meeting of **Luxottica**, a leading company in the eyewear sector, once again requesting better ESG reporting, asking them to include in their environmental policy a periodic reporting of the carbon footprint of their products and a real measurement program with the aim of progressively reducing their carbon footprint. The fact that Luxottica measures CO₂ emissions in kilos on a monthly basis for each product part made demonstrates a certain responsibility at an environmental level and an important awareness of the long-term business sustainability potential, including and above all in light of possible legislative changes that could change current laws on greenhouse gas emissions in Europe and the rest of the world.

For the fifth year, Etica Sgr attended the shareholders' meeting of **Piaggio**, an Italian motorcycle manufacturer which works in the scooter, motorcycle and lightweight transport vehicle sector, with which it has a long-standing intense dialogue related to certain aspects of corporate sustainability. During the 2014 shareholders' meeting, Etica Sgr had asked the company to take part in the CDP initiatives, to better report the impact of Piaggio's activities on climate change. This year the company decided to accept Etica Sgr's request and to answer the Climate Change questionnaire promoted by the organisation for the first time, demonstrating a growing awareness related to the risks and opportunities resulting from climate change.

Main subjects

Carbon Disclosure Project (CDP) is an independent non-profit organisation which offers companies and countries a system for measuring, reporting, managing and sharing information on a global level regarding climate and water change. Through CDP more than 3,700 organisations present in the more developed countries report their greenhouse gas emissions and analyse the risks and opportunities tied to climate change, with the aim of establishing reduction goals and improving results. CDP is supported by 655 institutional investors, that manage more than 78 billion dollars, and possesses the largest international database containing information on the climate change management policies implemented by the most important worldwide organisations.

CO₂

WATER CONSTITUTES AN ESSENTIAL ELEMENT FOR A SUSTAINABLE DEVELOPMENT, SINCE IT IS THE PRIMARY REGULATOR OF THE PLANET'S CLIMATE AND AT THE SAME TIME, THE FIRST VICTIM OF CLIMATE CHANGES.

THE WORLDWIDE DEMAND FOR WATER IS DIRECTLY TIED TO THE GROWTH IN POPULATION, URBANISATION, POLICIES ON FOOD AND ENERGY SAFETY, AS WELL AS TO MACROECONOMIC POLICIES SUCH AS THE GLOBALISATION OF TRADE, CHANGE IN EATING HABITS AND THE INCREASE IN CONSUMPTIONS.

WATER: BLUE GOLD TO PROTECT

Based on estimates by 2020 two thirds of the world population will live in drought conditions and by 2050 the worldwide demand for water will increase 55% mainly following a growth in the manufacturing sector and quantities necessary for power plant energy generation and for domestic uses.

It is important to consider that 70% of the earth is covered by water, but only 2.6% of it is composed of usable freshwater and currently almost one billion people do not have access to this resource.

The *"2015 Report of the United Nations on the development of world water resources"*, confirming that the access to drinking water and safe hygienic services is a human right, underlining how to invest in the improvement of services and water management can translate into a reduction of poverty in favour of economic growth.

Water is a fundamental resource for the production of numerous types of goods and services. Based on an international survey performed in December 2014 by the certification body DNV GL

– Business Assurance in collaboration with the United Nations Industrial Development Organisation (UNIDO) and with the support of the GFK Eurisko international research institute, in Italy only 57% of companies think that the problems related to water can have an impact on their business strategies and 40% state that they are not sufficiently informed on specific water-related legislation.

But something is changing: one company out of three has undertaken initiatives related to water management and one out of four is trying to reduce consumption and manage waste water more efficiently. It is not customers (2%) or other *stakeholder* (5%) pushing these companies towards water management, but more simply compliance with laws and regulations or internal policies (22%). Asked about the main things hindering progress in terms of water resources, Italian companies identified lack of awareness (18%) as a stronger impediment than economic restrictions (15%).



FOR MORE INFORMATION

Consult the
United Nations report



+55%

**the estimated increase
in water demand by 2050**

2.6%

**the percentage of usable
freshwater today out of
the total amount of water
present on the planet**



57%

**of Italian companies that
believe that the water
issue may have impacts
on their business**



What pushes companies to undertake water management related initiatives?



Worldwide companies perform a very important tool in balancing the constant increase in the use of water resources (especially by the agricultural industry, currently the main user of water) with the need to preserve ecosystems and guarantee a sustainable economic growth. According to a study by the USDA (United States Department of Agriculture), "2013 Farm and Ranch Irrigation Survey", the consumption of water by agriculture and industry is 70% and 22% of total water consumption, respectively.

In light of the fact that the current growth rate in water demand for agricultural uses is unsustainable, the sector needs to reduce waste as well as monitor the level of pollution caused by intensive farming.

Water consumption by agriculture and industry is 70% and 22% of total water consumption.

Source: USDA, 2013
Farm and ranch Irrigation Survey

Energy production uses a high amount of water, and in light of this, it is necessary to act to reinforce the capacity of wind, photovoltaic and geothermal plants.

The challenges in terms of water resources and sustainable development vary based on the regions; while in Europe and North America the target is to aim for efficient use of resources, reduction of waste and pollution, in Asia, the Pacific and other Arab regions the quest is to make progress in accessing water resources and safe hygiene-sanitary facilities, while in Africa the goal is to increase the potential of the currently used water resources.

According to ICCR, the network of responsible investors (Etica Sgr is a member) which for years has performed engagement activities with companies on the issue, to obtain good water resource management all of the geographic risks need to be mapped, efficiency in water use increased and water pollution decreased.

Social inequality is an underestimated aspect of water policies, but the prospects of sustainable development require a reduction in the of correct water management, trying to provide concrete goals to solve problems linked to the availability of water, involving top management, or establishing dedicated functions.

One of the main difficulties of correct water management is the lack of a global measurement method.

Due to this it becomes of prime importance for a company to develop a materiality assessment to share with all stakeholders. To this end we can mention various initiatives on the issue: "Human Rights to water" by ICCR, the guidelines "Guidance for Companies On Respecting the Human Rights", the project "Human Rights to Water-Guidelines for CEO", to bring greater awareness to companies.

ETICA SGR'S APPROACH

Focus on consumption and use access to water and sanitary services.

Assessment criteria of Water management processes

Etica Sgr has adopted specific criteria regarding the environmental performance of water management processes and a specific assessment section for companies that deal with management of an integrated water system.

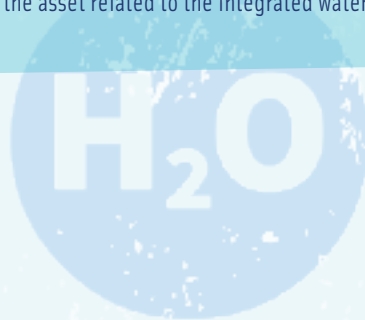
For ESG analyses, Etica Sgr uses the information and quantitative data present in the database of CDP Water Program (of which it is a member), in order to be able to achieve a better understanding of the companies it assesses and to have more points for dialoguing with the Companies it invests in.

Therefore it is very important that the companies adopt the CDP and publish its results: shareholders' meetings where Etica Sgr takes place is an opportunity where it is necessary to report the performance of water resource use.

Case studies

At the annual shareholders' meeting of **Campari**, a *beverage* industry company for which water represents a strictly "material" production resource, Etica Sgr suggested the adoption of the *Water* questionnaire promoted by CDP in addition to asking it to make a concrete commitment for the definition of a specific environmental *policy*, expression of both current *performance* and targets to meet in terms of air emissions, use of water resources, water pollution, waste management, percentage of recyclability, energy consumption and use of renewable sources, to integrate the data reported in the document "*Sustainable Campari*".

At the annual shareholders' meeting of **A2A**, a public multi-utility company that Etica Sgr participated in for the first time in 2015, a suggestion was made to include more detailed information in the Sustainability Report on analyses and tests performed on water and rates applied to users for complete transparency to stakeholders and in light of the company's declared intention to optimise the asset related to the integrated water service management.



