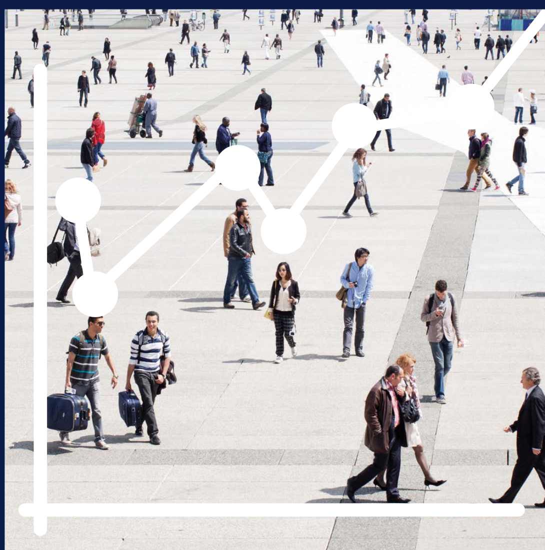
2020



Engagement Report

Confidence must be earned

Amundi

CRÉDIT AGRICOLE GROUP

Contents

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Foreword

As a responsible asset manager since its creation in 2010, Amundi has been deeply committed to the objective of providing its clients with financial performance over time while contributing positively to addressing society's key global challenges

The socioeconomic inequalities exacerbated by the Covid-19 crisis have been a brutal reminder that all around the world, vulnerable populations, companies, and countries, are extremely sensitive to shocks. This pandemic has highlighted the fact that international collaboration and solidarity are, once again, the most effective responses to address global challenges.

Integrating ESG risks and opportunities in our investment decisions, engaging with companies on ESG issues, and carrying out voting activities that take into account ESG are not only drivers of long term value for our clients' portfolios, they are an impetus of positive change for society.

Adopting a strategy to adapt business models to the climate challenges as well as to align with the Paris Agreement, has become a driving need to ensure long-term growth and profitability of the companies in which we invest. Within this pandemic-driven context, equitable sharing of added value is also more significant than ever.

Fostering positive change is no easy task, and we shall all play our part through the active dialogue we have with the issuers in our portfolios as well as through our voting activity.

Executive Summary

As a responsible asset manager since its creation in 2010, Amundi has been deeply committed to the objective of providing clients with financial performance over time while contributing positively to addressing society's key global challenges. We truly believe that our duty to our customers is to deliver robust performance in a way that preserves their long-term economic, natural and human capital.

Integrating ESG risks and opportunities in our investment decisions, engaging with companies on ESG issues, and carrying out voting activities are drivers of long term value for our clients' portfolios, as well as crucial to the global effort to preserve the clients' environmental and socioeconomic backdrops and promote a transition to a more sustainable, inclusive low carbon economy. In 2020, the Covid-19 crisis reminded us of the key value of these backdrops for our economy.

Five years after the Paris Agreement, significant efforts are still needed to set a new course to reduce global warming and dampen its dire consequences. We sincerely hope that beyond diplomatic success, the COP 26 will be a key moment for climate action, and Amundi will remain, now more than ever, deeply committed.

To positively contribute to the transition to an inclusive low carbon economy, Amundi initiated a three year action plan in 2018 to strengthen its commitment to responsible investment, with the ambition to mainstream ESG-investing (Environmental, Social, Governance), foster innovation to expand ESG-related financing needs, and champion ESG integration vis-à-vis all our counterparties around the world.

Engagement with issuers is key to fostering concrete changes and contribute effectively to the transition towards an inclusive and sustainable low carbon economy. As such, it should not only be on how sustainability issues may affect the company (sustainability risk) or the material issues that affect profit & loss, cash flows, balance sheet and valuation. Engagement is also how the company affects society and the key elements of sustainability (such as impacts on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters), material to society and the global economy even though they might not be material for the financial statements of the company, on a short to medium term horizon).

In 2020, the Covid-19 crisis reminded us of the key value of these backdrops for our economy.

In 2020, Amundi engaged with issuers on 6 main areas:

- The transition towards a low carbon economy
- The natural capital preservation (ecosystem protection & fight against biodiversity loss)
- The social cohesion through the protection of direct & indirect employees and the promotion of human rights
- Client, product & societal responsibilities
- Strong governance practices that strengthen sustainable development
- Dialogue to foster a stronger voting exercise and a sounder corporate governance.

Since 2019 and in particular in 2020, we have been focusing our voting and engagement efforts on two priority themes: the energy transition and social cohesion. Both topics represent systemic risks for companies as well as opportunities for those who wish to integrate them in a positive way.

The Energy Transition

Regarding the energy transition in 2020, Amundi reinforced its thermal coal exclusion policy by extending the policy to companies developing or planning to develop new thermal coal capacities along the entire value chain. Amundi also voted in favor of 86% of climate related shareholder resolutions and engaged with 472 companies on the energy transition.

Climate engagements have also included companies in sectors that are highly exposed to the energy transition to include climate related key performance indicators in their corporate related compensation packages, engagements with insurance companies and banks concerning their own fossil fuel policies, and climate related collaborative initiatives such as the ClimateAction100+. Finally, Amundi also commenced a major engagement to ask companies to declare an alignment objective with the Paris agreements under the Science Based Targets framework.

Ecosystem protection must also be prioritized along with the climate transition and thus remains a key concern for Amundi on the environmental pillar. Amundi engaged with 378 companies on ecosystem protection in 2020. Amundi started a major thematic engagement on the circular economy that spanned 4 sectors to address how companies are adjusting their business strategies to capture circular opportunities. We also started scaling up our work on biodiversity by engaging with companies on how they are addressing biodiversity risks and pushing for companies to increase biodiversity disclosure through the CDP forest survey.

Social Cohesion

Social cohesion is a key factor in the economic and political stability of our democracies and our societies. In 2020, Amundi supported 88% of compensation-related shareholder resolutions, Amundi voted in favour of 79% social, health and human rights related shareholder resolutions, Amundi voted against 31% of compensation proposals. In 2020, Amundi engaged with 447 companies on the protection of direct and indirect employees and on human rights. Social cohesion highly relies on the control of the wage balance within the framework of compensation policies, be it for internal employees or supply-chain workers. Amundi considers that companies must ensure all employees, directly or indirectly employed in the supply chain, should have a minimum "living wage", consistent with living conditions in the regions where they are employed. Amundi engaged with companies within PLWF (Platform for Living Wage Financials) to request, within the context of Covid-19, companies in the garment sector to be financially prudent whilst protecting labor and human rights standards in their own operations and across their supply chain. We also continued our living wage work with direct employees by continuing our engagement with the food retail sector to address potential living wage risks for employees globally. We also initiated an engagement regarding the equity pay ratio to request that companies better address remuneration imbalances where median worker pay is below a living wage and CEOs have disproportionally high remuneration packages.

Other engagements to address social cohesion in 2020 have included our commencement of engagements around the just transition to make sure employees are not forgotten during the energy transition, and engagements around access to basic needs, including our continued work with collective initiatives such as FAIRR on responsible proteins and the Access to Medicine Foundation. Finally, Amundi helped launch the 30% Club France in 2020, the French chapter of a global collective initiative to help address the gender gap in executive leadership in the SBF 120. ■

A Year in Review

2020 Engagement Statistics

Total Number of Companies Engaged **878**

Total Number of Engagements **1411**

922 **ESG Research Team**

of which is

600 **Interactions through Email**

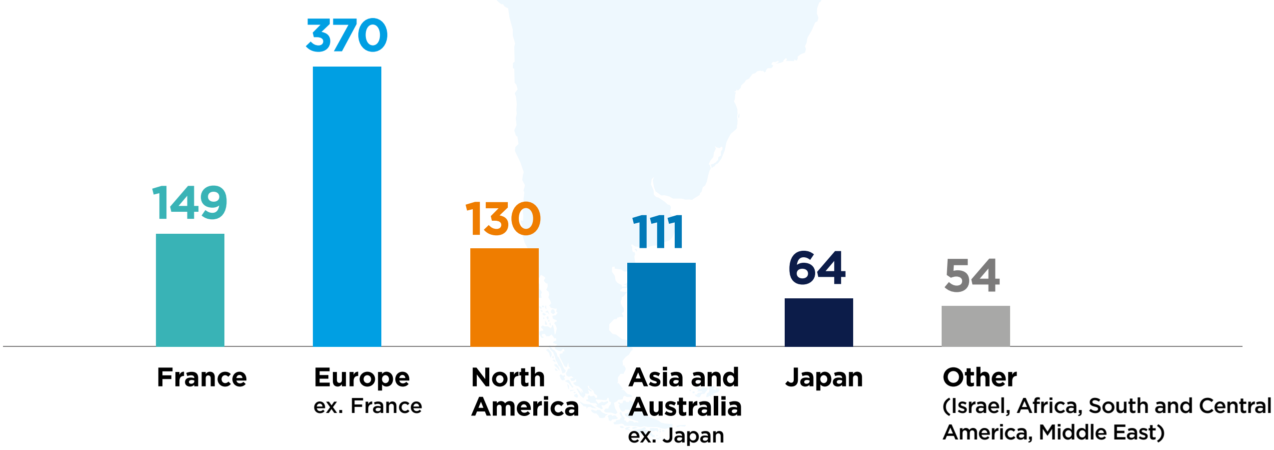
322 **Direct Engagements** (Company Calls)

489 **ESG Voting pre-AGM Dialogue**

Engagement Breakdown by Theme	
Transition Towards a Low Carbon Economy	**472**
Natural Capital Preservation (Ecosystem Protection & Biodiversity Loss)	**378**
Social Cohesion through the Protection of Direct & Indirect Employees and Promotion of Human Rights	**447**
Product, Client & Societal Responsibility	**251**
Strong Governance Practices that Strengthen Sustainable Development	**341**
Dialogue to Foster a Stronger Voting Exercise and a Sounder Corporate Governance*	**489**

**Shareholder dialogue conducted by Voting Team*

Geographic Breakdown of Engagements (in number of companies)



2020 Voting Statistics

Voting

Statistics on Shareholder Dialogue	2020
Alerts and dialogues with issuers	489
of which Europe	295
of which International	194

Voting statistics	2020
Number of Meetings Voted	4 241
Meetings Voted with at Least One Vote "Against Management"	71 %
Number of Proposals Voted	49 968
Percentage of Vote "Against Management"	20 %

Amundi voted against **31**%
of the resolutions regarding remuneration

Amundi voted at
4,241 AGMs

Amundi voted against **21**%
of dividend proposals

Amundi voted in favour of **86**%
of climate related proposals

Amundi Philosophy and Strategy: Creating a Fair and Sustainable Transition

As a responsible asset manager since its creation in 2010, Amundi has been deeply committed to providing its clients with high financial performance over time while contributing positively to addressing society's key global challenges, a prerequisite for sustainable robust long-term value creation.

As part of this ambition to mainstream ESG investing, Amundi has committed to integrating ESG criteria across the entire portfolio management value chain, notably through:

- The systematic integration of ESG criteria within the active investment & portfolio construction process
- The strengthening of the dialogue with corporates on ESG topics through a pro-active engagement policy
- A voting policy emphasizing Environmental and Social dimensions as top priorities.

Amundi believes that all companies contribute, through the policies they carry out, to the achievement of global environmental and social objectives in their countries of activity. As such, at Amundi, we wish to support and foster the transition towards a sustainable and low carbon economy. We strongly believe that an active stewardship strategy will stimulate investees to actively go down that road. The 2020 active stewardship strategy has therefore been designed to be result-driven, proactive and integrated into our global ESG process.

Our Engagement Strategy

The subject of engagement is linked to the double materiality perspective. Engagement with issuers should not only be on how sustainability issues may affect the company (sustainability risk) or the material issues that affect profit & loss, cash flows, balance sheet or valuation. Engagement is also about how the company affects society and the elements of sustainability (such as impacts on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters), material to society and the global economy even though they might not be material for the financial statements of the company, on a short to medium term horizon.

In 2020 Amundi Engaged with Issuers on 6 Main Areas:

- The transition towards a low carbon economy
- The natural capital preservation (ecosystem protection & fight against biodiversity loss)
- The social cohesion through the protection of direct & indirect employees and the promotion of human rights
- Client, product & societal responsibilities
- Strong governance practices that strengthen sustainable development
- Dialogue to foster a stronger voting exercise and a sounder corporate governance.

Amundi is particularly active in engaging around the two major contemporary challenges that are, on one hand, the energy transition, and, on the other, the question of social cohesion.

Implementing Engagement into our Investment Strategy

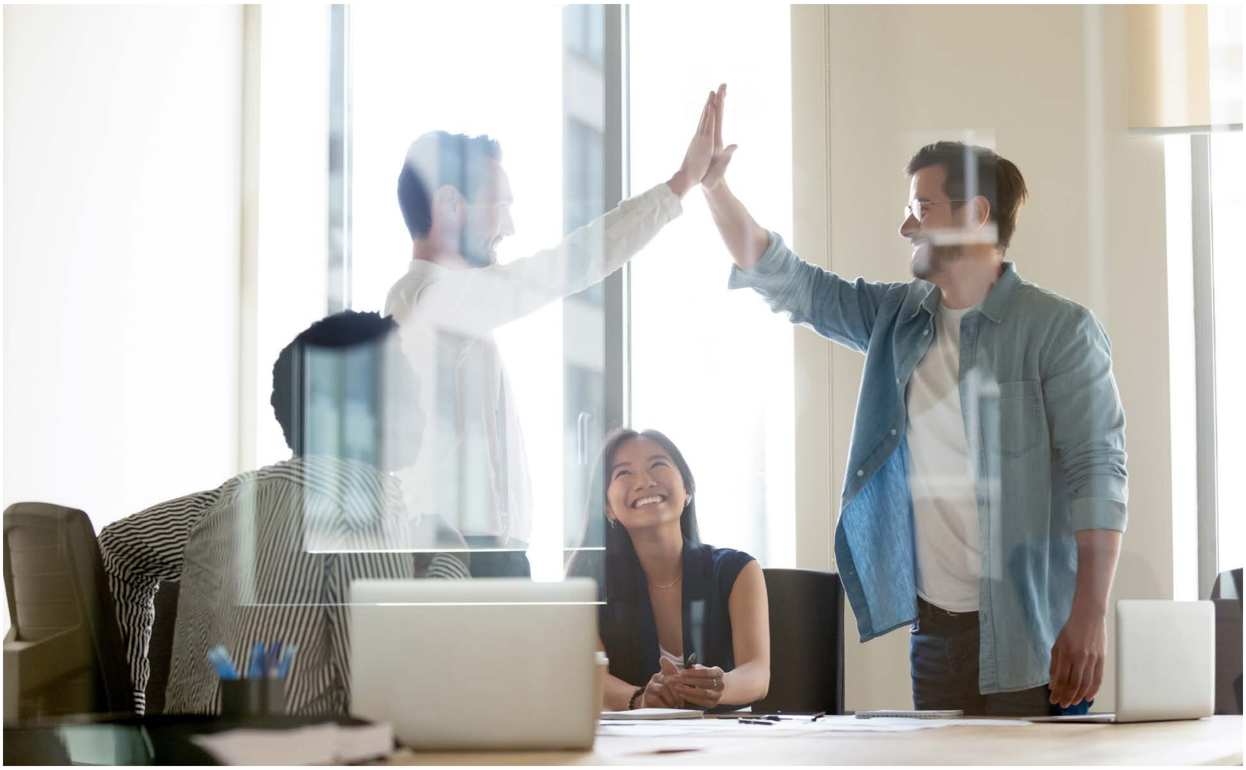
Amundi engages investees companies or potential investees at the issuer level regardless of the type of holdings held. Issuers engaged are primary chosen by the level of exposure to the subject of engagement. Amundi's engagement spans across different continents and takes into account local realities. The aim is to have the same level of ambition globally but with gradual expectations throughout different geographies. Amundi also endeavors for engagement activities to be impactful and contribute to the global effort of the financial community. The engagement period varies depending on the agenda, but it usually lasts approximately 3 years on average. Amundi defines different milestones and engagement developments that are shared internally via our research platform, which is available to all investment teams. Formal assessments are carried out, at minimum on a yearly basis. Engagements may start with a formal letter or email, and take different formats later on. Due to the specific sanitary situation in 2020, most engagements occurred through calls or virtual meetings.

ESG research and corporate governance analysts are integrating the engagement outcomes into their own practices, either in the ESG quality assessment of issuers (through overrides in the ESG scores) or in the voting exercises. When engaging with issuers, Amundi aims to drive the adoption of best practices regarding ESG issues, that will reinforce the robustness and sustainability of the long term growth for investees by lowering sustainable risks. Best practices will also support a stronger and more stable economy by strengthening key elements of sustainability such as environmental protection, social and employee welfare, respect for human rights, anti-corruption and anti-bribery matters. We wish to have a collaborative, supportive, and pragmatic yet ambitious dialogue with our investees, and we aim to inspire a wide range of actions that will benefit not only the issuers but all stakeholders. We truly believe that dialogue is the corner stone of a sound, strong development towards a sustainable and inclusive low carbon economy.

In case of engagement failure nevertheless, escalation modes are:

- Downgrade of the related criteria in the ESG score, and if the issue is critical, it could lead to a downgrade of the overall ESG score
- If some equities are held, and in themes that are critical (climate, severe controversies and/or violations of Global Compact principles), Amundi could decide to vote against the discharge resolution, or in case of long standing inaction, against the chairperson or some board members
- The ultimate escalation mode could be exclusion in case of failure to engage and remediate on a critical issue.

For active, “open-ended” strategies, when Amundi has full discretion and when technically possible, the ESG criteria are integrated into the investment processes with the objective to deliver, in addition to the financial objectives, portfolios’ ESG quality better than its investment universe references.



(1) https://sdgs.un.org/goals

Other Key Considerations for Engagement

The UN SDGs

What are the UN Sustainable Development Goals?

In 2015, the United Nations Member States adopted the 2030 Agenda for Sustainable Development that aims to provide a "shared blueprint for peace and prosperity for people and the planet, now and in the future" [1]. The Sustainable Development Goals (or SDGs) are a globally collaborative and relatively comprehensive set of goals that apply to all countries and all actors. They include universally pressing issues such as poverty reduction, health, inequalities, environmental sustainability, ethics, and economic growth.

Each SDG has specific targets and indicators to monitor global progress to achieve these goals. These indicators present opportunities for not only the public sector but also civil society, and private entities to engage in sustainable development in a meaningful way and communicate so accordingly.

The SDGs at Amundi

The SDGs can provide a framework for a wide variety of products and strategies within the realm of responsible investing. For example, the SDGs can be used as a framework to risks and opportunities for particular sectors and companies and aid in analysis, strategy & product development.

The SDGs as a Guideline for Engagement

Regarding engagement, the SDGs can help outline areas where engagement can have a positive impact. The targets and indicators can often act as a guideline to evaluate how Amundi engagements are contributing to this "shared blueprint for peace and prosperity" and highlight areas that might be poorly addressed by the investment community and where Amundi's efforts can help accelerate a positive impact.

While the SDGs were not originally designed for investors, the SDGs provide a framework to help align KPIs (key performance indicators) and benchmarks for corporates performance to universal goals regarding sustainable development. As such, highlighted in the report are links between Amundi engagement and the UN SDGs.

Building Trust with Investee Companies

We value the trust of our investee companies as it fosters impactful engagement and often-positive outcomes. As such, in this report company names are only disclosed with consent from the companies. Companies are often happy to be featured in our report (especially when it shows positive outcomes resulting from constructive dialogue). ■

Contributing to the SDG is one of our engagement objectives

Our Engagement Process: A Multi-Faceted Approach

Whatever the agenda, engagement always has a purpose. The engagement methods are either direct engagement or collaborative with other investors and/or stakeholders.

The ESG Research Team

The Amundi ESG Research & Engagement team consists of 16 people with a balanced set of skills and backgrounds. The team spans across Paris, Dublin, London, Tokyo and Singapore. The Responsible Investment division at Amundi is a separate business line independent from the investment management and financial analysis teams. This ensures the quality and the independence of the ESG analysis, but does not prevent them from working in close collaboration with portfolio management teams. ESG analysts meet, engage and maintain constant dialogue with companies to improve their ESG practices and have the final say over ESG ratings of companies to ensure that internal ESG scores are accurate and in line with key Amundi convictions. The team is also responsible for monitoring sector trends, staying abreast of established and emerging ESG topics and assessing the impact of ESG topics on the macro-sectors covered.

Collaborative Engagement

Collective efforts can often have a greater impact. Just as we encourage issuers to act collectively on key sustainability issues, investors also often collaborate. Collaborative initiatives can provide additional scope for engagement or provide opportunities for greater impact.

Collaborative Engagement *versus* Our Own

When deciding between collaborative engagement or our own, Amundi will choose the most efficient method to push the agenda, which could favor a collaborative method. Amundi might supplement collaborative efforts with direct engagement if a collaborative engagement does not cover particular issues, sectors, or companies, or if the collaborative initiative does not address the topic in a way Amundi might wish.

Collaboration – Active Engagement *versus* Participation

Amundi normally plays an active role in collaborative initiatives (Active Engagement). This generally means that Amundi takes the role of lead investor to engage with one or more companies. Sometimes, active engagement means that Amundi contributes to the planning, methodology and operations of the initiative.

By contrast, occasionally, Amundi is simply a participant in a collective initiative. This is often the case when the initiative is dynamic and impactful without particular assistance from Amundi. For other collective groups, Amundi contributes to the thought leadership on emerging topics or provides contacts and resources. As a participant, Amundi has the opportunity to gain insights into new and emerging problems or advise the group on the feasibility of proposed methodologies to prepare for eventual active engagement.

Direct Engagement

Within direct engagement, there are two distinct types: Thematic and Ongoing.

