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# Engagement Policy

Dialogue and exercise of voting rights concerning the financial instruments of the ucits under management

ETICA GUIDELINES ON DIALOGUE AND VOTING



# Engagement Policy

Dialogue and exercise of voting rights concerning the financial instruments of the ucits under management

## ETICA GUIDELINES ON DIALOGUE AND VOTING

### NOTICES

The Policy and the Strategies described herein represent tools and support for compliance by Etica with the obligation to adopt a strategy for monitoring and dialogue with issuers pursuant to Chapter II of Title III of Part IV, section I-ter, art.124-quinquies of Italian Legislative Decree no. 58 of 24 February 1998 – Consolidated Law on Finance (TUF) and for the exercise of the voting rights concerning the financial instruments of the UCITs under management pursuant to art.35-decies, paragraph 1, letter e) of Italian Legislative Decree no. 58 of 24 February 1998 – Consolidated Law on Finance (TUF) as well as for compliance with the provisions of the “Italian Principles of Stewardship for the exercise of administrative and voting rights in listed companies” promoted by Assogestioni.

This Document, referring to Italian and foreign issuers of the financial instruments held by the UCITs established and/or managed by Etica under a mandate, therefore sets out the guidelines that Etica An international standard for occupational health and safety management systems that was subsequently adopted as a British Standard has adopted on the aforementioned issues

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# LETTER FROM THE CHAIRMAN



Engagement is one of the **most advanced strategies** of sustainable and responsible investment. It takes the form of **dialogue** with the management teams of companies and the **exercise of voting rights** associated with participation in the share capital.

The aim is to encourage sustainable and responsible behaviours over the medium to long term by the businesses our funds invest in.



**UGO BIGGERI**  
Etica Sgr Chairman

*Ugo Biggeri*

This strategy is an integral part of our approach to responsible finance. As a matter of fact, we believe that only in-depth and direct knowledge can evaluate the sustainability of businesses and undertake **journeys towards improvement** with them. We were one of the first to introduce active shareholding practices in Italy, overcoming the initial scepticism of the financial community to obtain concrete results. What we offer to companies as responsible investors is a constructive and forward-looking approach, in the belief that our work can promote their long-term economic sustainability, while generating positive effects for all stakeholders.

We have learned a great deal over the years by enriching our expertise and interacting with businesses and **international networks** that have carried out this activity for some time, with constancy and professionalism. Engagement has even proven to be a valuable instrument in the hands of financial operators when successfully contributing to the resolution of global issues. For us, environmental, social and governance sustainability is not a field of activity: it is our Company's mission. This fact of no small importance pushes us to do our job even better, to seek new ways and new avenues to increase and improve our engagement in Italy and abroad. For the same reason, alongside other European companies offering engagement, in late 2018 we founded the international network **Shareholders for Change**. Our objective is to facilitate the coordination of initiatives and to help Europe make progress in this fundamental practice.

Engagement is an all-encompassing commitment for Etica and is also a **guarantee for our customers**. They know that they can count on a company aligned with the principles of ethical finance that it promotes.

Working on corporate responsibility is closely linked to the history of ethical finance, i.e. finance that does not reason in terms of "product" but in terms of process and supply chain, which integrates the economic analysis with the **environmental, social and governance impact** of investments.

We are certain that with our ethical mutual funds our customers can add value to their savings while investing in a socially responsible manner, with noticeable impacts on the planet and society.

# Part I

## General Guidelines and References

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# PART I

## General Guidelines and References

This Policy defines and governs the monitoring strategies for relevant matters and engagement strategies, understood as dialogue and exercising intervention and voting rights, adopted in respect of the financial instruments held by the UCITs established and/or managed under a mandate by Etica (hereinafter also "Etica", the "AMC" or the "Company"), in order to ensure that these activities are undertaken in the exclusive interests of the fund investors, i.e. with the objective of increasing the investment's value over time through a policy based on the principles of social and environmental responsibility.

**UCITS**  
(UNDERTAKINGS FOR THE  
COLLECTIVE INVESTMENT  
IN TRANSFERABLE  
SECURITIES) IS A MUTUAL  
FUND BASED IN THE  
EUROPEAN UNION

With reference to the UCITs managed by Etica under a mandate, this Engagement Policy will be applicable to them in accordance with the objectives and investment policy of the UCIT in question and according to the procedures adopted by the delegating manager. This is without prejudice to the circumstance where based on the agreements made with the delegating manager, the dialogue and exercise of the intervention and voting rights may be carried out by the delegating manager directly on the basis of the instructions issued to the latter by Etica according to this engagement policy.

Etica's main activity is linked to the sustainability analysis of issuers in relation to the creation and/or management of sustainable and responsible investment funds; the financial management of the UCITs is instead delegated to an external party (sub-delegated in the case of funds under a mandate).

Direct interaction is not usually envisaged between Etica and the stakeholders of the investee companies, except under particular requirements.

Etica can also carry out the monitoring and dialogue activities, directly and indirectly, in relation to companies analysed from the social, environmental and corporate governance perspective, but not present in the UCITs managed.

This Document has been prepared in accordance with the provisions of:

**EFAMA**  
EUROPEAN FUND  
AND ASSET  
MANAGEMENT  
ASSOCIATION.

- Directive 2017/828, known as the "Shareholders Rights II" of the European Parliament and of the Council, which amends Directive 2007/36/EC as regards encouraging the long-term commitment of shareholders and Chapter II of Title III of Part IV, section I-ter "Transparency of institutional investors and asset managers" of the TUF.
- the "Italian Principles of Stewardship for the exercise of administrative and voting rights in listed companies". Pursuant to these Principles and the related Recommendations, which are based on the *EFAMA Code for External Governance*, Etica carries out monitoring and engagement (dialogue and exercise of voting rights) concerning the financial instruments of the UCITs established and/or managed under a mandate:

- a.** in the exclusive interests of the fund investors and in order to create long-term value by establishing comparison and positive dialogue with the listed issuers and demonstrating commitment to high standards of external corporate governance;
- b.** regardless of the market capitalisation, i.e. on the basis of qualitative elements described in more detail in "*Part II - Monitoring and engagement strategy (dialogue and exercise of intervention and voting rights) concerning the financial instruments of the UCITs under management*";
- c.** in relation to the corporate social and environmental responsibility profile and to issues concerning corporate governance;
- d.** adopting, updating and publishing a monitoring and dialogue strategy and an effective and adequate strategy for exercising intervention and voting rights concerning the financial instruments of the UCITs under management (see Part II of this Document) which describe:







the **monitoring** methodology and tools for issuers belonging to the basket of investable securities of the funds, adopted by Etica;

the methodology and tools for **active dialogue** with issuers belonging to the basket of investable securities of the funds, adopted by Etica;

the approach to **collective dialogue** adopted by Etica;

the procedure to reach the decision to **exercise voting rights**, the methods of exercising them and the areas of **intervention in the shareholders' meetings** of the issuers in which the UCITs invest, adopted by Etica;

**e.** managing the issues concerning insider information in accordance with the applicable legislation and the current internal policies and procedures drafted in line with the provisions of the Company's Codes of Ethics, published on the website.

Etica does not carry out securities lending operations.

→ Principles 2 and 3 of the PRI (*Principles for Responsible Investment*), of which Etica has been a signatory since 2009. According to the PRI, institutional investors have the duty to act in the long-term interests of their beneficiaries, also considering the ESG (environmental, social and governance) issues which may have an impact on the portfolio's performance. Principles 2 and 3 state that the signatories must *"Be active owners and incorporate ESG issues into their ownership policies and practices"* and *"Seek appropriate disclosure on ESG issues by the entities in which they invest"*.

Specifically, for the exercise of intervention and voting rights, this Document is compliant with the provisions of:

→ article 35-decies, paragraph 1, letter e) of Italian Legislative Decree no. 58 of 24 February 1998 - Consolidated Law on Finance (TUF), as amended;

→ the Etica document "Policy for the Management of Conflicts of Interest", published on the company's website, drafted pursuant to the Provision of the Bank of Italy of 5 December 2019 that transposes the Regulation implementing articles 4-undecies and 6, paragraph 1, letters b) and c-bis) of the TUF and in accordance with the provisions of the "Independence Protocol for the management of conflicts of interest" promoted by Assogestioni. In particular, the Policy establishes that:

- a.** Etica does not exercise the voting right concerning shares pertaining to the Group Companies to which it belongs or listed companies controlled directly or indirectly by shareholders. In the event of situations of potential conflicts of interest, Etica abstains from the exercise of voting rights;
- b.** Etica may not delegate its voting rights to its Group companies or listed companies controlled directly or indirectly by shareholders;
- c.** The Etica independent directors monitor the correct implementation of the principles and procedures concerning the exercise of administrative rights pertaining to the financial instruments underlying the UCITs.

