SHAREHOLDERS for CHANGE

A European network for shareholder engagement

Presentation
June 22, 2021

SfC – Shareholders for Change is a new network for shareholder engagement dedicated to institutional investors.

It was launched on **6 December 2017**.

The **12 members**, for a total of over €30bn AUM, are:

Bank für Kirche und Caritas eG (Germany)
Ecofi Investissements, Groupe Crédit Coopératif (France)
Ethos Foundation (Switzerland)
Etica Sgr, Gruppo Banca Etica (Italy)
fair-finance Vorsorgekasse (Austria)
Fondazione Finanza Etica (FFE, Italy)
Forma Futura Invest (Switzerland)
Friends Provident Foundation (UK)
Alternative Bank Schweiz (Switzerland)
Fundacion Finanzas Eticas (Spain)
Meeschaert Asset Management (France)
Sanso Investment Solutions (France)

The **Shareholders for Change network** is involved in **active engagement** mainly with **European corporations** through share- and bondholding.

The network's first goal is to organise collaborative participation in European **companies' Annual General Meetings** (AGMs) as well as **coordinated voting** or **submission of questions** to their boards and managements related to issues such as:

- workers' rights and human rights;
- fiscal practices and tax justice;
- CO_2 emissions and climate change.

The **Shareholders for Change network**:

- has a **very light governance structure** and focus on a limited range of specific issues;

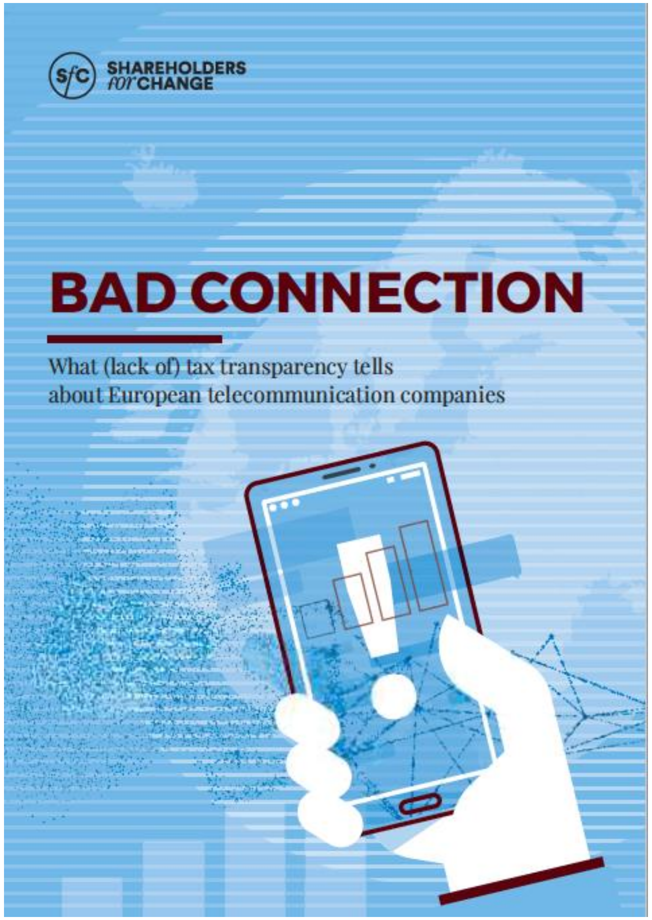
- in contrast to other existing networks or coalitions, SfC understands itself as a "**facilitating hub**" more than a structured organisation;

- at the heart of the work of SfC stands the **engagement activity** and not the organisational structure;

- aims to **mobilise the power of investors, financial market players** and **civil society actors** demonstrating to corporations the many benefits deriving from the adoption of sustainable and responsible conduct;

- has started to operate in the **AGM season 2018** launching **15 engagement project. In the AGM season 2020** the engagement projects were more than 100.