Thematic Engagement

Thematic engagement refers to cross-sectorial engagement on key topics such as climate and environmental transition, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Emerging Thematics

Emerging thematics are themes that are important for the transition towards a sustainable, inclusive low carbon economy but where awareness of the issue might be limited at the issuer level and best practices are still emerging. With emerging themes, one of the key aims of the engagement is to raise awareness and help identify best practices for companies and sectors.

Established Thematics

Established themes are those that are well discussed and well researched, such as climate and water risks, but where practices still need to improve. These topics may not be completely solved but companies and sectors are likely to have a strong level of awareness around the importance of the topic.

Ongoing Engagement

Ongoing engagement is typically company or sector focused engagement (also sometimes called company dialogue). Ongoing engagement can cover multiple issues or themes (and by consequence result in a variety of performance benchmarks for companies to meet). Specific reasons for ongoing engagement include:

Sustainability Challenges, Risks, and Opportunities

Ongoing engagement can be triggered by specific challenges or sustainability risks faced by the issuer or its sector. Sometimes engagement can be aimed at highlighting sustainable opportunities that could deliver additional benefits to companies and stakeholders. Whatever the subject, the aim is to encourage overall improved performance as well as to encourage companies to meet specific performance benchmarks.

Engagement around Controversies

Controversies can happen if a company fails to properly manage sustainability risks. When a controversy occurs Amundi will undergo ongoing engagement to encourage proper remediation and ensure that changes to the management and strategy will prevent repeat controversies.

Certain Amundi policies such as those around thermal coal, tobacco, and controversial weapons may necessitate divestment now or in the future.

Engagement with Leaders

Ongoing engagements can include discussions with leading issuers with strong ESG performance to offer them positive encouragement and incentivize them to remain a leader through continued improvements. “Best in Class” is a moving target so it is important to recognize leaders with strong performance but continue to encourage them to keep up the good work. In addition, engaging with leaders can help Amundi get a better sense of current strong practices and the direction the sector is going to manage specific risks. These key insights can help to set feasible benchmarks for companies who may lag behind.

Engagement with Improvers

Some companies that lag behind express a desire to improve; however, they are in the early stages of their ESG journey. This could be the case for companies who have limited knowledge of ESG best practices such as SMEs (small-medium enterprises) or companies in emerging markets. In these cases, Amundi may work closely with the company to encourage improved performance by helping the company identify short-term and longer-term targets that will lead to improved ESG performance.

Engagement with Laggards

Companies might demonstrate poor performance on one or many ESG criteria. For these companies, engagements target specific areas where companies lag behind and engagement could help them improve.

Engagement around Amundi Policies Prior to Possible Divestment

Amundi Exclusion Policies

Certain Amundi policies such as those around thermal coal, tobacco, and controversial weapons may necessitate divestment now or in the future. At Amundi, divestment is serious so it is important to engage with companies at risk for future divestment to make sure our policy is clear and they have time to make the necessary changes before a possible exclusion.

For companies near a threshold for exclusion, engagement is also a way to ensure provider data is correct in case of discrepancies due to differing calculation methodologies. Engagement in this sense can also help Amundi make informed decisions prior to possible divestment.

Coal

For coal, Amundi has a constant yearly dialogue with any companies near the exclusion threshold. This helps to make sure provider data is absolutely accurate. For example, there can be some discrepancies for mining assets on the mix of thermal and metallurgical coal (as our coal policy concerns thermal coal, not metallurgical). Engaging with companies on the data we have, helps ensure that provider assumptions on asset breakdowns are correct. These conversations also let issuers know if they are nearing divestment thresholds for Amundi (or for particular clients) and can provide incentives for them to accelerate their transition. (For more information on Amundi coal engagement please see page 29).

Controversial Weapons

Concerning controversial weapons, dialogue can also help Amundi make informed decisions. Sometimes public disclosure is not enough for investors to assess a company's investment in controversial activities. For example we engaged with a German conglomerate on their possible involvement in depleted uranium weapons. The use of depleted uranium in munition and weapons is controversial because of concerns over long-term health effects. Amundi's definition of involvement in these weapons is broad and encompasses the suppliers of key elements. Whilst the company stated that it does not produce, develop or distribute these weapons, it could not confirm to us that they do not supply key components. This led to our divestment.

UN Global Compact Violations

In some cases, companies are at risk for divestment due to suspicion of severe violations of UN Global Compact. In these cases we aim to engage with the issuer to make improvements, but if the case is too severe and if the remediation plan is insufficient the company will be proposed for exclusion at the Amundi ESG Rating Committee.

Engagement Through Pre-AGM Dialogue

Amundi may undergo pre-AGM dialogue to encourage sounder corporate governance in line with the Amundi Voting Policy. Our voting reflects our overall approach to stewardship, meaning that we are committed to long-term relationships with the companies in which we invest, and strive to have active dialogue with them. Amundi is committed to transparency and, where possible, it informs issuers of planned negative votes.

For underlying ESG issues, sometimes the Amundi Engagement and Voting teams will conduct joint company dialogue. These engagements can be for specific issues on the environmental, social, or governance pillar where joint engagement could enable greater impact. ■

Voting: From Words to Actions

The Amundi Corporate Governance Team

The Amundi Voting & Corporate Governance team consists of 5 people who analyze resolutions and organize ongoing dialogue that Amundi wishes to have with companies pre and post AGM's with the aim of better understanding their strategy and pushing for continuous improvement in practices.

These dialogues are also an opportunity to exchange with issuers on practices that foster progress. We recognize that companies' approaches take time to evolve and we look for progress and momentum as much as achievement; our dialogue with companies aims to encourage ongoing improvement over time. By applying the general voting policy principles, Amundi is able to cast votes consistent with the shareholder dialogue.

Integrating Voting and Engagement

The voting team is integral to the Amundi global engagement effort. Apart from the themes specific to a sound corporate governance, as well as a strong voting practice, we insist on board accountability in terms of social responsibility and climate strategy. We did also highlight the need to include ESG KPIs in the executive compensation in line with the global strategy and if possible some KPIs related to climate. Social cohesion, wage balance, and employee involvement in the company's growth have long been engagement topics for Amundi. Since 2019, we have reinforced our voting and engagement efforts on these topics. The socioeconomic inequalities have been exacerbated by the Covid-19 crisis as all around the world, vulnerable populations, companies and countries, are extremely sensitive to shocks. Therefore, since the Covid-19 crisis, we have reinforced our dialogues with companies concerning the critical need to focus on the long term while balancing the different stakeholders' efforts. More specifically this can be done with a conservative approach on dividend payment and temperance in executive compensation.

Ongoing Engagement through Pre-AGM Dialogue

2020 Pre-AGM Dialogue Statistics

The Amundi Corporate Governance team conducted dialogue with 489 issuers in 2020. Of this, 322 alerts were sent out concerning the Amundi voting exercise which triggered 70 dialogues. We also conducted dialogue with 167 issuers off season.

Statistics on Shareholder Dialogue	2020	2019	2018	2017
Alerts and dialogues with issuers	**489**	**164**	**202**	**233**
of which Europe	295	159	196	214
of which International	194	5	6	19

Company Dialogue: 2020 Highlights

Barclays

Climate change represents a systemic risk and we are convinced that the financial sector has a key role to play in supporting the transition to a low carbon economy and the alignment with the Paris Agreement. Phasing out coal is paramount to achieve this goal, and we believe that the adoption of climate strategies by companies is a critical investment factor for which shareholders should be fully informed. Accordingly, we publicly supported shareholder resolutions coordinated by the ShareAction initiative in 2020, asking Barclays to phase out their financing of coal companies. We had a constructive dialogue with the company on both resolutions (one backed by ShareAction and the other by management). We acknowledge that Barclays has taken a step in the right direction, but as the ShareAction resolution was a good complement, we voted in favour of the corresponding resolutions, in line with our global commitment to support banks' energy transition policy in general and banks' coal policy in particular.

Support the transition to a low-carbon economy and alignment with the Paris Agreement.

We further discussed with Barclays on their ambition to be a net zero bank by 2050, covering capital markets and lending activities while peers have developed methodologies only related to lending so far. As companies with a higher coal exposure have difficulties reducing that exposure quickly, we will follow up on their coal policy and coal exposure thresholds.

Fortum

Fortum, a Finish state owned utility company, faces an increased transition risk after the acquisition of the utility company Uniper, which has substantially increased the former's exposure to fossil fuels. The de-carbonization of both companies' assets in Russia remains a question. A large share of Fortum's fossil fuel based generation is concentrated in Russia for which the company does not have a de-carbonization strategy or relevant targets. Fortum acquired a majority and controlling stake in Uniper thereby deteriorating its own environmental profile by exposing its portfolio to significantly higher shares of lignite, coal and natural gas operations.

Following the acquisition of Uniper, and because of the lack of a clear coal phase out plan aligned with the Paris agreement, Amundi did participate to a collective engagement with Fortum Oyj. We addressed a letter to the company and had a call with the CEO to discuss their strategy of emission reduction across the company, including in Russia. We subsequently decided to vote to support a shareholder resolution asking to include a Paris Agreement 1.5-degree Celsius Target in the Articles of Association.

Deutsche Bank

In 2019, we alerted the German bank of our intention to vote Against the discharge given to the Supervisory Board (Board of Directors) and to the Management Board at the AGM of 05/25/2019 due to the disconnection between the remuneration paid to executives (which seemed excessive) and the economic and financial performance of the Bank, which had just faced a major restructuring. As the remuneration policy and report were not submitted to the shareholders' vote at the 2019 AGM, we wanted to express our disapproval of DB's practices by opposing the discharge to the Supervisory Board and the Management Board (as there was no ESG criteria in the remuneration policy).

Following the shareholder dialogue with the Chairman of Deutsche Bank, we changed our vote in AGM from "Against" to "Abstention on the Discharge", taking into account the recent appointment of a new CEO (not previously taken into account) to lead the new strategic plan of the Bank and the issuer's intention to change its practices.

In 2020 shareholder dialogue was conducted twice during the year:

- Before the AGM in order to present the resolutions submitted to the next AGM and the discussions underway on the evolution of the compensation policy by integrating ESG criteria into the variable compensation
- At the end of the year to present to us the new remuneration policy, submitted to a vote at the 2021 AGM. The ESG criteria will represent up to 20% of the long-term variable remuneration and will notably include diversity and climate. The equity pay ratio will be published in 2021.

JP Morgan

We engaged with JP Morgan, a US bank, on their climate change strategy as it lags behind peers. During dialogue, JP Morgan had stated they were undergoing a reflection phase concerning climate policy; however, we did not believe the bank would announce any ambitious targets in the near future. Subsequently, Amundi voted in favor of shareholders proposals concerning a policy on unconventional oil and gas and to establish targets for emission reduction in line with the Paris Agreement.

Ongoing Engagement Through Voting

Amundi Voting Policy

Amundi regards the considered and intelligent exercise of investor voting rights as a central aspect of our role as a responsible investor. Our voting policy responds to our holistic analysis of all the long-term issues that may influence value creation, including material ESG issues. Amundi intends to fully exercise its responsibility as an investor by voting at general meetings according to Amundi's voting policy. This policy is reviewed on an annual basis and available for view on the Amundi website. (2)

Good governance practices are paramount to protecting the interests of minority shareholders. Exercise of voting rights at the Annual General Meeting is therefore key to expressing an opinion on the company's main orientations. This means being able to vote in proportion to the ownership of the capital and not being faced with limitation or protection mechanisms that would allow the company to circumvent the decision making power of its shareholders.

The Key Elements of the Amundi Voting Policy include:

- Shareholder rights: a corporate governance regime must protect and facilitate the exercise of shareholders' rights and ensure fair treatment of all shareholders, including minority and foreign shareholders
- Boards, committees and governing bodies: boards have strategic authority and their decisions affect the future of their company, both in the short and long-term; all board members have individual responsibility. Boards are accountable to the company and its shareholders, but must also have due regard to, and respect the interests of, other stakeholders. In particular, employees, creditors, customers and suppliers. Compliance with social and environmental standards is also a board responsibility. Amundi is fully backing the 8 principles of the World Economic Forum's Climate Governance Initiative Financial structure: unless the company sets out a clear and substantial plan, cumulative capital increases should not represent more than 60% of the capital
- Compensation policy: we analyze executive compensation holistically and vote based on two main criteria: the CEO's compensation must be reasonable, and also economically justified. Further, we are vigilant to ensure that the company's pay approach, and more broadly its sharing of value overall, do not generate unacceptable situations of social inequality. Amundi is vigilant on the inclusion of ESG performance criteria in the variable remuneration.

One of our ESG ambitions set out in 2018 and due for completion by the end of 2021, is to integrate ESG issues into our voting policy. It is in this context that we further tightened our voting approach for the 2020 season, requiring the inclusion of ESG factors in executive pay and becoming much more likely to vote in support of shareholder resolutions (leading us to support fully 86% of climate resolutions and 79% of those in relation to social & human rights issues).

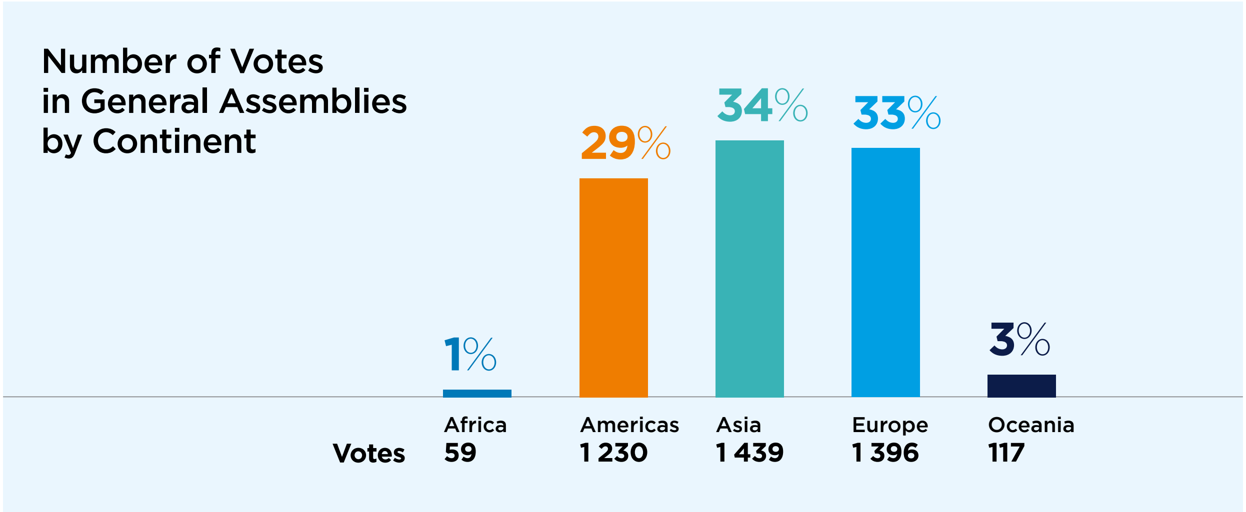
In 2020, due to the Covid-19 crisis and the need to focus on long term growth as well as balancing the different stakeholders' efforts, Amundi has been particularly vigilant about the balance of executive compensation, the level of dividend paid and the inclusion of ESG criteria in the variable remuneration.

(2) https://www.amundi.com/int/ESG/Documentation

2020 Voting Statistics

In 2020, Amundi voted in 4,241 AGMs, for around 50 000 proposals. The voting campaign was disrupted in the spring of 2020 by the Covid-19 situation and the number of AGMs per issuer was higher than in previous years. For example, a certain number of AGMs were cancelled at the last moment, where votes had already been placed, and it was therefore necessary to vote again later in the season. In addition, companies had removed proposals concerning dividends from their agenda during their AGMs and presented them at an EGM at the end of the year.

Voting statistics	2020	2019	2018	2017
Number of Meetings Voted	4 241	3 492	2 960	2 540
Meetings Voted with at Least One Vote "Against Management"	71%	55%	65%	71%
Number of Proposals Voted	49 968	41 429	35 285	32 443
Percentage of Vote "Against Management"	20%	13%	15%	15%



Key Outcomes of the 2020 Voting Campaign

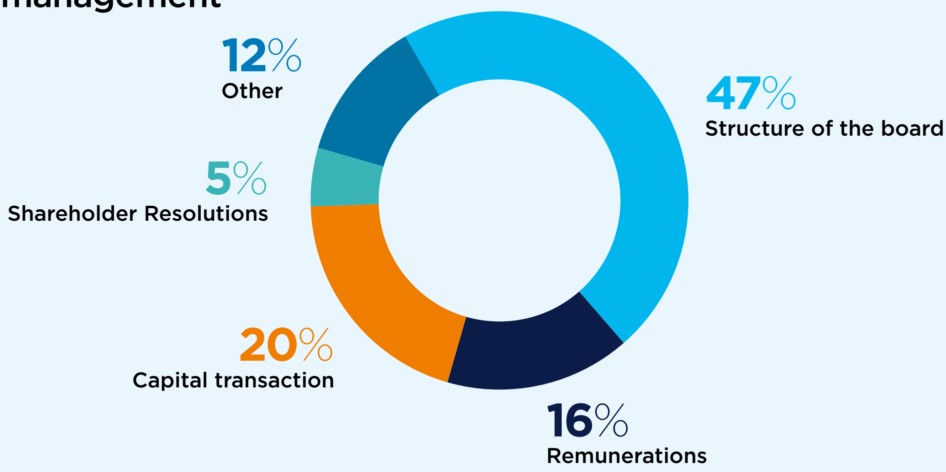
Amundi had a 20% opposition rate globally, demonstrating the inclusion of ESG in the voting criteria and thus reinforcing Amundi's ESG policy and strategy.

Our voting policy for remuneration resulted in voting against 31% of resolutions. We often voted against Long Term Incentive Schemes that did not have ESG KPIs. In 2020, due to the Covid-19 crisis and the need to focus on long term growth as well as balancing the different stakeholders' efforts, Amundi was particularly vigilant about the balance of executive compensation.

20%
Opposition Rate Globally

We were also particularly vigilant on the amount of the dividends paid, in particular, for companies having access to state resources such as unemployment benefits. Where the information was available: in practice, we voted against 21% of dividend proposals.

Thematic breakdown of votes "against management"



Thematic Breakdown of Votes "Against" by Category	
Board Structure	19%
Compensation	31%
Financial Structures	28%
Shareholders' Proposals (*)	49%
Other	11%

(*) does not include votes for which there were no management recommendations

Climate Strategy

We also increased our support for shareholder resolutions calling for more transparency and information on ESG and climate strategy. This was recognized by ShareAction's "Voting matters 2020" report in which Amundi ranks amongst the top performing asset managers in terms of voting on climate change, climate-related lobbying, and social issues. We voted in favor of 86% of climate-related proposals.

In 2020, Amundi supported 86% of climate-related shareholder resolutions presented at the General Meetings in which it participated.

Voting Against Resolutions

The 2020 season was generally characterized by opposition votes for three main reasons:

- Questionable remuneration practice.
- Unsustainable dividend during a global pandemic
- Overboarding, as the importance of the Chairman of the Board, the Chairs of the various committees, the Lead Director as well as directors implies to devote sufficient time to these functions.

Where possible, Amundi endeavors to alert issuers if they intend to vote in opposition. Usually, by sending an email prior to the meeting.

Executive Compensation

Amundi considers that the alignment of the interests of managers with those of shareholders is a key part of corporate governance. The remuneration policy within the company must participate in this balance and include ESG KPIs. In 2020 we were particularly demanding in this category due to the need for executive wage moderation in light of the Covid-19 crisis.

In 2020, the opposition rate on compensation was 31%.

Dividends

We strongly believe, especially in the current pandemic situation, that dividend policy should balance shareholders needs for remuneration in cash, with the need to preserve financial strengths of the company as well as the long-term interest of employees to pave the way for future earnings growth.

In 2020, the opposition rate on dividends was 21%.

Board Structure

Amundi expects to have a full understanding of the functioning of the governance bodies including:

- the level of independence.
- existence and operation of specialized committees.
- skills and background balance.
- adequate availability of directors (absence of "over-boarding").

In 2020, the opposition rate on these themes was 19%.

Social, Health & Human Rights Related Resolutions

A new trend we have observed is the increase in the number of social, health & human rights related resolutions at General Meetings.

In 2020, Amundi supported 79% of social, health & human rights related shareholder resolutions presented at the General Assemblies in which it participated.

Voting Campaign: 2020 Highlights

Social: Product Responsibility, Health & Human Rights

Microsoft Corporation: Vote in Favor of a Report on Employee Representation on the Board of Directors

Amundi is in favor of employee involvement in corporate governance and employee share ownership, because these practices help align the interests of shareholders and employees over the long term. Amundi thus promotes the appointment of employee Directors as a principle of good governance.

The TJX Companies, Inc.: Vote in Favor of a Report on Animal Welfare

Increased reporting and transparency on animal welfare will overall help ensure the Company respects customer preferences over animal welfare and labelling (including cosmetics and animal testing in addition to fur and leather) which could reinforce customer retention.

Walmart Inc.: Vote in Favor of the report on Supplier Antibiotics Use Standards

This proposal would enable shareholders to assess how the company's policy on the matter operates. Antibiotic resistance is a major health concern and contribution to it would be very detrimental to the company's reputation.

Climate-Related Shareholders Resolutions

Tepco: Vote in Favor of an Amendment Article to Withdraw from Coal Fired Power Generation

Amundi does not support the construction of new coal-fired thermal power stations and is in favor of the closing of the existing ones, to be aligned with the Paris Agreement, by 2030 in OECD countries.

Chevron Corporation: Vote in Favor of a Report on Alignment of the Company's Lobbying Activities with the Paris Climate Agreement

While Oil & Gas companies can argue that a "well-below" 2°C scenario is not the most likely given existing climate change mitigation policies, we believe that it is key from a reputational risk perspective that they do not support lobbying activities that aim to block more stringent carbon policies.

Some European oil & gas majors (Shell, BP, Total) have taken steps to cut ties with trade associations that are not aligned with their own positions on carbon policies. We expect from other oil & gas companies that they conduct similar assessments and take remediation actions whenever needed.

