The process of ethical investing: the case of Etica SGR

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Etica Shareholders

- Share capital: 4,5 million Euro
- Etica Sgr is owned by five cooperative banks and controlled by Banca Popolare Etica
- Banca Popolare Etica is an Italian cooperative bank owned by 38,000 shareholders: many of them are legal entities, such as associations, NGO’s, trade unions, foundations, etc.)
Our ten years

May 2007

FONDO PENSIONE AequITAS
with:

«I» CLASS

February 2012

June 2008

ESG ADVISORY SERVICE

February 2003

VALORI RESPONSABILI FUNDS
with:

ANIMA

MUTUAL FUNDS
PENSION FUNDS
ADVISORY
Etica SGR activities

Open-end ethical funds:
700 mln Euros*

- ETICA AZIONARIO
- ETICA BILANCIATO
- ETICA OBBLIGAZIONARIO MISTO
- ETICA OBBLIGAZIONARIO BREVE TERMINE

ESG Advisory

- Eligible Universe definition
- Portfolio analysis ex post
- Black Lists
- Shareholders activism

*Data as 09.30.2013
ESG Analysis of securities
What Ethical investment means?

One definition of ethical finance, ethical fund, responsible investment, ..., right to each ways, doesn’t exist.

It depends on the approach given to the extra financial analysis by people who wants to achieve defined goals.

- Eurosif (European Social Investment Forum), says that «the responsible investment is a strategy that joins financial results with social and environmental ones», through several ways:
  - Thematic investment (green funds, sharia funds...)
  - Exclusion criteria screening;
  - «Best in class» evaluation screening;
  - ESG issues integration in financial strategies;
  - Engagement and shareholders activism;
  - “Impact investing”.

Source: Eurosif 2012
What Ethical investment means for Etica SGR?

- Adopting **negative & positive criteria** during the securities selection and **engaging** the companies about Environmental, Social and Governance issue.

**SECURITIES SELECTION**
- Negative exclusion criteria
- Positive evaluation criteria

**ACTIVE OWNERSHIP**
- Active ownership aims to engage companies to obtain an improvement in their sustainable management.

**Benefits of Active Ownership**
- Deeper information
- Better understanding of the company
- More transparency
- Higher control of the risks
Players in the process

Eligibles Universes approval
Etica Sgr’s Board

ESG Strategies and supervision
Etica Sgr’s Ethics Committee

Investment activities
Anima Sgr

ESG Analysis
Etica Sgr
The role of our Ethical Committee

- The Ethical Committee is an independent body and has got a proactive and consulting role;
- The members of Ethical Committee are nominated by Banca Popolare Etica. Actually there are 9 members in charge for 3 years;
- Members are featured by a high ethical profile and with a strong experience in CSR field.

- The main activities are:
  - Analysing each company to be inserted/excluded in the Eligible Universe;
  - Defining the ESG criteria for companies and countries;
  - Defining the engagement and proxy voting activities;
  - Keeping in contact with Etica SGR’s bodies and investors according to its ethical role;
  - Analysing ESG issues, initiatives and sectors.
Information sources

**Evaluation process of Etica SGR**

- **ICCR – New York**
- **PRI - Principles for Responsible Investment**
- **FEBEA – European Federation of Ethical Banks**
- **FFS - Forum Finanza Sostenibile**
- **EUROSIF – European SIF Network**
- **EIRIS Ltd - London**
  - Countries and companies’ database
- **CDP – Carbon Disclosure Project**
- **Corporate documents**
- **Engagement activities**
- **Media Resources**
Companies: negative criteria

- We exclude a company from our universe if it:
  - manufactures WEAPONS;
  - owns or runs NUCLEAR POWER PLANT;
  - creates OGMs for non medical use;
  - carries out TESTS ON ANIMALS not for medical use;
  - manufactures and/or sales TOBACCO;
  - manufactures and/or sales PESTICIDES;
  - is involved in GAMBLING;
  - sales FURS;
  - is involved in cutting, manufacturing and selling wood from protected areas;
  - accused to BREAK HUMAN RIGHTS and ILO International Conventions and to miss in addressing allegations;
  - accused to BREAK BIODIVERSITY AND ENVIRONMENTAL POLLUTION INTERNATIONAL CONVENTIONS and to miss in addressing allegations.

- We also exclude the following sectors:
Companies: evaluation areas and topics (65 criteria)

**ENVIRONMENT**
- Environmental certifications
- Environmental performance
- Energy efficiency
- Environmental laws breaks

**SOCIAL**
- Health&Safety on job place
- Equal opportunities
- Employees training
- Client relationships policies, management and monitoring systems
- Supply chain monitoring
- Positive impact on the community

**HUMAN RIGHTS**
- Policy, management and monitoring system and reporting
- Human Rights laws break (UN)
- Labor Standard laws break (ILO)

**GOVERNANCE**
- Board practices
- Directors’ pays
- Ethical code
- Political donations
- Bribery policies
- ESG risks management
An example of company in our universe - INTEL

American IT company, involved in computer, smartphone, and data center technologies

- **Corporate governance:**
  - Separation Chairman/CEO role;
  - High level of independent directors (88%);
  - Clear anti-bribery policy

- **Human Rights:**
  - Detailed human rights policy
  - ESG selection of suppliers
  - Compliant to UN Global Compact join, to several US Work Groups about suppliers in Congo transparency («Congo Conflict Minerals Groups») and to «Electronics Industry Citizenship Coalition» (IT trade association referring to human rights respect in supply chain).

