SHAREHOLDERS for CHANGE

ACTION!

THE RESPONSIBLE SHAREHOLDER'S REVIEW
6 March 2018 · Number 1/18

THE MONTH AT A GLANCE

The €2bn divestment of Generali from the coal sector, announced on 21 February, is good news. The same can be said of "Financing a sustainable European economy", the final report of the EU High-Level Expert Group (HLEG) on sustainable finance, including a number of recommendations for the EU Commission's upcoming Action Plan. However, these are still the first steps of a long path towards a comprehensive approach to sustainability. As a matter of fact, Generali will divest its money from coal plants but will keep insuring them, while the HLEG report mainly focuses on the environmental impacts of financial investments, without mentioning the social impacts or the nefarious consequences of short-terminism.
As a network of engaged institutional investors, **SfC - Shareholders for Change** welcomes these progresses but can't help pointing at new, more ambitious targets. This is the sentiment that will underlie the upcoming AGM season. Because we are convinced that it is exactly the continuous struggle between corporations and their shareholders and stakeholders that gives them a sense of vitality, which is crucial to preserve competitiveness while responding to the needs of workers, consumers, local communities and minimising the risks for the environment.

IN ONE WORD

The elephant in the room
According to the financial counter lobby "Finance Watch", based in Brussels, the elephant in the room of modern capitalism is the transformation of the financial system over the past three decades ("financialisation") that has contributed significantly to accelerating environmental degradation, increasing inequalities and a weakening of social protection standards. In its blueprint for sustainable finance, "Finance Watch" details how the elephant could be downsized in six moves. The focus is on effective regulation and on the engagement of individual investors. (Source: Finance Watch)

HLEG FINAL REPORT. MILD ENTHUSIASM

On 31 January, the EU High-Level Expert Group on sustainable finance (HLEG) has released its long awaited final report **Financing a Sustainable European Economy**. After a year of work and extensive public consultation, the final recommendations will form the basis for the EU Commission's upcoming **Action Plan on Sustainable Finance**, to be announced on March 22nd.
Among the **priority actions** for the Commission are the need for a common sustainable finance **classification**, the development of a EU green bond standard and of a voluntary **EU green label** for green themed **funds**.
«It's certainly an important document that finally recognises the importance of a sustainable finance at EU level», declared Ugo Biggeri, Chairman of Banca Etica. «However, **a lot remains to be done**. The social impacts of finance are barely mentioned and there's no reference to any measure designed to curb the **short-terminism** of financial markets».
(Source: Climate Bonds, Banca Etica).

ARE YOU INVESTED IN GUN STOCKS?

After the Parkland, Fla. school shooting on 14 February, an increasing number of US citizens are raising concerns on how their retirement savings are invested. As a matter of facts, **publicly-traded gun companies** - such as Smith & Wesson, American Outdoor Brands, Sturm, Ruger and Vista Outdoor are in most passively managed **index funds** which are often present in the portfolios of retirement plans or pension funds.
While many savers are now trying to **divest** their retirement plans from **gun stocks**, some representatives of the financial community have a different opinion, such as **John Hale**, director of sustainable investing research at **Morningstar**: «mutual funds should deploy an **engagement strategy** instead of divesting gun stocks». Is it more effective to divest from companies to try to hurt them financially, or to hold on to shares to have a seat at the table and **influence companies from within**? The debate is ongoing.

GENERALI. INCOMPLETE COAL DIVESTMENT

On 21 February. Assicurazioni Generali, one of Europe's largest insurance groups, announced that **it will divest €2bn from the coal sector** (equal to its current exposure), where it **won't make any new investments**. The Group will allow **exceptions** "only in those countries where the production of electrical and heating energies are still dependent on coal (such as **Poland**, our note), without alternatives in the medium term". These exceptions would currently represent "a marginal portion of investments, equivalent to 0.02% of the general account". According to the **Unfriend Coal** campaign, Generali coal policy "does not go nearly far enough". Generali, declares the campaign, since it is not following AXA, Zurich and SCOR in restricting underwriting. "It makes no sense to divest from coal but **keep insuring coal projects**", declares Unfriend Coal in a press release. "We will maintain pressure on the company". Generali is currently one of the insurance companies doing most to **support** the **growth of Poland's coal industry**.
(Source: Unfriend Coal)

