

ENGAGE OR EXCLUDE: WHAT IS THE BEST WAY TO ALIGN INVESTMENTS WITH MISSION?

WELCOME

Prof. **Henry Peter**

Head, Geneva Centre for Philanthropy

PANEL

Moderated by

Prof. **Luc Thévenoz**

Head, Centre de droit bancaire
et financier, UNIGE

Vincent Kaufmann

CEO, ethos

Prof. **Oğuzhan Karakaş**

Cambridge Judge Business School,
University of Cambridge

Pascal Becker

Head of Sustainability, Givaudan

Ethos Foundation

Philanthropy Lunch :

"Engage or Exclude: What is the best way to align investments with mission?"

22 February 2018

Vincent Kaufmann, CEO



Ethos – www.ethosfund.ch

- **Ethos - Swiss Foundation for Sustainable Development**
 - ➔ 226 members, CHF 235 bn. AuM, 1.3 mios members (active & retired)
 - ➔ Goals: Promote Socially Responsible Investment (SRI) as well as a stable and prosperous socio-economic environment
- **Ethos Services SA (owned by Ethos Foundation and 17 of its members)**
 - ➔ Ethos Investment Funds and Mandates
AuM = CHF 1.3 bn
 - ➔ Proxy voting services for listed companies
225 clients = CHF 36 bn CH equities
 - ➔ Engagement program with listed companies
EEP Swiss (133 Institutions, CHF 191 bn AuM)
EEP International (25 PF, CHF 65 bn AuM)
 - ➔ SRI Consulting
ESG ratings et controversies, exclusions, portfolio screening
Advisory = CHF 15 bn

Ethos' eight SRI principles

	1. Act as a responsible investor
<u>Before</u> Investment decision	2. Exclude companies whose products are incompatible with the values defined 3. Exclude companies whose conduct severely violates the fundamental principles defined 4. Assess companies according to environmental, social and corporate governance (ESG) criteria 5. Consider climate change in the investment policy
<u>After</u> Investment decision	6. Exercise shareholder voting rights 7. Engage in dialogue with company management 8. Intensify active ownership measures where necessary

Evolution of asset management strategy of institutional investors

- Institutional investors have a long term investment horizon and fiduciary duty vis-à-vis numerous beneficiaries. They must therefore exercise all rights that carry an economic value
- Institutional investors often opt for indexed management