This Document is updated periodically by the relevant corporate areas, submitted for the opinion of an autonomous and independent Ethics Committee and the approval of the AMC Board of Directors. It is also subject to verification by the relevant corporate control bodies.

Etica makes this Document available to all stakeholders via its website and as a paper copy, and for the UCITs belonging to the Sistema Etica also provides notice of it in the Prospectus, the Annual and Interim Reports on the management of the Sistema Etica funds as well as the AMC's Integrated Financial Statements.

The strategies in Part II of this Document also provide evidence of Etica's specific reporting methods for the monitoring and engagement activities (dialogue and exercise of intervention and voting rights) carried out.

## PRI

PRINCIPLES FOR RESPONSIBLE INVESTMENT IS A UNITED NATIONS-SUPPORTED INTERNATIONAL NETWORK OF INVESTORS WORKING TOGETHER TO IMPLEMENT ITS SIX ASPIRATIONAL PRINCIPLES

# PART II

**Monitoring**

**and engagement strategy**

**(dialogue and exercise of intervention and voting rights)**

**concerning the financial**

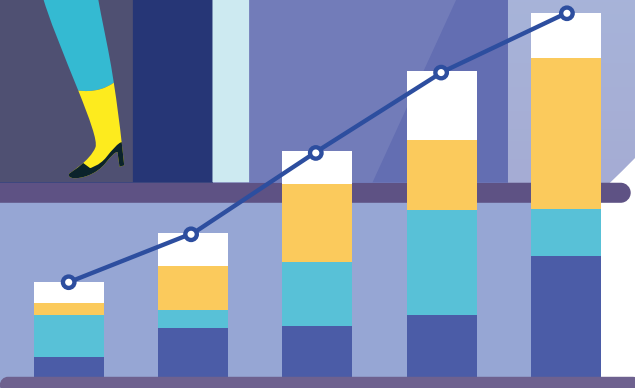
**instruments of the UCITs**

**under management**





COMPANY



## PART II

### Monitoring and engagement strategy (dialogue and exercise of intervention and voting rights) concerning the financial instruments of the UCITs under management

This strategy illustrates the methodology and tools adopted by the AMC in relation to the monitoring, dialogue (including collective) and intervention and voting activities concerning the Italian and foreign issuers subject to investment by the UCITs established and/or managed by Etica under a mandate.

Etica can also carry out the monitoring and dialogue activities in relation to companies analysed from the environmental, social and corporate governance perspective, but not present in the UCITs managed.

The AMC also envisages specific internal procedures and operating instructions that govern the exercise of such activities.



## Part II. a - Monitoring issuers

Etica constantly monitors the behaviour of the issuers present in the basket of investable securities of the funds established and/or managed under a mandate in relation to the social and environmental responsibility profile, specific corporate governance issues, and to a lesser extent, in relation to capital structure and operations, business strategies and financial performance.

Etica's delegated monitoring activities mainly look at issues pertaining to the risks and opportunities in areas linked to the social, environmental and corporate governance aspects of the Italian and foreign issuers in which the UCITs invest, integrated with the strategy and the business of those issuers. If Etica delegates the financial management of the UCITs established by it to third parties, in addition to the aforesaid activities, the AMC supervises the tasks assigned to the delegate as envisaged by the legislation of reference. In relation to the monitoring of investments, Etica calculates the contribution to the portfolio risk, the historical volatility, the performance contribution, the return, the level of liquidity and the creditworthiness. The delegated manager monitors the capital structure and operations of the invested companies, their industrial strategies and financial results, the risks and creditworthiness, communicating this information to Etica.

The proactive monitoring carried out in the exclusive interests of the investors of the UCITs established and/or managed under a mandate makes it possible for Etica to keep the social and environmental responsibility profile of the companies present in the aforementioned basket of investable securities updated, which is used by the decision-making body of the AMC, namely the Board of Directors, in order to:

- identify particular issues, i.e. virtuous elements pertaining to issuers, prior to their inclusion in, maintenance or exclusion from the basket and/or the launch of constructive and positive dialogue about ESG issues;
- make voting and/or intervention decisions on specific items during the annual shareholders' meeting.

Issuers are monitored by Etica according to one or more methods, with specific frequencies. These include:

- the analysis of the company activities from an ESG perspective according to a specific proprietary methodology;
- the calculation and monitoring of the risk variables associated with the investments, also including a number pertaining to ESG areas;
- the analysis of corporate documents and other documents provided by proxy advisors, pertaining to items subject to voting at the annual shareholders' meetings;
- holding dialogue around ESG issues, including jointly with other Italian or international investors, to be carried out in accordance with the legislative provisions in force from time to time in relation to concerted action (and the regulations of the various markets).

In the specific case of Italian issuers, Etica's monitoring may also involve collecting information about the social and environmental responsibility profile by sending questionnaires or requests for information to specific company figures as well as organising meetings or conference calls.

**ESG**  
ENVIRONMENTAL,  
SOCIAL AND  
GOVERNANCE

## PART II

### Part II. b - Engagement: dialogue with issuers

Dialogue with businesses conducted by Etica represents an important tool for monitoring the sustainability of the performance of the companies in which the UCITs established and/or managed by Etica under a mandate invest and aims to raise company management teams' awareness of a constant and long-lasting commitment to the improvement of good governance practices and good environmental and social conduct.

The monitoring tools adopted by Etica and illustrated in *Part II. a* of this Document aid in identifying positive cases or particular issues that require that specific dialogue be initiated.

Alongside their ESG analysis, dialogue with issuers represents a fundamental characteristic of the UCITs managed by Etica; therefore, this activity is carried out continuously.

The AMC's Board of Directors defines the issues that are relevant in terms of engagement with issuers, referring to that which is illustrated in *Part III* of this Document (see "*Issues subject to engagement (dialogue and/or voting)*"), based on the approval of a specific document (*Engagement Plan*), which is prepared annually by the relevant corporate Areas and shared with an autonomous and independent Ethics Committee.

The companies subject to dialogue are identified for each issue on the basis of qualitative parameters, including:

- a.** proximity: preference for Italian companies;
- b.** continuity: preference for companies where the voting right has been exercised in the previous year or with which dialogue is ongoing;
- c.** coordination: preference for actions, motions and initiatives presented jointly with networks of sustainable and responsible investors;
- d.** relevance: amount of the investment in the portfolio of the UCITs established and/or managed by Etica under a mandate;
- e.** disputes: evaluation of the severity of negative news.

The methods for carrying out dialogue are also defined, such as:

**joining initiatives or campaigns promoted by international networks** of sustainable and responsible investors, such as ICCR (*Interfaith Center on Corporate Responsibility*), PRI (*Principles for Responsible Investment*), SfC (*Shareholders for Change*) or CDP (*formerly Carbon Disclosure Project*) of which Etica is a member and/or signatory;

**sending explanation letters** of the votes cast during shareholders' meetings, **with particular reference to votes against or abstentions;**

**organisation of in-person or remote meetings.**

**ICCR**  
INTERFAITH CENTER  
ON CORPORATE  
RESPONSIBILITY.

Specifically for the Italian companies, note also:

**for in-person attendance**, the drafting of an intervention text for annual shareholders' meetings pertaining to individual voting items on the agenda as well as environmental, social and corporate governance aspects;

as part of the Assogestioni Committee of Managers, **participation in the activities promoted and carried out** by it, for example, the joint presentation of lists of candidates for **the election of the decision-making and supervisory bodies**.

**ASSOGESTIONI**  
IS THE REPRESENTATIVE  
ASSOCIATION OF THE  
ITALIAN INVESTMENT  
MANAGEMENT INDUSTRY

Specifically for the voting and intervention activities at shareholders' meetings, refer to Part II.c of this Document.