GMOs ARE ARTIFICIAL ORGANISMS OBTAINED BY INSERTING PARTS OF DNA OF DIFFERENT ORGANISMS IN THE GENETIC HERITAGE OF THE ORGANISM.

GMOs ARE MAINLY USED IN THE FOOD, AGRICULTURE, ANIMAL HUSBANDRY AND MEDICAL FIELDS, FOR PLANTS AND ANIMALS THEY ARE OFTEN PATENTED BY COMPANIES, WHO ACQUIRE OWNERSHIP AND EXCLUSIVE USE.

THE CONTROVERSIAL GMO ISSUE

Starting in the 70s biotechnologists began to develop these genetic modifications obtaining plants tolerant to herbicides, viruses and insects to be able to increase crop production, and in other cases they worked to improve the nutritional level of products.

At the same time debates ensued on the possible danger of their use, both for the environment and human health.

Entities, associations and NGOs revealed the risks that a massive use of GMOs could cause; in terms of food safety causing possible allergy and toxicity problems, due to the introduction of products with possible, not entirely predictable side effects, and problems linked to the conferral of genes for the resistance to antibiotics, a characteristic which could also transfer pathogenic bacteria.

Debates are concentrated, other than on issues related to food and the environment, also on the social economic consequences caused by undifferentiated selling of GMO products, in particular on the possible affects on weak agricultural

economies or ones that are in crisis and the relative repercussions in the relations between developed and emerging countries.

THE RISKS OF GMOs

- *possible allergy and toxicity problems*
- *problems linked to conferring genes for the resistance to antibiotics*
- *social-economic consequences caused by undifferentiated trade*

One of the most controversial issues is the possibility that manipulation of the gene pool of organisms may result in unexpected consequences in their interactions with other living species and thus, in the end, on the environment. One of the sources of concern is the possibility that genetically modified plants may act like invasive species to the detriment of other species and varieties. In addition, it is possible that the genetic characteristics introduced into the sold varieties are then transferred, through cross pollination, from genetically modified plants to similar species in the vicinity.

The complexity of ethical and economic issues behind the production of GMOs led the European Union to regulate the prevention question by issuing directives (no. 219/90, 220/90 and 259/97) which are periodically updated.

This debate also includes the much discussed TAFTA/ TTIP (Transatlantic Trade and Investment Partnership): negotiations have been under way since July 2013 to reach a free trade commercial pact between the European Union and the United States with the aim of increasing sales and investments between the EU and USA, by standardising and simplifying the laws between the two sides and eliminating the differences not related to duties (the so-called Non-Tariff Barriers, or NTB).



FOR MORE INFORMATION

Visit the website of the
Transatlantic Trade and
Investment Partnership

The agreement, still in the negotiating stage, would make it possible to overcome customs barriers based on legal and/or approval differences and this could result in problems in the trade of food products due to different laws which govern the American and European markets in terms of the sale of GMO products.

GMO products are recognised as “generally safe” by the Food and Drug Administration (FDA) in the United States, therefore they are considered equivalent to traditional foods and seeds. In light of this, GMOs do not need to be previously authorised as is the case in Europe, therefore each consultation procedure is voluntary since there is no monitoring plan on the possible long-term effects.

90%

Italians who want to read
clear labels regarding
possible presence of
GMOs in purchased foods



73%

is against the use of
genetically modified
organisms in agriculture



Substantial differences also emerge between the United States and Europe in terms of information and transparency. While in Europe it is mandatory to label foods with a presence of more than 0.9% of the total weight, in the United States labelling is voluntary and very few put it on the label.

OGM e Europa: un rapporto sicuro

- every genetically modified organism is unique and must be examined individually in order to ascertain its safety for human or animal health and for the environment;*
- it is obligatory to label food products with a quantity greater than 0.9%;*
- the individual Member States can limit or ban the cultivation of authorised GMOs in their countries.*

In Europe the safety of a GMO is never presumed and the precautionary principle plays a fundamental role in managing the risk: each genetically modified organism is unique and must be examined individually through a preventive authorisation procedure to ascertain whether it is harmless for human or animal health and for the environment.

In Europe any authorisations have a duration of 10 years and must be renewed afterwards. Moreover, Directive 2015/412 allows the individual Member States to limit or ban, due to environmental, urban, socio-economic or agricultural policy reasons, the cultivation of GMOs in its country that are authorised by the European food safety authority (EFSA), and this aspect is particularly challenged by the United States.

Harmonisation of the laws would be performed at the "lowest common denominators", not to the benefit of consumers but to the major companies. In fact, another great concern regards the difficulty that governments could face in controlling the markets and the increase in power of multinationals, with the consequent reduction of guarantees and a lack of protection for workers' rights.

The fragmented European agriculture could go into a tailspin if it was no longer protected by customs but above all there would be a risk of affecting the long and important programme carried out by agriculture in relation to the biological, short supply chain and biodiversity.

The data disclosed in the fifth report "Italians and agriculture" presented at Expo 2015, showed that 90% of Italian want to read clear labels regarding the possible presence of GMOs in foods they buy, in order to be able to exercise their right to choose. 73% also stated they were against the use of genetically modified organisms in agriculture.



FOR MORE INFORMATION
Consult the "Gli italiani e l'agricoltura" report

ETICA SGR'S APPROACH

Etica Sgr excludes all companies which genetically modify plant and animal species not for medical purposes in its safety assessment and selection methods. A dialogue has been undertaken with companies to underline the importance of transparency and traceability of ingredients and make food labels clear in terms of the possible presence of GMOs in order to allow consumers to exercise their right to choose.

Etica Sgr is trying to make companies (and the relative supply chain) aware of the issue of transparency in the use of genetically modified organisms, in light of the still unclear environmental and human health consequences.

Etica Sgr is trying to make companies (and the relative supply chain) aware of the issue of transparency on the use of genetically modified organisms, in light of the still unclear environmental and human health consequences.

In September 2014 Etica Sgr signed the letter prepared by ICCR (Interfaith Center on Corporate Responsibility) members to Michael Froman (manager for USA trade) containing strong concerns regarding the proposals in the TAFTA/TTIP that could neutralise efforts made in past years by American entities and associations to obtain greater labelling transparency for products containing GMOs, efforts supported by more than 90% of American citizens (in light of the fact that recent surveys show that 3/4 of American consumers try to avoid consuming products with GMOs).

The TTIP would give the right to non-judicial tribunals to allow investors (foreign companies) to ask for damages to biotechnology companies that use GMOs for loss of "future expected profits" in the event of using transparent labels indicating GMOs.

As often happens, the worst damage would be for end consumers who, with labels that are not transparent, would not be informed correctly and completely on the product they are buying and which in many cases they would not have chosen if they were better informed.

Case studies

DEAN FOODS: SHAREHOLDERS' MEETING MOTION - Report on financial risks linked to GMOs in products

Etica Sgr has voted for the first time in the shareholders' meeting of **Dean Foods**, an American food company involved in the production and sale of milk, dairy product or vegetable beverages, ice cream and other foods. During the meeting a motion was presented by some shareholders regarding the use of GMOs, specifically asking for the publication of a report which measured the potential financial or operating risks resulting from the use of genetically modified organisms in products. Etica Sgr voted in favour of this motion because it believes that greater levels of transparency from producers and in the supply chain are increasingly important, both for protecting health and respect towards end consumers and for improving the Company's environmental-social profile.

KELLOGG AND KRAFT: DIALOGUE - more transparent labels

At the shareholders' meeting of **Kellogg**, an American company involved in the production and sale of food products such as convenience foods, biscuits, snacks and other cereal based products, Etica Sgr asked for greater clarity in terms of GMO indication on product labels, in light of recent complaints from American associations (increasingly focused on the nature of purchased products) which accused Kellogg of not indicating the presence of GM ingredients.

Also for the annual shareholders' meeting of **Kraft Foods group** (now Kraft Heinz), an American food industry company, Etica Sgr underlined the presence of transparent labelling and asked the company to provide support against GMOs, by spreading the message through the supply chain, to safeguard health and prevent any environmental risks.