Source : Pictet Asset Management, *The indexation wave*, November 2017

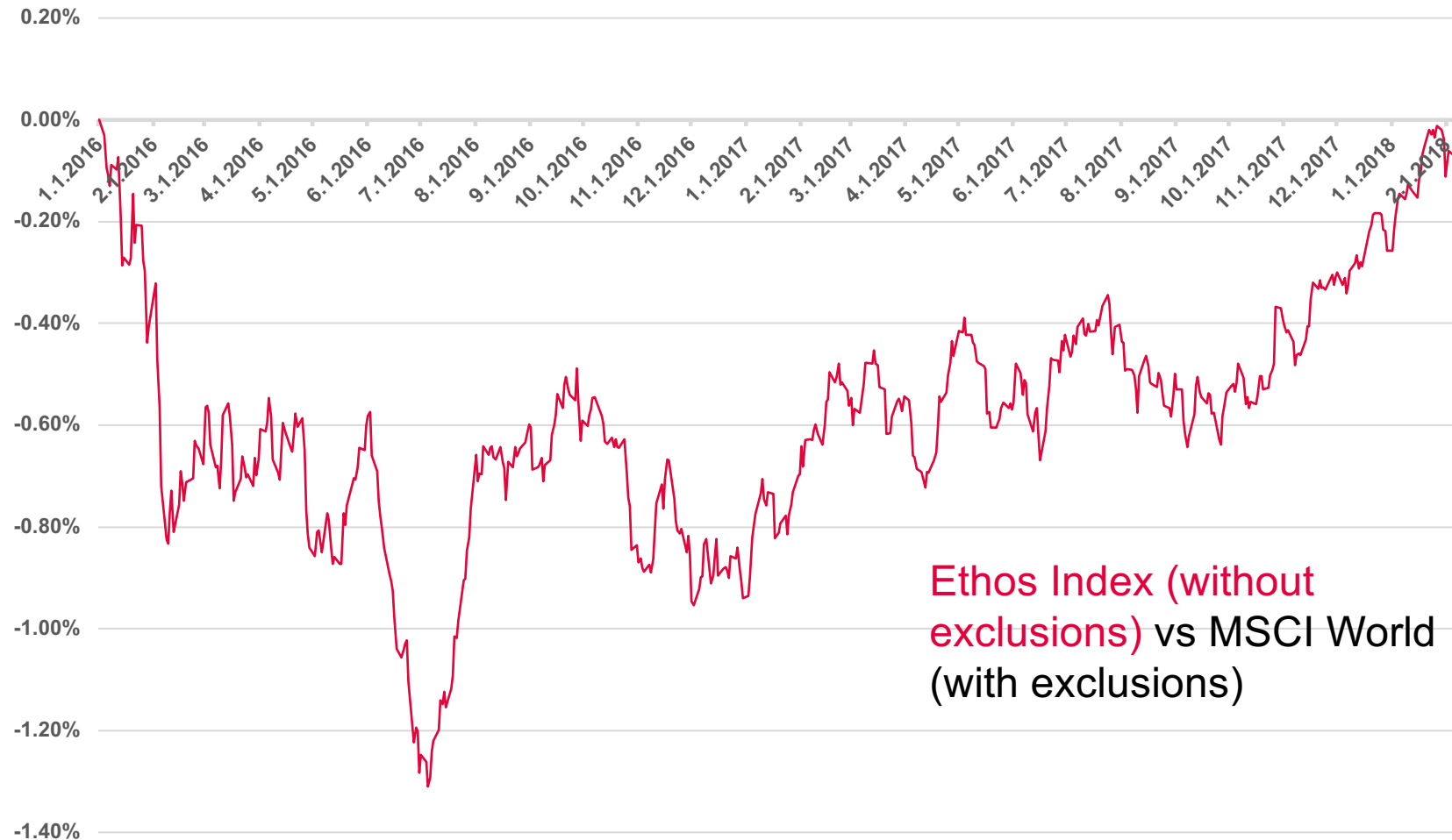
- ▶ No “exit” strategy
- ▶ Passive investors are captive shareholders
- ▶ They are prompted to engage dialogue with the management

Exposure to sensitive sectors / companies in the traditional MSCI World Index (1649 companies)

	Number of excluded companies*	Weight in the MSCI World index (31.01.2018)
Adult entertainment	0	-
Conventional weapons	40	2.95%
Non-conventional weapons	19	1.89%
Coal Energy / Extraction	44	1.93%
Gambling	17	0.38%
Nuclear energy	42	2.31%
GMO	1	0.13%
Tobacco	8	1.32%
Sub total Product Based exclusions	128	7.53%
Exclusion based on company behaviour	29	2.95%
Total excluded companies	157	10.48%

**Companies with more than 5% of their revenues in the sector (based on Ethos' assessement)*

Passive investment: Comparison of the performance of the index with or without exclusions