The AMC monitors the outcomes of these activities in relation to set time frames for each of the dialogue methods adopted. If the results or responses provided by companies are deemed especially negative or concerning by the Etica Ethics Committee, the Board of Directors may decide to disinvest from the securities of these companies from the perspective of adequately protecting the interests of investors in the UCITs managed.

Etica reports to all its stakeholders regarding the main dialogue activities conducted on the basis of the tools defined by the Board of Directors, such as:

- a.** introducing a section dedicated to these activities in the annual letter to investors in the funds established and belonging to the Sistema Etica and in the Annual and Interim Reports of the funds themselves, published on the respective website;
- b.** preparation of a specific document on engagement activities, published on the company's website;
- c.** in the relevant section of the Company's website, publication of the international campaigns and initiatives the AMC has participated in.

## PART II

### Part II. c - Engagement: exercising intervention and voting rights

Etica plays the role of active shareholder by voting and intervening in the annual general shareholders' meetings of the Italian and foreign companies in which its UCITs invest, in the exclusive interests of the fund investors and via a positive, constructive and long-term approach aimed at the improvement of the corporate profile from the perspective of corporate governance, the environment and society.

The exercising of intervention and voting rights is in line with Etica's investment policy, based on ethical principles and intended to create long-term value for the capital invested (see *Regulation of the funds in Sistema Etica*). This activity is also carried out in compliance with the contents of the document "Policy for the Management of Conflicts of Interest" (see *Part I - General Guidelines and References*).

The Etica legal representative has the power to represent, on behalf of the company, its funds at shareholders' meetings of the issuers in which the funds invest, exercising the respective rights, in accordance with the current provisions of the law and regulations.

This power may be granted via a mandate, prepared for this purpose, assigned separately to the Directors or other parties chosen by the AMC's Board of Directors.

The voting and intervention in shareholders' meetings of the Italian companies is usually exercised by the entitled parties by attending the agreed locations in person, while electronic voting is used for the foreign companies.

In line with the *Engagement Plan* set out in *Part II.b* of this Document, with the internal procedures and operating instructions, Etica prepares the voting proposals (i.e. casting votes for and against and abstentions) and the intervention text for shareholders' meeting (usually for meetings attended in person) on the basis of:

- a.** Guidelines set out in Part III "*Issues subject to engagement (dialogue and/or voting)*" of this Document, prepared in the protection of the interests of the participants in the managed UCITs;
- b.** voting recommendations prepared by the proxy advisors chosen by Etica in support of these activities;
- c.** information from other investors or made available by national and international networks with which Etica collaborates (including PRI, ICCR, SfC, EUROSIF and national SIFs);
- d.** information from the company social and environment responsibility assessment conducted during the year.

The shareholders' meeting votes and interventions are submitted for the opinion of Etica's Ethics Committee for final approval from the Board of Directors.

In accordance with the provisions of the legislation in force from time to time regarding concerted action, taking account of the regulations of the various markets, Etica may involve other Italian or foreign investors in order to greater support the concepts and ESG issues illustrated in its intervention. Furthermore, a discussion is envisaged with the company's Investor Relations Unit, or with other significant figures, usually in the period immediately prior to the shareholders' meeting, in order to obtain further information or clarifications, in particular on points that could lead to a non-favourable vote.

#### A PROXY ADVISOR

PROVIDES SERVICES TO SHAREHOLDERS (IN MOST CASES AN INSTITUTIONAL INVESTOR OF SOME TYPE) TO VOTE THEIR SHARES AT SHAREHOLDER MEETINGS OF, USUALLY, QUOTED COMPANIES.



For the Italian companies, when exercising the voting rights related to the selection of candidates for the election of the administrative and supervisory bodies of listed companies in the minority lists representing institutional investors, Etica follows the principles and criteria identified by the Assogestioni Corporate Governance Committee, which establishes the requirements of professionalism, integrity and independence of the candidates as well as the conditions of ineligibility and incompatibility.

Specifically for the foreign companies, where the regulation of the various markets allows and subject to authorisation from the Board of Directors, Etica may participate in the presentation of specific shareholder motions on ESG issues, support motions presented by other investors or present motions.

Etica makes reference to this strategy in the Prospectus of the Sistema Etica funds and reports to all its stakeholders on the voting and intervention activities in the shareholders' meetings using tools established in advance by the Board of Directors, such as:

- a.** introducing a section dedicated to these activities in the annual letter to investors in the funds of the Sistema Etica and in the Annual and Interim Reports of the funds themselves, published on the company's website;
- b.** preparation of a specific document on engagement activities, published on the company's website;
- c.** publication, in a dedicated section on the company's website and for each shareholders' meeting, of a short text concerning the votes cast and the main concepts expressed in the meeting, specifying any cases where deviation from this strategy became necessary.

With specific reference to the UCITs managed under a mandate, Etica plays an active role in the exercise of intervention and voting rights in compliance with the objectives and investment policy of the UCIT in question and in accordance with the procedures adopted and agreed with the delegating manager, adopting a positive, constructive and long-term approach aimed at the improvement of the corporate profile from the corporate governance, environmental and social perspective. This is without prejudice to the circumstance where based on the agreements made with the delegating manager, the intervention and voting rights may be exercised using different methods: (i) directly by Etica; or (ii) overseen by the delegating manager on the basis of the instructions provided by Etica as delegated manager. In any case, where due and based on the applicable legislation, Etica will also provide a report of the activity carried out by it in this area.

# PART III

## Issues subject to engagement

(dialogue and/or voting)





## PART III

# Issues subject to engagement (dialogue and/or voting)

This section contains Etica's assessment criteria in relation to the performance of engagement activities (dialogue and/or voting) as well as the guidelines followed in the event of voting at shareholders' meetings, exercised in person or via an electronic platform.

## 1. Corporate Governance

How is a business governed? How many independent directors sit on the Board of Directors (BoD)? Are the Chair and the General Manager two different people or are these roles merged? How many women are on the Board? How are the directors' salaries calculated? These are some of the questions posed by shareholders who are interested in governance, i.e. the corporate governance system.

They are relevant questions, because a company with solid governance has far greater potential for good economic results in the long term.

Corporate governance models are a highly debated topic and guidelines are constantly evolving. Due to this, when defining the voting strategies in relation to individual governance policies, Etica meets with other active shareholders or with sector experts.

Some of the areas and/or topics on which Etica seeks to vote and engage in dialogue are shown below, mainly but not exclusively with the companies in which it invests and/or votes on any shareholder motions.



### 1.1 ELECTION OF THE BOARD OF DIRECTORS AND/OR THE BOARD OF STATUTORY AUDITORS (SDG 8)

In general, Etica votes in favour of the re-election of a Board of Directors and/or a Board of Statutory Auditors that has contributed to the achievement of sustainable economic and financial results and to improve the company's social responsibility profile.

The main elements considered by Etica in relation to the election of a Board of Directors concern:

#### a. For list voting<sup>1</sup>:

The presence of a list that Etica also helped to draw up;

The composition of the list of candidates in terms of: conflicts of interest, gender diversity, independence, separation of roles between Chair and Chief Executive Officer/General Manager, presence of a Sustainability Committee or similar body.

#### b. For separate voting<sup>2</sup> of individual candidates:

The composition of the team of candidates in terms of: conflicts of interest, gender diversity, independence, separation of roles between Chair and Chief Executive Officer/General Manager, presence of a Sustainability Committee or similar body.

<sup>1</sup> List voting is a system for the election of corporate bodies through which the minority successfully obtains representation within the body to be elected. With list voting, each list can form the body to be elected with own candidates, the body being formed of both candidates from the majority list and candidates from the minority list. List voting is compulsory in listed companies, while it is optional in non-listed companies.

<sup>2</sup> Separate voting is voting related to the individual candidate of the corporate bodies. Separate voting involves a candidate-by-candidate vote and is not related to the group of candidates on a common list.

Elements such as diversity in relation to age and the presence of candidates with specific skills in relation to issues linked to environmental, social and governance aspects are also considered. To assess these elements, Etica may make use of an evaluation by specialist service providers.

Furthermore, these elements may be adapted to the specific nature of individual markets, especially but not exclusively the markets in Japan and the United States.

The presence of these elements is also relevant in relation to the election of a Board of Statutory Auditors.

In addition to voting, the presence of these conditions may also constitute a topic of dialogue with companies.

