



2019

# Engagement Report

# Inside

## 2019 Engagement Report

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# The year at a glance



**207**  
corporates  
contacted  
individually

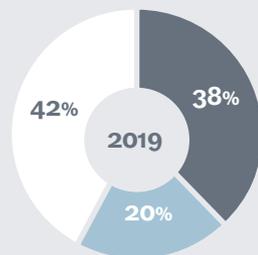
## Top topics

- Energy Transition
- Fair Work Conditions
- Business Ethics



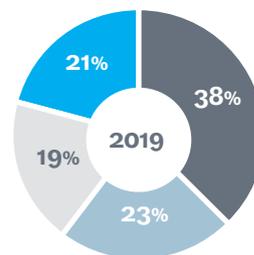
**946**  
AGMS

### Impact on our decision



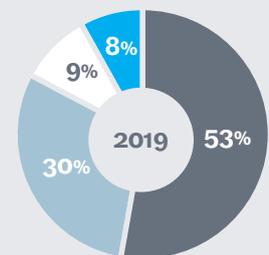
- Yes, influenced Candriam's opinion
- No influence
- Dialogue Ongoing

### ESG breakdown of the companies contacted



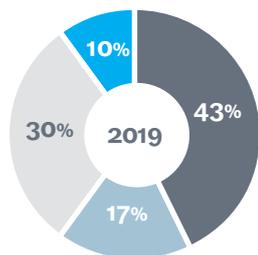
- Environment
- Social
- Governance
- Overlapping ESG Issues

### Region



- Europe
- North America
- Asia Pacific
- Emerging Markets

### Geographical split of meetings

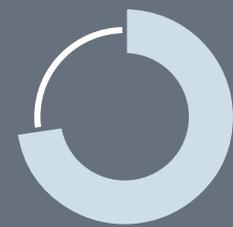


- Europe
- North America
- Asia
- RoW

### Remuneration of Management and Directors



### Engaged votes



## Candriam: a responsible investor and company

We engage actively as part of numerous collective investor engagement groups, initiatives and alliances aimed at establishing conversations and bringing about positive change.



Workforce Disclosure Initiative



Corporate Tax  
Responsibility Cyber  
Security Pri-Led Initiatives



Antibiotics Resistance  
& sustainable protein

Signatory of:



\* Rating for all Direct & Active Ownership Modules



<sup>1</sup> Please consult the Candriam Stewardship policy for more information on our engagement policy and missions <https://www.candriam.be/4956c2/siteassets/medias/publications/brochure/commercial-brochures/sri-brochure/stewardship-policy-2019.pdf>

# Active Engagement

*The year 2019 was rich and eventful, spanning a complex list of topics. This summary focuses on our three Conviction Topics, which together accounted for more than two-thirds of our total direct issuer dialogues. These same three topics, **Energy Transition, Fair Working Conditions, and Business Ethics**, have marked our efforts over the last five years, and will be the stepping stones to 2020 and beyond.*

At Candriam, we take the stewardship of our clients' assets seriously. We view engagement and voting as integral and indivisible parts of investment management. Active engagement and voting are essential elements in the creation of long-term shareholder value for asset owners. We engage with issuers across our asset classes. Although one-on-one, or direct, engagement may be difficult with a sovereign debt issuer, we also belong to numerous collective investor engagement groups where we join with other asset owners and stewards to establish conversations with governments, corporate debt issuers, equity issuers, and others.

Our engagement dialogues improve our ability to assess issuers for investment decision-making. Engagement topics cover a vast range of issues, but most of our direct dialogues are in the categories of Environmental, Social, and Governance (ESG) topics. Dialogues not only offer us a better insight into the ESG risks and opportunities faced by issuers, our experience has been that our dialogues prompt improvements in the way companies manage them<sup>1</sup>. They are the way we exchange with issuers on our concerns and expectations, the tool to encourage best practice.