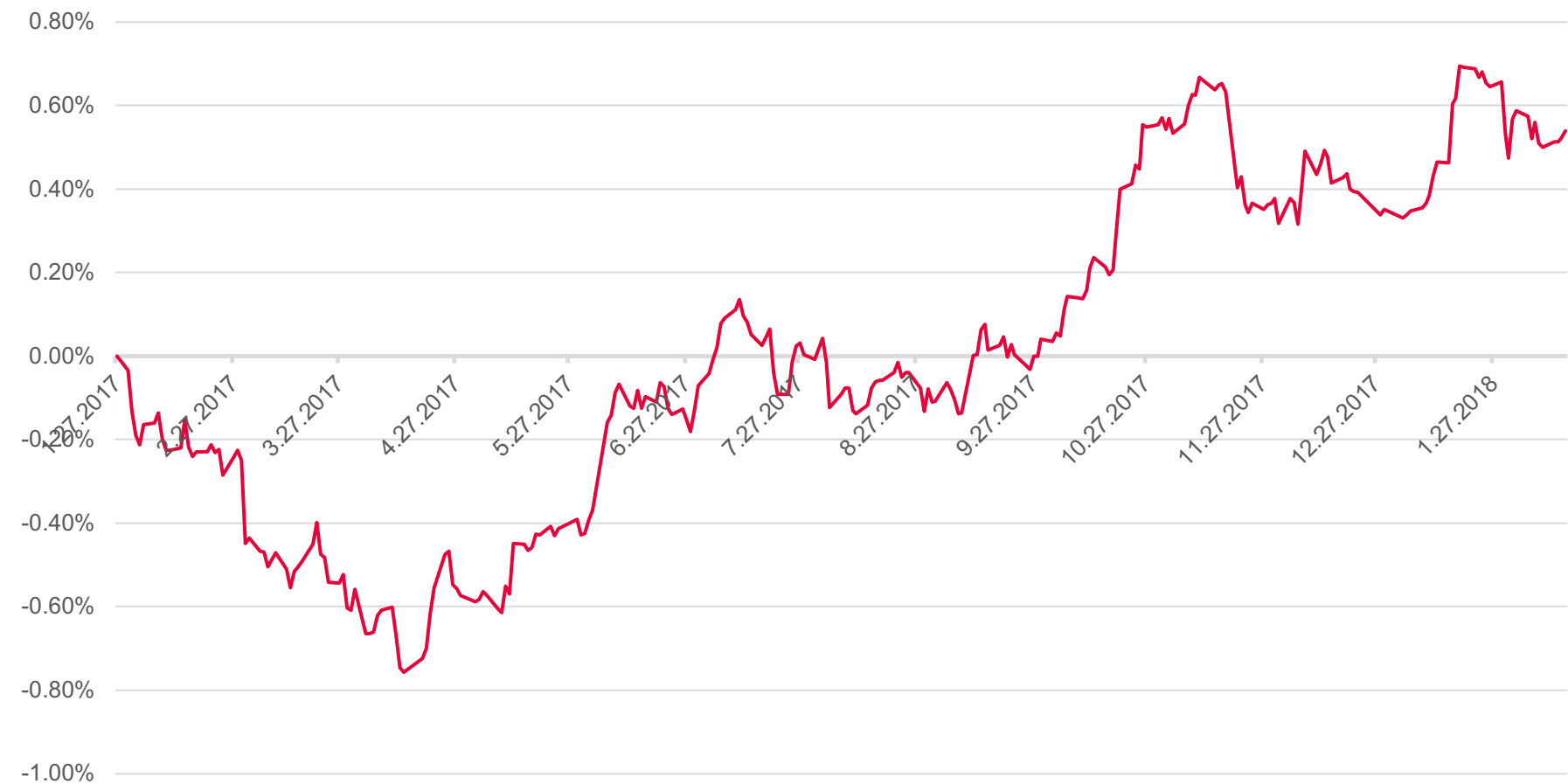


Ethos Index (without
exclusions) vs MSCI World
(with exclusions)

Passive Investment in the Swiss Market

- Low exposure to sensitive sectors but exposure to corporate governance risks
 - ➔ Dual class of shares / opting out clauses
 - ➔ Inadequate remuneration structure
 - ➔ Combined chairman / CEO functions
 - ➔ Insufficient board independence
- A year ago, Ethos launched the first corporate governance index on the Swiss Market in collaboration with the SIX Stock Exchange aiming to :
 - ➔ Reduce the corporate governance risks by underweighting or excluding companies that do not apply best governance practices
 - ➔ Avoid overweighting companies that are under a serious controversy
 - ➔ Avoid overweighting companies that have a weight exceeding 15% in SPI
 - ➔ Overweight companies that do not fall into one of the above categories.

