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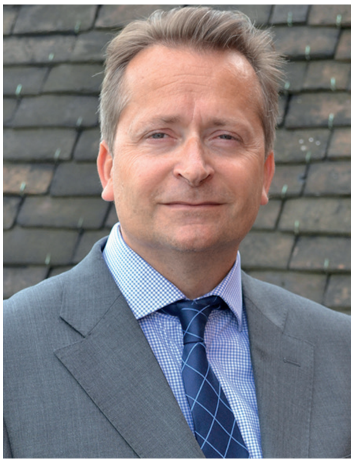
EDITORIAL



JEAN-PHILIPPE DESMARTIN
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Sustainable Finance and Responsible Investment Chair

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PRI Principles for Responsible Investment

WATER: AN URGENT CALL FOR ACTION

As we tackle multiple environmental crises, the most urgent priority may not necessarily lie where we think. Climate change and biodiversity call for urgent action, but the issue of water is high – and will remain high – on short-term agendas. Let us not forget that without food, human beings die within a few weeks; without drinking water we would only live a few days. With 2.2 billion people still without satisfactory access to safe water, it is no coincidence that one of the UN's 17 Sustainable Development Goals for 2030 is dedicated to "clean water and sanitation" for all.

Recent weather news has not put our minds to rest. No rainfall was recorded for 32 consecutive days in France between January 21st and February 20th, causing an exceptional winter drought. This was the background against which the Word Water Day was held on March 22nd, an event organised every year since 1993 to raises awareness and inspire action to address the water and sanitation crisis.

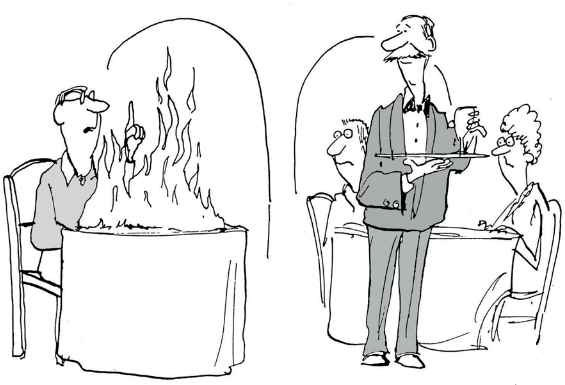
One need only think of the multiple consequences of water scarcity - droughts, declining crop yields, hunger, poverty, growing inequalities between high- and low-income countries, etc. - to understand the need for a World Water Day.

The World Resources Institute (Aqueduct tool) expects water stress to increase by 40% or more in many parts of the world, including Europe, by 2030. It is therefore essential for investors to take action through responsible investment decisions. On the risk side, this involves refusing to invest in mining facilities operating in high water stress areas. And on the opportunity side, investing in leading companies that have developed cutting-edge tools supporting an efficient use of water in agriculture. Indeed, farming currently captures 70% of the world's freshwater withdrawals.

We wish you a pleasant read.

EUROPE RESPONDS TO IRA

Signed into US law in August 2022, the Inflation Reduction Act (IRA) will disburse 369 billion dollars over 10 years to help achieve the country's decarbonisation objectives, and importantly, to support America's green industrial sector thanks to its protectionist elements. In response, the European Commission has launched the Green Deal Industrial Plan, an extension of the Green Deal Plan which totally overlooked protectionist aspects. These new measures should enable the economy to accelerate its transition to a net zero future - the EU's objective for 2050, and to strengthen the competitiveness of the green industry in Europe, thereby preventing companies from moving their facilities to the US, which could potentially lead to a loss of 25 billion euros in capital expenditure.



"Waiter, could I have a glass of water ?"

DRAFT PROPOSALS IN RESPONSE TO THE US SUBSIDIES...

► The ***Net Zero Industry Act*** (NZIA), the centre piece of Europe's green industrial plan, aims to strengthen the 8 technologies that have a key role to play in decarbonisation: i) solar photovoltaic and solar thermal technologies; ii) onshore wind and offshore renewable energy; iii) batteries and storage; iv) heat pumps and geothermal energy; v) electrolysers and fuel cells; vi) biogas/biomethane; vii) carbon capture and storage (CCS); and viii) grid technologies.

This consolidation will involve increasing the EU-based production of technologies needed for the transition towards net zero carbon to ensure that the European industry remains competitive. The objective is for 40% of the annual deployment needs for strategic net-zero technologies to be manufactured in the EU by 2030.