- **Environment:**
  - Good certifications system (plants 100% ISO14001 certified)
  - *Carbon Disclosure Project* member
  - Qualitative and quantitative environmental report

- **Stakeholders:**
  - Employees: focus on training, equal opportunities, health and safety systems
  - Communities: support to several social programs
  - Sustainability Report (GRI level A)
Countries evaluation and exclusion

- We exclude a Country if it is:
  - Involved in violation of any civil, political or human rights;
  - Applying death penalty (or if it present in laws).

- Countries are evaluated according to 55 criteria, here are some examples:

<table>
<thead>
<tr>
<th>GOVERNANCE</th>
<th>SOCIAL</th>
<th>ENVIRONMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil and press freedom (source: FH)</td>
<td>% women in workforce</td>
<td>CO2 reduction</td>
</tr>
<tr>
<td>Political Rights (source: WB)</td>
<td>Public spending for instruction/education (compared to GDP)</td>
<td>Renewable energies</td>
</tr>
<tr>
<td>Perception of corruption index (source: TI)</td>
<td>Health systems access</td>
<td>Water quality (domestic and industrial use)</td>
</tr>
<tr>
<td>Political stability index (Fonte: WB)</td>
<td>Human development index</td>
<td>Biodiversity protection policies</td>
</tr>
<tr>
<td>Government policies (source: WB)</td>
<td>Gini Index (income inequality distribution)</td>
<td>Deforestation index</td>
</tr>
</tbody>
</table>
ESG methodology for Italian companies

- All Italian companies, before being included in Etica Sgr eligible universe, have to be evaluated through this methodology;
- Yearly Etica Sgr updates all Italian companies profiles in order to check if their ESG performance still meet Etica Sgr criteria;
- Etica Sgr Ethical Committee and then Board of Directors approve or not each companies admission into the eligible universe;
- The ESG evaluation process follows 2 steps:
  - Negative criteria (exclusion): the same for foreign companies’ ones
  - Positive criteria (evaluation): Governance/Environment/Human Rights/Stakeholders’ issues. Each area has 3 parts, differently weighted:
    ✓ Policy and statements (20%)
    ✓ Management and monitoring (50%)
    ✓ Reporting (30%)
ESG methodology for Italian companies

- Corporate documents
  - Annual and periodic documents
  - Social and environmental report or sustainability report
  - Ethical Code
  - *corporate governance* documents
  - Financial results for analysts
  - Researches and studies
  - Press releases

- Questionnaires and interviewes to the company (*Investor Relator, CSR manager, top management*)

- Banca Etica shareholders:
- Affiliated partners: ICCR, EUROsIF, PRI; FFS, etc.
- NGO as Legambiente, Amnesty International, WWF, GreenPeace

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DIRECT RELATIONSHIP WITH COMPANIES

ATTENTION TO THE INSTANCES OF STAKEHOLDERS
Corporate Governance

Policy and statements

- Separation between CEO and Chairman
- Independent non-executive Directors in Board of Directors
- Independent non-executive Directors in Internal Audit Committee
- Nominating Committee presence
- Board of Directors diversified background
- Independent non-executive Directors in Remuneration Committee
- Ethical Code quality
- CSR unit or corporate body focused on ESG issues
- Women in the Board of Directors

Management and monitoring

- Risk-monitoring management
- Ethical Code implementation System
- Remuneration linked to ESG performance
- 231/2001 Model training

Reporting

- Board of Directors evaluation
- Board and top management remuneration
Human rights

- Policy and statements
  - Human rights policy

- Management and monitoring
  - Human rights management systems
  - Human rights monitoring
  - Social certifications (i.e. SA8000)

- Reporting
  - Human rights reporting quality
Environment

Policy and statements
- Environmental policy

Management and monitoring
- Environmental management system
- Environmental performance: air emissions
- Environmental performance: renewable sources
- Environmental performance: energy saving
- Environmental performance: waste management
- Environmental performance: water management
- Positive impact of products on environment
- Environmental monitoring
- Environmental certifications (i.e. ISO14001)

Reporting
- Environmental reporting quality
Stakeholders relationship

Policy and statements
- Stakeholders relationship policy
- Stakeholders involvement

Management and monitoring
- Welfare and social security coverage quality
- Employees training
- Fair opportunities
- Trade unions relationship
- Health&Safety monitoring
- Health&Safety performance
- Employees satisfaction
- Customers satisfaction
- Processes quality (i.e. ISO9001 certification)
- Products quality
- Suppliers selection through socio-environmental criteria
- Supply chain monitoring
- Local communities qualitative support
- Local communities quantitative support
- Positive impact of products for the communities

Reporting
- Stakeholder relationship reporting quality
- Global Reporting Initiative model
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