Ethos Swiss Corporate Governance Index vs Swiss Performance Index



Ethos - www.ethosfund.ch

Your contact:

Vincent Kaufmann, CEO

+41 22 716 15 55 (vkaufmann@ethosfund.ch)

Place Cornavin 2

P.O. Box

CH-1211 Geneva 1

T +41 (0)22 716 15 55

F +41 (0)22 716 15 56

Zurich Office:

Bellerivestrasse 3

CH-8008 Zurich

T +41 (0)44 421 41 11

F +41 (0)44 421 41 12



COORDINATED ENGAGEMENTS

Oğuzhan Karakaş

Cambridge Judge Business School

(based on the project co-authored with Elroy Dimson and Xi Li)



Research questions

1. Which firms are targeted?
2. What determines success?
3. What are the impacts of engagement?

RESEARCH PROCEDURE

1. Quantitative data analysis

- 31 PRI-coordinated projects over 2007-2017
- 4 areas: environmental, social, governance, UNGC

2. Global engagements

- 1,671 dialogues with target companies
- Targeting 964 listed firms in 63 countries

3. International involvement

- 225 investors from 24 countries (aggregate AUM \$23 trillion, average AUM \$116 billion)
- Asset owners, investment managers, service providers

4. Extensive additional data from commercial databases

MAIN FINDINGS

1. Which firms are targeted?

- Top countries: US, France, UK, Japan, Germany
- Industries: Manufacture, infrastructure, wholesale/retail
- Large target companies with high institutional ownership

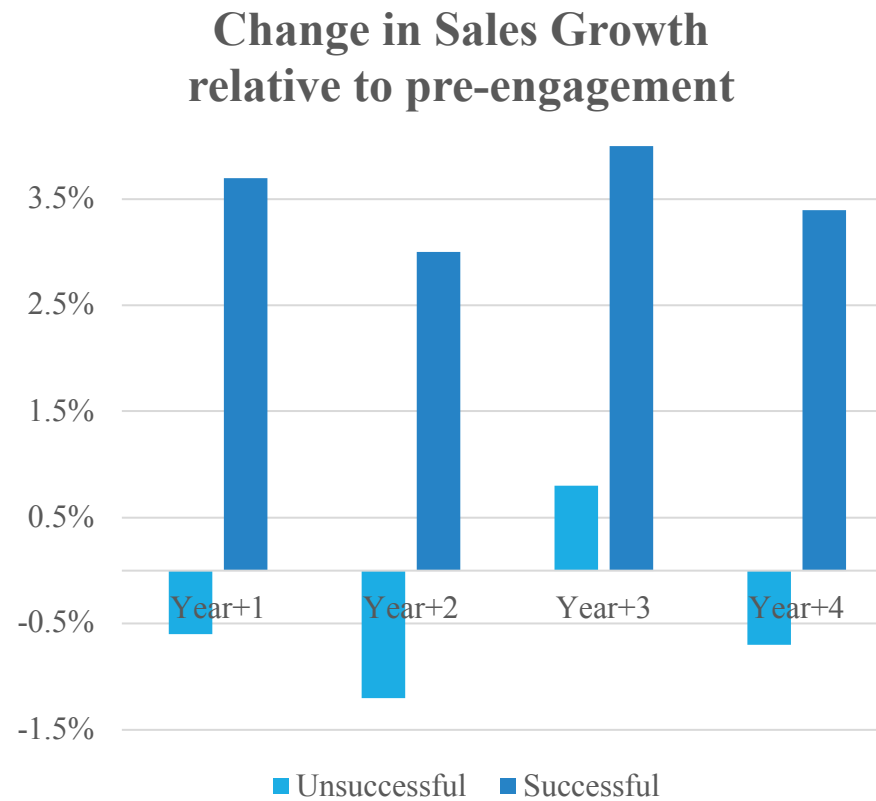
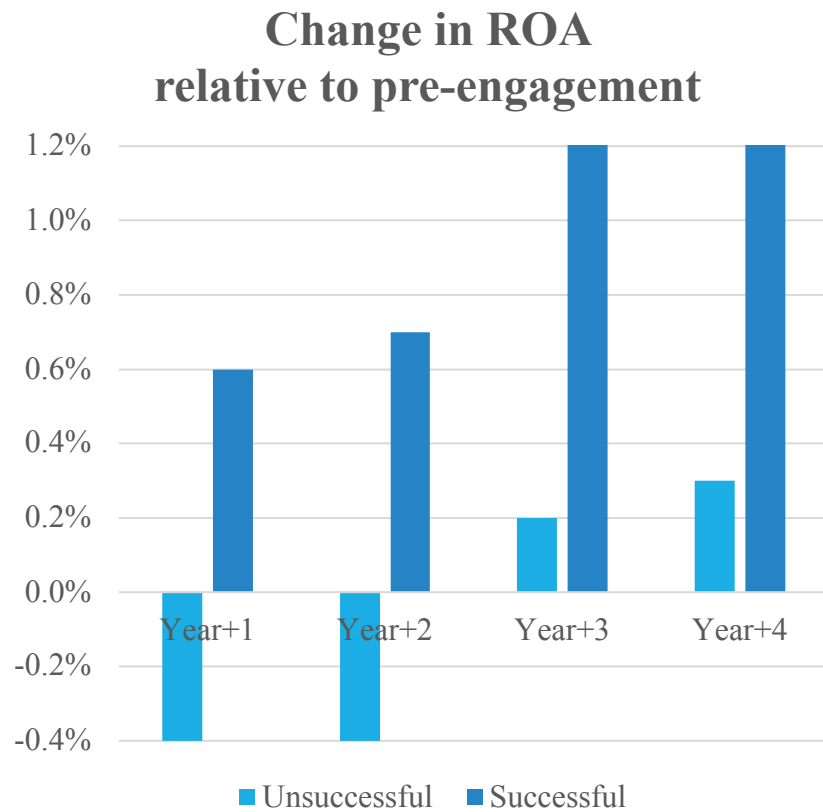
2. What determines success?