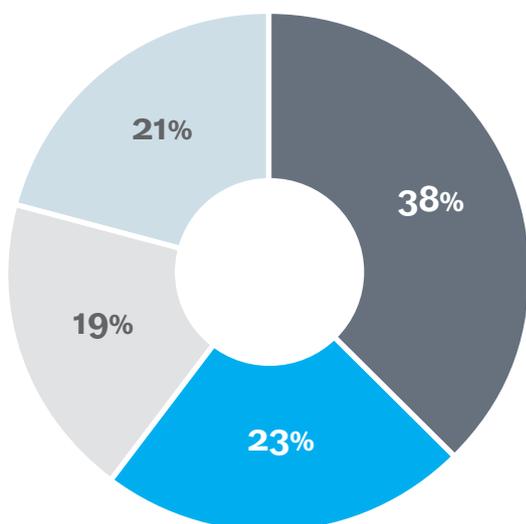
<sup>1</sup> Please consult the Candriam Stewardship policy for more information on our engagement policy and missions  
<https://www.candriam.be/4956c2/siteassets/medias/publications/brochure/commercial-brochures/sri-brochure/stewardship-policy-2019.pdf>

## Conviction topics

Since 2015, across all our assets, Candriam's direct engagement efforts have centred on three long-term topics. The vast majority of our direct dialogues, slightly more than two-thirds, fall within these three Conviction Topics – Energy Transition, Fair Work Conditions, and Business Ethics.

More broadly, most of our engagement efforts fall within some part of the ESG landscape. Details including the geographic and sector breakdown of our direct engagement can be found in the [appendix](#). As in previous years, this will also describe our objectives when contacting the issuers, the status of the dialogues, their context, and the impact on both our opinion and company practices.

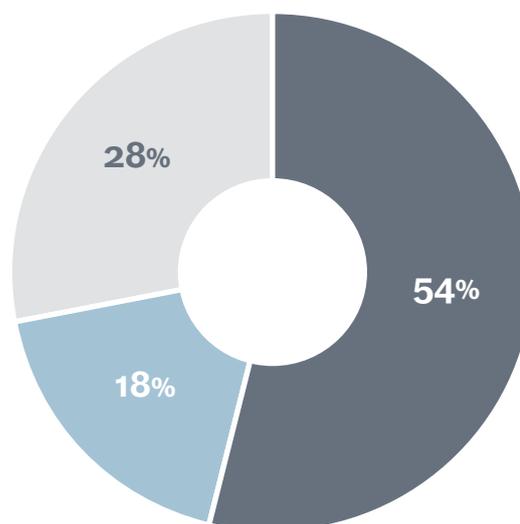
### Thematic breakdown of all our Direct Dialogues



- Environment
- Social
- Governance
- Overlapping ESG issues

### Breakdown within Conviction Topics

Conviction topics are 85% of our Direct Dialogues



- E - Energy Transition
- S - Fair Work Conditions
- G - Business Ethics

# Did you say 'Climate'?

*No wonder that again this year, Climate heads Candriam's engagement agenda. Almost half of our direct dialogues on our conviction topics were about the need to slow Climate Change.*

## The role of the financial sector in the energy transition

The financial sector is a major source of funding for oil and gas projects, as well as mining operations. This financing constitutes the lifeblood without which such projects would often struggle to come to life. Historically, the capital allocation decisions by banks have paid scant attention to the impact of such projects on climate change, or even to the financial risks which climate change presents to the security of their loans. Several initiatives have sprouted up within the investment community, aimed first at fostering better transparency into bank loan portfolios. Further, investors are encouraging banks to align their financing and lending policies with the 'two degrees' objective of the Paris Accord.





We continued our engagement campaign with financial institutions on climate topics, targeting more than 30 global banks and insurance companies. We built on findings from NGOs such as Banking on Climate Change reports, as well as leveraging collaborative initiatives with other investors, such as CDP-Climate Change, and ShareAction's Banking on a Low-Carbon Future. While checking coal and fossil fuel exposure with reporting aligned with TCFD recommendations, we also exchanged with issuers on their exposure to physical risks<sup>2</sup> and discussed their approaches to project financing, performance-conditioned lending and insurance, and client support for transition to a low carbon economy (especially pertaining to agricultural and extractive industries)<sup>3</sup>.

Incidentally, these efforts demonstrate a basic need on which most investors agree – the need for additional extra-financial disclosure, as proposed by the TCFD (Task Force on Climate-related Financial Disclosures). Companies have made progress, but a full commitment is needed.