Bolstering these green industries will also require reskilling and upskilling. The proposal includes the creation of "Net Zero Industry Academies" designed to guarantee the availability of skilled and qualified workers to support the production of net-zero technologies. Furthermore, fast-tracking, and simplified permit-granting should help boost the industry.

► For the strategy to be viable, the EU must also reduce its dependency - notably on China - for the supply of critical raw materials. By 2030, demand for metals from rare earths will increase 5 to 6-fold if the EU is to generate its intended amount of wind power. Demand for lithium, a key component for EV batteries, should grow 12-fold over the same period. With its ***Critical Raw Material Act*** (CRMA), the EU therefore intends to strengthen its mining and extracting capacities. This will require for the EU to supply at least 10% of its annual consumption for extraction, at least 40% of its annual consumption for processing, and at least 15% of its annual consumption for recycling. In addition, no more than 65% of the Union's annual consumption of each strategic raw material is to be sourced from a single third country. Plans also include simplified permitting procedures and access to funding for critical materials projects.

...LIMITED OR OVER-AMBITIOUS?

For some critics, the fact that nuclear power and sustainable aviation fuel (SAF) have not been recognised as strategic technologies may be detrimental to Europe from a climate and industrial point of view. With the IRA offering a 1.25$ subsidy per gallon produced, it seems likely that energy companies will make heavy investments for the construction of biorefineries in the United States.

As far as financing is concerned, in addition to the deployment of existing capital, the creation of a new European Sovereignty fund and the relaxation of state aid rules are on the cards. This would benefit countries that have the financial means to subsidise their industries - such as Germany or France. A European tool at EU level is therefore needed to avoid a dangerous race to subsidies within the European Union.

The proposal will now go through the ordinary EU legislative procedure and will be discussed and agreed by the European Parliament and the EU Council.

FROM AN ACADEMIC POINT OF VIEW

TAILOR-TO-TARGET: CONFIGURING COLLABORATIVE SHAREHOLDER ENGAGEMENTS ON CLIMATE CHANGE

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Adoption of environmentally sustainable practices is central to addressing climate change and institutional investors have joined forces to engage with firms on this topic. Collaborative engagements involve coalitions of investors pursuing behind-the-scenes dialogue to encourage target firms to improve their environmental sustainability practices.

Past research has highlighted shareholder engagement as an effective tool for influencing firms' practices and has identified a number of success factors such as coalition size, the coalition's stake in the target firm or local proximity. These factors can be referred to as "coalition composition levers" as they constitute key characteristics of an investor coalition that the collaboration can leverage to improve engagement success. Less is known, however, about how these coalition composition levers combine to induce shifts in corporate climate change practices.

The present study fills this void by examining what combinations of coalition composition levers enable of hinder successful collaborative engagement on climate change issues.

STUDY APPROACH

To investigate this question, the authors draw on a unique dataset comprising 553 collaborative shareholder engagements on climate change issues coordinated by the Principles for Responsible Investment (PRI) from 2008 to 2019. These engagements involved 375 target firms, engaged by 160 investors worldwide.

In addition, the study uses an innovative mix-methods approach integrating fuzzy-set Qualitative Comparative Analysis (fsQCA) with regression analysis and qualitative interviews to investigate how different coalition composition levers combine to enable or hinder engagement success.

Drawing on qualitative interviews the authors identify three mechanisms (synchronizing, contextualizing, overfocusing) that plausibly underly the identified configurations and provide investor coalitions with knowledge about target firms and their local contexts, thus enhancing communication and understanding between investors and target firms. The authors develop an emerging "tailor-to target" theory of collaborative shareholder engagement whereby successful engagement involves tailoring specific configurations of coalition composition levers to fit with the financial capacity and environmental predispositions of target firms – i.e. the target's receptivity.

COLLABORATIVE SHAREHOLDER ENGAGEMENT: A CONFIGURATIONAL PHENOMENON

The authors develop a configurational model to consider the joint effects of three groups of attributes that have been highlighted in the shareholder literature: target firm's characteristics, coalition composition levers and engagement issues. Relating to target firms' characteristics, the study identifies three factors relevant for collaborative shareholder engagement outcomes: financial performance, firm size and environmental ratings. The authors also highlight four important coalition composition levers: coalition size, coalition stake, coalition experience and home country location. Finally, they distinguish two important features of ESG engagement issues: whether they relate to financially material issues and whether firms are being asked to improve their disclosure or to adopt a specific type of practice. These nine firm, coalition and issuer attributes combine into configurations to explain collaborative engagement success of failure.