- Having a lead investor, especially a local lead
- Having more influential investors
- Having foreign investors on board

3. What are the impacts of successful engagements?

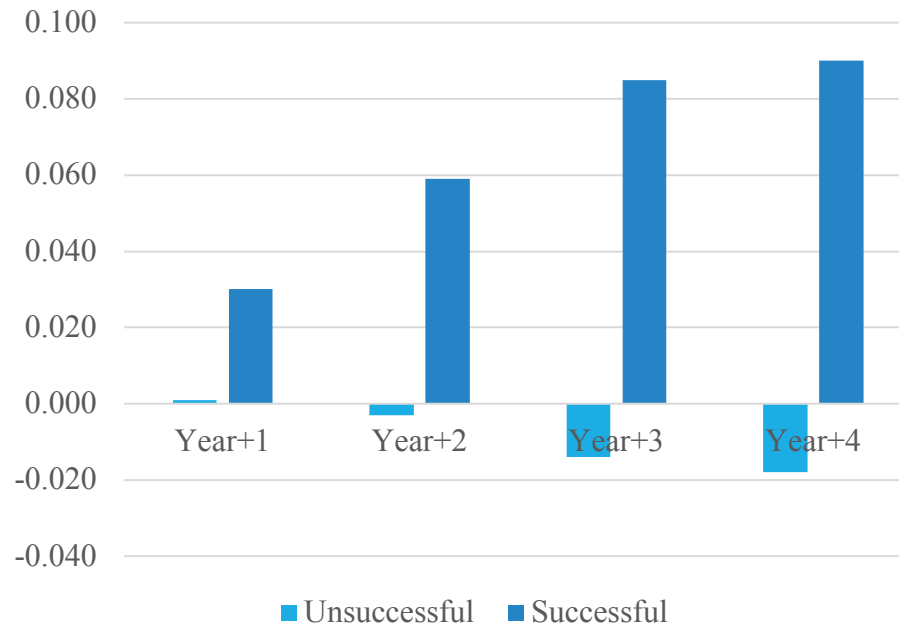
- Higher average profitability (ROA) of target
- Increased lead-investor shareholding in target