We note that Chevron is a member of the AFPM, with whom Shell, BP and Total said that they would cut ties due to divergent positions on carbon pricing policies.

Executive Compensation

Macquarie Group Limited: Vote Against the Remuneration Proposal

Macquarie Group, a diversified financial company, proposed a 10% increase in the annual base salary of the CEO compared to the previous year, from a level amongst the highest in its peers. Amundi generally believes that the level and evolution of compensation should not be susceptible to forming the basis for hostile reactions harmful to the company, its image and therefore its development. 2020 has been a difficult year for companies, employees and countries who have had to deal with extreme economic challenges. Therefore, we were vigilant regarding executive wage moderation.

3M Company: Vote in Favor of a Proposal Requesting CEO Compensation take into Account All Employee Salaries

For 3M, an industrial conglomerate, Amundi voted in favor of a proposal that requested the Compensation Committee take into account all employee class salaries when setting CEO compensation targets.

Amundi recommends the chief executive's compensation must be "reasonable" & ensure the alignment of interests of the managers with those of the shareholders and those of the company's other stakeholders, within the scope of social and environmental responsibility. Executive compensation must be "acceptable" from a societal point of view. The level and evolution of compensation should not be susceptible of forming the basis for hostile reactions harmful to the company, its image and therefore its development. The analysis of the pay equity ratio contributes to the assessment of this acceptability.

Dividends

Television Broadcast Limited: Voting in Favor of Dividend Resolution

We voted in favor of the dividend resolution after a discussion with the company. The company proposed to distribute a dividend while reporting a net loss for 2019 and 2018. Amundi strongly believes that dividends, especially in the current pandemic, should reward shareholders only if company's financial strength is preserved. The reason behind is that we do not think depleting company cash and resources are in the long-term interest of any of its shareholders, employees and other stakeholders. In a pre-AGM alert to Television Broadcasts Limited we have clearly stated that our voting intentions were not in favor of this resolution.

Nestlé: Vote in favor of the Dividend Resolution

After a discussion with Nestle from the food products sector, we voted in favor of the dividend resolution, as Nestlé outlined the package of measures taken to maintain employee compensation and provide health coverage to those working in non-benefit jurisdictions.

Overboarding

Hindalco Industries Limited: Vote Against the Nomination of Rajashree Birla as Non-Executive Director

While we fully support the need for a better gender diversity of boards, we think that board members should dedicate sufficient time to their role in order for the boardroom to fully benefit from the positive impact gender diversity can have. For Indian mining company Hindalco, the nominee held eight directorship roles and the nominee had failed to attend at least 75 % of board meetings.

Controversies

Swedbank: Vote Against the Discharge of Board Members

Swedbank, the Swedish bank, has faced major controversies around malpractices regarding its anti-money-laundering policy, which resulted in heavy fines. We voted against those members of the board that were present at the time of the misconduct: the Swedish FSA concluded that board members failed to keep themselves sufficiently informed about the Baltic operations and didn't request the information they would have needed to understand the risks of money laundering. Parallel to this, our ESG banking analyst engaged with peers on their remediation plan.

The board's negligence has resulted in reputational damage and the FSA issuing a warning and fine of SEK 4 billion. ■

Participating in the Energy Transition

The energy transition is a key theme for Amundi. Climate change represents a systemic risk and we are convinced that the financial sector has a key role to play in supporting the transition to a low carbon economy and alignment with the Paris Agreement.

Phasing out coal is paramount to achieving this goal, we believe that the adoption of climate strategies by companies is a critical investment factor for which shareholders should be fully informed. In addition, as part of our global commitment, we support banks and other financial institutions in developing their own transition policies. Minimizing the negative social impacts of a transition to a low-carbon economy is also key for the social acceptability of this move. Therefore, it is important to ensure that the transition is timely with the ambitions of the Paris Agreement.

Transition Towards a Low Carbon Economy **472**

of which is

253 SBTi

183 Energy & CO_2

36 Coal Policy

Green Bonds are an integral part of the energy transition. References to Green Bonds can be found on page 71.

Achieving Alignment with the Paris Agreement through Science Based Targets

In 2020, Amundi wrote to 253 companies in different sectors to invite them to commit to or upgrade their Science Based Targets (SBTs) to fight climate change.

The Science Based Targets initiative was created in the aftermath of the COP21 in Paris; it is a collaboration between the United Nations Global Compact, the Carbon Disclosure Project (CDP), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) to make companies set ambitious and meaningful GHG reduction targets. The SBTi defines and promotes best practices in a Science Based Target setting and independently assesses companies' targets to ensure that they are in line with what the latest climate science considers necessary to reach the goals of the Paris Agreement. These targets specify how much and how quickly a company needs to reduce its greenhouse gas emissions to limit global warming to well below 2°C [3] and to pursue efforts to limit warming to 1.5°C.

Amundi considers the standards used by the SBTi to be robust and credible for companies and investors alike for the simple reason that they are based on science. As of March 2021, more than 1,200 companies across diverse sectors have joined the Science Based Target Initiative [4].

The Step-by-Step Approach to Setting Science Based Targets

Companies adhering to SBTs typically:

1. Express their intent to set a Science Based Target by committing to the SBTi
2. Develop an emissions reduction target in line with the SBTi's criteria
3. Present their target to the SBTi for validation
4. Announce the target and inform stakeholders of the target
5. Report annually on their progress towards these targets.

The Benefits of Science Based Targets

The transition towards a low carbon economy should favor the emergence of new technologies and operational processes and Amundi believes that companies who set ambitious reduction targets will be at the forefront of

(3) https://www.wri.org/our-work/project/science-based-targets-initiative
(4) www.sciencebasedtargets.org

innovation. Setting Science Based Targets should also help companies reduce costs. Companies that lead in tackling climate change also boost both their credibility and reputation amongst their stakeholders, including customers, employees, NGOs and investors. It should also reduce regulatory risk and uncertainty for companies and encourage them to anticipate change (if action is delayed, corporates will have to make more important cuts to their GHG emissions which could prove disruptive to them).

Amundi's objective in this engagement campaign is to invite companies to set validated Science Based Target objectives to reduce their GHG emissions in line with the 2015 Paris Agreement, so as to limit global warming to well-below 2°C, above pre-industrial levels and pursue efforts to limit warming to 1.5C°.

Clear and Tangible Engagement Objectives

- Ask 203 companies that have not committed to Science Based Targets to do so.
- Invite 31 companies that have made the commitment to submit targets for validation.
- Encourage 19 companies that have validated 2°C targets to voluntarily upgrade their target to more ambitious 1.5°C aligned targets.

> Amundi believes that companies who set up ambitious reduction targets will be at the forefront of innovation.

This campaign will last 3 years. Emails were sent in 2020 and we have already started engaging with respondents.

We will further contact companies if and when our recommendations have not been taken into consideration to try to and convince them to do so. We will track the progress of this engagement and assess/monitor the companies that have changed their status. Should companies still consider it not necessary to commit to SBTs, Amundi might express its concerns at companies' AGMs. Whilst it is too early to draw conclusions for this 3-year campaign, at the time of this report, Amundi had received more than 60 responses, representing a response rate of 25%. A number of companies are in the process of committing to the SBTs or considering it.

Accelerating the Energy Transition with Climate Action 100+

Our contribution to the Climate Action 100+ investor initiative (CA100+)

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Amundi supported CA100+ in a collaborative engagement with four corporates in 2020: a Japanese capital goods company, a US construction materials company, a Brazilian Oil & Gas company and a Japanese auto manufacturer.

We were encouraged to see some positive developments (as highlighted in our focus on Petrobras below for instance), but also note that some points of concerns have not yet been resolved.

We notably firmly believe that corporate lobbying and public affairs practices should refrain from providing direct or indirect support to regulatory initiatives that risk slowing down the energy transition. We therefore maintain our full support to the CA100+ investor group efforts to make a Japanese auto manufacturer evolve on its position in support of the roll-back of greenhouse gas emissions and fuel efficiency standards for new cars at the US federal level, for instance.

With regards to the Japanese capital goods company, it is necessary to keep a close eye on whether the next mid-term action plans will be continuously aspirational and achievable to pursue the net zero target for 2050.

Highlights of the 2020 Engagement

Amundi Engagements

As a lead CA100+ investor for a US construction material company, we are encouraged to see the first disclosure of group-wide scope 1 emissions and CO_2 reduction targets. However, we will keep pushing to open the dialogue over wider low-carbon transition challenges. Since the end of last year, we have also decided to join the group of investors collaborating on engagement with two other large oil & gas companies.

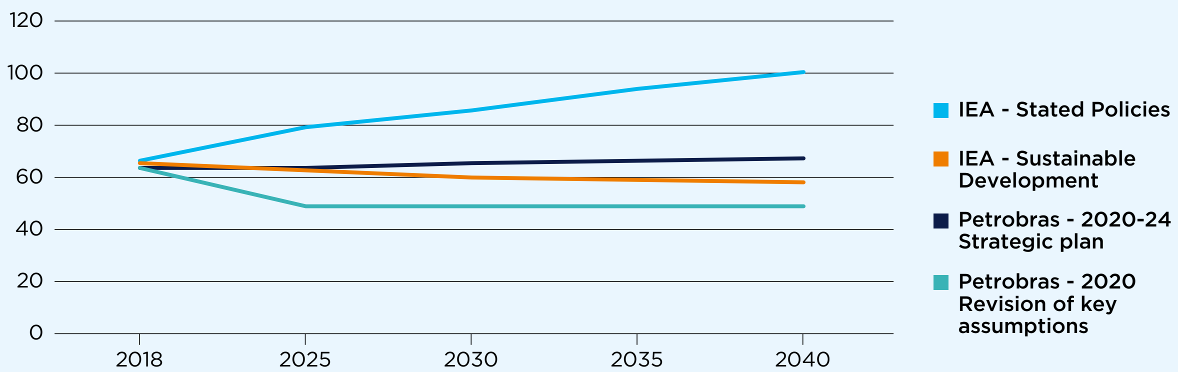
FOCUS on Petrobras

During the investor call in August 2020, Petrobras provided an update on its energy transition journey.

Positive development

The company reported further positive progress in 2020 with regards to the implementation of the TCFD recommendations with the publication of its oil price assumptions, and how they compare with scenarios drawn by the International Energy Agency (IEA), and of the valuation sensitivity of its assets to the IEA Sustainable Development Scenario (SDS). We see this step as a pre-requisite to generating sound strategic decisions that integrate energy transition risks. We note that Petrobras' revised oil price assumptions appear conservative by 2040, even compared to the IEA SDS.

Comparison of IEA's and Petrobras' oil price assumptions
($/bbl)



Source: International Energy Agency (IEA), WEO (2019) - average price of oils imported by the IEA members. Petrobras: Brent price, PE 2020-24 Strategic Plan.

Next steps

Although Petrobras already reports on its value chain emissions (including scope 3 related to the use of its products), the company was not yet ready to take a reduction target on this indicator and asked for investor expectations on the preferred type of target (intensity vs absolute emissions). Both approaches have pros & cons. In our view, systemically important energy suppliers like Petrobras have a role to play in developing low-carbon energies: something that can best be captured by an intensity-based metric. The dialogue will therefore continue notably on this matter.

Going Forward

For 2021, we are committed to increase our efforts in support of the CA100+ initiative.

Putting Pressure on Coal: Amundi Coal Policy Engagement

Our Coal Policy for the Energy Transition

In 2019, Credit Agricole (the parent company of Amundi) announced a new Climate Strategy aimed at curbing the global rise in temperature to well below 2°C. In accordance with the International Energy Association's (IEA) recommendations for alignment with the Paris Agreement, Crédit Agricole has pledged that coal must be phased out by 2030 for European and OECD countries and by 2040 for the rest of the world. It is a key conviction at Amundi that companies must organize their own energy transition, and that engagement is essential to achieve this Paris Agreement aligned coal exit.

In this regard, we have asked companies to provide us with a detailed phase out plan of their thermal coal mining and generation operations by 2021, in accordance with the 2030/2040 timetable. Companies that have yet to announce a clear coal exit strategy or companies that do not demonstrate a coal exit strategy in line with the Paris Agreement, have been the focus of our engagement efforts. While one goal of the engagement campaign is to communicate this Amundi policy, the other is to push for an accelerated energy transition with companies that are at risk of divestment.

In 2020, an email campaign was sent out to 31 OECD domiciled companies recognized to have had the highest coal exposure based on a combination of the most recent Urgewald (a German NGO that has open source coal data) and provider data. By the end of 2020, we received replies from 33% of the companies we had reached out to, equivalent to 10 issuers, with four of them confirming that their coal policy is in line with a 2030 exit.

Some companies required a more detailed engagement such as RWE, a German utilities company, BHP, and an Anglo-Australian mining company. These were companies that may not have communicated a coal exit policy or have one that is not in line with the 2030 timeline.

A Thermal Coal Exit for BHP

The Amundi ESG Research team conducted a joint engagement alongside the Amundi Equity team on the topic of climate strategies, a material issue for the financial teams. At the time of engagement in May 2020, BHP had not yet announced a formal coal exit strategy, which was a key point of concern for the Amundi team. They had previously stated that thermal coal had a "low long-term attractiveness" and that there was "no appetite for growth" but no formal commitment or target had yet been published. By September 2020, BHP had announced not only a thermal coal exit in the next few years but finally a medium term target to reduce operational emissions by at least 30% from adjusted 2020 levels by 2030. BHP had expressed a commitment to set a medium term Science Based Target but at the time of engagement there was no public target. Amundi can certainly not take sole credit for the positive engagement resulting in BHP meeting our desired outcomes; however, the success of the engagement demonstrates the positive influence that the financial community can have on encouraging companies to commit to a Paris Aligned Transition.

Pushing RWE to Reach a 2030 Coal Exit

The Amundi ESG Research team engaged with RWE several times during 2020. Amundi's emphasis on climate change and its de-carbonization efforts, including the 2030 coal phase out from OECD domiciled companies, was communicated to RWE. While RWE is on a de-carbonization journey, the speed of this transition has been a subject of conversation between the two companies throughout these engagement conversations. By the end of 2020, Amundi saw two sizeable developments:

1. RWE participated in the first German auction to decommission hard coal fired power plants, in H2 2020. The company won compensation to close both, the 800 MW Unit E of its Westfalen power plant in Hamm, and the 800 MW Unit B of the Ibbenbüren power plant. With the success of these tenders, RWE closed all its hard coal plants in Germany by the 31st of December 2020 (the plants are scheduled to be decommissioned once a formal notification from the grid agency comes through).
2. RWE expanded its de-carbonization targets from just Scope 1 to include both Scope 2 and 3. The company commits to achieving a 50% reduction in specific greenhouse gas emissions from Scope 1 and 2 by 2030 measured against the year 2019. RWE also aims to reduce Scope 3 emissions by 30% by 2030 measured against the year 2019. These targets have been certified by the Science Based Targets initiative (SBTi), to be aligned with the Paris Agreement, and aim to curb global temperature rise to well below 2°C.

We aim to continue the discussion on Amundi's 2030 coal exit plan and RWE's coal exit strategy. However RWE's move in the right direction with the aforementioned points, is welcomed by Amundi.

Inspiring the Insurance Sector to set their own Fossil Fuel Policies

Energy transition and climate change mitigation was selected as one of Amundi's two key topics for its 2020 engagement & voting policy. The single biggest source of CO_2 emissions remains the burning of coal. If we follow the recommendations from the IPCC whom aim to limit global warming to 1.5°C, we can no longer afford to build any new coal projects and need to phase out existing coal operations.

As a result, we have dialogued with insurers on their fossil fuel exit strategies. We have chosen insurers, as we believe that a change into this sector's policies towards best practices will significantly contribute to the energy transition.

The industry has two levers to contribute to the energy transition: its investment guidelines and its underwriting policies.

An Insurer's Coal Policy would be consistent with the IPCC's 1.5°C pathway if it stipulates an:

- Exit from coal related investments
- End to underwriting new coal projects and coal companies
- End to insurance cover of existing coal projects and companies, unless the latter are engaged in a rapid transition process away from coal to clean energy.

As of November 2020, 23 insurance companies had committed to end or limit the underwriting of coal projects, according to research from "Insure our Future", a coalition of NGO's. Additionally, at least 65 insurance companies had adopted a policy to divest from coal or to end further investments in the coal industry.

Engagement targets

We have been asking insurers to announce a fossil fuel exit policy and for this policy to be specific. We believe that the sole announcement by an insurer to exit coal is not sufficient.

A robust Fossil Fuel Policy should contain the following:

- A clear definition of coal mining and coal-fired power plants (a relative threshold based on revenues or electricity generation and an absolute threshold based on annual thermal coal production or coal capacity)
- A date for the full exit from coal (which should be effectuated at the latest by 2030 in EU and OECD countries, and by 2040 worldwide, in order to stay below the 1.5°C limit - as determined by the IPCC)
- The exclusion of coal developers.

We also would like the fossil fuel policy to apply to the investment side (own assets and third party assets) as well as the underwriting activities of the business.

Engagement Results

In the following table, we summarize the state of the fossil fuel policies of the companies we engaged with: policy in place at the beginning of 2020, measures announced during the year and remaining recommendations we have put forward to bring policies in line with best practice.

Company name	Main points of fossil fuel policy at the start of 2020	What has been achieved during 2020	Recommendations
Company A (US)	No policy	Coal policy is being discussed internally.	■ Formally publish a coal exit policy.
Company B (UK)	No policy	Currently working on a group-wide coal definition and policy.	■ Formally publish a coal exit policy.
Company C (Japan)	No policy	Announced a commitment "in principle, [to] not provide insurance for, nor make investments in new coal-fired power plants."	■ Remove reservation on the exclusion of new coal plants. ■ Adopt an exit policy for existing coal plants and coalmines. ■ Clearly define a full phase out plan.
Company D (Hong Kong)	No policy	Announced a review of its investment exposure towards coal mining and coal-fired power plants.	■ Further details on the management of its investment exposure to coal. ■ Clearly define a full phase out plan.
Company E (US)	Exclude underwriting of and investments in companies with >25% of extraction, production or revenues from thermal coal. Phase out of existing risks by 2023.	No developments	■ Earlier phase out of existing risks. ■ Introduction of an absolute threshold. ■ Exclusion of coal developers. ■ Clearly define a full phase out plan.
Company F (Italy)	Generally, exclude investments in companies ■ deriving >30% of revenues or energy production from coal, ■ producing >20m tons /year of coal, or ■ actively involved in building new coal facilities or plants. Policy includes exceptions for heavily coal-dependent countries. Engaging with the six coal companies remaining. No longer investing in companies generating >5% of revenue from tar sands and operators of controversial pipelines dedicated to the transport of tar sands.	No underwriting of companies generating >5% of revenue from tar sands and operators of controversial pipelines dedicated to the transport of tar sands.	■ Remove the exception for heavily coal-dependent countries. ■ Extend the coal policy to its third party assets. ■ Clearly define a full phase out plan.
Company G (the Netherlands)	Exclusion of companies with ■ >20% revenues related to coal and lignite, or ■ >20% revenues related to tar sands and oil shale, or ■ >50% revenues related to coal-fired electricity production.	No developments	■ Introduction of an absolute threshold. ■ Lower the 50% threshold for coal-fired power plants. ■ Clearly define a full phase out plan.
Company H (Germany)	Exit from and no new investments in companies ■ With >30% of revenues from coal extraction or coal-fired power generation, ■ With >10% of revenues from oil sands. No insurance[5] for ■ New coal power plants, mining and related infrastructure[6], ■ New and existing oil sand sites and related infrastructure[6].	For investments and underwriting: commitment to a full exit of thermal coal by 2040, with a 35% emissions reduction for thermal coal targeted by 2025[7]. A phase out plan for oil & gas: ■ Reduce emissions from oil & gas investments with 25% by 2025 and reach net-zero emissions by 2050. ■ Reduce emissions from the insurance of oil & gas production with 5% by 2025 and reach net-zero emissions by 2050.	■ None

(5) Direct & facultative reinsurance and primary business. Not including treaty reinsurance business, for which no such guarantee can be given.
(6) Minor exceptions apply such as sites in countries with <90% electrification rate.
(7) Except for treaty reinsurance business, for which no such guarantee can be given.

Preserving Natural Capital: The Environmental Transition

We rely heavily on our surrounding environment. The earth's biodiversity provides economic and social values such as material benefits (i.e. food and fuel) and ecosystem services (climate regulation, pollination services). Unfortunately, biodiversity is in a state of rapid decline due to human activities such as waste & pollution, overconsumption of resources and habitat degradation. This is in addition to climate change. A growing human population and increased human activities are altering the natural world at an unprecedented rate.

At Amundi, we engage on natural capital preservation holistically, meaning we engage on the specific topics that result in natural capital destruction and environmental degradation. This includes specific drivers of biodiversity loss (such as waste and deforestation) and new opportunities to find solutions like circular economy.

Natural Capital Preservation
(Ecosystem Protection & Biodiversity Loss)
378

of which is

67
Circular Economy
(including Plastic)

96
Biodiversity
(including Deforestation)

215
Other
(including water, pollution, etc)

3 Questions to Lorna Lucet,
ESG Analyst and Circular Economy expert

Circular Economy: Turning Theory into Reality

Why are We Talking about the Circular Economy so Much?