SUCCESSFUL CONFIGURATIONS

Successful configurations involve in changes in target firms' climate-related practices as per investors' engagement requests. Unsuccessful engagement fails to result in such changes.

Four configurations are associated with success. All include large coalitions and an absence of disclosure seeking. In fact, firms are more responsive to shareholders who represent a larger part of their shareholder base. In addition, the authors find that engagement success is associated with requests for changes in target firm practices. This result challenges the notion that disclosure-seeking engagements might be easier—and thus relatively more successful—than behavior-focused engagements.

An additional positive lever relates to coalition experience, which increases legitimacy to the external audience. Finally, engagements involving investors and target firms from the same country are more likely to be successful, as cultural proximity involves opportunities for more frequent interactions.

Overall, the authors find that successful coalitions use certain types of configuration of coalition composition levers that are tailored to target firms' financial capacity and environmental predispositions – i.e., target firms' receptivity. High receptivity firms have both financial capacity and a strong environmental record of accomplishment. Coalitions can also successfully engage mixed receptivity targets, emphasizing synchronizing and contextualizing.

Synchronizing taps into the lever of coalition experience, which allows coalitions to communicate concerns in a manner that is in sync with the receptivity of target firms. Contextualizing involves using local knowledge and cultural proximity to facilitate the translation of investor concerns. Both mechanisms are shown to be activitated when succesfully engaging firms with mixed receptivity.

UNSUCCESSFUL CONFIGURATIONS

On the other hand, four other configurations consistently relate to failure. They all share the same feature with target firms, which have either low or mixed receptivity, verifying the importance of considering firms' capacity and environmental predispositions in shareholder engagement. Further, they all concern issues that are not financially material.

A mechanism associated with engagement failure is overfocusing on a single attribute, while simultaneously forgetting others. In fact, key levers for success can be linked to failure when used in isolation rather than in combination with other elements. This shows that the configurations of attributes for failure are not simply the mirror image of those identified for success.

PRACTICAL IMPLICATIONS AND FURTHER DISCUSSION

The study offers a concrete guideline of action, deriving two practical insights. First, climate engagement should be tailored to the targeted firm, carefully considering its receptivity to climate-related engagement. A second recommendation is to avoid "silver-bullet" engagement tactics that focus on one investor coalition composition lever in isolation and instead to "think holistically" about firms' climate change behaviors.

The study contributes an emerging "tailor-to-target" theory of collaborative shareholder engagement that extends the literature by showing the importance of designing investor coalitions for effective climate-related engagement. It brings a novel focus showing the value of conceptualizing coalitions as configurations, which can be effectively combined in different ways. It also extends the theories of firm-stakeholder "fit" by highlighting for instance overfocusing as an underlying mechanism of a misfit configuration.

Finally, the authors' work provides opportunities for further research. In particular while the definition of engagement success is limited to the achievement of ex-ante goals, future research could investigate how investors could learn to become more effective in goal setting and whether such goals are sufficiently ambitious to facilitate meaningful societal impacts.

Note : Slager, R., Chuah, K., Gond, J-P., Furnari, S. & Homanen, M. (2022). Tailor-to-Target: Configuring Collaborative Shareholder Engagements on Climate Change. Management Science (forthcoming). The accepted version I available on City Research Online: https://openaccess.city.ac.uk/id/eprint/29429/

COMPANY MEETINGS

SIG GROUP AG

Last month's fieldtrip took us to Neuhausen am Rheinfall in Switzerland, where we visited one of SIG's industrial sites. This trip provided us with first-hand insights into the company's financial realities and sustainability policy.

Alexis Bossard, Equities Fund Manager

Founded in 1853 in the Swiss canton of Schaffhouse, Schweizerische Industrie Gesellschaft (SIG) has specialised in carton packaging since the 2000s, mainly addressing the needs of the food and drink industry - like Tetra Pak, SIG's Swedish-Swiss competitor.

All products manufactured by SIG are recyclable and the company is benefiting as cartons are increasingly used as an alternative to plastic packaging. The company procures 100% of its supplies from FSC-certified forests and 100% of its production sites are ISO 14001 certified. SIG's 1.5°C climate targets are validated by the SBTI (Science-based Targets Initiative), and its environmental management system is up to standard, particularly for energy and greenhouse gases. On the environmental front, the management of water remains one of the key areas that will need improving.