Main subjects

ICCR (Interfaith Center on Corporate Responsibility), network of approximately 300 American investors, both religious and not, holders and/or in charge of more than 100 billion dollars in assets. They influence company management strategies and promote social justice in shareholders' meetings. Etica Sgr has been a member of ICCR since 2005.

PALM OIL, ORIGINALLY FROM AFRICA IS CURRENTLY MAINLY PRODUCED IN INDONESIA AND MALAYSIA AND IS USED ON A VAST SCALE IN THE FOOD INDUSTRY, BUT ALSO IN MANY COSMETIC AND HYGIENE PRODUCTS (SUCH AS SOAP, TOOTHPASTE, DETERGENT AND SHAMPOO) AS WELL AS IN THE PRODUCTION OF ENERGY FOR BIOFUELS AND AS A FUEL FOR BIOMASS POWER PLANTS. THIS TYPE OF OIL, EXTRACTED FROM THE FRUIT OF THE OIL PALM, IS ONE OF THE MOST SOLD AND CONSUMED OILS IN THE WORLD, SECOND ONLY TO SOY BEAN OIL.

PALM OIL: CONTRAINDICATIONS AND THE SUSTAINABILITY PROJECT

Palm oil entered the food industry fairly recently and is considered as a consequence of the discovery of the harmfulness of non-natural fatty acids (trans fat).

According to FAO the production of palm oil in the last twenty years has risen from 12.8 tons in 1992 to 49.4 in 2011. The biggest importers are India, China and Pakistan, and, to a lesser extent Europe (where Italy is the second importer after the Netherlands) and the United States.

**INDIA, PAKISTAN, CHINA
EUROPE and USA**

The main importer countries





12.8

MILLIONS OF TONS

The production of
palm oil in 1992



49.4

MILLIONS OF TONS

The production of
palm oil in 2011



Palm oil is actually considered the most advantageous alternative to other oils for various reasons; it does not cost much, it is produced in monoculture form on a vast scale (with a very high yield per hectare) and is a solid at room temperature, precisely due to the high level of saturated fats.

The high demand and vast scale production of palm oil is one of the main causes of deforestation.

The high demand (due to its low cost) and the vast scale production are one of the main causes of deforestation (and CO₂ emissions in South-east Asia) with devastating effects on the environment; the palm oil monocultures are increasingly taking the place of rain forests and many other ecosystems with consequent loss of much biodiversity, desertification, progressive soil erosion and pollution of water bodies. The pesticides used on plantations are highly toxic and those entail significant epidemic risks.

The production of palm oil is also responsible for social problems and human rights violations: one example is the unlawful expropriation of land from native populations and the problem of child labour (according to the Rainforest Action Network the plantations are entrusted to children who are estimated to be between 72,000 and 200,000).

Various non-profit organisations including Greenpeace, WWF and the Palm

Oil Consumer Action have joined forces against major food, cosmetic and biofuel corporations accusing them of having destroyed Indonesian forests.

ETICA SGR'S APPROACH

Etica Sgr has adopted the initiative promoted by two PRI members (New York State Common Retirement Fund and Green Century Capital Management) directed by the round table on Sustainable Palm Oil (RSPO), the main international certification body for palm oil, to promote responsible and sustainable production and supply methods for palm oil.

Etica Sgr supported the recent request for stricter certification standards in order to become closer to the best practices required for sustainable palm oil production.

The aim of the initiative is to gather as many investors as possible to sign a letter to send to RSPO to request stricter certification standards in order to become closer to the best practices required for *sustainable palm oil* production.

Many organisations, including the World Rainforest Movement and the Palm Oil Consumers Action have expressed doubts over the significance of the RSPO certifications, since they are not aimed at reducing the expansion of plantations. Greenpeace claims that in

many territories, hectares of rain forests have been cleared to house sustainable certified palm oil plantations, despite what is required by the minimum RSPO certification requirements, which require that the producer companies provide documental proof demonstrating the fact that the new plantations, or their expansions, do not replace and will not replace, primary forests or Areas with a High Conservation Value.

In August 2015, following pressure received to make its action stronger, RSPO initiated a process to revise the certification system, introducing the standard draft that will be called RSPO Next: Etica Sgr participated in 2015 in the public consultation on the new standard along with the American asset management company Green Century and the New York State Common Retirement Fund.

Etica Sgr has asked companies to reduce the amount of palm oil used in their products, and for greater transparency on labels.

Where possible, as proposed by WWF, Etica Sgr has asked companies to stop the production and use of palm oil, or, alternatively, the reduction of palm oil used in their products, asking for greater transparency on labels, regarding the percentages used and their origin, as also requested by the Community regulation 1169/2011, which became effective in 2014.

THE PRODUCTION OF PALM OIL IS ALSO RESPONSIBLE FOR SOCIAL PROBLEMS AND HUMAN RIGHTS VIOLATIONS, SUCH AS THE USE OF CHILD LABOUR.

Case studies

TESCO and CARREFOUR towards more sustainable purchasing

A more extensive and transparent due diligence system may make it possible to achieve higher sustainable purchasing standards. Therefore it is necessary to go beyond the standards created by RSPO, which do not protect against many critical points, like the risk of deforestation, which characterises the production of palm oil. This was reiterated by Etica Sgr to two important foreign companies, major retail chains (with particular specialisation in food products), present in the investable universe and in the investee fund portfolio of the Sistema Valori Responsabili as best performer of the sector. We are talking about **Carrefour** and **Tesco**. Etica Sgr voted in their shareholders' assembly by electronic platform for the second and third years in a row, respectively.

Etica Sgr asked the companies to adopt specific palm purchasing policies for palm oil that comes from sustainable suppliers, expressing the need to go beyond the standards created by RSPO which their palm oil suppliers already adopt.

Commitments and results of CONAGRA and GENERAL MILLS

In September 2015 Etica Sgr voted in the shareholders' meeting of **ConAgra**, an American multinational that operates in the food production and sales sector and which in August 2014 made a commitment to implement adequate policies so that all of the palm oil used in its production processes comes from sustainable suppliers by December 2015. In the letter after the shareholders' meeting vote, Etica Sgr asked for more information on the status of the *responsible sourcing* project, looking for guarantees related to the actual implementation of the policies by December 2015. This objective has already been reached by **General Mills**, an American multinational working in the food industry. Etica Sgr voted in their shareholders' meeting for the fifth time and the company has been the subject of dialogue various times in the past; the company which collaborates with WWF and Rain Forest Alliance (RAN) for the selection of palm oil suppliers, is currently trying to implement similar policies for other raw materials used in its production processes.

Main subjects

RSPO

Founded in 2004, RSPO (Round table in Sustainable Palm Oil) is a Palm Oil Certification multi-stakeholder Non-Profit Association whose goal is to promote the cultivation and use of sustainable palm oil. There are seven compartments of the palm oil industry involved in the decision-making process of RSPO; farmers, producers, processors and retailers, banks and investors and dedicated NGOs dedicated to protecting the environment and social development.



FOR MORE INFORMATION

Visit the website
of RSPO

PRI

PRI (Principles for Responsible Investments) is an initiative of the United Nations started to promote the integration of the ESG principles in the traditional management of assets and in investment decisions and also to actively contribute to the development of a more sustainable global financial system. Etica Sgr adopted the PRI in 2009: the basic principles of PRI are perfectly aligned with the corporate mission of Etica Sgr, which thus reinforces the long-term role of socially responsible investor.



FOR MORE INFORMATION

Visit the website
of PRI

GLOBALISATION, WHICH HAS LED MANY INDUSTRIAL SECTORS TO MOVE PRODUCTION TO DEVELOPING COUNTRIES WITH LESS STRINGENT LAWS TO REDUCE COSTS, AND USE OF OUTSOURCING, WHICH DO NOT GUARANTEE FULL VISIBILITY OF THE SUPPLY CHAIN NOR ITS WORKING CONDITIONS, INCREASE THE CONNECTED SOCIAL-ENVIRONMENTAL RELATED RISKS.