**2** For example, climate-exposed property risks of insurers and underwriters.

**3** Our findings will be published in the first half of 2020.

## Energy transition: the social cost of creating a low-carbon economy

Energy transition is forcing dramatic changes in industrial activities, feeding the development of some sectors whilst making other industries redundant or uncompetitive. Like globalization and technology, the energy transition will simultaneously create and destroy jobs. Some workers will need retraining, others will need support<sup>4</sup>. This challenge goes beyond the responsibility of individual enterprises towards their workers and, to a large extent, will require the participation of nations and society as a whole.

To help tackle these problems, we joined the PRI-led Statement of Commitment to Support a Just Transition on climate change in late 2018. We continue to build on its related investors guidelines, including a first round of direct dialogues with European utilities on this topic. We collected the opinions of multiple stakeholders, including unions and industry associations, on how workers, communities and states can be involved in the transition process. We interviewed thirteen utilities to better understand two categories of issues: First, to determine how much leeway they have on the social impact on workers, local communities and consumers, and their dependency on national and EU subsidies, and secondly, to what extent are these companies incorporating these issues in their transition strategies<sup>5</sup>. We are building on this project, and extending our energy transition engagement to other industries in 2020 and beyond.

<sup>4</sup> An excellent examination on a practical level of worker dislocations, including among others the 19th-century Industrial Revolution in Britain, as well as the problems of US towns hit by 21st century globalization, is contained in "Good Economics for Hard Times", by Abhijit V. Banerjee and Esther Duflo, 2019. <https://www.goodeconomicsforhardtimes.com/>

<sup>5</sup> The outcomes of this survey will be released in the first semester of 2020.

<sup>6</sup> <https://shareaction.org/wp-content/uploads/2019/11/Voting-Matters.pdf>

## Urging energy producers and utilities to align corporate strategy with the Paris Agreement goals

Our corporate stewardship activities also addressed climate change through our collaboration with several large-scale collective [investor initiatives](#). In some instances, we take a leading role in advancing the goals; in other cases we bring our support and weight to back the initiative. The paramount example of these-large scale collective efforts is represented by the Climate Action 100+ five-year initiative, where we are actively involved in five campaigns. CA 100+ surveys confirmed in 2019 that investor focus had shifted from just companies' Scopes 1 and 2 greenhouse gas emissions, towards focusing on their GHG emissions across their entire value chain. This includes emissions from their suppliers, and the difficult-to-estimate emissions from the end-use of the products they sell. This widening of the focus has led investors to more deeply analyse the business models of the companies in which they invest. Greater expectations have followed, as investors who previously sought declarations of ambitions and intentions now expect companies to incorporate specific and binding GHG emissions targets into their corporate by-laws. This has been spurred by the recommendations of the TCFD, supported by Candriam along with many other investors and a growing number of companies.

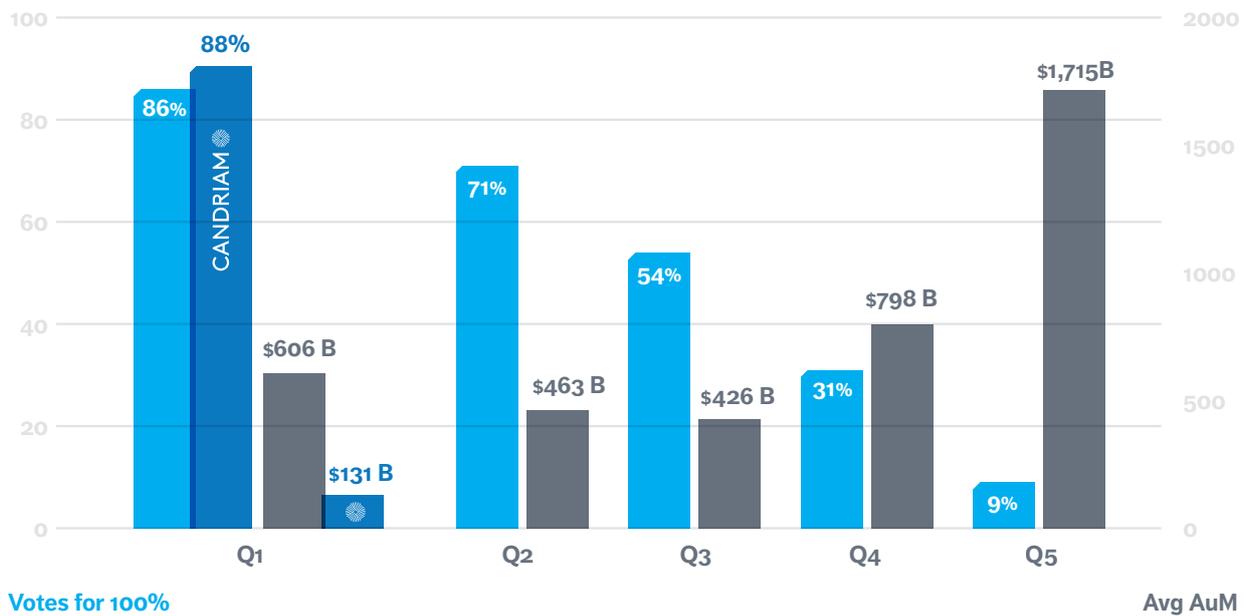
Similarly, we engaged in both direct dialogues and collective engagements to discourage companies from indirectly supporting poor climate strategies through their lobbying practices. For example, during 2019 we supported a shareholder resolution calling BHP to stop membership of mining industry organizations which might interfere with improvements in climate best practice.