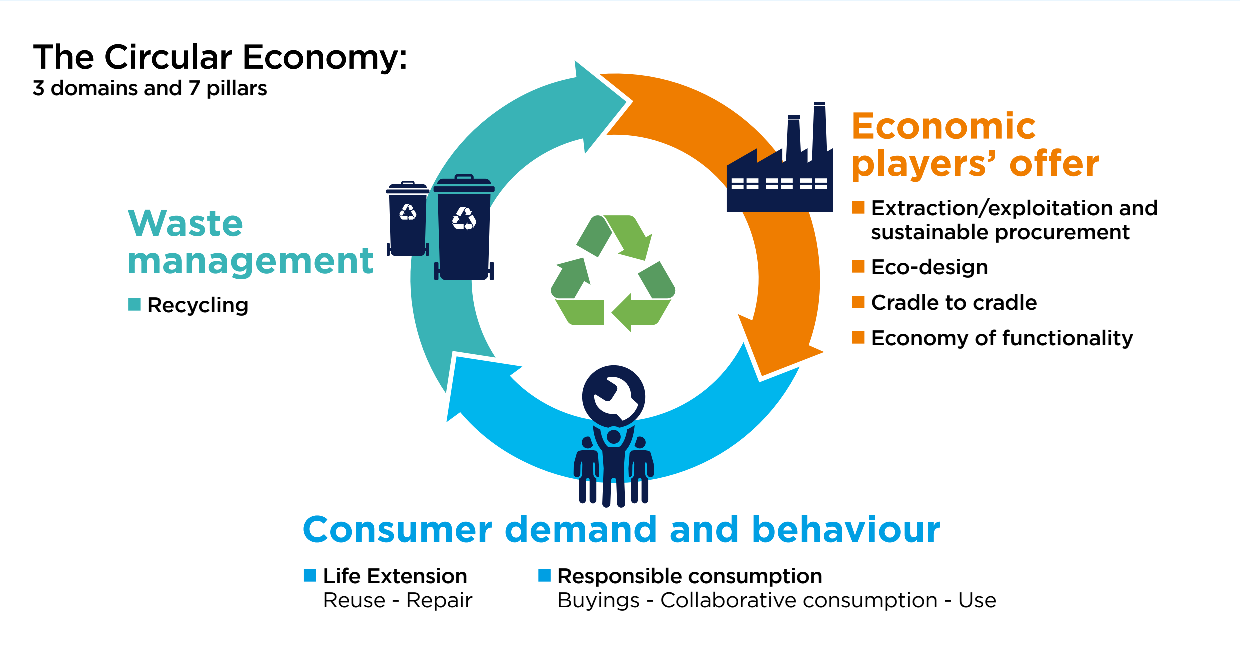
The reason is quite simple: our world is one of finite materials but we do not live as if this was the case. The linear system – the way we take, make, consume and dispose – governs our way of life.

This method of consumption is no longer sustainable. Every year, the Earth Overshoot day – the day on which humanity's demand for ecological resources and services exceed what Earth can regenerate in that year – occurs even earlier. In 2019, the Earth overshoot day was July, 29th, which means that 1.75 planets were necessary to satisfy all our needs without borrowing from the next generation. By comparison, only 1 planet's worth of resources was needed in 1969 (8).

The consumption of resources is expected to grow from 85bn to 180bn tons by 2050, which is not sustainable. Unfortunately, recycling capacities remain underdeveloped, with only 40% of materials being recycled in the EU.

This is why we must change our model from a linear model to a circular one, as defined by Ademe (9):

"Circular economy can be defined as an economic system of trade and production which, at all stages of the product lifecycle (goods and services), aims to increase the efficiency of use of resource and reduce environmental impact while developing the well-being of individuals".



(8) Because of Covid-19 and the lockdown, 2020 was a non-standard year and the date was back to August, 22nd.
(9) The French Agency for an Ecological Transition, https://www.ademe.fr/

Consequently, we must:

- Reduce resource consumption
- Promote reuse
- Recycle.

Realizing a circular economy will be supported by a growing awareness of environmental and social issues as well as possible legislation. The European Green Deal aims to make Europe the first climate-neutral continent by 2050 and the New Circular Economy Action Plan aims to decouple economic growth from resource use. This means that we will use fewer resources per unit of economic output and reduce the environmental impact of any resources used or economic activities undertaken. It is now up to companies to play their role.

How did Amundi Conduct Engagement Around Circular Economy?

The EU's New Circular Economy Plan focuses on seven key sectors: Electronics & ICT (Information & Communications Technology); Batteries & Vehicles; Packaging; Textiles; Construction & Building; Food, Water & Nutrients.

We have decided to launch a three-year engagement with four out of these seven: Electronics & ICT; Batteries & Vehicles; Textiles; Construction & Building. In total, 27 companies have accepted to answer our questions on this subject, based all over the world (North America, Europe and Asia).

The goals of this first year of engagement was to understand:

- Company's implementation of circular economy in practice and the main issues
- Viable solutions tested by companies for a circular economy
- Best practices for each sector.

To achieve these goals, we have developed a proprietary evaluation tool assessing companies through four criteria:

1. How key is the circular economy in the governance bodies and in the company's strategy?
2. How ambitious are the company's commitments on the circular economy?
3. How is the circular economy implemented in the day-to-day business?
4. How is the company trying to make its products last longer?

This tool has allowed us to assess all companies and to compare them within their sector to highlight mega trends, define best practices and identify areas of improvement. We will share the results of this first year of engagement with companies and provide them recommendations which will be the foundation of our engagements in the following years.

What are the main results at the end of year one?

At the end of the first year, we can highlight 5 key conclusions:

1. **Despite varying levels of maturity, three sectors are clearly ahead: Electronics & ICT, Textiles and Automobiles.** The construction sector lags behind. Considering the context the varying levels of maturity make sense. Electronics & ICT has faced many controversies regarding planned obsolescence of their products. For textiles, heavy consumer and media scrutiny over the impacts of fast fashion as well as flouring new business models including the second-hand market have encouraged the sector to innovate. However, for many companies, circular strategies remain limited to small pilots. By contrast, for Construction & Building Products, we see that circular economy is only at a nascent stage: while change is mandatory translating it into action is difficult.
2. **Upcoming European legislation is accelerating the Circular Economy.** Ambitious legislation will force companies to turn away from decades of cheap and easy-to-replace products, and finally take into account environmental considerations including GHG emissions and product longevity and recyclability.
3. **Circular economy is still little known by senior management.** Corporate social responsibility strategy incorporate the concept increasingly. However, if the shift is understood by some people, it is still difficult to make it penetrate all the business lines and to make it a driver for the new production.
4. **Recycling is more developed for Electronics & ICT and Automobiles,** while eco-design is favored by Textile and Construction. Recycling is a quick-win for the first two industries to save money and resources. By contrast, for the textile sector, using recycled feedstock is not yet completely feasible so efforts are more focused around eco-design. Construction & Building Products is similar as materials must be upgraded to eventually be recyclable so the industry's focus is primarily on innovation.
5. **All sectors have their own specific multi stakeholder initiatives** (MSIs) to find solutions collectively. This could be in preparation for upcoming legislation or evidence that "unity is strength" for major sustainability issues the world has yet to solve.

What is Amundi expecting from companies as a responsible investor for the following years?

Companies are still trying to only marginally adjust their business-model but a true circular model may require a more radical change. Companies need to start implementing the principles of a circular economy across the value chain, from eco-design to the end-of-life.

Upcoming legislation, including the fight against climate change will accelerate this transition. The Circular Economy presents a major opportunity if done right. It is estimated that circular economy can cut CO_2 emissions by 56% by 2050.

In 2021 we will focus our engagement only on key areas and define specific recommendations for each company in each sector. The areas of priority will vary between the type of company and level of maturity within each sector to ensure our engagements have the highest impact.

Construction & Building Materials: Circular Economy, a Concept that Lacks Reality

The Construction Sector is Under Pressure by the EU Legislation to become more Circular

The construction sector uses a vast amount of resources and accounts for about 50% of all extracted material. The sector is responsible for over 35% [10] of the EU's total waste generation and the overall rate of recovery of building waste varies, depending on different sources, from 48% to 64% [11].

The European Union has been working on a set of regulations to tackle GHG emissions with one of its focus - amongst others - on buildings notably through its EU Green Deal and Renovation wave. The potential for greater material efficiency will help reduce climate impacts so the EU has launched a comprehensive strategy for a sustainable built environment based on existing policies linked to climate, energy & resource efficiency, management of construction, and demolition waste. The strategy promotes circularity principles throughout the lifecycle of the buildings by addressing:

- Introduction of recycled content for certain construction products
- Treating sustainability performance of construction products, or
- Promoting measures to improve the durability and adaptability of safety and functionality.

The Construction Sector Must Rethink its Business Strategy

Amundi spoke to 8 European construction companies covering all the range of activities of the construction sector: from building products, to construction material producers, to construction and engineering companies.

Circular Economy: Increasing in Importance but not yet Strategic

Circularity is part of the environmental strategy: Circularity was integrated into the environmental strategy but not handled specifically. For example, circular economy is mentioned in most materiality matrixes but is not always a high priority.

Waste management is a major focal point: Companies have been managing their waste impacts for quite a while, though, with various maturity levels.

Recyclability is key but is mainly applied to new materials: Recyclability is either linked to material scarcity and/or is linked with the companies' general environmental policy. Circular designs are mostly applied to new materials and is accessed in terms of the lifecycles of the materials and the buildings.

Carbon Neutrality is the Priority: Circular economy is a way to reduce GHG emissions. All companies focused on CO_2 reduction as well reducing energy consumption, notably fuels through use of alternative energies.

The Construction Sector Seems stuck in its Old Ways

The Circular economy still lacks investments as for most companies adapting means a change in their business models and that implies specific investments. For most it remains a challenge. The Circular economy is not yet a criterion in the R&D processes: Innovation and sustainable construction or eco-design often go hand in hand but without specific projection relating to circular economy.

Circular Economy: not yet seen as a Competitive Advantage but Legislation Could make things Change

Circular products are not seen to be a competitive advantage by customers. It is still a challenge for the companies to convince customers to choose the recycled or reusable materials over new ones. All companies are involved in on-going legislation. All companies are in contact with officials to discuss regulations regarding sustainability and the circular economy. For some, these regulations are viewed as opportunities.

The sector is very active in working groups: all companies in the panel take part to initiatives whether at international or local level by working with academics or governments or taking part to local initiatives.

Continued lack of Concrete Solutions

All the companies interviewed have circularity policies, however, the maturity on circularity varies. Not all elements of a circular economy are being addressed by most companies and there is a lack of ambitious quantification. Nevertheless, the topic is still managed to some extent and the awareness in the sector is rising. We expect progress in the years to come in this area.

(10) Eutelsat data from 2016
(11) https://www.ecologie.gouv.fr/dechets-du-batiment

3 Questions to Fatima Benamira,
ESG Analyst - Construction and Building Materials

The European Renovation Wave

Why is the Renovation Wave Important?

Though responsible for over 35% of greenhouse gas emissions (GHG), only 1% of buildings are renovated each year. A much faster rate of renovation is needed to reduce GHG with the 2050 goal of achieving carbon neutrality. In consideration of these figures, on 14 October 2020, the European Commission published its Renovation Wave Strategy aiming at improving renovation rates by 2030 through renovating 35 million buildings and creating up to 160 000 additional green jobs in the construction sector.

What are the Key Actions to be Carried out by European Commission?

These goals will be carried through some key actions such as (list is non exhaustive):

- Stronger regulations, standards and information on buildings performance in terms of energy and CO_2
- Increasing capacity to prepare and implement renovation projects, from technical assistance to national and local authorities through the training and skills development for workers in new green jobs
- Expanding the market for sustainable construction products and services, including the integration of new materials and nature-based solutions, and revised legislation on marketing of construction products and material reuse and recovery targets.
- Promoting the de-carbonization of heating and cooling, which is responsible for 80 % of energy consumed in residential buildings, in particular through revisions of the Renewable Energy and Energy Efficiency Directives and the EU ETS in 2021, as well as making full use of the existing provisions of the Eco-design Framework Directive
- Creating a New European Bauhaus, an interdisciplinary project co-steered by an advisory board of external experts including scientists, architects, designers, artists, planners and civil society.

What are the Consequences on the Companies?

Though it is too soon to foresee the consequences on the companies, there are some potential consequences. First, stringent regulations are likely to promote a push towards promoting investment in less carbon intensive products or technologies especially in the near future with Phase IV of EU ETS. Thus, there is a noticeable rise in CCUS projects. Second, companies are likely to go beyond pure product strategy and develop services to their customers to benefit from the Renovation Wave. Some companies are already doing this and it is likely to increase in the future. Finally, there are likely to be increases in digitalization and platforms processes and become construction 4.0 companies meaning construction companies will modernize to integrate digital technologies.

The Automobile Sector: On the Road to a Circular Economy

Increasing legislation around the Circular Economy for over 20 years

The automobile sector is a heavy consumer of natural resources and is responsible for approximately 80% of all rubber consumption, 25% of all aluminum and 15% of all steel (12). Cars contain 1.4 tons of material on average.

The European Union has long regulated the use of resources by automobile manufacturers. In 2000, the directive on End-of Life Vehicles (13) (currently under review) aimed at reducing the waste arising from end-of-life vehicles and achieving reuse, recycling and recovery targets. For instance, it sets reuse and recycling targets at 85% of the weight of the vehicle.

Navigating between new constraints and major opportunities

The Circular Economy covers a vast array of practices in the sector. Across the value chain, it covers the sourcing of sustainable, recycled and reusable products, the eco-design and the end-of-life. For electric vehicles this also means offering a second life for batteries which contain precious metals.

(12) www.wbcsd.org
(13) https://ec.europa.eu/environment/waste/elv/

The circular economy model can reduce manufacturing costs (commodity prices can be very volatile), strengthen customer loyalty, increase operational efficiency and obviously reduce the overall environmental impact of automobile manufacturers. By investing in R&D in design and improving end-of-life management, the industry can capture economic value and reduce its environmental footprint. For example, collaboration with suppliers for sustainable raw material management, efficient "waste" management and product life extension should help the OEM (Original Equipment Manufacturer) stay ahead of ever more stringent regulation and customer expectations.

Circularity: Already a Key Consideration in the Auto Sector

Amundi engaged with seven automobile manufacturers globally, to better understand their approach to circular economy and how advanced they are in terms of governance, strategy and innovation.

Top Management Already Familiar with Circular Economy

Circular Economy is well known by the top management: all the companies under engagement have a clear Circular Economy strategy endorsed at the highest level of the company. This can be explained by several reasons:

1. Strong EU legislation since 2000 and in major markets
2. The desire to reduce costs that compel the sector to reinvent itself, including reducing the amount of costly raw materials and eco-designing
3. The rise of electric vehicles that questions the entire way a car is designed.

Policies are well-structured and efficient with precise objectives and quantifiable targets. All of the respondents display objectives and targets. One company set ambitious targets to have vehicles by 2025 contain at least 25% recycled or bio-based plastics, 25% recycled aluminum and 40% recycled steel.

Closing the Loop is Key to their Environmental Strategy

All companies reported on their willingness to decouple resource consumption from growth by closing material loops and all are at least in the process of developing closed loops, with some being more advanced than others. Several companies have created closed loop systems with some of their aluminum suppliers. One company has set the target of 40% closed loop returns on aluminum sheet from manufacturing operations by 2025.

Companies are also looking for new ecosystems for EV batteries and are in the process of creating business models that extend the life of EV batteries, extend their use and recycle them.

The Most Advanced Companies have Business Units Completely Dedicated to CE.

These business units oversee the circular economy strategies of companies. They also develop and consolidate new business streams with the objective of using a company's industrial, technical, logistical capacities and strengths to offer clients a broad range of parts and services.

3 Questions to Patrick Haustant,
ESG Analyst - Automobiles

Case Study: Renault, a Leader on Circular Economy

Why are you engaging with this company?

Renault is a French multinational automobile manufacturer that produces and markets a large range of cars and vans. Renault is a strategic partner of the Ellen MacArthur Foundation whose mission is to accelerate the transition towards a circular economy. It has a clear and well-developed strategy on CE. Renault states it has three main ESG challenges: climate change and the reduction of GHG emissions, health (reducing pollution) and the preservation of resources which encompasses CE.

Can you describe Renault's Circular Economy strategy?

Renault's circular economy strategy revolves around:

- Keeping recycled materials use for new cars (with recycled plastics for instance)
- Recycling materials in closed loops, reusing parts, extending product life
- Intensifying product use.

Renault strives to increase recycle material use in new cars and has disclosed ambitious targets (+50% of recycled in 2022 vs 2013). They also recycle materials such as copper or platinum metals (rare and expensive) in closed-loops.

Renault prides itself on having set its own circular ecosystem to recycle and reuse materials. With French company Suez, it operates Indra, a joint venture specializing in end-of-life vehicle dismantling and second life parts. Indra collects end-of-life vehicles from car dealers, insurers, garages and individuals. Cars are dismantled and then reintroduced into the supply chain for the production of new vehicles. As for spare parts, they are reused for vehicle repairs in the company's post-sales network through Gaia which is a fully-owned subsidiary. Remanufactured parts are then sold at a reduced price (-40% in average) and have the same guarantees in terms of qualities and warranties. The system set up by the manufacturer is totally integrated as Renault has heavily invested through partnerships and holdings in the development of recycling channels to secure materials supplies and reduce its impact on resources.

Like many peers, Renault seeks to extend the life of its products. This is the case of EV Lithium-ion batteries. After their life in electric vehicles, batteries still have around 60%-70% of their previous charge-storing capacity. (14) Renault has set-up various partnerships to develop stationary storage and mobile applications for second hand batteries.

What sets Renault apart in your opinion?

The company's circular economy activities and recycling channels enabled the company to generate a turnover of EUR562 million in 2019. Renault has also announced that its historical Flins factory will become the first European center/factory dedicated to circular economy in between 2021 and 2024. The Re-FACTORY will refit, and recycle vehicles. Renault intends to set a "competitive industrial model based on the potential for value creation generated by the vehicle throughout its life". (15)

The Electronics & ICT Sector: the Sector Fears the Upcoming and Ambitious EU Legislation

The EU wants to set a new global standard after decades of waste generation and insufficient recycling rates.

In the context of the 2020 European new circular economy plan, the Electronics & ICT value chain has been identified as one of seven key targets for action given its environmental impact and circularity potential.

E-Waste: A fast Growing Waste Stream with Low Recycling Rates

For many years the sector has been experiencing strong growth resulting into one of the fastest growing waste streams known as e-waste. E-waste has a low recycling rate and in 2019 only 17% of global e-waste was collected and properly recycled. (16) The remaining 44 million metric tons of e-waste, was either placed in landfill, burned illegally, traded, or treated in a sub-standard way. In the European Union, it is estimated that less than 40% of electronic waste is recycled. (17) To improve the situation, the European Commission is set to introduce a 'Circular Electronics Initiative' to ensure that products sold in the EU are designed to contain more recycled materials and have longer lifespans.

E-Waste is defined by three key characteristics

1. Early obsolescence many products made by the industry are not designed to last, contributing to robust sales while generating huge streams of waste.
2. E-waste is difficult to repair because of poor design with welded or glued components that damage other key parts when you open up the device.
3. E-waste is difficult to recycle as the recycling industry fully developed and some technical difficulties such as hazardous substances need to be safely managed for both operators and the environment.

New and more restrictive legislations are about to come at the EU level and national level

The European Commission aims to make the Eco-design framework applicable to the broadest possible range of products and make it deliver on circularity as up to 80% of products' environmental impacts are determined at the design phase. (18) The revised EU Ecolabel for electronic displays aims, in particular, at promoting products that are energy efficient, repairable, easy to dismantle, have a minimum recycled content and which may only contain a limited amount of hazardous substances. France became the first country to use an official reparability index since January 2021. Displaying the reparability index is now mandatory at the point of sale for all smartphones, laptops, televisions, washing machines and lawnmowers.

(14) HSBC, More than just missions September 2020
(15) www.group.renault.com
(16) https://weee-forum.org/publications-papers/
(17) https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_rt130&plugin=1
(18) EC Circular Economy Action Plan

Improving Durability and Reparability is Key for the Sector

Improving product durability and reparability remains likely the best lever to not only reduce the amount of e-waste generated by electronics devices but also to reduce the need for newly mined mineral resources and incremental carbon emissions. We consider this strategy to be aligned with the long-term business case given resource extraction comes with growing risks of constrained supplies of rare earths and metals while the industry has now committed to carbon neutrality in the coming decades in line with the Paris agreement.

Confronting our expectations with the industry's current reality

During the first year of engagement and based on the upcoming new European regulation, we have focused on four areas we believe are key to the transition to a circular business model – design for durability, reparability, circularity-friendly business-model, partnerships and cooperation with suppliers - and compared the actual companies' practices against what we consider to be the industry best practices. We engaged with 7 global electronics and ICT companies, headquartered in the US and Asia, in this campaign to assess where they stand in the transition of their economic model from linear to circular.

Circular Economy is Well-Known and Actions have already been put in Place...

The circular economy is well identified. Most companies have clearly identified the circular economy as a key pillar of their business strategy with proper board or management oversight and support; integration in the business differs notably depending on the number of business lines.

Large number of multi stakeholder initiatives exist for the sector. Most companies in our panel take part in numerous collaborative initiatives with partners or coordination bodies at the international and local level.

Actions are taken to meet the challenge but they need to be expanded. Eco-design is a fast-developing area, where product differences clearly exist. Life Cycle Analysis (LCA) are usually used but they need to cover impacts beyond energy efficiency which has been the focus until now. As of today, eco-design initiatives are often limited to a few products and pilot projects in some cases. We would like to see this area grow faster.

... However, these Actions need to be Heavily Expanded to meet the Upcoming Legislation

Inclusion of recycled materials does not yet include rare earth materials. Closed-loops are still limited to plastics parts. However, metals such as steel and iron are used in large quantities and the value chain for these recycled material already exists.

Product as a service has a long way to go. While operational in some cases, mostly for B2B (Business to Business) and B2C (Business to Customer) it is still at a nascent stage. Regardless, overall, both types of customers show resistance to new models as they seem to value ownership. Improved communication to customers on the benefits of new models is needed.