THE SUPPLY CHAIN

THE PROTECTION OF WORKERS' RIGHTS

We can confirm that an attentive selection and affective monitoring of the *supply chain*, are the basis for a long-terms virtuous conduct of listed companies.

The major brands feel the need to increase the knowledge of their supply chain to prevent risks and damages to their image and reputation by placing priority on the sustainability of their supply chains.

Without doubt, lately issues related to the *supply chain* are increasingly a focus of management and boards of directors: the major *brands* feel the need to increase knowledge of their own supply, chains

to prevent risks and damages to their image and reputation. According to an international survey conducted by *DNV GL – Business Assurance*, a leader certification body at a worldwide level and the research institute *GfK Eurisko**, increasingly more pressing requests from the market have led to sustainability of the *supply chain* as a top priority of companies.

When it comes to selecting a supplier or making a purchasing decision, 96% of the companies consider aspects related to sustainability: the first is the assessment of the environmental impact (56%), followed by the safety and security of workers (51%) and economic aspects (43%). A structured approach is being developed: 42% of the companies adopt formal sustainability policies for the *supply chain*; this percentage increases to 57% for major companies.

* The study is based on more than 2,061 professionals working in 68 companies, defined as leaders, in various sectors (3% in primary - agriculture -, 61% in secondary - production activities and 31% in tertiary - services and transport-) and in Europe, North America, central South American and Asia, the definition of leader company is based on a self-assessment of the corporate degree of maturity in sustainable management of the *supply chain*; in addition 60% of the leaders has an international presence and 79% has international suppliers.



96%

The companies that consider sustainability in decisions regarding purchasing or supplier selection



56%

the companies that place greater importance on environmental impact



51%

the companies that place greater importance on the healthy and safety of workers



43%

the companies that place greater importance on economic aspects



The Supply Chain Due Diligence of OECD

1. Give a good example of leadership and commitment
2. Provide comprehensible, clear and specifically developed training and information;
3. Make dedicated people available;
4. Create opportunities for active interaction;
5. Provide instruments for collecting and analysing data

OECD has proposed a real “Due Diligence of the Supply Chain” which highlights certain key points to focus on for creating involvement actions.

Reporting is a useful tool for improving the dissemination of sustainability issues in the supply chain and for allowing stakeholders and external parties to verify how sustainability issues are managed by the company. There are various standards and guidelines, both national and international, for preparing Sustainability Reports that make it possible to create documents with a high degree of comparability, effectiveness and completeness; the most widespread are the “Transparency in the Supply Chain” guidelines created for the Global Reporting Initiative (GRI).

Another worthy of note is ILO’s Factory Improvement Programme for the promotion of responsible working practices and the Ethical Trading Initiative whose participants include companies, trade unions and non-profit organisations, that promote the rights of workers by creating round tables and workshops between the various participants, providing assistance and training courses.

The stakeholders who have lobbied more for a sustainable management of the supply chain are customers/consumers.

The stakeholders who press the most for sustainable management of the supply chain are customers/consumers, who in general, based on a study by Accenture (*The UN Global Compact-Accenture CEO Study on Sustainability 2013*) are those who most influence the sustainability policies of companies.

Supplier audits stand out among the most commonly adopted initiatives by companies: 41% of organisations state they have performed one in the past three years and 66% hope to improve the sustainability of their supply chain within the next three years. The Food & Beverage industry is one of the most active, with 47% of companies that have conducted an audit and 36% that have adopted policies for supply chain sustainability.

The Food&Beverage sector is one of the most active, with 47% of companies who have conducted audits and 36% who have adopted sustainability for the supply chain.

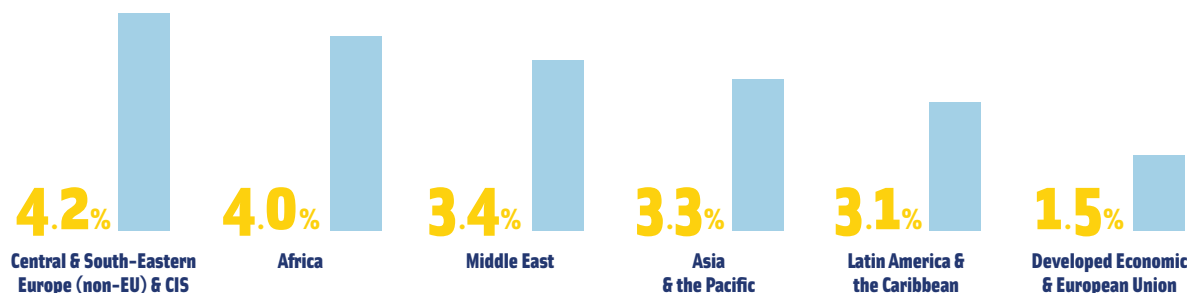
Consumers are increasingly focused on the source of products: proof of this are a few ethical trade organisations operating in Norway and Denmark who have asked the Italian government to implement strict control measures for the agricultural work network, based on concerns from customers and food retailers caused by the abuse of migrant workers in the Italian agricultural industry.

The companies working in the agro-food sector often work, through their supply chain, in areas considered at risk in terms of respect for human rights, and specifically of workers, with significant consequences in terms of image and financing.

It is difficult to work in foreign countries with governments that are too weak to ensure the respect for human rights or in the so-called Weak Government Zones or regions in a state of conflict or under dictatorships or authoritarian regimes.

A recent study conducted by ILO (International Labour Organisation) shows the percentage of forced labour in various regions of the planet (% out of 1,000 inhabitants).

Percentage of forced labour in various regions of the planet (% out of 1,000 inhabitants)



Source: ILO Global Estimate of Forced Labour

The ICCR “No fees initiative” campaign is aimed at involving and influencing the conduct of major brands and retailers towards the creation of responsible recruitment policies.

ICCR has initiated a campaign, called “No fees initiative” aimed at involving and influencing the conduct of major brands and retailers towards the creation of responsible recruitment policies, in order to eliminate one of the worst violations of human rights in modern times (called *modern slavery*) estimated to have an impact on more than 21 million people involved, including men, women and children.

The initiative is aimed at the entire supply chain and includes a guide which proposes concrete steps that companies can take to improve their recruitment policies, such as strengthening of employment contracts, ban on confiscating migrant workers' documents and prohibiting *recruitment fees* (the obligation to pay sums of money just to be able to work).

The campaign concentrates on engagement with companies operating in the food markets (particularly palm oil extraction and fishing), clothing, mining and electronics chains.

The UN has also paid much attention to these issues: in June 2015 it launched a new portal dedicated to companies who want to undertake a sustainability programme. The new website is a type of manual, which contains more than 400 documents for raising the attention of companies on specific topics, such as gender equality and climate related problems and to define long-term sustainability goals.

FOR MORE INFORMATION



Visit the UN website dedicated to the relationship between enterprises and sustainability

To this end the Fondo Cometa also intervened. It is a supplementary national pension fund for all workers in the metalworking industry, the first of the Italian funds to join PRI, adopting engagement as a tool to pursue sustainability in investments.