Engagement must be aligned with, and supported by, exercising our voting power. [Proxy voting](#) is integral to our stewardship of investment assets. We not only vote, we may also co-file shareholder resolutions, particularly on climate change. Comparing our voting record to a survey made by ShareAction, we would have ranked in the top quintile of asset managers in our voting support for climate resolutions<sup>6</sup>.

# Voting “For” Climate Resolutions strengthens our Direct and Collective Engagements

## Candriam in Top Quintile of Votes “For” on Climate Change Resolutions

Based on [ShareAction Survey](#)



## Proxy Votes For Climate Change Proposals

	Average % Votes For on Climate Resolutions	Range	Avg AuM \$ B, 20w18	Number of firms in Quintile Sample	Comments
Best Quintile*	86%	77-100%*	\$606 B	10	Predominantly UK and EU firms
<b>+ Candriam</b>	88%**	NA	\$131 B	NA	
Second Quintile	71%	63-75%	\$463 B	10	
Third Quintile	54%	47-62%	\$426 B	10	
Fourth Quintile	31%	19-44%	\$798 B	10	
Worst Quintile	9%	5-18%	\$1,715B	9	Predominantly US firms

Notes: ShareAction surveyed 57 asset managers; the world's 25 largest based on AuM, Europe's 20 largest, Australia's four largest, and the 15 largest from RoW (Japan, Canada, Brazil, etc). Of these, 31 are members of CA 100+. The survey was unable to obtain proxy voting information for eight of the 57; we excluded those from the quintile graph and average.

\* Two of the asset managers showed 100% yes votes; of these two, one voted 100% when they voted, but only voted at 27% of the meetings; the other only made 4% of data available.

\*\* Based on the company votes in the ShareAction proxy sample, Candriam voted “For” on 88% of the climate resolutions. Based on our own, larger group of company votes, we voted “For” on 57% of climate resolutions; we evaluate each resolution separately. Not all of the most radical proposals are practical or effective.

Despite its ambition and success so far, the CA 100+ was criticised by several NGOs for not going far and fast enough. The CA 100+ takes a consensual approach. One of the key tenets of this type of collective corporate stewardship initiatives is the conviction that change can be achieved at company level through dialogue, mutual education, and agreement. BP represents the success of this type of consensual dialogue. Candriam co-filed a BP shareholder resolution together with the Climate Action 100+ investor group; BP's own management backed this resolution. In the same spirit, Shell's commitment to communicating and delivering on climate change was backed by CA 100+ and IIGCC members. While we understand such critics, we believe that CA100+ is enabling radical improvements and success in the discussions between issuers and shareholders on climate, as evidenced in its first [published report](#) in October 2019. CA 100+ was founded in December 2017. With Energy Transition one of our three Conviction Topics since 2015, we can see how this sort of collective engagement can really enhance knowledge and action of both companies and asset owners.

The effort still required by the largest GHG emitters remains enormous. Recent research points to the magnitude of what remains to be accomplished. The Transition Pathway Initiative<sup>7</sup>, found that just two oil and gas majors were aligned with Paris climate pledges. Our clients can expect Candriam to continue to support, and where appropriate, file or co-file, further resolutions during the 2020 shareholder meeting season and beyond.