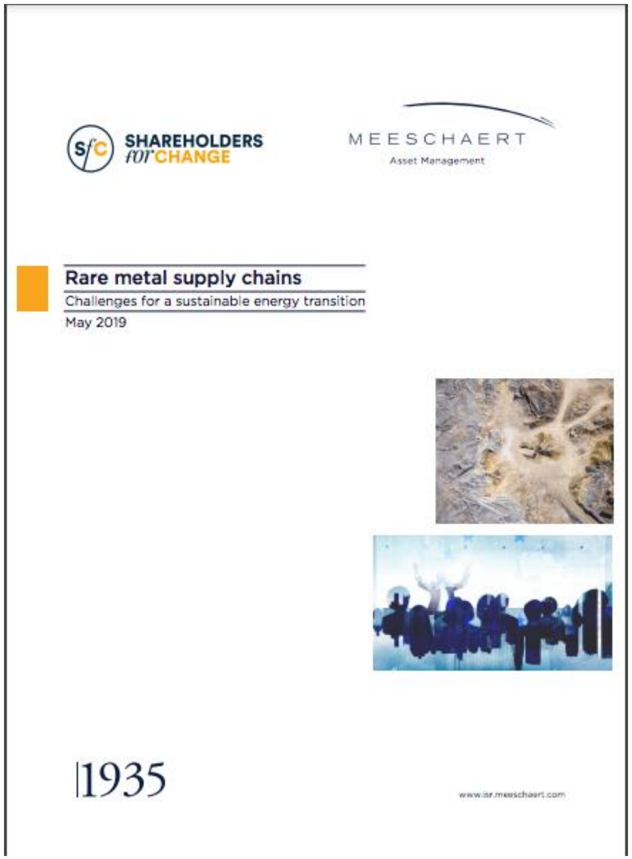
2018- 2020: Tax practices in the telecommunications sector



Vodafone best-in-class (CbCR)
However, the largest share of Vodafone's profits (38%) are generated in two conduit jurisdictions, Luxembourg and Malta, where the group has just 325 employees (out of a total of 108,271 employees worldwide).

Engagement with European telco companies on this issue in 2019/2020.

1. 2020 – 2021 Rare metals



The engagement with Vestas, Siemens-Gamesa, Orsted, Iberdrola, Nordex, PSA, Renault, Daimler, BMW, Johnson Matthey, Umicore, Solvay was **partially successful**.
Except for **PSA**, all companies were cooperative and answered to our questions on their rare metals' supply chain more or less extensively.
The first phase of the engagement project (**disclosure**) has been completed.
The second phase (**commitment**) starts now and will be completed by December 2022.
Since PSA has not answered to the network's questions, SfC may decide to **submit the questions** to the next **AGM**.

1. Rare metals - Engagement results: Siemens – Gamesa

Lead: Ethos Foundation
Siemens-Gamesa Renewable Energy (SGRE) is one of the world's leading manufacturers of wind turbines.
The company uses **neodymium magnets** (among others) in its turbine generators. Neodymium is a rare earth metal.
The company explained that its five suppliers of rare metals have signed a code of conduct and a set of environmental requirements. However, monitoring stops at the first level of the supply chain, the so-called '**Tier 1**': the company's direct suppliers, that are only intermediaries. SGRE commits to extending the requirements to '**Tier 2**'.
In the company's sustainability report (January 2021), SGRE mentions rare earths for the first time as "high risk from a sustainability point of view'. The company formally commits to reduce or eliminate the use of heavy rare earths such as **dysprosium** and **terbium**.

Room for improvement
Disclose the names of suppliers

Conduct un-announced audits

Cover 'Tier 2' suppliers

More specific targets on recycling

1. Rare metals - Engagement results: BMW

Lead: Bank für Kirche und Caritas
The Bavarian automotive giant BMW uses rare metals, such as **cobalt** and **lithium**, in the batteries of the electric cars it produces. The company was contacted by BKC (lead) and Ecofi (email exchange and conference call).
Questions focused in particular on **Congo** (DRC), where much of the cobalt used by the industry internationally comes from.
BMW also specified that it uses "indirect" suppliers of rare metals ('**Tier 1**'). And that, for the time being, it does not monitor who actually extracts the materials ('**Tier 2**').
Supplies from Congo DRC have ceased due to the high ESG risks. Preference is now given to Australia and Morocco, which are considered less risky.
Despite this, the company continues to be involved in the '**Cobalt for Development**' project in Congo.

Room for improvement
Data on detected cases of non-compliance are not disclosed yet

Tier-N monitoring down to the last level of the supply chain still missing

1. Rare metals - Engagement results: Solvay

Lead: Meeschaert Asset Management
The Belgian chemical group Solvay processes rare metals in its sites in France, Japan and China. The company was contacted by Meeschaert AM in January but **never replied**. The engagement was **escalated** to the company's 2021 AGM by Fondazione Finanza Etica (that bought one share). The company answered to all questions during the AGM, specifying that only one out of its total six rare earth suppliers achieved an audit score above 45 (the minimum threshold). **Corrective actions** would be in place for the five, low performing suppliers.
At present, the company recycles and valorises only Neodymium and Praseodymium tailings from past activities in France.
A new set of questions will be sent to the company in the second phase.

Room for improvement
No information about corrective actions or reasons for low score

No reference to ESG criteria applied to audits

Limited information on recycling

No information about depth of auditing (most probably only 'Tier 1')

1. Rare metals – Assessment of the 1st phase

What has worked
Good cooperation between members on some specific companies.
Good quality of SfC research and questions. Relatively good level of responsiveness by companies.