#### **1.1.1 Gender diversity on the Board of Directors and/or the Board of Statutory Auditors (SDG 5)**

One of the elements considered when voting to renew the Board of Directors and/or the Board of Statutory Auditors is gender diversity.

In this regard, Etica welcomes a balanced representation of gender, which envisages at least 20% of the least represented gender<sup>3</sup>.

In certain markets and/or certain circumstances the absence of appropriate gender diversity may lead to a vote against the re-election of the director who held the position of Chair of the Appointments Committee, where present.

Gender diversity can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

#### **1.1.2 Independence of the Board of Directors and/or the Board of Statutory Auditors (SDG 8)**

One of the elements considered when voting to renew the Board of Directors and/or the Board of Statutory Auditors is the presence of independent (or non-executive) directors. In general, these directors do not have delegated powers or employment relationships with the company and do not represent the interests of any shareholder in particular. As well as making proposals and offering consulting with regard to the Board, independent directors are called upon to monitor and supervise the activities of the managers and the other directors. It is for this reason that in order to guarantee an efficient corporate governance system, a company must ensure the presence of a sufficient number of independent directors.

In this regard, Etica welcomes a representation of independent directors equal to one third of the members of the Board of Directors and/or the Board of Statutory Auditors. This value may vary according to the specific nature of some markets.

Furthermore, the contribution of the independent directors may be particularly useful on issues where the interests of the executive directors and those of the shareholders are not aligned, such as the remuneration of those executive directors and the internal control and risk management system.



<sup>3</sup> This percentage may vary according to the markets. In Italy, for example, Etica welcomes the proposal by the Corporate Governance Committee of Borsa Italiana, which considers it necessary for the board of directors to be formed of at least one third of directors of the least represented gender, at the time of appointment and throughout the mandate.

## PART III

For this reason, Etica welcomes the presence of entirely independent members on a company's Appointments Committee, Control and Risks Committee and Remuneration Committee, where present.

To assess the independence of the directors, Etica may make use of an evaluation by specialist service providers.

The presence of independent directors can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### **1.1.3 Separation of roles between Chair and Chief Executive Officer/General Manager (SDG 8)**

One of the elements considered when voting on the renewal of the Board of Directors is the separation of the roles between Chair of the Board of Directors and Chief Executive Officer/General Manager. Chairing a Board of Directors and directing a company are two tasks with different characteristics and objectives. As noted by the Corporate Governance Code of Borsa Italiana<sup>4</sup>, international best practice recommends that concentrating positions into the role of a single individual without adequate countermeasures be avoided. In particular, it is often recommended that the roles of Chair and Chief Executive Officer<sup>5</sup> be separated. Furthermore, in situations where overlapping the two roles may respond to significant organisational requirements, in particular in smaller issuers, it is recommended that the figure of lead independent director be established.

In this regard, Etica welcomes the separation of the roles between Chair and Chief Executive Officer/General Manager and, where this separation is not present or there are no valid reasons that justify merging the positions<sup>6</sup>, welcomes the establishment of a lead independent director.

The separation of the roles between Chair of the Board of Directors and Chief Executive Officer/General Manager can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### **1.2 PURCHASE OF TREASURY SHARES BY LISTED COMPANIES (BUY-BACK OPERATION) (SDG 8)**

According to current legislation, in the majority of OECD countries, authorisation to purchase treasury shares by listed companies is required from the shareholders' meeting, which establishes the related methods of use and the time frame of the powers.

In Italy, the maximum quota for ownership of treasury shares is one fifth of the share capital. The voting right related to such shares is suspended, but the shares are included in the capital for the purposes of calculating the shares required for the constitution and resolutions of the shareholders' meeting. As long as the shares remain under ownership of the company, the right to profits and the subscription right are attributed to the other shares in proportion.

Treasury shares are purchased for various purposes, for example as a defence tool against hostile takeover bids or competitors. Treasury shares are also used to manage liquidity and for stock option plans in favour of the management team. In relation to this last point, the authorisation to purchase treasury shares could turn into a means of making the share price grow, and consequently the incentives linked to stock option plans.

<sup>4</sup> Corporate Governance Code: <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>

<sup>5</sup> Position referring to Chief Executive Officer and/or General Manager.

<sup>6</sup> For example, the position of interim Chief Executive Officer/General Manager taken up by the Chair in the event of resignation.

The main elements considered by Etica in relation to the evaluation of a treasury shares purchase plan concern:

**a.** Where the plan identifies the industrial or strategic objectives of the plan:

The percentage of shares subject to buy-back operations with respect to the share capital

**b.** Where the plan is linked to share incentive schemes:

The evaluation of the remuneration policy

The percentage of shares subject to buy-back operations with respect to the share capital

**BUY-BACK**

WHEN A COMPANY BUYS ITS OWN OUTSTANDING SHARES TO REDUCE THE NUMBER OF SHARES AVAILABLE ON THE OPEN MARKET.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

The purchase of treasury shares can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### 1.3 REMUNERATION OF DIRECTORS, EXECUTIVES WITH STRATEGIC RESPONSIBILITIES AND AUDITORS (SDG 8)

The remuneration of directors and executives with strategic responsibilities should be determined so as to attract, retain and motivate talented individuals, who work for the company's sustainability in the medium/long term and for the benefit of those who contribute to its livelihood. Etica monitors the remuneration policy of the companies in which it votes.

The main elements considered by Etica in relation to the evaluation of a remuneration policy for directors and executives with strategic responsibilities concern:

- a.** the clarity with which the variable and fixed components of the total remuneration are described;
- b.** the clarity with which the indicators used as targets for the short and long-term variable components are identified, if envisaged, and the level of transparency in communicating these targets;
- c.** the presence of claw-back clauses for the variable component of the remuneration;
- d.** the type of remuneration of the independent or non-executive directors, which is preferred to be fixed and independent of company results;
- e.** if there is a severance agreement in place for executives with strategic responsibilities, the duration of it;
- f.** the presence of elements of discretion in the definition of remuneration;
- g.** the presence of a relationship between changes in the remuneration and the company performance.

### VESTING PERIOD

A PERIOD OF TIME AN INVESTOR OR OTHER PERSON HOLDING A RIGHT TO SOMETHING MUST WAIT UNTIL THEY ARE CAPABLE OF FULLY EXERCISING THEIR RIGHTS AND UNTIL THOSE RIGHTS MAY NOT BE TAKEN AWAY.

The following are also considered:

- a.** the presence of ESG indicators included among the targets of the variable components, short and/or long term;
- b.** the vesting period of any options or shares assigned as a component of the remuneration;
- c.** the publication of the ratio between the remuneration of the employee with the highest salary and the average employee salary<sup>7</sup>;
- d.** the use of a peer group as one of the elements for determining the remuneration and the transparency in communicating the members of these peer groups;
- e.** the presence of an Appointments and Remuneration Committee, or similar, which reports to the Board of Directors;
- f.** if an Appointments and Remuneration Committee or similar exists, its degree of independence, measured in relation to the percentage of its members considered to be independent.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

Furthermore, these elements may be adapted to the specific nature of individual markets, especially but not exclusively the markets in Japan and the United States.

The remuneration policy and its constituent elements can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

#### 1.3.1 Remuneration plans based on financial instruments (SDG 8)

Remuneration plans based on financial instruments are means of paying and earning the trust of employees, with the objective of binding one part of the salary to the security's performance on the market, thus encouraging them to increase their productivity in order to improve the group's efficiency and profitability.

One of the financial instruments used by the majority of companies, stock options, are a much-debated incentive instrument, especially if directed at directors or executives with strategic responsibilities. Payments based on financial instruments, if constructed in an unbalanced manner, can indeed pose various risks such as the excessive dilution of the share capital or the focus on short-term objectives in order to obtain appreciation in the shares so as to achieve the most gain possible at the time of receiving the subscription rights. Etica believes that share incentive schemes should be prepared and managed with maximum transparency so as to protect the interests of all stakeholders.

<sup>7</sup> This indicator uses as a reference the G4-54 indicator of the Global Reporting Initiative (GRI) guideline and/or the "Disclosure 102 – 38" indicator according to the new GRI guidelines for Sustainability Reporting.