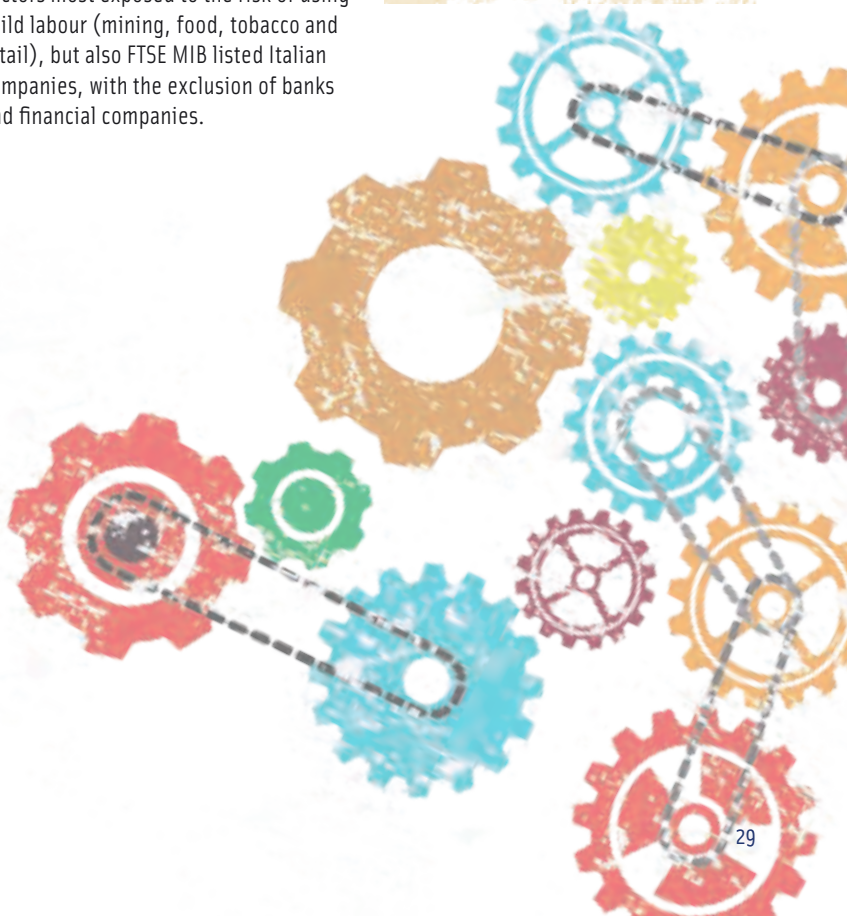
With the aim of starting a dialogue on the rights of minors, the Fondo prepared a letter where it asking companies if and to what extent they taken into account the rights of minors in the company strategy and in the selection of the supply chains.

This letter is addressed to companies throughout the world that belong to the sectors most exposed to the risk of using child labour (mining, food, tobacco and retail), but also FTSE MIB listed Italian companies, with the exclusion of banks and financial companies.

ETICA SGR'S APPROACH

Etica Sgr is committed to progressively introducing respect for human rights topics in its selection and monitoring processes for the supply chains of the companies the Sistema Valori Responsabili Funds invest in, agreeing to disseminate the values of social and environmental responsibility of the supply chain to its investee's shareholders' meetings.

In accordance with ISO 9001 certification, Etica Sgr has started an accreditation process for its suppliers which combines socio-environmental assessments with traditional quality criteria, asking the suppliers for commitment to progressively apply the principles of its CSR policy. Critical suppliers, i.e. those who supply products or services with a high economic and/or reputational impact, are asked to adopt its CSR policy and code of ethics.



Case studies

Prysmian and the Code of Business Conduct

At the shareholders' meeting of **Prysmian**, world leader in the cable and energy and telecommunication system sector Etica Sgr drew attention to the *Code of Business Conduct* adopted by Prysmian starting in 2015, verifying if such code is then applied also to suppliers working in countries where labour and environmental protection laws are lacking, and if it monitors the use of raw materials, energy consumption, waste production and relative recycling on recipient suppliers.

Brembo and the Code of Basic Working Conditions

Etica Sgr asked **Brembo**, an Italian company that manufactures high performance braking systems for cars and motorcycles, for more information on its *Code of Basic Working Conditions* adopted by the company, specifically if such code is applied to all suppliers, both Italian and foreign. Etica Sgr placed particular focus on fundamental indicators, above all in reference to the protection of workers rights, asking the company to formalise a policy on human rights including quantitative goals, addressed to all group companies and players along the supply chain, with the final aim of adopting a certification programme for respect of human rights recognised at an international level, for example Sa 8000 certification.

Yoox and best practices

At the shareholders' meeting of **Yoox**, leading company in the e-commerce luxury fashion field, Etica Sgr was able to examine the company's best practices which started a program for Sa8000 certification for management of a *Social Accountability*, also adopting the 10 *UN Global Compact* principles. Etica Sgr in this venue underlined the need for a specific *policy* on the issue of human rights, including quantitative goals, addressed to all group companies.

Nokia and focus on "conflict minerals"

For the second year in a row Etica Sgr voted in the general shareholders' meeting of **Nokia**, a Finnish company that manufactures a wide range of mobile devices and telecommunication equipment, present in the investable universe of Sistema Valori Responsabili funds as one of the *best performers* of its sector. Nokia, as the end user of minerals which could come from areas where workers are abused, has been very aware of the issue for years and, following a joint PRI and ICCR engagement initiative in 2009, it implemented a specific policy, that involves careful monitoring of the supply chain, to ensure that mining activity is carried out without any human rights violations. Nokia's policy, in particular, is in compliance with the modern benchmark standard developed by OECD: *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Area*. The Company has also adopted Solutions for Hope, an initiative for mining conflict-free tantalum from the Republic of the Congo. Etica Sgr then asked the company to further reinforce its commitment to monitor the supply chain, submitting the ICCR "*No fees Initiative*" to the company's attention and adoption of the *Electronic Industry Citizenship Coalition* (EICC), characterised by a code of conduct that in its latest version, based on initiatives like ICCR's, bans recruitment fees, confiscation of migrant workers' documents and requires signing of an employment contract in the worker's language.

THE FINANCIAL, ENERGY AND FOOD CRISIS OF THE PAST YEARS HAS RAISED THE INTEREST OF MAJOR INVESTORS ON ONE OF THE MOST PRECIOUS RESOURCES OF OUR PLANET: LAND. BUT THIS RACE TO GRAB LAND HAS IN MANY CASES TURNED OUT TO BE A THREAT FOR THE ENVIRONMENT AND SOCIO-ECONOMIC SYSTEM OF THE INVOLVED COUNTRIES.

TOWARDS CORRECT MANAGEMENT OF FOOD AND LAND

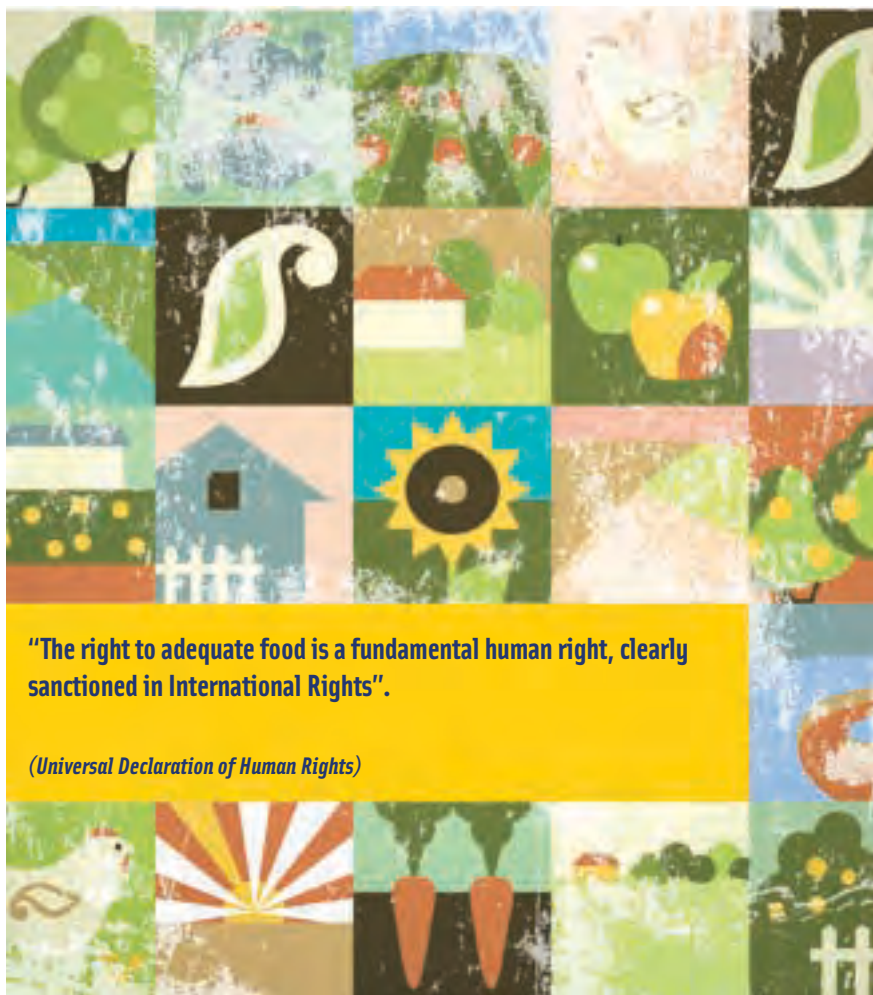
Starting from the 2007–2008 two year period, when the economic crisis exploded, a continuously growing phenomenon has been developing: the land grabbing. One of the causes of its spread is the continuous increase in commodities prices, that has led many investors to search for more advantageous forms of profit for the agro-food industries. Land grabbing is when a vast portion of land considered “unused”, where prices are lower, is sold to third parties (companies and governments of other countries) without the consent of the local community that lives there and uses the land, forcing thousands of farmers to starve in the southern part of the world.