The upcoming legislation will oblige companies to move faster. The lack of economic incentives has prevented progress on the CE so far. Most circular economy initiatives were often put in place to comply with the law. The recycling of plastic is an example where the economic incentive is more established, hence its wide adoption. The situation seems poised to improve as the European Commission wants to reward products based on their different sustainability performance namely, by linking high performance levels to incentives.

Going Forward in 2021

At the end of this first year, we would like to highlight three areas for improvement:

1. Quantitative goals must be defined by companies to better follow the improvements, i.e. number of devices or percentage of revenues with attached circular economy traits, such as reparability or recyclability.
2. Companies should keep focusing on their products - whose impact is most often higher - rather than on packaging.
3. Third-party assessments - or labels at product level - need to be developed and used extensively to help consumers identify the best ecological offers and build trust around second-hand devices.

3 Questions to Pierre Gielen, ESG Analyst - Technology, Media and Telecommunications

Case study : US Based Computer Hardware Company

Why are you Engaging with this Company?

This company is a key player in its sector and its commitment to the Circular Economy started back in the 90's with its Chairman being vocal on this subject. The circular economy fits into the social impact the company wants to have. In 1996, an asset recovery program was launched and since then, 2.1bn pounds of IT assets have been recovered.

In Dec 2019, the company set its "2030 moonshot goals": For every product sold, the company will recycle or reuse one equivalent product. In addition, 100% of its packaging will be made from recycled or renewable material (vs 85% today). Also, more than half of its product content will be made from recycled or renewable material.

What are the main highlights of the Engagement?

The company's strategy is two-fold: at the product level, the company uses reused plastic in computers and accessories but this varies depending on the product range. The highest rate is 50% of closed-loop plastic for one product range. At the business level, the company offers part of its products through leasing. However, customers are somewhat resistant for the time being.

Furthermore, the company carries out extensive LCAs (Life Cycle Assessments) and material studies of key metals such as steel, aluminum, copper, or glass. Plastics are also given a lot of attention and analysis, notably in terms of comparison between virgin plastic and recycled plastic. On specific projects, they have developed an approach to measure the net benefit for other environmental impacts (e.g. human health, air and water pollution, eco toxicity) of the closed-loop plastic, compared to traditional plastic.

What are you expecting from the company in the coming years?

We would like to see further development of their pilot projects concerning rare earth metals despite the scaling challenges. For example, the company pioneered a closed-loop process for recycling gold from e-waste back into new motherboards in 2018. In another pilot program, the company continues to explore ways to recycle rare earths at scale. As the range of products that use rare earth metals are rising, finding a way to recycle them could become a competitive advantage.

We also encourage them to deepen their partnerships with peers and stakeholders for cradle-to-cradle products. While the company is a believer in cross-industry cooperation both pre-competitively within the sector and in conjunction with other sectors, we believe they can go even further with partners to achieve cradle-to-cradle certified products.

Circularity in the fashion industry: making circular the new black

The problem of a linear system

More than 50% of the fashion produced is discarded the same year

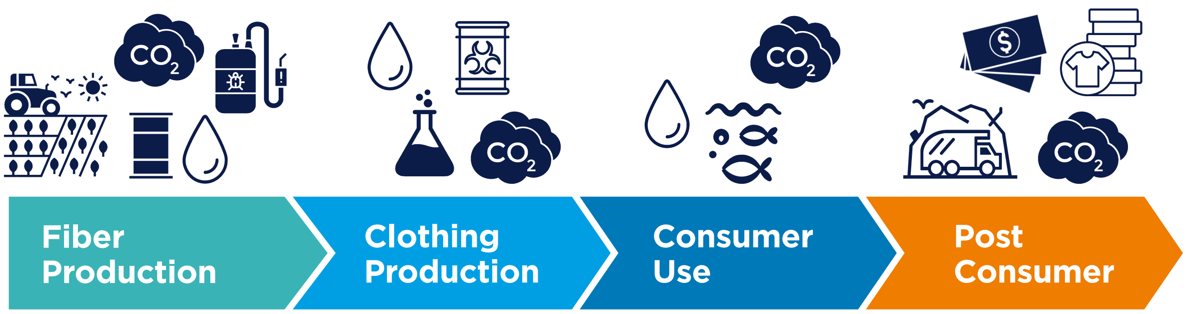
The fashion industry is a USD 1.3 trillion dollar industry and in the last 15 years, clothing production has doubled to more than 100bn units a year. Sadly, more than 50% of the fashion produced is discarded in the same year. Clothing is estimated to be worn, on average, only seven to ten times. This decrease in utilization rate is partly due to a growing middle class that has increased per capita revenues coupled with the rise of 'fast fashion', fashion brands characterized by quicker turnaround of new styles, increased collections, and lower prices.

A linear system has an environmental cost

In addition, more than 50% of fast fashion produced is disposed in under a year. Unfortunately, less than 1% of material used to produce clothing is recycled into new clothing representing a loss of more than USD 100 billion worth of materials each year [19]. The 73% that is landfilled or incinerated represents a significant cost, for example, in the UK, the cost of landfilling clothing is estimated at GBP 82 million [20].

This high production of clothes makes this industry highly polluting. Clothing production requires significant environmentally harmful inputs such as energy, water, and pesticides. Fashion is currently a linear system (see figure below) that puts pressure on resources, pollutes the environment, degrades ecosystems and leaves circular economic opportunities untapped.

Linear Fashion System:
Environmental Impacts throughout the Life Cycle of a Garment



A circular model presents opportunities

A circular business model can present opportunities for the industry such as untapped sources of raw materials. If the fashion industry were to address the environmental and societal impact of the current industry status quo, the overall benefit to the world economy has been estimated to be about EUR 160 billion in 2030.

How to create a circular model for fashion?

In a perfect closed loop model, textiles and fibers remain at their highest value after use and re-enter the economy, never ending up as waste.

Circular economy for fashion: three key principles:

1. Design out waste and pollution: designing products without the negative impacts including GHG emissions, hazardous substances, pollution, and excessive water consumption.
2. Regenerate natural systems: avoiding the use of nonrenewable resources and preserve or enhance renewable ones such as by using nutrients to support soil regeneration or using renewable energy as opposed to fossil fuels.
3. Keep products and materials in use: designing products for durability, reuse, remanufacturing, and recycling to keep products, components, and materials circulating into the economy. Circular systems will ideally make effective use of biologically based materials and encourage multiple uses before nutrients are eventually biodegraded. To do so this includes:
   - Phasing out substances of concern and microfiber release
   - Transforming the way clothes are designed, sold and used to break free from the disposable business model
   - Radically improve recycling by transforming clothing design, collection, and reprocessing.

A circular economy for fashion is not simply adjusting activities to reduce negative impacts. It requires a

(19) *Ellen MacArthur, 2018*
(20) *Pule of fashion industry report*

systemic shift to build long-term resilience, generate business and economic opportunities and provide environmental and societal benefits.

Engagement scope

The engagement campaign included seven European companies as North Americans companies declined to participate, indicating that Europe is likely more ahead on the circular economy.

Two key elements: designing out waste & pollution and keeping products and materials in use

We focused on these two aspects of a circular model because they rely on a more systemic shift in the business model. Regenerative systems is also essential but a general observation is that more work was being done to ensure certified materials (i.e. certified viscose and BCI/organic cotton) than actually transitioning to a more circular model, taking into account the lifecycle of products including disposal and end of life.

Engagement Conclusions : The Path to Scaling Circular Economy

No distinct strategy at the board level

While half of the analyzed companies do discuss Circular Economy at the board level, the circular economy is strongly assimilated into sustainability overall, rather than being addressed as a distinct strategic topic. This does not enable companies to address the entire spectrum of opportunities offered by a circular model.

Commitments are often ambiguous

All companies under analysis had some type of commitments to increase sustainably sourced materials: however, many of these commitments are shrouded in imprecise and unregulated terms such as “sustainable polyester” or “responsibly sourced materials”. This indicates that they are more often riding the circular economy trend for marketing reasons, without truly delivering. We acknowledge that a true circular economy is not yet completely possible but stronger commitments will inspire increased investment in areas that still require development, such as fully cradle-to-cradle products, which no company had clear commitments on.

Some concrete solutions are still at a nascent stage:

Reparability and longevity
Efforts around longevity, reparability and end of life are limited. Only two companies in our study had any type of pilot project around reparability of products and almost no company had any type of communication with customers on how to extend the longevity of a product they have purchased. Furthermore, customer engagement around CE including campaigns around responsible consumption, maintenance and disposal of products was very limited. Increasing this communication could help companies forge stronger relationships with customers and open them up to new business models, such as second hand clothing markets and product personalization. Only one luxury company in our study demonstrated relatively strong performance as they had a project to enable customers to “refresh” purchased items with personalization and patch solutions if clothing had any breaks or tears. These types of projects help extend the longevity of the product while also encouraging customers to make repeat trips to stores.

Managing end of life
Managing the end of life of products is limited. Very few companies had any clear strategy about managing the end of life of their own products. While numerous companies in the study had some sort of garment collection system, only one comprehensively reported on what precisely happened to the garments that were collected and, more specifically, how many were being made into new clothes or resold on a secondary market (a more viable strategy for the luxury sector).

Partnerships between suppliers and industry peers are essential

Strong supplier partnerships
Strong supplier partnerships are essential to realize a Circular Economy. Companies in the study with the strongest overall scores also had the strongest performance on supplier relationships. This makes sense because achieving circularity requires the full participation of suppliers so that they can invest in environmental improvements with a guarantee of continuous orders. Strong practices include quantitative targets for suppliers on environmental targets as well as comprehensive supplier training on CE with targets or KPIs. This is a win-win situation for both suppliers and brands in improving their offer.

Multi-stakeholder initiatives
Companies are active in joining multi stakeholder initiatives (MSIs) to support a circular economy including initiatives around micro plastics, chemical safety, and R&D. Collective initiatives enable companies to pool resources, share knowledge and collectively find solutions where none might exist. However, involvement with collective initiatives has to coincide with actual changes in business model and strategy.

3 Questions to Molly Minton,
ESG Analyst - Apparel
and Consumer Products

Case study: adidas

Why did you chose to highlight adidas?

adidas was one of the top performers in our study but there were a few particular points that made the adidas case so interesting.

adidas has a clear strategy specifically on the Circular Economy. Discussed at board level, they have three clear strategy loops representing different avenues and opportunities of CE (scaling polyester loop, R&D loop, and regenerative loop). adidas has clear goals around circular polyester and aims to replace all virgin polyester with recycled products where a solution exists. By the end of 2020, 60% of all polyester used for apparel and footwear ranges were recycled polyester demonstrating that circular thinking is already starting to scale.

What made the adidas case so unique?

Concerning the end of life of their products, adidas is aiming to implement a global product take back program to all key cities and markets where they will incentivize customers to bring in old adidas clothes (in exchange for vouchers) so that the clothes can be re-made into new products. The adidas strategy is to take back their own clothes - where they have certainty over the inputs and assembly - to make them into new products, thus creating a perfectly circular system.

What was so unique was their vision for this takeback program. Other companies in the study had much larger clothing collection programs, but the adidas strategy is less about marketing and more circular in strategy. Being sure of the quality of the products will help adidas transform old products into new products which is difficult if they know the exact inputs including fabric and chemical composition. While the global take back program is being implemented incrementally (as it takes time to scale), in the long term this could mean the difference between a marketing ploy and a real circular economy.

Going forward, are there any recommendations for adidas?

While adidas is proactive in advancing the circular economy, they currently have limited programs around promoting longevity and reparability of products. Quality is a key element to sportswear and there could be opportunities to more clearly integrate longevity and reparability into the value proposition of adidas products. Furthermore, while they have ambitious goals concerning the circular economy, some of these goals could use more granularity. For example, while it is understandable that adidas cannot yet commit to making certain products circular if there is currently no viable solution, it would be helpful to have a sense of what percent of the products do not have a solution at present.

Increasing Accountability on Plastic

Looking back: 2019 engagement

Plastic is a cheap, versatile material with particular properties that makes it attractive such as durability, flexibility, and ability to withstand corrosion. Due to these particular qualities, it can be found in a wide range of products from packaging to car bumpers, water pipes, and medical equipment.

At Amundi, while we think plastic is vital for some products, we also believe plastic pollution is an issue for the environment and there is a need for in-depth thinking by companies who use it heavily. This is the reason why we launched a three-year engagement that aims to examine companies' plastic exposure and how they are managing plastic in the context of increasing regulation and public pressure. However, limited alternatives and viable technologies currently exist to rapidly change existing operations. The engagement focused on 3 sectors: household personal products, automobile components, and healthcare/pharmaceuticals with the aim of not only looking at sectors that are the most visible in the public eye but also at sectors that overall have exposure to plastics.

Last year Amundi provided specific recommendations for each sector and each company with the aim to follow performance over the following years:

Household & Personal Products: more granular reporting on the impacts of a company's own plastic packaging including breakdowns of the recycling rates as well as breakdowns by geography with a focus on impacts in areas with poor recycling infrastructure.

Healthcare Equipment & Pharmaceuticals: Making plastic a higher priority in environmental management with an increase in focus, transparency, and reporting to better shape a strategy on plastic that focuses on the specific needs and concerns of the sector.

Tires & Automobile Components: Increased transparency and reporting on how companies work with their suppliers to address plastic issues as well as increased reporting on environmental impacts of components. We will follow up more closely on company specific KPIs related to reporting that were highlighted in the 2019 report.

2020 Updates:

FOCUS on the Healthcare Sector

In the context of Covid-19 the concept of balancing public health with environmental impact is now more important than ever. Disposable and reusable masks, essential to curbing the pandemic, are ending up in the world's beaches and oceans where they can take up to 450 years to degrade [21]. The UN estimates that 75% of all coronavirus related plastic could end up as waste in oceans and landfills [22].

While this was not the focus of our engagement with the healthcare equipment sector, it nevertheless highlights the need for an improved strategy around the impacts of plastic medical waste including information and engagement.

The Evolution of Novo Nordisk's Plastic Strategy

In 2020 we observed a particular positive development at Novo Nordisk, a global pharmaceutical company specializing in chronic diseases such as diabetes. As a reminder, Novo Nordisk is significantly exposed to plastics through injection devices (such as insulin pens), of which they produce more than 550 million per year.

We recommended Novo Nordisk to:

1. Include the topic of plastic in their sustainability communication.
2. Expand their "circular-mindset" to the management of their plastic pens, for instance by making the end-of-life of these devices more environmental friendly through more proper disposal and ideally recycling.

Novo Nordisk's accomplishments in 2020

Our conversations have borne fruits in many ways and confirmed the company's nascent ideas on the issue.

In mid-2020, the plastic issue was addressed on the company website from where it was absent before. The environmental section of Novo Nordisk CSR website describes how the company plans to tackle its "plastic challenge" as part of its aspirational strategy to have zero environmental impact. They have also taken concrete actions with the recent launch of two pilot initiatives related to better management of its plastic pens. The first consists of recycling pens discarded after production into chairs (for the plastic parts) and lamps (for the glass part). The group is now looking into how to scale-up the solution to use insulin pens. The second initiative, which is required for a large-scale recycling of the pens, was launched in 2020 in a pilot take-back program to effectively collect used pens. First tested in Denmark, this pilot program is due to be further expanded to other countries.

Going Forward: Recommendations for Novo Nordisk

As Novo Nordisk takes its plastic exposure more seriously, we encourage the group to expand its communication on this topic going forward by providing more KPIs and targets (including KPIs around packaging, internal plastic use, and end-user products).

Pushing for Increased Reporting with the CDP Non-Disclosure Campaign

What is CDP?

The CDP reporting platform provides the investor community with a reliable source of self-reported corporate environmental data, in a consistent and comparable manner, and is fully aligned with the Task Force for Climate-Related Financial Disclosures' (TCFD) recommendations.

To feed this reporting database, CDP requests annually over 7000 of the world's largest companies to disclose on their impact and management of climate change, forests and water security. Unfortunately, despite the growing reputation of CDP's reporting metrics amongst investors and other key stakeholders, a large number of companies (about 60% in 2019) still does not submit the information requested by CDP.

Since 2017, in order to bolster their efforts in building this reporting platform and enhance corporate environmental disclosure, CDP has coordinated a global investor-led engagement campaign called the Non-Disclosure Campaign (or NDC).

How does Amundi support CDP?

At Amundi, we strongly support CDP's initiatives and have actively participated in the NDC since its launch in 2017, as we place great value in bringing together information on key environmental issues across sectors and regions

(21) https://www.theguardian.com/environment/2020/jun/08/more-masks-than-jellyfish-coronavirus-waste-ends-up-in-ocean
(22) https://news.un.org/en/story/2020/07/1069151

using a single, consistent approach. Such information, collected through CDP's standardized questionnaires, is of great help in the assessment of investment portfolios and of the exposure to environmental risks of our investees. Whilst many companies produce their own sustainability reports, they are often too high level, lacking in metrics and comparability for investors to make a proper assessment of a company's trajectory to a low-carbon, water-secure future. CDP's methodology aims to bring all companies to the same, most granular and most useful level of disclosure.

2020 updates on the CDP non-disclosure campaign

Overall results

The 2020 edition of the NDC (non-disclosure campaign) was considered a success. CDP calculated that companies engaged in the campaign were over twice as likely to disclose, than companies who were not selected by investors for engagement: amongst previous non-disclosers, the response rates in 2020 reached 20% in the NDC, vs 9% in the group of companies that were not part of the NDC [23].

Amundi's results

Amundi performed particularly well in this 2020 campaign with an above average response rate of 31% amongst the companies with whom we engaged. Companies Amundi convinced to disclose through CDP's questionnaire include a German chemicals company and a Ukrainian agricultural products company concerning forests disclosure, alongside a German life science services company and an Austrian insurance company on climate change disclosure.

Biodiversity: The New Frontier in Sustainable Finance

Why is Biodiversity important?

Biodiversity provides significant economic and social value. This value includes ecosystem services including climate regulation, water purification, and pollination, material benefits including food, energy, and medicines alongside a source of cultural value and psychological well-being [24]. However, biodiversity is in a state of rapid decline due to human activities. A growing human population and increased human activities such as urban development, farming, overfishing, logging, and mining are altering the natural world at an unprecedented rate [25]. The WWF reported that the population sizes of species has dropped on average 68% since 1970 globally [26]. Around 25% of species assessed are threatened, which indicates that over 1 million species may face extinction within a decade [27].

Biodiversity loss is a risk that can no longer be ignored

According to the World Economic Forum's 2020 annual survey, biodiversity loss has now been cited as one of the top 5 global risks for the next ten years along with other environmental risks such as extreme weather and climate action failure [28]. However measuring and accounting for biodiversity risks and impacts is incredibly complex. With biodiversity, there is no one-size-fits-all metric (such as CO_2 equivalent emissions for climate change) or long-term scenario analysis. Furthermore, a wide variety of corporate actions (from waste to overconsumption of resources) impacts biodiversity loss. Finally, the implications of biodiversity loss are not uniform, with certain geographies and species being particularly more vulnerable.

Corporate disclosure is limited with only a handful of companies demonstrating efforts on robust biodiversity disclosure. While there are some initiatives to boost nature related disclosures such as CDP forests, we are a long way off from a clear investment framework on biodiversity reporting.

Engaging to increase the quality of biodiversity data

To increase the quality of biodiversity data, investors must engage on the topic. This can include engagement with corporates on specific biodiversity related topics such as deforestation or a more general engagement on how a company is reporting on biodiversity risks and impacts to push for overall more robust and granular reporting.

Amundi Biodiversity engagement activities in 2020

In 2020, Amundi engaged with 96 companies on the topic of biodiversity (a combination of email campaigns and dialogue with corporates). This included a wide variety of sectors from extractives to consumer sectors. For many of these engagements the key priority is getting companies to better understand and report on

(23) https://www.cdp.net/en/reports/downloads/5502
(24) IBPES, 2019
(25) PBES, 2019
(26) WWF Living Planet Report, 2020 https://livingplanet.panda.org/en-us/?utm_campaign=living-planet&utm_medium=media&utm_source=report
(27) https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/#:~:text=from%20GlobalGoalsUN&text=The%20Report%20finds%20that%20around,ever%20before%20in%20human%20history.&text=%E2%80%9CThis%20loss%20is%20a%20direct,all%20regions%20of%20the%20world.%E2%80%9D
(28) https://www.weforum.org/press/2020/01/burning-planet-climate-fires-and-political-flame-wars-rage

biodiversity related risks and impacts, as most sectors are rather embryonic when it comes to understanding and addressing biodiversity. As an example, certain consumer companies with strong forestry practices for paper products have not begun thinking about biodiversity related risks. By contrast the extractive sectors such as metals & mining are far more advanced on biodiversity (e.g. ICMM guidelines on biodiversity) but there is still a long way to go towards more granular asset level reporting.

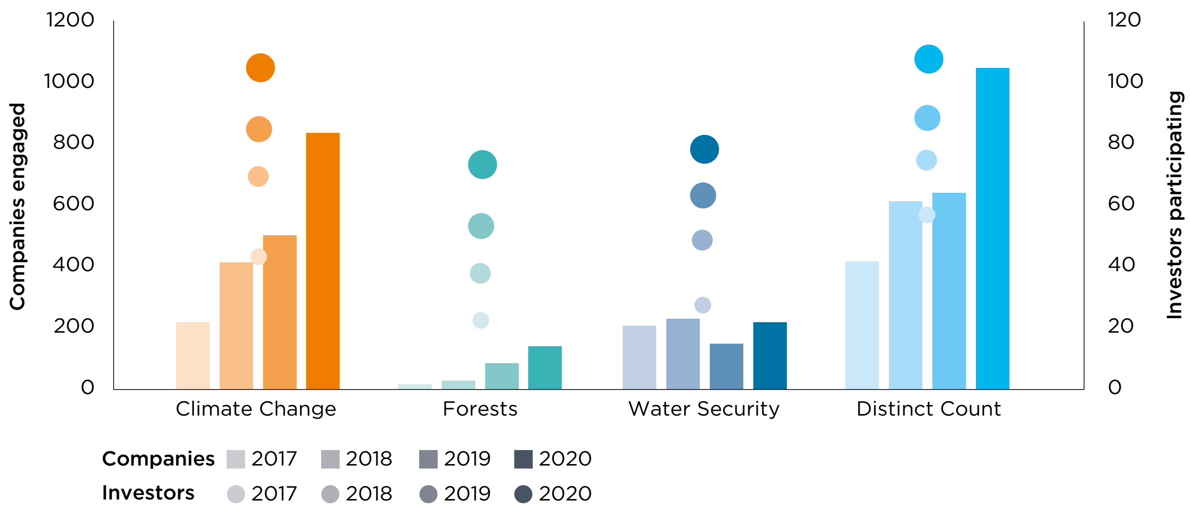
Due to the overall weak disclosure on biodiversity reporting, a current KPI on the subject is quite simply, increased reporting. Greater reporting on biodiversity is needed across all sectors; however, what that means differs considerably by sector (i.e. supply chain transparency for palm, soy, cattle versus more asset level biodiversity data at mining sites). Regardless of the sector, it is clear solving the issue requires more collaboration with experts and stakeholders to address the reporting difficulties and reporting needs.