The main elements considered by Etica in relation to the evaluation of remuneration plans based on financial instruments concern:

- a.** the transparency in indicating the beneficiaries of the plan;
- b.** the presence of predefined, measurable and clear performance objectives for exercising the assigned right;
- c.** the extent of the dilution effect of the plan with respect to the shares that make up the share capital;
- d.** the transparency in communicating the exercise price of any options (so-called stock options);
- e.** the transparency in communicating the type of financial instruments intended to be used;
- f.** the transparency in communicating the time and performance-based criteria that lead to the maturity of the assigned instruments.

The following are also considered:

- a.** the presence of claw-back clauses<sup>8</sup>;
- b.** the presence of a lock-up<sup>9</sup> period from maturity;
- c.** the vesting period<sup>10</sup> of any options or shares assigned.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

Etica also hopes for any plans to be addressed to all employees of the company, albeit to varying degrees, not only to its executive directors.

Remuneration plans based on financial instruments and their constituent elements can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### **1.3.2 Total annual remuneration of the Board of Directors and/or the Board of Statutory Auditors (SDG 8)**

If envisaged by the By-laws, the full powers of a company's Board of Directors include putting to a shareholders' vote the amount of the total annual remuneration to be paid in favour of the members of the Board of Directors over the course of its mandate, with the Board being able to distribute it in relation to specific positions held by individual directors. Again, where envisaged by the By-laws, this power also concerns the possibility to put to a vote the total remuneration of the members of the Board of Statutory Auditors.

<sup>8</sup> Claw-back clauses are particular contractual clauses that provide for the possibility to demand restitution – total or partial – of the variable part of an executive's remuneration. These clauses make it possible to request restitution of the money given as a productivity bonus or other types of economic benefits, only if on the basis of just cause: restitution may be requested as a result of gross negligence, for example following direct damage to the net equity.

<sup>9</sup> The lock-up period is the period of time in which the management team is prohibited from selling treasury shares.

<sup>10</sup> Period of time between before the subscription rights on shares can be exercised and the shares can be subscribed by the owner according to a given stock option plan.

#### **LOCK UP PERIOD**

**A WINDOW OF TIME WHEN INVESTORS ARE NOT ALLOWED TO REDEEM OR SELL SHARES OF A PARTICULAR INVESTMENT.**

## PART III

The main elements considered by Etica in relation to the evaluation of the annual total remuneration of the Board of Directors and/or the Board of Statutory Auditors concern:

- a.** the amount of the new total remuneration per capita with respect to the current amount;
- b.** the reasons for any increases in the total remuneration per capita over a significant threshold;
- c.** the timely communication to shareholders in relation to the amount of the total remuneration before the annual shareholders' meeting.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

The annual total remuneration of the Board of Directors and/or the Board of Statutory Auditors can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### 1.4 APPROVAL OF THE FINANCIAL STATEMENTS AND DISTRIBUTION OF DIVIDENDS (SDG 8)

Etica believes that it is important to maintain a balance between the portion of profits allocated to shareholders (pay-out) and the portion allocated to reserves. As a matter of fact, the latter is essential for a company's development in the medium/long term. Etica welcomes balanced dividend policies, while also considering the level of corporate indebtedness, investments made and objectives set by the company in the multi-year industrial plans.

The main elements considered by Etica in relation to the evaluation of the approval of the financial statements and the distribution of dividends concern:

#### **a.** approval of the financial statements

the presence of any doubts about the quality and accuracy of the information reported;

the completeness of the information reported;

the willingness of the Board of Directors to provide information considered important;

the presence of any accusations of serious and provable alterations to the accounts.

#### **b.** distribution of dividends

the payout ratio<sup>11</sup>, at Parent Company level;

the level of indebtedness of the Parent Company.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

The annual financial statements and the dividends policy can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

<sup>11</sup> Payout ratio means the ratio between the dividends distributed by the company and the net operating profit of the Parent Company in the same year.

**PAY OUT RATIO**  
A PROPORTION  
OF EARNINGS A  
COMPANY PAYS ITS  
SHAREHOLDERS IN THE  
FORM OF DIVIDENDS.  
EXPRESSED AS A % OF  
THE COMPANY'S TOTAL  
EARNINGS

### 1.5 AUDIT FIRM (SDG 8)

Etica believes that the appointment granted to the audit firm should have a duration that can guarantee the correct performance of its supervisory and control function.

The main elements considered by Etica in relation to the evaluation of voting on the appointment or renewal thereof granted to an audit firm concern:

- a.** the duration of the period during which the audit firm has already performed its appointment at the company;
- b.** the ratio between any remuneration received for consultancy or other activities not linked to auditing and the remuneration received for auditing.

To assess these elements, Etica may make use of an evaluation by specialist service providers.

Furthermore, these elements may be adapted to the specific nature of individual markets, especially but not exclusively the market in the United States.

The selection of an audit firm can also represent a topic of company dialogue or voting on any shareholder motions on this issue.

### 1.6 FISCAL RESPONSIBILITY (SDG 10)

Etica evaluates the financial relevance of tax risk and seeks to make taxes a priority topic of dialogue where there is a lack of adequate transparency around them.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** publishing a tax policy;
- b.** including tax in the Board of Directors' supervisory mandate;
- c.** defining tax risk;
- d.** publishing information about operations and taxes paid for each country of operation.

### 1.7 LOBBYING (SDG 16)

For independent business management it is important that there are no binding relationships with political parties, candidates and/or other lobbying groups. Indeed it may be that there are relationships between companies and political parties, for example in order to fund election campaigns.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** prohibiting or regulating donations to political parties and/or candidates;
- b.** declaring involvement in lobbying activities.



### 2. Social

For a responsible investor the social behaviour of a company is as important as economic performance. A company that respects workers' rights, consults local communities and invests in the social development of the regions where it operates is generally less exposed to strikes, accidents at work and reputational risks and is able to establish and maintain profitable and motivated collaborations. A company's social conduct can therefore have positive effects on its financial statements in terms of lower costs and higher returns on investment. This is why Etica believes it is important to engage in dialogue with the companies in which it invests on issues such as the transparency of social reports, worker participation and engagement, respect for human rights, supplier selection and monitoring criteria, customer relations, access to medicines, personnel management, the transparency of funds received, support for social activities in the community, the safety and quality of its products and respect for human rights, including those related to health, in all stages of the production chain.

Some of the areas and/or topics on which Etica seeks to engage in dialogue are shown below, mainly but not exclusively with the companies in which it invests and/or votes on any shareholder motions.

#### 2.1 RESPECT FOR HUMAN RIGHTS (SDG 8)

Etica believes that it is also important for companies to implement and promote among their business partners, including suppliers and sub-suppliers, the ILO Fundamental Conventions and the principles of responsible entrepreneurial behaviour, compliant with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Companies should be committed to implementing actions to raise their employees' awareness of the measures adopted, to protect those who in good faith report the violation of regulations and to adopt the necessary measures to stop or prevent negative impacts in the context of the supply chain.

Etica believes that it is important for companies to adopt due diligence measures in order to identify, prevent and mitigate its effective and potential impact, integrating them with wider corporate risk management systems, reporting on the way in which they tackle the problem and the prevention and mitigation measures adopted.

In particular, businesses that produce at global level, extract and consume natural resources or export information technologies, are exposed to complex social issues arising from the various political, economic and cultural contexts where they operate, especially where they have production or commercial activities in countries where respect for human rights constitutes a sensitive issue. Under shareholder pressure, many of these companies have adopted codes of conduct for the protection of human rights (condemning forced and child labour, fair pay, promotion of freedom of association, etc.). The essential reference document of the human rights movement is the Universal Declaration on Human Rights (UDHR, 1948), to be combined with other internationally recognised Conventions and Principles, which, despite being documents approved by national governments, significantly influence company activities.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting, at the highest levels of the business, a purpose statement for respect for human rights and minorities, which is published internally and externally to the company and is translated across into integrated policies and operating procedures;
- b.** adopting the UN Guiding Principles on Business and Human Rights and implementing due diligence actions that are adequate for the context of the activities and the severity of the risk of negative impact on human rights;
- c.** providing for the implementation of adequate mechanisms and measures to identify, prevent and correct the effective and potential negative impacts deriving from the business activities and from its relations with business partners;
- d.** implementing due diligence measures on human rights in a manner correlated to the size, nature and context of the activities and the severity of the risk of negative impact on human rights;
- e.** providing further information about particular disputes relating to human rights;
- f.** obtaining certifications for correct management and monitoring of human rights, such as SA8000.