IMPACT OF SUCCESSFUL ENGAGEMENTS ^{1/2}

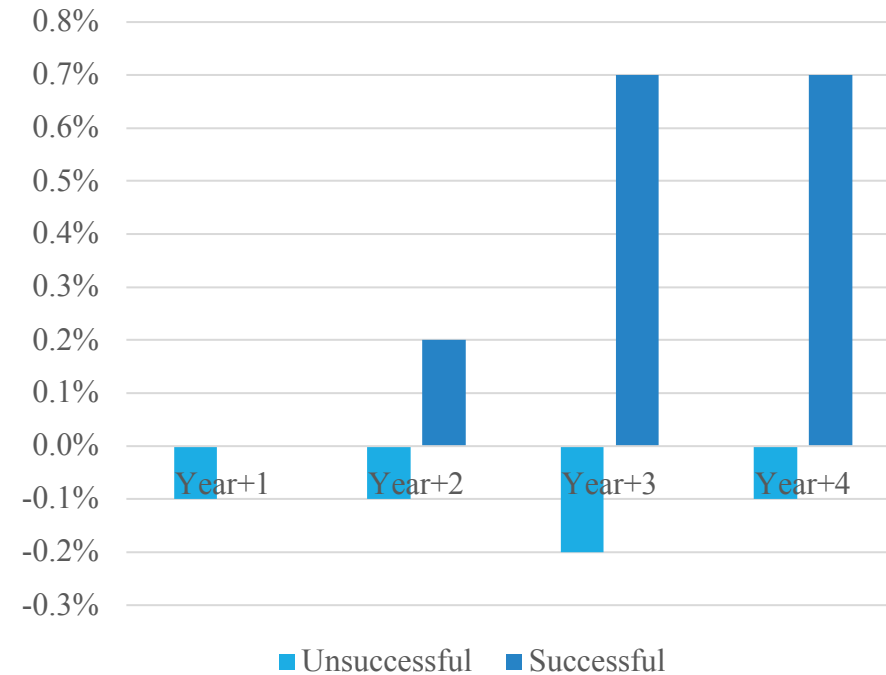


IMPACT OF SUCCESSFUL ENGAGEMENTS ^{2/2}

Change in lead investor shareholdings (\$b) relative to pre-engagement



Change in Pension Fund Holding relative to pre-engagement



Sustainability at Givaudan: A sense of tomorrow

Philanthropy lunch

22 February 2018



Givaudan

engage your senses







TasteEssentials® Vanilla

An example of our “Communities at Source” program

Scope

32

villages

3,000

organic farmers
and their families

4,000

children

Current Madagascar Program Pillars



Agricultural Practices

- Vanilla harvesting and curing practices



Food Security

- Improved rice farming practices (SRI)



Education

- Construction & renovation of schools
- School material developed and supplied



Hygiene & Health

- Construction of lavatories in several villages
- Construction of health centres and water wells