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VOICES FROM THE SOUTH

Norsk Hydro accused of Amazon toxic spill, admits "clandestine pipeline"
Norsk Hydro, a **bauxite** and **aluminum** mining and refining company whose majority and controlling shareholder is the Norwegian government, has been accused by the Brazilian government of a **toxic waste spill** from holding basins at its Hydro Alunorte facility. The operation, located in Barcarena municipality, Pará state, near the mouth of the Amazon River, is the **largest aluminum refining plant** in the **world**. The company denies responsibility for any spill, but says it is cooperating fully with officials. Norsk Hydro has also beeen accused of possessing a "**clandestine pipeline** to discharge untreated effluent" into a set of Muripi River Springs. The Norwegian mining giant at first denied this accusation, then admitted to it. Major storms on February 16 and 17 allegedly caused Norsk Hydro's toxic holding basin to overflow. The company undertakes to collaborate with local communities and said it would launch a **task force to investigate**. Locals worry the accident could be similar to Brazil's worst mining disaster ever, the Mariana spill on the Doces River in 2015. (Source: Mongabay/Business & Human Rights Resource Centre)

GRAPH OF THE MONTH

INSURER	TOTAL INVESTMENT (€MILLIONS)	POLISH COMPANY INVESTMENTS									
		PGE	ZE PAK	ENEA	ENERGA	FAMUR	JSW	Kogeneracja	Kopex	LW Bogdanka	Tauron
Nationale Nederlanden	493 €	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕
Aviva (UK)	421 €	✕	✕	✕	✕	✕	✕	✕		✕	✕
PZU (Polnd)	304 €	✕	✕	✕	✕	✕	✕	✕		✕	✕
AEGON (NL)	162 €	✕	✕	✕	✕	✕	✕	✕	✕	✕	✕
AXA (France)	126 €	✕	✕	✕	✕	✕	✕			✕	✕
Metlife (US)	114 €	✕		✕	✕	✕	✕			✕	✕
Generali (Italy)	73 €	✕		✕	✕	✕	✕				✕
Allianz (Germany)	38€	✕	✕	✕	✕	✕		✕			

Insurance companies and Polish coal mines. Despite government subsidies, it is estimated that around 80% of Polish coal mines are unprofitable. In fact, the entire coal mining industry in Poland generated a loss of €1.05 billion in 2015. Nevertheless, six European insurers hold a major stake in Polish coal companies through their local Polish pension fund subsidiaries, owning more than €1.3 billion of shares between them. **Allianz**, **AXA** and **Aviva** all began divesting from coal in 2015/16, but as the table shows, there are loopholes in their policies that leave them with substantial investments in Polish companies. **Generali** increased its holdings in Polish coal companies by €9.7 million in 2017. (Source: Unfriend Coal, *Dirty Business*, February 2018)

JUST BEFORE GOING TO PRESS

Europe's largest pension fund to drop tobacco and nuclear weapons
Europe's biggest pension fund, ABP of the Netherlands, plans to axe tobacco and nuclear weapons from its investment portfolio. The industry-wide €405bn fund, which manages money on behalf of 2.9m members, said on 11 January it will sell €3.3bn of tobacco and nuclear arms industry holdings in the next year. Last year Aviva, one of the UK's largest insurers, divested £1bn in tobacco stocks. (Source: Financial Times)

BlackRock Will Engage Gun Makers After School Shooting
BlackRock, the world's largest asset manager with about $6.3 trillion of assets at the end of last year, will engage with gun makers to discuss their response to the shooting at Marjory Stoneman Douglas High School in Parkland, Florida, according to Ed Sweeney, a spokesperson for the firm. "Given our inability to sell shares of a company in an index, even if we disagree with management, we focus on engaging with the company and understanding how they are responding to society's expectations of them," said Sweeney on 22 February.
(Source: Institutional Investor)

BOOKS, FILMS & MORE

The guilty secrets of the cocoa industry.

Kristy Leissle's book "Cocoa" is a concise analysis of the **inequalities** that pervade the cocoa industry, with 5m growers, spread across the tropics. The "Big Five" chocolate makers Ferrero, Hershey, Mars, **Mondelez** (owner of Cadbury brands) and **Nestlé** have come to dominate sales in a $100bn world market. Further three big companies, the "invisible players" are the main cocoa processors and wholesale suppliers of cocoa products: Barry Callebaut of Switzerland, **Cargill** of the US, and Olam, based in Singapore. It is in the interest of these big companies to keep supply high and **prices low**, says Leissle, and the price of chocolate is indeed low. Cocoa is now mainly grown on west African farms, which account for 70 per cent of the world supply. Today, **labour practices** are still **murky** and allegations of **slavery** in cocoa farming particularly focus on **Ivory Coast**. Leissle writes that the true extent of slavery is unknown and that there is little reliable evidence to support claims either that a chocolate bar is slavery free, or that it was made using slave labour. (Source: FT)