Amundi Forest Reporting campaign

Organizations like CDP can help provide a starting point to assess corporate performance around biodiversity. Pushing for further collaboration with experts such as through CDP's Forests questionnaire is key to encourage companies to find solutions to biodiversity reporting until a clear standard emerges. CDP's Forests questionnaire provides a framework of action for companies to measure and manage forest-related risks and opportunities, transparently report on progress, and commit to proactive action for the restoration of forests and ecosystems.

To encourage disclosure through CDP's Forests questionnaire, Amundi started an email engagement campaign to encourage companies who have large deforestation exposure according to Forest500 and Canopy. This engagement campaign was not officially in conjunction with CDP such as the CDP Non-Disclosure Campaign but nonetheless had the same aim to push for increased reporting with CDP Forests as CDP Forests has the lowest participation rates (compared to CDP Climate Change and CDP Water Security).

Non-Disclosure Campaign 2017-20



Source (1) https://www.cdp.net/en/reports/downloads/5502

Included in the 96 engagements on biodiversity, Amundi emailed 32 companies on the topic of CDP Forests disclosure, of which eight replied in 2020. The low response rate is further indicative that biodiversity related reporting currently remains a blind spot for most companies. Going forward in 2021, we will commence deeper engagement on the topic of limited biodiversity disclosure including further engagement to push for increased reporting with CDP Forest.

Protecting & Developing Employees in Companies and Supply Chains

Inequalities fuel social divisions and foster political and financial market instability. Covid-19 has exacerbated inequalities making equitable sharing of added value more significant than ever. The nature of the commitments made by companies on social issues is gradually integrated into our voting decisions.

Social cohesion through the protection of Direct & Indirect Employees and promotion of Human Rights

447

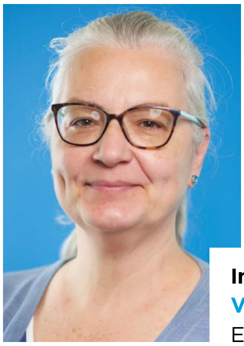
of which is

307
Employees (including diversity & inclusion)

101
Supply chain Due Diligence

39
Human Rights

Promoting Diversity and Non-Discrimination: The 30% Club



Interview with 30% Co-chair
Virna Valenti,
ESG Analyst - Banks

What is the 30% Club?

The 30% Club is a global campaign to take action to increase gender diversity at board and senior management levels . The campaign was launched in the UK in 2010 when there were just 12% of women on the FTSE100 boards (compared to 34.5% in 2020).

When it was launched, the club originally set 30% as an aspirational target in comparison to the 12% in the UK at the time. This figure was confirmed by research which has proved that 30% represents a critical mass form which point minority groups can impact boardroom dynamics. However, the target is a floor not a ceiling with the ultimate goal being to strive for overall more equitable gender and diversity balance.

Companies will have to address imbalances in their talent pipelines and strategies to drive long-term progress and this ultimately must come from top management.

At Amundi, we share the 30% Club beliefs that gender balance on boards and senior management encourages better leadership and governance. We also believe that diversity and inclusion further contribute to all-round board performance and ultimately increase corporate performance for companies and their shareholders.

This is the reason why Amundi participated in the creation of the French Club in 2020.

What will the scope of the 30% Club in France be?

The French Investor Group had two main objectives in 2020:

1. Conduct a soft email engagement campaign with the SBF 120 to communicate the launch of the initiative and investor expectations on gender diversity. The group received numerous responses, many of which communicated their support for the initiative and their current efforts.
2. Launch an engagement campaign targeted at the top "worst offenders" in the CAC40. This campaign started in 2020 and engagements continue in 2021 with the list being expanded as new members join.

How is the Club selecting engagement targets?

To identify the worst offenders, the investor group evaluated the ratio between % of female executive managers vs % of females employed. Using this ratio helps to better compare the performance between sectors (with the aim of having at least a 1:1 ratio) because some sectors such as STEMs (Science, Technology, Engineering, and Mathematics) have had historically lower rates of women compared to consumer sectors that tend to have a larger pool of female talent.

$$\frac{\text{\% female executive managers}}{\text{\% females employed}}$$

The Group has decided to focus on the Executive Committee for two reasons:

- In France the Loi Coppé-Zimmerman or Zimmerman Law, requires French boards to be composed of at least 40% women however, the law does not currently cover the executive committee level which means it is a stronger indicator of companies with a gender imbalance
- The percentage of females in executive management is a relatively concrete indicator available in corporate reporting. By contrast, the percentage of female managers can be ambiguous, as there are many levels of management and will not necessarily indicate how many women fill the most influential roles at the company.

As of early 2021, the French investor group currently has 11 members with an AUM totaling over 5.5 trillion euros which it is expected to grow further during the year.

Going Forward

Going forward in 2021 the initiative will develop a list of KPIs divided into themes and begin evaluating companies based on this disclosed list of indicators. This will enable us to create a proprietary dataset shared between investee members and push for more robust and granular reporting on the topic. Furthermore, the group will expand the pool of investee companies under engagement and begin monitoring and tracking progress of those companies over the course of the following years.

Facilitating a Just Transition

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
13 CLIMATE ACTION

Just Transition: leaving no one behind

The concept of Just Transition aims to ensure the benefits of the transition to a greener, low carbon economy are shared by all alongside finding solutions for those who, in the process, might suffer economically such as countries, regions, industries and workers. The concept is acknowledged by the Paris Agreement which mentions "the imperatives of a just transition of the workforce and the creation of decent work and quality jobs" [29]. The Just Transition consists of:

- Minimizing the negative social impacts of a transition to low-carbon and environmentally friendly business models, for example the loss of jobs in industries in need of conversion
- Maximizing the positive aspects of such a transition. It has several dimensions: workers, consumers, local communities and societies at large.

Before the Covid-19 pandemic and its dire economic implications, the automobile industry was already going through considerable structural changes, namely automation and electrification. As CO_2 emissions regulations continue to tighten globally, it is estimated that electric vehicles (EVs) will represent 32% of the total market share for new car sales in 2030 [30] compared to

(29) https://unfccc.int/sites/default/files/english_paris_agreement.pdf
(30) Deloitte, Electric vehicles, setting a course for 2030

a 2.5% market share in 2019. This major shift will have important and disruptive consequences. One such consequence will be the social impact felt by employees due to electrification. In Europe, the automobile sector employs 14.6 million people (6.7% of total employment)[31]. Manufacturing EVs requires fewer and less complex components than cars with combustion engines. A typical EV powertrain[32] has around 100 times fewer electromechanical parts than that of an internal combustion engine (20 vs. 2000). The shift to EVs is likely to reduce employment in engines, transmissions, exhaust, and conventional fuel systems. The assembly of an EV would require around 30% less work than an ICE (internal combustion engine) vehicle[33].

In the automotive industry, the just transition implies the need for companies to ensure that their workforce remains employable and to minimize, as much as possible, any redundancies.

Engagement Objectives

The objective of this engagement is to assess the capacity of companies, to guarantee the employability of their workforce, to support them in the evolution of the sector, and finally, to anticipate any structural changes that the industry might face. We enquired about the companies training and career management policies, and asked companies about their social dialogue processes to help prevent social conflicts and production disruption.

We contacted eleven automobile companies that either have ambitious targets for the manufacturing and marketing of EVs for the years to come and two automobile components companies that are heavily involved in combustion engine parts. The former will need their workforce to adapt; the latter will need to change their business models to adapt. Three companies replied to our engagement. As social cohesion and the just transition are of key importance for Amundi, we continue to push for increased company participation in this engagement campaign.

FOCUS on Volkswagen

Volkswagen, which employs more than 660,000 staff worldwide, has pledged to spend EUR 33 billion on its electric vehicle business over the next few years. The company recognizes that a large proportion of the workforce will be impacted by the electrification of its fleet and that some relocation of employees will be required within their regions. However, it reported that there are no major redundancies planned until 2029. There will be job reductions but mostly through retirements. This is the result of the Future Pact agreement reached by the unions and the board of directors in 2016.

Volkswagen, which has historically shown relatively strong employee development programs, considers itself well prepared for the electrification of its fleet and recognizes that employees need very different qualifications for the new era of car manufacturing. Employees are continuously trained for the challenge of the transformation through targeted programs. Over 118,000 training courses totaling 16.3 million hours of training were completed across the group in 2019. For example, the company has initiated a comprehensive qualification program for around 3,500 employees for the successful ramp-up of the new electric models at the pilot site for e-mobility in Zwickau in Germany.

Going forward

We will continue to engage with automobile companies to encourage a just transition for their employees. As the subject is very topical, we might also expand this engagement to other sectors that are undergoing similar structural changes.

Fair Compensation: The Case for the Equity Pay Ratio

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

It is a conviction at Amundi that companies must participate in the social and societal cohesion of the countries in which they operate and one way they do so is through their wage and profit-sharing policies. More specifically, Amundi prioritizes a fair equity pay ratio or the gap between CEO pay and the median pay level among employees (often known also as the CEO pay ratio). The equity pay ratio is a useful ratio as it is able to highlight inequalities at some companies between median pay level and CEO pay.

In 2020, Amundi started with a focus on the United States for two reasons. First, in the United States, publically traded companies are required to disclose the pay ratio between CEO and median employees making it easier to collect this data. Second, in the United States CEO pay has outpaced increases in worker pay. The CEO worker pay ratio was 21-to-1 in 1965, 61-to-1 in 1989, and 320-to-1 in 2019. CEO pay grew by 337% between 1978 and 2018 whereas typical worker pay grew by just 13.7% between those same years[34].

Companies' compensation strategies need to put more focus on finding a fair pay ratio, in particular in sectors where median salaries are far below a living wage.

(31) www.acea.be
(32) The whole mechanism by which power is generated and transmitted to the road
(33) HSBC, More than juste missions ; 2020
(34) https://www.epi.org/publication/ceo-compensation-surged-14-in-2019-to-21-3-million-ceos-now-earn-320-times-as-much-as-a-typical-worker/#:~:text=Changes%20in%20the%20CEO%2Dto,%2Dto%2D1%20in%202018.

Factoring living wage considerations into remuneration schemes has been observed to decrease turnover rates and increase productivity [35]. Furthermore, a fair equity pay ratio can indicate that the company prioritizes high wage job creation and sees investing in employees as key to the long-term health of the company.

Using data collected and made public by AFL-CIO, a federation of 55 national and international labor unions that represents 12.5 million working people, Amundi carried out a 'soft engagement campaign' with US companies that demonstrated some of the most unequal CEO-pay ratios. These companies were, for the most part, companies in the retail, food retail, and consumer services sectors and had median pays well below a living wage.

The equity pay ratios of companies targeted were well over 1,000:1 with median salaries often below $15,000 a year. It is important to note that median pay rates can also include part time workers; however, we consider prioritizing full time employment practices necessary for a living wage and thus do not consider part time contracts a valid argument for low worker pay rates.

The aim of this campaign was to encourage companies to address a more equitable pay ratio, particularly relevant in the time of Covid-19 where many companies suffered financial difficulties. We encourage remuneration strategies that ensure a living wage for the lowest paid employees in addition to incentivizing sustainable long-term value creation. While overall these aims are broad, the initial goal of the campaign is to begin dialogue on this particular issue and set up particular benchmarks for targeted companies going forward in 2021. So far, the engagement has had a 25% response rate, which we consider a positive start. We will continue to push for a more equitable pay ratio in 2021, meaning a ratio that encourages sustainable long term value creation but is not at the expense of adequate pay and benefits for the lowest paid workers. If we do not see any developments, companies could be subject to votes against CEO pay in accordance with the Amundi Voting policy.

Living Wage for Direct Employees: A Matter of Social Cohesion

Living wage is often mixed up with minimum wage and needs more comprehensive on-the-ground analysis.

One of the two ESG values Amundi wants to promote is social cohesion. Social cohesion is possible only if companies distribute fairly the value they create, which includes a living wage to its employees. Indeed, living wage is a human right outlined by both the UN Declaration of Human Rights and the International Labour Organization (ILO). In order to better assess the concept in companies' strategy, we have decided to support the Anker definition that says "the remuneration received for standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events" [36].

Consequently, living wage is different from minimum wage. Minimum wage is the amount set by law whereas living wage is determined by average cost of living in a specific geography. What we currently see is an increasing dissociation between living wage and minimum wage. According to a report by the Resolution Foundation in the UK in 2013, 4.8 million UK workers or roughly 20% of all employees were earning below a living wage in the UK. This figure was up from the 3.9 million reported in 2009 [37] (while most countries have living wage issues, the UK has done significant studies on the subject and thus more UK statistics are available).

A lack of Living Wage impacts on Workers, Companies and Society

Workers

Working multiple jobs can lead to feelings of "total desperation" which impacts both mental and physical health.

Companies

Companies feel the consequences in the form of reduced motivation and retention, diminished reputation and poor relationships between top management and employees for companies.

Society

Obligation for the State to take the place of the companies by giving financial aids to the most precarious employees and possibly social division and political instability.

Year Two of Living Wage Engagement

For this reason, Amundi launched in 2019 an engagement primarily with the food retail sector.

Companies still need to concretely measure if their employee wages are a living wage or just minimum wage

At the end of this second year of engagement for the food retail sector, we see that companies are well aware of the difficulties linked to remuneration and try to address these issues.

(35) *The case for a living wage was explained in depth in Amundi's 2019 engagement report); https://www.epi.org/publication/bp170/*
(36) *https://www.globallivingwage.org/about/what-is-a-living-wage/*
(37) *https://leftfootforward.org/2014/04/its-time-to-be-bold-on-the-living-wage/*

However, it still seems difficult for them to make a clear difference between the minimum wage, which is a law requirement, and the living wage, which allows employees to live decently. Even when the difference is made, there is still a lack of concrete results or surveys on the ground. For example:

- How do the companies validate that employees' wages allow them to live correctly?
- How do the companies verify the effectiveness of collective bargaining systems, especially in certain areas that present greater risks (such as urban areas where the cost of living is higher)?
- How can employees speak up regarding wage abuse (whistleblowing systems, grievance mechanisms etc)?

Fortunately for food retail, unions play a prominent role and focus significant attention to this issue. However, the high turnover rates and high rates of unskilled employees at the bottom of the pyramid means compensation can be limited.

Accounting for Covid-19

In year two, we also paid attention to how companies managed the Covid-19 crisis, especially regarding employees who were on the front line. Most companies we engaged with have had supportive actions, such as maintaining wages, increasing health insurance, providing adequate sick leave, limiting bonuses of the top management, and reducing dividends so that companies can support their employees. We will remain very cautious during 2021 to make sure that these advantages remain.

FOCUS on Carrefour

Why Focus on Carrefour?

Carrefour is one of the biggest food retailers in the world with more than 12,000 stores and 320,000 employees in 30 countries. With a large employee base, wage related matters are a significant issue for the company.

Carrefour has formalized its responsible remuneration policy and made it public on its website, which is a best practice and overall the company demonstrates relatively robust remuneration policies. However, it still lacks impact assessment studies in at risk geographies which would help assess if global employees are in fact earning a living wage.

What are the main highlights of the year?

Carrefour has developed a well-structured system of remuneration through specific measures on payroll management and ensuring that the remuneration is compliant with local/regional laws and regulation and with breach agreements.

The company has a strong union presence whose role is to protect employees. Carrefour has an agreement with UNI, the global union, which covers 100% of employees worldwide. This is a strong practice in the sector and not often seen with many peers. A dispute management procedure has been incorporated into the UNI Global Union agreement, enabling complaints made by a trade union representative or a Carrefour employee to be reported to the UNI and Carrefour's management, with assurance that the matter will be dealt with.

In the time of Covid, it is worth highlighting that exceptional bonuses were paid to front-line employees, for a total amount of €128m in H1 2020. The CEO, Alexandre Bompard, decided to give up 25% of his fixed compensation for a period of two months and the Executive Committee decided to reduce their directors' fees by 25%. The amounts have been used to finance solidarity action for group employees. The dividend was also reduced by 50%.

What are you expecting from the company in the following years?

For remuneration, Carrefour demonstrates many strong practices; however, we would like to see continued improvements in the form of wage assessments to ensure that Carrefour's "fair remuneration" scheme is equal or above living wage in all the countries. In addition, more details regarding the whistle-blowing system and the key outcomes would help provide additional granularity into employee concerns around Carrefour policies.

The Platform Living Wage Financials and Covid-19

PLWF Financials for living wage

Furthering our efforts to address the non-payment of living wages

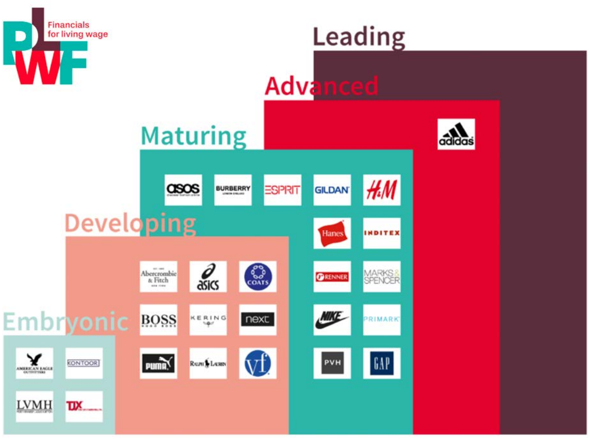
1 NO POVERTY | 3 GOOD HEALTH AND WELL-BEING | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

The year 2020 marks Amundi's second year in the Platform Living Wage Financials (PLWF). The PLWF is a growing alliance of currently 15 financial institutions that encourages and monitors investee companies to address the non-payment of living wage in global supply chains. As an investor coalition with over €3.2 trillion of Assets Under Management (AUM) and advice, we use our influence and leverage to engage with our investee companies. The PLWF engages with over 30 listed garment and footwear brands, 11 food producing companies, and 10 food retail companies with new additions every year. The PLWF evaluates companies based on an externally assured living wage assessment methodology that is aligned with the reporting framework of the UNGPs. This methodology is open source and can be found on the PLWF website [38].

Summary of Living Wage 2020 engagement

For garment and footwear, overall progress has been observed to embed the relevance of living wage within the industry, however, no company has yet been able to guarantee a living wage in own operations or operations of suppliers. Only one company has demonstrated a comprehensive process to ensure widespread implementation of living wage in the supply chain. More observations and historical results can be viewed on the website.

Assessment Results 2020 Garment & Footwear



Covid-19 and Living Wage

The efforts of the PLWF in 2020 cannot be discussed without examining the impact that Covid-19 has had on the garment industry and as a consequence, their global supply chains. The impact of Covid-19 on the apparel sector has meant store closures and changes in consumer preferences away from discretionary spending. This has had a direct impact on global supply chains with companies re-shuffling their inventories, slowing down production, and canceling orders to suppliers.

Global suppliers have felt the consequences of these actions and, in particular, areas of low cost manufacturing where workers lack appropriate social protections. Workers in global garment supply chains have been exposed to sudden termination, lack of severance pay, as well as inadequate social security and health insurance. For example, in Bangladesh alone, over £2.4bn worth of orders were cancelled or suspended in March 2020 leading to over a million Bangladeshi garment workers either losing their jobs or being furloughed without pay [39].

Amundi shared the PLWF's idea that Covid-19 has reinforced the need to accelerate the payment of living wages in global supply chains but that Covid-19 also required specific investor focus in 2020. Consequently, the PLWF created a supplementary methodology to evaluate how investee companies under PLWF engagement were responding to Covid-19 in their global supply chains while taking into account the business challenges posed by the economic situation.

The core foundation of the methodology was based on the ILO Call to Action. This statement created by the ILO called on actors including brands, retailers, financial institutions and other stakeholders to take immediate actions to protect garment workers' income, health, and employment to survive during the Covid-19 crisis. The PLWF publically endorsed the Call to action and sent out an investor expectation letter to brands under engagement between April and May 2020, emphasizing our expectation that brands should publicly commit to a range of actions outlined in the ILO statement including:

- Paying manufacturers for finished goods and goods in production
- Maintaining effective and open lines of communication with supply chain partners about the status of business during the pandemic
- Direct financial support to factories when possible
- Promoting core ILO labor standards as well as a safe and healthy workplace
- Continuing to strengthen social protection systems for workers globally.

The PLWF Covid-19 methodology

The supplementary methodology was divided into four categories: financial situation, prioritizing health & safety, supply chain management & protection of workers' rights, and involvement/engagement in multi-stakeholder initiatives (including the ILO Call to action). While this methodology was specific to Covid-19, many of the actions are also strong practice for living wage such as strengthening social protections and maintaining strong supplier relationships.