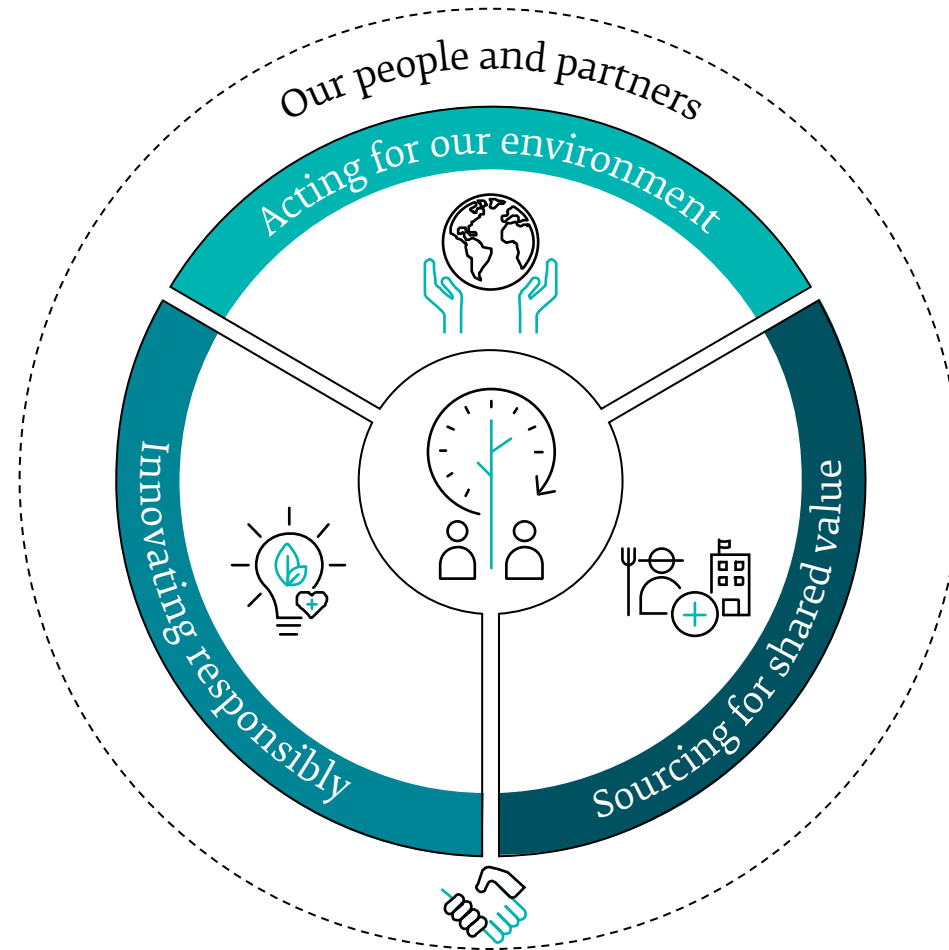


Alternative Revenues

- Beekeeping
- Animal breeding

A sense of tomorrow

Aligning sustainability with company purpose and mission



Meeting needs today. Defining what's next.