This year will see new climate resolutions and we should expect more difficult debates. Company stakeholders increasingly understand that their interests converge, and are trying to meet, discuss and act together. Such convergence was in display at the 2019 Amazon meeting, when a large group of employee shareholders co-filed a resolution urging the company to do more to mitigate its environmental impact. Of course, Candriam supported this resolution.

<sup>7</sup> <https://www.transitionpathwayinitiative.org/tpi/publications/25?type=NewsArticle>

<sup>8</sup> <https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed=y>

**IPCC special report,**  
[https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15\\_Full\\_Report\\_High\\_Res.pdf](https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf)

Calling on governments to act, Candriam renewed its support for the [Global Investor Statement to Governments on Climate Change](#) for the tenth consecutive year, echoing the “dramatic strengthening” of national climate policy contributions demanded by the Intergovernmental Panel on Climate Change<sup>8</sup>. Investors need an ambitious regulatory framework to support their corporate stewardship initiatives on climate change. Beyond this, governments must look ahead to ensure that particular groups of workers, or even countries, do not suffer while others benefit from our efforts to halt climate change.

## The risk of stranded assets is starting to be realized

As climate risk begins to affect values of energy and mining companies, investors are casting a critical eye on the value of some fossil-rich assets.

During the fourth quarter of 2019, we co-signed letters to the audit committees of Total, Shell and BP, requesting additional disclosure related to risk of stranded assets. Repsol paved the way in December 2019, announcing a €4.85 billion asset write-down of oil and gas assets. Also in December, accounting major Deloitte published a guide for non-executive directors including a section on adjusting accounting assumptions to integrate climate risks into financial accounts. This move is a strong step forward towards including climate risks into valuation of companies by the traditional actors in the financial market.

Disclosure is important, but our main objective is to reduce GHG emissions. Transparency is key to effective reduction, not an end in itself.

All our engagement efforts feed our analysis and provide us with data to assess and optimize our portfolios, both in terms of carbon-footprint and long-term shareholder value. This is the case for CDP, we supported again in 2019, leading dialogue with 12 companies for Climate. More than 2,580 companies have answered CDP climate questionnaire this year.

# Increasing accountability; increasing responsibility

***The trend for asset owners and other stakeholders to seek increasing accountability, and responsibility, from company managers and others continued in 2019. Stakeholders are pushing for oil and gas companies to publish Scope 3 emissions from users of their end products, as well as for a wide range of others topics, mostly related to labour and human rights.***

Under the pressure of organizations such as the United Nations (UN Guiding Principles on Human Rights), unions, NGOs, and national governments, the topics of labour and human rights are progressing from commitment towards the 'Protect, Respect, and Remedy' framework. Given the limits to the market-based or investor pressure approaches, some governments are addressing the 'market failures' through legislation. The Modern Slavery Act in the UK, the Duty of Vigilance laws in France and the Netherlands, and the Transparency in Supply Chains Act in California call on companies to identify salient risks both across their operations and through their supply chains, and to report on efforts or to implement vigilance plans.

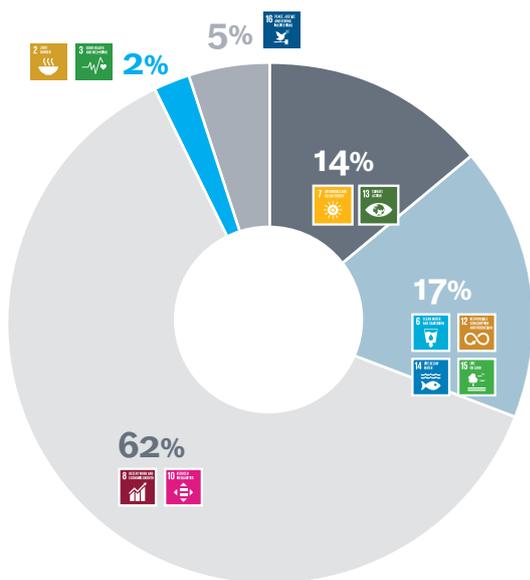


# Collaborative investor initiatives, particularly towards governments

While Fair Work conditions account for about 20% of our direct conviction topics dialogues, it is by far the largest topic of interest when looking at our collaborative initiatives involvement. (For these calculations, we exclude Carbon Disclosure Project dialogues; as the CDP targets more than 6000 issuers, its inclusion would distort the picture.)