What could be improved
Companies are limiting their audits to 'Tier 1'. Limited efforts on recycling.
Reasons for non compliance of suppliers are not disclosed.

What should be the next steps
Further engage companies on disclosure and monitoring (Tier-N). Develop criteria for the 2nd phase (commitment) on recycling, exclusion of non-compliant suppliers, etc.

2. Research "Capital allocation in the time of Covid-19"

German companies in the dock over dividend plans

VW, BMW, Daimler, Continental and Adidas criticised for considering payouts while relying on state funds

The research is led by prof. Alessandro Santoro and Ph.D. Michele Rabasco (University of Milan-Bicocca, Department of Economics); financed by Etica Sgr, fair-finance and Friends Provident Foundation.

State of the research

The test-phase has been successfully completed at the end of May 2021: definition of a companies' universe; definition of indicators; test of indicators on the universe, based on 2019 data; identification of major outliers.

Next steps

Start test-engagement with at least 5 outliers based on 2019 data (by September 2021). Final research published in December 2021.

2. Research "Capital allocation in the time of Covid-19"

Aim

Assessing the *capital allocation* and *tax planning choices* of a Universe of companies in relation to the receipt of state aid during the COVID-19 pandemic emergency

Research method

1. Identification of the Global Ultimate Owner (GUO) and reconstruction of its corporate group (for each company);
2. Identification of countries with high tax planning risk (HRTP);
3. Construction of a set of indicators to identify 'aggressive' behaviors

Database

Orbis, the largest database available with data on global companies with detailed financial information and company structures.

2. Research "Capital allocation in the time of Covid-19"

Details

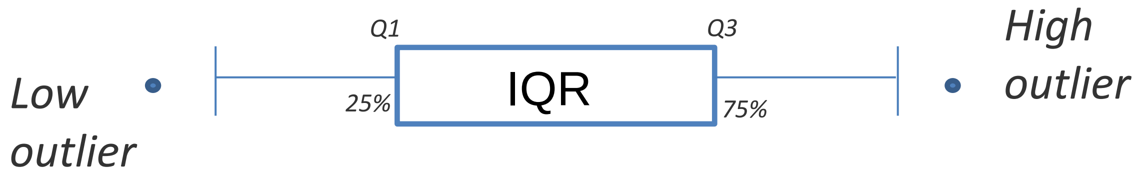
- The universe of analysis consists of 304 GUOs and 69,078 companies;
- Financial data are provided for the period 2015 to 2019;
- The list of HRTP countries includes American Samoa, Anguilla, Barbados, Fiji, Guam, Palau, Panama, Samoa, Seychelles, Trinidad and Tobago, the US Virgin Islands, Vanuatu, Belgium, Cyprus, Hungary, Luxembourg, Latvia, Malta and The Netherlands, Switzerland and Irland.
- The minimum percentage of control in the path from a subject company to its ultimate owner must be 50.01%

Definition of outliers

- *A value x is defined:*

  - Low outlier if $x < Q1 - 1.5(IQR)$

  - High outlier if $x > Q3 + 1.5(IQR)$



2. Research "Capital allocation in the time of Covid-19"

Result

Graphical representations allowing us to identify companies showing aggressive and/or abnormal behavior in relation to the sector they belong to.

Some examples

Change in employment

We look for companies that have abnormally reduced their workforce compared to companies operating in the same sector (Low Outliers).

