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
    - \( AuM = CHF \ 1.3 \ \text{bn} \)
  - 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

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

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

Source: Pictet Asset Management, The indexation wave, November 2017
Exposure to sensitive sectors / companies in the traditional MSCI World Index (1649 companies)

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

*Companies with more than 5% of their revenues in the sector (based on Ethos’ assessment)*
Passive investment: Comparison of the performance of the index with or without 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 independance

- 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?

22 February 2018 – Philanthropy Lunch – Geneva
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

Change in ROA relative to pre-engagement

Change in Sales Growth relative to pre-engagement

Unsuccessful  Successful

Unsuccessful  Successful
IMPACT OF SUCCESSFUL ENGAGEMENTS

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

Change in Pension Fund Holding relative to pre-engagement

-0.040  -0.020  0.000  0.020  0.040  0.060  0.080  0.100

-0.3%  -0.2%  -0.1%  0.0%  0.1%  0.2%  0.3%  0.4%  0.5%  0.6%  0.7%  0.8%

Year+1  Year+2  Year+3  Year+4

Year+1  Year+2  Year+3  Year+4

Unsuccessful  Successful  Unsuccessful  Successful
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.

Growing with our customers
- High growth markets
- Consumer preferred products

Delivering with excellence
- Health and well-being
- Integrated solutions

Partnering for shared success
- Innovators
- Suppliers
- People
- Communities

A sense of tomorrow
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