On the HR front, the company stands out on health & safety issues with zero deaths recorded over the past three years and an accident rate (based on frequency) that has been declining steadily since 2016.

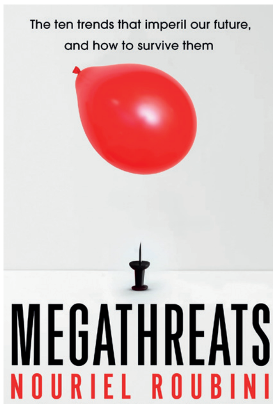
Finally, in terms of governance, SIG complies with the main rules, with an independent board of directors, the separation of Chair and CEO roles, and a compensation policy aligned with long-term performances. Ending on a damper, we feel improvements could be made in the way ESG criteria are incorporated into executive bonus plans.

RECOMMENDED READING

AN UNINHABITABLE PLANET?

Nouriel Roubini, Professor of Economics, is known for his pessimism. To his credit, he was one of the very few economists who predicted the subprime crisis. He is back with details of the new perfect storm that he believes is heading towards us.

The ten "MegaThreats" for our future notably include a major credit crunch and climate change. On the environmental side, Roubini has identified three main hardships: drought and water scarcity, rising energy prices – both fossil and renewable, and increasing and more intense natural disasters, including floods and hurricanes. One of the book's 12 chapters we hope is non-premonitory is called "*An uninhabitable planet?*". He also issued a particularly topical short-term warning: "ending fossil fuel subsidies will not be easy".



MegaThreats
Ten Threats to Our Future and How to Survive Them
by Nouriel Roubini

83%
of all electricity capacity added in 2022 come from renewables

Source: International Renewable Energy Agency (Irena) / 22 March 2023

2 billion people
in the world do not have adequate access to safe drinking water

Source: United Nations / 22 March 2023

REMUNERATION AND CLIMATE ISSUES REMAIN HIGH ON 2023 AGM AGENDAS

With this year's AGM season now in full swing, the issues that emerged during earlier seasons continue to prevail: executive remuneration, creating shared value in times of financial and social tension, GHG emission reduction pathways, "Say on Climate"[1]...

As in previous years, **we shall not support resolutions that go against the main principles of our voting policy**. With 518 AGMs in 2022, our participation rate stood at 98% - up from 94% in 2021. We did not support 23% of the resolutions.

Around 0.39% of our votes diverged from our voting policy. These principally concerned the appointment/re-election of directors and executive compensation. Once again, most of the resolutions we rejected (>30%) concerned executive remuneration and corporate actions.

We shall continue to take part in draft resolution initiatives and express our views on all external resolutions put to the shareholders' vote. In 2022, Edmond de Rothschild Asset Management (France) voted on 165 external resolutions submitted by shareholders, accounting for 2.5% of our voting – an identical percentage to 2021. As for resolutions put to the vote by company managements, Edmond de Rothschild Asset Management (France) votes on resolutions submitted by external shareholders in keeping with our voting policy and key principles. In 2022, we supported several shareholder resolutions on climate policies and GHG emission reduction targets. The companies concerned included American Water Works, Bank of America, Citigroup, ConocoPhillips, Equinor, FedEx, Royal Dutch Shell, Standard Bank and Wells Fargo.

We shall continue to **engage companies through active and focused shareholder dialogue**, as we have done in the past, with the submission of draft resolutions (TotalEnergies, Royal Dutch Shell).

In this respect, we joined up with the French Sustainable Investment Forum (FIR) and 47 other asset owners and managers to publish an open letter[2] in March last year, restating our convictions and expectations with regards to "Say on Climate" resolutions.

Our transparency standards are very high. But while transparency is a necessary condition, it does not suffice. The absence of clear and detailed information will impede our own accountability in terms of climate risk management. Nevertheless, as a committed investor, our priority is most and foremost to support companies as they speed up the energy transition.

1. A "Say On Climate" is a resolution that is put on the agenda of listed companies' AGMS. Based on shareholder votes, these resolutions provide a direction for the company's climate policy on an annual basis and help engage dialogue on environmental issues (Novethic).

2. https://www.frenchsif.org/isr_esg/wp-content/uploads/Tribune-dinvestisseurs-SoC_2023-1-2-1.pdf

EDMOND DE ROTHSCHILD ASSET MANAGEMENT (FRANCE)

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