In the context of human rights, Etica's dialogue is particularly focused on the issues of dignity of work (see section 2.3) and respect for human rights throughout the supply chain (see section 2.2). Additional aspects that may be included in dialogue with companies (and/or subject to voting in the presence of any shareholder motions in this regard) are listed below.

### **2.1.1 Respect for the rights of indigenous populations (SDG 8)**

When expanding their activity, many businesses may come into conflict with the rights of local natives or with the protection of natural heritage. These populations have lower literacy rates and fewer possibilities to access healthcare. In many cases, indigenous populations are forced to submit to the dominant culture, by changing language, religion, customs and traditions. The reference document is the ILO Indigenous and Tribal Peoples Convention (1989) through which governments must identify the lands and protect the rights of indigenous populations (for example via prohibition of removal from their lands) or to protect natural resources within their territories.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting policies on conduct with respect to the issue of the rights of indigenous populations in line with the UN declaration on human rights and with the principles issued by the national constitutions of individual countries (e.g. principles recognised by the constitutions of some Latin American countries: Ecuador, Bolivia, etc.);
- b.** publishing information about projects with impacts on indigenous populations;
- c.** involving indigenous populations in projects and listening to their needs;
- d.** preparing reports on the impact on local indigenous communities;

**SA8000**  
AN AUDITABLE  
CERTIFICATION STANDARD  
THAT ENCOURAGES  
ORGANIZATIONS TO  
DEVELOP ACCEPTABLE  
PRACTICES IN THE  
WORKPLACE





- e.** publishing the tools used and the results obtained;
- f.** recognising and protecting the collective rights to the land of indigenous populations and local communities on the basis of ILO Convention no. 169 of 1989 and the UN Declaration on the Rights of Indigenous Peoples;
- g.** ensuring transparency and accountability in the operations and investments that may have impacts on the land or livelihood of indigenous populations and local communities, through policies and mechanisms that prevent the confiscation and appropriation of land, reducing and finding solutions to the direct and indirect impacts of their production on the land and natural resources, also providing for redress mechanisms;
- h.** Implementing the principle of prior and informed consent and fair compensation in the event of sale of land and reporting mechanisms for any violations;
- i.** promoting due diligence on human rights that takes account of gender rights, establishing respect for the FAO Voluntary Guidelines for Sustainable Soil Management.

### 2.1.2 Child labour and the worst forms of child labour (SDG 8)

Child labour means all forms of labour carried out by people under the minimum age established by law. The geographic areas mainly affected by child labour are Asia, Oceania, Africa and Latin America.

This phenomenon causes many kinds of harm: the products used in factories damage the respiratory organs, the eyes, liver, kidneys and many other parts of the body; carrying heavy weights and assuming unnatural postures for long periods of time hinders bone development and growth. Excessive noise causes partial hearing loss.

Another serious consequence of child labour is the fact that children cannot frequently attend school or, if they already attend, must abandon their studies, remaining in an illiterate condition that denies them any prospect of social advancement.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting policies on conduct that prevent the use of child labour below the ages envisaged by ILO Conventions 138 and 182 and by national laws throughout the production chain;
- b.** adopting, in the presence of child labour, the necessary measures to guarantee the rehabilitation and social re-inclusion of the children affected and consequently change supply relations to prevent it from happening again;
- c.** disclosing the tools intended to minimise the risk of involvement with child labour (for example checks on suppliers);
- d.** disclosing the levels of control introduced to prevent the risk of use of child labour throughout every stage of the production chain;
- e.** responding to any accusations of child labour by any party in the company production chain or at supplier level.

#### ILO

THE INTERNATIONAL  
LABOUR ORGANIZATION  
IS A UNITED NATIONS  
AGENCY WHOSE  
MANDATE IS TO ADVANCE  
SOCIAL AND ECONOMIC  
JUSTICE THROUGH  
SETTING INTERNATIONAL  
LABOUR STANDARDS

### 2.1.3 Human trafficking and sex tourism (SDG 8)

Poverty and the destitution in which the residents of many disadvantaged countries live make it easier for the market to traffic children exchanged as goods.

Etica seeks to ascertain that the companies in which it invests, especially those operating in the tourist sector, are mindful and responsible in this context.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting policies intended to minimise the risk of being involved in sex tourism;
- b.** producing reports where the tools used to counter organ trafficking and sex tourism are listed;
- c.** adopting responsible tourism codes that monitor these phenomena, for example the ECPAT code (*End Child Prostitution, Pornography and Trafficking*);
- d.** implementing policies to inform and update personnel in Italy and in destination countries on the issue of sexual exploitation of minors.

### 2.1.4 Human trafficking and forced labour (SDG 8)

Forced labour takes many forms: slavery due to debt, human trafficking and other types of modern slavery. Its victims are the most vulnerable people: women and girls forced into prostitution, migrants forced by debt and workers or farmers illegally forced to work in disrespectful conditions with very little pay.

Despite slavery being abolished in many countries over a century ago, the plague of forced labour is still rife everywhere.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting policies on conduct with regard to the issue of forced labour;;
- b.** adopting measures to prevent any use of forced labour and to identify, release, protect and rehabilitate those who have been “employed” under forms of forced labour;
- c.** disclosing the tools intended to minimise the risk of involvement with forced labour (for example checks on suppliers);
- d.** disclosing the levels of control introduced to prevent the risk of use of forced labour throughout every stage of the production chain;
- e.** responding to any accusations of forced labour by any party in the company production chain or at supplier level.

## 2.2 HUMAN RIGHTS IN THE SUPPLY CHAIN (SDG 8)

Given the growing importance of matters related to the social reputation of companies, it is necessary now more than ever for them to actively commit to monitoring their stakeholders. Etica pays attention to the supply chain management of the companies in which it invests, as well as the social and environmental impacts linked to these stakeholders.

### ECPAT

A GLOBAL NETWORK  
OF CIVIL SOCIETY  
ORGANISATIONS THAT  
WORKS TO END THE  
SEXUAL EXPLOITATION OF  
CHILDREN

## PART III

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** having a supplier management policy that includes relevant ESG elements in relation to the respective sector
- b.** conducting a risk assessment in this regard;
- c.** reporting on audits conducted on suppliers;
- d.** ensuring that suppliers operate on the market responsibly;
- e.** disclosing the supplier management policy;
- f.** informing the shareholders' meeting about any disputes relating to suppliers and the behaviours adopted by the company in this regard;
- g.** aligning with the ILO Fundamental Conventions, the OECD Guidelines on Multinational Enterprises, the ISO guidelines and/or other internationally recognised tools in this regard.

### 2.3 DIGNITY OF WORK

Attention to employees is fundamental for responsible business management: given the many facets of the aspects in question, Etica analyses the management of human resources from various perspectives.

#### 2.3.1 Worker training and safety (SDG 8)

Companies have the duty to promote personnel management that develops workers, by investing in safety and training, but also in forms of active worker participation in company decisions, including in terms of information.

In particular, training must be a key tool for an individual's professional and personal growth. Companies that provide good training have an edge over their competitors since they are improving their capacity to retain and attract high-level employees.

Job insecurity and mobbing compromise the personal and professional growth of employees, who must always be placed at the centre of corporate activity. Worker participation and active involvement via information and discussion about decision-making constitute a factor of corporate cohesion and improvement of production cycles.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** publishing investment in employee training, with cross section of internal and external (i.e. assigned to third parties);
- b.** publishing data on any pay gaps (for example between executives and office workers or the gender gap);
- c.** publishing employee training policies;
- d.** implementing policies and programmes aimed at promoting the most advanced measures to guarantee worker health and safety, as well as the provisions of national regulations;
- e.** reporting on occupational diseases, accidents at work and the tools introduced to guarantee health and safety in the workplace;







- f.** guaranteeing workers the right to remove themselves from work when there are conditions of serious and imminent danger to health and safety;
- g.** disclosing the policies for measuring employee satisfaction;
- h.** disclosing the methods of engagement and consultation with workers and employees in relation to decision-making;
- i.** adopting certification for proper management of employee health and safety, such as OHSAS 18001.

### 2.3.2 Equal opportunities (SDG 5)

Another essential topic is equal opportunities for employees irrespective of gender, religion or ethnicity (ILO standards 100 and 111 – prohibition on workplace discrimination).