50% of the brands under engagement publically endorsed ILO's Call to Action. In addition, 77% of brands responded to the PLWF's Covid-19 response letter. It was observed that companies scoring 'Embryonic' in our 2020 living wage assessment provide significantly less disclosures on their COVID-19 response compared to those in the 'Developing' & 'Maturing' categories.

(38) www.livingwage.nl
(39) https://www.unido.org/stories/will-covid-19-accelerate-transition-sustainable-fashion-industry

Key Observations

Financial situation

Concerning the financial position of investee companies, none of the companies under the PLWS scope had severe liquidity issues and 72% of the companies assessed implemented measures to safeguard their financial position such as reduced dividends and/or reduced executive compensation. This means that poor practices on living wages cannot be explained by extreme financial difficulties during Covid-19 as no companies in our study demonstrated extreme financial difficulties resulting from the Covid-19 pandemic.

Health & safety

89% of companies disclosed something about Health & Safety for their own operations and supply chain. However, several failed to disclose whether H&S measures are being implemented by their suppliers.

Supply chain management & protection of worker rights

In the study, 83% of companies implemented some of the aspects we consider strong practices in terms of supply chain management, but the breadth of measures implemented varied significantly. For example, a large majority of companies publicly disclosed that they paid their suppliers for orders in production or completed and many claimed to provide clarity to their suppliers on their business strategy during the pandemic. However, most brands did not disclose details on whether there were changes in the payment conditions with their suppliers. Furthermore, only a few brands managed to confirm that discounts were not being requested to the suppliers (53% of brands) and that they maintained the existing payment times (40% of brands). Unfortunately, 20% of the companies assessed actually extended payment terms which can put additional financial burden on suppliers who likely had their own cash flow concerns.

Direct employees

Also, concerning direct employees, 60% of brands furloughed or dismissed part of their own staff, with only 40% of those disclosing that they provided legally mandated benefits. The remaining 20% had implemented measures detrimental to workers like unpaid furlough.

Suppliers

Some companies did disclose how they supported their suppliers. Of the brands under our study, 13% of the brands disclosed providing financial assistance to their suppliers if their employees had been furloughed or dismissed, to ensure they received legally mandated benefits. Furthermore, 66% of brands disclosed that they provided financial assistance to some of their suppliers when their business was under severe financial distress (such as by acting as guarantors for commercial credits).

Conclusions and overall observations

Overall, companies that demonstrated more robust measures to reduce the impacts of Covid-19 in their supply chains also ranked higher in our living wage study demonstrating a strong link between companies implementing appropriate practices to improve wage levels in their supply chain and strong management practices to account for Covid-19 impacts. These practices include building long term, resilient relationships with manufacturers and greater collaboration with stakeholders such as global unions to facilitate workers in achieving collective bargaining.

Covid-19 might have been a wakeup call for some on the systemic issues with sourcing practices in the garment and footwear industry, but not for the PLWF. Covid-19 simply broadened the scope of the group's work to include the pandemic impacts. The fundamental practices that the PLWF members have pushed for to achieve living wages, are the same practices that can better address the ramifications of Covid-19 on workers.

Engaging for Increased Social Reporting with the Workforce Disclosure Initiative

If you can't measure it you can't improve it

Amundi is a signatory of WDI or Workforce Disclosure Initiative. WDI is an initiative run by ShareAction that has produced a universal reporting system for social disclosures that is in line with DJSI (Dow Jones Sustainability Index), GRI (Global Reporting Initiative), the UNGP (UN Guiding Principles), and SDGs. The WDI platform allows companies to demonstrate to their investors, clients and other stakeholders how they manage their staff and supply chain workers, and show how their approach to workforce management aligns with their business strategy. WDI indicators cover a wide variety of workforce related categories such as training & development, collective bargaining, health & safety, and diversity and inclusion. While the list of questions is rather comprehensive, the questions are classified into tiers so that companies can start at the foundational tier and work to build up social reporting disclosure every year.

Pushing for the social data we want

One of the main problems when addressing a wide variety of issues pertaining to the "S" in ESG is the lack of concrete data. ESG is a quickly evolving field and every year incremental improvements in data and reporting are observed. It is essential to push for the data we want to see in the future and the best way to do this is through collaboration with groups such as WDI to help achieve uniform, granular data that can benchmark company performance across and between sectors.

Why support a Global Social Disclosure System

A uniform method of data collection such as WDI also has other benefits. For issuers there is the burden of reporting. Corporate investor relations and Corporate Social Responsibility departments often have to spend countless hours for similar requests from investors. That time could better be spent on actually addressing the concerns raised by investors. In addition, corporates all report differently and often data collectors have to spend far too much time finding the data they need in company reporting. Supporting an initiative such as WDI that calls for uniform reporting on social data could:

- Help relieve the reporting burden for companies so they can focus on performance
- Enable investors collectively engage on key subjects, sectors, or companies where reporting is poorly addressed and engagement could have a positive impact.

Engaging to support WDI

For the aims of WDI to be achieved, companies must be convinced to begin reporting with WDI. To support the initiative, Amundi helped to send out investor letters to over 10 target companies identified by the WDI to demonstrate our support to the initiative. Among the Amundi list, only one confirmed their support for the initiative, but Amundi will continue to engage with the others in the following years to help increase support for WDI reporting. Overall though, 141 global companies took part in the WDI initiative in 2020 which was a 20% increase from 2019. There is clearly a long way to go, but the initiative has had significant momentum with key companies beginning to report. Going forward Amundi will continue to help promote WDI disclosure among issuers with the goal of one day having a comprehensive dataset of ESG social indicators. ■


W3.11
W3.11

Addressing Client, Product & Societal Responsibility

At Amundi we consider that client, product and societal responsibility issues are of paramount importance. Treating customers and society at large right is a prerequisite for long-term sustainable growth. That is why we engage with companies to encourage them to create and keep sustainable long-term relationships with these stakeholders.

Within this theme, we have three sub-themes: access to basic needs, client & product responsibility, & ethics. To address these key themes, we have engaged on a variety of initiatives with the end goal to foster greater rights for all stakeholders.

Product, Client & Societal Responsibility

251

of which is

31
Data Privacy & Cyber Security

25
Access to Basic Needs

99
Product Responsibility

96
Societal Responsibility
(including Business Ethics, Community Development, and Tax Practices)

Access to Basic Needs: the Access to Medicine Foundation

1 NO POVERTY

3 GOOD HEALTH AND WELL-BEING

Since 2010, Amundi has been an active supporter of the Access to Medicine (ATM) Foundation, an independent non-profit organization with the mission to guide and stimulate pharmaceutical companies to do more for the people who live in low and middle-income countries (thus better addressing SDG 3 Good Health and Well-Being).

The Access to Medicine Index

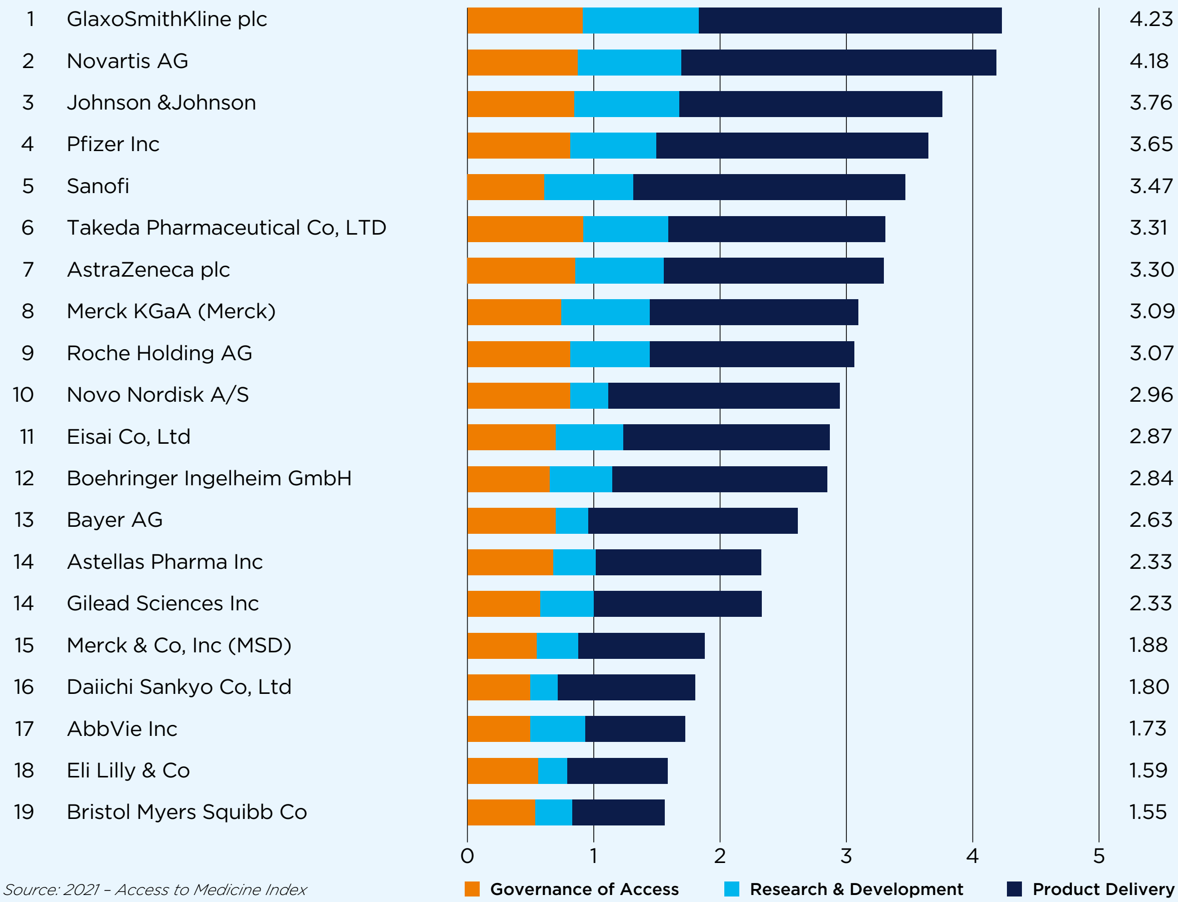
Every two years, the Access to Medicine Foundation publishes the Access to Medicine Index, a ranking of 20 of the world's largest pharmaceutical companies, based on the steps they take to improve access to medicine. It assesses their actions in 106 low and middle-income countries and in relation to 82 diseases, conditions and pathogens. The Index is based on a framework of 33 indicators that together capture the core role for pharmaceutical companies to improve access to medicine, as confirmed through a wide-ranging multi-stakeholder dialogue.

Driving a collaborative engagement since 2019

The Index is viewed by investors as one of the most credible sources of information for assessing how pharmaceutical companies strengthen their license to operate globally and expand in international markets. It is endorsed by a group of more than 100 signatory investors, including Amundi, which have signed the Access to Medicine Index Investor Statement and committed to using the Index in their investment analysis and engagement with companies.

Since the launch of the 2018 Access to Medicine Index, numerous investors expressed strong interest in a collaborative engagement with pharmaceutical companies based on the Index results. This engagement, which effectively started at the very end of 2019, is a long-term project for tracking and encouraging the progress of pharmaceutical companies towards SDG 3 by 2030. As part of this initiative, Amundi was lead investor for two companies, Sanofi and Astellas.

2021 – Access to Medicine Index – Overall Ranking [40]



Source: 2021 – Access to Medicine Index

Evidence of progress with Sanofi and Astellas in the 2021 Edition of the ATM Index

The 2021 edition of the index, published on January 26th, shows that companies are doing better at integrating access to medicine into governance structures, R&D processes, and monitoring efforts [41]. We believe the increased engagement on the topic between investors and the pharmaceutical companies contributed to this progress.

Improvements are particularly obvious for the two companies where Amundi was lead for engagement:

Sanofi

Sanofi has progressed by 2 notches to 5th position thanks to multiple new initiatives resulting in a stronger performance in research & development planning and in product delivery management. An example of improved practice from Sanofi is a better disclosure of patent status information for products considered essential medicines in low and mid-income countries.

Astellas

Astellas has jumped 5 notches to 14th position, thanks to improved governance of access (including through the implementation of access-related incentives for senior

(40) hhttps://accesstomedicinefoundation.org/access-to-medicine-index/2021-ranking
(41) https://accesstomedicinefoundation.org/access-to-medicine-index

level executives) and the launch of a couple of dedicated initiatives. In addition, Astellas is creating a corporate-wide access to medicine strategy for 2021, which is very encouraging.

While improvements were made in 2020, yet there is scope for further improvement, as initiatives to address access to specific needs remain focused on too few products and countries.

Consumer Protection: Navigating the Complexities of Content Moderation for Social Media

The New Complexities of Content Moderation

Over the past decade, the business model for companies operating social media products, has been to pursue scale. Their strategy has been underpinned by expanding into dozens of countries and expanding the user base on a global basis. This strategy for scale has brought with it a large social risk: when a platform's growth depends on its number of users, it becomes more vulnerable to malicious use. A heart-breaking example is the volume of misinformation around Covid-19 vaccines which appears to have circulated in the course of 2020 through social media.

As many regulators around the world now seem to realize, this open business model has become a conundrum that many social media companies struggle to properly address.

The risks of social media are two-fold:

- The misuse of social media means that harmful content and misinformation can thrive and find large audiences while the deletion of this content is often uneven
- The arbitrary deletion of accounts of private citizens may become a violation of the right to freedom of expression and could threaten their license to operate.

The financial and social materiality of what we call the "content moderation" issue continues to increase with each new national government seeing the need for further regulation, yet we found that the issue is still not adequately assessed and under-addressed by most of the companies.

Engagement Targets

In our engagements, more specifically, we have been asking social media companies to define a clear governance and strategy when it comes to human rights and content moderation by:

- Committing to global norms: A clear commitment and formal public policy on human rights including freedom of expression
- Making it clear to users, advertisers and stakeholders what types of harmful content are not tolerated and enforce this policy consistently.

In 2020, we engaged with companies operating social media products, but also with advertising agencies who, we believe, have also a critical role to play in order to build a better digital advertising ecosystem. Leading advertisers are indeed at a risk to inadvertently finance the spread of harmful content on social media platforms and share a responsibility to care.

Engagement & Results

FOCUS on the Social Media Industry

In our dialogue with one major American social media company, we found that the recognition of the impact of services and products on human rights has increased in recent years. Some mitigation measures have been taken such as development of AI-based algorithms to vet content or buying the service of external so-called 'moderators', consultants charged with vetting harmful content based on terms of service, which happens to be a very demanding job. However, we also found that the approach is often piece-meal and lacks a proper oversight by the company's board of Directors, where expertise in terms of human rights is often lacking.

Most of time, social media companies continue to deny that their business models requires human rights monitoring at the board level. We do not agree with that view and will continue to advocate for board oversight of this critical issue.

Given the scope and the complexity of the task, we will continue to ask companies to invest more into content moderation as loopholes and the risk of significant human rights violation remain.

FOCUS on the advertising industry

In our dialogues with one advertiser, we conveyed the importance of their responsibility with regard to inadvertently financing harmful content through their ad buys. That is an aspect which is traditionally monitored under the brand protection programs and is key to the service provided to their customers. We stressed the importance of strengthening audits in this regard and the possibility for increased transparency on breaches. Just like the social media companies do publish transparency report with the number of occurrences of violations of their terms of service, and how much content they had to remove, we believe the advertising industry should build a proper framework to report on this critical facet of their business model. This would also reduce the risk of any negative externality in this area, thus fostering their overall sustainability profile.

Going Forward

Considering the major role of "information gatekeeper" social media platforms are now playing in our society, Amundi will continue to engage with the industry and its value chain on the topic of content moderation while respecting rights to freedom of expression. There is a growing recognition that the sector needs an updated framework of laws and norms to best operate, yet the ability of social media companies to improve moderation tools and provide transparency on how they are enforcing them remain critical for the long-term sustainability of their business model.

Product Responsibility: Tackling the Agricultural Transition with the FAIRR Initiative

FAIRR A COLLER INITIATIVE

The Problem with Animal Proteins

Animal Protein remains a major ESG concern for both the climate and impacts to health. In the next ten years demand for global meat consumption is expected to rise by 13% and by 80% in 2050. Meeting future demand for animal proteins (meat, fish or dairy products) will require an unfeasible amount of natural resources (water and land) as well as a boom in GHG emissions.

Furthermore, the Antibiotics' use in intensive farming is responsible for the emergence of antibiotic-resistant bacteria, which threaten the effectiveness of antibiotics in human medicine. However new consumption habits are already emerging due to animal and health concerns, in particular in developed countries prompting the rise of flexitarian and vegetarian diets.

An ecological transition, as desired by Amundi, will not be possible without an agricultural transition. This agricultural transition must focus i) on proteins reductions and raising meat alternatives, especially in the Western world, ii) on animal welfare and iii) drastically reducing the number and the quantity of antibiotics given to animals.

What is FAIRR?

2 ZERO HUNGER | 3 GOOD HEALTH AND WELL-BEING | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 15 LIFE ON LAND

As an actor of the ecological transition, Amundi became a signatory of FAIRR in July 2019[42]. FAIRR is an innovative peer network for institutional investors, who use their influence to help global livestock, fish & dairy companies change their behaviour and build a more sustainable global food system.

Amundi has Signed onto Three of FAIRR's Engagements

The Sustainable Proteins Engagement

This engagement will ask companies (food producers and food retailers) to publicly disclose information on their long-term approach to transitioning protein portfolios that include plant-based/alternative proteins to support a dietary transition in line with a 2-degree world (started in 2019).

The Global Meat Sourcing Engagement

This initiative will encourage restaurant companies to develop a strategic, forward-looking approach to managing the climate and water risks in their meat and dairy supply chains (started in 2019).

The Investor Action on Antimicrobial Resistance initiative

This initiative is supported by investors managing over $4.8 trillion worth of assets and backed by the UN-Supported Principles for Responsible Investment (PRI), the Access to Medicine Foundation and the UK Department of Health and Social Care. The coalition has committed to assessing and integrating risks, opportunities and impacts related to antimicrobial resistance when making investment decisions and engaging with investee companies. The coalition aims to take a 'One Health' approach when considering the impacts of AMR, which requires a holistic and multi-sectoral approach that recognizes the interconnection between humans, animals and the environment. By doing so, the coalition considers it will contribute to a more sustainable future for the planet, whilst reducing long-term risks for investors.

Ethics and Business Conduct: The Fight Against Money Laundering

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Anti-Money Laundering (AML) remained a high priority in 2020 as an engagement topic for banks. The activity has been twofold. We worked alongside equity analysts and portfolio managers to better understand the results of the

(42) https://www.fairr.org/

ongoing investigations and the remediation plan details of the Nordic banks involved in the AML scandal in the Baltics. In addition, we participated in a collaborative engagement project with another leading asset manager with the aim to encourage companies to improve their disclosure on Anti Money Laundering performance, goals and approach.

The collaborative engagement aimed to improve quantity and quality of AML information into banks' regular reporting, to give investors the means to assess ex-ante the risk exposure and to assess the risk management effectiveness of the various institutions. We found that, in general, disclosure in the area of AML is very limited and does not allow for a proper discrimination on the part of investors the part of investors. AML policy is generally touched upon within companies' communication, while reporting on exposure assessment and on key performance indicators is almost uniformly absent. Furthermore, clear communication on the governance of this function is often absent.

The initiative aims at encouraging banks to give a clear representation of the governance of the AML function, of the comprehensive AML policy and the strategic objectives identified in order to improve its effectiveness. We would want to see regular disclosure on financial crime risk assessment, with an indication of the main sources of AML risks. It is also important to see a description of the assessment process and a disclosure on businesses or geographies that may not be covered by the centralized approach, and why. Banks should identify meaningful KPIs for AML risk management and include them in the regular reporting such as annual report, together with information on recent improvements and investments in the area.

We engaged European banks that were involved in money laundering controversies in the past and need to rebuild their reputation with customers, investors and society at large, hoping they build a new class of best practice that, then, may be requested to all relevant peers. The next releases of annual reports may be the first chance to see if and how this engagement activity starts delivering tangible results.

Ethics & Due Diligence with SMEs

SMEs are Highly Vulnerable to Corruption

Small and Medium-sized Enterprises (SMEs) play a key role in the global economy employing millions of people and accounting for a major portion of the gross world production. Often operating in difficult environments, SMEs are highly vulnerable to corruption in all its forms, although they may be less likely than large companies to be involved in large-scale influence-peddling scandals, owing to limited clout. At the same time, SMEs typically lack resources, knowledge, and experience to implement effective anti-corruption measures and conduct their business in compliance with international standards and the applicable legal rules.

FOCUS on how Strengthening Internal Controls to prevent bribery

In 2020, we have engaged with a SME company based in Europe operating business services. The company has experienced several years of strong growth across several markets, reaching a point where its governance had to evolve accordingly in terms of structures and hiring of new skilled individuals. Nowadays, the focus is moving to the strengthening of its existing internal control systems to prevent ethics issues such as fraud, corruption or money laundering.

These measures are in line with the OECD Guidelines for Multinational Enterprises.

In this context, Amundi stressed the importance for the company to extend its bribery and anti-corruption controls to third parties such as partners and suppliers to help shore up the credibility of its governance. The company understands the acute need of such improvements which should be implemented as soon as practically possible. The strengthening of internal risk procedures around anti-corruption policy for third-parties as well as the establishment of a formal whistle-blower mechanism with legal protection for employees are two steps that we consider necessary for a robust anti-corruption framework. These measures are in line with the OECD Guidelines for Multinational Enterprises.

Going Forward

Considering the importance of the issue and its recognition as a principal adverse impact to be considered in the framework of sustainability investments in the European Union, Amundi will continue to regularly engage with companies on this topic to make sure that fraud and corruption risk is being properly assessed and addressed. By doing so, Amundi is hopeful it can contribute to the further strengthening of the long-term sustainability of companies, large enterprises and SMEs alike. ■

Promoting Good Governance

The efficient governance of companies has always been a matter of focus for Amundi and we are continuously looking for ways to help investee companies improve to help investee companies to improve theirs governance. Good governance is not only an end in itself: it protects the rights and interests of investors.