The lands sold by the governments to rich countries, often with negligible or no compensation, are fenced prior to the start of the production process, excluding the local communities from working the land and denying access to resources like water, thus increasing unemployment in developing countries and replacing the practice of subsistence farming with an industrial intensive production model.

Based on data supplied by Landmatrix (the monitoring system proposed by the International Land Coalition) among the countries among those

most exposed to land grabbing are the Asian countries (Papua New Guinea and Indonesia), followed by African ones (Sudan, Congo and Mozambique) and

in South American (Brazil). Oxfam, the non-governmental organisation, composed of 17 national entities that work with 3,000 partners in more than



“The right to adequate food is a fundamental human right, clearly sanctioned in International Rights”.

(Universal Declaration of Human Rights)

100 countries to find solutions to poverty and injustice, and has taken action asking for strong, cohesive interventions so that governments guarantee small producers access to lands, especially women, so that incentives for biodiesel are reviewed, so that investors to not just consider short-term profits, but also and above all emarginated communities.

Oxfam has taken action asking for strong, cohesive interventions so that governments guarantee small producers access to lands, and that incentives for biodiesel are reviewed and investors do not just consider short-term profits.

In 2013 (with conclusion of the works scheduled for 2016), Oxfam launched the initiative *"Behind the Brands"*, which deals with controlling the action of the 10 largest food multinationals, drafting a classification based on achieved results and periodically updating it.

Seven issues were used to assess the social impact of the economic action of these companies: transparency of company processes, treatment of woman, rights of farm workers, economic and commercial treatment of small farmers, land (intended as access rights to land and sustainable use of soil), water (intended as access to water resources and their sustainable use), climate change, both in terms of reduction of greenhouses gases and helping farmers adapt to climate change.

The indicators used as a basis to assess the companies on each issue take into consideration the awareness and knowledge of the company on specific subjects, the company's active commitment to the issue in question and the active management of the supply chain. General improvements of the companies emerged, a sign of greater attention to reputational risk with the various stakeholders.



FOR MORE INFORMATION
Visit the web page
Behind the Brands

Numerous other initiatives have started to stop exploitation of farmers and protect their rights; the *"Fair Food Program"*, an association originating in the United States to make multinationals accountable, dedicated to the subject of food and the relationship between producers, farmers and multinationals and the *"Collaborative engagement on labour standards in the agricultural supply chain"*, created to protect the rights of workers in the agro-food sector.

The key sector of agriculture is also destined to pay the highest consequences of natural disasters and, based on a FAO analysis, livestock is the second sector to be affected after crops, registering 36% of all damages and of all the losses for a total, in the 2003-2013 period studied, of 11 billion dollars. Another alarming point is the excessive use of antibiotics in livestock: the FDA estimates that 20% of the use of antibiotics in the United States are for livestock, especially if closed in intensive farms and in situations with precarious health conditions, with dangerous consequences for human health. ICCR has begun to intervene to limit the intensive use of antibiotics in livestock raising.

Another threat to human health that cannot be ignored in the agricultural field is represented by chemical pesticides, an additional cause of water pollution. Pesticides can be carcinogens and cause damage to the central nervous, reproductive and immune systems and they are difficult to eliminate once they enter the food chain. The use of agrochemicals has triggered another serious mechanism: insect resistance to toxic agents, which often leads to the

use of dangerous mixes of pesticides from different strains with unpredictable consequences on an environmental and health level. Moreover, some of these, like neonicotinoids (a type of chemical insecticide similar to nicotine), have been at the centre of various awareness raising campaigns due to the impact they have on the worldwide population of bees, insects fundamental for the production and procurement of food: based on FAO figures, 71 of the 100 most important cultures on a worldwide level are pollinated by bees.

Another threat to human health is represented by chemical pesticides, an additional cause of water pollution.

Lastly, some industrialised countries have begun to really ask about the actual need to use fertilisers and admit that generally the use of pesticides should be controlled and reduced to a minimum where possible.

ETICA SGR'S APPROACH

Etica Sgr is committed to participating in campaigns organised by various institutional investors and voting in the shareholders' meetings of companies working in the food production and distribution sector.

It has supported various campaigns, including "Collaborative engagement on labour standards in the agricultural supply chain", "Fair Food program", described above, to promote the development of sustainable food management systems, focussing on the use of fertilisers and pesticides by companies, treatment of animals in agriculture and the sustainable use of agricultural land.

Etica Sgr excludes all pesticide producers in its assessment and selection methods for securities.

Case studies

CAMPARI and KRAFT move towards responsible procurement, CONAGRA and pesticides

For the second time Etica Sgr took part in the shareholders' meeting of **Campari**, examining the ingredients used in its production activities, in light of recent studies on the use of pesticides, fertilisers, herbicides and other similar chemical substances in the agro-food field which represent one of the main causes of pollution and further reduction of available water. Therefore, with the aim of increasing focus on product quality, Etica Sgr will closely follow the evolution of the Company's new responsible procurement policy, and has suggested they consider the creation of a *Fairtrade* chain or an organic product line, notwithstanding the importance of complete monitoring of the supply chain, with the aim of increasing focus on product quality and the supply chain.

For the fourth year in a row Etica Sgr took part in the shareholders' meeting of **Kraft Foods Group**, (today Kraft Heinz), supporting a motion submitted by Domini Social Investment (ICCR member), requesting the introduction of a complete report of indicators for controlling and monitoring the impact of the supply chain on deforestation, above all regarding the traceability of raw materials and their sustainability, calling for zero tolerance of land grabbing, as well examination of audits conducted along the supply chain, certificates obtained and adoption of CDP's *Forest* questionnaire. A motion was presented during the meeting by shareholders regarding the assessment of financial and operating risks resulting from the use of eggs from hens raised in cages (submitted by *Humane Society of the United States*), which Etica Sgr voted in favour of.

Even **ConAgra Foods** was inspired to do more in terms of pesticides. Etica Sgr voted for the third year in September 2015 in the company's shareholders' meeting and subsequently contacted the company to request implementation of a specific policy on the use of chemical and pesticide products. The requests were the result of a dialogue already started during the year between ICCR, with the participation of Etica Sgr, and ConAgra: for ICCR's *Winter Conference* held in New York in 2015, there was a discussion between the company's investors and representatives, to underline the critical points related to monitoring the supply chain and use of water and pesticides.

CARREFOUR against wasting food

In 2015, Etica Sgr voted for the second year in the shareholders' meeting of **Carrefour**, a major French retailer. Carrefour has structured its commitment to food sustainability by trying to reduce food waste to a minimum: the company, through the Carrefour Foundation has been working for many years to donate food and meals through various charity organisations (like "food banks") in Italy and France. To confirm this commitment, in 2015 Carrefour collaborated with the Fondazione Banco Alimentare Onlus and Cascina Triulza, the civil society's pavilion at Expo 2015 donating a refrigerated container to preserve food for associations and foundations.