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on the policies implemented for the promotion of equal opportunities;
- b.** publishing the percentage of disabled people or ethnic, religious or gender minorities hired and information about any programmes to facilitate their recruitment;
- c.** publishing any programmes to increase the number of disabled, female or ethnic or religious minority managers;
- d.** publishing a report on any disputes related to equal opportunities;
- e.** promoting studies on the internal salary system to ensure that women and minorities in general (e.g. ethnic and religious minorities) are paid the same salary as other workers with the same role, quantity and quality of work.

### 2.3.3 Freedom of association and collective bargaining (SDG 8)

In this regard, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** respecting ILO Conventions 87 and 98 on the freedom of trade union organisation and collective bargaining, to guarantee workers' rights to form trade unions and representative organisations of their choice for the purposes of collective bargaining and to reach collective agreements on working terms and conditions;
- b.** providing worker representatives with the necessary means to define effective collective agreements;
- c.** providing worker representatives with adequate information about the business strategies;
- d.** promoting consultation and cooperation through constructive industrial relations on topics of mutual interest;
- e.** giving adequate notice to worker representatives about any production changes that impact jobs, for the purposes of identifying protective measures.

#### OHSAS 18001

AN INTERNATIONAL  
STANDARD FOR  
OCCUPATIONAL  
HEALTH AND SAFETY  
MANAGEMENT SYSTEMS  
THAT WAS SUBSEQUENTLY  
ADOPTED AS A BRITISH  
STANDARD

### 2.3.4 Corporate restructuring (SDG 8)

Where possible, Etica analyses the cases of corporate restructuring (e.g. plant closures, relocation of production, mass licensing, etc.), studying their causes, attempts made to prevent them and the alternatives that the company has at its disposal and the worker protection policies adopted.

It is important for shareholders to be able to understand the level of dialogue between the company and the workers, in particular with trade unions. Trade unions and collective bargaining can provide workers with a valid safeguard against exploitation, especially in low-income countries.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** considering the effects of the reorganisation plan on jobs ex ante and verifying these effects ex post;
- b.** publishing the reasons that might lead to the corporate restructuring decision, the corporate policies implemented to prevent it and any alternatives considered;
- c.** considering employee transfer and professional refresher programmes;
- d.** reporting on the quality of relations with workers and with unions.



### 2.4 ACCESS TO MEDICINES (SDG 3)

#### 2.4.1 Access to medicines in low-income countries and disadvantaged individuals (SDG 3)

Access to medicines is limited, especially in low-income countries and in particular for infectious and parasitic diseases. In some cases, medicines are not only inaccessible for the majority of the population of low-income countries, but also for the most socially disadvantaged groups in high-income countries.

Etica believes that access to essential medicines should be considered a universal right.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting pricing policies that promote access to medicines;
- b.** funding research into drugs for the treatment of rare diseases;
- c.** not extending patents to low-income countries in order to facilitate the production and importation of general medicines;
- d.** publishing the methods and locations of drug trials.

#### 2.4.2 Sales incentives (SDG 3)

Pharmaceutical companies offer doctors and retailers a series of incentives in order to suggest their drugs. These incentives, which are often not made public, can significantly impact upon the final price of medicines and on doctors' decisions when promoting them to patients.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on the process for determining the price of drugs or other treatments;
- b.** publishing a report on the growth rates over time of the price of the main drugs produced;
- c.** providing more information about incentives used to promote the sale of products by scientific informers and medical personnel;
- d.** reducing investments in incentives offered to doctors or retailers.

## 2.5 RECEIPT OF PUBLIC FUNDS (SDG 16)

In order to correctly evaluate company performance it is important to be aware of whether or not they benefit from public funds.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on and publishing any public funds received and their use, in particular in relation to the protection of jobs or the improvement of working conditions.

## 2.6 SUPPORT FOR THE NON-PROFIT SECTOR, MICROFINANCING PROJECTS AND SOCIAL ACTIVITIES IN GENERAL (SDG 1)

Activities in support of the non-profit sector and social activities of companies should not be understood as a replacement for the company's commitment to the development of activities in support of the environment, society and for the improvement of the corporate governance structure.

When a company donates money, it often obtains tangible rewards in terms of improvement to reputation. Etica welcomes a company that actively operates in the community of reference by promoting social activities. In addition to this, it is important that the characteristics of funded organisations are not in conflict with the values of social responsibility.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** considering the preparation of a philanthropy programme for the non-profit sector, microfinancing projects and other social projects in general;
- b.** disclosing the level of contributions paid, the payment criteria and the list of funded organisations.



## PART III

### 2.7 VIOLENCE IN FILMS AND VIDEO GAMES (SDG 16)

The media sector can be exposed to images of violence or other content not suitable for young audiences. Excessive exposure to violent depictions on television and in video games can cause psychological disorders due to the attempt to emulate the scenes viewed: it is important for the companies operating in this sector to be mindful of this issue.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** publishing a corporate policy on the production and sale of video games and films aimed at children and teenagers;
- b.** using mechanisms to monitor scenes of violence in programmes.



### 2.8 PRODUCT SAFETY (SDG 12)

Food crises (e.g. bird flu) have reduced consumer confidence in the effective ability of the food industry and public authorities to guarantee the safety of foodstuffs. Food safety has become one of the priorities of the European Commission, which has taken action to update legislation so as to obtain a more rigorous system of standards (e.g. EU Directive 2003/15). Product safety is not only a relevant argument in the food sector. Etica seeks to ascertain that the companies in which it invests are very mindful and responsible in such a sensitive context.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting to shareholders on the procedures for ensuring product safety;
- b.** considering obtaining quality and safety certifications recognised by the European Union;
- c.** publishing the ingredients/components of products in more detail;
- d.** publishing the policies implemented for consumer safety;
- e.** justifying and defending against any accusations of having produced toxic products or products harmful in any way for the consumer;
- f.** developing an effective traceability system for raw materials/ingredients, constantly monitoring suppliers and business partners;
- g.** reporting on any accusations of misleading or false information that might harm consumers;
- h.** replacing any products accused of being dangerous for consumers with other safe products;
- i.** reporting to shareholders on the company's involvement in any events of harm to consumers.

## 2.9 SUSTAINABILITY REPORTS (SDG 12)

More and more companies, alongside or together with the statutory financial statements, are publishing a sustainability report and/or integrated financial statements, in which they present to shareholders the results of their commitment to the protection of the environment and workers rights or the progress made in relations with various stakeholders (customers, suppliers, employees, etc.)<sup>12</sup>. In general, the reports are drafted in compliance with national or international standards such as GRI (*Global Reporting Initiative*), the Integrated Reporting Framework (*International Integrated Reporting Council – IIRC*), the GBS (Gruppo Bilancio Sociale) or the AA1000.

Before attending a shareholders' meeting, Etica thoroughly studies the company's social/environmental report and/or the integrated financial statements and, in general, expresses its observations and proposals by intervening in the debate regarding the approval of the financial statements.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** asking that this document be published before the meeting date, at the same time as publication of the documents convening the shareholders' meeting, to analyse it and assess the environmental and social results, alongside the economic/financial results of the reporting year, so that a more informed vote can be cast;
- b.** asking for greater transparency and continuity in the publication of social and environmental data;
- c.** requesting that international standards be followed for sustainability reports or integrated financial statements;
- d.** asking the company to consult the various stakeholders when preparing the sustainability report or integrated financial statements.

## 3. Environmental

Companies have a significant impact on the environment, for example in relation to climate-altering gas emissions and substances that are hazardous to health, the exploitation of forests, water resources and other natural resources and the creation of waste. Responsible shareholders must remind the companies in which they invest that natural resources are limited, in both quality and quantity, and that it is necessary and urgent "to meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Report, UN, 1987).

Some of the areas and/or topics on which Etica seeks to engage in dialogue are shown below, mainly but not exclusively with the companies in which it invests and/or votes on any shareholder motions.

<sup>12</sup> In Italy, in accordance with Legislative Decree no. 254/2016 (<http://www.gazzettaufficiale.it/eli/id/2017/01/10/17G00002/sg>) organisations of public interest (listed companies, banks, insurance and reinsurance companies) with over 500 employees and that have exceeded at least one of the following two size limits: total assets greater than 20 million euros, or total net revenues from sales and services greater than 40 million euros, must prepare the consolidated non-financial statement (so-called Statement – NFS). This statement covers relevant topics related to the environment, society, personnel, respect for human rights, the fight against active and passive corruption, taking account of the company's characteristics. This legislation transposes the EU regulation which requires large companies to publish periodic reports on the social and environmental impact of their activities (Directive 2014/95/EU).