## Breakdown of Collaborative Dialogues

Dialogues via alliances with other asset managers, beyond our direct efforts



Breakout defined by UN SDGs

- Climate, Energy transition
- Biodiversity
- Working conditions
- Access to product & service, Health
- Business Ethics

We supported the 'Statement for mandatory human rights due diligence' legislation in Switzerland in 2019. We also engaged directly with information and communications technology companies to improve their monitoring of working conditions among their suppliers, building on the findings of the 2018 KnowTheChain report<sup>9</sup>, which in turn based its assessments on the UN Guiding Principles on Business and Human Rights. This is a complex topic; we continually encounter difficulties arising from the diversity and complexity of supply chains. We also engaged with several companies on their direct or indirect associations with oppressive regimes. In this spirit, we co-signed the Investor Statement On Turkmen Cotton launched in 2019 by SourcingNetwork. We also gave additional support to the Bangladesh initiative, which has reached a turning point; considering a Transition Agreement transferring the functions of the Bangladesh Accord to an independent body should be signed before the end of May 2020.

The level of transparency of company supply chains is improving, but additional data is fundamental for analysis and engagement. As a result, investor appetite for reliable, relevant and comparable ESG data for both direct **and** indirect operations of investee companies is huge. Initiatives such as the Workforce Disclosure Project, which we joined at its launch in 2016, aims to gather and standardize information on workforce and supply chain to help investors better understand this topic, better-structure their portfolios, and to help report and communicate on the ESG footprint of our investments.

<sup>9</sup> [https://knowthechain.org/benchmarks/comparison\\_tool/4/](https://knowthechain.org/benchmarks/comparison_tool/4/)

# Food and packaging at the crossroads

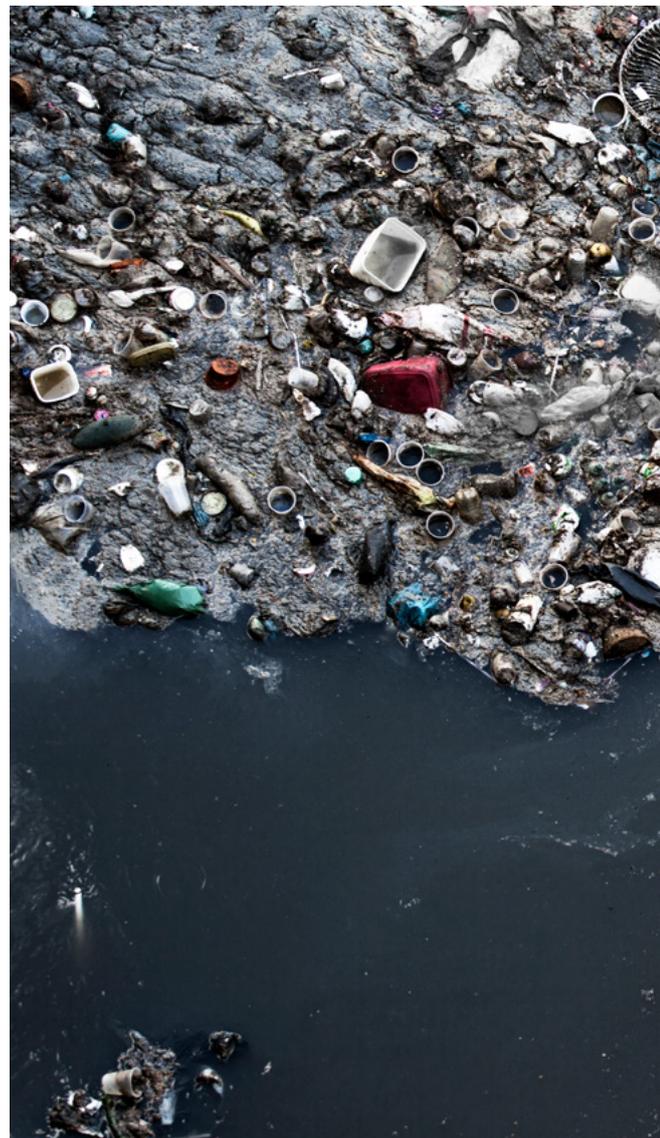
***Food has long attracted the attention of ESG because of the multitude of issues faced by the industry.***

An estimated 23% of total anthropogenic (i.e., man-made) greenhouse gas emissions generated between 2007 and 2016 were produced by agriculture, forestry and other land use. The list of concerns is long -- food access and security concerns, difficult working conditions, loss of biodiversity, impact on water resources, changes in consumer diet patterns and their link to chronic diseases, excesses of industrial farming in general (e.g. antibiotics, animal mistreatment), and plastic packaging are among these concerns.