Main subjects: FDA

The **Food and Drug Administration** is the American government entity that deals with the regulations of food products and drugs. It is under the Department of Health and Human Services of the United States.. Its aim is to protect the health of citizens through regulations that control the placement of products on the market which are under its jurisdiction, including drugs, food, supplements and food additive, feed and veterinary drugs. Control instruments include both an evaluation before being put on the market and post-market placement monitoring.

IN THESE TIMES OF CRISIS COMPANY RESTRUCTURING AND/OR TRANSFER ABROAD ARE UNFORTUNATELY FREQUENT AND NEED TO BE HANDLED DELICATELY.

ETHICAL FINANCE IN COMPANY RESTRUCTURING

A reliable and targeted response is fundamental to both the first phase of the analysis of elements that led to a company crisis (institutional organisation,

adequacy of the accounting system, efficiency of control procedures, outlet markets, production cycles, etc.), and in the operating phase, where a decision is made how to intervene by reducing loss factors and reinforcing earning factors to relaunch company growth and reduce the risk of further company

During restructuring socially responsible companies need to go beyond mainly economic assessment and focus on the satisfaction of all stakeholders.



inefficiency. During restructuring socially responsible companies need go beyond mainly economic assessments and focus on the satisfaction of all stakeholders (customers, suppliers, local communities, institutions, but above all employees) first aiming for transparent information in each phase of the process, through intense dialogue with all players.

In addition to transparency, long-term planning and sharing remain cardinal points to limit the downsizing and negative effects on workers.

ETICA SGR'S APPROACH

As a responsible investor, Etica Sgr has always tried to approach the argument through direct discussion with the company, in order to monitor management's choices and stimulate a search for solutions able to protect the rights of workers and protect their jobs.

Etica Sgr has always tried direct discussion with the company and to stimulate the search for solutions able to protect the rights of workers and protect their jobs.

The cases are examined in great detail studying the reasons, existence of alternative paths as well as adequate company policies.

For Etica Sgr it is very important that the reasons are made public that lead to the decisions for a company restructuring, the implemented policies, the enactment of transfer programmes and professional retraining of employees, as well as transparent management of employee/trade union relations.

Case studies

Piaggio, subject to job reduction policies in the Noale plant and job protection contracts in the Pontedera and Scrozè plants, demonstrated a significant commitment to establishing a dialogue with the trade unions, as well as providing detailed information in corporate documents, confirming the importance of placing the product and research and development in Italy.

At the general shareholders' meeting, Etica Sgr focussed much attention of the procedure for managing employment stability and was able to appreciate Piaggio's commitment in these delicate operations.



SUSTAINABILITY HAS BECOME A WIDESPREAD BELIEF IN STOCK MARKETS AND IS IN CONTINUOUS GROWTH, SPECIFICALLY IN ITALY THE NUMBER OF COMPANIES WHICH, IN ADDITION TO FINANCIAL STATEMENTS, PUBLISH A SOCIO-ENVIRONMENTAL SUSTAINABILITY REPORT, WHICH PRESENTS THE RESULTS OF ITS COMMITMENTS IN THE ENVIRONMENTAL, SOCIAL AND GOOD GOVERNANCE AREAS TO SHAREHOLDERS. THIS IS A CONCISE AND STRATEGIC COMMUNICATION TOOL TO ILLUSTRATE THE WAY IN WHICH AN ORGANISATION CREATES VALUE OVER TIME, BY UNDERSTANDING AND CONSIDERING THE INTERESTS OF STAKEHOLDERS.

THE NEW MATERIALITY OF SUSTAINABILITY REPORT

The voluntary nature of the action is becoming mandatory: on 22 October 2014 the European Parliament and EU Council approved the new EU Directive on “Non-financial and diversity information” (2014/95/EU), which introduces the obligation for non-financial disclosure of major companies (at least 500 employees) starting in financial year 2016. An estimated 6,000 companies in Europe will be affected.

Many studies are focussing on the subject: an analysis performed by the Governance & Accountability Institute demonstrated how the percentages of companies on the S&P 500 list that are

preparing sustainability reports has risen from 19% in 2011 to 72% in 2014.

According to another CDP study published in 2014 “*Climate action and profitability*”, again using SP500 companies as a sample, there appears to be a connections between measuring CO₂ emissions and Return on equity achieved: the index companies that reported the climate impact change generated a ROE over 67%, with stable earnings for 50% and a growth in dividends greater than 21% compared to their peers.

“The KPMG Survey of Corporate Responsibility Reporting 2013” revealed a significant increase in sustainability reporting in emerging economies, particularly in the Asia Pacific (71%) and Latin American (76%) areas.





19%

**Companies of the S&P
500 list prepared
sustainability reports
in 2011**



72%

**Companies of the S&P
500 list prepared
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"The KPMG Survey of Corporate Responsibility Reporting 2013" resulted in a significant increase in sustainability reporting in emerging economies, above all in the Asia Pacific (71%) and Latin America (76%) areas. The Corporate Responsibility Reporting rate of the first 250 companies listed globally is 93%. In all sectors, more than half of the companies prepare sustainability reports, now considered a standard worldwide practice. However, what is important is *"how"* a sustainability balance sheet is prepared, i.e. its quality in relation, for example, to information supplied on highly material aspects for business or engagement activities performed for all stakeholders.

Again according to the KPMG study, 70% of the companies in the world adopt the guidelines supplied by GRI (Global Reporting Initiative), Etica has been one of its Organizational Stakeholders since 2013.

The fourth edition of the guidelines (GRI G4) introduces the concept of "materiality", which measures to significance of each aspect for an organisation and its stakeholders, is a type of "threshold" beyond which an indicator needs to be included in the report, based on an assessment of the impact both financial and in terms of creating value for everyone, in order to generate ideas for continual improvement.

GRI launched a new project in January 2015, Reporting 2025, aimed at promoting international dialogue on the future of sustainability reports

ETICA SGR'S APPROACH

Etica Sgr has prepared an Integrated Report since 2010 that consistently and comparably combines economic, social, environmental, and governance aspects in its core business.

Etica Sgr HAS PREPARED AN Integrated Report since 2010 that consistently and comparably combines economic, social, environmental, and governance aspects in its core business. To date it is the first and only Sgr to do so. The 2014 Integrated Report was prepared in accordance with the provisions of the GRI G4 guidelines for the core option.

Therefore sustainability reporting is the basis for Etica Sgr's company assessments, which has the goal

of guiding companies towards the publications of this report and discussing with all of the stakeholders at the time it is prepared. Thus Etica Sgr votes in favour of shareholders' motions calling for preparation of a Sustainability Report according to international guidelines.

This is the case of **Kraft Foods**.

Etica Sgr's company assessments have the goal of guiding companies towards the publication of sustainability reports calling them to discuss with the stakeholders at the time it is prepared.



FOR MORE INFORMATION

Download the 2014 Integrated Report of Etica Sgr



Case studies

Etica Sgr participated for the second time in 2015 in the shareholders' meeting of **Diasorin**, a leading group in biotechnologies and the diagnostics market which has obtained significant financial results, closing increased revenue and profit and improving its ability to generate cash flow. The Group has prepared its first Sustainability Report: published in April 2015 and in compliance with the new version of the *GRI - Global Reporting Initiative* guidelines, the balance sheet is proof of the growing attention towards all company activities and towards the requests of all stakeholders.

At the shareholders' meetings of **Campari** and **Brembo**, Etica Sgr asked the companies to adopt the GRI and a ESG reporting through a complete Sustainability balance sheet, to the benefit of everyone, ahead what European legislation will require starting in 2007.



THE SUBJECT OF TOP MANAGEMENT REMUNERATION CONTINUES TO BE VERY CURRENT IN TERMS OF CORPORATE GOVERNANCE AND IS A PARTICULAR FOCUS OF SUPERVISORY BODIES (CONSOB, BANK OF ITALY, EUROPEAN PARLIAMENT, ETC.), GOVERNMENTS AND THE MEDIA, PARTICULARLY IN LIGHT OF REMUNERATIVE RISES IN RECENT YEARS COMPARED TO UNSATISFACTORY COMPANY RESULTS.

