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I. ESG integration: a 360° view of companies

We firmly believe that environmental, social and governance approach, which provides an all-round vision of companies, consolidates value creation. It has led us to take account of ESG criteria across our management activities, and to implement a strong engagement policy.

Implementing ESG integration is driven by the conviction that a strong sustainable development policy enables issuers to better manage regulatory and reputational risks and also contributes to improving their operational efficiency. This enables investors to hedge against long-term risks (financial, operational, reputational, etc.) and to fully exercise their responsibility.

This integration is today done through different vectors, including the ESG ratings, the votes at general meetings and our engagement for influence.

ESG ratings: with the partnership of suppliers of extra-financial data, Amundi awards ESG ratings to more than 5,000 issuers. Furthermore, in order to fine-tune these ratings, the ESG analysts stage meetings with more than 250 companies annually.

ESG ratings are notably used in our Socially Responsible Investment (SRI) process. Amundi is positioned among the global leaders with €172 billion in SRI AUM, representing close to 16% of our total assets under management but normative exclusion concerns 95% of our asset under management.

Voting at general meetings: the corporate governance team systematically votes at the general shareholders’ meetings of French companies or of companies in which Amundi holds more than 0.05% of the capital, i.e. more than 2,500 general meetings a year. Amundi has implemented a formalized dialogue system to inform the companies in which it holds its largest positions of its voting intentions, to initiate a dialogue and contribute to the improvement of their practices.

Engagement for influence consists in meetings with companies so as to encourage them to adopt better practices. Recommendations made at company meetings concern cross-cutting themes common to a company’s business sector. They highlight best practices and measure companies’ progress based on a grid of success indicators set up by the extra-financial analyst.

Since 2013, the ESG analysts team has been particularly active on 6 themes:

- Respect for human rights in the mining and oil sectors,
- Combatting food waste in the agrifoods and retail sectors,
- Conflict minerals,
- Responsible lobbying by pharmaceutical companies and the automotive industry,
- The environmental impact associated with coal in the Utilities sector,
Child labour in the cocoa and tobacco industries.

This work is the object of an engagement report published annually by the ESG team of analysts and available on www.amundi.com.

Thus, for Amundi, ESG is not a stand-alone issue. It is integrated in our analysis and in our management process.

What does an attractive long-term company look like from an investor’s perspective?

It is obviously hard to give a standard answer to this question due to the multiplicity of issues, challenges, situations.

In general terms, we are looking for companies that have the willingness to understand their ESG risks and opportunities and to integrate them into their strategy, but also to companies that are able to take into account their impacts on their stakeholders.

Regarding the criteria we use, their weights in ESG score depend on the sector. So here again, the measure of the achievements will depend on the issues the issuers will face. We do not expect the same from a financial institution or an oil & gas company.

II. Data, data, data

Due to our commitment to ESG, data are crucial for us. It feed us. As a consequence, we need accurate, relevant, exhaustive and reliable data. We need data to understand how the different issues are addressed by the companies. We need data to be assured of the reality of policies that are set up by companies. Data demonstrate the implementation of the will of the issuers.

One of the default we often see in the CSR report is the “proof by anecdote”. It is generally a beautiful little story that tries to demonstrate a policy, but it does not. This is why we need data that are as exhaustive as possible: to objectivize the performance of the issuers. And finally, in case of lack of data, the rating of the issuer will remain low...

However, we will not wait for the issuers to collect data. There are now a lot of data that are available and this is may be the next step for the ESG analysis: Big data. Of course “big data” is a buzzword but it also reflects a reality. We can use the large number of available data to create useful pictures of the risks and opportunities of the issuers and to engage discussions with them.

This is what we have done, for example, with the water stress risk: we have used data from Enipedia that provide GPS location, types and owners of the power plant facilities, all over the world. We combined these data with water stress maps designed by the World Resources Institute. As a result, we were able to engage a dialogue with the owners of the power plants, not only in general terms,
but on specific cases, to understand their ability to manage the water risk and to be assured of the materiality of their policies. Another example is the issue of fire in the palm oil exploitation: we have combine the palm oil exploitation GPS location with the forest fire detected.

Here again, big data enable us to have big picture of a situation, of a risk, but with a very fine granular level.

III. Corporate hot topics

A first answer would be “remunerations” as we have seen limits in the implementation of the “say on pay” in different jurisdictions (France for instance). If we observe improvement in remuneration issues (an example could be the “double strike” in Australia by which, if 25% of the shareholders votes against the remuneration two years in a row, all the members of the board are in situation of renewal), we still have a lack of transparency regarding the variable compensation criteria and the rationales that explain why these criteria are achieved (and we can observe that, usually, the criteria are achieved...).

But, taking a broader perspective, the real hot governance issue could be the ability of the board to demonstrate their active role and actions.

It’s easy to make some box-ticking on the independence of the board, separation of the CEO and chairman functions, composition of the different committees... But what is the real role that the members of the board play? Is the board simply a rubber stamp for executive decisions? Are the members active in the monitoring of the executives decisions? What about the integration of the emerging risks and opportunities? What about controversies?

Here are a lot of question that we need to answer, in our assessment of the governance. To be able to do so, we need a better disclosure of the work made by the boards. Thanks to the legislation, we some reporting are now provided by the committee of the boards in UK. But this is not enough and it is generally hard to understand what is the real contribution of the board members to the companies.