Candriam continues its long-standing efforts regarding several of these concerns, through both direct and collaborative dialogues. In 2019 we published a research paper on sugar, detailing the outcome of our dedicated survey of 20 investee companies.

A surge in alternative food trends was seen in 2019, with a rise in plant-based diets or dairy alternatives. Consumer awareness is growing and should definitively influence further companies' strategies. In 2020 we will leverage this rising tide of public interest to help us reinforce and build on our presence on food topics.

We continue to support the Sustainable Protein initiative, co-leading dialogue for two companies. We reaffirm our 2017 commitment to the PRI-led Palm Oil initiative, extending engagement to the palm oil industries' funders, mainly Asian banks. We are also leading two dialogues with food retailers for both the Plastic Investor Solution Alliance and Investor Pesticide Initiative.



<sup>10</sup> <https://www.ipcc.ch/srccl/download/>

<sup>11</sup> **The hidden cost of sugar, May 2019,** <https://www.candriam.com/en/professional/market-insights/highlighted/sugar/the-hidden-costs-of-sugar/>

Deforestation was a topic in 2019, and will continue in 2020 and beyond. We are targeting investee companies our analysis shows to be most at risk, challenging them on their operations and asking them to adopt best practices. We are aided by a diverse range of reports, such as the ChainREaction research, and tools made available to us by NGOs on deforestation and dependency to natural capital (notably SPOTT / Forest500/SCRIPT, or ENCORE), which investors may also find of interest.



## Engagement: just one part of the stewardship cycle

***Investors are enjoying increasing success in dialoguing with issuers, but it is inseparable from the other functions of long-term investing, including fundamental analysis and voting.***

Candriam puts great effort into determining engagement topics, and we focus our efforts on those issuers which we believe can have the greatest impact. Importantly, we vote. In Figure 3 in this report, it is noteworthy that the managers with the largest amounts under management are to least likely to cast votes for climate change. We encourage all our industry colleagues to take part in shaping energy transition; we believe it will enhance shareholder value for all investors. It is the Responsible thing to do.



# Alphabet Soup

## Some of the Frequently-Used Abbreviations in our document

<b>Candriam</b>	Conviction and Responsibility in Asset Management Our name, our philosophy -- chosen by our employees
<b>CA 100+</b>	Climate Action 100+, a global investor initiative to drive action on corporate GHG emissions
<b>CDP</b>	CDP-Climate, Carbon Disclosure Project
<b>ESG</b>	Environmental, Social, and Governance
<b>GHG</b>	Greenhouse Gases, primarily CO <sub>2</sub> Carbon Dioxide, also others such as CH <sub>4</sub> Methane and N <sub>2</sub> O Nitrous Oxide
<b>IIGCC</b>	The Institutional Investors Group on Climate Change
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>NGO</b>	Non-Governmental Organization
<b>PRI</b>	UN PRI, United Nations Principles for Responsible Investing
<b>SASB</b>	Sustainable Accounting Standards Board
<b>SEC</b>	US Securities and Exchange Commission
<b>ShareAction</b>	Collective investor group begun as a charity ranking responsible investing by UK pensions
<b>SRD II</b>	EU Shareholder Rights Directive II
<b>TCFD</b>	Task Force on Climate-Related Financial Disclosures
<b>UNEP FI</b>	United Nations Environment Programme Finance Initiative
<b>TPI</b>	Transition Pathway Initiative of the UN PRI
<b>UN SDG</b>	United Nations Sustainable Development Goals

You can find all our ESG related contents on <https://www.candriam.com/en/professional/market-insights/sri-publications>



**€130 B**

AUM as of  
31 December 2019



**550+**

Experienced and  
committed  
professionals



**20 years**

Leading the way in  
sustainable investing