TOP MANAGEMENT REMUNERATION

INCREASINGLY TRANSPARENT AND LINKED TO PERFORMANCE

Certainly the strategic responsibility of a manager needs to be compensated with adequate remuneration, in order to keep him, motivate him and give him incentives for long-term work with growth, competition and profit goals to the advantage of the company and all stakeholders. However, a wide gap has been created between the average salaries of employees and those of Top Managers generating conflict and creating the need for targeted interventions.

A wide gap has been created in recent years between the average salaries of employees and those of Top managers, generating conflict and creating the need for targeted interventions.

The social rating agencies who provide information and assessments to responsible investors already consider numerous indicators linked to the remuneration system in their analysis processes. Transparency and access

to relevant information is therefore a key factor for the quality and reliability of their assessments, with potential impacts on the company's exposure to reputation risks, not only because inconsistent remuneration levels can have a negative impact on the company image with the public, but also because a large group of players has formed (NGOs, stakeholders and employees) for whom it is fundamental to integrate performance indicators of CSR policies in remuneration schemes.

Generally, it is important that remunerations be in proportion with the complexity of the work performed by the manager in the company (in relation to company size, competitors, product range to manage) and performance achieved based on planned strategic objectives.

Hopefully the short- and long-term variable components have maximum limits and minimum thresholds for reaching goals in order to be paid. Moreover, the long-term variable components should be paid after a suitable period





of time compared to when they actually mature, to prevent management focussing on short-term strategic choices, which in the long-term can result in poor sustainability of company development plans.

Remunerations must be in proportion with the complexity of the work performed by the manager in the company.

One discussed remuneration instruments are *stock options*, i.e. compensation plans based on financial instruments, where performance is often unrelated to the jobs performed by managers. An example may be the performance of the stock market, which is not under the direct control of the CEO or management, but is often used as a primary indicator as a basis for the remuneration of damagers.



FOR MORE INFORMATION
More information
on stock options

The Committee for remuneration must do an effective job. It is composed of independent directors with specific competences to periodically assess the adequacy, consistency and real application of the contents of the remuneration policy.

One of the guidelines followed on an international level for preparing remuneration policies is the "*Guidance On Executive Remuneration*" by ICGN (International Corporate Governance Network) and "*Integrating ESG Issues into executive Pay*" by PRI, their aim is to guide issuers and intermediaries to adopt remuneration systems in line with the underlying principles of sound management.

ETICA SGR'S APPROACH

Top management remuneration represents one of the key issues in the voting and engagement activities performed by Etica Sgr.

Thus remuneration for top management is a key variable for aligning the interests of management and shareholders, who are increasingly in favour of more detailed remuneration policies and more likely to vote against them if the remuneration report does not provide adequately clear information.

Remuneration for top management represents a key variable for aligning the interests of management with those of the shareholders.

Etica Sgr constantly monitors the companies it invests in, assessing the level of transparency of remuneration plans and the factors that determine the variable components to prevent the ratio between management salaries and the lowest paid employees from rising and which levels not consistent with companies policies aimed at creating shared value and triggering conflict within the company. It is Etica Sgr's desire that corporate documents publish the figure related to the difference between the CEO's or general manager's salary and the average salary of company employees.

Etica Sgr wants to make remunerations clear and comprehensible, with indication of the fixed part and variable part.

Etica Sgr asks that remunerations be clear and comprehensible, and separately state the fixed part and the variable part. The variable component must be strictly dependent on preset and objectively measurable performance goals, as well as, meet the maximum limits

and be paid only when minimum goal thresholds are reached. Clawback clauses related to bonuses must be indicated in a transparent manner, as well as the reasons for every single significant rise performed discretionally. The presence of social and environmental responsibility elements is assessed very positively among the elements determining the variable part of remuneration.

The variable component for Etica Sgr

- 1 *Strictly dependent on preset performance goals that can be objectively measured.*
- 2 *Maximum limits and minimum thresholds for reaching goals.*
- 3 *Presence of social and environmental responsibility elements:*

The lack of this information does not make it possible to understand the actual correspondence between remuneration paid and company performance achieved.

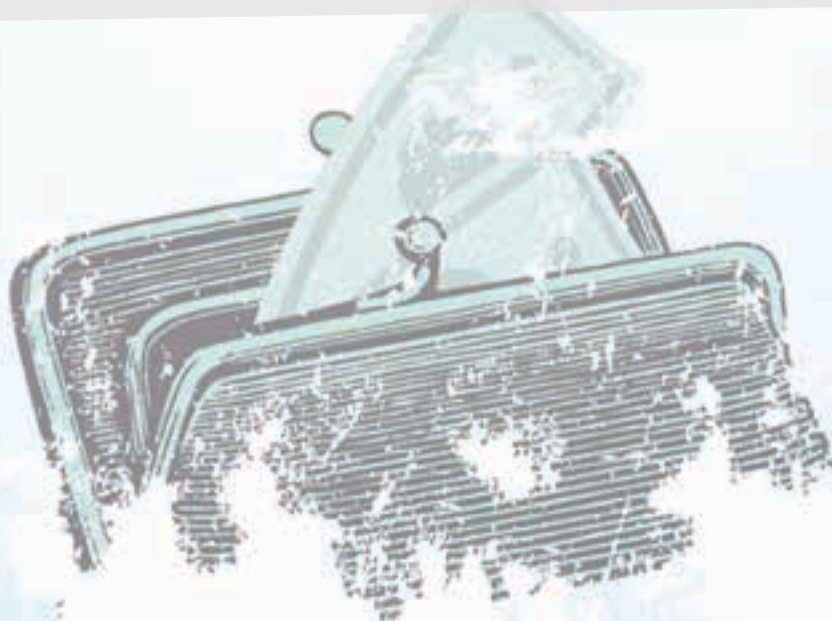
Analyses performed on the remuneration policies of Italian and international companies where Etica Sgr has carried out shareholder engagement during 2015 reveal various critical aspects: performance goals are not very transparent and in 70% of cases there is no indication of the presence of ESG parameters tied to the variable part of remuneration. However, 2015 witnessed an increase in companies that explicitly include clawback clauses related to the remuneration scheme. A sore point remains the ratio between the CEO's remuneration and average employee salary, which is never indicated in the official documents provided by the companies.

Case studies

Worthy of note in terms of transparency in remuneration was **Snam**, an Italian company which manages infrastructures for natural gas distribution. Etica Sgr took part in their shareholders' meeting for the third year in a row. The information provided by the company were characterised by a high degree of detail, and this must represent a good starting point for Snam to further improve. Etica Sgr asked for additional information during the meeting on some of the parameters used for long-term incentives for managers, asking that this type of information be included in shareholders' meeting documents in the future to allow all shareholders to express an informed vote on the proposed remuneration scheme and to be able to effectively assess the connection between compensations paid and achieved company performance. Another request regarded explaining an important element of assessing the equity and fairness of the remuneration policy: the ratio between the annual remuneration of the highest paid manager for each company when Snam has significant operations and the average annual salaries of all the other workers of the same country, as requested by the GRI-G4. This will make it possible to demonstrate an increasingly strong orientation towards remuneration equality and fairness, typical of a responsible company.

Another company that was asked for greater transparency in remuneration assessment criteria during their shareholders' meeting was **Buzzi Unicem**, an Italian company involved in the production and processing of cement, concrete and natural aggregates. Etica Sgr participated in their meeting for the first time. The company was asked to consider establishing a Remuneration committee, as required by national and international corporate governance standards. Greater details were necessary for Etica Sgr to be able to assess and determine the MBO (annual variable incentive) including in relation to the minimum thresholds and maximum ceilings. Etica Sgr abstained during the vote on the remuneration report for these reasons.

A similar request was also made to **Luxottica**: during the shareholders' meeting in 2015, Etica Sgr underlined how, despite the particularly positive results achieved by the company in 2014, the lack of sufficient detail regarding the weight and application mechanism for the indicators chosen in the remuneration scheme, did not make it possible to understand the actual correspondence between them and the variable component paid to the executive directors.



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