### GRI

THE GLOBAL REPORTING INITIATIVE IS AN INTERNATIONAL INDEPENDENT STANDARDS ORGANIZATION THAT HELPS BUSINESSES, GOVERNMENTS AND OTHER ORGANIZATIONS UNDERSTAND AND COMMUNICATE THEIR IMPACTS ON ISSUES SUCH AS CLIMATE CHANGE, HUMAN RIGHTS AND CORRUPTION.

## PART III



### 3.1 ENVIRONMENTAL POLICIES (SDG 13)

The company's performance should also be evaluated on the basis of its environmental impact, which shareholders are increasingly more interested in, including but not exclusively in relation to the issue of climate change.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** producing detailed reports about the environmental impact of processes and products, preferably using objective performance indicators (e.g. quantity of CO<sub>2</sub> issued per employee or per unit of product);
- b.** creating policies aimed at the efficiency of resource management, preferably intended to achieve internationally recognised certifications;
- c.** creating systems and procedures to minimise environmental impact (e.g. cleaner technologies, transparency around the methods of separate waste collection of unusable products and any other recycling methods used);
- d.** publishing information about the good practices implemented by the company.



#### 3.1.1 Sustainable packaging (SDG 15)

Sustainability affects all phases of the product life cycle and encompasses various aspects, starting with the supply chain, without prejudice to the functional packaging requirements of the product contained.

The packaging of consumer products can have a high environmental impact, both in terms of waste production and emissions. Packaging formed of metal and plastic consumes a lot of energy and creates emissions over the course of production, arising from the use of mineral and oil products.

It is therefore necessary to make changes to materials, formats and technologies in order to optimise resources and energy in production, to facilitate their use and disposal.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** adopting policies that require the creation of products that are easier to use and recycle;
- b.** adopting policies that require that the price incorporate the cost of waste management;
- c.** adopting product packaging techniques with biodegradable and compostable (where possible) or recyclable material and in any case from renewable raw materials;
- d.** carrying out a risk-to-benefit assessment deriving from the use of unsustainable packaging (e.g. LCA).

## MANAGEMENT OF THE WATER RESOURCE (SDG 6)

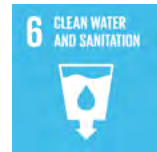
Water is the most valuable asset for the development of human life but also for collective security. Due to its scarcity, water risks becoming a strategic resource in the near future, especially because increased inequality in access to water could lead to greater conflicts between the various uses and among the categories of users.

Lack of access to drinking water and proper purification systems is still a part of a number of European countries and some Italian regions, posing greater cause for concern in the south, where water networks are often deteriorated and have significant leaks.

Etica believes that it is important to bring shareholders' attention to the management policies of companies and institutions with regard to use of the resource and the volume of water withdrawn or consumed for production cycles.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on water consumption;
- b.** setting objectives to reduce water consumption;
- c.** investing to increase the efficiency of water consumption;
- d.** drafting documents where water consumption for each production department or cycle is evaluated, as are the corporate policies intended to minimise water waste (water management activities), preferably using objective indicators (e.g. those contained in the "CDP Water" questionnaire);
- e.** monitoring and declaring the level of pollution produced by the production cycle on aquifers and environmental impact where springs are used, including in relation to the provisions of current legislation;
- f.** publishing the policies activated to mitigate the impact of company activity on the use of drinking water (collection of rain water, closed-loop systems) especially in geographic areas characterised by water scarcity (e.g. in case of withdrawals from wells that draw from local aquifers);
- g.** introducing systems to reduce water consumption per unit of product with the volume of water used highlighted on the product supplied;
- h.** developing technologies with low water consumption especially at the level of intensive agriculture, industry and hydroelectric use;
- i.** developing a Water Footprint Assessment according to the ISO 140046 guidelines and other recognised standards.



## PART III

Specifically for public or private companies that manage water resources for human use:

- a.** disclosing the policies for controlling tariffs;
- b.** acknowledging and guaranteeing the right to water (consumption range 40/50 litres per day per person guaranteed by law) and applying progressive tariff systems per consumption range, differentiated by use (e.g. food or public use);
- c.** describing and highlighting in the financial statements and reports the investments made to manage the entire water cycle (e.g. maintenance of aqueducts, water quality and policies to reduce consumption);
- d.** promoting and supporting campaigns to reduce consumption and protect the resource;
- e.** improving citizen and worker participation (e.g. through Stakeholder Forums) when defining corporate policies for water resources management;
- f.** providing for tariffs aimed at vulnerable social groups.

### 3.3 CLIMATE CHANGE (SDG 13)

Shareholders are increasingly more concerned about the potential effects that greenhouse gases emitted by companies and their products might have on climate change.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on emissions;
- b.** setting targets to reduce emissions, preferably science-based<sup>13</sup>;
- c.** investing for a low-emissions economy
- d.** monitoring CO<sub>2</sub> emissions and other climate-altering gases and committing to reduce them quickly and significantly (e.g. Etica recommends participation in the “CDP Climate Change” questionnaire);
- e.** publishing any strategies to respond adequately to the growing pressure created by the legislator, by competitors and by public opinion to reduce emissions;
- f.** linking managers’ remuneration to the achievement of environmental objectives;
- g.** disclosing any programmes for the use of energy from renewable resources and increasing the energy efficiency of facilities and products so as to achieve a significant reduction in consumption;
- h.** providing information about the environmental certification of facilities and publishing any certification plans;
- i.** disclosing progress made in reducing the quantity of materials used, in line with production volume (dematerialisation);
- l.** calculating the carbon footprint in terms of tonnes of CO<sub>2</sub> associated with a specific company product or service.

<sup>13</sup> Targets to reduce emissions are science-based if they are aligned with the decarbonisation objectives required to maintain the increase in global temperature well below the 2 degrees compared to pre-industrial temperatures, as established in the Paris Agreement of 2015.



### 3.4 EXPLOITATION OF FORESTS (SDG 15)

According to the United Nations, every minute an area of forest the size of 33 football pitches disappears, at a rate of 112,600 km<sub>2</sub> per year (Source: FAO, State of the World Forest, 1999). Endangered forests are home to 50% of animal species, 200 million indigenous people across the world and millions of trees that absorb carbon dioxide and offset the effects of climate change.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** reporting on the impact of activities in terms of deforestation;
- b.** tracing the supply chain in relation to the production of palm oil;
- c.** setting procurement objectives from RSPO certified suppliers in relation to palm oil;
- d.** introducing policies that prohibit the marketing of products that contain materials from protected forests;
- e.** evaluating and reporting on the impact of procurement and use of raw materials on deforestation and human rights;
- f.** introducing sustainable management policies for forests or making them more effective (e.g. according to FSC standards – Forest Stewardship Council).

### 3.5 GENETICALLY MODIFIED ORGANISMS (SDG 2)

The production of GMOs for non-medical purposes can pose environmental risks associated with growing these species (e.g. environmental pollution, changes to traditional farming methods and threat to local biodiversity) as well as social risks, especially in developing countries (e.g. expropriation of land from local farmers by production companies).

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** being transparent around the use of food ingredients from genetically modified plants or animals;
- b.** acknowledging the environmental and financial costs, the risks and benefits associated with the production and consumption of products containing genetically modified ingredients;
- c.** developing a traceability system for raw materials/ingredients, constantly monitoring suppliers and business partners.

**FSC**

THE FOREST STEWARDSHIP COUNCIL IS AN INTERNATIONAL NON-PROFIT, MULTISTAKEHOLDER ORGANIZATION THAT PROMOTES RESPONSIBLE MANAGEMENT OF THE WORLD'S FORESTS.



## PART III

### 3.6 ANIMAL RIGHTS (SDG 15)

Etica respects life in all its forms by considering the unity and, at the same time, the diversity of living beings.

Though unable to rule out the use of animals for drug trials, Etica believes that pharmaceutical companies should ensure maximum transparency for shareholders.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a.** being transparent about the publication of data from animal testing;
- b.** extending any policies on the use of testing to all laboratories, regardless of geographic location;
- c.** adopting specific policies to improve animal breeding conditions along the supply chain, to protect animal and human health.





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