Governance also influences the overall corporate behavior of companies and the advancement of a sustainable agenda and ESG strategy. While we conduct ongoing engagement on corporate governance across all sectors and sometimes in conjunction with our voting or investments teams, some of the most interesting examples to demonstrate the importance of good governance come from our team in Japan.

Strong Governance Practices that Strengthen Sustainable Development

341

of which is

170 Board Composition

138 Remuneration

33 Shareholders Rights

Governance in Japan

What Makes Japanese Governance so Different?

One of the distinctive features of corporate governance in Japanese companies is that it has historically been built on the basis of long-term relationships of trust between companies and their employees, financial institutions, customers, and business partners, rather than between management and shareholders.

However, governance in Japan is often characterized by family controlled companies with low board independence, lack of diversity, leadership uncertainties, and insufficient performance-linked remuneration. It is common in Japanese governance for families to retain key leadership positions in companies giving family members direct control of operations. Even when a leader steps down from the board they often continue to hold "special advisory positions". This can lead to serious concerns regarding board effectiveness and weak governance practices. Even in widely held companies, low board independence is fairly common. Non-majority independent boards raise concerns that they may not be able to provide effective oversight of management and they may be associated with other governance risks, such as a lack of diversity and leadership issues [(43)]. On diversity, the average percentage of Female directors per board remains rather low at 7.5% however, the average female participation increases yearly demonstrating a positive trend [(44)]. Finally, Japanese boards often lack sufficient performance-linked remuneration. This means that in Japan, company executives can receive a substantial amount of remuneration without making any managerial effort, which may cause an agency problem with shareholders [(45)].

Amundi's role in the Japanese Context

The Amundi Japan team is uniquely positioned to take Amundi ESG philosophy and strategy and apply it to the cultural and historical context of Japan. Ongoing engagement within the Japanese context, often focuses on these key issues, pushing for overall improved board quality, independence, diversity, transparency, and accountability. Often the Amundi ESG team collaborates on engagement with fund managers to engage with top management of Japanese companies to push for improved practices. Overall Amundi Japan, sees an opportunity in helping target companies clarify what key ESG issues are and improve their reporting on these topics to be better aligned with global best practices.

However engagement can be a slow process and results are not always immediate.

(43) MSCI, 2020
(44) According to the Japan IMI Top 500 Index, the average percentage of female directors per board increased from 4.9% to 7.5% in 2019
(45) Daiwa, 2020

FOCUS on Shionogi : Evidence that Engagement Pays Off

Shionogi & Co., Ltd. is a leading pharmaceutical company with expertise in infectious and Central Nervous System diseases. The company considers it a key part of corporate governance to constantly interact with all its stakeholders including shareholders/investors, customers, societies and its employees by maintaining an optimal balance of stakeholder interests. This is important for a pharmaceutical company because the company believes it is their social mission to continually discover, develop, and supply useful and safe medicines, to promote proper use of medicines. To carry out this mission they believe that the interests of their four key stakeholders must be taken into account: shareholders & investors, customers, society, and employees.

Amundi Japan Engagement started engagement with Shionogi in 2017. Historically, Amundi Japan has raised questions to Shionogi regarding:

- Governance structure
- Separation of supervision and management
- Introduction of a succession plan
- Board independence
- Board diversity
- Remuneration linked to midterm business performance.

Engagement Outcomes

Since 2017, Shionogi has achieved key reforms and delivered strong financial and ESG performance. We believe our continuous engagement over the years helped support and fuel company actions and resulted in strong improvements to ESG practices.

Board of Directors

Shionogi had an independent director appointed as chairman in 2020. Mr. Shiono, previous chairman and founding family member, stepped down and the seat was filled by an independent chairman. This was a change that Amundi had long campaigned for at the company. Considering that approximately 95% of the MSCI Japan Index lacks an independent chair, we consider this strong achievement.

Independent directors became a majority

In 2020, the independence of the board increased from 50% in 2019 to 60% in 2020. As, 86.9% of companies in the MSCI Japan Index lack a majority independent board, Shionogi is now leading most peers in the context of board independency.

Gender Diversity

The percentage of female directors increased from 16.7% in 2019 to 40% in 2020. Since women consist of only around 10% of Japanese boards, Shionogi has become a clear frontrunner in the Japanese market for gender diversity on boards.

External recognition

As evidence of the strong developments in Shionogi governance over the past few years, Shionogi has publicly been recognized as one of the companies with the best corporate governance by external third-parties. Shionogi received “2020 Award for Excellence in Corporate Disclosure” for four Consecutive Years from the Securities Analysts Association of Japan (SAAJ). Shionogi was also selected, among about 2,000 companies listed with first section of the Tokyo Stock Exchange, to receive the award of Grand Prize Company for the Corporate Governance of the Year Prize 2019 conferred by the Japan Association of Corporate Directors.

Going forward

While the recognition for Shionogi is well deserved, going forward Amundi will continue to engage with the company to push the company to ensure the effectiveness of the Board of Directors as well and transparency of remuneration. More specifically Amundi will encourage an increase in the ratio of performance based remuneration linking it to material ESG issues to better align with stakeholder interests.

FOCUS on a Japanese Manufacturing Company: Still Room for Improvement

Looking Back at 2019

In 2019, Amundi Japan met with the external director of a Japanese manufacturing company with a poor ESG rating in particular on governance. The ageing chairman of the company had recently stepped down and his son was appointed as CEO. It was thought that the change in leadership would encourage greater transparency concerning ESG and in particular, governance practices. Amundi requested that the board ensure the balance of all stakeholder interests through enhanced disclosure of key material ESG issues.

Engagement in 2020

While the change was welcomed, there were still significant concerns about board effectiveness. In 2020, Amundi continued to engage with the company to push for more effective corporate governance. The company board currently exhibits a low rate of independence (20% as of the end of 2020), no gender diversity and little to no disclosure on relevant ESG information. Due to these reasons company maintains a low ESG rating (particularly on the governance pillar).

While the company did demonstrate some intention to improve in shareholder focus such as share buyback, the changes have not yet met our expectations. Amundi will continue to push for improvements as an improved rating could mean the company might be eligible for SRI funds. So far, as no changes to board composition and ESG transparency are observed, the company will remain excluded from SRI funds for the foreseeable future but Amundi will continue to engage and push for improvements.

Other Engagements & Activities

In ESG and Responsible investment there are many new and emerging topics, thematic, geographies and products that require engagement, exploration, investigation, collaboration, and testing. For these topics, Amundi is often active in engagement initiatives that may be cross-sectoral or cross-thematic.

In addition some collective initiatives do not include corporate engagement. Certain collective initiatives involve significant preparation and planning before actual engagement can occur. These specific initiatives begin with information gathering or pilot phases to gain additional insight or expertise and test new methodologies. On occasion, Amundi may actively participate in working groups that do not necessarily involve engagement but rather help build frameworks and standards on new and emerging topics. Supporting and participating in these types of working groups that enhance frameworks ultimately help encourage overall greater transparency, reporting, and standardization for ESG and responsible investing.

Emerging Markets: pushing for improved ESG practices

In 2020, there was a conscious and concerted effort across Amundi to initiate a dialogue with emerging markets companies on Environmental, Social and Governance topics. Over eighty issuers were contacted across multiple sectors. These issuers were domiciled in various countries spanning Asia ex. Japan, Africa and Latin America. This engagement stream was a joint effort between the ESG team and the Emerging Markets investments team (portfolio managers and financial analysts) and had two main objectives: to increase the ESG awareness and level of disclosure on ESG issues of emerging markets companies, while projecting Amundi's values. This is one of the results of collaboration between investment professionals and ESG experts, that has made possible significant increase in our impact on companies and has resulted in better integration of ESG in our investment practices.

Emerging Markets engagement drives value

After extensive collaboration between the ESG team and Amundi Emerging Markets team, Amundi has come to the conclusion that ESG engagement can drive value enhancement for Emerging Markets in a mutually beneficial way. Through joint engagement efforts, the Amundi teams create a positive circular feedback loop where the market assessment of these companies improves over time.

The benefits of this collaborative approach with the Emerging Markets team (both equity and fixed income) are twofold: companies will have more opportunities for funding due to higher ESG performance while their negative environmental and social impacts will diminish over time.

Two approaches to Emerging Markets engagement at Amundi

Top Down engagement

The first approach was top down in nature, aimed at understanding a company's practices on sector specific material issues; for example, with utility companies, all those engaged were asked to elaborate on their de-carbonization efforts and strategies to manage transition risk, irrespective of their current practices, among other issues.

Bottom Up engagement

The second approach was more bottom up in nature, focusing on company specific material issues as identified using Amundi's proprietary ESG tool. These focused engagements were curated on topics that we, at Amundi, deemed most material to assess at that point in time for a particular company. Bottom up engagement included a mix of questions across Environmental, Social and Governance themes, tailored to a specific company.

For example, Company A could be asked about board independence and minority shareholder rights along with questions on the company's water policy and associated metrics, as well as what it was doing to combat biodiversity loss, and finally on labor unions and the company's relationship with the same. It must be emphasized here, that these were not standardized questionnaires but rather customized (using certain criteria) to each company. A majority of the engagements carried out were done using the bottom up approach.

Conclusions and observations concerning Emerging Markets engagement

ESG is a relatively new concept in emerging markets, and is still in its nascent stages. However, at Amundi, we believe that there is immense value to be captured with regard to sustainable development in these economies, which will represent a major share of global population growth and GDP over the coming decades. We received a set of mixed responses from the above engagements, that ranged from issuers asking us to define what we mean by ESG to those that were well on the path to adopting best practices for certain ESG issues. The year 2020 marked the commencement of a sizeable engagement effort in these markets, which Amundi aims to sustain going forward. We will continue to discuss ESG risks and opportunities with emerging markets issuers and encourage them to adopt best in class practices for material E, S and G issues.

Fondation de la Mer: Promoting Greater Corporate Reporting on Ocean Impacts

Why Oceans Cannot be Forgotten in ESG

One aspect of Amundi's overall work on biodiversity is specifically SDG 14, "Life Below Water". Oceans face many threats including climate change, acidification, pollutions (including plastic pollution), overfishing, destruction of marine biodiversity, etc... mainly due to human activities. According to PWC, SDG 14 (Life Below Water) least prioritized of all 17 SDGs by businesses worldwide [46]. One explanation for this is likely the difficulty of reporting to effectively assess biodiversity impacts when these impacts are often indirect - for example, plastic packaging often ends up in oceans but companies are not directly dumping their own plastic packaging into the oceans.

One aspect of Amundi's overall work on biodiversity is specifically SDG 14, "Life Below Water".

Amundi and the Fondation de la Mer

For Amundi, preserving the oceans and their biodiversity is key part of addressing biodiversity loss and climate change. Oceans are vital for climate regulation, for food, and for the air we breathe (oceans create 50% of the oxygen we breath) [47]. This is why, in 2019, Amundi started a close collaboration with the Fondation de la Mer (FDLM). The FDLM is a French NGO that works with civil society including sailors, corporates, scientists, and investment institutions to help protect marine ecosystems, fight pollution, support ocean related research, encourage innovation, and educate audiences on protecting the oceans. The FDLM wanted to develop a reporting framework in collaboration with the French Ministry for the Ecological and Inclusive Transition based on the goals of SDG 14 (Life Below Water) to help corporates better assess their impact on the ocean. The FLDM worked with scientists and experts, to create a comprehensive methodology, which is freely available for French companies [48].

Amundi participated in the preparatory phase of the project to advise on the feasibility and content of the framework and also by engaging and encouraging French corporates to participate in and test the feasibility of the methodology. Going forward in 2021, Amundi will further promote the framework to both French and international companies. Amundi will also begin using the framework on selected corporates to begin impact assessments pertaining to SDG14.

Advancing a Harmonized Framework for Social Bond Reporting with the ICMA

The ICMA

ICMA (International Capital Market Association) is the global trade association for the international capital market that has been leading the financial industry's efforts to develop sustainable finance for years, through creating and/or updating relevant resources for market participants, above all the Green Bond Principles (GBP) and the Social Bond Principles (SBP), and through coordinating the work of several contributing institutions. With around 600 member firms in more than 60 countries, the ICMA performs a central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments.

Amundi's role as an ICMA Executive Committee Member

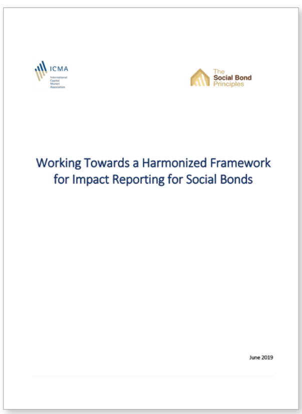
Since 2017, Amundi has been part of the ICMA supported Executive Committee of the Green and Social Bond Principles. Amundi has also been participating to the relevant Working Groups organized on different topics, ranging from improving Green Bonds' impact reporting

(46) https://home.kpmg/cn/en/home/news-media/press-releases/2020/12/the-time-has-come-survey-of-sustainability-reporting.html
(47) www.foundationdelamer.org
(48) http://www.fondationdelamer.org/referentiel-ocean/)

practices to strengthening the development of the market for Sustainability-Linked bonds (SLBs). Amundi has committed to supporting the ICMA's work on sustainable finance, as it believes that there are specific hurdles to the development of sustainable finance markets than can be addressed only with collaborative efforts from several parties. Furthermore, exchanging with diverse kinds of institutions such as issuers and investment banks as well as development banks or non-governmental organizations (NGOs) allows Amundi teams to expand their perspectives and improve internal practices.

Focus on ICMA Social Bond Working Group

The 2020/2021 edition marks the second year Amundi is co-chairing the ICMA Social Bond Working Group, with increasing responsibilities. The objective of the Working Group is to accelerate the development of the social bond market through the expansion and promotion of resources for issuers, investors and other market participants.



Social Bonds and the Opportunities for a Positive Impact in the era of Covid-19

Despite the social bond market's remarkable growth over 2020 brought about by pandemic-related financing needs, challenges for both issuers and investors still remain. Amundi, as one of the first asset managers to have launched a social bond fund, firmly believes in this asset class as a source of financial performance and social impact, and is committed to support its development.

Impact Reporting Sub-Working Group

During the 2019/2020 edition, one of the most relevant contributions of Amundi teams had been through the Impact Reporting Sub-Working Group, aiming at improving the resources available to guide the impact reporting process for issuers. Indeed, the requirement to report on impact can scare away issuers, especially corporates, thus increasing the importance of providing all the support possible.

Working towards a Harmonized Framework for Impact Reporting for Social Bonds

In the ICMA document "Working Towards a Harmonized Framework for Impact Reporting for Social Bonds," Amundi teams have included a clear and "user-friendly" definition of the different kinds of impact indicators - namely output, outcome and impact - that a social bond issuer should consider including in their impact reporting documentation. Moreover, a thorough analysis of several available impact reports from social bond issuers was undertaken, in order to put together a comprehensive list of the most used impact indicators. This list was then re-organized in a table with columns indicating whether that indicator should be considered of output, outcome or final impact of the social bond. Amundi plans to improve even further the impact indicators list in 2021.

Inconsistency in impact metrics and difficulty in measuring the "final" impact of the projects beyond numerical outputs were cited by issuers as among the biggest impact reporting challenges that could hinder them from issuing a social bond or from reporting on impact in line with market expectations. Thus, Amundi's endeavors to develop impact reporting best practices for social bonds can be expected to support the market development of this new sustainable fixed income segment.

Setting the Standard for Green Bond Reporting

At Amundi, we consider that green bonds offer a specific license to engage, not only on the transparency over the assets financed by the proceeds but also on the alignment of the wider issuer strategy with the environmental goals pursued by their green financing framework. The Covid-19 crisis somewhat hampered interactions in the first semester, but we still held 34 one-to-one meetings with issuers last year, more than 85% of which were concentrated in the second half of the year. We reached out to 5 other issuers by email to explain our expectations on impact reporting.

The EU Taxonomy and implementation challenges for Green Bonds

Corporate reporting needed

The EU is about to implement its taxonomy of green activities and the associated reporting requirements that encompass green bond funds. Our taxonomy alignment case study submitted to PRI last year allowed us to understand all the implementation challenges, and led us to the conclusion that it would be more efficient to have green bond issuers themselves providing investors with an estimate on the level of alignment of their allocated proceeds. Indeed, issuers have better access to the required level of detailed information on projects and we believe that it would serve the normalization objective behind the taxonomy. This is a point that we repeatedly raised during our discussions with issuers last year. With the draft EU Taxonomy still in the stakeholder consultation phase, many issuers were in the process of assessing the implications and had not yet considered publicly reporting this data. The dialogue was constructive overall though with only one issuer opposed to this idea. A few issuers had already been proactive in adjusting their framework to better align with the EU taxonomy and shared some confidence on their ability to claim a 100% alignment. Some raised the challenges related to the testing of the Do No Significant Harm criteria notably. This will remain a topic of engagement for 2021 as reporting requirements loom.

Advocating the adoption of the ICMA Harmonized Framework for Impact Reporting

Over the years, it is encouraging to see that the lion share of green bond issuers hold to their pledge to provide post-issuance green bond reports in general and CO2 impact indicators in particular. Impact data nevertheless often rely on different calculation methodologies and reporting approaches that still heavily hamper comparison and consolidation at portfolio level. Just like our efforts to support the ICMA harmonized framework on social bonds, we strive to contribute to reporting standardization for green bonds in line with the ICMA harmonized framework for Impact Reporting.

Amundi notably contacted three issuers last year to ask them considering the adoption of the Harmonized Framework for Impact Reporting, as we came to the conclusion that CO_2 impact data was not reported pro-rata to the share of the projects actually financed by the green bond. A meeting is being organized with one of them at time of writing. We also reminded two issuers about their pledge to disclose impact indicators which we found were missing: a persisting lack of reply would drive an escalation this year.

FOCUS on Financial Institutions Continued

Financial institutions (FIs) are a main sector issuing green bonds. As they finance rather than develop green projects, we particularly expect these issuers to explain their own impact. In the continuity of our engagement campaign of the last two years, we further discussed our expectations on best practices associated to green bond issuance for FIs, such as offering dedicated green loan products with preferential conditions attached, and steering the credit portfolio towards green activities while restraining the financing to assets that put Paris objective at risk.

We were notably encouraged by the developments at a Norwegian Bank: their 2021 materiality analysis will highlight the growing importance of energy transition issues, and although the bank is not ready to set a broad commitment to reduce its lending portfolio exposure to "brown" activities, it will start reporting on the trend in the CO2-intensity of its shipping portfolio in the context of its commitment to the Poseidon Principles. A particularly important point for an issuer of green covered bonds, the Norwegian bank already offers a green home mortgage product offering a 10bp discount. Any cost advantage in their green covered bond funding would increase this subsidy.

We also requested a meeting with an emerging market bank to discuss the evolution of its coal financing practices. As the meeting did not bring the expected positive outcome, we were forced to remove our support to its green bond.

As part of our engagement, we expect issuers in our portfolio to restrict their overall lending to coal projects and not only with regards to their green financing projects. As soon as it came to our attention that one of the green bond issuers in the portfolio was about to sign a loan that would finance the development of the Carmichael thermal coal mine in Australia, we engaged with them to assess the facts. We expressed deep concern on the environmental and carbon impact of this project, which in our view, would erase the positive impact of the renewable and clean transportation projects financed by their green bond issuances. Our engagement with the issuer did not result in the desired outcome given their intention to continue financing this project. As a result, and in accordance with the ESG policy of our fund, we divested our entire holding of the issuer's bonds from the portfolio.

Caroline Le Meaux
Global Head of ESG Research, Engagement and Voting

Conclusion

In 2020, we accelerated our engagements with 1411 companies engaged and around 50 000 resolutions voted to further promote a transition towards a sustainable, inclusive low carbon economy, an ambition that we share with our clients.

Our aim is to be demanding, because of the need to act promptly especially on climate and social cohesion issues, two systemic risks for our global economy. We wish to contribute to a healthy emulation that will drive a better integration of sustainability factors in our investees' operations and business models. We truly believe that we all, individually and collectively, could act to support this transition, and Amundi is determined to do so in partnership with its clients and with the issuers.

The year 2021 will be the year where all our actively managed opened-ended funds fully integrate ESG performance objective in addition to their financial objectives. In parallel, we will significantly enhance our engagement and voting capabilities put ESG critical issues at the forefront. In 2021, Amundi will extend the perimeter of its voting scope and aims to vote at 5,000 general assemblies. Amundi will also go further on its two key themes, the energy transition and social cohesion, as these themes require continuous efforts a for significant transformation to materialize. We will strengthen our efforts to encourage corporates to adopt best practices in these areas, among other key sustainability topics.

More Specifically we will:

1. Continue to engage with companies to push them to declare a Paris aligned climate objective under the Science Based Targets framework.
2. Continue to support shareholders resolutions that strive to implement better reporting and transparency on companies' climate-related strategy.
3. Engage with companies to understand how they develop practices that also address the social impacts of the energy and ecological transition.
4. Engage with companies in sectors that are highly exposed to the energy transition to include climate KPIs in their corporate compensation packages.
5. Strengthen actions on targeted "laggards" that could end-up with a vote "against" management as soon as 2021, for corporates that:
   - have been contacted on their coal phase out plan according to our Coal policy but did not answer to any of our requests
   - operate in sectors which transition is paramount for the alignment with the Paris agreement, and that have been either lobbying in climate sceptic associations or have not started to align their strategy with Paris-aligned objectives
   - are excluded from the Amundi active investment universe but could be present in passive funds.

These key objectives will support Amundi's long-term conviction that the energy and ecological transition, together with social cohesion, are fundamental challenges in today's society. While the societal challenges we aim to tackle are tough, we believe in the role Amundi plays in helping to accelerate the implementation of best practices and new solutions. ■

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