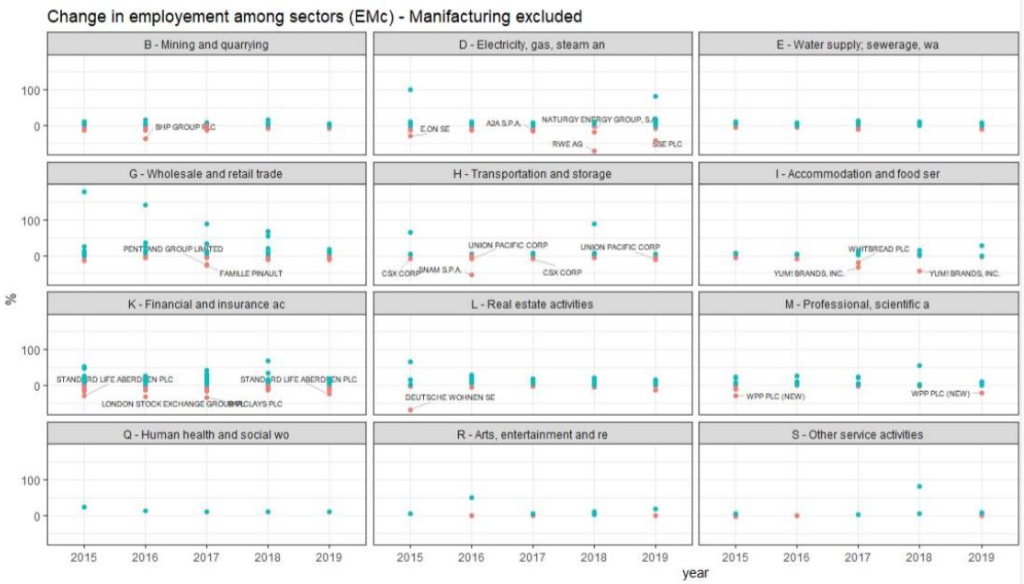
Pay out *ratio*

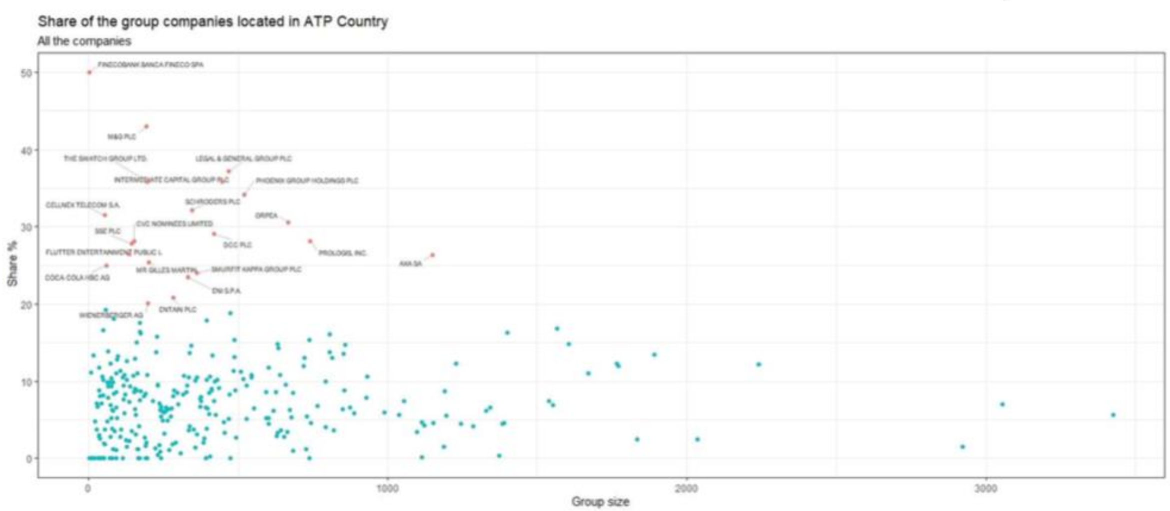
We highlight companies showing a high ratio of dividends distributed to net income (High Outliers) and companies that have distributed dividends despite having closed their financial year with a loss.

Ratio of the group companies located in HRTP countries

We highlight cases in which the ratio of companies resident in a country to the total group size exceeds the threshold of 20%.

2. Research "Capital allocation in the time of Covid-19"





Outliers employment (2019)

Among others
SSE Plc, WPP Plc, Standard Life Aberdeen, Union Pacific Corporation, Arcelormittal Sa

Outliers ATP countries (2021)

Among others
Axa, Orpea, Prologis, Legal & General

4. AGM season – highlights

Focus on 'Say on Climate'

Ethos Foundation, Meeschaert AM and Fondazione Finanza Etica engaged companies on "Say on Climate" with mixed results:

Ethos
- 95.01% of shareholders voted in favour of Nestlé's climate plan;
- Lafarge Holcim will introduce a "Say on Climate" vote in 2022;

Meeschaert
- Resolution requesting "Say on Climate" vote withdrawn before Engie AGM;
- 91% of shareholders voted in favour of Total's climate plan;

Fondazione Finanza Etica
- Resolution requesting "Say on Climate" vote was voted down by 97.35% of H&M shareholders;
- Eni refused to include in the AGM agenda a "Say on Climate" vote but encouraged comments by shareholders on its decarbonisation plan.

4. AGM season – highlights

Say on Climate – debate

How effective is the 'Say on Climate' initiative?

Don't we run the risk to just "congratulate" companies on their efforts?

"We evaluated the decarbonisation plans of Eni, Shell and Total. All three are still vague and concentrate most decarbonisation efforts after 2030. How can Climate Action 100+ be so excited?"

"The difficulty this year is that 'Say on Climate' was totally new and, as it is the 1st year, a lot of shareholders wanted to congratulate companies which have this resolution on their agenda. But this 'honeymoon' won't last. I'm very curious about results in the 2nd year"

"It is only the first step. These votes will have to become the norm and be repeated every year. Just as it should be normal for all listed companies to prepare a plan to reduce climate impacts with clear targets and deadlines. At the same time, investors have to develop the necessary skills to assess corporate climate strategies, this is the important second part of the say on climate mechanism."