A sense of tomorrow

Engaged people and strong partnerships

At Givaudan we

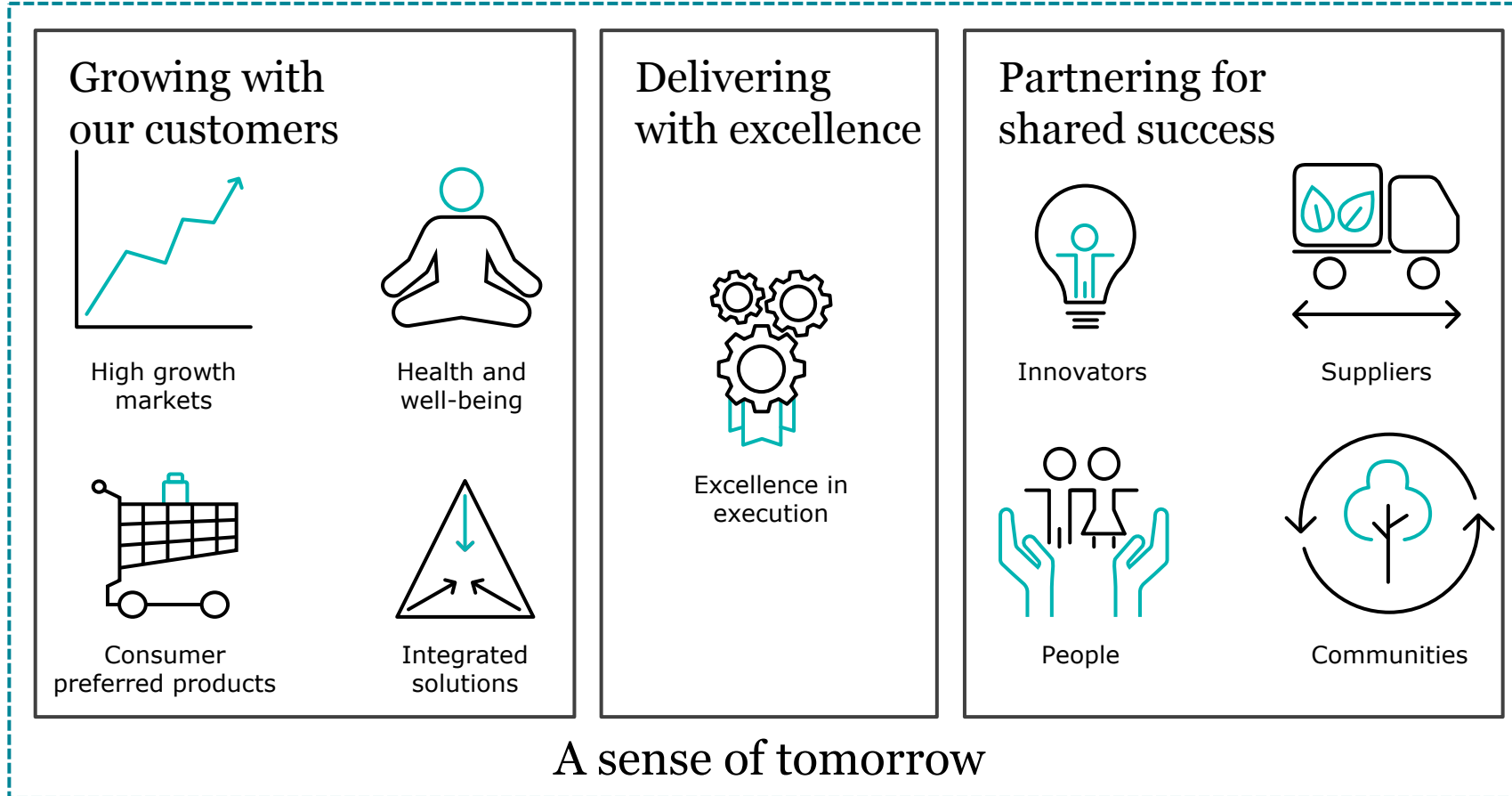
- Develop and promote our people consistent with our Company DNA
- Ensure that everyone gets home safe everyday
- Embrace a balanced workforce to unleash our full potential
- Empower our people to care and act for sustainability through our “Green Team” network

We foster strong partnerships:



‘A sense of tomorrow’ adds value to our business

Responsible growth. Shared success.



A sense of tomorrow

Pascal Becker, Head of Sustainability
pascal.becker@givaudan.com

www.givaudan.com/sustainability

CONCLUSION

Prof. **Luc Thévenoz**

Head, Centre de droit bancaire
et financier, UNIGE

NEXT EVENTS

- **Thursday 19 April** – 2018 OECD report on Global Philanthropy for Development, *in partnership with OECD and the Graduate Institute*
- **Tuesday 8 May** – Philanthropy Lunch: “Philanthropy & Ethics”
- **Wednesday 6 June** – 1st Philanthropy Series: “Institutional investors engagement and other ESG policies, why and how?” *in partnership with Cambridge University*

TEACHING

- ▶ **CAS Grantmaking**, academic year 2018-2019
- ▶ **“Cours intensif en gestion des fondations”**, *in partnership with CEPS and Swiss Philanthropy Foundation*, September 2018
- ▶ **“La philanthropie et ses principaux enjeux juridiques”**, Faculty of Law, academic year 2018-2019
- ▶ Launch of the ***Edmond de Rothschild Foundations Chair in Behavioral Philanthropy***, Autumn 2018

RESEARCH

- ▶ Tax
- ▶ Hybrid entities
- ▶ Social Impact (Humanitarian, Green, etc) Bonds
- ▶ Art